

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 14, 2020</b>
<b>FROM:</b>	<b>ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>YEAR 2020 TAX POLICY</b>

<b>RECOMMENDATION</b>
-----------------------

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following actions be taken with respect to property taxation for 2020:

- a) the Civic Administration **BE DIRECTED** to prepare a proposed by-law for introduction and enactment at the Municipal Council meeting to be held on April 21, 2020, reflective of committee recommendations in accordance with Sub-sections 308(4) and 308.1(4) of *the Municipal Act, 2001*, to set tax ratios in the various property classes in keeping with the option selected by the Municipal Council from the attached Schedule "B"; it being noted that the 2020 Municipal Tax Ratio By-Law (attached as Appendix A) has been prepared reflecting option AB1;
- b) the Civic Administration **BE DIRECTED** to bring forward a proposed by-law (attached as Appendix B) for introduction and enactment at the Municipal Council meeting to be held on April 21, 2020, to fully utilize options available in 2020 to exclude properties in capped property classes which have reached current value assessment tax levels or higher in 2019, from being capped again in 2020 and future years;
- c) the Civic Administration **BE DIRECTED** to bring forward a proposed by-law (attached as Appendix C) for introduction and enactment at the Municipal Council meeting to be held on April 21, 2020 to initiate a four (4) year phase out of capping for any of the non-residential property classes, where London is eligible for such option, and exclude vacant land from the capping phase-out eligibility criteria where all properties must be within 50% of current value assessment (CVA) level taxes;
- d) the Civic Administration **BE DIRECTED** to bring forward a proposed by-law (attached as Appendix D) for introduction and enactment at the Municipal Council meeting to be held on April 21, 2020 to limit capping protection only to reassessment related changes prior to 2017, and that reassessment changes in capped classes thereafter would not be subject to the cap; and
- e) the Civic Administration **BE DIRECTED** to bring forward a proposed by-law (attached as Appendix E) for introduction and enactment at the Municipal Council meeting to be held on April 21, 2020 to adopt the capping formulae for the commercial, industrial and multi-residential property classes as described in detail in this report.

## PREVIOUS REPORTS PERTINENT TO THIS MATTER

Corporate Service Committee, February 18, 2020, Item # 2.5, Future Tax Policy

Corporate Services Committee, January 20, 2020, Item # 2.7, Assessment Growth for 2020, Changes in Taxable Phase-in, Values and Shifts in Taxation as a Result of Reassessment

Corporate Services Committee, October 22, 2019, Item # 2.3, Vacant/Excess Land Subclass Reductions and Other Tax Policy Issues

Corporate Services Committee, April 30, 2019, Item # 2.1, Year 2019 Tax Policy

## BACKGROUND

### **Tax Ratios for 2020 Taxation – (Recommendation A)**

#### ***Definition of the Term “Tax Ratio”***

Tax ratios compare the tax rate for municipal purposes 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 2.00 would therefore indicate a municipal tax rate twice the residential municipal tax rate. Education tax rates are set by the Province and are not dependent on tax ratios approved by Municipal Council. Under subsection 308(4) of the *Municipal Act, 2001* all single tier municipalities are required to pass a by-law each year to establish tax ratios for the year.

#### ***History of Tax Ratio Setting Restrictions***

Beginning in 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. For 2017, the multi-residential threshold ratio was reduced from 2.74 to 2.00. Under provisions of the *Municipal Act, 2001*, and related Regulations, municipalities were not permitted in 2001, or subsequent years, to impose a general municipal levy increase on a property class which had a ratio exceeding the Provincial threshold. 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 advised on December 20, 2019 that this flexibility will be provided to municipalities again for 2020 taxation, except in the case of the multi-residential class where the tax ratio is greater than 2.00.

#### ***London’s Tax Ratios, Provincial Thresholds and Municipal Comparisons***

In reviewing tax policy for 2020, it should be noted that none of the property classes in the City of London 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 class ratio down to the threshold for 2001 taxation. At the time of the last reassessments in 2006, 2009 and 2013, Council maintained the policy of not permitting tax ratios in any property class to exceed Provincial thresholds.

