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FUNDING OF CAPPED PROPERTY CLASSES FOR 2003

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, August 22, 2003, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. This report be received for information.

2. PURPOSE

The purpose of this report is to inform Council of the “clawback” percentages calculated for each of the property classes subject to the mandatory 5% cap for the 2003 taxation year. If in setting the clawback rate at 100%, there is still a deficiency in the class to cover the cost of the legislated cap a shortfall arises. This report will also identfy the financial impact to York Region and the local municipalities from any resulting shortfall.

The report also quantifies the impact of the “bankering” role to the local municipalities by the Regional Municipality of York.

3. BACKGROUND

Bill 140 required that Council establish a permanent program to limit any annual tax increases resulting from reassessment to no more than 5% for the Commercial, Industrial and Multi-Residential classes, excluding farmland awaiting development, for the 2001 taxation year and beyond. Bill 140 does not prevent the Region or its local municipalities from levying municipal budgetary increases over and above the 5% “cap” limit.

For the 2002 and future taxation years, Regional Council has adopted a policy by which the funding of the tax cap will be achieved by withholding of an equivalent amount of available tax decreases within each of the protected classes. As a result, the Region must determine the “clawback” rate needed for each protected class prior to the issuance of final property tax bills by the local municipalities.

In June 2003, Council authorized the Regional Treasurer, in consultation with local municipalities, to determine the region-wide percentage of tax decreases to be withheld from properties for the 2003 taxation year in each of the protected classes to fund the cap based on the assessment data provided by the Online Property Tax Analysis (OPTA). In the event that there were insufficient tax decreases to cover the cost of the 5% cap, the Regional Treasurer was authorized to fund the Region’s share of the resulting shortfall from the Tax Write-Off Reserve Fund.

Finally, Bill 140 requires that the Region perform a “bankering” role for the local municipalities to ensure that they experience neither a surplus nor deficit as a result of the capping and “clawback” procedure.

3.1 Beaubien Review of Property Tax system – Part 3

Marcel Beaubien, MPP, Parliamentary assistant to the Minister of Finance, has conducted two previous reviews of property taxation and assessment related issues for the Provincial government. The first dealt primarily with the structure and operations of the Municipal Property Assessment Corporation (MPAC) and was released on April 2, 2001. Most of the recommendations that followed from this review have been implemented.

The second review addressed assessment and property classification issues and was released on July 31, 2002. Several recommendations from this review have already been implemented and numerous others are still under consideration by the Provincial government.

In the 2003 Budget, the Provincial government announced its intention to begin a third review of property taxation and assessment issues. This review is to focus on the issues of assessment averaging and the effectiveness of existing property tax mitigation tools.

In his correspondence of July 18, 2003 to municipal associations and other groups, Mr. Beaubien stated that he would review, among other things:

- "The administrative challenges associated with assessment averaging;
- *The effectiveness of the existing tax mitigation tools for business properties (including the 5% cap on tax increases, phase-in, optional property classes and graduated tax rates);*
- The effectiveness of the existing tax mitigation tools for residential properties (including phase-in and optional relief in cases of hardship);
- The degree to which additional tax mitigation tools may be desirable."

The consultation process is intended to include taxpayers, municipalities, MPAC and associations representing municipal, taxpayer and industry groups and will be conducted through meetings with various stakeholders and the receipt of written submissions.

No time frame has been indicated by the Province for submission of a final report from Marcel Beaubien on his findings.

4. ANALYSIS AND OPTIONS

Table 1 shows the approved clawback percentages for each of the protected classes for the 1998 taxation year to the 2002 taxation year.

Table 1
Approved Clawback Percentages 1998 to 2002

Year	Commercial Clawback Percentage	Industrial Clawback Percentage	Multi-Residential Clawback Percentage
1998	88.8783	88.8783	7.5560
1999	68.8912	68.8912	3.9364
2000	52.3601	52.3601	2.9481
2001	81.1552	51.1080	87.7705
2002	92.3558	99.0672	1.4471

The calculation of the "clawback" percentages applicable to 2003 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 new assessment data to that received by July 1, 2003 and freeze further adjustments to this data as at August 12, 2003. Table 2 shows the resulting "clawback " percentages and funding requirements for 2003.

