



# INFORMATION REPORT

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	April 18, 2018
<b>SUBJECT/REPORT NO:</b>	2017 Municipal Tax Competitiveness Study (FCS18021) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
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<b>SIGNATURE:</b>	

**Council Direction:**

N/A

**Information:**

The City of Hamilton has participated in an annual Tax Competitiveness Study since 2001. Each year, staff reports 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](http://www.hamilton.ca)).

Generally, when compared to the entire survey (which currently includes 111 Ontario municipalities ranging in population from 4,800 to 2.9M), 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.

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 (11% and 15%, respectively) and the neighbourhood shopping centre class has made improvements from a difference of 33% above the comparator average to 12% above the average. In the case of the Residential property class, over the last 10 years, Hamilton's position has improved from 11% above the comparator average in 2011 to 6% above the comparator average in 2017.

The smaller, more representative sample, referred to as the comparators, is now made up of 15 municipalities. 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.

### **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
- 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)
- Levy restrictions to the Multi-Residential, Commercial and Industrial property classes
- Tax policies (i.e. tax ratio, use of optional property classes, area rating)
- Non-uniform education tax rates in the non-residential tax class
- The level of service provided and the associated costs of providing these services
- Access to other sources of revenue such as land transfer tax (Toronto only), Provincial subsidies, gaming and casino revenues, user fees, etc.

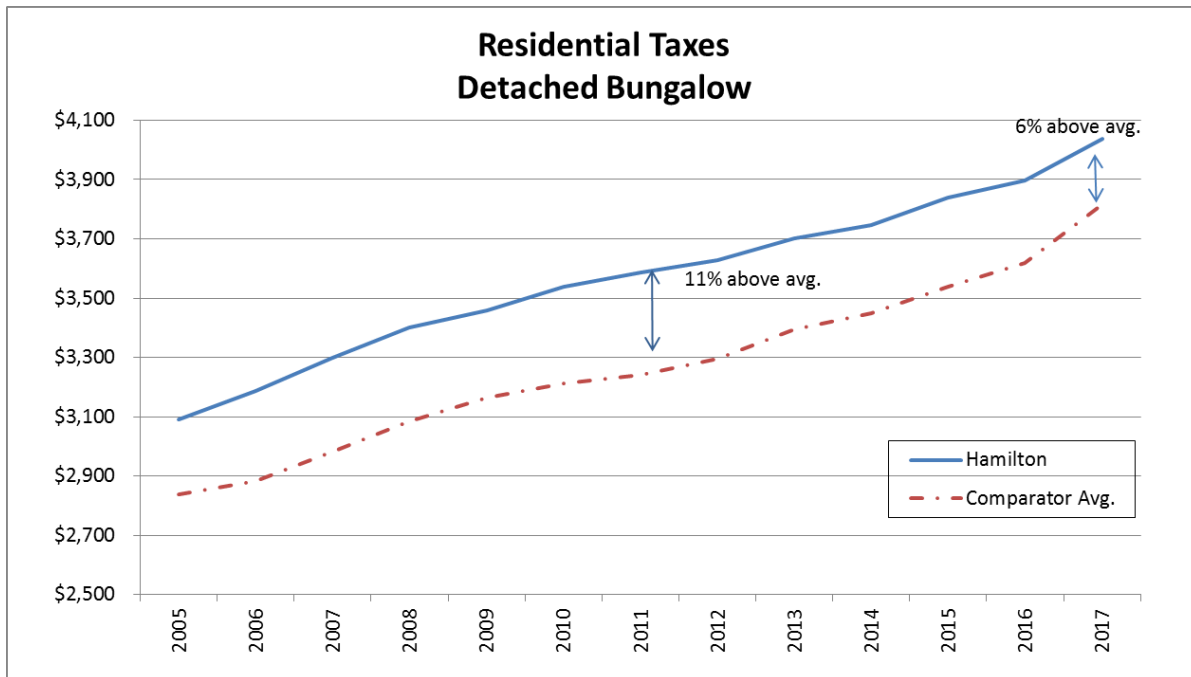
By focusing on the general trends and not concentrating on the results of one specific year, one can determine if the municipality is moving in the right direction.

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

### **Residential Property Taxes**

As shown in Figure 1, in 2017, Hamilton's average property taxes of \$4,036 for a detached bungalow were 6% above the comparator average property taxes, which is a considerable improvement since 2011 when the residential taxes were 11% above the comparators.

**Figure 1**



This trend is in line with the low tax increases over the last few years when compared to similar municipalities as reflected in Figure 2.

