



TORONTO STAFF REPORT

March 30, 2006

To: City Council

From: Deputy City Manager and Chief Financial Officer

Subject: 2006 Municipal and Education Levy By-Law

Purpose:

To recommend the enactment of the necessary by-law to levy and collect taxes for municipal and school purposes for the 2006 taxation year.

Financial Implications:

The City is required by legislation to enact in each year a by-law establishing tax ratios and levying tax rates on each class of rateable property for municipal purposes for the given year.

The approved 2006 City of Toronto Operating Budget requires a 2006 property tax levy of \$3,131,828,342. The returned assessment roll for 2006 will raise a municipal tax levy of \$3,076,244,287, prior to any tax increase for 2006. Council has directed, by adoption of the revenue sources contained in the budget, that the balance of the 2006 municipal levy requirement be raised by a 3.0% tax increase (\$37,232,460) for municipal purposes on the unrestricted classes (residential, new multi-residential, farmlands, pipelines and managed forest property classes), and a 1.0% municipal tax increase (\$18,351,594) on the restricted classes (commercial, industrial, and multi-residential property classes). The latter represents one-third of the tax rate increase on the residential class as adopted as policy under the City's 'Enhancing Toronto's Business Climate' initiative, and as permitted by regulation for 2006, for a total tax levy increase of \$55,584,055.

For 2006, a 3.0% residential municipal tax rate increase would result in an impact of \$60.97 for the average household now assessed at \$369,300 (all residential types including condominiums and detached homes) resulting in an average residential tax bill of \$2,093.40.

The City must also raise an additional amount of \$2,894,756 by way of an additional tax rate on the commercial and industrial property classes, representing an estimate for 2006 of the municipal portion of the mandatory 40% property tax rebate for registered charities operating in commercial and industrial properties. The recommended technical adjustment to the non-

program tax deficiency account in this amount results in no net impact to the operating budget because the funds will be collected by the City and remitted directly to eligible charities as required by provincial regulation.

There are no direct financial implications to the 'City of Toronto' arising from education tax rates. The City is required by legislation to levy and collect property taxes for school purposes at the tax rates prescribed by the Minister of Finance. The 2006 education levy is \$ 1,875,273,736. However, because Toronto's residential property values have appreciated at a rate less than the provincial average, Toronto's homeowners will experience a decrease in education tax burden of approximately \$6.12 for the average home assessed at \$369,300, as a result of the uniform province-wide residential education tax rate of 0.2640% for 2006, for an average household education tax of \$974.95.

Recommendations:

It is recommended that:

- (1) the 2006 tax ratios shown in Column II (before budgetary levy increase) for each of the property classes shown in Column I, as set out below, be adopted, wherein the adoption of such ratios together with the 2006 municipal budgetary tax levy increase provided for in Recommendation 3(b) will result in the 2006 ending tax ratios shown in Column III (after budgetary levy increase):

Column I	Column II	Column III
<u>Property Class</u>	2006 Tax Ratio (before budgetary levy increase)	2006 Ending Ratios (after budgetary levy increase)
Residential	1.000000	1.000000
Multi-Residential	3.706951	3.634972
New Multi-Residential	1.000000	1.000000
Commercial	3.746476	3.673729
Industrial	4.170990	4.090000
Farmlands	0.250000	0.250000
Pipelines	1.923564	1.923564
Managed Forests	0.250000	0.250000

- (2) Council elect to raise the tax rates on the restricted property classes (commercial, industrial, and multi-residential) by one-third of the percentage tax rate increase on the unrestricted property classes (residential, new multi-residential, pipelines, farmlands, and managed forests) as adopted by Council as policy during consideration of the "Enhancing Toronto's Business Climate" initiative in October 2005, and in accordance with O.Reg. 73/03 as amended;

(3) Council adopt:

(a) the tax rates set out below in Column II, which rates will raise a base local municipal general tax levy for 2006 of \$3,076,244,287; and

