City of North Bay

Report to Council

Report No: CORP 2014-34 Date: March 31, 2014

Originator: Lorraine Rochefort

Subject: 2014 Tax Capping Policy

Recommendations:

That Council adopts the 2014 Tax Capping Policy recommendations as follows:

That the 2014 capping program incorporate the following options:

a) the capping percentage be 10% for all capped classes
b) apply a 5% limit over prior year CVA tax, whichever is greater of a) or b)
c) apply a minimum increase threshold of $250.00 to all capped classes
d) exempt from capping, properties that were subject to CVA tax in 2013
e) exempt from capping, properties that were capped in 2013 and would otherwise be subject to claw back in 2014
f) exempt from capping, properties that were subject to claw back in 2013 and would otherwise be subject to capping protection in 2014
g) adopt a threshold tax level for new construction properties of 100%

That the cost of providing the legislated caps on assessment related increases for individual properties in 2014 be funded as follows:

a) for the commercial class, the cost be borne from within the class
b) for any shortfall in the industrial and multi-residential classes, the cost to be funded 100% from the Tax Policy Development Reserve Fund

Background:

The recommendations are the options Council has adopted since 2009. The Municipal Act requires that Tax Capping by-laws be passed annually.
The mandatory 5% capping program for Multi-Residential, Commercial & Industrial Classes was introduced by the Provincial Government in 2001. The program limited increases in taxes resulting from reassessment or class changes to 5% from the previous year’s adjusted taxes. Municipal tax levy increases were in addition to the 5% limit mandated. This is now an ongoing program unless the Province amends the legislation.

As part of the 2004 Provincial Budget process, the government announced a series of reforms to Ontario’s tax regime. Reforms introduced options which would give municipalities the opportunity to bring all classes of properties to Current Value Assessment (CVA) more quickly. This goal was adopted in our Long Term Tax Policy.

The 2008 Provincial Budget announced increased flexibility under the tax capping program. Beginning in 2009, municipalities have the option to permanently exclude properties from the capping program once they reach their CVA tax destination. Under this new feature, a property that reaches CVA tax in one year can be excluded from the capping program the next year.

A second option available excludes properties that cross CVA taxes. For example, properties that were previously capped in 2013 and would be in a claw-back position in 2014 or vice versa would be excluded from the program.

- For a property to go from capping protection in 2013 to a claw-back in 2014, a decrease in assessment would be required.

- For a property to go from a claw-back in 2013 to capping protection in 2014, an increase in assessment would be required.

The options may be put into place for any or all of the capped classes and can be changed annually.

These options were adopted each year from 2009 to 2013 for all capped classes, therefore, any property subject to CVA tax or cross CVA tax in those years are no longer subject to either capping or claw-back adjustment. By using the options the capping program has been substantially reduced and we are very close to reaching our goal to bring all property classes to CVA tax as noted below:
<table>
<thead>
<tr>
<th>Year</th>
<th>Multi-Residential</th>
<th>Commercial</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$30,987</td>
<td>$636,325</td>
<td>$21,775</td>
</tr>
<tr>
<td>2007</td>
<td>8,439</td>
<td>392,513</td>
<td>7,722</td>
</tr>
<tr>
<td>2008</td>
<td>2,389</td>
<td>263,987</td>
<td>1,357</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>149,848</td>
<td>984</td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>60,797</td>
<td>536</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
<td>40,900</td>
<td>335</td>
</tr>
<tr>
<td>2012</td>
<td>0</td>
<td>32,761</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
<td>23,889</td>
<td>0</td>
</tr>
<tr>
<td>2014</td>
<td>0</td>
<td>20,128</td>
<td>0</td>
</tr>
</tbody>
</table>

It is clear to see by the chart that the options available since 2009 have drastically reduced the capping protection program, bringing the multi-residential class to full CVA tax in 2009 and the industrial class in 2012.

For 2014, the commercial tax class has 11 capped properties totaling $20,128.00, compared to 155 capped properties and $636,325.00 in 2006.

There are options for funding the cost of providing the reductions for capped properties:

1) Cost can all be borne within each class by limiting assessment related tax reductions that would otherwise benefit other properties (claw-backs).

2) City can fund a portion of the cost for any class by including an allowance in the tax levy to be borne by all properties.


For 2001 to 2004 Council chose to fund the capping program from within the three classes of properties (Commercial, Multi-Residential and Industrial).

For 2005 to 2013 the Commercial class was funded from within the class. The Multi-Residential and Industrial programs were funded 100% from the Tax Policy Development Reserve Fund until such time as they were at 100% CVA tax.

The purpose of this report is to establish the 2014 Capping Program.
Options/Analysis:

Option #1 – To adopt the 10%, 5%, $250, and to exclude properties from the capping program that were at CVA in 2013 and that cross CVA from 2013 to 2014.

