

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 7, 2015
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	YEAR 2015 TAX POLICY

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following actions be taken with respect to property taxation for 2015:

1. A by-law be enacted in accordance with sub-sections 308(4) and 308.1(4) of the Municipal Act, 2001 to set tax ratios in the commercial, industrial, multi-residential, pipeline and farm property classes as indicated on Schedule "F" and such proposed by-law (Appendix "A") **BE INTRODUCED** at the Council meeting of April 14, 2015;
2. A by-law be enacted to fully utilize options available in 2015 to exclude properties in capped property classes which have reached current value assessment tax levels or higher in 2014 from being capped again in 2015 and future years and such proposed by-law (Appendix "B") **BE INTRODUCED** at the Council meeting of April 14, 2015;
3. A by-law be enacted in accordance with section 330 of the Municipal Act, 2001 to claw back a portion of tax decreases in each of the commercial, industrial and multi-residential classes sufficient to fully finance the capping of increases as required under section 329 of the Municipal Act, 2001 and such proposed by-law (Appendix "C") **BE INTRODUCED** at the Council meeting on April 14, 2015;
4. A by-law be enacted in accordance with section 329.1 of the Municipal Act, 2001 for 2015 to adopt the same capping formulae for the commercial, industrial and multi-residential property classes as was applicable in 2014 and such proposed by-law (Appendix "D") **BE INTRODUCED** at the Council meeting on April 14, 2015;
5. A phase-in program for tax changes resulting from the reassessment of properties in the residential, farmland and managed forests property classes in accordance with section 318 of the Municipal Act, 2001 not be adopted it being noted that such a phase-in is unnecessary with the current system of four year phase-in of assessment values on the assessment roll.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Corporate Services Committee Report - January 20, 2015 – Assessment Growth for 2015, Changes in Taxable Phase-in Values, and Shifts in Taxation as a Result Reassessment
Corporate Services Committee Report – March 25, 2014 –Year 2014 Tax Policy
Finance and Administration Committee Report - September 28, 2011 - Future Tax Policy

BACKGROUND

Recommendation 1 – Tax Ratios for 2015 Taxation

Definition of the Term “Tax Ratio”

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 2.00 would therefore indicate a municipal tax rate twice the residential municipal tax rate. Education tax rates are set by the Province and are not dependent on tax ratios approved by municipal Councils.

History of Tax Ratio Setting Restrictions

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 advised that this flexibility will be provided to municipalities again for 2015 taxation.

London’s Tax Ratios, Provincial Thresholds and Municipal Comparisons

In reviewing tax policy for 2015, it should be noted that none of the property classes in the City of London 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 2001 taxation. At the time of the last reassessments in 2006 and 2009, Council maintained the policy of not permitting tax ratios in any property class to exceed Provincial thresholds.

The tax ratios in effect for the year 2014 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 2014 Tax Ratio	Provincial Threshold/Average (O.Reg. 73/03)	Provincial Targets/Allowable Ranges (O.Reg. 386/98)
Commercial	1.980000	1.98	0.6 to 1.1
Industrial	2.220000	2.63	0.6 to 1.1
Multi-Residential	1.980000	2.74	1.0 to 1.1
Pipeline	1.713000	N/A	0.6 to 0.7
Farm	0.204200	N/A	N/A
Residential	1.000000	N/A	N/A

Schedule “B” attached provides comparative information on how different municipalities tax the various different major property classes. The information from Schedule “B” comes from the 2014 BMA Municipal Study and includes all municipalities with populations greater than 100,000. The last column of Schedule “B” is a theoretical calculation that shows the tax increase that would be required in the residential property class in each municipality if all property classes had a tax ratio of 1. The Schedule indicates that the theoretical adjustment for the City of London would be above the average and the median for the group.

