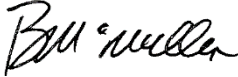




INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	September 20, 2023
SUBJECT/REPORT NO:	2022 Municipal Tax Competitiveness Study (FCS23060) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Ailish Brooke (905) 546-2424 Ext. 6875 Gloria Rojas (905) 546-2424 Ext 6247
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

COUNCIL DIRECTION

Not Applicable

INFORMATION

Executive Summary

The City of Hamilton has participated in an annual tax competitiveness study since 2001. Report FCS23060 provides information for 2022 with comparison to prior years and other municipal comparators based on proximity and population. The comparator groups will vary slightly year over year due to changes in the participating municipalities and populations. All comparative measures presented in Report FCS23060 are presented based on the comparators identified in Appendix "A" to Report FCS23060.

The 2022 data suggests that Hamilton's relative tax burden has remained largely consistent since 2021 towards the comparator groups.

Residential: While the City's property taxes in the residential property class are considered high overall, they have continued to converge with comparator groups. In 2015, Hamilton's detached bungalow property taxes were 17.57% higher than the 10 most proximate municipalities. In 2022, the difference has decreased to 10.29%. However, this represents a slight increase from 2021 where Hamilton's detached bungalow property taxes were 9.35% higher than the 10 most proximate municipalities. This is not a sufficient time period to identify a trend and results will continue to be monitored.

The City has a residential property tax burden of 4.73% of the average household income and an effective residential tax rate of 1.25% in 2022 which represents a decrease from 1.38% in 2015. The effective residential property tax rate is a representation of the tax rate as a percentage of property value.

Commercial: The City is very competitive in the commercial property class, especially when examining the taxes paid for office buildings. Taxes paid for office buildings in Hamilton (\$3.29 / square foot on average) are lower than the average of the 10 most proximate municipalities (\$3.41 / square foot on average) and the average of the municipalities with the most comparable populations (\$3.61 / square foot on average).

Industrial: The City's property taxes are very competitive in the large industrial property class at 26.80% below the 10 most proximate municipalities in 2022 which is consistent with the 2021 results. (Note: Report FCS22061, the 2021 Municipal Tax Competitiveness Study Report, misstated this metric. In 2021, property taxes for the large industrial property class were 26.67% below the 10 most proximate municipalities). The competitiveness trend has been improving for the industrial property class, as the taxes paid per square foot in 2022 were 18.05% higher than the 10 most proximate municipalities which is an improvement from being 32.16% higher in 2015.

Non-Residential versus Residential Split: Hamilton's assessment is comprised primarily of residential properties. The proportion of non-residential assessment as a percentage of the total assessment is 12.41% and the residential assessment as a percentage of the total assessment is 87.59%. This translates to a large tax burden borne by the residential property class. Hamilton's proportion of non-residential assessment is equivalent to the average of the 10 most proximate municipalities.

Analysis

The City of Hamilton participates annually in the Municipal Study conducted by BMA Management Consulting Inc. This study examined the relative property tax competitiveness of 132 municipalities in Ontario for 2022 (129 municipalities for 2021). Report FCS23060 provides an overview of the City of Hamilton's tax burden in 2022 and preceding years relative to other comparator municipalities. The complete Municipal Study has been made available through the City's website:

<https://www.hamilton.ca/home-neighbourhood/property-taxes/understanding-property-tax/municipal-tax-competitiveness-study>).

Staff has conducted an analysis of the City of Hamilton's tax burden relative to two primary comparator municipality groups based on population similarity and geographic proximity. The comparator groups are crucial to this analysis as they offer a benchmark to effectively measure and understand Hamilton's overall tax competitiveness, allowing for a more nuanced comparison and more informed conclusions. Proximity and population are effective comparator groups as they account for the geographical factors and size-related needs and challenges, respectively, which can significantly influence a municipality's overall tax competitiveness.

The 28 participating municipalities with the most similar population to the City of Hamilton were selected for the population similarity comparator group. The 10 most proximate municipalities to the City of Hamilton participating in the Municipal Study were selected for the geographic proximity comparator group. Appendix "A" to Report FCS23060 lists the municipalities included in each comparator group. The comparator groups will vary slightly year over year due to changes in the participating municipalities and populations. All comparative measures presented in Report FCS23060 are presented based on the comparators identified in Appendix "A" to Report FCS23060.

The objective of Report FCS23060 is to identify general trends in the municipal tax competitiveness of the City of Hamilton. Several factors impact a municipality's tax burden and many municipalities included in the Study are affected differently. Factors that influence the tax burden may include:

- Variations in the specific type of sample properties included in the Study
- Tax policies (e.g. tax ratios, Provincial levy restrictions on the Multi-Residential, Commercial and Industrial property classes)
- Optional property classes, area rating policies
- Non-uniform education tax rates in the non-residential property classes
- Differences in level of municipal service provided
- Municipal access to other sources of revenue (provincial subsidies, gaming and casino revenue, etc.)

