INFORMATION REPORT

TO: Mayor and Members General Issues Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: May 16, 2012	
SUBJECT/REPORT NO: Municipal Tax Competitiveness Study - 2011 (FCS12043) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department	**PREPARED BY:** Tom Hewitson (905) 546-2424 ext 4159 Maria Di Santo (905) 546-2424 ext 6247
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 – 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 84 Ontario municipalities ranging in population from 4,300 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 rank "mid". When compared to a smaller, more representative sample (either in population or location), however, the general trend shows Hamilton's position has generally improved and remained relatively stable over the last several years. Staff have selected the 18 municipalities to be included in this smaller sample based on the following criteria: 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. This same sample has been used consistently when reporting annually the results of this study.

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 the sample average. More significant improvements, in terms of tax burden, have been seen in the non-residential property classes. The residential property classes, although increasing in terms of tax burden, have been stable in comparison to the sample average.

What influences tax burden?

It should be stressed 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;

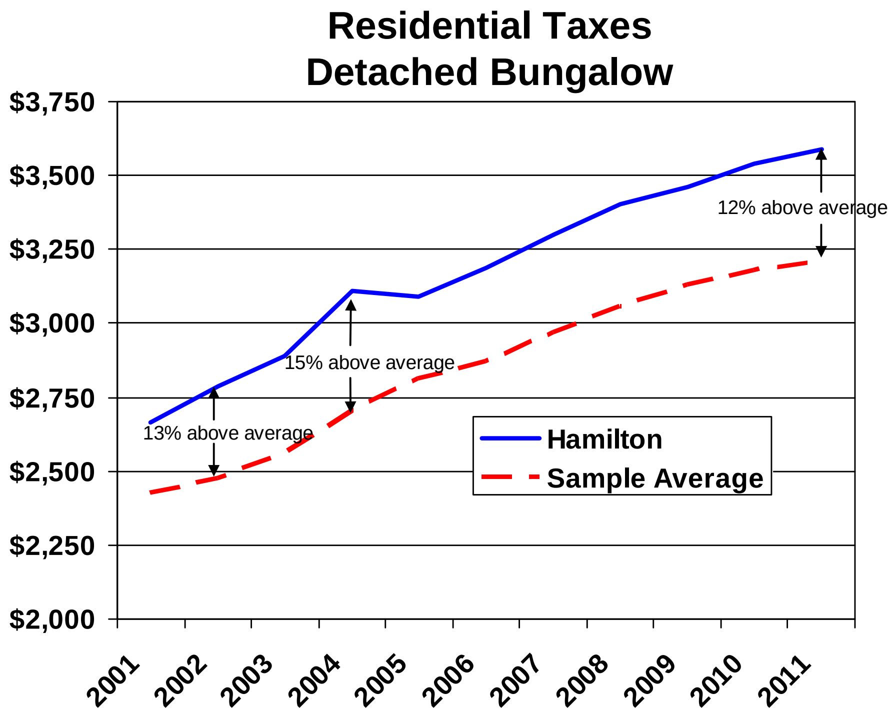
- changes to the sample properties included in the study (either for Hamilton or any of the comparator municipalities)
- sample properties experiencing an impact that differs from the respective municipal average (change in value either due to reassessment or a physical change to the property)
- tax 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.

