Jan/68

BUREAU OF MUNICIPAL RESEARCH

A bulletin issued by the Bureau of Municipal Research

CIVIC AFFAIRS

JANUARY 1968 TORONTO 4 RICHMOND ST. E.

Local Government and the Report of the Ontario Committee on Taxation

This Bulletin in Brief — It's Observations and Recommendations

The Report of the Ontario Committee on Taxation, in its bulk and detail, presents a challenge not only to the decision makers of Ontario but also to any individual or organization attempting its evaluation. In this Bulletin, the Bureau of Municipal Research concentrates mainly on the Report's analyses of options and its assumptions, conclusions, and recommendations pertaining to municipal government.* As a result, what follows is drawn mainly from Volume II, "The Local Revenue System" (excepting Chapter 23 and its regional government proposals which will be the subject of a subsequent Bureau Bulletin), and from pertinent sections of Volume I, "Approach, Background and Conclusions".

Seldom has an intermediate level of government undertaken so comprehensive an analysis of its revenue system or of any other aspect of its operations. Indeed, to find parallels, one looks to the federal level in Canada (Carter Commission) and the United States (Hoover Commissions on administrative reorganization). Nor is its mass the sole outstanding feature of the Report. It is commendable in scholarship, style, and research techniques, and contains a treasure of statistical data that elevates it to a basic reference work.

Yet the Report can be questioned on several grounds. Its recommendaions appear to fall short of its documentation (for example, the relative mildness of its recommendations regarding the problem of developer charges); it could have explored more deeply (new local revenue sources); it tends to generalize contrary to evidence (stating that the property tax is not difficult to administer); it examines relatively minor issues but neglects major ones (in discussing deficiencies of the property tax); what is basically an old remedy is dressed in modern terminology (recommending a homestead exemption but calling it something else since revenue losses would be met by the province); it exhibits possibly undue optimism (expressing confidence that the grave deficiencies of the property tax, which deficiencies the Report documents fully, can be cured by a combination of changes); it displays an over-neatness in concept (viewing federalism and local autonomy more as they were than as they are); there is some evidence of unrealism (emphasizing the need for municipal statistical comparability across Canada, while, for reasons OCT deems sufficient, recommending a change in the fiscal year that would destroy the near-100% uniformity now existing); and circular argumentation can be detected (in turn, the real property tax and local autonomy are given as a principal justification for each other).

Neither the above paragraph nor the Bulletin proper should be misunderstood. The Bureau is in complete agreement with most of the Report. We believe that the effort was of the highest quality. Rather than listing again the many changes that should be made, however, we feel that the majority of our attention should be given to areas which we would disagree with or question.

---

*Bureau President F. Warren Hurst, F.C.A., refrained from normal participation in the review of this Bulletin since he served as Executive Director of the Ontario Committee on Taxation.

Following is a summary of the Bureau's observations and recommendations relating to the Report. The reader is referred to the body of this Bulletin, particularly its italicized paragraphs and immediately preceding portions, for a more detailed and in-context treatment of the points covered.

The Bureau agrees completely with OCT that the full discharge of its assignment required it to propose a scheme of regional government reform to end the atomization of local government.

The Bureau does not believe that provincial revenue alone can provide an adequate index upon which to base inter-provincial equalization. Only through a combined index, which includes provincial expenditure and personal income as well as provincial revenue, can assurance be had that relative tax effort is not penalized and that a differentiation is made between capacity and performance. To the extent that its elements can be calculated or estimated, the same composite index is preferable, in our view, for provincial equalization payments to municipalities.

The Bureau joins OCT in urging that all governmental tax immunity be terminated. To achieve equity among levels of government, to produce fair competition between public and private business operations, and to obtain just treatment for their respective customers, all levels should pay full taxes to all other levels for governmental, quasi-governmental, and governmental enterprise agencies. We agree in particular that enterprise properties should be taxed fully in view of the unevenness of their physical distribution and their accruing benefits.

The Bureau is not as optimistic as OCT that urban centres would receive their fair share of federal social capital funds if direct federal-local dealings were to cease and such funds were directed to the province for re-allocation to urban centres.

The Bureau believes that, in constructing its fiscal incidence model, OCT should have made a proportional allocation of educational expenditure benefits to other than those being formally educated.

The Bureau points out that the real property tax is somewhat more balanced than is commonly believed. While this tax reaches primarily to wealth, it is also a tax on income (the rental income of landlords) and on consumption (the shelter of owner-occupiers considered as a commodity).

The Bureau is surprised at OCT's failure to consider two major weaknesses of the real property tax in its discussion of deficiencies: that it proves inadequate as a revenue base in times of changing economic conditions by failing to keep pace with increases in property values; and that property ownership is no longer a valid indicator of wealth. Another deficiency — that it discourages investment in a social necessity by penalizing those who improve or would improve their properties — is discussed elsewhere in the Report. All three warrant treatment in Chapter 9.

The Bureau is of the opinion that the rotary system of reassessing a portion of properties each year is preferable to complete annual reassessment as recommended by OCT. It is our view that the procedure actually set forth by OCT is in fact a combination of rotary and annual reassessment. We do not think that annual reassessment is a practicable goal, nor that it would become so even with the improvements relied upon by OCT —

increased jurisdictional size, further professionalization of assessors, more automation, and greater provincial control. To document our skepticism, we point to Metro Toronto, which has long had the first three of these advantages, and yet, as research by OCT and others demonstrates, has compiled an undistinguished record.

The Bureau is in total accord with OCT's recommendation for assessment at 100% of actual value.

The Bureau agrees completely with OCT's recommendations for rationalization and simplification of assessment appeals. Yet we believe that further improvements are needed in clarifying rules of evidence and in shifting the onus of proof in appeals.

The Bureau endorses the Basic Shelter proposal* to provide property tax relief for residential taxpayers and the recommendation that the province fully reimburse municipalities for resulting tax losses. The proposal would have the advantages of reducing the regressivity of the property tax and of giving additional relief as mill rates rise.** We point out that the Basic Shelter Exemption is only a variation of the homestead exemption found in many other jurisdictions, with the distinction that lost revenues would be met by the province.

The Bureau emphasizes that OCT's assignment of relative weights of taxation by property classification (farms, businesses, etc.) provides evidence of the extent to which OCT itself would depart from its admonitions against tax relief to specific groups and against exemptions which increase the burden on all other taxpayers.

The Bureau recommends that the Basic Shelter Exemption be extended directly and fully to all tenants (on the assumption that it is usually the tenant who ultimately pays property taxes), since we do not share OCT's convictions that the forces of competition will satisfy equity soon enough or adequately enough in leading landlords to pass on tax savings to tenants. Nor do we agree that a rebate or credit provision to achieve direct tenant relief is unworkable.

The Bureau questions whether the Basic Shelter Exemption should be extended to cottages. As proposed by OCT to improve the property tax, this constitutes an obvious contradiction in terms and could lead to one person receiving two exemptions while giving only a fraction of one exemption to a family sharing a dwelling unit. We appreciate that failure to extend the exemption to cottages would require assessors to determine what is and is not a cottage.

The Bureau agrees that direct grants are far preferable to indirect subsidies through property tax exemptions.

The Bureau shares OCT's approval of the Golf Course Principle by which needed open space is retained in urban areas through fixed land assessments. We recommend, however, that the provision for a fixed 4% per year interest charge upon termination of an agreement should be amended

*Indications as of this writing are that this recommendation will be enacted.

