

Clause embodied in Report No. 8 of the Policy and Finance Committee, as adopted by the Council of the City of Toronto at its meeting held on May 21, 22 and 23, 2002.

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2002 Business Education Tax Rates

(City Council on May 21, 22 and 23, 2002, adopted this Clause, without amendment.)

The Policy and Finance Committee recommends the adoption of the following report (April 29, 2002) from the Chief Financial Officer and Treasurer:

Purpose:

To report on the business education tax rates prescribed by the Province for 2002 and on the implications of the anticipated education tax reductions for Toronto's businesses.

Financial Implications:

There are no direct financial implications to the City arising from this report. 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.

For 2002, as a result of CVA changes from the 2001 reassessment, the Province has recalculated the provincial "target rate" related to business education tax reductions. The revised provincial business education tax rate target is now 2.65 percent. Toronto's total business education tax reduction target has now been reduced to \$291.0, or \$109.0 million lower than the \$400 million which the Province announced in 1998. Toronto's commercial education tax rate is at the revised provincial rate, and as such, it is estimated Toronto's commercial class may see no further education tax reductions in 2002 or 2003-2004. Effectively, the balance of the anticipated reductions for Toronto will be redistributed to other jurisdictions in Ontario that are still above the provincial target rate. It is estimated Toronto's industrial class will see a further \$29.7 million reduction over 2003-2004, in addition to the \$14.9 million to be realized in 2002.

The Province has essentially maintained the business education tax rates in the surrounding regions (Durham, Halton, Peel and York) at below the provincial target rate. If Toronto's business education tax rate was reduced to the average rates of the surrounding regions, Toronto's businesses would realize a further education tax reduction of approximately \$286 million annually.

Recommendation:

It is recommended that:

- (1) the Province again be requested to reduce Toronto’s commercial and industrial education tax rates to the average of the education tax rates prescribed for businesses in the other GTA regions (Durham, Halton, Peel and York); and
- (2) the appropriate City Officials be authorized to take the necessary action to give effect thereto.

Background:

At its meeting of April 16, 17 and 18, 2002, Council approved the report of the Chief Financial Officer and Treasurer headed “2002 Education Levy and Clawback By-Laws (April 18, 2002)”, and directed that the Chief Financial Officer and Treasurer submit a report to the next meeting of the Policy and Finance Committee on the education tax rates levied on Toronto’s businesses as compared to the GTA and the rest of the Province.

Comments:

2002 Education Tax Rates:

The *Education Act* requires every municipality in each year to levy and collect property taxes for school purposes at the tax rates prescribed by the Ministry of Finance. On April 18, 2002, the Minister of Finance filed O.Reg. 138/02 prescribing the tax rates for school purposes for 2002. Table 1 below provides the 2002 municipal, education and total tax rates, and the changes over 2001 for Toronto for selected property classes.

Table 1
 City of Toronto 2002 Tax Rates

	Education Taxes			Municipal Taxes			Total Taxes		
	2001 Rate	2002 Rate	% Change	2001 Rate	2002 Rate	% Change	2001 Rate	2002 Rate	% Change
Residential	0.373 %	0.373 %	-	0.701 %	0.731 %	4.32 %	1.074 %	1.104 %	2.82 %
Multi-Residential	0.373 %	0.373 %	-	2.924 %	2.924 %	-	3.297 %	3.297 %	-
Commercial	2.654 %	2.653 %	(0.05 %)	2.660 %	2.662 %	0.05 %	5.315 %	5.314 %	(0.00 %)
Industrial	3.817 %	3.428 %	(10.2 %)	3.714 %	3.714 %	0.02 %	7.531 %	7.142 %	(5.2 %)

It is noted that 2002 is a non-reassessment year. In a non-reassessment year, in the absence of any imposed tax increases or decreases, tax rates would remain unchanged from the previous year. On the education side, a reduction in the commercial and industrial tax rates was provided for 2002 as part of the Province’s previous commitment to reduce business education taxes, although not to the extent anticipated (this matter is discussed in the following section). On the municipal side, a 4.32 per cent tax increase was imposed on the uncapped classes, in order to provide for the City’s 2002 budget pressures and because the City is precluded through Bill 140

from imposing levy increases on the capped classes, except to recover costs to fund rebates for charities in the commercial and industrial classes.

For 2002, the total municipal levy was \$2,790,226,661, the total education levy was \$1,800,221,501, for a total property tax levy of \$4,590,448,162.

Business Education Tax Reductions:

In 1998, as part of the Provincial Budget, the Province announced its intention to reduce the commercial and industrial education tax rates in municipalities with education tax rates above the provincial average, to the provincial average which was estimated at 3.3 per cent at that time. The Province also proposed to increase grants to school boards to offset the impact of cutting education taxes. A copy of this announcement from the 1998 Provincial Budget (pages 91-95) is attached as Appendix 'A'.

