TO:	**CHAIR AND MEMBERS** **COPORATE SERVICES COMMITTEE** **MEETING ON FEBRUARY 18, 2020**
FROM:	**ANNA LISA BARBON** **MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER**
SUBJECT:	**FUTURE TAX POLICY – POSSIBLE DIRECTIONS**

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

Finance and Administration Committee Report, September 28, 2011 – Future Tax Policy

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

Corporate Services Committee Report, February 19, 2019 – Future Tax Policy – Possible Directions

Corporate Services Committee Report, October 22, 2019 – Vacant/ Excess Land Subclass Reductions and Other Tax Policy Issues

REPORT INDEX

C. POSSIBLE DIRECTIONS FOR FUTURE TAX POLICY

1. Maintain tax ratios in the three (3) main non-residential classes at their current levels.

2. Reduce all the tax ratios for non-residential property classes in a gradual way possibly giving priority to the multi-residential property class.

3. Focus only on lowering the multi-residential tax ratio over a period of time.

4. Adjust ratios on an annual basis to mitigate assessment related tax increases in non-residential property classes possibly giving priority to the multi-residential property class.

5. Review the effect of future reassessments on all property classes and consider all options available with respect to tax ratios.

BACKGROUND

A. EXPLANATION OF TERMS

1. What is a tax ratio?

Tax ratios compare the tax rate for <u>municipal purposes</u> 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 1.92 for the commercial class would therefore indicate a <u>municipal</u> tax rate 1.92 times the residential municipal tax rate. (Education tax rates are set by the Province and are not dependent on tax ratios approved by municipal Councils.)

2. What are the Provincial thresholds for tax ratios?

Beginning in the year 2001, the Province established threshold tax ratios for three (3) 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 permitted this flexibility every year since 2004. The general principle however continues that property tax increases cannot be spread evenly over all property classes if any tax ratio exceeds the Provincial thresholds.

3. What are the Provincial Targets/Allowable Ranges?

The allowable ranges for tax ratios are set out in Ontario Regulation 386/98. These were theoretically the long term targets for tax ratios set by the government of Premier Mike Harris during the major property tax reform in Ontario, which began in 1998. The concept of tax reform was that municipalities could not move their tax ratios away from these targets/ranges. They would only be allowed to move their ratios towards these targets/ranges.

As long as a municipality maintains its tax ratios below the Provincial thresholds and above the Provincial targets/allowable ranges, the Provincial legislation does not require any levy restriction on any non-residential class. London’s non-residential tax ratios are all below Provincial thresholds and above the “Provincial targets/allowable ranges”. As can be seen on Schedule A, virtually all municipalities in Ontario have tax ratios that, like London, are above the “Provincial targets/allowable ranges.

4. ***How do London’s Tax Ratios compare to Provincial Thresholds, and other municipalities?***

As indicated, none of the property classes in the City of London have tax ratios that 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 reassessments in 2006, 2009, 2013 and 2017, Council maintained the policy of not permitting tax ratios in any property class to exceed Provincial thresholds.

Schedule A, attached, summarizes the tax ratios for all municipalities with populations greater than 110,000 included in the 2019 Municipal Study prepared by BMA Management Consulting Inc.. London has a commercial tax ratio that is above the median for the group by 4.3% and 7.0% above the average. The multi-residential and industrial tax ratios are both below the median and averages for the group.

The tax ratios in effect for the year 2019, 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:

Table 1: 2019 City of London Tax Ratios compared to Provincial Threshold/ Average

	City of London 2019 Tax Ratio	**Provincial Threshold/Average (O.Reg. 73/03)**	**Provincial Targets/Allowable Ranges (O.Reg. 386/98)**
Commercial	1.920000	1.98	0.6 to 1.1
Industrial	1.920000	2.63	0.6 to 1.1
Multi-Residential	1.749100	2.00	1.0 to 1.1
Pipeline	1.713000	N/A	0.6 to 0.7
Farm	0.102820	N/A	N/A
Residential	1.000000	N/A	N/A
New Multi-Residential	1.000000	N/A	1.0 to 1.1

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 2019 BMA Municipal Study and includes all municipalities with populations greater than 110,000. 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 1.00. Schedule B indicates that the theoretical adjustment for the City of London would be close to the middle of the group, without giving special weighting to Toronto to reflect its much larger size. Schedule B indicates that the City of London’s tax ratios are in the average range and not unusual when compared to other major centres in the Province.