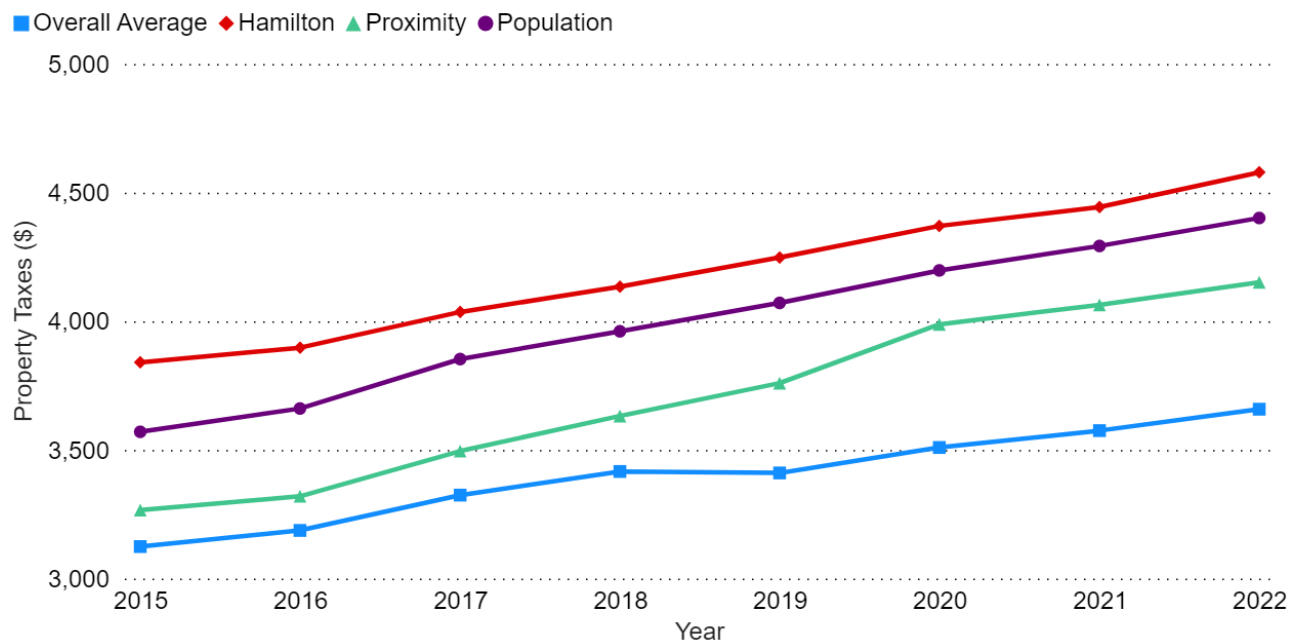
Report FCS23060 examines Hamilton's relative tax burden in the Residential, Multi-Residential, Commercial and Industrial property classes. Overall, the data suggests that Hamilton's relative tax burden has remained similarly competitive from 2021 to 2022, though is becoming more competitive in select property classes.

Residential Property Class

Tax Competitiveness for the residential property class is represented by the taxes paid on a detached bungalow. Figure 1 to Report FCS23060 depicts the relative stability of Hamilton's residential property taxes as depicted by a detached bungalow property in relation to the comparator groups. In 2015, Hamilton's taxes were 17.57% higher than the proximity comparator group, whereas in 2022, the difference had decreased to 10.29% (though this is up from 9.35% in 2021). In 2022, Hamilton's taxes for a detached bungalow were 4.03% higher than municipalities with comparable populations and 25.16% higher than the overall average of all study participants.

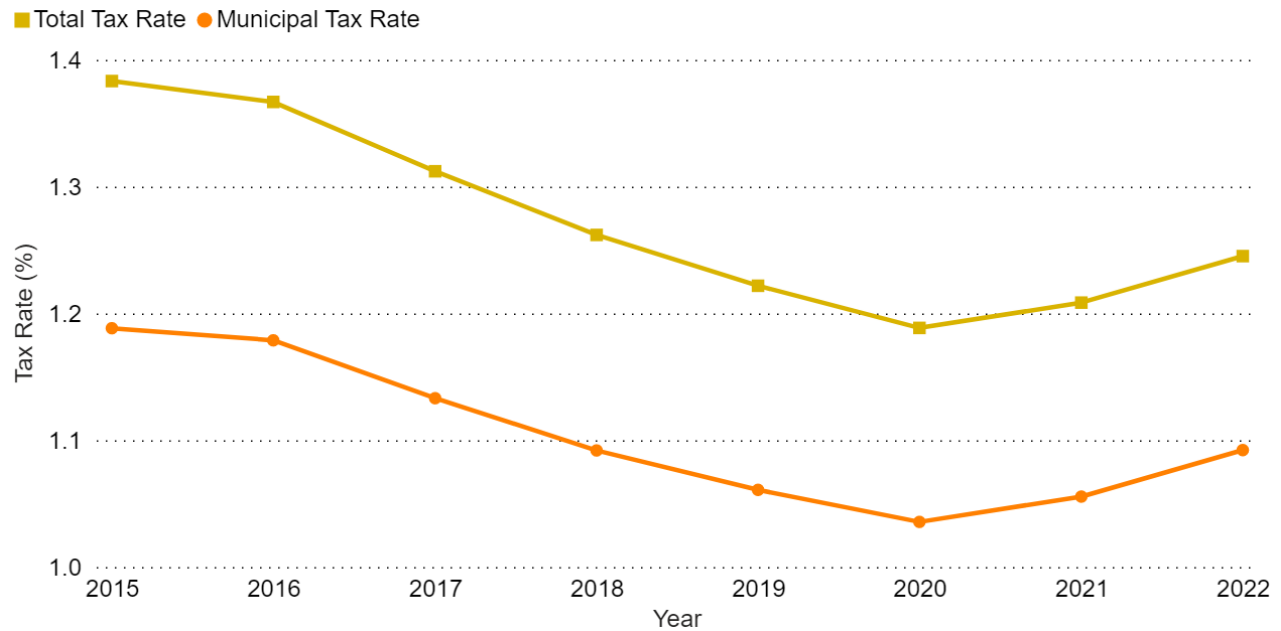
The Municipal Study has categorized Hamilton's residential property taxes as high in comparison to other study participants.