For Toronto, the 1998 announcement was estimated to result in a \$400 million reduction in commercial and industrial education taxes to be phased-in over an 8-year period. To the end of 2001, Toronto's businesses realized a total reduction in education taxes of approximately \$246.8 million.

For 2002, due to Current Value Assessment changes arising from the 2001 reassessment (updating values to reflect a June 1999 valuation date), the Minister of Finance has recalculated the provincial "target ceiling" business education tax rate, now estimated at 2.65 per cent. The target rate has been lowered from the previous 3.3 percent rate to recognize the overall increase in commercial and industrial assessed values in the 2001 reassessment, and to ensure that business education taxes province-wide are reduced by \$500 million by 2004 as announced in 1998.

The term "target rate" is now being used by provincial staff instead of provincial average. At this rate, the province will be able to deliver the balance (approximately \$157 million) of the previously announced \$500 million tax reduction. Those municipalities above the target rate will see their rates decrease over the next two years as the \$157 million in reductions are phased-in.

As a result, Toronto's total business education tax reduction target has been reduced to \$291.0 million, which is \$109.0 million lower than the \$400 million total reduction anticipated in 1998. The business education tax reduction for 2002 is \$14.9 million, with a further reduction of \$29.7 million estimated over the period 2003-2005.

Effectively, this means that the balance of business tax reductions originally anticipated for Toronto will be redistributed to other Ontario municipalities whose rates are above the target rate, such as Hamilton, London and Cornwall.

Table 2 below shows the commercial and industrial business education tax reductions to date, along with the estimated amounts expected over 2003-2004 assuming a phasing in of any further reductions to the new provincial target tax rate of 2.65 percent.

Table 2
Business Education Tax Reductions 1999-2002

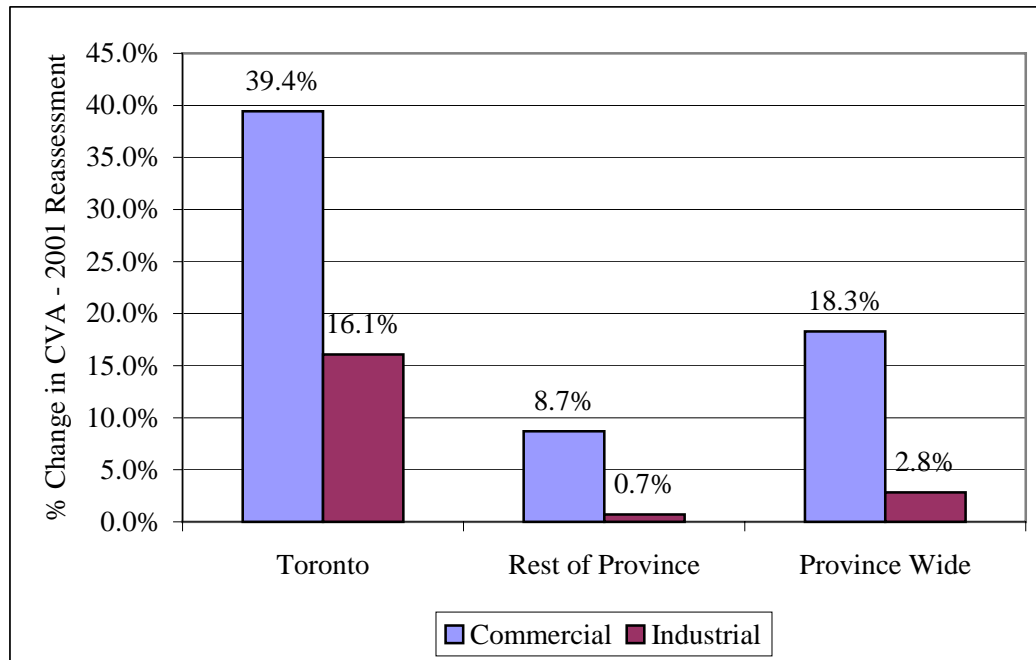
	1998	1999	2000	2001	2002	Cumulative 1998-2002	Projected 2003-2004	Total 1998-2004	Est. Short- Fall
Commercial:									
Education Tax Rate	4.22%	4.09%	3.96%	2.65%	2.65%		2.65%		
Education Levy	\$38.4	\$36.2	\$36.9	\$74.1	\$0.6	\$186.2	\$1.1	\$187.3	(\$109)
Reduction (\$M)									
Industrial:									
Education Tax Rate	5.89%	5.52%	5.15%	3.82%	3.43%		2.65%		
Education Levy	\$12.6	\$12.5	\$12.5	\$23.6	\$14.3	\$75.5	\$28.6	\$104.1	-
Reduction (\$M)									
Total Education Levy Reduction \$M	\$51.0	\$48.7	\$49.4	\$97.7	\$14.90	\$261.7	\$29.7	\$291.4	(\$109)

Changes in CVA – 2001 Reassessment:

For the 2001 taxation year, the assessment of all properties in Ontario was updated by the Municipal Property Assessment Corporation (MPAC) to reflect a June 1999 valuation date. Prior to that, property valuation was based on a June 1996 valuation date. Figure 1 illustrates the CVA changes arising from the 2001 reassessment. From the data, Toronto's commercial and industrial properties increased in value by 40 percent and 16 percent, respectively, between the two valuation dates, while commercial and industrial properties in the rest of the province, including the GTA, appreciated at a much lower rate of 8 percent and 0.7 percent, respectively. It is this 40 percent increase in Toronto's commercial valuation, together with the \$74 million in business education tax reduction in 2001, that resulted in that class's education tax rate falling to 2.65 percent in 2001, from 3.96 percent in 2000.

