TORONTO

STAFF REPORT
ACTION REQUIRED

2012 Property Tax Rates and Related Matters

Date:	January 6, 2012
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2012\Internal Services\Cf\Bc12001cf (AFS #13848)

SUMMARY

This report presents the 2012 municipal tax ratios and 2012 municipal tax rates together with the Current Value Assessment (CVA) changes for 2012. Specifically, the tax ratios and rates recommended in this report provide for:

- continuation of the City's Enhancing Toronto's Business Climate strategy in lowering business tax rates;
- continued property tax assistance for low-income seniors and low-income disabled persons; and,
- continued support to encourage the development of purpose-built rental properties.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends 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 2012 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 2012 municipal budgetary tax levy increase as recommended in Recommendation 4(b) and the graduated tax rate for the Residual Commercial

Class as recommended in Recommendation 3, will result in the 2012 ending tax ratios shown in Column III:

Column I	Column II	Column III
Property Class	2012 Recommended Tax Ratios(before levy increase)	2012 Ending Ratios (after levy increase and graduated tax rates)
Residential	1.000000	1.000000
Multi-Residential	3.316402	3.262476
New Multi-Residential	1.000000	1.000000
Commercial General - Unbanded	3.212000	3.159772
Residual Commercial – Lowest Band	3.070000	2.853527
Residual Commercial – Highest Band	3.070000	3.159772
Industrial	3.212000	3.159772
Pipeline	1.923564	1.923564
Farmlands	0.250000	0.250000
Managed Forests	0.250000	0.250000

3. Council continue the previous adoption of 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 2012 as set out in the Enhancing Toronto's Business Climate initiative, 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	0.9030799
Residual Commercial	Highest Band	Greater than $1,000,000	1.0000000

4. Council adopt:

a. the tax rates set out below in Column III, which rates will raise a local municipal general tax levy for 2012 of $3,630,021,745; and,

b. the tax rates set out below in Column IV, which rates represent a 2.50% increase on the unrestricted property classes (residential, new multi-residential, pipelines, farmlands, and managed forests) and a 0.833% increase on the restricted property classes (commercial, industrial, and multi-residential) and which rates will raise an additional local municipal tax levy for 2012 of $57,633,959 to fund the 2012 operating budget tax levy increase, as determined in accordance with legislative requirements.

Column I	Column II	Column III	Column IV	Column V
Property Class	2012 Tax Rate for Base General Local Municipal Levy Before Graduated Tax rates	2012 Tax Rate for General Local Municipal Levy After Graduated Tax Rates	2012 Additional Tax Rate to Fund Budgetary Levy Increase)	2012 Ending Municipal Tax Rate (excluding Charity rebates)
Residential	0.5367786%	0.5367786%	0.0134195%	0.5501981%
Multi-Residential	1.7801734%	1.7801734%	0.0148348%	1.7950082%
New Multi-Residential	0.5367786%	0.5367786%	0.0134195%	0.5501981%
Commercial General - Unbanded	1.7241328%	1.7241328%	0.0143678%	1.7385006%
Residual Commercial - Lowest Band	1.6479102%	1.5570296%	0.0129752%	1.5700048%
Residual Commercial - Highest Band	1.6479102%	1.7241328%	0.0143678%	1.7385006%
Industrial	1.7241328%	1.7241328%	0.0143678%	1.7385006%
Pipelines	1.0325279%	1.0325279%	0.0258132%	1.0583411%
Farmlands	0.1341947%	0.1341947%	0.0033549%	0.1375495%
Managed Forests	0.1341947%	0.1341947%	0.0033549%	0.1375495%

5. The 2012 Non-Program Tax Account for Rebates to Charities in the Commercial and Industrial Property Classes be set in the amount of $5,329,092 to fund the mandatory 2012 property tax rebates to registered charities in the commercial property classes, which provision is to be funded, for a net impact on the 2012 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 $5,329,092 to fund the total estimated rebates to registered charities for properties in the commercial classes in 2012.

