Hamilton

INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	April 4, 2018
SUBJECT/REPORT NO:	Update Respecting Multi Residential Taxation (FCS18002) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gloria Rojas (905) 546 2424 Ext. 6247
SUBMITTED BY: **SIGNATURE:**	Mike Zegarac General Manager Finance and Corporate Services

Council Direction:

At the General Issues Committee meeting of May 3, 2017, staff received the following direction:

> "That the General Manager of Finance and Corporate Services be directed to report back to the General Issues Committee with an update regarding Report FCS09031 – Multi-Residential Property Taxation: Staff Response to the Multi-Residential Sub-Committee Recommendations, with that report to include comparisons and impacts to cities who have equalized the rates, projected tax burden implications under an adjusted model in the City of Hamilton as well as any implications caused by recent provincial legislation regarding the same."

Background

In response to concerns about the perceived higher tax burden for Multi-Residential properties, in 2007, a Multi-Residential Sub-Committee was established with the purpose of reviewing the property taxation of the Multi-Residential property class and reporting back to the Committee of the Whole (now General Issues Committee – (GIC)). There were six recommendations made by the Committee. Council approved a number of recommendations and referred a recommendation to reduce the Multi-Residential tax ratio (2.74) to equal that of the residential tax ratio (1.00) to staff.

On February 19, 2009, Council approved a staff recommendation to maintain the Multi-Residential tax ratio at the Provincial Threshold of 2.74 due to concerns about how Multi-Residential properties are assessed compared to Residential properties (which impacts their relative tax burdens) and a lack of evidence that reducing the ratio leads to lower rents.

The City of Hamilton maintained the 2.74 tax ratio until 2017 when Provincial legislation was approved preventing municipalities to pass any reassessment related increases to the Multi-Residential property class and implementing a full levy restriction for municipalities with Multi-Residential tax ratios above 2.0. As a result, Hamilton's tax ratio for the Multi-Residential property class was reduced to 2.6913 and further reductions are expected in 2018 as the Provincial legislation is still in effect.

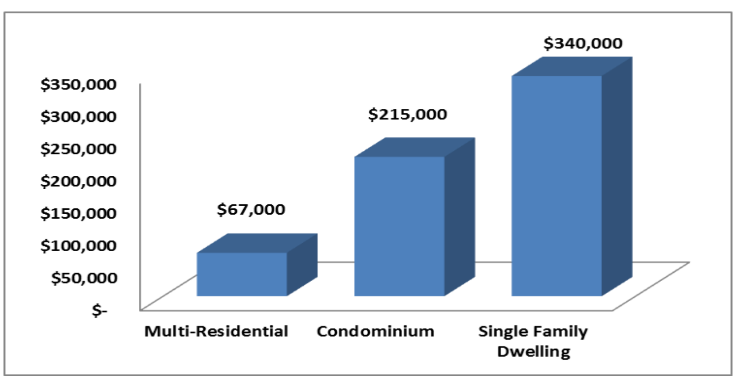
Multi-Residential Property Taxation

The difference in the tax ratio applied to Residential and Multi-Residential property classes has been a source of discussion for several years as it is perceived as an inequitable tax treatment to the Multi-Residential property class.

When comparing the tax burden on Residential and Multi-Residential properties, the assessment value and the tax ratios cannot be looked at independently. Multi-Residential properties are assessed on an income basis (each unit is not assessed individually). Residential properties are assessed using a sales comparison approach. In general, this difference in methodology results in higher property values for a Residential property compared to a similar Multi-Residential property. As a result, the total tax burden (including the impacts of differences in Current Value Assessment, as well as tax rates and ratios) for both classes must be analyzed to determine the true difference.

The following Graph highlights the City-wide average assessments for Multi-Residential, condominiums and single-family homes in Hamilton:

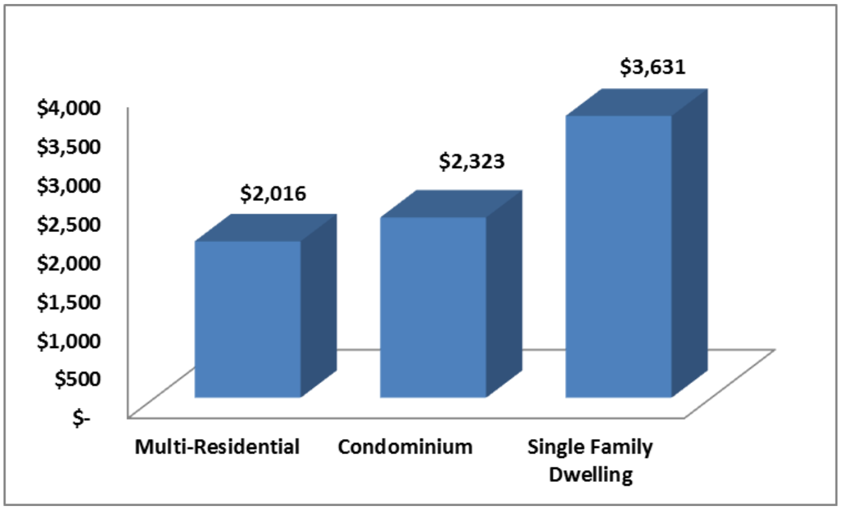
2017 Average Assessment per Dwelling Type



As seen in the Graph above, the average assessment per unit for a Multi-Residential property is about one third that of the average condominium and one fifth that of the average single-family home. This is, in part, due to the different valuation methods as the Multi-Residential approach does not necessarily reflect market values.

Even though the tax ratio and tax rate for Multi-Residential properties is about 2.6 times that of Residential properties, the tax burden for a Multi-Residential unit is still significantly lower than that of a condominium or single-family home.

2017 Average Municipal Taxes per Dwelling Type



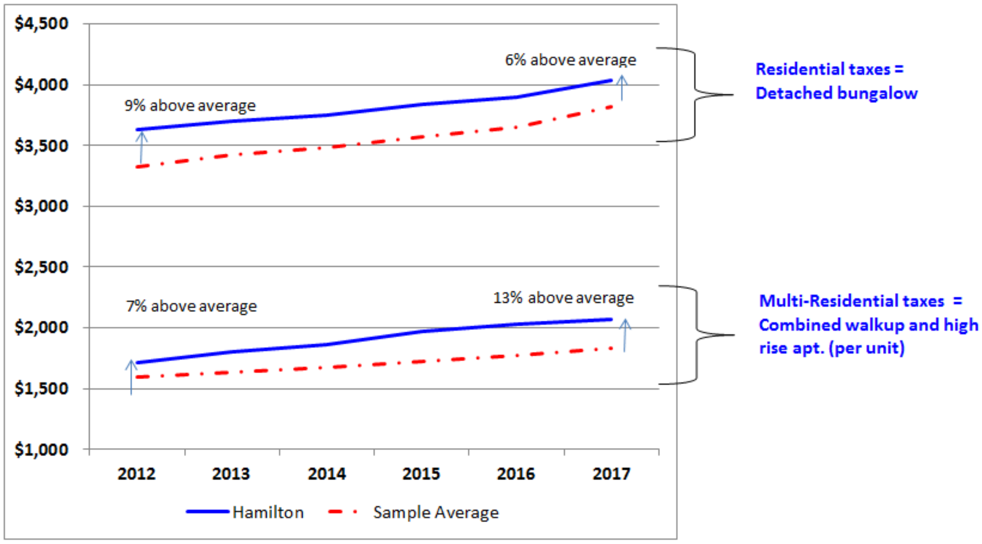
The Graph above shows that the tax burden for a Multi-Residential unit is approximately 15% less than that of a condominium and approximately 45% less than that of a single-family home.

The average Multi-Residential unit pays taxes of $2,016 which is the equivalent of a residential property assessed at $190,000. It is a subjective exercise to try and compare the quality of life derived from living in the average Multi-Residential unit versus living in the home valued at $190,000.

Historical Tax Burden

The following Graph is based on data from the BMA Municipal Study and identifies how Hamilton's Multi-Residential taxes per unit has compared to the Residential property class over time, as well as how each class has compared to other municipalities.

Tax Burden
Residential vs. Multi-Residential (per unit)



As seen in the Graph above, historically, the tax burden for Residential properties has been approximately 50% higher than that of Multi-Residential properties. The tax burden for these two property classes in Hamilton has also been historically higher than the tax burden in comparable municipalities. While the Residential taxes have been between 6% and 9% above the sample average in the last six years, taxes in the Multi-Residential properties have been between 7% and 13% above in the same period, with a peak of 15% in 2015.

Tax Impact

As illustrated in the Table below, in the last 10 years, the Multi-Residential property class in Hamilton has had an average tax impact of 2.3%, slightly higher than the average residential class at 1.9%. This is not due to the tax ratios, but increased Multi-Residential assessment values in the 2013-2016 reassessment cycle.

