1
2004 TAX POLICY DECISIONS

(Regional Council at its meeting on April 22, 2004, adopted the following report with the following amendment:

> ***The report, relating to 2004 Tax Policy Decisions, be referred to a Special Council meeting to be held on Thursday, April 29, 2004, at 9:00 a.m.)***

1. RECOMMENDATIONS

It is recommended that:

1. Property tax ratios for the 2004 taxation year remain as follows:

Property Class	Tax Ratio
Multi-Residential	1.0000
New Multi-Residential	1.0000
Commercial	1.1000
Industrial	1.3000
Pipelines	0.9190

2. The tax reductions for the vacant and excess land subclasses in the Commercial and Industrial property classes remain at 30% and 35% respectively.

3. Discounts for the first and second subclasses for farmland awaiting development remain at 75% and 0% respectively.

4. No new Optional Classes be adopted or Graduated Tax Bands be established for the 2004 taxation year.

5. The Regional Solicitor be authorized to prepare the necessary by-law to give effect to the above-noted recommendations.

2. PURPOSE

The purpose of this report is to provide recommendations to Council regarding certain policy decisions that must be made prior to setting the Regional tax rates for 2004.

This report has been brought directly to Council to meet the deadline imposed by the Province should Council wish to utilize any of the additional options for distributing municipal taxes among the various available property classes that were recently announced by the Ministry of Finance for only the 2004 taxation year.

3. BACKGROUND

Current value assessment (CVA) is the basis for property taxation in Ontario. The Municipal Property Assessment Corporation (MPAC) recently reassessed properties based on sales and other factors that simulate a property's market value. Reassessments are completed periodically according to a schedule set out in legislation. Starting in 2004, all properties will be reassessed annually.

For the 2003 taxation year, property owners were taxed using the current value assessment of their properties as at June 30, 2001. However, for the 2004 taxation year, property owners will be taxed using their current value assessment as at June 30, 2003, reflecting a two year change in their market value of which the impact is shown in Table 1.

It should be noted however, that increases in assessment do not necessarily result in an increase in property tax. Since reassessments are revenue neutral for municipalities, those properties whose assessment values increase greater than the average will generally see their taxes go up while those properties whose assessment increase is less than the average will generally see their taxes go down.

Table 1
Comparison of Current Value Assessment by Class for York Region

Property Class	2003 CVA Based on values as at June 30, 2001	2004 CVA Based on values as at June 30, 2003	Percentage Increase	Percentage Increase due to Reassessment
Residential	69,771,699,009	83,393,671,170	19.5	15.5
Multi-Residential	662,522,595	827,992,880	25.0	25.1
Commercial	12,132,646,789	13,056,449,652	7.6	4.5
Industrial	3,679,841,924	4,063,211,032	10.4	9.2
Pipelines	160,955,000	166,071,000	3.2	1.1

The Province has delegated a number of tax policy "tools" to Council that could be used to move the relative burden of municipal tax between classes or subclasses or to mitigate the effect of significant property tax increases resulting from the revaluation of properties. These tools include the ability to adjust tax ratios, set tax reductions for certain subclasses, adopt Optional classes or establish graduated tax bands. Council's use of these tools must be decided prior to setting the tax rates. The deadline for passing an upper-tier rating by law for 2004 is May 31st.

In addition to the tax mitigation tools originally available to municipalities, the Province has imposed an annual 5% mandatory cap on assessment related property tax increases for the Commercial, Industrial and Multi-Residential classes.

Staff will bring a further report to Council in May, regarding the setting of the 2004 Regional tax rates and the cost of funding the mandatory cap.

3.1 Tax Ratios

A tax ratio reflects how the tax rate of a property class compares with the residential rate. The residential tax ratio is equal to “one”. Council has the option to adjust the tax ratios and therefore the ”relative” tax burden for the Commercial, Industrial, Multi-Residential and Pipeline classes. The tax ratios for the Farmland and Managed Forest classes are prescribed by the Province.

Except for the 2004 taxation year, the Province has only permitted municipalities to move tax ratios within or closer to a “Range of Fairness” set out in legislation. The tax ratios that have been previously approved by Council are illustrated in Table 2.

