TORONTO

REVENUES

Property Tax

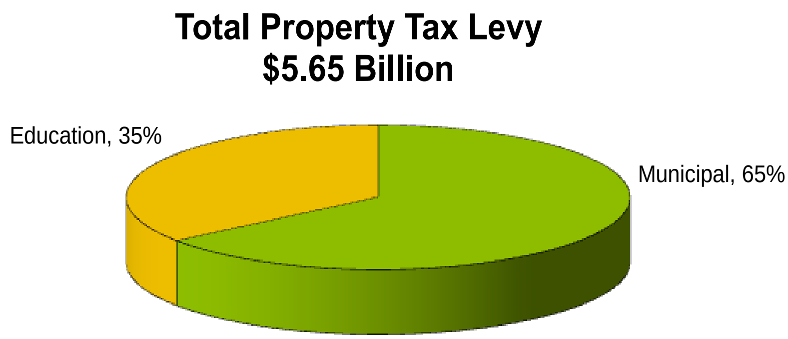
Property tax revenue is the City's single largest source of revenue. The City collects $3.7 billion from residential and business property owners, which represents 39% of its total tax-supported Operating Budget.

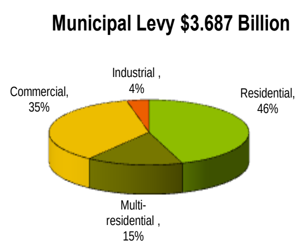
Each year, the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates set by the Province.

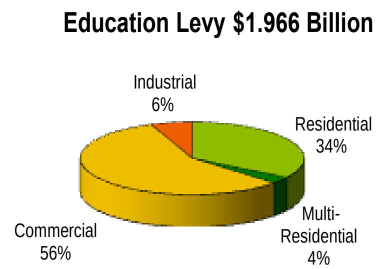
In 1998, the Province of Ontario reformed the property assessment and taxation system in Ontario with the implementation of the Current Value Assessment (CVA) system. The CVA of a property represents an estimated market value, or the amount that the property would sell for in an open market, arm's length sale between a willing seller and a willing buyer at a fixed point in time. The Municipal Property Assessment Corporation (MPAC) is responsible for property assessment in Ontario and preparing the assessment rolls for municipalities.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g., residential, commercial, industrial, or multi-residential). The total tax rate for a class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the costs of education. The chart below illustrates the 2012 taxes payable for the average household in Toronto with an assessed value of $447,090.

	2012 Tax Rate	2012 Property Tax
Municipal Purposes	0.5501981%	$2,460
Educational Purposes	0.2210000%	$960
Total	0.7711981%	$3,448







In late 2005, Council approved a comprehensive property tax policy " Enhancing Toronto's Business Climate - It's Everybody's Business" to improve the business climate in the City, and consequently in 2006 implemented the policy of allowing for up to one-third of any residential tax rate increase to be applied to the Commercial, Neighbourhood Retail, Industrial, and Multi-Residential tax classes (i.e. a one percent non-residential tax increase for a residential tax increase of three percent). This program will phase in a reduction in non-residential tax ratios to 2.5 times the residential rate over 15 years from the previous level of approximately 4 times the residential rate. In addition, the policy provides for an accelerated tax reduction for neighbourhood retail and small businesses that will see their tax ratios fall to 2.5 times residential within ten years (2015), as well as property tax relief measures for non-retail office, hotel and industrial developments.

For tax years between 2009 and 2012, properties have been reassessed to reflect a January 1, 2008 valuation date. This updated the assessed values from the previous base of January 1, 2005, following a moratorium on reassessments that resulted from a report by the Provincial Ombudsman in 2006. An outcome of this review has resulted in amendments to the *Act*, providing for a four-year reassessment cycle with Current Value Assessment (CVA) increases being phased-in between the four-year periods. This means that any increase in CVA from the reassessment is to be phased-in at incremental increases of one-quarter of the total increase, spread over 2009 to 2012 taxation years. CVA decreases are not subject to phase-ins and are applied immediately. 2012 is the fourth final year of phasing in Jan 1, 2008 assessment values. The next reassessment will take place in 2013 with valuations based on January 1, 2012 valuation date. These changes will be phased in between 2013-2016.