**Figure 2**

**Residential Tax Impact 2015-2017**

	Ottawa	Hamilton	Halton / Burlington	Kingston	Peel / Mississauga	London	Toronto	Haldimand	Guelph
2015	2.0%	3.4%	2.7%	2.5%	2.8%	2.5%	2.8%	3.5%	4.3%
2016	2.0%	1.7%	2.0%	2.5%	2.5%	2.9%	2.7%	2.5%	3.0%
2017	2.0%	2.1%	2.6%	2.5%	2.9%	2.8%	2.5%	2.5%	3.1%
<b>Average</b>	<b>2.0%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.5%</b>	<b>2.7%</b>	<b>2.7%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>3.5%</b>

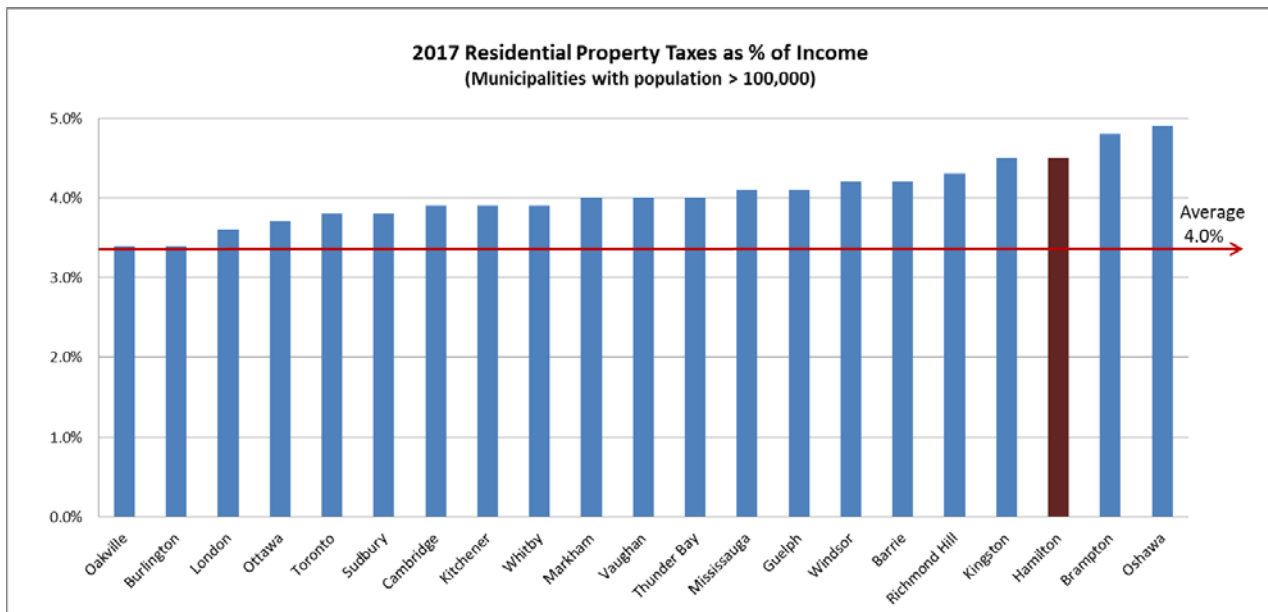
Overall, Hamilton has showed improvement over the last 10 years even though the City continues to be negatively impacted by the levy restriction on the Industrial property class and more recently, with the restriction to pass any reassessment and levy related increases to the Multi-Residential property class, which result in an added tax burden on Hamilton's Residential property class. The results of latest reassessment cycle (2017-2020) will have an additional impact to the Residential property class as property values rose above the City's average causing a shift in the tax burden. Staff will continue to monitor how reassessment is impacting the Residential property class.

When compared with the full sample of the Study (103 municipalities), Hamilton's residential taxes rank high at 20% above the average. This result, however, must be taken with caution as there are many reasons for differences in tax burdens across municipalities. These include but are not limited to:

- Availability of comparable properties, especially in smaller, rural municipalities
- The values of similar properties vary significantly across the municipalities
- Different levels of service and the cost associated with those services
- Area rating

Figure 3 illustrates that residential property taxes, as a percentage of income in Hamilton at 4.5%, are higher than the sample average of 4.0% (municipalities with populations greater than 100,000). Hamilton's average household income of \$92,089 in 2017 is approximately 10% lower than the sample at \$102,973.

**Figure 3**



Household income is one measure of a community's ability to pay for services. However, it can be a difficult measure for cities to affect change. To improve this measure, either expenditures need to be reduced (possibly impacting services to residents) or incomes need to increase, which is a long-term factor influenced by the city's economics.

Figure 4 identifies the historical trend for the City.

