CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	April 18, 2018
SUBJECT/REPORT NO:	2018 Tax Policies and Area Rating (FCS18035) (City Wide)
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

RECOMMENDATIONS

(a) That the following optional property classes be continued for the 2018 taxation year:

- Parking Lot and Vacant Land;
- Large Industrial;

(b) That, based on the 2018 final approved Tax Operating Budget, the following final tax ratios be established for the 2018 taxation year:

- Residential 1.0000
- Multi-Residential 2.6342
- New Multi-Residential 1.0000
- Commercial (Residual) 1.9800
- Parking Lot and Vacant Land 1.9800
- Industrial (Residual) 3.4115
- Large Industrial 4.0004
- Pipeline 1.7947
- Farm 0.1767
- Managed Forest 0.2500
- Landfills 2.9696

(c) That the following tax reductions be established for the 2018 taxation year:

- Excess Land Subclass (Residual Commercial) 30%
- Excess land Subclass (Residual Industrial) 30%
- Vacant land Subclass (Residual Industrial) 30%
- Excess land Subclass (Large Industrial) 30%
- Farmland awaiting development (1st Subclass) 25%
- Farmland awaiting development (2nd Subclass) 0%

(d) That the existing Seniors' (65+) Tax Rebate Program be continued, with the following criteria updated for the 2018 taxation year:

(i) Income threshold (150% of GIS couple): $35,300 ($34,800 in 2017);

(ii) Assessment cap (120% of City-wide average): $437,000 ($409,200 in 2017);

(iii) Rebate (increased by the Consumer Price Index - CPI): $190 ($186 in 2017);

(e) That the Deferral of Tax Increases for Seniors and Low Income Persons with Disabilities Program (Deferral of Tax Increases Program) be continued, with the following criteria updated for the 2018 taxation year:

(i) Income threshold (150% of GIS couple): $35,300;

(f) That the criteria for Full Tax Deferral Program for Seniors and Low Income Persons with Disabilities Program (Full Tax Deferral Program) be updated for the 2018 taxation year:

(i) Income threshold (150% of GIS couple): $35,300;

(ii) Interest on deferred amounts: 5% compounded annually;

(g) That the annual income threshold for the Full Tax Deferral Program be set on January of the taxation year based on the latest data released by the Government of Canada for Old Age Security payment amounts;

(h) That the existing 40% Tax Rebate for eligible charities and similar organizations be continued for the 2018 taxation year;

(i) That the existing 100% Tax Rebate for veterans' clubhouses and legion halls be continued for the 2018 taxation year;

(j) That the Multi-Residential property class be excluded from capping protection for 2018 and any subsequent years;

(k) That, for the 2018 taxation year, the tax capping percentage for any assessment-related tax increases in the Commercial and Industrial property classes be set at the maximum allowable of 10% of previous year's Current Value Assessment (CVA) level taxes;

(l) That, for the 2018 taxation year, any capped property in the Commercial and Industrial property classes that is within $500 of its Current Value Assessment (CVA) taxes in 2018, be moved directly to its full Current Value Assessment (CVA) taxes;

(m) That capping protection will be limited only to reassessment related changes prior to 2017;

(n) That the four-year capping phase-out program be initiated for the Commercial property class;

(o) That vacant lands that are currently subject to capping protection be excluded from the phase-out eligibility criteria where all properties must be within 50% of CVA level taxes;

(p) That, for the 2018 taxation year, the minimum percentage of Current Value Assessment (CVA) taxes for properties eligible for the new construction / new to class treatment be set at 100% of Current Value Assessment (CVA) taxes;

(q) That, for the 2018 taxation year, any property in the Commercial and Industrial property class which paid full Current Value Assessment (CVA) taxes in 2017 no longer be eligible for capping protection in 2018 and future years;

(r) That, for the 2018 taxation year, all properties eligible for a tax reduction under the existing capping program receive the full decrease, funded from the approved capping program operating budget;

(s) That, for the 2018 taxation year, the Area Rated Levies be approved as identified in Appendix "A" to Report FCS18035 "2018 Tax Policies and Area Rating";

(t) That the City Solicitor and Corporate Counsel be authorized and directed to prepare all necessary by-laws, for Council approval, for the purposes of establishing the tax policies and tax rates for the 2018 taxation year.