**As shown in the body of this Bulletin, the annual saving would amount to about $51 (1967 figure) for the typical Metro residential taxpayer.

to provide a sliding interest rate to reflect annual changes in the money market.

The Bureau supports the recommendation that use exemptions from special capital levies to finance capital works be made more limited than at present, leaving only transportation and communications properties exempt but with such exemption not applying to a property if it benefits from the capital project for which the levy is made.

The Bureau is of the opinion that OCT's recommendations to regulate and limit developer charges would prove inadequate, and that its proposed attempts to prohibit "fiscal zoning" would be unworkable. We support, however, the recommendations to tighten provincial control of subdivision agreements and to prohibit unspecified cash imposts for purposes other than recovery of allowable municipal service installation costs. It is our opinion that municipal mercantilism will not be stopped unless stronger measures are enacted.

The Bureau, as an important general observation, feels that OCT opted too strongly for senior-level assistance, and did so at the expense of more local tax room.

The Bureau does not believe that user fees and charges were given adequate examination, particularly as they apply to larger cities. It is our opinion that a more thorough analysis should have been made, or should be made now, with special attention directed to existing coverage, rate schedules, and the application of cost accounting to determine the degree of public subsidy from general revenues now needed to finance programs and facilities which involve user charges.

The Bureau agrees with the conclusions reached against local taxation of hotel and motel rooms, income or payrolls (which position would be reappraised by OCT if regional governments were formed), and general or specific retail sales. We believe, however, that the potential of other sources should have been explored.

The Bureau cannot accept OCT's conclusion that resistance to high taxes does not exist because the tax collection record of high-tax areas was better than the record in low-tax areas. We point out that these high-tax municipalities were urban in character, so it can be assumed that their taxpayers had higher incomes with which to pay and that the machinery of tax collection was relatively more efficient.

The Bureau agrees that the right of Ontario municipalities to levy a poll tax is an anachronism which should be terminated.

The Bureau supports the recommendation that school boards be required to levy their own taxes.* The advantages that should result include: greater visibility of education, thus causing an up-grading in the quality of board members; a closer scrutiny of school budgets; and an end to unwarranted criticism of municipal councils for education-caused tax increases. In addition, fiscal independence will reinstate the sound principle that the unit which spends should also tax. We urge that municipal assessment and collection machinery be used as fully as possible in connection with any implementation of this recommended change.

*Indications as of this writing are that this recommendation will be enacted.

The Bureau agrees with all recommended changes in provincial grants. We disagree, however, that approval by both federal and provincial authorities of redevelopment and housing projects is unnecessary.

The Bureau suggests, in considering ways to reduce reliance upon capital borrowing to finance capital projects, that the following points should be kept in mind: medium-term debentures for short-life rolling stock should be discouraged; capital levies have considerable potential and advantage; over-reliance upon rapid-payment tax discounts could prove unhealthy to assessment and collection administration; and proceeds from the disposition of capital assets can be used appropriately to modernize and expand the capital plant.

The Bureau disagrees with OCT's selected method to reduce reliance upon capital borrowing. The suggested requirement that local annual estimates include amounts for capital purposes equal to the amount of unfinanced capital expenditures in a capital budget would be either prohibitive in cost or would lead to evasion, while the alternative of a statutorily specified percentage of estimated current expenditures is of limited meaning and guidance in the absence of a recommendation of what that percentage should be.

The Bureau feels that all local capital budgets should be required to cover a uniform five years, rather than the "at least five years" recommended by OCT. We agree that municipal borrowing approvals should be transferred from the Ontario Municipal Board to the Department of Municipal Affairs, and that separate school board borrowing be carried out by municipalities.

The Bureau agrees that the reliability and comprehensiveness of the reporting of municipal financial statistics should be improved.

The Bureau does not feel that OCT's reasoning is sufficient to justify recommending that municipalities and school boards change their fiscal year from a calendar basis to an April 1-March 31 basis. While the fiscal year of Ontario municipalities would be brought into line with federal and provincial fiscal years, and, while such a change would fit in with the election of municipal officials, we feel that it is more important to note that there exists no indication that such a change by Ontario would be followed by other provinces. The near-100% uniformity in fiscal year now existing in municipalities throughout Canada would be destroyed and inter-municipal comparability would thereby be complicated.

The Bureau supports the recommendation that all local responsibility for the administration of justice, excepting local policing, be transferred to the province, and that there should be an appropriate apportionment of the revenue from fines.* Yet complex issues are involved, including clarification of responsibilities, capital plant debt, the disposition of tangible personal property, and whether or not parking tag revenues should be retained by municipalities.

*Indications as of this writing are that this recommendation will be enacted.

Local Government and the Report of the Ontario Committee on Taxation

The Report of the Ontario Committee on Taxation is divided into three volumes. Volume I (Approach, Background and Conclusions) and Volume II (The Local Revenue System) comprise 833 pages and 23 chapters, the contents of which are discussed in this Bulletin with the exception of Chapter 23 dealing with regional government.

The Bureau of Municipal Research expects to devote a separate Bulletin to these regional government proposals, and comments here on only two points: that OCT considered its terms of reference impossible of proper discharge without "an excursion into the field of government structure"; and that this belief was given concrete form by the integration—through numerous references, contingencies, and comparisons—of the first 22 chapters with Chapter 23. (For example, regional government reform was referred to no less than six times on p. 429, Vol. II, in discussing provincial grants.)

The Bureau is in complete agreement with OCT on the pertinence, and indeed necessity, of its decision to propose a system of regional government whereby structure could be reconciled with finance.

A PHILOSOPHY OF GOVERNMENT

Chapters 1-3 outline OCT's philosophy of government. Although such a beginning is suitable, it is surprising how few study commissions start from such a logical point. This philosophy is set forth in detail, and departures from it are relatively few and well-labeled.

The discussion of the elements of federalism, by emphasizing the need for strong and viable units at each level, presages OCT's excursion into regional government. While possibly failing to appreciate the degree of local autonomy already (and unavoidably) lost because of the facts of urban life, OCT is right on target in observing that autonomy "is not a refuge for municipalities too small or weakly organized" nor does it "sanction the endless multiplication of special-purpose authorities".

The principles of benefits-received and ability-to-pay, each involving tax equity from different perspectives, are supplemented by nine other characteristics of a good tax system — adequacy, flexibility, elasticity, balance, neutrality, certainty, simplicity, convenience, and economy of collection and compliance. Of these, OCT stresses balance, which it sets out to achieve in the pages which follow, and concedes that neutrality (least price distortion) is the most elusive. Local autonomy is given one of its almost countless references with the observation that both levels in a federation should have access to tax revenues from income, consumption, and wealth.

The Bureau disagrees with OCT that provincial revenue is the best index upon which to base inter-provincial equalization. When used alone, it is no better than personal income or provincial expenditures. Only in combination can an index be prepared which does not penalize relative tax effort but which does distinguish between capacity and performance. The same composite index, to the extent that its elements can be calculated or estimated, is also, in our opinion, preferable for provincial equalization payments to municipalities.

OCT rightfully criticizes revenue deficiency grants, favours unconditional equalization grants (apparently assuming that whatever use to which such funds

are put is all right), and realizes the distortion caused by stimulation grants. Faced with a dilemma on the latter, OCT sees no solution except "careful review".

One of the most significant recommendations, highly desirable but most difficult of realization, can be put simply — end all forms of intergovernmental tax immunity. This would include removal of the exemption from sales tax.