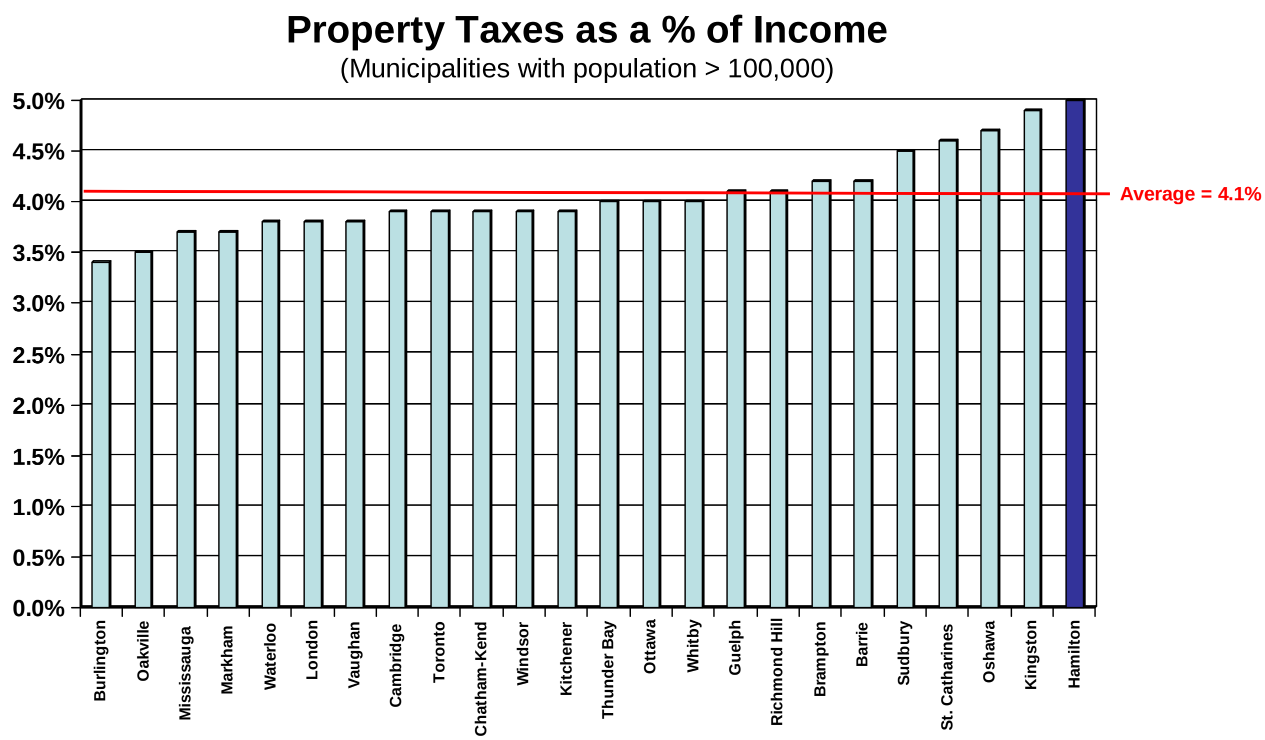
Residential Property Taxes

As shown below, in 2011, Hamilton's average property taxes for a detached bungalow is 12% above the sample average. This is slightly higher than the 11% above the sample average which Hamilton experienced in the last five years (2006-2010). Although Hamilton's sample average taxes increased approximately 1% from the previous year, some municipalities in the sample experienced a lesser increase. In particular, one of the municipalities in the sample experienced a nine percent reduction (possibly due to a change in the sample properties) – had this not occurred, Hamilton would continue to be 11% above the sample average.

