



Hamilton

# INFORMATION REPORT

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	October 6, 2021
<b>SUBJECT/REPORT NO:</b>	2020 Municipal Tax Competitiveness Study (FCS21083) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
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<b>SUBMITTED BY:</b>	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
<b>SIGNATURE:</b>	

## COUNCIL DIRECTION

Not Applicable

## INFORMATION

Executive Summary

The City of Hamilton has participated in an annual tax competitiveness study since 2001. Report FCS20183 provides information for 2020 with comparison to prior years and other municipal comparators.

Overall, the 2020 data suggests that Hamilton's relative tax burden is trending towards the comparator groups and is becoming more competitive across metrics in the residential, commercial and industrial property classes.

**Residential:** While the City's property taxes in the residential property class are considered high overall, they have continued to converge with comparator groups. In 2015, Hamilton's detached bungalow property taxes were 17% higher than the ten most proximate municipalities, whereas in 2020, the difference had decreased to 9.5%. On average, the City has a residential tax rate of 4.6% of average household income. The effective residential property tax rate has continued to fall from nearly 1.4% in 2015 to 1.19% in 2020. Overall, Hamilton is trending in a much more competitive direction in this property class.

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**Commercial:** The City is very competitive in the commercial property class, especially when examining the tax rate for office buildings which is 13% lower than the 10 most proximate municipalities.

**Industrial:** The City's property taxes are very competitive in the large industrial property class (41% below the 10 most proximate municipalities in 2020). The trend has been improving for the standard industrial property class, as the tax rate in 2020 was 15.5% higher than the 10 most proximate municipalities which is an improvement from being 32% higher in 2015.

**Non-Residential versus Residential Split:** Hamilton's assessment is comprised primarily of residential properties. The proportion of non-residential assessment as a percentage of the total assessment is 14.38% and the residential assessment as a percentage of the total assessment is 85.62%. This translates to a large tax burden borne by the residential property class. Hamilton's proportion of non-residential assessment is 33% lower than the 10 most proximate municipalities.

#### Details

The City of Hamilton participates annually in the Municipal Study conducted by BMA Management Consulting Inc. which examines the relative property tax competitiveness of 123 municipalities in Ontario. Report FCS21083 provides an overview of the City of Hamilton's tax burden in 2020 and preceding years relative to other comparator municipalities. The complete Municipal Study has been made available through the City's website (<https://www.hamilton.ca/home-property-and-development/property-taxes/municipal-tax-competitiveness-study>).

Staff has conducted an analysis of the City of Hamilton's tax burden relative to two primary comparator municipality groups based on population similarity and geographic proximity. The 26 participating municipalities with the most similar population to the City of Hamilton were selected for the population similarity comparator group. The 10 most proximate municipalities to the City of Hamilton participating in the Municipal Study were selected for the geographic proximity comparator group.

Appendix "A" to Report FCS21083 lists the municipalities included in each comparator group. The selection of comparators utilized in Report FCS21083 represents a systematic enhancement of the methodology applied in previous reports. While the analytical conclusions are consistent with previous reports, Report FCS21083 will display slightly different and more accurate comparator results than presented in previous reports.

The objective of Report FCS21083 is to identify general trends in the municipal tax competitiveness of the City of Hamilton. Several factors impact a municipalities tax burden and many municipalities included in the Study are affected differently. Factors that influence the tax burden may include:

- Variations in the specific type sample properties included in the Study
- Tax policies (e.g. tax ratios, Provincial levy restrictions on the Multi-Residential, Commercial and Industrial property classes)
- Optional property classes, area ratings
- Non-uniform education tax rates in the non-residential property classes
- Differences in level of municipal service provided
- Municipal access to other sources of revenue (provincial subsidies, gaming and casino revenue, etc.)