Table 2
Tax Ratios in York Region

Property Class	Prescribed Transition Ratios 1999-2000	Approved Ratios 2001	Approved Ratios 2002	Approved Ratios 2003	Prescribed Ranges of Fairness
Residential	1.0000	1.0000	1.0000	1.0000	1.0 to 1.1
Multi-Residential	2.0875	1.6500	1.3000	1.0000	1.0 to 1.1
New Multi-Residential	N/A	1.0000	1.0000	1.0000	1.0 to 1.1
Commercial	1.1190	1.1000	1.1000	1.1000	0.6 to 1.1
Industrial	1.3427	1.3000	1.3000	1.3000	0.6 to 1.1
Pipelines	0.9190	0.9190	0.9190	0.9190	0.6 to 0.7

Source: York Region Finance Department

In October 2001, Council directed staff to conduct a comprehensive review of all available fiscal tools with a view toward developing a longer term strategy based on existing legislation. A workshop was conducted with Council on January 31, 2002, where a Long Term Property Tax and Economic Strategy document was presented. This document was developed through a consensus of finance staff from both the Region and Local Municipalities. Recommendations based on direction that staff received from this workshop were approved by Council on March 7, 2002 and have formed the basis of subsequent tax policy reports.

The strategy discussed the promotion of tax fairness and equity through the movement of ratios to within or closer to the prescribed Ranges of Fairness. A fair tax burden was deemed important to encourage the development of business properties in York Region and maintain its competitiveness with other jurisdictions in the Greater Toronto Area (GTA).

As noted above, in 2001 Council lowered the tax ratios for the Commercial and Industrial property classes in York Region to 1.10 and 1.30 respectively which were reaffirmed for

2002 and 2003. It also lowered the tax ratio for Multi-Residential properties to 1.65 for 2001 and established a New Multi-Residential class. Further it adopted a plan to reduce Multi-Residential again to 1.30 in 2002 and 1.00 in 2003 as part of its initiative to promote affordable housing.

York Region currently has the most favourable (lowest) tax ratios for the business classes in the GTA.

3.2 Provincial Announcement March 15, 2004

On March 15, 2004 the Minister of Finance announced changes to regulations governing tax policies that can be used by Ontario municipalities for distributing municipal taxes among various property classes. For the 2004 taxation year only, municipalities will be allowed to increase the business class tax ratios that are currently above the Range of Fairness to a level which would be sufficient to neutralize assessment-related tax shifts to all classes. A Council resolution to utilize this discretionary initiative must be forwarded to the Minister of Finance for approval, indicating the requested ratios. Provincial approval and the regulation of the requested ratios must precede the by-law to set the 2004 property tax rates.

This initiative was made only for the 2004 taxation year at the request of the City of Toronto and a few other municipalities. The Province has stated that they do not have a long-term position on this and other tax policy matters and will revisit them at a later date.

3.3 Tax Reductions, Optional Classes, Graduated Tax Bands

The Long Term Property Tax and Economic Strategy noted that changing the discount rates on vacant and excess land will have little impact for individual business owners who are already protected from reassessment increases through the legislated cap. The intended effects of using Optional classes or graduated bands of assessment would also largely be mitigated by the 5% capping requirements. The strategy also noted that the Region's policy for Farmland Awaiting Development already encourages and provides relief to properties that are designated for future development but are still being actively farmed.

Since little has changed in these matters, this report continues to recommend that the Region maintain its current policies with respect to tax reductions for farmland awaiting development, vacant and excess land, Optional classes and graduated tax bands.

3.4 Tax Policy Consultation

The recommendations contained in this report, particularly the use of the discretionary revenue neutral tax ratio initiative, have been prepared in consultation with the finance staff from the Local Municipalities.

4. ANALYSIS AND OPTIONS

4.1 Tax Ratio Movement

Table 3 illustrates the three options available to Council for 2004 with respect to establishing tax ratios. Option 1 represents tax ratios which would maintain approximately the same amount of property tax dollars being collected from the Commercial, Industrial, Multi-Residential and Pipeline classes after reassessment as there was prior to reassessment. In Option 2, tax ratios only maintain approximately the same amount of property tax dollars for the Commercial and Industrial classes. Option 3, which is the "status quo", maintains the same "relative" tax burden in each class per dollar of assessment that occurred in 2003.

