Hamilton

INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	June 20, 2016
SUBJECT/REPORT NO:	2015 Municipal Tax Competitiveness Study (FCS16053) (City Wide)
WARD(S) AFFECTED:	City Wide
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Council Direction:

N/A

Information:

The City of Hamilton has participated in an annual tax competitiveness study since 2001. Each year, staff report on the results of this study highlighting how Hamilton's property tax burden compares to other municipalities both for the current year and the trend experienced over the previous years.

This Report deals with the main focus of the study – **comparison of relative taxes**. The full study will be made available through the City's website (www.hamilton.ca).

Generally, when compared to the entire survey (which currently includes 95 Ontario municipalities ranging in population from 4,800 to 2.7 million), Hamilton's ranking in relative tax burden, by major property class, remains "high", with the exception of Office Building and Large Industrial, which continue to be ranked "mid". When compared to a smaller, more representative sample (either in population or location), the general trend shows that Hamilton's position, over the long-term, has improved. This smaller, more representative sample, referred to as the comparators, is now made up of 15 municipalities (previously there were 18; Brantford, Chatham-Kent, and Ajax no longer participate). Staff has selected these municipalities based on the criteria that the municipality has been included in the study since 2002 and either has a population greater than 100,000 or is in close proximity to the City of Hamilton.

When comparing the tax burden on specific property classes to previous years, some improvements have been seen in Hamilton's position versus the comparators. Office Building and Large Industrial continue to be well below the comparator average (21% and 22%, respectively) and the neighbourhood shopping centre class has made improvements from a difference of 39% above the comparator average to 22% above the average. In the case of the Residential property class, over the last 10 years Hamilton's position has improved from 15% above to 9% above the comparator average.

What factors influence tax burden?
It should be noted that the objective of this report is to identify *general* trends, and not a specific year-over-year result. There are many factors that affect a municipality's ranking (both compared to prior years and to the sample average) in any particular year. Some factors include:

- changes to the sample properties included in the study (either for Hamilton or any of the comparator municipalities)
- sample properties experiencing an impact that differs from the respective municipal average (change in value either due to reassessment or a physical change to the property)
- tax policies (i.e. reduction of tax ratio)
- Provincial Business Education Tax (BET) reduction plan (particularly for municipalities above the annual ceiling rates)

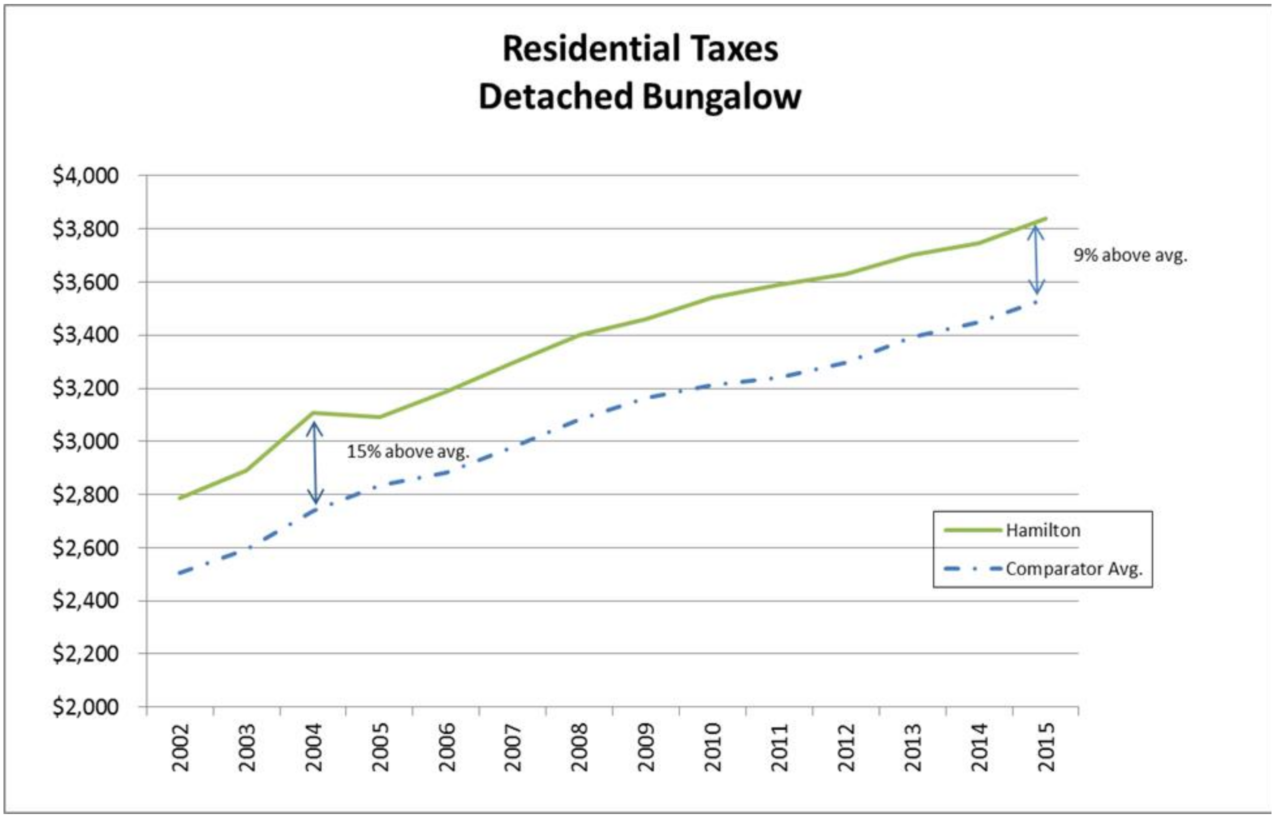
By focusing on the general trends, and not concentrating on the results of one specific year, one can determine if the municipality is moving in the right direction.

