SUBJECT: 2006 Tax Policy Options (FCS06038) (City Wide)

RECOMMENDATION:

a) That the following optional property tax classes be confirmed for the 2006 taxation year:
   - New Multi-Residential
   - Parking Lot & Vacant Land
   - Large Industrial

b) That the following 2006 final tax ratios be approved:
   - Residential: 1.0000
   - Multi-Residential: 2.7400
   - New Multi-Residential: 1.0000
   - Commercial (residual): 2.1041
   - Parking Lot & Vacant Land: 2.1041
   - Industrial (residual): 3.4998
   - Large Industrial: 4.1040
   - Pipeline: 1.7374
   - Farm: 0.2174
   - Managed Forest: 0.2500

d) That the following tax reductions be approved:
   - Vacant units and excess land subclass (residual commercial): 30%
   - Vacant units and excess land subclass (residual industrial): 35%
   - Vacant units and excess land subclass (large industrial): 35%
   - Farmland awaiting development (1st subclass): 25%
   - Farmland awaiting development (2nd subclass): 0%
e) That the City of Hamilton continue to provide a tax deferral option for eligible low-income elderly and disabled persons.

f) That the City of Hamilton extend the tax exemption for Legion’s and Veteran’s Clubs for a further three years. (2006, 2007 & 2008)

g) That the City of Hamilton continue to provide 40% tax rebates for eligible charities and similar organizations.

h) That the City Solicitor & Corporate Counsel be authorized and directed to prepare all necessary by-laws, for Council approval, for the purposes of establishing the tax ratios and related tax policies.

EXECUTIVE SUMMARY:

Staff were asked to develop and recommend tax policy in relation to the 2006 tax budget. Provincial legislation requires the annual approval of tax policies adopted by municipalities. As 2006 represents a reassessment year, there are a number of policy decisions that have been reviewed. This report summarizes and recommends those tax policy options which include:

- Use of assessment growth;
- Taxing the levy restricted commercial and industrial class up to $\frac{1}{2}$ of increase borne by residential ratepayers;
- Extending tax exemptions to Legions and Veterans Clubs for a further three years;
- Overview of other tax policy decisions to be considered by Council in order to finalize and adopt the 2006 tax levy bylaw.
The following table highlights staff recommendations:

<table>
<thead>
<tr>
<th>Policy</th>
<th>Potential Impact</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment growth 1.7% or $9 million</td>
<td>Could be used towards: 1) reducing levy impact (1.7%) 2) Business Retention and Expansion Plan</td>
<td>Use growth in its entirety to reduce tax levy impact.</td>
</tr>
<tr>
<td>Mitigate Reassessment Shift - Changing Tax Ratios</td>
<td>Not mitigating reassessment shift would create a greater tax burden for the residential classes (about 1.9%).</td>
<td>Allow tax ratio to increase to the protected classes in order to mitigate a tax shift from commercial/industrial classes to residential.</td>
</tr>
<tr>
<td>Tax Industrial and Commercial up to ½ the Residential increase</td>
<td>Would reduce all other tax class impacts by about ($1.4 million) or .3%</td>
<td>Tax these classes ½ of the residential increase in order to reduce tax levy impact to other classes.</td>
</tr>
<tr>
<td>Farm Tax Ratio</td>
<td>Property taxes are increasing about 4.4% on average for this tax class.</td>
<td>Staff recommend reducing the tax ratio to ensure tax increase is equal to residential class (2.2%).</td>
</tr>
<tr>
<td>All Other Tax Policies</td>
<td>Includes Vacancy Rebates, Charity Rebates, Optional Property Classes, Tax Class Reduction %</td>
<td>Most policies remain unchanged from 2005.</td>
</tr>
</tbody>
</table>

**Assessment Growth**
Staff advised Council (FCS06003) that the 2006 tax budget was originally developed with the assumption of 1% assessment growth to offset the tax impact. As presented to COW on March 08 the actual growth for taxation in 2006 is about 1.7% providing an additional $3.6 million in taxation room which has been directed to reducing the tax levy. In prior years, a portion of the growth had been directed to the Business Retention and Expansion program in order to decrease commercial rates and attract new business to the community. To achieve the 2.2% tax levy impact proposed in the March 27th presentation, staff recommended utilizing all of the growth to offset levy increases.

**Tax Industrial and Commercial Class ½ of Residential Tax Increase**
Effective 2004, the Province has allowed the ability for municipalities subject to levy restrictions due to exceeding tax ratio threshold, to pass on a tax increase to the restricted class equal to ½ of the residential tax increase. Due to reassessment shifts for the 2006 taxation year, both the commercial and industrial classes are subject to this levy restriction.
Adopting this option would reduce the residential tax levy impact by about 0.3% or about $1.4 million. The 2.2% residential average tax increase as passed by Committee of the Whole, is predicated on utilizing this tax policy option.

Currently the commercial threshold is 1.98 and industrial threshold is 2.63, compared to the City of Hamilton’s 2006 recommended ratios of 2.104 and 3.4998 and 4.104 for the Commercial, Industrial and Large Industrial property classes respectively. Enacting this option would limit the City’s movement towards the levy restriction threshold.

**Mitigating Reassessment Tax Shifts – Tax ratio Adjustments**

As a result of reassessment, tax shifts have occurred between properties classes and wards as detailed in Report FC06017 and previously reported to council in 2005 (October 13th budget outlook presentation).

