

**Schedule C**  
**City of London**  
**Tax Policy 1998-2011**

**History of the Present Environment**

With the advent of major property tax reform in Ontario in 1998, tax policy became a major issue confronting all municipalities in the Province. Prior to 1998, the relative treatment of property classes was not an issue to be considered by municipal councils and many assessment bases were out of date. In addition all assessment was based on a factored market value that obscured the relationship between market values, the varying treatment of different property classes with respect to level of taxation on the market value.

In 1998, the entire Province was reassessed based on 1996 market values. Beginning in 1998 tax rates were applied directly to the assessed market value of a property and not a much lower factored market value as had been the past practice. As a result, the concept of mill rate was replaced by a simple percentage of the market value of the property. In addition, the concept of tax ratio was introduced to reflect the fact that in the past the assessed market value of various property classes had been factored at very different rates with the result that tax levels were very different in each municipality for different property classes. The new concept of tax ratio measured how differently the different property classes were being taxed relative to the residential class. In general the commercial, industrial, and multi-residential property classes were taxed at a much higher level than the residential class in virtually all municipalities in the Province. The tax ratio of the residential was deemed to be one and tax ratio for all other classes was determined by dividing the tax rate of the residential class into the tax rate of the other class.

In 1998, the Province determined the average/threshold tax ratios in the Province and adopted various rules with respect to changing tax ratios in the future related to those averages/thresholds. The established averages/thresholds were as follows:

Commercial	1.98
Industrial	2.63
Multi-Residential	2.74

In 1998 there was a great deal of public reaction to the changes that were occurring particularly in the Commercial, Industrial and Multi-Residential Class. This was in part due to the fact that many municipalities had not updated the market value of their assessment bases for many years and in part due to changes to the business occupancy tax which had previously been paid by business occupants rather than property owners. The 1998 reforms eliminated the business occupancy tax and moved it to the property tax. In addition, prior to 1998 the business occupancy tax was calculated at different rates depending on the type and size of business. When the tax was transferred to the property tax the rate was set as one rate that reflected the average for the class.

As result of the public reaction and concern with respect to all the tax changes that were occurring in 1998, the Government of Ontario decided to implement an extremely complex regime of capping increases and clawing back decreases that were occurring in the commercial, industrial, and multi-residential classes. This complex system has stayed in place since 1998 and until 2009 tended to increase every time a Province wide reassessment occurred. Over the years since 1998, the Province has introduced rules to help reduce the amount of capping and clawing back that is occurring. The most significant of these came in 2009 when the Province permitted municipalities to exclude properties from all future capping of increases in future reassessments once the property reaches a point where its taxes are taxed without a cap reduction.

In 1998 major changes were also implemented by the Province to the education portion of the tax bill. A uniform education tax rate was established for all residential, multi-residential, and farm property in the Province and the portion of the bill in these classes was reduced significantly as part of the realignment of service delivery between the Provincial and the municipal levels of government. No uniform tax rate, however, was established for commercial and industrial properties. Education tax rates in these property classes was based on historical rates in place in the past in each individual municipality and the historical education portion of the tax bill was maintained. The result was that education tax rates across the Province after 1998 continued to vary widely from one municipality to another despite the fact that all tax rates were being set by the Province.

### **Principles of Property Taxation Policy in the City of London**

All tax policy recommendations made by staff at the City of London are guided by four principles as follows:

1. Equity
2. Economic Development
3. Transparency
4. Administrative Efficiency

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 that only taxation will be the appropriate method. With respect to taxation, equity may require that area rating is appropriate if for example the benefits of a particular service are confined to only certain areas.

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.

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.

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 1998 to Present**

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 average/threshold. Since 2001 the City has maintained all its tax ratios at or below the Provincially established average/threshold. 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 has adopted a policy of equalizing municipal tax increases in the multi-residential and the residential classes. 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 2010.

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 the Provincial law. During this time, 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, however, the City has managed to reduce the dollar amount of capping from over \$10,000,000 in 1998 to about 1,000,000 in 2010. It is anticipated that capping will become almost non-existent in the near future.

The City identified a major equity concern with respect to Provincial education taxes as far back as 2005. 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 were based on historical rates and varied widely from municipality to another throughout the Province despite the fact that all the rates were being set by the Province. The situation was clearly inequitable and could not be justified on any logical basis.

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 has indicated that by the year 2014 when the phase-in is 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 2008 the City of London changed its tax 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<sup>st</sup> 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 more and more inappropriate and out of date.

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 will be completed in the year 2012.

### **Future Tax Policy**

In the future the City intends to review the possibility of adopting a plan to reduce tax ratios in the industrial and multi-residential class over a number of years. Consideration would be given to bringing tax ratios in the industrial and multi-residential class down to a level that would be equal to the level in the commercial class.