TORONTO

STAFF REPORT
ACTION REQUIRED

2008 Property Tax Levy and Related Matters

Date:	March 17, 2008
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2008\Internal Services\CF\Ec08005Cf – et (AFS #7222)

SUMMARY

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 and school purposes for the given year.

This report recommends the establishment of the 2008 municipal tax ratios and 2008 municipal tax rates that result from Council's approval of the City of Toronto 2008 Operating Budget inclusive of a 3.75% residential tax rate increase and a 1.25% multi-residential, commercial and industrial tax rate increase for budgetary purposes. 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 2008, for a total tax levy increase of $74,641,103, which represents an effective tax rate increase of 2.3%.

This report also recommends the adoption of the 2008 education tax rates for the City of Toronto as will be prescribed by the Minister of Finance, and the small business property tax treatment previously approved by Council.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends to Council that:

(1) Council enact a by-law to have the Residual Commercial property class apply for the 2008 tax year, such a class being real property of the Commercial property class but excluding real property of the Office Building property class, the Shopping Centre property class, the Parking Lots and Vacant Land property class,

and the Professional Sports Facility property class, and as described and set out in the Table below:

Description	Property Classes of Commercial
Commercial General	Office Building property class, Shopping Centre property class, the Parking Lots and Vacant Land property class, and the Professional Sports Facility property class
Residual Commercial	Commercial property not included in the above property classes

(2) Council enact a by-law to establish two bands of assessment of property for the purposes of facilitating graduated tax rates for the Residual Commercial property class in 2008, and setting such bands of assessment for each band shown in Column II at the amount shown in Column III, and setting the ratio of the ending tax rates for each band in relation to each other at the ratio shown in Column IV:

Column I	Column II	Column III	Column IV
Property Class	Bands	Portion of Assessment	Ratio of Ending Tax Rate to Each Other
Residual Commercial	Lowest Band	Less than or equal to $1,000,000	0.974925
Residual Commercial	Highest Band	Greater than $1,000,000	1.000000

(3) 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 Provincial Regulation.

(4) the 2008 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 2008 municipal budgetary tax levy increase and 2008 tax rate adjustment to achieve Council’s tax ratio targets provided for in Recommendations 5(b) and 5(c), respectively, will result in the 2008 ending tax ratios shown in Column III:

Column I	Column II	Column III
Property Class	2008 Recommended Tax Ratios (before levy increase)	2008 Ending Ratios (after levy increase and policy tax rate adjustments)
Residential	1.000000	1.000000
Multi-Residential	3.546257	3.460805
New Multi-Residential	1.000000	1.000000
Commercial General - Unbanded	3.584069	3.497706
Residual Commercial – Lowest Band	3.584069	3.410000
Residual Commercial – Highest Band	3.584069	3.497706
Industrial	3.920000	3.740000
Farmlands	0.250000	0.250000
Pipelines	1.923564	1.923564
Managed Forests	0.250000	0.250000

(5) Council adopt:

(a) the tax rates set out below in Column II, which rates will raise a base local municipal general tax levy for 2008 of $3,247,267,378;

(b) the tax rates set out below in Column III, which rates will raise an additional local municipal tax levy for 2008 of $74,641,103 to fund the 2008 operating budget tax levy increase, as determined in accordance with legislative requirements; and

(c) the tax rate adjustments set out below in Column IV, which rate adjustments are necessary to achieve the tax ratio targets for the various property classes and the small business property tax treatment as previously approved by Council, and which rate adjustments do not raise any additional local municipal tax levy for 2008 but rather redistributes the tax burden between property classes:

Column I	Column II	Column III	Column IV	Column V
Property Class	2008 Tax Rate for Base General Local Municipal Levy	2008 Additional Tax Rate for to Fund Budgetary Levy Increase)	2008 Tax Rate Adjustment to Achieve Council's Tax Ratio Targets for 2008	2008 Ending Municipal Tax Rate (excluding Charity rebates)
Residential	0.5888434%	0.0220816%	0.0019680%	0.6128930%
Multi-Residential	2.0881901%	0.0261024%	0.0068106%	2.1211031%
New Multi-Residential	0.5888434%	0.0220816%	0.0019680%	0.6128930%
Commercial General -	2.1104551%	0.0263807%	0.0068837%	2.1437195%

