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TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 26, 2016
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	COUNCIL RESOLUTION ON FUTURE TAX POLICY REPORT

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following report **BE RECEIVED** for information:

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Finance and Administration Committee Report September 28, 2011 – Future Tax Policy

Corporate Services Committee Report January 19, 2016, – Future Tax Policy – Possible Directions

BACKGROUND

Council Resolution – Schedule A

Municipal Council at its meeting held on January 26, 2016 approved the resolution which is attached to this report as schedule A. Administrative staff had expressed concerns about obtaining all the data in the time frame requested at the Corporate Services Committee meeting where the resolution was discussed. In addition administrative staff had indicated that some of the information requested related to isolating cause and effect in reference to economic development issues. Staff advised that economic development depends on a number of factors that cannot be isolated including but not limited to the level of the Canadian dollar, federal monetary policy, federal and provincial fiscal policy and the general state of the Canadian economy and its trading partners. Administrative staff also expressed a concern where the resolution requested examples since examples are not necessarily representative of a population. At the council meeting the general discussion that accompanied the resolution was that administrative staff should obtain what information they could that would be relevant to the resolution.

Administrative staff noted at the Council meeting that they had been in contact with the local office Municipal Property Assessment Corporation (MPAC) with respect to obtaining some of the detailed information requested in the resolution. After the council meeting City staff were advised by the local office of MPAC that obtaining the requested information was too labour intensive to be done at the local office and they would be referring the request to the MPAC central offices to see if some IT extractions could be done to address the information request. City staff have received certain data from MPAC relevant to the information requested in the resolution and have assembled additional information from the City tax records and other sources such as Statistics Canada.



Condominium Conversion – Schedules B and C

Schedule B attached shows the number of Condominium Conversions in the City of London since the year 2000 by the year indicated. Schedule C shows aggregate information for the period 2006 to 2015 for changes in assessed value as a result of the Condominium Conversions which occurred. Schedule C shows the value in the year after conversion. When aggregating information it was necessary to exclude certain data where it appeared that additional new construction was occurring at the same time as the condominium conversion in order to not distort the data. The data which has been obtained suggests that average increase in assessed value that occurs when a property transfers from the multi-residential class to the residential class in the year after conversion is somewhere in the range of 50% to 60%. It was also noted that there is a great deal of variability from one conversion to another. This was also noted in the Future Tax Policy report submitted to Council on January 19th, 2016. Schedule H to that report illustrates the variability in valuation that can be encountered in the condominium conversion process. Although it is based on a very small sample, Schedule H in the report seems to indicate an average value change that would be in line with the average for condominium conversions that have actually occurred in the last decade.

As was mentioned in the Future Tax Policy report submitted on January 19, 2016 it should be emphasized that the average for condominium conversions that have actually been done may not be representative of the average that would occur for conversions that have not taken place. Our understanding is that the first step in the consideration of a condominium conversion would be a review and analysis of what the effect would be on the assessed value and taxes resulting from the conversion. Presumably if the conversion increases the assessed value to the extent that it would cause an increase or small change in property taxes then the conversion would not proceed.

In considering the meaning of different valuation methods and their implications for taxation policy it is important to consider the concept of taxation incidence as was discussed in the Future Tax Policy report to the Corporate Services Committee on the January 19th, 2016 agenda. Whenever a commercial entity is taxed the market that the entity operates in will determine to what extent taxes can be passed on to customers and to what extent the property owner must absorb the tax. As was indicated in the Future Tax Policy the CMHC data indicated that rents in London were lower than the Ontario average and vacancy rates were higher than the Ontario average.

Valuations per Square Foot – Schedule D

Schedule D attached shows 2016 assessed values per square foot for various categories of rental and non-rental property including rental residential properties, rental condominium property, and multi-residential property. The ratios of the assessed values per square foot to the multi-residential property class are also shown on Schedule D. Valuations/taxes calculated per square foot do not directly measure equity where the measure of equity is accepted to be market value because square footage calculations ignore building quality and location.

