10

FUNDING OF COMMERCIAL, INDUSTRIAL AND MULTI-RESIDENTIAL PROPERTY TAX PROTECTION FOR THE 2006 TAXATION YEAR

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, May 5, 2006, from the Commissioner of Finance, together with the following additional recommendation:

4. the Commissioner of Finance provide a report to the Committee by its October 5, 2006 meeting on the effects of withholding property tax decreases for business classes in each of the local municipalities.

1. RECOMMENDATIONS

It is recommended that:

1. The Regional Treasurer be authorized to determine, for the 2006 taxation year, the percentage of property tax decreases that must be withheld to fund the capping protection on reassessment related tax increases for each of the commercial, industrial and multi-residential classes;

2. Should the amount of property tax decreases available from any of the protected property classes be insufficient to fund its capping requirement, the Region's share of the resulting shortfall be funded from the Property Tax Write-off Reserve; and

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

2. PURPOSE

This report authorizes the Regional Treasurer to determine the percentage of tax decreases to be withheld for the 2006 taxation year ("clawback" rate) in order that local municipalities may issue property tax bills for the business property classes on a timely basis.

3. BACKGROUND

3.1 Approved Capping and Clawback Policy

The *Municipal Act, 2001* requires that reassessment related property tax increases for the commercial, industrial, and multi-residential property classes be limited to either 5% of the previous year's taxes (the "default option"), or an amount determined by other property tax capping options provided by the Province in 2005.

On April 21, 2005, Council approved a capping option for the 2005 and subsequent taxation years, which would accelerate the progress of all protected properties towards reaching their full CVA level of taxation. (Report 4, Clause 2, Finance and Administration Committee, April, 2005).

In addition, Council maintains a long-term policy to fund the cost of the capping protection through the withholding of an equivalent amount of available tax decreases within each of the protected classes. As a result, the Region must annually determine a clawback percentage for each of the protected property classes prior to the issuance of final property tax bills by local municipalities.

Table 1 specifies the approved clawback percentages for each of the protected classes for the 1998 through to the 2005 taxation years.

TABLE 1
Approved Clawback Percentages 1998 to 2005

Year	Commercial clawback Percentage	Industrial clawback Percentage	Multi-Residential clawback Percentage
1998	88.8783	88.8783	7.5560
1999	68.8912	68.8912	3.9364
2000	52.3601	52.6301	2.9481
2001	81.1552	51.1080	87.7705
2002	92.3558	99.0672	1.4471
2003	99.3418	100.00	1.5182
2004	84.0267	81.5553	100.00
2005	73.5886	81.1286	99.0517

Source: York Region Finance Department

3.2 Online Property Tax Analysis (OPTA)

The Region uses the OPTA system provided by the Province in order to calculate the appropriate clawback percentages. Local municipalities also use OPTA to prepare the property tax billings for the protected classes. In order to allow the local municipalities to prepare the most accurate property tax billings, the Region requests that OPTA process adjustments such as ARB decisions, supplementary and omitted assessments from the Municipal Property Assessment Corporation (MPAC) up to and including a predetermined cut-off date. Including this information on the OPTA system before the commencement of billing will allow for fewer post-billing adjustments required by the local municipalities. In consultation with the local municipal treasurers, a cut-off date of July 1, 2006 has been requested of OPTA which will result in the final information being available to the Region in late July or early August.

4. ANALYSIS AND OPTIONS

4.1 Impact of Capping Options Adopted By Council

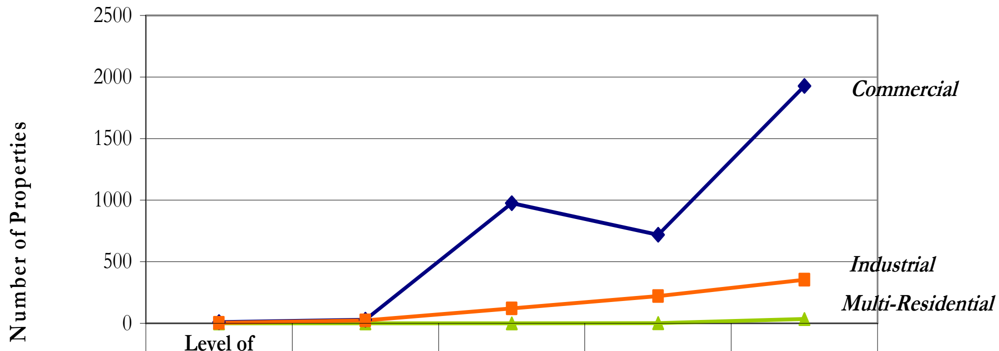
Based on preliminary projections, the continued application of the capping tools adopted by Council in 2005 will have a very positive impact on the approximately 16,600 properties within the Region that are currently in the commercial, industrial, and multi-residential property classes.

For 2006, it is estimated that close to 5,800 (or 35%) additional properties will be moved out of protection and accelerated to their full CVA levels of taxation. The CVA tax level status of these properties may change in the future years pending any unforeseen assessed value increases or decreases due to future reassessments.

