TORONTO

STAFF REPORT
ACTION REQUIRED

2010 Property Tax Rates and Related Matters

Date:	March 22, 2010
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2010\Internal Services\Cf\Bc10011cf (AFS #11420)

SUMMARY

This report recommends the establishment of the 2010 municipal tax ratios and 2010 municipal tax rates that result from Council's concurrent approval of the City of Toronto 2010 Operating Budget inclusive of a 1.816% budgetary-related tax increase.

RECOMMENDATIONS

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

1. Council again 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.

2. Council adopt the 2010 tax ratios shown in Column II (before budgetary levy increase) for each of the property classes set out below in Column I, which together with the 2010 municipal budgetary tax levy increase as recommended in Recommendation 4(b), will result in the 2010 ending tax ratios shown in Column III, which meet or exceed Council's tax ratio reduction targets for 2010, shown in Column IV, set out in the "Enhancing Toronto's Business Climate" initiative adopted in October 2005.

Column I	Column II	Column III	Column IV
Property Class	2010 Recommended Tax Ratios(before levy increase)	2010 Ending Ratios (after levy increase)	2010 Maximum Tax Ratio Targets under 'Enhancing Toronto's Business Climate – October 2005)'
Residential	1.000000	1.000000	na
Multi-Residential	3.379905	3.316402	3.38
New Multi-Residential	1.000000	1.000000	na
Commercial General - Unbanded	3.330000	3.267434	3.38
Residual Commercial – Lowest Band	3.250000	3.108171	3.14
Residual Commercial – Highest Band	3.250000	3.267434	3.38
Industrial	3.440000	3.375368	3.38
Pipeline	1.923564	1.923564	na
Farmlands	0.250000	0.250000	na
Managed Forests	0.250000	0.250000	na

3. Council enact a by-law to establish two bands of assessment of property in the Residual Commercial property class, for the purposes of facilitating graduated tax rates for the Residual Commercial property class in 2010, 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 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 Tax Rate to Each Other
Residual Commercial	Lowest Band	Less than or equal to $1,000,000	0.951257
Residual Commercial	Highest Band	Greater than $1,000,000	1.000000

4. Council adopt:

   a. the tax rates set out below in Column III, which rates will raise a local municipal general tax levy for 2010 of $3,471,437,412; and,

   b. the tax rates set out below in Column IV, which rates represent a 2.90% increase on the unrestricted property classes (residential, new multi-residential, pipelines, farmlands, and managed forests) and a 0.967% increase on the restricted property classes (commercial, industrial, and multi-residential) and which rates will raise an additional local municipal tax levy for 2010 of $63,039,664 to fund the 2010 operating budget tax levy increase, as determined in accordance with legislative requirements.

Column I	Column II	Column III	Column IV	Column V
Property Class	2010 Tax Rate for Base General Local Municipal Levy Before Graduated Tax rates	2010 Tax Rate for General Local Municipal Levy After Graduated Tax Rates	2010 Additional Tax Rate to Fund Budgetary Levy Increase)	2010 Ending Municipal Tax Rate (excluding Charity rebates)
Residential	0.5729545%	0.5729545%	0.0166157%	0.5895702%
Multi-Residential	1.9365319%	1.9365319%	0.0187198%	1.9552517%
New Multi-Residential	0.5729545%	0.5729545%	0.0166157%	0.5895702%
Commercial General - Unbanded	1.9079384%	1.9079384%	0.0184434%	1.9263818%
Residual Commercial - Lowest Band	1.8621020%	1.8149404%	0.0175444%	1.8324848%
Residual Commercial - Highest Band	1.8621020%	1.9079384%	0.0184434%	1.9263818%
Industrial	1.9709634%	1.9709634%	0.0190526%	1.9900160%
Pipelines	1.1021147%	1.1021147%	0.0319613%	1.1340760%
Farmlands	0.1432386%	0.1432386%	0.0041539%	0.1473925%
Managed Forests	0.1432386%	0.1432386%	0.0041539%	0.1473925%

5. An adjustment be made to the 2010 Non-Program Tax Account in the amount of $6,795,758 to fund the mandatory 2010 property tax rebates to registered charities in the commercial property class, which adjustment is to be funded, for a net impact on the 2010 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 $6,795,758 to fund the total estimated rebates to registered charities for properties in the commercial classes in 2010.