Table 3
2004 Potential Tax Ratios for York Region

Property Class	Option 1 Revenue Neutral Ratios for all classes	Option 2 Revenue Neutral Ratios for C & I only	Option 3 Maintain Status Quo
Multi-Residential	0.9180	1.0000	1.0000
Commercial	1.2070	1.2070	1.1000
Industrial	1.3737	1.3737	1.3000
Pipelines	1.0449	0.9190	0.9190

Source OPTA April 6, 2004

Table 4 shows the dollar value of Regional property taxes that would shift (compared to 2003), when using each of the tax ratio options noted above. As Table illustrates, the June 30, 2003 market values for the Commercial and Industrial classes increased significantly less than other classes compared to the June 30, 2001 reassessment used for the 2003 taxation year which would normally result in them attracting a smaller piece of the property tax pie. Option 1, maintains the same revenue from the Commercial, Industrial, Multi-Residential and Pipeline classes as occurred in 2003. Option 2, maintains the same tax revenue from only the Commercial and Industrial classes. Finally, under the status quo, Option 3, approximately $5.8 million less taxes would be required from the Commercial, Industrial and Pipeline classes and more taxes would be required from the Residential and Multi-Residential classes in 2004.

Table 4
2003/2004 Regional Tax Burden Shift

Property Class	Option 1 Revenue Neutral Ratios for all Classes	Option 2 Revenue Neutral Ratios for C& I only	Option 3 Maintain Status Quo
Residential	-327,455	-496,738	5,637,970
Multi-Residential	-3,954	304,668	365,565
Commercial	53,091	21,662	-5,206,662
Industrial	359,222	348,604	-566,684
Pipeline	-902	-96,760	-85,535
Other (incl PIL’s)	-80,002	-81,426	-144,654
Total	0	0	0

Source: OPTA April 6, 2004

Another consideration is the impact of tax ratios on the mandatory 5% capping of business properties. When business classes increase their share of the tax burden, the result is an increase in the number of businesses being ”capped” and an increase in the cost to fund it. In the past the Region has funded the cap through “clawbacks” of tax decreases within the Commercial, Industrial and Multi-Residential classes. An increase in the cost of funding the cap will normally result in an increase the “clawback” rates for the business classes. If withholding 100% of tax decreases still results in insufficient funds to cover the cost of the cap, then a shortfall occurs within the class. It should be noted that local and upper-tier municipalities all share in the financing of any shortfall in the same percentage as they collect revenue from that class. This includes the education portion of the property tax bill.

While the final data is not yet available to determine capping costs for 2004, Table 5 is a preliminary estimate of the effect each option is expected to have on “clawback” rates.

Table 5
2004 Estimated Clawback Percentages

Property Class	Option 1 Revenue Neutral Ratios for all classes	Option 2 Revenue Neutral Ratios for C & I only	Option 3 Maintain Status Quo
Multi-Residential	100.0000	100.0000	100.0000
Commercial	87.2674	87.1343	72.3444
Industrial	77.8569	77.7394	74.0893

Source: OPTA April 6, 2004

Note: The estimated shortfall in the Multi-Residential class under Option 1 is $5,476, Option 2 is $483,456 and Option 3 is $580,845.

4.1.1 Option 1: Revenue Neutral Ratios for all Classes

As noted before, Option 1 uses a "revenue neutral" tax ratio in order to maintain approximately the same tax revenue coming from each property class as in 2003.

Under Option 1, the Residential class would not attract an increase in tax burden because of their relatively higher property values that resulted from reassessment. The savings on an average residential household valued at $332,205 would be approximately $24 on the Regional portion of the tax bill.

The Multi-Residential tax ratio would drop from 1.0000 to 0.9180 resulting in savings to an average property of approximately $1,924 on the regional portion of the tax bill. Over the last 3 years Council approved a tax policy initiative to encourage affordable housing by adopting the New Multi-Residential class and by reducing the existing Multi-Residential ratio from 2.074 to 1.65 to 1.3 and finally last year to 1.0, the ratio afforded to the Residential class. This strategy brought all residential classes to the same burden rate for taxation purposes and promoted fairness between taxpayers by moving the Multi-Residential ratio into the range of fairness prescribed by the Province. It should be noted however, that under Option 1 the Multi-Residential class tax ratio at 0.9180 would now be below the Range of Fairness.

