The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 9, 2019

Report of the Commissioner of Finance

2019 Property Tax Capping

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 and industrial classes for the 2019 taxation year.

2. 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.

3. The Regional Clerk circulate the report to the local municipalities.

2. Summary

This report seeks authorization for the Regional Treasurer to determine the percentage of tax decreases for properties in the commercial and industrial classes that must be withheld for the 2019 taxation year in order to fund shortfalls for properties whose taxes have been capped.

3. Background

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

The Province of Ontario introduced Current Value Assessment (CVA) in 1998 with the goal of improving the consistency and equity of the assessment process across 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 a long-standing policy of funding the cost of capping protection by clawing back a percentage of the property tax decreases available within each of the protected classes. The clawback rates must be set prior to the issuance of the final 2019 property tax bills by the local municipalities. The Act also requires that the Region ensure the amount of decreases and increases is equalized across all lower tier municipalities through a process called bankering. Bankering is the inter-municipal transfer of additional tax levy funds raised from clawbacked properties to offset the underfunding received from the capped properties.

The capping and clawback program results in inequities among business properties

Since 1998, there has been a significant movement of the properties within the business classes toward their Current Value Assessment level taxes. Notwithstanding, it is estimated that in 2019 there will still be 28 commercial properties in the Region that will pay more than their Current Value Assessment level of taxes, in order to fund the cost of providing capping protection for eleven other business properties.

Council has previously advocated for ending property tax capping as it results in inequities among taxpayers. York Region has also adopted all of the options available from the Province to accelerate the movement of properties to their Current Value Assessment. The adoption of revenue neutral tax ratios for 2017 to 2020 may have slowed down the phase-out of capping, as a result of tax burden being shifted from residential homeowners onto commercial and industrial property owners. It is currently estimated that tax capping should be fully phased out by 2021.

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 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 need to be withheld in order to fund the cost of capping protection in the commercial and industrial property classes for the 2019 taxation year.

Table 1 illustrates the clawback percentages from 2012 to 2019.

Table 1
Clawback Percentages, 2012 to 2019

Year	*Commercial Clawback Percentage*	*Industrial Clawback Percentage*	*Multi-residential Clawback Percentage*
2019*	3.48	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

*2019 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. Beginning 2019, the industrial clawback percentage is also expected to be zero, as preliminary analysis indicates that all of the properties in that class will have moved to their full CVA level.

Table 2 shows the distribution of capped, clawed back and at Current Value Assessment level properties as of May 3, 2019.

Table 2
Property Tax Capping Protection Summary, 2019
Estimated Number of Properties*

	Multi-Residential	*Commercial*	*Industrial*	**Total**
At CVA Level Taxes	289	23,309	2,540	**26,138**
Capped	0	11	0	**11**
Clawed Back	0	28	0	**28**
New construction/ class	0	42	16	**58**
Total	289	23,390	2,556	**26,235**

*As of May 3, 2019

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

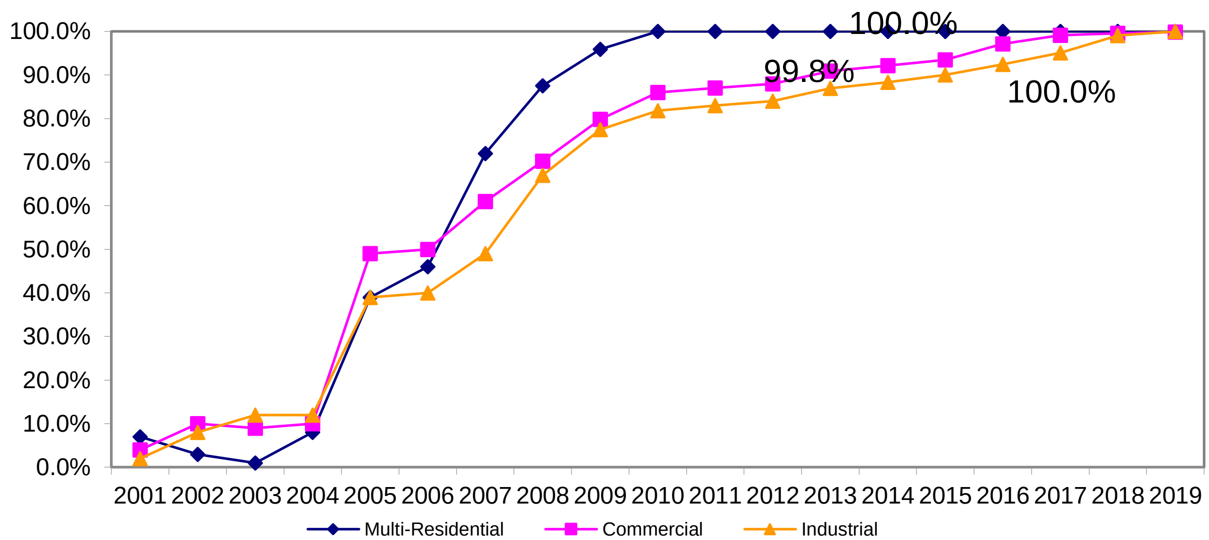
The Region uses the Online Property Tax Analysis (OPTA) system to calculate the appropriate clawback percentages. Local municipalities also use the Online Property Tax Analysis system to prepare property tax billings for the capped properties.

The Region and its local municipalities have agreed to request that the Ontario Property Tax Analysis system use an assessment update cut-off of February 1, 2019. Changes to the 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 that over 99 percent of all business properties in the Region will be paying Current Value Assessment level taxes in 2019.

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



Note: 2019 percentages are estimates of the Current Value Assessment level taxes for the commercial and industrial classes at the time of authoring the report

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

In 2016, Council approved the following additional options to accelerate the movement of business properties to their Current Value Assessment level taxes:

1. Increased the maximum annual increase for capped properties from 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 that are under 50 per cent of their Current Value Assessment level taxes, all properties within that class will be eligible for a four-year phase-out of capping and clawback.

These options adopted helped facilitate a four year phase-out of the industrial class starting in 2017. The phase-out continued with the other options shown are expected to result in all properties in this class paying their full CVA taxes by 2019.

Further options adopted in 2017 will result in the phase-out of commercial capping by 2021

In 2017, Council also adopted the following new provincial options to further accelerate the movement of properties out of the capping program

1. Municipalities may exclude vacant properties from the phase-out eligibility criteria

2. Municipalities may limit capping protection only to reassessment-related changes prior to 2017

The provincial options adopted by Council have accelerated the movement of the commercial class out of the capping program. The commercial class began capping phase out in 2018 and should be fully phased-out by 2021 or sooner.

5. Financial

In recent years there has been no shortfall resulting from capping. Should a shortfall materialize from the bankering mechanism (see below section), staff recommend that 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 also requires the Region to 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 the local municipalities. Table 3 shows the commercial and industrial bankering impact estimated for 2019.

Table 3
Estimated Bankering Adjustments for 2019

	Commercial Net Cap Impact ($)
Vaughan	1,980
Newmarket	0
Aurora	0
Richmond Hill	(3,722)
East Gwillimbury	0
Whitchurch-Stouffville	0
Georgina	(860)
King	0
Markham	2,601
York Region	
Total*	**0**

*The total does not sum due to rounding.

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. The Province does not participate in the funding of any shortfall.

7. Conclusion

It is recommended that, consistent with past practice, Council authorize the Regional Treasurer to determine the percentage of the 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.

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