B. TAX RATIOS AND DIFFERENT PROPERTY CLASSES

1. ***Why are tax ratios different for different property classes and why does each municipality have different tax ratios?***

Prior to 1970, the assessment of property for property taxation purposes was under the jurisdiction of each individual municipality in the Province. One result of this highly decentralized system was that the assessment valuation system was inconsistent from one municipality to another within the Province. Another result was the difference in the treatment of different property classes developed within municipalities. In 1970, after a report by the Ontario Committee on Taxation, the Provincial Government assumed responsibility for property assessment from all municipalities. The new system, started in 1970, was a market value system, however, adopting a pure market value system was offered to municipal governments on a voluntary basis.

Since the adoption of a pure market value assessment system in 1970 would have resulted in major shifts in taxation between property classes, virtually all municipalities did not adopt a pure market value assessment system. Instead, municipalities adopted a factored market value system where taxation shifts between property classes did not occur. Under a factored market value system each property within a property class was given:

a) an assessment value (calculated as its market value); multiplied by,
b) a specific factor expressed as a decimal. This specific factor was a uniform decimal number for each property class.

By this method, taxes were allocated based on market value within each property class. At the same time, however, taxes did not shift between property classes and the classes maintained the same tax burden that they had before the change to market value assessment.

In preparation for the major property tax reform to be implemented in 1998, the Province passed the *Fair Municipal Finance Act, 1997*. This legislation required the entire Province to be reassessed, based on market value, and brought an end to factored assessments. Beginning in 1998, all properties were required to be assessed at market value, rather than a factored market value, and this un-factored market value was to be the taxable amount shown on tax bills.

At the same time the Province recognized that they could not cause huge tax shifts between property classes as a result of the new system. To prevent tax shifts, the Province permitted property classes to have different tax rates as determined by the municipalities. The concept of tax ratios was then created in the new legislation so that the Province could set the rules as to what would be permissible with respect to tax rate differences between property classes. These are the rules we live with today, some of which have been briefly described earlier in this report.

2. Is there any justification for tax ratios being different in different property classes?

When the Province introduced the *Fair Municipal Finance Act, 1997*, the implied assumption in the legislation appeared to be that all property classes should have a tax ratio of 1.00 and there was no logical justification for tax ratios in different classes greater than 1.00. This thinking was demonstrated in the rules adopted in the legislation with respect to changing tax ratios, the establishment of thresholds for certain classes, and the allowable ranges/targets established with Ontario Regulation 386/98 (see previous table in this report).

At the same time, however, the Province recognized in the legislation that immediately moving to tax ratios of 1.00 for all major property classes was not realistic or practical. History, since 1998, has also shown that moving quickly to tax ratios of 1.00 for all property classes was not realistic or practical as a result of the impact on the residential class. Schedule B of this report shows the impact of a pure market value system with tax ratios of 1.00 for a large sample of municipalities in the Province.

In addition to possible concerns about the simple impact on the residential class of a uniform tax ratio of 1.00, there are significant issues relating to logic of such an approach. These are as follows:

a) historical tax ratios are built into the present system and competitive environment;

b) property taxes in certain property classes are tax deductible;

c) market value has a different meaning in different property classes; and,

d) the principle of taxation incidence (who is really paying the tax) indicates that a commercial entity has some ability to pass a tax onto its customers depending on the market environment.

More detailed information is provided below for each issue noted above.

a) Historical tax ratios are built into the present system

Historical ratios are built into the economic environment and reflected in prices, wages, and profits in the local economy. When looking at this issue, one has to consider the larger economy of the Province and beyond, as well as the local economic environment of the City. For some commercial enterprises, their primary competitors will be other enterprises in the City. For others, the primary competitors will be in the greater region, elsewhere in the Province, in other Provinces, or in other countries. The tax ratios applicable to other competitors will be a factor in the competitive equation for doing business in the City.

The City will want to ensure that tax ratios faced by London businesses are at least competitive with tax ratios applicable to their competition. If the tax ratios in London are competitive, then it may not be advisable to significantly alter taxes in the residential class. It should always be kept in mind that maintaining competitive tax ratios in all classes, including the residential class, are a requirement for robust economic development. The availability of a productive labour force may be a more significant factor for economic development than the level of property taxation in a particular non-residential class. Schedule B indicates the significant adjustment that would result in the residential class if all tax ratios were immediately equalized to the residential class.

