




Hamilton

# INFORMATION REPORT

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	July 8, 2024
<b>SUBJECT/REPORT NO:</b>	2023 Municipal Tax Competitiveness Study (FCS24012) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Ailish Brooke (905) 546-2424 Ext. 6875 Gloria Rojas (905) 546-2424 Ext 6247
<b>SUBMITTED BY:</b>	Kirk Weaver Acting Director, Financial Planning, Administration and Policy Corporate Services Department
<b>SIGNATURE:</b>	

## COUNCIL DIRECTION

Not Applicable

## INFORMATION

### Executive Summary

The City of Hamilton (the City) has participated in an annual tax competitiveness study since 2001. Report FCS24012 provides information for 2023 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 FCS24012 are presented based on the comparators identified in Appendix “A” to Report FCS24012.

Overall, since 2015, the data shows that Hamilton’s relative tax burden has generally decreased. However, it is noted that, in the last two years, the City’s relative tax burden has increased slightly relative to the comparator groups.

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OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**Residential:** While the City's property taxes in the residential property class are considered high overall, they have continued to converge with comparator groups. Based on data from 2022 and 2023, Hamilton's competitiveness in the residential property class is decreasing. In 2015, Hamilton's detached bungalow property taxes were 17.57% higher than the 10 most proximate municipalities. In 2023, the difference was 12.38%. It is noted that this represents an increase from the lowest point achieved in 2021 where Hamilton's detached bungalow property taxes were 9.35% higher than the 10 most proximate municipalities.

The City has a residential property tax burden of 4.56% of the average household income and an effective residential tax rate of 1.33% in 2023 which represents a decrease from 1.38% in 2015 and an increase from the low achieved of 1.19% in 2020. The effective residential property tax rate is a representation of the tax rate as a percentage of property value.

**Commercial:** The City has a mid-range competitiveness in the commercial property class when examining the taxes paid for office buildings. Taxes paid for office buildings in Hamilton (\$3.47 / square foot on average) remain lower than the average of the 10 most proximate municipalities (\$3.52 / square foot) and the average of the municipalities with the most comparable populations (\$3.76 / square foot), though the City's competitiveness in this property class has decreased in 2023.

**Industrial:** Hamilton's competitiveness has been improving for the industrial property class, as the taxes paid per square foot in 2023 were 17.86% higher than the 10 most proximate municipalities which is an improvement from being 32.16% higher in 2015. However, taxes for the industrial property class in Hamilton are 60.00% higher than the overall average. The City's property taxes are very competitive in the large industrial property class at 26.58% below the 10 most proximate municipalities in 2023 which is consistent with results from previous years.

**Non-Residential versus Residential Assessment Split:** Hamilton's assessment is comprised primarily of residential properties. The proportion of non-residential assessment as a percentage of the total assessment is 12.02% and the residential assessment as a percentage of the total assessment is 87.98%. This translates to a large tax burden borne by the residential property class. Hamilton's proportion of non-residential assessment is in the mid-range 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 examines the relative property tax competitiveness of 136 municipalities in Ontario for 2023 (132 municipalities took part in 2022).

Report FCS24012 provides an overview of the City of Hamilton’s tax burden in 2023 and preceding years relative to 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, one based on population similarity and the other, 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 more nuanced comparisons and 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 30 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 FCS24012 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 FCS24012 are presented based on the comparators identified in Appendix “A” to Report FCS24012 and prior years may differ from previous reports as a result.

The objective of Report FCS24012 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 the level of municipal service provided
- Municipal access to other sources of revenue (provincial subsidies, gaming and casino revenue, etc.)