The Bureau joins in urging that all levels pay full taxes to all other levels for governmental, quasi-governmental, and governmental enterprise agencies. Equity among levels and between government and private business cannot be achieved in any other way.

On the subject of the real property tax, now and in the future, OCT says some things that need saying — that attempts to differentiate between services to property and services to people are "highly tenuous"; that "schools do confer benefits on the owners of property"; and that attempts to broaden the municipal revenue base cannot become a "substitute for strengthening of the property tax itself".

Chapter 3 sets forth a rather Keynesian philosophy of fiscal policy and public debt. It notes that during the past decade the annual deficit of the Ontario government has averaged about 1% of provincial personal income, and that provincial and local spending is expanding far more rapidly than federal spending. Counter-cyclical financing is then urged upon the province, and a "substantial absolute increase in debt" at both the provincial and local levels of government is seen "not simply as an inevitable but as a constructive aspect of public finance".

Possibly as a result of the accelerating United States experience, OCT urges that Ottawa not by-pass the provinces by dealing directly with municipalities, but instead direct social capital funds to the provinces. Although this is consistent with OCT's well-ordered picture of federalism in its ideal form, it fails to appreciate the evolving nature of federalism. Federalism has long ceased to be a layer cake; it is a marble cake. Even under the spur of "one-man, one-vote" litigation and legislation in the U.S., and the resulting urbanization of state legislatures, it is far from certain that the states will meet the needs of their urban centres.[1]

Lacking such a catalyst, and in view of past policies which often discriminate against cities, it is hard to be optimistic about an equitable re-allocation of federal aid through the province to Ontario's urban centres.

GOVERNMENTAL FINANCE, FISCAL INCIDENCE, AND A BLEAK CONCLUSION

OCT points out that raw expenditure increases must be placed in proper perspective, by allowing for population increases and reduced purchasing power of the dollar, and by factoring out intergovernmental transfers to achieve net figures. When this is done, "we find that at no level of government has per-capita expenditure more than doubled, save for school boards if their expenditures include grant receipts . . . [I]f provincial, municipal, and school board net real expenditures are combined and taken as a percentage of provincial domestic product, there is no dramatic shift from the 1939 situation. There has, in fact, been a rise over the whole period of only 2 percentage points, that is from approximately 9 to 11 per cent". Of the other provinces, in 1952 and 1962 only Manitoba's net general governmental expenditures as a percentage of personal income were lower than Ontario's.

---

[1]Roscoe C. Martin, in *The Cities and the Federal System* (New York: Atherton Press, 1965), p. 168, states: "Almost all city spokesmen resist the channeling of federal funds for local programs through the states. They consider such a procedure a waste of time and a bother, especially because they foresee an additional layer of procedural requirements if channeling is made uniform and if the states decide to force recognition of its implication."

On the revenue side, the real property tax declined from a 75-80% level to 64% of total revenues for Ontario municipalities, while the school boards' decline has been from about two-thirds to 57%. Increased provincial grants have made this possible.

OCT observes that debt has increased steadily in both good and bad times. The local debt statistical data are of limited value, however, since they represent gross debt (sinking funds could not be segregated) and since they are province-wide.[2] As OCT points out, the debt problem "can be discussed realistically only in terms of the burden of a particular municipality or a particular school board".

Chapter 5 is one of the most complex in the first two volumes. It deals with the incidence of governmental revenues and expenditures, and is based upon a monograph by J. A. Johnson.[3] The imposing array of interlocking assumptions appears reasonable, with the exception of one dealing with expenditure benefits. All educational expenditures were allocated to those persons being formally educated in 1961, with indirect benefits ignored.

While the Bureau agrees that any secondary allocation to other community segments would have been difficult, we point out that indirect allocations have been made on reasonable bases in several benefit-cost studies. We feel that a parallel attempt should have been made by OCT, especially since educational expenditures bulk so large in the total expenditure picture.

The principal finding of this exercise in tax incidence is that when provincial ("mildly progressive") and municipal ("decidedly regressive") tax rates are combined with the federal rate structure, the emerging pattern is "progressive for all but the lowest income [under $2,000 annual family income] ranges". The expenditure structure heavily favours low income recipients with progressive benefits.

[2]See footnote 18 on p. 20 for a comment on this problem.

[3]One of 6 background studies to be published separately by OCT.

The resulting **net** fiscal incidence for **all** levels combined (subtracting effective tax rates from effective benefit rates), which OCT warns must be used with caution, is progressive since the net fiscal incidence rates "are positive but decrease with income" and become negative for $10,000-plus families. Yet the municipal net rates are very regressive when considered separately.

Emphasizing that it is undertaking a projection (that is, simply extending trends) and not a forecast in Chapter 6, OCT calculates expenditure, revenue, and debt from 1966 to 1975. The key elements of the projection are population (assuming a 2.04% annual increase), labour force growth (same as population), provincial domestic product per person employed (2% per year in real terms at constant prices), and a general price increase of 2% annually.

After developing the projections, OCT displays confidence in the revenue component and says "we think that our revenue projections are subject to no very large margin of error". OCT makes "some provisions for the introduction of minor new expenditures during the period" but has "explicitly excluded any provision for the costs of major new programs that are not now a part of publicly announced government policy".

The summing up is bleak, leading to the "clear and inescapable conclusion that in the absence of remedial measures, the present unsatisfactory revenue and spending positions of the provincial and local governments of Ontario will deteriorate sharply and continuously within the coming decade". Indeed, the projections result in a combined provincial-local expenditure-revenue gap "which will have grown to some $600 million annually by 1969 and more than $1,300 million by 1975, just to finance existing programs".

FISCAL EFFECTS OF RECOMMENDATIONS AND THE 9% RULE-OF-THUMB

Following a listing of all recommendations in sequence under chapter titles, set forth in Chapter 7, Chapter 8 contemplates the fiscal effects of OCT's **direct and measurable** recommendations as a prescription for future needs. The 1966-67 scene is set as if the recommendations had been in effect in 1966. Actual local tax levies of $960 million are reduced to a net of $913 million and then further reduced (principally by the Basic Shelter Exemption Grant, amounting to $111 million) to $764 million. This represents a combined reduction of about 20% in the effective levy on local property taxpayers at a cost to the province of $246 million ($132 million covered by recommended provincial tax changes and $114 million becoming an addition to the 1966-67 provincial deficit).

OCT then moves to 1968-75 "piling estimates on projections which are themselves estimates". Tables 8:8 and 8:9 are the culminations, setting forth the projected provincial deficit and the projected local expenditure, revenue, and debt position, respectively. The projected provincial deficit comes to exactly 9% of provincial domestic product or PDP (which OCT considers satisfactory) in each of 1971-72 and 1974-75, but either 9.8% or 9.5% in 1968-69, depending upon whether all recommended assistance to local governments is given immediately or is phased. OCT then recommends school aid be provided through deliberate staging over a three-year period, from the current **average** level of 45%, to 52%, 56%, and finally 60% in the third year. (It should be pointed out that other assistance would increase this level to about 75%.)

The projected local debt position of Table 8:9, again as a percentage of PDP, is 9.8% in 1968 and in 1971, and 9.7% in 1974. Fortunately, OCT's 9% rule-of-thumb can be maintained neatly by deducting separate school debt.