The resulting decrease in the protection requirement on capped properties moving to CVA level of taxation will significantly reduce the required clawback rates for 2006. Preliminary results indicate clawback rate reductions of approximately 42% for the multi-residential class, and 14% for both the commercial and industrial classes. These clawback rate reductions directly translate into property tax decreases that will be retained by the affected taxpayers as a result of the capping tools adopted by Council.

Further, Table 2 shows the frequency distribution of properties that remain capped at various levels of taxation after the application of the capping tools for the 2006 taxation year. Based on preliminary data, the total number properties that remain capped has decreased from approximately 8,000 (48%) to just over 4,400 (27%), of which a majority (52%) across all three property classes have been moved to at least 75% of their full taxation liability. The continued application of the capping tools in subsequent years will result in the level of taxation on those properties to continue increasing progressively, subject only to the unforeseen assessed value increases due to future reassessments that may further increase the protection requirements on those properties and delay their progress to CVA level of taxation.

TABLE 2
Frequency Distribution of Properties Remaining Capped at
Various Levels of Taxation after the Application of Capping Tools in 2006



	Level of Taxation: >0% <= 10%	>10% <= 25%	>25% <=50%	>50% <= 75%	>75% <100%
Multi-Residential	0	0	0	1	36
Commercial	10	30	975	719	1927
Industrial	3	23	122	221	354

Properties eligible for "New Construction/New-to-Class" treatment for property taxation purposes, are taxed at an average tax level derived from six comparable properties, usually at a level below their CVA level of taxation, increasing the requirement for capping protection for affected property class. As part of the capping tools adopted by Council in 2005, Council has also authorized that properties becoming eligible in 2006 be subject to a minimum level of taxation set at 80 % of CVA level taxes. Preliminary data indicates that 356 new construction and new-to-class properties will be subject to the minimum rate of taxation set at 80 % of their full CVA taxes for 2006 taxation. However, the updating of comparable taxation levels for the outstanding properties is on-going and the full effect will not be evident until the cut-off date.

4.2 Need for Delegation of Authority to Determine 2006 Clawback Rates

Final data required by the Region to set the clawback rates for the purpose of 2006 taxation will not be available to the Region until after the commencement of Council's recess for the summer. Therefore, in order for local municipalities to proceed with 2006 property tax billing for the protected classes prior to the Fall, it is recommended that Council delegate to the Regional Treasurer the authority to determine the final clawback rates on property tax decreases to be withheld to fund the cost of capping protection for each of the Commercial, Industrial and Multi-Residential classes.

Table 3 indicates the projected clawback percentages for each of the protected property classes. This is calculated at a recent point in time and may vary at the cut-off date of July 1.

Table 3
2006 Projected Clawback Percentages

(Excluding impacts due to new construction/new to class properties)

Commercial Clawback Percentage	Industrial Clawback Percentage	Multi-Residential Clawback Percentage
69.97%	79.50%	42.51%

Source: OPTA, May 4, 2006

4.3 Capping Shortfall

A shortfall arises when the total capping protection afforded to a property class exceeds the decreases available for clawback in the property class. While we currently do not project a shortfall, should further adjustments to the assessment data result in insufficient tax decreases available for clawback to cover the cost of capping protection in the 2006 taxation year, this report also recommends authorizing the Regional Treasurer to fund the Region's portion of the resulting shortfall from the Property Tax Write-off Reserve. The Region and local municipalities share the cost of the capping protection in the same ratio as property tax revenues are shared for the class. The Province, through the education portion of property taxes, does not participate in the funding of the shortfall.

5. FINANCIAL IMPLICATIONS

There are no projected financial implications for the Region. By continuing with the application of the capping tools adopted by Council for 2005 and the subsequent years, it is anticipated that there will be no shortfall in any of the affected property classes.

6. LOCAL MUNICIPAL IMPACT

There is no current projected requirement for the local municipalities to fund a capping shortfall. However, if a shortfall occurs, local municipalities and the Region are required to fund a shortfall in the same proportion that they receive taxes for the property class(es) in which a shortfall occurs. Additionally, the funding of capping protection may cause inter-municipal shifting of the funding burden within the Region. The Regional Treasurer will report to Council on the effect of inter-municipal shifting and the Region's bankering role subsequent to the final calculation of the required capping protection.

7. CONCLUSION

The effect of the capping provisions under section 329.1 of the *Municipal Act, 2001* will be calculated using the OPTA system subsequent to the cut-off date of July 1, 2006. This calculation will occur during the period of Council's summer recess, at a time when the local municipalities usually prepare their business class property tax billings. This report recommends that the Regional Treasurer be authorized to determine the percentage of tax decreases for the 2006 taxation year that must be withheld to fund the capping protection for each of the commercial, industrial and multi-residential classes.

Further, should the amount of tax increases exceed the tax decreases available to fund the capping protection, this report also recommends that the Regional Treasurer be authorized to fund the Region's portion of the resulting shortfall from the Property Tax Write-off Reserve.

The Senior Management Group has reviewed this report.