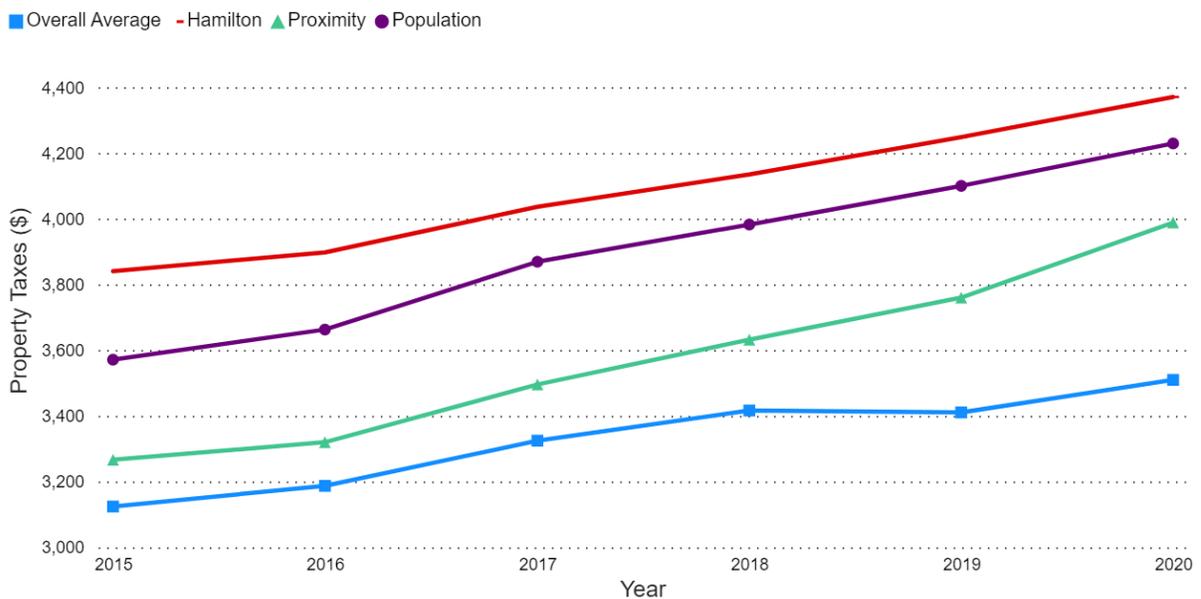
Report FCS21083 will examine Hamilton’s relative tax burden in the Residential, Multi-Residential, Commercial and Industrial property classes. Overall, the data suggests that Hamilton’s relative tax burden is becoming more competitive.

### Residential Property Class

Tax Competitiveness for the residential property class is measured on the taxes paid by a detached bungalow. Figure 1 to Report FCS21083 depicts the relative stability of Hamilton’s residential property taxes for the detached bungalow property class in relation to the comparator groups. In 2015, Hamilton’s taxes were 17% higher than the proximity comparator group, whereas in 2020, the difference had decreased to 9.5%. Compared to the population group, the difference has decreased from 7.5% in 2015 to 3% in 2020. In 2020, Hamilton’s taxes were 24% higher than the overall average.

The BMA Study has categorized Hamilton’s residential property taxes as high in comparison to other study participants.

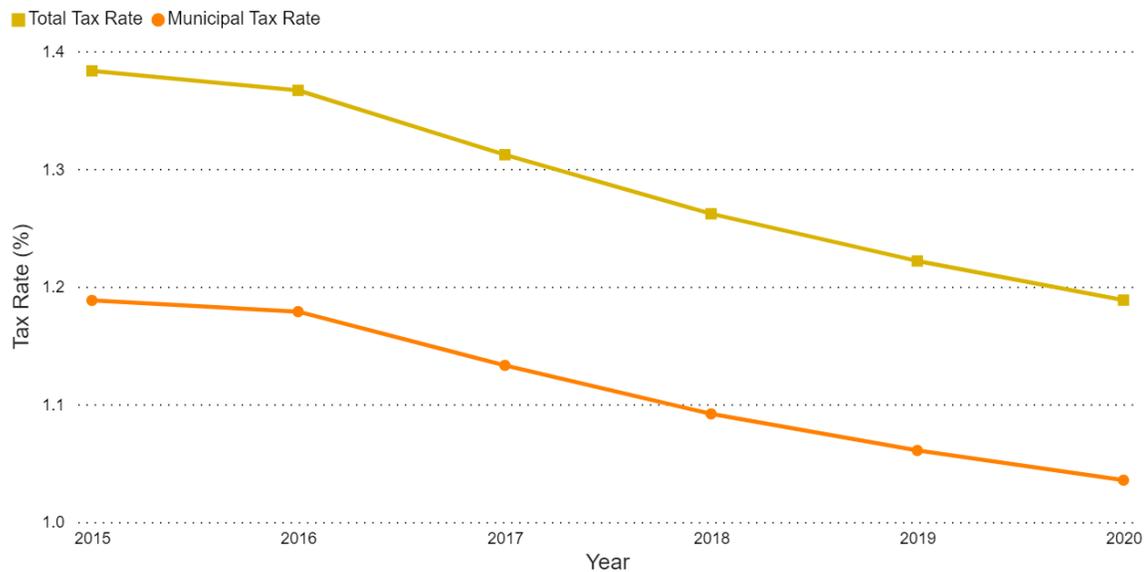
**Figure 1: Residential Property Taxes – Detached Bungalow**



### Effective Residential Property Tax Rate

The effective residential property tax rate is a representation of the tax rate as a percentage of property value. This indicator demonstrates the capacity level municipalities may have to increase taxes. Those with the lowest effective property tax rates have the greatest capacity while those at the higher end have less capacity. Figure 2 to Report FCS21083 depicts the year-to-year relative stability of Hamilton's total effective tax rate, which was 1.19% in 2020 and has had a slight downward trend since 2017, which is related to the fact that reassessment has increased at a greater rate than the levy (reassessment was about 6% each year of the 2017-2020 cycle). The municipal effective tax rate follows a similar trend, since the education portion of the tax bill has remained stable since the last reassessment cycle.