The general trend in recent years for municipalities, since property tax reform in 1998, has been to decrease tax ratios in non-residential classes, as a result of the requirements of provincial legislation and deliberate decisions by municipal Councils. Schedule A shows the tax ratios for municipalities with populations greater than 110,000, which were included in the 2019 BMA study. The average tax ratios for all the non-residential property classes shown on Schedule A (i.e. multi-residential, commercial, and industrial) have declined in recent years. Since 2006, the multi-residential class average tax ratio for the group has declined by about 19.64%, the commercial tax ratio has declined by about 5.37% and the industrial tax ratio has declined by about 7.84%.

b) Property taxes in certain property classes are deductible for income tax purposes

Property taxes in the commercial, industrial, and multi-residential classes are deductible in computing income for tax purposes. Residential property taxes, for the most part, are paid from after tax income. Depending on the marginal tax rates, there can be large differences when expenditures are viewed from a pre-income tax or an after-income tax perspective.

c) Market value has a different meaning in different property classes

Properties are valued by very different methods in residential versus non-residential property classes. There are basically three (3) methods of valuation:

i. **Sale of property**
Residential class properties are valued based on the actual sale of similar individual properties. There are usually numerous similar individual sales on which to base the determination. Properties sell in a market where houses are sold one (1) at a time.

ii. **Income Method (future cash flow to property)**
In the commercial and multi-residential classes, a property's market value is determined based on the income approach. This means that the income that the property generates is determined, and then that income stream is capitalized using an applicable multiplier based on an appropriate interest rate. This valuation method illustrates that the only consideration in value determination, in these kinds of properties, is income generating capabilities. Other types of factors will go into the valuation of a residential property.

iii. **Construction Cost**
In the industrial property class, properties are generally valued based on construction costs. Buildings in this class are often built to suit and there is not a large volume of transactions involving generic types of buildings.

In addition, multi-residential properties, although they may be residential in nature, sell in a completely different kind of market from a single-unit residential property. Multi-residential properties sell in large unit volumes between large commercial enterprises, whereas single-unit residential properties sell one (1) at a time and involve individuals. The differences in the market places can be viewed like the differences between a wholesale market and a retail market. The result is that properties that are physically very similar, can sell at substantially different prices in the two (2) market places. In many large Cities a residential condominium unit will have a much higher market value than a physically similar multi-residential rental apartment unit.

d) Taxation Incidence – who is really paying the property tax

Taxation incidence focuses on the ability of a commercial entity to pass any tax imposed onto its customers. In the case of an owner occupied residential property, taxation incidence is not an issue. The owner of the house must pay the tax, and the owner has no ability to pass the tax onto any other person. In the case of a commercial entity, however, the situation is quite different in that the commercial entity may have some ability to pass the tax onto its customer. The ability 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.

For non-residential property classes in the City of London, the market place will be determined to some extent by the market within the City boundaries and to some extent the market beyond the City's boundaries – i.e. the Province, the country, and foreign countries. For this reason it is always important for any taxing jurisdiction to ensure that its tax policies are competitive.

It would probably be a reasonable assumption that the average rate of tax in the market is built into the price of products and services in such a way that commercial entities can make a reasonable rate of return to justify investments. The result of tax policy may be:

- When a tax authority deviates significantly from the average, in the form of lower taxes, it is creating an incentive situation that may attract a certain type of investment or, alternatively, a windfall for investors in a particular sector.
- When a taxing authority deviates significantly from the average, in the form of higher taxes, it is creating a disincentive situation that may discourage a certain type of investment and ultimately lead to fewer employment opportunities for citizens.

Taxation incidence is a complex issue. The marketplace ultimately determines who pays a tax regardless of who writes the cheque *(Wikipedia introductory article)*. To assume that the customer of a commercial entity is paying all the tax imposed on a commercial entity is probably equally as false as assuming that the commercial entity is paying all the tax imposed. Basic concepts of economics, namely supply and demand curves, provide the theoretical model; where the slope (elasticity) of the demand curve and the supply curve are equal, then an imposed tax should be shared equally between the seller and the buyer (*Wikipedia*).

3. Is there any justification for industrial and multi-residential tax ratios being higher than the commercial tax ratio, as was the pattern in many municipalities?

The simple, short answer to this question would seem to be "no". All three (3) property classes, industrial, multi-residential and commercial, are similar as they:

- represent commercial activity;
- can deduct property taxes paid from income taxes; and
- trade in commercial markets where value is determined by cash flow or construction cost.

Taxation incidence is a relevant consideration in all three (3) property classes, suggesting the tax is probably shared between the buyer and the seller, as determined in the market place.

The general advice of economists to governments is to keep a level playing field and not try to pick winners and losers in the determination of tax policy. There would appear to be little justification for keeping any kind of tax ratio differential for these three (3) property classes. In 2011, the equalization of tax ratios in the three (3) main non-residential property classes was identified as a tax policy objective to be pursued in future years. Full equalization was achieved in 2015 when Council approved a ratio of 1.95 for the three (3) main non-residential property classes.