The following section highlights some key findings of the comparison of relative taxes for each of the main property classes.

<u>Residential Property Taxes</u>

As shown in Table 1, in 2015 Hamilton average property taxes of $3,841 for a detached bungalow with a median assessed value of $295,300 were 9% above the comparator average property taxes, which has remained in the same position over the past few years.

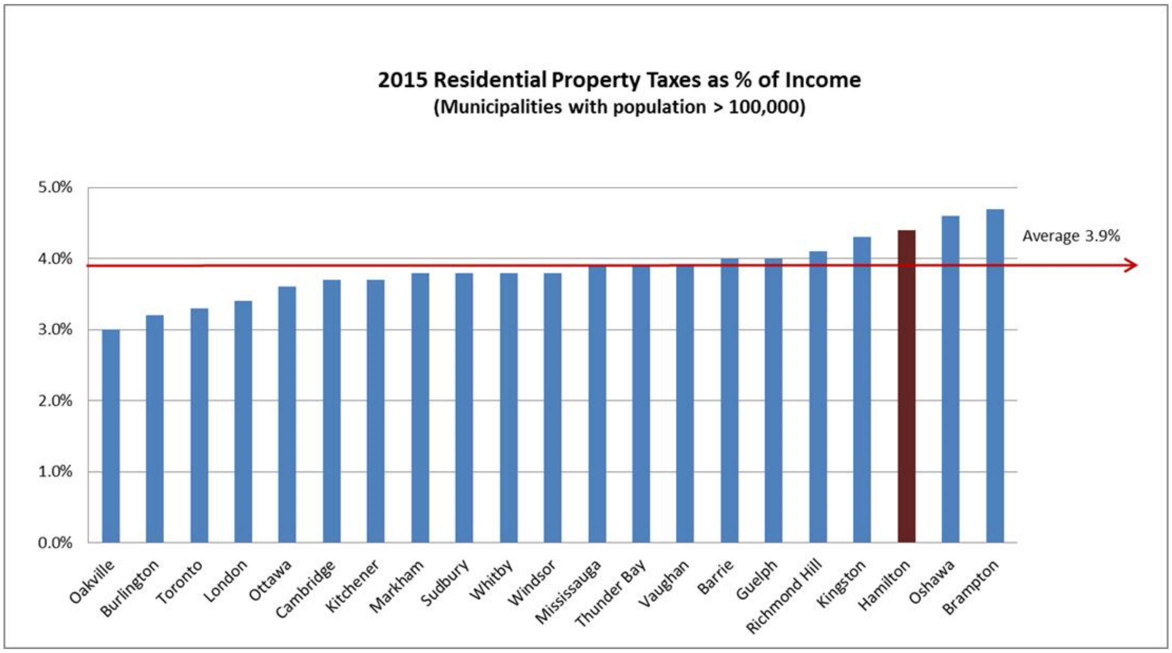
Table 1



Overall, Hamilton has showed improvement over the last 10 years even though the City continues to be negatively impacted by the levy restriction on the Industrial property class. Hamilton is just one of two municipalities in the comparator group (15) with a levy restriction. This levy restriction results in an added tax burden on Hamilton's Residential property class. Despite this obstacle, Hamilton's residential taxes have declined from a high of 15% above the comparator average in 2004 to its current position of 9% above the comparator average.

As indicated in Table 2, Hamilton's above average residential taxes, combined with a relatively low average household income of $85,886 in 2015, continues to be ranked "high" when comparing residential property taxes as a percentage of income.

Table 2



In 2015, Hamilton's residential property taxes as a percentage of income was 4.4%, which is slightly higher than the 3.9% average for larger municipalities (municipalities with populations greater than 100,000).

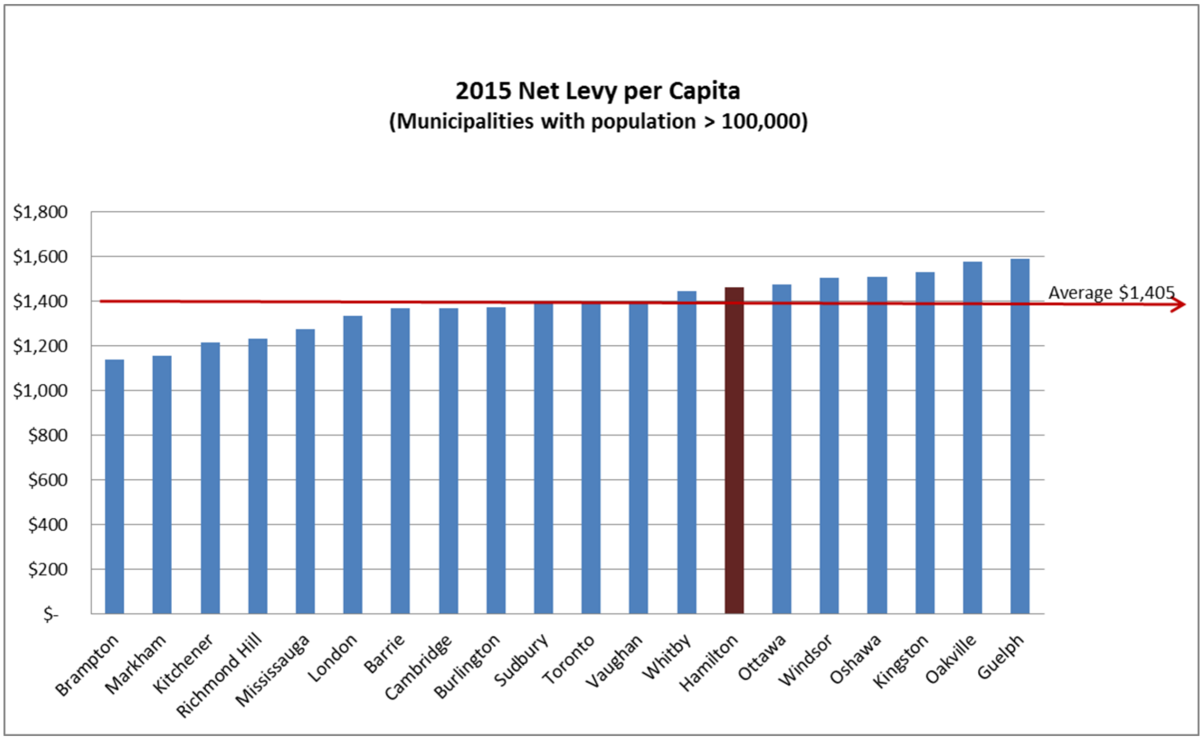
A shown in Table 3, although Hamilton is above the average among the larger municipalities, its position has had a significant improvement over the last few years, whereby Hamilton's average property taxes as a percentage of income was 6.1% in 2008, which was 32% above the larger municipalities sample average but the difference has been reduced to 4.4% or 14% above the average over the past two years. Notwithstanding the fact that property taxes are not conditional on income, overall, this trend shows improvement in the ability to pay.