(b) the tax rates set out below in Column III, which rates will raise an additional local municipal tax levy for 2006 of \$55,584,055 to fund the 2006 operating budget tax levy increase, as determined in accordance with legislative requirements:

Column I Property Class	Column II 2006 Tax Rate for Base General Local Municipal Levy	Column III 2006 Additional Tax Rate for to Fund Budgetary Levy Increase)
Residential	0.5503483%	0.0165104%
Multi-Residential	2.0401142%	0.0204011%
New Multi-Residential	0.5503483%	0.0165104%
Commercial	2.0618666%	0.0206187%
Industrial	2.2954973%	0.0229550%
Farmlands	0.1375871%	0.0041276%
Pipelines	1.0586302%	0.0317589%
Managed Forests	0.1375871%	0.0041276%

(4) a technical adjustment be made to the 2006 Non-Program Tax Account in the amount of \$2,894,756 to fund the mandatory 2006 property tax rebates to registered charities in the commercial and industrial property classes, which adjustment is to be funded, for a net impact on the 2006 operating budget of zero, by the following:

(a) an additional tax rate of 0.0051285% be levied as part of the general local municipal levy on the commercial class to raise a further additional local municipal tax levy of \$2,821,067 to fund the total estimated rebates to registered charities for properties in the commercial class in 2006, and

(b) an additional tax rate of 0.0013028% be levied as part of the general local municipal levy on the industrial class to raise a further additional local municipal tax levy of \$73,689 to fund the total estimated rebates to registered charities for properties in the industrial class in 2006;

(5) The tax rates for school purposes set out in Column II, which rates will raise an education tax levy for 2006 of \$1,875,273,736, be adopted and come into effect when the regulation prescribing these rates is filed:

Column I Property Class	Column II 2006 Tax Rate for Education Levy
Residential	0.264000%
Multi-Residential	0.264000%
New Multi-Residential	0.264000%
Commercial	1.975821%
Industrial	2.059907%
Farmlands	0.066000%
Pipelines	1.802637%
Managed Forests	0.066000%

- (6) as in past years, the instalment dates for the 2006 final tax bills be set as follows:
 - (a) the regular instalment dates be the first business days of July, August and September;
 - (b) for taxpayers who are enrolled in the monthly pre-authorized property tax payment program, the instalment dates be the 15th, or first business day thereafter, of each of the months of July to December; and,
 - (c) for taxpayers who are enrolled in the two installment program, the final instalment date be July 4;
- (7)
 - (a) the collection of taxes for 2006, other than those levied under By-law No. 1022-2005 (the interim levy by-law) be authorized;
 - (b) a penalty charge for non-payment of taxes of 1.25 percent of taxes due and unpaid be added on the first day of default, and interest be charged at a rate of 1.25 percent per month on all outstanding taxes accruing from the first day of default; and,
 - (c) a minimum tax amount of \$5.00, for both municipal and school purposes, be established commencing for the 2006 taxation year, and if the total taxes in any year is less than \$5.00, no taxes shall be payable and no tax bill shall be sent in that year;
- (8) Council enact a by-law to establish the New Multi-Residential tax class for new multi-residential properties constructed in 2006, and that the applicable tax rate for this class be set at a tax rate equivalent to the 2006 residential tax rate;
- (9) Council enact a by-law to limit reassessment-related tax increases for the commercial, industrial, and multi-residential property classes, such a cap limit to be based on 5% of the preceding year's current value taxes, commencing for the 2006 taxation year;
- (10) Council enact a by-law to phase-out the comparable property tax treatment for new construction in the residual commercial, industrial and multi-residential classes by establishing the minimum property taxes for new construction at the lesser of the

uncapped (full CVA) taxes and the taxes for comparable properties as defined under legislation, but not less than at 80% of the uncapped taxes for 2006; and,

- (11) the appropriate officials be authorized to take the necessary action to give effect thereto and authority be granted for the introduction of the necessary bills in Council.