EXECUTIVE SUMMARY

This Report highlights the tax policy tools and options for the 2018 taxation year. For the most part, this Report is consistent with the tax policies recommended in previous years and also includes the following changes approved by Council during 2017 and early 2018:

- Reduction to Vacant Unit Rebate program
- Full Tax Deferral Program for Seniors and Low Income Persons with Disabilities
- Updates to the Deferral of Tax Increases Program for Seniors and Low Income Persons with Disabilities and the Seniors (65+) Tax Rebate Program

The "Analysis / Rationale for Recommendations" section of this Report provides Table 3 of all the tax policies being recommended.

As identified in Table 1, the combined impacts of the final approved 2018 Operating Budget, inclusive of the final growth and reassessment impacts, the tax policies recommended in this Report and the provincially prescribed education rates, have resulted in achieving a **total City-wide residential tax impact of 1.9% or $76** for the average residential property valued at $337,100. This is equivalent to a $23 increase for every $100,000 of assessment.

Table 1

2018 Residential Tax Impact

	2017	2018	$	%
Municipal Taxes	**$ 3,384**	**$ 3,455**	**$ 71**	**2.1%**
Education Taxes	$ 568	$ 573	$ 5	1.0%
Total Taxes	**$ 3,952**	**$ 4,029**	**$ 76**	**1.9%**

- Anomalies due to rounding
- Updated for growth and reassessment

The tax impact identified above is simply a **City-wide average**. Area rating and reassessment results in varying impacts throughout the City and on a property-by-property basis. Average residential tax impacts by Ward and area rating scenario are included in Appendix "B" to Report FCS18035 "2018 Tax Policies and Area Rating".

Table 2 identifies the 2018 total **average** tax impacts by property class.

Table 2

	Municipal			Total Incl. Education
	Reassessment + Tax Policies	Budget	Total	
Residential	0.3%	1.8%	2.1%	**1.9%**
Multi-Residential	-1.5%	0.0%	-1.5%	**-1.4%**
Commercial	0.7%	2.0%	2.7%	**1.8%**
Industrial	-2.5%	0.9%	-1.5%	**-1.1%**
Farm	4.2%	1.0%	5.2%	**5.2%**

Note: Anomalies due to rounding

As shown in Table 2, the average total tax impacts vary between property classes. This is as a result of varying average reassessment impacts, restrictions on the Multi-Residential and the Industrial property classes and the provincially prescribed education tax rates.

The reassessment impact for the 2018 taxation year is not as significant as in the previous year, in part, because valuation changes resulting in decreases are accounted for in the first year of the reassessment cycle while increases are phased-in during the four years of the cycle. In addition, the transition ratios introduced in 2017 provided some mitigation. Staff is not recommending transition ratios for the current taxation year.

The final tax impact also includes the effect of the Provincial legislation as it relates to the Multi-Residential property class, in which municipalities with a Multi-Residential tax ratio above 2.0 are not allowed to pass any reassessment related increases to the class and are also subject to a full levy restriction. In addition, the Industrial property class continues to be restricted and levy increases cannot be more than 50% of the increase passed onto the Residential property class. Overall, the tax impact varies significantly between classes.

The municipal tax impact for the Residential property class is 2.1% of which 0.3% is the result of reassessment and tax policies and 1.8% is the result of budgetary increases and levy restrictions. The total tax impact including education is 1.9%

The Multi-Residential property class as a whole, including properties in the Multi-Residential and New Multi-Residential property classes, is experiencing an average tax reduction of -1.5%. This is beyond the legislated requirement of 0% increase because this class is experiencing a reassessment-related benefit that cannot be passed onto the other classes and because the previously mentioned levy restriction.

The Commercial property class has a reassessment impact of 0.7% and a budget impact of 2.0%. However, a reduction of 6.5% in the education tax results in a final tax impact of 1.8%.