The tax ratios in effect for 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:

	<b>City of London 2019 Tax Ratio</b>	<b>Provincial Threshold/Average (O.Reg. 73/03)</b>	<b>Provincial Targets/Allowable Ranges (O.Reg. 386/98)</b>
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

Schedule “D”, attached, provides comparative information on how different municipalities tax the various different major property classes. The information from Schedule “D” comes from the 2019 BMA Municipal Study and includes all municipalities with populations greater than 110,000. The last column of Schedule “D” 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. The Schedule indicates that the theoretical adjustment for the City of London would be near the median and the average for the group.

***Possible directions identified in the Future Tax Policy report to the Corporate Services Committee on February 18, 2020***

In the above referenced report four (4) possible directions were identified. They were as follows:

1. Maintain tax ratios in the three (3) main non-residential classes at their current levels;
2. Adjust ratios on an annual basis to mitigate assessment related tax increases in property classes (possibly giving priority to the multi-residential property class);
3. Reduce all the non-residential tax ratios in a gradual way (possibly giving priority to the multi-residential property class); and/or,
4. Focus only on lowering the multi-residential tax ratio over a period of time.

Items two (2) and three (3) above are not mutually exclusive, could overlap in a gradual implementation and will be affected by the reassessment process.

Every four (4) years the property tax base of the entire Province is reassessed and new market values are phased into the property tax system. This phasing in process, without any intervention in the form of tax ratio setting, results in shifts in taxation between property classes. The tax ratio rules, however, established by the Province, permit the setting of tax ratios to offset tax shifts within certain limits. These limits are maximum ratios that the Province sets for certain non-residential property classes.

In the current phase in process that is taking place for the period of 2017 to 2020, equalizing tax increases in the residential and multi-residential property classes has necessitated a reduction in the multi-residential tax ratio during this period of time.

In reference to the possible directions listed above, Schedule “B” ‘2020 Tax Policy Alternative Tax Ratio Options for Consideration’ has been compiled. The first column of Schedule “B” shows the result if no changes are made to tax ratios (direction #1 above). Option A on schedule B reflects direction #2 referenced above. Option B on schedule B

also reflects direction #2 above. Option C reflects direction #2 and #3 above, with a focus on the commercial and industrial classes. Option D reflects direction #4 referenced above.

### ***Tax Ratios –Commercial and Industrial (Recommendation A)***

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. The attached Schedule “A” shows the tax ratios for the three (3) main non-residential property classes – Commercial, Industrial, and Multi-residential. In 2015, the City of London achieved a long term objective, identified in September 2011, of lowering and equalizing the tax ratios in the main non-residential property classes. Over a four (4) year period, the City adjusted all the main non-residential tax ratios to a level of 1.95. Both the Region of Waterloo and the City of London had uniform ratios of 1.95 for all the aforementioned property classes in 2015. In 2016, 2017, 2018, and 2019 the City decreased the multi-residential ratio to equalize the municipal tax increase in the residential and multi-residential property classes.

For 2020, it is recommended that the Commercial and Industrial tax ratios continue to be maintained at a uniform level. It would seem there is no logical justification for taxing industrial properties at higher rates than commercial properties, as was a past practice. The Province has accepted the validity of this position in the setting of education tax rates for commercial and industrial properties. For the first time in 2017, the Province established equal education property tax rates for commercial and industrial properties and has continued this practice in 2018, 2019, and 2020.

For 2020, the Commercial and Industrial tax ratios could be set at a level to equalize municipal tax increases in the commercial and residential property classes. This level is indicated in option A on the attached schedule “B”. This option would result in the commercial and industrial ratios being set at what is generally described as a revenue neutral level. If no ratio adjustment is made in the commercial class, the average municipal tax increase in the class would be 7.94% as indicated on the attached Schedule “C”. Schedule “A” indicates that the City of London commercial tax ratio in 2019 was above the average level although close to the median level for the group.

