EX12.1

STAFF REPORT
ACTION REQUIRED

2016 Property Tax Rates and Related Matters

Date:	January 27, 2016
To:	Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2016\Internal Services\Cf\Ec16006cf (AFS #22586)

SUMMARY

To recommend the 2016 municipal tax ratios and tax rates arising from the concurrent adoption of the City of Toronto's 2016 tax supported Operating Budget and Capital Budget.

The 2016 tax rate increases recommended by Budget Committee for the purpose of the 2016 Operating Budget will raise an additional $34.347 million for the 2016 Operating Budget. The previously approved additional tax rate increases for the purpose of funding the Scarborough Subway will raise an additional $15.852 million for the Scarborough Subway. These tax rate increases are in accordance with City Council's previously approved policies and decisions. The 2016 tax rate increases are as follows:

2016 Recommended Property Tax Rate Increases

Property Class	2016 Tax Rate Increase for Operating Budget	2016 Tax Rate Increase for Scarborough Subway	**2016 Total Tax Rate Increase**
Residential, New Multi-Residential, Farmland, Managed Forest, and Pipelines	1.30%	0.60%	**1.90%**
Commercial, Industrial, and Multi-Residential	0.43%	0.20%	**0.63%**
Total Tax Rate Increase	**0.88%**	**0.40%**	**1.28%**

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. Council adopt the 2016 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 2016 budgetary levy increase of 1.90% on the residential, new multi-residential, farmland, managed forest and pipeline property classes (inclusive of a levy increase of 0.6% to fund the Scarborough Subway) and approximately 0.63% on the commercial, industrial, multi-residential property classes (inclusive of a levy increase of 0.2% to fund the Scarborough Subway), will result in the 2016 ending tax ratios shown in Column III.

Column I	Column II	Column III
Property Class	2016 Recommended Tax Ratios(before Graduated Tax Rates)	2016 Ending Ratios after Graduated Tax Rates and Budgetary Levy Increase)
Residential	1.000000	1.000000
Multi-Residential	2.941000	2.904442
New Multi-Residential	1.000000	1.000000
Commercial General - Unbanded	2.941000	2.904442
Residual Commercial – Lowest Band	2.770000	2.504232
Residual Commercial – Highest Band	2.770000	2.904442
Industrial	2.941000	2.904442
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 2016 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	0.8622076
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 2016 of $3,956,069,029 inclusive of a 1.30% residential, new multi-residential, pipeline, farmlands and managed forest tax rate increase, and a 0.43% commercial, industrial, and multi-residential tax rate increase, and which rates include the tax rate increases adopted by Council in 2014 and 2015 for the purposes of funding the City's share of the cost of construction of the Scarborough Subway; and

b. Council adopt the additional tax rates set out below in Column V, which rates will raise an additional special general tax levy of $15,852,455 and reflect the 2016 rate increase for the purposes of funding the City's share of the cost of construction of the Scarborough 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	2016 Tax Rate for General Local Municipal Levy After Graduated Tax Rates	2016 Additional Tax Rate to Fund Budgetary Levy Increase	2016 Municipal Tax Rate (excluding Charity rebates) (Column II+III)	2016 Additional Tax Rate (reflects the 2016 increase to Fund Scarborough Subway)	2016 Municipal Tax Rate Inclusive of Subway Rate (excluding Charity rebates) (Column IV+V)
Residential	0.4906507%	0.0063785%	0.4970292%	0.0029439%	0.4999731%
Multi-Residential	1.4430037%	0.0062530%	1.4492567%	0.0028860%	1.4521427%
New Multi-Residential	0.4906507%	0.0063785%	0.4970292%	0.0029439%	0.4999731%
Commercial	1.4430037%	0.0062530%	1.4492567%	0.0028860%	1.4521427%
Residual Commercial – Band 1	1.2441688%	0.0053914%	1.2495602%	0.0024883%	1.2520485%
Residual Commercial – Band 2	1.4430037%	0.0062530%	1.4492567%	0.0028860%	1.4521427%
Industrial	1.4430037%	0.0062530%	1.4492567%	0.0028860%	1.4521427%
Pipelines	0.9437980%	0.0122694%	0.9560674%	0.0056628%	0.9617302%
Farmlands	0.1226627%	0.0015946%	0.1242573%	0.0007360%	0.1249933%
Managed Forests	0.1226627%	0.0015946%	0.1242573%	0.0007360%	0.1249933%

4. Council determine that the 2016 Non-Program Tax Account for Rebates to Charities in the Commercial Property Classes be set in the amount of $7,157,418 to fund the mandatory property tax rebates to registered charities in the commercial property classes, which provision is to be funded, for a net impact on the 2016 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 $7,157,418 to fund the total estimated rebates to registered charities for properties in the commercial classes.

