

112 Elizabeth Street – Designation of a portion of premises as a Municipal Capital Facility

| | |
|--------------------------|---|
| Date: | August 29, 2008 |
| To: | Government Management Committee |
| From: | Treasurer |
| Wards: | Ward 27 – Toronto Centre - Rosedale |
| Reference Number: | P:\2008\Internal Services\Rev\gm08020rev (AFS#8392) |

SUMMARY

This report seeks Council authority to adopt the necessary by-laws to designate the leased premises at 112 Elizabeth Street that are used for the general administration of the City as a municipal capital facility and to provide a property tax exemption for municipal and education purposes. Providing a tax exemption for the leased space will result in a net financial savings to the City of approximately \$21,985 per year, representing the provincial education share of taxes that will no longer be payable.

RECOMMENDATIONS

The Treasurer recommends that:

1. Council pass a by-law pursuant to section 252 of the *City of Toronto Act, 2006*, providing authority to:
 - a. enter into a municipal capital facility agreement with the owner, 2001064 Ontario Inc., of the property located at 112 Elizabeth Street in respect of lands leased by the City of Toronto, Facilities and Real Estate Division, and used for the general administration of the City; and
 - b. exempt the leased space at 112 Elizabeth Street (14,518 square feet) from taxation for municipal and school purposes, which tax exemption is to be effective from the later of the following dates: the date the municipal capital facility agreement is signed; or the date the tax exemption by-law is enacted;

2. The City Clerk be directed to give written notice of the by-law to the Minister of Education, the Municipal Property Assessment Corporation, the Toronto District School Board, the Toronto Catholic District School Board, the Conseil Scolaire de District du Centre-Sud-Ouest, and the Conseil Scolaire de District du Catholique Centre-Sud;
3. Authority be granted for the introduction of the necessary bills to give effect thereto; and
4. The appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

Financial Impact

The annual property taxes on the space leased by Facilities and Real Estate at 112 Elizabeth Street are estimated at approximately \$110,437, comprised of a municipal portion of \$88,452 and a provincial education portion of \$21,985, based on 2008 Current Value Assessment (CVA) and 2008 tax rates, including all capping adjustments.

The annual operating budget for the Facilities and Real Estate Division includes amounts for rent (which include property taxes) on leased space, and as such there would be no net impact on the municipal portion of taxes from the exemption, as the decrease in municipal tax revenue would be offset by a corresponding reduction in the annual budgetary requirement for the Facilities and Real Estate Division. However, making the leased space exempt would result in net savings to the City of \$21,985 per year, representing the provincial education share of taxes that would no longer be payable once the exemption takes effect (See Table 1).

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

Table 1
Financial Savings due to Property Tax Exemption – 112 Elizabeth Street

| | Municipal Taxes | + Education Taxes | + Other Rental Amount | = Total Budget Requirement |
|---|------------------------|--------------------------|------------------------------|-----------------------------------|
| Amounts Payable if Taxable | \$88,452 | \$21,985 | \$37,712 | \$148,149 |
| Amounts Payable if Exempt | \$0 | \$0 | \$37,712 | \$37,712 |
| Gross Savings due to exemption: | | | | \$110,437 |
| Less Reduction in Municipal Tax Revenues: | | | | -\$88,452 |
| Total Net Savings: | | | | \$21,985 |

ISSUE BACKGROUND

The leased space at 112 Elizabeth Street is occupied by the Lobbyist Registrar, Office of the Ombudsperson, Information and Technology, City Clerks, Fire Services and Social Services and has been leased since March 17, 1986, comprising a total floor space of

14,518 square feet. The original lease was for a twenty year period, with a clause in the lease stating that if the tenant remains in possession of the leased premises after the end of the term and with the permission of the landlord, the tenant shall occupy the leased space from month to month. Staff of Facilities and Real Estate Division are in the process of negotiating a new lease for these premises with 2001064 Ontario Inc., the property owner, to ensure the City's continued occupation of this space.

Given that the 14,518 square feet of space at 112 Elizabeth Street is leased as opposed to owned by the City, the City is responsible for payment of property taxes. The annual taxes on the leased space, based on 2008 commercial tax rates and inclusive of all capping adjustments, have been estimated at \$110,437, of which the City portion is \$88,452 and the education portion is \$21,985.

COMMENTS

Properties "owned" and "occupied" by a municipality or local board are exempt from taxation pursuant to section 3 of the *Assessment Act*. However, where a municipality or local board "leases" property that would normally be subject to taxation, this exemption does not apply.

Given that the space in question at 112 Elizabeth Street is leased by the City, as opposed to owned, the leased premises that are used for the City's administrative offices are currently subject to taxation at commercial rates. The remainder of the building is owned by the Toronto Community Housing Corporation and used for rental housing, and is taxable at multi-residential tax rates. Designating the portion of property leased by the City as a municipal capital facility and providing an exemption from taxes will reduce the monthly rental amount paid by Facilities and Real Estate. Although the exemption will result in a reduction in municipal tax revenues of \$88,452 per year, representing the municipal portion of taxes that will no longer be received by the City as tax revenue, this reduction will be offset by a corresponding decrease in Facilities and Real Estate operating budget requirement of the same amount. Overall, the net savings to the City will be \$21,985 per year, representing the education portion of taxes that will no longer be payable to the Province.

The property tax exemption on the space currently leased for the general administration of the City will not apply unless City Council agrees to provide a tax exemption, by way of a municipal capital facilities agreement under section 252 of the *City of Toronto Act, 2006*.

Legislation Regarding Municipal Capital Facilities

Section 252 of the *City of Toronto Act, 2006* allows the City to enter into agreements with any person for the provision of municipal capital facilities, and allows City Council to exempt from taxation for municipal and school purposes, land or a portion of land, on which municipal capital facilities are or will be located.

Ontario Regulation 598/06 prescribes "facilities used for the general administration of the City" as eligible municipal capital facilities for the purpose of section 252.

Under Section 252 of the *City of Toronto Act*, the legislation requires:

- (a) that the property owner and the City enter into an agreement for the provision of a municipal capital facility for the space being leased; and
- (b) that a by-law be passed by Council permitting the City to enter into the agreement, and to exempt the property to which the municipal capital facility agreement applies from taxation for municipal and school purposes.

Upon the passing of this by-law, the City Clerk must give written notice of the by-law to the Minister of Education. For the tax exemption, the City Clerk must also provide a written notice of the contents of the by-law to the Municipal Property Assessment Corporation and the Secretary of any affected school board(s).

CONTACT

Giuliana Carbone, Director, Revenue Services

Phone: (416) 392-8065, Fax: (416) 696-3778, E-mail: gcarbone@toronto.ca

SIGNATURE

Cam Weldon
Treasurer