The Bureau emphasizes that the real property tax is somewhat more balanced than is commonly believed. It is primarily a tax on wealth, but also a tax on income and consumption. A landlord pays income taxes on his rental income, and an owner-occupier in effect pays a tax on consumption of a specific commodity (shelter)[4] *when he pays his real property tax.*

THE REAL PROPERTY TAX — PROBLEMS AND PROSPECTS

In commenting on the deficiencies or weaknesses of the real property tax, OCT oddly fails to consider some significant weaknesses and dismisses another deficiency contrary to evidence. OCT seems to be considering the real property tax as though several of its recommendations **were already in force.**

To substantiate our criticisms stated immediately above, three major weaknesses of the real property tax are not mentioned by OCT in Chapter 9: (1) that it discourages investment in a social necessity, since it penalizes those who improve or would improve their properties,[5] *and is thus very unneutral in an economic sense; (2) that it proves inadequate as a revenue base in changing economic conditions since it lags far behind increases in property values; and (3) that property ownership is no longer the indicator of wealth that it once was.*

Although OCT dismisses the subject with a simple statement, saying that the real property tax is "not overly difficult to administer", the record of North American jurisdictions **and the results of OCT's own research** shows this to be untrue. Consider this statement from a recent study which OCT itself calls an "authoritative work on the property tax": "Both those who find that the property tax has various inherent advantages and those who feel that the property tax has little to commend it in concept are highly critical of the prevailing quality of property tax administration. . . . It has been suggested up to this point that the general quality of assessment administration is poor, that even the best of current prac-

[4]OCT seems to agree with this (see Vol. II, p. 440).

[5]This point is considered by OCT later in its Report (see Vol. II, pp. 87-88).

tice is not impressive, and that it is probably not possible to do much better than the best of current practice."[6] The contradiction between OCT's statement and its own research will be discussed below.

Two recommendations are made toward the conclusion of Chapter 9: that all local responsibility for the administration of justice, excepting local policing, be transferred to the province with an appropriate provincial-local apportionment of the revenue from fines; and that steps be taken to improve the reliability and comprehensiveness of the reporting of municipal financial statistics.

While the Bureau agrees with both recommendations, we point out that provincial assumption of responsibility for the administration of justice will give rise to several complexities. These include: a solution to the problem of capital plant that will be equitable to all municipalities (Metro has about $13 million in outstanding debt on the new Court House while other municipalities have paid off their justice-related capital debt); the disposition of tangible personal property (including expensive equipment); and the issue of local retention of parking tag revenues ($1.9 million is expected in Metro in 1967 from this source) in view of OCT's statement that fines "should be identified with law enforcement, not the administration of justice".

Chapter 10 contains a detailed and scholarly history of property taxes in Ontario. It is one of the best written and most informative sections of the first two volumes.

Basic issues and proposals regarding the property tax are set forth in Chapter 11. Our interest is primarily with respect to the assessment function, undeniably the principal problem-causing aspect of property tax administration. In assessment, also, may be found the contradiction between OCT's bald statement that the property tax is "not overly difficult to administer" and its own documentation. In discussing what to assess, and how to do so, OCT states: "We are convinced that regular reassessing on a yearly basis is completely practical." Note the choice of words — "convinced" and completely practical". None of the evidence uncovered by OCT (or, to our knowledge, anyone else) substantiates such optimism. While urging assessment at 100% of actual value, with which the Bureau agrees, OCT adds caustically that such a policy "requires no change in the law, but a very great difference in its application".

These two matters are related to an extent greater than realized by OCT. Both annual reassessment and assessment at 100% of actual value are of the type of legislative requirement which encourages circumvention and even violation.

The Bureau believes that the rotary system, dismissed by OCT apparently because it "has not become widely popular", is far preferable to OCT's recommendation for annual reassessment.[7] The reason for our preference is that it is a practical goal, while annual reassessment is not and would not become so even under OCT's recommendations.[8]

OCT places much of its confidence in four changes to solve the problem of assessment and reassessment — greater provincial supervision, larger jurisdictions, increased professionalization of assessors, and automation. If the combination of these improvements, all of which are certainly needed, can be expected to result in greatly improved assessment administration, then Metropolitan Toronto's assessment record should be a good one. Metro has had over a decade to prove that, **after** a general reassessment, annual reassessment can be carried out effectively and efficiently. It has had large jurisdiction, high professionalization, and automation to an extent not likely to be matched for some time by any of the other 28 regions which OCT proposes.

But, as OCT itself so graphically shows in the Appendix to Chapter 13, Metro's assessment record remains quite undistinguished. In the Report's own words: "We conclude that in most municipalities, and in Metropolitan Toronto . . . in particular . . . there was a policy, deliberate or unintentional, of discriminating against apartments and business properties in favour of private dwellings." The Bureau's own study of Metro assessments, referred to above, shows the same sad state, as does a 1964 study by the Department of Municipal Affairs. Again, OCT's specially-commissioned study led to this statement: "Despite the merger of assessment responsibilities under Metropolitan Toronto in 1954 wide differences were revealed in assessing performance between one area municipality and another." Indeed, Chapter 13 and its Appendix constitute a 57-page indictment of the state of the art of assessment, Metro's record included and even singled out for special criticism.

A few more of OCT's own findings with regard to Metro's assessment performance are interesting. Its studies showed: that Metro was one of the 16 of 22 municipalities surveyed in which more than half the sampled properties fell outside of the 20% deviation from the median ratio considered as acceptable; and that an examination of over 1,000 Metro properties sold within a three-year period "revealed substantial differences in assessment levels between [sic] the thirteen area municipalities then in existence".

All of the above indicates that the Bureau disagrees strongly with OCT's recommendation of annual reassessment. Increased jurisdictional size, greater provincial control, assessor professionalization (in which commendable strides are being taken), and automation will help to improve the "shocking" (OCT's own word) state. But the rotary system, coupled with these four improvements, is more likely to result in greater assessment equity in this difficult field.

THE BASIC SHELTER EXEMPTION

We have departed from the sequence of Volumes I and II by leaving Chapter 11 and jumping to Chapter 13 in our commentary upon real property assessment. Now we return to Chapter 11. OCT states: "We find it difficult to support tax relief to specific groups in the community, whether by tax deferral or outright tax reductions." After reviewing various techniques to favour the home-owner **vis-a-vis** other taxpaying groups, and rejecting all possibilities in a rather tough-minded approach, OCT surprises the reader by recommending a Basic Shelter Exemption.

This proposal is really only a variation of the homestead exemption found in at least 14 U.S. states. It is difficult to understand why this technique was not discussed in the section immediately preceeding, since the impression is created that there is substantial originality in the proposal. Actually, only the descriptive term and the fact that revenue losses would be met by the province are novel; the practice itself can be traced to the U.S. in the 1930's.[9]

The exemption would be from the taxable assessment in respect of each self-contained dwelling unit of $2,000 multiplied by the provincial equalization factor for the municipality, or 50% of the residential taxable assessment applicable to such unit, whichever is the lesser. In operation, this relief would amount to just over $51 per year for the typical Metro residential taxpayer, calculated as follows: 32% (current Metro area equalization factor) of $2,000, or $640 × 80 mills (median 1967 public school supporter rate) = $51.20. It is important to point out, as the Metro Treasury Department does,[10] that this recommendation simply involves the province paying the specified initial portion, and thus that calculations of local mill rate reductions (made by others but not by OCT) are in-

[6] Dick Netzer, *Economics of the Property Tax* (Washington, D.C.: The Brookings Institution, 1966) pp. 173, 182.

[7] *Assessment—The Recurrent Controversy* (Bureau of Municipal Research, April, 1966) pp. 4, 21, 28.

[8] See p. 16 for further comment.

[9] *The Role of the States in the Property Tax, Volume I* (Washington, D.C.: The Advisory Commission on Intergovernmental Relations, 1963) p. 78.