C. POSSIBLE DIRECTIONS FOR FUTURE TAX POLICY

In the 2016 and 2019 reports on Tax Policy, the following possible directions were identified:

1. Maintain the status quo with respect to tax ratios now that the objectives identified in 2011 had been achieved. (i.e. reduction of the tax ratios in the industrial and multi-residential property classes to the level of the commercial class)

2. Reduce the tax ratio in all the non-residential property classes to lower levels, but keep them equal as this process proceeds.

3. Focus on lowering the multi-residential class only or in priority to other non-residential classes

After the 2016 Future Tax Policy report, Council took an approach to lower the tax ratios in the non-residential classes somewhat, but giving priority to the multi-residential class. This is the third possible direction listed above in the 2016 Future Tax Policy Report. In 2015, the tax ratios for the three (3) main non-residential property classes were all 1.95. By 2019, the tax ratios established for the three main non-residential classes were as follows:

Commercial	1.9200
Industrial	1.9200
Multi-residential	1.7491

There has been a significant development in reference to the multi-residential class since the consideration of Future Tax Policy in 2016. On July 5, 2017, the Provincial Minister of Finance signed several regulations to require the adoption of the new multi-residential property class, for all municipalities in Ontario. One of the regulations filed required that the tax ratio for the class be set within a range of 1.0 to 1.1 for all municipalities. The regulations applied 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 20th, 2017. The new multi-residential property class, as regulated by the Province, has a time limit after which the property will return to the regular multi-residential property class. The time limit is 35 years.

Prior to the issuance of the regulations to create the new multi-residential class in all municipalities, the Province expanded rent control, in accordance with the *Residential Tenancies Act*, to all residential rental properties. Prior to this expansion, rent control only applied to older buildings in rental use prior to November 19th, 1991. It would appear that the action to create the new multi-residential property class was motivated by a concern about the possible impact of the expansion of rent control on new construction or residential rental properties. In November 2018, however, the current Provincial government announced that residential units would not be subject to rent control if the units were never rented prior to November 16th, 2018.

Going forward, after 2019, it would appear there are at least four (4) possible directions for Council to consider during tax policy deliberations as follows:

1/ maintain tax ratios in the three (3) main non-residential classes at their current levels;

2/ reduce all the non-residential tax ratios in a gradual way possibly giving priority to the multi-residential property class;

3/ focus only on lowering the multi-residential tax ratio over a period of time; or,

4/ adjust ratios on an annual basis to mitigate assessment related tax increases in non-residential property classes possibly giving priority to the multi-residential property class.

1. Maintain tax ratios in the three (3) main non-residential classes at their current levels

The main argument for this approach, to Future Tax Policy, would be based on the assumption that the City has attained a situation where its tax ratios are reasonably competitive with other jurisdictions in Ontario, and has removed biases in its system that may have had a negative effect on potential industrial and multi-residential development. Under this approach, when future reassessments occur, existing tax ratios would be maintained and taxes would shift between property classes based on how market values in the various classes had changed. This approach would, however, still involve close monitoring of the City's competitiveness with respect to tax ratios in other Cities and could require adjustment of ratios as would be indicated in the annual review of tax policy.

2. Reduce the tax ratios in the three (3) main non-residential property classes in a gradual way possibly giving priority to the multi-residential property class

The commercial tax ratio in London is above the average for large population municipalities in Ontario by about 7.0% as shown on Schedule A. Schedule A also shows that both the multi-residential and industrial ratios are below the average for large population municipalities in Ontario. Council could consider adopting a tax policy objective to attain a uniform tax ratio for the commercial and industrial classes that is at, or slightly below, the average commercial level for the large population group identified on Schedule A. This could be done in conjunction with a further lowering of the multi-residential tax ratio below the commercial and industrial classes. We recommend against different ratios for the commercial and industrial property classes since this would be reintroducing a bias/distortion in the property tax system that Council succeeded in removing prior to 2016.

The purpose of a policy objective to lower non-residential tax ratios would be to improve the competitiveness of the City, and enhance economic development and employment opportunities in the City. The implementation of such a policy objective would necessarily be gradual and would have to take into consideration the following:

- future Province wide reassessments;
- Provincially established education tax rates; and,
- the effect of tax ratio changes on the residential property class.

All these factors would have to be considered each year as part of the annual tax policy review and tax ratio setting process.

3. Focus on lowering the multi-residential class, only or in priority to other non-residential classes

There seems to be some political support for this approach across the Province. Support for this position appears to be based on the assumption that, all of any reduction in property taxes will flow through to tenants. This would seem, however, to be a questionable assumption based on the principle of taxation incidence. The *Residential Tenancies Act, 2006* does require that decreases in property taxes be transferred onto the current tenant where the decrease exceeds 2.49%, but there are significant limitations and qualifications to this requirement.

