



STAFF REPORT ACTION REQUIRED

2013 Education Property Tax Levy and Clawback Rate By-Law

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| Date: | March 22, 2013 |
| To: | City Council |
| From: | Deputy City Manager and Chief Financial Officer |
| Wards: | All Wards |
| Reference Number: | P:\2013\Internal Services\rev\cc13010rev (AFS17056) |

SUMMARY

This report recommends adoption of the 2013 education tax rates and property tax levy for school purposes for the City of Toronto as prescribed by regulation by the Minister of Finance. This report also recommends the 2013 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 that:

1. City Council adopt the following 2013 tax rates for school purposes, which will raise an education tax levy for 2013 of \$1,985,352,790:

| Column I | Column II |
|--|----------------------------------|
| Property Class | 2013 Tax Rate for Education Levy |
| Residential | 0.212000% |
| Multi-Residential | 0.212000% |
| New Multi-Residential | 0.212000% |
| Commercial | 1.363885% |
| Commercial (New Construction) | 1.260000% |
| Residual Commercial (New Construction) | 1.260000% |
| Industrial | 1.388808% |
| Industrial (New Construction) | 1.260000% |
| Pipelines | 1.558041% |

| Column I | Column II |
|-----------------|----------------------------------|
| Property Class | 2013 Tax Rate for Education Levy |
| Farmlands | 0.053000% |
| Managed Forests | 0.053000% |

2. City Council enact a by-law for the 2013 taxation year to reduce tax decreases for the 2013 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 | 84.805256% | 15.194744% |
| Industrial | 50.548510% | 49.451490% |
| Multi-residential | 27.266622% | 72.733378% |

3. Authority be granted for the introduction of the necessary bills in Council to give effect hereto.

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.

City Council at its meeting of January 15th, 2013, adopted the 2013 municipal property tax levy, and hence the municipal tax rates arising from such levy. Ontario Regulation 445/12 made under the *Education Act* was also recently filed that prescribes the 2013 education tax rates for the City of Toronto. With both these rates established, staff are now in a position to calculate the 2013 clawback rates, and the necessary by-laws have been prepared for adoption by Council at its meeting scheduled for April 3 and 4, 2013.

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 2013 education levy is \$1,985,352,790. The average household assessed at \$474,368 in 2013 will pay an education tax bill of \$1,005.66.

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

DECISION HISTORY

At its meeting of January 15, 2013, City Council adopted the 2013 municipal property tax levy and tax rates. That report also authorized the Deputy City Manager and Chief Financial Officer to report directly to Council at its meeting scheduled for April 3 and 4, 2013, on the 2013 tax rates for school purposes, and the 2013 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 2013 'clawback' rates). That decision can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX27.3>

COMMENTS

2013 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 445/12 made under the *Education Act* prescribes the 2013 education tax rates for the City of Toronto. On this basis, Chart 1 below provides the anticipated 2013 education tax rates and levies for Toronto. The 2013 Education levy is anticipated to be \$1,985,352,790.

Chart 1 – 2013 Education Tax Rates

| Column I | Column II | Column III |
|-------------------------------|-------------------------|---------------------|
| Property Class | 2013 Education Tax Rate | 2013 Education Levy |
| Residential | 0.212000% | 696,732,973 |
| Multi-Residential | 0.212000% | 61,657,622 |
| New Multi-Residential | 0.212000% | 1,574,583 |
| Commercial | 1.363885% | 1,091,581,317 |
| Commercial (New Construction) | 1.260000% | 22,807,298 |
| Industrial | 1.388808% | 106,016,647 |
| Industrial (New Construction) | 1.260000% | 349,111 |
| Pipelines | 1.558041% | 4,623,346 |
| Farmlands | 0.053000% | 8,567 |
| Managed Forests | 0.053000% | 1,327 |
| Total Education Levy | | 1,985,352,790 |

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 introduced in 2009 allows the City to annually decide that properties which reach their CVA-level of taxation, remain at CVA taxation and are excluded from future

capping or clawback due to CVA reassessment changes. Council again made this decision for 2013 at its meeting of January 15, 2013.

Chart 2 below sets out the percentage reductions in the tax decreases for 2013 (the “clawback rate”) necessary to fund the foregone revenue resulting from the 5% cap on tax increases for 2013. 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
2013 Clawback Rates for Capped Property Classes**

| Column I (Property Class) | Column II (Clawback Percentage) | Column III (Allowable Decrease) |
|------------------------------|------------------------------------|------------------------------------|
| Commercial | 84.805256% | 15.194744% |
| Industrial | 50.548510% | 49.451490% |
| Multi-residential | 27.266622% | 72.733378% |

Chart 3 below shows the progress to CVA-level of taxation between 2010 and 2013. It shows that, for 2013, 51% of commercial properties, 49% of industrial properties, and 69% of multi-residential properties have now reached their full CVA-level of taxation. Chart 4 shows the total tax dollars capped and clawed-back for each class for the same period (the amount of tax revenue foregone as a result of the cap on properties facing tax increases is recovered by the equivalent amount clawed-back from properties facing tax decreases). As progress is made to full-CVA taxation, the amounts capped and clawed back will generally fall. Sudden increases in values in one of the capped classes could however, in a reassessment year, result in the amount of taxes foregone as a result of capping to increase, and hence, the amount required to be clawed back in that class.

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

| Tax Class | CVA Status | 2010 Tax Year | | 2011 Tax Year | | 2012 Tax Year | | 2013 Tax Year | |
|-------------------|-------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|
| | | # of Properties 2010 | % of Class Total | # of Properties 2011 | % of Class Total | # of Properties 2012 | % of Class Total | # of Properties 2013 | % of Class Total |
| Commercial | Capped | 11,563 | 34% | 9,995 | 29% | 8,509 | 25% | 7,608 | 23% |
| | Clawed-Back | 10,001 | 29% | 9,539 | 27% | 9,284 | 27% | 8,690 | 26% |
| | At CVA | <u>12,833</u> | 37% | <u>15,164</u> | 44% | <u>16,140</u> | 48% | <u>17,197</u> | 51% |
| | | 34,397 | | 34,698 | | 33,933 | | 33,495 | |
| Industrial | Capped | 495 | 12% | 409 | 10% | 373 | 9% | 280 | 7% |
| | Clawed-Back | 2,012 | 49% | 1,936 | 48% | 1,769 | 45% | 1,648 | 44% |
| | At CVA | <u>1,637</u> | 40% | <u>1,704</u> | 42% | <u>1,787</u> | 45% | <u>1,869</u> | 49% |
| | | 4,144 | | 4,049 | | 3,929 | | 3,797 | |
| Multi-Residential | Capped | 225 | 5% | 162 | 4% | 120 | 3% | 94 | 3% |
| | Clawed-Back | 2,472 | 58% | 2,452 | 58% | 2,441 | 59% | 1,063 | 28% |
| | At CVA | <u>1,570</u> | 37% | <u>1,624</u> | 38% | <u>1,554</u> | 38% | <u>2,613</u> | 69% |
| | | 4,267 | | 4,238 | | 4,115 | | 3,770 | |

**Chart 4
Total Tax Dollars Capped and Clawed-Back (\$M's)**

| | 2010 Tax Year | 2011 Tax Year | 2012 Tax Year | 2013 Tax Year |
|-------------------|---------------|---------------|---------------|---------------|
| Commercial | 132.9 | 115.9 | 91.8 | 87.0 |
| Industrial | 5.7 | 5.0 | 4.8 | 3.3 |
| Multi-Residential | 5.7 | 4.3 | 1.8 | 1.5 |

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SIGNATURE

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