Figure 1: Residential Property Taxes – Detached Bungalow



The effective residential property tax rate is a representation of the tax rate as a percentage of property value. This indicator demonstrates the capacity municipalities may have to increase taxes. Those with the lowest effective property tax rates have the greatest capacity while those at the higher end have less capacity. Figure 2 to Report FCS23060 depicts the year-to-year relative stability of Hamilton's total effective tax rate, which was 1.25% in 2022 and has had a slight downward trend since 2017 with a mild uptick in recent years. Hamilton's total effective tax rate is in line with the overall average which was 1.26% in 2022.

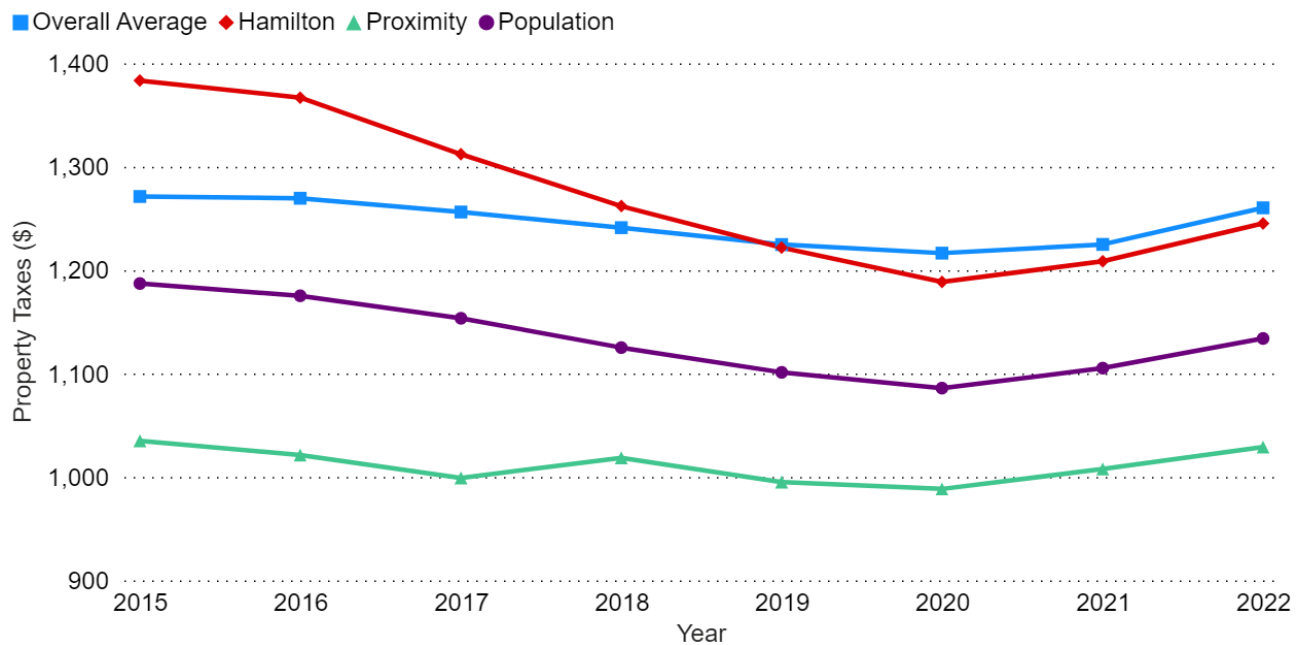
Figure 2: Effective Residential Property Tax Rate – Hamilton



Residential Property Taxes per \$100,000 of Assessed Value

Figure 3 to Report FCS23060 depicts Hamilton’s average residential property taxes for every \$100,000 of assessed value. This measure offers a reliable comparison of the tax burden across municipalities by controlling for differences between municipalities in assessed values and standardizing the taxes to a fixed property assessment value. Hamilton’s residential taxes per \$100,000 of assessed value have been steadily trending down since 2015. However, as of 2022, Hamilton’s residential taxes per \$100,000 of assessed value remain 21.01% higher than proximity comparators and 9.81% higher than population comparators but, since 2019, has remained below the overall average of study participants. It is important to note that the Province has not had a reassessment since 2016 since the reassessment planned for 2020 has been postponed and, as of the time of Report FCS23060, the Province has not set a date for the new reassessment.