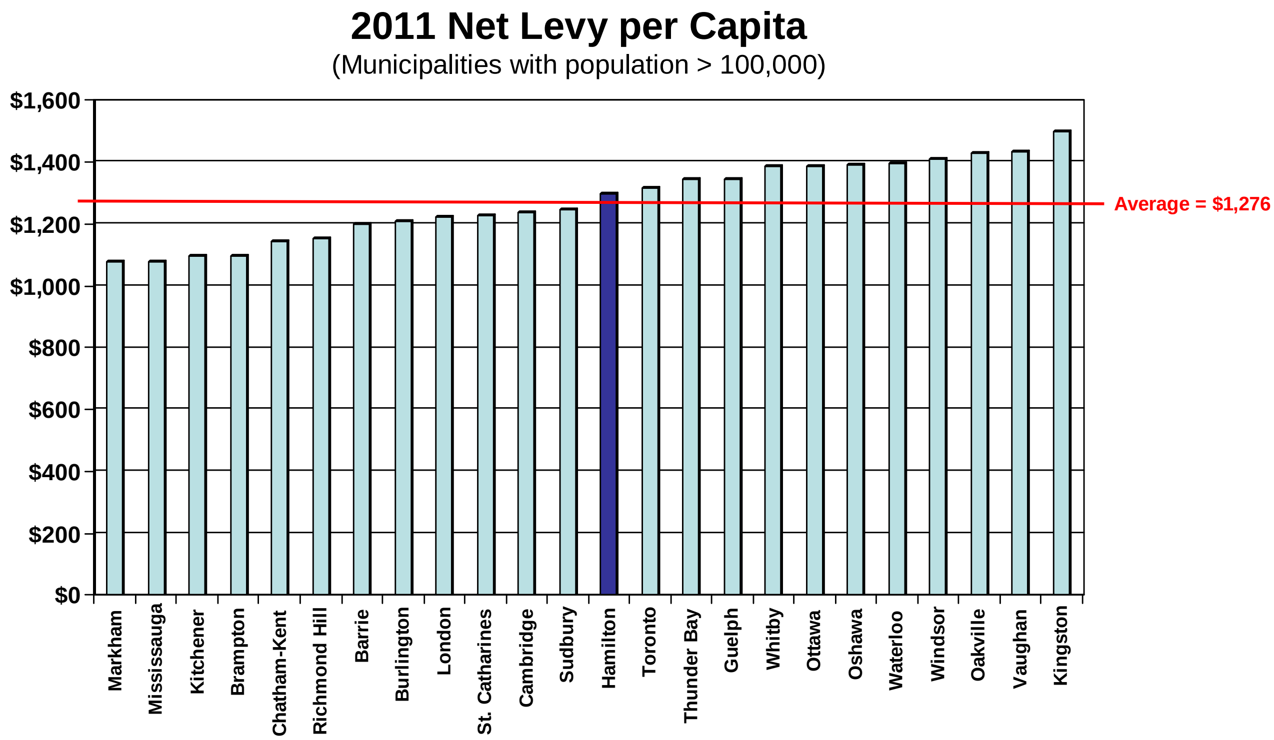


Hamilton has maintained its position even though it continues to be negatively impacted by the levy restriction on the Industrial property class (in adherence to Provincial legislation, Hamilton can only pass on a maximum of fifty percent of the budgetary increase to the Industrial property class). Hamilton is just one of two municipalities (of the eighteen municipalities in the sample) 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 sample average in 2004 to 11% above the sample average in 2006-2010 (12% in 2011).

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.

