TORONTO

STAFF REPORT
ACTION REQUIRED

2015 Property Tax Rates and Related Matters

Date:	February 23, 2015
To:	Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2015\Internal Services\Cf\Ec15006Cf (AFS #20446)

SUMMARY

The 2015 municipal tax ratios and 2015 municipal tax rates presented in this report result from Budget Committee's recommended 2015 rate-supported Operating and Capital Budgets.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. Council adopt the 2015 tax ratios shown in Column II for each of the property classes set out below in Column I, which together with the graduated tax rate for the Residual Commercial Class as recommended in Recommendation 2 and the 2015 levy increase of 2.75% (inclusive of the Scarborough Subway Extension) on the residential, new multi-residential, farmland, managed forest and pipeline property classes and approximately 0.92% (inclusive of the Scarborough Subway Extension) on the commercial, industrial, multi-residential property classes, will result in the 2015 ending tax ratios shown in Column III.

Column I	Column II	Column III
Property Class	2015 Recommended Tax Ratios(before Graduated Tax Rates)	2015 Ending Ratios (after Graduated Tax Rates and Budgetary Levy Increase)
Residential	1.000000	1.000000
Multi-Residential	3.054000	2.999485
New Multi-Residential	1.000000	1.000000
Commercial General - Unbanded	3.054000	2.999485
Residual Commercial – Lowest Band	2.836000	2.501553
Residual Commercial – Highest Band	2.836000	2.999485
Industrial	3.054000	2.999485
Pipeline	1.923564	1.923564
Farmlands	0.250000	0.250000
Managed Forests	0.250000	0.250000

2. 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 2015 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	0.8339940
Residual Commercial	Highest Band	Greater than $1,000,000	1.0000000

3.

a. Council adopt the tax rates set out below in Column IV, which rates will raise a local municipal general tax levy for 2015 of $3,860,841,943, inclusive of a 2.25% residential, new multi-residential, pipeline, farmlands and managed forest tax rate increase, and a 0.75% commercial, industrial, and multi-residential tax rate increase; and

b. Council adopt the additional tax rates set out below in Column V, which rates will raise an an additional local municipal general tax levy of $12,639,726 for the purposes of funding the City’s share of the cost of construction of the Scarborough Corridor Subway, in accordance with Council's direction through Clause CC39.5 adopted by City Council on October 8, 2013.

Column I	Column II	Column III	Column IV	Column V	Column VI
Property Class	2015 Tax Rate for General Local Municipal Levy After Graduated Tax Rates	2015 Additional Tax Rate to Fund Budgetary Levy Increase	2015 Municipal Tax Rate (excluding Charity rebates) (Column II+III)	2015 Additional Tax Rate to Fund Scarborough Subway	2015 Municipal Tax Rate Inclusive of Subway Rate (excluding Charity rebates) (Column IV+V)
Residential	0.4969320%	0.0111870%	0.5081190%	0.0024847%	0.5106037%
Multi-Residential	1.5176304%	0.0113884%	1.5290188%	0.0025294%	1.5315482%
New Multi-Residential	0.4969320%	0.0111870%	0.5081190%	0.0024847%	0.5106037%
Commercial	1.5176304%	0.0113884%	1.5290188%	0.0025294%	1.5315482%
Residual Commercial – Band 1	1.2656946%	0.0094979%	1.2751925%	0.0021095%	1.2773020%
Residual Commercial – Band 2	1.5176304%	0.0113884%	1.5290188%	0.0025294%	1.5315482%
Industrial	1.5176304%	0.0113884%	1.5290188%	0.0025294%	1.5315482%
Pipelines	0.9558804%	0.0215191%	0.9773995%	0.0047794%	0.9821789%
Farmlands	0.1242330%	0.0027967%	0.1270297%	0.0006212%	0.1276509%
Managed Forests	0.1242330%	0.0027967%	0.1270297%	0.0006212%	0.1276509%

4. Council determine that the 2015 Non-Program Tax Account for Rebates to Charities in the Commercial and Industrial Property Classes be set in the amount of $6,371,288 to fund the mandatory 2015 property tax rebates to registered charities in the commercial and industrial property classes, which provision is to be funded, for a net impact on the 2015 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 $6,279,085 to fund the total estimated rebates to registered charities for properties in the commercial classes in 2015.

Column I	Column II	Column III
Commercial Property Classes	Bands	Additional Tax Rate to Fund Rebates to Eligible Charities
Commercial General	Unbanded	0.0071655%
Residual Commercial	Lowest Band	0.0059760%
Residual Commercial	Highest Band	0.0071655%

   b. An additional tax rate of 0.0011781% be levied as part of the general local municipal levy on the industrial class to raise a further additional local municipal tax levy of $92,203 to fund the total estimated rebates to registered charities for properties in the industrial class in 2015.