Table 3

	2008	2009	2010	2011	2012	2013	2014	2015
Hamilton	6.1%	5.2%	5.0%	5.0%	4.6%	4.3%	4.4%	4.4%
Comparator's Average	4.6%	4.2%	4.1%	4.1%	3.8%	4.0%	4.0%	3.8%
Difference	**1.5%**	**1.0%**	**0.9%**	**0.9%**	**0.8%**	**0.3%**	**0.4%**	**0.6%**

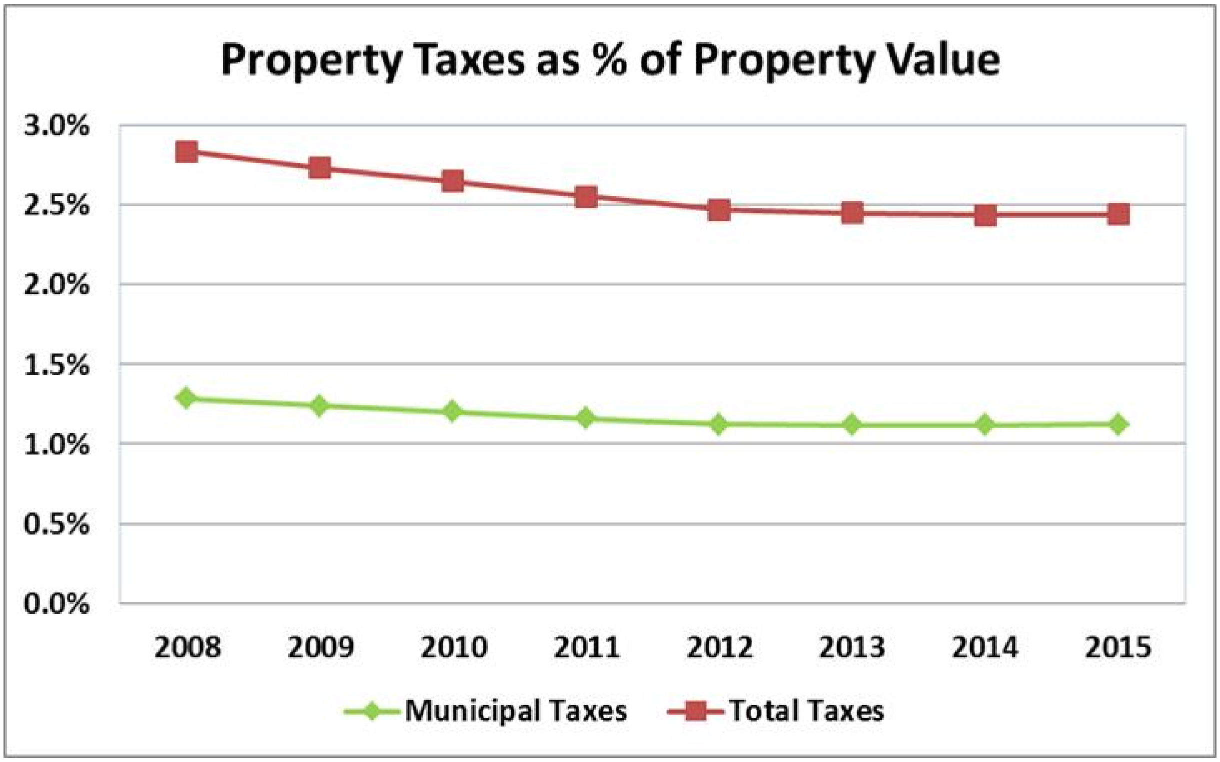
As shown in Table 4, Hamilton's 2015 net levy per capita of $1,461 is slightly higher than the average levy per capita of larger municipalities (at $1,405), which continues to be consistent with previous years and demonstrates that Hamilton's higher than average property tax burden as a percentage of income is a product of the lower assessment base rather than a municipal spending issue.

Table 4



As shown in Table 5, Hamilton's residential property taxes as a percentage of property value has declined slightly from 1.3% in 2008 and has remained consistent over the past several years at 1.1%. The significant growth in the residential property class experienced in Hamilton in the last several years has been a major factor for this result.

