1
FUNDING OF 2007 PROPERTY TAX CAPPING REQUIREMENTS

(Regional Council at its meeting on September 27, 2007, adopted this report with a request that staff prepare a report for the November 1, 2007 meeting of the Finance and Administration Committee regarding a final and appropriate resolution to the Province's 5% claw back formula.)

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, August 10, 2007, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. Council confirm the following clawback rates for the 2007 taxation year as determined by the Regional Treasurer:

Property Class	Clawback Rate
Multi-residential	30.40%
Commercial	74.20%
Industrial	72.27%

2. Council confirm the 2007 bankering adjustments as set out in this report; and

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

2. PURPOSE

This report is to request Council to confirm the "clawback" percentages that were determined by the Regional Treasurer, in order to fund the capping protection on reassessment-related property tax increases for each of the business classes during the 2007 taxation year. It also requests confirmation of the bankering adjustments that local municipalities would receive or pay such that they do not experience surpluses or shortfalls in taxes levied on the protected business properties as a result of capping. Lastly, it provides an analysis of the progress of moving properties to full current value assessment (CVA) level taxes.

3. BACKGROUND

The *Municipal Act, 2001* ("the Act") requires that municipalities limit the amount of reassessment related property tax increases for properties in the Commercial, Industrial and Multi-residential classes to the maximum prescribed 5% increase over the previous year's annualized capped taxes, or an amount determined by other property tax capping options provided to municipalities by the Province in 2005. Council decided to adopt all capping options for the 2005 and subsequent taxation years in order to accelerate the progress of protected properties towards their full CVA level of taxation. (Report 4, Clause 2, Finance and Administration Committee, April, 2005).

As a result, the following capping tools were applied for the 2005 and subsequent taxation years:

1. Assessment-related property tax increases are limited to an amount which is the greater of 10% of the previous year's annualized capped taxes, or 5% of the previous year's annualized full CVA taxes.
2. Properties, for which tax increases are capped (protected) but are within $250 of their full CVA taxes, are moved to the CVA tax level within the current taxation year.
3. Properties, for which tax decreases are clawed back but are within $250 of their full CVA taxes, are moved to the CVA tax level within the current taxation year.
4. Eligible new construction/new-to-class properties within the meaning of subsection 331(20) of the Act, are taxed at a minimum of 90% of their full CVA tax value for the 2007 taxation year.

The Act also requires that the Region perform a "bankering" role to ensure that the local municipalities have neither a surplus or a shortfall as a result of the application of the capping by-law.

4. ANALYSIS AND OPTIONS

Council has adopted a long-standing policy of funding the cost of capping protection by withholding of an equivalent amount of available tax decreases (clawbacks) within each of the protected classes. Therefore, revenue neutral "clawback" rates for each protected class must be set prior to the issuance of final 2007 property tax bills by the local municipalities.

The calculation of the clawback percentages is based on assessment data provided by the Online Property Tax Analysis (OPTA) system administered by the Province. In consultation with local treasurers, OPTA was requested to limit data updates to those it received prior to June 1, 2007.

4.1 Clawback Rates

As shown in Table 1, the clawback rates for each of the protected class are 30.4% for Multi-Residential, 74.20% for Commercial, and 72.27% for Industrial. There is no shortfall resulted within any of the protected classes for the 2007 taxation year.

Table 1
Clawback Percentages and Funding Amounts for 2007

Property Class	Clawback	Funding Requirement for Cap	Available Decreases	(Shortfall)
	%	$	$	$
Multi-Residential	30.40	37,430	37,430	0
Commercial	74.20	11,487,923	11,487,923	0
Industrial	72.27	2,929,209	2,929,209	0

Source: OPTA June 25, 3007

4.1 Capping Impact Analysis

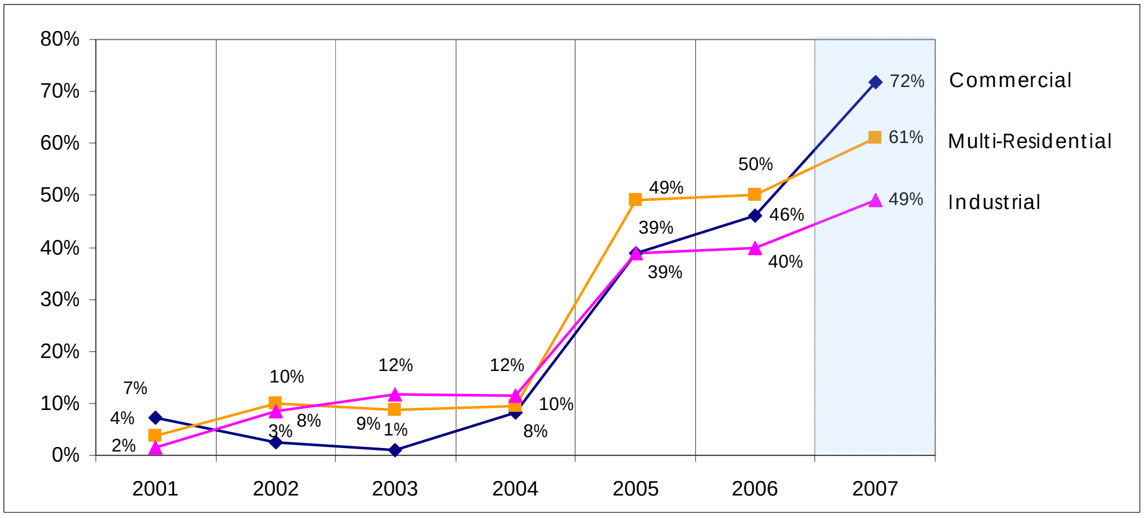
The adoption of all capping options has resulted in a significant reduction in the amount of tax decreases required to fund reassessment related tax capping. As shown in Table 2, however, the clawback rates for Commercial and Industrial classes have increased despite the reduction of capping protection. The increase in clawback rates can be explained by the reduction of the pool of available clawback properties as a result of the significant increase in properties reaching CVA level taxes. This is an effect of the application of the policy that moves properties with tax decreases that are within $250 of their full CVA level taxes (“$250 decreasers”) to CVA level.