Column I	Column II	Column III
Commercial Property Classes	Bands	Additional Tax Rate to Fund Rebates to Eligible Charities
Commercial General	Unbanded	0.0070249%
Residual Commercial	Lowest Band	0.0063441%
Residual Commercial	Highest Band	0.0070249%

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

   a. Council adopt the continued limiting of reassessment-related tax increases for the commercial, industrial, and multi-residential property classes at a cap of 5% of the preceding year's current value assessment taxes for the 2012 taxation year.

b. Council adopt the continued removal of properties from the capping and clawback system once they have reached their full CVA-level of taxation for the 2012 tax year.

7. The Deputy City Manager and Chief Financial Officer be directed to report directly to Council at its meeting scheduled for April 10 and 11, 2012, on the 2012 tax rates for school purposes, and the 2012 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 2012 'clawback' rates).

8. Council again adopt 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 2012 and future years.

9. As in past years, the instalment dates for the 2012 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.

   c. For taxpayers who are enrolled in the two installment program, the final instalment date be July 3, 2012.

10.

   a. The collection of taxes for 2012, other than those levied under By-law No. 1412-2012 (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 2012 Operating Budget at a Special Meeting of Council scheduled to be held on January 17, 18, and 19, 2012. Upon conclusion of that meeting and adoption of the City's 2012 Operating Budget, the City Solicitor will introduce a Bill in Council establishing the City's 2012 Tax Ratios, Tax Rates and Levy for City purposes. This report presents, on a preliminary basis, the City's 2012 Tax Ratios, Tax Rates and Levy for municipal purposes based on a 2.5% residential and 0.833% non-residential tax rate increase, and if any amendments are necessary, they will be made directly in the Bill introduced in Council.

As of the time of writing this report, the Provincial Regulation prescribing the 2012 tax rates for school purposes for the City of Toronto had not been filed. Staff anticipate reporting to Council on the 2012 tax rates for school purposes and the 2012 clawback rates, as described in this report, at its meeting in April 2012.

Financial impact

The 2012 Operating Budget recommended by Budget Committee is predicated on a 1.59% property tax levy increase ($57.63 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 2012 Operating Budget will necessitate a 2.50% tax rate increase on the residential property class, and a 0.83% tax rate increase on the non-residential classes, which will raise the required amount of $57.63 million ($40.91 million from residential, and $16.72 million from non-residential). A 2.5% residential tax rate increase translates to an increase of $60.00 for the average residential household assessed at $447,090 in 2012, and the final 2012 municipal taxes on such a home will be $2,459.89.

Current value reassessment, however, may cause tax increases and tax decreases related to a property's relative change in value between 2011 and 2012, and Council's decisions on reducing tax ratios. These CVA-related impacts are outlined in the body of this report.

DECISION HISTORY

The "2011 Property Tax Rates and Related Matters" Report can be viewed at:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX3.5

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 conducted 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		

2011 Assessment Changes:

Reassessment is revenue-neutral to the City, meaning that increases in the values of properties do not provide the City with additional property tax revenues. Legislation requires municipalities to reduce their tax rates in proportion to the increase in total assessed value arising from reassessment. Aside from increasing tax rates, the City only receives new property tax revenues from true growth in assessment such as new buildings and additional floor area added to existing buildings.

The 2012 phased-in CVA for the residential property class has appreciated on average by 4.7% as compared to the 2011 phased-in CVA. The average assessed value for all residential property types for 2012 taxation is $447,090, as compared to $427,085 for 2011 taxation purposes. Chart 2 summarizes the average CVA values for single family detached property types and all residential property types over the 4-year CVA phase-in cycle.

