



## REPORT FOR ACTION

### 2017 Education Property Tax Levy and Clawback Rate By-Law

**Date:** April 6, 2017

**To:** Executive Committee

**From:** Deputy City Manager & Chief Financial Officer

**Wards:** All

#### SUMMARY

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This report recommends revisions to the existing policy on capping CVA tax increases on properties in the commercial, industrial and multi-residential property classes, as provided for by legislation.

The Province has just today advised the City of the 2017 education tax rates for Toronto, however, the necessary regulation prescribing these rates has yet to be filed. The education tax rates together with the municipal tax rates are both required to determine capping and clawback rates.

Staff will report directly to Council at its meeting scheduled for April 26-28, 2017 on the 2017 education tax rates and clawback rates.

#### RECOMMENDATIONS

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The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council amend By-law No. 120-2017 for the 2017 taxation year to:
  - a. limit tax increases for the commercial, industrial, and multi-residential property classes, such a capping limit to be based on 10% of the preceding year's current value taxes, in accordance with O.Reg. 121/07;
  - b. adopt 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, in accordance with O.Reg. 121/07;

- c. adopt the continued removal of properties from the capping and clawback system once they have reached their full CVA-level of taxation for the 2017 tax year, in accordance with O.Reg. 121/07.

2. Executive Committee direct the Deputy City Manager & Chief Financial Officer be directed to report directly to City Council at its meeting on April 26-28, 2017 on the 2017 education tax rates, education property tax levy and clawback rates.

## **Implementation Points**

In accordance with various legislative requirements, Council must annually adopt the following by-laws: (i) the municipal levy; (ii) the education levy; and (iii) the clawback rate for properties in the commercial, industrial and multi-residential property classes, which by-laws the City usually combines into one Levy By-law. 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.

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.

Once the Regulation prescribing the 2017 education tax rates for the City of Toronto are made, the City will be in the position to calculate clawback rates and commence the process for the 2017 final tax billing.

## **FINANCIAL IMPACT**

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There is no financial implication to the City of Toronto's Budget arising from the capping policy changes recommended in this report. Under the capping and clawback system, the foregone revenue resulting from the legislated limit on Current Value Assessment (CVA) related tax increases 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 applied within each class.

The capping and clawback system has been in place since 1998 (19 years now), yet 37% of commercial properties (12,062 properties) still have not reached their CVA-level of taxation, and 42% of Industrial and 25% of multi-residential properties are still not at their CVA-level of taxation.

There may, however, be impacts to individual property owners in the commercial, industrial and multi-residential property tax classes from the recommended increase in the capping level from 5% to 10% of a property's prior year's CVA-level taxes. Conversely, acceleration of capping will allow those clawed-back properties to realize their tax decrease and reach their CVA-level of taxation faster as well.

## **DECISION HISTORY**

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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 directly to Council at its meeting scheduled for April 26-28, 2017 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 recommended capping limit on properties in the commercial, industrial and multi-residential property classes (the 2017 'clawback' rates). That decision can be viewed under item EX22.1 at:

<http://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-100963.pdf>

The 2016 Education Property Tax Levy and Clawback Rate report can be viewed at:

<http://www.toronto.ca/legdocs/mmis/2016/cc/bgrd/backgroundfile-92579.pdf>

## **COMMENTS**

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### **Capping and Clawback System (Commercial, Industrial and Multi-Residential Property Classes)**

The capping and clawback system was implemented in 1998 when current value assessment (CVA) was first introduced by the Province. With the introduction of CVA, a large number of properties would have seen significant tax increases, hence the Province moved to limit increases arising from the implementation of CVA through a tax increase capping system.

After 19 years of this system, a significant number of properties remain capped and clawed back throughout the Province. Table 1 shows, in Toronto, as of the end of 2016, 37% of the commercial, 42% of industrial and 26% of multi-residential properties are still not at their full and fair level of taxation. If the current system is continued (5% cap), it will take another 19 years (2036) before the capping system could be eliminated for the commercial class.