Table 2
Capping Funding
Comparison of 2006 and 2007

		Funding Requirement ($)	Clawback %
Multi-Residential	2007	37,430	30.40
	2006	127,606	42.71
Commercial	2007	11,487,923	74.20
	2006	15,509,291	69.24
Industrial	2007	2,929,209	72.27
	2006	3,826,417	61.90

The continued progress of capping through the implementation of the capping options adopted by Council since 2005 can also be demonstrated by the acceleration of additional properties to their full CVA tax level for 2007 taxation, as shown in Figure 1.

Figure 1
Percentage of Properties Paying Full CVA Taxes
2002 to 2007



5. FINANCIAL IMPLICATIONS

There is no net financial impact to the Region.

6. LOCAL MUNICIPAL IMPACT

Section 330 (6) of the Act requires that the Region act as a "banker" of the capping and clawback requirements, to ensure that the local municipalities do not experience shortfalls or surpluses resulting from the application of the capping legislation.

Table 3
Local Municipal "Bankering" and Shortfall Accounts for 2007

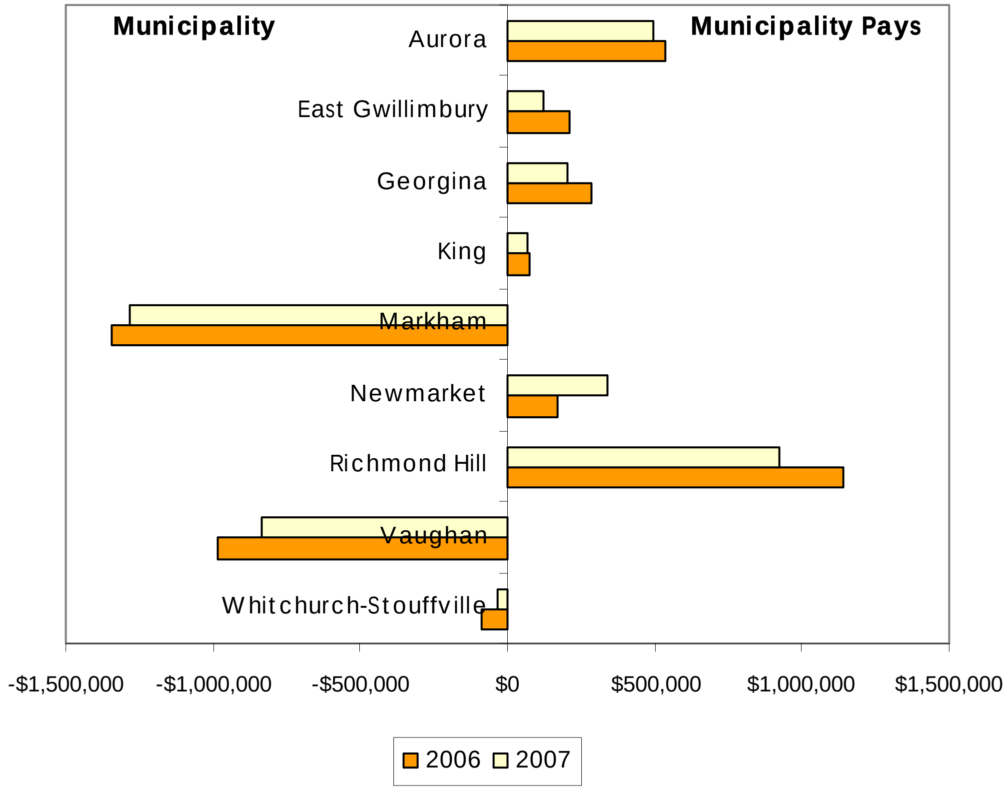
Municipality	Net Amount of Bankering To/(From) the Region
Aurora	493,268
East Gwillimbury	119,605
Georgina	202,061
King	69,775
Markham	(1,282,893)
Newmarket	341,947
Richmond Hill	925,737
Vaughan	(835,900)
Whitchurch-Stouffville	(33,600)
Region of York	0

Source: OPTA June 25, 2007

FIGURE 2

Local Municipal "Bankering"

Comparison of 2006 and 2007 Final Net Adjustments



7. CONCLUSION

In June, Council authorized the Regional Treasurer to determine the "clawback" percentages related to the funding of the capping provisions of the Act. This report requests Council to confirm the final 2007 clawback rates and the bankering adjustments. As well, the report presents the progress made in accelerating properties to full CVA level of taxation.

The Senior Management Group has reviewed this report.