

Clause 9 in Report No. 9 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on May 25, 2017.

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## 2017 Property Tax Capping Authorization Report

Committee of the Whole recommends adoption of the following recommendations contained in the report dated May 4, 2017 from the Commissioner of Finance:

1. Council adopt the new provincial property tax capping options shown in Table 1 to allow the commercial capping program phase-out to begin in 2018
2. The Regional Treasurer be authorized to determine the percentage of property tax decreases to be withheld to fund the cost of capping reassessment related tax increases in the commercial and industrial classes for the 2017 taxation year.
3. Should the amount of property tax decreases available from any of the property classes be insufficient to fund the capping requirement, the Regional Treasurer be authorized to fund the Region's share of the resulting shortfall from the Tax Stabilization Reserve.
4. The Regional Clerk circulate the report to the local municipalities

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Report dated May 4, 2017 from the Commissioner of Finance now follows:

### 1. Recommendations

It is recommended that:

1. Council adopt the new provincial property tax capping options shown in Table 1 to allow the commercial capping program phase-out to begin in 2018
2. The Regional Treasurer be authorized to determine the percentage of property tax decreases to be withheld to fund the cost of capping reassessment related tax increases in the commercial and industrial classes for the 2017 taxation year.

3. Should the amount of property tax decreases available from any of the property classes be insufficient to fund the capping requirement, the Regional Treasurer be authorized to fund the Region's share of the resulting shortfall from the Tax Stabilization Reserve.
4. The Regional Clerk circulate the report to the local municipalities

## 2. Purpose

This report seeks authorization for the Regional Treasurer to determine the percentage of tax decreases to be withheld for the 2017 taxation year to fund capped properties.

This report also seeks authorization to adopt two provincial options outlined in Table 1 to facilitate phasing out property tax capping in a reasonable period.

## 3. Background

2016 was a property tax reassessment year

The Province established a date of January 1, 2016 for the revaluation of all properties in Ontario, to be phased in between 2017 and 2020. The current four year phase-in program applies to assessment increases. Any assessment decreases were fully phased in in 2017. For assessment increases, 25 per cent of the valuation increase is added to the roll for each year beginning in 2017, resulting in full phase-in in 2020.

The Province originally introduced the capping program to alleviate the impact of current value assessment on the business property class

The Province of Ontario introduced Current Value Assessment (CVA) in 1998, with the goal of improving the consistency and equity of the assessment process in Ontario. At that time, there was concern that taxpayers in the business property classes would have to absorb extraordinarily high property tax increases due to the change in their assessment valuation. To alleviate that impact, the Province enacted a number of transitional provisions through the *Fairness for Property Taxpayers Act*, the *Continued Protection for Property Taxpayers Act*, and various legislative amendments and regulatory provisions under the *Municipal Act* ('the Act').

Council has historically funded capping through clawback rates

Council has adopted a long-standing policy of funding the cost of capping protection by establishing “clawback” rates for each protected class. These rates must be set prior to the issuance of the final 2016 property tax bills by the local municipalities. The Act also requires the Region to ensure that decreases and increases are equalized across the lower tier municipalities through a process called banking. Banking is the inter-municipal transfer of additional tax levy funds raised from clawback properties to offset the underfunding received from the capped properties.

The capping and clawback program still creates inequities between business properties

There has been significant movement of properties to their Current Value Assessment level taxes since 1998. However, 421 properties in the Region in 2016 continued to pay more than their Current Value Assessment level of taxes. This was done to mitigate the effect of tax increases for 410 capped properties.

In addition, the imbalance between the number and size of capped and clawed back properties may generate future funding shortfalls. A shortfall arises when the total capping protection afforded to a property class exceeds the decreases available for clawback in the property class in a given year.

Council has previously advocated for ending property tax capping. The most recent correspondence from the Regional Chair to the Premier of Ontario on this subject was on July 25, 2015. York Region has long held that capping entrenches taxpayer unfairness.

Council has adopted several options to reduce the impact of the capping program

The Ontario Ministry of Finance initiated a Municipal Reference Group in August 2015 to review the business tax capping program. The purpose of the business tax capping review was to build on past collaborative work, and consider additional enhancements that could be made to the program. In November 2015, the Ministry proposed new options for the capping program as part of *Bill 144, Budget Measures Act*.

Council approved the proposed options in 2016 to accelerate the movement of business properties to current value assessment level taxes.

1. Increase the maximum annual increase for capped properties from its current level of 5 per cent of the previous year’s current value assessment taxes to a new maximum of 10 per cent.

2. Properties for which tax increases have been capped (protected) but are within \$500 of their full current value assessment taxes will be moved to the current value assessment tax level within the current taxation year (raised from a \$250 threshold).
3. Properties for which tax decreases have been clawed back (retained) but are within \$500 of their full current value assessment taxes will be moved to the current value assessment tax level within the current taxation year (raised from a \$250 threshold).
4. For property classes with no capped properties under 50 per cent of current value assessment level taxes, properties within that class will be eligible for a four-year phase-out

New provincial options will further accelerate the movement of properties out of the capping program

The Province recently introduced two new capping options that will provide municipalities with additional flexibility, beginning on January 1, 2017. These options are intended to accelerate the movement of properties out of the capping program.

