

**PROPERTY TAX LEGISLATION
and
2002 MUNICIPAL BUDGETARY
IMPLICATIONS**

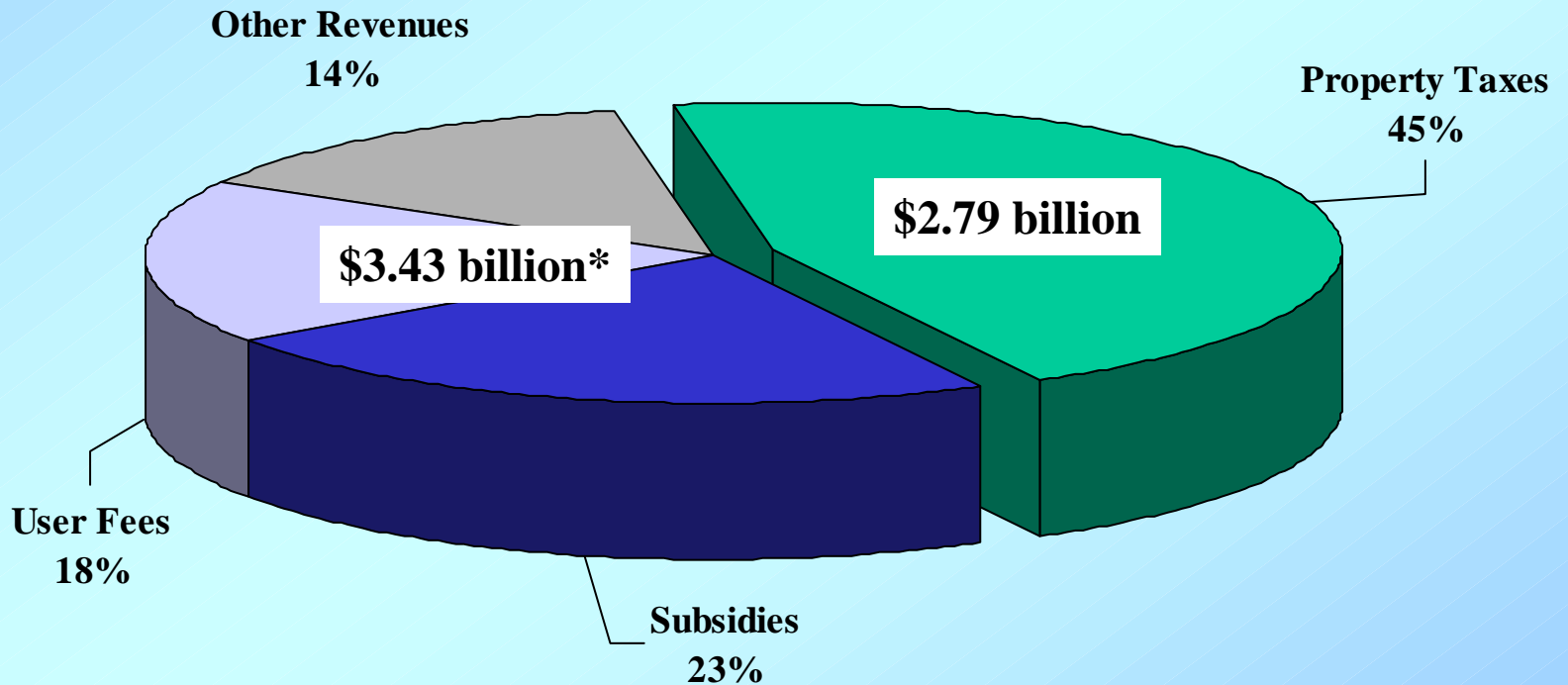
*Presentation to
Council
March 4, 2002*

Overview

- Background
- Municipal Share of Taxes
 - Legislative Restrictions
- Education Share of Taxes
 - Residential Education Rates
 - Commercial Education Rates
- Potential Solutions
- Conclusions

