

## Report to Corporate Services Committee

**To:** Chair and Members  
Corporate Services Committee  
**From:** Anna Lisa Barbon, Deputy City Manager, Finance Supports  
**Subject:** 2024 Tax Policy Expectations  
**Date:** February 26, 2024

## Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, that this report BE RECEIVED for information.

## Executive Summary

The 2024 Tax Policy and future Tax Policy for the City of London is shaped by announcements and decisions made by the Province. Provincial property tax decisions for 2024 include maintaining the same education rates and continuing to delay reassessment pending a review of the property assessment and taxation system. In the absence of reassessment which would potentially create property tax shifts between classes, the commercial, industrial, and multi-residential tax ratios cannot be increased using revenue neutral ratios. The decisions available for the 2024 Tax Policy will be to keep the tax ratios the same as 2023 or to lower one or more of the other tax ratios; commercial, industrial, and/or multi-residential.

## Linkage to the Corporate Strategic Plan

Council's 2023 - 2027 Strategic Plan for the City of London identifies "Well-Run City" as a strategic area of focus. The information contained in this report would assist in developing tax policy to align with Council priorities of the Strategic Plan BY SUPPORTING London's competitiveness through prudent and equitable fiscal policy. The tax policy achieves this result by focusing on equity within and between property tax classes and examining alternatives in a transparent manner.

## Analysis

### 1.0 Background Information

#### 1.1 Previous Reports Related to this Matter

Corporate Services Committee, January 15, 2024, Consent Item 2.9, Assessment Growth for 2024, Changes in Taxable Phase-Values, and Shifts in Taxation as a Result of Reassessments

Corporate Services Committee, April 11, 2023, Consent Item 2.6, Year 2023 Tax Policy

Corporate Services Committee, February 21, 2023, Consent Item 2.8, 2023 Tax Policy Expectations  
Corporate Services Committee, February 18, 2020, Consent Item 2.5, Future Tax Policy – Possible Directions

#### 1.2 Tax Policy Guiding Principles

The guiding principles for the City of London's Tax Policy are equity, economic development, transparency, and administrative efficiency.

Tax policy follows the equity principle by focusing on equity and fairness within and between property tax classes.

Tax policy achieves transparency when decisions and alternatives are examined in an open and public manner.

The tax policy is an effective tool as it can help ensure the City has a competitive property tax system which can impact business retention and the diversification of economic development.

### 1.3 Explanation of Terms

#### a. Tax Ratios

Tax ratios compare the tax rate for municipal purposes in a particular property class to the residential class. The ratio for the residential class is deemed to be 1.00. A tax ratio of 1.91 for the commercial class would therefore indicate a municipal tax rate is 1.91 times the residential municipal tax rate. (Education tax rates are set by the Province and are not dependent on tax ratios approved by municipal councils.)

#### b. Provincial Thresholds for Tax Ratios

Beginning in the year 2001, the Province established threshold tax ratios for three property classes - commercial, industrial, and multi-residential. At the time, the Province indicated that these threshold ratios represented the Provincial average in each class. Under provisions of the Municipal Act and related regulations, municipalities were not permitted for the year 2001 or subsequent years to impose a general municipal levy increase on a property class which had a ratio exceeding the Provincial threshold or average. Beginning in 2004, this restriction was modified somewhat to permit levy increases at half the residential rate in property classes with tax ratios above Provincial thresholds. The Province has permitted this flexibility every year since 2004. The general principle, however, continues that property tax increases cannot be spread evenly over all property classes if any tax ratio exceeds the provincial thresholds.

#### c. Provincial Targets/Allowable Ranges

The allowable ranges for tax ratios are set out in Ontario Regulation 386/98. These were theoretically the long-term targets for tax ratios set by the Ontario government during the major property tax reform in Ontario which began in 1998. The concept of tax reform was that municipalities could not move their tax ratios away from these targets/ranges. They would only be allowed to move their ratios towards these targets/ranges.