Column I	Column II	Column III
Commercial Property Classes	Bands	Additional Tax Rate to Fund Rebates to Eligible Charities
Commercial General	Unbanded	0.0077175%
Residual Commercial	Lowest Band	0.0066540%
Residual Commercial	Highest Band	0.0077175%

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 2016 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 2016 tax year.

6. Council direct the Deputy City Manager & Chief Financial Officer to report to Executive Committee at its meeting scheduled for April 18, 2016, or directly to Council or a special meeting of Council if necessary, 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).

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 2016 and future years.

8. Council determine that:

    a. the instalment dates for the 2016 final tax bills be set as follows:

        i) The regular instalment dates be July 4, August 2, and September 1 of 2016.

        ii) For taxpayers who are enrolled in the monthly pre-authorized property tax payment program, the instalment dates be July 15, August 15, September 15, October 17, November 15 and December 15 of 2016.

iii) For taxpayers who are enrolled in the two installment program, the final instalment date be July 4, 2015.

b. The collection of taxes for 2016, other than those levied under By-law No. 1291-2015 (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 2016 Operating Budget at a Special Meeting of Council scheduled to be held on February 17, 18 and 19, 2016. Upon conclusion of that meeting and adoption of the City's 2016 Operating Budget, the City Solicitor will introduce a Bill in Council establishing the City's 2016 Tax Ratios, Tax Rates and Levy for City purposes. This report presents, on a preliminary basis as a result of the 2016 Operating Budget recommended by Budget Committee at its meeting of January 26, 2016, the City's 2016 Tax Ratios, Tax Rates and Levy for municipal purposes based on a 1.3% residential (and a corresponding 0.43% non-residential) tax rate increase. An additional 0.6% residential and 0.2% non-residential tax rate increase will be applied to fund the Scarborough Subway Extension project.

Staff anticipate reporting to Council on the 2016 tax rates for school purposes and the 2016 clawback rates, as described in this report, at its meeting in April 2016.

Financial Impact

The 2016 Operating Budget recommended by Budget Committee is predicated on a 0.88% total municipal property tax rate increase ($34.347 million) exclusive of any increase required to fund the construction of the Scarborough 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 2016 Operating Budget will necessitate a 1.30% tax rate increase on the residential property class, and a 0.43% tax rate increase on the non-residential classes, which will raise the required amount of $34.347 million ($25.887 million from residential, and $8.460 million from non-residential).

A 1.3% residential tax rate increase translates to an increase of $35.06 for the average residential household assessed at $549,586 in 2016. The Budget Committee has also recommended an additional 0.6% residential tax rate increase for the purposes of funding the City's share of the Scarborough Subway as directed by Council. This amounts to an additional $16.18 for an average residential household. The combined tax impact on such a home, arising from both the budgetary levy increase requirements and to fund the Scarborough Subway will be $51.24. The non-residential tax rate increase for the Scarborough Subway will be one-third (0.2%) 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 2015 and 2016, and Council's decisions on reducing tax ratios. The average house in Toronto will also experience an additional CVA and policy related tax impact of 0.78% or $21.02. As a result of levy increases together with the CVA and policy impact, the average house will experience an increase of $72.26, bringing the 2016 municipal taxes on such a property to $2,748 (from $2,676 in 2015).

2016 Municipal Tax impacts on Average House with 1.3% Residential Budget Tax Increase

	Impact on Average Residential Household*	
	%	$ Per Household*
CVA-Shift between Property Classes	0.04%	$1.13
Policy Shift between Property Classes	0.74%	$19.89
Budgetary Levy Increase (Res.)	1.30%	$35.06
Scarborough Subway	0.60%	$16.18
Average Net Impact on Homeowner	**2.69%**	**$72.26**

*average house assessed at $549,586 for 2016

Commercial, industrial and multi-residential properties will, overall, experience a slight reduction in taxes, as outlined in the body of this report.

DECISION HISTORY

The “2015 Property Tax Rates and Related Matters” Report can be viewed at:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX3.5

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 the Scarborough Subway and committed to funding the City's share of the cost of construction by implementing a dedicated tax rate increase, in addition to any tax rate increase necessary to fund the City's budgetary levy increase, in the following amounts:

Dedicated Residential Tax Increases to Fund Scarborough Subway
(Non-residential tax increase is one-third of residential)

Year	Additional Residential Tax Rate Increase	Total Cumulative Residential Tax Rate Increase
2014	0.50%	0.50%
2015	0.50%	1.00%
2016	0.60%	1.60%
2017 and beyond	0%	1.60%

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		

2016 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 2016 phased-in CVA for the residential property class has appreciated on average by 4.9%. The average assessed value for all residential property types for 2016 taxation is $549,586 as compared to $523,992 for 2015 taxation purposes. Chart 2 summarizes the average CVA values for single family detached, semi-detached, townhome and condominium property types as well as for all residential property types in 2016 and 2015 as well as in 2012, which was the end of the previous 4-year CVA phase-in cycle.