Table 2
Clawback Percentages and Funding Amounts for 2003

Property Class	Clawback	Funding Requirement	Funding Available	Surplus (Shortfall)
	%	$	$	$
Multi-Residential	1.5182	29,237	29,237	0
Commercial	99.3418	24,989,213	24,989,213	0
Industrial	100.0000	6,963,357	6,928,021	(35,336)

As shown in the table the clawback rates in the Industrial class is 100%. Notwithstanding the 100% of decreases withheld from the Industrial property owners there is insufficient money to cover the cost of the legislated cap and as a result a shortfall exists in this property class. When a capping shortfall exists, the Region and its local municipalities are required to fund the capping shortfall in the same ratio as they receive taxation revenue from that property class including the education portion which cannot be cost shared with the Province. The total industrial class shortfall amounts to $35,336 of which the Region's share is $22,989. In June, Council authorized the funding of the Regional portion of the shortfall from the Tax Write-Off Reserve.

5. FINANCIAL IMPLICATIONS

The Regional share of the shortfall for the Industrial class is $22,989. Council has approved the funding of this shortfall from the Tax Write-off Reserve Fund. There is no net financial impact to the Region to act a banker for the inter-municipal surpluses and shortfalls from the setting of the clawback rates.

6. LOCAL MUNICIPAL IMPACT

The Region's role as banker for the implementation of Bill 140 capping provisions ensures that the local municipalities do not experience any shortfalls or surpluses with respect to issuing the 2003 tax bills for Commercial, Industrial and Multi-Residential properties. Table 3 shows the payments to/(from) local municipalities as a result of "bankering".

Along with the Region the local municipalities are also required to fund the shortfall in the Industrial class in the same ratio that they receive taxation revenue from this class. Table 2 also identifies the local municipal and regional apportionment for the funding of the shortfall in both the Commercial and Industrial classes.

Table 3

Local Municipal "Bankering" and Shortfall Amounts for 2003

Municipality	**Bankering** To/(From) the Region	**Allocation of Industrial Shortfall**	**Net Amount** To/(From) the Region
	$	$	$
Aurora	1,227,184	517	1,227,701
East Gwillimbury	231,104	152	231,256
Georgina	548,107	116	548,223
King	141,161	94	141,255
Markham	(3,174,003)	2,406	(3,171,597)
Newmarket	(149,772)	788	(148,984)
Richmond Hill	1,612,429	802	1,613,231
Vaughan	(22,767)	7,198	(15,569)
Whitchurch-Stouffville	(448,779)	274	(448,505)
Region of York	0	22,989	22,989
Total	(35,336)	35,336	0

Table 4 shows the "bankering" payments made by local municipalities from 1998 to 2002.

Table 4

5-Year Historical Local Municipal "Bankering" Amounts

Municipality	**1998**	**1999**	**2000**	**2001**	**2002**
	$	$	$	$	$
Aurora	(553,814)	(580,244)	(388,285)	(1,281,747)	1,054,048
East Gwillimbury	64,559	23,326	(4,262)	(149,516)	141,883
Georgina	395,510	256,152	116,742	(449,655)	423,356
King	333,574	287,998	239,516	83,809	(45,227)
Markham	(1,425,602)	(816,274)	(101,658)	2,726,164	(4,152,572)
Newmarket	4,012,171	3,498,186	2,869,785	1,085,359	(836,321)
Richmond Hill	(1,124,634)	(1,092,865)	(573,731)	(986,502)	1,599,619
Vaughan	1,987,538	2,443,065	2,488,277	(1,052,724)	1,811,897
Whitchurch-Stouffville	736,780	633,005	487,286	24,812	3,317
Sub-Total	4,423,082	4,652,349	5,133,670	0	0
Education Appeals Reduction	(4,423,082)	(4,652,349)	(5,133,670)	0 N/A	N/A
Total	0	0		0	0

7. CONCLUSION

This report provides information to Council regarding the “clawback” percentages related to the funding of the capping provisions of Bill 140, the funding requirements of any resulting shortfalls, and the impacts of the “bankering” role with respect to the transfer of funds between the local municipalities for the 2003 taxation year.

The Senior Management Group has reviewed this report.