As long as a municipality maintains its tax ratios below the provincial thresholds and above the provincial targets/allowable ranges, the provincial legislation does not require any levy restriction on any non-residential class. London's non-residential tax ratios are all below provincial thresholds and above the "provincial targets/allowable ranges".

#### d. London's Tax Ratios in Comparison to Provincial Thresholds

The tax ratios in effect for the year 2023 and their proximity to the Provincial thresholds or averages established in 2001, as well as the Provincial targets or allowable ranges can be summarized as follows:

	City of London 2023 Tax Ratio	Provincial Threshold/Average (O.Reg. 73/03)	Provincial Targets/Allowable Ranges (O.Reg. 386/98)
Commercial	1.910000	1.98	0.6 to 1.1
Industrial	1.910000	2.63	0.6 to 1.1
Multi-Residential	1.709600	2.00	1.0 to 1.1
Pipeline	1.713000	N/A	0.6 to 0.7
Farm	0.102820	N/A	N/A
Residential	1.000000	N/A	N/A
New Multi-Residential	1.000000	N/A	1.0 to 1.1

No City of London property classes have tax ratios that are above the Provincial thresholds. The only property class in London that was ever above the Provincial threshold was the industrial class. Council moved the industrial ratio down to the threshold for the 2001 taxation year. This means that there are no levy restrictions for any property tax class. At the time of reassessments in 2006, 2009, 2013 and 2017, Council maintained the policy of not permitting tax ratios in any property class to exceed Provincial thresholds.

As shown on the chart above, the Commercial, Industrial, and Multi-Residential ratios are all above the Allowable Ranges prescribed in O.Reg. 386/98. This means that the ratios for these property tax classes can only be lowered to move towards the Allowable Ranges and cannot be increased to move away from the Allowable Ranges. The only exception to this rule occurs during re-assessment of current value assessment resulting in shifts between property tax classes. While not available in 2024 as there is no reassessment, tax ratio flexibility is permitted to avoid most tax shifts that may occur between property tax classes due to equity changes by using revenue neutral ratios. The Property Tax Decision letter received December 19, 2022, indicated that the option to use tax ratio flexibility will now be permanent.

To guide tax policy decisions, a municipality will need to consider the following parameters;

Starting Ratio(s): The same ratios used the previous year (2023)

Revenue Neutral Ratio(s): Ratios that would reduce or eliminate tax shifts between property classes based on assessment changes (no difference from starting ratios for 2024)

Minimum Ratio(s): The lowest allowable ratio for each property class.

Maximum Ratio(s): The highest allowable ratio for each property class.

Outlined in the table below, based on calculations arrived through the Online Property Tax Analysis (OPTA), using 2024 assessment data, the City of London 2024 starting ratios, revenue neutral ratios, and minimum/maximum ratios are as follows:

	<b>City of London 2024 Starting Tax Ratios</b>	<b>2024 Revenue Neutral Ratios</b>	<b>2024 Minimum Ratios</b>	<b>2024 Maximum Ratios</b>
Commercial	1.91000	1.91000	0.600000	1.91000
Industrial	1.91000	1.91000	0.600000	1.91000
Multi-Residential	1.70960	1.70960	1.00000	1.70960
Pipeline	1.71300	1.71300	0.600000	1.71300
Farm	0.10282	0.10282	0.010000	0.25000
Residential	1.00000	1.00000	1.00000	1.00000
New Multi-Residential	1.00000	1.00000	1.00000	1.10000

## 2.0 Discussion and Considerations

### 2.1 Reassessment

On March 25, 2020, the City was advised that the Province postponed reassessment which means that property assessment for the 2021 taxation year would continue to be based on the same valuation date that was in effect for the 2020 taxation year. That valuation date was January 1, 2016. As per the "Assessment Growth for 2024, Changes in Taxable Phase-Values, and Shifts in Taxation as a Result of

Reassessments” reported to the Corporate Services Committee on January 15, 2024, based on information provided by the Municipal Property Assessment Corporation, no changes in total phase-in values for taxable properties will occur in 2024. In the letter sent from the Ministry of Finance outlining property decisions for 2024, no timeline for reassessment was provided.