Column I	Column II	Column III	Column IV	Column V
Property Class	2008 Tax Rate for Base General Local Municipal Levy	2008 Additional Tax Rate for to Fund Budgetary Levy Increase)	2008 Tax Rate Adjustment to Achieve Council's Tax Ratio Targets for 2008	2008 Ending Municipal Tax Rate (excluding Charity rebates)
Unbanded				
Residual Commercial - Lowest Band	2.1104551%	0.0263807%	-0.0468707%	2.0899651%
Residual Commercial - Highest Band	2.1104551%	0.0263807%	0.0068837%	2.1437195%
Industrial	2.3082662%	0.0288533%	-0.0448997%	2.2922198%
Farmlands	0.1472109%	0.0055204%	0.0004920%	0.1532233%
Pipelines	1.1326782%	0.0424754%	0.0037853%	1.1789389%
Managed Forests	0.1472109%	0.0055204%	0.0004920%	0.1532233%

(6) a technical adjustment be made to the 2008 Non-Program Tax Account in the amount of $5,327,254 to fund the mandatory 2008 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 2008 operating budget of zero, by the following:

(a) the additional tax rates set out below in Column III be levied as part of the general local municipal levy on the commercial classes set out in Column I and Column II to raise a further additional local municipal tax levy of $5,284,828 to fund the total estimated rebates to registered charities for properties in the commercial class in 2008, and

Column I	Column II	Column III
Commercial Property Classes	Bands	Additional Tax Rate to Fund Rebates to Eligible Charities
Commercial General	Unbanded	0.0096373%
Residual Commercial	Lowest Band	0.0093956%
Residual Commercial	Highest Band	0.0096373%

(b) an additional tax rate of 0.0007300% be levied as part of the general local municipal levy on the industrial class to raise a further additional local municipal tax levy of $42,425 to fund the total estimated rebates to registered charities for properties in the industrial class in 2008.

(7) The tax rates for school purposes set out in Column II, which rates will raise an education tax levy for 2008 of $1,892,724,079, be adopted and come into effect when the regulation prescribing these rates is filed:

Column I	Column II
Property Class	2008 Tax Rate for Education Levy
Residential	0.264000%
Multi-Residential	0.264000%
New Multi-Residential	0.264000%
Commercial	1.968305%
Industrial	2.050709%
Farmlands	0.066000%
Pipelines	1.798540%
Managed Forests	0.066000%

(8) (a) Council enact a by-law for the 2008 taxation year 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, for the 2008 taxation year; and

(b) The Deputy City Manager and Chief Financial Officer be directed to report directly to Council at its meeting scheduled for April 28 and 29, 2008, on the percentage of the tax decreases required to recover the revenues foregone as a result of the cap limit on properties in the commercial, industrial and multi-residential property classes (the 2008 'clawback' rates).

(9) Council enact a by-law to establish the New Multi-Residential tax class for new multi-residential properties constructed in 2008, and that the applicable tax rate for this class be set at a tax rate equivalent to the 2008 residential tax rate.

(10) Council enact a by-law to phase-out the comparable property tax treatment for new construction in the commercial, industrial and multi-residential classes by establishing the minimum property taxes for new construction at 100% of the full uncapped CVA level of taxes for 2008 and future years.

(11) As in past years, the instalment dates for the 2008 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 therafter, 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 1.

(12) (a) The collection of taxes for 2008, other than those levied under By-law No. 1404-2007 (the interim levy by-law) be authorized; and

(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.

(13) In the event the necessary regulations are not filed by Province by April 2, 2008, to enable the City to implement the tax policies described in recommendations (1) through (7) above, Toronto Council waive, on a one-time basis, its policy for a clear 30 days from the date of mailing of the tax bill to the first due date for the final 2008 tax bill, and instead adopt a notice period of 21 days for the final 2008 tax bill.

(14) 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.