Background - 2002 Municipal Revenues

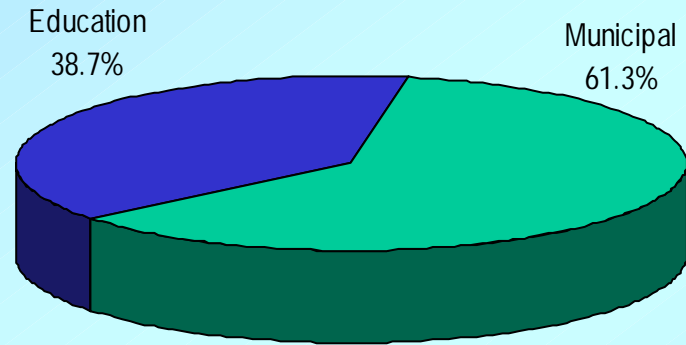
\$6.2 billion



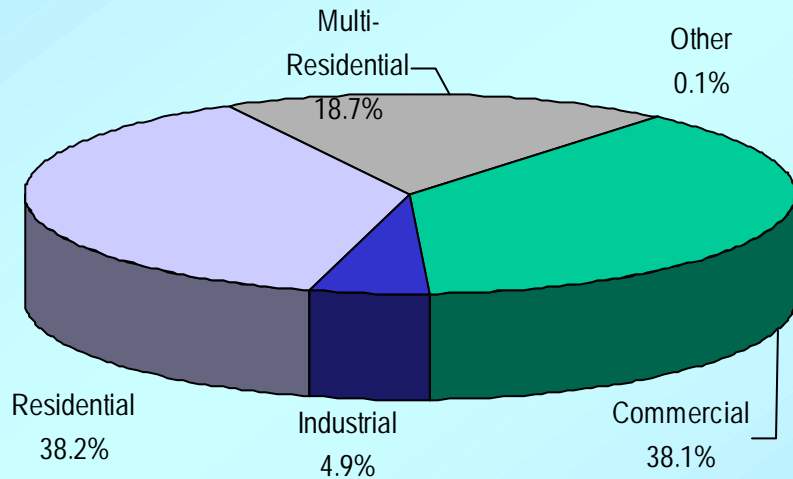
*Preliminary Estimate for 2002

2002 Property Taxation

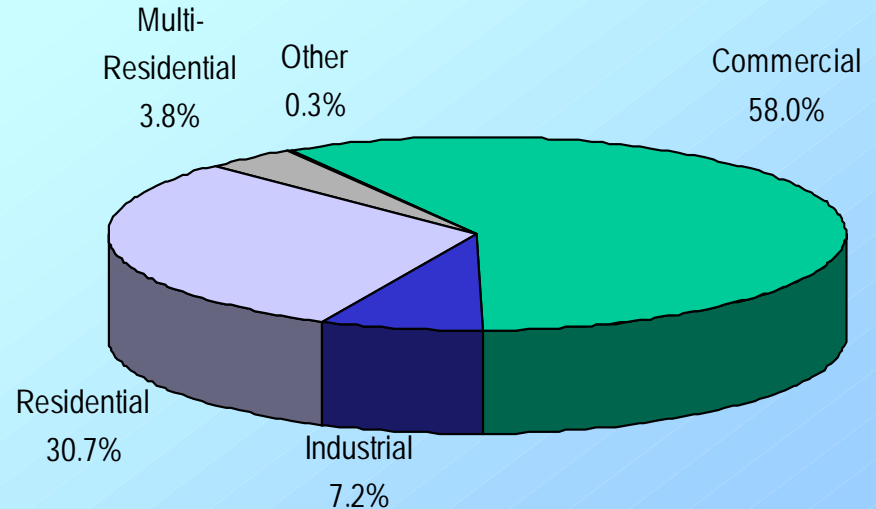
TOTAL PROPERTY TAX LEVY - \$4.56 B



MUNICIPAL* - \$2.8 B



EDUCATION* - \$1.76 B



Changes in Taxation, 1998 - 2001

- City:
 - No Tax Rate Increases, 1998 - 2000
 - 5% Residential tax increase in 2001
- Province:
 - For Businesses:
 - 1998 - Business Education Tax Reduction
 - » \$400 M over 8 years within Commercial/Industrial
 - For Residential:
 - 1999 - Residential Education Tax Rate Reduction
 - » further 10% reduction expected by 2003

2001 Legislative Changes

- Bill 140: *Continued Protection for Property Taxpayers Act, 2000*
 - no municipal levy increases on commercial, industrial or multi-residential classes where tax ratio exceeds provincial threshold ratios
 - 5% limit on total annual tax increases for commercial/industrial/multi-residential

Tax Ratios Defined

- Tax Ratio:
 - Ratio of the tax rate for a property class in comparison to the residential tax rate.
- Example:

$$\frac{\text{Commercial tax rate}^*}{\text{Residential tax rate}^*} = \frac{2.66\%}{0.70\%} = \mathbf{3.8}$$

