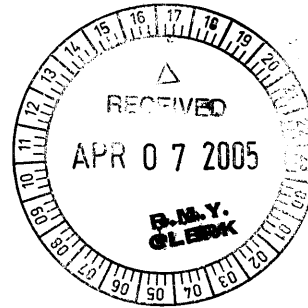


March 30, 2005

Mr. Denis Kelly
Regional Clerk
The Regional Municipality of York
17250 Yonge Street
Newmarket, ON L3Y 6Z1



REGION OF YORK
CLERK'S OFFICE

RE: **2005 TAX POLICY OPTIONS – TAX IMPACTS (7.3)**

FILE No. - *PaS*

Dear Mr. Kelly:

→ • Chair
• CAO
• S. Cartwright

This will confirm that at the meeting of Council held on March 29, 2005, Clause 1 of Report No. 10, was approved as follows:

“That the following tax capping options be adopted for properties in the commercial, industrial and multi-residential classes for 2005 and future tax years:

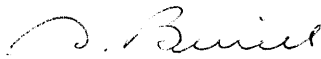
1. Assessment related tax increases be limited to an amount which is the greater of:
 - a. 10% of the prior year's annualized property taxes; or
 - b. 5% of the prior year's property tax at Current Value Assessment (CVA);
2. Properties for which tax increases have been capped but are within \$250 of their full CVA tax, be moved to the CVA tax level;
3. Properties for which tax decreases have been clawed back but are within \$250 of their full CVA taxes, be moved to their full CVA level of tax;
4. Eligible properties (new construction/new to class) within the meaning of subsection 331 (20) of the *Municipal Act, 2001*, be taxed at a minimum of:
 - a. 70% of their full CVA tax value for the 2005 tax year;
 - b. 80% of their full CVA tax value for the 2006 tax year;
 - c. 90% of their full CVA tax value for the 2007 tax year;
 - d. 100% of their full CVA tax value for the 2008 tax year and beyond;

.....2/

And that these recommendations be forwarded to the Regional Municipality of York;

And that the Province of Ontario be requested to permit municipalities to exclude those properties in the multi-residential, commercial and industrial classes that have reached their CVA level of tax from future capping and clawback provisions.”

Yours sincerely,



Sheila Birrell
Town Clerk

Encl.

SB:mbp

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REPORT TO GENERAL COMMITTEE

TO: Mayor and Members of Council

FROM: Barb Cribbett, Treasurer

PREPARED BY: Paul Wealleans, Director, Taxation

DATE OF MEETING: 2005-Mar-21

SUBJECT: 2005 Tax Policy Options " Tax Impacts"

RECOMMENDATIONS:

THAT the following tax capping options be adopted for properties in the commercial, industrial and multi-residential classes for 2005 and future tax years.

1. Assessment related tax increases be limited to an amount which is the greater of:
 - a. 10% of the prior year's annualized property taxes; or
 - b. 5% of the prior year's property tax at Current Value Assessment (CVA);
2. Properties for which tax increases have been capped but are within \$250 of their full CVA tax, be moved to the CVA tax level;
3. Properties for which tax decreases have been clawed back but are within \$250 of their full CVA taxes, be moved to their full CVA level of tax;
4. Eligible properties (new construction / new to class) within the meaning of subsection 331 (20) of the *Municipal Act, 2001*, be taxed at a minimum of :
 - a. 70% of their full CVA tax value for the 2005 tax year;
 - b. 80% of their full CVA tax value for the 2006 tax year;
 - c. 90% of their full CVA tax value for the 2007 tax year;
 - d. 100% of their full CVA tax value for the 2008 tax year and beyond.

AND THAT these recommendations be forwarded to the Regional Municipality of York;

AND THAT the Province of Ontario be requested to permit municipalities to exclude those properties in the multi-residential, commercial and industrial classes that have reached their CVA level of tax from future capping and clawback provisions.