Figure 3: Residential Property Taxes per \$100,000 of Assessed Value

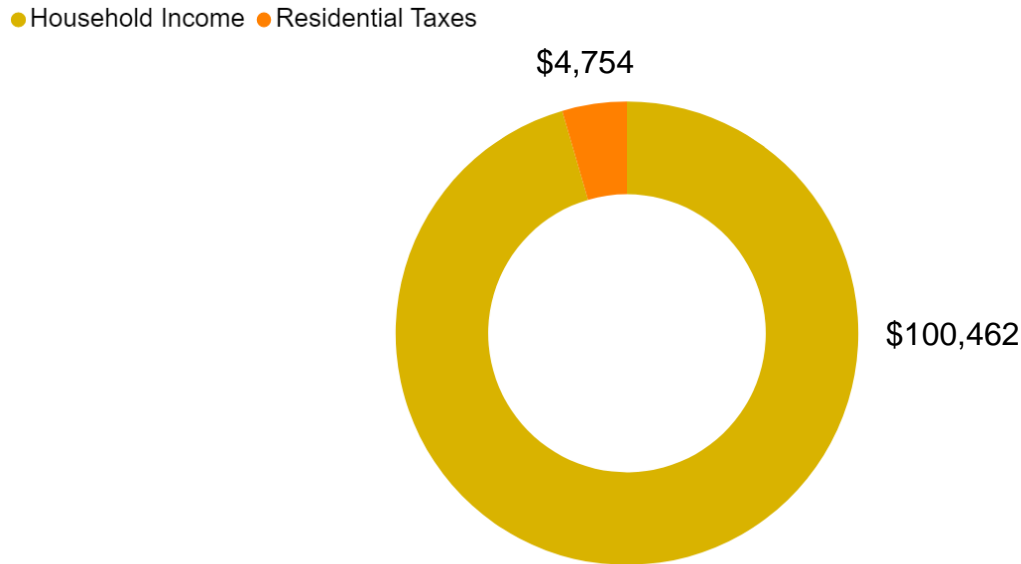


Residential Property Taxes as a Percentage of Income

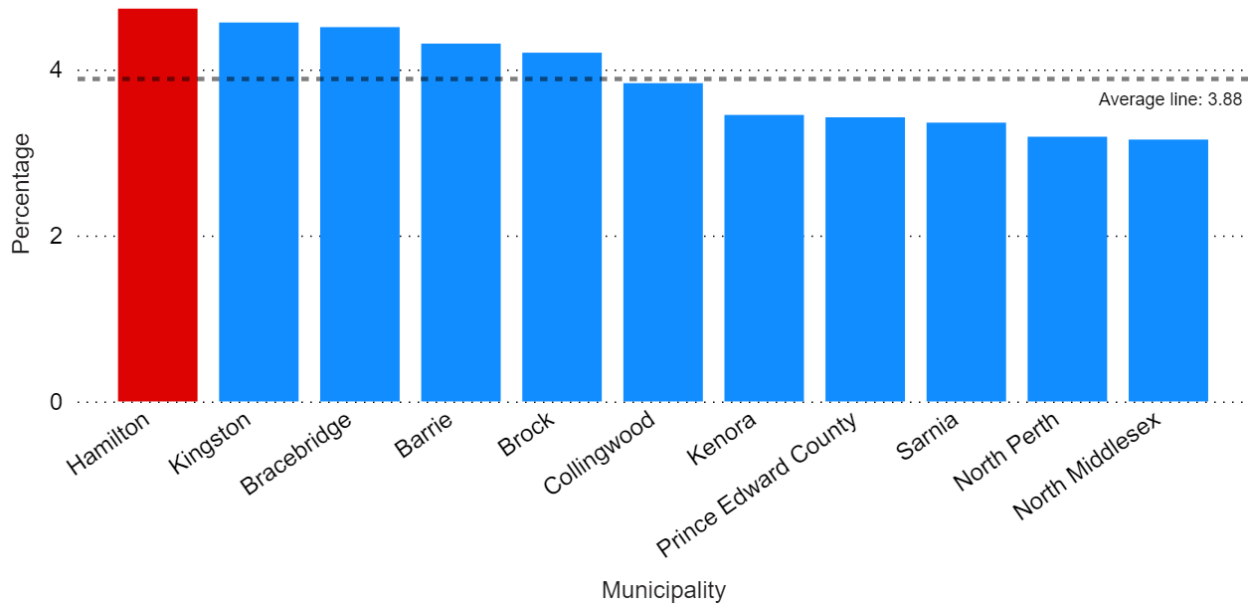
Average household income is an indication of a community's ability to pay for services. The Municipal Study provided estimated data for 2022. As shown in Figure 4 to Report FCS23060, Hamilton's residential property taxes represent a burden of 4.73% of the average household income of approximately \$100,462. The overall average household income of all 2022 study participants is approximately \$110,043 with an average residential property tax burden of 3.86%. Figure 5 to Report FCS23060 compares Hamilton's residential property tax burden to municipalities with the most similar average household incomes and demonstrates that even when adjusting for household income, Hamilton continues to have one of the highest residential property tax burdens as the average for these municipalities is 3.88%.

Residential Property Taxes as a Percentage of Income is a measure that can be difficult for municipalities to change as income is a long-term factor influenced by broader economic conditions. To improve the measure of residential property tax as a percentage of average household income, expenditures would need to be reduced (possibly impacting services to residents) or incomes would need to increase.

Figure 4: Residential Property Taxes and Average Household Income – Hamilton



**Figure 5: Residential Property Taxes as a Percentage of Household Income
Municipalities with similar Household incomes to Hamilton**



Hamilton has made progress towards being more competitive in the residential property class as a result of the relatively low tax increases passed by City Council through 2022 (2022 increase of 2.2%; 2021 increase of 1.9%; 2020 increase of 2.9%), despite the City continuing to be negatively impacted by the Provincial levy restrictions on the Industrial and Multi-Residential property classes. Recent provincial legislation will likely result in substantial increases to tax rates in the coming years. The reassessment cycle that was scheduled to start in 2020 has been postponed and the Province has not set a new reassessment date. The results of the next reassessment and how Hamilton assessment values compare to the rest of the Province will be a key factor on whether the positive trend continues.

