Continuation of Property Tax Exemption for Ronald McDonald House (240 McCaul Street)

Date: October 25, 2011
To: Government Management Committee
From: Treasurer
Wards: Ward 20
Reference Number: P:\2011\Internal Services\rev\gm11019rev (AFS 14486)

SUMMARY

This report seeks Council authority to allow an existing property tax exemption for Ronald McDonald House to be transferred from its current property location at 26 Gerrard Street East to its new location at 240 McCaul Street. Ronald McDonald House is operated by Toronto Children's Care Inc. (formerly Children's Oncology Care of Ontario Inc.). The current location is exempt from property taxation under private legislation, the Children's Oncology Care of Ontario Inc. Act, 1993, and City of Toronto By-law No. 1994-0043. Ronald McDonald House is expected to move to its new location by mid-December 2011.

RECOMMENDATIONS

The Treasurer recommends that:

1. Pursuant to subsection 3(3) of the Children's Oncology Care of Ontario Inc. Act, 1993, Council authorize the transfer of the property tax exemption provided for Children's Oncology Care of Toronto Inc. from its current location at 26 Gerrard Street East to its new location at 240 McCaul Street, provided that the new location continues to be occupied and used solely for the purposes of Toronto Children's Care Inc.

2. Pursuant to subsection 3(5) of the Children's Oncology Care of Ontario Inc. Act, 1993, Council authorize the registration of the existing agreement between Children's Oncology Care of Ontario Inc., and the City of Toronto on the title of the new property location at 240 McCaul Street.
3. Council affirm that the transfer of the property exemption from 26 Gerrard Street East to 240 McCaul Street will not trigger the requirement to repay property taxes foregone in the preceding 10-year period, as provided for in the agreement between Children's Oncology Care of Ontario Inc., and the City of Toronto.

4. Authority be granted for the introduction of the necessary bills to give effect thereto.

5. The appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

**Financial Impact**

Should Council approve the transfer of the property tax exemption for Ronald McDonald House from the old location at 26 Gerrard Street East to the new location at 240 McCaul Street, the net financial impact to the City will be approximately $57,090 per year (the net difference between the municipal property taxes currently foregone at the old location and the municipal property taxes that will be forgone at the new location). A summary of the tax amounts and financial implications is provided in Table 1.

Additionally, once the property at 26 Gerrard Street East is no longer owned by Ronald McDonald House, and provided it is not purchased by another non-profit entity, it would become taxable at commercial rates, which would increase the total taxes on the property. As shown in Table 1, the tax classification change from residential to commercial would produce an increase in municipal taxation revenue of $37,900, reducing the difference between municipal taxes foregone at the old location versus the new location.

**Table 1**

*Estimated Financial Impact of Transferring the Property Tax Exemption from 26 Gerrard Street E to 240 McCaul Street*

<table>
<thead>
<tr>
<th>Current Value Assessment</th>
<th>Property Taxes (at 2011 residential rates)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>City Portion</td>
</tr>
<tr>
<td>Property taxes at new location (240 McCaul St) (a)</td>
<td>$20,000,000</td>
</tr>
<tr>
<td>Property taxes at current location (26 Gerrard St E) (b)</td>
<td>$3,095,500</td>
</tr>
<tr>
<td><strong>Difference in foregone property taxes (a-b)</strong></td>
<td>$94,990</td>
</tr>
<tr>
<td><em>less increase in municipal taxes due to tax class change after sale of 26 Gerrard St E</em></td>
<td>-$37,900</td>
</tr>
<tr>
<td><strong>Net annual impact on City tax revenues</strong></td>
<td><strong>$57,090</strong></td>
</tr>
</tbody>
</table>

Notes:
1. Difference in foregone property taxes based on taxation at 2011 Residential Tax Rates (reflecting ownership by a non-profit service organization, per the Assessment Act).
2. If the property at 26 Gerrard St E was not owned by a non-profit service organization, it would become taxable at commercial tax rates, resulting in an increase in the municipal portion of taxes of $37,900.
The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY
In December of 1993, the former City of Toronto enacted By-law 1994-0043, authorizing an exemption from taxes for lands owned and occupied by Children’s Oncology Care of Ontario Inc. at 26 Gerrard Street East, as permitted under the Children's Oncology Care of Ontario Inc., 1993. The exemption was subject to terms and conditions set out in an agreement between the City of Toronto and Children’s Oncology Care of Ontario Inc. dated December 6, 1993. This agreement was registered on title to 26 Gerrard Street East.