Commercial tax rate is 3.8 times the residential rate

** municipal portion of taxes only*

Bill 140 - Key Impact

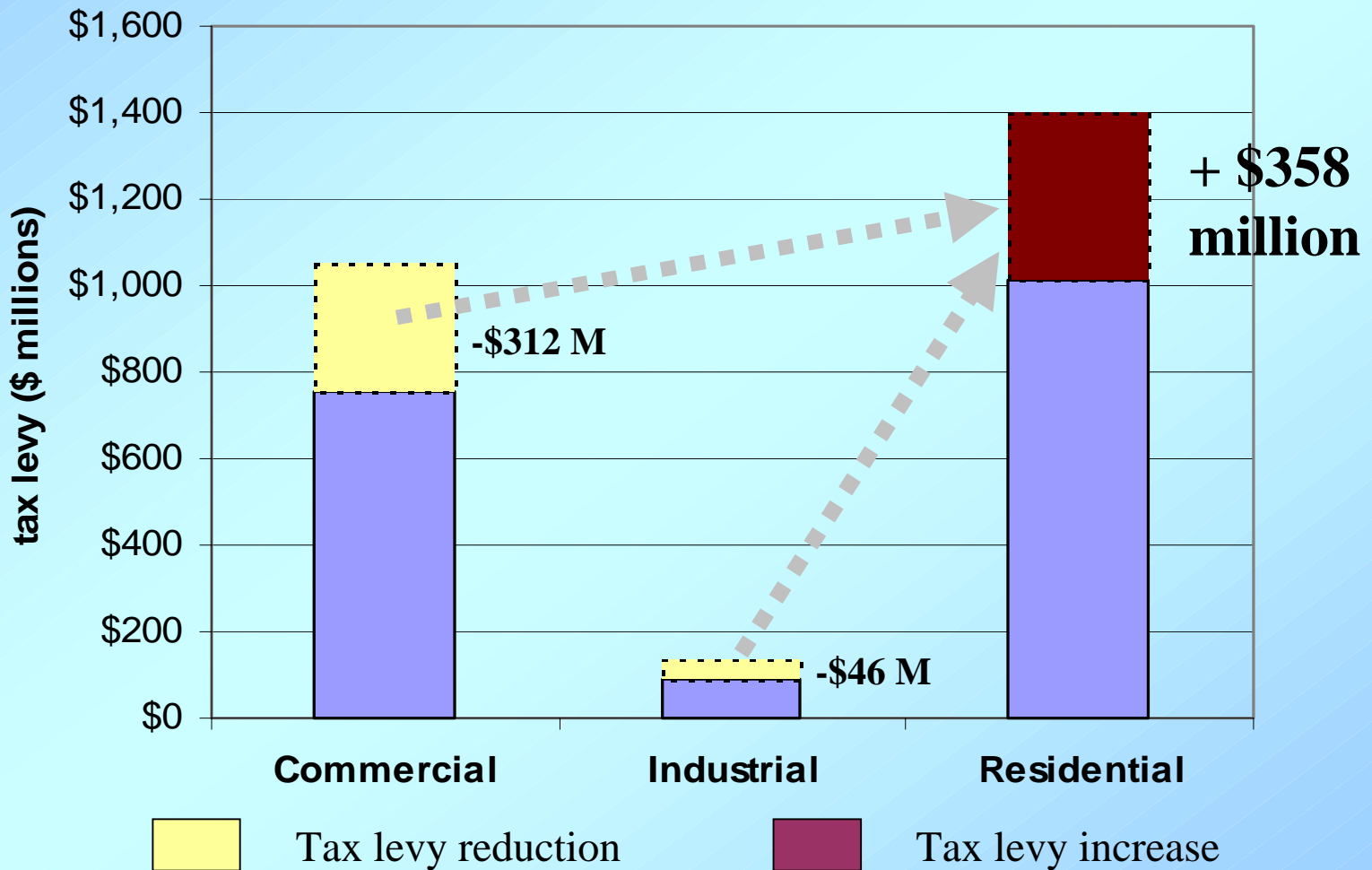
- Toronto's tax ratios for commercial and industrial all exceed provincial threshold ratios

	Commercial	Industrial	Multi-Residential
Provincial Threshold Ratios	1.98	2.63	2.74
Toronto's 2001 Tax Ratios	3.80	5.30	4.17

Tax Ratio is the tax rate for a property class in comparison to the residential tax rate; For example, the commercial tax rate is 3.8 times the residential rate

MUNICIPAL SHARE OF TAXES

Moving to threshold ratios in 2002 would mean ...

