TORONTO

REPORT FOR ACTION

2019 Education Property Tax Levy and Clawback Rate By-Law

Date: April 15, 2019
To: City Council
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report recommends adoption of the 2019 education tax rates and property tax levy for school purposes for the City of Toronto. The education tax rates are prescribed by the Ministry of Finance annually and must be adopted my municipalities. This report also recommends the 2019 percentage of the tax decreases (the 'clawback' rates) required to fund the capping limit on properties in the commercial, industrial and multi-residential property classes. It has been long standing City Council policy to adopt clawback rates sufficient to fund forgone revenues arising from its adopted tax increase capping policy, and as provided for by legislation.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council adopt the 2019 tax rates for school purposes, as shown in column II, which will raise an education tax levy on rateable properties for 2019 of $2,242,074,103, in accordance with O.Reg. 400/98 as amended, prescribing such rates for the City of Toronto:

Column I	Column II
Property Class	2019 Tax Rates for Education Levy
Residential	0.161000%
Multi-Residential	0.161000%
New Multi-Residential	0.161000%
Commercial	1.030000%
Commercial (New Construction)	1.030000%
Commercial Residual	1.030000%
Commercial Residual I (New Construction)	1.030000%
Industrial	1.110878%

Column I	Column II
Property Class	2019 Tax Rates for Education Levy
Industrial (New Construction)	1.030000%
Pipelines	1.290000%
Farmlands	0.040250%
Managed Forests	0.040250%

2. City Council adopt reductions in tax decreases for the 2019 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	Column II	Column III
(Property Class)	(Clawback Percentage)	(Allowable Decrease)
Commercial	65.068190%	34.931810%
Industrial	50.130410%	49.869590%
Multi-residential	39.891946%	60.108054%

3. City Council authorize the introduction of the necessary bills in Council to give effect to Council's decision.

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 March 7, 2019, enacted By-law 394-2019 thereby adopting the 2019 municipal property tax rates and the municipal tax levy arising from such rates.

On April 9, 2019, the Minister of Finance filed O.Reg 64/19 amending O.Reg 400/98 under the Education Act prescribing 2019 tax rates for school purposes. Accordingly, this report recommends adoption of the tax rates for school purposes, as prescribed. City Council must adopt the prescribed education tax rates in accordance with the regulation and enact 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 2019 education levy on rateable assessment will be $2,242,074,103, based on the recommended 2019 education rates. The average household assessed at $665,605 in 2019 will pay an education tax bill of $1,072, compared to $1,065 in 2018 (a $7 increase). A detailed breakdown of 2019 municipal and education property taxes on the average house is presented in Table 2 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 March 7, 2019, City Council adopted the 2019 municipal property tax levy, property tax capping policies and tax rates. That report also authorized the Chief Financial Officer and Treasurer to report in April to Executive Committee, or directly to Council or a special meeting of Council if necessary, on the 2019 tax rates for school purposes, and the 2019 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 2019 'clawback' rates). That decision can be viewed at:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX2.1

COMMENTS

2019 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.

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. Also, since 2016, as announced 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.

Table 1 below provides a reconciliation of the 2019 education tax levy for Toronto by property class. The Province will receive $9.45 million from additional education tax levies arising from assessment growth in the City, largely driven by condominium development and new commercial development. The increase in the education levy for 2019 will be $28.01 million, for a combined education tax levy change in Toronto of $37.46 million.

Table 1: 2019 Education Taxes

Property Class	2018 Education Levy '000	2018 Levy Change from Assessment Growth '000	2018 Year End Education Levy '000	2019 Education Levy Change '000	2019 Prescribed Education Levy '000
Residential	$815,208	$11,726	$826,933	$5,262	$832,196
Multi-Residential	$69,670	$1,407	$71,077	$3,555	$74,632
New Multi-Residential	$3,402	$582	$3,984	$112	$4,096
Commercial	$1,136,614	-$9,257	$1,127,357	$18,799	$1,146,156
New Commercial	$80,413	$6,541	$86,954	-$857	$86,098
Industrial	$93,927	-$1,571	$92,356	$1,232	$93,588
New Industrial	$621	$2	$623	-$23	$600
Pipelines	$4,750	$24	$4,773	-$76	$4,698
Farmlands	$9	-$1	$9	$0	$9
Managed Forests	$2	$0	$2	-$0	$2
Total	**$2,204,616**	**$9,452**	**$2,214,068**	**$28,006**	**$2,242,074**

