



# STAFF REPORT ACTION REQUIRED

## 2010 Education Levy and 2010 Clawback Rate By-Laws

<b>Date:</b>	April 14, 2010
<b>To:</b>	City Council
<b>From:</b>	Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All Wards
<b>Reference Number:</b>	P:\2010\Internal Services\Cf\Cc10016cf (AFS #11961)

### SUMMARY

This report introduces the 2010 education tax rates and property tax levy for school purposes for the City of Toronto as prescribed by the Minister of Finance. This report also recommends the 2010 percentage of the tax decreases (the ‘clawback’ rates) required to recover the revenues foregone as a result of the cap limit on properties in the commercial, industrial and multi-residential property classes, as provided for by legislation.

### RECOMMENDATIONS

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

- The 2010 tax rates for school purposes set out in Column II, which will raise an education tax levy for 2010 of \$1,929,755,793, be adopted:

Column I	Column II
Property Class	2010 Tax Rate for Education Levy
Residential	0.241000%
Multi-Residential	0.241000%
New Multi-Residential	0.241000%
Commercial	1.661556%
Commercial (New Construction)	1.430000%
Residual Commercial (New Construction)	1.430000%
Industrial	1.704003%
Industrial (New Construction)	1.430000%
Pipelines	1.689027%
Farmlands	0.060250%
Managed Forests	0.060250%

2. Council enact a by-law for the 2010 taxation year to reduce tax decreases for the 2010 taxation year on properties in the commercial, industrial and multi-residential property classes by the percentage of the tax decrease set out in Column II in order to recover the revenues foregone as a result of capping:

Column I (Property Class)	Column II (Clawback Percentage)	Column III (Allowable Decrease)
Commercial	84.963675%	15.036325%
Industrial	60.824993%	39.175007%
Multi-residential	28.928804%	71.071196%

### **Implementation Points**

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 bills for the year, for both municipal and school purposes.

Executive Committee at its meeting of April 7<sup>th</sup>, 2010, recommended the 2010 municipal property tax levy, and hence the municipal tax rates arising from such levy. On March 30, 2010, Ontario Regulation 118/10 was filed prescribing the 2010 education tax rates for Toronto and other Ontario municipalities. With both these rates established, staff are now in a position to calculate the 2010 clawback rates, and the necessary by-laws have been prepared for adoption by Council at its meeting scheduled for April 15 and 16, 2010.

### **Financial Impact**

There is no direct financial implication 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 2010 education levy is \$1,929,755,793. The average household assessed at \$407,374 in 2010 will pay an education tax bill of \$981.77.

There is also no direct financial implication to the City of Toronto arising from adoption of this report. The foregone revenue resulting from the legislated limit on Current Value Assessment (CVA) related tax increase (5% cap) for the commercial, industrial and multi-residential property tax classes is funded by withholding (clawing-back) a portion of the decrease that would otherwise be recognized within each class, with no budgetary funding implications for the City.

### **DECISION HISTORY**

At its meeting of April 7, 2010, during consideration of the City's 2010 Operating Budget, Executive Committee recommended the 2010 Property Tax Levy, and because the 2010 Education Tax Rates were not available at the time of printing that report.

Executive Committee also authorized the Deputy City Manager and Chief Financial Officer to report directly, if necessary, to Council at its meeting scheduled for April 15 and 16, 2010, on the 2010 education tax rates and 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 2010 ‘clawback’ rates). <http://www.toronto.ca/legdocs/mmis/2010/ex/bgrd/backgroundfile-28785.pdf>

## COMMENTS

### 2010 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. Ontario Regulation 118/10 prescribes the education tax rates for 2010. Chart 1 below provides the 2010 education tax rates and levies for Toronto. The 2010 Education levy is \$1,929,755,791.

**Chart 1 – 2010 Education Tax Rates**

Column I	Column II	Column III
Property Class	2010 Education Tax Rate	2010 Education Levy
Residential	0.241000%	638,948,672
Multi-Residential	0.241000%	70,147,370
New Multi-Residential	0.241000%	1,191,474
Commercial	1.661556%	1,099,684,213
Commercial (New Construction)	1.430000%	942,792
Industrial	1.704003%	113,998,971
Industrial (New Construction)	1.430000%	147,719
Pipelines	1.689027%	4,685,251
Farmlands	0.060250%	8,037
Managed Forests	0.060250%	1,294
Total Education Levy		1,929,755,793

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

Legislation mandates a cap on CVA-related tax increases on properties in the commercial, industrial, and multi-residential classes. Since 2006, as part of the initiatives under ‘Enhancing Toronto’s Business Climate’, Council’s policy has been 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. Further legislative changes for 2009 provide that properties which reach their CVA-level of taxation, remain at CVA taxation and be excluded from future capping or clawback due the CVA reassessment changes.

