



Date 8 April 2010

City Council Committee Report

To: Mayor Compton & Members of Council

Fr: Karen Brown

Re: Capping Options

Recommendation:

That Council hereby approves the implementation of the following tools related to the capping process for the 2010 taxation year:

- Annualized Tax Limit of 10% for each of the commercial, industrial and multi-residential property classes.
- Prior Year's CVA Tax Limit of 5% for each of the commercial, industrial and multi-residential property classes.
- CVA Tax Threshold for Protected Properties related to increases in the amount of \$250 for each of the commercial, industrial and multi-residential property classes.
- CVA Tax Threshold for Clawed Back Properties related to decreases in the amount of \$250 for each of the commercial, industrial and multi-residential property classes.
- CVA Tax in 2009
- Cross Over CVA Tax in 2010

and;

That Council hereby gives three readings to a By-law to adopt optional tools for the purposes of both administering limits for certain property classes and excluding certain properties from the capping process.

Background:

In 1998, the Province introduced a new taxation method – using Current Value Assessment (CVA) to replace the previous market value assessment system. At that time, some municipalities saw drastic swings in tax burden both between and within the various classes, with most municipalities seeing an increased burden placed on the residential properties. In order to mitigate these shifts, the Province provided municipalities with a number of optional tax tools, including capping, phase-ins, optional classes and graduated rates. Most municipalities, including the Tri-municipal area, chose not to use the tax tools, with the exception of the optional classes. (Kenora implemented the Office Building, Shopping Centre, Parking Lot / Vacant Land and Large Industrial property classes.) Local assessment had been kept fairly current, and at the time it was felt that it would be best to distribute taxes based on the new

system. If the old system was deemed unfair, it did not make sense to delay the implementation to a fairer system through mitigating changes, particularly given the up to date state of local assessment.

Following this, based on significant pressure from various lobby groups, the Province introduced a mandatory capping of certain property classes, namely commercial, industrial and multi-residential. This cap was retroactive to 1998, and represented a 10% cap for assessment related changes in 1998, and 5% annually thereafter. While overall changes have been made to the tax legislation since 1998, the capping concept has remained relatively unchanged until 2005.

During this time, municipalities, including Kenora, passed resolutions requesting the Province to consider phasing out the cap on property taxes. The cap is only applicable to certain property classes and does not protect the residential class, which was the hardest hit by the new legislation in 1998 and continued to bear the brunt of tax rate changes within Kenora. Commencing in 2005, possibly as a result of this municipal pressure, the Province introduced some changes to the capping legislation, options for each municipality to consider, that can help move the protected classes towards CVA taxation. These options must be reviewed annually and the related decisions made by Council each year.

Recently, the Province introduced a phase in of all properties over a four year period, including capped classes, commencing with the 2009 tax year and related reassessment. Even more significantly, they also introduced new tools, commencing in 2009, which allowed municipalities to exclude properties from the capping process. The decisions Council has made with regards to implementing the capping tools to escalate moving properties to CVA taxation since these were first introduced in 2005 and 2009 has already eliminated the majority of its commercial, industrial and multi-residential properties from the capping process. In order to fully eliminate the capping requirement for the City, it must continue to implement these tools annually until all properties are excluded from the cap. While all tools may no longer be required in 2010, it is recommended that the consistent application of these tools will ensure City properties are removed from the cap as quickly as possible.

Available Capping Tools:

Municipalities continue to have access to the tools introduced in 2005, as well as additional ones introduced in 2009, to help escalate moving properties to CVA taxation. These tools are:

- **Annualized Tax Limit (ATL)** – This represents the annual cap on changes to assessment values for the purposes of calculating taxes on protected classes. Prior to 2005, the ATL was 5%. Starting in 2005, municipalities received the ability to use any amount between 5% and 10%.
- **Prior Year's CVA Tax Limit** – Commencing in 2005, municipalities were also able to set a limit based on the prior year's CVA, from 0% to 5%.

When the CVA Tax Limit (CVATL) is used for the purposes of capping, both the ATL and the CVATL are calculated, and the one that passes on the greater amount to the taxpayer is used. The CVATL would only be greater than the ATL and impact taxes when the property owner is paying less than 50% of the CVA taxes on the property.

- ***CVA Tax Threshold for Protected Properties (Increases)*** – Starting in 2005, the Province also allowed municipalities to set a threshold for increases on protected property class increases of up to \$250. This means that, once the other capping adjustments have been applied to the property, if the property is within \$250 of CVA taxes, then the property is moved to CVA.
- ***CVA Tax Threshold for Clawed Back Properties (Decreases)*** – As with the threshold for protected properties, municipalities can also set a threshold for decreases on properties subject to the claw back of up to \$250. Prior to 2005, municipalities funded the capping through clawing back a percentage of assessment related decreases applied evenly throughout decreasing properties within the class. With the CVA Tax Threshold, municipalities can move any properties within \$250 of their CVA taxes to their CVA.
- ***CVA tax in 2009*** – This tool enables municipalities to exclude any properties previously subject to the capping process if they paid CVA taxes in 2009.
- ***Cross Over CVA Tax in 2010*** – This tool enables municipalities to exclude any properties previously subject to the capping process if they cross over CVA tax in 2010. This means that if the property was capped in 2009, but becomes subject to a claw back in 2010, or if the property was previously in a claw back position, but now would be capped, municipalities can exclude those properties from the capping process.

Sources of Financing

The implementation of these tools will result in no net impact to the City. All three protected classes are in a revenue neutral position as a result of the capping. While there is some potential exposure through eliminating properties from the capping process, the residual capping requirement is very small (\$8,623 for the commercial class), and is currently appearing as fully funded through a claw back from decreasing properties.

Communication Plan / Notice By-law Requirements

Council must pass the appropriate By-law related to the implementation of the various capping tools.

Cc: Bill Preisenz
Pat Geisel