Background:

In accordance with various legislative requirements, Council must annually adopt the following three by-laws: (i) the municipal levy by-law; (ii) the education levy by-law; and (iii) the claw-back rate by-law. These three by-laws together enable the City to issue the final property tax bill for the year, for both municipal and school purposes.

The 2006 municipal tax rates cannot be set until the 2006 Operating Budget is finalized and adopted by Council. As the 2006 Operating Budget is scheduled to be adopted by Council at its meeting tentatively scheduled for March 29-31, 2006, the municipal levy by-law is being introduced directly to Council at this meeting, so as to authorize the tax levy required by the City's 2006 budget. My report "2006 Tax Levy By-laws and Related Matters" (February 20, 2006), as adopted by Policy and Finance Committee on March 27, 2006, provides the necessary notice to report on the municipal levy by-law and any other tax-related by-laws directly to Council at this meeting.

The 2006 tax levy by-law also incorporates certain tax policy initiatives previously endorsed by Council at its meeting of October 2005, during consideration of the report "Enhancing Toronto's Business Climate – It's Everybody's Business". These initiatives, specifically the tax ratio reduction targets for 2006, are discussed in the body of this report.

On March 30, 2006, the Minister of Finance advised of the 2006 education tax rates for the City of Toronto, and that the regulation will be filed shortly. Both the municipal and education levies are required to calculate claw-back rates on the capped property classes. Staff will be reporting to Council in April 2006 on the clawback rate by-law.

Comments:

2006 Assessment Changes:

For the 2006 taxation year, property assessed values have been reassessed to reflect a January 1, 2005 valuation date. For 2006, rateable property assessment in Toronto amounts to \$314.4 billion, which is an increase of 11.2% across all property classes since the last reassessment based on a June 30, 2003 valuation date, as shown in Chart 1. Toronto's residential properties increased by 11.4%, compared to the provincial average of 12.3%. Toronto's multi-residential property class increased by 8.2% compared to 11.2% province-wide, the commercial class 11.9% compared to 10.5% province-wide, and the industrial class 12.1% compared to 10.0% province-wide.

Chart 1 – 2006 Assessment Changes (\$M)

Property Class	2005 Beginning year Assessment (Jun. 30/03 base)	2005 year-end Assessment (Jun. 30/03 base)	2005 Assessment Growth	Tax Revenue from Assessment Growth (\$M)	2006 Assessment (Jan. 1/05 base)	% Assessment Change
Residential	196,779.6	201,705.5	4,925.9	\$ 30.08	224,743.5	11.4%
Multi-Residential	25,374.0	25,862.8	488.8	\$ 11.07	27,995.3	8.2%
New Multi-Residential	183.8	220.9	37.2	\$ 0.23	232.2	5.1%
Commercial	48,681.7	49,457.0	775.3	\$ 19.66	55,342.0	11.9%
Industrial	5,274.3	5,196.1	(78.1)	\$ (1.29)	5,825.2	12.1%
Farmlands	2.9	5.2	2.3	\$ 0.00	6.5	25.8%
Pipelines	273.7	273.7	0.0	\$ 0.00	276.4	1.0%
Managed Forests	0.2	0.2	-	\$ -	0.2	0.0%
Total Rateable	276,570.2	282,721.6	6,151.4	\$ 59.76	314,421.4	11.2%

Chart 2 provides a comparison of reassessment-related CVA changes since 2001. Reassessments will now occur annually, and valuation will be based on the prior year January 1st valuation date.