PURPOSE:

Region of York Council will be receiving a report and recommendations from Regional staff on "New Property Tax Capping Options for the Commercial, Industrial and Multi-Residential Classes" on April 7, 2005. The purpose of this report is to provide Markham Council with estimated tax impacts on properties in the Town of Markham prior to Regional Council making decisions on new tax capping tools passed by the Province of Ontario in the 2004 Provincial Budget.

EXECUTIVE SUMMARY:

Through new tools included in amendments to the Municipal Act in 2004, the Ontario Government is permitting municipalities in Ontario the option of accelerating "assessment related" tax increases or decreases to the point where the property is paying taxes based on "assessment multiplied by the tax rate" (no longer having tax increases "capped" at 5% or having expected tax decreases "clawed" back). In York Region, the authority to implement any of these tools rests with the Regional Government. This report provides a summary of the estimated tax impacts of the various options based on Town staff's analysis.

The movement of taxes for properties to full CVA tax levels across Ontario is progressing at a relatively slow pace. This is due in part to re-assessments in 2001, 2003 and 2004 which have caused a continuing the need for capping because of inconsistent increases in assessment values for individual properties within each property class as well as the low 5% limit on assessment related increases. The Province of Ontario initially introduced legislation that provided capping protection for the years 1998 to 2000 and then in 2001 extended the 5% annual cap indefinitely. While affording protection, this extension means that many properties that were overtaxed in 1998 will not achieve CVA taxes for years.

A number of new tools have been provided by the Province for 2005. Analysis of these tools shows that their full implementation would bring 32% of properties in the commercial, industrial and multi-residential classes in Markham to full CVA taxes. Currently, there are only 13% of these properties in Markham at full CVA. The Region of York report recommends the use of all the tools, which are discussed in greater detail in this report.

BACKGROUND:

At its meeting of Feb 14th, 2005 this committee received a report entitled "2005 Property Tax Options" that summarized the property tax options that are available to municipalities in 2005. In the report, staff noted that the estimated tax impacts of the various options would be presented to this committee prior to the options being considered by York Regional Council. This report provides these estimated impacts.

Currently, residential properties are taxed at full CVA. The non-residential classes – commercial, industrial and multi-residential – are subject to the 5 % capping provisions under Provincial legislation. To fund the 5% cap, it is necessary retain (or claw back) tax decreases for those properties in each class that are currently paying more than their CVA level taxes. The amount retained is calculated on a percentage basis and is referred to as the "clawback" rate. It represents the percentage retained.

Table 1 shows the 2004 clawback rates for York Region:

Property Class	2004 Clawback Rates (% of Decrease Retained)
	%
Multi-Residential	100.00
Commercial	84.02
Industrial	81.55

In the Town of Markham there are a total of 4,642 non-residential properties subject to capping provisions. This "Status Quo" option is shown in Table 2 below.

Table 2 Status Quo – Properties Subject to Capping Provisions at 5% for 2005		
	No. of properties	Per Cent of total
Capped - Properties	2356	50.75%
Clawback - Properties	1622	34.94%
At CVA - Properties	584	12.58%
New Construction - Properties	80	1.72%
Total	4642	100%

OPTIONS/DISCUSSIONS:

New Tax Policy Options

The Ontario Government has provided for five new capping options. The "Status Quo" option retains a 5% cap and is presented for comparison in the illustrations that follow. The new options can be used separately or in combination. The options are presented in combination which achieves the maximum number of properties moving to full CVA.

Municipalities can:

1. Increase the annual cap from 5% to up to 10% of previous year's taxes;
2. Implement a minimum annual increase of up to 5% of the prior year's full CVA level taxes (Municipalities can implement the greater of 1 or 2);
3. Move capped properties (those paying less than full CVA) directly to CVA taxes if they are within \$250 of their CVA taxes.
4. Move clawed-back properties (those paying more than full CVA) directly to CVA taxes if they are within \$250 of their CVA taxes.
5. Minimum tax level of 70% for eligible New Construction properties in 2005, increasing to 100% by 2008.

