INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	October 29, 2020
SUBJECT/REPORT NO:	2019 Municipal Tax Competitiveness Study (FCS20029) (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 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.

The entire survey includes 103 Ontario municipalities ranging in population from 4,800 to 2.9 M. However, we have taken a smaller, more representative sample, referred to as the comparators, made up of 15 municipalities. Staff identifies and selects the municipalities based on whether the municipality has been included in the study since 2002, which allows for long-term trend analysis and either has a population greater than 100,000 or is in close proximity to the City of Hamilton.

When compared to this smaller sample, the general trend shows that Hamilton's tax competitive position, over the long-term, has improved. For example, Office Building and Large Industrial continue to be well below the comparator average (10% and 16%, respectively) and the neighbourhood shopping centre class has made improvements from a difference of 25% above the comparator average in 2013 to 6% above the average in 2019. In the case of the Residential property class, Hamilton taxes have been stable at 6% above average since 2017.

Report FCS20029 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).

What factors influence tax burden?

It should be noted that the objective of Report FCS20029 is to identify general trends and not a specific year-over-year result. There are many factors that affect a municipality's tax burden (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. For example, Residential comparisons are based on a Single Family Detached Home which is a detached three-bedroom, single storey home with 1.5 bathrooms and a one car garage. Total area of the house is approximately 1,200 sq. ft. and the property is situated on a lot that is approximately 5,500 sq. ft. In smaller, more rural municipalities it is sometimes necessary to use larger lot sizes.
- 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.

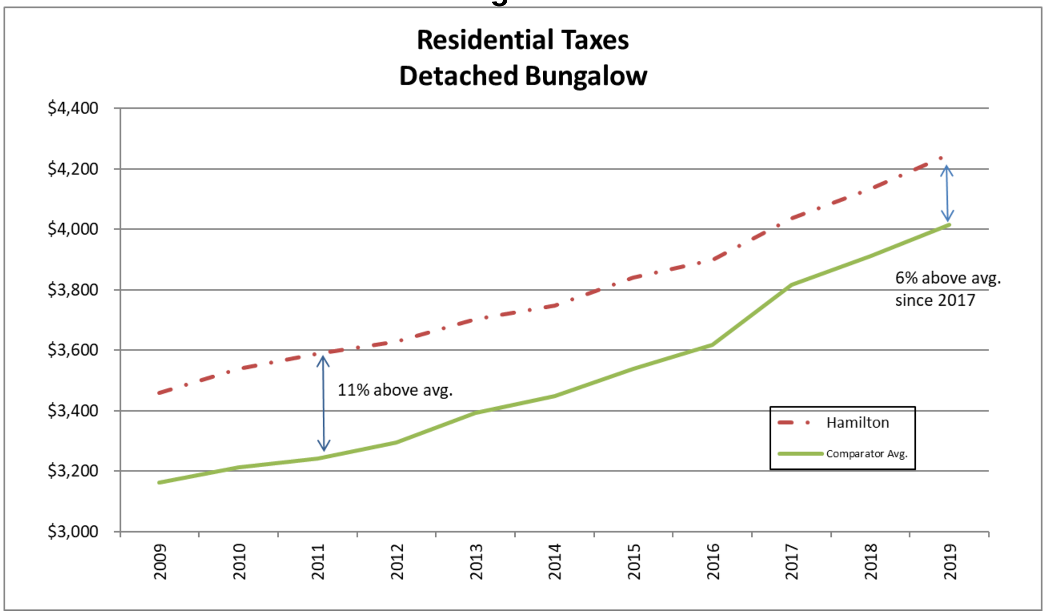
By focusing on the general trends and not concentrating on the results of one specific year, one can determine if the municipality is moving towards a more competitive tax burden. The trend analysis presented in Report FCS20029 is critical to understand the relationship between the various controllable and uncontrollable factors that determine the City's competitiveness and to establish targets and assess progress towards those targets.

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

Residential Property Taxes

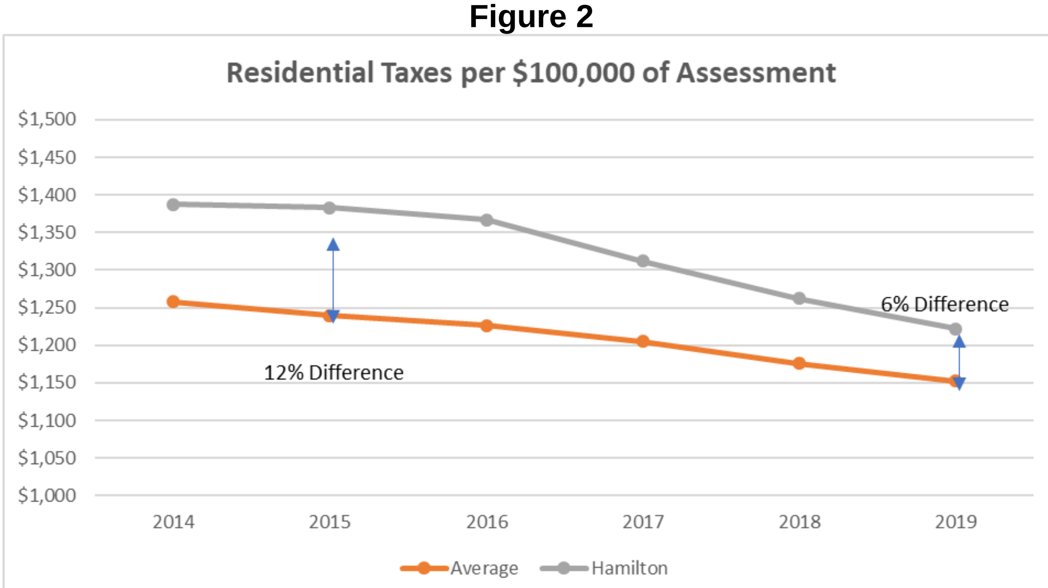
As shown in Table 1, in 2019, Hamilton's average property taxes of $4,248 for a detached bungalow were 6% above the comparator average property taxes, which is a considerable improvement since 2011 when the residential taxes where 11% above the comparators.

Figure 1



The same result is observed when we compare the residential taxes paid per $100,000 of assessment as shown in Figure 2. The higher than average reassessment experienced in the City of Hamilton compared to the rest of the province is a determinant factor on the City's closing the gap with the comparator group.

Figure 2



This trend is also in line with the relatively low tax increases passed by City Council over the last few years when compared to similar municipalities as shown in Figure 3.

Figure 3

Residential Tax Impact 2015 - 2019

	Ottawa	Hamilton	Halton / Burlington	Kingston	Peel / Mississauga	London	Toronto	Guelph
2015	2.0%	3.4%	2.7%	2.5%	2.8%	2.5%	2.8%	4.3%
2016	2.0%	1.7%	2.0%	2.5%	2.5%	2.9%	2.7%	3.0%
2017	2.0%	2.1%	2.6%	2.5%	2.9%	2.9%	2.5%	3.1%
2018	2.1%	1.9%	2.5%	2.5%	2.7%	2.8%	2.9%	3.0%
2019	3.0%	2.2%	2.0%	1.8%	2.9%	2.7%	3.6%	3.9%
Average	**2.2%**	**2.3%**	**2.4%**	**2.4%**	**2.8%**	**2.8%**	**2.9%**	**3.5%**

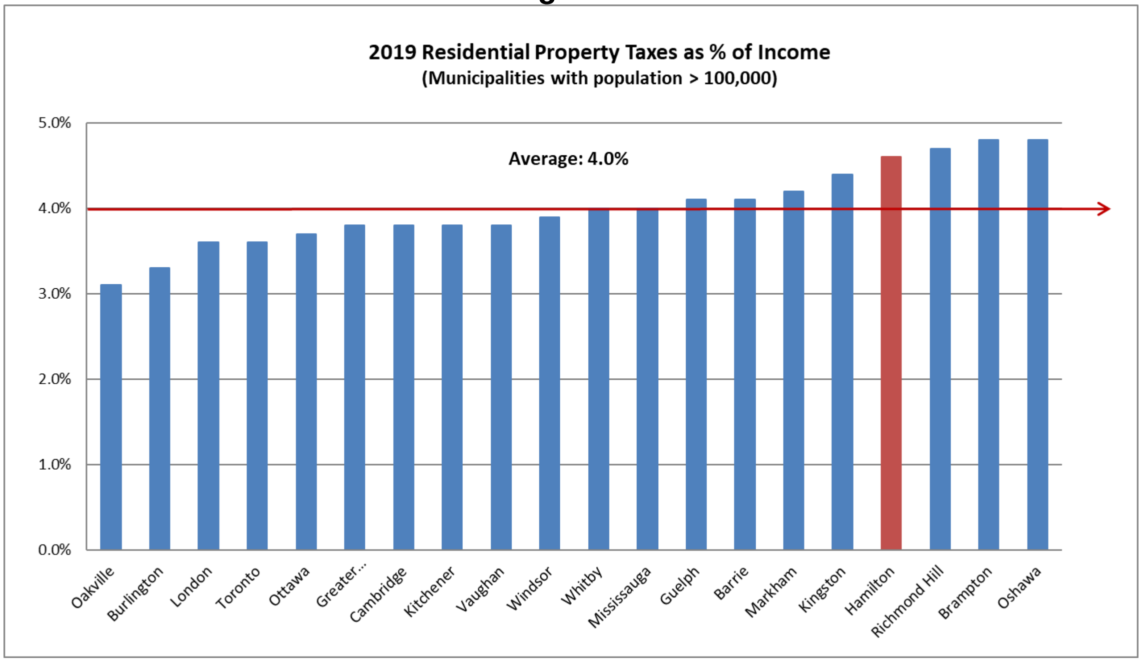
Overall, Hamilton has shown improvement over the last 10 years even though the City continues to be negatively impacted by the levy restriction regulation on the Industrial property class and more recently, with the restriction to pass any reassessment and levy related increases to the Multi-Residential property class which results in an added tax burden on Hamilton's Residential property class. The results of the latest reassessment cycle (2017-2020) will continue to 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. Details on how reassessment impacts the Residential property class can be found in Report FCS17023, "2017 Reassessment Impacts" and Report FCS20039 "2020 Tax Policies and Area Rating".

When compared with the full sample of the BMA Study (103 municipalities), Hamilton's residential taxes rank high at 22% 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 4 illustrates that residential property taxes as a percentage of income, in Hamilton at 4.6%, are higher than the sample average of 4.0% (municipalities with populations greater than 100,000). Hamilton's average household income of $96,700 in 2019 is approximately 13% lower than the sample at $111,300.

Figure 4



Household income is one measure of a community's ability to pay for services. However, it can be a difficult measure for municipalities 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 broader economic conditions.

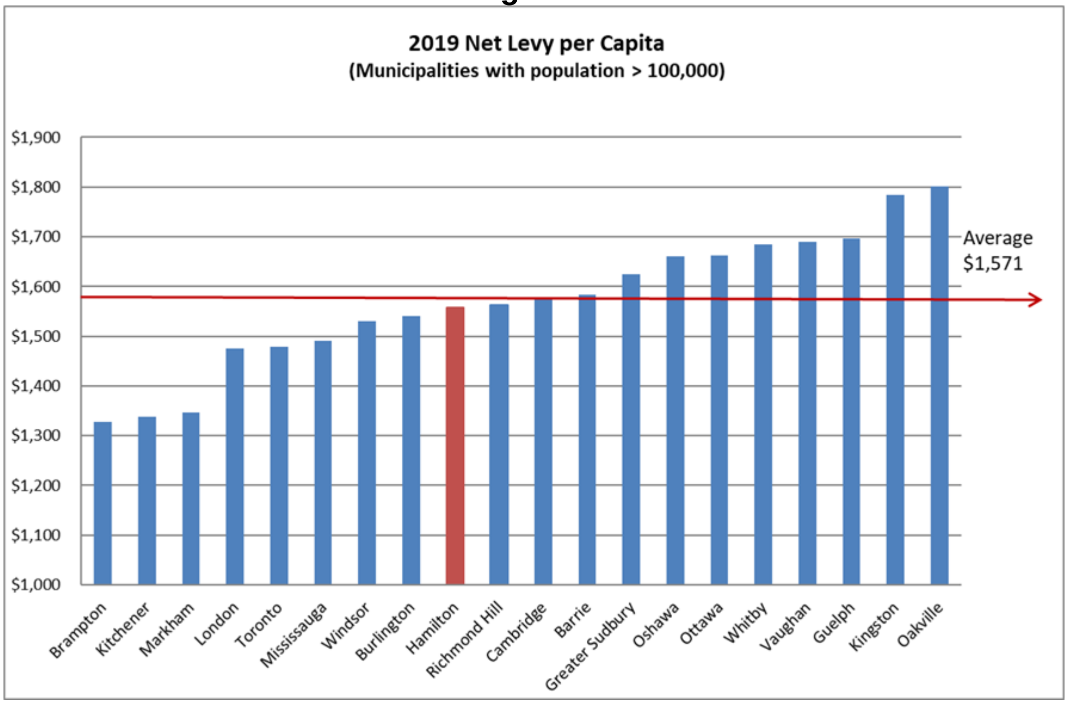
Figure 5 identifies the long-term trend for the City.

Figure 5

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Hamilton	5.2%	5.0%	5.0%	4.6%	4.3%	4.4%	4.4%	4.3%	4.5%	4.6%	4.6%
Comparator's Average	4.2%	4.1%	4.1%	3.8%	4.0%	4.0%	3.8%	3.7%	4.0%	4.0%	4.0%
Difference	**25%**	**21%**	**23%**	**21%**	**7%**	**10%**	**14%**	**16%**	**13%**	**15%**	**15%**

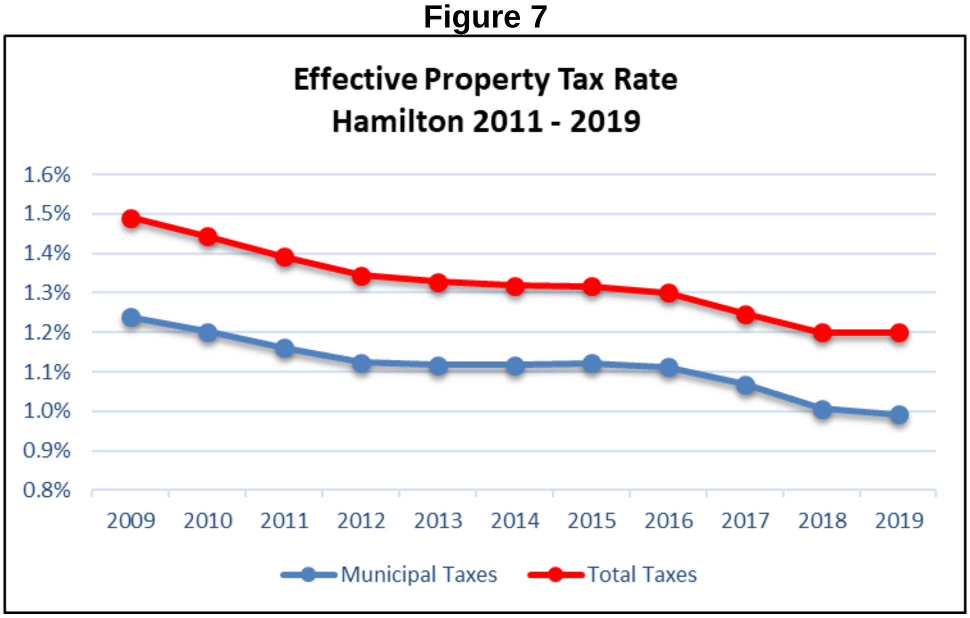
As shown in Figure 5, although Hamilton is above the average among the comparator municipalities, its position has had a significant improvement over the last few years. Hamilton's average property taxes as a percentage of income in 2009 was 25% above the larger municipalities sample average. This gap has been reduced to 15% 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 6



As shown in Figure 6, Hamilton's 2019 net levy per capita of $1,557 is slightly below the average levy per capita of the comparators (at $1,571). This is consistent with previous years. The result 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.

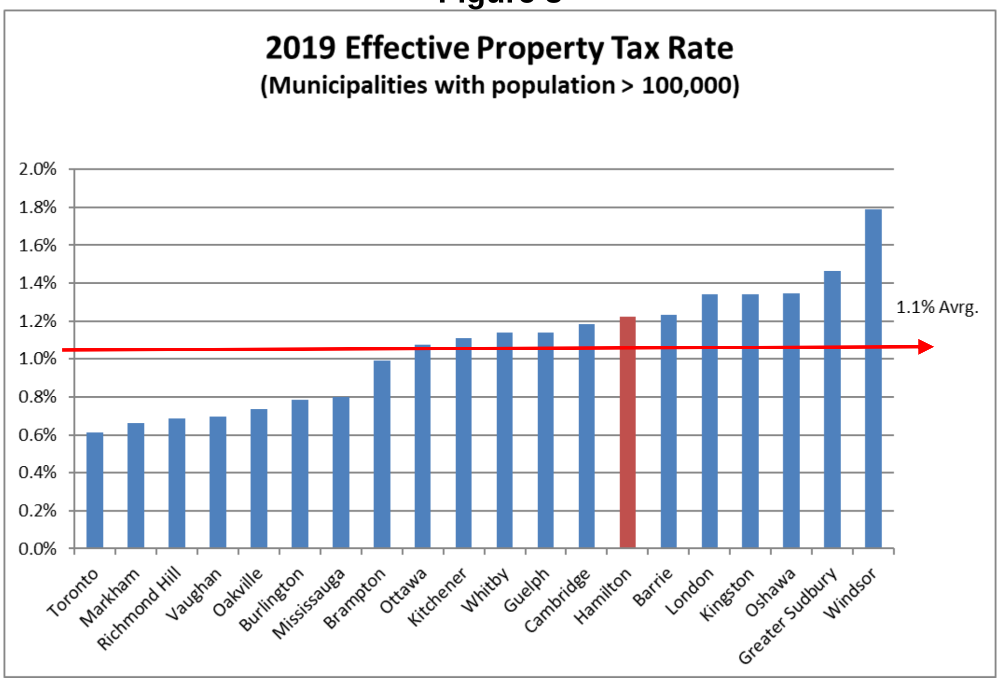
Figure 7



As shown in Figure 7, Hamilton's effective residential property tax rate (tax rate as a percentage of property value) has been very stable since 2011, sitting at 1.2% for the last three years. 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.

When compared to other municipalities, Hamilton is slightly above the 1.1% average. Municipalities such as Toronto, Markham, Richmond Hill, Oakville and Vaughan have effective property tax rates as low as 0.6% - 0.7% while Windsor is the highest of the comparators with an effective property tax rate of 1.8%. This indicator demonstrates the capacity level municipalities may have to increase taxes. Those with the lowest effective property tax rates (Toronto, Markham) have the greatest capacity while those at the higher end (Hamilton, Windsor) have less capacity. Figure 8 illustrates these results.

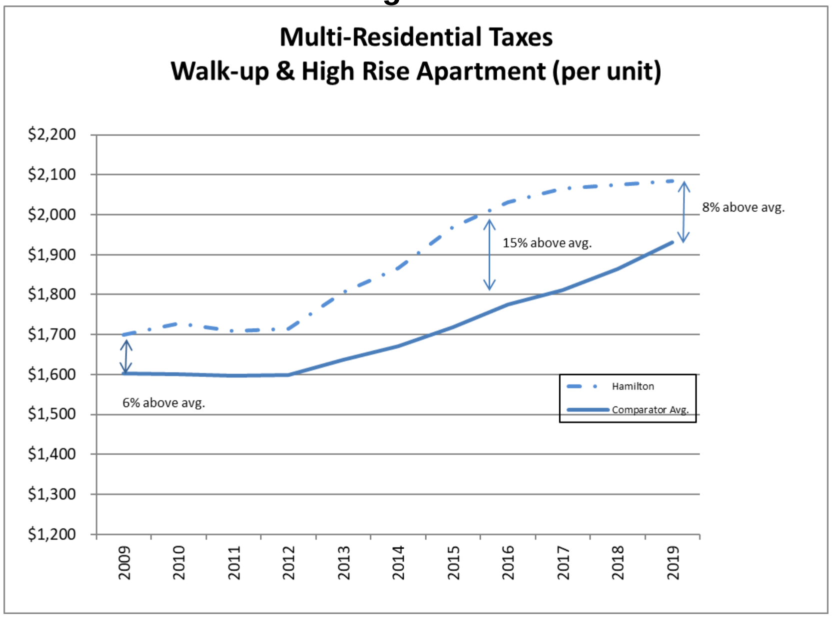
Figure 8



Multi-Residential Property Taxes

Prior to 2015, Hamilton's average taxes per unit for an apartment (both walk-up and high rise) were rising from as low as 6% 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. Since 2015, this trend seems to be reversing and is now at 8% 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 1.4% for 2019. The reduction in Multi-Residential taxes is expected to continue during 2019-2020 as the current reassessment cycle continues. Figure 9 illustrates these results.

Figure 9



Additional reductions in the tax burden of the Multi-Residential property class are expected. This is because 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. This prevents municipalities, in this situation, from passing 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 10 and 11, there is not 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 starting around 2011 but the gap seems to be narrowing since 2017 which could be explained by the reassessment impacts of the last cycle.

Figure 10

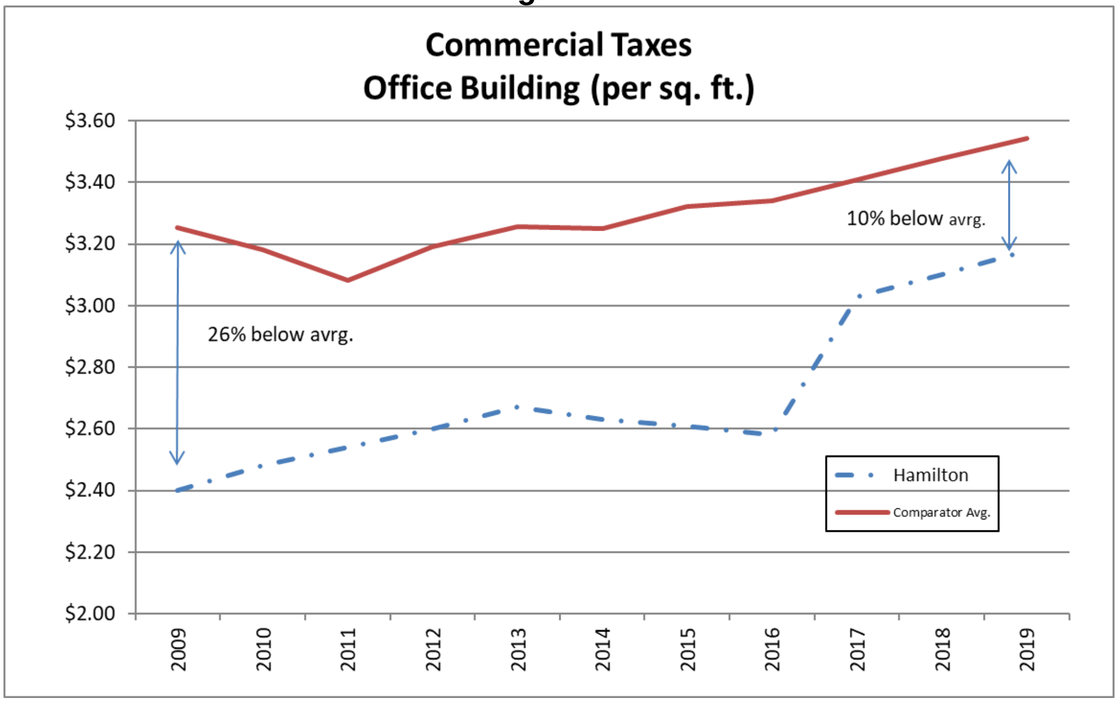
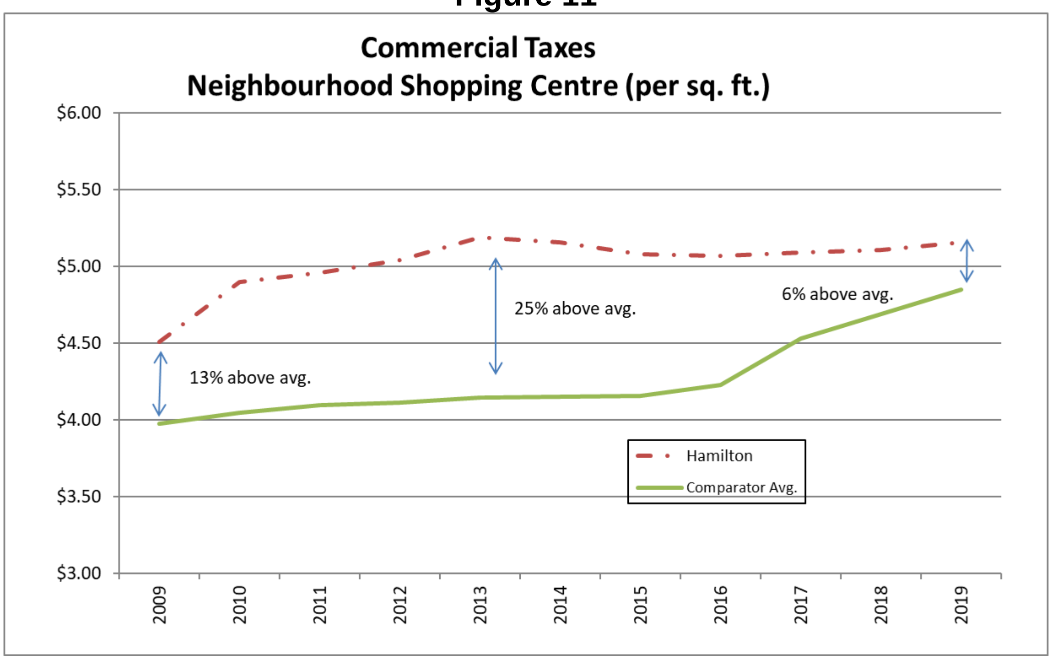


Figure 11



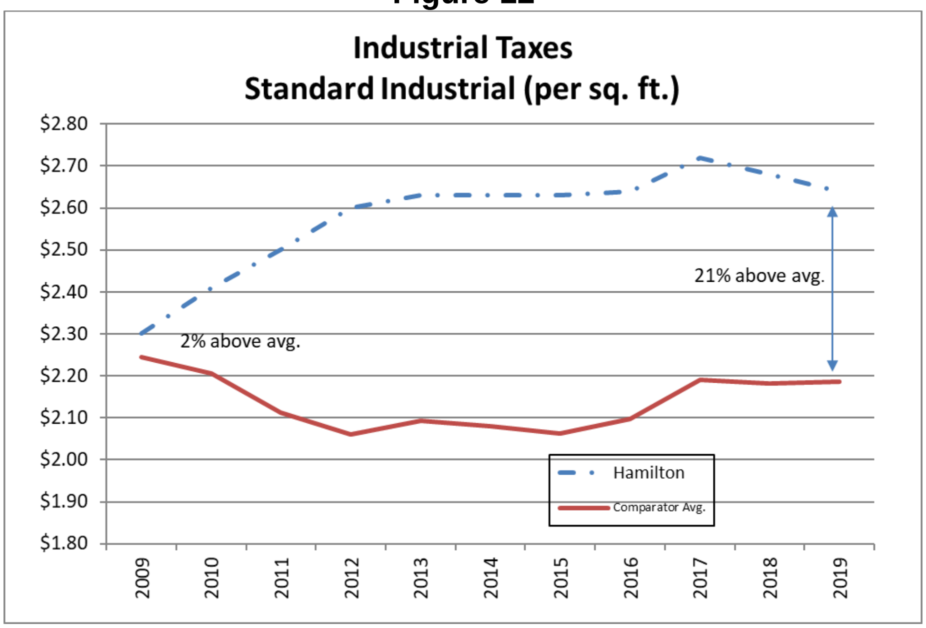
Industrial Property Class

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 21%.

Figure 12 illustrates the previously explained trend.

Figure 12

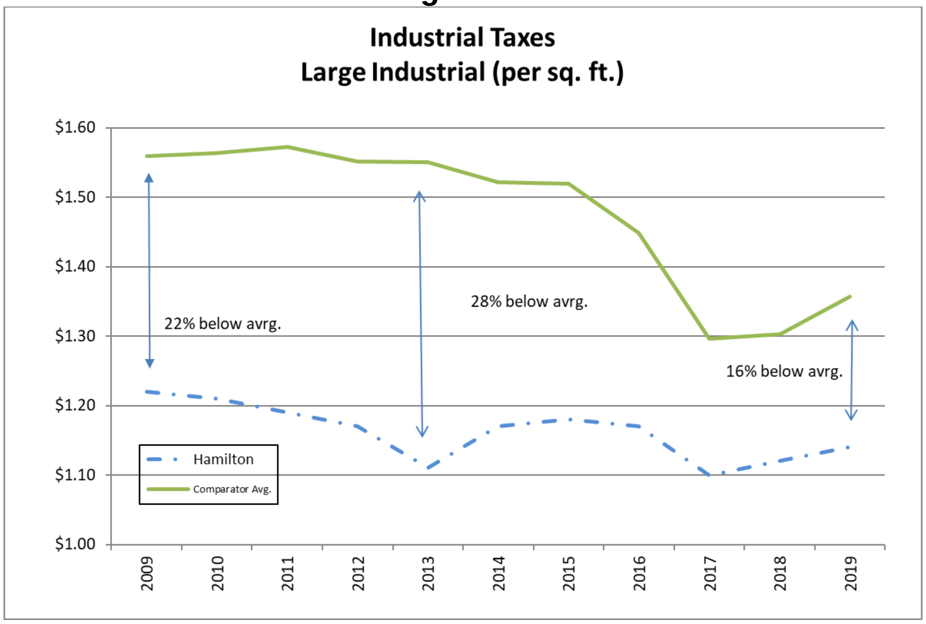


The gap between Hamilton and comparable municipalities in the Large Industrial property class (larger than 125,000 sq. ft. in size) has also been volatile during the study period but in this case, Hamilton is in a more competitive position being below the comparators (16% below in 2019). The fact that Hamilton's Large Industrial 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 benefit Hamilton since Hamilton was already at or below the ceiling.

The previously explained trend can be seen in Figure 13.

Figure 13

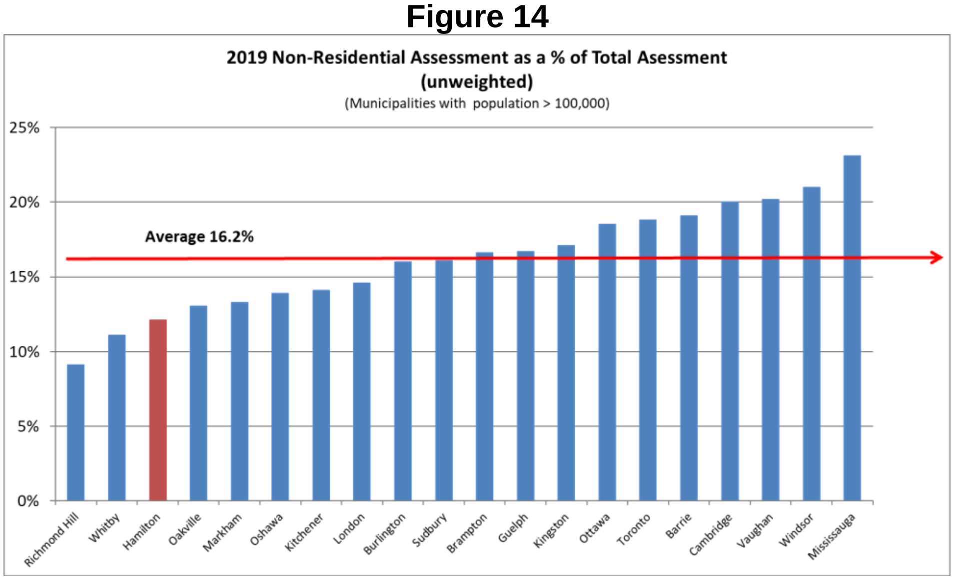


Residential versus Non-Residential Split

Hamilton's 2019 unweighted assessment is comprised of 87.9% Residential and 12.1% 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 83.8% Residential and 16.2% Non-Residential.

Figure 14 illustrates these results.

Figure 14



At 12.1%, Hamilton's current share of non-residential assessment has been among the lowest during the study period as shown in Figure 15.

Figure 15

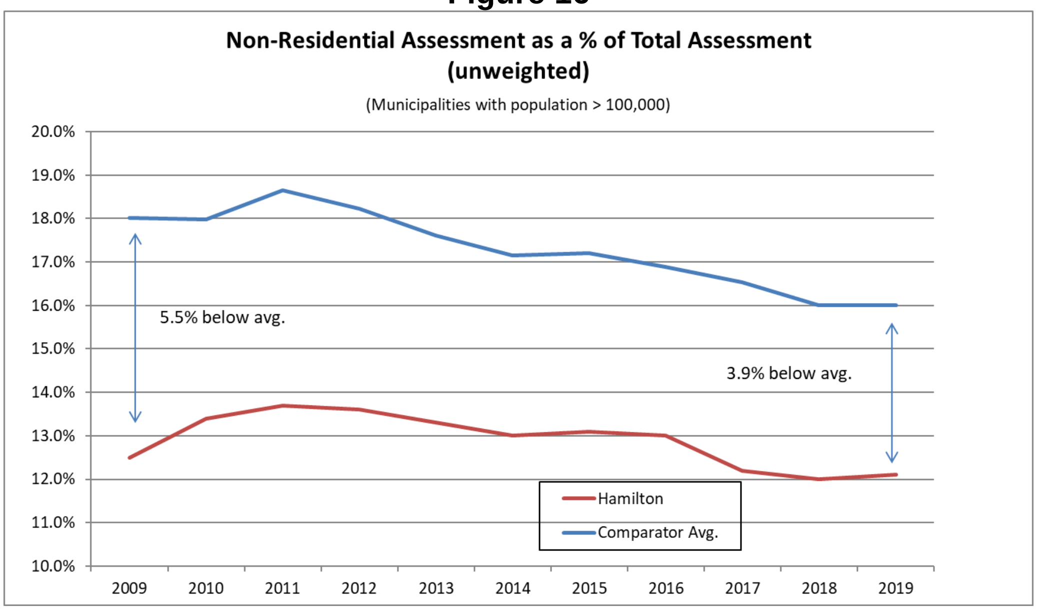
RESIDENTIAL VS. NON-RESIDENTIAL ASSESSMENT 2009 - 2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Residential	87.5%	86.6%	86.3%	86.4%	86.7%	87.1%	87.0%	87.0%	87.8%	88.0%	87.9%
Non-Residential	12.5%	13.4%	13.7%	13.6%	13.3%	12.9%	13.0%	13.0%	12.2%	12.0%	12.1%

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. Additional details on the assessment growth in the City can be found in Report FCS20019 "2019 Assessment Growth".

Figure 16



In 2009, the non-residential assessment share of total assessment in the comparable municipalities group had an average of 18.0% while Hamilton was at 12.5%. For 2019, the share has been reduced to 16.0% and 12.1%, respectively. In the last few years, the difference between Hamilton and comparable municipalities has been relatively stable at approximately 3.9%.

Figure 17 shows the top three municipalities with highest proportion of unweighted assessment per property class.

Figure 17
MUNICIPALITIES WITH HIGHEST PROPORTION OF UNWEIGHTED ASSESSMENT PER PROPERTY CLASS

Residential		Multi-Residential		Commercial		Industrial	
Gravenhurst	90.8%	Waterloo	9.7%	Niagara Falls	24.6%	Ingersoll	6.6%
Georgina	90.5%	Kingston	8.4%	Cornwall	23.5%	St. Mary's	6.4%
Richmond Hil	89.7%	Elliot Lake	8.3%	Hawkesbury	22.7%	North Dumfries	5.5%

Overall, Hamilton has experienced significant total assessment growth in the last several years, with building permits exceeding $1 B in the last seven years. Most of that 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 does not translate into additional revenue for the City. Another factor that is negatively affecting the ratio of Residential versus Non-Residential assessment is the increasing number of succesful appeals and ongoing assessment reviews by Municipal Property Assessment Corporation (MPAC) in the Commercial and Industrial property classes. Additional details on the assessment growth in the City can be found in Report FCS20019, “2019 Assessment Growth”.

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 18.

Figure 18
2019 Tax Ratios by Property Class

	Multi-Residential	Commercial	Industrial
Barrie	1.0000	1.4331	1.5163
Brampton	1.7050	1.2971	1.4700
Guelph	1.8254	1.8400	2.2048
Hamilton	**2.5671**	**1.9800**	**3.3696**
Kingston	1.8000	1.9800	2.6300
London	1.7491	1.9200	1.9200
Mississauga	1.3461	1.5007	1.6266
Ottawa	1.4008	1.8249	2.5521
Thunder Bay	2.2850	2.1152	2.4151
Toronto	2.3444	2.7800	2.7632
Windsor	2.0000	2.0187	2.3200
Provincial Threshold	**2.7400**	**1.9800**	**2.6300**

As shown in Figure 18, all municipalities have a Multi-Residential tax ratio below the Provinicial 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 Thunder Bay, Toronto and Windsor, all municipalities have a tax ratio at or below the Provinical Threshold.

Hamilton, Greater Sudbury and Toronto are the only municipalities that have an Industrial tax ratio above the Provinical 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.

APPENDICES AND SCHEDULES ATTACHED

N/A

GR/dt