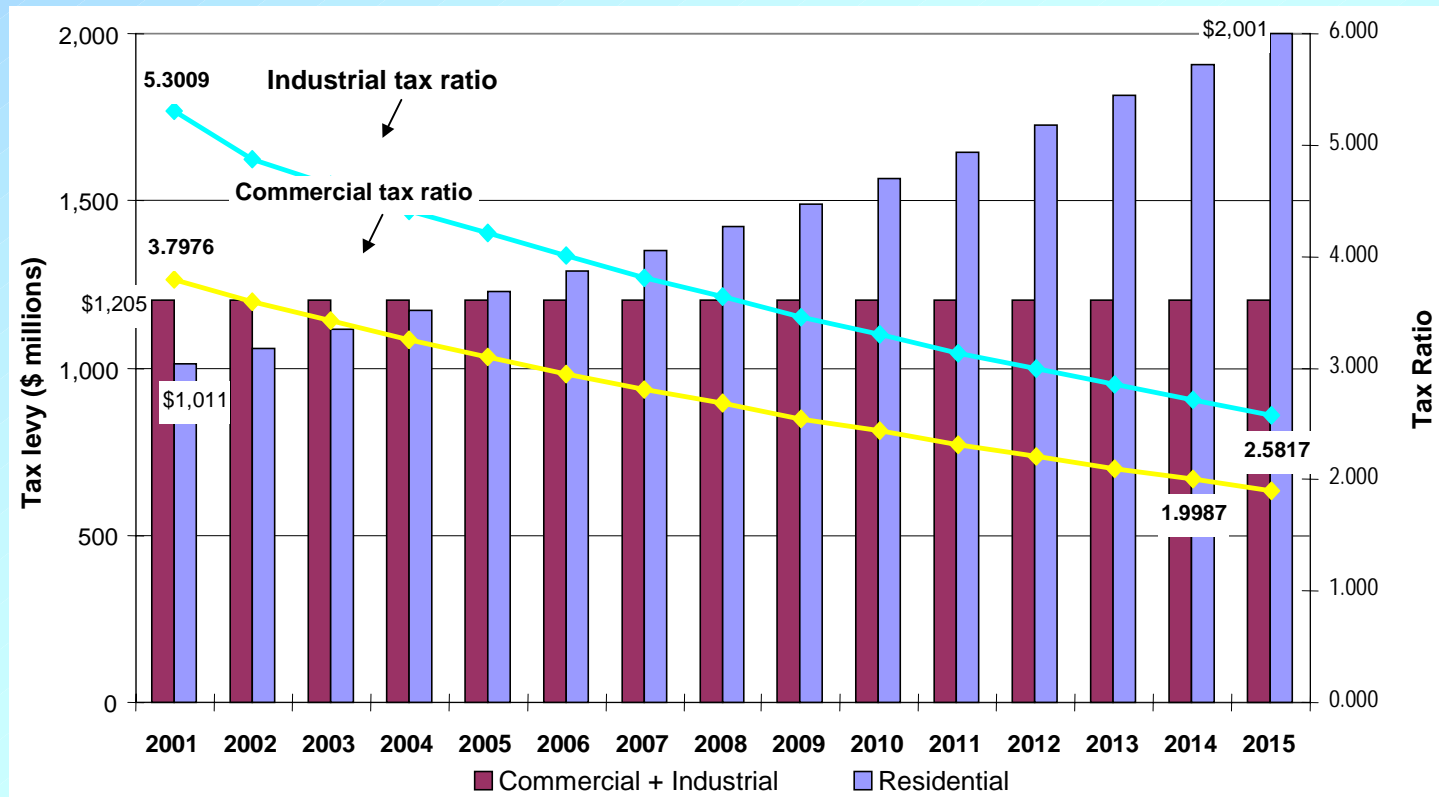


Moving to threshold ratios over time

- A 5% residential tax increase each year, starting in 2002, would bring Toronto's tax ratios to threshold levels within:
 - Commercial: 13 years
 - Industrial: 14 years

Moving to threshold ratios

“Passive Approach - Increase Res. Levy

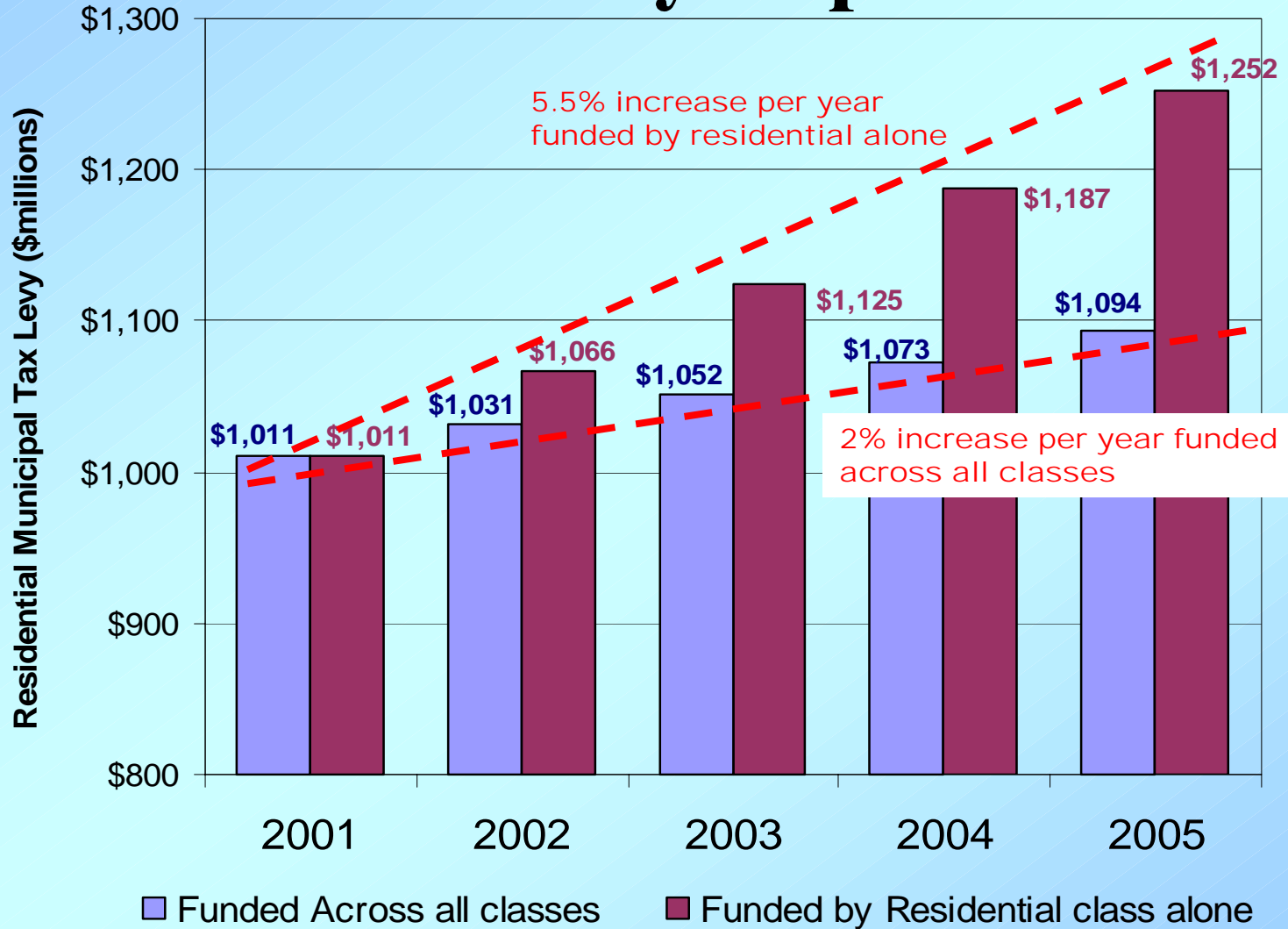


Assuming 5% per annum Residential Levy Increase

Inflationary impacts

- As inflation rises, the costs of providing city services and programs increases.
- A 2% annual increase in inflation would require an additional \$122 million each year just to maintain current programs.
- If funded across all classes, this translates to a tax increase of 2.0%.
- Funded from the residential class alone, a tax increase of 5.5% per year is required, *just to keep pace with inflation.*