Tax Ratios, Economic Development and Assessment Growth (Future Tax Policy)

Schedule “A” attached, summarizes the tax ratios for all municipalities with populations greater than 100,000 included in the 2014 Municipal Study prepared by BMA Management Consulting Inc. In 2014 the industrial tax ratio was the highest tax ratio in the City, being significantly higher than commercial. In recent years the Region of Waterloo has reduced tax ratios in the industrial class to

the commercial level. As was discussed in the Future Tax Policy report delivered to Council in 2011, there appears to be no logical basis for a pattern of higher property tax rates on industrial properties compared to commercial properties in Ontario. It seems to be the result of nothing more than historical tradition.

The issue of tax ratios and the possibility of reducing tax ratios in the industrial and multi-residential class was the subject of the Future Tax Policy report presented to Council in 2011. At that time, concerns were noted about the impact on the residential class of making any tax ratio changes for 2012, and the report was received for information. Comments were made during Council's deliberations to the effect that it would be advisable to look at the issue again in the future in conjunction with the new Province wide assessment coming for implementation in 2013 – 2016 time frame.

The key problem with the issue of changing tax ratios is that there will be both short-term and long-term consequences and the consequences will be very different based on the time frame you are considering. In the very short-term (i.e. the current year) the effect is very simple to calculate and results in taxes shifting away from the property class where a tax ratio is lowered and towards the other classes. In the longer term however, the design of tax ratios will have implications for the economic development opportunities that a municipality will attract, the number and type of jobs available in the community and the level of assessment growth in the municipality. These potential benefits will all come in the years that follow the year of the tax ratio change and will be dependent on how significant the tax ratio change is to the various property classes involved. The pattern of assessment growth in the City of London since year 2001 is presented in bar graph form as Schedule "J" attached to this report.

Reducing the tax ratio in the industrial property class is a long term broadly focused strategy to promote economic development and create jobs in the City of London. Temporary exemptions from development charges are not a long term strategy and will negatively affect capital and infrastructure financing. In addition, temporary exemptions from development charges have no effect on the competitiveness of the current operations of existing industrial properties in the City. Water rate policy is narrowly focused and is only relevant to particular industry types that are high volume water consumers. Schedule "K" to this report compares the various economic development strategies related to policy on development charges, water pricing and property tax ratios. Schedule "K" would suggest that tax ratios may be the most effective strategy.

As was explained in the Future Tax Policy report presented to Council in 2011, making the recommended changes to the industrial and multi-residential property classes in London in 2012 would not have had a large impact on other classes in the short-term. It was calculated the entire impact would have been about 1.3% of the previous year's taxes for other property classes including residential and commercial. For a typical residential property this would have amounted to about \$31. On the other hand, the tax impact for industrial properties would have been significant. Industrial properties would have experienced a municipal tax decrease in the 23% range.

We have recognized the sensitivity to tax increases and in this report are recommending that the tax ratio changes recommended in the 2011 Future Tax Policy report continue to be phased in over the 2013-2016 reassessment cycle beginning in 2013 in the case of the multi-residential property class and beginning in 2014 in the case of the industrial class. The reason for this slightly different timing with respect to the property classes was related to the pattern of assessment changes over the current four year phase-in period of 2013-2016. The multi-residential tax ratio was decreased in 2013 and 2014 in accordance with this recommendation. The industrial tax ratio was decreased in 2014.

In the past, the industrial sector has been an extremely important source of high quality jobs in Ontario, North America and the City of London. As everyone is aware, the economic downturn which began in 2008 has had significant negative consequences for this sector in the City and the rest of the Province. Recent significant economic events, however, give reason for optimism that this sector of the economy could be poised to experience solid growth in the future. The declines in the Canadian dollar and the price of oil and stronger U.S. economy should have significant positive implications for expansion in the industrial sector. It is important for the City to have tax policy in place to take advantage of possible near term future opportunities in the sector. We believe it is important to not have a higher tax ratio/rate in the industrial sector compared to the commercial sector.

As was indicated in the Future Tax Policy report, changing tax ratios is not considered a tax levy increase under Provincial law and would not have to be identified and described as such on any tax bill.

