Grey County

Committee Report

Report FR-CS-15-16

To: Chair Eccles and Members of the Corporate Services Committee
From: Kevin Weppler, Director of Finance
Meeting Date: May 24, 2016
Subject: **Business Property Tax Capping Optional Tools**
Status: Recommendation adopted by Committee as presented per Resolution CS45-16; Endorsed by County Council June 7, 2016 per Resolution CC70-16;

Recommendation(s)

THAT Report FR-CS-15-16 regarding Business Property Tax Capping Optional Tools for 2016 be received;

AND THAT the Tax Capping Optional Tools in accordance with Section 329.1 of the Municipal Act be approved as follows:

- **The maximum increase threshold shall be the greater of:**
  - **i) 10% of the previous year's annualized capped tax, and**
  - **ii) 10% of the previous year's annualized Current Value Assessment (CVA) tax for eligible property;**

- **An increase threshold adjustment be imposed for capped properties where the required billing adjustment is within $500 of the properties' Current Value Assessment tax; in this instance, no capping credit would be applied, and the affected property would be billed at their full CVA tax level;**

- **A decrease threshold adjustment be imposed for capped properties where the required billing adjustment is within $250 of the properties' Current Value Assessment tax; in this instance, no capping claw-back would be applied, and the affected property would be billed at their full Current Value Assessment tax level;**

- **The measures be instituted to exclude properties from the capping program once they reach their Current Value Assessment tax destination, or cross over it.**

- **the multi-residential and industrial class be excluded from the capping program in its entirety in 2016 as no property within the class will be eligible to receive capping protection**

AND THAT the cost of funding the tax capping relief be recovered from the same tax class (claw-back) from decreasing properties;

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

Background

Since 1998, properties in the multi-residential, commercial and industrial tax classes have been subject to mandatory tax impact mitigation measures that are intended to protect these properties from year-over-year increases in taxation above maximum thresholds, exclusive of municipal levy tax changes.

The Province has over time provided municipalities with a number of optional tools that can be used to modify the mandatory limits and alter the amount of tax protection provided, as well as the rate at which these business properties are moved to their full Current Value Assessment (CVA) tax level. However, many municipalities have continued to voice concerns over the program’s ongoing tax inequities and the ability to opt-out of the program.

In 2015, the Province initiated a review of the capping program. Through this review, many municipal and business stakeholders requested changes to the capping program that would further enhance fairness and transparency for property owners.

As of the 2016 tax year, the Province is now providing municipalities with enhancements for additional flexibility in the business property tax capping program. Municipalities now have additional flexibility to manage the business tax capping program by adjusting capping parameters to increase progress towards CVA level taxes.

Some municipalities will also have the option to exit or phase-out from the capping program, if doing so would have a limited impact on business properties. A municipality is eligible for a four-year phase-out from the capping program once the municipality has no capped properties beyond 50% of the CVA level taxes in a property class. Municipalities with no properties currently remaining in the capping program are eligible to exit the program immediately.

New Capping Parameters

New capping parameters have been provided in 2016 to increase progress towards CVA level taxes:

Capping Parameters	% of CVA Taxes	Threshold to Move to CVA
Previous Maximum	5%	± $250
New Maximum	10%	± $500

New Municipal Opt-Out Provisions

Immediate Opt-Out: A municipality may exclude a class program in its entirety if no property within that class would otherwise be eligible to receive capping protection.

Phased Opt-Out: If properties continue to be eligible for capping adjustments, but no property received a capping credit greater than 50% of its total un-capped tax liability for the previous taxation year, the municipality may initiate a staged, four-year exit plan for that class.

Where a property class is eligible for immediate opt-out, and the municipality chooses this option, capping will not apply to that class for the tax year, or any subsequent taxation year.

For all other property classes, including those eligible to enter a four-year phase-out, the municipality must establish a complete set of capping parameters for the year, and undertake all of elements of the capping exercise as in the past.

For properties in a class that has entered a phase-out plan, a final adjustment will be made to any amount of capping protection calculated for the year, allowing only a portion of the capping credit to flow through. For example, a property that would otherwise be entitled to a $1,000 capping credit would only receive a $750 credit in Year 1 of a phase-out plan; the other 25% of this credit would be a phase-out or an adjustment.

2016 Capping Calculation Options

For any class not eligible for immediate opt-out, or where the option is not exercised, it remains mandatory for the County to establish capping parameters via by-law before final tax billing can occur.

The range of optional capping tools available fall into two distinct categories and any may be used on their own, or in combination, and be applied differently to each capped class.

The first category includes options for adjusting the parameters/threshold applied in the capping calculation. Under these options the County now has the flexibility to:

- Increase the annual cap from 5% of the previous year's final (annualized) capped taxes up to 10%;
- Set a second limit for annual increases of up to 10% of the previous year's annualized CVA (uncapped) taxes;
- Institute a threshold of up to $500 for increasing properties, decreasing properties or both. Where a threshold is set, and the difference between a property's capped tax and CVA tax is less than the threshold amount, that property is moved directly to its CVA tax destination; and/or
- Initiate the first year of a four-year phase-out for any class with no properties eligible for protection in excess of 50% of CVA tax.