Inflationary impacts

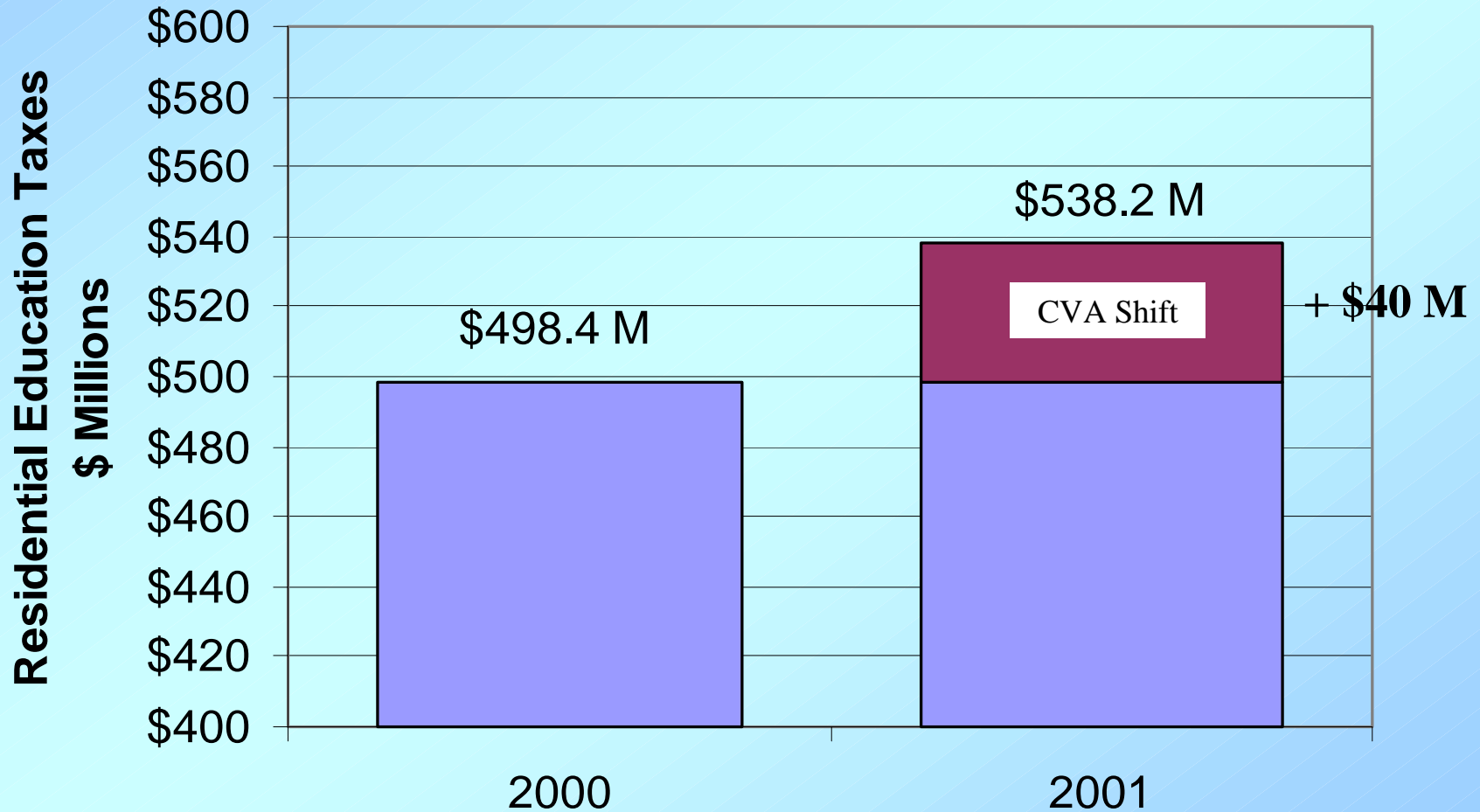


EDUCATION SHARE OF TAXES

Impact of Province-wide Residential Education Tax Rates

- Toronto's residential class contributed \$40 million more in education taxes than in 2000 due to new province-wide education tax rates.
- Reason: CVA increases were greater in Toronto than remainder of province. This trend will continue.
- Result: Residential property owners bear an ever-increasing share of the provincial education levy with each re-assessment.