2013 Reassessment, 2015 Phase-In and Tax Ratios

All properties in Ontario were reassessed for 2013 taxation based on market values determined as of January 1, 2012. The last Province wide reassessment was for the 2009 taxation year. That last reassessment was based on market values as of January 1, 2008. The assessed values for 2015 taxation therefore, will continue to reflect the change in market values that has occurred between January 1, 2008 and January 1, 2012.

Reassessments have no effect on the total amount of the City's tax levy or the level of taxation. They do however, affect the way the tax levy is allocated between property classes and between individual properties within the various property classes. Schedule "E" attached shows the total effect of the phase-in of the 2013 reassessment in 2015 on the various major classes assuming no change is made in the tax ratios used in 2014 and no tax levy increase in 2015.

The reassessment for 2013 is being phased-in over four years. The result of this phase-in is that the tax reallocation impact that would have otherwise occurred as a result of the 2013 reassessment has been slowed down and spread out over the four years from 2013 to 2016.

Schedules "E" and "H" indicate that the impact of the 2013 reassessment in 2015 without any tax ratio changes from 2014 is to decrease municipal taxes in the residential class by less than 1/10th of 1%.

Commercial and Industrial Tax Ratios for 2015

The City has some flexibility to increase tax ratios in the commercial and industrial classes to adjust for tax shifts away from those classes at the time of a reassessment. If the City attempted to raise the tax ratios for those classes above Provincial thresholds, however, the City would be subject to a levy restriction which would restrict the City's ability to impose tax increases in the commercial and industrial classes. The net effect of the levy restriction would be to impose future tax increases in such a way that the increase in the residential class is at least twice the increase in the restricted levy class.

In addition to the levy restriction problem with respect to increasing tax ratios in the commercial and industrial classes, we also strongly recommend against increasing tax ratios in the commercial and industrial classes for reasons of economic competitiveness. As mentioned above, Schedule "A" provides comparative data for tax ratios included in the BMA Municipal Study. As noted, London is above the average and median in the commercial class and it is in the City's best interest not to move into the higher ranges. Over time, the general trend of municipalities in Ontario has been to try to lower commercial and industrial tax ratios particularly where they exceed the established Provincial thresholds. As mentioned above, historically the City has adopted and maintained the policy that it would not move any tax ratio above the established Provincial thresholds/averages at the time of a reassessment.

We are recommending a small reduction in the commercial tax ratio in 2015 from 1.98 to 1.95. We are also recommending a reduction in the industrial tax ratio to a level equal to the commercial tax ratio. This recommended change in tax ratios would not increase total taxes, including education in the residential class beyond the 2.5% increase approved by Council during budget deliberations because of the combined effects of the Province wide reassessment and the 2015 education tax rates. Reducing tax ratios below 1.98 will improve competitiveness in the commercial sector as indicated in the comparison on Schedule "A". Such a reduction will also give the City additional flexibility in the future at the time of Province wide reassessments to possibly adopt revenue neutral tax ratios below Provincial thresholds and mitigate potential tax shifts negatively affecting the residential property class.

With the reduction of the industrial tax ratio to the commercial level of 1.95, we are also recommending that the City pass a by-law providing for a single subclass reduction percentage of 30% for commercial and industrial land that is categorized as excess land or vacant land in accordance with sub-section 313(4) of the *Municipal Act, 2001*. This single percentage of 30% would also apply to vacancy rebates for improved industrial land in accordance with sub-section 364(4) of the *Municipal Act, 2001*. The 30% reduction rate is the lowest rate permitted by legislation

and has been applicable to the commercial class since 1998. Since 1998 the Industrial reduction rate for vacant land, excess land and vacancy rebates has been 35%. With this recommendation, the industrial vacancy reduction would become 30% beginning in 2015.

