

The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 14, 2020

Report of the Commissioner of Finance

2020 Property Tax Capping Report

1. Recommendations

1. 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 class for the 2020 taxation year.
2. The Regional Treasurer be authorized to fund the Region's share of resulting shortfall from the Tax Stabilization Reserve, should the amount of property tax decreases available from any of the property classes, be insufficient to fund the capping requirement.
3. The Regional Clerk circulate the report to local municipalities.

2. Summary

This report seeks authorization for the Regional Treasurer to determine percentage of tax decreases for properties in the commercial class that must be withheld for the 2020 taxation year, to fund shortfalls for properties whose taxes have been capped.

Key Points

- The Region has adopted every option to accelerate the phase out of capping
- The 2019 taxation year was the final year of phasing out capping for the industrial class
- The 2020 taxation year will conclude the phase out for the commercial class
- No further action will be required by council regarding capping after the 2020 taxation year

3. Background

The Province originally introduced the capping program to alleviate impact of Current Value Assessment on business property classes

The Province of Ontario introduced Current Value Assessment (CVA) in 1998 with the goal of improving consistency and equity of the assessment process across Ontario. At that time, there was concern taxpayers in the business property classes would have to absorb extraordinarily high property tax increases due to change in their assessment valuation. To alleviate that impact, the Province enacted a number of transitional provisions through the Fairness for Property Taxpayers Act 1998, the Continued Protection for Property Taxpayers Act 2000, and various legislative amendments and regulatory provisions under the Municipal Act 2001 ('the Act').

Council has historically funded capping through clawback rates

Council has a long-standing policy of funding the cost of capping protection by clawing back a percentage of property tax decreases available within each of the protected classes. The clawback rates must be set prior to issuance of the final 2020 property tax bills by the local municipalities. The Act also requires the Region ensure the amount of decreases and increases is equalized across all lower tier municipalities through a process called banking. Banking is the inter-municipal transfer of additional tax levy funds raised from clawbacked properties to offset underfunding received from the capped properties. No banking is expected this year as both the effected properties are in Markham.

The capping and clawback program results in inequities among business properties

Since 1998, there has been significant movement of properties within the business classes toward their Current Value Assessment level taxes. Notwithstanding this, it is estimated in 2020, there will still be one commercial property in the Region paying more than their Current Value Assessment level of taxes, to fund the cost of providing capping protection for one other business property. Tax capping will be fully phased out by 2021.

Council has previously advocated for ending property tax capping as it results in inequities among taxpayers. York Region also adopted all options available from the Province to accelerate the movement of properties to their Current Value Assessment.

Capping options approved by Council helped move commercial properties to almost their full CVA level

In 2016 and 2017, Council approved a series of additional options to accelerate the movement of business properties to their Current Value Assessment level taxes including increasing the maximum annual increase for capped properties, moving properties within \$500 of their full Current Value Assessment taxes to the Current Value Assessment tax level within the current taxation year (raised from a \$250 threshold), and excluding vacant properties from the phase-out eligibility criteria.

4. Analysis

Setting clawback rates requires delegation of authority

To allow local municipalities to proceed with their property tax billings in a timely manner, staff are requesting Council delegate the authority to determine final clawback rates, to the Regional Treasurer. These clawback rates determine the level of property tax decreases needed to be withheld, to fund the cost of capping protection in commercial and industrial property classes for the 2020 taxation year.

Table 1 illustrates the clawback percentages from 2012 to 2020.

Table 1
Clawback Percentages, 2012 to 2020

Year	Commercial Clawback Percentage	Industrial Clawback Percentage	Multi-residential Clawback Percentage
2020*	0.90	0.00	0.00
2019	5.02	0.00	0.00
2018	10.26	5.82	0.00
2017	16.64	19.07	0.00
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

*2020 percentages are estimated and are subject to change pending finalization of upper and lower tier tax rates

The multi-residential clawback percentage is zero since all properties in that class reached their Current Value Assessment level taxes in 2010. The industrial clawback percentage is also zero, since all properties in that class reached their Current Value Assessment level taxes in 2019.

Table 2 shows the distribution of capped, clawed back and at Current Value Assessment level properties, as of March 9, 2020.