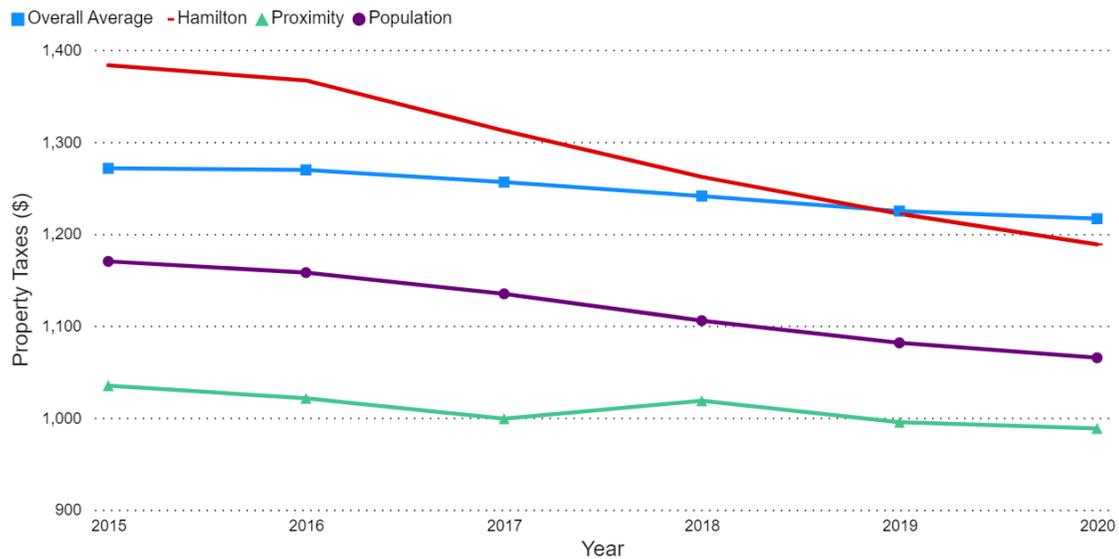
**Figure 2: Effective Residential Property Tax Rate**



### Residential Property Taxes per \$100,000 of Assessed Value

Figure 3 to Report FCS21083 depicts Hamilton's average residential property taxes for every \$100,000 of assessed value. Hamilton's rate has been steadily trending down since 2015 in part due to the increasing assessment value of homes in the City. As of 2020, Hamilton's rate remains 20% higher than proximity comparators and 11.5% higher than population comparators but is below the overall average of study participants.

**Figure 3: Residential Property Taxes per \$100,000 of Assessed Value**

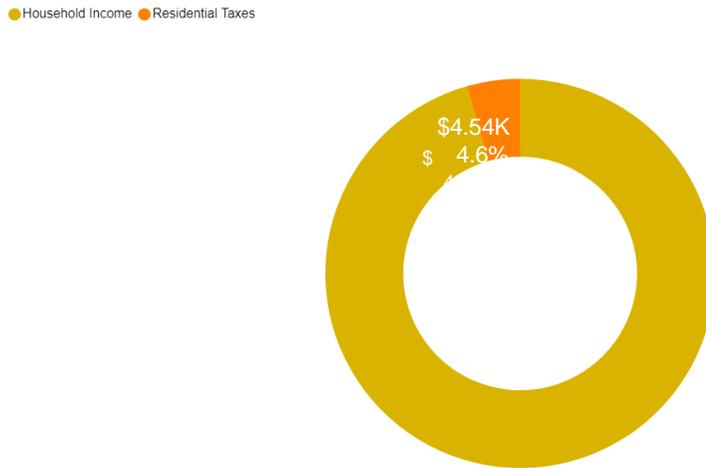


### Residential Property Taxes as a Percentage of Income

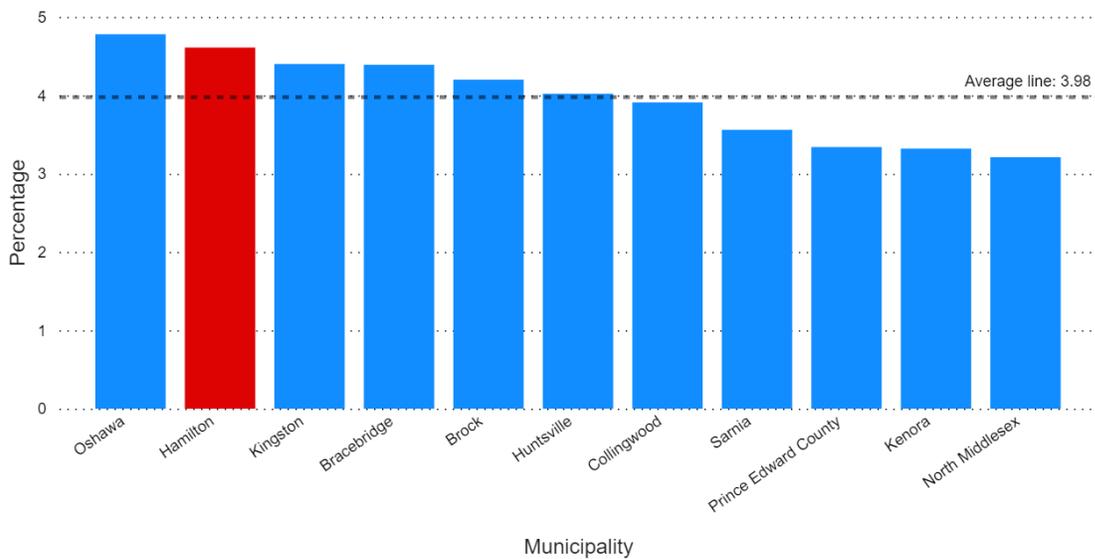
Average household income is an indication of a community's ability to pay for services. As shown in Figure 4 to Report FCS21083, Hamilton's residential property taxes represent a residential property tax burden of 4.6% of the average household income of approximately \$98,500. The overall average household income of all study participants is approximately \$102,280 with an average residential property tax burden of 3.7%. Figure 5 to Report FCS21083 compares Hamilton's residential property tax burden to municipalities with the most similar average household incomes and demonstrates that even when adjusting for household income, Hamilton continues to have one of the highest residential property tax burdens as the average for these municipalities is 3.9%.

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, expenditures need to be reduced (possibly impacting services to residents) or incomes need to increase. Income is a long-term factor influenced by broader economic conditions.

**Figure 4: Residential Property Taxes and Average Household Income – Hamilton**



**Figure 5: Residential Property Taxes as a Percentage of Income**



Overall, Hamilton has shown improvement towards being more competitive which is in line with the relatively low tax increases passed by City Council over the last few years, despite the City continuing to be negatively impacted by the Provincial levy restrictions on the Industrial and Multi-Residential property classes. The reassessment cycle that was scheduled to start in 2020 has been postponed for 2020 and 2021 as a result of the COVID-19 pandemic. The results of the next reassessment and how Hamilton assessment values compare to the rest of the Province will be a key factor on whether the positive trend continues.

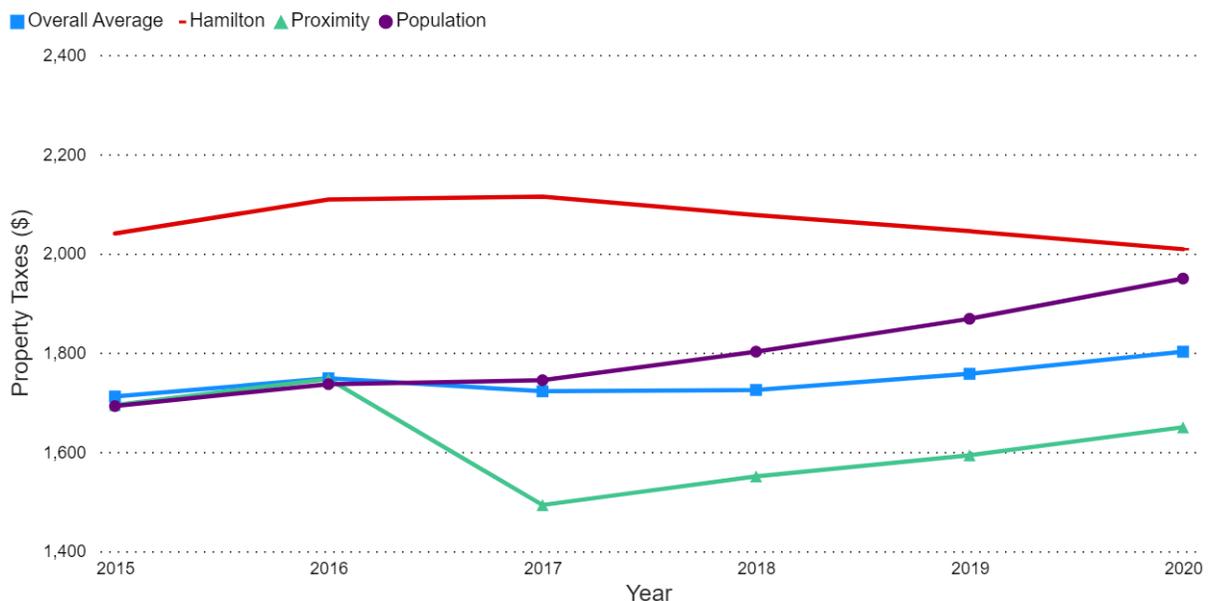
## Multi-Residential Property Taxes

The tax competitiveness for the broader multi-residential property class is measured by taxes imposed on high-rise apartment buildings. Figure 6 to Report FCS21083 depicts property taxes for high-rise apartments on a per unit basis. Hamilton's property taxes in this class are converging with the overall study average and comparator groups. The average of each comparator group has been increasing and Hamilton trends downwards. Hamilton's tax rate is currently 22% above the proximity comparator group, 3% above the population comparator group and 11% above the overall average.

Ongoing reductions in the tax burden of the multi-residential property class are expected due to the 2017 legislation enacted by the Province to freeze the tax burden for multi-residential properties in municipalities where the tax ratio is above 2.0. As of 2021, the multi-residential tax ratio in Hamilton was 2.4407. Additional information on the multi-residential property class is available in Report FCS18002, "Update Respecting Multi-Residential Taxation".

The BMA Study has categorized Hamilton as having mid-range residential property taxes for the high-rise apartment property class in comparison to other study participants.

**Figure 6: Multi-Residential Property Taxes – High-Rise Apartment**



## Commercial Property Class

There are several challenges to consider when measuring the competitiveness of the Commercial property class across the Province. Challenges due to the evolving economic landscape include:

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- Closure of major anchor retailers
- Entry of new, high-end international retailers into the Canadian marketplace
- Changing shopping patterns of Canadian consumers / online shopping
- Volume of appeals filed by owners / operators

Figure 7 to Report FCS21083 summarizes the dollar value of the property taxes per square foot imposed for neighbourhood shopping centres. Neighbourhood shopping centres have been defined as small centres which are comprised of retail tenants who cater to everyday needs (including pharmacies, convenience stores, hardware stores etc.) and range in size from approximately 4,000 to 100,000 square feet. Hamilton’s property taxes per square foot have been relatively stable since 2015 while other comparator groups have increased. Hamilton’s tax rate in 2020 was 26% higher than the proximity comparator group compared to 51% higher than the proximity comparator group in 2015.

**Figure 7: Commercial Property Taxes – Neighbourhood Shopping Centre**

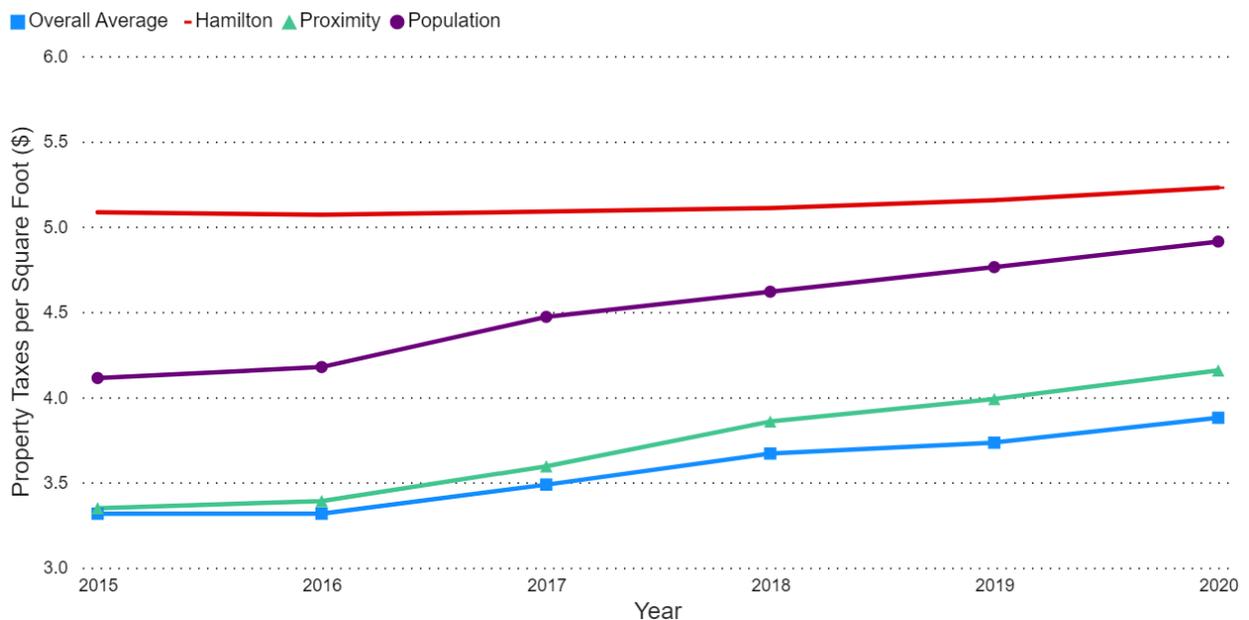
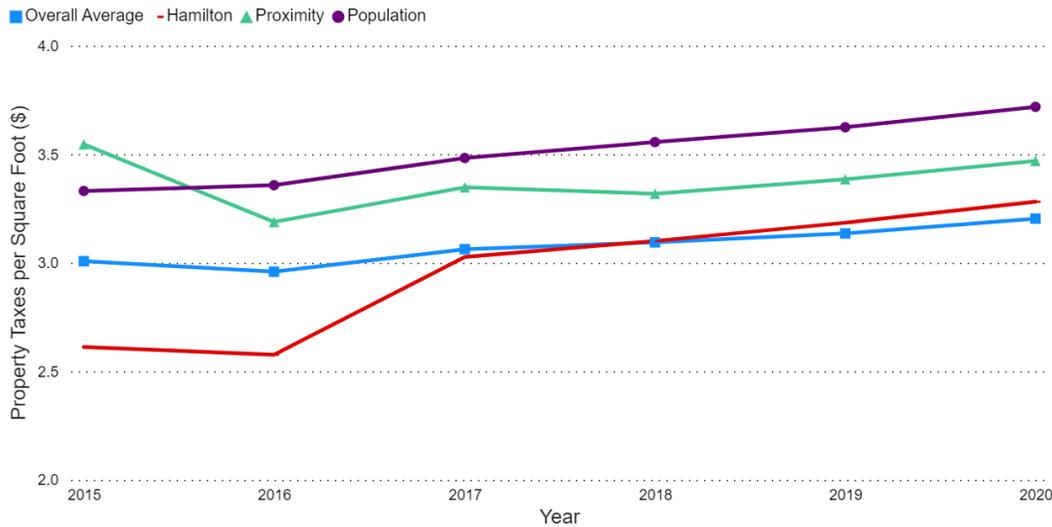


Figure 8 to Report FCS21083 summarizes the dollar value of the property taxes per square foot of gross leasable area imposed for office buildings. Office building data is focused on buildings in prime locations within each municipality. Hamilton’s property taxes for this property type is quite competitive in comparison to proximate municipalities being 5.7% lower than the proximity comparator group in 2020 and 13% lower than the population group. Compared to the overall average it surpassed the average in 2018 but remains only 2% higher than the average in 2020.

**Figure 8: Commercial Property Taxes – Office Building**



**Industrial Property Class**

Figure 9 to Report FCS21083 summarizes the dollar value of property taxes imposed per square foot for standard industrial buildings in the industrial property class. Standard industrial buildings are less than 125,000 square feet. Since 2015, the tax rate for Hamilton and the overall average have been relatively stable. In 2020, Hamilton’s tax rate per square foot was 15% higher than the proximity comparator group and 23% higher than the population group. It is, however, 55% higher than the overall average. The general trend is improving as in 2015 Hamilton’s tax rate was 32% higher than the proximity comparator group.

**Figure 9: Industrial Property Taxes – Standard Industrial**

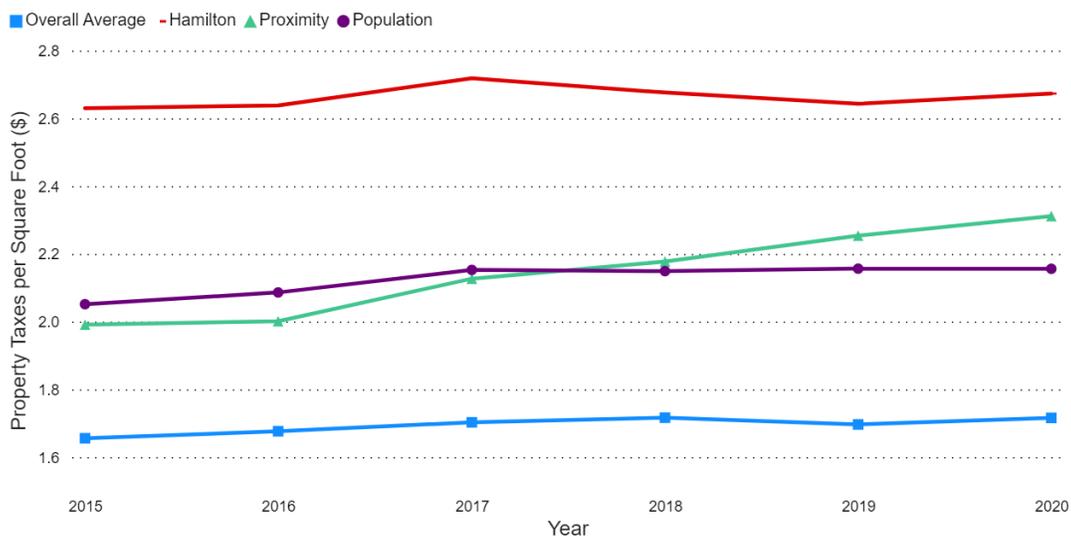
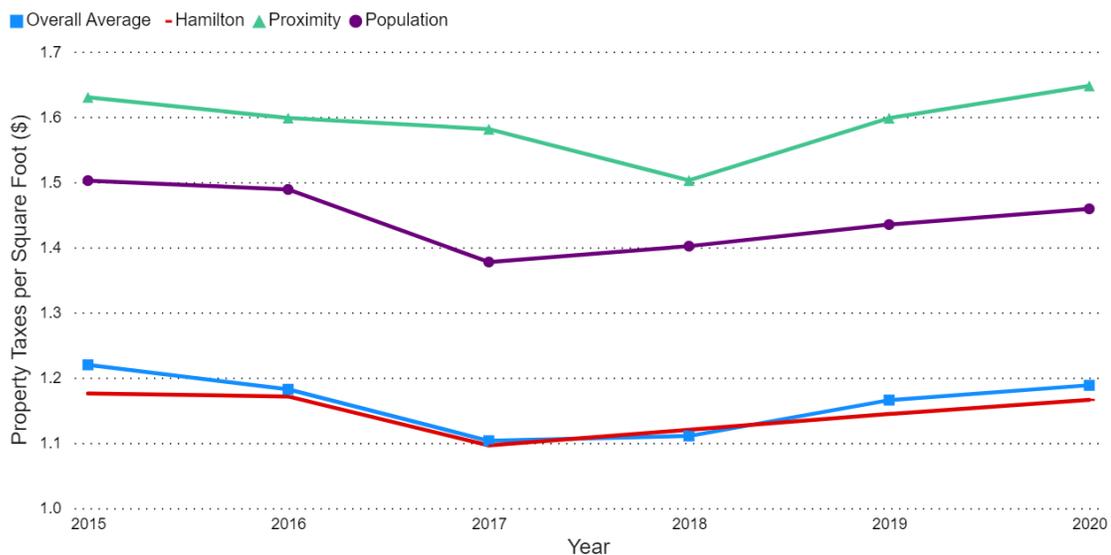


Figure 10 to Report FCS21083 summarizes the dollar value of property taxes imposed per square foot for large industrial buildings in the industrial property class. Large industrial buildings are greater than 125,000 square feet. Hamilton is exceptionally competitive in the large industrial property class where Hamilton’s tax rate is below all comparator groups. In 2020, Hamilton’s tax rate was 41% below the proximity comparator group.

**Figure 10: Industrial Property Taxes – Large Industrial**

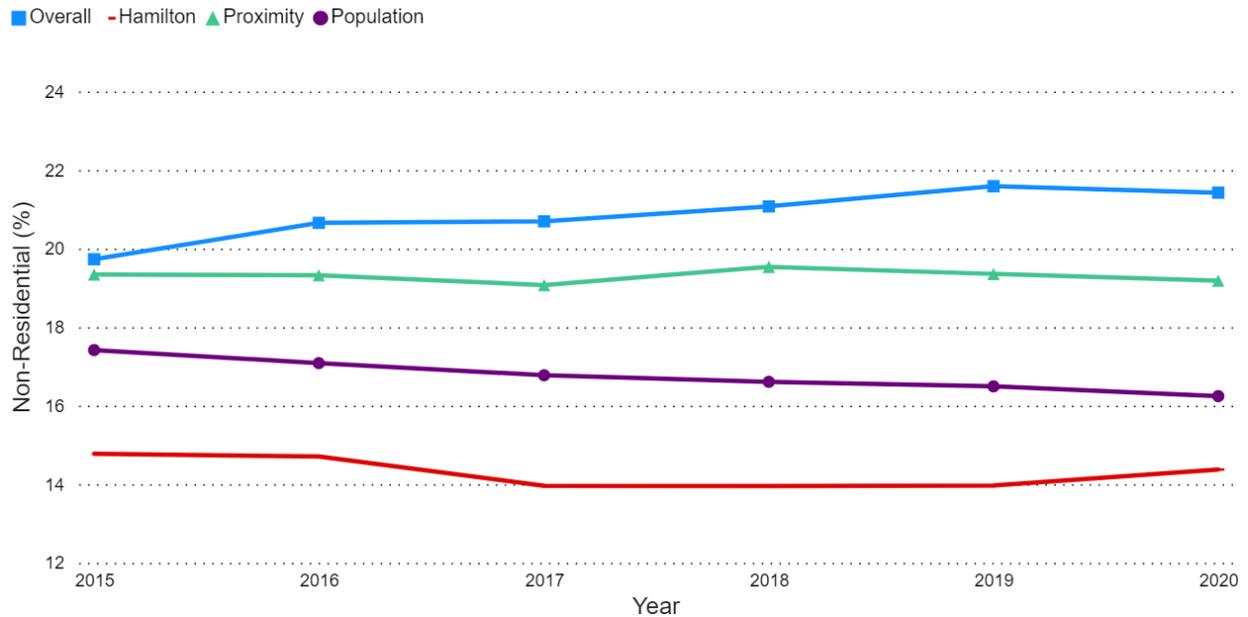


The gap between the comparators and Hamilton can be attributed to a variety of factors including the overall decline of the manufacturing industry in Ontario which has left many municipalities with a reduced assessment base due to appeals, vacancies, etc. In 2020, the Business Education Taxes (BET) were reduced across the Province for properties in the commercial and industrial property classes beginning in 2021. For Hamilton, this meant a reduction of 10% in the rate for the commercial property class and a reduction of 25% in the rate for the industrial property class, nevertheless some other municipalities had a more significant reduction. The impact on how this decision impacts Hamilton and the comparator groups will be clearer in the coming years.

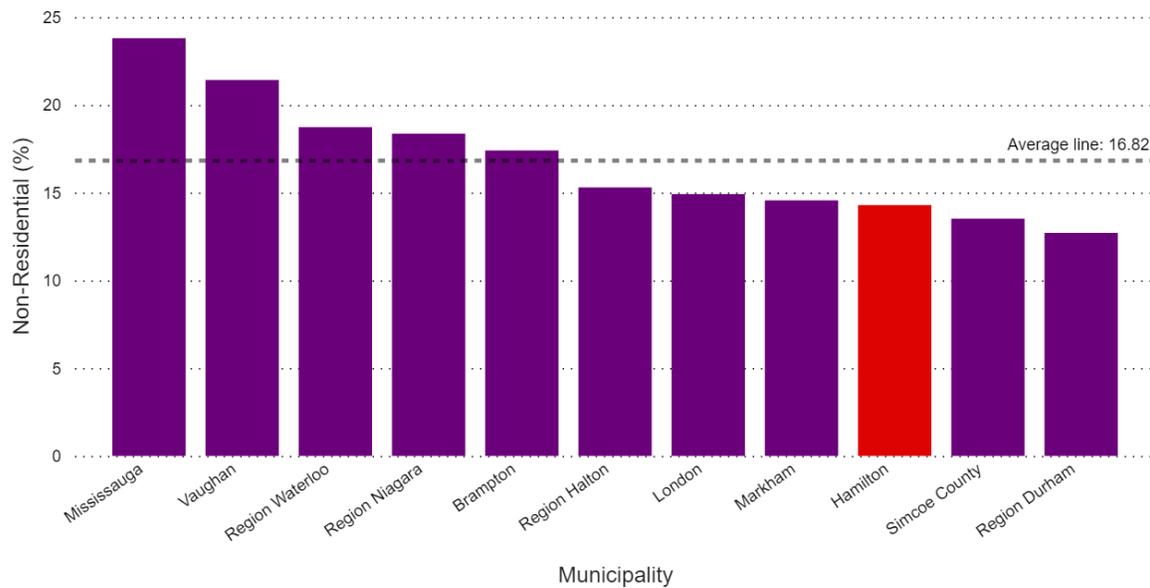
#### Residential versus Non-Residential Split

Hamilton’s proportion of non-residential assessment as a percentage of the total assessment is 14.4% and the residential assessment as a percentage of the total assessment is 85.6%. The non-residential assessment percentage figure is lower than all comparator groups as shown in Figures 11 and 12 to Report FCS21083. This translates to a larger proportional tax burden borne by the residential property class than in other municipalities.

**Figure 11: Non-Residential Assessment as a Percentage of Total Assessment**



**Figure 12: Non-Residential Assessment as a Percentage of Total Assessment – Proximity Comparators**



Overall, Hamilton has experienced significant total assessment growth in the last several years, with building permits exceeding \$1 B in the last eight 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 largely by institutional properties (hospitals, educational institutions) which does not translate into additional property tax 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. Additional details on the assessment growth in the City can be found in Report FCS21016, “2020 Assessment Growth”.

## **APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report FCS21083 – Comparator Groups

AB/GR/dt