Chart 2 – City of Toronto Historic CVA Changes

Reassessment Year:	2001	2003	2004	2006
Valuation Base:	<u>(Jun30/99)*</u>	<u>(Jun30/01)</u>	<u>(Jun30/03)</u>	<u>(Jan1/05)</u>
# Months since last reassessment	36	24	24	18
<u>Class:</u>				
Residential	19.8%	14.7%	14.4%	11.4%
Multi-Residential	41.1%	15.1%	16.9%	8.2%
Commercial	38.9%	15.2%	4.4%	11.9%
Industrial	<u>16.1%</u>	<u>37.0%</u>	<u>9.3%</u>	<u>12.1%</u>
All Classes	24.7%	15.2 %	12.6%	11.2%

*Compared with original valuation date of June 30, 1996

Chart 3 below presents a breakdown of the 2006 reassessment changes for the major residential property types in Toronto. Single family detached represents the majority of residential properties in Toronto (46.6%). The average CVA change for this property type was 13.3%. Condominiums represent the second largest residential property category at 27.9% of all residential property types. The average CVA change for condominiums was 3.1%.

Chart 3 – 2006 CVA Changes for Select Residential Property Types

<u>Residential Property Type</u>	<u>No. / % Properties</u>	<u>2005 (Jun/03 base)</u>	<u>2006 (Jan/05 base)</u>	<u>% change</u>
Condominium	169,625 / 27.9%	225,942	232,864	3.1%
Townhome	18,648 / 3.1%	294,850	336,862	14.2%
Semi-Detached	81,140 / 13.3%	290,989	331,847	14.0%
Detached	<u>283,587 / 46.6%</u>	<u>400,346</u>	<u>453,409</u>	<u>13.3%</u>
All Residential	608,465	331,456	369,284	11.4%

2006 Tax Ratios and 2006 Base Municipal Tax Rates:

Ontario Regulation 73/03 (“O.Reg. 73/03”), as amended, continues to govern the determination of tax ratios for municipal purposes. Because the multi-residential class’s CVA change of +8.2% is less than all other classes, and because the commercial class’s CVA change of 11.9% is the highest, an inter-class ‘natural’ CVA shift (reduction) of \$14.4 million will occur from the multi-residential class onto the commercial class (+\$9.7 million) and residential class (+\$5.0 million) in order to keep tax ratios from increasing, which would be contrary to O.Reg. 73/03. The residential class, whose CVA change is very close to the average of all classes at 11.4%, will experience an inter-class CVA-shift (increase) of approximately \$5 million in this reassessment (\$8.16 for the average household). An inter-class shift of approximately \$13 million (1.1%) annually onto the residential class is projected over the longer term based historic average CVA changes (approximately \$21.00 for the average household), as outlined in the October 2005 “Enhancing Toronto’s Business Climate” report.

Chart 4 shows the recommended 2006 tax ratios, and the recommended 2006 base municipal general levy tax rates for the City of Toronto. The returned assessment roll for 2006 will raise a general local municipal tax levy of \$3,076.2 million, including new tax revenue of \$59.761 million from assessment growth, prior to any tax increase for 2006.

Chart 4 - 2006 Tax Ratios, and General Levy Limit

Property Class	2005 Final Municipal Tax Rates	2005 Municipal Year-End Tax Levy (incl. Growth) (\$M)	2006 Starting Tax Ratios	2006 Base Municipal Tax Rate for General Purposes	2006 Base Municipal Tax Levy for General Purposes (\$M) (incl. Growth from Chart 1)	CVA Related Tax Impact ('natural shift')
Residential	0.6107432%	\$ 1,231.9	1.000000	0.5503483%	\$1,236.9	\$5.0
Multi-Residential	2.2639951%	\$ 585.5	3.706951	2.0401142%	\$571.1	\$(14.4)
New Multi-Residential	0.6107432%	\$ 1.3	1.000000	0.5503483%	\$1.3	\$(0.1)
Commercial	2.2881345%	\$ 1,124.5	3.746476	2.0618666%	\$1,134.2	\$9.7
Industrial	2.5719810%	\$ 129.7	4.170990	2.2954973%	\$129.8	\$0.1
Farmlands	0.1526859%	\$ 0	0.250000	0.1375871%	\$0.0	\$0.0
Pipelines	1.1748039%	\$ 3.2	1.923564	1.0586302%	\$2.9	\$(0.3)
Managed Forests	0.1526859%	\$ 0	0.250000	0.1375871%	\$0.0	\$(0.0)
Total Levy		\$ 3,076.2			\$3,076.2	\$(0.0)

