St. Catharines

Corporate Report
Budget Standing Committee

Report from Financial Management Services, Billing

Date of Report: March 28, 2018 **Date of Meeting:** April 16, 2018

Report Number: FMS-B012-2018 **File:** 10.57.1

Subject: Non-Residential Tax Capping Policy

Recommendation

That the Budget Standing Committee (BSC) receives this report for consideration; and
That in the event BSC determines tax capping policy in the Niagara Region requires further review for 2019 taxation year;
That BSC refer this report to City Council in order for a referral to Niagara Region Council for inclusion and consideration with 2019 tax policy.

Summary

The City of St. Catharines, as a lower tier municipality in a two-tier system does not have the authority to institute tax capping policy changes. It is the responsibility of the upper-tier, Niagara Region. A tax policy change requires the support of majority of Niagara municipalities and is the decision of Niagara Regional Council.

As the 2018 tax policy has been approved by the Region's Corporate Services Committee at its meeting of April 4, 2018. It is schedule for consideration by Niagara Regional Council on April 12, 2018. Therefore, any changes to tax capping would be part of 2019 tax policy and a decision of Regional Council.

Background

The BSC has directed staff to prepare a report on the model adopted by Toronto that created a 10% cap on annual property tax increases resulting from assessment increases and feasibility of implementing a similar system for downtown St Catharines for 2019.

Tax capping refers to the practice of prescribing a maximum allowable limit on year-over-year increases in property taxes. Originally intended as a temporary transitional measure to mitigate large property tax increases arising from the introduction of the Current Value Assessment (CVA) system.

In 1998, the Province of Ontario introduced the Tax Capping program to protect commercial, industrial, and multi-residential properties from significant property tax increases. Capping, limits land owners from paying the full amount of taxes based on

the assessed value of the property as they are paying less tax than if they calculate their taxes using the general formula. To address the tax increase, limits were placed on the amounts by which taxes could increase each year. When properties experience a decline in property value, this would ordinarily lead to a decrease in property tax. However, the capping program uses a "claw back" to fund revenue shortfall resulting from the capping limits by withholding some or all of the reduction to property owners. These reductions result in net winners and losers properties and municipalities across the Region as the intent of the capping program is to be revenue neutral. As shown in the chart below.

Municipality	Total Impact of Capping Program (since 2001)
Fort Erie	($864,241)
Grimsby	$887,505
Lincoln	($729,771)
Niagara Falls	$31,351,664
Niagara-On-The-Lake	$8,621,158
Niagara Region	($68,648)
Pelham	($1,179,312)
Port Colborne	($2,736,148)
St. Catharines	($20,292,473)
Thorold	($3,547,906)
Wainfleet	($50,368)
Welland	($10,599,360)
West Lincoln	($792,100)
Total of All Non-Residential Classes	**$0**

In the chart above the negative amount represents the municipalities that paid funds to the Region to be distributed to the municipalities with a positive amount. Therefore Grimsby, Niagara-On-The-Lake and Niagara Falls received capping funds through the Region and the other ten municipalities providing the funds to the Region. As shown, Niagara Falls was the largest recipient of funds of $31.4M, with St. Catharines being the largest contributor of funds at $20.3M.

The system was originally intended to last 3 years, with increases on these classes limited to 10% in 1998,15% in 1999 and 20% in 2000 and was referred to as “10:5:5”. Twenty years later, the tax capping program in Niagara continues, although the number of properties impacted has shrunk significantly.

Tax capping has proven to be an effective tool to mitigate large tax increases, and the rules surrounding capping and claw-back are now generally well understood. The negative consequences of tax capping/claw-backs are that inequities in taxation are preserved and prolonged. Owners whose properties have experienced large increases

in assessment continue to pay less than their full share of taxes (i.e., the taxes that would be payable if the taxes were based on full CVA times the tax rate), at the expense of owners whose properties would otherwise be entitled to a tax decrease.

The 2017 province-wide reassessment saw many business properties face significant tax increases. The increase can be expected to continue in each year from 2018 to 2020 as assessments continue to be phased in over a 4-year reassessment cycle. Many properties, having reached their full CVA value of taxation in a prior year were no longer eligible for capping protection against assessment related tax increases.