5. Council determine that for the purposes of 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 2015 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 2015 tax year.

6. Council direct the Deputy City Manager and Chief Financial Officer to report to Executive Committee at its meeting scheduled for April 22, 2015, on the 2015 tax rates for school purposes, and the 2015 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 2015 'clawback' rates).

7. Council determine that for the purposes of the comparable property tax treatment for new construction in the commercial, industrial and multi-residential classes the minimum property taxes for new construction be set at 100% of the full uncapped CVA level of taxes for 2015 and future years.

8. Council determine that:

   a. the instalment dates for the 2015 final tax bills be set as follows:

      i) The regular instalment dates be July 2, August 4, and September 1 of 2015.

      ii) For taxpayers who are enrolled in the monthly pre-authorized property tax payment program, the instalment dates be July 15, August 17, September 15, October 15, November 16 and December 15 of 2015.

      iii) For taxpayers who are enrolled in the two installment program, the final instalment date be July 2, 2015.

   b. The collection of taxes for 2015, other than those levied under By-law No. 2-2015 (the interim levy by-law) be authorized; and

9. 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 2015 Operating Budget at a Special Meeting of Council scheduled to be held on March 10 and 11, 2015. Upon conclusion of that meeting and adoption of the City's 2015 Operating Budget, the City Solicitor will introduce a Bill in Council establishing the City's 2015 Tax Ratios, Tax Rates and Levy for City purposes. This report presents, on a preliminary basis as a result of the 2015 Operating Budget recommended by Budget Committee at its meeting of February 20, 2015, the City's 2015 Tax Ratios, Tax Rates and Levy for municipal purposes based on a 2.25% residential (and a corresponding 0.75% non-residential) tax rate increase. An additional 0.5% residential and 0.17% non-residential tax rate increase will be applied to fund the Scarborough Subway Extension project. Any amendments to the Operating Budget that affect the tax rates presented in this report will be made directly in the Bill introduced in Council.

Staff anticipate reporting to Council on the 2015 tax rates for school purposes and the 2015 clawback rates, as described in this report, at its meeting in May 2015.

Financial impact

The 2015 Operating Budget recommended by Budget Committee is predicated on a 1.50% property tax levy increase ($56.909 million) exclusive of any increase required to fund the construction of the Scarborough corridor subway. 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 2015 Operating Budget will necessitate a 2.25% tax rate increase on the residential property class, and a 0.75% tax rate increase on the non-residential classes, which will raise the required amount of $56.909 million ($42.332 million from residential, and $14.567 million from non-residential).

In the absence of Council approved policy, Provincial legislation would require that budgetary tax increases in the protected property classes (i.e. multi-residential, commercial and industrial) would be limited to up to one-half of the tax increase imposed on the residential class.

A 2.25% residential tax rate increase translates to an increase of $58.66 for the average residential household assessed at $524,833 in 2015. The Budget Committee has also recommended an additional 0.5% residential tax rate increase for the purposes of funding the City's share of the Scarborough Corridor Subway as directed by Council. This amounts to an additional $13.04 for an average residential household. The combined tax impact on such a home, arising from the both the budgetary levy increase requirements and to fund the Scarborough Subway will be $71.70, raising the municipal taxes on the average home from $2,596 in 2014 to $2,668 in 2015. The non-residential tax rate increase for the Scarborough Corridor Subway will be one-third (0.167%) of the residential increase in accordance with existing policy.

Current value reassessment, however, may cause tax increases and tax decreases related to a property's relative change in value between 2014 and 2015, and Council's decisions on reducing tax ratios. The average house in Toronto will also experience an additional CVA-related tax impact of 0.45% or $11.49, while commercial, industrial and multi-residential properties will experience a slight reduction in taxes, as outlined in the body of this report. With the CVA impact together with the levy increases, the average house will experience an increase of $83.19, bringing the 2015 municipal taxes on such a property to $2,679.

DECISION HISTORY

The "2014 Property Tax Rates and Related Matters" Report can be viewed at:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.EX37.3

In 2006, City Council adopted and implemented a policy to reduce Toronto's business tax rates to 2.5-time its residential rate by the year 2020. 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

City Council at its meeting of October 8, 9, 10 and 11, 2013, reconfirmed its support for a Scarborough Subway and committed to funding the City's share of the cost of construction of the McCowan Corridor Subway by implementing a tax rate increase, in addition to any tax rate increase necessary to fund the City's budgetary levy increase, dedicated to funding the McCowan Corridor Subway, in the following amounts:

Year	Additional Tax Rate Increase
2014	0.5%
2015	0.5%
2016	0.6%

That decision can be viewed at:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.CC39.5

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 2013 through to 2016 inclusive, properties have been reassessed to reflect a January 1, 2012 valuation date. Reassessments are 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 2013 reassessment are being phased-in at incremental increases of one-quarter of the total increase, spread over the 2013 to 2016 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 2017-2020, with the valuation basis being January 1, 2016. Chart 1 below provides the valuation dates used for each taxation year from 1998 through 2020.