Annual Tax Impacts 2008 - 2017

Tax year	RESIDENTIAL			MULTI-RESIDENTIAL		
	Re-assessment	Budget	Total	Re-assessment	Budget	Total
2008	0.0%	4.6%	3.8%	0.0%	3.8%	3.5%
2009	-0.3%	2.2%	1.7%	-0.5%	2.3%	1.6%
2010	-0.3%	2.6%	2.0%	-0.6%	2.6%	1.9%
2011	-0.3%	1.1%	0.8%	-0.6%	1.3%	0.7%
2012	-0.2%	1.3%	0.9%	-0.5%	1.4%	0.8%
2013	0.1%	2.4%	1.9%	2.1%	2.4%	4.3%
2014	-0.1%	2.2%	1.5%	1.7%	2.0%	3.6%
2015	-0.1%	3.5%	2.7%	1.6%	3.4%	4.8%
2016	-0.1%	2.2%	1.7%	1.6%	2.1%	3.5%
2017	0.7%	1.5%	2.1%	-2.3%	0.0%	-2.2%
Average			**1.9%**			**2.3%**

(*) Total impact includes education taxes

For the 2017 tax year, the trend is reversed and the Multi-Residential property class had an average tax decrease of -2.2% while the Residential property class had an average tax increase of 2.1%. These results can be explained by the new reassessment cycle (2017-2020) in which the Residential property class saw the average assessment rise by 6.5% while the Multi-Residential property class saw a more modest increase of 3.5%. The reduction in Multi-Residential taxes is expected to continue 2018-2020 as the current reassessment cycle continues.

Also, in 2017, the Province enacted legislation to freeze the tax burden for Multi-Residential properties in municipalities where the tax ratio is above 2.0, implementing a full levy restriction and preventing to pass any reassessment increases onto the Multi-Residential property class.

Provincial Legislation

In response to the concerns raised by affected stakeholders about the perceived higher property tax burden for Multi-Residential properties and its potential implications for housing affordability, the Province initiated consultations to review taxation on Multi-Residential apartment buildings.

While the review is underway, the Province has taken steps to ensure that the tax burden on Multi-Residential properties does not increase. For 2017 and 2018, municipalities with Multi-Residential tax ratio above 2.0 have not been allowed to pass any reassessment changes onto the Multi-Residential property class and also a full levy restriction on the Multi-Residential property class has been implemented, which means that budgetary increases are not allowed.

In order to conform to the legislation, Hamilton reduced the ratio for the Multi-Residential property class from 2.74 to 2.6913 which resulted in a 0.2% tax increase for the Residential property class. Further reductions are expected in 2018 as the Provincial legislation is still in effect.

In addition to the previously mentioned measures, the Province also announced that all municipalities must adopt the New Multi-Residential property class and align its tax ratio to that of the Residential property class. The City adopted the New Multi-Residential property class in 2001 and as of 2017, its tax ratio matches that of the Residential property class and therefore, there are no additional impacts due to this regulation.

Municipal Comparison: Tax Ratios vs Rents

It has been argued that lower property taxes would result in lower rents and therefore, better housing affordability.

The following Table identifies how the Multi-Residential tax ratio has changed in the last 10 years in several municipalities across Ontario:

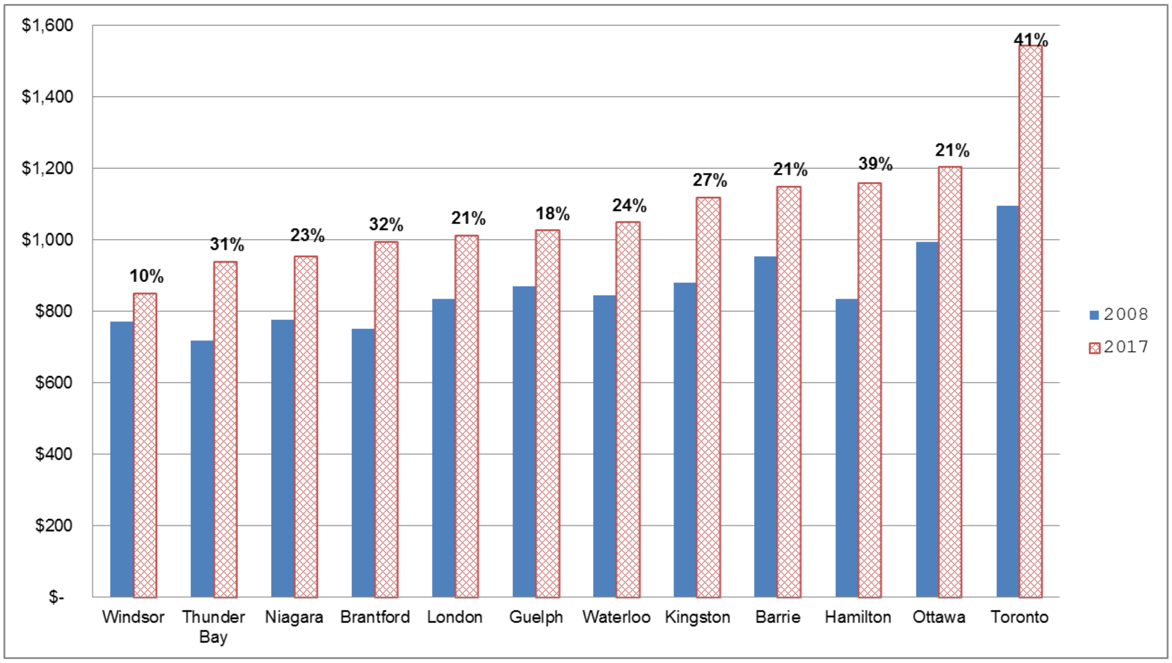
	MT Tax Ratios		
Municipality	**2008**	**2017**	**Change**
Hamilton	2.7400	2.6913	-2%
Niagara	2.0600	2.0000	-3%
Thunder Bay	2.7400	2.5665	-6%
Barrie	1.0787	1.0000	-7%
Brantford	2.1355	1.9528	-9%
Waterloo	2.1500	1.9500	-9%
Windsor	2.6495	2.3564	-11%
London	2.1455	1.8880	-12%
Ottawa	1.7500	1.4530	-17%
Toronto	3.5463	2.7277	-23%
Kingston	2.6750	2.0000	-25%
Guelph	2.7400	1.9287	-30%

Source: BMA Study 2009 & 2017

As seen in the Table above, Toronto, Hamilton and Thunder Bay are the municipalities with the highest tax ratio in the sample. Although all of these municipalities have reduced the tax ratio during the sample period, most reductions are a result of the impact of reassessments and tax levy restrictions. In the sample, Barrie is the only municipality with a tax ratio of 1.0. However, outside of the sample, York Region, Muskoka and Bruce Country also have a tax ratio equal to 1.0.

The following Graph identifies the average rent for a two-bedroom apartment from 2008 to 2017 for the same municipalities in the previous Table.

Average Rent and Rent Increase for a Two-Bedroom Apartment 2008 vs. 2017



Source: Canada Mortgage & Housing Corporation
Ministry of Municipal Affairs and Ministry of Housing

During this period (2008-2017), rents across the Province have increased ranging from 10% in Windsor to 41% in Toronto with Hamilton increasing 39%.

What is important to note, however, is that the average rent has increased even in those municipalities that have had a significant reduction in the tax ratio. Toronto, for example, has reduced its Multi-Residential tax ratio by 23% and yet the average rent has increased by 41%. Kingston has reduced its Multi-Residential tax ratio by 25% but the average rent has experienced an increase of 27%.

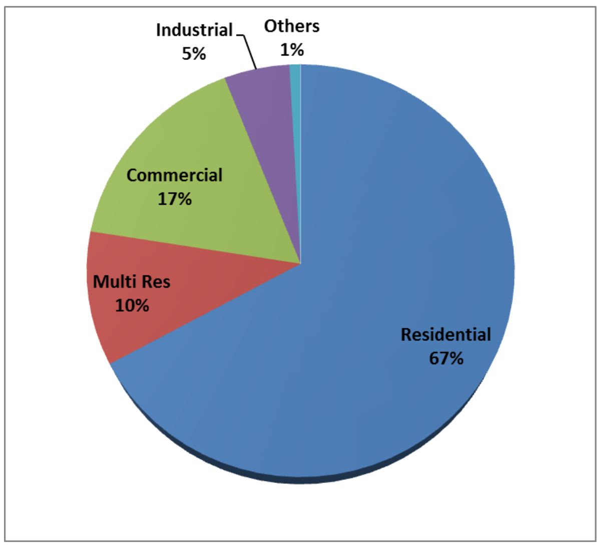
Although taxes are included in the rent, market factors such as supply and rising demand are more a determinant in setting the rental rates. It has been argued that one of the major drivers for rents having increased to this extent is the fact that, up until 2017, properties built after 1991 were not subject to rent control. These increases have occurred regardless of many of these newer properties being in the New Multi-Residential property class with a tax ratio of 1.0, which puts into question whether lower tax ratios result in lower rents.