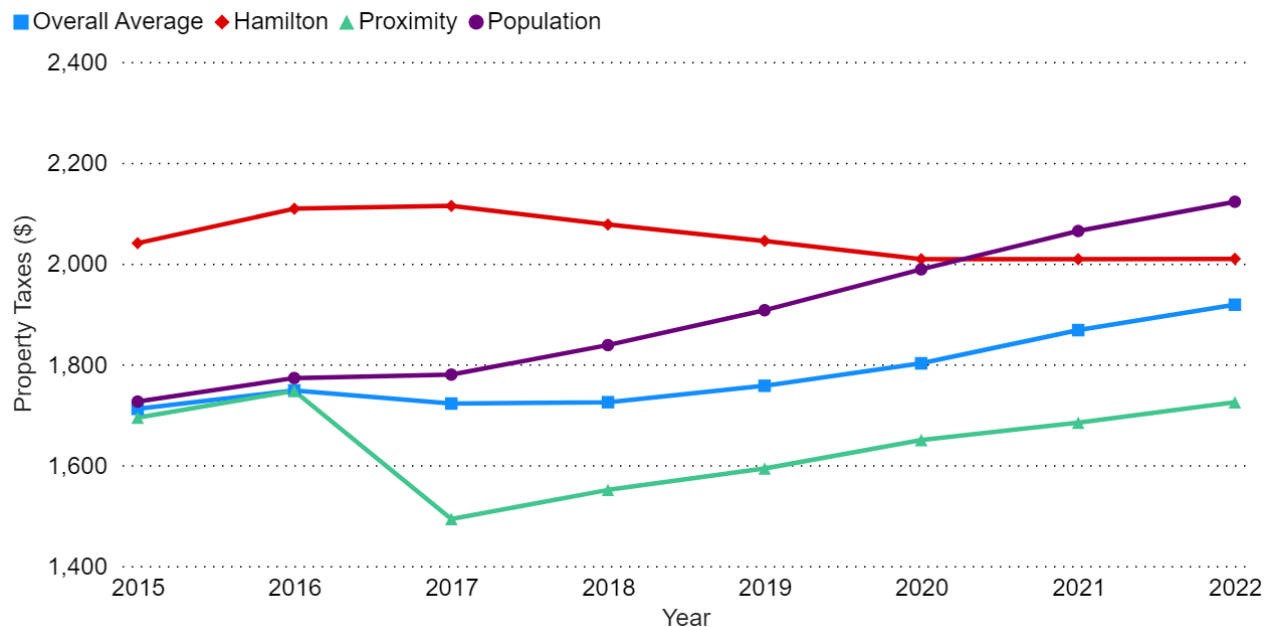
Multi-Residential Property Taxes

The tax competitiveness for the broader multi-residential property class is measured by taxes imposed on high-rise apartment buildings. Figure 6 to Report FCS23060 depicts property taxes for high-rise apartments on a per unit basis. Hamilton's property taxes in this class are converging with the overall study average and comparator groups. The average of each comparator group has been increasing and Hamilton trends downwards. Hamilton's taxes are currently 16.48% above the proximity comparator group, 5.34% below the population comparator group and 4.74% above the overall average.

Ongoing reductions in the tax burden of the multi-residential property class are expected due to the 2017 legislation enacted by the Province of Ontario to freeze the tax burden for multi-residential properties in municipalities where the tax ratio is above 2.0. As of 2022, the multi-residential tax ratio in Hamilton was 2.3594. Additional information on the multi-residential property class is available in Report FCS18002, "Update Respecting Multi-Residential Taxation".

The Municipal Study has categorized Hamilton as having mid-range property taxes for the multi-residential property class in comparison to the overall average of study participants.

Figure 6: Multi-Residential Property Taxes – High-Rise Apartment



Commercial Property Class

There are several challenges to consider when measuring the competitiveness of the Commercial property class across the Province. Challenges due to the evolving economic landscape include:

- Closure of major anchor retailers
- Entry of new, high-end international retailers into the Canadian marketplace
- Changing shopping patterns of Canadian consumers (including online shopping)
- Volume of appeals filed by owners / operators

Figure 7 to Report FCS23060 summarizes the dollar value of the property taxes per square foot imposed for neighbourhood shopping centres. Neighbourhood shopping centres have been defined as small centres which are comprised of retail tenants who cater to everyday needs (including pharmacies, convenience stores, hardware stores etc.) and range in size from approximately 4,000 to 100,000 square feet. Hamilton's property taxes per square foot have stabilized, increasing only 3.34% since 2015 while the overall average has increased 13.86% in the same time period. Hamilton's taxes per square foot in 2022 were 28.68% higher than the proximity comparator group which is significantly lower than in 2015 when they were 51.64% higher.