The second category consists of options that can be employed to exclude properties from the cap based on the relationship between a property's "Capped tax" and "CVA tax" liability. These options, which may be adopted on their own or in combination with one another, are as follows:

- Exclude properties that reach their CVA tax destination; under this option a property is excluded from the current year's capping program if its final (capped) taxes for the previous year were equal to its CVA taxes for that year;
- Exclude properties that are subject to a cap in one year, and if it were not for the exclusion, would be subject to a clawback in the next; and/or
- Exclude properties that are subject to a clawback in one year, and if it were not for the exclusion, would be subject to capping in the next.

2016 Capping Policy Options

The County, utilizing the services of Municipal Tax Equity (MTE) requested a preliminary pro forma be completed to summarize what the County's range of options may be for 2016. The following table has been prepared to summarize the County's range of options for 2016.

Preliminary Assessment of 2016 Tax Capping Policy Options

	Multi-Residential	Commercial	Industrial
Full Opt-Out			
Number of Properties Protected for 2015	0	24	0
Anticipated Protected Property County for 2016	0	17	0
Eligible for Full / Immediate Opt-Out	Π	O	Π
Program Phase-Out			
Maximum Tax Level in 2015	100%	33%	100%
Minimum Anticipated Tax Level for 2016	100%	35%	100%
Eligible for Four-Year Phase-Out	Π	O	Π
Calculation Parameters and Limits			
0% - 10% of Prior Year's CVA Tax Limit	Π	Π	Π
5% - 10% of Prior Year's Capped Tax Limit	Π	Π	Π
$0 - $500 Threshold for Increasing Properties	Π	Π	Π
$0 - $500 Threshold for Decreasing Properties	Π	Π	Π
Property Specific Exclusions			
At CVA Tax Exclusion Options	Π	Π	Π
Cross CVA Tax Exclusion – Clawback to Cap	Π	Π	Π
Cross CVA Tax Exclusion – Cap to Clawback	Π	Π	Π
Cost Recovery			
Clawback	Π	Π(SF)	Π
Forgone Revenue	Π	Π	Π
(SF) Risk of Shortfall			

Therefore for 2016, the County is eligible to opt-out of capping for the multi-residential and industrial classes. The commercial class is not eligible for full opt-out or to initiate a four-year phase-out program in 2016 as there continues to be properties in this class that are receiving a capping credit greater than 50% of their total un-capped tax liability for the previous taxation year.

The eligibility of the commercial class to begin a four-year phase-out will be dependent on the rate of assessment increases that the County realizes in the upcoming reassessment cycle.

Preliminary Commercial Class Pro forma Capping

The following table, as provided by MTE, is modeling results for the commercial class. This table contains four sets of class specific capping results. The first column summarizes the 2015 actual capping results at the time that the cap was run for final billing. The second column represents a 2016 pro forma model based on the municipality's 2015 endorsed tax capping policy.

The third and fourth columns represent the speculative capping outcomes based on MTE's understanding of the newly expanded capping options. The specific options selected have been done in order to make the greatest progression towards CVA tax for increasing/capped properties, while also considering the continued availability of "clawback room" from decreasing properties where the cost of capping remains high.

Preliminary 2016 Commercial Pro forma Capping

	2015 Actual	2016 Status Quo	2016 Option One	2016 Option Two
Class Level Opt-Out	N/A	Not Eligible	Not Eligible	Not Eligible
Capping Phase-Out	N/A	Not Eligible	Not Eligible	Not Eligible
Annualized Tax Limit	10%	10%	10%	10%
Prior Year CVA Tax Limit	5%	5%	10%	10%
CVA Tax Threshold – Increasers	$250	$250	$500	$500
CVA Tax Threshold – Decreasers	$250	$250	$50	$250
At CVA Tax Exclusion Option	Yes	Yes	Yes	Yes
Cross CVA Tax Exclusion: Clawback to Cap	Yes	Yes	Yes	Yes
Cross CVA Tax Exclusion: Cap to Clawback	Yes	Yes	Yes	Yes
Cost of Capping Protection	$242,019	$216,351	$195,792	$195,792
Decrease Retained	27%	1%	12%	10%
Decrease Clawed Back	73%	99%	88%	90%
Net Class Impact	-$250	$0	-$47	-$21
Number of Properties at CVA Tax	1,734	1,786	1,782	1,792
Number of Properties Clawed Back	154	139	146	136
Number of Properties Protected (Capped)	24	21	17	17

Key to the pro forma capping is to try and estimate the pool of available decreases. Stresses on the capping calculation will show up in the amount of the percentage decrease retained / decrease clawed back. Where there are not sufficient tax decreases to fund the cost of capping protection a capping shortfall will exist with the net class impact being a negative number. This shortfall indicates that there are not sufficient tax decreases to fund the cost of tax capping within the same class.

