

Report FR-CS-19-14

To: Chair Pringle and Members of the Corporate Services Committee
From: Kevin Wepler, Director of Finance
Meeting Date: June 10, 2014
Subject: **Tax Capping and Establishing Decrease Limits for 2014**
Status: Recommendation adopted by Committee as presented per Resolution CS60-14; Endorsed by County Council July 8, 2014 per Resolution CC97-14;

Recommendation(s)

THAT Report FR-CS-19-14 regarding Tax Capping and Establishing Decrease Limits for 2014 be received;

AND THAT the appropriate by-laws be prepared and presented to County Council.

Background

On February 4, 2014, County Council approved the choice of tax capping for each property class for 2014 and the cost of funding the tax capping relief be recovered from the same tax class (claw-back) from decreasing properties. This option of tax capping incorporated the following capping options and established a maximum increase threshold at the greater of:

- a) 10% of the previous year's annualized capped tax and
- b) 5% of the previous year's annualized Current Value Assessment (CVA) tax for eligible property, and
- c) Imposing an increase threshold adjustment for capped properties where the required billing adjustment is within \$250 of the properties' CVA tax; in this instance, no capping credit would be applied, and affected property would be billed at their full CVA tax level
- d) Imposing a decrease threshold adjustment for capped properties where the required billing adjustment is within \$250 of the properties CVA tax, in this instance, no claw-

back would be applied, and affected property would be billed at their full CVA tax level, and

- e) Implementing measures to exclude properties from the capping program once they:
 - i. reach their CVA tax destination or
 - ii. cross over it

2012 CVA with Year Two Phase-In for 2014 Taxation Purposes

For 2014, the County's tax capping parameters for the Multi-Residential, Commercial and Industrial property classes have resulted in no Net Class Impact shortfalls. A shortfall can occur if one of these classes does not have sufficient reassessment tax decreases to offset the amount of reassessment tax increases that are in excess of the cap that cannot be billed.

The Commercial property class continues to have sufficient reassessment tax decreases to offset the amount of tax increase in excess of the cap that cannot be billed to business properties. In the case of commercial properties the amount of savings that can be passed to properties benefiting from reassessment, based on preliminary capping statistics, is 14.445656%. Put another way, the amount of tax savings given to taxpayers who would otherwise enjoy the full benefit of reassessment is being clawed back at the rate of 85.554344% in order to offset the assessment related tax increases greater than the cap that are being prevented from being billed.

The 2014 Commercial property class clawback rate has increased to 85.554344% as compared to the 2013 clawback rate of 58.81794%. As this is year 2 of the phase-in of the 2012 reassessment, this increase in clawback percentage is a concern. Based on these statistics, there is a good potential that in 2015 the County could be faced with a capping shortfall. The County will need to review this property class and estimate what this class's capping statistics may look like in 2015. If it is estimated that a funding shortfall may be realized in 2015, strategies could be looked at in order to mitigate the funding shortfall.

When the City of Owen Sound joined the County, it was given specific rights regarding tax policies. The County is responsible for setting County wide tax policy. In this regard the County is required to pass a by-law to recognize the City's use of optional property classes and the City's use of a separate set of percentages. This is for the purpose of limiting the tax decrease which may be retained by their business properties in order to offset the amount of revenue foregone by the capping process.

The following is a brief summary of the impact of the change (preliminary) caused by reassessment in the County, excluding the City, and the amount of mandatory tax cap

changes for 2014, and the impact on those properties and this is based on preliminary tax capping calculations.

Summary of the Impact of Change (Preliminary)

<u>Property Class</u>	<u>Tax Change Subject to Capping</u>	<u>2014 Tax Capping Adjustment</u>	
Commercial			
Increases	\$299,322	\$28,482	Tax increase limit or 85.554344% of decreases
Decreases	\$320,279	\$46,266	
Industrial			
Increases	\$1,947	\$1,113	Tax increase limit or 5.301827% of decreases
Decreases	\$21,274	\$20,146	
Multi-Residential			
Increases	\$0	\$0	Tax increase limit or 100.000000% of decreases
Decreases	\$0	\$0	

Note: Tax increase limit is based on the greater of:

a) 10% of 2013 annualized capped tax, and b) 5% of 2013 annualized CVA tax.

Capping Statistics for the Past Four Years

Table 1: Capping Statistics: Multi-Residential Property Class

Year	2014	2013	2012	2011
Cost of Capping Protection	\$0.00	\$0.00	\$0.00	\$0.00
Decrease Retained	100.000000%	100.000000%	100.000000%	100.000000%
Decrease Claw-back	0.000000%	0.000000%	0.000000%	0.000000%
Amount Clawed Back	\$0.00	\$0.00	\$0.00	\$0.00
Net Class Impact	\$0.00	\$0.00	\$0.00	\$0.00
Number of Properties at CVA Tax	81	81	82	82
Number of Properties Protected	0	0	0	0
Number of Properties Clawed Back	0	0	0	0

Table 2: Capping Statistics: Commercial Property Class

Year	2014	2013	2012	2011
Cost of Capping Protection	\$273,618.36	\$309,908.83	\$422,251.13	\$408,773.26
Decrease Retained	14.445656%	41.182106%	28.382301%	24.020205%
Decrease Claw-back	85.554344%	58.817894%	71.617699%	75.979795%
Amount Clawed Back	\$273,618.36	\$309,908.83	\$422,251.13	\$408,773.26
Net Class Impact	\$0.00	\$0.00	\$0.00	\$0.00
Number of Properties at CVA Tax	1,724	1,694	1,593	1,575
Number of Properties Protected	28	29	35	49
Number of Properties Clawed Back	166	199	273	286

Table 3: – Capping Statistics: Industrial Property Class

Year	2014	2013	2012	2011
Cost of Capping Protection	\$844.61	\$2,426.05	\$5,436.32	\$8,601.41
Decrease Retained	94.698173%	94.279688%	95.092553%	95.589962%
Decrease Claw-back	5.301827%	5.720312%	4.907447%	4.410038%
Amount Clawed Back	\$844.61	\$2,426.05	\$5,436.32	\$8,601.41
Net Class Impact	\$0.00	\$0.00	\$0.00	\$0.00
Number of Properties at CVA Tax	383	363	336	335
Number of Properties Protected	1	2	5	6
Number of Properties Clawed Back	2	3	9	11

The following links are documents for general information purposes. One is a two page preliminary summary showing the impact of capping by Property Class and by Municipality along with preliminary summarized capping reports for the County and the finalized capping report for the City of Owen Sound.

This capping information for the County is preliminary and a review of the capping reports and calculations is currently being done. Once all of these capping reports have been reviewed and approved, final capping statistics and decrease limits will be generated and those statistics will be used to prepare the appropriate by-laws.

Financial, Staff, Legal, Information Technology Considerations

Preliminary calculations for 2014 indicate that the County's tax capping parameters for each of the business property classes have resulted in no Net Class Impact shortfalls and therefore no budgetary impacts.

Link to Strategic Goals / Priorities

Communications is a key value to the County's Strategic Plan. This report provides information to Council and ratepayers in regards to Tax Capping and Decrease Limits for 2014.

Attachments

[2014 Banking Function Summary Report by Class and Municipality - Preliminary](#)
[2014 Summarized Capping Report - County - Preliminary](#)
[2014 Summarized Capping Report - City - Final](#)

Respectfully submitted by,

Kevin Weppler
Director of Finance