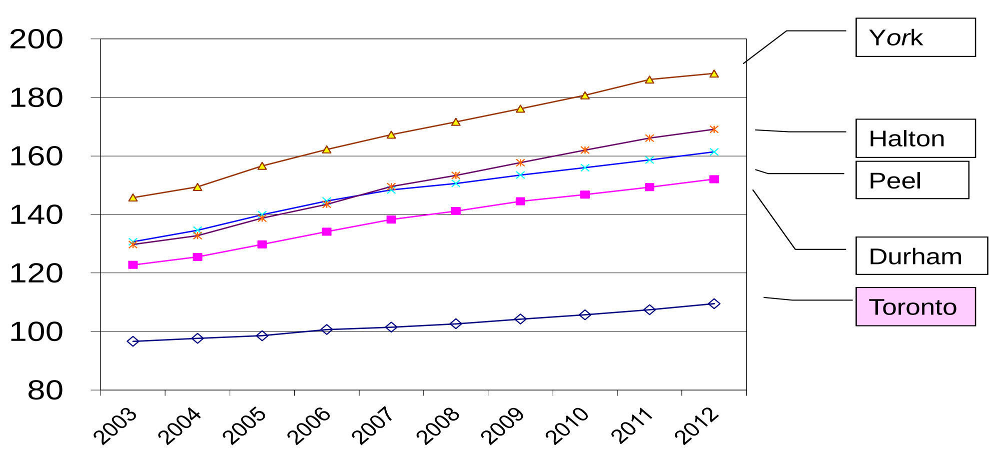
In Toronto, tax ratios for the commercial, industrial and multi-residential tax classes all exceed the provincial thresholds, which means that no municipal levy (budgetary) increases can be passed on to these classes so long as the ratios exceed the threshold limits. This means that instead of accessing the full assessment base, the City could increase tax rates only on the residential class.

Toronto's Tax Ratios vs. Provincial Threshold Ratios

Sector	2001	2006	2007	2008	2009	2010	2011	2012	Provincial Threshold Ratios
Multi-residential	4.174	3.635	3.546	3.469	3.380	3.316	3.316	3.316	**2.74**
Commercial	3.798	3.674	3.584	3.506	3.373	3.267	3.237	3.212	**1.98**
Commercial Small				3.410	3.265	3.108	3.020	3.070	**1.98**
Industrial	5.301	4.090	3.920	3.740	3.547	3.375	3.237	3.212	**2.63**

Over the last two decades, the GTA experienced quite remarkable economic and population growths following the recession of the early 1990s. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada. The bulk of the new construction and the associated assessment increase are located in the surrounding areas in the GTA. For example, from 2001 to 2012 the rest of the GTA had assessment increases in excess of 30%: York Region: 41%, Halton Region: 40%, Peel Region: 33%, and Durham Region: 32%. By contrast, Toronto's property assessment in 2012 is just 15% above its 2001 level, partly due to the conversion of certain industrial properties into residential properties.

Toronto Does Not Have the Same Assessment Growth Enjoyed by the Neighbouring Regions



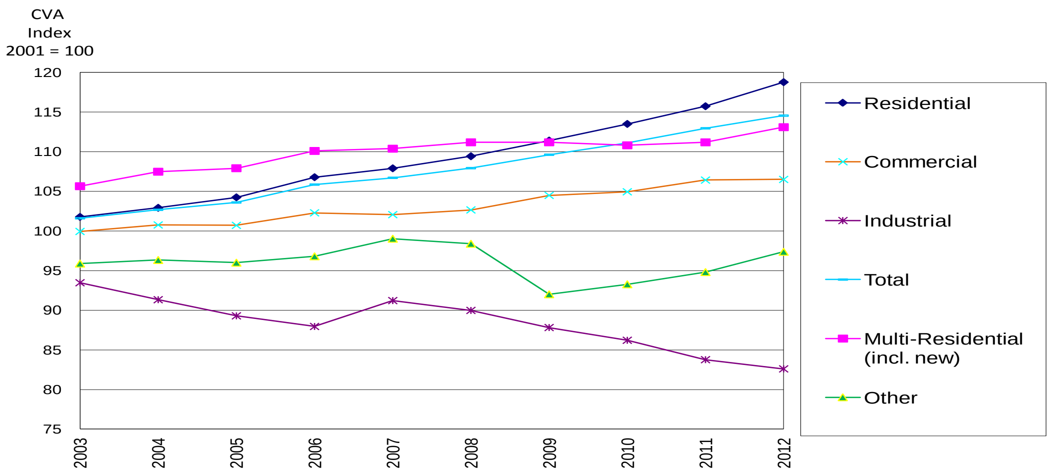
Source: Municipal Property Assessment Corporation

