Tax shift: Companies dump burden of taxes on squeezed municipalities

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The town of Espanola, Ont., needs a new fire hall, but the $2-million cost to build one is beyond its means.

“When they built this place, there were 15 firefighters here,” said chief Mike Pichor. “Now we’ve got 28. In our training room, they pretty much sit on top of each other for any kind of training. It’s absolutely ridiculous.”

The town, located just off the Trans-Canada Highway about a one-hour drive west of Sudbury, is making do with a fire hall built in 1960. But a day of reckoning looms, because the new fire trucks it will have to buy in a couple of years are too big to fit in the current station.

The problem Espanola faces is a sharp decline in the amount of money it collects from the local pulp-and-paper mill – now owned by Domtar Inc. – that for decades has been the biggest contributor to the town’s tax revenue. An appeal board found the drastic slump in the forest industry meant the value of the mill had declined. So, Espanola was forced to refund $5.2-million to Domtar for the municipal taxes it paid between 2009 and 2012.

Espanola, population 5,500, is far from unique. In fact, it’s just one of scores of municipalities across the country struggling to adjust to the fallout from steep declines in tax revenue caused by successful appeals that companies have made to the agencies that regulate municipal tax rates.

Reductions in taxes from large manufacturers, big retailers and even the ubiquitous doughnut shops have left cities and towns straining to find other revenues to compensate for what they have lost from corporate Canada.

From Kitimat, B.C., to Halifax, and in almost every municipality in Ontario, some of Canada’s biggest companies are winning reductions in the values tax assessors have placed on their properties, often because their factories and mills have cut production. Decisions in favour of the companies mean some towns and cities have been forced to emulate Espanola and issue refunds – in some cases amounting to millions of dollars.

The loss of tax revenues from pulp-and-paper giants, auto makers, steel producers, retailers and other companies has caused a massive shift in the burden to residential taxpayers, staff layoffs in some municipalities, and delays or cancellations of upgrades to roads and other infrastructure.

“First it was our mill, but we have also been impacted by [appeals by] Tim Hortons, Canadian Tire, Home Hardware and Loblaws,” said Cynthia Townsend, Espanola’s clerk/treasurer and administrator.

Domtar appealed the assessment of $49.7-million put on the mill by the Ontario Municipal Property Assessment Corp. (MPAC), and won a reduction in that value to $11.1-million, which provides the basis on which taxes are levied. To adjust to the new reality, Espanola increased residential tax rates, slashed its operating budget by $1.5-million, cut 15 people from its full-time and part-time work force of 120, and put water and sewer projects, road upgrades and the new fire hall on hold.

“There was no department unaffected by these cuts,” Ms. Townsend said. Espanola appealed the decision and eventually settled on an amount she would not disclose and received a special one-time payment from the Ontario government that helped compensate for some of the lost revenue.

Domtar filed a similar appeal in Dryden, Ont., where it also won a reduction. Almost a decade’s worth of restructuring led to the closing of two paper machines and other operations at the mill, and the elimination of hundreds of jobs amid the crisis that has hammered Canada’s forestry industry.

The company switched the output of the Dryden mill to just pulp from pulp and paper, spokeswoman Bonny Skene said.

There was no such action taken in Espanola, but “we’re very focused on remaining competitive in the global context,” Ms. Skene said.

The revenue reductions stemming from successful appeals by corporations were particularly acute in Northern Ontario towns, such as Fort Frances, Terrace Bay and others, where a single mill or a single factory dominates.

Fort Frances has faced the double-whammy of lower taxes from a Resolute Forest Products Inc. mill and the permanent shutdown of that operation. The loss of 400 jobs because of the closing will eliminate millions of dollars in annual wages from the community.

Municipal officials in Fort Frances and Dryden have taken similar actions to those made by Espanola, raising residential taxes, cutting jobs and slashing infrastructure spending.

The tax squeeze is not confined to Ontario; nor does it affect only one-industry towns. In larger municipalities, such as Toronto, Hamilton and Windsor, Ont., industrial and commercial assessments are also being challenged. However, bigger cities have much larger and more diverse tax bases, so the reductions in revenue they face have less of an impact.

In Nova Scotia, protracted negotiations between Halifax and Irving Shipbuilding Inc. – including whether it’s a commercial business or an industrial company – led to an agreement that cut the company’s property tax payments by about $1-million for the 2014-2015 fiscal year in return for higher taxes in future years, depending in part on employment levels.

On the other side of the country, Rio Tinto Alcan is seeking a reduction in taxation for the 2012 to 2015 years on its smelter and the land underneath it in Kitimat, B.C. That property has a 2015 assessed value of $554-million.