The actions by the Province in 2017, to create a new multi-residential property class, has created a situation where multi-residential properties are being taxed on a long term basis at very different levels, based on nothing more than when they were constructed. This would seem to contradict one (1) of the basic principles of tax policy, in reference to property taxation. That basic principle being that, all properties within the same property class should pay the same tax rate. There does not appear to be any indication that the current government, at the Provincial level, has any intention to change the regulations issued by the previous government to establish the new multi-residential property class.

Because of the actions of the Province, including the extended term of 35 years, Council may wish to consider adopting a policy to adjust the tax ratio for the multi-residential property class to the new multi-residential property class level gradually over an extended period of time. The justification for this approach would be to establish equity within the property class, so that all properties would be subject to the same tax rate on their market value. The approach would need to be gradual to mitigate the effect on other property classes. This approach should provide an incentive for investment in the multi-residential property sector, however, the type of investment would be of the type that would provide the best return for investors in the sector.

Is the Multi-residential Property Class a Business Property Class? Should it be treated differently from other Business Property Classes?

The Region of Waterloo reviewed its approach to the Multi-residential property class in 2019. The Region has had very similar tax ratios to the City of London. The recommendation of staff at the Region of Waterloo, after reviewing its multi-residential ratio, was not to make any changes and maintain the ratio at the level of the commercial and industrial property classes at 1.95.

One of the primary arguments presented by staff for this approach was that all three (3) property classes were business property classes and, therefore, they should all have the same tax ratio. The Region's staff report reads as follows:

> "The Region's tax policy has been that businesses should all be taxed at the same rate. The commercial, industrial and multi-residential tax classes have had the same ratio of 1.95 since 2010 and therefore the same tax rates."

The regional Council in Waterloo accepted the staff recommendation. As indicated on Schedule A of this report, the region has maintained the industrial, commercial, and multi-residential property classes at an equal tax ratio of 1.95.

Schedule A does indicate that there has been a general tendency of other municipalities in Ontario to decrease their multi-residential tax ratios. As indicated by the shading on Schedule A, nine (9) of the 17 municipalities listed lowered their multi-residential ratios in 2019. In addition, as noted at the bottom of Schedule A since 2006, the tax ratio average for the group has decreased by 19.64%

The Province's approach, to the multi-residential class, has been to impose an education tax rate equal to the residential rate, and prohibit any flexibility in increasing tax ratios for the multi-residential class to more than 2.0.

The Residential Tenancies Act

The requirement for a landlord to pass on a property tax decrease, per the *Residential Tenancies Act,* may not have significant application in the long term. This is because the rent reduction does not apply to any new tenant who arrives after the year the tax decrease has occurred. Also in 2018, a provision was added to the *Act* to exempt the owners of new buildings, that are occupied for the first time for residential purposes after November 15, 2018, from the requirement to pass on tax decreases to tenants.

The possible lack of a significant long term effect from the rent reduction provisions of the *Residential Tenancies Act* would explain why there appears to be no empirical evidence to suggest that lower tax ratios in the multi-residential class has the effect of lowering market rents in municipalities. The City of Hamilton did a study on the multi-Residential class in February 2009 that attempted to look into this issue. Excerpts from that study indicating the conclusion that they reached are included on Schedule D. Another factor in the impact of the *Residential Tenancies Act* would be that gradual declines in a multi-residential ratio may not cause a minimum 2.49% decrease and, therefore, not invoke application of the *Act*.

Restrictions on Increasing Tax Ratios in Non-Residential Classes

An important point to keep in mind when decreasing tax ratios in any non-residential property class, including the multi-residential class, is that, although Provincial legislation gives municipal Councils the discretion to lower tax ratios in non-residential classes, the same discretion does not apply to increases in tax ratios. This means that a municipal Council cannot necessarily lower a tax ratio in a non-residential class in one (1) year and then increase it or return it to its previous level in a subsequent year. Flexibility with respect to non-residential tax ratios will be affected by proximity to provincially established thresholds, as indicated earlier in this report.

4. ***Adjust ratios on an annual basis to mitigate assessment related tax increases in non-residential property classes possibly giving priority to the multi-residential property class***

Every four (4) years in Ontario there is a Province wide reassessment. Every reassessment will cause shifts in taxation between property classes because of particular market conditions in the various property classes. The taxation shifts are spread out over four (4) years as the reassessment is phased in. The primary tool available to municipal Councils to control taxation shifts, resulting from reassessments, is the setting of tax ratios. In the past Council has utilized this tool to mitigate tax increases in non-residential property classes, giving priority to the multi-residential property class. In the past, the City has adopted tax ratios in the multi-residential property class that equalized the tax increase in the residential and multi-residential property classes.