Chart 2 below sets out the percentage reductions in the tax decreases for 2010 (the “clawback rate”) necessary to fund the foregone revenue resulting from the 5% cap on tax increases for 2010. The “allowable decrease” (Column III) represents the percentage of the tax decrease allowed for those properties that are experiencing tax reductions under CVA.

**Chart 2**  
**2010 Clawback Rates for Capped Property Classes**

Column I (Property Class)	Column II (Clawback Percentage)	Column III (Allowable Decrease)
Commercial	84.963675%	15.036325%
Industrial	60.824993%	39.175007%
Multi-residential	28.928804%	71.071196%

**Status of Reaching Current Value Assessment:**

In 1998, when current value assessment (CVA) was implemented on a province-wide basis, many commercial, industrial and multi-residential properties in Toronto would have experienced significant tax increases in the absence of any intervention. As a result, the Province introduced a mandatory capping regime which limited CVA- related tax increases for commercial, industrial and multi-residential properties to 5% of a property’s prior year’s tax. The legislation also provided for municipalities to claw-back tax decreases on the reset of the properties in those classes to fund the foregone revenue from the caps.

While well intentioned, this initial system of capping increases and clawing back decreases inadvertently perpetuated these historic inequities in taxation and prevented properties from reaching their fair CVA-level of taxation in any reasonable time-frame. Furthermore, with each reassessment, rising values have pushed some properties even further away from CVA, and in the absence of any legislative change, it became apparent that it would take decades to make any significant progress towards fair taxation. Stakeholders and municipal tax administrators have identified their concerns with the capping program, including the very slow rate of progress towards CVA and the complexity of the system that leads to a lack of transparency for property owners, as reasons for accelerating the progress to fair CVA-level of taxation.

In response to these concerns, the Province has made several recent legislative changes to the *Municipal Act* and *City of Toronto Act* to provide municipalities the tools to increase progress towards CVA. These tools include increasing the cap on tax increases to up to 10% of previous year's taxes or up to 5% of a property’s prior year’s full CVA-level taxes (which the City of Toronto has adopted since 2006). Commencing in 2009, these changes also provide for properties which reach their full-CVA level of taxation to remain at their CVA-level of taxation regardless of future CVA reassessments. This latter legislative change has had the most effect in accelerating the objective of reaching CVA-level taxation, and has been repeatedly supported by City Council since 2005.

Chart 3 below shows the progress to CVA-level of taxation. In 2008, ten years after introduction of CVA, and prior to the most recent legislative change, only 12% of commercial properties (4,061 of 34,177), 11% of industrial properties (452 of 4,188), and 25% of multi-residential properties (1,087 of 4,293) had made it to their full CVA-level of taxation. This Chart shows the significant progress that has been made in the last two years with the most recent legislative changes, in that as of 2010, 37% of commercial properties (12,833), 40% of industrial properties (1,637), and 37% multi-residential properties (1,570) are now at their full CVA-level of taxation.

**Chart 3  
Progress to Full-CVA Level of Taxation**

Tax Class	CVA Status	2009 Tax Year				2010 Tax Year			
		2008 (at Dec. 2008)	% of Class Total	2009	% of Class Total	2009 (at Dec. 2009)	% of Class Total	2010	% of Class Total
<b>Commercial</b>									
	Capped	15,608	46%	13,540	40%	13,408	39%	11,563	34%
	Clawed-Back	14,508	42%	10,497	31%	10,555	31%	10,001	29%
	At CVA	<u>4,061</u>	12%	<u>10,140</u>	30%	<u>10,434</u>	30%	<u>12,833</u>	37%
		34,177		34,177		34,397		34,397	
<b>Industrial</b>									
	Capped	836	20%	650	16%	624	15%	495	12%
	Clawed-Back	2,900	69%	2,113	50%	2,104	51%	2,012	49%
	At CVA	<u>452</u>	11%	<u>1,425</u>	34%	<u>1,416</u>	34%	<u>1,637</u>	40%
		4,188		4,188		4,144		4,144	
<b>Multi-Residential</b>									
	Capped	509	12%	354	8%	325	8%	225	5%
	Clawed-Back	2,697	63%	2,546	59%	2,555	60%	2,472	58%
	At CVA	<u>1,087</u>	25%	<u>1,393</u>	32%	<u>1,387</u>	33%	<u>1,570</u>	37%
		4,293		4,293		4,267		4,267	

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## SIGNATURE

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