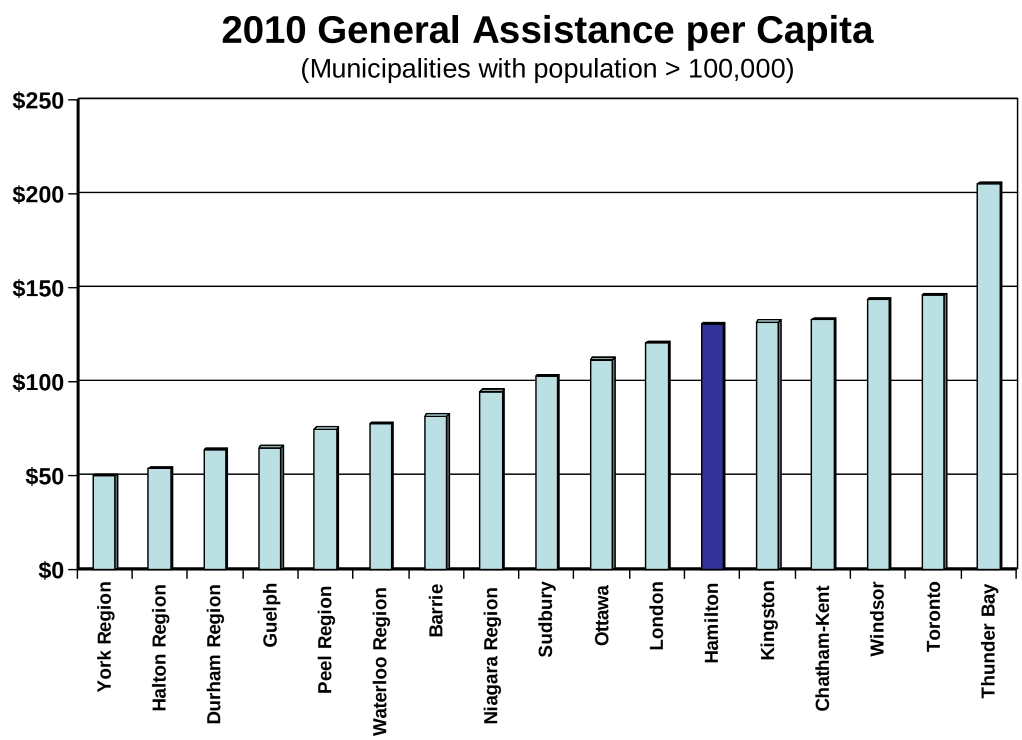


In 2011, Hamilton's property taxes as a percentage of income is 5.0%, which is 22% above the sample average of 4.1% and the highest of the sample municipalities (this is consistent with the 2010 results). As shown in the graph above, the same results occur when compared to larger municipalities (with populations greater than 100,000). Although Hamilton continues to be the highest among the larger municipalities, when compared to the sample average (2011 = 22% above the sample average), Hamilton has improved compared to previous years, whereby Hamilton was 24% above the sample average in 2009 and 32% above the sample average in the 2008 study.



As shown above, Hamilton's levy per capita ($1,298) is on par with similar sized communities (average levy per capita of larger municipalities is $1,276). Property taxes, however, are levied based on assessment, not on a per capita basis. Hamilton's poorer assessment base, primarily when compared to the GTA municipalities, has a negative impact on Hamilton's "high" ranking of property taxes (due to less assessment base to spread the costs of municipal services).

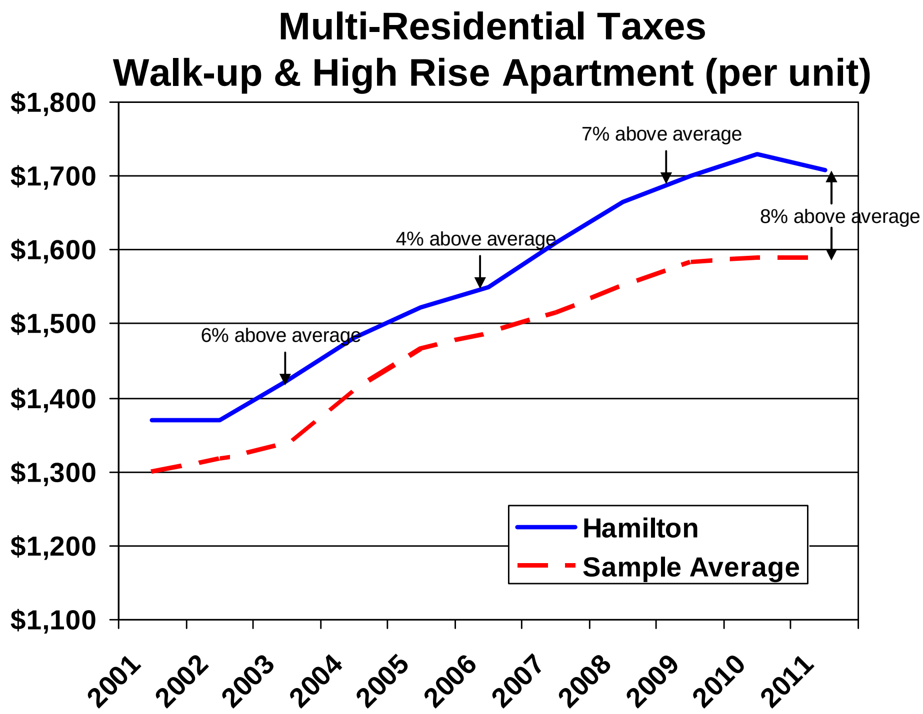
Although Hamilton's net levy per capita is at par with similar sized communities, as the graph below identifies, when isolating social service costs (general assistance), Hamilton's cost per capita of $131 are one of the highest.



