



INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	June 22, 2015
SUBJECT/REPORT NO:	Municipal Tax Competitiveness Study - 2014 (FCS15042) (City Wide)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

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 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 95 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 previous years, some improvements have been seen in Hamilton's position when compared to the comparators. Office building and large industrial continue to be well below the comparators' average (19% and 23% respectively) and neighbourhood shopping centre has made improvements from a difference of 45% above the comparators' average to 25% above the average. In the case of the Residential property class, over the last 10 years Hamilton's position has improved from 15% above to 9% above the comparator average.

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 (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)

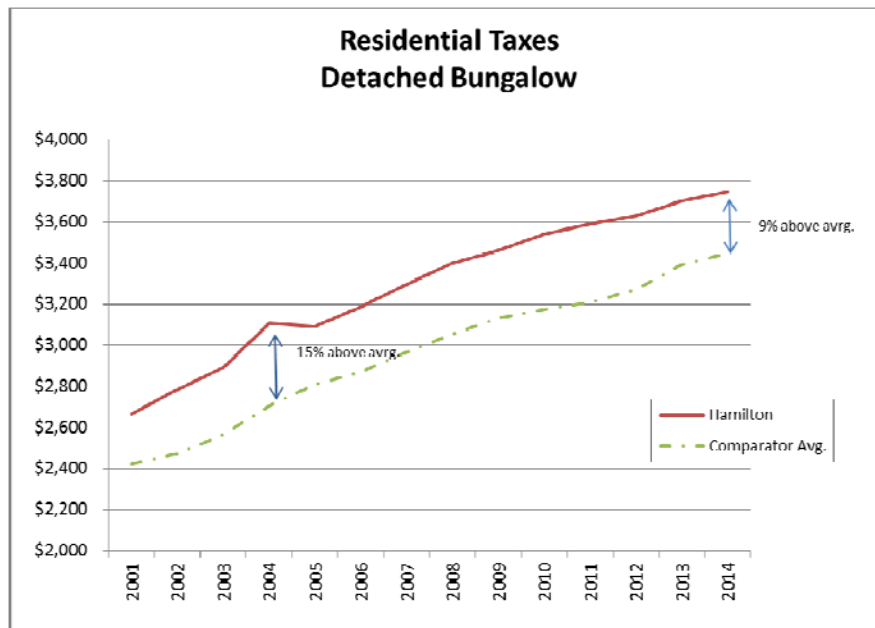
By focusing on the general trends, and not concentrating on the results of one specific year, one can determine if the municipality is moving in the right direction.

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 in Table 1, in 2014 Hamilton average property taxes of \$3,747 for a detached bungalow with a median assessed value of \$289,000 were 9% above the comparator average property taxes, which was the same position for 2013.