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	✓	
2017, 2018, 2019, 2020	January 1, 2016		

2015 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.

The 2015 phased-in CVA for the residential property class has appreciated on average by 5.1%. The average assessed value for all residential property types for 2015 taxation is $524,833, as compared to $499,192 for 2014 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

	2013 Phased-in CVA	2014 Phased-in CVA	2015 Phased-in CVA	2016 Full CVA (Jan. 01/12 Valuation Basis)
All Residential Properties (includes semi's, town homes and condo's)	$473,797	$499,192	$524,833	$550,474
Single Family Detached Home	$614,869	$654,589	$686,594	$718,599

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 property tax assistance for small businesses, commercial and industrial.

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. 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 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 2015, the City-wide CVA change is an increase in phased-in assessed value of 5.1% across all property classes. The increase in CVA for the multi-residential class is 5.3%, and for the commercial class, 5.2%, which are slightly above the City-wide average of 5.1%. The increase in CVA for the industrial property class is 3.5%, which is below the City-wide average. As a result, there will be a small shift in tax burden from the industrial class to the commercial and multi-residential classes in 2015. As the residential class appreciated on average at the city-wide rate, there is a negligible CVA impact on average to that class. These impacts are summarized in Column II of Chart 4 shown on a following page.

2015 Assessment Growth

New construction, predominantly in the condominium market (residential property class), continues to fuel assessment growth in Toronto, adding $37.9 million in new tax revenue for the City, as shown in Chart 3. There was a slight loss in assessment in the commercial class ($1.9 million), the industrial class ($3.0 million) and the multi-residential class ($3.4 million).

Chart 3 – New Tax Revenue from Assessment Growth

Property Class	2014		2015	
	$ M's	**%**	**$M's**	**%**
Residential	33.1	1.8%	37.9	2.1%
Commercial	(1.4)	-0.1%	(1.9)	-0.1%
Industrial	(3.0)	-2.4%	(3.0)	-2.4%
Multi-Residential*	(1.5)	-0.3%	(3.4)	-0.7%
Net Assessment Growth – All Classes	**25.4**	**0.7%**	**29.6**	**0.8%**

*Including New Multi-Residential Class

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).

For the purposes of the small business tax reductions, Council has adopted the Residual Commercial Class, which consists of all commercial properties that are not Large Office Buildings, Large Shopping Centres, Large Sporting Complexes, Large Theatres or Parking Lots (called the Commercial General Class in the aggregate). A graduated (lower) tax rate is then applied to the first $1 million of assessed value (CVA) for all properties in the Residual Commercial class.

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 (as opposed to 1/2 mandated through Provincial legislation) 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 tax ratios are shown in Column III of Chart 4. In order to reduce the tax ratios for the non-residential classes (multi-residential, commercial and industrial), a 'policy' tax shift onto the residential class of 0.44% in 2015 will be required (shown in Column III) in accordance with Council's target for tax ratios. The net effect will be a combined CVA and policy shift impact on the residential class of 0.45% or $8.29 million (shown in Column IV), as compared to $8.42 million in 2014. The combined 2015 tax shift for multi-residential will be close to 0% with $0.04 million increase, for commercial there will be 0.48% decrease of $6.3 million, and for industrial, 1.69% decrease of $2.03 million.

Chart 4 - 2015 CVA Class Changes and Resulting Municipal Tax Shifts, and Offsetting 'Policy' Tax Shift from Adopting Lower Tax Ratios

	Column I	Column II		Column III		Column IV	
Property Class	2015 Average CVA Change	2015 CVA Impact		2015 Policy Tax Shift from adopting lower Tax Ratios		2015 Net Tax Shift	
	%	$ Million	Average %	$ Million	Average %	$ Million	Average %
Residential	5.1%	0.16	0.01%	8.13	0.44%	8.29	0.45%
Multi-Residential	5.3%	0.62	0.13%	(0.58)	-0.13%	0.04	0.00%
Commercial Residual	5.7%	3.80	0.61%	(6.54)	-1.05%	(2.74)	-0.44%
Commercial General	4.8%	(2.67)	-0.37%	(0.89)	-0.13%	(3.56)	-0.50%
Commercial Total	5.2%	1.14	0.08%	(7.43)	-0.56%	(6.30)	-0.48%
Industrial	3.5%	(1.88)	-1.55%	(0.15)	-0.14%	(2.03)	-1.69%
City Wide	**5.1%**	**-**	**0.00%**	**-**	**0.00%**	**-**	**0.00%**