Lowering the commercial/industrial tax ratio could potentially provide greater flexibility at the time of a future reassessment where there may be a shift in taxation towards the residential property class. The next reassessment was scheduled for 2021 however it was recently (March 25, 2020) postponed as a result of COVID-19 measures. Under current legislation, if the commercial tax ratio is increased beyond 1.98, a portion of the tax levy increase on the commercial property class is restricted and transferred to other property classes, including residential. Where the tax ratio is below 1.98, the municipality would have flexibility to prevent tax shifts towards the residential class. The greater the tax ratio is below 1.98, the greater the flexibility for the municipality in future years.

The effect on economic development is an important consideration in the review of tax policy in the commercial and industrial property classes, as well as other property classes. Schedule “H”, attached, evaluates and rates various different economic development strategies. The schedule suggests that tax policy may have significant advantages over other economic development strategies.

### ***Tax Ratios – Multi-residential Property Class (Recommendation A)***

Schedule “A” indicates the multi-residential ratio in the City of London is below the average and the median when compared to the other municipalities listed. In December

2016, the Provincial Ministry of Finance issued a letter indicating that the Province had concerns with respect to the taxation of multi-residential properties, and it was their intention to study the issue and consult with various stakeholders beginning early 2017. In the letter, the Province indicated its intention to restrict tax increases in the multi-residential property class in 2017, in any municipality where the 2017 tax ratio was greater than 2.0. London was not subject to this restriction since its tax ratio was below the 2.0 level. The same tax ratio restriction for the multi-residential property has been in place for 2018 and 2019, and is in place for 2020.

Since the year 2000, the City has decreased its multi-residential tax ratio from 2.3852 to 1.749100, as of 2019. This has been the result of adopting a long term policy to equalize non-residential tax ratios, and also to equalize municipal tax increases in the residential and multi-residential property classes in particular years. In 2015, the City equalized non-residential tax ratios. In 2016, 2017, 2018, and 2019 the City equalized municipal tax increases in the residential and multi-residential property classes and decreased the multi-residential property class tax ratio below the commercial and industrial levels.

For 2020, it is recommended that Council adopt the same policy as adopted in 2016, 2017, 2018 and 2019 to equalize municipal tax increases in the multi-residential and residential property classes. This approach is reflected in options A, AB1, AB2, and B on Schedule "B", which results in a multi-residential tax ratio of 1.711880.

#### ***Tax Ratios – New Multi-residential Property Class (Recommendation A)***

On July 5 2017, the Minister of Finance signed a regulation requiring all municipalities to establish a new multi-residential property class with a tax ratio range between 1.0 and 1.1. The regulation applied to any multi-residential property in Ontario built or converted from a non-residential use, pursuant to a building permit issued after April 20, 2017. In accordance with this regulation, the City of London established a new multi-residential property class with a ratio of 1.0 in 2017. It is recommended that this ratio be continued for 2020. There was no property in the new multi-residential property class included on the assessment roll provided to the City of London at the end of 2018, but property has now appeared in the roll provided at the end of 2019 for 2020 taxation.

#### ***Farm Property Class Tax Ratio (Recommendation A)***

The tax ratio for the farm property is set in accordance with Section 308.1 of the *Municipal Act, 2001*. Under the provisions of Section 308.1, the ratio is automatically reset to 0.25 every year, unless the municipality sets it at a lower level by by-law each year. The farm property class is a very small class in the City of London, and changes in the tax ratio for the farm class have no significant impact on any other property classes. In the past, the City has always followed a policy of setting the farm property class tax ratio at a level that would result in the farm class receiving the average municipal tax increase, subject to the 0.25 maximum in the legislation. After a review of farm tax ratios and farm tax rates in the Province, and in the vicinity of London, we are not recommending continuation of this policy for 2020. This issue was discussed in a previous report to Committee in October 2019 (staff report Vacant/excess Land Subclass Tax Reduction and Other Tax Policy Issues). It is recommended that the tax ratio for farmland in 2020 be the same as 2019 i.e. 0.102820.

In December 2017, the Ministry of Finance issued a letter indicating that beginning in 2018 it would permit the option of a 75% tax rate reduction on the first \$50,000 of assessment related to qualifying non-farm commercial activity at a farm property. At the time of the 2018 property tax billing, MPAC had not provided the City of London with a list of any eligible properties and the City did not utilize this option. The City has been

recently notified by MPAC that only one (1) roll number in the City qualifies for this special tax reduction. Participation in the program, however, is not recommended. Only one (1) property qualifies and tax mitigation is already being provided to farm land property owners through the establishment of tax ratios. The tax reduction on one (1) property would be less than \$1,000.