Property Taxation and Equity

Equity in reference to property taxation has two dimensions – equity within property classes and equity between property classes. Historically in Ontario equity within property classes has been generally accepted as meaning taxes within a property class are allocated based on reasonably recent market values. Equity between property classes is more complex and is expressed in the concept of tax ratios which was included in legislation in Ontario beginning with the taxation year 1998. Tax ratios compare tax rates in non-residential classes to the residential class and are comparable from one municipality to another. Tax ratios can reveal equity from the perspective of what is generally accepted and in place in various municipalities in the Province.

Historically virtually all municipalities in Ontario have accepted the principle that property classes where all owners are commercial entities (i.e. commercial, industrial, and multi-residential) should be taxed at a higher rate than residential properties. The basis of this difference has been discussed in previous reports and relates to issues of valuation methods, taxation incidence, income tax treatment and historical treatment. Each year as part of the process of establishing tax policy the City of London reviews tax ratios in Ontario and compares its non-residential tax rates to other Cities. The purpose of this exercise is to ensure that the City's tax ratios are equitable, competitive, and logical relative to other municipalities in Ontario.

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Affordable Housing Projects Approved by the City

The attached resolution references the special tax treatment of affordable housing projects approved by the City. For affordable housing projects the City passes a by-law under section 110 of the Municipal Act, 2001. Under these section 110 by-laws a portion of the property is exempted from property taxes so that the property is subject to a residential tax rate rather than a multi-residential tax rate. At the same time the property is valued by the Municipal Property Corporation in the multi-residential class which results in a lower valuation than would be the case in the residential class. The combined effect of the valuation and tax rate is that the taxes on an affordable housing project in 2015 are decreased by about 45% from what they would have been without the by-law.

Economic Development – Schedules E and F

With respect to the impact of tax policy referenced in the attached resolution, attached are schedules E and F. Schedules E and F present data from Statistics Canada on significant economic indicators for the London Region. The time period presented includes the time period over which London has taken action to improve the competitiveness of its non-residential property tax ratios. As noted above it is not possible to isolate cause and effect in reference to specific factors in economic development. Taxation policy is a long term strategy for economic development and its effects should be most apparent over the long term.

That being said it should be noted the significant economic factors on schedules E and F indicate over the time period covered London has done much better than the Ontario average in job growth and decline in unemployment rate. In addition on schedule F it can be seen that London has experienced significant growth in manufacturing jobs while other major centres in Ontario have experienced declines over the same time period. It should be noted that one of the reasons tax policy can be an effective tool for economic development is that it affects existing business not just new businesses. In addition tax ratio policy affects all businesses in the property class not just one type of industry.

SUMMARY

The purpose of this report is to provide information relevant to the resolution passed by Council and attached as schedule A.

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

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LIST OF ATTACHMENTS

COUNCIL RESOLUTION ON FUTURE TAX POLICY REPORT

- Schedule A Council Resolution from meeting on January 26th, 2016**
- Schedule B Number of Condominium Conversion by year**
- Schedule C Condominium Conversion Valuation Changes 2005-2015**
- Schedule D Valuations per square foot for various property classes**
- Schedule E Employment Levels and Unemployment Rates – Ontario and London**
- Schedule F Manufacturing Employment Levels in Various Municipalities in Ontario**

SCHEDULE "A"



London
CANADA

P.O. Box 5035
300 Dufferin Avenue
London, ON
N6A 4L9

January 27, 2016

M. Hayward
Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

I hereby certify that the Municipal Council, at its meeting held on January 26, 2016 resolved:

That the following actions be taken with respect to future tax policy:

- a) the staff report dated January 19, 2016, BE RECEIVED;
- b) the Civic Administration BE DIRECTED to report back to Corporate Services Committee, in advance of the report on 2016 tax policy, on the following:
 - i) pre/post conversion analysis of assessment, tax rates and total taxes and taxes per unit for all buildings that have converted from multi-unit residential to condominiums (and vice versa) in the period 2005-2015, including figures for the number of conversions, age of the buildings at the time of conversion, number of units in each building, when the conversions occurred, assessed value, tax rates and total taxes;
 - ii) comparative equity analysis of different kinds of rental units (age of building, assessment, tax rates, taxes per unit, taxes per square foot, rent) for examples of each of the following:
 - A) single detached home converted to rental housing;
 - B) affordable housing multi-unit residential with preferential tax bylaw;
 - C) high rise buildings (multi-unit residential, condo and affordable housing preferential tax bylaw)
 - older (i.e. rent regulated) high-rise building (multi-unit residential and condo)
 - newer (i.e. not rent regulated) high-rise building (multi-unit residential and condo);
 - iii) analysis of the implementation of the tax policy direction established in 2011, and its impact on the following:

SCHEDULE "A"

- A) commercial properties, including discussion of the incidence of tax for rented and owned properties;
 - B) industrial properties, including discussion of the incidence of tax for rented and owned properties;
 - C) multi-unit residential properties, including discussion of the incidence of tax and the extent of any rent reductions required that have been required under the Residential Tenancies Act;
- c) the Civic Administration BE DIRECTED to consult and collaborate with the Canadian Mortgage and Housing Corporation and/or other local agencies, and BE AUTHORIZED to engage an external consultant to prepare an analysis of the rental housing market in London that would breakdown the regular CMHC rental housing report by how the rental properties are taxed (either as residential, multi-unit residential or via an affordable housing preferential bylaw); and
- d) the Civic Administration BE DIRECTED to explore the potential of a Community Improvement Plan to encourage the creation of affordable housing in existing multi-unit residential buildings that would, similar to our current approach of taxing specific affordable housing multi-unit residential developments at a rate equivalent to the residential rate, provide for eligible multi-unit residential properties to be taxed at a rate somewhere between the residential rate and the multi-unit residential rate, depending on the proportion of affordable units in the building. (3/4/CSC) (AS AMENDED)



C. Saunders
City Clerk
/hw

cc: A. L. Barbon, Director, Financial Services
J. Logan, Division Manager - Revenue & Tax Collector
Corporate Services Committee Deferred

SCHEDULE "B"
NUMBER OF CONDOMINIUM CONVERSIONS BY YEAR

Year	Number of Condominium Conversions in London by Year
2000	5
2001	8
2002	7
2003	0
2004	0
2005	4
2006	2
2007	12
2008	10
2009	8
2010	6
2011	5
2012	5
2013	4
2014	10
2015	7
Total	93

SCHEDULE "C"
CONDOMINIUM CONVERSION VALUATION CHANGES 2006-2015

multi residential valuations by MPAC before conversion	\$367,106,230
residential condominium valuation by MPAC in year after conversion	\$574,999,102
weighted average ratio/valuation change in year after condominium conversion	1.5663
simple average ratio/valuation change in year after condominium conversion	1.5416

SCHEDULE "D"
MPAC VALUATIONS PER SQUARE FOOT FOR VARIOUS PROPERTY TYPES

	2016 assessed value per square foot	ratio to multi- residential class
Rentals		
multi-residential	\$88.58	1.0000
residential (non-condominium)	\$137.32	1.5503
residential (condominiums)	\$128.65	1.4524
Non-Rentals		
residential (non-condominium)	\$145.09	1.6380
residential (condominium)	\$128.88	1.4549

