1
FUNDING OF 2006 PROPERTY TAX CAPPING REQUIREMENTS

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, August 14, 2006, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that:

1. The Regional Solicitor be authorized to prepare a by-law confirming the following clawback rates for the 2006 taxation year that were determined by the Regional Treasurer, in consultation with local municipalities:

Property Class	Clawback Rate
Multi-residential	42.7129%
Commercial	69.2410%
Industrial	61.8961%

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 2006 taxation year.

In addition, this report provides a breakdown by local municipality of the effect of "bankering" local municipal surpluses or shortfalls in taxes levied on the protected business properties.

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 has approved all capping options for the 2005 and subsequent taxation years, which would accelerate the progress of protected properties towards reaching 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 2006 taxation year:

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 clawedback 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 80% of their full CVA tax value for the 2006 taxation year.

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 2006 property tax bills by the local municipalities.

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. The impact of the bankering payments for each local municipality is discussed in section 6 of the report. At its meeting of June 22, 2006, Council authorized the Regional Treasurer to determine these rates in consultation with local municipalities.

4. ANALYSIS AND OPTIONS

The calculation of the clawback percentages is based on assessment data provided by the Province's Online Property Tax Analysis (OPTA) system. In consultation with local treasurers, OPTA was requested to limit data updates to those it received prior to July 1, 2006 and then freeze further adjustments to this data as of July 21, 2006.

Table 1
Clawback Percentages and Funding Amounts for 2006

Property Class	Clawback	Funding Requirement for Cap	Available Decreases	(Shortfall)
	%	$	$	$
Multi-Residential	42.7129	127,606	127,606	N/A
Commercial	69.2410	15,509,291	15,509,291	N/A
Industrial	61.8961	3,826,417	3,826,417	N/A

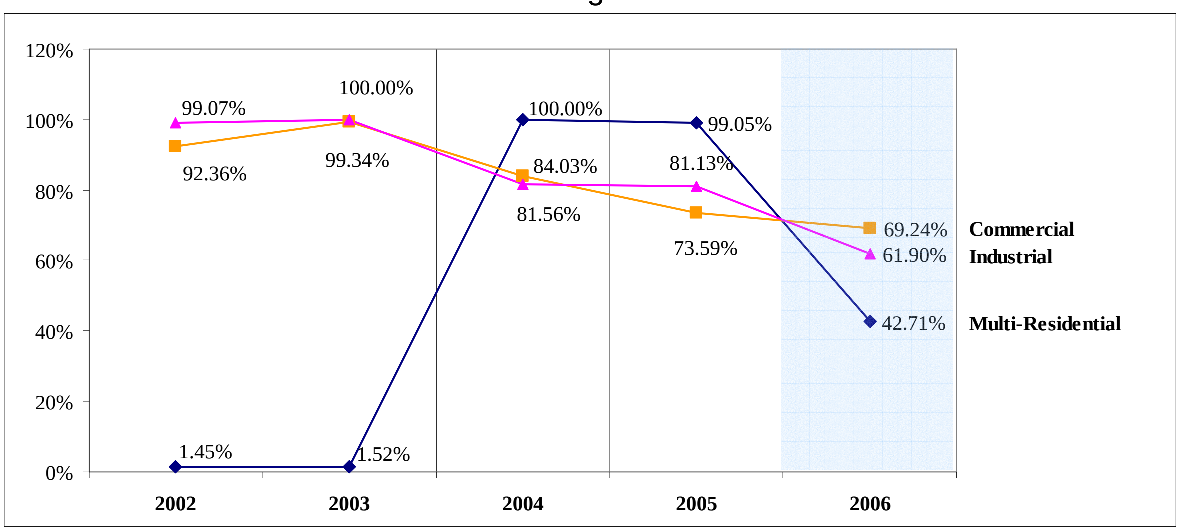
Source: OPTA July 21, 2006

As shown in Table 1 the clawback rates for each of the three protected classes are: 42.71% for Multi-Residential, 69.24% for Commercial, 61.90% for Industrial. There is no resulting shortfall within any of the protected classes for the 2006 taxation year.