Column I	Column II	Column III
Commercial Property Classes	Bands	Additional Tax Rate to Fund Rebates to Eligible Charities
Commercial General	Unbanded	0.0103664%
Residual Commercial	Lowest Band	0.0098611%
Residual Commercial	Highest Band	0.0103664%

6. With respect to the Capping and Clawback of taxes in the commercial, industrial and multi-residential property classes:

    a. Council enact the necessary by-law to continue 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 2010 taxation year.

b. Council enact a by-law to continue to provide for the removal of properties from the capping and clawback system once they have reached their full CVA-level of taxation for the 2010 tax year.

7. The Deputy City Manager and Chief Financial Officer be directed to report directly to Council at its meeting scheduled for April 15 and 16, 2010, on the 2010 tax rates for school purposes, and the 2010 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).

8. Council again enact a by-law to maintain the phase-out of the comparable property tax treatment for new construction in the commercial, industrial and multi-residential classes by maintaining the minimum property taxes for new construction at 100% of the full uncapped CVA level of taxes for 2010 and future years

9. As in past years, the instalment dates for the 2010 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 15^{th}, or first business day thereafter, of each of the months of July to December.

    c. For taxpayers who are enrolled in the two installment program, the final instalment date be July 2.

10.

    a. The collection of taxes for 2010, other than those levied under By-law No. 1226-2009 (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.

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.

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.

Council will be considering the City's 2010 Operating Budget at a Special Meeting of Council scheduled to be held on April 15 and 16, 2010. Upon conclusion of that meeting and adoption of the City's 2010 Operating Budget, the Deputy City Manager and Chief Financial Officer will report on the levy and tax rate requirements for municipal purposes and education purposes, as presented on a preliminary basis in this report, and the necessary Bills will be introduced in Council.

As of the time of writing this report, the Provincial Regulation prescribing the 2010 tax rates for school purposes for the City of Toronto had not been filed. As such, it will be necessary for staff to report directly to Council at its meeting on April 15 and 16, 2010, on the 2010 tax rates for school purposes and the 2010 clawback rates.

FINANCIAL IMPACT

The 2010 Operating Budget recommended by Budget Committee is predicated on a 1.816% property tax levy increase ($63.04 million). Council's adopted policy is that tax increases on the non-residential property classes be limited to one-third of the increase imposed on the residential class until non-residential tax rates reach the target of 2.5-times the residential rate not later than 2020. As such, adoption of the 2010 Operating Budget will necessitate a 2.90% tax rate increase on the residential property class, and a 0.967% tax rate increase on the non-residential classes, which will raise the required amount of $63.04 million ($44.22 million from residential, and $18.82 million from non-residential). A 2.90% residential tax rate increase translates to an increase of $67.69 for the average residential household assessed at $407,374 in 2010.

DECISION HISTORY

The "2009 Property Tax Rates and Implementing Enhancing Toronto's Business Climate Strategy" Report can be viewed at:
http://www.toronto.ca/legdocs/mmis/2009/ex/reports/2009-03-24-ex30-cr.pdf

Council's policy decisions in respect of "Enhancing Toronto's Business Climate – It's Everybody's Business (October 2005)", and as updated in October 2007, which sets out the tax ratio reduction targets approved by Council 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

COMMENTS

Assessment Cycle

The assessment of all property in Ontario is carried out by the Municipal Property Assessment Corporation (MPAC), under the Province's *Assessment Act*. For the tax years 2009 through to 2012 inclusive, properties have been reassessed to reflect a January 1, 2008 valuation date. Reassessments are now conduced on a four-year cycle with Current Value Assessment (CVA) increases being phased-in between the four-year periods. As such, increases arising from the 2009 reassessment are being phased-in at incremental increases of one-quarter of the total increase, spread over the 2009 to 2012 taxation years. Any CVA decreases are not subject to phase-in and will be applied immediately.

The next assessment update will take place for taxation years 2013-2016, with the valuation basis being January 1, 2012. Chart 1 below provides the valuation dates used for each taxation year from 1998 through 2016.

