1
FUNDING OF 2008 PROPERTY TAX CAPPING REQUIREMENTS

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, August 13, 2008, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. Council confirm the following clawback rates for the 2008 taxation year as determined by the Regional Treasurer:

Property Class	Clawback Rate
Multi-residential	44.8340%
Commercial	64.2638%
Industrial	69.4065%

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

2. PURPOSE

At its June 19, 2008 meeting, Council authorized the Regional Treasurer to set the “clawback” rates for 2008. This report requests that Council 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 property classes during the 2008 taxation year.

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.

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 greatest 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 100% of their full CVA tax value for the 2008 taxation year.

The Act also requires that the Region perform a "bankering" role to ensure that the local municipalities have neither a surplus nor 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 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 2008 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 assessment updates arising from reconsiderations, appeals, and adjustments to those it received prior to June 1, 2008.

Table 1
Clawback Percentages and Funding Amounts for 2008

Property Class	Clawback	Funding Requirement for Cap	Decreases Utilized	(Shortfall)
	%	$	$	$
Multi-Residential	44.83	14,845	14,845	0
Commercial	64.26	7,495,749	7,495,749	0
Industrial	69.41	2,107,596	2,107,596	0

Source: OPTA June 13, 2008

As shown in Table 2 below, the clawback rates for commercial and industrial property classes have decreased year over year while the rate for the multi-residential property class increased despite the reduction of capping protection. The increase in the clawback rate can be explained by the reduction of the pool of available clawed back properties (decreasers) as more decreasers reach CVA level taxes. This is in part 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 taxes.

Table 2
Capping Funding:
Comparison of 2007 and 2008

		Funding Requirement ($)	Clawback %
Multi-Residential	2007	37,430	30.40
	2008	14,845	44.83
Commercial	2007	11,487,923	74.20
	2008	7,495,749	64.26
Industrial	2007	2,929,209	72.27
	2008	2,107,596	69.41

Capping Funding Requirement Continues to Decrease in 2008

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. The total capping protection has decreased from $14.5 million in 2007 to $9.6 million in 2008.

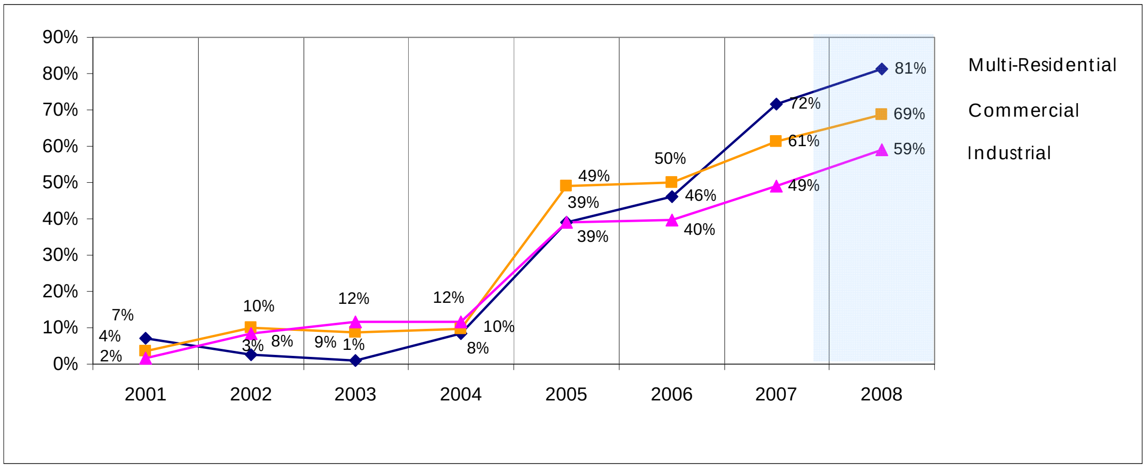
Properties Should Remain at CVA Level Taxes

For 2008 there are only three capped properties in the multi-residential property class, of which two properties comprise 95 percent of the protection at approximately $7,000 each. Without reassessment in 2008, one of the properties would otherwise be expected to move to CVA level taxes in 2009, leaving one protected property in the class at a 2008 CVA tax level of 74%.

Reassessment in 2008 is likely to reset the progress to CVA level taxes in the property class and supports the Region's call to the Province to maintain properties at CVA level taxes once this level has been achieved.