[10] See *Interim Report on Recommendations of the Ontario Committee on Taxation*, December 4, 1967, pp. 2-4.

accurate and misleading. It has the dual advantage of reducing the regressivity of the property tax and giving additional relief as mill rates rise.

Although this recommendation contradicts OCT's own antipathy to tax relief for specific groups, and although it is an invitation to more questionable variations, the Bureau supports the Basic Shelter Exemption with provincial reimbursement, subject to the qualifications discussed below. Some relief is needed, and this approach is probably as acceptable as any other.

Under OCT's proposal, the exemption for rented accommodation would go to the landlord. OCT states that it considered requiring landlords to make cash rebates to tenants equal to the tax reductions but decided that rebates would be difficult to frame and enforce and "in any event . . . hardly necessary". It relies, instead, upon "the forces of competition [to] in due course lead landlords to pass on tax savings to tenants" and upon "advance announcement of the introduction of the plan [to] give tenants an early opportunity of obtaining the desired result".

The Bureau disagrees. Wisconsin and Oregon[11] have shown that rebates and/or credits for the tax portion of rent payments can be worked into an exemption to tenants. We believe that direct relief is necessary. Indirect relief in "due course" is not enough, particularly in view of the impossibly tight rental housing market in Metro and other parts of Ontario. Also, equity suggests that tenants, so long discriminated against by assessment practices throughout Ontario,[12] are worthy of direct and assured consideration equal to home-owners.

On the assumption that it is usually the tenant who ultimately pays the property tax, the Bureau recommends that the Basic Shelter Exemption be extended directly and in full form to all tenants through means which can be devised without undue difficulty.

The Basic Shelter Exemption would be extended by OCT to cottages, although there exists an obvious and direct contradiction in terms. We cannot support this extension, even though it is designed to reduce the regressiveness of the property tax and would eliminate the need to determine whether a structure is a cottage. OCT recommended against multiple exemptions for shared-occupancy dwellings such as rooming houses and boarding houses. Its one exemption for each self-contained dwelling unit would apply regardless of the number of people living therein or relationship involved.

To give one person two Basic Shelter Exemptions (home and cottage), as is possible under OCT's recommendations, while in effect giving a fraction of one such exemption to a family sharing a dwelling unit, is, in the Bureau's opinion, unfair.

THE BUSINESS TAX AND RELATIVE WEIGHTS

The business tax is given deserved criticism, particularly since it is based directly upon the real property assessment which is so suspect in terms of equity and accuracy. Its "cardinal weakness" is the "indefensible structure of its rates of assessment". OCT recommends that the graded 10% to 150% of realty assessment be replaced by a flat-rate. The special problem of farm properties is recognized and farms are recommended for preferential treatment.

[11]See Frederick D. Stocker, "Property Tax Exemptions for Farmers and the Aged", *The Property Tax: Problems and Potentials* (Princeton, N.J.: Tax Institute of America, 1967), pp. 289-294, for a discussion of aspects of extending exemptions directly to tenants.

[12]OCT's study showed (Vol. II, pp. 248-250) that throughout Ontario apartments usually are assessed at a higher percentage of assessed value than owner-occupied homes (from 36% to 95% higher in Metro). The Bureau's assessment study found similar inequities based on median assessment/sales ratios of typical sales.

To summarize, the recommendations regarding the relative weights of taxation by property classification as set by OCT in Chapter 11 are:

(a) All real property, **taxable or not,** be assessed **annually at 100%** of actual current value;

(b) Residential and recreational properties, and wasteland, be subject to **property tax at 70%** of assessed value;

(c) **Business properties,** including working farms and taxable mining properties but excluding transportation and communications properties, be subject to **property tax at 50%** of assessed value;

(d) **Occupants** of business properties, including taxable mining properties but excluding working farms and transportation and communications properties, be subject to business **occupancy tax at 50%** of the assessed value of the occupied property at the same mill rate as the property tax; and

(e) Roadways and rights-of-ways over land used by transportation and communications businesses be **exempt** from property and business occupancy taxes, and other properties of such businesses be subject to property tax and the occupants thereof be subject to business occupancy tax on a basis to be determined after completion of property assessments.

While the above recommendations are reasonable and a distinct improvement over prevailing practice, they give some indication of the extent to which OCT, in its attempts to reduce existing inequities, felt compelled to depart from its own admonitions against "tax relief to specific groups" and against exemptions which "merely increase the burden on all other local taxpayers".

DIRECT RATHER THAN HIDDEN SUBSIDIES

Chapter 12 deals with the vexing problem of property tax exemptions, which, in understated assessed value terms, totalled $2.5 billion in Ontario in 1965. This represented 17% of the $14.9 billion in total assessed values. OCT is forceful in stating its preference for direct grants as opposed to indirect subsidies through tax exemptions.

The Bureau is in complete agreement with OCT that direct grants are far preferable to indirect and hidden subsidies, and has so stated.[13]

OCT is aware of the difficulties involved in transferring from a system of exemptions to one of grants. Each category is examined in turn. Institutions of higher learning and private schools would receive provincial grants after applicants are reviewed on their merits, and the province would pay full local realty taxes and applicable business taxes on public hospitals. OCT also recommends that the Assessment Branch of the Department of Municipal Affairs assess the above institutions.

A staged-grant replacement program is recommended for places of worship. Over a seven-year period, and following reassessment of each property, such uses would be taxed on an assessment of 5% of actual value each year to a maximum of 35%. A review of the tax position after five years is recommended to determine an appropriate maximum taxation level.

OCT would terminate all present exemptions from property taxation to charitable, social, and community service organizations following review by appropriate governmental authorities of the merits of each organization for continued financial assistance. Provincial legislation would be enacted to permit each municipality to make annual grants to such organizations that, in the opinion of a local council, are of general advantage to the area. Taxes, however, would be limited, after deduction of any governmental grants - in - lieu, to one-third of property and business taxes or $100, whichever is greater, in the first year and double that amount in the second. If an organization fails to win support for an

[13]*Newsbrief No. 102* (Bureau of Municipal Research, June, 1966).

offsetting grant, a three-year period of adjustment is recommended.

There are at least four interesting features of the above recommendations regarding churches and charitable, social, and community service organizations. Firstly, separate treatment is recommended for the two classes, with churches in a preferred position.[14] Secondly, with churches set at half the recommended residential level of 70%, half the normal tax would remain a charge on non-church members. Thirdly, with regard to charitable and related community organizations, local councils would be given the right of determination. Fourthly, OCT sees the possibility, and provides for it, that a particular community organization might not convince a local council that it merits continued grant support.

Fixed assessments, by either public or private legislation, are rightfully condemned by OCT, although the Golf Course Principle is endorsed. Under this, taxes are paid on a fixed land assessment. When the agreement is terminated, the owner has the option of selling to the municipality for the amount of the fixed assessment or of paying the full amount of taxes that would have been payable in the absence of an agreement, plus interest at 4% per year.

The Bureau agrees that this technique has been helpful in retaining open space where it is most urgently needed. We recommend, however, that the Assessment Act be amended to provide for a sliding interest rate so that it can reflect annual changes in the money market.

OCT makes some very practical and appropriate recommendations regarding full provincial in-lieu-of payments. Payments in-lieu-of school taxes would be made on provincial properties with special treatment for highways, non-commercially exploited historic sites, and certain remote and underdeveloped lands. Since federal in-lieu-of payments are now more liberal than provincial payments, OCT understandably recommends that Ontario should improve its payment policies to set a good example for further federal liberalization.