The assessments provided by MPAC are meant to provide “Current Value Assessment” for all properties. Due to the normal 4-year phase-in of reassessments, the actual current value is usually higher than the assessed current value by year four. As we enter the eighth year since reassessment, the actual current value, based on reported sales, is significantly higher than the assessed current value. Since sales analysis is one of the main inputs used by MPAC in the assessment of residential properties, it is anticipated that, when reassessment resumes, the current value assessment will closely reflect the actual current value of residential properties. However, a significant increase in assessed value does not necessarily mean a large increase in property taxes as assessed value is only one input when calculating the property tax bill.

The other input when calculating the property tax bill is the property tax rate. The municipal portion of the property tax bill is based on the amount of money to be raised based on the municipal budget (the tax levy). If the weighted assessment for the City of London is significantly higher, and the tax levy is only slightly higher, the residential property tax rate will need to be lower to collect the appropriate amount of tax revenue. Using an example where the average assessment increase is 30% and the tax levy increase is 5%, we can illustrate the impact to residential properties. In this scenario, a property with a 30% increase in assessed value would have a property tax bill with a municipal portion which is 5% higher. A property with a 20% increase in assessed value would have a property tax bill with a municipal portion which is less than 5% higher. A property with a 40% increase in assessed value would have a property tax bill with a municipal portion which is more than 5% higher.

When reassessment does occur, tax shifts are likely to occur between property classes as not all property classes will have the same increase in assessed value. In the past, the Province has annually approved Tax Ratio Flexibility for municipalities to avoid most tax shifts that occur as a result of equity changes although it was not guaranteed. The Tax Ratio Flexibility is a long-standing property tax policy that municipalities have come to expect. To provide certainty that this tax tool will continue to be available, the property tax decision letter received from the Ministry of Finance on December 19, 2022, confirmed that this flexibility is now permanent.

This flexibility is only available for property classes that have ratios below the Provincial thresholds referred to in Section 1.3 (d). Knowing that this tax ratio flexibility, also known as revenue neutral ratios, will be available going forward provides certainty that the City will be able to mitigate the effects of tax shifts when reassessment resumes.

## **2.2 Business Education Tax Rates**

In a letter to municipal treasurers on January 19, 2024, the Ministry of Finance confirmed that education property tax rates for 2024 will remain unchanged from the previous year as assessments continue to be based on a valuation date of January 1, 2016, which was also used for 2023.

As a result of the reduction in high Business Education Tax (BET) rates to 0.88% in 2021, tax rates on New Construction property classes are now the same as the main business property classes. To streamline administration of the property tax system, properties in these classes were reclassified to their respective main property classes for the 2023 tax year.

The Ministry also confirmed that BET rates for properties where municipalities are permitted to retain the education portion of payments in lieu of taxes (PILs) will remain at the rates set for 2023. Despite the higher PIL BET rates, the federal government, and Crown Corporations such as Canada Post, chose to pay the PILs using the lower BET

rate in 2021, 2022, and 2023. In October 2021, a group of mayors, including City of London Mayor Ed Holder with the support of Municipal Council, contacted Ontario Minister of Finance Peter Bethlenfalvy and Federal Minister of Public Services and Procurement Filomena Tassi to request a joint meeting to discuss potential solutions. This request was not successful in finding a resolution. The Association of Municipalities of Ontario president, Jamie McGarvey, sent letters to the federal Minister of Public Services and Procurement in February and May of 2022 identifying an annual \$20 million shortfall in federal PILs to municipalities in Ontario. This unresolved federal dispute presents many municipalities and property taxpayers with ongoing fiscal challenges beginning in 2021 and continuing in 2024, due to the decrease in federal PIL revenues. The annual impact to the City of London is approximately \$250,000. City staff have made a submission to the Dispute Advisory Panel contesting the decision of the federal government to pay the lower BET rate.