ANALYSIS AND OPTIONS

The analysis in this report utilizes the provincial flexibility to combine each option. In other words, each is additive so that Option 4 incorporates Options 1 through 3. The reference to each option in this report matches those in the Region report for ease of comparison.

Option 1: Increasing the cap from 5% up to 10% ("10/0/0/0")

This option, termed "10/0/0/0" would increase the annual cap from the current 5% of the previous year's taxes to a maximum of 10% and results in accelerating the rate of movement of capped properties to CVA. This is the most effective option in instances where properties are currently taxed at more than 50% of their CVA taxes.

The option of increasing the 5 % cap to 10%, results in more properties being capped and therefore moving closer to full CVA. Capped properties would see their taxes increase by 10%

while the clawback rates decreases from 2004. The majority of properties in the clawback position are commercial and industrial condominiums.

Impact of Option 1: Number of Properties			
	Capped	At CVA	Clawback
Status Quo	2356	584	1622
Option 1	2138	802	1622

Option 2: 5% of Prior Year's Full CVA Taxes ("10/5/0/0")

The second option, termed "10/5/0/0", involves applying an increase of up to 5% of the prior year's CVA taxes; this is the most effective tool to move properties with low levels of taxation (0% to 50%) closer to CVA taxes (100%). This option moves an additional 104 properties with levels of taxation (0% - 49%) to levels greater than 50%. The majority of properties that have increased over the 49 % level of taxation are: vacant land, or commercial condominiums.

Impact of Option 2: Number of Properties			
	Capped	At CVA	Clawback
Status Quo	2356	584	1622
Option 1	2138	802	1622
Option 2	2138	802	1622

While Option 2 does not result in moving additional properties to full CVA tax, it does move more capped properties closer to CVA.

Option 3: Applying a \$250 Threshold to Capped Properties ("10/5/250/0")

The third option, termed "10/5/250/0", allows municipalities to bring capped properties that are within \$250 of CVA taxes directly to the CVA tax level. These properties are currently capped and taxed below their CVA taxes and for which an increase is required to get to CVA tax levels. The result is that these properties are removed from capping protection.

Impact of Option 3: Number of Properties			
	Capped	At CVA	Clawback
Status Quo	2356	584	1622
Option 1	2138	802	1622
Option 2	2138	802	1622
Option 3	1938	1002	1622

This option reduces the number of properties receiving capping protection and moves them to full CVA.

Option 4: Applying a \$250 Threshold to Properties Clawed-Back ("10/5/250/250")

This option referred to as the "10/5/250/250", allows municipalities to move properties that are currently clawed-back (properties that are paying above CVA level taxes) but are within \$250 of

their CVA taxes to CVA level taxes. This option would bring 1470 properties to CVA, but it also increases the clawback rate slightly to the balance of the classes because there are fewer clawback properties.

Impact of Option 4: Number of Properties			
	Capped	At CVA	Clawback
Status Quo	2356	584	1622
Option 1	2138	802	1622
Option 2	2138	802	1622
Option 3	1938	1002	1622
Option 4	1938	1470	1154

Option 5: New Construction / New-To-Class: Minimum of 70% tax for 2005

Under the provisions of the Act, "eligible properties" for new construction or new to a property class are to be taxed at the same a tax level representing the average tax rate of up to six comparable properties. The properties appear on the Assessment Roll and are initially billed at full CVA taxes but are subsequently adjusted based on the comparable property levels, possibly requiring an adjustment to their taxes.

For 2005, the minimum percentage is 70%, rising by 10% each year, to the maximum of 100% in 2008 and beyond. This applies only to new properties in 2005 and not to properties already capped in prior years. This option should be used with all other tax tool options.