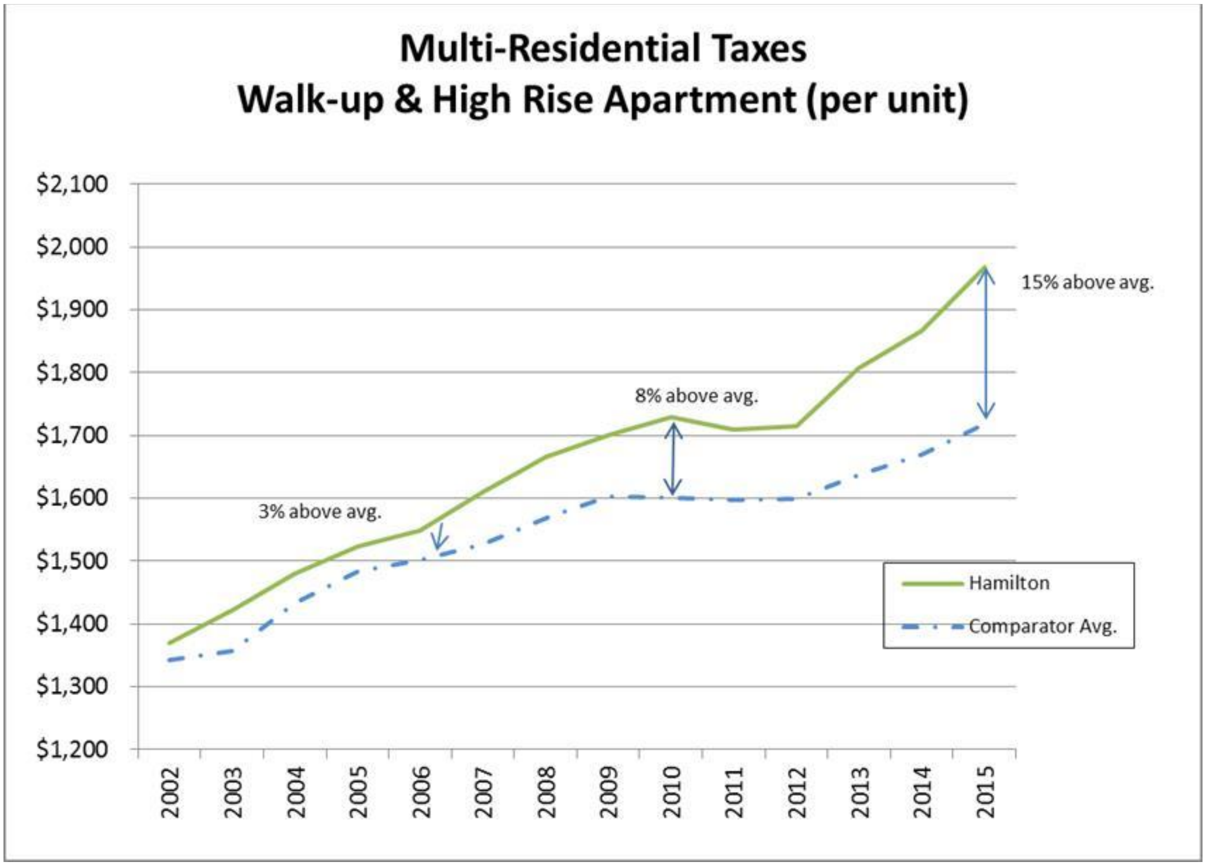
Table 5



Multi-Residential Property Taxes

After a few years with a declining trend, Hamilton's average taxes per unit for an apartment (both walk-up and high rise) has risen in the last three years to 15% above the comparator average. This is primarily due to increasing assessments in the Multi-Residential class.

Table 6



Commercial and Industrial Property Classes

Hamilton's tax burden in the Commercial and Industrial property classes has improved significantly when compared to the first few years of the study. This can be attributed to several factors, primarily as a result of:

- a commitment to lower business taxes during the early years of amalgamation;
- the Province's commitment to lower business education taxes;
- generally favourable reassessment impacts; and,
- the levy restriction (for property classes above the Provincial Threshold).

Over the last several years, however, Hamilton has remained relatively stable.

The following Tables illustrate how the non-residential property classes have either maintained their position well below the comparator average (Office Buildings, Large Industrial) or have generally made improvements towards the comparator average (Neighbourhood Shopping Centre). The exception to this rule is the Standard Industrial class which has seen increases in the last few years.