Consistent with OCT's earlier general recommendation that all intergovernmental tax immunity be ended, OCT recommends that local government property occupied for business purposes be taxable on the same basis as private business property. Only those partial or full exemptions from in-lieu-of payments recommended for provincial properties would be extended to local governmental properties.

The Bureau believes that OCT's recommendations for full taxation of municipal enterprise properties are essential. They can end inequities among local units created by the unevenness of both physical distribution and accruing benefits of such properties. Further, the recommendations can result in fair competition between public and private business operations and equitable treatment of their respective customers.

Since our consideration of Chapter 13, which deals with assessment, was combined with our discussion of Chapter 11, there remain only two comments to be made. Firstly, OCT suggests certain reassessment techniques and procedures which, contrary to its conclusion that annual reassessment is feasible, in effect set forth a combination of rotary and annual reassessment.

The Bureau believes that this circumstance gives further support to our contention that rotary reassessment is preferable to complete annual reassessment.

Secondly, OCT uses, on an interchangeable basis, the terms "present market value", "market value", "actual value", and "current value" throughout Chapter 13. This variation adds further confusion to an aspect of local government already less than clear in lay and professional minds.

[14] It is pertinent to note that a recent study in New York City, although recommending parallel changes from exemptions to grants, nevertheless placed churches on a similar footing with charitable-purpose organizations rather than treating the two classes separately. This study generally gave the municipality greater authority than OCT recommends over the matters involved. (*Real Estate Tax Exemption in New York City—A Design for Reform* (New York: Citizens Budget Commission, 1967) pp. 18-21.)

COLLECTING TAXES AND THE FISCAL YEAR

Chapter 14, dealing with tax collections, provides sound reasons to worry about the existing time gap between spending and tax collection receipts. Many North American jurisdictions find it unnecessary to engage so heavily in interim borrowing in anticipation of tax receipts. The common pattern in the U.S. is for a substantial portion (up to half) of real property taxes to fall due at the start of the fiscal year.

After a discussion of the problems and short-term interest costs which result from this time gap, and a review of some but not all possible changes, OCT recommends that all Ontario municipalities and school boards adopt an April 1 to March 31 fiscal year in order that they be brought into line with federal and provincial fiscal years and fit in with the election of municipal officials. OCT concedes that this recommendation "would not be desirable statistically unless it were adopted elsewhere", but feels such adoption to be "not an unreasonable hope".

We believe that this recommendation, and the reasoning which supports it, fail under examination. OCT itself has expressed the need for better comparability in statistics (Vol. I, p. 72). For the more than 4,000 municipalities in Canada, the calendar fiscal year is not merely prevalent, as OCT states, but almost completely uniform, with only six Quebec municipalities on another basis. The school boards in three provinces which depart from the calendar year should not have been cited by OCT. They are not municipalities, nor is their fiscal year the March 31st recommended by OCT. The substantial recent attempts at interprovincial municipal comparability undertaken by the Dominion Bureau of Statistics would be dealt a setback. Contrary to OCT's feeling, the hope of adoption elsewhere would appear slim.

For these reasons, the Bureau disagrees with the recommendation that municipalities and school boards in Ontario change their fiscal year from a calendar basis to an April 1 - March 31 basis.

OCT concludes that "resistance to high taxes was not sufficient to produce an adverse effect on collection" because the tax collection record was better in municipalities with higher per-capita levies than in those with lower levies.

The Bureau does not believe that this conclusion can be reached from the statistical evidence presented by OCT. These high-tax municipalities were urban in character, so it can be assumed that their taxpayers had higher incomes with which to pay, and that the machinery and administration of tax collection were relatively more efficient.

Two interesting recommendations appear in Chapter 14: that upaid business taxes be made a lien on the land, with the owner jointly liable with his tenant for payment and with the owner made a tax collector for the municipality; and that regional and metro units of local government collect their own and lower-tier taxes. It should be noted that in Metro, the one existing regional government in Ontario, only assessment is a Metro function, with the constituent units levying and collecting property taxes.

FINANCING DEVELOPMENT AND MUNICIPAL MERCANTILISM

Special capital levies and developer charges are discussed in Chapter 15. OCT points out the lack of uniformity in capital levy legislation, the trend toward initiation by council rather than taxpayer petition, and the substantial increase in recent years in the use of special capital levies as a financing technique. OCT then recommends consolidation in a single statute under simplified and uniform terms.

The Bureau supports the recommendation that use exemptions from special capital levies be made more limited than at present, leaving only "transportation and communications properties, such as pipe lines, railway lines, and telephone and telegraph lines" exempt, with such exemption not applying to such particular properties if they are benefited by the project for which the levy is made.

OCT's consideration of developer charges (as a condition of subdivision approval, a developer must provide or pay for capital services) is disappointing. After examining and finding much deserved fault with them, OCT recommends rather mildly. The problems, most of which are emphasized by OCT, include: (1) a higher cost of housing, since neither a developer nor a mortgagee can borrow as cheaply as a municipality; (2) the setting of unnecessarily high standards (higher than a municipality would impose upon itself); (3) a trend toward cash imposts, which can be misused; (4) questionable deals and land swapping where the integrity and intelligence of councils are tested; and (5) reduced provincial subsidy eligibility.

OCT's recommendations would tighten provincial control of subdivision agreements, prohibit unspecified cash imposts or imposts for purposes other than recovery of allowable municipal service installation costs, and end municipal mercantilism by land-use gimmicks.

The Bureau believes that the recommendations designed to regulate and limit developer charges are inadequate to contain the problem, and, in at least one particular (that dealing with prohibiting "fiscal zoning") unworkable.

The poll tax is given the summary treatment it deserves in Chapter 16 and is then recommended for repeal. OCT describes it aptly as "unfair, regressive, costly to administer, and widely evaded, in brief, an anachronism in modern society".

The Bureau agrees that the right of Ontario municipalities to levy a poll tax should be terminated.

USER FEES AND CHARGES

Chapter 17 considers local non-tax revenues. It contains an admirable discussion of the distinction between licences (which grant continuing authority or status on a renewable basis) and permits (one-time service), of the benefit-received and public-interest justifications involved, and of their place in the local revenue picture. The bewildering variation in fees is critically reviewed and set forth in a 10-page Appendix.[15] Some variations singled out for comment by OCT are: electrical contractors—$5 to $300; taxi licences—$2 for the first cab to $300 per cab; hawkers and pedlars—$1 to $300. Nor is a difference in rates the only variation. Some municipalities require a permit or licence for a function not so regulated by others.

OCT's major objective is to see that licences and permits are designed to ensure regulation and public protection, not produce revenue. It would also curtail their use as devices to limit competition.

User fees and charges are not examined as searchingly as is warranted (they are covered in 2½ pages). This is disappointing, because several North American jurisdictions are looking closely at the potential of this revenue category. Here is a chance to directly apply the benefit-received principle. The relatively minor revenues involved should not discourage close study to determine appropriate rate levels. This is particularly true because municipalities are moving into new fields and expanding older ones which involve user charges. The issue is of particular importance to urban centres, such as the City of Toronto, which provide a wider range than their suburbs of recreational and cultural facilities with user-charge potential.

The Bureau believes that a more thorough analysis should be made of user fees and charges, with particular attention to existing coverage, rate schedules, and the application of cost accounting to determine the amounts of public subsidy from general revenues now required to finance programs involving user charges.

