2

2010 - 2012 PROPERTY TAX RATIO POLICY AND CAPPING ANALYSIS

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated November 19, 2009, from the Commissioner of Finance.

1. RECOMMENDATIONS

It is recommended that:

1. The property tax ratios for the taxation years 2010, 2011 and 2012 be established as follows:

Broad Property Class	2010 Tax Ratios	2011 Tax Ratios	2012 Tax Ratios
Residential/Farm	1.0000	1.0000	1.0000
Multi-Residential	1.0000	1.0000	1.0000
Commercial	1.1800	1.1431	1.1172
Industrial	1.3575	1.3305	1.3124
Pipelines	0.9190	0.9190	0.9190
Farmlands	0.2500	0.2500	0.2500
Managed Forests	0.2500	0.2500	0.2500

2. The Province be requested to provide an option for municipalities to phase out over a four-year period any property tax protection remaining in the business classes at the end of 2012 or potentially arising from the 2012 reassessment.

2. PURPOSE

This report recommends property tax ratios for the 2010, 2011 and 2012 taxation years. It also provides an analysis of tax shifts arising from the 2008 general property reassessment and an analysis of the impact of capping on the business classes as a result of the adopted and proposed tax ratios.

Furthermore, this report recommends that municipalities be given the tools to phase out over a four-year period any property tax protection ("capping") remaining at the end of the 2012 or arising from a subsequent reassessment.

3. BACKGROUND

Property reassessment creates tax shifts

The last general property reassessment in York Region was completed in 2008 of which the impact is to be phased in over a period from 2009 to 2012. Whenever a general reassessment is undertaken, which is every four years in Ontario, the following tax shifts will result:

1. between property types within the same property tax classes;
2. among property tax classes; and
3. among the local municipalities within the Region.

A tax shift occurs when the assessed value of one property type increases more than that of another property type thereby redistributing the tax burden between property types. Similarly, when a property tax class experiences overall valuation increases more than another property tax class, this reallocates a greater burden of taxes from one class to another. In addition, local municipalities within the Region that have reassessment increases on a property class greater than that of other municipalities of the same property class are likely to experience a shift in tax burden.

York's Tax Ratio Policy has mitigated tax shifts in the past

The *Municipal Act, 2001* requires that Regional Council establish tax ratios through a by-law in each year for the upper-tier and local municipalities. Tax ratios represent the amount of taxation to be borne by each property class in relation to the residential class. The ratios reflect how the tax rate of a property class compares to the residential tax rate, with the residential class tax ratio being equal to "one". Generally, municipalities may only move their ratios within or closer to the "Ranges of Fairness." However, when as a result of reassessment there is a significant shift in tax burden from one property class to another, as occurred in 2004, a municipality may seek the approval of the Minister of Finance to mitigate this shift (ie. make revenue neutral) by adjusting selected tax ratios away from the Ranges of Fairness.

In the past, through the use of its tax ratio authority, the Region has been able to mitigate the tax shift between various property classes. However, at its meeting in June 2009 Council agreed to maintain the same 2008 ratios for the 2009 taxation year in order to permit enough time for staff to analyse the impact of any changes and consult with local municipalities. Staff have now concluded and shared this analysis with the area treasurers and the tax ratio recommendations are included herein.

Capping protection primarily benefits a select group of properties

Since 1998, business properties in Ontario have enjoyed some protection against tax shifts as a result of the property tax capping legislation (i.e. capping) that was introduced by the Province to help transition them to current value assessment ("CVA"). Tax ratios have an impact on the total amount of property taxes paid by businesses and therefore an indirect impact on the amount of tax protection required.

A January 2008 report to Council indicated that the most protected properties have historically been the commercial condominiums and vacant industrial lands in the commercial and industrial classes respectively. The same analysis indicates that small to medium sized commercial and industrial properties fund a relatively select group of protected properties. The most clawed back property types have been the "small medical/dental buildings" and "standard industrial" property types in the commercial and industrial class respectively.

09 capping results analysis still shows a long way to go

Table 1 shows that as at the end of 2009 despite Council use of all "tools" currently available to them, 20% of all commercial properties and 22% of all industrial properties are still not paying CVA level taxes at an estimated cost of $8.5 million.