Differences in reassessed property values are shifting taxes from the commercial/industrial classes to the residential class. Subsequently, Council approved a motion requesting that the province approve legislation to allow ratios to be increased in order to offset the inter-class shift. The province has communicated that they will be authorizing the increase to the tax ratios to negate the reassessment shift between residential and commercial classes. The Table below illustrates the required increase to those ratios as well as those being recommended for 2006 final tax billing.

<table>
<thead>
<tr>
<th></th>
<th>2005 Approved Tax Ratios</th>
<th>2006 Ratios (Mitigation)</th>
<th>2006 Final Ratios (Recommended)</th>
<th>Provincial Thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>1.0000</td>
<td>1.0000</td>
<td>1.0000</td>
<td>1.0000</td>
</tr>
<tr>
<td>Multi-Residential</td>
<td>2.7400</td>
<td>2.7400</td>
<td>2.7400</td>
<td>2.7400</td>
</tr>
<tr>
<td>Commercial</td>
<td>1.9800</td>
<td>2.1193</td>
<td>2.1041</td>
<td>1.9800</td>
</tr>
<tr>
<td>Industrial - Residual</td>
<td>3.2226</td>
<td>3.5253</td>
<td>3.4998</td>
<td>2.6300</td>
</tr>
<tr>
<td>Industrial - Large</td>
<td>3.7789</td>
<td>4.1339</td>
<td>4.1040</td>
<td>2.6300</td>
</tr>
<tr>
<td>Farm</td>
<td>0.2220</td>
<td>0.2220</td>
<td>0.2174</td>
<td>0.2500</td>
</tr>
</tbody>
</table>

The tax ratios were increased for mitigation of the reassessment tax shift, but due to the levy restriction have consequently decreased but remain higher than the provincial thresholds.

**Property Tax Rebates – Veterans’ Clubhouses and Legion Halls**

In 2003, Council approved the extension of the property tax rebate for the years 2003 to 2005 inclusive which allowed for a 100% property rebate for qualifying groups. The program is cost shared with the school boards and has cost the City about $122,000 in property taxes in 2003, $120,000 in 2004 and $130,000 in 2005. Staff are recommending that the program be extended for an additional three-year period (2006, 2007 & 2008).
As part of the 2006 budget process, Committee of the Whole was presented with a number of items which required approval for budget purposes but also fall under tax policy decisions. These include:

**Seniors Tax Rebate**

Committee of the Whole on February 17\(^{th}\), 2006 approved changes to enhance the existing Seniors Tax Rebate Program. These recommendations were brought forward by staff in consultation with the Senior’s Advisory Committee (FCS06012). The recommendations included: i) increase of rebate from $135 to $150 ii) increase assessment to 120% of the average residential single family dwelling or $263,200 in 2006 and iii) increase income cut – off to 150% of GIS or $27,000 in 2006. These enhancements will allow for a greater number of seniors to become eligible to receive the tax rebate. Program funding was increased by $30,000 in order to allow for the anticipated increase in participation.

**Capping**

Capping is provincially legislated and limits the amount of the tax increase that can be passed on to the Commercial, Industrial and Multi-residential classes. This legislation remains in effect for 2006. Report FCS06037, accompanying this report includes recommendations related to capping policies for 2006. Staff are recommending that: i) capping percentage be increased from 7.5% to 10% ii) properties within the $250 threshold move to full CVA taxes iii) claw-back percentage be set at 18.5%.

Funding requirements for the capping program in 2006 is $4.5 million and is provided through claw backs from properties decreasing as well as from the tax levy. In 2006 $3 million will be provided from the tax levy, $1 million from the Hamilton Future Fund and the balance of $500,000 from claw backs. This is a decrease of $1 million from the $5 million provided for in the tax levy in 2005.

**ANALYSIS/RATIONALE:**

**Other Tax Policies**

The following table summarizes other tax policy items. Essentially, most of the tax policies and programs remain unchanged for 2006 versus 2005.
### Tax Policy Tool

<table>
<thead>
<tr>
<th>Tool</th>
<th>Mandatory vs. Discretionary</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Changing Tax Ratios</strong></td>
<td>Discretionary</td>
<td>• Reduction of discounted Farm tax ratio from 0.2220 to 0.2174</td>
</tr>
</tbody>
</table>
| **Optional Property Classes**       | Discretionary               | • No change.  
• Maintain existing New Multi-Residential, Parking Lot and Vacant Land and Large Industrial optional property classes. |
| **Graduated Tax Rates**             | Discretionary               | • No change.  
• Not recommended to establish graduated tax rates.              |
| **Relief for Low-Income Seniors and Disabled** | Mandatory | • No change.  
• Continue existing program.                                      |
| **Rebates to Charities**            | Mandatory | • No change.  
• Continue existing program.                                      |
| **Vacancy Rebates**                 | Mandatory | • No change.  
• Continue existing program.                                      |

### FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

There are no staffing implications. The financial implications of each item have been summarized in the Executive Summary and detailed further in the “Analysis/Rationale” section.

### POLICIES AFFECTING PROPOSAL:

This report deals with a number of property tax policy items.

### RELEVANT CONSULTATION:

This report has received input from all departments through discussion at Corporate Management Team. Provincial staff were also consulted on forthcoming legislation and regulations.

### 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