The next Province wide reassessment will occur for the calendar year 2021 and will be based on 2019 market values. At that time, the impact of the reassessment will need to be carefully reviewed as to the effect on all the different property classes. The reassessment will be phased in over four (4) years beginning in 2021. The phasing in process will establish a pattern of taxation shifts between property classes, which will be applicable to the years 2021, 2022, 2023, and 2024. In 2021, depending on how the reassessment affects the residential property class, Council may wish to amend possible direction four (4) to include both the residential and non-residential property classes.

Other information attached to this report

The following schedules, not previously referenced in this report, have been attached to this report to provide additional information and context regarding tax policy. All Provincial tax legislation is based on tax ratios because they are reliable and directly comparable from one (1) municipality to another.

Schedule C – 2019 Net Municipal Levy per Capita in BMA Study for Populations over 110,000

Schedule E – Excerpt from Financial Management section of the 2018 Financial Report – Property Taxation Policy in the City of London
(This report provides historical context for tax policy development in the City of London, since the commencement of the major tax reform in 1998.)

Preview of Final 2020 Tax Policy Report

For 2020, there will be two (2) changes which have not appeared in previous tax policy reports. The 2020 taxation year will be the first year where there should be no tax rate discounts for vacant and excess land in the commercial and industrial property classes. Council approved this change in 2019, but it is still subject to regulation by the Minister of Finance. We anticipate this regulation should be published in April 2020. The removal of the discount for municipal property taxes is consistent with the Province's decision to completely remove the discount in 2020 for education taxes.

In addition, based on a review of farm land tax rates in the London vicinity and the BMA study, there will be no recommendation for further mitigation of farmland within City boundaries in 2020. In past years, the City has equalized tax rate increases in the residential and farmland property classes in a period where farmland values have increases at significantly greater rate than residential property.

For the first time in 2020, London will have the new multi-residential assessment class on the roll certified for 2020 taxation. Since the new multi-residential property class will be paying the same tax rate as the residential property class, there will be no recommendation to mitigate tax increases in the new multi-residential property class.

The Province provided all municipalities in Ontario with draft education tax rates in a letter dated December 20th, 2019. Using those draft education tax rates, and making the changes for 2020 described in previous paragraphs, we have gone ahead and completed tax calculations, assuming Council adopted similar tax policy decisions to those approved in 2019.

In 2019, Council decided to equalize the municipal tax increase in the multi-residential and residential property classes, and to slightly decrease the tax ratios in the commercial and industrial property classes. For the purposes of this draft calculation, for illustrative purposes, we have used a 2020 draft tax levy of $638,258,199 which implies a 3.55% tax levy increase in total on year end assessments. This tax levy amount will vary based on the outcome of budget deliberations. The following table shows the average effect on each property class including and not including education taxes using this draft tax levy amount:

Table 2: Application of Tax Policy assuming same strategy as 2019 Tax Policy

Property Class	Average Tax Increase as a % - municipal taxes + education taxes	Average Tax Increase as a % - municipal taxes only	Tax Ratios required
Commercial (excluding vacant and excess land)	4.5%	5.5%	1.900000
Farmland	13.7%	15.3%	0.102820
Industrial (excluding vacant and excess land)	1.1%	2.2%	1.900000
Multi-residential	2.4%	2.7%	1.711900
New Multi-residential	4.2%	4.9%	1.000000
Pipeline	1.4%	2.9%	1.713000
Residential	2.0%	2.7%	1.000000
Total levy increase on year end assessments as a %	2.9%	3.5%	

It should be noted that the tax increases by property class is an average, therefore tax increases for individual properties will vary.

SUMMARY

The purpose of this report is to identify possible directions for Future Tax Policy for Council's consideration and to provide historical context going forward. In the spring, once the 2020 tax levy is approved, Civic Administration will look to submit 2020 Tax Policy, consistent with prior years.