Chart 1: Assessment Cycle

Taxation Year	**Valuation Date**		
1998, 1999, 2000	June 30, 1996		
2001, 2002	June 30, 1999		
2003	June 30, 2001		
2004,2005	June 30, 2003		
2006, 2007, 2008	January 1, 2005		
2009, 2010, 2011, 2012	January 1, 2008	✓	Increases phased in over 4 years
2013, 2014, 2015, 2016	January 1, 2012		

2010 Assessment Changes:

Reassessment is revenue-neutral to the City. Legislation requires municipalities to reduce their tax rates in proportion to the increase in total assessed value arising from reassessment.

The 2010 phased-in CVA for the residential property class has appreciated on average by 5.2% as compared to the 2009 phased-in CVA. The average assessed value for all residential property types for 2010 taxation is $407,374, as compared to $387,217 for 2009 taxation purposes. Chart 2 summarizes the average CVA values for single family detached property types and all residential property types.

Chart 2 - Average CVA Values for Single Family Detached Homes and All Residential Property Types

	2008 CVA (Jan. 01/05 valuation base)	2009 Phased-in CVA (Jan. 01/08 valuation base phased-in)	2010 Phased-in CVA (Jan. 01/08 valuation base phased-in)	2012 CVA (Jan. 01/08 valuation base)
Single Family Detached Home	$458,865	$486,270	$515,474	$569,879
All Residential Properties (includes semi's, townhomes, condo's)	$367,802	$387,217	$407,374	$447,679

In reassessments, tax shifts between properties within a property class will occur – a property which appreciates at a rate greater than the class average will experience an increase in tax burden, and conversely, a property which appreciates at a rate less than the class average will experience a decrease in tax burden.

In a similar way, during reassessments, tax shifts between property classes will also occur – property classes that appreciate at a rate greater than the City-wide average will experience an increase in tax burden, and conversely, property classes that appreciate at a rate less than the City-wide average will experience a decrease in tax burden. Tax shifts between property classes, pursuant to Provincial regulation, are necessary to maintain tax ratios at the pre-reassessment level as the starting point for determining the general tax rates for the coming year. Municipalities have the option to adopt tax ratios for the commercial, industrial and multi-residential classes that are lower than these starting ratios.

In Toronto, for 2010, the City-wide CVA change is an increase in total assessed value of 5.58% across all property classes. The increase in CVA for the commercial property class as a whole (including small business, Residual Band 2 and Commercial General) is 8.23%, and for the industrial property class, 9.47%, which are above the City-wide average. Increases in CVA for the residential and multi-residential classes are 5.20% and 2.42%, respectively, which are below the City-wide average. As a result, there will be a shift in tax burden from the residential and multi-residential classes to the business classes in 2010. These impacts are summarized in Column II of Chart 3 shown on the following page.

2010 Tax Ratio Options and Property Tax Assistance for Small Businesses, Commercial and Industrial

Council's adopted policy commencing in 2006 under the 'Enhancing Toronto's Business Climate' initiative is to reduce the tax ratios for the multi-residential class and the business classes to 2.5-times the residential tax rate by 2020 (a 15 year plan), and further, to provide for an accelerated reduction in tax rates for small businesses, with a target of 2.5-times the residential rate by 2015 (a 10 year plan, instead of 15 years for the rest of commercial).

In 2009, partly due to the impacts of reassessment and Council's action in regards to Enhancing Toronto's Business Climate, an acceleration in the commercial and industrial tax rate reductions was implemented for 2009. This accelerated initiative is recommended to be continued for 2010, which will keep the City on track to reaching it's Enhancing Toronto's Business Climate tax reduction targets of 2.5-times the residential rate 2 years earlier for small businesses (2013 instead of 2015), and 3 years earlier for the rest of commercial and the industrial and multi-residential properties (2017 instead of 2020). The impacts of the recommended shift are shown in Column III of Chart 3. In effect, the policy claws back the CVA reduction the residential class would otherwise experience in 2010, and claws back part of the reduction the multi-residential class would otherwise experience, at redistributes these decreases to the business classes in order to advance the Enhancing Toronto's Business Climate initiative.