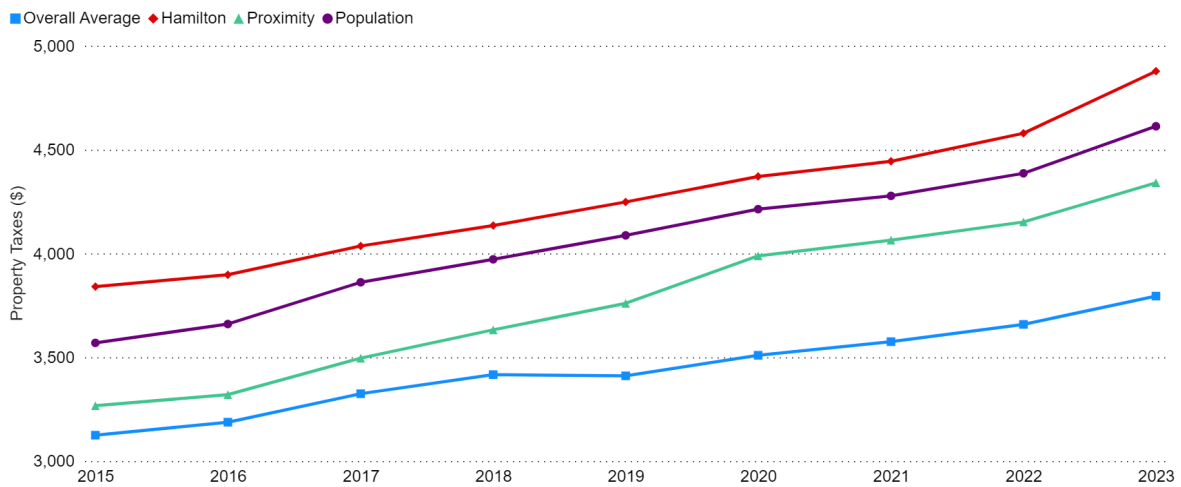
Report FCS24012 examines Hamilton’s relative tax burden in the Residential, Multi-Residential, Commercial and Industrial property classes. Overall, the data suggests that Hamilton’s relative tax competitiveness has improved over the last 10 years but progress has slowed in recent years.

## Residential Property Class

Tax Competitiveness for the residential property class is represented by the taxes paid on a detached bungalow. Figure 1 to Report FCS24012 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 2023, the difference had decreased to 12.38% (though this is up from the lowest difference of 9.35% in 2021). In 2023, Hamilton’s taxes for a detached bungalow were 5.75% higher than municipalities with comparable populations and 28.54% higher than the overall average of all study participants.

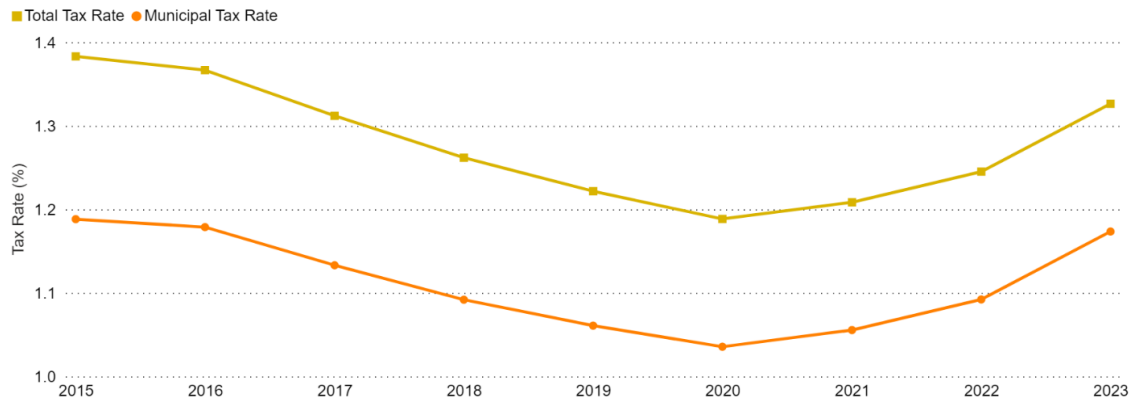
The Municipal Study has categorized Hamilton’s residential property taxes as high in comparison to other study participants.

**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 FCS24012 depicts the year-to-year relative stability of Hamilton’s total effective tax rate, which was 1.33% in 2023 and had a slight downward trend between 2017 and 2020 with an uptick in recent years.