Financial Impact

The recommended 2008 City of Toronto Operating Budget requires a 2008 property tax levy of $3,321,908,482. The returned assessment roll for 2008 will raise a municipal tax levy of $3,247,267,378 prior to any tax increase for 2008. The adoption of the revenue sources contained in the budget will require that the balance be raised by a 3.75% tax increase ($51,075,406) for municipal purposes on the unrestricted classes (residential, new multi-residential, farmlands, pipelines and managed forest property classes), and a 1.250% municipal tax increase ($23,565,697) 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 2008, for a total tax levy increase of $74,641,103, which represents an effective tax rate increase of 2.3%.

The two key business tax rate reduction initiatives adopted by Council under the "Enhancing Toronto's Business Climate" initiative included:

(i) reducing the tax rates for all businesses and multi-residential properties to 2.5-times the residential tax rate over fifteen years (by the year 2020); there are twelve years remaining to complete this initiative; and

(ii) providing tax relief for smaller businesses by way of an accelerated tax rate reduction to 2.5-times the residential tax rate over ten years (by the year 2015); there are seven years remaining to complete this initiative.

These initiatives will be accomplished by, in addition to the restriction on tax rate increases on the business and multi-residential property classes, a shift of tax burden onto the residential class. Such a shift does not result in any tax revenue to the City; rather, it requires a transfer of tax burden from the non-residential classes onto the residential class.

For 2008, a 3.75% residential municipal budgetary tax rate increase will result in an impact of $80.70 for the average household assessed at $365,468 (all residential types including condominiums and detached homes). In order to achieve the business and multi-residential tax ratio reductions, and the target of 2.5-times the residential rate within the fifteen year time frame, as adopted as policy by Council under the City's 'Enhancing Toronto's Business Climate' initiative, an additional tax rate adjustment on the residential class of + 0.33% will be imposed in 2008, which amounts to approximately $7.19 for the average household, resulting in a total municipal tax bill of $2,239.93 for the average residential home in 2008 (a total increase of $87.89). Corresponding tax shifts (reductions) for the business and multi-residential property classes result in no additional tax revenue for the City from these tax rate adjustments.

It is also recommended that the City raise an additional amount of $5,327,254 by way of an additional tax rate on the commercial and industrial property classes, representing an estimate for 2008 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 permitted 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 2008 education levy is $1,892,724,079, which reflects a reduction of $4,678,692 arising from the business education tax rate reductions announced by the Province as part of the 2007 Provincial Budget, which will eventually see the rates fall to 1.6% Province-wide over seven-years. The average household assessed at $365,468 will pay an education tax bill of $964.83 in 2008.

ISSUE 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 are required to enable the City to issue the final property tax bill for the year, for both municipal and school purposes.

The 2008 municipal tax rates cannot be set until the 2008 Operating Budget is finalized and adopted by Council. The 2008 education tax rates have been announced, but the regulation still has to be made. The clawback rate report will be presented directly to

Council at its meeting of April 28-29, 2008, to enable staff to process all tax appeals to as close to that date as possible so as to ensure the most accurate clawback rate.

The 2008 tax rates 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", and as updated in October 2007. These initiatives include the tax ratio reduction targets for 2008 and tax relief for small businesses, and are discussed in the body of this report. The relevant reports can be viewed at:
http://www.toronto.ca/legdocs/2005/agendas/council/cc051026/pofedp2rpt/cl001.pdf
http://www.toronto.ca/legdocs/mmis/2007/ex/reports/2007-06-25-ex10-cc-dit2.pdf

At the time of writing this report, certain regulations are required to enable the City to follow Council approved policy, including the tax treatment for small business embodied in this report, imposing a tax increase on the business and multi-residential classes, and respecting education tax rates for the City of Toronto. Provincial staff indicate that these regulations are pending and will be made in time for issuance of the final tax bills.

However, it must be noted that the regulations are required to provide the authority necessary to enact the final 2008 levy by-law in accordance with the recommendations of this report. Should the regulations not be finalized in time for the Council meeting scheduled for April 28-29, 2008, the requisite authority for certain elements of the 2008 levy by-law will not be in place and the City Solicitor will not be able to introduce the bill for enactment at that Council meeting as scheduled which will cause a billing delay.

COMMENTS

2008 Assessment Changes:

The 2008 taxation year is not a reassessment year. Property assessed values for 2008 are based on a January 1, 2005 valuation date, as was the case for the 2006 and 2007 year. The next reassessment will take place for the 2009 taxation year, at which time property assessment will reflect a January 1, 2008 valuation date. The Province has announced that the reassessment for 2009 will be phased-in over four years.