The Industrial property class is experiencing a tax reduction of -1.1% as a result of the lower property values in the current reassessment cycle, the levy restriction and a reduction on the education taxes. This impact is even lower than the one in 2017 which was set at -0.8%

The Farm property class is facing a reassessment-related tax impact of 4.2% due to a significant increase in the value of these properties not only in the City, but across the Province and a budgetary increase of 1.0%. The total impact for the Farm class is 5.2%. However, normally farm properties also have a residential component that is experiencing minimal tax impacts as they are located in the rural areas of the City (see “Residential Tax Impacts” section). The combined impact is, therefore, below the 5.2% shown only for the Farm property class and the actual tax impact in dollars is also not significant.

Alternatives for Consideration – N/A

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Current and future tax policies impact the City financially in terms of revenue streams and their sources. The policies recommended in this Report have no budget impact since they have all been incorporated into the 2018 approved budget. The combined growth and reassessment impacts have been used to offset the 2018 budgetary pressures.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

Each year, staff brings forward tax policy options as part of the overall annual budget approval. The tax policies being recommended are consistent with the assumptions used when identifying tax impacts to Council during the 2018 budget process.

In 2011, significant changes were approved by Council to the method used for the area rating of specific services. Specifically, commencing in the 2011 taxation year, services such as Recreation, Fire, Sidewalks and Street Lighting are area rated based on an urban / rural model. Culture is no longer area rated and the area rating of Parkland Purchases, Sidewalk Snow Clearing (Ward 12 only) and Transit (urban area only) continues to be area rated by the former area municipality.

The final 2018 tax impacts identified in this Report incorporate the budget impact as well as tax policies, growth and reassessment impacts.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

This Report deals with a number of tax policy items.

RELEVANT CONSULTATION

Staff has consulted with Provincial staff to ensure that the recommended tax policies adhere to the Provincial legislation. Staff from the Taxation Division, which administers the rebate programs, has also been consulted.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

Table 3

Tax Policy Tool	Mandatory vs. Discretionary	Recommendation
Tax Ratios	Mandatory Discretionary	• Reduction of the Multi-Residential tax ratio to adhere to Provincial legislation that prevents municipalities to pass any reassessment and budgetary related increases onto this class • Reduction of the Industrial tax ratio to adhere to the levy restriction and only pass on 50% (maximum allowable) of the Residential budgetary tax increase • Commercial tax ratio to continue at the Provincial threshold (Discretionary)
Capping	Mandatory program with discretionary criteria	The Province continues to increase municipalities' options to move properties off of capping. • Limit capping protection only to reassessment related changes prior to 2017 • Once all properties in the class are at CVA taxes, the class is not eligible for capping in future years • Continue to set the maximum allowable capping criteria in an effort to limit the amount of capping • Criteria: 10% of previous year's CVA level taxes and moving to CVA level taxes if within $500 of CVA level taxes • New: Phase-out option for the Commercial property class, excluding vacant lands from the eligibility criteria • No changes in the following criteria: no capping if at full CVA taxes in 2017, full CVA taxes on new construction / new to class, no clawbacks

Tax Policy Tool	Mandatory vs. Discretionary	Recommendation
Vacancy Rebates	Mandatory with discretion on rebate %	• Vacancy rebate of 15% to both Commercial and Industrial property classes for 2018 (reduced from 30%) • Program will expire in 2019 as approved by Council, June 2017 (Report FCS17021(a))
Optional Property Classes	Discretionary	• Maintain existing Parking Lot and (Commercial) Vacant Land and Large Industrial optional property classes
Reduction Programs	Discretionary	• Maintain current reduction programs for the vacant and excess land subclasses in the Industrial and Large Industrial property classes. Continue to review and monitor for potential reduction or elimination per updated options introduced by Province in 2017.
Seniors Tax Rebate Program	Discretionary	• Continue existing program – see below • 2018 updated rebate amount = $190 (2017 amount of $186 + CPI) • Increase assessment threshold to $437,000 (120% of the updated City-wide average assessed value for a single family dwelling) • Increase income threshold to $35,300 (150% of updated GIS couple)
Deferral of Tax Increases Program	Mandatory	• Maintain the program with the updated criteria approved by Council (Report FCS18005) • Update income threshold to $35,300 (150% of updated GIS couple)
Full Tax Deferral Program	Discretionary	• 3-year pilot approved by Council (Report FCS18005) starting in 2018 • Update income threshold to $35,300 (150% of updated GIS couple) • Application fee: $ 200+HST; interest at 5% per annum
Area Rating	Discretionary	• Area rating based on the Council approved (April, 2011) Urban / Rural model (FCS09087 / FCS09087(a) / FCS11042) • Appendix “A” to Report FCS18035 identifies the area rated levies for 2018