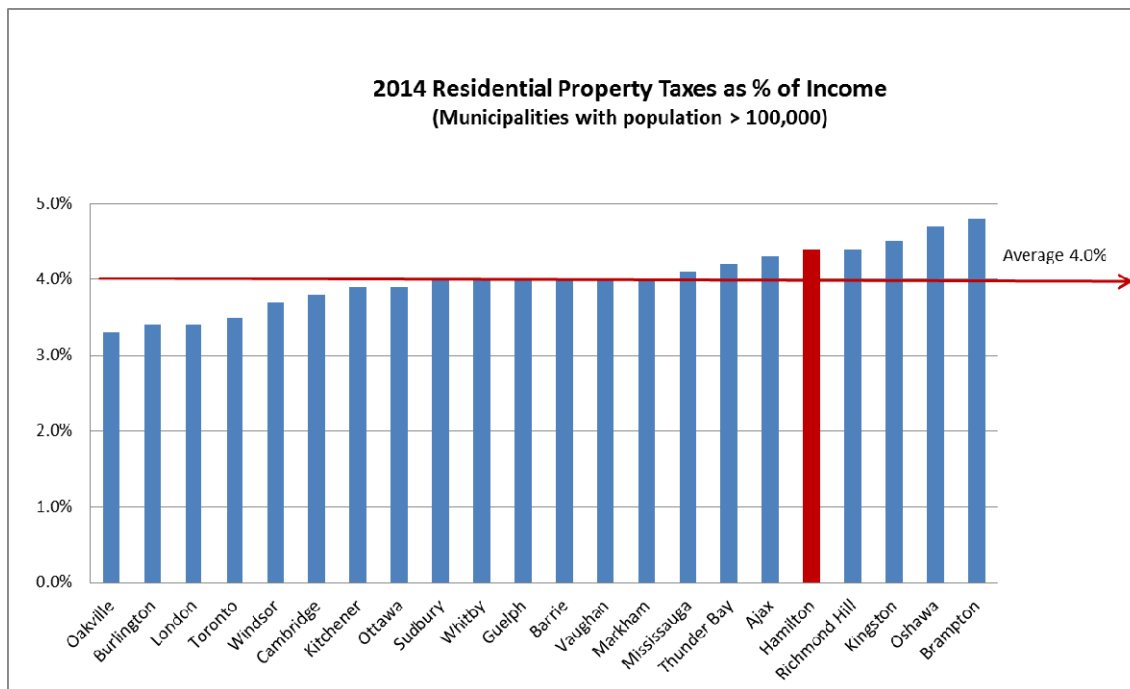
Table 1



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. Hamilton is just one of two 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.

As indicated in the Table 2, with Hamilton's above average residential taxes, combined with a relatively low average household income, Hamilton continues to be ranked "high" when comparing residential property taxes as a percentage of income.

Table 2



In 2014, Hamilton’s residential property taxes as a percentage of income was 4.4%, which is slightly higher than the 4.0% average for larger municipalities (municipalities with populations greater than 100,000).

Although Hamilton is above the average 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 6.1% in 2008, which was 32% above the larger municipalities sample average. By 2014 this difference has been reduced to 4.4% or 10% above the average.

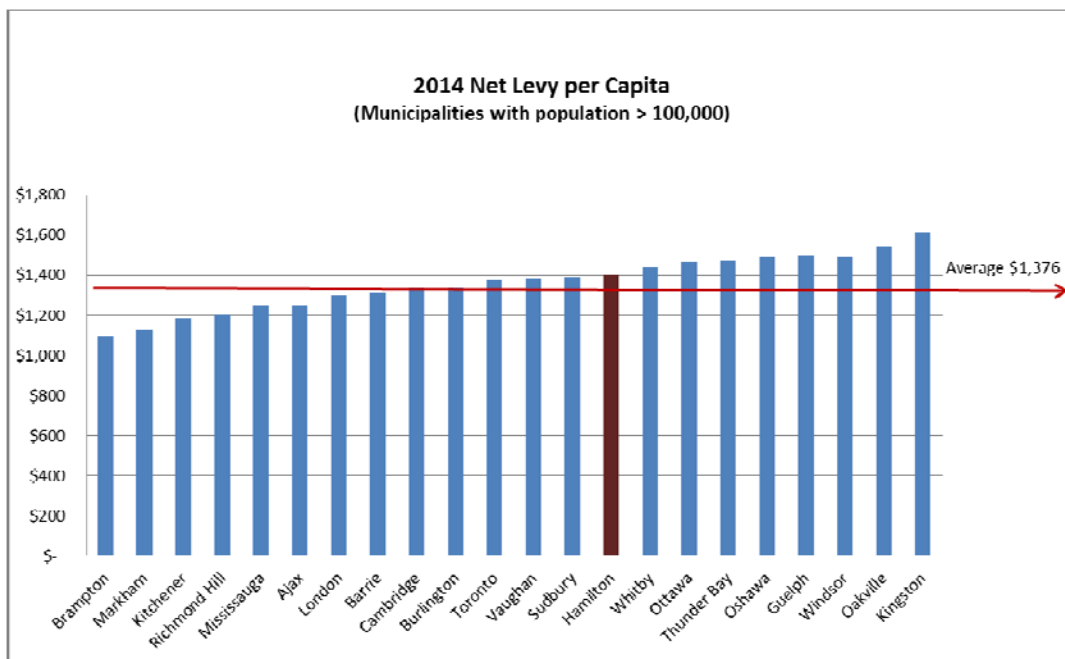
Table 3

	2008	2009	2010	2011	2012	2013	2014
Hamilton	6.1%	5.2%	5.0%	5.0%	4.6%	4.3%	4.4%
Comparator's Average	4.6%	4.2%	4.1%	4.1%	3.8%	4.0%	4.0%
Difference	1.5%	1.0%	0.9%	0.9%	0.8%	0.3%	0.4%

Of note, the data source for average income changed between 2012 and 2013 and that may have contributed to a significant improvement in Hamilton’s rate in relation to the comparator group.