4.1 Analysis of Impacts

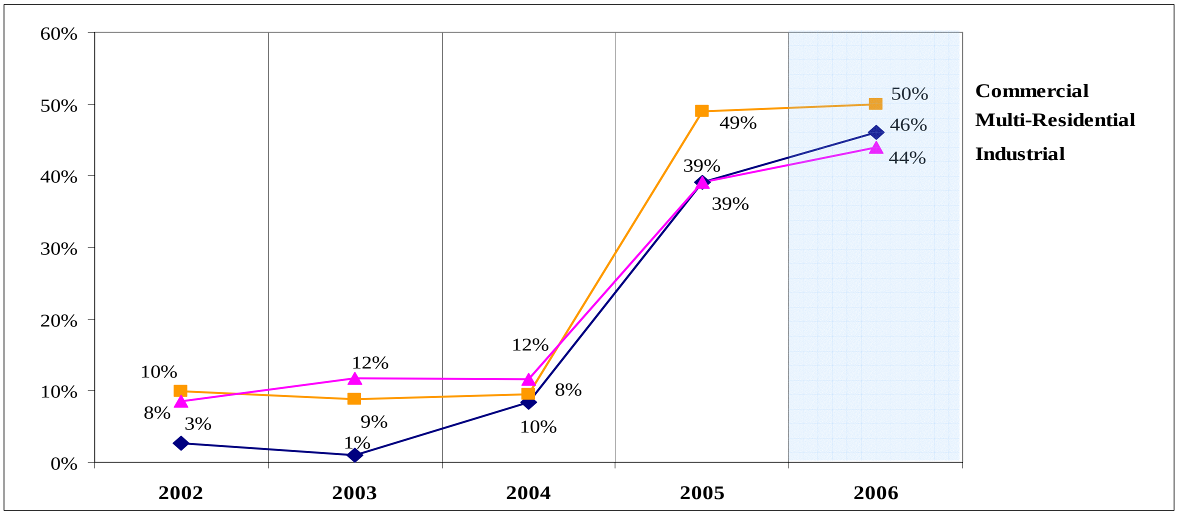
The adoption of all capping options has resulted in a significant reduction in the percentage of tax decreases required to fund reassessment related tax capping. Compared to prior years' capping requirements, the 2006 requirements were significantly lower, with the multi-residential class benefiting the most with a clawback rate of 42.71% (99.05% in 2005), followed by the industrial class with a clawback rate of 61.90% (81.13% in 2005), and the commercial class with a clawback rate of 69.24% (73.59% in 2005). Figure 1 shows the clawback percentages over the last five years.

Figure 1
Clawback Percentages - 2002 to 2006



In addition, as shown in Figure 2, by using the capping options adopted by Council, the Region continues to accelerate additional properties to their full CVA tax level for 2006 taxation. Currently, over 300 additional properties have been accelerated to CVA level taxes, concentrated mainly within the multi-residential and industrial property classes.

Figure 2
Percentage of Properties Paying Full CVA Taxes – 2002 to 2006



5. FINANCIAL IMPLICATIONS

There is no net financial impact to the Region.

6. LOCAL MUNICIPAL IMPACT

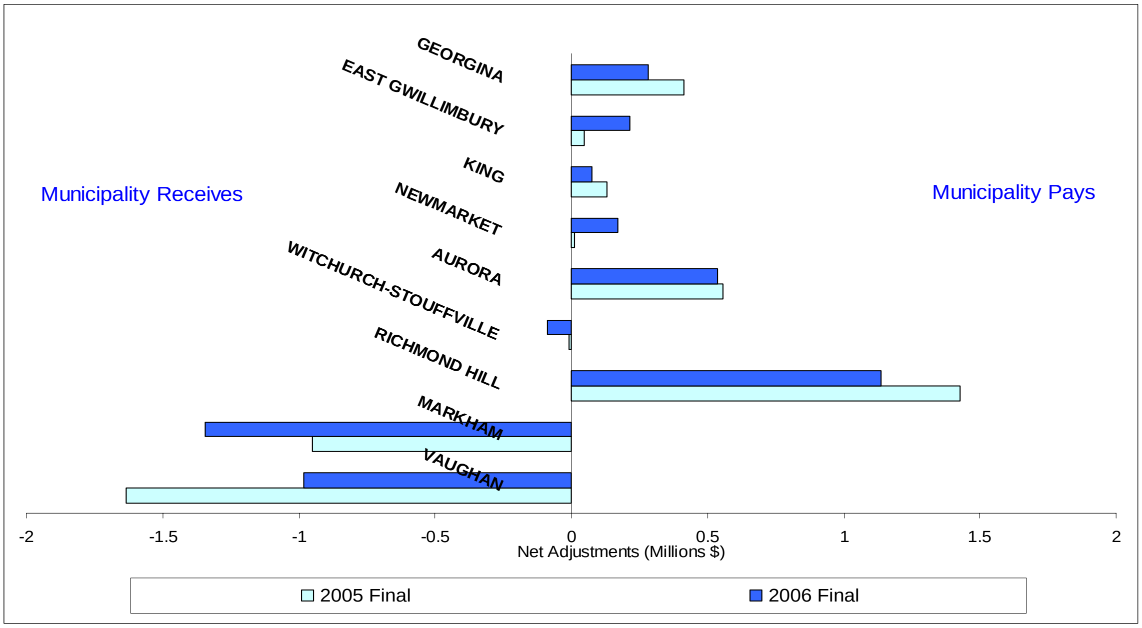
Section 330 (6) of the Act requires that the Region act as a "banker" of the capping and clawback requirements, to ensure that the local municipalities do not experience shortfalls or surpluses resulting from the application of the capping legislation.

Table 2
Local Municipal "Bankering" and Shortfall Amounts for 2006

Municipality	Net Amount of Bankering To/(From) the Region ($)
Aurora	536,209
East Gwillimbury	213,171
Georgina	283,088
King	74,280
Markham	(1,344,215)
Newmarket	170,728
Richmond Hill	1,138,006
Vaughan	(983,822)
Whitchurch-Stouffville	(87,445)
Region of York	0
Total	**0**

Source: OPTA July 21, 2006

Figure 3
Local Municipal "Bankering" - 2005 vs. 2006 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 2006 clawback rates by by-law, and presents the progress made in accelerating properties to full CVA level of taxation.

The Senior Management Group has reviewed this report.