Although the Province regulates rent increases for existing tenants, Landlords can apply for increases above the guideline if their taxes or utility costs have increased more than 50% above the guideline or if they have incurred capital expenses to keep the property in a good state of repair, improve water or energy conservation, security services or access to people with disabilities.

Reducing the Multi-Residential Tax Ratio to 1.0%

Any reduction to the Multi-Residential tax ratio would result in a shift in municipal property taxes to the other property classes, primarily, the Residential property class. In 2017, the Multi-Residential property class share of the City's levy was 10% ($88.5 M). The Graph below highlights how this compares to what is collected in the other property classes.

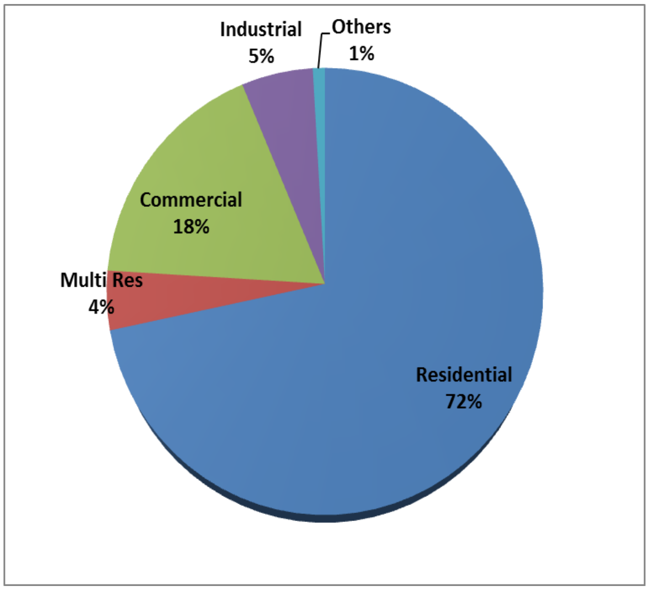
2017 Municipal Levy – Breakdown by Property Class



As shown above, the Residential property class accounts for the majority (67%) of the municipal tax levy. If the City lowered the Multi-Residential tax ratio to be equivalent to the Residential tax ratio of 1.0, this would result in a shift of approximately $52 M from the Multi-Residential property class and onto the other property classes.

As shown below, the Multi-Residential class would then pick up only 4% of the total municipal levy. The reduction of $39 M to the Multi-Residential property class would be shifted to the Residential property class, increasing its share of the municipal tax levy to 72%. This would result in a Residential tax impact of 6.9%.

2017 Municipal Levy – Breakdown by Property Class: MT Ratio @ 1.0



This tax impact of 6.9% does not include any additional impacts resulting from budgetary increases, tax policies or reassessment.

Under this scenario, we have the following results:

- The average taxes for a Multi-Residential unit would be $805 (down from the current average of $2,016) while condominium units would be paying an average of $2,450 and single-family dwellings would pay $3,880.
- The resulting taxes of $805 for the average apartment would be equivalent to the taxes paid by a home assessed at $70,000.
- A home assessed at $100,000 would be paying approximately 1.5 times the taxes of the average apartment.

Alternatively, if the tax ratio is reduced to 2.0, the shift to the Residential property class would be $20.6 M which would result in a tax impact of 2.7%. By having a Multi-Residential tax ratio of 2.0, the City will be allowed to pass reassessment and levy impacts onto the Multi-Residential property class.

This scenario would bring the following results:

- The average taxes for a Multi-Residential unit would be $1,545 (down from the current average of $2,016) while condominium units would be paying an average of $2,350 and single-family dwellings would pay $3,730.

- The resulting taxes of $1,545 for the average apartment would be equivalent to the taxes paid by a home assessed at $140,000.

Of note, if municipal taxes have been reduced by more than 2.49% from one year to the next, the *Residential Tenancies Act* requires that rents also be reduced. Municipalities must send a notice of rent reduction to Landlords and tenants of Multi-Residential properties. For Multi-Residential properties, the actual reduction in rent is 20% of the property's tax decrease.

Appendices and Schedules Attached

None.

GR/dt