Note: exclusive of OMPF/special funding

Multi-Residential Property Taxes

Over the course of the study (2001-2011) Hamilton's average taxes per unit for an apartment (both Walk-up and High Rise) has ranged between a low of 4% to a high of 9% above the sample average. In 2008 and 2009, Hamilton remained at 7% above the sample average, however increased to 9% above the sample average in 2010. As shown in the graph below, Hamilton dropped to 8% above the sample average in 2011.



Although Hamilton's Multi-residential relative tax burden has been increasing over the last couple of years when compared to the sample average, this class continues to be more competitive than Hamilton's Residential property class.

Commercial and Industrial Property Classes

Unlike Residential property taxes, which have been generally stable when compared to the sample average, Hamilton's tax burden on 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:

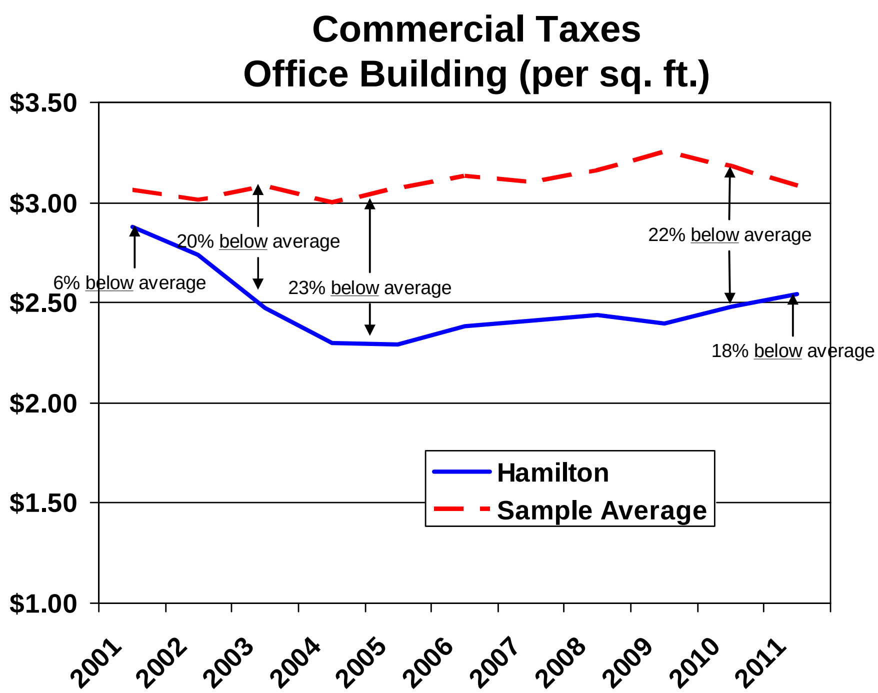
- a commitment to lower business taxes during the early years of amalgamation,
- the Province's commitment to lower business education taxes,
- generally favourable reassessment impacts (with the exception of the latest reassessment); and
- the levy restriction (for property classes above the Provincial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