For 2008, rateable property assessment in Toronto amounts to $320.6 billion, which is an increase of 1.15% over the previous year, as shown in Chart 1. Residential assessment growth amounted to 1.4%, mostly through new condominium development, representing approximately $18.8 million in new property tax revenue for City purposes. Commercial assessment increased slightly by 0.5%, representing growth of $6.7 million in municipal tax revenue over 2007. Industrial assessment declined in 2008 by 1.36%, representing a loss of $1.6 million in municipal tax revenue. The industrial class has seen a decline in seven out of the last eight years. The multi-residential class remained relatively unchanged, however, the new multi-residential class continues to increase (+32% in assessment for 2008) which suggests that the Council policy of a lower residential tax rate for new rental properties is having a positive effect on the creation of new stock.

Chart 1 – 2008 Assessment Changes

Property Class	Assessment January 1, 2005 Base 2007	2008	% Change	Growth in Municipal Tax Revenue
Residential	227,138,352,491	230,334,469,270	1.41%	$ 18,820,123
Multi-Residential	27,974,714,760	28,075,107,510	0.36%	$ 2,096,391
New Multi-Residential	327,580,210	433,299,440	32.27%	$ 622,521
Commercial	55,221,936,977	55,544,983,721	0.58%	$ 6,735,838
Industrial	6,049,836,622	5,967,393,098	-1.36%	$ (1,635,616)
Farmlands	9,861,930	10,940,950	10.94%	$ 1,588
Pipelines	279,744,000	276,805,000	-1.05%	$ (33,289)
Managed Forests	233,000	233,000	0.00%	$ -
Total Rateable	317,002,259,990	320,643,231,989	1.15%	$ 26,607,556

2008 Tax Ratios and 2008 Municipal Tax Rates for General Purposes:

For the purposes of raising the general local levy, subsection 275(4) of the *City of Toronto Act, 2006*, provides that the City must pass a by-law on or before April 30 in each year to establish the tax ratios for that year for the municipality. Current rules governing the determination of tax ratios and municipal tax rates for general purposes are prescribed by O.Reg. 121/07.

Chart 2 shows the recommended 2008 tax ratios and the recommended 2008 municipal general levy tax rates for the City of Toronto. The returned assessment roll for 2008 will raise a general local municipal tax levy of $3,247,267,378, including new tax revenue of $26,607,556 from assessment growth, prior to any tax increase for 2008.

Chart 2 - 2008 Tax Ratios, and General Levy Limit

Property Class	2007 Final Municipal Tax Rates* (a)	2007 Municipal Tax Levy (b)	2008 Tax Ratios from (a)	2008 Municipal Tax Rate for General Purposes =(a)	2008 Municipal Tax Levy for General Purposes (incl. growth from Chart 1)
Residential	0.5888434%	$1,337,489,198	1.000000	0.5888434%	$1,356,309,320
Multi-Residential	2.0881901%	$584,165,224	3.546257	2.0881901%	$586,261,616
New Multi-Residential	0.5888434%	$1,928,934	1.000000	0.5888434%	$2,551,455
Commercial	2.1104551%	$1,158,117,127	3.584069	2.1104551%	$1,164,852,966
Industrial	2.3082662%	$135,775,879	3.920000	2.3082662%	$134,140,263

Property Class	2007 Final Municipal Tax Rates* (a)	2007 Municipal Tax Levy (b)	2008 Tax Ratios from (a)	2008 Municipal Tax Rate for General Purposes =(a)	2008 Municipal Tax Levy for General Purposes (incl. growth from Chart 1)
Farmlands	0.1472109%	$14,518	0.250000	0.1472109%	$16,106
Pipelines	1.1326782%	$3,168,599	1.923564	1.1326782%	$3,135,310
Managed Forests	0.1472109%	$343	0.250000	0.1472109%	$343
Total Levy		$3,220,659,823			$3,247,267,378

*Excluding commercial and industrial charity rebates

2008 Additional Municipal Tax Rates (to fund budgetary levy increase):

Subsections 277(7) and (10) of the Act and O.Reg. 121/07 preclude municipalities whose tax ratios for the commercial, industrial and multi-residential property classes (the "restricted classes") are above the provincial threshold limits from increasing property taxes on those classes of properties. Since 2004, the Minister of Finance has been filing a regulation annually to allow restricted municipalities to apply up to one-half of the percentage increase on the residential tax rate to the restricted classes. The Minister has acknowledged that this flexibility measure will again be extended to municipalities for the 2008 taxation, however, the regulation had not been made at the time of writing this report.