Tax Policy Tool	Mandatory vs. Discretionary	Recommendation
Rebates to Charities and Similar Organizations	Mandatory	• Continue with existing program • 40% rebate for charities • 100% rebate for accredited educational institutions
Veterans' / Legion Halls Rebate	Discretionary	• Continue with existing 100% rebate
Heritage Tax Rebate	Discretionary	• Not recommended, consistent with staff Report FCS10019 / PED10031 "Heritage Property Tax Rebate Program" • The City already has financial incentive programs directed at heritage properties

Tax Ratios

With respect to tax ratios, the Table 4 identifies the recommended 2018 final tax ratios compared to the 2017 final approved tax ratios and the Provincial thresholds:

Table 4

	2017 Final Tax Ratios	Recommended 2018 Final Tax Ratios	Provincial Threshold	Provincial Range of Fairness
Residential	1.0000	1.0000		
Multi-Residential	2.6913	2.6342	2.7400	1.0 - 1.1
Commercial	1.9800	1.9800	1.9800	0.6 - 1.1
Industrial - Residual	3.4414	3.4115	2.6300	0.6 - 1.1
Industrial - Large	4.0355	4.0004	2.6300	0.6 - 1.1
Pipeline	1.7947	1.7947		
Landfills	2.9696	2.9696	3.1189	
Farm	0.1767	0.1767		

As shown in Table 4, the Multi-Residential tax ratio has been reduced from 2017 in order to comply with the Provincial legislation that prevents municipalities with tax ratios above 2.0 to pass any reassessment related increases and any budgetary increases onto the Multi-Residential property class.

The Industrial property class continues to be levy-restricted as the tax ratios are above the Provincial Thresholds and as a result, the 2018 tax ratio has also been reduced from the 2017 tax ratio.

Staff is recommending to maintain the 2017 tax ratios for all other property classes.

Capping

The City has adopted the measures provided in 2016 and 2017 by the Province and significant progress has been made towards CVA taxes. For example, The Multi-Residential property class is no longer eligible for capping and the number of capped properties continues to be reduced every year. For 2018, the Commercial property class has become eligible for the phase-out program by virtue of having all properties within 50% of CVA level taxes, excluding vacant lands from the eligibility criteria. In the phase-out program, the cap for eligible properties is reduced by one-quarter in the first year, by one-third in the second year and by half in the third year. After three consecutive taxation years, every property in the class will be exempt from capping protection.

Staff will continue to monitor the progression towards CVA level taxes and will make the appropriate recommendations as needed.

Vacancy Rebates

In 2017, the Province amended the legislation to provide municipalities with greater flexibility on the administration of the vacancy rebates program. Following approval by Council of Report FCS17021(a), “New Municipal Flexibility for Vacant Unit Rebates and Vacant / Excess Land Subclasses”, on June 7, 2017, the City will provide a 15% rebate for the 2018 taxation year and a 0% rebate in 2019.

Reduction Programs for Vacant/Excess Land Subclasses

Similar to the Vacancy Rebates, the Province is providing municipalities with flexibility to modify their reductions programs. Staff is not recommending any changes to the City’s current program which provides for a 30% reduction for excess lands in the Commercial, Industrial and Large Industrial property classes, as well as 30% reduction for vacant lands in the Industrial property class. Staff will continue to review and monitor this subclass for potential reduction or elimination of the rebate.

Seniors Tax Rebate Program

On January 17, 2018, City Council approved Report FCS18005, “Tax Assistance Programs for Seniors and Low Income Persons with Disabilities”, which included minor revisions to the eligibility criteria for this program. The updated criteria for the 2018 taxation year is included in recommendation (e) of Report FCS18035, “2018 Tax Policies and Area Rating”.