### ***Landfill Property Class Tax Ratio (Recommendation A)***

The City of London does not have any taxable property in the Landfill property class. It is, however, recommended that a ratio be established each year at the maximum permitted by legislation. Council would still have the ability to set a ratio at a lower level at any point in time, in the future, at its discretion if and when taxable assessment came into existence in the City. This approach will maximize the flexibility for ratio setting in this property class in the future. The maximum ratio permitted by legislation in 2020 is 2.818527 (Revenue neutral ratio x 1.05 or 2.684311 x 1.05). The ratio established in 2019 was 2.633590.

### ***Pipeline Tax Ratio (Recommendation A)***

Unlike the commercial, industrial, and multi-residential classes, the Province has not set any threshold tax ratio level or levy restriction with respect to the pipeline class. However, there are significant restrictions on increases in pipeline tax ratios set out in section 308 of the *Municipal Act, 2001*. It is therefore recommended that the tax ratio for the pipeline class not be changed for the year 2020.

### ***Summary of Tax Ratio Recommendations for 2020 (Recommendation A)***

In summary, for 2020 Civic Administration are recommending Council select option AB1 but would support the recommendation of option A or a tax ratio option that would be between and including option B as shown on Schedule "B". Schedule "B" indicates the alternative tax ratios and the average % increases in taxes in the various property classes, both including and excluding the education component of the property tax bill. For preparation of the 2020 Municipal Tax Ratio By-Law, Civic Administration has prepared the By-Law (attached as Appendix "A") utilizing Option AB1 which is similar with the option that was chosen in 2019. This option was also presented in the future tax policy report delivered to the February 18<sup>th</sup>, 2020 meeting of the Corporate Services Committee.

The percentages shown on Schedule "B" represent average tax changes only. In reality virtually no-one is exactly at the average. Most property owners will be slightly above or slightly below the average.

### ***Property Tax Rate Calculation Adjustment***

In 2020, the Province is permitting an optional technical adjustment in the calculation of levy increases required to be disclosed on tax bills (Ontario Regulation 75/01). The option would be appropriate in situations where the municipality has not adequately included provisions for future losses from assessment appeals, and similar adjustments in tax levies and budgets of previous years. This is not currently the situation in the City of London and we do not recommend the selection of this option. This option has been mentioned in letters to municipal treasurers from the Ministry of Finance dated December 21, 2016, December 22, 2017, April 9, 2019 and December 20, 2019.

### ***Elimination of vacant/excess land subclass tax reduction beginning in 2020***

In 2017, the Ministry of Finance announced that they were prepared to permit

Municipalities to end vacancy rebate programs and the subclass reductions for vacant and excess land in the commercial and industrial property classes. The legal mechanism for doing this is a regulation issued by the Minister. Many municipalities, including London, have taken action to phase-out vacancy rebate programs. The Minister of Finance filed a regulation on May 3<sup>rd</sup> 2018 that reduced the vacancy rebate to 15% from 30% in 2018 and ended the vacancy rebate in London beginning January 1<sup>st</sup> 2019.

On October 29<sup>th</sup> 2019 Council passed a resolution requesting that the Ontario Minister of Finance file a regulation to eliminate the 30% tax rate reduction for land in the Commercial and Industrial property classes, when the land is categorized in the subclasses of vacant or excess land, beginning in 2020. The Council resolution will mirror the Provincial government treatment for education property taxes in these two (2) subclasses beginning in 2020.

At this point in time the requested resolution has not been filed by the Minister but we anticipate the resolution will be filed in April 2020, and will apply to the year 2020 and subsequent years. All tax calculations in this report have been done on the assumption the Minister will file the regulation.

### ***Ongoing Reductions in Business Education Taxes***

In April 2005, London City Council passed a resolution requesting that the Ontario Minister of Finance “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 was received in June 2005, the Mayor followed up with a second letter in February 2006 to 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 (7) year period ending in 2014. As a result of this major reform, the Province had indicated that by the year 2014, when the phase-in was complete, education property taxes in the City of London would be reduced by \$33.6 million each year in the future from what they otherwise would have been.

However, the Ontario budget introduced to legislature on March 27, 2012, announced that business education property tax cuts previously scheduled for 2013 and 2014 would be deferred until 2017 and 2018 after Ontario was returned to a balanced budget. It is estimated that the reductions that the 2012 Provincial budget deferred would have been in excess of \$10 million in the City of London and represent about 20% of the education property taxes in the commercial and industrial property classes in the City. The City Treasurer sent a report to the Corporate Services Committee meeting of April 3, 2018 (Year 2018 Tax Policy) recommending that the Mayor be requested to send a letter to Minister of Finance requesting clarification as to the current status of the business education tax cuts. This recommendation was approved by Council.

In October 2018, Mayor Brown sent a letter to then Minister of Finance, Vic Fedeli, requesting clarification status of the promised reduction in Business Education Property Tax rates. The Minister of Finance responded in December 2018. In their letter they appeared to acknowledge that the current system for setting business education property tax rates is inequitable and the intentions of the previous government to address the situation were never fully implemented. They did not specifically indicate how the current government planned to proceed in the future. It was noted however that in the letter issued to all Municipal Treasurers, dated December 20, 2019 from the

Assistant Deputy Minister, the lower business education tax rate that was promised by the previous Liberal government is identified as the “BET Target” (Business Education Taxes).

On May 8, 2019 City Council passed a motion requesting Mayor Ed Holder “send a letter to the Minister of Finance, on behalf of City Council, requesting further clarification with respect to the long term intention of the current government with respect to the business education property tax cuts that were temporarily frozen with the 2012 Provincial budget.”

### **Utilizing Options Available to Bring an End to Capping Tax Increases and Clawing Back Tax Decreases in the Commercial, Industrial and Multi-Residential Property Classes (Recommendations B, C, and D)**

Since major Province wide tax reform began in 1998, the Province has mandated a complex system of capping tax increases and clawing back tax decreases in the commercial, industrial and multi-residential property classes. Civic Administration have long believed the entire system was unfair to taxpayers, damaging to economic development and administratively onerous. Based on consultation with municipal representatives, including the City of London during 2008, the Province provided increased flexibility under the business tax capping program for 2009 and future years. It appears the Province decided to provide this very significant increase in flexibility to municipalities because of the new tax mitigation provided by the four (4) year phase-in of assessment values, beginning with the reassessment for 2009 taxation.

Beginning in 2009, municipalities had options to permanently remove properties from the capping and claw-back system once they have reached their current value assessment (CVA) level taxes. Municipalities can have these options apply to all capped property classes or limit the options to individual capped classes. For 2020, this means that any property which had paid CVA taxes or higher (i.e. clawed back) in 2019 can be excluded from having a tax increase capped in 2020. At the same time, a property that had a tax increase capped in 2019 cannot have a tax decrease clawed back in 2020, if the options are chosen. Preliminary calculations indicate that continuing to fully utilize the options available could completely end capping in the year 2020 and future years.

Beginning in 2016 and for future years where there are no properties taxed at less than 50% of CVA levels, a municipality may enter a four (4) year phase out program to end capping from reassessment related changes prior to 2017. London was eligible for this program in the industrial class for 2016. In 2019, London was eligible in the commercial and multi-residential property classes.

Beginning in 2017, the Province provided new flexibility to exclude vacant land from the phase-out eligibility criteria for capping of reassessment related changes prior to 2017. In addition, beginning in 2017, and for future years, municipalities have the option to limit capping protection only to reassessment changes prior to 2017. For municipalities that select this option, reassessment related increases, beginning in 2017, would not be subject to the cap. These options would be implemented through municipal by-laws.

We recommend that Council take advantage of all opportunities to bring the capping of tax increases and the clawing back of tax decreases to an end in 2020 and future years. In 2019, the City utilized all options available to exclude properties from future capping and no problems were encountered. The continued implementation of all available options to end capping in 2020 will require Council to pass by-laws in accordance with the *Municipal Act, 2001*. We believe any continuation of the capping program is unnecessary because of the four (4) year phase in of assessed values that began in



2009. Capping can create a situation where some properties never pay their share of the levy in the property class based on market values and uniform tax rates for the various property classes. As can be seen on the attached Schedule “F”, capping and clawing back adjustments to commercial and industrial property taxes were in excess of \$10 million in 1998 and 2001, and now in 2020 can reach a point of total elimination.

### **By-law to Set a Formula for Calculating Caps in the Commercial, Industrial and Multi-Residential Property Classes (Recommendation E)**

Since 2008, Council has adopted several options permitted by Section 329.1, of the *Municipal Act, 2001*, to reduce the amount of capping of tax increases and clawing back of decreases in the commercial, industrial and multi-residential property classes. The selected options were as follows:

- capping at 10% of previous years taxes instead of the 5% minimum;
- utilizing the option of 10% of previous years CVA taxes where applicable;
- reducing cap adjustments equal to or less than \$500 to nil; and
- new construction was taxed without any cap adjustment.

The use of all these options significantly reduced the amount of clawing back of decreases as can be seen on Schedules “E” and “F” of this report. No significant problems or issues were encountered by the City Tax Office in past billings as a result of utilizing the above options. The use of these option will bring an end to capping in 2020.

It is therefore recommended that a by-law be enacted under section 329.1 of the *Municipal Act, 2001* for 2020 and subsequent years, where applicable, to adopt the capping formula described above.

### **No By-law Recommended to Claw back a Portion of Tax Decreases in Capped Property Classes**

For 2020, and future years, with the end of tax capping in the commercial industrial and multi-residential property classes, it will no longer be necessary to consider and claw back of property tax decreases in those property classes.

### **Phase-In Program for Residential Property Class not recommended**

All residential properties in the City of London were reassessed for 2017 taxation based on January 1, 2016 market values. The January 1, 2016 market values are being phased-in over a four (4) year period from 2017 to 2020 as required by Provincial legislation. Assessment related tax changes occurring in the residential class have been analyzed and compared to the 2013, 2009, 2006, 2004, 2003, 2001 and 1998 reassessments. The results of this analysis are shown on Schedule “G” (attached).

Assessment related tax changes exclude tax increases that result from levy increases. The levy increase is imposed in addition to assessment related tax changes (increases and decreases).

As can be seen from Schedule “G”, the amount of assessment related decreases and increases for 11 years (2009 – 2020) are significantly less than the increases and decreases which have occurred in reassessments in the City prior to 2009. The reason for this is that for the first time in 2009, the Province included a phase-in of all reassessment changes on the 2009 assessment roll. This phase-in process will be continued over 2017 to 2020. For 2020, residential properties will be valued on the roll at their January 1, 2016 value.

For 1998 and subsequent reassessments up to and including 2013, Council decided that, under section 318 of the *Municipal Act, 2001*, a phase-in of assessment related tax changes was not necessary. Based on the above data and the fact that the Province has already instituted a four (4) year phase-in of assessment values on the roll, it appears clear that no further tax mitigation in the residential class is necessary. In summary, based on our analysis of the reassessment data and the existence of a four (4) year phase-in of values on the assessment roll, we believe any additional phase-in of the residential class, under section 318 of the *Municipal Act, 2001*, is not warranted.

### ***Comments on Unusual Tax Increases after a Reassessment***

Whenever a general reassessment occurs, there will always be a small number of large tax increases. Inevitably, when over 140,000 properties are valued, some errors and inaccuracies will occur. If a property is overvalued when a reassessment occurs, the remedy is to contact MPAC and have the valuation corrected or appeal the assessment in accordance with the provisions of the *Assessment Act*.

When a property is undervalued or incorrectly classified to the taxpayers benefit, the taxpayer has no financial incentive to have the error or inaccuracy corrected. The error or inaccuracy will typically be corrected at the next reassessment and surface as an unusually large increase. Focusing on the amount or percentage of the increase obscures the real cause of the tax change (i.e. an inaccuracy in the valuation or classification of the property in the past). Phasing-in or capping taxes in these situations only perpetuates errors and inaccuracies in the assessment system and represents a major departure from the fundamental principle of fairness (i.e. that every property owner within a class pays the same tax rate on the market value of his or her property).