Ongoing Reductions in Business Education Taxes

In April 2005, London City Council passed a resolution requesting that the Minister of Finance for the Province of Ontario “review the entire process for setting education property tax rates for business properties and that education tax rates for properties in the City of London be lowered to a level consistent with other municipalities in the Province”. The resolution, along with a letter from the Mayor went to the then Minister of Finance, Greg Sorbara in April 2005. After a letter from the Minister in June 2005, the Mayor followed up with a second letter in February 2006 to a new Minister of Finance – Dwight Duncan. In 2007, Dwight Duncan announced that major tax reform would occur in the area of education property taxes along the lines requested by the City beginning in 2008 and would be phased-in over the seven year period ending in 2014. As a result of this major reform, the Province had indicated that by the year 2014 when the phase-in was complete, education property taxes in the City of London will be reduced by \$33.6 million each and every year into the future from what they otherwise would have been.

In the Ontario budget introduced in the legislature on March 27, 2012, however, it was announced that business education property tax cuts previously scheduled for 2013 and 2014 would be deferred until 2017-2018 after Ontario is returned to a balanced budget. It is estimated that the reductions that the 2012 Provincial budget has deferred until at least 2017-2018 should be in the \$10 million range for commercial and industrial properties in London.

Multi-Residential Tax Ratio for 2015

In 2014, the tax ratio for the multi-residential property class was reduced to 1.98 in accordance with the recommendations of the Future Tax Policy report of 2011. In 2012, the tax ratio for the multi-residential class was 2.07. This ratio was reduced to 2.0475 in 2013 and then to 1.98 in 2014. As indicated on Schedule “A” the tax ratio for the multi-residential class is about 3% below the median and the average for the cities in the BMA study with populations over 100,000. For 2015 it is recommended that the multi-residential tax ratio be reduced to the same level as the commercial and industrial ratios so that all non-residential classes are maintained at the same level of 1.95. With the reduction of all non-residential classes to 1.95, the average total property tax increase in the residential class will still be maintained at 2.5% because of the combined effect of the Province wide reassessment and 2015 education tax rates.

Farm Property Class Tax Ratio for 2015

The tax ratio for the farm property is set in accordance with section 308.1 of the Municipal Act, 2001. Under the provisions of that section, the ratio is automatically reset to .25 every year unless the Municipality sets it at a lower level by by-law each year. The farm property class is a very small class in the City of London, and changes in the tax ratio for the farm class have no significant impact on any other property classes. In the past the City has always followed a policy of setting the farm property class tax ratio at a level that would result in the farm class receiving the average municipal tax increase subject to the .25 maximum in the legislation. We recommend continuation of this policy for 2015. This policy will result in a .187600 tax ratio in the farm class in 2015. The 2014 ratio was .204200.

Pipeline Tax Ratio for 2015

Unlike the commercial, industrial, and multi-residential classes, the Province has not set any threshold tax ratio level or levy restriction with respect to the pipeline class. In accordance with section 9(3) of Ontario Regulation 385/98, however, it is not possible for the City to increase the tax ratio for the pipeline class without adopting revenue neutral tax ratios in all classes and invoking special rules that restrict levying tax increases on the commercial and industrial classes. It is therefore recommended that the tax ratio for the pipeline class not be changed for the year 2015.

Summary of Tax Ratio Recommendations for 2015

In summary, for 2015 we are recommending decreasing the tax ratio in the commercial, industrial, and multi-residential property classes to 1.95 and reducing the farmland tax ratio to adjust the average tax increase for the class so that it is equal to the city average. These changes will not have a significant impact on the total property taxes in the residential property class because of the relative sizes of the three property classes and the effect of education taxes and the Province wide reassessment. The recommended tax ratios for 2015 and the tax levy approved by Council for 2015 are reflected on Schedule "G" attached to this report. Schedule "F" shows total property taxes including education with the recommended tax ratios for 2015. Schedule "F" indicates that the average total tax increase including education in the residential class would be 2.5% in 2015.

Recommendation 2 – Utilizing Options Available to Bring an End to Capping Tax Increases and Clawing Back Tax Decreases in the Commercial, Industrial and Multi-Residential Property Classes

Since major Province wide tax reform began in 1998, the Province has mandated a complex system of capping tax increases and clawing back tax decreases in the commercial, industrial and multi-residential property classes. We have long believed the entire system was unfair to taxpayers, damaging to economic development and administratively onerous. Based on consultation with municipal representatives including the City of London during 2008, the Province provided increased flexibility under the business tax capping program for 2009 and future years. It appears the Province decided to provide this very significant increase in flexibility to municipalities because of the new tax mitigation provided by the four year phase-in of assessment values beginning with the reassessment for 2009 taxation.