Chart 3 - 2010 CVA Class Changes and Resulting Municipal Tax Shifts, and Offsetting 'Policy' Tax Shift from Adopting Lower Tax Ratios

	Column I	Column II		Column III	
		2010 CVA Impact		2010 'Policy' Shift from Adopting Lower Tax Ratios	
Property Class	2010 Average CVA Change %	$ M	% (Average)	$ M	% (Average)
Residential	5.20%	(10.86)	-0.71%	10.85	0.71%
Multi-residential	2.42%	(19.38)	-3.35%	4.02	0.62%
Commercial Residual	8.71%	15.06	2.58%	(7.99)	-1.38%
Commercial General	7.79%	11.29	1.73%	(3.80)	-0.59%
Commercial - Total	8.23%	26.35	2.13%	(11.79)	-1.18%
Industrial	9.47%	4.07	3.11%	(3.12)	-2.39%
City-Wide	5.58%	0.00	0.00%	0.00	0.00%

The combined effect of the 2010 CVA impacts, together with the necessary adjustments in respect of Council's commitment to enhancing Toronto's business climate and the 2010 budgetary levy requirements, are summarized in Chart 4. Council's action in respect of enhancing Toronto's business climate will result in:

a. a 2.90% tax levy increase on the residential class;
b. enhanced assistance to small businesses (a 3.0% tax decrease)
c. mitigation of the impacts to larger businesses and industries by partially offsetting the CVA-related tax increase that would otherwise occur; and,
d. providing tax reductions for apartment buildings (a 1.76% tax decrease).

A 2.90% residential tax rate increase translates to an increase of $67.69 for the average residential household.

Chart 4 – 2010 CVA, Enhancing Business Climate, and Budgetary Impacts

	Average CVA Impact	Average Enhancing Toronto's Business Climate Adjustment	Budgetary Levy Impact	Average Total Impact
Residential	-0.71%	0.71%	2.90%	2.90%
Multi-Residential	-3.35%	0.62%	0.97%	-1.76%
Small Business Band 1	-1.76%	-2.27%	0.97%	-3.07%
Residual Commercial Band 2 Blended	2.58%	-1.38%	0.97%	2.17%
Commercial General	1.73%	-0.59%	0.97%	2.10%
Industrial	3.11%	-2.39%	0.97%	1.69%
City Average	0.00%	0.00%	1.82%	1.82%

Chart 5 below illustrates the acceleration in the commercial and industrial tax rate reductions. It is projected the City reaching it's Enhancing Toronto's Business Climate tax reduction targets of 2.5-times the residential rate 2 years earlier for small businesses (2013 instead of 2015), and 3 years earlier for the rest of commercial and the industrial and multi-residential properties (2017 instead of 2020).

Chart 5 – Projected Ending Tax Ratios of Recommended Action

<table>
<tr><th></th><th>Historic</th><th colspan="2">Actual</th><th colspan="4">Projected</th></tr>
<tr><th></th><th>2006</th><th>2009</th><th>2010 (vs 3.38 target)</th><th>2011</th><th>2012</th><th>2013 (vs. 2015)</th><th>2017 (vs. 2020)</th></tr>
<tr><td>Commercial</td><td>3.68</td><td>3.46</td><td>3.27</td><td rowspan="3">3.21</td><td rowspan="3">3.10</td><td rowspan="3">3.00</td><td rowspan="4">2.50</td></tr>
<tr><td>Industrial</td><td>4.09</td><td>3.56</td><td>3.37</td></tr>
<tr><td>Multi-Residential</td><td>3.63</td><td>3.46</td><td>3.32</td></tr>
<tr><td>Small Business</td><td>n/a</td><td>3.28</td><td>3.10</td><td>2.90</td><td>2.70</td><td>2.50</td></tr>
</table>

Tax Relief Options for Low-Income Seniors and Disabled Persons

The City provides both a Tax Increase Cancellation Program and a Tax Increase Deferral Program for low-income seniors and low-income disabled homeowners that meet certain eligibility criteria. Under the Tax Increase Cancellation program, eligible homeowners can have their tax increases, whether CVA or budgetary related, cancelled. Under the Tax Increase Deferral program, eligible homeowners can have their tax increases, whether CVA or budgetary related, deferred without interest, and only repayable once the homeowner becomes no longer eligible.

