SUBJECT: Municipal Tax Competitiveness Study - 2005 (FCS06069) (City Wide)

RECOMMENDATION:

That report FCS06069 “Municipal Tax Competitiveness Study – 2005” be received for information.

Joseph L. Rinaldo, General Manager
Finance and Corporate Services

EXECUTIVE SUMMARY:

Property taxes are calculated based on two components, tax rate and assessment. Tax rates alone are not an appropriate indicator of the relative tax burden when comparing various municipalities. Comparing the taxes paid by similar properties within various municipalities provides a better indicator of tax burden.

This information report highlights some of the key findings of the 2005 study on Municipal Tax Competitiveness. Hamilton’s ranking in relative tax burden by major property class remains between “mid to mid-high”. Similar to the previous study, however, improvements have been made when comparing the tax burden on specific property classes to the results of previous years. In the majority of property classes, the City of Hamilton is moving closer to the sample average.
Change in tax burden can be the result of budget, tax policy or assessment changes. Of the property classes reviewed in the study, the following summarizes the 2005 results:

- In 11 out of the 12 property classes reviewed, the City of Hamilton’s tax change was less than the sample average.
- Taxes per square foot in the office building and large industrial properties continue to fall well below the sample average (below the sample average by 25% and 23% respectively).
- When compared to the sample average, the trend shows a movement towards the sample average in the majority of the property classes, for example;
  - Hamilton’s taxes per square foot in the standard industrial property was 19% above the sample average in 2001, 13% above the sample average in 2002, and now only 6% above the sample average in 2005.
  - Hamilton’s taxes per square foot in the motel property was 39% above the sample average in 2001, 27% above the sample average in 2003, and now 16% above the sample average in 2005.

It is important to highlight that although Hamilton is above the sample average in 10 out of the 12 properties reviewed, not only is the City moving towards the sample average, the City of Hamilton does not have the highest taxes in any of the 12 property types.

The City of Hamilton has shown improvement in terms of property tax burden in virtually all measured tax classes. This is the result of responsible fiscal stewardship and benefits from reduced education tax rates during reassessments. However, with respect to ability to pay, the City of Hamilton ranked fourth highest in the study when comparing property taxes as a percentage of household income. This is less a product of the taxes as it is a reflection of the City’s lower than average family income levels. The City has made modest improvement in this category as well. In 2001, the City was ranked second highest with taxes equalling 5.2% of income. In 2005, the City ranks fourth highest with taxes equalling 4.8% of income.

**BACKGROUND:**

Since 2001, the City of Hamilton has participated in an annual municipal tax competitiveness study (full copy of 2005 study available for Council’s library). In 2005, the study includes 67 Ontario municipalities representing roughly 81% of the province’s population. The study analyses tax ratios, tax rates, assessment and municipal spending per capita. From a property tax perspective, the analysis focussed on the relative tax burden of the four main property classes – Residential, Multi-Residential, Commercial, and Industrial. The relative tax burden is then combined with water/sewer costs and compared to average household incomes.
ANALYSIS/RATIONALE:

**Goal of the Study**

The results of this annual study will serve to further a number of important municipal objectives. The information can be used as a baseline for comparisons with similar municipalities and assist in identifying key areas of focus in developing tax policies. This study will be invaluable in the development of long-term strategies to achieve tax competitiveness. It also serves as a tool to measure the City’s tax policy decisions and their effectiveness in meeting the desired outcome.

**General Statistics**

**Population**

The study contains municipalities ranging in population from 6,500 (Wainfleet) to 2.6 million (Toronto). The City of Hamilton, with an estimated 2004 population of 520,000, is the fourth largest municipality participating in the current study. The City of Hamilton’s population growth of 6.0% between 2001 and 2004, falls below the survey average of 9.7%.

**Assessment per Capita (unweighted CVA)**

The assessment per capita for Hamilton is at the low end of the participants at approximately $63,000. It is most comparable with other older, urban centres such as London, St. Catharines, Kitchener, Kingston and Windsor. The survey average for assessment per capita is $81,534 which is primarily driven up by the municipalities within the GTA.

**Assessment Composition (unweighted)**

The composition of the City of Hamilton’s assessment follows the trend of municipalities with older urban centres. These municipalities tend to have a higher than average proportion of multi-residential assessment and lower than average proportion of farm assessment. Residential assessment (excluding multi-residential) comprises approximately 79.6% of Hamilton’s total assessment base, which is at the survey average. Multi-Residential assessment comprises 5.2% of the City of Hamilton’s assessment base, higher than the survey average of 3.0%. Commercial and Industrial assessment, at 10.4% and 2.6% respectively, falls slightly below the survey average.