2006 Additional Municipal Tax Rates (to fund budgetary levy increase):

Subsection 312(7) and (9) of the *Municipal Act, 2001* and O.Reg. 73/03 preclude municipalities whose tax ratios for the commercial, industrial and multi-residential property classes (the “protected classes”) are above the provincial threshold limits from increasing property taxes on those classes of properties. At the request of the City of Toronto, and several other affected municipalities, the Minister of Finance filed a regulation in 2004 which allowed restricted municipalities to apply up to one-half of the percentage increase on the residential tax rate in 2004 to the protected classes. This flexibility measure was extended again for the 2005 taxation year. In both years, City Council elected to impose the maximum of half of the residential tax rate increase onto the business and multi-residential classes. These flexibility measures were intended as an interim or stop-gap measure pending changes to the property tax system.

On October 28, 2005, Toronto City Council approved a plan designed to boost Toronto’s business community, retain existing jobs and attract new jobs to the city. This plan implemented incentives and initiatives to maintain and expand the City’s property assessment base. A key recommendation adopted by Council was to limit tax rate increases on the commercial, industrial and multi-residential properties by one-third of any tax rate increase on the residential class.

The Minister of Finance has once again filed a regulation (O.Reg. 44/06) further extending the same flexibility measures for 2006, permitting the City of Toronto to impose limited tax increases on the business and multi-residential classes (up to half of any residential tax rate increase). Council adopted policy is for one-third of any residential tax rate increase. Accordingly, for 2006, a 3.0% tax increase on the unrestricted classes (residential, new multi-residential, farmlands, pipelines and managed forest property classes) will raise an additional \$37.232 million for municipal purposes, and a 1.0% municipal tax increase on the restricted

classes will raise an additional \$18.352 million, as shown in Chart 5. With these recommended increases, the total property tax levy for Toronto in 2006, excluding the rates to fund charitable rebates, will be \$3,131.8 million.

Chart 5 – 2006 Tax Levy for Municipal Purposes
to Fund Budgetary Levy Increase

	2006 Base Municipal Tax Rate for General Purposes	2006 Budgetary Tax Levy Increase	2006 Additional Tax Rate to fund Budgetary Levy Increase	2006 Budgetary Levy Increase (\$M)
<u>Unrestricted Classes:</u>				
Residential	0.5503483%	3.000%	0.0165104%	\$37.106
New Multi-Residential	0.5503483%	3.000%	0.0165104%	\$0.038
Farmlands	0.1375871%	3.000%	0.0041276%	\$0.000
Pipelines	1.0586302%	3.000%	0.0317589%	\$0.088
Managed Forests	0.1375871%	3.000%	0.0041276%	\$0.000
Sub-Total Unrestricted		3.000%		\$37.232
<u>Restricted Classes:</u>				
Multi-Residential	2.0401142%	1.000%	0.0204011%	\$5.711
Commercial	2.0618666%	1.000%	0.0206187%	\$11.342
Industrial	2.2954973%	1.000%	0.0229550%	\$1.298
Sub-Total Restricted		1.000%		\$18.352
Total		1.807%		\$55.584

2006 Ending Tax Ratios and ‘Enhancing Toronto’s Business Climate’ Initiative:

The “It’s Everybody’s Business” tax rate reduction plan adopted by Council in October 2005 establishes maximum tax ratio targets for each of the next fifteen years, calculated after any budgetary levy increase. Chart 6 summarizes the 2006 ending tax ratios, in comparison to the maximum target established by Council for 2006. This shows that the City has surpassed the target reductions in ratios for 2006 on every class, and specifically, the multi-residential, commercial and industrial classes. This occurs despite the natural shift in taxation due to reassessment from the multi-residential class to the residential and commercial classes as discussed earlier.