Table 1
2009 Capping Results for All Business Classes

	Multi Residential		**Commercial**		**Industrial**	
	No.	**$**	**No.**	**$**	**No.**	**$**
Number of Protected Properties	2	(3,641)	1,623	(6,501,920)	262	(1,844,942)
Number of Decreasers	8	3,641	1,368	6,501,920	409	1,844,942
Number of Properties at CVA	233	0	11,812	0	2,314	0
Total	**243**	**0**	**14,803**	**0**	**2,985**	**0**

Source: OPTA, June 27, 2009

The multi-residential class will reach CVA by 2012

The multi-residential class appears to be the only business class that will have all its properties at CVA within this four- year assessment phase in cycle. Currently, there are only two protected properties, one in the Town of Richmond Hill and the other in the Town of Newmarket, at 88% and 93% of CVA level taxes respectively.

Commercial condominiums are the greatest benefactors of capping protection

For the commercial class, the top three protected property types by cost are the following:

1. Commercial Condominiums with total protection of $2,350,097 or 36% of the total dollar benefit to protected properties;
2. Vacant Commercial Land with total protection of $1,131,015 or 17% of the total dollar benefit to protected properties;
3. Large Office Buildings, greater than 7,500 square feet with total protection of $402,286 or 6% of the total dollar benefit to protected properties.

Approximately 88% of protected properties in the commercial class are commercial condominiums, most being built within the last 10 years. Furthermore, the commercial condominium property types appear to be moving toward CVA level taxes at a slower pace than many other commercial property types, with a majority of these properties paying on average approximately 40% of their CVA level taxes in 2009.

Vacant land is the most protected industrial property type

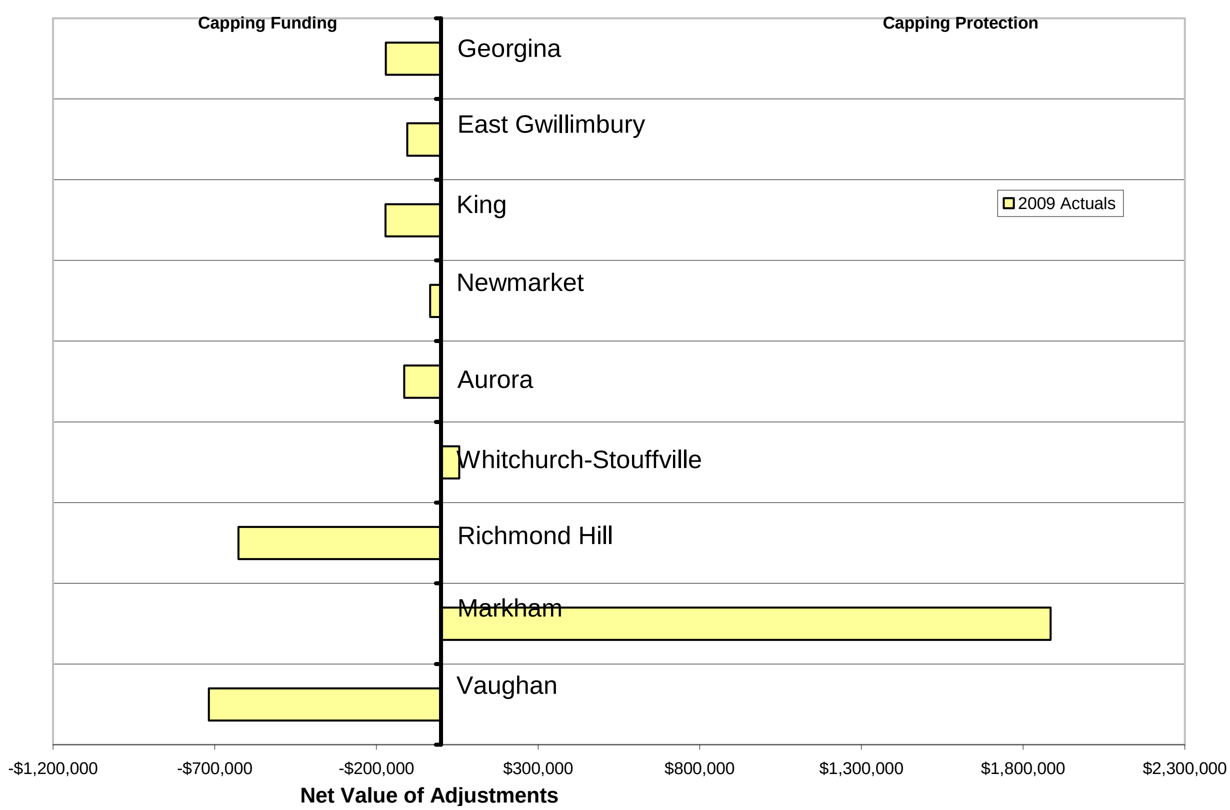
In comparison to the commercial class, the top three protected industrial property types by cost are as follows:

