

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON NOVEMBER 30, 2020
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	TAXATION OF PROPERTIES OWNED BY LONDON MIDDLESEX COMMUNITY HOUSING INC.

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial;

- a) This report BE RECEIVED for information; and
- b) That Civic Administration TAKE NO ACTION to reduce the effective tax rate for London Middlesex Community Housing INC. (LMCH) buildings to be equivalent to the residential tax rate as is the approach for affordable housing utilizing Section 110 of the *Municipal Act, 2001*, S.O. 2001.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Community and Protective Services Committee – November 25, 2002 – Municipal Housing Facilities By-law

Community and Protective Services Committee – November 7, 2017 – Proposed Municipal Housing Facilities By-Law

Strategic Priorities and Policy Committee – September 16, 2019 – City of London Housing Service Review: Proposed Action Plan

BACKGROUND

At its meeting on September 17, 2019 Municipal Council resolved as follows:

“the Civic Administration BE DIRECTED to report back to Corporate Services Committee on the feasibility of using the same approach taken for affordable housing to reduce the effective tax rate for London Middlesex Community Housing (LMCH) buildings to be equivalent to the residential tax rate, including any amendments that may be necessary to the Municipal Housing Facilities By-law to do so.”

In 2002, Municipal Council reviewed the various options available to provide the municipal contribution to the affordable housing program and resolved to provide the following types of assistance to private and non-profit housing developers under the Municipal Housing Facilities By-law subject to the Individual Housing Facilities Agreements:

- a) Capital funding through the affordable housing capital reserve fund;
- b) Grant to offset development charges;

- c) Provision of City-owned land at less than market rates or for lease; and
- d) Special municipal agreements for selected properties to reduce the effective tax for only those buildings receiving program funding.

In reference to item d) listed above, the City has enacted several by-laws applicable to multi-residential properties to reduce the tax rate from the multi-residential rate to the residential rate. In 2002, the total residential tax rate including education was 40% of the multi-residential tax rate. In 2020, the residential tax rate is 61% of the multi-residential tax rate for properties built prior to 2017. As noted below, the taxation of newly constructed multi-residential properties changed in 2017.

In the past, the purpose of the assistance reference in d) above as well as all the other types of assistance described above was to provide incentives to increase the stock of affordable rental housing in the City. The intent was that the property tax incentive would increase the development of affordable housing that would otherwise not be constructed. The process would result in additional tax revenue that would offset any expense associated with reducing the tax rate. In 2019, this tax exemption expense was \$405,889, currently there are 17 properties where the exemption is applied. This is budgeted in the operating property tax supported budget under the Corporate Finance budget, as part of the Tax Write Offs and Rebates budget line item.

Beginning in April 2017, however, the Province passed legislation requiring that all newly constructed multi-residential property be taxed at a rate equal to or very close to equal to the residential tax rate. As a result the City of London passed a by-law in September 2017 setting the rate for newly constructed multi-residential property at a rate equal to the residential rate. This means that there is no longer any reason for the City to enact Municipal Facilities by-laws to reduce tax rates on Multi-residential Buildings to the residential tax rate in order to increase the stock of affordable housing since all new properties are taxed automatically at the residential rate. The intent of the reduction to the residential tax rate was to make the operational cost of the affordable housing lower over the long term to support and ensure its viability where the private market was responsible for the net costs.

At this point, Civic Administration does not recommend implementing the past approach used for affordable housing prior to 2017 since it will not provide any incentive for creating new additional affordable housing units in the City and would create an additional cost for the City with no incremental benefit. Any new affordable housing in the multi-residential class will automatically receive the residential tax rate because of the legislation change in 2017.

In addition, providing property tax exemptions to LMCH is not an efficient way to provide assistance to the London Middlesex Community Housing Corporation or to the City given the net budget is funded exclusively through municipal property taxation. When the City exempts LMCH from property taxes it creates an expense in the Corporate Finance section of the City budget. If the City exempted all the LMCH property in the multi-residential class so that it had a tax rate equivalent to the residential tax rate, the result would be an increase in expense in the Corporate Finance section of the City Budget in the amount of \$1,695,957. If LMCH funding were maintained at its current level by the City and the County, this would result in a tax levy increase of 0.264%. This is illustrated in the following table.

Table 1: Impact of Tax Exemption while maintaining subsidy payment to LMCH (Difference between Multi residential class and Residential class)

	Current	Tax Exemption Applied	Difference
LMCH			
Municipal Portion of Taxes	\$1,695,956.74	\$0	-\$1,695,956.74
Education Tax	\$126,815.07	\$0	-\$126,815.07
Reinvestment (maintenance)	\$0	\$1,822,771.81	\$1,822,771.81
Total LMCH Expense	\$1,822,771.81	\$1,822,771.81	\$0
IMPACT:			
City of London Corporate Finance Expense to provide tax exemption		\$1,695,956.74	\$1,695,956.74
Effect on Municipal Tax Levy as a % of 2020 City of London Levy			0.264%

The exemption would only be applicable to the properties located within the City of London and does not apply to the properties located within the County of Middlesex. As a result the reduction in taxation is provided solely by the City and the approved cost sharing agreement with the County of Middlesex would not be applicable. On the other hand if additional assistance is provided by simply increasing subsidy payments to LMCH, the amount of assistance is shared by the two municipalities subsidizing LMCH based on the agreed cost sharing ratio.

If the City wished to provide additional funding to LMCH, it would be more efficient from the City's perspective to do so by simply increasing the funding expenditure rather than exempting LMCH from City taxation. This is a result of the existing cost sharing agreement between the County and the City.

SUMMARY

Subsidizing LMCH through municipal tax reductions to existing multi-residential properties does not provide any incentive to create new affordable housing units. Where a by-law was passed in the past to exempt taxation, the municipal expense for this exemption was offset by incremental taxation revenue.

Should Municipal Council want to maintain its annual allocation to LMCH at \$12,389,047 (2020 budget), thereby not taking a corresponding reduction to recognize the reduction in property taxes, there would be a \$1,695,957 impact on the municipal tax levy of approximately 0.264% to offset this exemption as no incremental taxation revenue would be generated. Alternatively, if the City increased the subsidy directly to support LMCH rather than making the exemption, a levy impact would be required roughly in the same magnitude, indicating no incremental benefit to providing a tax exemption.

Further, the City unilaterally providing tax exemptions is not an efficient way to provide assistance to the LMCH since this approach is complicated by the existing cost sharing between the two municipalities responsible for providing subsidy to support the operations of the LMCH.

PREPARED BY:	CONCURRED BY:
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