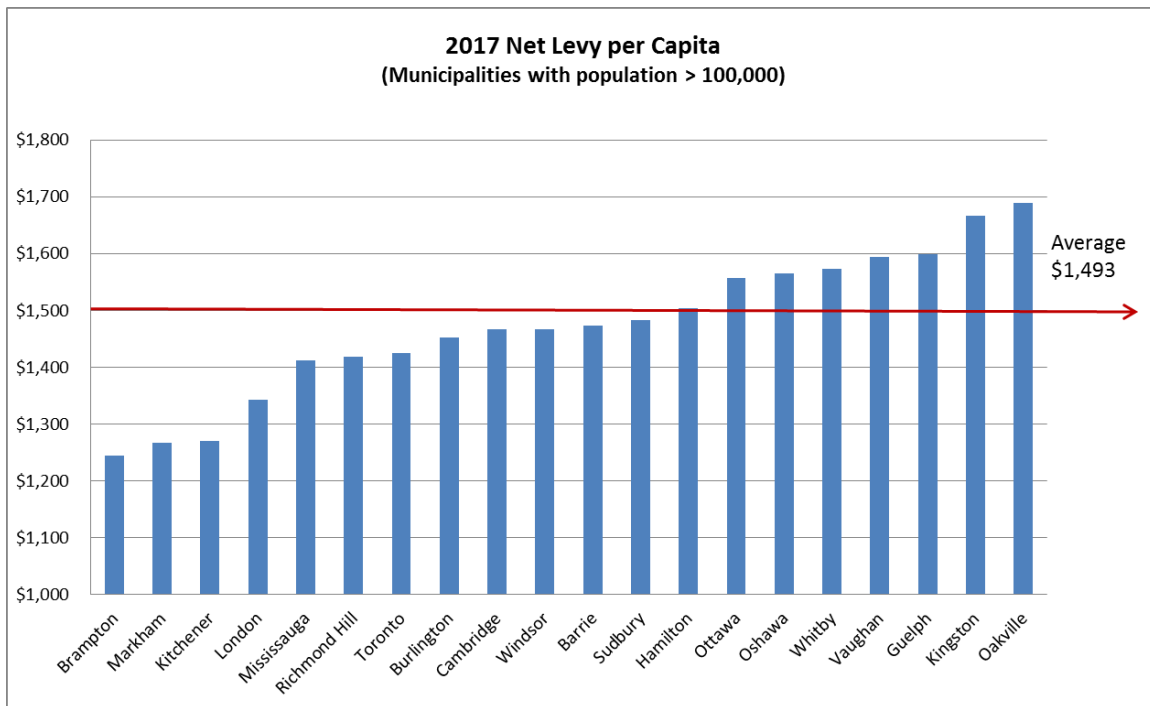
**Figure 4**

**Residential Property Taxes as % of Income 2008 - 2017**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Hamilton	6.1%	5.2%	5.0%	5.0%	4.6%	4.3%	4.4%	4.4%	4.3%	4.5%
Comparator's Average	4.6%	4.2%	4.1%	4.1%	3.8%	4.0%	4.0%	3.8%	3.7%	4.0%
<b>Difference</b>	<b>32%</b>	<b>25%</b>	<b>21%</b>	<b>23%</b>	<b>21%</b>	<b>7%</b>	<b>10%</b>	<b>14%</b>	<b>16%</b>	<b>11%</b>

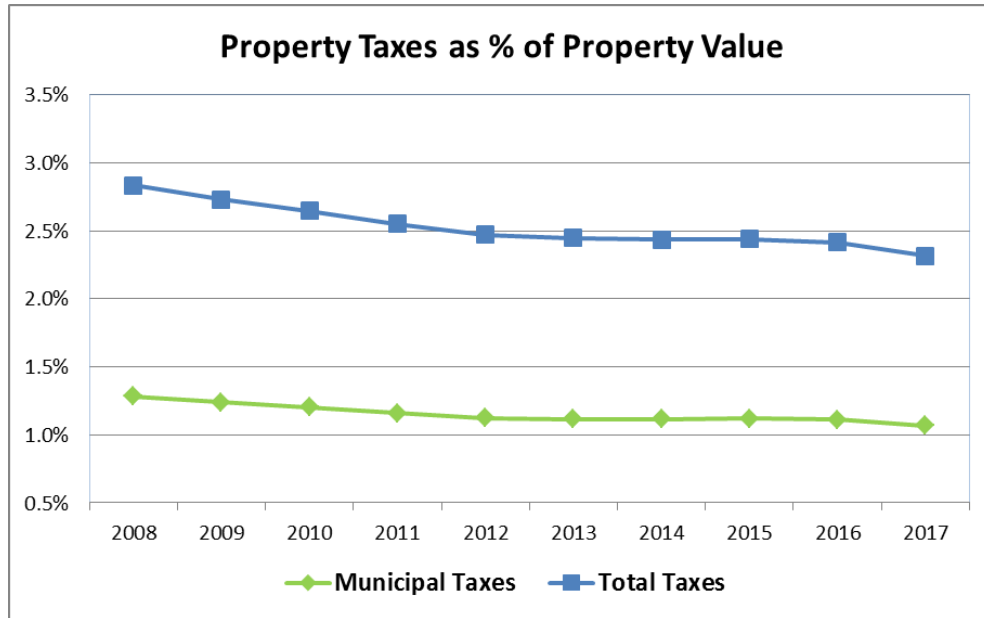
As shown in Figure 4, although Hamilton is above the average among the comparator municipalities, its position has had a significant improvement over the last few years, whereby Hamilton's average property taxes, as a percentage of income, was 6.1% in 2008, which was 32% above the larger municipalities sample average but the difference has been reduced to 11% above the average over the past several years. Notwithstanding the fact that property taxes are not conditional on income, overall, this trend shows improvement in the ability to pay.

**Figure 5**



As shown in Figure 5, Hamilton's 2017 net levy per capita of \$1,504 is basically at par with the average levy per capita of the comparators (at \$1,493), 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 lower income levels rather than a municipal spending issue.