### **3.0 Key Issues and Considerations**

#### **3.1 Possible Directions identified in the Future Tax Policy report to the Corporate Services Committee on February 18, 2020**

In the above referenced report four possible directions were identified. They were as follows:

1. Maintain tax ratios in the three main non-residential classes at their current levels.
2. Adjust ratios on an annual basis to mitigate assessment related tax increases in property classes (possibly giving priority to the multi-residential property class).
3. Reduce all the non-residential tax ratios in a gradual way (possibly giving priority to the multi-residential property class), and/or
4. Focus only on lowering the multi-residential tax ratio over a period of time.

Directions two (2) and three (3) above are not mutually exclusive, they could overlap in a gradual implementation and would normally be affected by the reassessment process.

Under normal circumstances, the property tax base of the entire Province is reassessed every four (4) years, and new market values are phased into the property tax system. This phasing in process, without any intervention in the form of tax ratio setting, results in shifts in taxation between property classes. The tax ratio rules, however, established by the Province, permit the setting of tax ratios to offset tax shifts within certain limits. These limits are maximum ratios that the Province sets for certain non-residential property classes. For 2024, the reassessment continues to be delayed and thus, as noted in the Assessment Growth for 2024 report, assessment-based tax shifts have not materialized.

There will be no reassessment of property values until at least 2025. It is unknown what impact the new assessed values will have on the various property tax classes. If, for example, residential values increase significantly more than commercial and industrial values, revenue neutral ratios, which are now permanent, may be required to reduce the impact of tax shifts between classes.

#### **3.2 Tax Ratios – Multi-Residential Property Class**

In December 2016, the Provincial Ministry of Finance issued a letter indicating that the Province had concerns with respect to the taxation of multi-residential properties, and it was their intention to study the issue and consult with various stakeholders beginning early 2017. In the letter, the Province indicated its intention to restrict tax increases in the multi-residential property class in 2017, in any municipality where the 2017 tax ratio was greater than 2.0. London was not subject to this restriction since its tax ratio was below the 2.0 level. The same tax ratio restriction for the multi-residential property has been in place since 2018 and is in place for 2024.

In the property tax decision letter received December 19, 2022, the Ministry of Finance, referencing *Ontario's Housing Supply Action Plan 2022-2023*, emphasized that the provincial government has committed to consulting with municipalities on potential approaches to reduce the current property tax burden on multi-residential apartment buildings. This is similar to the approach used in 2016 which resulted in reducing the multi-residential ratio threshold to 2.0. While there have been no updates as to the timeframe for this announced consultation, once it is completed, the findings may trigger a further reduction to the multi-residential ratio threshold.

In 2017, the Province implemented a new multi-residential property class which has an Allowable Range of 1.0 to 1.1 and applies to all multi-residential properties built or converted pursuant to a building permit issued after April 20, 2017. The New Multi-Residential designation is to last 35 years, after which the property will be included in the multi-residential property class. The City has set the new multi-residential ratio to 1.0 at its inception which is the same ratio as residential properties. The decision to create the new multi-residential property class created a situation where multi-residential properties are being taxed on a long-term basis at very different levels based on nothing more than the date of construction. This would seem to contradict one of the basic principles of equity in tax policy which is all properties within the same property class should pay the same tax rate. The planned consultation by the Province may address the current inequity in multi-residential properties. In response to anticipated reductions in the multi-residential ratio threshold, Council may wish to consider adopting a policy to adjust the tax ratio for the multi-residential property class to the new multi-residential level gradually over an extended period of time. The justification for this approach would be to establish equity within the property class so that all properties would be subject to the same tax rate. The approach would need to be gradual to mitigate the effect on other property classes. This could be achieved by following directions two (2), three (3), or four (4) shown in Section 3.1.