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Attachments

LIST OF ATTACHMENTS

FUTURE TAX POLICY – POSSIBLE DIRECTIONS

Schedule A	**Tax Ratios for Municipalities in BMA Study with Populations Over 110,000**
Schedule B	**Shift in Tax Burden Un-weighted to Weighted Residential Assessment for Municipalities in BMA Study with Populations Over 110,000**
Schedule C	**2019 Net Municipal Levy per Capita in BMA study for Municipalities with Populations Over 110,000**
Schedule D	**Excerpts from City of Hamilton report on Multi-residential tax ratios in February 2009**
Schedule E	**Excerpt from Policy Overview and Economic Update – 2018 Financial Report – Property Tax Policy in the City of London**

SCHEDULE "A"
TAX RATIOS FOR MUNICIPALITIES IN BMA STUDY WITH POPULATIONS OVER 110,000

Municipality with > 110,000 Population in 2019 BMA Study	Multi-Residential Tax Ratio	Commercial Tax Ratio (Residual)	Industrial Tax Ratio (Residual)	Industrial Tax Ratio (Large)	Average of Large and Residual Industrial Tax Ratios
Barrie	1.0000	1.4331	1.5163	1.5163	1.5163
Brampton	1.7050	1.2971	1.4700	1.4700	1.4700
Durham	1.8665	1.4500	**2.1040**	**2.1040**	2.1040
Greater Sudbury	**1.9650**	**1.9420**	**3.7263**	**4.3254**	4.0259
Guelph	**1.8254**	1.8400	2.2048	2.2048	2.2048
Halton	2.0000	1.4565	2.3599	2.3599	2.3599
Hamilton	**2.5671**	1.9800	**3.3696**	**3.9513**	3.6605
Kingston	**1.8000**	1.9800	2.6300	2.6300	2.6300
London	**1.7491**	**1.9200**	**1.9200**	**1.9200**	1.9200
Mississauga	**1.3461**	*1.5007*	*1.6266*	*1.6266*	1.6266
Niagara	1.9700	1.7349	2.6300	2.6300	2.6300
Ottawa	**1.4005**	**1.8249**	**2.5521**	**2.1916**	2.3719
Thunder Bay	**2.2850**	**2.1152**	**2.4151**	3.1700	2.7926
Toronto	**2.3444**	**2.7800**	**2.7632**	**2.7632**	2.7632
Waterloo	1.9500	1.9500	1.9500	1.9500	1.9500
Windsor	2.0000	2.0187	2.3200	2.9381	2.6291
York	1.0000	*1.2794*	*1.5704*	*1.5704*	1.5704

Average	1.8102	1.7943			2.3662
Median	1.8665	1.8400			2.3599
Minimum	1.0000	1.2794			1.4700
Maximum	2.5671	2.7800			4.0259
Provinical Threshold	2.0000	1.9800	2.6300	2.6300	2.6300

London Compared to Median	-6.3%	4.3%			-18.6%
London Compared to Average	-3.4%	7.0%			-18.9%

change in group averages since 2006	-19.64%	-5.37%			-7.84%

decreases in ratios
increases in ratios

SCHEDULE "B"
SHIFT IN TAX BURDEN - UNWEIGHTED TO WEIGHTED RESIDENTIAL ASSESSMENT FOR MUNICIPALITIES IN BMA STUDY WITH POPULATIONS OVER 110,000

Municipality with > 110,000 Population in 2019 BMA Study	Residential Unweighted Assessment	Residential Weighted Assessment	% Change	Implied Adjustment to Residential Taxes
Toronto	74.1%	52.2%	-21.9%	42.0%
Thunder Bay	79.4%	64.0%	**-15.4%**	**24.1%**
Greater Sudbury	**79.5%**	**64.2%**	**-15.3%**	**23.8%**
Windsor	**74.7%**	60.6%	-14.1%	23.3%
Cambridge	75.1%	61.8%	-13.3%	21.5%
Kingston	**74.0%**	61.3%	**-12.7%**	**20.7%**
Waterloo	**74.0%**	62.2%	-11.8%	19.0%
Guelph	**78.5%**	**66.3%**	**-12.2%**	**18.4%**
Hamilton	**82.0%**	*69.5%*	*-12.5%*	*18.0%*
Kitchener	79.0%	67.0%	-12.0%	17.9%
Ottawa	**75.1%**	**64.2%**	**-10.9%**	**17.0%**
St. Catherines	**79.0%**	**68.2%**	**-10.8%**	15.8%
London	**80.7%**	**70.2%**	**-10.5%**	**15.0%**
Burlington	78.9%	69.8%	-9.1%	13.0%
Mississauga	72.8%	64.6%	-8.2%	12.7%
Oshawa	79.8%	*71.3%*	*-8.5%*	*11.9%*
Oakville	84.9%	78.1%	-6.8%	8.7%
Milton	81.7%	75.7%	-6.0%	7.9%
Barrie	76.5%	71.1%	-5.4%	7.6%
Whitby	86.4%	80.6%	-5.8%	7.2%
Vaughan	79.3%	74.6%	-4.7%	6.3%
Brampton	81.5%	76.8%	-4.7%	6.1%
Markham	85.5%	82.6%	-2.9%	3.5%
Richmond Hill	89.7%	87.6%	-2.1%	2.4%

If all non-residential classes were at 1, residential taxes would increase by 15%

Average	15.2%
Median	15.4%
Maximum	42.0%
Minimum	2.4%

London Compared to Median	-2.9%
London Compared to Average	-1.3%

Residential unweighted assessment does not reflect any weighting of various classes with tax ratios.