**Net Municipal Levy per Capita**

Hamilton’s net levy per capita of $1,069 is above the survey average of $1,003. This is consistent with the results from previous years. The gap between the City of Hamilton and the survey average, however, has been narrowing. For 2001 the City of Hamilton was 12.2% higher than the average, in 2005 this has fallen significantly to 6.6% above the survey average.
It should be noted that net municipal levy per capita does not indicate value for money or the effectiveness in meeting community objectives, but rather is meant to provide insight into the net cost of providing municipal services within each municipality. Some factors which have an impact on the net municipal expenditures per capita include; social service costs, different service levels, variations in the types of services and the method in which they are provided, locational factors, demographics, socio-economic differences, user fee polices and the age of infrastructure.

**Like-Property Comparisons**

The study examined “like” property comparisons of 12 different property types within the Residential, Multi-Residential, Commercial and Industrial property classes. The study includes municipalities ranging in population from 6,500 to 2.6 million, and every year has expanded to include more municipalities (44 municipalities in the 2001 study, increased to 67 in 2005). While it is beneficial to compare oneself to the largest amount of municipalities, when looking at trends over the last couple of years, it is difficult to determine the real trend when the number of municipalities are not held constant (for example, it may appear that the City of Hamilton’s position has worsened, when in fact the average may have been driven down solely as a result of new municipalities included in the study). As a result, for the purposes of this section of the report only, the City of Hamilton is compared to the average of a sample of municipalities which have been included in all five years.

The municipalities included in this smaller sample are as follows:

<table>
<thead>
<tr>
<th>Brantford</th>
<th>Oakville</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burlington</td>
<td>Oshawa</td>
</tr>
<tr>
<td>Cambridge</td>
<td>Ottawa</td>
</tr>
<tr>
<td>Chatham-Kent</td>
<td>Pickering</td>
</tr>
<tr>
<td><strong>Hamilton</strong></td>
<td>Richmond Hill</td>
</tr>
<tr>
<td>Kitchener</td>
<td>St. Catharines</td>
</tr>
<tr>
<td>London</td>
<td>Sudbury</td>
</tr>
<tr>
<td>Mississauga</td>
<td>Waterloo</td>
</tr>
<tr>
<td>Niagara Falls</td>
<td>Windsor</td>
</tr>
</tbody>
</table>

By highlighting the change in relative tax burden over the last five years, as well as how the City of Hamilton compares to the sample average, one can determine if improvements have been made towards tax competitiveness. As there may be some differences between the properties selected in a given year, it is recommended that the focus be on the “trend” over the last five years. As several property types are examined within each property class (i.e. four property types within the Commercial class), this minimizes any anomalies in the data and more accurately reflects the general trend experienced in each property class as a whole.
Residential Property Class

In 2005, the City of Hamilton’s relative tax burden for a detached bungalow and condominium is getting closer to the sample average. For example, when comparing taxes on a detached bungalow, in 2004 Hamilton was 15% above the sample average, however, in 2005, this drops to 10% above the sample average. Hamilton’s improvement is seen despite the fact that Hamilton continues to be levy restricted in the commercial and industrial classes.

As the following graphs highlight, although the City of Hamilton’s residential taxes are above the sample average (2005 Hamilton detached bungalow taxes of $3,091 is above the sample average of $2,810), there is a positive movement towards the sample average.
Multi-Residential Property Class

Although Hamilton’s tax per unit are above the sample average for this class, the City has made progress to reducing the gap. As illustrated below, the City of Hamilton’s tax burden within this class has been increasing at a lower rate than the sample average, thus narrowing the gap between Hamilton and the municipalities in the sample.

Commercial Property Class

As highlighted in the following graphs, the City of Hamilton’s downward trend in taxes for commercial properties has levelled off in 2005.
As shown in the above graphs, the City of Hamilton is below the sample average only in the Office Building classes. Similar to other property classes, although the City of Hamilton remains above the sample average, the general trend over the last five years shows that improvements have been made in narrowing the gap between the City's relative tax burden and the sample average.

**Industrial Property Class**

The City of Hamilton's taxes on the industrial class have reduced slightly or remained the same since 2004. This levelling off trend is consistent with the Commercial property class.
Large Industrial taxes per square foot continues to fall below the sample average. Taxes per square foot for the standard industrial class shows a positive trend towards the sample average (in 2005, Hamilton is only 6% above the sample average, compared to 19% above the sample average in 2001).

**Tax Ratios and Tax Rate Comparisons**

**Tax Ratios**
The City of Hamilton has reduced its tax ratios for the multi-residential, commercial and industrial property classes over the last couple of years.