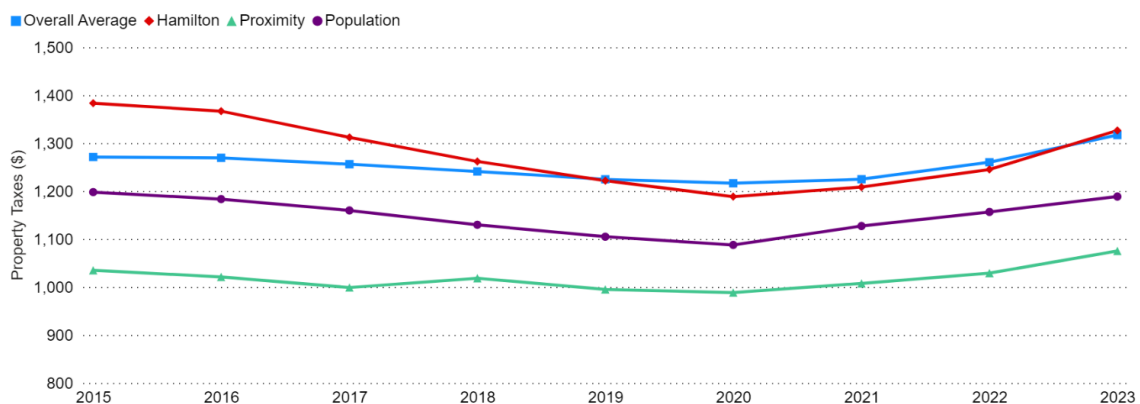
**Figure 2: Effective Residential Property Tax Rate – Hamilton**



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

Figure 3 to Report FCS24012 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 had been steadily trending down since 2015 with an increase since 2021. As of 2023, Hamilton’s residential taxes per \$100,000 of assessed value remain 23.37% higher than proximity comparators and 11.59% higher than population comparators. Between 2019 and 2022, the residential property taxes for every \$100,000 of assessed value were below the overall average of study participants but surpassed the average in 2023 and is currently, 0.72% higher than the overall average. It is important to note that the Province has not had a reassessment since 2016 since the reassessment planned for 2020 was postponed. The 2024 Budget for the Province announced that the reassessment would continue to be postponed.

**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. As shown in Figure 4 to Report FCS24012, Hamilton’s residential property taxes represent a burden of 4.56% of the average household income of approximately \$111,188. This is a decrease from 2022 where residential property taxes represented 4.73% of average household income, this change is due to an increase of \$10,762 in the average household income since 2022. The overall average household income of all 2023 study participants is approximately \$121,637 with an average residential property tax burden of 3.64%.

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

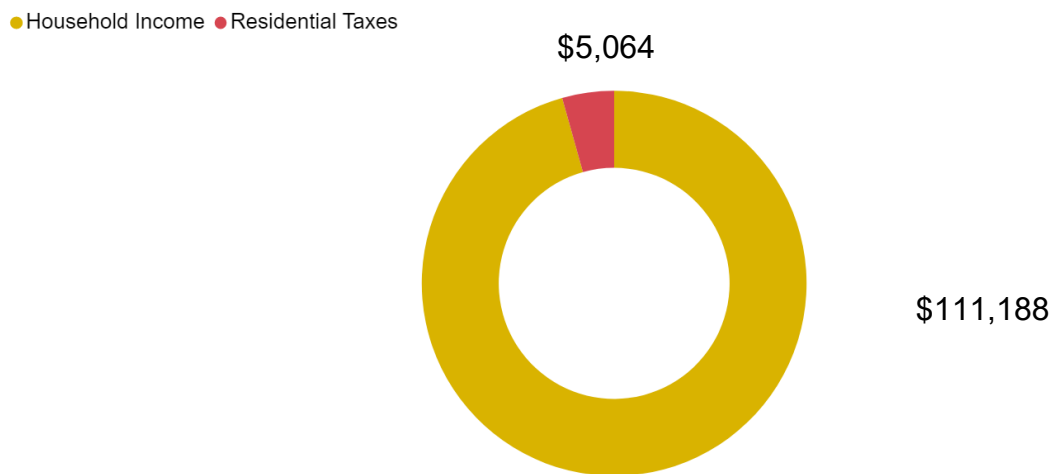
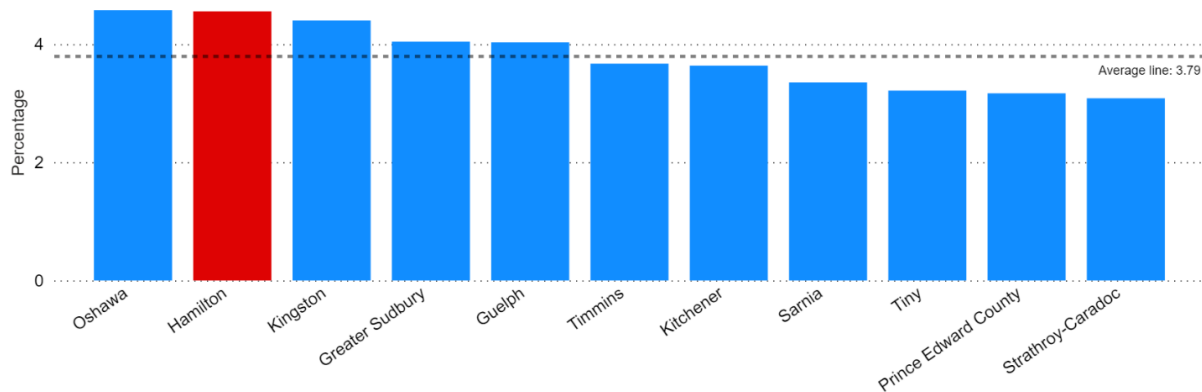