Tax Deferral Programs

Report FCS18005, "Tax Assistance Programs for Seniors and Low Income Persons with Disabilities", also included revisions to the Deferral of Tax Increases Program including the introduction of an income threshold consistent with the Seniors Tax Rebate Program and a cap on the deferred amount. Complete details of the criteria for the program can be found in Appendix "A" to Report FCS18005, "Tax Assistance Programs for Seniors and Low Income Persons with Disabilities".

A new three-year pilot program to assist seniors and low income persons with disabilities by deferring the full amount of the taxes for the year until the property is sold was also approved by Council in January 2018. Eligibility criteria includes an income threshold consistent with the Seniors Tax Rebate Program and the Deferral of Tax Increases Program, annual interest on the deferred amounts and application and renewal fees. Complete details of the criteria for the program can be found in Appendix "B" to Report FCS18005, "Tax Assistance Programs for Seniors and Low Income Persons with Disabilities".

Staff will report back in 2019 on the progress of the project and any changes that may be warranted.

Tax Impacts

The final average tax impacts, as identified in Appendix "B" to Report FCS18035, are the result of various factors:

- 2018 approved tax operating budget (Report FCS18026)
- Approved area rating methodology, whereby Fire, Recreation, Sidewalks and Street Lighting are area rated based on Urban / Rural, while Transit (urban area only), Sidewalk Snow Removal (Ward 12 urban only) and Parkland Purchase are area rated based on the former area municipality
- Provincially prescribed education tax rates
- Second year of the current reassessment cycle (2017-2020)
- Reassessment and levy restrictions on the Multi-Residential property class
- Levy restriction on the Industrial property class
- 2018 tax policies as recommended within this Report

Further details on the impacts by Ward are provided below. Although the Residential City-wide average total impact is 1.9%, due to the various factors identified above, the impacts will vary between former municipalities and Wards. While the reassessment accounts for most of the varying impacts experienced in different parts of the City, budget pressures and enhancements in area-rated services may also have a greater impact on some Wards than others (for example, transit enhancements).

Note that 87% of the Residential properties are identified as fully Urban and 9% as fully Rural. Only 4% of the Residential properties fall within “Urban with Rural Fire” or “Rural with Urban Fire”.

Residential Tax Impacts (Reassessment + Tax Policies + Budget + Education)

Tables 5 and 6 break down the 1.9% **City-wide** average total Residential tax impact into the average Urban and Rural Residential tax impacts by Ward. Further detail on the impacts by Ward and by all four tax groupings (Urban, Rural, Urban with Rural Fire and Rural with Urban Fire) are provided in Appendix “B” to Report FCS18035, “2018 Tax Policies and Area Rating”.

Average impacts between Wards have significant variation for both urban and rural areas as a consequence of the reassessment and because some services (Transit, parkland purchases) continue to be area rated. Total impacts vary from 0.8% (Ward 13) to 4.0% (Ward 1) in the urban areas of the City and from -0.1% (Ward 14 Ancaster) to 1.1% (Ward 11 Stoney Creek) in the rural areas of the City. Appendix “A” to Report FCS18035, “2018 Tax Policies and Area Rating”, identifies the area-rated levies.

Table 5

2018 Total Residential Tax Impacts - URBAN

(inclusive of reassessment, area rating, tax policies and education taxes)