For the first time in 2009, municipalities had options to permanently remove properties from the capping and claw-back system once they have reached their CVA (current value assessment) level taxes. Municipalities can have these options apply to all capped property classes or limit the options to individual capped classes. For 2015 this means that any property which had paid CVA taxes or higher (i.e. clawed back) in 2014 can be excluded from having a tax increase capped in 2015. At the same time, a property that had a tax increase capped in 2014 can not have a tax decrease clawed back in 2015 if the options are chosen. Preliminary calculations indicate continuing to fully utilize the options available will significantly reduce the capping of tax increases and clawing back of tax decreases.

We recommend that Council take advantage of this opportunity to substantially bring the capping of tax increases and the clawing back of tax decreases to an end as soon as possible. In 2014, the City utilized all options available to exclude properties from future capping and no problems were encountered. The continued implementation of the new system in 2015 will require Council to pass a by-law in accordance with the Municipal Act, 2001.

Recommendation 3 - By-law to Clawback a Portion of Tax Decreases in Capped Property Classes

Under section 329 of the Municipal Act, Council is required to cap all year-over-year tax increases after 2001 in certain property classes (i.e. commercial, industrial, and multi-residential). In the year 2008 many properties still had tax increases resulting from the reassessment for 1998 taxation which had not been completely phased-in. In many cases, the reassessments for 2001, 2003, 2004, 2006, 2009, and 2013 created additional tax increases and decreases subject to new capping and clawing back rules as set out in the Municipal Act.

Council does theoretically have the option of financing the capping of tax increases on the capped property classes by increasing the general tax levy. We do not recommend this course of action however because of the impact on the general tax rate.

Since 1998, tax decreases that otherwise would have been implemented have been clawed back at the rates indicated on Schedule "C" to finance the capping of properties with tax increases within each capped property class.

Final claw back percentages that will be applicable for year 2015 are not yet available. As has been the practice in the past, City staff will work closely with the Province to calculate caps and claw backs applicable for 2015 prior to the issuance of final bills for the capped classes. The dollar amounts of cap adjustments by year from 1998 to 2014 are attached as Schedule "D".

It is recommended that Council pass the necessary by-law to authorize the clawing back of tax decreases in the capped property classes sufficient to finance the capping of tax increases (i.e. the maximum claw back rate permitted by section 330 of the Municipal Act).

Recommendation 4 - By-law to Set a Formula for Calculating Caps in the Commercial, Industrial and Multi-Residential Property Classes

Since 2008, Council has adopted several options permitted by section 329.1 to reduce the amount of capping of tax increases and clawing back of decreases in the commercial, industrial and multi-residential property classes. The selected options were as follows:

- capping at 10% of previous years taxes instead of the 5% minimum;
- utilizing the option of 5% of previous years CVA taxes where applicable;
- reducing cap adjustments equal to or less than \$250 to nil;
- new construction was taxed without any cap adjustment.

The use of all these options significantly reduced the amount of clawing back of decreases as can be seen on Schedules "C" and "D" of this report. No significant problems or issues were encountered by the City Tax Office in past billings as a result of utilizing the above options. The by-law to use the options only referred to the particular tax year. The use of these options as recommended will expedite the eventual end of the capping and clawing back system as more and more properties reach their CVA level taxes.

It is therefore recommended that a by-law be enacted under section 329.1 of the Municipal Act, 2001 for 2015 and subsequent years where applicable, to adopt the same capping formula as was applicable to the 2014 taxation.

