

Corporate Services
Regional Clerk's Office

May 18, 2018

Ms. Kimberley Kitteringham
City Clerk
City of Markham
101 Town Centre Boulevard
Markham, ON L3R 9W3

Dear Ms. Kitteringham:

Re: 2018 Property Tax Capping

Regional Council, at its meeting held on May 17, 2018, adopted the following recommendations of Committee of the Whole regarding "2018 Property Tax Capping":

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 2018 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.

A copy of Clause 16 of Committee of the Whole Report No. 9 is enclosed for your information.

Please contact Edward Hankins, Director of the Treasury Office, at 1-877-464-9675 ext. 71644 if you have any questions with respect to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher Raynor". The signature is stylized with a large, sweeping initial "C" and "R".

Christopher Raynor
Regional Clerk

Attachments

Clause 16 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 17, 2018.

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2018 Property Tax Capping

Committee of the Whole recommends adoption of the following recommendations contained in the report dated April 25, 2018 from the Commissioner of Finance:

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 2018 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.
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Report dated April 25, 2018 from the Commissioner of Finance now follows:

1. Recommendations

It is recommended that:

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 2018 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

2018 Property Tax Capping

2. Purpose

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 2018 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 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 2018 property tax bills by the local municipalities. The Act also requires the Region to ensure that the amount of decreases and increases is 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, it is estimated that there are still 93 properties in the Region in 2018 that will continue to pay more than their Current Value Assessment level of taxes. This will be done to mitigate the effect of increases for an estimated total of 40 properties whose taxes have been capped.

2018 Property Tax Capping

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. York Region has long held that capping entrenches inequities among taxpayers.

4. Analysis and Implications

Setting clawback rates requires delegation of authority

To allow local municipalities to proceed with their 2018 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.

Table 1 illustrates the clawback percentages from 2012 to 2018.

Table 1
Clawback Percentages, 2012 to 2018

Year	Commercial Clawback Percentage	Industrial Clawback Percentage	Multi-residential Clawback Percentage
2018*	13.17	6.47	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

*2018 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 multi-residential capped properties reached their Current Value Assessment level taxes in 2010.

Table 2 shows the distribution of capped, clawed back and at Current Value Assessment level properties as of April 5, 2018.

2018 Property Tax Capping

Table 2
Property Tax Capping Protection Summary, 2018
Estimated Number of Properties*

	Multi- Residential	Commercial	Industrial	Total
At CVA Level Taxes	291	22,977	2,527	25,795
Capped	0	33	7	40
Clawed Back	0	75	18	93
New construction/to class	0	109	12	121
Total	291	23,194	2,564	26,049

*As of April 5, 2018

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.

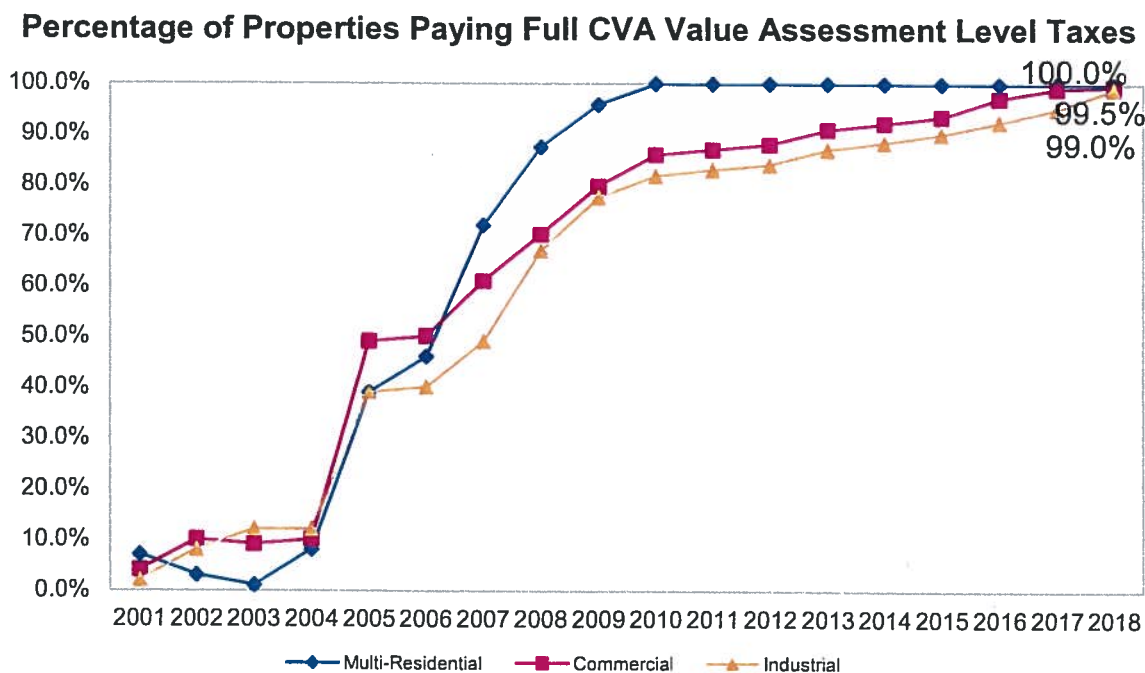
The Region and its local municipalities have agreed to request that the Ontario Property Tax Analysis system use an assessment update cut-off of January 1, 2018, as opposed to April as in prior years. However, changes to the percentages may still occur until both the Region and the local municipalities finalize their tax rates and enter them into the Online Property Tax Analysis system.

Using all capping options 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 over 99 per cent of all business properties in the Region will be paying Current Value Assessment level taxes in 2018.

2018 Property Tax Capping

Chart 1



Note: 2018 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 in 2016 will result in all industrial properties moving to full CVA by 2020

Council approved the following options in 2016 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).

2018 Property Tax Capping

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

As a result of all the capping options adopted by Council in 2016, the industrial class began capping phase-out in 2017, and will be fully phased out by 2020.

Capping for properties in the commercial class will be phased out 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 is now eligible to begin capping phase-out in 2018, and will exit the capping program by 2021.

5. Financial Considerations

In recent years there has been no shortfall resulting from capping. Should a shortfall materialize, 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 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 banking impact estimated for 2018.

**Table 3
Estimated Bankering Adjustments for 2018**

	Commercial Net Cap Impact (\$)	Industrial Net Cap Impact (\$)	Total Bankering Adjustment (\$)
Vaughan	10,464	-2,831	7,633
Newmarket	282	0	282
Aurora	2,179	1,912	4,091
Richmond Hill	-17,561	223	-17,338
East Gwillimbury	6,490	0	6,490
Whitchurch-Stouffville	0	507	507
Georgina	-6,466	0	-6,466
King	0	0	0
Markham	4,613	-16	4,597
York Region	0	205	205**
Total*	0	0	0

*Total has a \$1 discrepancy due to rounding

**A \$205 shortfall has been estimated based on preliminary calculations performed by the Online Property Tax Analysis (OPTA) system at the time the report was prepared. The OPTA system will be updated once the Region and local municipalities pass their tax rate bylaws, at which time capping and clawback rates will be recalculated. In prior years, capping and clawback recalculations eliminated any minor shortfall.

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 of the Treasury Office, at 1-877-464-9675 ext. 71644.

2018 Property Tax Capping

The Senior Management Group has reviewed this report.

Recommended by:

Approved for Submission:

Bill Hughes
Commissioner of Finance

Bruce Macgregor
Chief Administrative Officer

April 25, 2018

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Accessible formats or communication supports are available upon request