Figure 5 to Report FCS24012 compares Hamilton’s residential property tax burden to municipalities with the most similar average household incomes and demonstrates that even when adjusting for household income, Hamilton continues to have one of the highest residential property tax burdens as the average for these municipalities is 3.79%.

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, as demonstrated in 2023 compared to 2022.

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



Hamilton 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. Provincial legislation passed in 2022 has resulted in substantial increases to tax rates in recent years, as demonstrated by the 5.8% property tax increase in 2023 and the 5.79% increase in 2024. The 2024-2027 Multi-year forecast indicates a continuation of this trend in the coming years.

It is important to note that the costs of providing provincially mandated services and legislated requirements have escalated since 2019. The municipal cost share between the Municipal, Provincial and Federal governments has nearly doubled since 2019 while Federal and Provincial funding has increased by less than 30%. Additional information can be found in report “2024 Tax Supported Budget and Financing Plan (FCS24002)” (<https://pub-hamilton.escrimemeetings.com/filestream.ashx?DocumentId=391907>)

### Multi-Residential Property Taxes

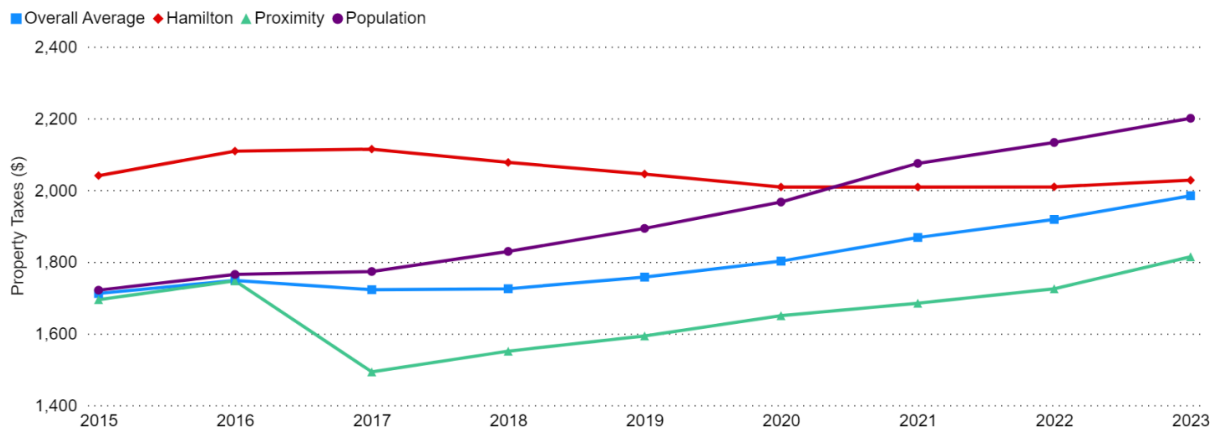
The tax competitiveness for the broader multi-residential property class is measured by taxes imposed on high-rise apartment buildings. Figure 6 to Report FCS24012 depicts property taxes for high-rise apartments on a per unit basis. Hamilton’s property taxes in this class are converging with the overall study average and comparator groups. The average of each comparator group has been increasing as Hamilton trends downwards. Hamilton’s taxes are currently 11.77% above the proximity comparator group (which is down from 16.48% in 2022), 7.84% below the population comparator group and 2.12% 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 2023, the multi-residential tax ratio in Hamilton was 2.2174. 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 FCS24012 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 were stable between 2015 and 2022 (with a slight increase in 2023), increasing only 3.34% while the overall average increased 13.86% in the same time period. Hamilton’s taxes per square foot in 2023 were 31.04% 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**