Chart 6 – 2006 Ending Tax Ratios

	2005 Ending Ratios	2006 'Maximum' Ratios	2006 Ending Ratios
Residential	1.000000	1.000000	1.000000
Multi-Residential	3.706951	3.690000	3.634972
Commercial	3.746476	3.720000	3.673729
Industrial	4.211231	4.090000	4.090000
Pipeline	1.923564	1.923564	1.923564

Funding Rebates for Registered Charities:

Provincial regulation provides that the tax rates and tax ratios for the commercial and industrial classes may be greater than would be allowed in order to fund rebates to charities from within the commercial and industrial classes. During 2005, the City approved 665 applications from eligible charities, providing \$5.604 million in rebates to these charities, of which the municipal share was \$2.895 million, compared with a budget of \$2.562 million for rebates paid out for the prior year. The Province funds the education share of the rebates. On this basis, \$2.895 million in rebates (municipal share) is estimated for 2006, which will be funded from an additional rate on the commercial and industrial classes. The recommended technical adjustment to the non-program tax deficiency account in this amount results in no net impact to the operating budget. Chart 7 provides a comparison of the 2005 Budget and 2006 Estimate funding requirements for registered charities in the commercial and industrial property classes.

Chart 7 - Comparison of 2005 Budget and 2006 Estimated Property Tax Rebates for Registered Charities in the Commercial and Industrial Property Classes

	2005 Budget			2006 Estimate		
	No. of Applications	C&I Charity Rebates paid in 2005	2005 C&I Additional Rate to fund Charity Rebates	No. of Applications	C&I Charity Rebates Budget Estimate for 2006	2006 C&I Additional Rate to fund Estimated Charity Rebates
Commercial	497	\$2,491,100	0.0051590%	587	\$2,821,067	0.0051285%
Industrial	71	\$71,340	0.0014007%	78	\$73,689	0.0013028%
Total	568	\$2,562,440		665	\$2,894,756	

2006 Education Tax Rates:

The Education Act requires every municipality in each year to levy and collect taxes for school purposes at the education tax rates prescribed by the Minister of Finance. On March 30, 2006, the Minister of Finance advised of the 2006 education tax rates for the City of Toronto. The Minister must still file the regulation prescribing these rates, which is expected shortly. Chart 8 below provides the 2006 education tax rates and levies for Toronto. The City requires that both the education tax rates and the municipal tax rates be first established before the clawback rates for the commercial, industrial, and multi-residential classes can be determined for 2006. The

clawback rate by-law will be introduced to Council at its meeting scheduled for April 25-27, 2006.

Chart 8 – 2006 Education Tax Rates

	2005 Education Rates	2005 Year End Education Levy (\$)	2006 Education Tax Rates	2006 Education Tax Levy (\$)	\$ Change
Residential	0.296000%	597,048,367	0.264000%	593,322,782	(3,725,584)
Multi-Residential	0.296000%	76,554,020	0.264000%	73,907,596	(2,646,424)
New Multi-Residential	0.296000%	653,990	0.264000%	613,047	(40,943)
Commercial	2.215659%	1,087,896,608	1.975821%	1,085,929,989	(1,966,618)
Industrial	2.313615%	116,680,862	2.059907%	116,512,624	(168,238)
Farmlands	0.074000%	3,830	0.066000%	4,298	468
Pipelines	1.820563%	4,983,245	1.802637%	4,983,246	1
Managed Forests	0.074000%	172	0.066000%	154	(19)
Total		1,883,821,095		1,875,273,736	(8,547,359)

Due Dates:

In order to maintain continuity and provide a consistent level of service, the City of Toronto intends to set its 2006 instalment due dates for the final property tax bill in keeping with the schedule established for prior years. For 2006, the regular payment due dates for the final bill will be July 4, August 1, and September 1. Pre-authorized payment dates will continue to be the 15th of each month from July to December inclusively, or the first working day thereafter if the date falls on a weekend or statutory holiday, and the final due date for the two-instalment program is July 4, 2006. To ensure that taxpayers receive their bills 30 days prior to that due date, the final tax bills must be issued no later than May 30, 2006.