In October 2005, Toronto City Council approved a plan designed to boost Toronto's business community, retain existing jobs and attract new jobs to the city. A key recommendation adopted by Council was to limit tax rate increases on the commercial, industrial and multi-residential properties to one-third of the tax rate increase on the residential class. Accordingly, for 2008, a 3.75% tax increase on the unrestricted classes (residential, new multi-residential, farmlands, pipelines and managed forest property classes) will raise an additional $51,075,406 for municipal purposes, and a 1.250% municipal tax increase on the restricted classes will raise an additional $23,565,697, as shown in Chart 3. The total increase for budgetary purposes is $74,641,103, which is an effective tax rate increase of 2.3%. With these recommended increases, the total property tax levy for Toronto in 2008, excluding the rates to fund charitable rebates, will be $3,321,908,482.

Chart 3 – 2008 Tax Levy for Municipal Purposes to Fund Budgetary Levy Increase

	2007 Base Municipal Tax Rate for General Purposes	200 Budgetary Tax Levy Increase	2008 Additional Tax Rate to fund Budgetary Levy Increase	2008 Budgetary Levy Increase ($M)
Unrestricted Classes:				
Residential	0.5888434%	3.75%	0.0220816%	$50,861,536
New Multi-Residential	0.5888434%	3.75%	0.0220816%	$95,679
Farmlands	0.1472109%	3.75%	0.0055204%	$604
Pipelines	1.1326782%	3.75%	0.0424754%	$117,574
Managed Forests	0.1472109%	3.75%	0.0055204%	$13
Sub-Total Unrestricted		3.75%		$51,075,406
Restricted Classes:				
Multi-Residential	2.0881901%	1.250%	0.0261024%	$7,328,277
Commercial	2.1104551%	1.250%	0.0263807%	$14,560,668
Industrial	2.3082662%	1.250%	0.0288533%	$1,676,752
Sub-Total Restricted		1.250%		$23,565,697
Total		2.299%		$74,641,103

2008 Business Tax Rate Reductions under 'Enhancing Toronto's Business Climate' Initiative:

The two key business tax rate reduction initiatives adopted by Council under the "Enhancing Toronto's Business Climate" initiative included:

(i) reducing the tax rates for all businesses and multi-residential properties to 2.5-times the residential tax rate over fifteen years (by the year 2020); there are twelve years remaining to complete this initiative; and

(ii) providing tax relief for smaller businesses by way of an accelerated tax rate reduction to 2.5-times the residential tax rate over ten years (by the year 2015); there are seven years remaining to complete this initiative.

These initiatives will be accomplished by, in addition to the restriction on tax rate increases on the business and multi-residential property classes, a shift of tax burden onto the residential class. Such a shift does not result in any tax revenue to the City; rather, it requires a transfer of tax burden from the non-residential classes onto the residential class. The magnitude of the shift may vary from year-to-year depending on relative current value assessment (CVA) changes, the tax rate increase, and on the tax ratio target to be achieved in each year.

The maximum tax ratio targets adopted by Council are shown in Chart 4. By 2010, it is intended that the tax ratios for the commercial, industrial and multi-residential classes will be equalized at 3.38-time the residential rate, and the ratios will fall in tandem to 3.0-times residential by 2015 and finally 2.5-times residential by 2020.