1. Vacant Industrial Land with total protection of $1,461,341 or 80% of the total dollars benefitted to protected properties;
2. Standard Industrial – Non Specific with total protection of $148,553 or 8% of the total dollars benefitted to protected properties; and
3. Gravel Pit, quarry, sand pit with total protection of $82,374 or 4% of the total dollars benefitted to protected properties.

Capping creates an inter-municipal tax shift

Provincial legislation requires that the Region act as "banker" to balance out any shortfalls in one municipality with surpluses in another municipality. The following graph illustrates the capping protection/funding by municipality for 2009 as a result of businesses not being taxed at CVA levels.

Figure 1
Inter Municipal 2009 Capping Adjustments



4. ANALYSIS AND OPTIONS

Business property classes will incur a significant tax shift due to reassessment if status quo is maintained

The 2008 reassessment resulted in an average increase of 30.9% for the business classes compared to a 19.5% average increase for the residential class. As a result of their higher reassessment (compared to residential properties), businesses would experience a significant annual increase in their taxes during the 2009-2012 period if the tax ratios remain at the status quo. Table 2 illustrates the dollar and percentage magnitude of the shift in annual taxation at the end of the four-year phase in period.

Table 2
Estimated 2009–2012 Tax Shifts, No Change in Ratios

Broad Property Class	Shift in Taxation ($)	Shift in Taxation (%)
Residential	$(12,154,698)	-2.13%
Multi-Residential	$(13,807)	-0.27%
Commercial	$10,703,602	10.44%
Industrial	$1,368,677	3.75%
Pipelines	$(71,047)	-7.60%
Farmland	$166,519	15.88%
Managed Forests	$754	2.01%

Adjusting tax ratios would result in greater equity

It is proposed that Council adopt for the 2010-2012 period a policy of tax ratio neutrality, leaving intact the tax shifts that occurred in 2009. A tax ratio adjustment could mitigate the taxation shifts resulting from the reassessment of properties by restoring the relative amount of taxes collected from each property class to the level closer to that prior to reassessment. This would result in greater tax payer equity for the following reasons:

1. Assessment is calculated differently in the residential and business classes. While reassessment may more accurately reflect the relative value of properties within a class, it does not reflect differences in the classes, particularly in the cost of delivering services;
2. Reassessment looks at a snapshot of the value of properties at a point in time. Major economic events can temporarily increase or decrease the value of business properties relative to the residential class;
3. Historically, the Region has adopted tax ratios that result in revenue neutrality such as in 2004 when the value of business properties had declined relative to the residential class; and
4. Shifting taxes to the business class will result in a higher cost of capping and clawback and fewer businesses reaching CVA.

Based on consultation with area treasurers, it is also proposed that York Region continue with its past practice of adopting hybrid revenue neutral tax ratios in which only the ratios for the commercial and industrial classes are adjusted. The rationale for this option is that, in York Region, full revenue neutrality could drive the multi-residential ratio below 1.0 (less than the residential tax ratio) and similarly other ratios outside of the range that Council has previously maintained.

Table 3 illustrates the amount of the tax shift that remains with the proposed hybrid tax ratios.