Residential weighted assessment reflects the weighting of non-residential assessment with tax ratios.

SCHEDULE "C"
2019 NET MUNICIPAL LEVY PER CAPITA IN BMA STUDY WITH POPULATIONS OVER 110,000

Municipality with > 110,000 Population in 2019 BMA Study	**2019 Net Municipal Levy Per Capita**
Milton	$1,116
Brampton	$1,328
Kitchener	**$1,338**
Markham	**$1,346**
London	$1,476
Toronto	$1,478
Mississauga	**$1,490**
Windsor	$1,531
Burlington	**$1,540**
St, Catherines	*$1,546*
Hamilton	$1,557
Richmonnd Hill	**$1,562**
Cambridge	**$1,577**
Barrie	**$1,584**
Greater Sudbury	$1,624
Oshawa	$1,660
Ottawa	*$1,662*
Whitby	$1,685
Vaughan	$1,690
Guelph	$1,696
Thunder Bay	$1,749
Kingston	$1,785
Oakville	$1,801
Waterloo	$1,875

Average	$1,571
Median	$1,570
Minimum	$1,116
Maximum	$1,875

London Compared to Median	-6.0%
London Compared to Average	-6.0%

The 2019 net municipal levy per capita for the City of London is 6% below the median of municipalities with populations greater than 110,000. This indicates the total net municipal levy needed to provide services within each municipality.

SCHEDULE "D"

Excerpts from City of Hamilton report on Multi-residential tax ratios February 2009

Ontario, City of Hamilton, Corporate Services Department, Budgets & Finance Division, February 19, 2009.

"No documented evidence that a reduced multi-residential tax ratio equates to lower rents:

- Municipalities who have reduced their multi-residential tax ratio have seen rent increases at the same rate or higher than those communities with minimal or no reduction to their multi-residential tax ratio (rents are market driven).
- Although Hamilton has a high multi-residential tax ratio, the average rent for a two-bedroom apartment in Hamilton (CMA) continues to be among the lowest in Ontario, with average rent increases being one of the lowest (below the rent guideline)." (p.2)

"Municipalities with significant reductions to their multi-residential tax ratios over this same time period have not seen corresponding significant reductions in the average rent. For example, as identified previously, Ottawa had reduced its multi-residential tax ratio -25% from 1989 to 2008; however the average rent for a two-bedroom apartment has increased 32% over this same time period. Similarly, Waterloo Region (Kitchener above) has reduced its multi-residential tax ratio -33% from 1998 to 2008, yet the average rent for a two-bedroom apartment has increased 32% as well." (p. 8)

"Should Council want to consider a reduction in the multi-residential tax ratio, staff would suggest reducing it to a target of 1.99 (the current 2009 commercial tax ratio). Targeting the commercial ratio is consistent with most municipalities that have set a target for reduction. As well, staff would recommend that any reduction be phased-in to minimize the impact on the other property classes." (p.3)

SCHEDULE "E"

Financial Management

Property Taxation Policy

Property tax policy in the City is guided by four (4) principles as follows:

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

Every year as part of its tax policy review, the City reviews its tax ratios and compares them to other municipalities in the Province to ensure they are equitable, competitive and conducive to economic development.

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 was 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.

In 2018, the City further adopted a policy of equalizing municipal tax increases in the multi-residential and the residential classes. This was accomplished by adjusting the tax ratio in the multi-residential class resulting in a slightly reduced multi-residential tax ratio. This policy is continued in 2019. The City also reduced Commercial and Industrial tax ratios in 2018 and 2019 from 1.95 to 1.92.

Since 1998 the City has adopted all available options to reduce the amount of tax mitigation involving clawing back tax decreases and capping increases in the commercial, industrial and multi-residential property classes. For 2018 there was no tax mitigation in the industrial and multi-residential property tax system and only a very few properties had tax increases capped in the commercial property class. No properties will have tax decreases clawed back in any property class in 2019. The ending of the tax mitigation required by the Provincial Government will simplify the calculation of property taxes and will enhance equity and transparency in the property tax system in London.

Future Tax Policy

As part of its annual tax policy review, the City will continue to monitor its tax ratios in all classes and all its other policies related to taxation to ensure that property taxation in the City is equitable, conducive to economic development, transparent to the public and administratively efficient.