

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee
From: Anna Lisa Barbon, Deputy City Manager, Finance Supports
Subject: New Multi-Residential Subclass Reduction
Date: September 16, 2024

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, this report on the optional new multi-residential subclass as described in Ontario Regulation 140/24 BE RECEIVED for information.

Executive Summary

The purpose of this report is to provide an overview of the optional new multi-residential subclass as announced in the 2024 Ontario Budget and described in Ontario Regulation 140/24 along with an analysis of implementation options. Should staff be directed to pursue the introduction of a new multi-residential subclass, a further analysis and decision will be pursued during 2025 tax policy discussions.

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, April 15, 2024, Consent Item # 2.4, Year 2024 Tax Policy

Corporate Services Committee, September 12, 2017, Consent Item # 3, By-law to Establish Tax Ratio for New Multi-Residential Property Class

1.2 Tax Policy Guiding Principles

The guiding principles for the City of London's Tax Policy in past years have been equity, economic development, transparency, and administrative efficiency. The decision to adopt the optional new multi-residential subclass must consider the impact on equity in the property tax system including the potential impact on all property tax classes, as well as the impact on economic development and transparency.

1.3 Existing Multi-Residential Property Classes

Consistent with provincial regulations, the City of London currently has two property tax classes for multi-residential properties. Both the multi-residential and new multi-residential property classes pertain to land used for residential purposes that have seven or more self-contained units. In the City of London, the mandatory new multi-residential property class was introduced in 2018. This class provides a reduced tax

rate which is equal to the residential rate for a period of 35 years following construction. At the conclusion of the 35-year period, the property will be included in the multi-residential property class.

Condominiums are assessed in the residential property class and would not be eligible for the new multi-residential subclass.

1.4 Optional New Multi-Residential Subclass Summary

A new optional subclass within the New Multi-Residential property class was announced in the 2024 Ontario Budget. The purpose is to provide municipalities with the flexibility to offer a reduced municipal property tax rate on eligible new multi-residential rental properties.

The new subclass gives municipalities the option to apply a reduction of up to 35% of the New Multi-Residential municipal tax rate for eligible properties. However, the Education Property Tax (EPT) rate for eligible properties will remain at the full EPT rate that applies to New Multi-Residential properties.

Properties are eligible for the new subclass when all of the following conditions are met:

- The land is in the New Multi-Residential property class
- A by-law is enacted to have the subclass apply in the municipality; and
- The first building permit was issued for the property after the by-law came into effect

The discount does not apply to the education portion of the property tax bill.

There are two regulations relevant to the New Multi-Residential Subclass:

O.Reg 140/24 states that (a) an upper or single tier municipality *MAY* pass a by-law creating a New Multi-Residential Property (Municipal Reduction) Subclass, (b) this new subclass can only apply to properties that would otherwise fall into the New Multi-Residential (NT) Property Class, (c) only applies to properties for which Building Permits are issued while the By-law is in force, and (d) that the municipality can elect to have the Subclass By-law cease to apply by adopting a By-law doing so.

O.Reg 141/24 sets the range of the reduction from zero% to 35%.

Any potential recommendations to introduce a subclass will be brought forward during the 2025 Tax Policy process.

2.0 Discussion and Considerations

2.1 City of London Tax Policy Considerations

Similar to other subclass reductions, new multi-residential subclass reductions (prescribed range at municipal discretion between 0% and 35%) are to be funded either across all classes, resulting in a tax shift, or through a levy decrease where an alternative on-going funding (revenue) source would have to be identified.

As this tool is intended to incentivize new development, any subclass reduction will apply only to future development, should the optional subclass be adopted. The result is an opportunity for future growth with minimal expected negative impact on the existing tax base. However, the level of assessment growth in future years will be impacted. The subclass, if enacted, may lead to increased growth in new multi-residential development. In accordance with the Assessment Growth Policy, for budgeting purposes, assessment growth is utilized to fund costs to extend services to growth in the City. New multi-residential developments, like other property classes will require city services that will still need to be funded. If the assessment is discounted under the new

multi-residential subclass, the amount of weighted assessment growth would be lower under the new multi-residential subclass than under the new multi-residential property class, resulting in less assessment growth each year to fund growth costs. In addition, with an introduction of a subclass that is discounted, the cost of the discount would be allocated to all other property classes, with the residential property class bearing most of the cost of the discount.

A City of London tax policy guiding principle, and an important aspect of current value assessment, is that all properties are treated equitably. This means that similar properties with the same use should be assessed similarly, with adjustments made based on differences in characteristics.

With the implementation of the new multi-residential subclass, the result would be a three-tier multi-residential tax structure where the only difference between the properties in each tier is the date on which the building permits were issued. As this would negatively impact the equity for multi-residential properties, care should be taken in consideration of this new option. Initially when the new multi-residential class was introduced in 2018, the only choice municipalities had was to establish a tax ratio of 1.0 or 1.1. The City of London chose to set a ratio for this class of 1.0. The inequity created between multi-residential classes (multi-residential ratio currently is 1.703743), was initiated by the province and was mandatory for all municipalities, including the City of London. With the new multi-residential subclass, municipalities have a choice as to whether they want to create further inequity, i.e. a three-tier multi-residential tax structure where newer properties are taxed less than older properties.

Another tax policy guiding principle has been to promote economic development. While the optional subclass was introduced as a tool to incentivize increased multi-residential development, there are multiple variables and potential barriers to increase development. The carrying cost/cost of borrowing, inflationary pressure on the cost of materials and labour, and the state of the rental market are some factors that impact the development of new multi-residential buildings. It is not clear how much of an incentive a property tax reduction of up to 35% would have on development given the other factors that impact decision making.