Table 7

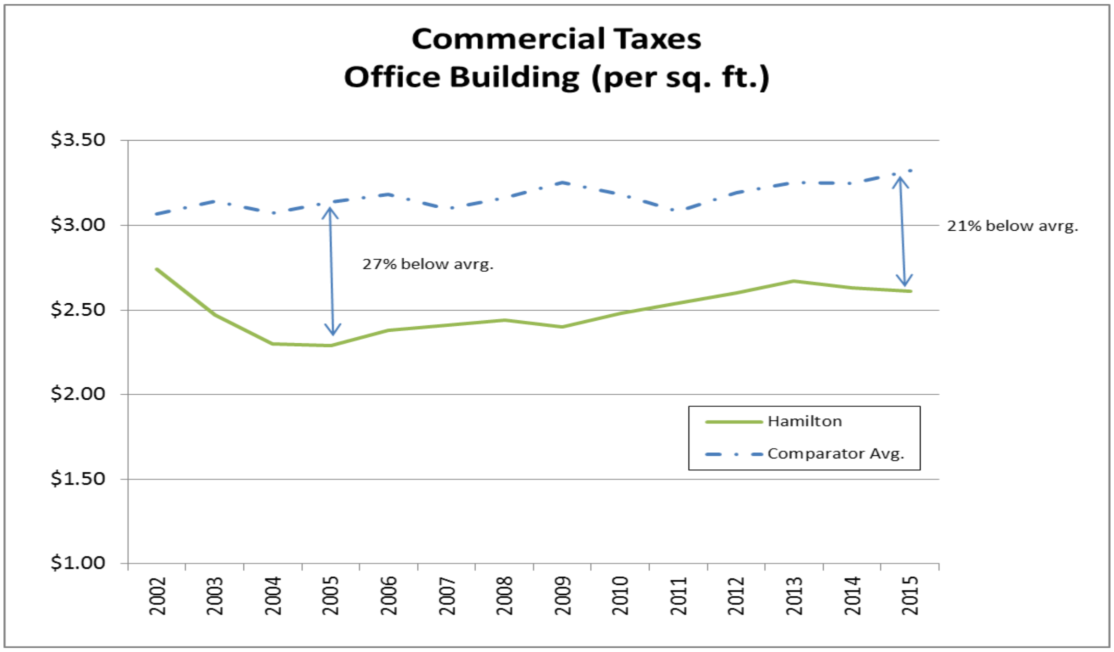
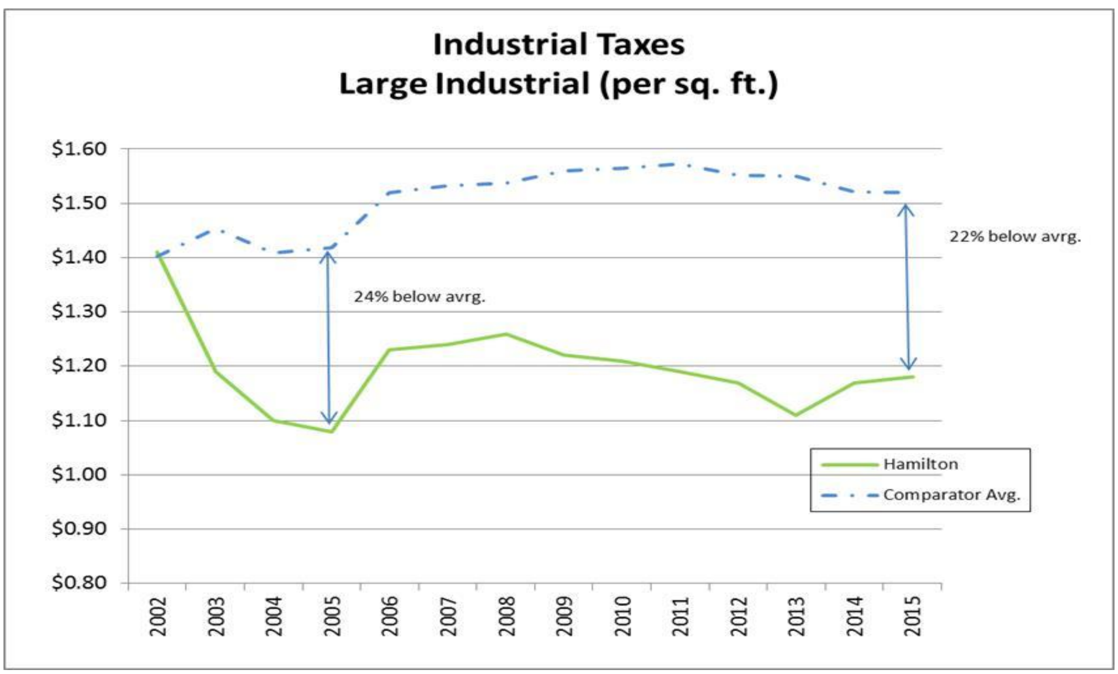
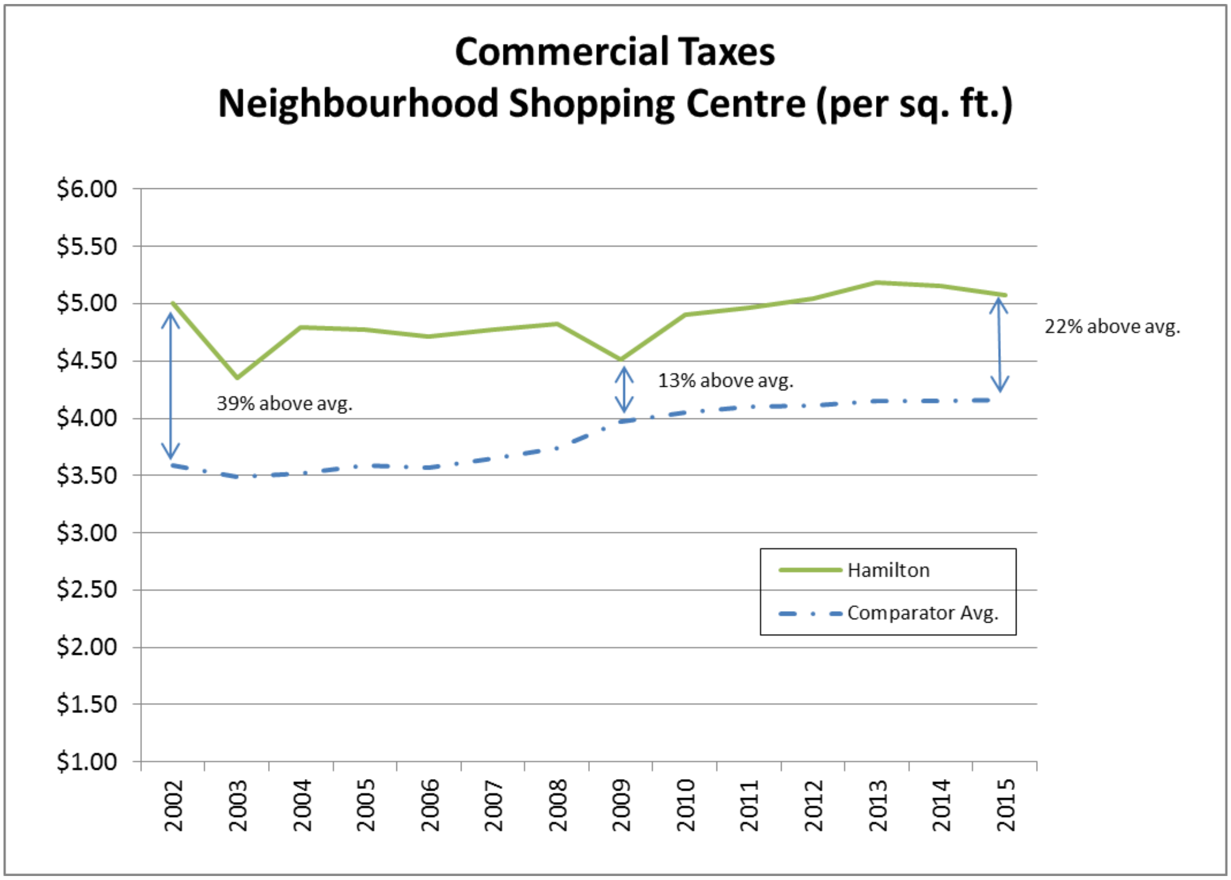