[15]Although this Appendix does not so state, it is apparent that the fees are annual charges.

THE ASSESSMENT APPEAL HODGE-PODGE

OCT reserves some of its strongest and most colourful criticism for the sad state of assessment appeals. The field is described as "a non-hierarchial contortion of four appeal levels that flounder in imprecision", "wasteful and redundant", and "a hodge-podge of bodies".

Among the recommendations made are several which the Bureau called for in April of 1966.[16] These include giving the taxpayer the right to examine all material used to establish the assessment he is appealing, and centralization of quantum assessment appeals.

The Bureau believes that recommendations dealing with assessment appeals are fully justified, but feels that further improvements are needed in clarifying rules of evidence and in shifting the onus of proof in quantum appeals.

A CLOSE LOOK (?) AT NEW REVENUE SOURCES

Chapter 19, which considers possible new sources of municipal revenue, is somewhat out of character with the Report. The reader is given the feeling that OCT embarked on this phase of its assignment with a previous commitment to pessimism, and then did not try very hard to shake itself free. The start is promising: "It behooves us . . . to take a close look at the specific suggestions that have been made from time to time to put more money into the hands of municipalities and also assess what appear to be feasible new sources of revenue."

[16]*Assessment—The Recurrent Controversy, op. cit.;* pp. 21-25, 29.

While a few other sources are discussed elsewhere in the Report, only three are subjected to the "close look" promised in Chapter 19—a hotel and motel room tax, which is dismissed; a tax on income, earnings, or payrolls, which is found unfeasible (with the qualifier that if regional governments are imposed a reappraisal would be warranted); and local general and specific retail sales taxes, which are not recommended.

While the Bureau does not quarrel with OCT's conclusions on the three possible local revenue sources it examines and discards, we believe that other potential sources should have been explored for local application.

There is another, and more fundamental, issue involved, and it might explain OCT's somewhat negative attitude toward new revenue sources. There are only three basic ways to help solve the financial problems of municipalities: allow them greater tax room; assign them fewer functions; and/or give them more grant assistance.

It would appear to the Bureau that OCT opted too strongly for senior-level assistance, doing so at the expense of more local tax room.

Before concluding our discussion of Chapter 19, we should point out an error in OCT's discussion of general retail sales tax revenues. It is stated that such "local levies on sales and receipts now approach 20% of the total tax yield of American cities". Based, as footnoted, on the *1966 Municipal Year Book* of the International City Managers' Association, this statement is incorrect and results from an error of interpretation. The $1.6 billion in "sales and gross receipts" is only 8.5%, not 20%, of the $18.9 billion in 1963-64 city revenues. The 20% figure relates to municipally-operated utilities and liquor store revenues as a percentage of total revenues. Furthermore, even at 8.5% the picture is distorted, since 79% of all local revenue from sales and gross receipts was raised by cities in only four states – New York, California, Illinois, and New Jersey – plus the District of Columbia.

SCHOOL FINANCE AND SPECIAL STATUS

OCT expresses considerable admiration for the Ontario Foundation Tax Plan in the Chapter 20 discussion of school finance, applauding its flexibility and "that quality to which every part of a provincial and local revenue system should aspire—fiscal sophistication in a framework of simplicity". While supporting the 1967 amendment shifting from attendance to enrolment the basis on which school pupils are counted, OCT recommends a further change—so long as grants are made on a calendar year basis, calculations of pupil load should reflect enrolment "in the period beginning the first school day of September of the calendar year preceding that in which the grants are paid". This would, of course, reduce the time lag that operates to the detriment of rapidly-growing systems. A stepping-up of payments is also recommended in the event that school finances become based on the province's fiscal year.

Another recommendation would apply the grant contribution to capital expenditure at the time the expenditure is incurred. At present, the provincial contribution is limited to that part of outlay financed by a school board out of current revenue, with the balance of assistance left to accrue as financial relief on debt charges. The Metro School Board is concerned that provincial assumption of a share of capital costs in cash "would be granted at a price—the price being the abolition of the Ontario Education Capital Aid Corporation".[17] It does not believe that sufficient private-market borrowing would be available.

In a sweeping recommendation, OCT would abolish seven of 11 stimulation education grants and incorporate them into the Foundation Tax Plan, terminate three others, and have the province undertake the remaining one.

[17]See Metro School Board, *Submission to the Provincial Government* (re OCT Report), undated, p. 3.

The most important recommendation in the area of school finance would be to end the present requisitioning power of all school boards on municipal councils. Each board would levy its own taxes, which would still be collected by the municipality but would bear the school board's name and be payable at times distinct from municipal tax bills.

OCT does not comment on a feature normally associated with fiscally independent school boards in the U.S.–state limitations on the maximum amount of education levies. It is important, and revealing, to note that OCT stated a preference for complete abolition of school boards and their replacement directly under municipal councils. Since this could not be done with elementary schools because of the unique and protected status of separate schools, OCT settled for the compromise recommendation to end requisitioning powers.

The Bureau agrees with OCT's recommendation that school boards be required to levy their own taxes, but we emphasize the advantages of using municipal assessment and collection machinery. The greater visibility thus caused should result in improvement in the quality of board members and in closer scrutiny of school budgets. In addition, fiscal independence would install the sound principle that the unit which spends should tax, in this instance ending the unwarranted criticism of municipal councils for education-caused tax increases.

OCT dismisses the contention that since the province "now finances 80 or 90 per cent[18] of the expenditure of certain needy school boards without exercising greater control over them than over others" it can "shoulder this level of spending for **all** boards without reducing their autonomy".

[18]OCT explains that many of the figures it quotes, being province-wide, fail to convey the proper situation in a particular municipality. This unintended distortion can be appreciated with respect to provincial school aid, which OCT points out can range from less than 30% up to 90% of expenditure. A recent analysis by the City of Toronto's Finance Commissioner showed that $28.69 million in provincial grants represented only 27.46% of 1966 total education costs in the City. (City of Toronto Finance Department, *Assumption by the Provincial Government of the Full Cost of Education* (a report to Board of Control), January 16, 1967.)

In concluding Chapter 20, OCT reiterates its belief that provincial school grants "can and should exceed half the cost of education" without destroying local autonomy.

THE CHAOS OF CATEGORICAL GRANTS

Chapter 21 examines the unconditional grant to municipalities and such categorical grants as roads, welfare, and public health and conservation. (Education, hospital, and mining property grants are considered in other chapters.) OCT expresses its attitude early and directly: "The situation with respect to provincial grants to local authorities in Ontario is—and we choose our word carefully—chaotic." Indeed, as OCT points out, two authoritative analyses could not agree on the number of grants existing. A Department of Municipal Affairs study counted 97, while OCT suggests the number to be closer to 90 than to 100. OCT's "best estimate for 1966-67 indicates that, net of federal funds that form an important contribution to certain grant programs, provincial expenditure on the grants covered by [Chapter 21] totalled $255.3 million".

OCT's recommendations may be summarized as follows:

Roads—the province should finance between 65 and 75% of total average expenditures on the complete provincial-local system if it is to achieve an equitable benefit-cost sharing, with a road classification system replacing the present municipal status system on which to determine the flow of user and access benefits and thus apportion provincial grants;

Welfare—an increase to 80% should be made in the level of several specified provincial grants;

"Environmental" programs—recommendations are diverse, but are hinged to regional government reform;

Health—specific-purpose grants should be terminated, and existing inequities disadvantaging larger municipalities not in health units should be ended;

Redevelopment and housing—while generally refraining from specific recommendations, OCT questions the need for duplicate approval of renewal projects by both federal and provincial authorities and calls for an over-all study of redevelopment and housing;

Recreation and community services—to replace the present confusing array, a block grant in the form of a Community Enrichment Grant should be made as regional government units are created, and Metro should be given such a grant of $2 per capita, as a form of pilot study, to replace recreation and community service grants now received in the Metro area.