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

	2009 Phased-in CVA	2010 Phased-in CVA	2011 Phased-in CVA	2012 Full CVA (Jan. 01/08 Valuation Basis)
All Residential Properties (includes semi's, town homes and condo's)	387,217	407,144	427,085	447,090
Single Family Detached Home	486,270	519,716	547,005	574,293

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. Under provincial regulations, the City has the option to reduce the tax ratios for the commercial, industrial and multi-residential classes, which could also cause shifts in tax burden between classes, as noted in the following section regarding enhanced assistance for small businesses.

For reference, tax ratios are simply the ratio of the tax rate for a property class in comparison to the residential tax rate. Tax ratios apply to the municipal portion of taxes only. The Multi-Residential Class consists of properties with seven (7) or more residential rental units. Residual Commercial Class consists of all commercial properties that are not Large Office Buildings, Large Shopping Centres, Large Sporting Complexes, Large Theatres or Parking Lots. Commercial General Class consists of Large Office Buildings, Large Shopping Centres, Large Sporting Complexes, Large Theatre, and Parking Lots. The Industrial Class consists of industrial properties.

In Toronto, for 2012, the City-wide CVA change is an increase in phased-in assessed value of 5.0% 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 7.0%, and for the industrial property class, 7.9%, which are above the City-wide average. Increases in CVA for the residential and multi-residential classes are 4.7% and 2.2%, 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 2012. These shifts are of similar magnitudes as had occurred in the past three years, due to the 4-year CVA phase-in system. These impacts are summarized in Column II of Chart 3 shown on the following page.

For reference, City Council has, since 2008, provided tax relief to small business by applying lower tax rates to part of the assessment for specific business tax classes. This has been by annually adopting graduated tax rates wherein, for all properties in the Residual Commercial Class, the first $1 million of assessed value (CVA) is taxed at a lower municipal tax rate (Band 1), and any assessed value over $1 million is taxes at a higher municipal tax rate (Band 2). The Residual Commercial Class consists of all commercial properties that are not Large Office Buildings, Large Shopping Centres, Large Sporting Complexes, Large Theatres or Parking Lots. The rest of commercial is aggregated as Commercial General.

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 (commercial and industrial) to 2.5-times the residential tax rate by 2020 (a 15 year plan). The plan also provides 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 the 15 years for the rest of commercial).

Reducing the tax ratios for the multi-residential class and the business classes is accomplished by (i) limiting the budget-related tax increases on these classes to 1/3 of that for the residential class; and (ii) shifting part of the tax burden from these classes onto the residential class.

The impacts of the recommended shift are shown in Column III of Chart 3. As in the past three years, the City will claw back the CVA reduction the residential class would otherwise experience in 2012, and claw back part of the reduction the multi-residential class would otherwise experience, and redistribute these decreases to the business classes in order to assist businesses.

Chart 3 - 2012 CVA Class Changes and Resulting Municipal Tax Shifts, and Offsetting 'Policy' Tax Shift from Adopting Lower Tax Ratios

	Column I	Column II		Column III	
		2012 CVA Impact		2012 'Policy' Shift from Adopting Lower Tax Ratios	
Property Class	2012 Average CVA Change %	$ M	% (Average)	$ M	% (Average)
Residential	4.68%	-8.55	-0.52%	8.55	0.52%
Multi-residential	2.22%	-16.14	-2.87%	2.87	0.50%
Commercial Residual blended	7.34%	12.15	1.99%	-9.51	-1.55%
Commercial General	12.28%	9.63	1.40%	-1.64	-0.22%
Commercial – Total	7.01%	21.78	1.68%	-11.15	-0.86%
Industrial	7.95%	3.08	2.43%	-0.31	-0.22%
City-Wide	4.97%	0.00	0.00%	0.00	0.00%

The combined effect of the 2012 CVA impacts, together with the necessary adjustments in respect of Council's commitment to Enhancing Toronto's Business Climate and the 2012 budgetary levy requirements, are summarized in Chart 4. Council's action in respect of Enhancing Toronto's Business Climate, along with the recommended 2.5 percent budgetary property tax change on residential class, and a 0.833 percent change on the non-residential class, will result in:

a. a 2.5% tax levy increase on the residential class;
b. mitigation of the impacts to small and larger businesses and industries by partially offsetting the CVA-related tax increase that would otherwise occur; and,
c. providing tax reductions for apartment buildings (a 1.54% tax decrease).