Table 3
Estimated 2009–2012 Tax Shifts, Proposed Hybrid Ratio Option

Broad Property Class	Shift in Taxation ($)	Shift in Taxation (%)
Residential	$(3,137,758)	-0.01%
Multi-Residential	$71,596	0.41%
Commercial	$2,449,317	0.02%
Industrial	$488,509	0.02%
Pipelines	$(55,647)	-1.28%
Farmland	$182,576	3.52%
Managed Forests	$1,407	1.12%

Table 4
Phase In of Tax Ratios

Property Class	Approved 2009 Ratios	Proposed 2010 Ratios	Proposed 2011 Ratios	Proposed 2012 Ratios	Ranges of Fairness
Residential	1.0000	1.0000	1.0000	1.0000	1.0000
Multi-Residential	1.0000	1.0000	1.0000	1.0000	1.0 to 1.1
Commercial	1.2070	1.1800	1.1431	1.1172	0.6 to 1.1
Industrial	1.3737	1.3575	1.3305	1.3124	0.6 to 1.1
Pipelines	0.9190	0.9190	0.9190	0.9190	0.6 to 0.7
Farmland	0.2500	0.2500	0.2500	0.2500	0.2500
Managed Forests	0.2500	0.2500	0.2500	0.2500	0.2500

The proposed tax ratios in Table 4 meet the objective of hybrid revenue neutrality in 2011 and 2012, allowing for a transition from the 2009 status quo ratios to the proposed 2011 and 2012 tax ratios.

With no changes to the 2009 tax ratios and the proposed hybrid revenue neutrality tax ratio model for 2010 through to 2012, the residential class receives a net benefit (reduction) over the four year period although the residential class will pay more than if there was no adjustment in the ratios.

With no proposed changes in tax ratios, the farmland class experiences a tax shift to the class, as observed in Table 3, over the four years in municipalities such as East Gwillimbury, Georgina, King and Whitchurch-Stouffville.

Table 5 following provides an illustration of current or proposed tax ratios for the GTA municipalities.

Table 5
Comparison of Property Tax Ratios for 2010

Broad Property Class	York (proposed)	Peel[1]		Halton[2]	Durham[3]	Toronto[4]
		Mississauga	Brampton/ Caledon			
Residential	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Multi-Residential	1.0000	1.7788	1.7050	2.2619	1.8665	3.2700
Commercial	1.1800	1.4098	1.2971	1.4565	1.4500	3.2700
Industrial	1.3575	1.5708	1.4700	2.3599	2.2598	3.2700
Pipelines	0.9190	1.1512	0.9239	1.0617	1.2294	1.9236
Farmland	0.2500	0.2500	0.2500	0.2000	0.2000	0.2500
Managed Forests	0.2500	0.2500	0.2500	0.2500	0.2500	0.2500

1 No discussion has occurred to date, 2009 tax ratios have been entered for comparison

2 Unable to gather timely information, 2009 tax ratios have been entered for comparison

3 No changes are expected from the 2009 tax ratios

4 Changes are expected, these represent the preliminary 2010 tax ratios to date

The proposed tax ratios will improve the capping results and inter-municipal tax shifts

The following table highlights the comparison between maintaining the current and the proposed revenue neutral tax ratios.

Table 6
Status Quo Ratios vs. Proposed Revenue Neutral Ratios
Estimated 2010 Results

Status Quo: Using All Available Options		
2010	Commercial - 1.207	Industrial - 1.3737
$ of protection	5,802,697	1,849,316
% of clawback	77.20%	86.21%
# of protected properties	1,377	214
# of decreasers available	1,086	361

Hybrid: Using All Available Options		
2010	Commercial - 1.1800	Industrial - 1.3575
$ of protection	5,703,996	1,831,692
% of clawback	67.84%	79.61%
# of protected properties	1,368	208
# of decreasers available	1,143	369

The proposed tax ratios will provide the following benefits, starting in 2010:

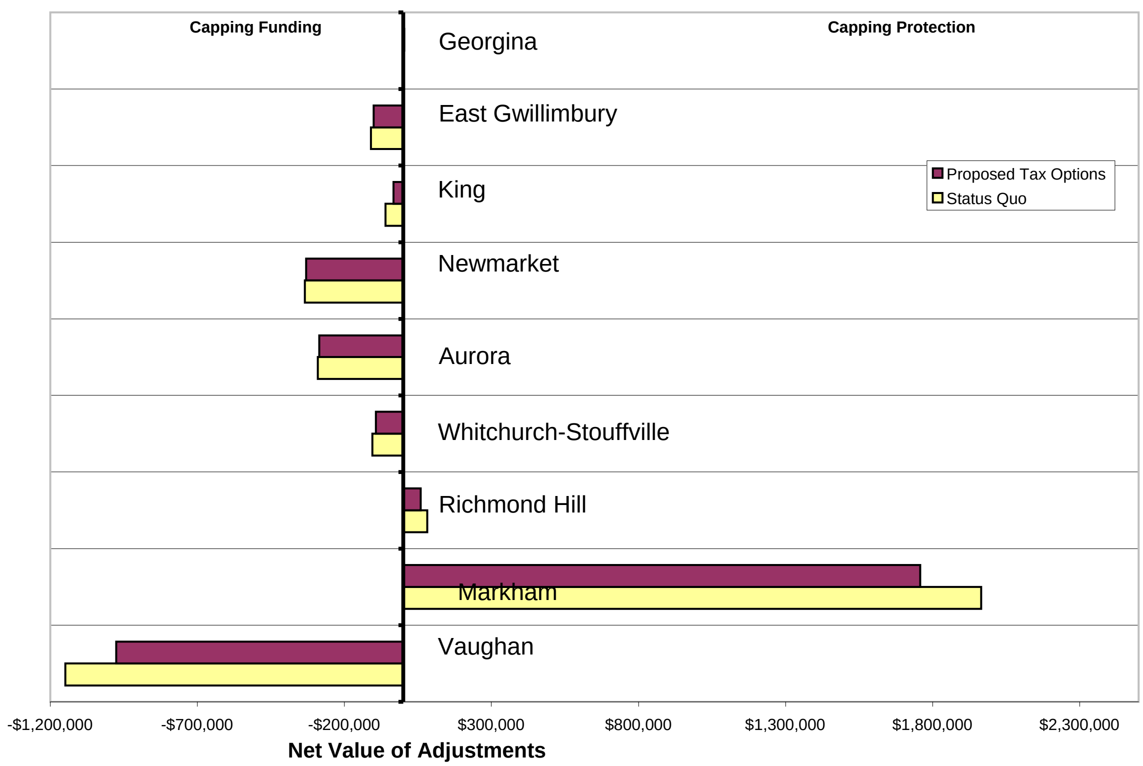
- Preserves the decreaser pool;
- Maximizes properties moving to CVA level taxes;
- Minimizes the dollars of protection; and
- Minimizes the clawback percentage.

In Table 7 following, the trend from 2010 is confirmed to the end of the assessment phase in cycle. We can see, however, that with the current capping tools available to municipalities, the progress to CVA level taxes is slow and even with the proposed tax ratios, there are still over a thousand properties receiving tax protection.

Table 7
2012 Status Quo Ratios vs. Proposed Revenue Neutral Ratios
Estimated 2012 Results

Status Quo	Using All Available Options			Hybrid	Using All Available Options		
	2012	Commercial - 1.2070	Industrial - 1.3737		2012	Commercial - 1.1172	Industrial - 1.3124
	$ of protection	5,050,749	1,787,379		$ of protection	4,654,893	1,715,837
	% of clawback	76.61%	82.17%		% of clawback	66.96%	75.64%
	# of protected properties	1,219	181		# of protected properties	1,206	179
	# of decreasers available	899	314		# of decreasers available	966	332

Figure 2
Inter-Municipal 2012 Capping Adjustments for Proposed Tax Ratios and Status Quo