BY WARD

	Reassessment & Tax Policies	Budget (inclusive of Area Rating)	Total Average 2018 Impact (%)	Total Average 2018 Impact ($)
Ward 1	2.0%	2.0%	**4.0%**	**$ 173**
Ward 2	1.9%	2.0%	**3.9%**	**$ 114**
Ward 3	1.9%	2.0%	**3.9%**	**$ 89**
Ward 4	0.6%	2.0%	**2.6%**	**$ 62**
Ward 5	0.0%	2.0%	**2.0%**	**$ 66**
Ward 6	0.1%	2.0%	**2.1%**	**$ 74**
Ward 7	0.5%	2.0%	**2.5%**	**$ 97**
Ward 8	0.3%	2.0%	**2.2%**	**$ 93**
Ward 9	0.1%	1.3%	**1.3%**	**$ 54**
Ward 10	0.1%	1.3%	**1.4%**	**$ 54**
Ward 11 - SC	0.3%	1.3%	**1.5%**	**$ 74**
Ward 11 - GL	-0.3%	1.2%	**0.9%**	**$ 37**
Ward 12	-0.1%	1.5%	**1.4%**	**$ 81**
Ward 13	-0.3%	1.0%	**0.8%**	**$ 37**
Ward 14 - AN	N/A	N/A	**N/A**	**N/A**
Ward 14 - FL	N/A	N/A	**N/A**	**N/A**
Ward 15	-0.1%	1.8%	**1.7%**	**$ 88**
City-Wide Average	**0.3%**	**1.6%**	**1.9%**	**$ 76**

Similar to what was observed in 2017, Wards 1, 2 and 3 have a total tax impact higher than the City's average mostly due to reassessment impacts of 2.0% and 1.9% which are above the City's average reassessment impact of 0.3%.

Overall, the Wards located in the former municipality of Hamilton (Wards 1-8) have a higher than average budget-related tax increase due to increases in area-rated services: transit service was increased in Route 42 (Mohawk East) and the financing of Part 2 of Eastmount Park School was added in 2018.

Although Ward 15 is slightly below the City's average tax impact, a lower reassessment impact was offset by a higher than average budget impact due to the expansion of Route 18 (Waterdown) and because the phase-in of previous transit expansions is now complete.

The total impact of 1.4% in Ward 12 includes the additional financing for the Ancaster Arts Centre approved during the 2018 budget process.

In contrast, Ward 13 had a tax impact of 0.8% which is significantly lower than the average due to reassessment related benefits and savings resulting from the full repayment of the lands located on 397 King Street West.

Table 6

2018 Total Residential Tax Impacts - RURAL

(inclusive of reassessment, area rating, tax policies and education taxes)

BY WARD

	Reassessment & Tax Policies	Budget (inclusive of Area Rating)	Total Average 2018 Impact (%)	Total Average 2018 Impact ($)
Ward 1	N/A	N/A	**N/A**	**N/A**
Ward 2	N/A	N/A	**N/A**	**N/A**
Ward 3	N/A	N/A	**N/A**	**N/A**
Ward 4	N/A	N/A	**N/A**	**N/A**
Ward 5	N/A	N/A	**N/A**	**N/A**
Ward 6	N/A	N/A	**N/A**	**N/A**
Ward 7	N/A	N/A	**N/A**	**N/A**
Ward 8	N/A	N/A	**N/A**	**N/A**
Ward 9	0.1%	0.8%	**0.9%**	**$ 34**
Ward 10	N/A	N/A	**N/A**	**N/A**
Ward 11 - SC	0.3%	0.8%	**1.1%**	**$ 49**
Ward 11 - GL	-0.3%	0.8%	**0.5%**	**$ 21**
Ward 12	-0.1%	1.1%	**1.0%**	**$ 53**
Ward 13	-0.2%	0.5%	**0.3%**	**$ 15**
Ward 14 - AN	-1.2%	1.1%	**-0.1%**	**$ (6)**
Ward 14 - FL	-0.4%	0.8%	**0.4%**	**$ 19**
Ward 15	-0.1%	0.8%	**0.8%**	**$ 37**
City-Wide Average	**0.3%**	**1.6%**	**1.9%**	**$ 76**

The rural areas of the City are experiencing lower than average tax impacts which is mostly the result of assessment values in the rural areas of the City increasing at a lower rate than in the rest of the City. Only wards 9 and 11 (Stoney Creek) are experiencing reassessment related increases albeit, not significant.

The most significant budget increases are in Wards 12 and Ward 14 (Ancaster) due to the financing of the Ancaster Arts Centre as previously explained.

ALTERNATIVES FOR CONSIDERATION

Alternatives are discussed in the Analysis and Rationale section of this Report.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” – 2018 Area Rated Levies Summary

Appendix “B” – 2018 Total Residential Tax Impacts

GR/dt