Council Memo

To	**City Council**
Service Area	Corporate Services
Date	Monday, May 11, 2020
Subject	**Additional Information - Multi-residential Ratio for 2020 Tax Policy**

Purpose of memo

At the emergency Council meeting held April 16, 2020, the 2020 Property Tax Policy Report - 2020-02 was referred to the next meeting of City Council. The reason for the referral was to allow staff the opportunity to provide further details to the changes related to the Multi-residential tax (MT) ratio.

Further it illustrates the average residential property tax increase compared to the approved City budget levy increase of 3.60% plus the 0.31% increase for the Guelph General Hospital.

Background

The MT class consists of buildings with seven or more residential units under the same ownership. MT does not include condominiums. These MT buildings were built prior to 1998 as the New Multi-residential tax (NT) class was implemented that year. There are just over 7,300 MT units in the City of Guelph. Some of these buildings have tenants who have been there for decades.

Tax ratios only allocate or divide the portion of taxes for each representative tax class. Changing tax ratios does not increase or decrease the overall amount of taxes the City will levy. When tax ratios are changed, it only shifts the amount from one tax class to the others.

Tax ratios for the MT class in Guelph have historically been approximately two times that of Residential. Which means for each dollar of assessed value, the MT class pays twice the amount of taxes when compared to the Residential or NT classes. Proponents of affordable housing also are supportive of lowering the MT ratio as a means to keep rent from increasing.

On April 24, 2017, Council adopted the recommendations in the Tax Ratios 2017-2020 Assessment Cycle Report, which provided direction for setting tax ratios for the reassessment cycle 2017 through 2020. This direction was that all ratios remain at their start ratio, except for the MT ratio, which would remain revenue neutral on an annual basis. Through the analysis at that time, it showed that through this assessment cycle, the overall assessment in the MT class increased at a rate significantly higher than all the other tax classes, causing what is known as a tax class shift in each of the four years.

The numbers

So far in this assessment cycle from 2017 to 2019, the tax class shift mitigated through Council's prudent decision to have the MT class revenue neutral has been approximately $1.4 million. This has ensured that the MT sector has not taken on an additional annualized tax burden from the reassessment tax class shift of approximately $192 per MT unit.

Specifically for 2020, the tax shift increase in the MT sector shifts $330,000 to the 7,300 units resulting in a per unit increase of $45.14. Keeping the MT ratio revenue neutral means mitigating that assessment-related tax shift by spreading out the $330,000 over the remaining tax classes, this means reducing MT taxes by 2.01% while shifting a slight increase of 0.14% to the other tax classes. Through this, $234,000 shifts back to the Residential tax class, for an impact of $5.19 on the average residential property, with the broad commercial class picking up $66,900 and the broad industrial sector $27,200.

The assessment tax shift impacts to the MT class is on top of any budget impact, hospital levy impact, or other factors that make up the overall total change to any specific tax class.

Future Implications

The final consideration relates to the MT class and the previously mentioned NT class. The current provincial legislation fixes a property in the NT class for only 35 years. There continues to be a significant gap between the MT ratio at 1.825401 and the NT ratio at 1.0. Properties in the NT ratio will be forced over to the MT ratio starting in 2034, which is only thirteen years from now. The City needs to have narrowed the gap considerably between the MT and the NT class to avoid a significant increase in property taxes to the affected properties, which will be passed along to the tenants. It is strongly recommended that a reduction for the ratio to at least reflect the revenue neutral tax level for the MT continue to be implemented.

With this analysis and additional information related specifically to the 2020 taxation year, staying the course for the final year of the 2017-2020 reassessment cycle and adopting revenue neutral ratios for the MT class is the prudent, responsible and equitable course of action.

2020 Approved Budget

On December 3, 2019, Council approved a City tax supported budget levy increase of 3.60% in addition to a levy for the Guelph General Hospital of 0.31% for a total net levy increase of 3.91%.

The staff recommended 2020 Tax Policy will result in the taxes for an average residential property to increase by 3.88% or 0.03% less than the approved net budget levy increase.

Council's decision in 2019 to eliminate commercial and industrial vacant and excess land subclass discounts over a two-year period is contributing to a decrease in the average residential taxes in 2020 of 0.21. This is a great result of Council's decision to increase the fairness of taxation and this decrease more than offsets the increase from the MT revenue neutrality ratio impact as well as the fourth year of the reassessment phase-in impact.

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