

2017 Education Property Tax Levy and Clawback Rate By-Law - Part 2

Date: April 25, 2017
To: City Council
From: Deputy City Manager & Chief Financial Officer
Wards: All

SUMMARY

This report recommends adoption of the 2017 education tax rates and property tax levy for school purposes for the City of Toronto, as required by legislation. This report also recommends the 2017 percentage of the tax decreases (the ‘clawback’ rates) required to recover the revenues foregone as a result of the capping 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 that:

- 1) City Council adopt the 2017 tax rates for school purposes, as shown in column II, which will raise an education tax levy on rateable properties for 2017 of \$2,132,247,418, subject to the Minister of Finance filing a Regulation prescribing such rates for the City of Toronto:

Column I	Column II
Property Class	2017 Tax Rates for Education Levy
Residential	0.179000%
Multi-Residential	0.179000%
New Multi-Residential	0.179000%
Commercial	1.140000%
Commercial (New Construction)	1.140000%
Residual Commercial (New Construction)	1.140000%

Column I	Column II
Property Class	2017 Tax Rates for Education Levy
Industrial	1.216415%
Industrial (New Construction)	1.140000%
Pipelines	1.390000%
Farmlands	0.044750%
Managed Forests	0.044750%

- 2) City Council adopt reductions in tax decreases for the 2017 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	67.287231%	32.712769%
Industrial	39.780545%	60.219455%
Multi-residential	18.327323%	81.672677%

- 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, City Council must annually adopt the following by-laws: (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 15 and 16, 2017, enacted By-law No. 120-2017 thereby adopting the 2017 municipal property tax rates and the municipal tax levy arising from such rates.

The Ministry of Finance has advised the City of the 2017 tax rates for school purposes but has not yet filed the regulation prescribing them. Accordingly, this report recommends adoption of the tax rates for school purposes which the City expects will be prescribed, subject to such rates being the rates for school purposes which are in fact filed by the Minister of Finance for 2017. Council must adopt the prescribed education tax rates in accordance with the regulation and adopt a by-law levying them.

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 2017 education levy on rateable assessment will be \$2,132,247,418, based on the recommended 2017 education rates. The average household assessed at \$587,471 in 2017 will pay an education tax bill of \$1,052, compared to \$1,033 in 2016 (a \$20 increase). A detailed breakdown of 2017 municipal and education property taxes on the average house is presented in Chart 3 of this report.

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

DECISION HISTORY

At its meeting of February 15 and 16, 2017, City Council adopted the 2017 municipal property tax levy and tax rates. That report also authorized the Deputy City Manager & Chief Financial Officer to report to Executive Committee at its meeting scheduled for April 19, 2017, or directly to Council or a special meeting of Council if necessary, on the 2017 tax rates for school purposes, the 2017 capping policies, and the 2017 percentage of the tax decreases required to recover the revenues foregone as a result of the capping limit on properties in the commercial, industrial and multi-residential property classes (the 2017 'clawback' rates). That decision can be viewed at:
<http://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-100963.pdf>

The report "2017 Education Property Tax Levy and Clawback Rate By-law" was considered by the Executive Committee on April 19, 2017 and adopted without amendment
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX24.11>)

That report recommended certain policy changes to the capping system for the commercial, industrial and multi-residential property classes. Due to the lateness in receiving information on Toronto's 2017 education tax rates, that report is to be considered concurrently with this report at City Council's meeting scheduled for April 26-28, 2017.

COMMENTS

2017 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 education tax rates for all municipalities, however, it has yet to be amended to prescribe the 2017 tax rates for school purposes, including that for the City of Toronto.

Education tax rates may also reflect shifts in tax burdens between municipalities due to current value reassessment and other assessment related adjustments, as well as changes in tax burden due to an increase in the education levy.

Since the introduction of CVA and a uniform province-wide residential and multi-residential education tax rate in 1998, municipalities whose residential property values have increased at a rate greater than the provincial average – such as Toronto – will experience a CVA-related education tax increase. As well, since 2016, as pronounced in the 2016 Ontario Provincial Budget, the province is making adjustments to education taxes 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" and to "ensure the ongoing integrity of education property tax revenues", meaning an increase in education property taxes province-wide.

For 2017, Toronto taxpayers will experience a \$21.2 million increase in education tax burden, to be shown on the tax bill as an education tax levy increase. Toronto taxpayers will experience a further \$45.2 million increase in education tax burden, arising from the combined impacts of the education-related CVA-shifts and adjustments for appeal losses. On the residential tax bill, this latter component will be combined with the municipal-related CVA-shifts and adjustments for appeal losses. The latter is not shown on the non-residential tax bills.