Table 8



As shown in Table 9, the tax burden of the Neighbourhood Shopping Centre class has made improvements from a difference of 39% above the comparators' average to 22% above the average.

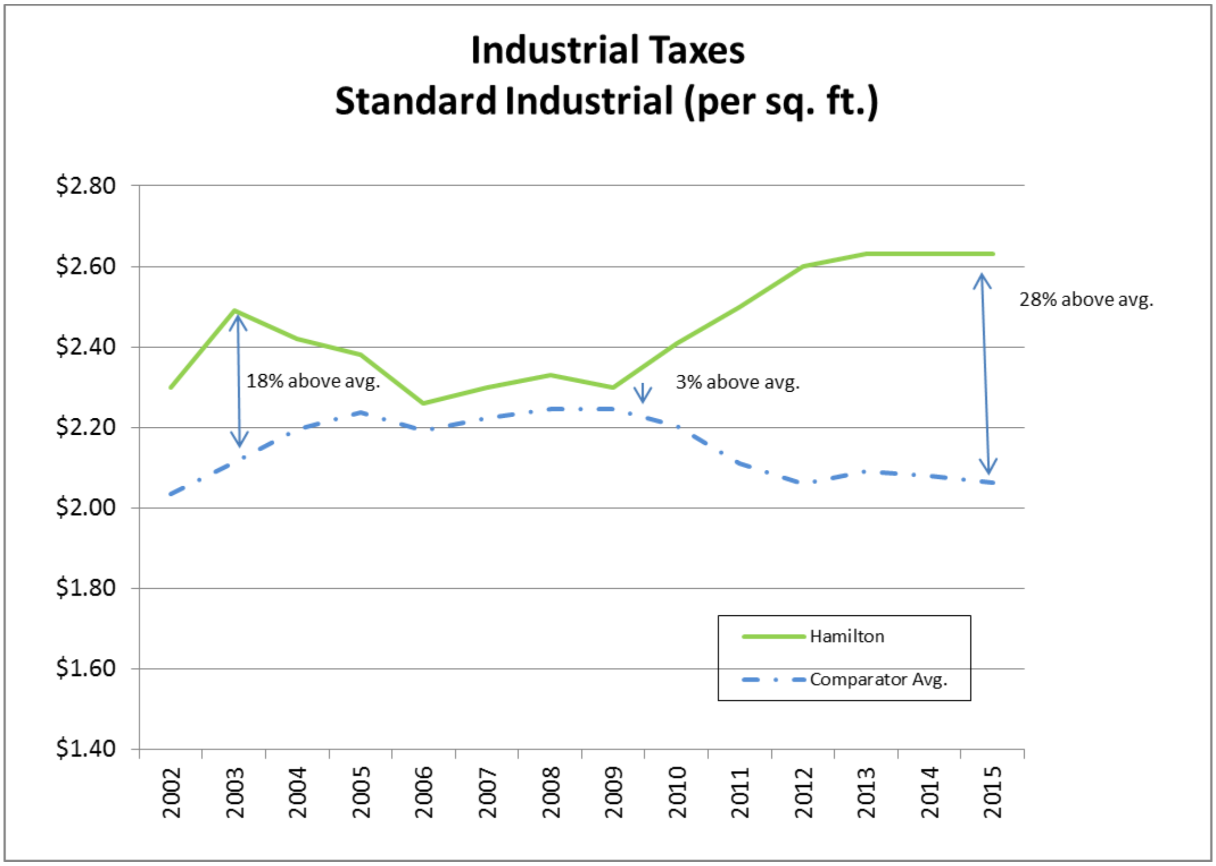
Table 9



Although the gap has been shrinking over the last few years between Hamilton and the comparators in the Neighbourhood Shopping Centre class, the non-residential taxes per square foot in Hamilton has increased when compared to the results of the 2002 study (refer to Table 11 for 2002 study versus 2015 study by taxes per square feet).

Regarding the Standard Industrial class, the results have been somewhat volatile during the study period. After a steady and significant increase from 2010-2012, the last three years have shown some stability, but the difference between Hamilton and the comparators remains high at 28%.

Table 10



As shown in Table 10, prior to 2010, the tax burden of the Standard Industrial class was improving when compared to the comparator average. However, since 2010 the gap between the comparators and Hamilton has increased due to a variety of reasons.