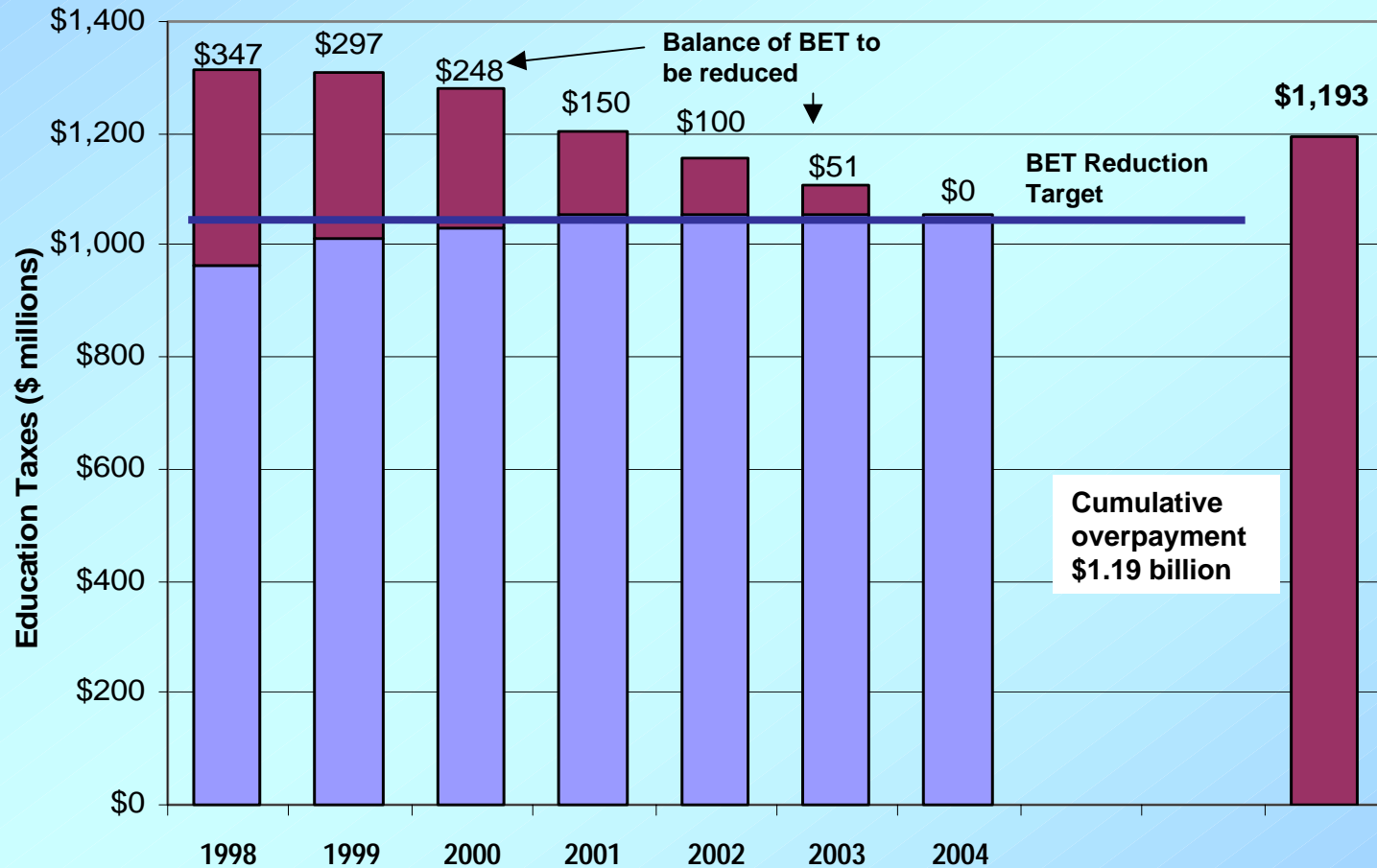
Toronto's Residential Contribution to Provincial Education Levy



Business Education Tax Rate Reductions

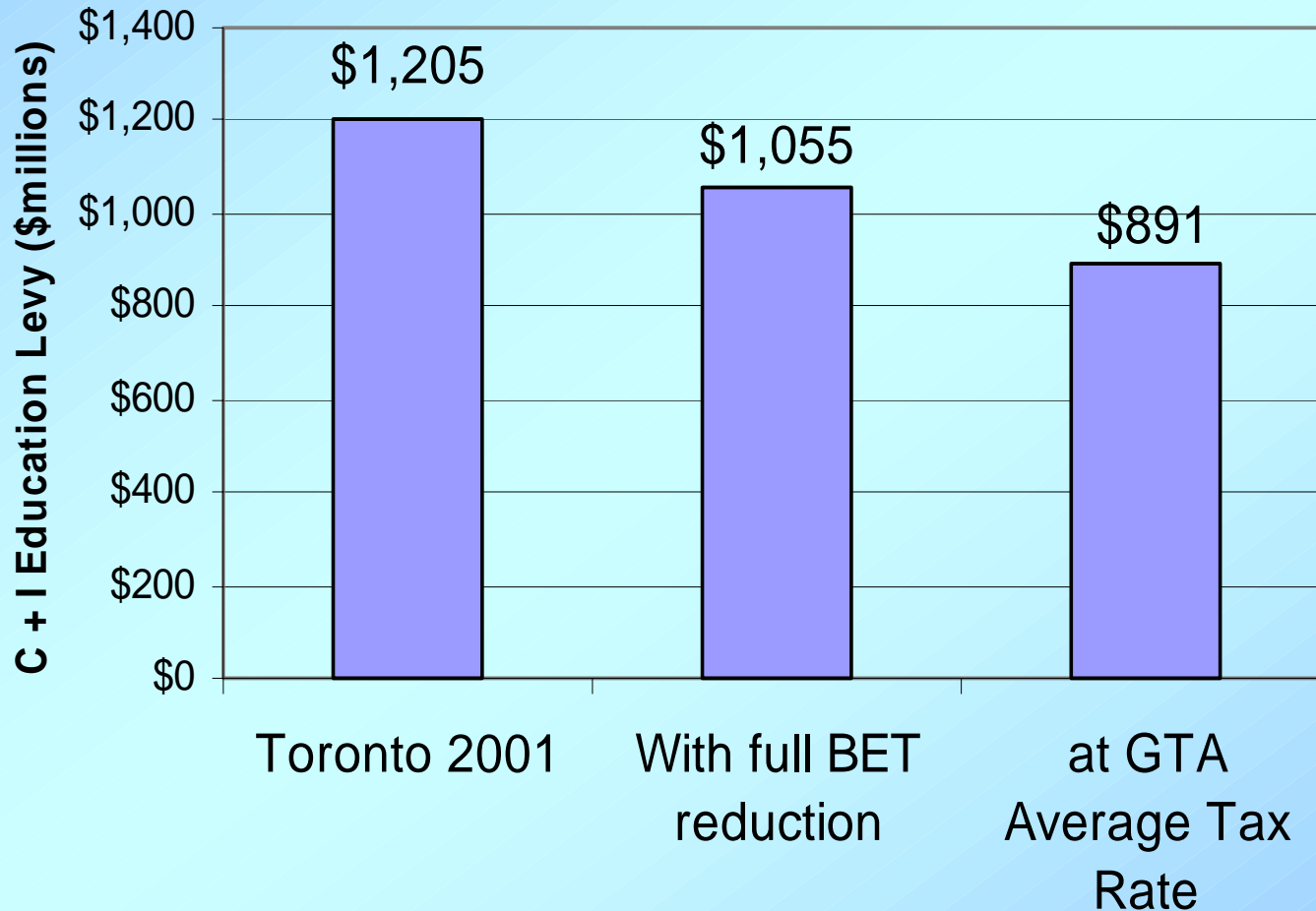
- Province announced 8-year plan in 1998 to reduce commercial and industrial education tax rates (BET reduction).
- In Toronto, a total of \$400 million was to be provided over 8 years to reduce business tax rates to the provincial average.

