COMMITTEE OF THE WHOLE (WORKING SESSION) - SEPTEMBER 24, 2002

COMMERCIAL AND INDUSTRIAL PROPERTY TAX CAPPING & CLAWBACK

Recommendation

The Director of Finance, in consultation with the Commissioner of Finance and Corporate Services and the Manager of Property Tax & Assessment recommends:

That the following report be received for information purposes.

Purpose

To advise Council of the 2002 clawback percentages required to fund the capping protection of 5% on commercial, industrial and multi-residential properties as outlined in Provincial legislation. Clawback is the amount of tax decrease withheld from properties that had decreases in assessments.

Background - Analysis and Options

Commercial, Industrial and Multi-Residential properties have been protected from reassessment increases since the introduction of current value assessment (CVA) in 1998. The funding of the capping protection is through the clawback of tax decreases from properties that have experienced an assessment decrease in 1998 or in the reassessment of 2001. Each year the Ontario Property Tax Analysis (OPTA) system recalculates, the amount of clawback required, on a region wide basis, based on the returned assessment roll and the capping requirements for that years property tax billing. The clawback rates for each year, including 2002 are:

AMOUNT OF DECREASE WITHELD (CLAWBACK)

	Re-assessment Year			Re-assessment Year	
PROPERTY CLASS	1998	1999	2000	2001	2002
Multi-Residential	7.56%	3.94%	2.94%	87.77%	1.45%
Commercial	88.88%	68.89%	52.36%	81.16%	92.36%
Industrial	88.88%	68.89%	52.36%	51.11%	99.07%

In 1998 when the original clawbacks were calculated to fund the 10% cap, the municipalities in York Region did not have enough decreases in the industrial class to fully fund the caps, therefore special permission was granted by the Province to combine the commercial and industrial classes, for the purpose of clawback and set a rate that was the same for both classes. In the 2001 re-assessment this was not necessary and the clawback rates for each class were calculated independently resulting in rates of 81.16% for commercial and 51.11% for industrial.

The clawback rate for the multi-residential class increased significantly in 2001, from 2.94% to 87.77% due to some large assessment increases in the previously owned Ontario Housing properties, however in 2002 the rate decreased to 1.45%.

2002 Impact

The expectation is that clawback rates will drop from the previous year, in a non re-assessment year such as 2002, however you will note the commercial has increased from 81.16% to 92.36% and the industrial has increased significantly from 51.11% to 99.07%. Staff have analyzed the data to determine why these increases occurred and have found it is primarily the result of a provision in Bill 140, introduced in 2001. This legislation requires municipalities to review any property that is new construction or new to the capped class (including vacant land), and ensure it is not taxed at a level higher than comparable properties which already exist in the class. This results in an ever-increasing pool of commercial and industrial properties that will capped at 5%. With a limited number of properties experiencing assessment decreases the clawback rate will continue to increase.

Attached is an example of a new to class property that was farmland in 2000 and reassessed as commercial vacant in 2001. Rather than billing this new to class property its CVA tax level of $83,105 legislation will only permit billing of $37,292. In 2002 this means we must fund $44,714 of new capping dollars from properties with decreases. This property will continue to be capped at 5% per year, until it eventually reaches the CVA taxes. Without a change in assessment, this will take approximately 13 years.

Conclusion

Areas with significant growth, such as York Region will continue to have additional properties coming into the capping formula and will therefore have to continue to withhold decreases to fund these caps. It is also possible that in future years there may not be enough decreases to fund the caps and municipalities will be required to fund the shortfall through the operating budget. The 2003 operating budget will include a consideration of funds for this purpose.

The final property tax bills for the commercial, industrial and multi-residential properties will be mailed by the end of the September. Properties that were expecting to see a continued decline in their clawback requirements will in fact see an increased clawback amount, and may see a final tax bill higher than last year.

Attachments

Sample New to Class Property

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Respectfully submitted,

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Director of Finance

Sample New to Class Property

Example:

In 2000 the property was classified as farmland and not subject to capping or clawback.

In 2001 the property was placed on the roll as follows:

2001 CVA - **$ 4,109,000**
Property Class: **CX – Vacant Commercial Land**
2001 Total CVA Taxes: **$ 83,105.**

Comparables Selected	CVA Taxes	Capped Taxes	Difference	Level of Taxation
1.	$ 53,724	$ 13,359	$ 40,365	24.8660 %
2.	$ 24,737	$ 6,312	$ 18,425	24.5164 %
3.	$ 35,269	$ 15,131	$ 20,138	42.9017 %
4.	$ 45,389	$ 14,109	$ 31,280	31.0846 %
5.	$ 33,709	$ 33,708	$ 1	99.9970 %
		Average Level of Taxation -		**44.8732 %**

Revised 2001 Tax Calculation

Total CVA Taxes X Level of Taxation
$83,105 X 44.8732 % = $ 37,292

Impact for 2002:

2002 Total CVA Taxes: **$83,871**
2002 Total Capped Taxes ($37,292 + 5%) **$39,157**

New Cap Funding required from Clawback **$44,714**