Since 2001, the total CVA of the City's properties has experienced a true net growth of 15% when the impacts of property reassessment are removed. Within the various property classes, residential properties had a true growth of 19%, and multi-residential properties had an increase of 13%. For the non-residential properties, while commercial properties had a modest 7% in true assessment growth, industrial properties had a net decrease of 17%; this is illustrated in the chart to follow.

Toronto's True Assessment Growth

(excluding Reassessment Impact)

2003 - 2012



Other City efforts to enhance competitiveness have resulted in a successful agreement with the provincial government to reduce business education tax (BET) rates for the City of Toronto businesses closer to the average of the surrounding GTA municipalities, creating a new, fair water rate structure for industrial and manufacturing companies and continuing the relief of development charges for the city's commercial industry.

The Municipal Act also mandates limits on re-assessment related tax increases to 5% per year for the commercial, industrial and multi-residential property classes, which for many properties in these classes may result in a phase-in towards their CVA level of taxes.

Special provisions to provide tax relief for low-income seniors and disabled persons, as well as charities and similar organizations, are also required.

Tax relief policies in effect for 2012 include:

- The cancellation of any tax increase for seniors aged 65 or older, or disabled person living with a household income of $36,000 or less, which residential property assessed value is less than $575,000 and have occupied his home for at least one year.

- The interest free deferral of any tax increase for seniors aged 50 years or older or disabled persons, whose household income is $50,000 or less and have owned the property for at least one year.

- A 40% rebate of taxes paid for registered charities owning or occupying space in commercial or industrial properties.

Property Assessment:

The following chart depicts the total value of all property classes of the City of Toronto's current value assessment in each of the years from 1998 to 2012.

User Fees

User fees are the City's second largest source of revenue. Excluding Toronto Water and the Toronto Parking Authority, the City collects over $1.4 Billion in user fee revenues annually through approximately 3,000 individual user fees.

As a result of a comprehensive User Fee Review in 2011, City Council approved a new corporate policy for establishing the initial and annual price of a user fee and determining the amount that should be recovered. A discussion of the key principles of the new user fee policy is provided in the Service Review Program section under Comprehensive User Fee Review.

A new funding system for Solid Waste Management Services, the volume-based rate structure, was implemented November 1, 2008 to fund the service objective of 70% waste diversion. This funding plan transforms Solid Waste Management (garbage, recycling, green bin, litter prevention, landfill management and other diversion programs) from being property-tax-based to user fee-based, and its fees are now part of the Utility Bill, together with the water charges, that are sent to city residents and businesses. The entire Solid Waste Management program is now funded from revenue other than property taxes (including funding from Waste Diversion Ontario, sales proceeds from recyclable materials and user fees).

Funding Transfers from Other Governments

The City receives grants and subsidies from other orders of government which are mainly for mandated programs such as Social Assistance, Child Care, Public Health, Social Housing, and some Transit capital funding. These transfers represent about 19% of the total tax-and rate-supported Operating Budget.

Other Taxation

The City of Toronto is the only Ontario municipality with the legislative authority (City of Toronto Act, 2006) to allow it to levy taxes other than property taxes. The Municipal Land Transfer Tax (MLTT) was implemented on February 1, 2008, and Personal Vehicle Tax (PVT) on September 1, 2008. In 2010, the two taxes brought in revenues in excess of $320 million, or approximately 3% of the total tax-supported Operating Budget. On December 16, 2010, however, City Council approved the termination of the City's Personal Vehicle Tax (PVT) effective January 1, 2011.

MLTT revenues continued to exceed expectations in 2011 as low mortgage rates helped to keep housing sales strong in the City of Toronto. MLTT revenues reached $319 million in 2011, almost equalling revenues achieved from both the MLTT and PVT in the previous year.
The following chart illustrates how the actual 2010 and 2011 monthly revenues compared with the budget.