**Table 1 – Progress of Current Capping System**

		2008 Tax Year		2012 Tax Year		2016 Tax Year (year-end)		Projected 2017 Tax Year (as recommended – Option 2 in 2017)		Projected 2020 Tax Year (with Option 3)	
Tax Class	CVA Status	# Properties	% of Class	# Properties	% of Class	# Properties	% of Class	# Properties	% of Class	# Properties	% of Class
<b>Commercial</b>											
	Capped	15,608	46%	8,509	25%	4,955	15%	4,509	15%	613	2%
	Clawed –Back	14,508	42%	9,284	27%	7,107	22%	7,107	22%	7,107	22%
	At CVA	4,061	12%	16,140	48%	20,471	63%	20,917	63%	24,813	76%
		<b>34,177</b>		<b>33,933</b>		<b>32,533</b>		<b>32,533</b>		<b>32,533</b>	
<b>Industrial</b>											
	Capped	836	20%	373	9%	151	4%	141	4%	20	1%
	Clawed –Back	2,900	69%	1,769	45%	1,326	38%	1,326	38%	1,326	38%
	At CVA	452	11%	1,787	45%	2,054	58%	2,064	58%	2,185	62%
		<b>4,188</b>		<b>3,929</b>		<b>3,531</b>		<b>3,531</b>		<b>3,531</b>	
<b>Multi-Residential</b>											
	Capped	509	12%	120	3%	55	2%	38	1%	4	0%
	Clawed –Back	2,697	63%	2,441	59%	850	24%	850	24%	850	24%
	At CVA	1,087	25%	1,554	38%	2,640	74%	2,657	75%	2,691	76%
		<b>4,293</b>		<b>4,115</b>		<b>3,545</b>		<b>3,545</b>		<b>3,545</b>	

In order to accelerate the progress to CVA level of taxes, the Province provided municipalities with increased flexibility in managing the business property tax capping system, with the following additional tools made available in 2016 and 2017:

1. Allowing a four-year phase-out from the capping program, but only if all properties within a class, excluding vacant properties, are within 50% of CVA level taxes;
2. Allowing a \$500 threshold wherein properties would move directly to CVA taxes;
3. Allowing capping at 10% of prior year's CVA taxes;

4. Allowing limiting capping protection only to reassessment related changes prior to 2017. Reassessment related increases beginning in 2017 would not be subject to capping.

## **Analysis**

### **Options not Applicable for 2017**

**Four-year phase-out:** This would be ideal from the prospective of providing certainty of the conclusion of the capping and clawback system within a known period of time. The 4-year phase-out option cannot be applied in the City of Toronto for 2017, since not 100% of the capped properties in each class are within 50% of CVA. However, this option will become available, sooner or later, depending on the capping options applied going forward, as properties move to within 50% of their CVA level of taxation.

### **Options Available for 2017**

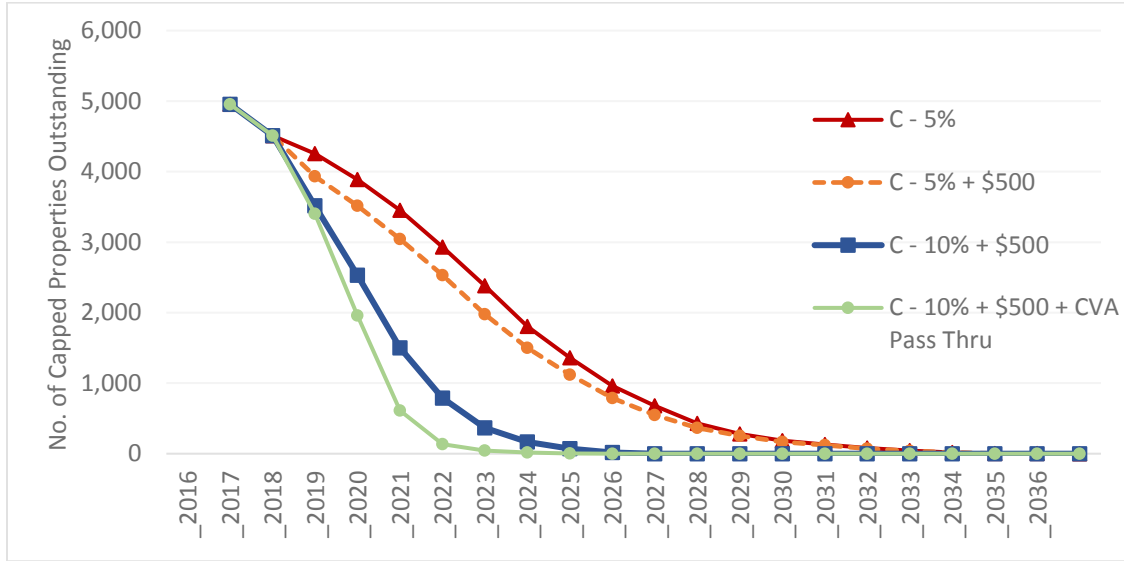
Analysis was undertaken to compare the remaining available options for advancing the progress to CVA level of taxation, in relation to the status quo of a 5% cap on previous year's CVA taxes.

Chart 1 below illustrates the progress to CVA level of taxation for commercial properties (which represent 96% of all capped properties) for the available options in order of greater effectiveness:

1. Applying \$500 threshold
2. Applying \$500 threshold + 10% capping on prior years' CVA
3. Applying \$500 threshold + 10% capping on prior years' CVA + CVA pass through (2017 related reassessment changes not subject to capping)

The above 3 options are shown with regards to the number of outstanding capped properties in each year.