Chart 4 –Tax Ratios Reduction Targets

	Actual				Maximum Target Ratios			
	2005 Ending Ratios	2006 Ending Ratios	2007 Ending Ratios	2008 Ending Ratios	2009 Max. Target	2010 Max. Target	2015 Max. Target	2020 Max. Target
Multi-Residential	3.71	3.63	3.55	3.46	3.46	3.38	3.0	2.5
Industrial	4.21	4.09	3.92	3.74	3.56	3.38	3.0	2.5
Commercial General	3.75	3.67	3.58	3.49	3.46	3.38	3.0	2.5
Commercial Smaller Businesses	n/a	n/a	n/a	3.41	3.28	3.15	2.5	2.5

With respect to relief for small businesses, the original plan contemplated using MPAC property codes to define eligibility. Given subsequent definitional and eligibility issues related to the use of property codes, by adoption of the 2007 update to Enhancing Toronto's Business Climate, Council approved an alternate approach of using graduated tax rates within the optional residual commercial class. The residual commercial property class is defined in regulation as real property of the commercial property class but excluding real property of the Office Building property class, the Shopping Centre property class, the Parking Lots and Vacant Land property class, and the Professional Sports Facility property class. This approach, together with applying a lower tax rate to the first $1 million of a property's assessment provides the tax relief for small and medium businesses in a manner similar to that originally intended, and will be implemented for the 2008 tax year.

Chart 5 shows the tax shifts required to achieve the tax ratio targets for 2008, including the relief for small businesses. It shows a shift of $4.5 million will be required from the other property classes onto the residential class. This 'policy' tax rate adjustment on the residential class amounts to + 0.33%, or approximately $7.19 for the average household, resulting in a total municipal tax bill of $2,239.93 for the average residential home assessed at $365,468 in 2008, as show in Chart 5a.

Chart 5a - Average Home Assessed at $365,468		
		% Impact
2007 Municipal Taxes	$2,152.03	
2008 Budgetary Levy Increase	$80.70	+3.75%
2008 Policy Shift	$7.19	+0.33%
2008 Final Municipal Taxes	$2,239.93	4.08%

2008 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. Chart 6 below provides the 2008 education tax rates and levies for Toronto. The 2008 education levy is $1,892,724,079, which reflects a reduction of $4,689,792 arising from the business education tax rate reductions announced by the Province as part of the 2007 Provincial Budget, which will eventually see the rates fall to 1.6% Province-wide over seven-years. The average household assessed at $365,468 will pay an education tax bill of $964.83 in 2008.

Chart 6 – 2008 Education Tax Rates

	2007 Education Rates	2007 Year End Education Levy ($)	2008 Education Tax Rates	2008 Education Tax Levy ($)	$ Change
Residential	0.264000%	$608,082,999	0.264000%	$608,082,999	-
Multi-Residential	0.264000%	$74,118,284	0.264000%	$74,118,284	-
New Multi-Residential	0.264000%	$1,143,911	0.264000%	$1,143,911	-
Commercial	1.975821%	$1,089,364,146	1.968305%	$1,085,220,219	($4,143,926)
Industrial	2.059907%	$119,707,368	2.050709%	$119,172,843	($534,525)
Farmlands	0.066000%	$7,221	0.066000%	$7,221	-
Pipelines	1.802637%	$4,989,789	1.798540%	$4,978,449	($11,341)
Managed Forests	0.066000%	$154	0.066000%	$154	-
Total		$1,897,413,871		$1,892,724,079	($4,689,792)

Chart 5 – 2008 Tax Rates and Policy Shift to Achieve Tax Ratio Targets

	2008 Starting Ratios	2008 General Rate	2008 Levy Increase Rate	2008 Policy Rate	2008 Final Rate	2008 Ending Ratios	Policy Shift	% Policy Tax Shift
Residential	1.000000	0.5888434%	0.0220816%	0.0019680%	0.6128930%	1.000000	$4,532,982	0.33%
Multi-Residential	3.546257	2.0881901%	0.0261024%	0.0068106%	2.1211031%	3.460805	$1,912,083	0.33%
New Multi-Residential	1.000000	0.5888434%	0.0220816%	0.0019680%	0.6128930%	1.000000	$8,527	0.33%
Commercial General	3.584069	2.1104551%	0.0263807%	0.0068837%	2.1437195%	3.497706	$1,843,447	0.33%
Residual Commercial - Lowest Band	3.584069	2.1104551%	0.0263807%	-0.0468707%	2.0899651%	3.410000	$(6,674,041)	-2.22%
Residual Commercial - Highest Band	3.584069	2.1104551%	0.0263807%	0.0068837%	2.1437195%	3.497706	$975,782	0.33%
Industrial	3.920000	2.3082662%	0.0288533%	-0.0448997%	2.2922198%	3.740000	$(2,609,256)	-1.95%
Farmlands	0.250000	0.1472109%	0.0055204%	0.0004920%	0.1532233%	0.250000	$54	0.33%
Pipelines	1.923564	1.1326782%	0.0424754%	0.0037853%	1.1789389%	1.923564	$10,478	0.33%
Managed Forests	0.250000	0.1472109%	0.0055204%	0.0004920%	0.1532233%	0.250000	$1	0.33%