For the 2014 study Hamilton's reported average household income was \$84,950 which was lower than the previous year causing a slight (0.1%) increase in the taxes as a percentage of income (from 4.3% to 4.4%).

Table 4

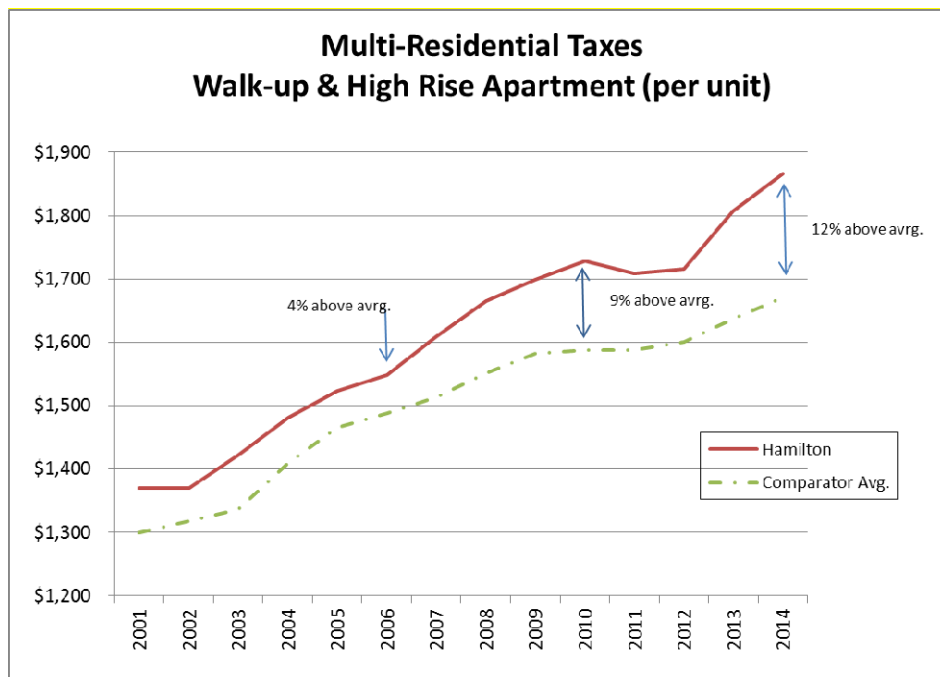


As shown in Table 4, Hamilton's 2014 net levy per capita of \$1,404 is slightly higher than the average levy per capita of larger municipalities (at \$1,376), but Hamilton is in the middle of the group. Again, these results are consistent with previous years. This demonstrates that Hamilton's higher than average property tax burden as a percentage of income is a product of the lower assessment base rather than a municipal spending issue.

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) has risen in the last two years to 12% above the comparator average. This is primarily due to increasing assessments in the Multi-Residential class.

Table 5



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 following tables 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 rule is the Standard Industrial class which has seen increases in the last few years.