Preliminary estimates do show in columns 3 and 4 a negative net class impact, but in this pro forma option the negative impact is just a rounding issue and not that there is not sufficient tax decreases to fund the cost of capping protection.

Preliminary Commercial Class Phased Opt-Out Timeline

As stated previously, the eligibility of the commercial class to begin a four-year phase-out will be dependent on the rate of assessment increases that the County realizes in the upcoming reassessment cycle and the tax capping options that are utilized by the County.

MTE has provided an estimated timeline for the possible phase-out of capping for the commercial class. This model has been estimated using the assumption that commercial properties, currently capped, will not experience CVA tax increases greater than their current rate of change +1%. That is, for a property that is going up 1.25% this year, MTE has assumed that it would increase by 2.25% every year on a go-forward basis.

Preliminary Commercial Class Phased Opt-Out Timeline

Timeline Estimate		
Year	**Phased Opt-Out Eligible**	**Cost of Capping**
2016	No	$195,000
2017	No	$153,000
2018	No	$115,000
2019	Year – 1	$61,000
2020	Year – 2	$14,000
2021	Year – 3	$0
2022	Exit	$0
Total Cost		$538,000

Based on this preliminary estimated timeline, it will take approximately three years before the County could be in a situation where no property in the commercial class would be receiving a capping credit greater than 50% of its total un-capped tax liability for the previous taxation year. At this time the County could then consider utilizing the phased opt-out option and initiating a staged, four-year exit plan for this class.

Recommendation for 2016 Capping Parameters and Options

The County has employed the most effective mix of optional capping tools in each taxation year as they have been made available by the Province. This has resulted in a decrease in annual capping protection being provided and an increase in the number of properties being taxed at their full CVA tax level. While the results have been encouraging, there still are decreasing properties currently subject to the capping regime for which anticipated tax decreases are being delayed.

In 2015, County Council approved the choice of tax capping for each property class for 2015 and that 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

For 2016 staff is recommending that County Council continue to use all of the optional capping tools available in order to try and move as many properties as possible towards full CVA based taxation. This will result in the following changes:

- Increasing the threshold for the previous year's annualized CVA tax from 5% to 10%
- Increasing the increase threshold adjustment from $250 to $500. In this instance an increase threshold adjustment would be imposed for capped properties where the required billing adjustment is within $500 of the properties' CVA tax; no capping credit would be applied and the affected property would be billed at their full CVA tax level.

Effective for the 2016 taxation year, in order that the County is not required to perform any further capping calculations for those tax classes where no property within that class would otherwise be eligible to receive capping protection, the County enact the regulatory provisions to opt-out of the capping program in its entirety for the multi-residential and industrial property classes.

Recommendation – In accordance with Section 329.1 of the Municipal Act regarding Tax Capping, the following tax capping policies be approved:

2. **THAT the maximum increase threshold shall be the greater of:**
    i) **10% of the previous year's annualized capped tax, and**
    ii) **10% of the previous year's annualized Current Value Assessment (CVA) tax for eligible property;**

3. **THAT an increase threshold adjustment be imposed for capped properties where the required billing adjustment is within $500 of the properties' Current Value Assessment tax; in this instance, no capping credit would be applied, and the affected property would be billed at their full CVA tax level;**

4. **THAT a decrease threshold adjustment be imposed for capped properties where the required billing adjustment is within $250 of the properties' Current Value Assessment tax; in this instance, no capping claw-back would be applied, and the affected property would be billed at their full Current Value Assessment tax level;**

5. **THAT measures be instituted to exclude properties from the capping program once they;**
   i) **reach their Current Value Assessment tax destination, or**
   ii) **cross over it.**

6. **THAT the multi-residential and industrial class be excluded from the capping program in its entirety in 2016 as no property within the class will be eligible to receive capping protection; and**

AND FURTHER THAT the cost of funding the tax capping relief be recovered from the same tax class (claw-back) from decreasing properties.

The final capping calculation for 2016 will be completed later this year and will be the subject of another report to the Corporate Services Committee in regards to Decrease Limits to recover foregone revenue as a result of the application of the capping process.

Financial/Staff/Legal/Information Technology Considerations

Preliminary estimates for 2016 indicate that the County's tax capping parameters, based on the recommended capping options for each of the business property classes will result in no significant net class impact shortfalls. Any funding shortfall in the commercial class will be funded from general revenues of each of the municipalities including the County. The County portion will be expensed to the tax write off account in 2016.

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 Business Tax Capping Optional Tools for the year 2016.

Attachments

None

Respectfully submitted by,

Kevin Weppler
Director of Finance