Chart 2 - Average CVA Values for Single Family Detached Homes and All Residential Property Types

	No. of Properties	2012 (Jan. 1 2008 Valuation Date)	2015 (Jan. 1 2012 Valuation Date)	2016 (Jan. 1 2012 Valuation Date)	2016 CVA change, %
Single Family Detached	287,775	590,203	691,873	724,111	4.7%
Semi-Detached	84,079	416,634	492,393	517,051	5.0%
Townhome	24,237	415,218	502,988	529,764	5.3%
Condominium	286,999	276,817	348,685	366,237	5.0%
All Residential	**738,467**	**436,237**	**523,992**	**549,586**	**4.9%**

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 2016, the City-wide CVA change is an increase in phased-in assessed value of 4.9% across all property classes. The increase in CVA for the multi-residential class is 5.0%, which is slightly above the City-wide average of 4.9%. The increase in CVA for the industrial property class is 3.3%, 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 multi-residential classes in 2016. As residential and commercial property classes appreciated on average at the city-wide rate, there is a negligible CVA impact on average to those classes. These impacts are summarized in Column II of Chart 4 shown on the following page.

2015 Assessment Growth

New construction, predominantly in the condominium market (residential property class), continues to fuel assessment growth in Toronto, adding $48.2 million in new tax revenue for the City, as shown in Chart 3. There was a slight increase in assessment in the commercial class ($3.5 million) and multi-residentail class ($3.7 million), and a small decrease in the industrial class ($2.6 million).

Chart 3 – New Tax Revenue from Assessment Growth

Property Class	2015		2016	
	$ M's	%	$M's	%
Residential	37.9	2.1%	43.6	2.26%
Commercial	(1.9)	-0.1%	3.5	0.26%
Industrial	(3.0)	-2.4%	(2.6)	-0.03%
Multi-Residential*	(3.4)	-0.7%	3.7	0.01%
Net Assessment Growth – All Classes	**29.6**	**0.8%**	**48.2**	**1.25%**

*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 of that for the residential class (as opposed to 1/2 mandated through Provincial legislation); and (ii) shifting part of the tax burden from these classes onto the residential class.

Provincial legislation requires that tax increases on the protected property classes (multi-residential, commercial and industrial) be no more than 50% of the tax rate increase on the residential class until the tax ratio thresholds are met (2.74 for multi-residential, 1.98 for commercial and 2.63 for industrial).

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 0.74% in 2016 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 0.79% or $15.52 million (shown in Column IV), as compared to $8.29 million in 2015. The combined 2016 tax shift for multi-residential will be a 1.07% decrease of $5.04 million decrease, for commercial there will be a 0.55% decrease of $7.36 million, and for industrial, 2.72% decrease of $3.17 million.

Chart 4 - 2016 CVA Class Changes and Resulting Municipal Tax Shifts, and 'Policy' Tax Shift from Adopting Lower Tax Ratios

	Column I	Column II		Column III		Column IV	
Property Class	2016 Average CVA Change	2016 CVA Impact		2016 Policy Tax Shift from adopting lower Tax Ratios		2016 Net Tax Shift	
	%	$ Million	Average %	$ Million	Average %	$ Million	Average %
Residential	4.9%	0.84	0.04%	14.69	0.74%	15.52	0.79%
Multi-Residential	5.0%	0.73	0.15%	(5.78)	-1.22%	(5.04)	-1.07%
Commercial Residual	5.3%	3.08	0.49%	1.18	0.19%	4.25	0.68%
Commercial General	4.4%	(2.86)	-0.40%	(8.76)	-1.22%	(11.61)	-1.62%
Commercial Total	4.9%	0.22	0.02%	(7.58)	-0.56%	(7.36)	-0.55%
Industrial	3.3%	(1.76)	-1.50%	(1.41)	-1.22%	(3.17)	-2.72%
City Wide	4.9%	-	0.00%	-	0.00%	-	0.00%

The combined effect of the 2016 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 2016 recommended total budgetary levy increase of 1.28% 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 1.9 percent budgetary property tax increase on residential class, and a 0.63 percent increase on the non-residential classes, inclusive of the 0.6% residential and 0.2% non-residential tax increase for the Scarborough Subway will result in:

a. a 2.69% average tax increase on the residential class;
b. a decrease of 0.43% for the multi-residential class;
c. a decrease of 2.09% for the industrial class;
d. mitigation of the impacts on small and larger businesses resulting in a slight offset of the budgetary levy increase; and
e. funding for the Scarborough Subway.