Although moving the business class tax ratios higher and away from the prescribed Range of Fairness would be a deviation from the Long Term Property Tax and Economic Strategy to maintain York Region's competitiveness, the tax ratios would still be very favourable compared to other municipalities in the GTA.

4.1.2 Option 2: Revenue Neutral Ratios for Commercial and Industrial classes only

Option 2 is very similar to Option 1 except that it maintains the Multi-Residential ratio and the Pipeline tax ratio the same as 2003. As with Option 1, this maintains approximately the same tax revenue requirement for the Residential Class as in 2003 and an average residential household valued at $332,205 would also save approximately $24 on the Regional portion of the tax bill compared to Status Quo.

By maintaining the tax ratio at 1.0000 for the Multi-Residential class it maintains the same property tax burden per dollar of assessment afforded to the Residential class. Furthermore, it is consistent with Council's strategy that all residential classes have the same burden rate for taxation purposes and it promotes fairness between taxpayers by keeping the Multi-Residential ratio within the Range of Fairness prescribed by the Province. The Multi-Residential class is protected from reassessment increases by the 5% legislated capping mechanism. Also, as a business class, it has the ability to deduct property taxes from income. Because Option 2 maintains the tax ratio at 1.000 for the Multi-Residential class, the higher than average reassessment increases will also increase the estimated capping shortfall by approximately $477,980 over the revenue neutral Option 1.

As stated under Option 1, moving the business class tax ratios higher and away from the prescribed range of fairness is a deviation from the Long Term Property Tax and Economic Strategy to maintain York Region's competitiveness with other jurisdictions in the GTA and to develop and attract business.

4.1.3 Option 3: Maintain the Status Quo

Option 3, the Status Quo, maintains the "relative" tax burden per dollar of assessment at the same level approved by Council in 2001, and reaffirmed in 2002 and 2003. Because of their relatively higher assessment values in 2003, the effect of this option would be that the Residential and Multi-Residential classes assume more of the tax revenue requirement, while the business classes would assume less. There would be no decrease in the tax bill for the average Regional household or Multi-Residential property. The estimated capping cost for the Multi-Residential class is highest under this option.

Despite the short-term impact, there are several reasons why Council may wish to maintain the existing tax ratios:

a) As a result of the Long Term Property Tax and Economic Strategy, and the consultations that were undertaken with businesses in 2001, Council approved the current tax ratios as fair and consistent with other municipalities in the GTA. Increasing the relative burden now may cause businesses to question the Region's commitment to these goals.

b) The latest reassessment values for Commercial, Industrial and Multi-Residential classes may be an aberration. As shown on Table 6, the reassessment increases for those classes has reversed the impact that occurred for the 2003 taxation year, (when tax revenue requirements were added to the Commercial and Industrial classes and lowered in the Residential class). Staff noted that the 2001 reassessment values for the Commercial and Industrial classes were significantly reduced through MPAC reconsiderations and suspect that the 2003 reassessment values may in fact represent corrections. Therefore, the option to use revenue neutral rather than relative tax burden neutral tax ratios (Option 3) may be responding to an assessment shift that is not consistent with past experience and future expectations. In a dynamic market based on CVA, there will be shifts from one reassessment period to another in the assessment value of one property class relative to other property classes as factors such as the economy and interest rates will affect each class differently.

Table 6
History of Reassessment Percentage Increases

Property Class	CVA June 30, 1999 (3 yr change)	CVA June 30, 2001 (2 yr change)	CVA June 30, 2003 (2 yr change)
Residential	11.667	11.87	15.45
Multi-Residential	37.875	8.93	25.04
Commercial	16.217	14.26	4.45
Industrial	16.283	22.87	9.22
Pipelines	45.573	6.32	1.05

Source: OPTA April 6, 2004

c) Moving the tax ratio for the Multi-Residential class below 1.0000 would be contrary to Council's past policy to treat all residential taxpayers equally.

d) The option to adjust tax ratios away from the prescribed Range of Fairness to achieve revenue neutrality in each class is an interim measure and there is no indication that it will continue in future years. The Minister of Finance will be consulting with stakeholders to develop a more comprehensive strategy.