Summary

Chart 1 below shows the number of properties affected by the options in Markham. It illustrates that as properties move from the Status Quo through Option 4, the number of capped properties decrease, and the number of properties at CVA increases. The number of properties eligible for new construction tax treatment remains constant.

The number of capped properties decreases by 418 from 2356 under the status quo to 1938 under Option 4, while there are 886 more properties moving to CVA (584 to 1470) and the number of clawedback properties decreases from 1622 to 1154.

Chart 2 below illustrates the change to the clawback rates for the Status Quo vs. the four Options. This is the percentage that must be retained to fund capped properties. Although the rates drop dramatically from the Status Quo, they are relatively the same through the four options. Only under Option 4 is there a slight increase in the clawback rate from the other options because there are less properties in the clawback pool to fund the capped properties.

Chart 1: Property Impacts for Status Quo vs. the 4 Options

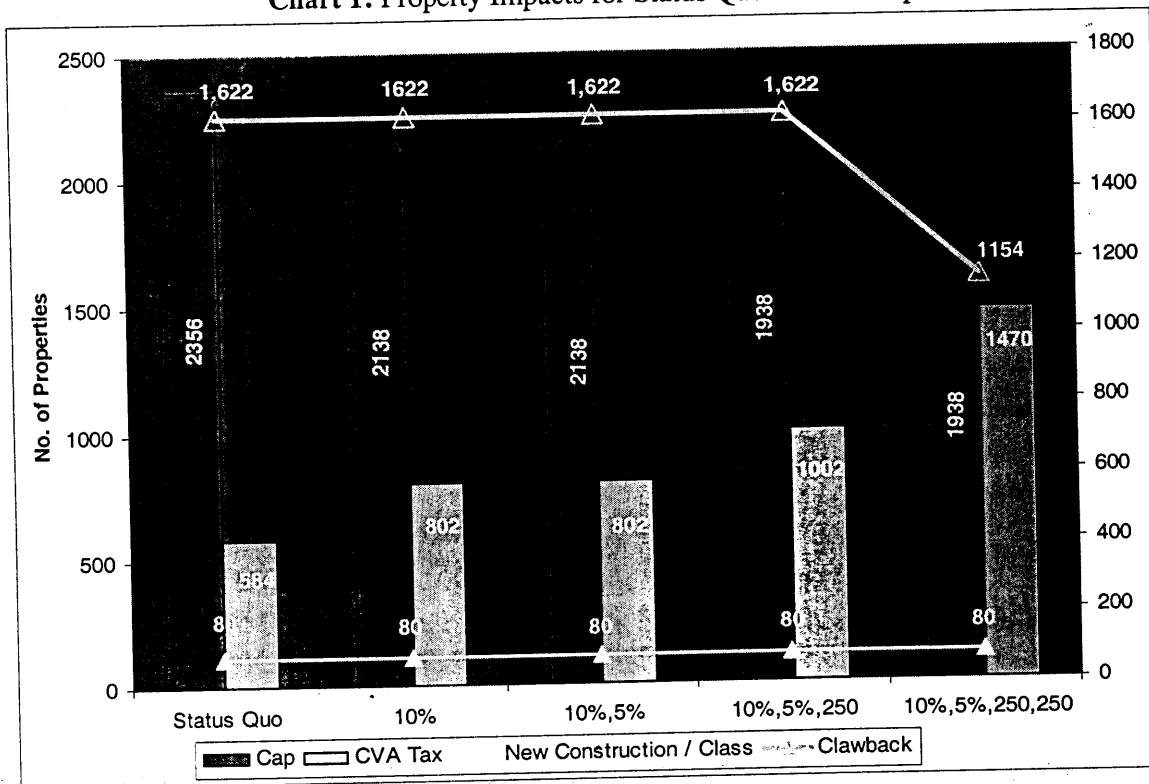
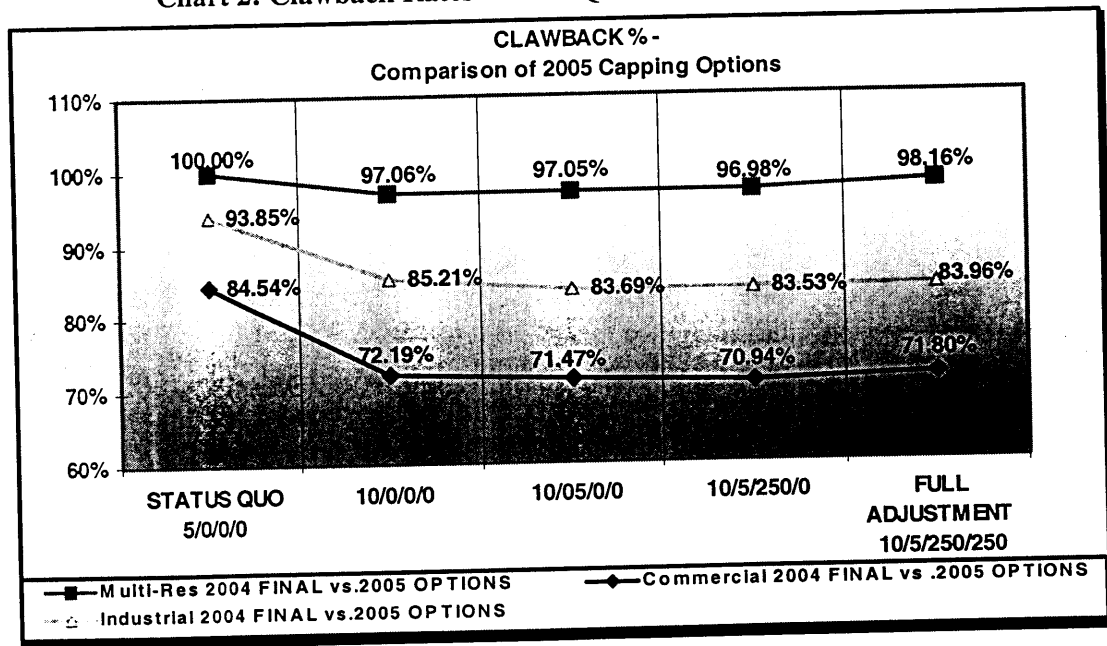


