# 1
# FUNDING OF 2005 PROPERTY TAX CAPPING REQUIREMENTS

**The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, June 28, 2005, from the Commissioner of Finance:**

## 1. RECOMMENDATION

It is recommended that:

1. The Regional Solicitor be authorized to prepare the necessary by-law to give effect to the following clawback rates for the 2005 taxation year:

| Property Class | Clawback Rate |
|---|---|
| Multi-residential | 99.0517 % |
| Commercial | 73.5886 % |
| Industrial | 81.1286 % |

## 2. PURPOSE

The purpose of this report is to inform Council of the "clawback" percentages calculated for each of the business classes for the 2005 taxation year. The report also quantifies the impact of the "bankering" role to the area municipalities.

## 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 prescribed percentage of the previous year's capped taxes. However, starting with the 2005 taxation year, the Act has been amended to allow additional capping options.

As a result, in April 2005 Council adopted the following capping parameters for 2005 and future taxation years:

1. Assessment-related property tax increases be limited to an amount which is the greater of,
   (i) 10% of the previous year's annualized capped taxes, or
   (ii) 5% of the previous year's annualized full CVA taxes.
2. Properties, for which tax increases have been capped (protected) but are within $250 of their full CVA taxes, be moved to the CVA tax level within the current taxation year.

3. Properties, for which tax decreases have been clawed back but are within $250 of their full CVA taxes, be 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, be taxed at a minimum of:
   (i) 70% of their full CVA tax value for the 2005 taxation year,
   (ii) 80% of their full CVA tax value for the 2006 taxation year,
   (iii) 90% of their full CVA tax value for the 2007 taxation year, and
   (iv) 100% of their full CVA tax value for the 2008 taxation year and beyond.

In June of 2005, Council reaffirmed its position of funding the cost of the tax cap by the withholding of an equivalent amount of available tax decreases within each of the protected classes. As a result, the Region must set the "clawback" rate needed for each protected class prior to the issuance of final property tax bills by the local municipalities.

Regional Council also authorized the Regional Treasurer to, after consultation with local municipalities, determine the region-wide percentage of tax decreases to be withheld based on the assessment data provided by the Online Property Tax Analysis (OPTA).

Finally, the Act requires that the Region perform a "bankering" role for the local municipalities 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

The calculation of the clawback percentages, applicable to 2005 for each of the three protected classes, is based on assessment data provided by OPTA. In consultation with local treasurers, OPTA was requested to limit data entry to those updates received prior to June 1, 2005 and freeze further adjustments to this data as of June 30, 2005. Table 1 shows the final "clawback" percentages and funding requirements for 2005.

**Table 1**
Clawback Percentages and Funding Amounts for 2005

| Property Class | Clawback | Funding Requirement for Cap | Available Decreases | (Shortfall) |
|---|---|---|---|---|
| | % | $ | $ | $ |
| Multi-Residential | 99.0517 | 191,664 | 191,664 | N/A |
| Commercial | 73.5886 | 17,159,669 | 17,159,669 | N/A |
| Industrial | 81.1286 | 5,141,997 | 5,141,997 | N/A |

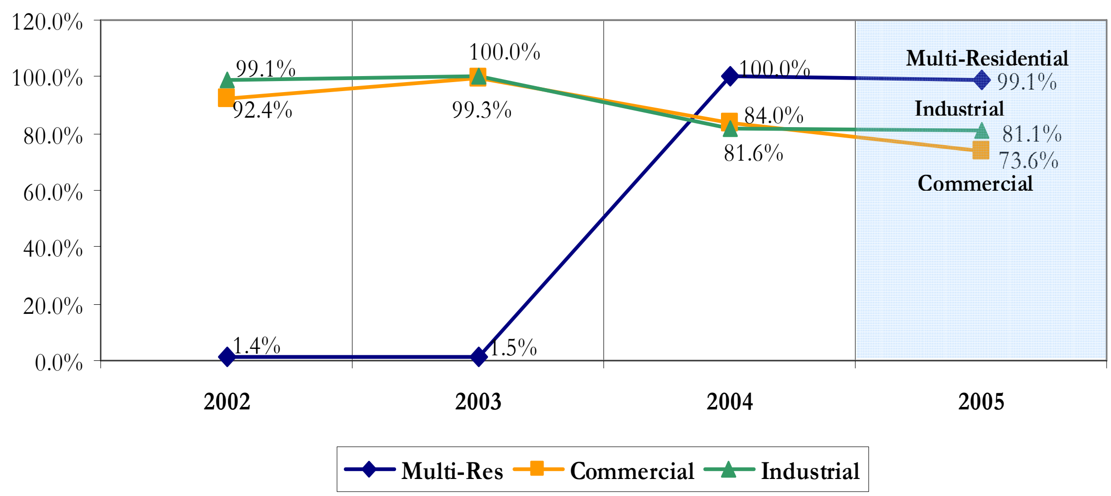
Source: OPTA June 30, 2005

As shown in Table 1 the clawback rates for each of the three protected classes are: 73.5886% for Commercial; 81.1286% for Industrial, and 99.0517% for Multi-Residential. There is no resulting shortfall for any of the protected classes for the 2005 taxation year.