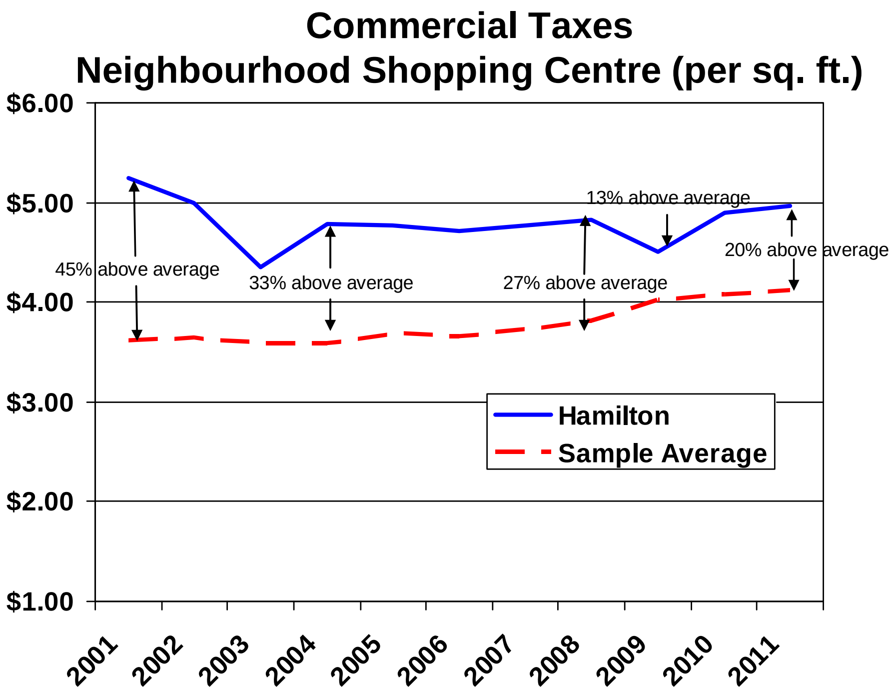
The graphs on the following pages illustrate how the non-residential property classes have either maintained their position well below the sample average (Office Buildings, Large Industrial) or have generally made improvements towards the sample average (Neighbourhood Shopping).

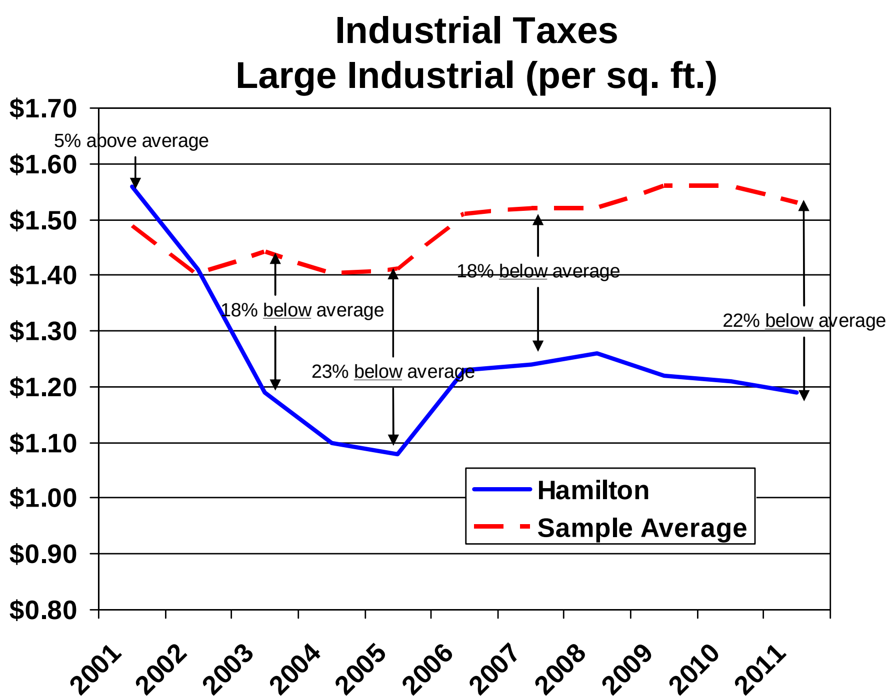
The table below further highlights the general, positive trend in Hamilton's non-residential taxes per square foot.