Chart 2: Clawback Rates - Status Quo vs. the 4 new Options



Staff of the Town of Markham are in agreement with the recommendations of Regional staff so that their implementation will move properties closer to full CVA which results in more equitable treatment of taxpayers in the business classes.

Properties That Have Reached Their CVA Tax Levels

Although the Province has provided additional tax tools for municipalities, its legislation did not include a requirement that once a property achieves CVA that it remain at CVA. The options presented here, particularly the \$250 threshold, move a number of properties to full CVA. The objective of moving properties to CVA taxes is simply the attempt to achieve taxpayer fairness by removing the inequities that currently exist in the business classes.

Fair treatment of taxpayers in the business classes could be more consistently achieved once a property reaches its CVA level taxes and remains at the CVA tax level for future reassessments. This would require a change in legislation to achieve this goal. The Association of Municipal Tax Collectors of Ontario and the Region of York are recommending that the Province be requested to allow municipalities to maintain properties at CVA level taxes once properties have reached the CVA tax level.

FINANCIAL IMPLICATIONS

Provincial capping and clawback provisions pertain only to reassessment related property tax increases and decreases in the Commercial, Industrial and Multi-residential classes. Tax increases as a result of municipal budgetary requirements are not affected.

There are no direct financial implications to the Town of Markham except where there is a region-wide shortfall in a particular class to fund the cost of the protection afforded under the legislation. The projected shortfall in 2005 under the Status Quo option is estimated at just over \$220,000; the use of the "Recommended" option allows for a projected elimination of the shortfall.