The overall decline of the manufacturing industry in Ontario driven by global variables, has left many municipalities with a reduced assessment base due to appeals, vacancies, etc. and, therefore, reduced revenue. For example, taxes per sq.ft. in the Industrial class in Windsor have gone from $2.97 in 2007 to $1.47 in 2015; the situation in London is similar, with taxes per sq.ft. from $2.05 in 2005 to $1.30 in 2015. In Hamilton, however, the reassessment in the sample properties (Standard Industrial Class) is greater than the average for the property class as a whole.

In addition, the Provincial Business Education Tax (BET) reduction plan, which was in place until 2013 and was used to lower the Industrial education tax rate to an annual ceiling, benefitted many of the comparators but did not provide a relief to Industrial properties in Hamilton since its education tax rate had been below the ceiling.

Overall, there is a general, positive trend in Hamilton's non-residential taxes per square foot.

Table 11

	Taxes per sq. ft.					
	2002 Study		2015 Study		% Change	
	Hamilton	Comparator	Hamilton	Comparator	Hamilton	Comparator
Office Building	$ 2.74	$ 3.07	$ 2.61	$ 3.32	-5%	8%
Neighbourhood Shopping	$ 5.00	$ 3.59	$ 5.08	$ 4.16	2%	16%
Large Industrial	$ 1.41	$ 1.40	$ 1.18	$ 1.52	-16%	8%
Standard Industrial	$ 2.30	$ 2.04	$ 2.63	$ 2.01	14%	-1%

As shown above fared favourably in three of the four classes (with the exception of Standard Industrial and Neighbourhood Shopping Centre), non-residential taxes per square foot have fallen in Hamilton when compared to the results of the 2002 study, while the comparator average has increased.

Residential vs. Non-Residential Split

Hamilton's 2015 unweighted assessment is comprised of 87.0% Residential and 13.0% Non-Residential. Hamilton's non-residential assessment percentage is comparable to the 2015 full study average. However, Hamilton continues to have a lower percentage share of non-residential unweighted assessment when compared to larger municipalities (populations greater than 100,000), which averaged 82.8% Residential and 17.2% Non-Residential.

Table 12

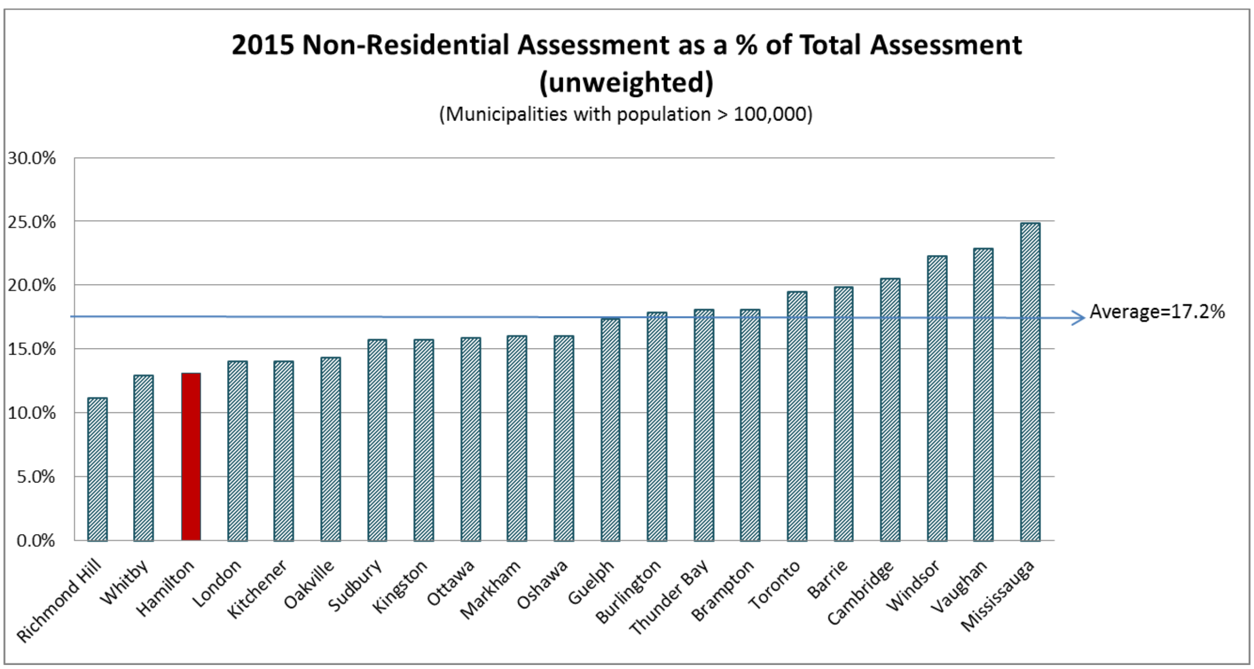


Table 13 identifies Hamilton's Residential vs. Non-Residential split since 2002. As shown below, Hamilton's share of Non-Residential Assessment declined from 2002 to 2009; it had a small improvement during 2010 and 2011 but has gradually declined since with a relatively minor increase in 2015.

Table 13

									includes PILs					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Residential	85.6%	85.7%	86.5%	86.4%	87.3%	87.4%	87.4%	87.5%	86.6%	86.3%	86.4%	86.7%	87.1%	87.0%
Non-Residential	**14.4%**	**14.3%**	**13.5%**	**13.6%**	**12.7%**	**12.6%**	**12.6%**	**12.5%**	**13.4%**	**13.7%**	**13.6%**	**13.3%**	**12.9%**	**13.0%**

Note: Commencing in 2010, BMA study includes PIL assessment, however if PIL assessment is excluded, Hamilton still experienced an increase in Non-Residential Assessment in both 2010 and 2011.