## 4.1 Analysis of Impacts from the Application of New Capping Tools

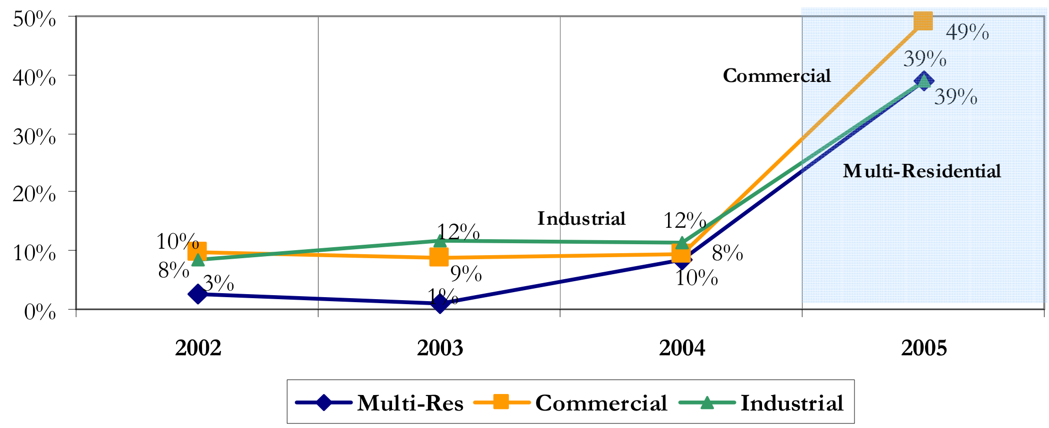
The adoption of the full range of the newly available capping options has resulted in a significant reduction in the percentages of tax decreases required to be clawed back from properties experiencing reassessment related tax decreases. In comparing the statutory capping requirement with application of the new capping tools, the Commercial class has benefited from the highest decrease in the clawback percentage rate at almost 15%, the Industrial class benefited from a decrease of close to 7%, and the Multi-Residential class is saved from a shortfall in the class. Figure 1 shows the clawback percentages over the last four years.

**Figure 1**
**Clawback Percentages**
**2002 to 2005**




In addition, as shown in Figure 2, by adopting the new capping tools, the Region has more than doubled the number of properties that have been accelerated to their full CVA level of taxation for the 2005 taxation year. This significant progress towards CVA taxation is a direct result of the application of the new capping tools and would not have occurred had Council chosen to continue with the "status quo option", i.e. the 5% cap on annualized taxes.

**Figure 2**
**Percentage of Total Properties at Full CVA Level Taxes**
**2002 to 2005**




## 5. FINANCIAL IMPLICATIONS

There is no net financial impact to the Region.

## 6. LOCAL MUNICIPAL IMPACT

In accordance with section 330 (6) of the Act, the Region acts as banker for the capping provisions 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 2005

| Municipality | Net Amount of Bankering To/(From) the Region |
|---|---|
| | $ |
| Aurora | 556,883 |
| East Gwillimbury | 46,672 |
| Georgina | 414,152 |
| King | 132,617 |
| Markham | (949,270) |
| Newmarket | 13,438 |
| Richmond Hill | 1,426,748 |
| Vaughan | (1,634,040) |
| Whitchurch-Stouffville | (7,202) |
| Region of York | 0 |
| Total | **0** |

Source: OPTA June 30, 2005

## 7. CONCLUSION

This report provides information to Council regarding the “clawback” percentages related to the funding of the capping provisions of the Act, the funding requirements of any resulting shortfalls and the impacts of the “bankering” role with respect to the transfer of funds between the Region of York’s local municipalities for the 2005 taxation year. This report also presents the progress made in accelerating properties to full CVA level of taxation and in lowering the clawbacks withheld for the 2005 taxation year. The progress achieved is a result of the Council’s decision to adopt the full range of capping tools that have been made available to municipalities.

The Senior Management Group has reviewed this report.