**Chart 1 – Commercial Capped Properties Progress to CVA**



**Option 1 - \$500 threshold:** The intent of this option is to allow accounts that are very close to their CVA level of taxation to be removed from the capping and clawback system. If this option is applied with the current 5% cap, it will reduce the number of capped properties by 9% with 444 additional properties moving to full CVA by 2020 compared to the status quo of a 5% cap only. This option is recommended concurrent with any other option considered, commencing in 2017.

**Option 2 – Applying capping at 10% of prior year’s CVA taxes in addition to the \$500 threshold:** This option is effective in accelerating the progress to full CVA taxation and will reduce the number of capped properties by 57% with 2,030 additional properties moving to full CVA by 2020, allowing the elimination of capping and clawback system by 2026 compared to 2036 under the status quo.

**Option 3 - Implementing a 10% cap + \$500 threshold + limiting capping protection only to reassessment related changes prior to 2017 (reassessment related increases beginning in 2017 would not be subject to capping):**

This option will reduce the number of capped properties by 82% with 2,941 additional properties move to CVA vs status quo by 2020, and capping will be eliminated by 2024. The most impacted properties from this option will be parking lots, vacant land and large offices. This is the most effective option for accelerating the exit from the capping and clawback system.

While Option 3 is most effective in reaching full CVA taxation, it cannot be implemented in 2017 as additional time was required to model this option's impact on individual properties and programming changes would be required, and therefore Option 2 is recommended for 2017. Additional analysis and review of the impact of Option 3 on

individual properties will be undertaken during 2017, and stakeholder consultations may also be undertaken with a view to implement this option in 2018.

Table 2 below, shows the comparison of the 2020 forecast of the number of capped properties in the commercial, industrial and multi-residential tax classes under status quo, Option 1, Option 2 and Option 3 , as well as the difference in number of properties and percentage change between Option 2 (recommended for 2017) and status quo.

**Table 2 –2016- 2020 Capping Options Comparison (Number Capped Properties)**

Number Properties	2016	2020 Status Quo	2020 Status Quo + \$500 threshold (Option 1)	2020 10% Cap + \$500 threshold (Option 2)	2020* 10% Cap + \$500 threshold +CVA pass through (Option 3)	2020 Option 2 vs Status Quo	2020 % change of Option 2 vs Status Quo
Commercial	4,955	3,454	3,044	1,501	613	(1,953)	(57%)
Industrial	151	99	68	34	20	(65)	(66%)
Multi-Residential	55	25	22	13	4	(12)	(48%)
	5,161	3,578	3,134	1,548	637	(2,030)	(57%)

\*Option 3 cannot be applied in 2017

The recommended Option 2, applying 10% cap and \$500 threshold, will result in a 57% total decrease in number of capped properties in 2020 (57% decrease for commercial, 66% decrease for industrial and 48% decrease for multi-residential). If no other options are subsequently applied, the implementation of a 10% cap and \$500 threshold will allow for industrial properties to be out of the capping and clawback system by 2025 and commercial and multi-residential properties by 2026, barring adjustments resulting from the 2020 and 2024 reassessment cycle.

#### **Four-Year Phase-Out Option**

If Option 2 (10% cap + \$500 threshold) is implemented in 2017, followed by Option 3 in 2018 (10% cap+\$500 threshold + CVA pass through), it is estimated that by 2019, 100% of industrial properties will be within 50% of CVA, and the City will be in position to implement a 4 year phase out for that class, allowing for the industrial tax class to be removed from the capping and clawback system by 2023.

Similarly, 100% of commercial and multi-residential properties are projected to be within 50% of CVA by 2020, and hence a 4 year phase out for these classes can be commenced at that time, allowing for the conclusion of the capping and clawback system for these classes by 2024.

Staff will report to Council once the 4-year phase-out option becomes applicable for the City of Toronto (2019/2020).

## **CONTACT**

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Boriana Varleva, Senior Financial Analyst, Corporate Finance  
[Boriana.Varleva@toronto.ca](mailto:Boriana.Varleva@toronto.ca); 416-392-4949

Adir Gupta, Manager Financial Policy, Corporate Finance  
[Adir.Gupta@toronto.ca](mailto:Adir.Gupta@toronto.ca); 416-392-8071

Casey Brendon, Director, Revenue Services  
[Casey.Brendon@toronto.ca](mailto:Casey.Brendon@toronto.ca); 416-392-8065

## **SIGNATURE**

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Roberto Rossini  
Deputy City Manager & Chief Financial Officer