Table 6

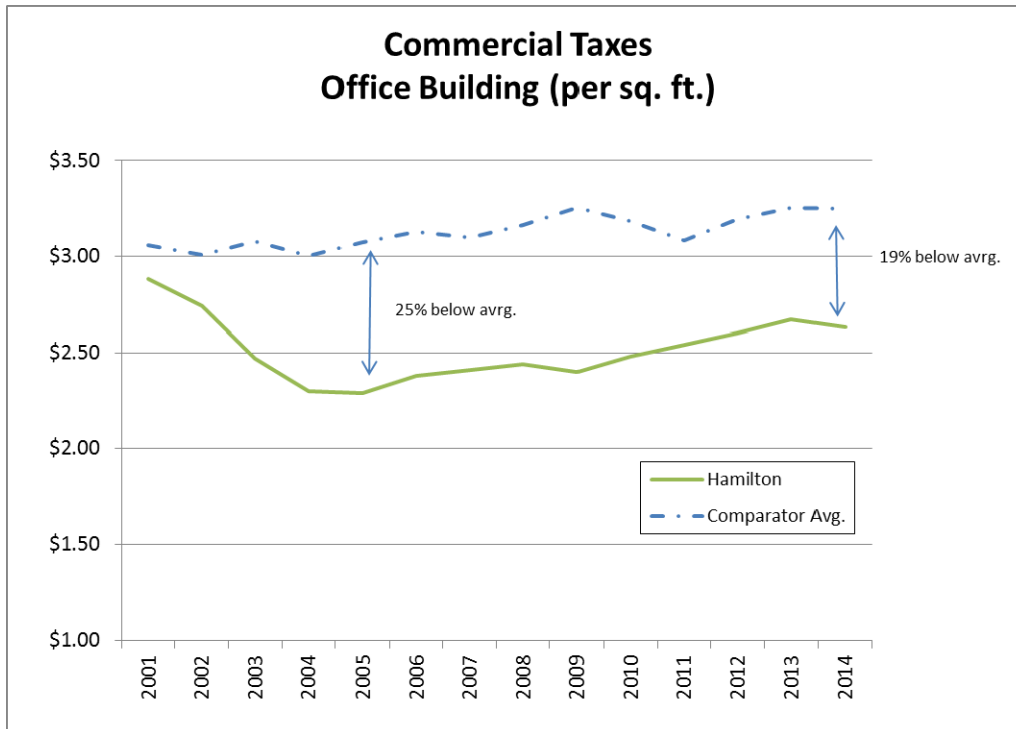


Table 7

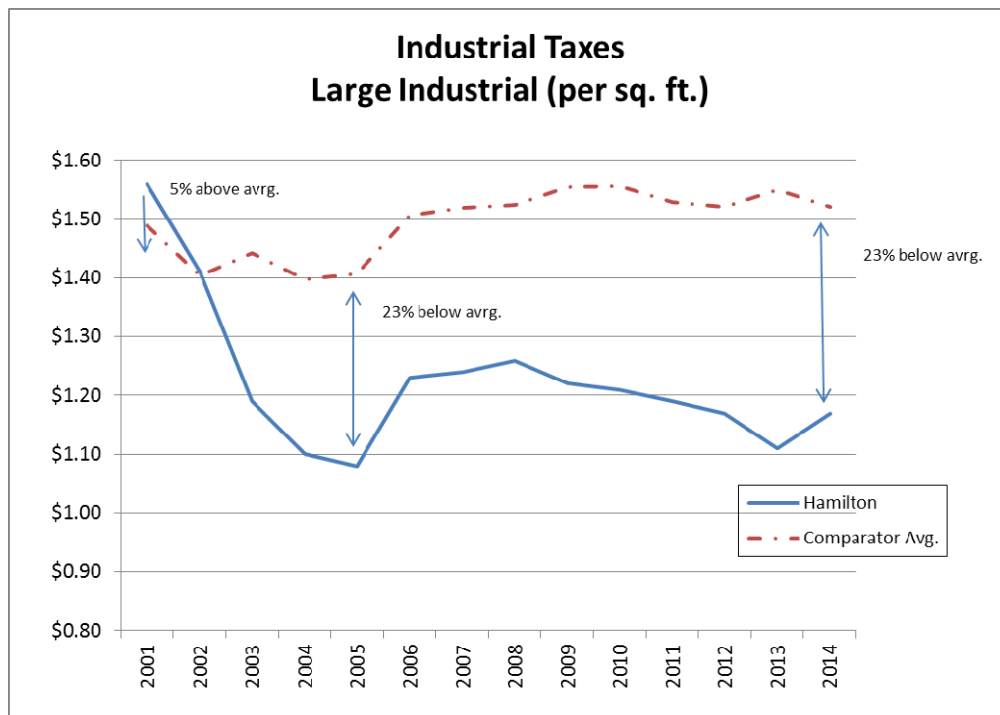


Table 8