ISSUE BACKGROUND
Ronald McDonald House, located at 26 Gerrard Street East in downtown Toronto, opened in June 1981. The house provides inexpensive overnight accommodation and services for families and children age 18 or younger who are being treated for life-threatening illnesses at the Hospital for Sick Children or other Toronto hospitals. The House provides a "home away home" for seriously ill children and their families during treatment and convalescence. The current location offers 28 family bedrooms, with private washrooms, kitchen and dining areas, a common family room and free laundry facilities. Ronald McDonald House provides 9,569 nights of comfort to families each year. Ronald McDonald House is a registered charitable organization within the meaning of the Income Tax Act (Canada).

The property at 26 Gerrard Street East is currently exempt from property taxes so long as the property remains occupied and used solely for the purposes of Children's Oncology Care of Ontario Inc. (now Toronto Children's Care Inc., operating as Ronald McDonald House). The tax exemption for this property was permitted under private member legislation, the Children's Oncology Care of Ontario Inc. Act, 1993. The Act’s provisions surrounding the property tax exemption are permissive, rather than mandatory, meaning that the municipality can elect whether or not to pass a by-law to allow the exemption. Council of the former City of Toronto authorized the exemption in 1993 under former City of Toronto By-law No. 1994-0043, together with an agreement between the former City of Toronto and Children's Oncology Care of Ontario Inc. This agreement is registered on title to the property at 26 Gerrard Street East.

Under the terms of the agreement, if the land or any part thereof is sold, granted, transferred or conveyed, the owners are required to pay the City an amount equal to the taxes foregone in the preceding 10-year period. This was a common requirement in agreements where the former City of Toronto granted property tax exemptions under private legislation, as a means of ensuring that if an organization received the benefit of a tax exemption and subsequently sold the property to achieve a profit, the property taxes that would have been payable in the preceding 10-year period were repayable to the City. Both the private legislation and the agreement also include provisions that allow for the transfer of the property tax exemption to a different property, and the registration of the agreement against the title to the substituted parcel, without triggering the requirement to
repay the taxes, while retaining this condition. Amounts payable under the agreement constitute a lien or charge upon the property.

**COMMENTS**

To meet an increased demand for services, Ronald McDonald House purchased a new property at 240 McCaul Street from the University of Toronto in April 2009.

Construction of a new facility began in March 2010, to which the organization intends to move by mid-December 2011. The new building will provide 66 family bedrooms and 15 two bedroom family suites, with capacity to provide 19,139 nights of family care each year.

In May of 2011, the Executive Director of Toronto Children's Care Inc. approached City staff with a request that the City allow the existing property tax exemption for Ronald McDonald House at 26 Gerrard Street East to be transferred to the newly constructed facility located at 240 McCaul Street.

The new location for Ronald McDonald House at 240 McCaul Street will be owned and occupied by Toronto Children's Care Inc. and will continue to be used for the purposes of organization following the move from the old location to the new location. As such, the intended uses are consistent with the original tax exemption agreement with the City and with the enabling legislation. In recognition of the valuable services provided by Ronald McDonald House to critically ill children and their families, staff are recommending that Council approve the transfer of the property tax exemption from the current location at 26 Gerrard Street East to the facility's new location at 240 McCaul Street. The transfer of the property tax exemption will become effective from the date Ronald McDonald House begins operations at its new location (the exemption requires that the property be owned and occupied for the purposes of the organization).

This report also recommends that the existing agreement between the City and Children's Oncology Care of Ontario Inc. be registered against title to the organization's new location at 240 McCaul, and that the transfer of the exemption not trigger the requirement to repay taxes foregone in the previous 10-year period.

Should Council not approve the transfer of the property tax exemption to the new location, the tax exemption on the current location would be cancelled on the sale of the property, and Toronto Children's Care Inc. would be required to repay the City an amount equal to the property taxes foregone in the previous 10-year period, estimated at approximately $235,000. On receipt of this amount, the City would be required to repay an amount equivalent to the education portion of these taxes to the province/school boards, estimated at approximately $74,000. Additionally, Ronald McDonald House would become responsible to pay the annual property taxes on the new property, estimated at $158,000 per year. The requirement to repay the taxes foregone in the previous 10-year period or to begin paying annual property taxes would undoubtedly have a major impact on Ronald McDonald House’s costs, and could potentially jeopardize their continued operation.
Future Financial Implications for Ronald McDonald House

Although the current location is exempt from property taxes, and even with Council’s approval to transfer the tax exemption to the new location, Ronald McDonald House will be required to pay property taxes for the property at 240 McCaul Street (the new location) for the period of time dating from their purchase of the property (April 13, 2009) to the date that they actually begin to occupy the new property for their use (likely mid-December 2011). The taxes for this period are estimated at $124,692.

