



STAFF REPORT ACTION REQUIRED

2016 Education Property Tax Levy and Clawback Rate By-Law

Date:	April 26, 2016
To:	City Council
From:	Deputy City Manager & Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2016\Internal Services\Cf\Cc16011Cf (AFS #23108)

SUMMARY

This report recommends adoption of the 2016 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 2016 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 & Chief Financial Officer recommends to City Council that:

1. City Council adopt the 2016 tax rates for school purposes, prescribed by the Province, as shown in column II, which will raise an education tax levy for 2016 of \$2,055,274,196:

Column I	Column II
Property Class	2016 Tax Rates for Education Levy
Residential	0.188000%
Multi-Residential	0.188000%
New Multi-Residential	0.188000%
Commercial	1.180000%
Commercial (New Construction)	1.180000%
Residual Commercial (New Construction)	1.180000%

Column I	Column II
Property Class	2016 Tax Rates for Education Levy
Industrial	1.253602%
Industrial (New Construction)	1.180000%
Pipelines	1.482084%
Farmlands	0.047000%
Managed Forests	0.047000%

2. City Council adopt reductions in tax decreases for the 2016 taxation year on properties in the commercial, industrial and multi-residential property classes by the percentage 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	66.98077%	33.01923%
Industrial	41.87439%	58.12561%
Multi-residential	11.92247%	88.07753%

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 by by-law the (i) the municipal levy; (ii) the education levy; and (iii) the claw-back rate for properties in the commercial, industrial and multi-residential property classes. These by-laws are required to enable the City to issue the final property tax bills for the year, for both municipal and school purposes, and may be combined into one by-law.

City Council at its meeting of February 17 and 18, 2016, adopted the 2016 municipal property tax rates and enacted By-law No. 136-2016 to levy the adopted rates.

Ontario Regulation 101/16, made under the *Education Act*, was recently filed and amends Ontario Regulation 400/98 to prescribe the 2016 education tax rates for the City of Toronto. Council must adopt the prescribed education tax rates in accordance with the regulation and adopt a by-law levying them.

With both these rates established, staff are now in a position to calculate the 2016 clawback rates. The necessary by-laws have been prepared for adoption by Council at its meeting scheduled for May 3 and 4, 2016.

Financial Impact

There is no direct financial implication to the City of Toronto's Budget arising from adoption of 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 2016 education levy is \$2,055,274,196. The average household assessed at \$549,586 in 2016 will pay an education tax bill of \$1,033, compared to \$1,023 in 2015.

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 increase (5% cap) for the commercial, industrial and multi-residential property tax classes is funded by withholding (clawing-back) a portion of the decrease that would otherwise be recognized within each class, with no budgetary funding implications for the City.

DECISION HISTORY

At its meeting of February 17 and 18, 2016, City Council adopted the 2016 municipal property tax levy and tax rates. That report also authorized the Deputy City Manager and Chief Financial Officer to report to Executive Committee at its meeting scheduled for April 18, 2016 or directly to City Council at its meeting scheduled for May 3-4, 2016, on the 2016 tax rates for school purposes, and the 2016 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 2016 'clawback' rates). That decision can be viewed under item EX12.1 at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX12.1>

The 2016 Ontario Provincial Budget announced that the government planned to introduce a technical adjustment to the provincially prescribed property tax rate calculation. It was stated this adjustment would be designed "to ensure that when calculating tax rates, municipalities and the Province would be able to address any unintended effects due to in-year property assessment changes, such as assessment appeal losses". In other words, the starting point for tax rates in each year would be permitted to be increased to recoup tax revenue lost from assessment appeals over the prior year. This approach is being enacted at the request of many municipalities, as well as having been supported by AMO and MFOA. Such an adjustment would be optional for municipalities to adopt, but the Province indicated its intention to make such adjustment in respect of its education property tax revenues.

The Province also announced its intention to ensure "the ongoing integrity of education property tax revenues", meaning an increase in education property taxes province-wide.

For these reasons, the filing of the education tax rate regulation was delayed, and as a result of this delay, this report is being introduced directly to City Council.

COMMENTS

2016 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 400/98 as amended, made under the *Education Act*, prescribes the 2016 education tax rates for the City of Toronto.

In addition to the education tax rates, for the 2016 tax year, the Province provided each municipality with 'notional education tax rates'. The intention of these notional education tax rates is to allow the municipality to calculate and show on the property tax bill the amount of the education levy that is attributable to the increase in education property taxes province-wide. Some municipalities, whose property values have increased at a rate greater than the provincial average – such as Toronto – will also experience a CVA-related education tax increase, but this cannot be shown on the property tax bill as an education levy increase as it is considered by the Province as 'revenue-neutral province-wide', and must be shown as a CVA tax change.

Chart 1 below provides a summary of the 2016 education tax levy for Toronto, together with changes from the 2015 education tax levy. The Province will benefit in the amount of \$17.8 million from additional education tax revenue arising from assessment growth in the City of Toronto, mostly from the condo market. Toronto taxpayers will also experience a \$11.3 million increase in education taxes from CVA-related tax shifts from the rest of the Province and the adjustment to the education tax rates for appeal losses, and a further \$8.1 million increase arising from the Province's increase in education taxes.