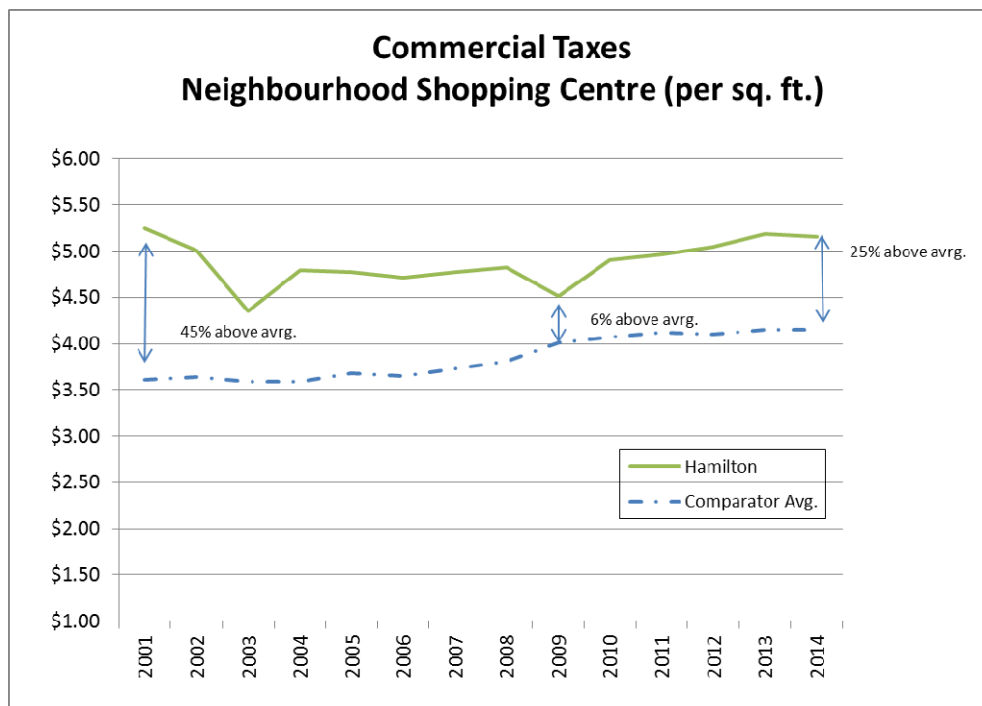


Table 9 further highlights the general, positive trend in Hamilton’s non-residential taxes per square foot.