CONCLUSION

It is recommended that the Town of Markham encourage the movement of properties to full CVA taxation by applying the recommended combination of tax tools for each of the protected property classes. In addition, it is recommended that a minimum percentage of CVA level taxes be established for new construction and new-to-class properties starting in 2005. The level of taxation is to be set at a minimum of 70% for the 2005 taxation year, rising by the maximum of 10% each year to 100% of the full CVA tax obligation of those properties in 2008 and beyond.

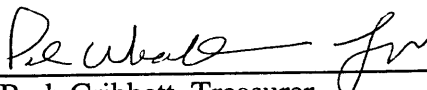
As noted previously, the decision to implement tax policy tools is the responsibility of York Regional Government. On April 7, 2005 a report will be tabled to the Region's Finance and Administrative Committee recommending the use of all of the tax tool options. It is recommended that Markham support the York recommendations provided that it is acknowledged that in 2006 it is possible that some properties that will have been moved to full CVA under these proposals might move to either a cap or clawback position. If the Provincial Government amends legislation to ensure that once a property achieves CVA it stays there then this issue will disappear.

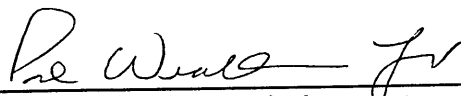
FINANCIAL CONSIDERATIONS:

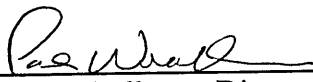
None

ATTACHMENTS:

Appendix A: Tax Options



Barb Cribbett, Treasurer

Andy Taylor, Commissioner,
Corporate Services

Paul Wealleans, Director, Taxation

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APPENDIX A: Tax Options

Appendix A shows the tax impact and the number of properties affected under each of the options.

Regional staff with input from lower tier staff completed their report based on 2004 data and Markham staff used the latest 2005 data from the OPTA database. As a result, the actual clawback rates and impacts differ slightly but do not substantively change the analysis.

The figures in the following charts represent most but not all selected property types.

Option 1: Increase cap from 5% to 10%**Table 1: Clawback Rate Comparison**

Property Class	Option 1 -Estimated Clawback	2004 Clawback
Multi-Residential	97.06 %	100%
Commercial	72.19 %	84%
Industrial	85.21%	81%

Table 2: Property Impacts based on Option 1

Percent of CVA Taxes	0 to 29.9	30 to 49.9	50 to 79.9	80 to 99.9	CVA 100 %	101 to 115	116 to >	Total
Car Dealership		1	3	8	4	7		23
Commercial Condo	27	756	446	129	112	208	306	1984
Hotel			1	1	2	7	2	13
Industrial Condo	3	2	9	131	336	319	24	824
Industrial	3	12	56	106	270	399	63	909
Office	1	6	12	9	20	72	36	156
Retail	1	12	44	61	56	73	27	274
Vacant Land	30	63	53	8	32	10	7	203
Grand Total	65	852	624	453	832	1095	465	4386

Note: Only selected Non-Residential properties are shown.

Option 2: Increase cap from 5% to 10% and/or the greater of 5% of prior years CVA taxes**Table 3: Clawback Rate Comparison**

Property Class	Option 2 - Estimated Clawback	2004 Clawback
Multi-Residential	97%	100%
Commercial	71%	84%
Industrial	83%	81%

Table 4: Property Impacts based on Option 2

Percent of CVA Taxes	0 to 29.9	30 to 49.9	50 to 79.9	80 to 99.9	CVA 100 %	101 to 115	116 to >	Total
Car Dealership		1	3	8	4	7		23
Commercial Condo	24	736	474	129	112	217	292	1984
Hotel			1	1	2	7	2	13
Industrial Condo	2	3	9	131	336	323	20	824
Industrial	4	11	57	106	270	401	60	909
Office	1	6	12	9	20	73	35	156
Retail	0	13	44	61	56	73	27	274
Vacant Land	28	63	55	8	32	10	7	203
Grand Total	59	833	655	453	832	1111	443	4386

Note: Only selected Non-Residential properties are shown.