Chart 1 below shows the effect of the 2005 reassessment (for the 2006 taxation year) in limiting progress to CVA level taxes. It also illustrates the progress made toward CVA level taxes during the subsequent non-reassessment years preceding 2008.

Chart 1
Percentage of Properties at CVA by Property Class



*includes properties at CVA by virtue of the $250 threshold

5. FINANCIAL IMPLICATIONS

There is no net financial impact to the Region.

6. LOCAL MUNICIPAL IMPACT

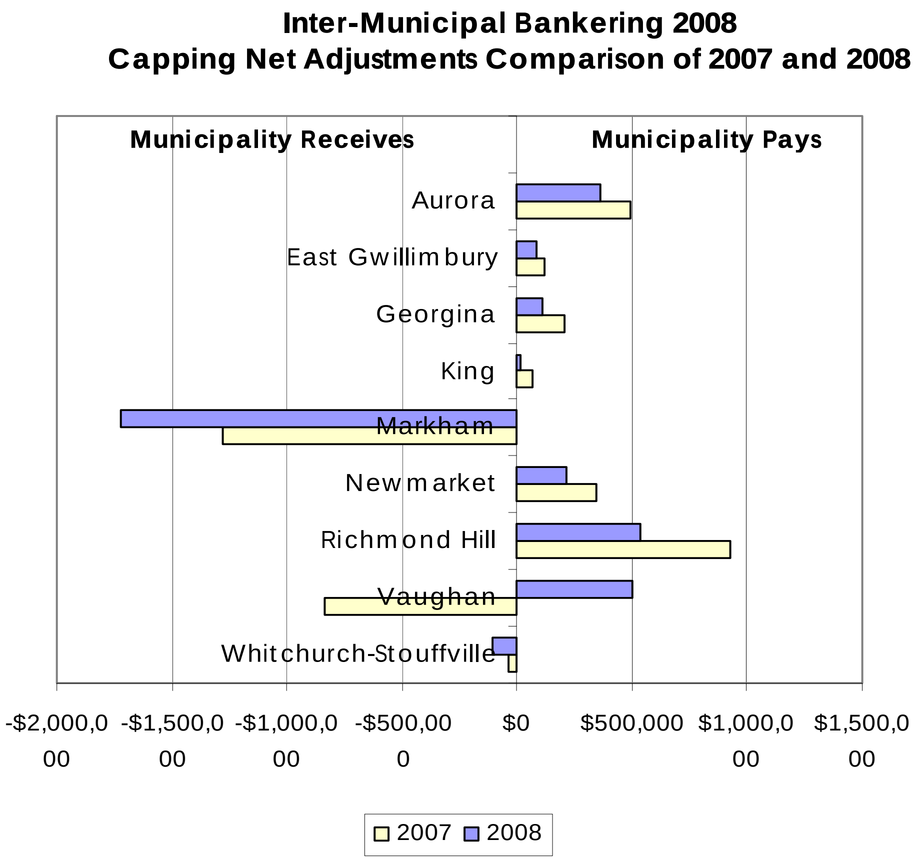
Section 330 (6) of the Act requires that the Region act as a “banker” of the capping and clawback requirements, to ensure that the local municipalities do not experience shortfalls or surpluses resulting from the application of the capping legislation.

Table 3
Local Municipal “Bankering” Accounts for 2008

Municipality	Net Amount of Bankering To/(From) the Region
Aurora	361,267
East Gwillimbury	86,783
Georgina	110,659
King	16,811
Markham	(1,723,550)
Newmarket	217,596
Richmond Hill	534,536
Vaughan	501,136
Whitchurch-Stouffville	(105,239)
Region of York	0

Source: OPTA June 13, 2008

Chart 2



The year-over-year change in the bankering requirement for the City of Vaughan reflects a large number of properties moving to CVA level tax in the commercial property class and thus reducing the amount of property tax protection afforded that group of properties.

7. CONCLUSION

At its June 19, 2008 meeting, Council authorized the Regional Treasurer to determine the "clawback" percentages related to the funding of the capping provisions of the Act. This report requests that Council confirm the final 2008 clawback rates as determined by the Regional Treasurer. The "bankering" adjustments that arise from the application of the clawback rates are provided for information and have been communicated to each of the local municipal treasurers by correspondence.

For more information on this report, please contact Edward Hankins, Director, Policy, Risk and Treasury at Ext.1644 or Brian Parrott, Manager, Fiscal Policy, at Ext.1667.

The Senior Management Group has reviewed this report.