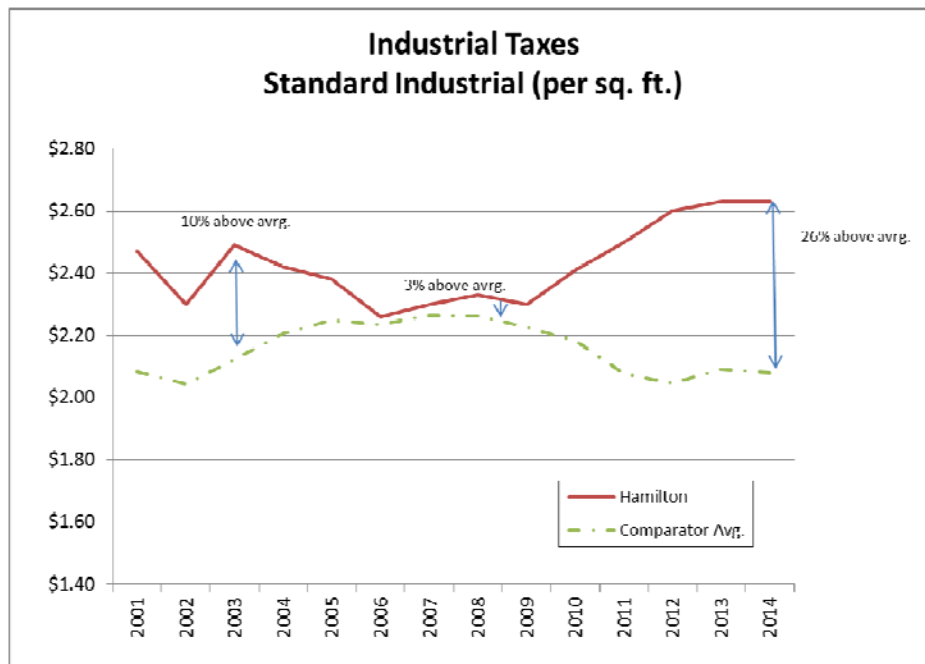
Table 9

	Taxes per sq. ft.					
	2001 Study		2014 Study		% Change	
	Hamilton	Comparator	Hamilton	Comparator	Hamilton	Comparator
Office Building	\$ 2.88	\$ 3.06	\$ 2.63	\$ 3.25	-9%	6%
Neighbourhood Shopping	\$ 5.25	\$ 3.61	\$ 5.16	\$ 4.15	-2%	15%
Large Industrial	\$ 1.56	\$ 1.49	\$ 1.17	\$ 1.52	-25%	2%
Standard Industrial	\$ 2.47	\$ 2.08	\$ 2.63	\$ 2.08	6%	0%

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.

The results in the Standard Industrial class have been somewhat volatile during the study period. After a steady and significant increase from 2010-2012, the last two years have shown some stability, but the difference between Hamilton and the comparators remains high at 26%, which is a result of the 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 significantly benefited some of the comparator municipalities.

Table 10



As shown in Table 10, prior to 2010, the tax burden of the Standard Industrial class was improving when compared to the comparator average. The widening gap between Hamilton and the comparators in the Standard Industrial class over the last few years is the result of the reassessment (in which the Hamilton properties selected had above average reassessment impacts) and the other municipalities benefitting from 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 2014 unweighted assessment is comprised of 87.1% Residential and 12.9% Non-Residential. Hamilton's non-residential assessment percentage is equal to the 2014 full study average. However, 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 17.1% Non-Residential.

Table 11

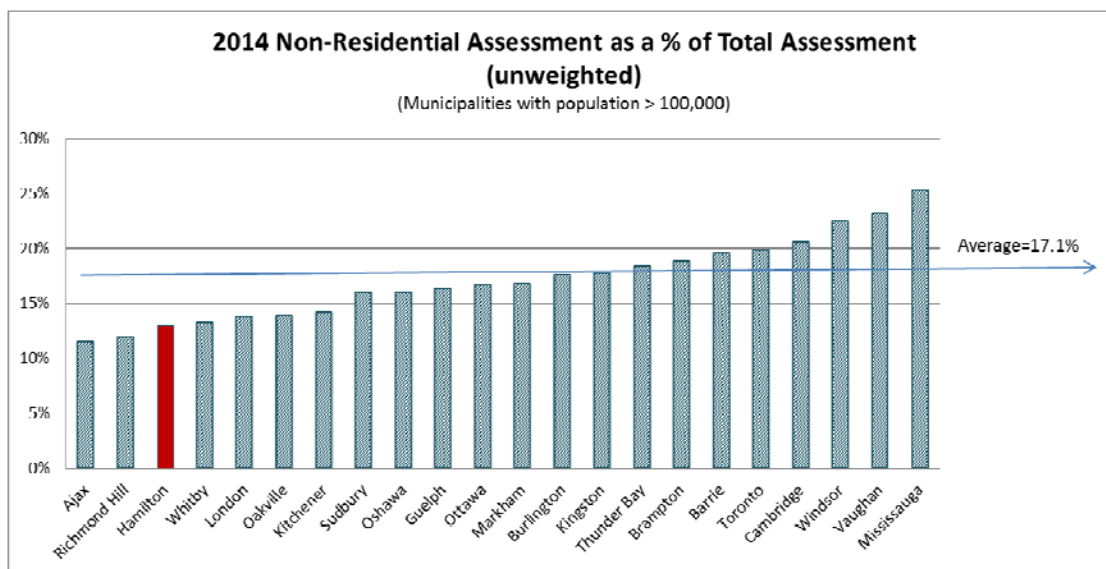


Table 12 identifies Hamilton's Residential vs. Non-Residential split since 2001. As shown below, Hamilton's share of Non-Residential Assessment declined from 2001 to 2009; it had a small improvement during 2010 and 2011 but has gradually declined since.

Table 12

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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%	87.1%
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%	12.9%

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.