	<b>Description</b>
Option 1	Municipalities may exclude vacant properties from the phase-out eligibility criteria
Option 2	Municipalities may limit capping protection only to reassessment-related changes prior to 2017

Option 1 will speed up the capping phase-out by loosening the eligibility criteria. Vacant properties paying less than fifty per cent of their Current Value Assessment level taxes can be omitted from the capping-phase out eligibility criteria.

Option 2 will mitigate the effect of the 2016 reassessment on capping phase-out.

Staff recommend that Council adopt both of these options to accelerate the movement of the phase-out of the commercial class from the capping program.

4. Analysis and Implications

Setting clawback rates requires delegation of authority

To allow local municipalities to proceed with their 2017 property tax billings, staff are requesting that Council delegate the authority to determine the final clawback rates to the Regional Treasurer. These clawback rates determine the level of property tax decreases that will be withheld in order to fund the cost of capping protection in the commercial and industrial property classes.

Table 2 illustrates the final clawback percentages approved by Council over the last six years.

**Table 2**  
**Final Clawback Percentages, 2011 to 2016**

<b>Year</b>	<b>Commercial Clawback Percentage</b>	<b>Industrial Clawback Percentage</b>	<b>Multi-residential Clawback Percentage</b>
2016	26.03	39.51	0.00
2015	45.64	54.17	0.00
2014	48.28	50.60	0.00
2013	49.67	62.72	0.00
2012	63.80	68.80	0.00
2011	58.49	69.58	0.00

The multi-residential clawback percentage is zero. All multi-residential capped properties started to pay their Current Value Assessment level taxes in 2010, so no multi-residential properties have had to be clawed back since then.

Table 3 shows the distribution of capped, clawed back and at Current Value Assessment level properties at the end of 2016.

**Table 3**  
**Property Tax Capping Protection Summary, 2016**  
**Number of Properties**

	Multi- Residential	Commercial	Industrial	Total
At Current Value Assessment Level Taxes	288	20,882	2,390	<b>23,560</b>
Capped	0	345	65	<b>410</b>
Clawed Back	0	288	133	<b>421</b>
New construction/ new to class	0	706	28	<b>734</b>
<b>Total</b>	<b>288</b>	<b>22,221</b>	<b>2,616</b>	<b>25,125</b>

The Online Property Tax Analysis system provides the basis for determining clawback percentages

The Region uses the Online Property Tax Analysis system to calculate the appropriate clawback percentages. Local municipalities also use the Online Property Tax Analysis system to prepare property tax billings for the capped properties.

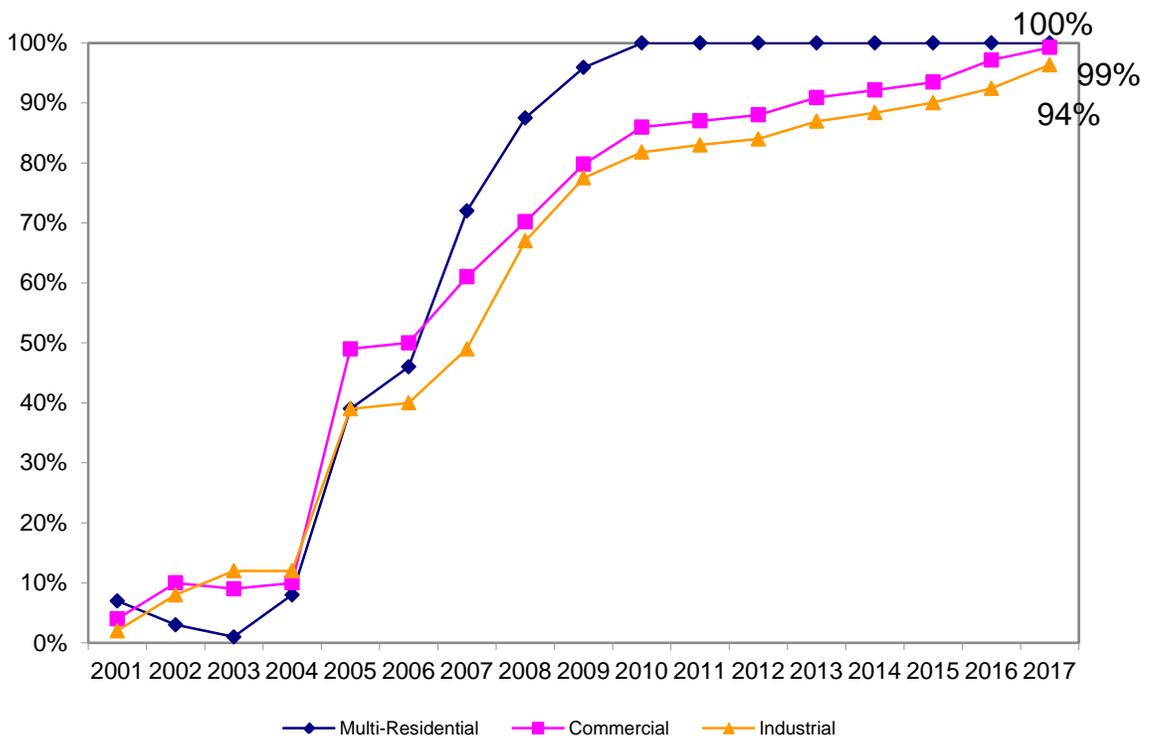
For tax billing purposes, the Region and its local municipalities have agreed to request that the Ontario Property Tax Analysis system use an assessment update cut-off of April 10, 2017. Assessment updates include prior year adjustments such as Assessment Review Board decisions, and supplementary and omitted assessment from the Municipal Property Assessment Corporation. Including updated assessment information in the Ontario Property Tax Analysis system will mean that local municipalities need to make fewer post-billing adjustments.