Although Hamilton has experienced significant total assessment growth in the last several years, with building permits exceeding $1 billion in the last four years, most of the growth continues to be in the residential property class. In addition, the growth attained in the non-residential property classes is driven by institutional properties (hospitals, educational institutions) which do not translate in additional revenue for the City.

Table 14

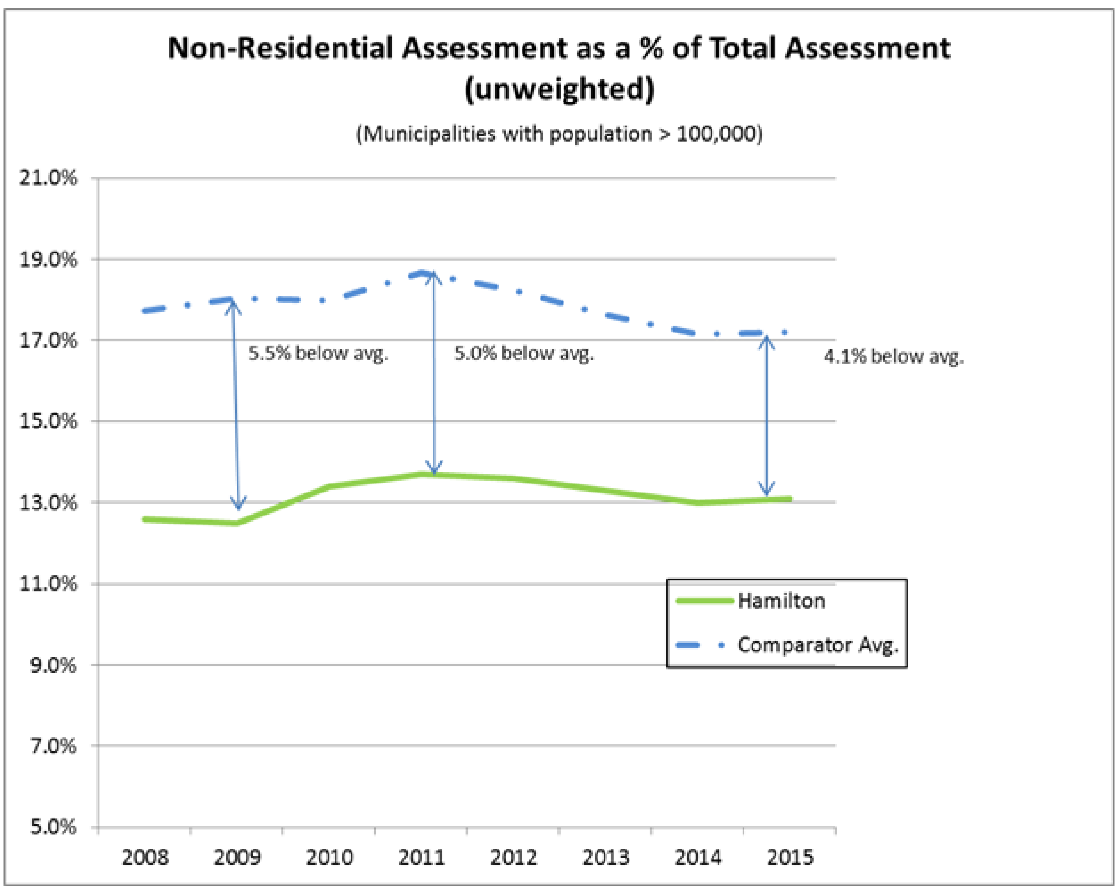


Table 14 shows that Hamilton's non-residential assessment percentage is consistently below the comparator average, however, the gap has been shrinking from a high of 5.5% below the comparator average in 2009 to its current position of 4.1%, which could be attributed to the growth in institutional properties previously explained.

Tax Ratios

Tax ratios distribute tax burden between classes relative to the residential class tax ratio. For example, a property with a tax ratio of 2 would pay twice the amount of municipal tax as a similarly valued residential property. Tax ratios are largely historical and represent the relative taxes between classes that existed when the Province established the current tax system in 1998.

Hamilton's tax ratios compared to the Provincial Thresholds and comparators' tax ratios by property class are shown in Table 15.

Table 15

	Multi-Residential	Commercial	Industrial
Barrie	1.0000	1.4331	1.5163
Brampton	1.7050	1.2971	1.4700
Guelph	2.0399	1.8400	2.3111
Halton	2.2619	1.4565	2.3599
Hamilton	**2.7400**	**1.9800**	**3.1223**
Kingston	2.2278	1.9800	2.6300
London	1.9500	1.9500	1.9500
Mississauga	1.7788	1.4098	1.5708
Ottawa	1.4724	1.9547	2.6387
Sudbury	2.1845	2.1397	2.0599
Thunder Bay	2.6495	2.0454	2.5036
Toronto	2.9995	2.5016	2.9995
Windsor	2.5403	2.0027	2.3384
Provincial Threshold	**2.7400**	**1.9800**	**2.6300**

As shown in Table 15, with the exception of Toronto, all municipalities have a Multi-Residential tax ratio below the Provinicial Threshold; Hamilton's ratio is at the Provincial Threshold. For the Commercial tax ratio with the exception of Sudbury, Thunder Bay, Toronto, and Windsor all municipalities have a Commercial tax ratio at or below the Provinical Threshold.

Hamilton is one of three municipalities, including Sudbury and Toronto that have an Industrial tax ratio above the Provinical Threshold. All other municipalities in the 2015 study have an Industrial tax ratio at or below the Provinical Threshold.

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