



INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	January 15, 2020
SUBJECT/REPORT NO:	Assessment of the Business Retention and Expansion Plan (FCS20002) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

COUNCIL DIRECTION

The following Motion was approved at the General Issues Committee (GIC) meeting on April 17, 2019:

“That staff be directed to provide an assessment of the historical pros and cons of the Business Tax Reduction Program, implemented in 2001, through an analysis, based on a return on investment that was justified by the suggestion that the ratio of residential-to-commercial / industrial would be improved by shifting additional taxes onto the residential base from the commercial / industrial base, and report back to the General Issues Committee”.

INFORMATION

In 2001, the Province of Ontario instituted restrictions on municipal levy increases for municipalities with tax ratios above the Provincial average threshold ratios (Bill 140). In response, the City of Hamilton embarked on an aggressive Business Tax Reduction Plan (BTR) which resulted in significant property tax reductions for business properties. In 2005, the program was re-named “Business Retention and Expansion (BR&E) Plan” to acknowledge the impact that the program has on retaining local businesses and improve the City’s competitiveness.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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The BR&E Plan reductions, together with provincially legislated reductions in the business education tax rate and tax levy restrictions, have resulted in a substantial reduction in business tax rates, as well as, significant gross assessment growth in the non-residential property classes. This assessment growth has helped offset much of the assessment lost through appeals during this time period.

Until 2005, the last year that the Province matched clawback amounts, the total combined Municipal and Provincial BR&E cuts, added to \$92.3 M. The City's contribution of \$ 44.6 M was directed towards improving business competitiveness, as well as, investing in existing business through tax clawbacks due to capping, while the Province's contribution of \$47.7 M was directed exclusively to reducing the business education tax rate. Table 1 shows the Total Combined Municipal and Provincial BR&E Cuts.

Table 1

Total Combined Municipal and Provincial BR&E Cuts

	2001	2002	2003	2004	2005	Total
Municipal Contributions	\$12.3M	\$7.1M	\$11.2M	\$9M	\$5.0M	\$44.6M
Provincial Contributions	\$12.3M	\$11.6M	\$10.3M	\$9M	\$4.5M	\$47.7M
Combined Total	\$24.6 M	\$18.7 M	\$21.5 M	\$18.0 M	\$9.5 M	\$92.3 M

The BR&E Plan cuts were primarily funded through clawbacks (\$36.5 M) supported by the levy and reserves and discretionary allocations (\$18.1 M), such as assessment growth and savings. Clawbacks are a legislated tool used to fund revenue shortfall resulting from the capping limits, in which a portion of the tax decrease is withheld to fund the cap on tax increases. The City opted for having the capping program fully funded from the operating budget, instead of clawbacks.

Table 2 breaks down the municipal contributions to the BR&E plan cuts.

Table 2

Combined Municipal & Provincial BRE Cuts

	2001	2002	2003	2004	2005	TOTAL
	(\$ millions)					
Discretionary Allocations						
Assessment Growth	\$ 4.0	\$ 3.1	\$ 1.8	\$ 2.0	\$ -	\$ 10.9
Amalgamation Savings/Other	\$ 6.3	\$ -	\$ 0.9	\$ -	\$ -	\$ 7.2
Total Discretionary Allocations	\$ 10.3	\$ 3.1	\$ 2.7	\$ 2.0	\$ -	\$ 18.1
Clawback (flow through)						
General Levy	\$ 6.0*	\$ 6.0*	\$ 6.0	\$ 5.5	\$ 5.0	\$ 28.5
Future Fund	\$ -	\$ 4.0	\$ 2.5	\$ 1.5	\$ -	\$ 8.0
Total Clawbacks	\$ 6.0	\$ 10.0	\$ 8.5	\$ 7.0	\$ 5.0	\$ 36.5
MUNICIPAL MATCHING BRE	\$ 12.3	\$ 7.1	\$ 11.2	\$ 9.0	\$ 5.0	\$ 44.6
PROVINCIAL MATCHING	\$ 12.3	\$ 11.6	\$ 10.3	\$ 9.0	\$ 4.5	\$ 47.7
TOTAL MATCHING BRE	\$ 24.6	\$ 18.7	\$ 21.5	\$ 18.0	\$ 9.5	\$ 92.3

* Of the 2001 and 2002 clawbacks funded from the levy, \$10 million was not identified under the previous BTR program, as these funds were not matched by the Province

Tax Ratios

Tax ratios define the municipal tax rate of each property class in relation to the municipal tax rate for the Residential property class. The tax ratio for the Residential class is legislated at one (1.00). As seen in Table 3, the tax ratios for the non-Residential property classes have been declining since 2001.

Table 3

Tax Ratios 2001 - 2019

Property Class	2001	2004	2017	2019	Threshold Ratios	Range of Fairness
Multi-Residential	2.999	2.7400	2.6913	2.5671	2.74	1.0 – 1.1
Commercial	2.4256	1.9800	1.9800	1.9800	1.98	0.6 – 1.1
Industrial	3.8354	3.3338	3.4414	3.3696	2.63	0.6 – 1.1
Large Industrial	4.5624	3.9093	4.0355	3.9513	2.63	0.6 – 1.1

The elimination of the levy restriction for the Commercial and Multi-Residential property classes took place in 2004 when the City's tax ratio reached the provincial threshold. Had these property classes been restricted in 2005, the tax impact on the residential property class would have increased from 3.6% to 5.0%. In addition, since 2005, approximately \$26.5 M has been shifted from the Residential property class to the Commercial and Multi-Residential property classes due to the elimination of the levy restriction.

The Multi-Residential property class, however, has been subject to new restrictions since 2017 when the Ministry of Finance imposed new conditions that prevent municipalities with tax ratios above 2.0 to pass any reassessment or budget increases onto the Multi-Residential property class. This resulted in a redistribution of the tax burden onto the other property classes, except the Commercial property class, which increased the tax ratio for the Industrial and Large Industrial property classes.

Assessment Value Change and Growth

The taxable assessment in Hamilton in 2002 was \$26.2 B and by 2018 had reached \$70.0 B (increased by \$43.7 B or 167%). Assessment growth is the result of new assessment, changes in assessment due to reassessment cycles, Requests for Reconsiderations (RfR) and Appeals, as well as Municipal Property Assessment Corporation's (MPAC) proactive and ongoing reviews of key property sectors.

Table 4 shows the residential and non-residential assessment value in the City since 2002.

Table 4

Assessment Value Change (\$ B) 2002 - 2018				Residential vs Non Residential %	
Year	Residential	Non-Residential	Total	Residential	Others
2002	\$ 22.4	\$ 3.8	\$ 26.2	85.6%	14.4%
2003	\$ 22.7	\$ 3.8	\$ 26.5	85.7%	14.3%
2004	\$ 25.2	\$ 4.2	\$ 29.4	86.5%	13.5%
2005	\$ 27.8	\$ 4.3	\$ 32.2	86.4%	13.6%
2006	\$ 28.3	\$ 4.5	\$ 32.8	87.3%	12.7%
2007	\$ 33.3	\$ 4.9	\$ 38.2	87.4%	12.6%
2008	\$ 33.8	\$ 4.9	\$ 38.7	87.4%	12.6%
2009	\$ 34.2	\$ 4.9	\$ 39.2	87.5%	12.5%
2010	\$ 36.5	\$ 5.6	\$ 42.1	86.6%	13.4%
2011	\$ 36.0	\$ 5.7	\$ 41.8	86.3%	13.7%
2012	\$ 38.5	\$ 6.1	\$ 44.5	86.4%	13.6%
2013	\$ 40.3	\$ 6.2	\$ 46.5	86.7%	13.3%
2014	\$ 42.4	\$ 6.3	\$ 48.7	87.1%	12.9%
2015	\$ 44.2	\$ 6.6	\$ 50.9	87.0%	13.0%
2016	\$ 53.0	\$ 7.9	\$ 60.9	87.0%	13.0%
2017	\$ 57.3	\$ 8.0	\$ 65.2	87.8%	12.2%
2018	\$ 61.6	\$ 8.4	\$ 70.0	88.0%	12.0%

Hamilton has experienced significant increase in total assessment in the last several years. The construction value of building permits has exceeded \$1 B annually in the last eight years. 2018 produced the third largest amount of construction during this period totalling \$1.26B from 8,217 issued permits.

The share of Non-Residential Assessment has declined during the 2002 to 2018 period from 14.4% to 12.0%. Comparator municipalities have seen similar reductions, though the average is above Hamilton's at 16% for Non-Residential.

Residential net assessment growth has outpaced Non-Residential net assessment growth during the period outlined in Table 5.

Table 5

Assessment Growth 2002 - 2018				
Year	\$	Residential %	Non-Residential %	Total %
2002	\$ 6,042,400	1.5%	-0.2%	1.3%
2003	\$ 7,018,100	2.2%	-0.8%	1.4%
2004	\$ 9,190,000	1.8%	-0.1%	1.7%
2005	\$ 9,158,200	2.1%	-0.5%	1.6%
2006	\$ 5,776,400	1.5%	-0.5%	1.0%
2007	\$ 4,355,800	1.3%	-0.5%	0.8%
2008	\$ 6,501,700	1.8%	-0.8%	1.0%
2009	\$ 8,056,800	1.3%	0.0%	1.3%
2010	\$ 8,294,200	1.4%	-0.1%	1.3%
2011	\$ 7,406,600	1.2%	-0.1%	1.1%
2012	\$ 5,217,400	0.9%	-0.1%	0.8%
2013	\$ 5,609,400	0.9%	-0.1%	0.8%
2014	\$ 12,721,700	1.0%	0.3%	1.3%
2015	\$ 13,104,100	1.3%	0.3%	1.6%
2016	\$ 5,808,500	0.6%	0.1%	0.7%
2017	\$ 10,069,000	1.3%	0.1%	1.4%
2018	\$ 10,562,200	0.9%	0.3%	1.2%

A major factor negatively affecting the City’s growth is the assessment appeals and reductions in the Industrial class. For example, in 2017, MPAC initiated a review of its own valuation of the properties owned by Stelco Inc. resulting in an assessment reduction of \$44 M which is equivalent to 0.2% growth. In the same year, MPAC also corrected its valuation of ArcelorMittal Long Products reducing it by -\$2.7 M which reduced the total assessment growth by -0.01%.

Business Retention and Expansion (BR&E) Today

Today, the BR&E Plan is part of the City’s 2016-2020 Economic Development Action Plan. The City’s Economic Development Office is the central point of contact for business assistance in Hamilton. Its services are geared to serve new start-up companies, corporate relocations and the expansion and retention of existing business. Its purpose is to serve as the catalyst for continued economic growth, job creation and revitalization in Hamilton.

While considerable effort is placed on promoting Hamilton to external audiences, the City of Hamilton recognizes the importance of retaining existing employers and assisting them in their efforts to expand their operations in Hamilton. The Business Retention & Expansion (BR&E) initiative includes a business visit program called “Hamilton Calling”.

The BR&E Plan provides the following benefits:

- Helps economic development staff build relationships with local business leaders and understand the scope of their operations and anticipated future needs; and
- Provides an opportunity for economic development staff to communicate information and programs to business leaders, deliver valued services and collect data which can be aggregated to provide insights into the state of an industry or sector.

The City of Hamilton has some of the highest Commercial and Industrial tax rates in the Province. However, when combined with lower assessed values in Hamilton compared with many other municipalities, the taxes per square foot is more competitive in many of the non-residential property categories. However, the perception of the highest tax rates does create a challenge in the pursuit economic development. If it were not for the BR&E in 2001-2005, these tax rates would be even higher, posing an even greater tax perception challenge.

APPENDICES AND SCHEDULES ATTACHED

N/A

GR/dt