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**FUNDING OF 2009 PROPERTY TAX CAPPING REQUIREMENTS**

**The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report dated August 17, 2009, from the Commissioner of Finance.**

**1. RECOMMENDATION**

It is recommended that:

1. Council receive this report for information.

**2. PURPOSE**

At its June 25, 2009 meeting, Council authorized the Regional Treasurer to set the “clawback” rates for 2009. 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 2009 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. Since 2005 Council has adopted the following capping options:

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 2009 and subsequent taxation years.

Furthermore, in June 2009 Council adopted the following additional tax protection options:

*1. Business properties reaching their CVA level taxes*

A property that reached its CVA tax level in 2008 can be excluded from the capping program in 2009.

*2. Business properties crossing their CVA level tax position from capped to clawed back*

A property that was in a capped position in 2008 and as a result of reassessment would have been in a clawed back position in 2009 can be excluded from the capping program in 2009.

*3. Business properties crossing their CVA level tax position from clawed back to capped*

A property that was in a clawed back position in 2008 and as a result of reassessment would have been in a capped position in 2009 can no longer be eligible for the protection program starting in 2009.

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 2009 property tax bills by the local municipalities.

#### 4. ANALYSIS AND OPTIONS

The calculation of the clawback percentages was made in consultation with the local treasurers using assessment data provided by the Online Property Tax Analysis (OPTA) system administered by the Province. OPTA was requested to limit assessment updates arising from reconsiderations, appeals, and adjustments to those it received prior to June 1, 2009.

Table 1 below confirms the clawback percentages and other pertinent information for 2009 based on OPTA freezing the data as of June 26, 2009.

**Table 1**  
Clawback Percentages and Funding Amounts for 2009

Property Class	Clawback	Funding Requirement for Cap	Decreasers Utilized	(Shortfall)
	%	\$	\$	\$
<b>Multi-Residential</b>	12.92%	3,641	3,641	0
<b>Commercial</b>	79.96%	6,501,920	6,501,920	0
<b>Industrial</b>	76.94%	1,844,942	1,844,942	0

Source: OPTA June 26, 2009

As shown in Table 2 below, the clawback rates for commercial and industrial property classes have increased year over year while the rate for the multi-residential property class has decreased.

The increases in the clawback rates for commercial and industrial can be explained as follows:

1. Revaluation of all properties in Ontario with reassessment increases to be phased in at 25% increments starting in 2009, with 100% of phased in value to be realized in 2010
2. The continued use of the 2005 capping tools and the newly introduced 2009 tax protection options have reduced the pool of available clawed back properties as more decreasees reach CVA level taxes.

The multi-residential clawback rate decrease is linked to the decreasing number of properties that are left in the capping program. In 2009, 95.9% of multi-residential properties were at CVA level of taxes up from 87.5% in 2008. As more multi-residential properties are out of the capping program the use of decreasees in the class will continue to drop for the remaining protected properties.

**Table 2**  
Capping Funding: Comparison of 2008 and 2009

		<b>Funding Requirement (\$)</b>	<b>Clawback (%)</b>
<b>Multi-Residential</b>	2008	14,845	44.83
	<b>2009</b>	<b>3,641</b>	<b>12.92</b>
<b>Commercial</b>	2008	7,495,749	64.26
	<b>2009</b>	<b>6,501,920</b>	<b>79.96</b>
<b>Industrial</b>	2008	2,107,596	69.41
	<b>2009</b>	<b>1,844,942</b>	<b>76.94</b>

Source: OPTA June 26, 2009

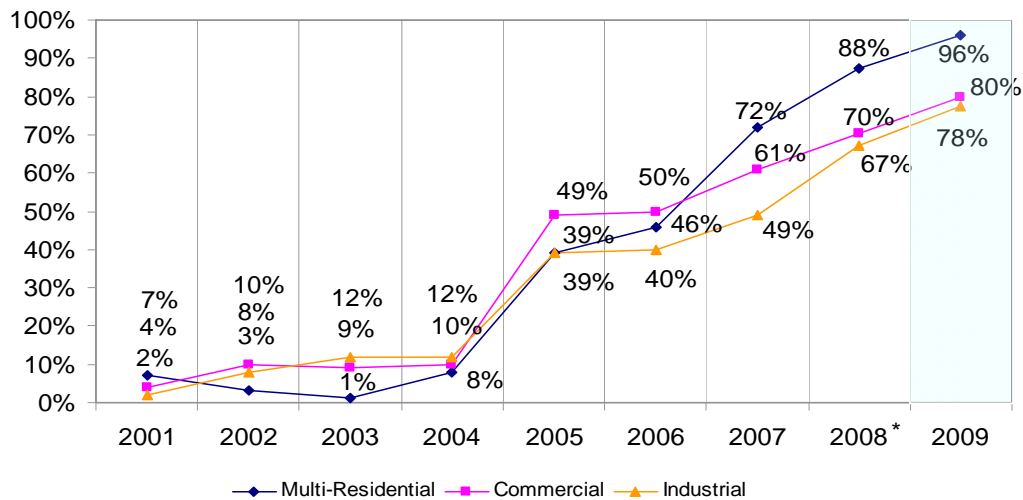
### **Capping Funding Requirement Continues to Decrease in 2009**