The stated purpose of the optional new multi-residential subclass is to incentivize an increase in housing development and not to improve affordability for tenants. There is no legislation in place to ensure any property tax savings realized from the inclusion of the subclass are passed on to tenants. The *Residential Tenancies Act, 2006* does require that decreases in property taxes be transferred onto the current tenant where the decrease exceeds 2.49%, but there are significant limitations and qualifications to this requirement. Inclusion of the new multi-residential subclass results in a lower property tax burden from the outset and is not considered a property tax decrease that would trigger a rent reduction. Regardless of whether a property is in the multi-residential, new multi-residential, or new multi-residential subclass, all three of which would have different tax ratios and rates, where similar buildings are likely to charge similar rental rates. There is no guarantee that a discounted tax rate for the new multi-residential subclass would be passed onto the tenant.

2.2 Discount Rate

The discount for the new multi-residential subclass can be set between zero and 35 percent and would represent a reduction against to the new multi-residential tax rates.

The discount does not apply to the education portion of the property tax bill.

As the discount will only apply to building permits issued after the by-law is passed, there will be no need to determine the subclass discount until 2025 tax policy decisions are made.

Should a new multi-residential subclass be established, and a discount applied, the offset cost of the discount would be passed on to other property owners, such as the residential class.

2.3 Administrative resources required to implement a new multi-residential subclass

Eligibility and inclusion in the subclass would be assessed by Municipal Property Assessment Corporation (MPAC). The City would receive in-year additions to the subclass along with other assessment changes as part of several supplemental assessment releases as provided by MPAC. The year end property assessment roll would also include additions to the subclass.

While some additional resourcing may be required such as Information Technology Services to ensure the additional coding for the subclass is compatible with all aspects of the property tax software system, the processing requirements for interim, final, and supplemental billing should not be impacted.

Some additional calculations will be required when establishing tax ratios and tax rates during tax policy and when identifying the impact of the subclass on assessment growth.

3.0 Financial Impact/ Considerations

Participation in the new multi-residential subclass with a lower tax rate starting in 2025 will not result in any immediate financial impacts to the City of London. Ontario Regulation 140/24 only applies to new developments so all existing multi-residential properties would not be eligible for inclusion in the new subclass.

If the new multi-residential subclass is introduced and eligible properties are developed, future year operating budgets will be impacted as new developments are assessed and added to the City assessment roll. It is estimated that revenue generated from annual assessment growth funding could be reduced by an average of \$191,000 to \$446,000 annually, depending on the level of development activity and the tax rate reduction percentage applied to the subclass, as shown in Table 1 below:

Table 1: New Multi-Residential Subclass Rate Reduction Scenarios

(2019-2024) Average Annual Current Value Assessment Increase	Current Municipal Tax Rate New Multi-Residential Class	Average Annual New Multi-Residential Increase in the Levy	Municipal Tax Rate Reduction Scenarios	Possible Reduction in Annual Municipal Tax Levy
89,788,533	1.420126%	1,275,110	35%	446,289
			30%	382,533
			25%	318,778
			20%	255,022
			15%	191,267

If the City opts to participate in the subclass, once properties are eligible for and included in the subclass, an ongoing rate reduction would reduce the property tax revenue collected from these properties but the amount of service (cost) related to this growth would still be required. The financial impact is expected to increase gradually as new multi-residential properties are developed and added to the assessment roll.

4.0 Key Issues and Considerations

4.1 New Multi-Residential Subclass Options

4.1.1 Pass a by-law in 2025.

Council could opt to pass a by-law implementing the new multi-residential subclass after reviewing the potential impacts on all property classes during tax policy discussions in 2025. If a by-law is enacted, any eligible multi-residential property with the first building permit dated after the effective date of the by-law would be placed in the new multi-residential subclass.

4.1.2 Do not pass a by-law for the new multi-residential subclass

After reviewing the impact, a new multi-residential subclass would have on other property tax classes, and considering the implications for equity and economic development, Council may opt not to pass a by-law implementing the subclass and continue with the two existing multi-residential classes.

4.1.3 2025 Tax Policy

As part of the 2025 Tax Policy, Civic Administration's intent will be, as in years past, to provide a recommendation along with various options for Councils consideration, noting that for 2025, at least one option will include the introduction of the new multi residential subclass and will identify the anticipated impact on other property classes. Should Council decide to enact the new multi-residential subclass, a by-law will be produced establishing the class and discount in time for 2025 Tax Policy.

4.2 Other Municipalities

Staff have reviewed various municipalities to determine their response to the optional new multi-residential subclass. Based on this review, the only municipality identified as having passed a by-law for the subclass is York Region which passed a by-law to adopt the subclass on May 27, 2024, using a discount rate of 0%. The result is any new building permits for multi-residential development will be eligible for the subclass but the rate for 2024 will be the same as new multi-residential properties since there is no discount.

Other municipalities, including City of Toronto, and Peel, Halton, and Durham Regions have not passed a by-law to date and will review the decision regarding adoption of the new multi-residential subclass during their budget and tax policy discussions in 2025.

Conclusion

This report provides an overview of the optional new multi-residential subclass as announced in the 2024 Ontario Budget and described in Ontario Regulation 140/24. There are several factors to consider prior to implementing a new multi-residential subclass. The impact to tax rates and ratios for other property tax classes, the effect on equity within the multi-residential class, and estimated budget impacts in future years are areas of focus requiring consideration prior to approving the implementation of the subclass. To help inform deciding on the new multi-residential subclass, tax ratios by property class scenarios including the new multi-residential subclass will be presented during tax policy discussions in 2025.

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