

SCHEDULE “I”

Excerpt from Policy Overview and Economic Update -2014 Financial Report

Property Taxation Policy in the City of London

Property tax policy in the City of London is guided by four principles as follows:

- Equity
- Economic Development
- Transparency and Public Acceptance
- Administrative Efficiency

Equity

Equity refers to ensuring that property taxation is fairly distributed between the various properties within a property class and that property taxation is fairly distributed between the various property classes. Equity also refers to ensuring that the appropriate method of revenue generation is selected for the costs of financing various services. There will be situations where controlling service consumption is a significant consideration and user fees will be a more appropriate method of revenue generation than taxation. At the same time, there will be situations where services will have general public benefits and where only taxation would be the appropriate method. With respect to taxation, equity may require that area rating is the logical approach if, for example, the benefits of a particular service are confined to only certain areas.

Economic Development

Another major consideration in all tax policy development is the potential effect on economic development. Levels of overall taxation and the relative treatment of different property classes must be competitive with other municipalities in Ontario as well as other jurisdictions in other countries. The issue of predictability is also important to business and individual planning in reference to economic development.

Transparency and Public Acceptance

Transparency refers to the need for property taxation to be understandable and accepted by the public. If a system of taxation becomes so complex that the average person cannot see that it is fair or comprehend the principles of how it is calculated, the tax will fail the test of transparency.

Administrative Efficiency

Tax policy must also ensure administrative efficiency and not be unnecessarily costly and complex. The number of staff required and the complexity of computer systems to administer the various programs associated with tax policy must be reasonable.

Tax Policy Formulation Since Major Tax Reform Beginning in 1998

Since the major tax reform which occurred in 1998, the City of London has followed the guiding principles described above in the determination of tax policy.

To help ensure economic competitiveness, the City moved its Industrial tax ratio down to the Provincially established average/threshold in 2001. This was the only property class in the City that exceeded the averages/thresholds established by the Province in 1998. Since 2001, the City has maintained all its tax ratios at or below the Provincially established averages/thresholds. Every year as part of its tax policy review, the City of London reviews its tax ratios and compares them to other municipalities in the Province to ensure they are equitable, competitive and conducive to economic development.

Since major tax reform for reasons of equity, the City adopted a policy of equalizing municipal tax increases in the multi-residential and the residential classes until 2012. This has been accomplished by adjusting the tax ratio in the multi-residential class. This policy has resulted in the multi-residential tax ratio being reduced slightly over the period 2001 to 2012.

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Since 1998, the City has maintained a complex system of capping of tax increases and clawing back of tax increases related to reassessments for the commercial, industrial and multi-residential classes in accordance with the requirements of Provincial law. During this time in the interests of equity, transparency, economic development, and administrative efficiency the City has adopted all options made available to it by Provincial legislation in an attempt to reduce the amount of capping and clawing back in place.

With the use of all the options to reduce the amount of capping, the City has managed to reduce the dollar amount of capping from over \$10,000,000 in 1998 to about \$154,000 in 2015. It is anticipated that capping may become almost non-existent in the not too distant future.

After the major tax reform in 1998, the Province established a uniform education tax rate for all residential, multi-residential, and farm property in the Province. Such a uniform rate, however, was not set for properties in the commercial and industrial classes. The result was that education taxes in the commercial and industrial property classes were arbitrarily based on historical rates and varied widely from one municipality to another throughout the Province despite the fact that all the rates were being set by the Province.

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 indicated that by the year 2014 when the phase-in is complete, education property taxes in the City of London would 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 27th, 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 has returned to a balanced budget. As described, these reductions were originally introduced to correct historical inequities in education tax rates which the City of London and others had drawn to the attention of the Province. It is estimated that the reductions the recent budget has deferred until at least 2017-2018, should be in the \$10 million range in total for commercial and industrial properties in London.

In 2008, the City of London changed its taxation system for public transit services. Prior to 1993, transit services were included in the general rate of the City. As a result of a major annexation which occurred in the City on January 1, 1993, the City was required by the Province to start to area rate transit services based on whether a property had been annexed or not. Over time as transit services began to expand in the City, the area rating system imposed by the Province became less appropriate.

In 2008, the City in consultation with the Province, implemented an area rate system based on distance measurements to transit routes. In 2009 with the growing recognition of the public benefits of public transit and anticipating the continued expansion of the transit system, it was decided to begin a four year phased transfer of the transit rate to the general tax rate of the City. The transfer to the general rate was completed in the year 2012.

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A major component of property tax policy in Ontario is the annual setting of tax ratios for property classes by municipal councils. Tax ratios determine the relative tax level for the various property classes within a municipality. In September 2011 in a report on future tax policy, an objective was identified to lower and equalize the tax ratios for multi-residential and industrial properties to a level equal to the commercial property class. The objective was to lower the ratios over a number of years subject to council's approval each year.

The first step of this process began in 2013 with a decrease in the multi-residential tax ratio only. In 2014, both the multi-residential and industrial tax ratios were reduced. The multi-residential tax ratio was brought down to a level equal to the commercial tax ratio in that year. In 2015 the industrial tax ratio has been adjusted to a level equal to the commercial and multi-residential property classes and the objective identified in 2011 therefore has been achieved. The purpose of these changes has been to promote economic development in the industrial and multi-residential property classes and enhance equity in these property classes relative to the commercial class.