Chart 1 – 2016 Education Taxes

Tax Class	2015 Levy, '000	2015 Year End Levy '000	Assessment Growth Levy Impact, '000	2016 Education Levy, '000	Impact of CVA, '000	Impact of Levy Increase, '000	Total Impact of 2016 Education Levy, '000
Residential	737,894	\$754,555	\$16,661	\$763,000	\$6,846	\$1,599	\$8,445
Multi-Residential	59,795	\$60,118	\$323	\$60,857	\$614	\$125	\$739
New Multi-Residential	2,494	\$2,942	\$449	\$2,998	\$50	\$6	\$56
Commercial	1,074,145	\$1,061,867	-\$12,278	\$1,070,299	\$2,022	\$6,409	\$8,432
Industrial	100,947	\$98,664	-\$2,283	\$98,663	-\$1	\$0	-\$1
Pipelines	4,873	\$4,864	-\$9	\$4,864	\$0	\$0	\$0
Farmlands	10	\$10	\$0	\$10	\$0	\$0	\$0
Managed Forests	1	\$1	\$0	\$1	\$0	\$0	\$0
Commercial New construct	37,570	\$52,458	\$14,888	\$54,190	\$1,732	\$0	\$1,732
Industrial New construction	345	\$386	\$41	\$391	\$5	\$0	\$5
Total Levy	2,018,072	\$2,035,863	\$17,791	\$2,055,272	\$11,269	\$8,139	\$19,408

Chart 2 below summarizes the tax impacts on the average house in Toronto:

Chart 2 – 2016 Tax Impacts on Average House (CVA 549,586)

	City		Education		Combined	
	\$	%	\$	%	\$	%
2015 Tax	\$2,675.52		\$1,021.78		\$3,697.31	
CVA/Policy	\$21.02	0.78%	\$2.17	0.21%	\$23.19	0.63%
Levy Increase	\$51.23*	1.91%	\$9.27	0.91%	\$60.51	1.64%
	\$72.26	2.69%	\$11.44	1.12%	\$83.69	2.26%
2016 Tax	\$2,747.78		\$1,033.22		\$3,781.00	

*includes both the 2016 Budget tax increase and the 2016 Scarborough Subway increase

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 2016 at its meeting of February 17 and 18, 2016. Subsequent to this decision, the Province announced it would amend legislation to provide municipalities additional capping options, such as allowing the cap to increase to 10% of CVA taxes and increasing the threshold to move to CVA to \$500. City staff will report on all tax policy options as part of reporting on the next reassessment cycle which will affect the 2017-2020 taxation years.

The capping of tax increases is funded by "clawing back" tax decreases. Chart 3 below sets out the percentage reductions in the tax decreases for 2016 (the “clawback rate”) necessary to fund the foregone revenue resulting from the 5% cap on tax increases for 2016. The “allowable decrease” (Column III) represents the percentage of the tax decrease allowed for those properties that are experiencing tax reductions under CVA.

**Chart 3
2016 Clawback Rates for Capped Property Classes**

Column I (Property Class)	Column II (Clawback Percentage)	Column III (Allowable Decrease)
Commercial	66.98077%	33.01923%
Industrial	41.87439%	58.12561%
Multi-residential	11.92247%	88.07753%

Chart 4 below shows the progress to CVA-level of taxation between 2013 and 2016. It shows that, for 2016, 63% of commercial properties, 58% of industrial properties, and

75% of multi-residential properties have now reached their full CVA-level of taxation. Chart 5 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 4
Progress to Full-CVA Level of Taxation**

Tax Class	CVA Status	2013 Tax Year		2014 Tax Year		2015 Tax Year		2016 Tax Year	
		# of Properties	% of Class Total	# of Properties	% of Class Total	# of Properties	% of Class Total	# of Properties	% of Class Total
Commercial	Capped	7,608	23%	6,639	20%	5,641	17%	5,063	15%
	Clawed-Back	8,690	26%	8,051	24%	7,740	23%	7,122	22%
	At CVA	<u>17,197</u>	51%	<u>18,609</u>	56%	<u>19,737</u>	60%	<u>20,625</u>	63%
		33,495		33,299		33,118		32,810	
Industrial	Capped	280	7%	249	7%	205	6%	171	5%
	Clawed-Back	1,648	44%	1,453	39%	1,339	36%	1,342	37%
	At CVA	<u>1,869</u>	49%	<u>2,046</u>	55%	<u>2,147</u>	58%	<u>2,114</u>	58%
		3,797		3,748		3,691		3,627	
Multi-Residential	Capped	94	3%	78	2%	64	2%	56	2%
	Clawed-Back	1,063	28%	1,009	28%	846	23%	842	23%
	At CVA	<u>2,613</u>	69%	<u>2,580</u>	70%	<u>2,747</u>	75%	<u>2,686</u>	75%
		3,770		3,667		3,657		3,584	

**Chart 5
Total Tax Dollars Capped and Clawed-Back (\$M's)**

	2013 Tax Year	2014 Tax Year	2015 Tax Year	2016 Tax Year
Commercial	87.0	74.2	65.6	58.4
Industrial	3.3	2.8	2.4	2.0
Multi-Residential	1.5	1.5	0.9	0.5

CONTACT

Adir Gupta, Manager, Financial Policy, Corporate Finance, 416-392-8071,
Email: agupta@toronto.ca

SIGNATURE

Roberto Rossini
Deputy City Manager & Chief Financial Officer