Figure 1
Comparison of CVA Changes – 2001 Reassessment

GTA Comparison:



The business education tax rates for the regions surrounding Toronto (Durham, Halton, Peel and York) are significantly lower than the rates prescribed by the Province for the City of Toronto. It is noted that, while the 1998 provincial announcement indicated that business education taxes would be reduced for those municipalities whose rates were above the average, there was no plan to increase the rates for those municipalities whose rates were below the provincial average. As such, on average, the surrounding regions enjoy a business education tax rate that is approximately 30 percent lower than that in Toronto. This disparity is likely to continue, putting Toronto's businesses at a competitive disadvantage with the surrounding regions. Table 3 below provides a comparison of the 2002 prescribed commercial and industrial education tax rates in the GTA.

Table 3
2002 Business Education Tax Rates – GTA

	2002 Education Tax Rates	
	Commercial	Industrial
Durham Region	1.940433%	3.162512%
Halton Region	1.832099%	2.803141%
Peel Region	2.075397%	2.668928%
York Region	2.002016%	2.503122%
Surrounding Region	2.006713%	2.670016%
Weighted Average*		
Toronto 2002	2.652745%	3.428008%
Toronto w/ Full BET Reduction	2.650000%	2.650000%

* weighted based on assessment

For the reasons cited above, Toronto Council has previously requested that the Province reduce Toronto's business education tax rates to the average of that of the surrounding regions. Table 4 on the following page illustrates the savings to Toronto's businesses if the Province reduced Toronto's business education tax rate to the average of the rates prescribed for the surrounding regions. It can be seen that Toronto's businesses could realize a further education tax reduction of approximately \$286 million.

For information, attached to this report as Appendix 'B' is a copy of O.Reg. 132/02, which prescribes the business education tax rates for all jurisdictions in Ontario.

Table 4
Education Tax Reductions for Toronto's Businesses if at GTA Region Average Rate

	Commercial	Industrial	Total
Toronto 2002 Assessment	40,237,341,548	3,815,968,523	
2002 Education Tax Rate	<u>2.652745%</u>	<u>3.428008%</u>	
2002 Education Levy	\$1,059,955,533	\$126,174,994	\$1,186,130,527
If at Full BET Red'd Rate	2.650000%	2.650000%	
Toronto's Reduced Business Education Levy	<u>\$1,058,858,716</u>	<u>\$97,538,785</u>	
Impact on Toronto's Businesses	(\$1,096,818)	(\$28,636,209)	(\$29,733,027)

	Commercial	Industrial	Total
If at GTA Weighted Avg. Rate	2.006713%	2.670016%	
Toronto's Reduced Business Education Levy	<u>\$801,820,882</u>	<u>\$98,275,512</u>	<u>\$900,096,394</u>
Impact on Toronto's Businesses	(\$258,134,651)	(\$27,899,482)	(\$286,034,133)

Conclusions:

In 1998, as part of the Provincial Budget, the Province announced its intention to reduce the commercial and industrial education tax rates in municipalities with education tax rates above the provincial average. For Toronto, the announcement was estimated to result in a \$400 million reduction in commercial and industrial education taxes to be phased-in over an 8-year period. To the end of 2001, Toronto's businesses realized a total reduction in education taxes of approximately \$246.8 million. As a result of recalculation of the provincial education reduction target rate arising from the 2001 reassessment, Toronto's total business education tax reduction target has been reduced to \$291.0, or \$109.0 million lower than that anticipated in 1998. Toronto's commercial class, which is at the provincial target education tax rate of 2.65 percent, will likely see no further education tax reductions. Effectively, the balance of this reduction will be redistributed to other jurisdictions in Ontario that are above the provincial target education rate. Toronto's industrial class, which is still above the provincial target, will continue to see a further reduction estimated at \$29.7 million over the period 2003-2004, assuming no other changes.

If the Province was to reduce Toronto's business education tax rate to that which is prescribed for the surrounding regions, Toronto's businesses would realize an education tax reduction of approximately \$286 million annually.

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(Copies of Appendices A and B referred to in the foregoing report were forwarded to all Members of Council with the May 9, 2002, agenda of the Policy and Finance Committee and copies thereof are also on file in the office of the City Clerk, City Hall).