Officials in Hamilton have been adjusting for more than a decade as taxes paid by Stelco Inc. and its successor U.S. Steel Canada Inc., fell to $4.5-million last year from $13.7-million in 2000 amid cuts in steel production. The steel maker contributed more than 3 per cent of Hamilton’s $718-million in revenue in 2000, but just 0.61 per cent of the $975-million the city took in last year.

U.S. Steel Canada has taken its bid to cut its taxes even further. The steel giant locked out its unionized workers on two separate occasions, then argued it was entitled to a municipal tax refund because its steel mill and pickling plants in Nanticoke, Ont., were vacant.

Ontario's Assessment Review Board, which passes judgment on appeals that are not settled through negotiation, agreed and granted the steel maker rebates for the 2010 and 2013 tax years.

That decision will be appealed to the Ontario Divisional Court, said Mark Merritt, treasurer of Haldimand County. "Even the interim decision is precedent-setting in that every business in Ontario that has a lockout will now be eligible for vacancy rebates – which they may not have considered in the past," he said.

In Thunder Bay, Ont., Mayor Keith Hobbs figures city revenue from industrial companies should be growing every year. But they are declining because of successful appeals, such as the decision earlier this month that slashed the assessed value of Resolute's flagship mill to $32.6-million for the years 2009 through 2012, from the city's valuation of $72.2-million. Thunder Bay will have to pay the forest products giant millions of dollars in rebates.

"We're taking one step forward and two back," Mr. Hobbs said. "It's got to change."

Resolute spokesman Seth Kursman said the decision by the Ontario Assessment Review Board reflects in part the deterioration in the fortunes of the forest products industry in the past decade. That has led to the decommissioning of large portions of Resolute's Thunder Bay mill, he said, including a paper machine, a de-inking pulp mill and a kraft mill.

When it comes to taxes "we certainly believe that we should pay our fair share," Mr. Kursman said. "But that fair share should be based on commonly applied and accepted principles … A fair and equitable property assessment is one of many factors that ensure the facilities are not put at a competitive disadvantage, which can ultimately compromise our viability."

MPAC this week issued a statement on the decision that said it "recognizes and appreciates the tax revenue impact this will have on the local community."

With few exceptions, Canadians want to pay as little in taxes as they can. Corporations are no different as they try to keep a lid on rising operating costs, adjust to global competition and respond to shareholders insisting on ever-better returns.

But residential properties are easy to compare and evaluate in an active real estate market. It's more challenging to assess the values of pulp and paper mills or steel plants because they're usually one of a kind.

So the Assessment Review Board in Ontario has been using production from a plant as one way to measure the value of an industrial property. That methodology has contributed to rulings in favour of companies and against municipalities.

Any Ontario residential landowner or company that pays property taxes can appeal the assessment of the property that is established by MPAC, the Ontario agency.

Canadian Tire Corp., for example, is challenging the assessments on more than 100 of its stores in Ontario. "Through the normal course of business, it's important for us to prudently manage our business expenses, including ensuring our realty assessments and ensuing taxation liability are fair and equitable," spokeswoman Jane Shaw said in an e-mail response to a question on the retailer's appeal. She added that Canadian Tire's appeal is "consistent with that of our competition and simply an indication of prudent management of our expenses."

Catalyst Paper Corp., of Richmond, B.C., found the 2009-2011 property taxes imposed by the Municipality of North Cowichan, B.C., so onerous that it appealed them all the way to the Supreme Court of Canada, where it lost.

The tax burden has been reduced at some of Catalyst's B.C. mills since then, but the forest products company said in a 2014 Ontario Securities Commission filing that "we continue to press for a fair and sustainable level of municipal property taxes for major industry in the B.C. communities in which we operate."

Jon Lefebure, mayor of North Cowichan, said the municipality has reduced taxes on major industries such as Catalyst and shifted the burden to homeowners in order to help keep the mill open amid the devastation that has ravaged Canada's forest-products sector.

"I think, generally, most people recognize that it was an unjust tax on our major employer," Mr. Lefebure said. "When we reduced our [industrial] taxes, we're actually getting that money back into the community in re-investment in the mill."

Residential taxes rose about 25 per cent, he said, but the community is growing because its location on the east side of Vancouver Island is a popular retirement destination.

Homeowners in Victoria, for example, can sell their properties and buy comparable or better residences for $100,000 to $150,000 less in North Cowichan, he said, which is helping to spur growth and mitigate the burden on existing residential taxpayers.

The mill towns of Ontario, on the other hand, are shrinking, so residential tax increases are spread across fewer homeowners even as taxes from industrial and commercial properties decline.

"The municipal property tax is going to do more than it used to, and, more specifically, the residential taxpayer is expected to do more," acknowledged Mark McCaig, chief administrative officer of Fort Frances, which is trying to make up for $1-million in revenue that has evaporated because of cuts in taxes paid by the Resolute mill.