Chart 1: Toronto Education CVA and Levy Impacts 2014-2017 (\$Millions)

	Education CVA/Appeal Loss Impact	Education Levy Increase Impact	Total Education Levy Change Impact
2014	7.6	-	7.6
2015	8.1	-	8.1
2016	11.3	8.1	19.4
2017	45.2	21.2	66.4

Note: excludes revenue increase from assessment growth

Chart 2 below provides a reconciliation of the 2017 education tax levy for Toronto by property class. The Province will benefit in the amount of \$10.6 million from additional education tax revenue arising from assessment growth in the City of Toronto, largely driven by condominium development replacing existing commercial, and new commercial development. As previously noted, Toronto taxpayers will experience a \$45.2 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 (\$27.6 million from existing commercial and \$13 million from residential), and a further \$21.2 million increase arising from the Province's increase in education taxes, mostly on existing commercial.

Chart 2: 2017 Education Taxes

Property Class	2016 Education Levy '000	2016 Year End Education Levy '000	2016 Levy Increase from Assessment Growth '000	2017 Prescribed Education Levy '000	2017 Impact of CVA/Appeal Loss Adjustment '000	2017 Impact of Levy Increase '000	Total 2017 Impact of Education Levy '000
Residential	\$763,000	\$776,363	\$13,363	\$791,089	\$13,069	\$1,657	\$14,726
Multi-Residential	\$60,859	\$60,765	-\$94	\$65,412	\$4,510	\$137	\$4,647
New Multi-Residential	\$2,998	\$3,068	\$70	\$3,200	\$125	\$7	\$131
Commercial	\$1,070,299	\$1,058,068	-\$12,231	\$1,105,008	\$27,554	\$19,386	\$46,940
New Commercial	\$54,190	\$66,286	\$12,097	\$66,449	\$162	\$0	\$162
Industrial	\$98,663	\$95,968	-\$2,695	\$95,981	\$13	\$0	\$13
New Industrial	\$391	\$421	\$30	\$416	-\$5	\$0	-\$5
Pipelines	\$4,864	\$4,881	\$17	\$4,681	-\$200	\$0	-\$200
Farmlands	\$10	\$10	-\$0.1	\$10	-\$0.04	\$0	-\$0.02
Managed Forests	\$1	\$2	\$1	\$2	-\$0.1	\$0	-\$0.1
Total	\$2,055,274	\$2,065,833	\$10,559	\$2,132,247	\$45,227	\$21,187	\$66,415

Chart 3 on the following page summarizes the tax impacts on the average house in Toronto with an assessed value of \$587,471. The 2017 household impact arising from the municipal portion of taxes of \$90.33 (a 3.29% increase) was reported to City Council in February 2017 during adoption of its budget. The 2017 education tax rates,

prescribed by the Province and recommended in this report, will result in \$19.56 (1.9%) increase on the average house in Toronto, of which \$17.32 is a result of the education CVA/appeal loss impact and \$2.20 is the result of education levy increase.

Chart 3: 2017 Tax Impacts on Average House (CVA \$587,471)

	City		Education		Combined	
	\$	%	\$	%	\$	%
2016 Tax	\$2,744.57		\$1,032.01		\$3,776.58	
2017 CVA/Policy Impact	\$21.72	0.79%	\$17.36	1.68%	\$39.08	2.47%
2017 Levy Increase	\$54.89	2.00%	\$2.20	0.21%	\$57.09	2.21%
2017 City Building Fund	\$13.72	0.50%			\$13.72	0.50%
Total 2017 Impact	\$90.33	3.29%	\$19.56	1.90%	\$109.89	2.91%
Total 2017 Tax	\$2,834.90		\$1,051.57		\$3,886.47	

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 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.

The report "2017 Education Property Tax Levy and Clawback Rate Bylaw", which was presented to Executive Committee on April 19, 2017, and is for City Council's consideration concurrently with this report, recommended the following changes, allowed under Provincial legislation, to the capping policy:

- a. a capping limit based on 10% of the preceding year's current value taxes;
- b. a threshold that if a property in the commercial, industrial or multi-residential class is within \$500 of its CVA level of taxes it moves directly to CVA taxation.

The capping of tax increases is funded by "clawing back" tax decreases. Chart 4 below sets out the percentage reductions in the tax decreases for 2017 (the "clawback rate") necessary to fund the foregone revenue resulting from the recommended 10% cap on tax increases for 2017. The "allowable decrease" (Column III) represents the percentage of the tax decrease allowed for those properties that are experiencing tax reductions under CVA.

Chart 4: 2017 Clawback Rates

Column I (Property Class)	Column II (Clawback Percentage)	Column III (Allowable Decrease)
Commercial	67.287231%	32.712769%
Industrial	39.780545%	60.219455%
Multi-residential	18.327323%	81.672677%

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SIGNATURE

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