The adoption of all capping tools and the tax protection options has resulted in an ongoing reduction in the amount of tax decreasees required to fund reassessment related tax capping. Total capping protection in the Region has decreased from \$9.6 million in 2008 to \$8.4 million in 2009.

## 2009 Tax Protection Options Are Effective

Chart 1 below shows the effect of the 2008 reassessment (for the 2009 taxation year) and the use of capping and tax protection options in its efforts to attain the objective of 100% of CVA level taxes for all three non-residential classes.

**Chart 1**  
**Percentage of Properties at CVA by Property Class**



\*2008 revised results include new construction/new to class properties for comparison to 2009 results. New construction/new to class properties attained a tax level of 100% (CVA level) from 2008 and onwards. Prior year results excluded new construction/new to class properties due to comparison with previous years.

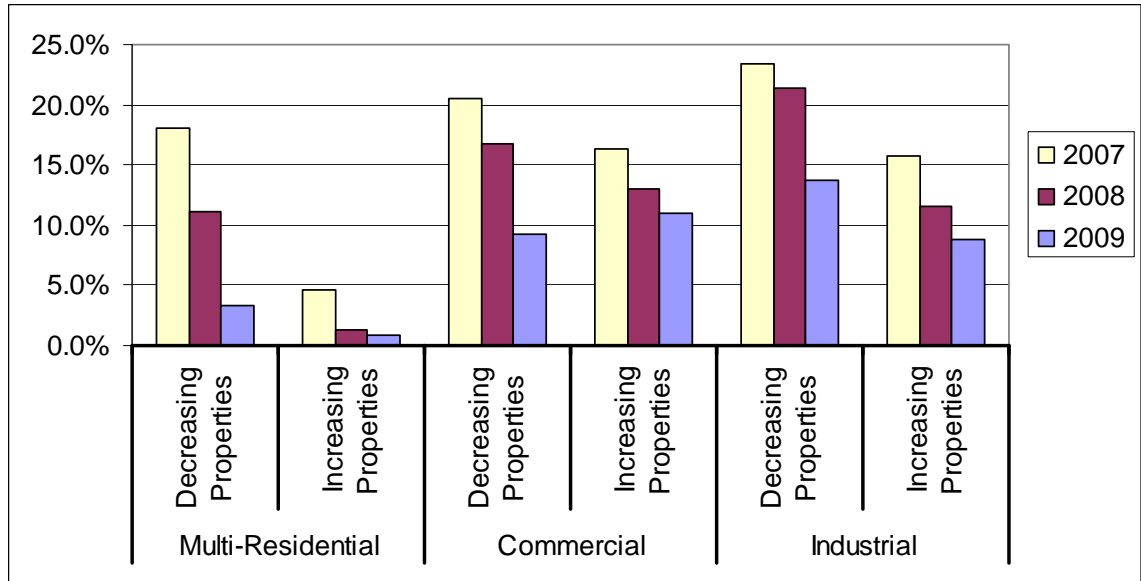
The results in 2009 for all three non-residential classes continue to chart an acceptable path in striving to get properties to 100% of CVA level taxes.

## 2010 and Beyond: Preliminary Analyses Show Encouraging Signs for Multi-residential

Chart 2 illustrates the trend for the decreasing and increasing properties since 2007 while also demonstrating that all multi-residential properties will be at CVA level taxes soon but a future shortfall is possible for the commercial class.

For the upcoming year, the commercial broad class currently has 1,623 protected properties remaining, while only a pool of 1,368 decreasers is available. Further analyses will be conducted to determine if the dollar magnitude and frequency distribution for the increasers and the decreasers can avoid a shortfall.