Analysis shows the following:

Capped Properties:

<table>
<thead>
<tr>
<th>Tax Class</th>
<th>Capped Properties</th>
<th>Costs Of Capping</th>
<th>Funding Of Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>11</td>
<td>$20,128.00</td>
<td>Within the class</td>
</tr>
<tr>
<td>Industrial</td>
<td>0</td>
<td>$0.00</td>
<td>N/A - at CVA</td>
</tr>
<tr>
<td>Multi-Residential</td>
<td>0</td>
<td>$0.00</td>
<td>N/A – at CVA</td>
</tr>
</tbody>
</table>

Claw-Back Properties:

<table>
<thead>
<tr>
<th>Tax Class</th>
<th>Claw-Back Properties</th>
<th>% Retained By Ratepayer</th>
<th>% Claw-Back Kept By City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>227</td>
<td>91.8</td>
<td>8.2%</td>
</tr>
<tr>
<td>Industrial</td>
<td>0</td>
<td>100%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Multi-Residential</td>
<td>0</td>
<td>100%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

By adopting these options, the commercial tax capping program is reduced by $3,761.00 from 2013 to 2014 and all but 11 properties would be at CVA. All properties in the multi-residential and industrial tax classes would be at CVA and would receive 100% of their reductions. This is Council’s long-term goal.

In the commercial tax class, the program is $20,128.00 and funded within the class, therefore, no other tax class would be absorbing any cost of the program. Ratepayers would continue to receive capping protection and we would claw-back 8.3% of the reductions to fund the program. Decreasing properties would realize 91.8% of their reduction.

Although this option definitely brings more properties to CVA tax, it comes at a cost to some ratepayers. By adopting the new options, the commercial capping program is reduced which means that taxes on properties that would have been capped will see increases.
Fair and equitable taxation is our ultimate goal and that is achieved when all ratepayers pay CVA tax. Adopting these options brings us closer to our goal.

Option #2 – to adopt options introduced in the 2004 budget as follows:

- increase the capping percentage from 5% to 10% for all capped classes
- apply a 5% limit over prior year annualized tax, whichever is greater of a) or b)
- apply a minimum increase threshold of $250.00 to all capped classes
- the cost of providing the legislated caps on assessment related increases for individual properties be funded as follows:
  - for the commercial class, the cost be borne from within the class
  - for the industrial and multi-residential classes, the cost to be funded 100% from the Tax Policy Development Reserve Fund

If the 2014 program included the above-noted parameters, the capping program would be as follows:

Capped Properties:

<table>
<thead>
<tr>
<th>Tax Class</th>
<th>Capped Properties</th>
<th>Costs Of Capping</th>
<th>Funding Of Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>55</td>
<td>$66,550.00</td>
<td>Within the class</td>
</tr>
<tr>
<td>Industrial</td>
<td>16</td>
<td>$12,395.00</td>
<td>Tax Policy Reserve</td>
</tr>
<tr>
<td>Multi-Residential</td>
<td>9</td>
<td>$25,494.00</td>
<td>Tax Policy Reserve</td>
</tr>
</tbody>
</table>

Claw-Back Properties:

<table>
<thead>
<tr>
<th>Tax Class</th>
<th>Claw-Back Properties</th>
<th>% Retained By Ratepayer</th>
<th>% Claw-Back Kept By City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>524</td>
<td>86.1%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Industrial</td>
<td>0</td>
<td>100%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Multi-Residential</td>
<td>0</td>
<td>100%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

The results show that in the commercial tax class, the program would be $66,550.00 and funded within the class, therefore, no other tax class would be absorbing any cost of the program. Ratepayers would continue to receive capping protection and we would claw-back 13.9% of the reductions to fund the program. Decreasing properties would realize 86.1% of their reduction. An additional 297 properties would lie in a clawback
position under this option which means they would be paying more than their CVA tax to fund the capped properties.

The industrial and multi-residential classes are at CVA. This option would bring a total of 25 properties back into the capping program with a total cost of $37,889.00 funded through the Tax Policy Development Reserve Fund. The caps cannot be funded through the class because there are no claw back properties to fund from.

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**Recommended Option:**

1) That Council adopts the 2014 Tax Policy recommendations as follows:

   That the 2014 capping program incorporate the following options:

   a) increase the capping percentage from 5% to 10% for all capped classes

   b) apply a 5% limit over prior year CVA tax, whichever is greater of a) or b)

   c) apply a minimum increase threshold of $250.00 to all capped classes

   d) exempt from capping, properties that were subject to CVA tax in 2013

   e) exempt from capping, properties that were capped in 2013 and would otherwise be subject to claw back in 2014

   f) exempt from capping, properties that were subject to claw back in 2013 and would otherwise be subject to capping protection in 2014

   h) adopt a threshold tax level for new construction properties of 100%

   That the cost of providing the legislated caps on assessment related increases for individual properties in 2014 be funded as follows:

   a) for the commercial class, the cost be borne from within the class

   b) for any shortfall in the industrial and multi-residential classes, the cost to be funded 100% from the Tax Policy Development Reserve Fund
Respectfully submitted,

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Lorraine Rochefort, AMCT
Manager of Revenues & Taxation

We concur in this report and recommendations.

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Margaret Karpenko, CMA
Chief Financial Officer/Treasurer

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Jerry Knox
Chief Administrative Officer

Personnel designated for continuance: Manager of Revenues & Taxation