Chart 5 – 2016 CVA, Enhancing Business Climate, and Budgetary Impacts

Tax Class	**Average CVA Impact**	**Average Policy Impact**	**Average Budget Impact**	**Scarborough Corridor Subway**	**Average Total Impact**
Residential	0.04%	0.74%	1.30%	0.60%	2.69%
Multi-Residential	0.15%	-1.22%	0.43%	0.20%	-0.43%
Commercial Residual	0.49%	0.19%	0.43%	0.20%	1.31%
Commercial General	-0.40%	-1.22%	0.43%	0.20%	-0.98%
Commercial Total	0.02%	-0.56%	0.43%	0.20%	0.09%
Industrial	-1.50%	-1.22%	0.43%	0.20%	-2.09%
City Average	0.00%	0.00%	0.88%	0.40%	1.28%

Chart 6 below illustrates the plan to reduce multi-residential, commercial and industrial tax rates. The City reached its Enhancing Toronto's Business Climate tax reduction targets of 2.5-times the residential rate for small businesses in 2015, and is on track with reaching the 2.5 ratio for the rest of the commercial, 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="7">Actual</th><th>Recom-
mended</th><th>Project-
ed</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</th><th>2016
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="3">2.90</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><td>2.50</td></tr>
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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.

In 2015, City Council enhanced the seniors and disabled tax relief programs by increasing the household income eligibility from $38,000 to $40,000 for the cancellation program, and adopted automatic adjustment of the income criteria in future years based on the City of Toronto rate of inflation (Consumer Price Index "CPI").

In accordance with the above Council decision, and based on the 2015 CPI, all – items for Toronto, of 1.50%, the household income eligibility for the cancelation program in 2016 will be increased to $40,600. 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 from $650,000 for 2013 and 2014, to $715,000 for 2015 and 2016 in keeping pace with current value increases for single family detached homes.

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 $40,600 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 $40,600 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 $8.01 million from its operating budget for the Tax Increase Cancellation Program for the City portion of taxes (an additional $3.3 million in provincial education taxes was also cancelled), and deferred over $6.7 million in tax increases, of which the current receivable to the City is $3.1 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. The *Act* provides the City with three capping options, which can be used independently or in any combination, in order to increase progress towards fully implementing CVA taxation. These capping options are: (i) a cap of not less than 5% and not more than 10% of prior years' taxes; (ii) a cap of not less than 5% and not more than 10% of prior years' CVA taxes; and (iii) a threshold of up to $500 wherein if a property is within that threshold, it may be moved directly to full CVA taxes.

A by-law needs to be enacted in each year to identify which capping option applies. Since 2006, as adopted under 'Enhancing Toronto's Business Climate', the City has adopted a cap of 5% of prior years' CVA 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.

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 CVA 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. The City will be reviewing its capping and clawback policy as part of the analysis of the next reassessment cycle (for the 2017-2020 taxation years).

Funding Rebates for Registered Charities

Provincial legislation requires that the City must adopt a tax rebate program for Charities located in properties in the commercial or industrial property classes. The tax rebate must be not less than 40%. Regulation also 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. The Province funds the education share of the rebates.

Funding for the rebates for charities in 2015 was set at $6.4 million (with the Province funding their rebate component of $5.1 million), based on an estimate of 1,025 applications. However, during 2015, the actual rebates to charities in the commercial class exceeded the estimate by $1,574,990 due to more applications and higher payouts, leaving the City with a deficit in that account. The actual rebates to charities in the industrial class was lower than the estimate due to a reduction in payouts, leaving that account in a surplus of $191,672.

For 2016, the City funding requirement based on an estimated 978 applications being processed is $5,582,400 from the commercial class, and $95,000 from the industrial class. Since the account for the industrial charity rebate has a surplus, no charity rate will be imposed on that class for 2016. The charity rate for the commercial class will be based on a funding requirement of $7,157,418 based on the estimate of $5,582,428 plus the deficiency amount of $1,574,990.

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 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.

The total tax rate increase of 1.6% will be fully implemented in 2016, and will remain in effect for about 30 years to fully fund the project. As of 2016, the total amount raised for the Scarborough Subway will be $77.8 million, and an additional $40.7 million will be raised annually thereafter for the Scarborough Subway project, as shown in Chart 8.

Chart 8 - Scarborough Subway Dedicated Fund

Year	Additional Tax Rate Increase	Additional Levy ($ Million)	Annual Amount Raised ($ Million)	Reserve Fund Account Balance ($ Million)
2014	0.50%	$12.2	$12.2	$12.2
2015	0.50%	$12.6	$24.8	$37.1
2016	0.60%	$15.9	$40.7	$77.8
2017 and beyond	0%	$0.0	$40.7	+ $40.7 per year

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