Minimum Bill:

Traditionally, the City's final levy by-law included a provision that indicated that taxes would not be payable where the sum of the total annual taxes for municipal, local improvement and other special purposes was less than \$15.00. This practice was premised on the assumption that the cost to collect and process the payments exceeded the revenue to the City.

Upon further review it has been determined that a more appropriate minimum bill amount would be \$5.00. This report recommends that any tax bills under \$5.00 not be produced or mailed to taxpayers beginning in 2006.

New Multi-Residential Property Class:

The new multi-residential tax class allows a lower tax rate to be applied to newly constructed or converted multi-residential buildings in the first thirty-five years following construction. The

purpose of providing a lower tax rate for a limited time period is to encourage the construction of multi-residential properties in Toronto. Council has had this policy in place since 1998. In order for the new multi-residential class to apply, Council must adopt a by-law in each year opting to have the class apply for any new construction in that year. It is recommended that Toronto opt to have the new multi-residential tax class apply for 2006, to continue to encourage the construction of new rental accommodation in Toronto. It is further recommended that the tax rate for the new multi-residential class be set at the same rate that applies to the residential class, including any municipal budgetary increases, to offer the tax treatment for this class that was previously approved by Council.

Capping Limits (Commercial, Industrial and Multi-Residential Property Classes):

The *Municipal Act, 2001* to provide municipalities with two additional capping options in order to increase progress towards CVA. The additional options include: (i) increasing the amount of the annual cap up to 10% of previous year's taxes; and (ii) the option to base the cap of up to 5% on a property's full CVA-level taxes instead of the previous year's taxes (current year's taxes would be calculated by adding 5% of past year's CVA taxes to the past year's actual capped taxes).

Stakeholders and municipal tax administrators have previously identified several concerns with the existing capping program, including perpetuation of historical tax inequities, the very slow rate of progress towards CVA, and the complexity of the system that leads to a lack of transparency for property owners. In adopting the "Enhancing Toronto's Business Climate" initiative, Council has elected the second option - to base the cap of up to 5% on a property's full CVA-level taxes instead of the previous year's taxes. Accordingly, to implement this change in the capping and clawback regime, Council must pass a by-law prior to April 30th in each year.

Comparable Treatment of New Construction:

During 2004, the province introduced a number of legislative changes to the *Municipal Act* (Bill 83) in response to issues raised by municipalities, including a change related to the property tax treatment for new construction.

This legislative change was made at the request of Ontario municipalities to address the fact that new construction was being taxed at the level of six 'comparable' properties, the identification of which was subjective and challenged by many developers, which in many instances resulted in properties starting taxes being set at a fraction of the CVA-level of taxes, exacerbating and perpetuating inequities caused by the current capping system.

Staff are recommending continuing the phase-out of the comparable property tax treatment for new construction in 2006 by establishing the minimum property taxes for new construction in 2006 at the lesser of the uncapped (full CVA) taxes or the taxes for comparable properties as provided for under legislation, but not less than at 80% of the uncapped taxes. In 2005, the City adopted a by-law to establish the minimum taxes at 70% of the uncapped taxes. If Council wished to continue this phase-out of the comparable tax treatment, the minimum taxes for 2007 will be established at 90% of the uncapped taxes, and in 2008, all new construction will be taxed

at their full CVA taxation level. To implement this provision, Council must pass a by-law prior to April 30th in each year.

Conclusions:

This report recommends the establishment of the 2006 municipal tax ratios and 2006 municipal tax rates that result from Council's approval of the City of Toronto 2006 Operating Budget inclusive of a 3.0% residential tax rate increase and a 1.0% multi-residential, commercial and industrial tax rate increase, as adopted as Council policy and as permitted by regulation for 2006. This report also presents the 2006 education tax rates for the City of Toronto as provided by the Minister of Finance.

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