**Figure 6**

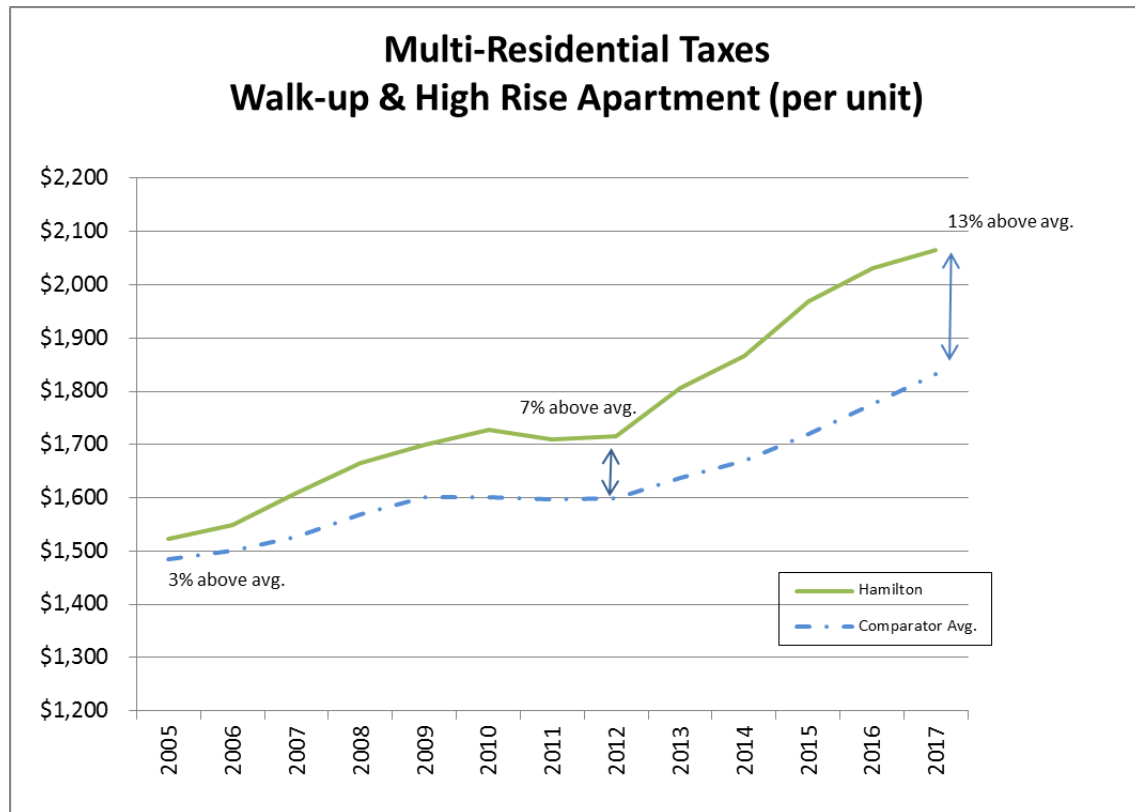


As shown in Figure 6, Hamilton’s residential municipal property taxes, as a percentage of property value, have shown a consistent, slow reduction since 2008 ranging from 1.3% to 1.1%. The significant assessment growth in the residential property class experienced in Hamilton in the last several years has been a major factor for this result.

#### Multi-Residential Property Taxes

Hamilton’s average property taxes per unit for an apartment (both walk-up and high rise) have risen from as low as 3% above the comparator average reaching a high of 15% above the comparator average in 2015. This is primarily due to the Multi-Residential assessment values in the 2013-2016 reassessment cycle which rose above the City’s average. This trend seems to be reversing and is now at 13% above the comparator average. In the latest reassessment cycle (2017-2020), the Multi-Residential property class saw an average reassessment benefit of 1.7% which resulted in an average tax decrease of 2.3% for 2017. The reduction in Multi-Residential taxes is expected to continue during 2018-2020 as the current reassessment cycle continues. Figure 7 illustrates these results.

**Figure 7**



Additional reductions in the tax burden of the Residential property class are expected since, 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.

Additional information on the Multi-Residential property class can be found in Report FCS18002, "Update Respecting Multi-Residential Taxation".

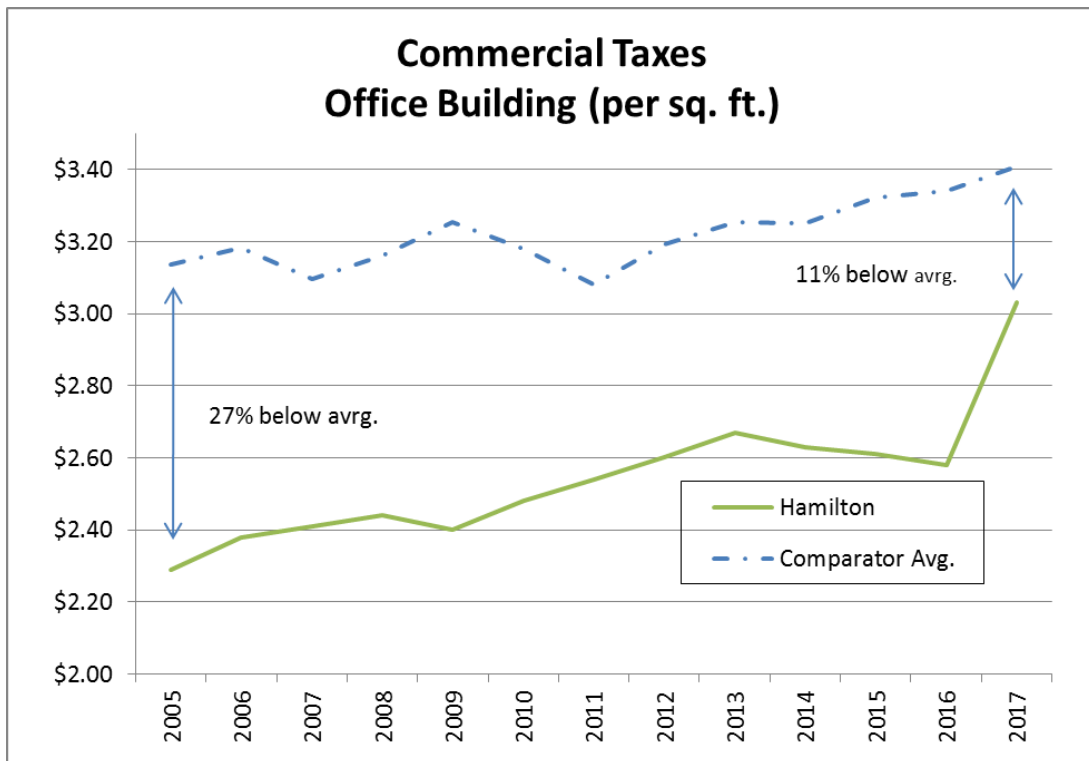
### Commercial Property Class

When measuring the competitiveness of the Commercial property class across the Province, it is important to keep in mind the challenges that the sector is facing as a result of the evolving economic landscape, including:

- The closure of major anchor retailers
- The entry of new, high-end international retailers into the Canadian marketplace
- Changing shopping patterns of Canadian consumers / online shopping
- Substantial number of appeals filed by owners / operators

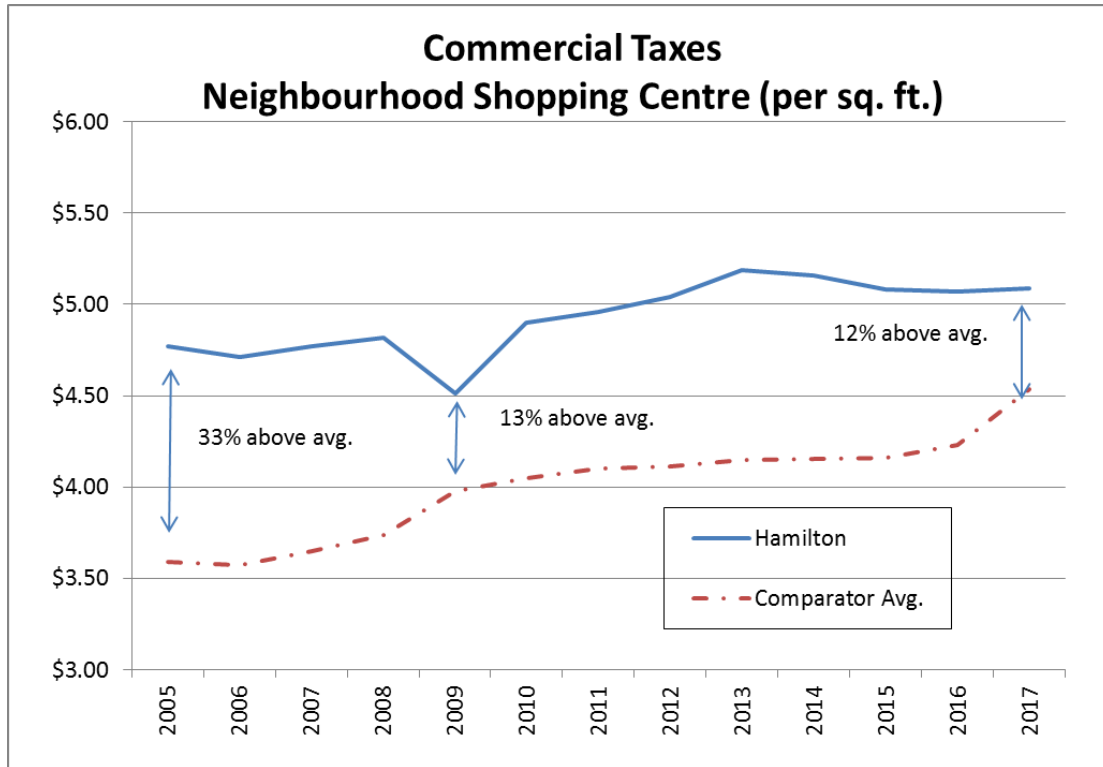
As seen in Figures 8 and 9 below, there is no a regular pattern between sectors in the class but rather, each type of property follows different trends. While the tax burden of office buildings in Hamilton has been historically lower than the sample average, the tax burden of the Neighbourhood Shopping Centres continues to be above the comparator average. In both cases, the trend was relatively stable in the last several years but the gap seems to be narrowing which could be explained by the reassessment impacts of the last cycle.

**Figure 8**





**Figure 9**



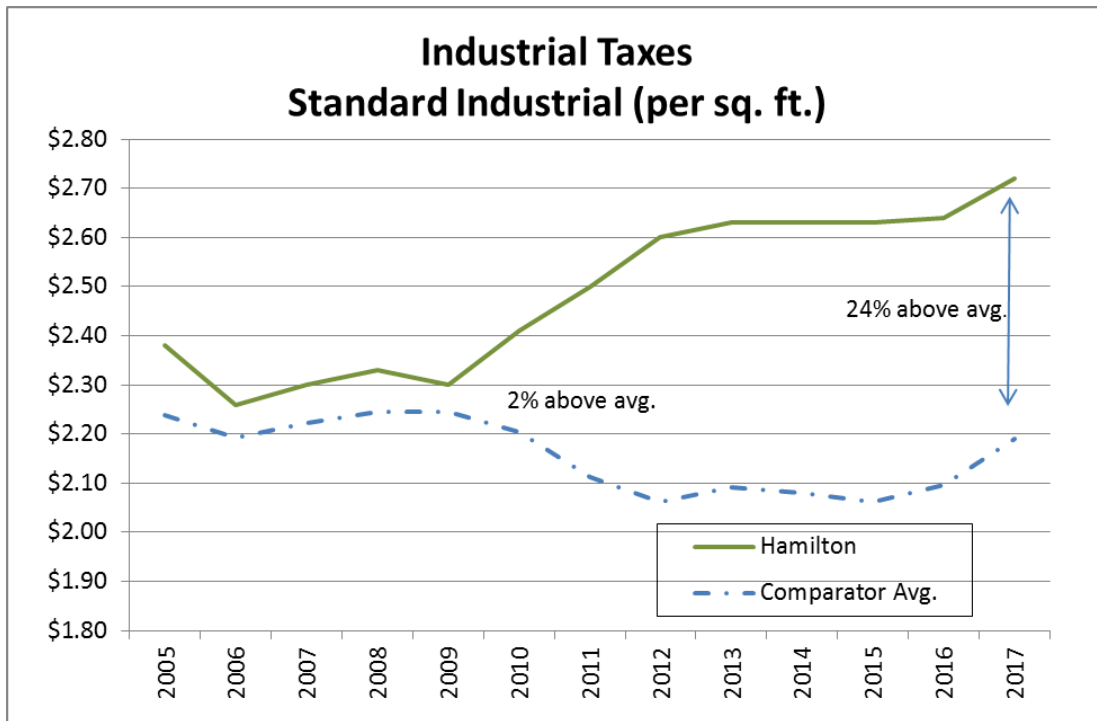
**Industrial Property Class**

Similar to the Commercial property class, the Industrial property class follows different patterns depending on the type or size of industry.

Regarding the Standard Industrial property class (under 125,000 sq. ft. in size), the results have been somewhat volatile during the study period. After a steady and significant increase in the gap between Hamilton and comparable municipalities during 2010-2012, the difference has remained relatively stable, but still high at 24%.

Figure 10 illustrates the previously explained trend.

**Figure 10**

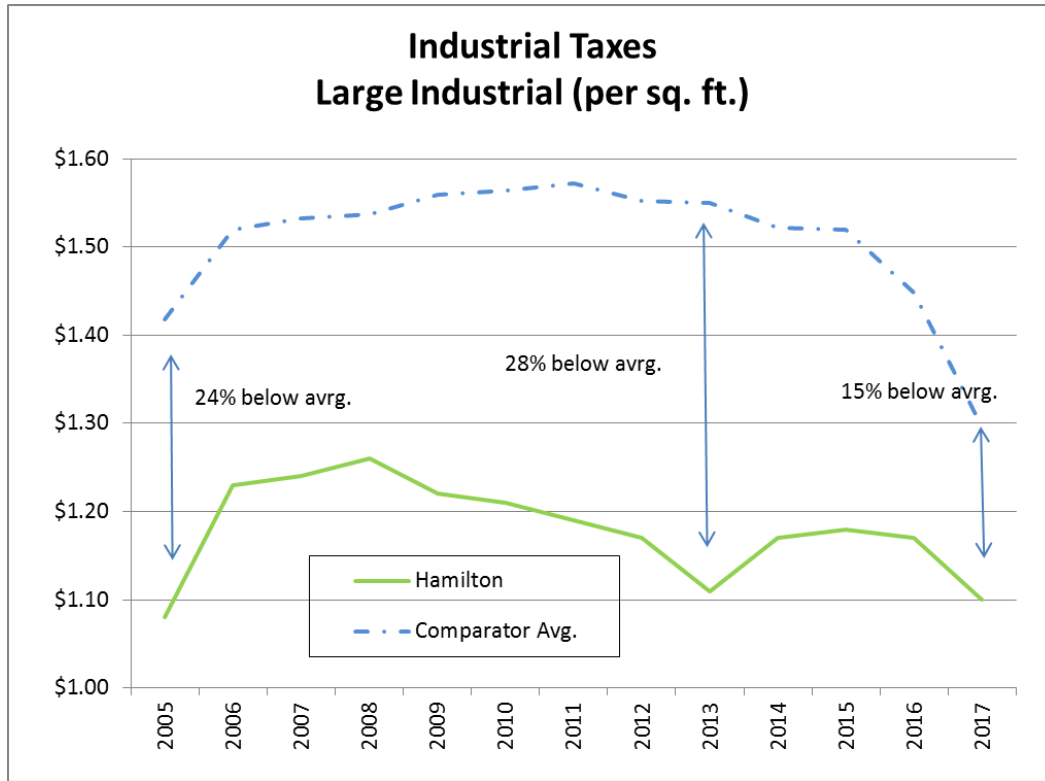


The gap between Hamilton and comparable municipalities in the Large Industrial property class (larger than 125,000 sq. ft. in size) has also been volatile during the study period but in this case, Hamilton is in a more competitive position being below the comparators (15% below in 2017). The fact that Hamilton's tax burden is low, however, translates into a greater tax burden for other classes, primarily the Residential property class.

The gap between the comparators and Hamilton can be attributed to a variety of reasons including the overall decline of the manufacturing industry in Ontario which is driven by global variables and has left many municipalities with a reduced assessment base due to appeals, vacancies, etc. 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.

The previously explained trend can be seen in Figure 11 below.

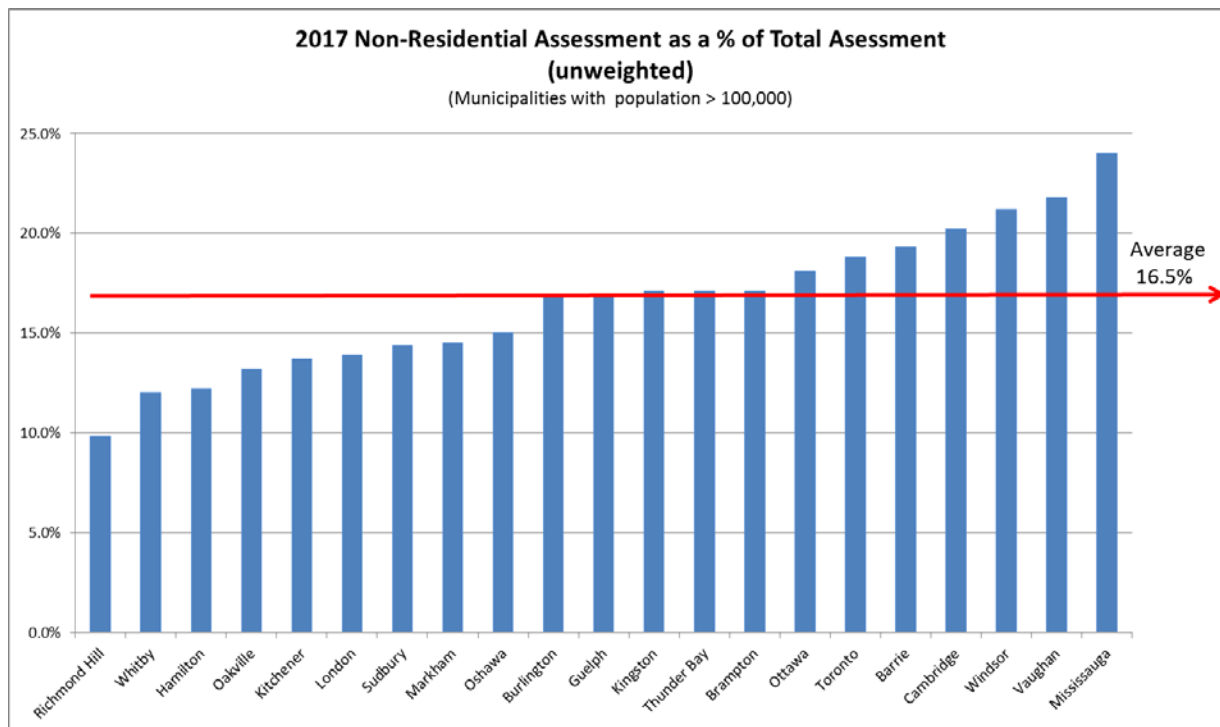
**Figure 11**



**Residential versus Non-Residential Split**

Hamilton's 2017 unweighted assessment is comprised of 87.8% Residential and 12.2% Non-Residential. 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 83.5% Residential and 16.5% Non-Residential. Figure 12 illustrates these results.

**Figure 12**



As shown in Figure 13, Hamilton's current share of non-residential assessment has been the lowest during the study period.

**Figure 13**

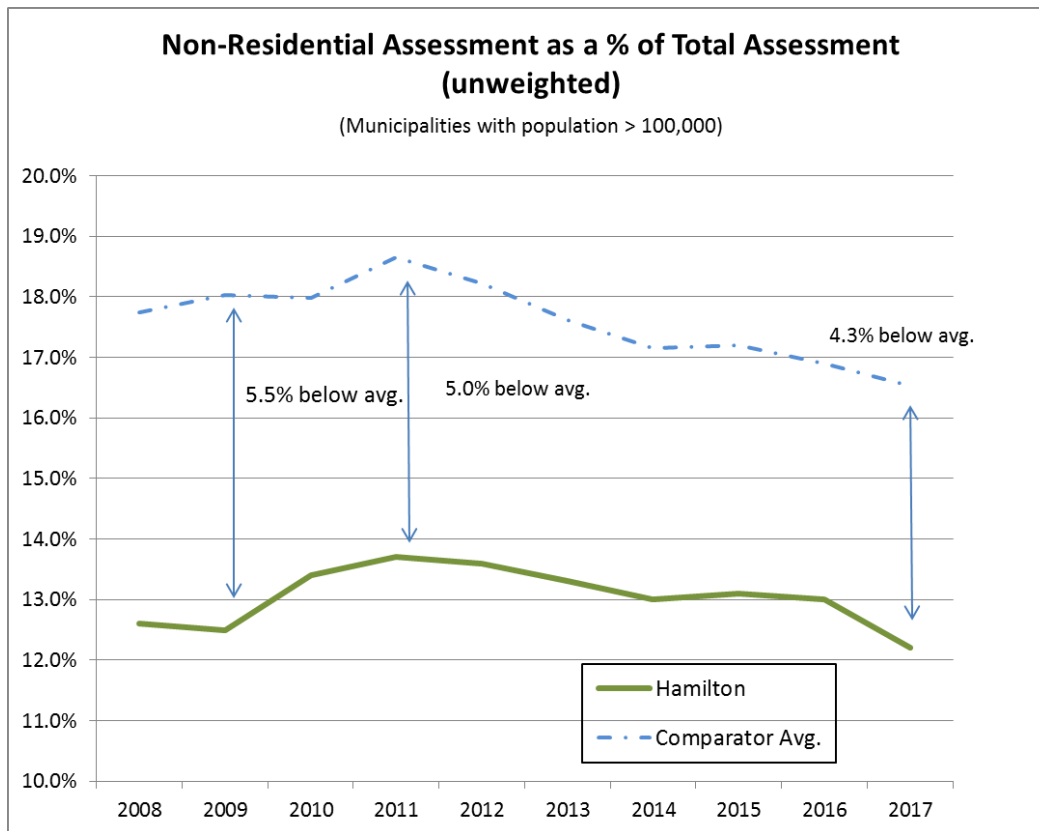
**Residential vs Non-Residential Assessment 2008 - 2017**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Residential</b>	87.4%	87.5%	86.6%	86.3%	86.4%	86.7%	87.1%	87.0%	87.0%	87.8%
<b>Non-Residential</b>	12.6%	12.5%	13.4%	13.7%	13.6%	13.3%	12.9%	13.0%	13.0%	12.2%

**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.

It must be noted, however, that although Hamilton's share of non-residential assessment has decreased over time, this is a trend that also has been experienced by the comparable municipalities.

**Figure 14**



In 2011, the non-residential assessment share of total assessment in the comparable municipalities had an average of 18.7% while Hamilton was at 13.7% as shown in Figure 14. For 2017, the share has been reduced to 16.5% and 12.2%, respectively. In the last few years, the difference between Hamilton and comparable municipalities has been relatively stable at approximately 4.1% – 4.3%.

Hamilton's results are more in line with those of the entire sample of the Study, which had an average share of non-residential assessment of 13.2% in 2017. Figure 15 shows the top three municipalities with the highest proportion of unweighted assessment per property class.

**Figure 15**

**Municipalities with the Highest Proportion of Unweighted Assessment per Property Class**

<b>Residential</b>		<b>Multi-Residential</b>		<b>Commercial</b>		<b>Industrial</b>	
Gravenhurst	90.8%	Waterloo	9.1%	Cornwall	23.9%	Ingersoll	7.5%
Georgina	90.4%	Kingston	7.4%	Niagara Falls	22.7%	St. Mary's	6.9%
Pelham	89.9%	Elliot Lake	7.2%	Parry Sound	20.5%	Vaughan	5.5%

Overall, although Hamilton has experienced significant total assessment growth in the last several years, with building permits exceeding \$1B annually in the last six 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. Another factor that is negatively affecting the ratio of Residential versus Non-Residential assessment is the increasing number of successful appeals and ongoing assessment reviews by Municipal Property Assessment Corporation (MPAC) in the Commercial and Industrial property classes.

**Tax Ratios**

Tax ratios distribute tax burden between classes relative to the residential class tax ratio. For example, a non-residential property with a tax ratio of 2.0 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 Figure 16.

Figure 16

## Tax Ratios by Property Class

	Multi-Residential	Commercial	Industrial
Barrie	1.0000	1.4334	1.5163
Brampton	1.7050	1.2971	1.4700
Guelph	1.9287	1.8400	2.2048
<b>Hamilton</b>	<b>2.6913</b>	<b>1.9800</b>	<b>3.4414</b>
Kingston	2.0000	1.9800	2.6300
London	1.8880	1.9500	1.9500
Mississauga	1.5888	1.4517	1.5934
Ottawa	1.4530	1.9260	2.7054
Sudbury	2.1217	2.0669	4.3110
Thunder Bay	2.5665	2.1444	2.4883
Toronto	2.7277	2.8828	2.8828
Windsor	2.3564	2.0190	2.3200
<b>Provincial Threshold</b>	<b>2.7400</b>	<b>1.9800</b>	<b>2.6300</b>

As shown in Figure 16, all municipalities have a Multi-Residential tax ratio below the Provincial Threshold. Although some municipalities have had reduction targets for this class, other municipalities including Hamilton, had reduced their Multi-Residential tax ratio due to reassessment or Provincial legislation. Regarding the Commercial tax ratio, with the exception of Sudbury, Thunder Bay, Toronto and Windsor, all municipalities have a tax ratio at or below the Provincial Threshold.

Hamilton is one of three municipalities, including Sudbury and Toronto, that has an Industrial tax ratio above the Provincial Threshold. All other municipalities in the 2017 study have an Industrial tax ratio at or below the Provincial Threshold. Since the Industrial property class is restricted, municipalities with a tax ratio above the Provincial Threshold are not allowed to pass a municipal tax increase of more than 50% of the increase applied to the Residential property class.

GR/dt