Chart 4 – 2012 CVA, Enhancing Business Climate, and Budgetary Impacts

	Average CVA Impact	Average Enhancing Toronto's Business Climate Adjustment	Budgetary Levy Impact	Average Total Impact
Residential	-0.52%	0.52%	2.50%	2.50%
Multi-Residential	-2.87%	0.50%	0.83%	-1.54%
Small Business Band 1	1.95%	-1.59%	0.83%	1.19%
Residual Commercial Band 2 Blended	1.99%	-1.55%	0.83%	1.27%
Commercial General	1.40%	-0.22%	0.83%	2.01%
Industrial	2.43%	-0.22%	0.83%	3.04%
City Average	0%	0%	1.59%	1.59%

Chart 5 below illustrates the plan to reduce commercial and industrial tax rates. It is projected that the City will reach its Enhancing Toronto's Business Climate tax reduction targets of 2.5-times the residential rate for small businesses by 2015, and for the rest of commercial and the industrial and multi-residential properties by 2020.

Chart 5 – Projected Ending Tax Ratios of Recommended Action

<table>
<tr><th></th><th>Historic</th><th colspan="3">Actual</th><th>Recom-mended</th><th colspan="2">Projected</th></tr>
<tr><th></th><th>2006</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2015 Target</th><th>2020 Target</th></tr>
<tr><td>Commercial</td><td>3.68</td><td>3.37</td><td>3.26</td><td rowspan="2">3.23</td><td rowspan="2">3.17</td><td rowspan="3">3.00</td><td rowspan="4">2.50</td></tr>
<tr><td>Industrial</td><td>4.09</td><td>3.55</td><td>3.26</td></tr>
<tr><td>Multi-Residential</td><td>3.63</td><td>3.38</td><td>3.31</td><td>3.31</td><td>3.26</td></tr>
<tr><td>Small Business</td><td>n/a</td><td>3.26</td><td>2.97</td><td>2.93</td><td>2.81</td><td>2.50</td></tr>
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Property Tax Assistance 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 they are no longer the homeowner. Chart 6 provides a summary of these programs.

Chart 6 – Property Tax Assistance for Low-Income Seniors and Low-Income Disabled Persons

	Tax Increase Deferral Program	Tax Increase Cancellation Program
Seniors	- age 65 years or older; or aged 60-64 years and receiving a Guaranteed Income Supplement (GIS) and/or Spousal Allowance; or aged 50 years or older and receiving either a registered pension or pension annuity. - household income $50,000 or less	- aged 65 years or older or 60-64 years and receiving a Guaranteed Income Supplement(GIS) and/or Spousal Allowance - household income $36,000 or less - property CVA equal to or less than $575,000
Disabled Persons	- No age requirement - receiving support from one or more specified disability programs - household income $50,000 or less	- No age requirement - receiving support from one or more specified disability programs - household income $36,000 or less - property CVA equal to or less than $575,000

It should also be noted that for Low-Income Seniors and Low-Income Disabled Persons that are eligible for either of the above property tax assistance programs are also eligible for a rebate on their water bill, so long as their water consumption is less than 400 m3 annually.

Since the inception of these programs, the City has funded $3.98 million from its operating budget for the Tax Increase Cancellation Program and deferred $5.92 million in Tax Increases. To date approximately $2.29 million in deferrals have been paid to the City and the remaining $3.63 million are held in non-interest bearing receivable accounts.

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). 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.

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, this report recommends Council continue to adopt such by-law for 2012.

Finally, commencing in 2009, the *Act* also provided 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 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 recommends that Council continue with the capping options of 5% of prior year's tax and excluding properties once they reach CVA, with the 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.

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