Option 3: Increase cap from 5% to 10% and/or the greater of 5% of prior years CVA taxes plus applying a \$250 Threshold to Capped (Increaser) Properties

Table 5: Clawback Rate Comparison

Property Class	Option 3 - Estimated Clawback	2004 Clawback
Multi-Residential	96.98 %	100%
Commercial	70.94 %	84%
Industrial	83.53 %	81%

Table 6: Property Impacts based on Option 3

Percent of CVA Taxes	0 to 29.9	30 to 49.9	50 to 79.9	80 to 99.9	CVA 100 %	101 to 115	116 to >	Total
Car Dealership		1	3	7	5	7		23
Commercial Condo	23	723	468	78	183	217	292	1984
Hotel			1	1	2	7	2	13
Industrial Condo	2	3	9	48	419	323	20	824
Industrial	3	11	55	94	285	401	60	909
Office	1	6	12	9	20	73	35	156
Retail		13	44	43	74	73	27	274
Vacant Land	27	62	53	5	39	10	7	203
Grand Total	56	819	645	285	1027	1111	443	4386

Note: Only selected Non-Residential properties are shown.

Option 4: Increase cap from 5% to 10% and/or the greater of 5% of prior years CVA taxes plus applying a \$250 Threshold to Capped (Increaser) Properties and Clawedback (Decreaser) Properties

Table 7: Clawback Rate Comparison

Property Class	Option 4 - Estimated Clawback	2004 Clawback
Multi-Residential	98.16 %	100%
Commercial	71.80 %	84%
Industrial	83.96 %	81%

Table 8: Property Impacts based on Option 4

Percent of CVA Taxes	0 to 29.9	30 to 49.9	50 to 79.9	80 to 99.9	CVA 100 %	101 to 115	116 to >	Total
Car Dealership		1	3	7	5	7		23
Commercial Condo	23	723	468	78	358	82	254	1986
Hotel			1	1	2	7	2	13
Industrial Condo	2	3	9	48	637	103	22	824
Industrial	3	11	55	94	331	354	59	907
Office	1	6	12	9	23	69	36	156
Retail	0	13	44	43	78	69	27	274
Vacant Land	27	62	53	5	48	1	7	203
Grand Total	56	819	645	285	1482	692	407	4386

Note: Only selected Non-Residential properties are shown.

Option 5: New Construction / New-To-Class: Minimum of 70% tax for 2005

Under the provisions of the Act, "eligible properties" are for new construction or new to a property class tax treatment are subject to property taxes at a level representing the average tax rate of up to six comparable properties. The properties appear on the Assessment Roll and are billed at full CVA taxes but are subsequently adjusted to the "Bill 140" comparable levels possibly requiring an adjustment to their taxes.

For 2005, the minimum percentage is 70%, rising by 10% each year, to the maximum of 100% in 2008 and beyond. This applies only to new properties in 2005 and not to properties already capped in prior years.

Status Quo – Retain the 5% Cap

Table 9 below illustrates the property tax impacts for Non-Residential properties that are subject to the current 5 % capping provisions under Provincial legislation referred to as the Status Quo.

Table 9: Property Impacts based on Status Quo

Percent of CVA Taxes	0 to 29.9	30 to 49.9	50 to 79.9	80 to 99.9	CVA 100 %	101 to 115	116 to >	Total
Car Dealership		1	4	8	3	7		23
Commercial Condo	30	855	365	139	81	170	344	1984
Hotel			1	2	1	5	4	13
Industrial Condo	4	1	17	208	251	315	28	824
Industrial	3	14	64	152	214	380	82	909
Office	1	7	12	11	17	64	44	156
Retail	1	12	51	70	40	69	31	274
Vacant Land	32	86	29	8	31	10	7	203
Grand Total	71	976	543	598	638	1020	540	4386

Note: Only selected Non-Residential properties are shown.