**Chart 2**  
**Progression of Increasing and Decreasing Properties**  
**Relative to CVA Level Taxes**



The industrial broad class will have an inventory of 409 decreasing properties and only 262 protected properties remaining for the upcoming year. While the surplus of decreasing properties would not indicate a potential shortfall, further analyses is required to identify how quickly the dollar magnitude of decreasing properties reaches CVA level taxes in order to offset the protected properties in 2010 and beyond.

Finally, the multi-residential broad class will have only two protected properties remaining in this class and it is anticipated that they will reach CVA level of taxes in a year or two.

A detailed review of the impact for the next three years using a variety of analytical tools is underway and will be shared with Council in a Fall report on the impact of the status quo capping options, the tax protection options and tax ratios.

## 5. FINANCIAL IMPLICATIONS

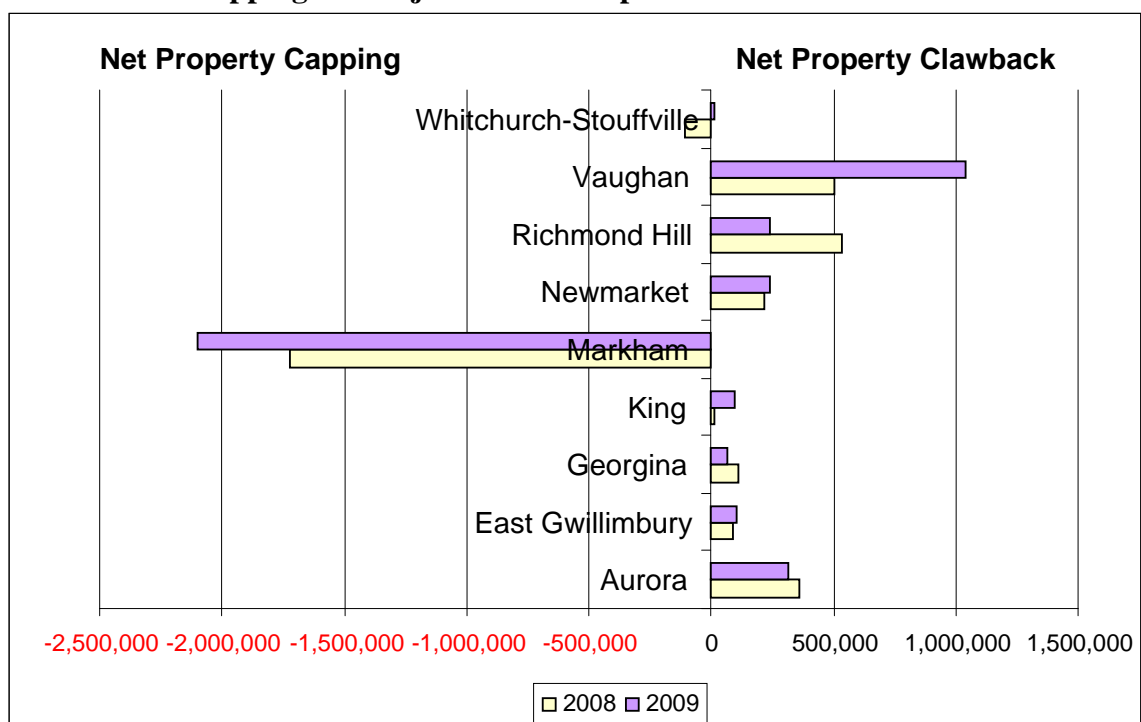
There is no net financial impact to the Region.

## 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. Chart 3 represents a comparison of the “banking” amounts for the 2008 and 2009 taxation years.

**Chart 3**  
**Inter-Municipal “Banking” 2009**  
**Capping Net Adjustments Comparison of 2008 and 2009**



The year-over-year change in the “banking” requirement is significant for some of the municipalities and is largely due to the 2008 reassessment for the 2009 taxation year as well as the application of all available options. The Town of Markham has a large number of Commercial properties remaining protected and thus increasing the amount of “banking” requirement from properties in neighbouring municipalities to avoid a shortfall.

## 7. CONCLUSION

At its June 25, 2009 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 2009 clawback rates as determined by the Regional Treasurer. The “banking” adjustments that arise from the application of the clawback rates are provided for information and will be communicated to each of the local municipal treasurers by correspondence.

Report No. 6 of the Finance and Administration Committee  
Regional Council Meeting of September 24, 2009

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

The Senior Management Group has reviewed this report.