The combined effect of the 2015 CVA impacts, together with: (i) the necessary adjustments in respect of Council's commitment to Enhancing Toronto's Business Climate as shown above, and (ii) the 2015 recommended budgetary levy increase of 1.83% inclusive of the Scarborough Corridor Subway are summarized in Chart 5. Council's action in respect of Enhancing Toronto's Business Climate, along with the recommended 2.25 percent budgetary property tax increase on residential class, and a 0.75 percent increase on the non-residential classes, inclusive of the 0.5% residential and 0.167% non-residential tax increase for the Scarborough Corridor Subway will result in:

a. a 3.20% average tax increase on the residential class;
b. a decrease of 0.77% for the industrial class;
c. mitigation of the impacts on multi-residential properties and small and larger businesses resulting in a slight offset of the budgetary levy increase; and,
d. funding for the Scarborough corridor subway.

Chart 5 – 2015 CVA, Enhancing Business Climate, and Budgetary Impacts

Tax Class	Average CVA Impact	Average Policy Impact	Budget Impact	Sarborough Corridor Subway	Average Total Impact
Residential	0.01%	0.44%	2.25%	0.50%	3.20%
Multi-Residential	0.13%	-0.13%	0.75%	0.17%	0.92%
Commercial Residual	0.61%	-1.04%	0.75%	0.17%	0.47%
Commercial General	-0.37%	-0.13%	0.75%	0.17%	0.42%
Commercial Total	0.08%	-0.56%	0.75%	0.17%	0.44%
Industrial	-1.55%	-0.14%	0.75%	0.17%	-0.77%
City Average	0.00%	0.00%	1.50%	0.33%	1.83%

Chart 6 below illustrates the plan to reduce multi-residential, commercial and industrial tax rates. The City is on track to reaching 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 6 – Projected Ending Tax Ratios of Recommended Action

<table>
<tr><th></th><th>Historic</th><th colspan="6">Actual</th><th>Recommended</th><th>Projected</th></tr>
<tr><th></th><th>2006</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</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="2">3.12</td><td rowspan="3">3.07</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><td>3.18</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>2.76</td><td>2.63</td><td>2.50</td></tr>
</table>

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 7 provides a summary of these programs.

For reference, City Council in 2013 enhanced the seniors and disabled tax relief programs by increasing the household income eligibility from $36,000 to $38,000 for the cancellation program. The threshold for household income for the deferral program is $50,000. Also in 2013, the City increased the CVA value threshold for its Cancellation Program to $650,000 for 2013 and 2014, up from $575,000 in for the previous reassessment and in keeping pace with current value increases for single family detached homes. The property value criteria will be increased to $715,000 for 2015 and 2016.

Chart 7 – 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 $38,000 or less - property CVA equal to or less than $715,000 for 2015 and 2016.
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 $38,000 or less - property CVA equal to or less than $715,000 for 2015 and 2016.

Since the inception of these programs, the City has funded over $6.73 million from its operating budget for the Tax Increase Cancellation Program for the City portion of taxes (an additional $2.8 million in provincial education taxes was also cancelled), and deferred over $6.5 million in tax increases, of which the current receivable to the City is $3.3 million in deferred taxes. There is no interest charged under the Deferral Program.

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.

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 2015.

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 of property tax reductions.

Funding Rebates for Registered Charities

Provincial regulation provides that the tax rates and tax ratios for the commercial and industrial classes may be greater than would be allowed in order to fund rebates to charities from within the commercial and industrial classes. During 2014, the City processed 1,004 applications from eligible charities for the 2013 tax year, providing $11.5 million in rebates to these charities, of which the municipal share is $6.4 million. The Province funds the education share of the rebates.

It is recommended that the 2015 provision to the Non-Program Tax Account for Rebates to Charities in the Commercial and Industrial Property Classes be set in the amount of $6,371,286 to fund the mandatory 2015 property tax rebates to registered charities in the commercial and industrial property classes.

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.

Scarborough Subway Extension Project

Council at its meeting of October 8, 9, 10 and 11, 2013, reconfirmed its support for a Scarborough Subway and committed to funding the City's share of the cost of construction by implementing a dedicated tax increase of 1.6% over three years, by way of a 0.5% residential tax rate increase in each of 2014 and 2015, and 0.6% in 2016. In accordance with current City policy, one-third of any residential tax rate increase will be applied to the non-residential property classes.

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