In 2015, the Province announced new options and changes to the existing capping and clawback program that municipalities would be able to consider in 2016. The more significant changes that have been made to the program since its inception provide municipalities with options to move properties more quickly towards “uncapped” status. The mandatory 5% base increase requirement remains in place but municipalities have the authority to increase the rate to 10%. As well, to increase the dollar threshold increase and decrease limits to up to $500 respectively. Perhaps most important, municipalities are provided with the option of keeping properties out of capping and clawback once they reach the “uncapped” tax point. This option has significantly reduced the number of properties that continue to be subject to capping and clawbacks.

These changes also allow municipalities (if eligible) to increase the prior year current value assessment capping limit from five per cent to 10 per cent. Regional Council having the responsibility for tax policy has approved the utilization of the new options available which includes opting to phase-out the capping program for eligible property classes over four years. Region continues strategies to exit the capping program. For 2018, the commercial class has 3 capped properties and 12 clawed back properties, total dollars $10,100 and the industrial class 1 property capped and 1 clawed back, total $816.

Report

The Municipal Act provides upper tier municipalities the responsibility to establish tax policy to raise levy requirements however these are reviewed and discussed with local area treasurers. The Municipal Act (Act) requires a municipality, other than a lower–tier municipality to pass a by-law for tax policy.

Over the years tax policies have included provisions to accelerate progress towards full CVA taxation, as a means of restoring equity and simplicity in taxation. This included a requirement that a property, on having reached full CVA taxation levels, would no longer be eligible for capping or claw-back adjustments in subsequent years. This policy saw a gradual but steady increase in the number of properties paying taxes at full CVA levels and a reduction in the number of properties subject to capping/claw-back.

City of Toronto Model

The City of Toronto for its 2018 tax policy adopted measures to provide a level of protection against unmitigated increases as an interim strategy while continuing to evaluate other tax policy options that will accelerate progress towards full CVA taxation.

The following property tax capping polices were approved for the 2018 taxation year, to:

a) limit tax increases for the commercial, industrial, and multi-residential property classes by capping taxes at 10% of the preceding year's annualized taxes, through the adoption of subsection 292(1), paragraph 1, of the *City of Toronto Act, 2006,* for the 2018 taxation year;

b) discontinue the policy of removing properties from the capping and claw-back system once they have reached their full CVA-level of taxation, by not adopting section 7.1 of Ontario Regulation 121/07 for the 2018 taxation year, such that the above capping limit apply for the 2018 tax year to any property that has experienced a property tax increase of greater than 10% over 2017 annualized taxes, regardless of whether the property had reached its full CVA-level of taxation in a prior year;

2. City Council direct the Acting Chief Financial Officer to review any additional tax options during 2018, including any potential requests for legislative change, for consideration for 2019 and future years.

The approved tax policy limits tax assessment related increases to 10% in the commercial, industrial and multi-residential class across the City of Toronto for the 2018 taxation year and they are not specific to one area of the City or one class. The tax capping program is generally revenue neutral and requires all properties within the municipality or class participation in the program. The recommended limits on tax increases will be funded by tax decreases which would be otherwise be applied to each class.

Current Assessment Appeal Process Available

If a property owner disagrees with MPAC's assessment or classification of their property, they can file a Request for Reconsideration (RfR) and they will review their assessment, free of charge. Deadlines to file as RfR with MPAC are printed on their Property Assessment Notice. Business properties are not required to file an RfR before filing an appeal with the Assessment Review Board.

Financial Implications

There are no financial implications that arise from the capping protection in a property class as it is funded through a claw back of tax reductions within the same class. Under the capping and clawback system the foregone revenue resulting from the legislated limit on individual properties current value assessment (CVA) related tax increases for properties in the commercial, industrial and multi residential tax class are funded by withholding (clawback) a portion of the tax decreases that would have otherwise be applied to other properties with in each class.

Relationship to Strategic Plan

GOAL:

1. Be an affordable city for young people, families and retired older adults.

<u>Actions:</u>

1.1. Update financial controls and debt management strategy to better manage escalating costs of City operations and services.

Conclusion

The City of St Catharines is not permitted under the Municipal Act to set tax policy. In a in a two – tier municipalities, it is the responsibility of the upper tier. Therefore the decision on tax policy rests with the Niagara Region. As these tax policy decisions could have a significant impact to all the Area Municipalities, a fulsome discussion and review of the impacts and costs to all municipalities of this tax policy change is recommended prior to changes being implemented.

Notification

Niagara Region
1815 Sir Isaac Brock Way
P.O. Box 1042
Thorold, ON L2V 4T7

Prepared and Submitted by:

Lisa Read, Manager of Revenue

Approved by:

Kristine Douglas, CPA, CMA, Director Financial Management Services, Treasurer