Recommendation 5 - Phase-In Program for Residential Property Class

All residential properties in the City of London were reassessed for 2013 taxation based on January 1, 2012 market values. The January 1, 2012 market values are being phased-in over a 4 year period from 2013 to 2016 as required by Provincial legislation. Assessment related tax changes for 2015 occurring in the residential class have been analyzed and compared to the 2009, 2006, 2004, 2003, 2001 and 1998 reassessments. The results of this analysis are shown on Schedule "I" attached.

Assessment related tax changes exclude tax increases that result from levy increases. The levy increase is imposed in addition to assessment related tax changes (increases and decreases).

As can be seen from Schedule "I", the assessment related decreases and increases for 2015, 2014, 2013, 2012, 2011, 2010 and 2009 are significantly less than the increases and decreases which have occurred in reassessments in the City prior to 2009. The reason for this is that for the first time in 2009, the Province included a phase-in of all reassessment changes on the 2009 assessment roll. This phase-in process will be continued over the period 2013 to 2016. For 2016, residential properties will be valued on the roll at their January 1, 2012 value.

For 1998 and subsequent reassessments up to and including 2013, Council decided that a phase-in under section 318 of the Municipal Act, 2001 of assessment related tax changes was not necessary. Based on the above data and the fact that the Province has already instituted a four year phase-in of assessment values on the roll, it appears clear that no further tax mitigation in the residential class is necessary.

In summary, based on our analysis of the reassessment data and the existence of a four year phase-in of values on the assessment roll, we believe any additional phase-in of the residential class under section 318 of the Municipal Act, 2001 is not warranted.

Comments on Unusual Tax Increases after a Reassessment

Whenever a general reassessment occurs as was the case in 2013, there will always be a small number of large tax increases. Inevitably, when over 100,000 properties are valued, some errors and inaccuracies will occur. If a property is overvalued when a reassessment occurs, the remedy is to contact the Municipal Property Assessment Corporation and have the valuation corrected or appeal the assessment in accordance with the provisions of the Assessment Act.

When a property is undervalued or incorrectly classified to the taxpayers benefit, the taxpayer has no financial incentive to have the error or inaccuracy corrected. The error or inaccuracy will typically be corrected at the next reassessment and surface as an unusually large increase. Focusing on the amount or percentage of the increase obscures the real cause of the tax change (i.e. an inaccuracy in the valuation or classification of the property in the past). Phasing-in or capping taxes in these situations only perpetuates errors and inaccuracies in the assessment system and represents a major departure from the fundamental principle of fairness (i.e. that every property owner within a class pays the same tax rate on the market value of his or her property).

SUMMARY

If all of the recommendations in this report are approved by Council, the increase or (decrease) in total property tax including education taxes levied for 2015 in the various property classes would be as follows:

Property Class	City Portion of Tax Bill in 2014	City Levy Increase	City Levy Increase on Total Bill	Reassessment and Education Tax Changes	Tax Ratio Changes	2015 Average Change in Total Property Taxes
Residential	85.16%	2.49%	2.12%	(0.26%)	0.64%	2.51%
Farm	82.42%	2.49%	2.05%	7.94%	(6.80%)	3.19%
Multi-Residential	91.91%	2.49%	2.29%	3.78%	(0.78%)	5.29%
Commercial	61.24%	2.49%	1.53%	(1.01%)	(0.50)%	0.02%
Industrial	62.37%	2.49%	1.55%	(1.20%)	(7.10%)	(6.74%)
Pipelines	56.12%	2.49%	1.40%	(0.65%)	.42%	1.16%

The above percentages represent **average** tax changes only. In reality, virtually no one is exactly at the average. Most property owners will be slightly above or slightly below the average.

Properties in the capped property classes would also still be subject to limitations on year-over-year tax increases and decreases in accordance with Provincial legislation. These limitations, however, would also be subject to options adopted to prevent properties from re-entering the Province's capping and clawing back system in the future as recommended in this report.

PREPARED BY:	CONCURRED BY:
JIM LOGAN DIVISION MANAGER TAXATION AND REVENUE	ANNA LISA BARBON DIRECTOR, FINANCIAL SERVICES
RECOMMENDED BY:	
MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER	