INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	July 9, 2014
SUBJECT/REPORT NO:	Municipal Tax Competitiveness Study - 2013 (FCS14050) (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 report on the results of this study – mainly 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 information 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).

Generally, when compared to the entire survey (which currently includes 98 Ontario municipalities ranging in population from 4,800 to 2.7 million), 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. This smaller, more representative sample, referred to as the comparators, is now made up of 16 municipalities (previously there were 18; Brantford and Chatham-Kent no longer participate). Staff have selected these municipalities based on the criteria that the municipality has been included in the study since 2001 and either has a population greater than 100,000 or is in close proximity to the City of Hamilton.

When comparing the tax burden on specific property classes to the results of previous years, some improvements have been seen in Hamilton's position when compared to Hamilton's comparators. In the case of the Residential property class, the tax burden continues to increase on a yearly basis, but its relative position has shown significant progress in the last few years. Notable improvements, in terms of tax burden, have also been seen in most of the non-residential property classes. One exception to this is the Standard Industrial property class, which has seen significant increases above the comparators over the last three years, mainly due to reassessment impacts (whereby the Hamilton Standard Industrial properties in the study are increasing greater than the average increase for the Hamilton Industrial property class as a whole) and the Provincial Business Education Tax (BET) reduction plan, which has benefited comparator municipalities to a far greater extent than the City of Hamilton.

What influences tax burden?
It should be noted that the objective of this report is to identify the *general* trend, 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 of which include;

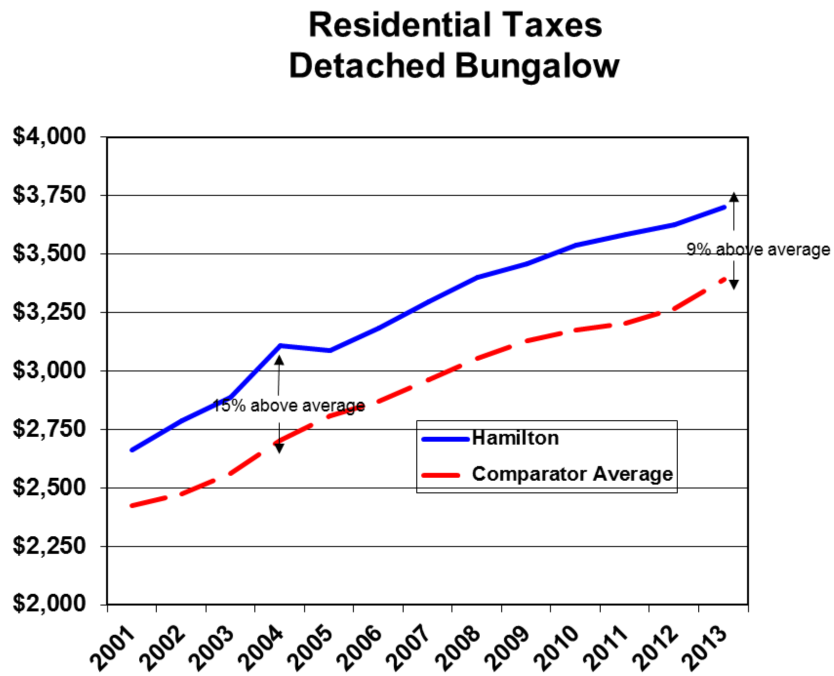
- changes to the sample properties included in the study (either for Hamilton or any of the comparator municipalities)
- sample properties experiencing an impact that differs from the respective municipal average (change in value either due to reassessment or a physical change to the property)
- tax policies (i.e. reduction of tax ratio)
- Provincial Business Education Tax (BET) reduction plan (particularly for municipalities above the annual ceiling rates)

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.

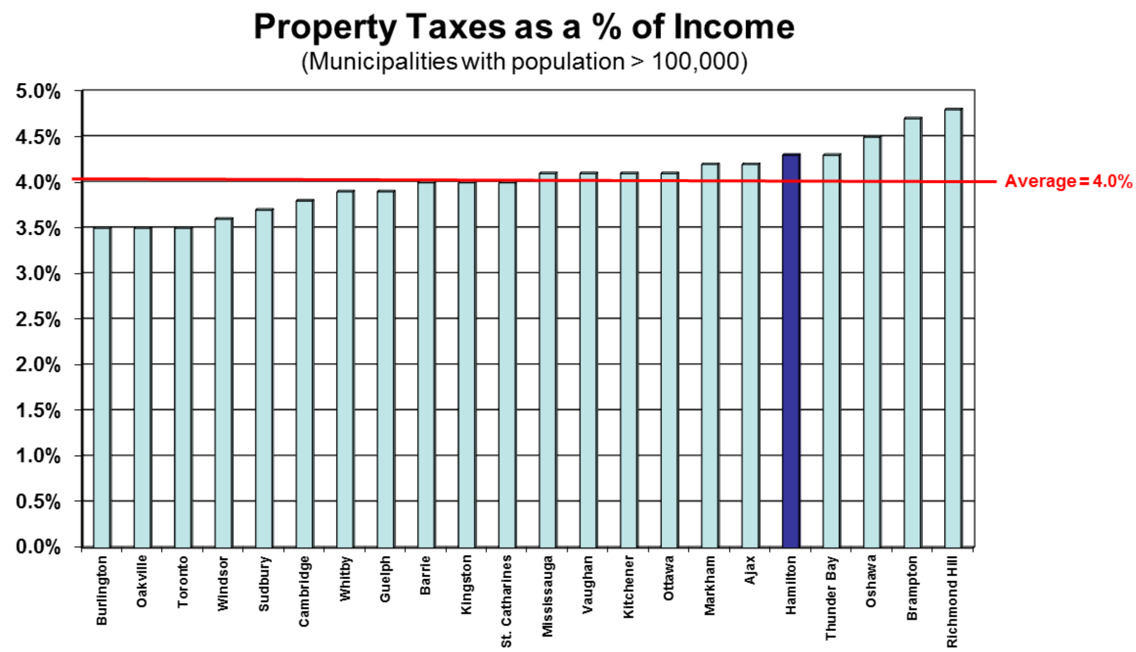
Residential Property Taxes

As shown below, in 2013 Hamilton was 9% above the comparator average property taxes for a detached bungalow.



Hamilton has improved its position even though it continues to be negatively impacted by the levy restriction on the Industrial property class. Hamilton is just one of three municipalities in the comparator group (16) with a levy restriction. This levy restriction results in an added tax burden on Hamilton's Residential property class. Despite this obstacle, Hamilton's residential taxes have declined from a high of 15% above the comparator average in 2004 to its current position of 9% above the comparator average (In 2012 Hamilton was 11% above).

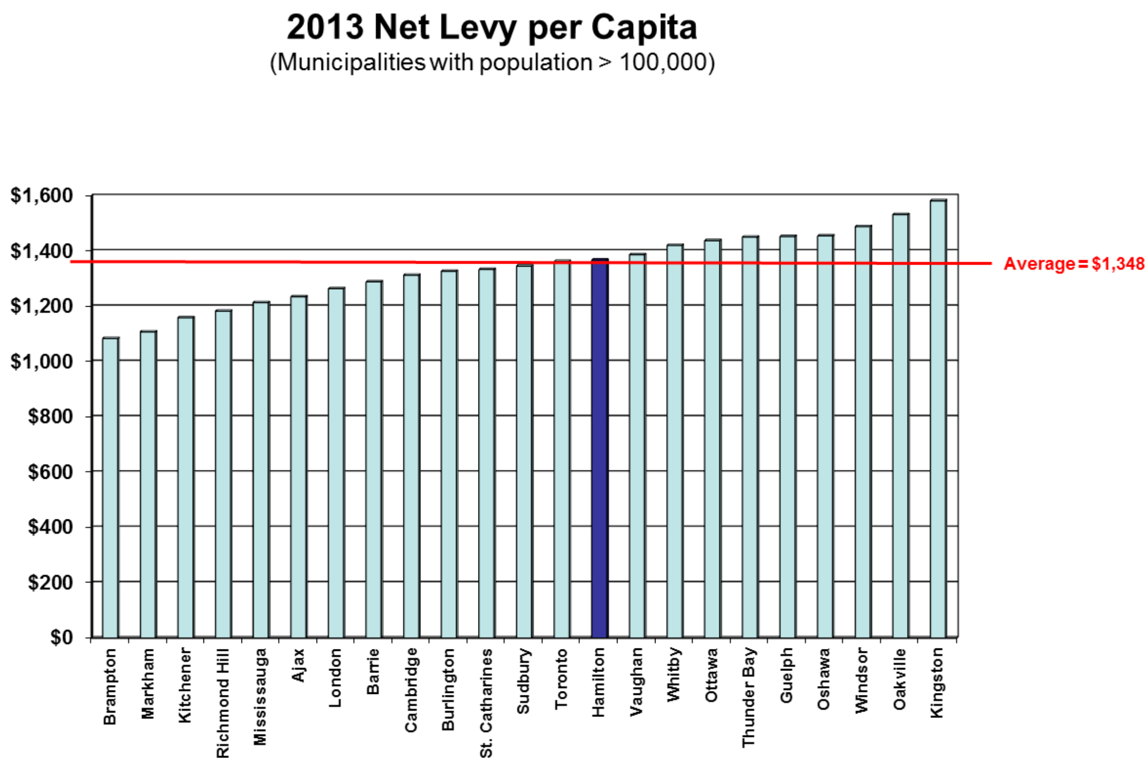
As indicated in the table below, with Hamilton's above average residential taxes, combined with a relatively low average household income, Hamilton continues to be ranked "high" when comparing property taxes as a percentage of income.



In 2013, Hamilton's property taxes as a percentage of income was 4.3%, which is greater than the 4.0% average for larger municipalities (municipalities with populations greater than 100,000), and continues to rank high in this comparator group.

Although Hamilton is still one of the highest among the larger municipalities, its position has had a significant improvement over the last few years, whereby Hamilton's average property taxes as percentage of income was 6.2% in 2008, which was 32% above the larger municipalities sample average. By 2013 this difference has been reduced to 4.3% or 7% above the average.

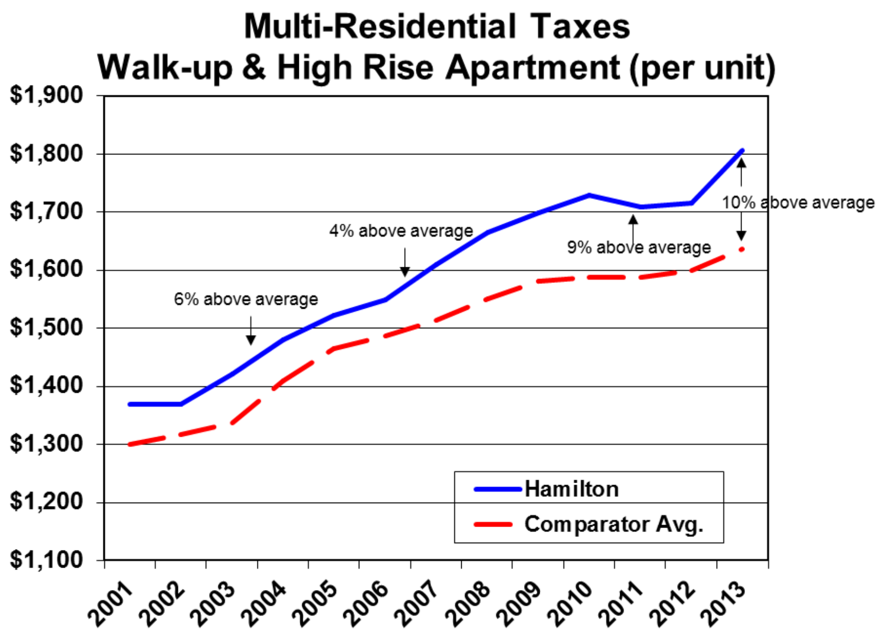
Hamilton's average household income of $88,582 continues to be below the average of the larger municipalities by approximately 10%.



As shown above, Hamilton's 2013 levy per capita of $1,367 is basically equal to that of the average levy per capita of larger municipalities (at $1,348). Again, these results are consistent with previous years. Property taxes, however, are levied based on assessment, not on a per capita basis. Hamilton's lower assessment base, primarily when compared to the GTA municipalities, has a negative impact on Hamilton's ranking of property taxes (due to less assessment base to spread the costs of municipal services).

Multi-Residential Property Taxes

After a few years with a declining trend, Hamilton's average taxes per unit for an apartment (both Walk-up and High Rise) rose slightly to 10% above the comparator average which is similar to the Residential Property class (which is 9% above the average). This is primarily due to increasing assessments in the Multi-Residential class.



Commercial and Industrial Property Classes

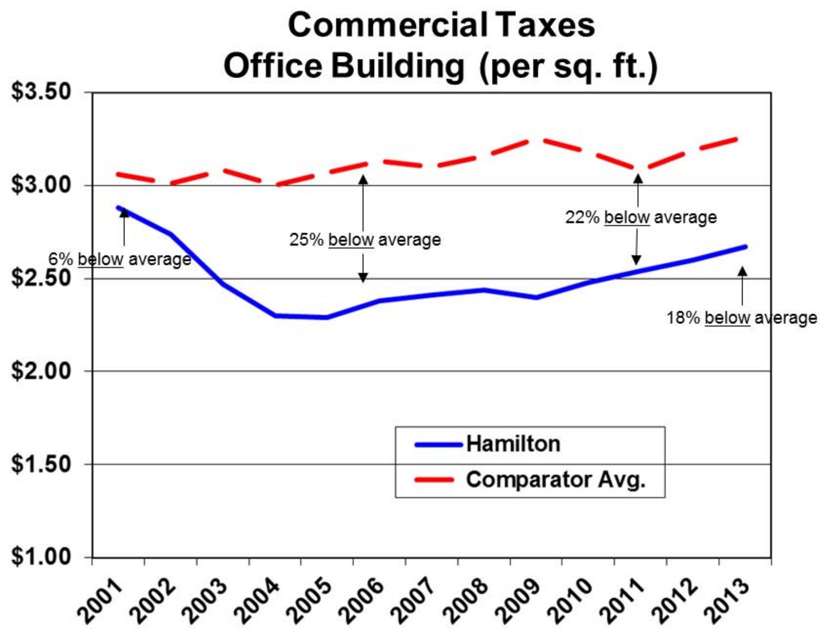
Hamilton's tax burden in the Commercial and Industrial property classes have improved significantly when compared to the first few years of the study. This can be attributed to several factors, primarily as a result of:

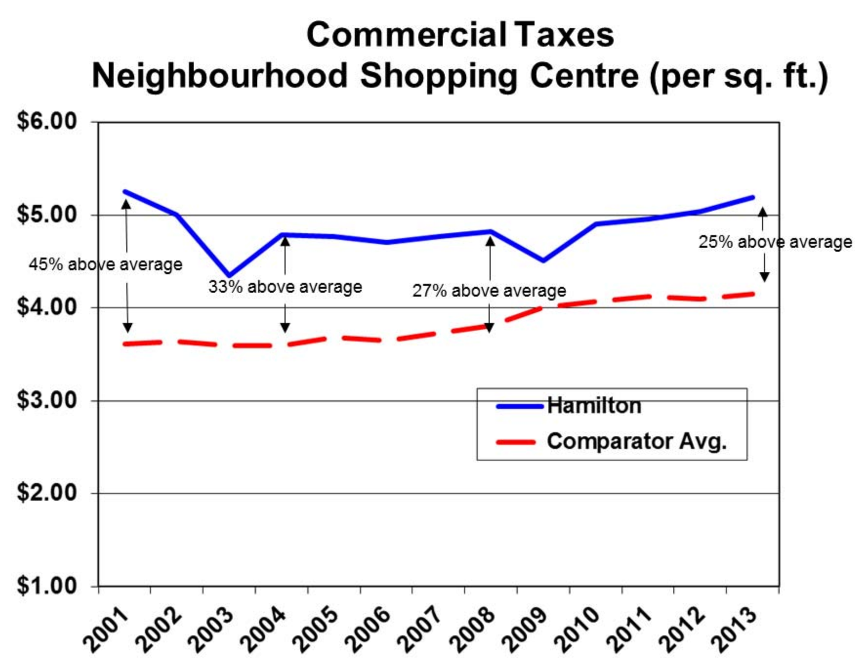
- a commitment to lower business taxes during the early years of amalgamation,
- the Province's commitment to lower business education taxes,
- generally favourable reassessment impacts; and
- the levy restriction (for property classes above the Provincial threshold).

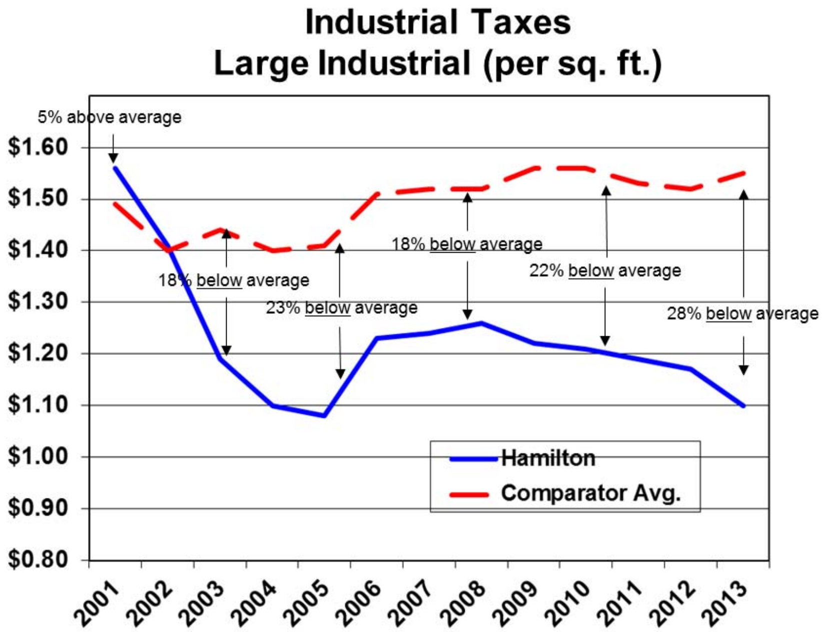
Over the last several years, however, Hamilton has remained relatively stable.

The graphs on the following pages illustrate how the non-residential property classes have either maintained their position well below the comparator average (Office

Buildings, Large Industrial) or have generally made improvements towards the comparator average (Neighbourhood Shopping). The exception to this is the Standard Industrial class which has seen increases in the last few years.





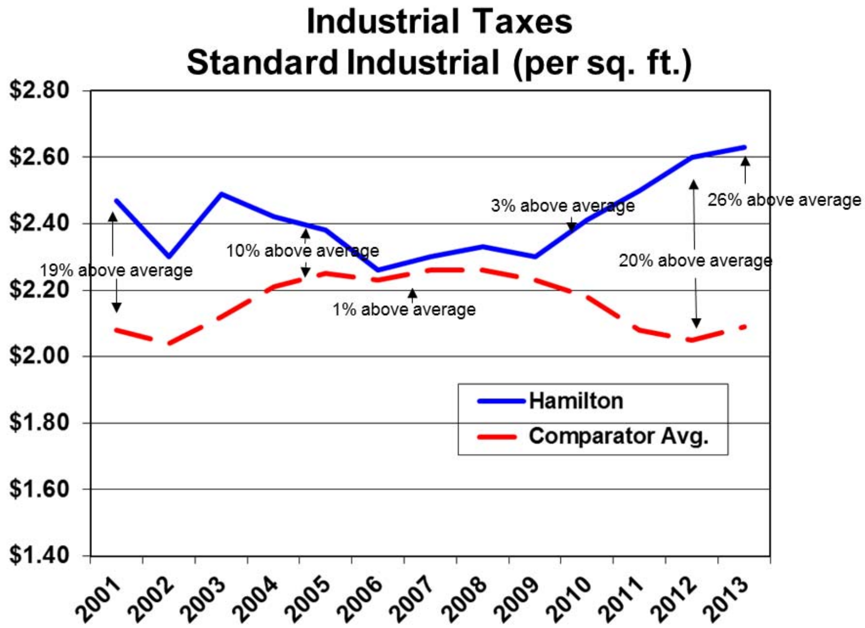


The table below further highlights the general, positive trend in Hamilton's non-residential taxes per square foot.

	Taxes per sq. ft.					
	2001 Study		2013 Study		% Change	
	Hamilton	Comparator	Hamilton	Comparator	Hamilton	Comparator
Office Building	$ 2.88	$ 3.06	$ 2.67	$ 3.26	-7%	6%
Neighbourhood Shopping	$ 5.25	$ 3.61	$ 5.19	$ 4.15	-1%	15%
Large Industrial	$ 1.56	$ 1.49	$ 1.11	$ 1.55	-29%	4%
Standard Industrial	$ 2.47	$ 2.08	$ 2.63	$ 2.09	6%	1%

As shown above (with the exception of Standard Industrial), non-residential taxes per square foot have fallen in Hamilton when compared to the results of the 2001 study, while the comparator average has increased.

As indicated below, the results in the Standard Industrial class have been somewhat volatile. Hamilton's significant increase over the last four years in the Standard Industrial class, when measured against the comparator average, may be attributed to impacts of the reassessment on the Hamilton sample properties (which increased greater than the average for the property class as a whole), as well as the Provincial Business Education Tax (BET) reduction plan, which has significantly benefited some of the comparator municipalities.

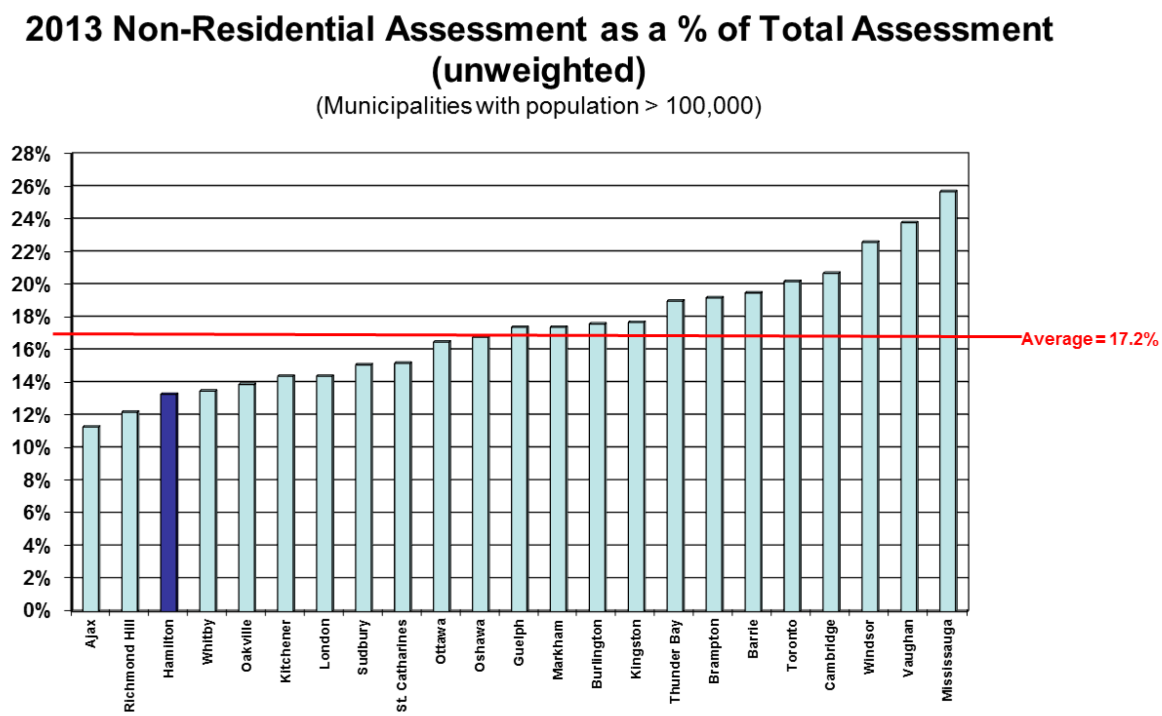


As shown above, prior to 2010, the tax burden of the Standard Industrial class was improving when compared to the comparator average. The Standard Industrial increase in the last four years may be more a result of the reassessment (in which the Hamilton properties selected had above average reassessment impacts) and the Provincial Business Education Tax (BET) reduction plan, which lowered the Industrial education tax rate to the annual ceiling. The City of Hamilton did not experience a similar reduction to its Industrial education tax rate, as it has been below the annual ceiling. As education taxes comprise approximately 40% of the total Standard Industrial tax rate, this has reduced the cost in the comparator average, thereby negatively impacting Hamilton's ranking when compared to this average.

The Provincial BET reduction plan has been temporarily frozen beginning in 2013. As a result, starting in 2013 the target maximum BET rate and the annual ceiling rates are reset to offset reassessment and the assessment phase-in program, but further reductions are no longer offered. Since many comparator municipalities had benefited from the Provincial BET reduction plan until 2013, with their industrial BET rates dropped significantly to the annual ceiling rate, we might now see lower differences between Hamilton and those municipalities which were previously benefiting from the plan.

Residential vs. Non-Residential Split

Hamilton's 2013 unweighted assessment is comprised of 86.7% Residential and 13.3% Non-Residential. Hamilton's non-residential assessment percentage is equal to the 2013 full study average. However, as shown in the graph below, 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 82.8% Residential vs. 17.2% Non-Residential.



The following table identifies Hamilton's Residential vs. Non-Residential split since 2001. As shown below, Hamilton's share of Non-Residential Assessment declined from 2001 to 2009. Commencing in 2010, however, Hamilton's share of Non-Residential assessment has started to rebound and has been relatively stable since.

										includes PILs			
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Residential	85.6%	85.6%	85.7%	86.5%	86.4%	87.3%	87.4%	87.4%	87.5%	86.6%	86.3%	86.4%	86.7%
Non-Residential	**14.4%**	**14.4%**	**14.3%**	**13.5%**	**13.6%**	**12.7%**	**12.6%**	**12.6%**	**12.5%**	**13.4%**	**13.7%**	**13.6%**	**13.3%**

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.