Miscellaneous grants—these should be abolished;

Municipal unconditional grant—this should be repealed, among other reasons because municipal status is not an appropriate ground for differential treatment, because justice administration would be assumed by the province under a separate recommendation, and because the split mill rate would be terminated by OCT and replaced principally by a **new** unconditional grant (at an initial rate of $7 per capita for the first 2,500 population, an increase of 50¢ per capita for the next 2,500, and an additional 50¢ per capita for each subsequent doubling of population); and

Basic Shelter Exemption Grant—designed to fully reimburse municipalities for the tax loss suffered as a result of this new exemption as recommended in Chapter 11.

The Bureau is in agreement with all provincial grant changes as recommended, including especially the recommendation for an over-all study of redevelopment and housing. We disagree, however, with

OCT's questioning of the need for approval, by both federal and provincial authorities, of local redevelopment and housing projects. Our reasons are: (1) that if a level of government is providing financial assistance on other than an unconditional basis, it should be involved in project approval; (2) that each level should look at somewhat different aspects of proposed urban renewal or housing projects; and (3) that current practice in Ontario indicates that, notwithstanding the requirement for dual approval, there exists too great a degree of abdication of review responsibility.

Chapter 21 concludes with worthwhile recommendations calling for annual review of grant programs, expert provincial staff for continuing studies, provincial publication of an annual review of provincial-local finance, and provincial authorization to meet all interest and other costs of temporary borrowing required to advance the start of municipal capital projects (a penetration of countercyclical fiscal policy to the local level). Comment was made above concerning the integration of OCT's recommendations regarding grant programs with its call for regional government reform.

LOCAL DEBT — SOME QUESTIONABLE PROPOSALS

The somewhat illusory nature of local autonomy, which OCT holds in high regard, is put into more accurate perspective in the Chapter 22 discussion of municipal debt. As OCT points out: "It is perhaps in the sphere of borrowing that provincial supervision and control over local governments is most complete." Indeed, one might use OCT's own words to question whether local autonomy ever really existed, exists today, or would exist upon implementation of the Report.

A sample of 1965 statistics relating to Metro as extracted from the Report is informative: Metro floated $127 million of the province-wide total of $218 million in new debentures; the ratio of new debt/debt retired was 4.7/1 in Metro but only 1.4/1 for the balance of the province; Metro was carrying 46.3% of all municipal debt after sinking fund deductions. (As we observed above, however, relatively higher taxes and debt can be, and must be, borne by highly urbanized municipalities.)

OCT recommends new limits on local borrowing based solely on the last adopted revenue estimates for a full year. It would permit borrowing without provincial approval up to 15% of that figure, up to 25% with an explanation, in excess of 25% only with prior provincial approval, and would empower the province to require municipalities that borrow in excess of 15% to create and maintain a working-fund reserve of up to 3% of the current levy.

After discussing reasons why debenture borrowing for capital assets is both necessary and appropriate, OCT reviews measures and policies to reduce over-reliance on borrowing. These measures are: (1) debentures with terms shorter than the anticipated useful life of asset being financed by borrowing; (2) accelerated early instalment debentures; (3) increase in the present unrealistic 3% limit on expected sinking-fund investment earnings; (4) broader use of special reserve funds or built-up general reserves; (5) narrow definition of capital items; (6) wider use of partial pay-as-you-go and down-payment financing; (7) new definition of permissible beyond-the-year borrowing; (8) discounts to encourage rapid payment of local improvement assessments; and (9) application of windfall revenues to capital purposes.

Before discussing OCT's choice and our reaction thereto, a few comments are in order. A narrower definition of capital items would be quite helpful in ensuring that borrowing margins are reserved for true capital works, a case in point being the tendency in some North American jurisdictions to issue medium-term debentures for certain rolling stock that is unlikely to remain utile for even five years. Metro's capital levies, as pointed out by OCT, have assisted greatly in partial pay-as-you-go financing. The amount raised from 1957 through 1965, quoted by OCT at $85 million for subway construction and school purposes, had produced $100 million by the end of 1966. This revenue continues to increase each year, without raising the millage, as the assessment base grows. Recourse to discounts to encourage rapid payment of improvement assessments can be symptomatic of weaknesses in assessment and collection administration. Windfall revenues, especially when they result from the sale of capital assets, should be applied to rebuilding and/or expanding the capital plant. In this way, proceeds from the old plant are applied to new facilities.

To summarize our comments on ways to reduce reliance on capital borrowing, the Bureau cautions against the use of medium-term debentures for some short-life rolling stock and points out the following: the considerable potential and advantages of capital levies; the unhealthiness to assessment and collection administration of over-reliance on rapid-payment tax discounts; and the appropriateness of applying funds received from capital asset disposition to capital plant improvement and expansion.

Although not dismissing completely the various techniques and policies to reduce borrowing which it reviews, OCT recommends only one as its "selected method"—local annual estimates of a municipality must include amounts for capital purposes equal to the lesser of (a) the amount of capital expenditures that remains unfinanced in its five-year capital budget and (b) a statutorily specified percentage of its estimated current expenditures.

Unless we misinterpret this recommendation, it is both surprising and unfortunate. Certainly, if the municipality has a capital budget of any magnitude, the first alternative would be prohibitively costly, and could lead to minimal and unrealistic five-year capital budgets. The second is meaningless, since OCT has refused to even suggest what that percentage might or should be. The recommendation requiring annual submission by a municipality and provincial approval of a capital budget of **at least** five years' duration, with authorization for automatic borrowing for first-year projects, does not aid in understanding the selected method. Metro experience indicated that 10-year projections were too long to be useful and the Ontario Municipal Board now accepts five-year projections.[19]

The Bureau believes that OCT's selected method to reduce local government reliance upon capital borrowing is completely inappropriate because one option can either be prohibitive in fiscal burden or conducive to evasion, while the alternative is meaninglessly vague. Furthermore, we feel that the recommended requirement of capital budget submission is defective in allowing a flexible time span of five or more years, and should call for a uniform five-year capital budget from each municipality.

The Bureau agrees with two additional OCT recommendations: that municipal borrowing approvals be transferred from the Ontario Municipal Board to the Department of Municipal Affairs; and that separate school board borrowing be carried out by municipalities.

---

[19] *Capital Works Programming in Metro* (Bureau of Municipal Research, March 1966) p. 9.

11.20

BUREAU OF MUNICIPAL RESEARCH

Founded in 1914 by a group of public-spirited citizens — operating since then under provincial charter as a non-partisan, non-profit research agency — staffed full time by well qualified personnel — the Bureau of Municipal Research keeps local government operations in Greater Toronto under constant scrutiny.

The Bureau has gained wide recognition as an effective proponent of good government through its bulletin *Civic Affairs*, through the publicity given its statements, through its information and advisory services, and through the participation of the staff in the public discussion of municipal issues.

The Bureau is financed entirely by voluntary annual subscriptions from non-governmental sources. Its members include business and professional firms, organizations and individuals.

your inquiries are invited:

DOMINIC DELGUIDICE EXECUTIVE DIRECTOR
Suite 406, 4 RICHMOND ST. E., Toronto 1, 363-9265