Neither the Children’s Oncology Care of Ontario Inc. Act, 1993 nor the City’s enabling by-law or agreement contemplated or made provision for the property tax exemption to apply to two properties simultaneously (i.e., during a period of time when Toronto Children’s Care Inc. owned two properties, one that was actively being operated for the organization’s purposes, and one that was under development to construct a new facility).

Although the Municipal Property Assessment Corporation (MPAC) continued to return the property at 240 McCaul Street as exempt from taxation on assessment rolls for 2010 and 2011 following Toronto Children’s Care Inc.’s purchase of the property in April 2009, MPAC has now advised the City that they will be issuing supplementary/omitted assessment notices for the property at 240 McCaul Street to change the tax classification on this parcel from exempt to taxable on a retroactive basis for the period from April 14, 2009 (the day after purchase) to the end of 2009 and for the full 2010 and 2011 taxation years. MPAC has advised that the tax exemption permitted by the Children’s Oncology Care of Ontario Inc. Act, 1993 and the City’s by-law does not apply to this property, given that it applied to the existing location at 26 Gerrard Street East. The supplementary/omitted assessments for 2009, 2010 and 2011 are based on a residential tax classification, and reflect a current value assessment based on land value.

It is expected that this supplementary/omitted assessment will be received by the City in November 2011, via a supplementary/omitted assessment roll from MPAC. Once the supplementary/omitted assessment roll is received, the City is legislatively required to levy taxes on the supplementary/omitted assessment amounts. Using residential tax rates for 2009, 2010 and 2011, staff have estimated that property taxes will be levied in the amounts shown in Table 2. Tax bills for these amounts will be mailed in December 2011 to the property owner.

<table>
<thead>
<tr>
<th>Taxation Year</th>
<th>Current Value Assessment (Omitted Asst.)</th>
<th>Property Taxes (at residential tax rates)</th>
<th>Municipal Portion</th>
<th>Education Portion</th>
<th>Total Taxes</th>
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</thead>
<tbody>
<tr>
<td>2009 (Apr. 14 – Dec. 31)</td>
<td>5,210,434</td>
<td>$23,663.18</td>
<td>$9,892.69</td>
<td>$33,555.86</td>
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<td>2010</td>
<td>5,481,289</td>
<td>$32,316.05</td>
<td>$13,209.91</td>
<td>$45,525.95</td>
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<td>2011</td>
<td>5,752,145</td>
<td>$32,322.56</td>
<td>$13,287.45</td>
<td>$45,610.01</td>
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<tr>
<td>Total Omitted Taxes</td>
<td>$88,301.78</td>
<td>$36,390.05</td>
<td>$124,691.83</td>
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</tbody>
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There are no legislative provisions that would allow for an exemption from supplementary/omitted property taxes that will be levied on 240 McCaul Street for the period April 14, 2009 to December 31, 2011, or to waive or cancel taxes for this period. As such, staff make no recommendation as to the supplementary/omitted taxes that will be levied, as these taxes remain the responsibility of Toronto Children’s Care Inc., as the owner of the property.

Additionally, it can be expected that the property at 26 Gerrard Street East (the old location) will become taxable for the portion of 2011 following the sale of this property by Toronto Children’s Care Inc. to a new buyer (likely in mid-December 2011). Normally, any property tax liability associated with the sale of a parcel is identified in closing adjustments between the buyer and the seller. The property taxes for the period of time following the sale cannot be estimated as the date of the sale is unknown. No recommendation is made with respect to property taxes that may be levied for any portion of 2011 for 26 Gerrard Street East, as these taxes would be the responsibility of the new owner.

CONTACT
Casey Brendon, Director, Revenue Services
Phone: (416) 392-8065, Fax: (416) 696-3778, E-mail: cbrendo@toronto.ca

SIGNATURE

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Giuliana Carbone
Treasurer