Provincial action required to end property tax capping after 2012

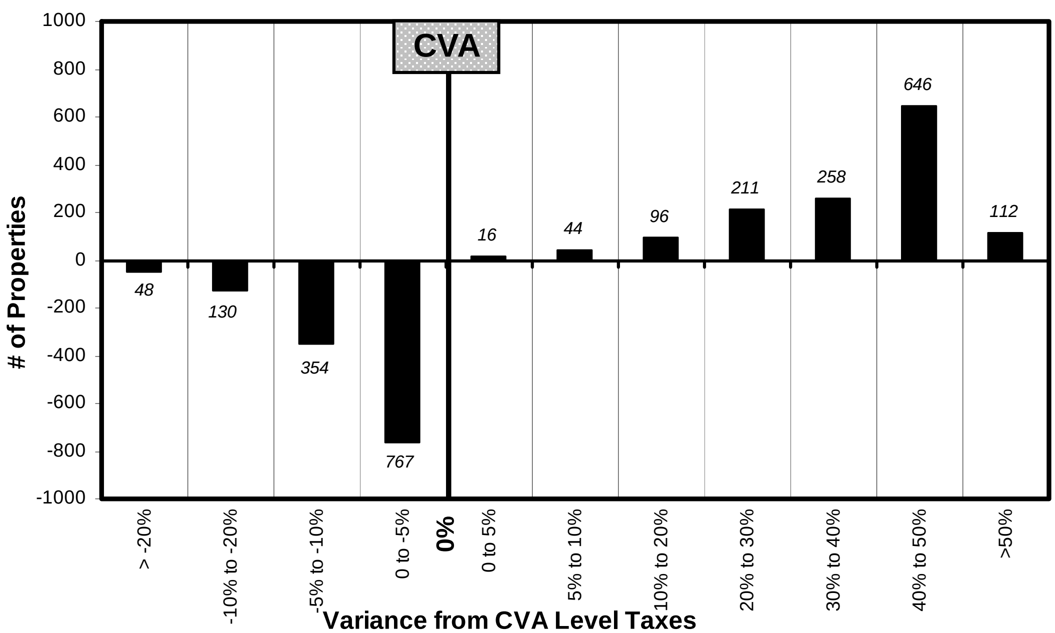
Council has consistently advocated for changes to the tax capping legislation including the termination of capping. The most recent analysis conducted by staff confirms that capping continues to remove property tax reductions from property owners who would otherwise be entitled to these reductions. Capping also creates an inter-municipal shift of tax decreases under the statutory requirement that shortfalls of decreases a local municipality be offset by excess decreases in other local municipalities.

It has now been 11 years since the introduction of capping and will be 14 years by the end of the current four-year assessment phase in period. While the Province has improved the optional tools available to municipalities, the analysis in section 4.4 indicates that at the end of 2012, there would still be approximately 1400 properties projected to be paying below their CVA level taxes while the clawback rates for those entitled to tax reductions continue to be in the range of 67-76%.

Figure 3 also illustrates that at the end of 2012, approximately 47% of those properties receiving protection would be paying only 40-50% of their CVA level taxes and with the current tools available, it will be many years before their tax protection will end.

Figure 3

Progress to CVA Level Taxes at 2012



Only the Province can remedy this situation. Therefore, it is recommended that the Province be requested to provide the option to municipalities to establish a program to phase out over a four-year period any property tax capping afforded to properties in the business classes at the end of the 2012 or arising from the 2012 reassessment.

5. FINANCIAL IMPLICATIONS

There are no direct financial impacts as a result of the recommendations contained in the report. While there is no current projected requirement for the Region to fund a capping shortfall, 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.

6. LOCAL MUNICIPAL IMPACT

Each of the municipalities within the Region will realize tax shifts unique to the composition of their property tax classes. The impact of these shifts is presented in Figures 1 and 2.

The *Municipal Act* requires that the Region act as “banker” to balance out shortfalls of decreases in one municipality with surpluses of decreases in another municipality. The net effect of bankering is that taxpayers eligible for refunds in one municipality may be required to give up a portion of the refund in order to fund tax protection in other municipalities. As mentioned in section 5 of the report, when an overall shortfall exists in a property class, the Region and local municipalities share the shortfall proportionately.

The Regional Treasurer has consulted with the local municipal treasurers with respect to the recommendations contained within this report.

7. CONCLUSION

As a result of the January 1, 2008 property reassessment, a tax shift occurs to business property classes using the adopted 2008 tax ratios. No adjustment was made to the Region’s tax ratios for 2009 with a resulting tax shift off the residential property class and on to primarily the commercial, industrial and farmlands property classes.

To mitigate the same tax shifts for 2010 to 2012, a hybrid tax ratio option is being proposed to better achieve tax payer equity and lessen the impact on tax payer protection.

Further, it is recommended that the Province be requested to provide the option to municipalities to eliminate the remaining property tax capping at the end of the 2012 assessment phase-in period.

For more information on this report, please contact Brian Parrott, Manager, Fiscal Policy at extension 1667.

The Senior Management Group has reviewed this report.