Table 2
Property Tax Capping Protection Summary, 2020
Estimated Number of Properties*

	Multi- Residential	Commercial	Industrial	Total
At CVA Level Taxes	298	25,527	2,542	28,367
Capped	0	1	0	1
Clawed Back	0	1	0	1
New construction/ class**	0	1	0	1
Total	298	25,530	2,542	28,370

*As of March 9, 2020

** Properties normally eligible to be capped but are excluded because they are either new construction or new to the commercial class

The online property tax analysis system provides the basis for determining clawback percentages

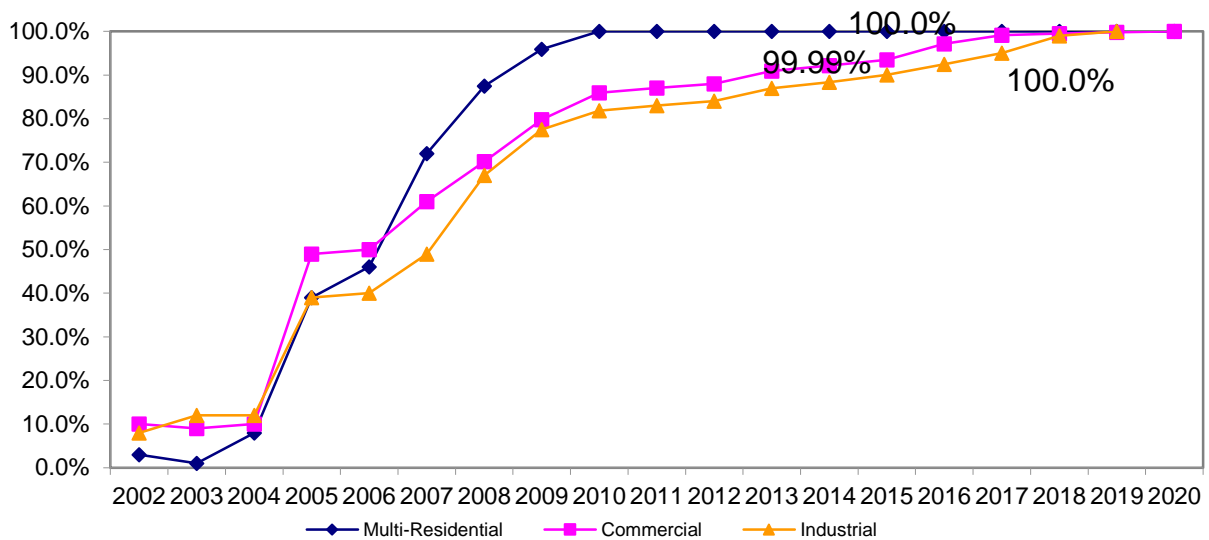
The Region uses the Online Property Tax Analysis (OPTA) system to calculate appropriate clawback percentages. Local municipalities also use the Online Property Tax Analysis system to prepare property tax billings for capped properties.

The Region and its local municipalities have agreed to request the Ontario Property Tax Analysis system use an assessment update cut-off date of January 1, 2020. Changes to percentages may still occur until both the Region and the local municipalities finalize their tax rates and enter them into the Online Property Tax Analysis system.

Using all capping options has maximized 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 over 99 percent of all business properties in the Region will be paying Current Value Assessment level taxes in 2020.

Chart 1
Percentage of Properties Paying Full CVA Value Assessment Level Taxes



Note: 2020 percentages are estimates of the Current Value Assessment level taxes for the commercial class at the time of authoring the report

Capping will cease after the 2020 taxation year and will not require further action from council or staff

Per Ontario Regulation 73/03, if a municipality passes the appropriate bylaw to exit capping for a property class in three consecutive taxation years, that property class will have permanently exited capping. This was achieved for the industrial class in 2019. The 2020 taxation year represents the third year for the commercial class. As such, no actions will be required by council or staff after this taxation year.

5. Financial

In recent years there has been no shortfall resulting from capping. A shortfall is not expected to occur this year, as both properties currently projected to be capped or clawed back are in the same municipality. Should a shortfall materialize, staff recommend the Region's share be funded from the Tax Stabilization Reserve.

6. Local Impact

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

The Act requires the Region distribute the impact of capping and clawback among local municipalities. Taxpayers eligible for tax reductions in a municipality may need to give up a portion of this reduction, to fund tax protection for capped properties in other municipalities. The Region acts as a banker to facilitate the transfer of funds among local municipalities.

However, no banking impact is expected in 2020, since both the property expected to be capped and the one expected to be subjected to being clawed back, are both in Markham.

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 they receive taxes for the property class, in which the shortfall occurs. The Province does not participate in the funding of any shortfall.

7. Conclusion

Consistent with past practice, it is recommended Council authorize the Regional Treasurer to determine the percentage of decreases to be withheld.

For more information on this report, please contact Edward Hankins, Director, Treasury Office at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

Recommended by: **Laura Mirabella, FCPA, FCA**
Commissioner of Finance and Regional Treasurer

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Chief Administrative Officer

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