### **3.3 Tax Ratios – Commercial and Industrial Classes**

In 2015, the City of London achieved a long-term objective identified in September 2011 of lowering and equalizing the tax ratios in the main non-residential property classes. Over a four (4) year period, the City adjusted all the main non-residential tax ratios to a level of 1.95. The City gradually reduced the ratios for the commercial and industrial property classes from 2017 to 2020.

For 2024, it is recommended that Commercial and Industrial tax ratios continue to be maintained at a uniform level. There is no logical justification for taxing industrial properties at higher rates than commercial properties, as was a past practice. The Province has accepted the validity of this position in the setting of education tax rates for commercial and industrial properties. Starting in 2017, the Province established equal education property tax rates for commercial and industrial properties and has continued this practice for the 2024 taxation year.

At the 2023 Municipal Finance Officers Conference (MFOA), a presentation by Municipal Tax Equity Consultants (MTE) identified concerns related to the extended period of frozen assessment. While the actual impacts are unknown, it is anticipated that there will be significant tax shifts once re-assessment occurs. For municipalities with high commercial and industrial class ratios, there is concern that mitigating the tax shift using revenue neutral ratios may trigger a levy restriction if it causes commercial/industrial ratios to exceed the Provincial threshold. While the City of London has lowered the commercial and industrial ratios over time, further lowering these tax ratios could potentially provide greater flexibility at the time of a future reassessment. As identified in the 2023 tax decisions letter from the Ministry of Finance, tax ratio flexibility, in the form of revenue neutral ratios, is now permanent. This greatly reduces the risk of reducing non-residential ratios during a period of frozen assessment as we now know the ability to use revenue neutral ratios will be available in future years. The greater the commercial tax ratio is below 1.98, the greater the flexibility for the municipality in future years. Enacting direction three (3) or four (4) shown in section 3.1 would result in a reduction to commercial and industrial ratios.

### 3.4 Property Tax Bill Format

During Multi-Year Budget discussions, it was suggested that the property tax bills should identify the impact of provincially mandated changes on the property tax levy. If directed to make this change, it will require a separate line item on the final property tax bill for each property in all property tax classes. Implementation of this format change will necessitate technical and administrative changes. Input and effort from Legal Services, Information Technology Services, and external printing services will be required to enact a change to the property tax bill format. To reprioritize existing priorities, Civic Administration would need direction to implement this change for 2024 final billing. The sooner a direction is provided to Civic Administration the more time it will allow for successful implementation of this direction should the Council wish to show provincially mandated changes separately on the tax bill. Civic Administration recommends that should Council wish to direct this work, direction should be provided at the same time with the consideration of this report.

Alternatively, the impact of provincially mandated changes could be illustrated on the annual Property Tax Brochure which accompanies the final tax bills. The brochure currently includes a comparison of tax rates to the previous year, an explanation of property tax calculations, and breakdown of how the municipal portion of the property tax is spent.

## Conclusion

The letter from the Ministry of Finance, addressed to municipal treasurers, to identify property tax decisions for the 2024 taxation year indicated that education property tax rates would be maintained at the same level as 2023. Further, this letter did not announce any changes or identify when reassessment will resume. The decisions announced for 2023 included intentions to begin a consultation process to help reduce the current property tax burden on multi-residential apartment buildings and it is anticipated that the consultation will take place in 2024.

Looking ahead, the Tax Policy Report will apply the approved tax levy to the weighted assessment using current property tax ratios. Alternatives for tax ratio adjustments to be considered for 2024 property taxation will be presented which incorporate the decisions made by the Province and consider the four directions identified in the Future Tax Policy report to the Corporate Services Committee on February 18, 2020. These alternatives will take into consideration the potential future impact of provincial decisions to reduce the impact on the multi-residential tax class and measures to mitigate the impact of anticipated tax class shifts when reassessment resumes.

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