Toronto's Commercial and Industrial Education Taxes Since 1998

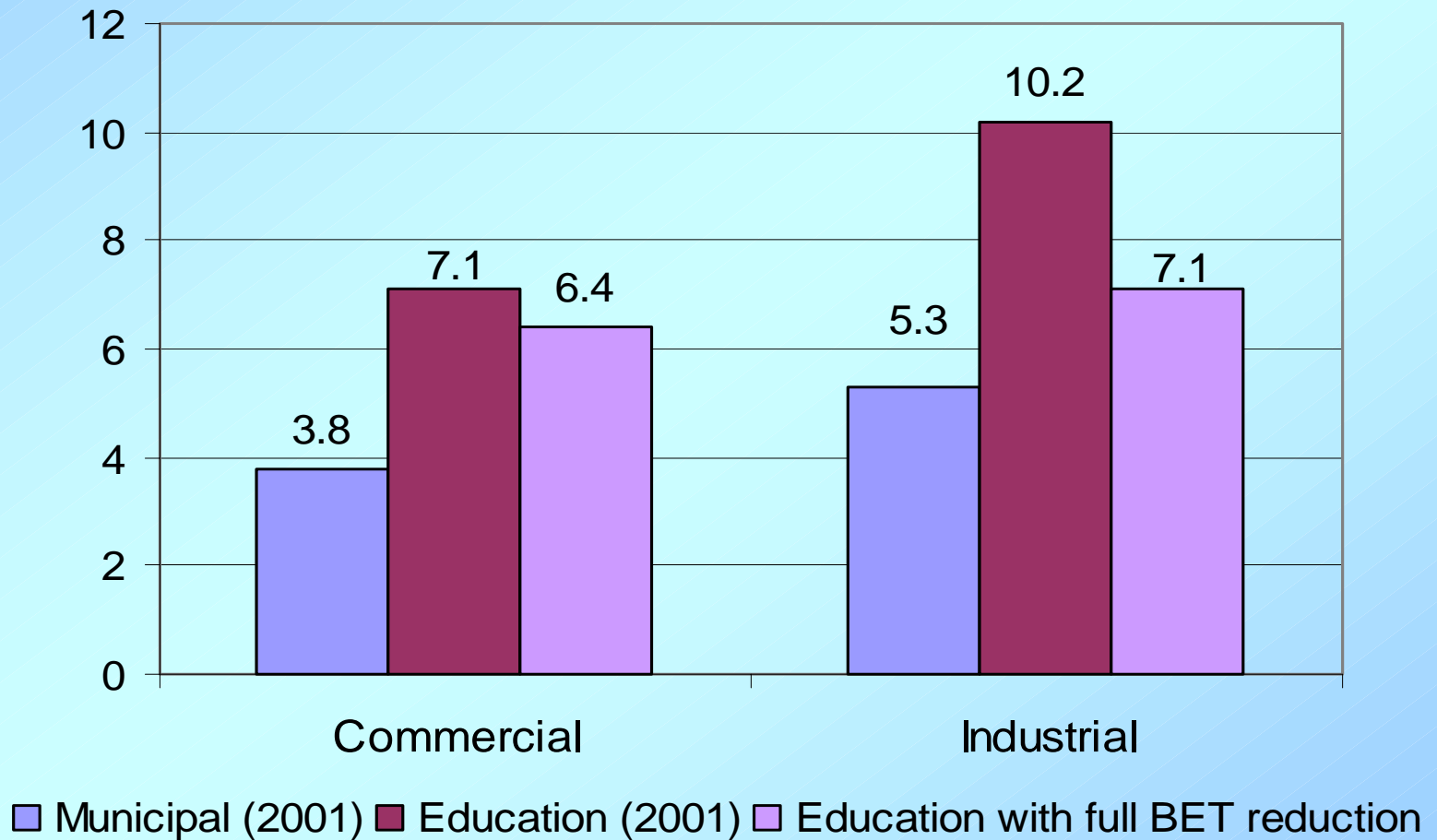


1998-2000 reflects assessment growth

Toronto's Commercial & Industrial Education Levy Could be Reduced



Comparing Toronto's Municipal and Education Tax Ratios

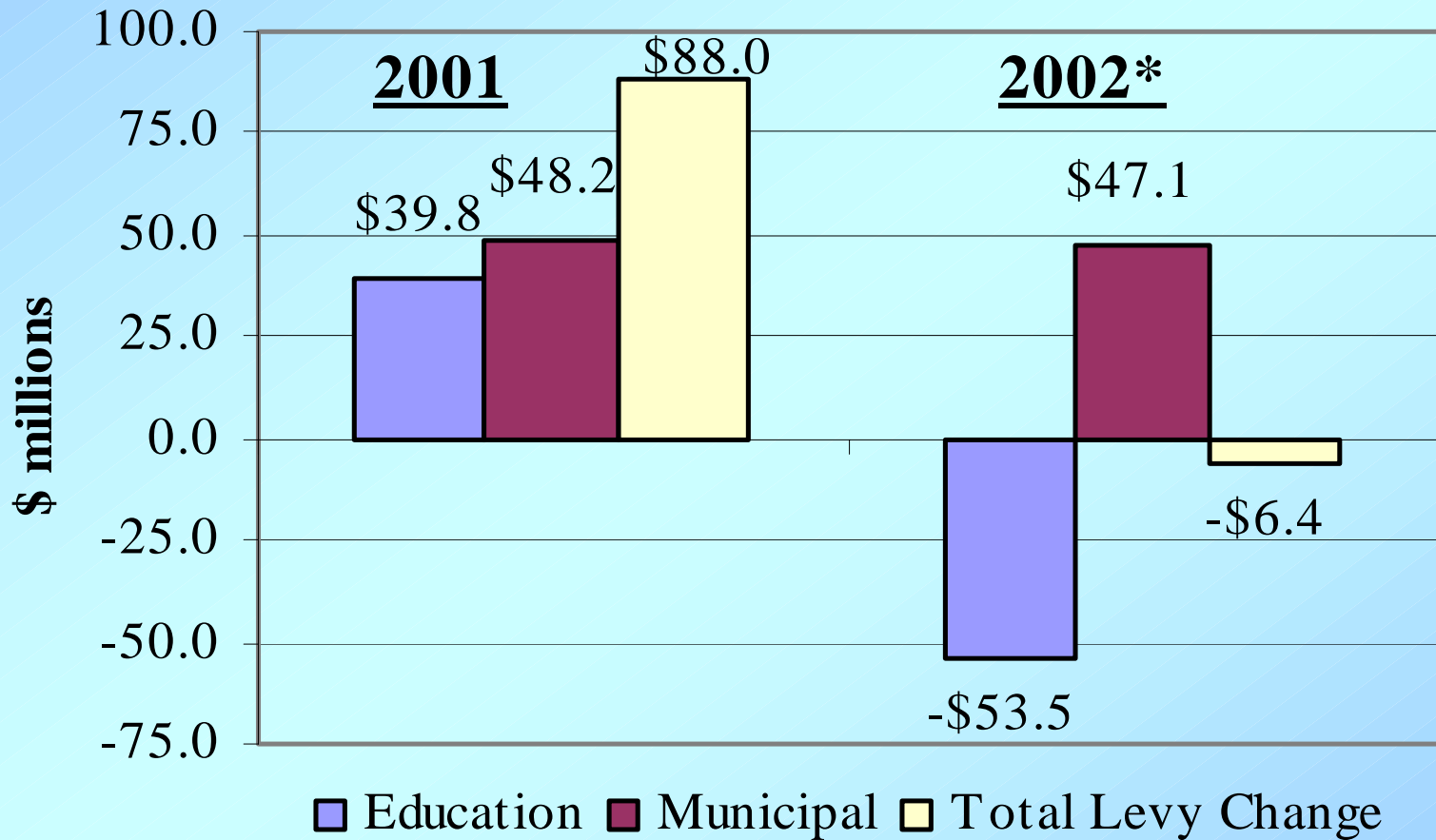


POTENTIAL SOLUTIONS

Potential Solutions

1. Allow municipal budgetary increases across all classes by eliminating threshold limits under Bill 140.
2. Allow inflationary increases across all property classes.
3. Reduce Toronto's business education taxes to GTA level by 2003.
4. Implement promised 10% residential education tax reduction now.

Potential Change in Residential Tax Levy 2002



*assuming 10% education tax rate reduction, and 4.6% municipal levy increase

Summary

- Further discussion with Province on options to allow impact of municipal budgetary increases to be shared by all classes
- Further provincial action necessary to actively reduce business education tax burdens
- Implementation of promised residential education tax reduction is necessary in 2002
- Explore methods to promote more equitable distribution of residential and business education tax burdens

Summary (cont'd)

- Forge a new working partnership with Province that addressed Toronto's fiscal challenges and importance to the provincial and national economy.

FISCAL PARTNERSHIP