source: Municipal Property Assessment Corporation

SCHEDULE "E"
EMPLOYMENT LEVELS AND UNEMPLOYMENT RATES - ONTARIO AND LONDON

Month and Year	Employment in Thousands in Ontario	% Change	Unemployment Rate in Ontario	Employment in Thousands in London	% Change	Unemployment Rate in London
Jan/14	6,848.4		7.5%	236.3		8.1%
Feb/14	6,850.6		7.5%	238.0		7.9%
Mar/14	6,859.1		7.4%	238.8		7.9%
Apr/14	6,872.4		7.4%	241.3		7.9%
May/14	6,874.1		7.3%	242.6		7.8%
Jun/14	6,866.1		7.3%	243.2		7.6%
Jul/14	6,863.9		7.4%	244.8		7.3%
Aug/14	6,866.2		7.4%	244.7		7.4%
Sep/14	6,880.3		7.3%	244.0		7.4%
Oct/14	6,899.0		7.0%	243.0		7.4%
Nov/14	6,906.4		7.0%	244.1		7.4%
Dec/14	6,904.1		6.9%	246.1		7.2%
Jan/15	6,888.5		7.0%	249.3		7.1%
Feb/15	6,889.3		6.9%	250.1		6.8%
Mar/15	6,896.4		6.9%	249.1		6.7%
Apr/15	6,897.7		6.9%	245.0		6.4%
May/15	6,906.9		6.7%	245.2		6.0%
Jun/15	6,919.3		6.6%	249.7		5.9%
Jul/15	6,937.0		6.5%	252.8		6.1%
Aug/15	6,940.9		6.6%	255.0		6.5%
Sep/15	6,931.2		6.7%	252.2		7.2%
Oct/15	6,930.9		6.8%	254.2		7.1%
Nov/15	6,928.6		6.8%	253.9		6.8%
Dec/15	6,946.9		6.8%	255.4		6.1%
Jan/16	6,961.7		6.8%	255.3		5.8%
Feb/16	6,975.5	1.86%	6.7%	253.9	7.45%	6.4%

source: Statistics Canada

SCHEDULE "F"
MANUFACTURING EMPLOYMENT LEVELS B IN VARIOUS MUNICIPALITIES

Month and Year	Jobs in thousands in Manufacturing - Ottawa-Gatineau (Ontario part)	Jobs in thousands in Manufacturing - Toronto	Jobs in thousands in Manufacturing - Hamilton	Jobs in thousands in Manufacturing - Kitchener-Cambridge-Waterloo	Jobs in thousands in Manufacturing - London
Jan/14	14.8	331.6	51.1	52.7	27.9
Feb/14	15.0	329.2	52.6	50.6	26.7
Mar/14	16.5	329.5	50.4	48.0	26.3
Apr/14	18.1	328.4	48.1	48.1	26.7
May/14	18.7	329.8	44.2	49.8	26.6
Jun/14	19.6	324.9	44.2	53.3	26.6
Jul/14	18.9	324.8	45.0	55.2	26.6
Aug/14	17.7	324.5	45.1	56.7	28.1
Sep/14	15.8	320.1	44.9	58.4	27.5
Oct/14	16.3	316.5	44.2	60.5	26.8
Nov/14	17.6	317.3	45.9	60.0	26.7
Dec/14	18.0	321.1	47.6	58.1	27.9
Jan/15	17.5	320.3	49.1	55.3	29.0
Feb/15	17.6	319.8	48.1	53.7	29.0
Mar/15	18.1	322.6	46.9	51.4	28.5
Apr/15	18.9	323.5	47.5	46.1	29.6
May/15	18.3	324.2	49.7	44.5	30.8
Jun/15	16.6	319.8	50.5	45.0	34.0
Jul/15	14.6	321.6	51.1	48.8	34.5
Aug/15	14.8	319.3	52.9	49.4	35.1
Sep/15	16.3	317.7	52.9	48.7	33.8
Oct/15	17.8	312.8	52.1	47.7	34.0
Nov/15	17.0	311.6	49.7	48.0	32.6
Dec/15	15.9	317.6	49.7	48.1	31.7
Jan/16	14.4	323.4	48.1	48.3	31.7
Feb/16	14.0	330.6	47.1	48.2	32.2
% change in Manufacturing jobs	-5.4%	-0.3%	-7.8%	-8.5%	15.4%

source: Statistics Canada