	Taxes per sq. ft.					
	2001 Study		2011 Study		% Change	
	Hamilton	Sample	Hamilton	Sample	Hamilton	Sample
Office Building	$ 2.88	$ 3.06	$ 2.54	$ 3.08	-12%	1%
Neighbourhood Shopping	$ 5.25	$ 3.61	$ 4.96	$ 4.12	-6%	14%
Large Industrial	$ 1.56	$ 1.49	$ 1.19	$ 1.53	-24%	3%
Standard Industrial	$ 2.47	$ 2.08	$ 2.50	$ 2.08	1%	0%

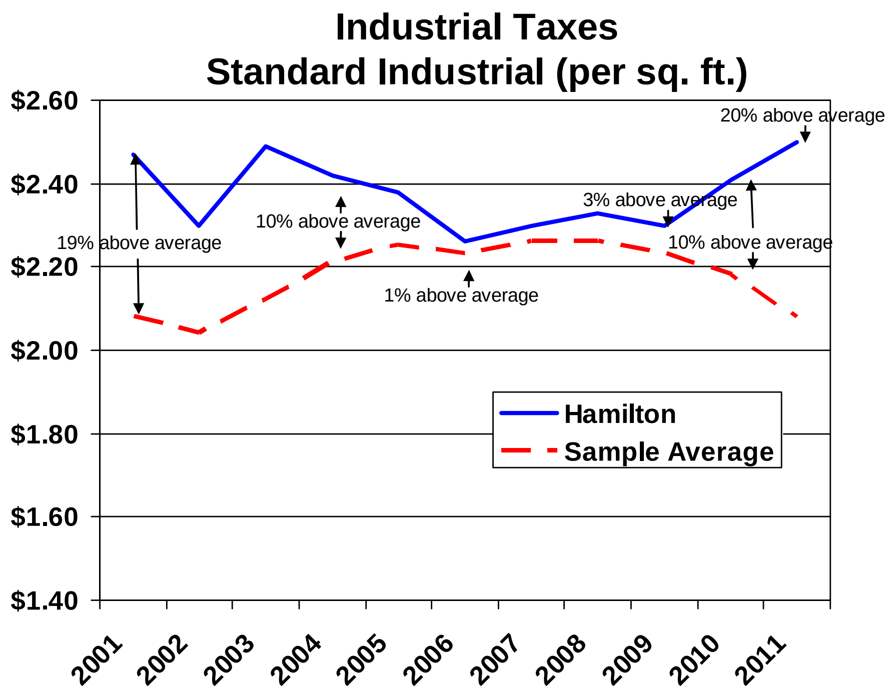
As shown above (with the exception of Standard Industrial), non-residential taxes per square foot have fallen in Hamilton when compared to the results of the 2001 study, while the sample average has increased. This is further identified in the following three graphs.




Commercial Taxes
Neighbourhood Shopping Centre (per sq. ft.)
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
45% above average
33% above average
27% above average
13% above average
20% above average
Hamilton
Sample Average
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011


Industrial Taxes
Large Industrial (per sq. ft.)
$1.70
$1.60
$1.50
$1.40
$1.30
$1.20
$1.10
$1.00
$0.90
$0.80
5% above average
18% below average
23% below average
18% below average
22% below average
Hamilton
Sample Average
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011

The result of the Standard Industrial class has been somewhat volatile. Hamilton's significant increase over the last two years in the Standard Industrial class, when compared to the sample average, may be attributed to 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 sample average. The Standard Industrial increase (compared to the sample average) in the last two years may be more a result of the Provincial Business Education Tax (BET) reduction plan (6 municipalities experienced total tax reductions ranging from -10% to -20% in 2011) which has reduced the sample average, thereby negatively impacting Hamilton's ranking when compared to this average.

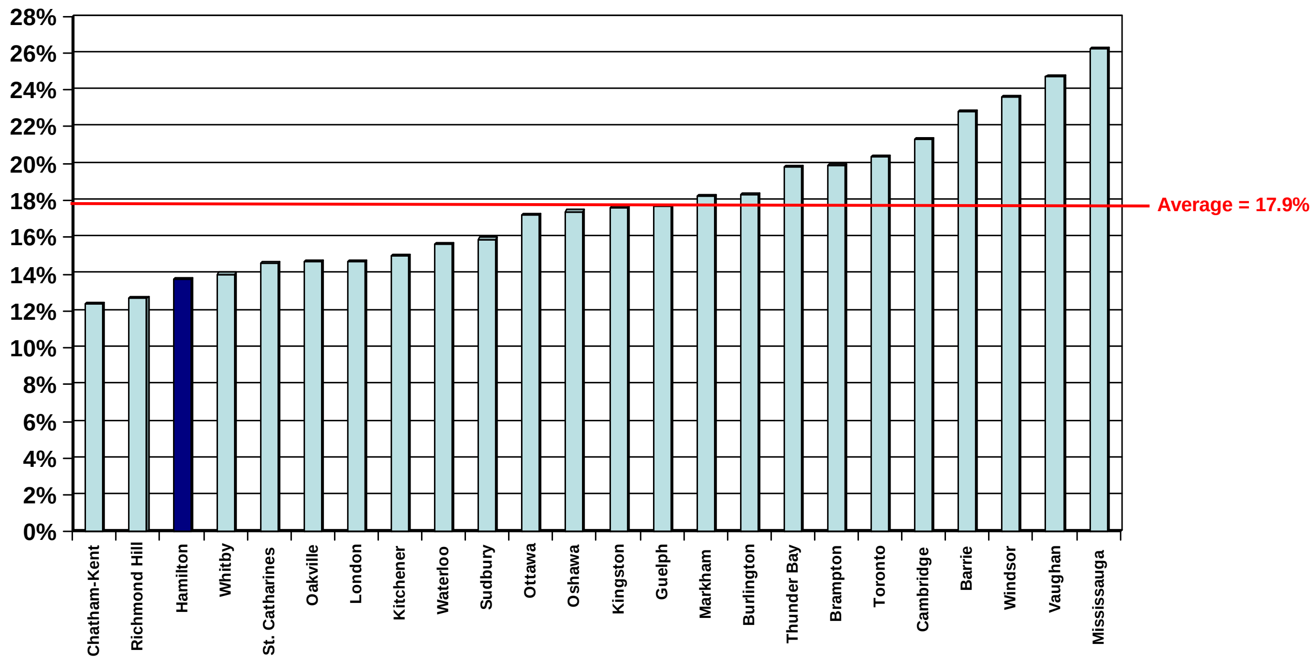
Business education tax rates for all municipalities are reduced to offset reassessment. In addition to this, the Provincial BET reduction plan establishes annual ceiling rates, whereby municipalities above the ceiling rate in a particular year, benefit from a reduction in their BET rate to match the ceiling rate. Hamilton's BET rates are below this annual ceiling rate. Since Hamilton's BET rates are still above the maximum rate (yet below the ceiling rate), Hamilton's BET rates are marginally reduced by an amount which represents 2% of the difference between Hamilton's rate and the maximum rate. This additional reduction is not very significant. There were, however, several municipalities in the sample with industrial BET rates well above the annual ceiling rates. These municipalities benefited significantly from this Provincial BET reduction plan, which saw their industrial BET rates drop significantly to the annual ceiling rate.

Residential vs. Non-Residential Split

Hamilton's 2011 unweighted assessment is comprised of 86.3% Residential (includes Multi-Residential) and 13.7% Non-Residential. This is an improvement when compared to the 2010 and 2009 splits of 86.6% / 13.4% and 87.5% / 12.5% respectively, as Hamilton's share of non-residential assessment has increased. Although Hamilton continues to be relatively comparable to the full study average of 85.6% Residential vs. 14.4% Non-Residential, 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 82.1% Residential vs. 17.9% Non-Residential.

2011 Non-Residential Assessment as a % of Total Assessment (unweighted)

(Municipalities with population > 100,000)



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.

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

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.