The City most recently enhanced its tax relief program for low income seniors and low income disabled persons in 2009. At that time, City Council increased the household income criteria for the cancellation program from $26,000 to $36,000 and the CVA threshold for property value from $454,000 to $525,000 (automatically increases to $575,000 for 2011 and 2012). Staff estimate that over 19,000 households are eligible for the cancellation program. City Council also increased the household income criteria for the deferral program from $40,000 to $50,000 for 2009 and beyond. The age criteria for the deferral program is still 50 years of age or older, and there is no CVA property-value threshold for the deferral program. Staff estimate approximately 82,000 households are eligible for the deferral program. Staff also estimate the take-up rates at 15% and 1-2% for the cancellation and deferral programs, respectively.

A summary of the current senior's and disabled-persons property tax relief programs is shown in Chart 6.

Chart 6 – Summary of the Current Senior's and Disabled-Persons Property Tax Relief Programs

	Tax Increase Deferral Program	Tax Increase Cancellation Program
Seniors	- aged 50 years or older - household income **$50,000** or less	- aged 65 years or older - household income **$36,000** or less - property CVA less than **$525,000** ($575,000 – 2011-2012)
Disabled Persons	- receiving support from one or more specified disability programs - household income **$50,000** or less	- receiving support from one or more specified disability programs - household income **$36,000** or less - property CVA less than **$525,000** ($575,000 – 2011-2012)

The City also provides a water bill rebate program for Low-Income Seniors and Low-Income Disabled Persons who are eligible for either of the tax relief programs, wherein eligible homeowners are entitle to a 30% rebate on their water bill.

Additional details of these programs, as well as application forms, can be obtained at http://www.toronto.ca/taxes/property_tax/tax_relief.htm

City Council at its meeting held on March 31, 2009, during consideration of the 2009 Operating Budget, adopted a motion passed by Executive Committee from its meeting of March 24, 2009 which requested:

> "staff to report to Budget Committee as soon as possible on the feasibility of extending the modest tax relief and deferral program presently offered to low income seniors and disabled people to the unemployed victims of plant closures and business failure in this City for the 2010 budget".

Section 283(1) of the *City of Toronto Act, 2006*, limits the City's ability to provide tax deferrals or cancellations in respect of tax increases, for the purposes of relieving financial hardship, to persons assessed as owners who are, or whose spouses are, low-income seniors as defined in the by-law; or (b) low-income persons with disabilities as defined in the by-law. Such provision cannot be extended to “unemployed” persons, however, the City’s current program eligibility requirement is relaxed enough to permit unemployed persons, who are homeowners 50 years of age or older and with a household income of $50,000 per year or less, to apply for the deferral of tax increases, for as long as they meet the eligibility criteria. As such, staff are of the opinion that this program is broad enough to address those unemployed homeowners in most of need, and no further enhancement of these programs is being recommended at this time.

Capping and Clawback

The *City of Toronto Act, 2006* mandates capping protection which limits CVA-related tax increases on the commercial, industrial and multi-residential classes to 5% of prior years’ taxes. The Act provides 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). A by-law needs to be enacted in each year to have either of the alternate caps apply. Since 2006, as adopted under ‘Enhancing Toronto’s Business Climate’, the City has enacted by-laws in each year to have option (ii) above apply. As an administrative matter, Council must again adopt such a by-law for 2010.

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.

For 2009 and subsequent years, municipalities have the option to remove properties from the capping and clawback system once they have reached their full CVA-level of taxation. City Council had previously adopted this option for 2009, which is consistent with the City’s recommendation dating back to the Enhancing Toronto’s Business Climate Initiative in 2005. Future assessment changes for properties that exit the capping/clawback system will be mitigated by the assessment phase-in under the new four-year assessment cycle. This report again recommends that Council adopt this option, with a moderate benefit of reducing the cost and easing the burden on properties paying higher taxes due to the clawback.

Comparable Treatment of New Construction:

In 2004, the Province introduced a legislative 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. In many instances, this approach 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. Under this legislation, the City of Toronto phased-out the comparable treatment of new construction, and since 2008, the property taxes for new construction are set at the full uncapped (full CVA) taxes.

To implement this provision, Council must pass a by-law prior to April 30th in each year, as recommended in this report.

CONTACT

Giuliana Carbone, Treasurer
gcarbone@toronto.ca, 416-392-8065

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

SIGNATURE

____
Cam Weldon
Deputy City Manager and Chief Financial Officer