Table 2 summarizes the tax impacts on the average house in Toronto with an assessed value of $665,605. The average 2019 household impact arising from the municipal portion of taxes of $104.56 (a 3.58% increase) was reported to City Council in March, 2019 during adoption of its budget. The 2019 education tax rates, prescribed by the Province and recommended in this report will result in $6.77 (0.64%) increase in education taxes on the average home in Toronto. The total 2019 municipal and education levy impact for the average household in Toronto will be $111.33 or a 2.80% increase on the total bill.

Table 2: 2019 Tax Impacts on Average House (CVA $665,605)

	City	Education	Combined
2018 Tax	$2,915.84	$1,064.85	$3,980.69
2019 Tax	$3,020.40	$1,071.62	$4,092.02
2019 Impact, $	$104.56	$6.77	$111.33
2019 Impact, %	3.58%	0.64%	2.80%

Business Vacancy Rebate and Reduction Programs

In 2017, City Council adopted the phasing out of the vacancy rebate program for commercial and industrial properties, and as of July 2018, the vacancy rebate program was completely eliminated (see Item EX25.10). The municipal portion of the tax reduction percentage for vacant and excess land within the commercial and industrial tax classes has been maintained at 30% for commercial properties and 35% for industrial properties for the 2019 taxation year.

In 2019, the Province announced it will be phasing-out the education portion of the vacant and excess land tax class reductions for commercial and industrial properties. In 2019, the education property tax portion of the vacancy rebate and reduction will be 15 per cent for commercial units / properties and 17.5 per cent for industrial units / properties, and eliminated completely in 2020.

The impact of the phasing out of tax reductions for vacant and excess lands in 2019 is $4.66 million in additional education tax revenue for the Province.

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. For the period 2006 – 2016, 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.

For the 2017 taxation year, City Council adopted a capping limit based on 10% of the preceding year's current value taxes. Existing policy also provided that properties that have reached their full CVA level of taxation would be removed from the capping and clawback system and would be subject to full CVA taxation.

In 2017, which was the first year of the new reassessment cycle, concerns were raised by many property owners who were experiencing significant CVA related tax increases. As an interim tax impact mitigation measure, for the 2018 taxation year, City Council reinstated capping protection for properties that had reached CVA taxation, and set a tax increase cap of 10% of a property's prior year's tax, with a view to engage stakeholders to identify additional property tax options for 2019 and future years.

In July of 2018, Executive Committee received for information item EX36.7 "Additional Property Tax and Legislative Change Options to Support Businesses" that reported on the results of the consultations, and identified a series of considerations for tax policy options for 2019 and beyond. The City is currently discussing with the Province potential legislative and regulatory changes that would allow for alternative tax protection measures. Meanwhile, for 2019, Council adopted to continue of the capping protection measures adopted in 2018.

As permitted by current legislation, the capping of tax increases is funded by "clawing back" tax decreases. Table 3 below sets out the percentage reductions in the tax decreases for 2019 (the “clawback rate”) necessary to fund the foregone revenue resulting from the recommended 10% cap on tax increases for 2019. The “allowable decrease” (Column III) represents the percentage of the tax decrease allowed for those properties that are experiencing tax reductions under CVA.

Table 3: 2019 Clawback Rates

Column I	Column II	Column III
(Property Class)	(Clawback Percentage)	(Allowable Decrease)
Commercial	65.068190%	34.931810%
Industrial	50.130410%	49.869590%
Multi-residential	39.891946%	60.108054%

CONTACT

Boriana Varleva, Senior Financial Analyst, Corporate Finance
Boriana.varleva@toronto.ca, 416-392-4949

Adir Gupta, Director Financial Strategies and Policy, Corporate Finance
Adir.Gupta@toronto.ca; 416-392-8071

Casey Brendon, Director, Revenue Services
Casey.Brendon@toronto.ca; 416-392-8065

SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer