

# CLIENT MEMO: MULTI-RESIDENTIAL UPDATE

## (New Restrictions and Limits)

Dec. 2016

### BACKGROUND

Within the context of its Fall Economic Outlook and Fiscal Review, the Province indicated that it has heard concerns in respect of multi-residential tax burdens. It is unclear at this time whether the concerns referred to are rooted in a simplistic measure such as raw ratios, or if they are based on more thorough and informed considerations of relative tax burden. It is hoped that a review of the tax circumstances will be broader than simply a canvassing of tax ratios. In the interim, and pre-emptive of the announced review, municipalities with ratios above 2.0 have been summarily categorized as those that are imposing "high municipal tax burdens". These municipalities will be subject to immediate tax restriction measures.

Details and operational nuances regarding these restrictions cannot be known until the Province enacts the necessary regulation(s) however, Ministry of Finance staff have outlined the general approach to be taken. Based on this insight, and the existing mechanisms available to affect the stated objectives, it is anticipated that a two stage approach will be applied.

### STEP ONE: MITIGATION

Municipalities with multi-residential ratios in excess of 2.0 can expect that the Province will take steps to mitigate any year-over-year, reassessment related tax shifts that might otherwise occur. It is our understanding that this mitigation measure will be taken to ensure that the proportional share of the notional (revenue neutral) levy does not increase. To assist in illustrating this, we can consider the reassessment related shift in proportional burden carried by the hypothetical multi-residential class in the table below.

Class	Ratio	2016 Year-End Levy			Unadjusted Starting Levy		
		Rate	Levy	Share	Rate	Levy	Share
Residential	1.0000	0.010000	\$103,500	58.2%	0.009422	\$101,758	57.3%
Farm	0.2500	0.002500	\$2,875	1.6%	0.002356	\$3,286	1.7%
<b>Multi-Residential</b>	<b>2.5000</b>	<b>0.025000</b>	<b>\$32,500</b>	<b>18.3%</b>	<b>0.023555</b>	<b>\$35,333</b>	<b>19.9%</b>
Commercial	1.7500	0.017500	\$25,375	14.3%	0.016489	\$24,386	13.7%
Industrial	2.0000	0.020000	\$9,000	5.1%	0.018844	\$8,608	4.9%
Pipeline	1.5000	0.015000	\$4,500	2.5%	0.014133	\$4,381	2.5%
<b>Total</b>			<b>\$177,750</b>	<b>100%</b>		<b>\$177,752</b>	<b>100%</b>

The most effective (and most likely) way to mitigate this shift would be for the Minister of Finance to impose a new, lower transition ratio for 2017, which would represent the new maximum ratio for the multi-residential class. If this strategy were employed, the alternate hypothetical starting levy would be distributed as follows.

Class	Ratio	Adjusted Starting Levy		
		Rate	Levy	Share
Residential	1.0000	0.009610	\$103,788	58.4%
Farm	0.2500	0.002403	\$3,351	1.9%
<b>Multi-Residential</b>	<b>2.3810</b>	<b>0.022881</b>	<b>\$32,492</b>	<b>18.3%</b>
Commercial	1.7500	0.016818	\$24,873	13.9%
Industrial	2.0000	0.019220	\$8,780	5.0%
Pipeline	1.5000	0.014415	\$4,469	2.5%
<b>Total</b>			<b>\$177,753</b>	<b>100%</b>

*The relative burden is held constant at approximately \$32,500 or 18.3% by forcing the ratio down.*

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### STEP TWO: LEVY RESTRICTION

In addition to freezing the relative burden within the notional (revenue neutral) levy, municipalities with multi-residential ratios over 2.0 will also be restricted from imposing any levy increase on that class.

It is understood that this will be accomplished by means of the existing levy restriction (hard capping) legislation and a reduction of the current threshold ratio from 2.74 to 2.0. The existing threshold ratios were first set in 2001 based on the province-wide averages at the time and has not been modified since.

Class	Levy Restriction Thresholds	
	Existing	Anticipated
<b>Multi-Residential</b>	<b>2.74</b>	<b>2.00</b>
Commercial	1.98	1.98
Industrial	2.63	2.63

Levy restriction only applies to the multi-residential, commercial and industrial property classes. In the event that the ratio (or broad-class ratio) for a class exceeds the regulated threshold ratio, no portion of a municipal levy increase can be carried by that class.

Continuing with our hypothetical levy above, the following table illustrates how an overall 2% levy increase is shared only across properties in the non-restricted classes.

Class	Ratio	Base Levy (Revenue Neutral)		Special Levy (2% Increase)		
		Rate	Levy	Rate	Levy	Increase
Residential	1.0000	0.009610	\$103,788	0.000235	\$2,538	2.45%
Farm	0.2500	0.002403	\$3,351	0.000059	\$82	2.45%
<b>Multi-Residential</b>	<b>2.3810</b>	<b>0.022881</b>	<b>\$32,492</b>	<b>0.000000</b>	<b>\$0</b>	<b>0.00%</b>
Commercial	1.7500	0.016818	\$24,873	0.000411	\$608	2.45%
Industrial	2.0000	0.019220	\$8,780	0.000470	\$215	2.45%
Pipeline	1.5000	0.014415	\$4,469	0.000353	\$109	2.45%
<b>Total</b>			<b>\$177,753</b>		<b>\$3,552</b>	<b>2.00%</b>

The relationship between the total, final rates for the residential and multi-residential classes will not match the by-lawed ratio for the year due to the fact that the former includes a portion for the levy increase and the latter does not. This lower effective ratio ( $0.022881 \div 0.009845 = 2.3242$ ) becomes the maximum starting ratio for the next year.

Since 2004 municipalities have been provided with the option of flowing a portion of their levy increase through to levy restricted classes, however, this flexibility is not expected for levy restricted multi-residential classes in 2017.

### ADDITIONAL INFORMATION AND SUPPORT

MTE will endeavour to keep our clients informed on this issue on an ongoing basis. Should you have any questions, or would like to discuss this or any other matter, please do not hesitate to contact the undersigned.

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