But tax increases for homeowners can't entirely compensate, so, in addition to other actions, the town has increased user fees. Fort Frances has delayed for six years the repairs needed to a town road that leads from the border crossing from International Falls, Minn., to Highway 11, one of the key arteries in northwestern Ontario.

"We're not even close to putting the amount of money away [we need] to fix our aged infrastructure," Mr. McCaig said. "That's always what feels it first – those capital programs – and that's going to have significant consequences for us down the road."

As a cottage owner on Black Sturgeon Lake, near Kenora, Ont., and part of that municipality, Jim Quinn has watched his taxes soar since 2005, the first summer he spent on the lake as a property owner. Taxes were about $2,200 that year, he recalls, but they have since climbed to more than $5,000 annually.

Part of the increase comes from additional policing costs that were downloaded to municipal governments by the provincial government. Rising property values have also had an impact.

Mr. Quinn, who is retired and spends most of the year in Winnipeg, said he would like to pass the cottage down to his daughter and son who are in their 20s, but the taxes on the property threaten to make that impossible.

“Our kids look at me and say: ‘We don’t want that aggravation of dealing with the taxes and everything else that goes on out there,’” he said.

The 2005 closing of a paper mill by Abitibi-Consolidated Inc., the precursor to Resolute, eliminated the largest industrial taxpayer in Kenora and the burden has been shifted to residents, Mayor Dave Canfield said. “It’s kind of a succession of a whole pile of things that have pushed our taxes up,” he said. “I feel for them, but it’s a lot of things that are pretty much uncontrollable.”

Taxes on residences have risen 80 per cent in Thunder Bay since 1999, said Rob Colquhoun, the city’s director of revenue. Industrial properties generated $4.6-million in taxes for Thunder Bay last year, compared with $23-million in 1999. Those numbers reflect the impact of several paper mills closing and a change in the way grain elevators are assessed – they now pay a commercial tax rate, rather than the industrial rate, which is higher.

Mayors and municipal officials in Ontario are critical of the province’s Assessment Review Board and MPAC for the financial predicament they’re facing. The question of how mills can be assessed in the tens of millions of dollars, then have their values slashed by more than 70 per cent by the review board – as happened in Espanola – leaves the officials shaking their heads.

“It sort of leads to the point that the ARB don’t know what they’re taking about, or MPAC doesn’t,” said Fort Frances Mayor Roy Avis.

The provincial body acts as an expert on assessment when appeals are made to the review board, said MPAC president and chief administrative officer Antoni Wisniowski.

In many appeals, Mr. Wisniowski said, new details are revealed about properties, so MPAC has developed new methodologies for assessing auto plants, pulp-and-paper mills and other large industrial properties in part to make sure all the facts are known before appeals are heard.

Meanwhile, some Ontario towns and cities are fighting back with appeals of their own. Dryden will seek leave to appeal to the Ontario Divisional Court an Assessment Review Board decision on its Domtar mill.

Thunder Bay said it will not appeal the decision on the Resolute mill, but will present recommendations on improving the system to provincial cabinet ministers at an Association of Municipalities of Ontario meeting next month.

Tax cuts

The list of companies whose municipal taxes are being cut includes some of the biggest and most well-known corporations in Canada – and some others that are not household names.

- Molson Coors Brewing Co. will save more than $3-million in municipal taxes between 2006 and 2016 after appealing the assessment on its big brewery in Toronto near Pearson International Airport.
- FCA Canada Inc. (Chrysler) will receive a $5.7-million refund from Windsor, Ont., after a settlement that reduced the assessed value of its minivan assembly plant in that city to $65-million for 2008 and $75-million for 2012 from $84.5-million and $120-million, respectively.

- U.S. Steel Canada Inc. was forecast to pay $5.9-million in city and education taxes in Hamilton in 2014, compared with $22.6-million when it was Stelco Inc. in 2000 and $10.4-million when United States Steel Corp. took over Stelco in 2007.
- Domtar Inc. won a reduction of about $5-million in Espanola, Ont., for the 2009-2012 years for its mill in that town. The Ontario Assessment Review Board also cut the levy on the forest products company's Dryden, Ont., mill, leading to a reduction of $5.5-million in taxes in a decision that is being appealed by Dryden.
- Resolute Forest Products Inc. faces an assessment of $8.4-million on its closed mill in Fort Frances, Ont., down from $26.1-million in 2008, which will cost the town about $1-million in tax revenue. The assessment on Resolute's mill in Thunder Bay, Ont., was reduced to $32.6-million from $72.2-million for the 2009-2012 taxation years.
- AV Terrace Bay Inc., a pulp mill in Terrace Bay, Ont., owned by India-based Aditya Birla Group, received a rebate of $600,000 in 2013 and a reduction of $530,000 in subsequent years after a settlement.