

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON SEPTEMBER 12, 2017
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	BY-LAW TO ESTABLISH TAX RATIO FOR NEW MULTI-RESIDENTIAL PROPERTY CLASS

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the attached proposed by-law (Appendix "A") BE INTRODUCED at the Municipal Council meeting to be held on September 19, 2017, in accordance with section 308 of the Municipal Act, 2001, to set the tax ratio for the new multi-residential property class at 1.0 for 2017.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Corporate Services Committee Report – January 19, 2016 – Future Tax Policy – Possible Directions
Corporate Services Committee Report – April 26, 2016 – Council Resolution on Future Tax Policy Report.

BACKGROUND

On April 20th 2017 the office of the Premier of Ontario issued a news release announcing various measures to increase affordability for homeowners and renters in Ontario. On the same day the Ministry of Finance issued a backgrounder indicating that included in the affordability measures would be a requirement that all municipalities establish a new multi-residential property class. On July 5, 2017 the Minister of Finance signed several regulations to create the new multi-residential property class for all municipalities in Ontario. One of the regulations filed required that the property tax ratio for the class be set within a range of 1.0 to 1.1 in all municipalities. The regulations apply to any multi-residential property in Ontario built or converted from a non-residential use pursuant to a building permit issued on or after April 20, 2017.

Tax ratios are used to set the municipal tax rate for a property class. The tax ratio for the residential property class is set at 1.0 and applies to all residential property in Ontario. The tax ratio for all other property classes determines the municipal tax rate for the property class compared to the residential class. A tax ratio of 2 means the municipal property tax rate for a property class will be 2 times the tax rate for the residential property class. Tax ratios are required to be set each year by the councils of single tier and upper tier municipalities.

Tax policy development is normally guided by four general principles – equity, effect on economic development, transparency/understandability, and administrative efficiency. The move by the Province with respect to the mandatory new multi-residential property class appears to be driven primarily by economic development issues and equity.

One of the measures announced on April 20th 2017 was the expansion of rent controls to all rental properties in the Province. Prior to the announcement rent control did not apply to any building constructed or put into rental use after November 1991. The concern has been widely expressed that the expansion of rent control to all buildings including any newly constructed buildings could have a significant negative effect on the future construction of new rental units in the Province. The new multi-residential property class would appear to be designed to help counter this possible effect.

The equity issue in reference to an appropriate tax ratio for the new multi-residential property class is more complex. Equity 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. As has been discussed with council, multi-residential and residential properties are valued by very different methods which means that tax ratios alone do not reveal the differences in the level of taxation in the two classes. Valuation differences must also be considered.

The issue of incidence of taxation is also a consideration in that multi-residential taxation involves a renter and a landlord and incidence of any tax will be determined by the market. Taxation incidence focuses on the ability of a commercial entity to pass any tax imposed on to its customers. The degree to which this ability will exist will depend on the competitiveness of the market place that the commercial entity is operating in and the level of demand for the service or product the commercial entity provides.

Differences in valuation and incidence between the residential and multi-residential property class would seem to suggest the property classes should not have the same tax ratio. The overriding concern, however, appears to be the supply of new rental units with the expansion of rent control. In 2017 the tax ratio for the regular multi-residential property class approved by Council for London was 1.847. The tax ratio for the regular multi-residential property class in London was below the median and average of the comparator group in the 2017 tax policy report.

As indicated above Council must set the tax ratio for the new multi-residential property class within the permissible range of 1.0 to 1.1. Virtually all municipalities that have established a new multi-residential property class prior to 2017 have set a tax ratio of 1.0. Since a major purpose of the new mandatory multi-residential property class appears to be to help ensure the supply of new rental units in an environment of expanded rent control, it would be advisable that the City make its tax ratio competitive with other municipalities. It is therefore recommended that London set its ratio at 1.0 in the permissible range of 1.0 to 1.1

The new multi-residential property class as regulated by the Province has a time limit. After 35 years in the new multi-residential class property will return to the regular multi-residential property class.

SUMMARY

In summary, it is recommended that in accordance with section 308 of the *Municipal Act, 2001* the tax ratio for the mandatory new multi-residential property class be set at 1.0 for 2017.

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

Attach.

APPENDIX "A"

Bill No.
2017

By-law No.

A by-law to establish a tax ratio for the new multi-residential property class in accordance with section 308 of the *Municipal Act, 2001*.

The Municipal Council of The Corporation of the City of London enacts as follows:

1. For 2017 the tax ratio for the new multi-residential property class shall be 1.0.
2. This by-law comes into force on the day it is passed.

PASSED in Open Council on September 19, 2017.

Matt Brown
Mayor

Catharine Saunders
City Clerk