Figure 7: Commercial Property Taxes – Neighbourhood Shopping Centre

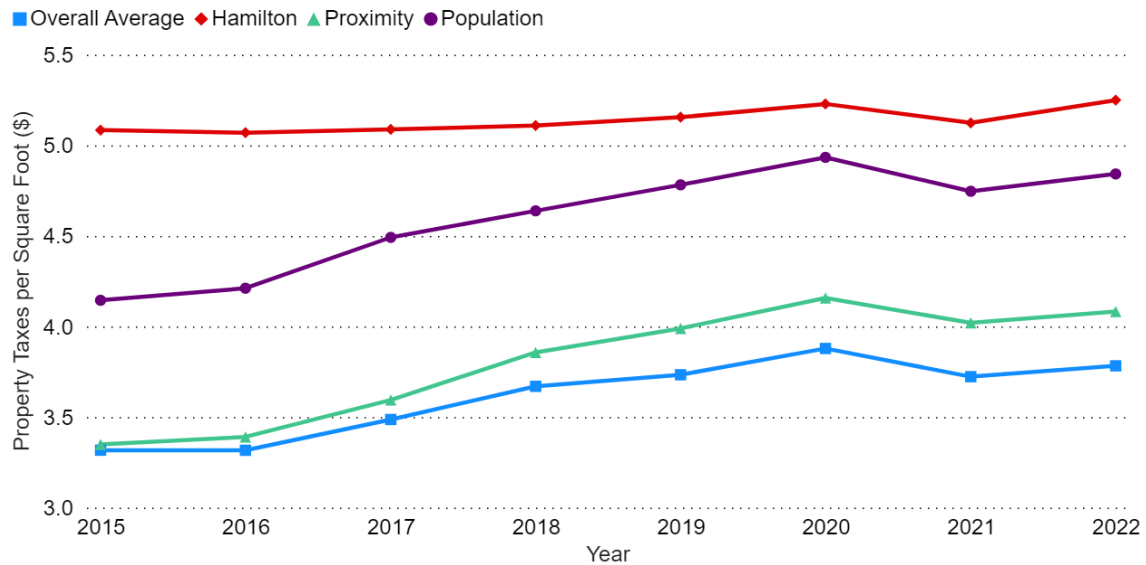
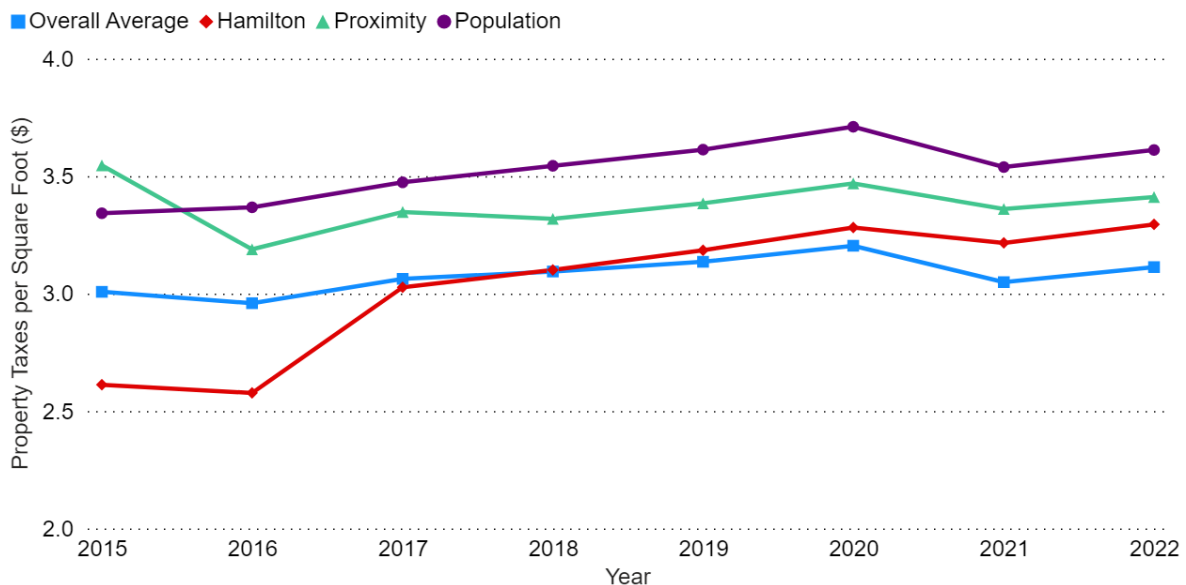


Figure 8 to Report FCS23060 summarizes the dollar value of the property taxes per square foot of gross leasable area in office buildings. Office building data is focused on buildings in prime locations within each municipality. Hamilton’s property taxes for this property type are quite competitive in comparison to proximate municipalities being 3.52% lower than the proximity comparator group in 2022 and 8.86% lower than the population group. Hamilton’s property taxes in this category first surpassed the overall average in 2018 and remains 5.79% higher than the overall average in 2022.

Figure 8: Commercial Property Taxes – Office Building



Industrial and Large Industrial Property Class

Figure 9 to Report FCS23060 summarizes the dollar value of property taxes per square foot in the industrial property class. Buildings in the industrial property class are less than 125,000 square feet. Since 2015, the taxes in Hamilton and the overall average have been relatively stable. In 2022, Hamilton’s industrial taxes per square foot was 18.06% higher than the proximity comparator group and 25.00% higher than the population group. The general trend is improving for the City in this class as, in 2015, Hamilton’s taxes were 32.16% higher than the proximity comparator group. Hamilton’s industrial taxes are, however, 60.38% higher than the overall average.