e) With the exception of the City of Toronto and the City of Mississauga, no other municipality in the GTA has indicated at this time that they intend to use this tool.

f) Since the Province must approve the request for transition ratios for the 2004 taxation year, some local tax collectors have expressed a concern that a delay in the approval process could lead to a delay in billing. This delay may result in adverse impacts to investment income budgets due to a delay in the collection of billings.

g) York Region has in place a Tax Deferral Policy that would mitigate property tax increases for properties owned by seniors who are aged 65 and over, low-income seniors between 55 and 64 years of age, or low-income disabled persons. An increase in taxes resulting from moving the tax ratios could be deferred until the date the property is no longer owned by an eligible taxpayer.

h) As shown on Table 8, the inter-municipal shifts of tax revenues are lowest with the "status quo" option.

As a result, it is the recommendation of staff in consultation with finance staff from Local Municipalities that the Region of York should maintain the Status Quo (Option 3) for the 2004 taxation year.

5. FINANCIAL IMPLICATIONS

Preliminary analysis indicates that for 2004 there will be a capping shortfall in the Multi-Residential class because of its high reassessment values. A capping shortfall may be funded by increasing the tax rates across all classes or from other sources such as current revenue or a special reserve such as the Tax Write-Off Reserve Fund that was used by the Region in 2003. The upper-tier and the lower-tier municipalities all share in the shortfall in the same percentage as they share in the revenues from that class. School boards do not share in the cost of a capping shortfall with the result that the education portion is shared by the upper and lower-tiers.

Staff will be presenting a report on the impact of capping in a future Council report once the necessary information is available including the education tax rates for the Commercial, Industrial and Pipeline classes which are set by regulation by the Minister of Finance.

Table 7 shows an estimate of the cost to the Region under each of the options presented.

Table 7
2004 Estimated Cost to the Region for the Multi-Residential Capping Shortfall

Municipality	Option 1 Revenue Neutral Ratios for all Classes	Option 2 Revenue Neutral Ratios for C & I only	Option 3 Maintain Status Quo
Region	3,423	302,288	363,543
Area Municipalities	2,053	181,168	217,302
Total	5,476	483,456	580,845

Source: OPTA April 6, 2004

6. LOCAL MUNICIPAL IMPACT

As indicated above, local and upper-tier municipalities all share in the financing of any shortfall in the same percentage as they collect revenue from that class including the education portion that would otherwise be shared with the school boards.

Table 8 shows the estimated cost to local municipalities under each option. Negative amounts represent a payment to the upper-tier while positive amounts show payments to the local municipality from the upper-tier. The table includes the inter-municipal shift of the tax burden that results from the capping calculation and the cost of funding the estimated capping shortfall in the Multi-Residential class. Municipalities that experience surpluses due to the capping and clawback mechanism fund the shortfalls in other municipalities.

Table 8
2004 Estimated Cost to Local Municipalities for the Inter-municipal Shifts
and the Multi-Residential Shortfall from the Capping Process

Municipality	Option 1 Revenue Neutral Ratios for all classes	Option 2 Revenue Neutral Ratios for C & I only	Option 3 Maintain Status Quo
Aurora	-719,276	-696,676	-653,891
East Gwillimbury	-259,936	-257,893	-201,877
Georgina	-540,026	-524,419	-476,984
King	-151,953	-149,666	-116,183
Markham	1,599,777	1,684,050	1,673,757
Newmarket	585,698	626,536	536,097
Richmond Hill	-2,527,543	-2,424,080	-2,188,576
Vaughan	1,870,128	1,886,481	1,648,220
Whitchurch-Stouffville	146,553	158,956	142,980

Source: OPTA April 6, 2004
Note: Negative amounts represent payments to the Region.

7. CONCLUSION

The report recommends the tax ratios for the Commercial, Industrial, Multi-Residential and Pipeline classes be maintained at 2003 levels. Furthermore, it recommends that Council maintain the existing policies for the discounts for vacant and excess land subclasses, the Farmland Awaiting Development subclasses, to not adopt any additional Optional classes or establish Graduated Tax Bands for this taxation year.

The Senior Management Group has reviewed this report.