<table>
<thead>
<tr>
<th>Property Class</th>
<th>Tax Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Multi-Residential</td>
<td>2.9990</td>
</tr>
<tr>
<td>Commercial</td>
<td>2.4256</td>
</tr>
<tr>
<td>Industrial</td>
<td>3.8354</td>
</tr>
<tr>
<td>Large Industrial</td>
<td>4.5624</td>
</tr>
</tbody>
</table>

In 2004, the multi-residential and commercial tax ratios were at the provincial threshold, therefore only the industrial tax ratio was reduced in 2005. In spite of the fact that the City of Hamilton has been reducing its tax ratios, the majority of the municipalities in the study have tax ratios at or below the provincial threshold, resulting in the City's tax ratios being above average.
It should be noted that in 2006, the City of Hamilton is now above the Provincial Threshold for both the Industrial and Commercial property classes. These tax ratios were increased to offset the 2006 reassessment impact, as well as adjusted to pass on the allowable 2006 budgetary impact (50% of the residential budgetary impact).

**Tax Rates**

Comparing tax rates in isolation does not represent an accurate picture of tax burden on a property. To get a complete picture, one must look at property values in conjunction with tax rates (which is what was done in the "Like-Property Comparisons" section of this report). A municipality with high tax rates may have relatively low assessed values, and conversely, a municipality with low tax rates may have relatively high assessed values. The product of the two variables (assessment x tax rate) is what should be used to compare relative tax burdens between municipalities. Having said this, however, the study does compare tax rates. The following summarizes the results.

In terms of total 2005 tax rates, the City of Hamilton is above the study average in all classes. This is consistent with the results from previous years.

While on a comparative basis Hamilton’s tax rates may still be “high”, the following table indicates that major improvements have been made over the past several years. Table 1 below summarizes the change in tax rates in the major property classes from 1998 to 2005. The reduction in the tax rates is a result of the BRE cuts, combined with reassessment and legislated tax levy restrictions (through Bill 140).

<table>
<thead>
<tr>
<th>Property Class</th>
<th>Multi-Residential</th>
<th>Commercial</th>
<th>Industrial</th>
<th>Large Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>5.09%</td>
<td>7.11%</td>
<td>11.18%</td>
<td>12.98%</td>
</tr>
<tr>
<td>2005</td>
<td>4.28%</td>
<td>4.80%</td>
<td>6.60%</td>
<td>7.41%</td>
</tr>
<tr>
<td>% Change</td>
<td>-15.9%</td>
<td>-32.5%</td>
<td>-41.0%</td>
<td>-42.9%</td>
</tr>
</tbody>
</table>

**Water and Sewer Costs**

In addition to property taxes, the Municipal Competitiveness study also compared water and sewer costs. The study considered these costs across several different property types. Overall, Hamilton’s metered water and sewer rate remains lower than the survey average for the residential class. For all other classes, the rates were at or slightly above the average.

Combining property taxes and water/sewer costs on a detached bungalow to determine a total residential municipal burden, does not significantly change a municipalities ranking. On average, water/sewer costs comprises only 20% of the total municipal burden (property taxes comprise the remaining 80%). Although the City of Hamilton’s water/sewer cost for a detached bungalow of $612 is below the survey average of $656, since this comprises only 17% of a Hamilton resident’s municipal burden, the City remains above the survey average when looking at the total municipal burden (property
taxes and water/sewer costs). When compared to just the sample of 18 municipalities (like property comparison shows Hamilton’s taxes on a detached bungalow at 10% above the sample average), Hamilton’s total municipal burden is improved to 7% above the sample average.

It should be noted that the survey uses an average consumption of 360m3 per year which results in a cost of $612 based on Hamilton’s rates. However, Hamilton’s actual average consumption is 300m3 for a cost of $516. As well, Hamilton’s rates include funding for storm sewer operations, while many municipalities in the survey fund storm costs from the tax levy.

**Taxes as a % of Income**

The Study compares the allocation of gross income to fund municipal services on a typical household in each municipality. The City of Hamilton’s median household income of $60,354 falls below the survey average of $66,954. However, the City’s property taxes on an average dwelling of $2,919 is above the survey average of $2,658. The combined impact of Hamilton’s below average household income and above average residential property taxes, results in relatively high property taxes as a percentage of household income. Hamilton ranked fourth highest at 4.8% (survey average 4.0%). Comparing total municipal burden (property taxes and water/sewer costs) as a percentage of household income, improves the City of Hamilton’s position, however, still results in a high ranking (ninth highest at 5.8% compared to the survey average of 5.0%).

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

There are no staffing implications. The results of the study can be used to direct current and future tax policies which will impact the City financially in terms of revenue streams and their sources.

**POLICIES AFFECTING PROPOSAL:**

Current and future tax policies will be shaped by this study.

**RELEVANT CONSULTATION:**

N/A
CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Evaluate the implications of your recommendations by indicating and completing the sections below. Consider both short-term and long-term implications.

Community Well-Being is enhanced.  ☑ Yes  ☐ No

Environmental Well-Being is enhanced.  ☑ Yes  ☐ No

Economic Well-Being is enhanced.  ☑ Yes  ☐ No

Does the option you are recommending create value across all three bottom lines?  ☑ Yes  ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?  ☐ Yes  ☑ No