Figure 9: Industrial Property Taxes – Industrial

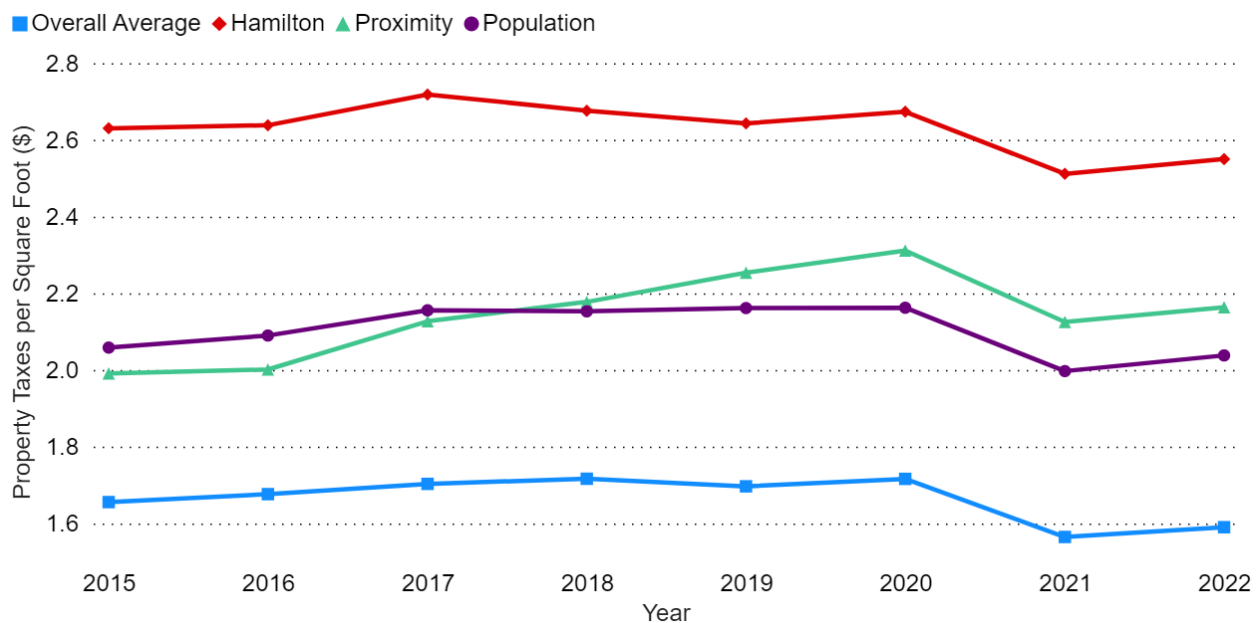
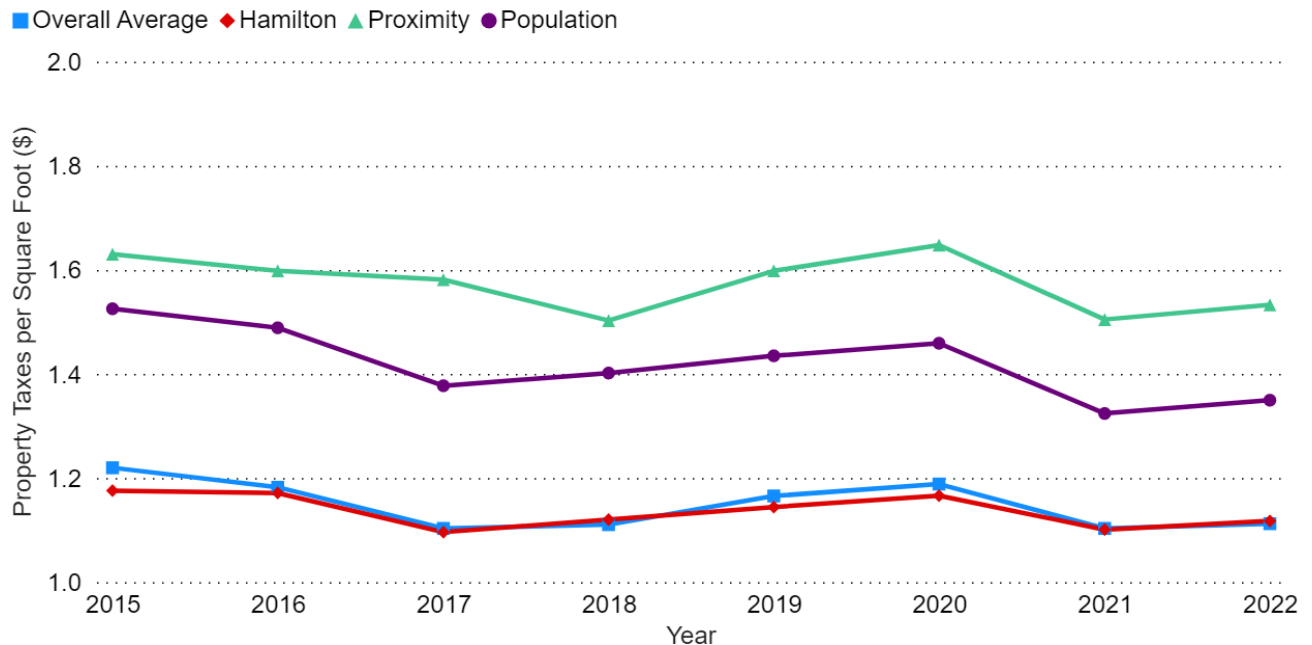


Figure 10 to Report FCS23060 summarizes the dollar value of property taxes imposed per square foot for buildings in the large industrial property class. Large industrial buildings are greater than 125,000 square feet. Hamilton is exceptionally competitive in the large industrial property class where Hamilton’s tax rate is below the comparator groups and has been at or below the overall average since data is available in 2015. In 2022, Hamilton’s tax rate was 26.80% below the proximity comparator group. The slight downward trend for Hamilton and all comparator groups between 2020 and 2021 is due to the standardization of Business Education Taxes in 2021.

Figure 10: Industrial Property Taxes – Large Industrial



The gap between the comparators and Hamilton can be attributed to a variety of factors including the overall decline of the manufacturing industry in Ontario which has left many municipalities with a reduced assessment base. In addition, successful appeals of assessment contribute to a reduced assessment base. Additional details on the quantity and results of assessment appeals in the City can be found in Report FCS23022, “Annual Assessment Appeals as of December 31, 2022”.

In 2020, the Business Education Taxes (BET) were reduced across the Province for properties in the commercial and industrial property classes beginning in 2021. For Hamilton, this meant a reduction of 10% in the rate for the commercial property class and a reduction of 25% in the rate for the industrial property class. Nevertheless, some other municipalities had a more significant reduction. The impact on how this decision impacts Hamilton and the comparator groups will be clearer in the coming years.

Residential versus Non-Residential Split

Hamilton’s proportion of non-residential assessment as a percentage of the total assessment is 12.41% and the residential assessment as a percentage of the total assessment is 87.59%. The non-residential assessment percentage figure for 2022 is lower than most comparator groups as shown in Figures 11 and 12 to Report FCS23060. This translates to a larger proportional tax burden borne by the residential property class than in other municipalities.

Figure 11: Non-Residential Assessment as a Percentage of Total Assessment

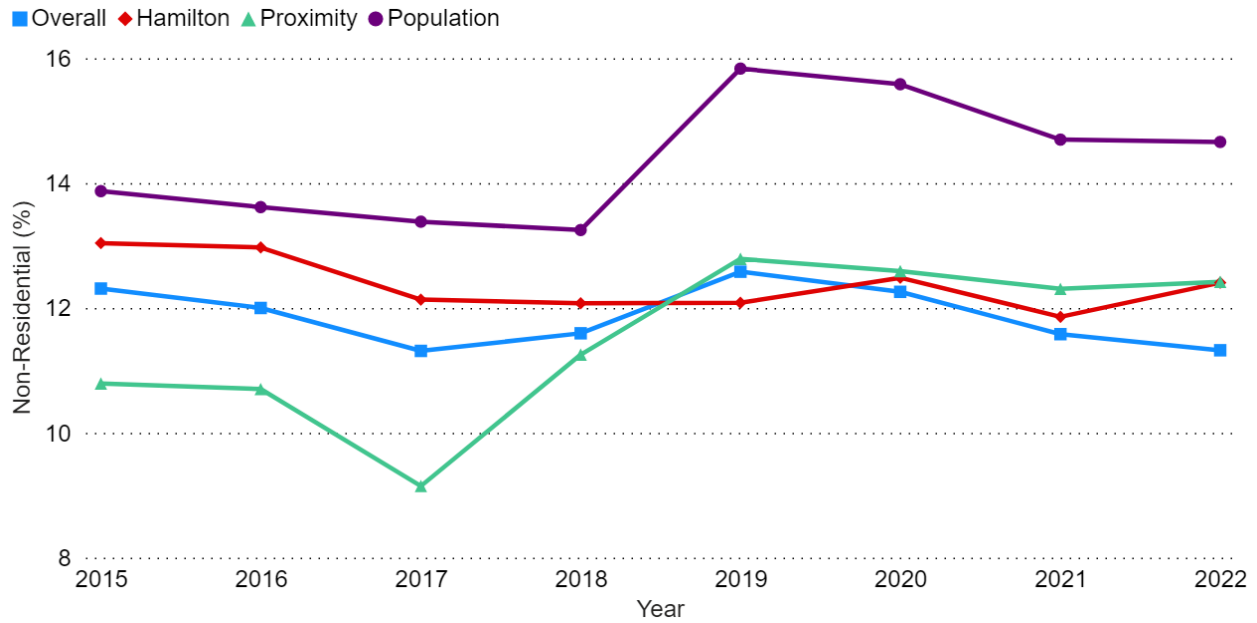
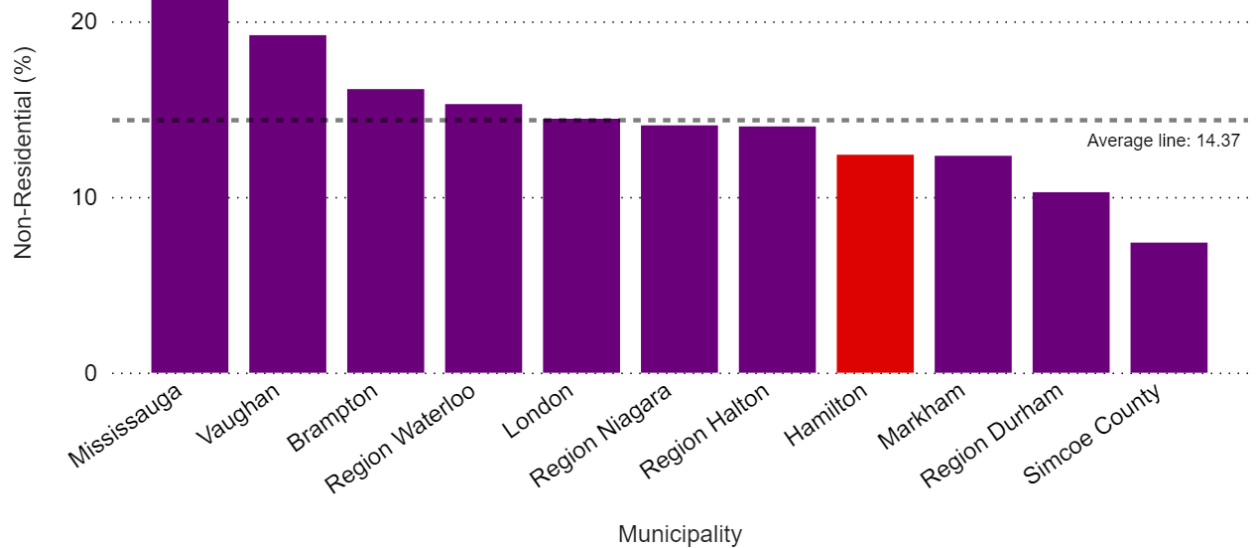


Figure 12: Non-Residential Assessment as a Percentage of Total Assessment – Proximity Comparators



Hamilton has experienced significant total assessment growth in the last several years, with building permits exceeding \$1 B in the last nine years, including surpassing the \$2 B threshold in 2021. The majority of the growth continues to occur in the residential property class and while there has been significant industrial and commercial growth in the City, the large number of appeals negatively impact the assessment base of these classes, reducing their share of total assessment. Additional details on the assessment growth in the City can be found in Report FCS23025, "2022 Assessment Growth".

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS23060 – Comparator Groups

AB/GR/dt