### **Review of Tax Policy is an Annual Requirement**

Subsection 308(4) of the *Municipal Act, 2001* requires that all single tier municipalities “shall pass a by-law in each year to establish the tax ratios for that year for the municipality”. Tax ratios determine the distribution of tax levy between the different property classes.

Every four (4) years a general reassessment of the Province occurs in accordance with section 19.2 of the *Assessment Act*. Although reassessments have no effect on the total amount of the tax for any year, reassessments can affect the way the tax burden is distributed between the different property classes.

The setting of tax ratios permits Municipal Councils to control the way tax burden is distributed between property classes. Tax ratios need to be reviewed every year to determine how the current year’s tax burden is being imposed on the different property classes, and how the tax ratios in each year compare to the level of tax ratios in other municipal jurisdictions in the Province. The setting of tax ratios by municipal Councils is subject to legislation contained in part VIII of the *Municipal Act, 2001* and various regulations filed in accordance with that part of the *Act*.

Provincial tax policy, with respect to education property taxation, is also relevant to tax policy determination at the municipal level. Each year the Ministry of Finance for the Province sends a letter to all municipalities advising them of any changes to municipal tax policy restrictions on municipalities. The Province normally provides in the letter information about provincial education property tax rates and education property tax policy decisions. All the information in this annual letter will be relevant to tax ratio setting at the municipal level.

### **Future Tax Policy Strategy**

Moving forward, based on what is known to date, Civic Administration will continue to bring forward annually Tax Policy options for Municipal Council's consideration in keeping with the four (4) directions that have been set out in this report, subject to any further direction, being mindful of the impact of reassessment and competitiveness of tax ratios in comparison with other Ontario municipalities. In light of reassessment being postponed, and the economic impact on non-residential properties (commercial and industrial property classes) as result of COVID-19, it would be appropriate to hold off on setting a long term strategy until Civic Administration is able to understand what the next reassessment would mean to property classes along with the impact that COVID-19 will have on the community. It is anticipated that new reassessment values will apply beginning with the 2022 taxation year, however the new valuation base year has not yet been decided. Should the reassessment values be made available mid-2021, Civic Administration would look to update Municipal Council as to what the impacts are by property class at that time.

## **SUMMARY**

Schedule "A", attached, is a very important schedule. It shows how London's tax ratios compare to other municipalities in the Province. This schedule indicates that the City of London currently has tax ratios in place which are competitive with other major cities in Ontario.

Schedule "B" attached shows the various options recommended for Council's consideration with respect to setting 2020 tax ratios. The schedule shows the average % increase in each property class, both including and not including the education component of the property tax. Schedule "B" also shows the ratios required to implement each identified alternative. Civic Administration has prepared the 2020 Municipal Tax Ratio By-Law using Option AB1 which reduces tax ratios for multi-residential properties, commercial properties, and industrial properties.

If Council adopts the capping options recommended in this report, the year 2020 will be the first year since 1997 that no properties in the commercial industrial or multi-residential property classes will be subject to capping or clawing-back. This means that in all property classes all properties will be subject to one uniform tax rate applicable to all properties, within the property class, and capping and clawing back tax changes in the City of London will be completely ended in future years.

Every four (4) years, Ontario undergoes a province-wide reassessment by MPAC. The next reassessment was to be based on market values as of January 1, 2019 and was to start to affect property taxation beginning in 2021. Whenever there is new reassessment it is possible that taxes can shift between property classes in a pattern that is different from the previous four (4) year cycle. However, due to COVID-19, the reassessment that was set to begin in 2021 has been postponed.

<b>PREPARED BY:</b>	<b>CONCURRED BY:</b>
<b>JIM LOGAN, CPA, CA DIVISION MANAGER, TAXATION AND REVENUE</b>	<b>IAN COLLINS, CPA, CMA DIRECTOR, FINANCIAL SERVICES</b>
<b>RECOMMENDED BY:</b>	
<b>ANNA LISA BARBON, CGA, CPA MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>	

Attach.: List of Attachments, 2020 Year Tax Policy (Schedule A through H)  
Appendix A through E