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

The *City of Toronto Act, 2006* continues to provide the City with two additional capping options in order to increase progress towards fully implementing CVA taxation. 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).

In adopting the initiatives under 'Enhancing Toronto's Business Climate' at its meeting in October 2005, Council has directed the alternate option allowed under subsection 292(2) of the *City of Toronto Act, 2006* to limit reassessment-related tax increases for the commercial, industrial, and multi-residential property classes to 5% of the preceding year's *current value taxes* (as compared to 5% of the preceding year's *capped taxes*) commencing in the 2006 taxation year. A by-law needs to be enacted in each year to have the alternate cap apply, which is a recommendation in this report.

The City funds the foregone revenue resulting from the 5% cap by reducing or 'clawing back' the decreases that properties facing decreases would otherwise experience. The clawback rate report will be presented directly to Council at its meeting of April 28-29, 2008, to enable staff to process all tax appeals to as close to that date as possible so as to ensure the most accurate clawback rate.

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 2007, the City processed 753 applications from eligible charities for the 2006 tax year, providing $7.1 million in rebates to these charities, of which the municipal share is estimated at $3.84 million. The Province funds the education share of the rebates. However, in 2007, the City was also required to process $1.48 million in additional rebates (City portion) where estimated actuals exceeded the budgeted amount. Accordingly, the estimated amount to be levied in 2008 is $5.33 million, which will be funded from the 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 summary of the 2008 estimated funding requirements for registered charities in the commercial and industrial property classes.

Chart 7 - 2008 Estimated Property Tax Rebates for Registered Charities in the Commercial and Industrial Property Classes

	Commercial	Industrial	Total (City Portion)
2006 Expected Charitable Rebates	$3,785,557	$58,195	$3,843,752
December 31, 2007 (Surplus) / Deficit	$1,499,271	($15,769)	$1,483,502
Total 2008 Charitable Rebate Levy Estimate	$5,284,828	$42,426	$5,327,254

Property Class	Bands	Additional Tax Rate to Fund Rebates to Eligible Charities
Commercial General	Unbanded	0.0096373%
Residual Commercial	Lowest Band	0.0093956%
Residual Commercial	Highest Band	0.0096373%
Industrial	Unbanded	0.0007300%

Due Dates:

In order to maintain continuity and provide a consistent level of service, the City of Toronto intends to set its 2008 instalment due dates for the final property tax bill in keeping with the schedule established for prior years. For 2008, the regular payment due dates for the final bill will be July 1, August 1, and September 2. 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 1, 2008. 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, 2008.

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 2008, 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.

Comparable Treatment of New Construction:

During 2004, the Province introduced a number of legislative changes to the *Municipal Act* 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 a newly constructed property's taxes being set at a fraction of its full CVA-level of taxes, exacerbating and perpetuating inequities caused by the current capping system. This provision is continued in the *City of Toronto Act, 2006*.

Staff are recommending completing the phase-out of the comparable property tax treatment for new construction in 2008 by establishing the property taxes for new construction in 2008 at the full uncapped (full CVA) taxes as provided for under legislation for 2008. To implement this provision, Council must pass a by-law prior to April 30th in each year.

CONTACT

Len Brittain
Director, Corporate Finance
lbrittai@toronto.ca
416-392-5380

Adir Gupta
Manager, Corporate Finance
agupta@toronto.ca
416-392-8071

Giuliana Carbone
Director, Revenue Services
gcarbone@toronto.ca
416-392-8065

Carmela Romano
Manager, Revenue Services
cromano@toronto.ca
416-395-6730

SIGNATURE

____

Joseph P. Pennachetti
Deputy City Manager and Chief Financial Officer