A cut-off date of April 10, 2017 is expected to result in the final clawback percentages being available to the Region in mid-May. The estimated results for 2017 do not indicate a funding shortfall.

Using all capping options maximizes the number of properties moving to Current Value Assessment level taxes

Chart 1 displays the percentage of properties at Current Value Assessment level taxes each year since 2001. It is estimated that one per cent of all businesses properties in the Region in 2017 will not be paying Current Value Assessment level taxes.

**Chart 1**



Note: 2017 percentages are estimates of the current value assessment level taxes for the commercial and industrial classes at the time of authoring the report

The council-approved 2016 capping options have assisted in the four-year phase-out for the industrial properties

One of the provincial options adopted by Council in 2016 stated that property classes with no capped properties under 50 per cent of current value assessment level taxes are eligible for a four-year phase-out from the capping program.

As a result of all the capping options adopted by Council in 2016, the industrial class has no capped properties that are paying less than 50 per cent of current value assessment level taxes. The industrial class is eligible to begin capping phase-out in 2017, and will have exited the capping program by 2020.

The commercial class could begin capping phase-out as early as 2018

The proposed provincial options will help accelerate the movement of the commercial class out of the capping program. Limiting the phase-out eligibility criteria to non-vacant properties and limiting capping protection only to reassessment-related changes prior to 2017 will reduce the number of commercial properties that are impeding the start of capping phase-out.

There is one non-vacant commercial property that paid less than 50 per cent of current value assessment level taxes in 2016. Staff estimate that this one property will pay 56.47 per cent of its Current Value Assessment level taxes in 2017. This is above the 50 per cent threshold outlined in the capping phase-out criteria adopted by Council in 2016.

As a result, the commercial class is eligible to begin capping phase-out in 2018 and will have exited the program by 2021.

## 5. Financial Considerations

At this time, there are no financial implications anticipated for the Region. However, should there be a funding shortfall for 2017 staff recommend that the Region's share be funded from the Tax Stabilization Reserve.

## 6. Local Municipal Impact

The Region acts as a banker to balance out any shortfalls in the business classes

The Act requires that the Region act as a banker to balance out any capping shortfalls between local municipalities. The net effect of banking is that taxpayers eligible for property tax reductions in one municipality may be required to give up a portion of this reduction in order to fund tax protection in other municipalities. Table 4 shows the commercial and industrial banking table for 2016.

**Table 4**  
**Commercial Bankering, 2016**

	<b>Commercial Net Cap Impact (\$)</b>	<b>Industrial Cap Impact (\$)</b>	<b>Total Bankering Adjustment (\$)</b>
Vaughan	31,716	70,559	102,275
Newmarket	34,784	58,435	93,219
Aurora	27,058	51,097	78,155
Richmond Hill	27,532	1,928	29,460
East Gwillimbury	7,929	5,018	12,947
Whitchurch-Stouffville	3,516	4,124	7,640
Georgina	-12,760	-6,819	-19,579
King	2,788	-40,336	-37,548
Markham	-122,670	-144,005	-266,675
York Region	106	0	106
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>

An overall shortfall would be funded by the Region and local municipalities proportionately

Should a shortfall occur, local municipalities and the Region are required to fund the shortfall in the same proportion that they receive taxes for the property class(es) in which the shortfall occurs. Using 2016 actual data, a shortfall would have been shared approximately 62 per cent by the Region and 38 per cent by the local municipalities. The Province does not participate in the funding of any shortfall.

## 7. Conclusion

It is recommended that, consistent with past practice, that Council adopt all of the new property capping options shown in Table 1. By adopting these new options, it is anticipated that the industrial class will begin phase-out in 2017, with the commercial class beginning phase-out in 2018.

For more information on this report, please contact Edward Hankins, Director of Treasury Office at 1-877-464-9675 ext. 71644.

2017 Property Tax Capping Authorization Report

The Senior Management Group has reviewed this report.

May 4, 2017

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