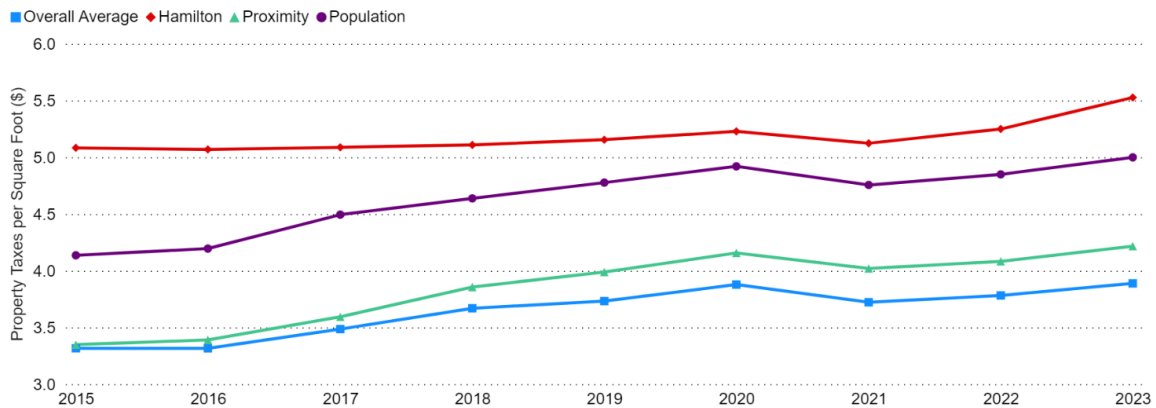
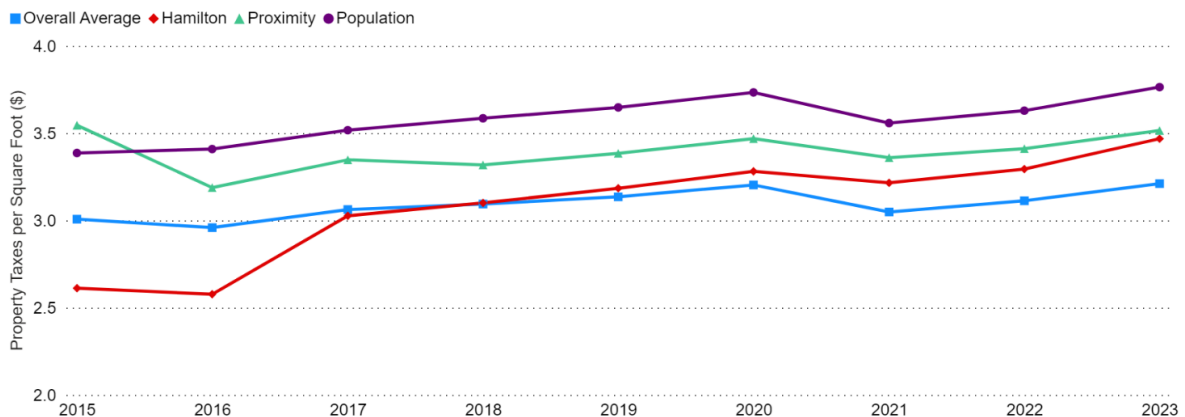


Figure 8 to Report FCS24012 summarizes the dollar value of the property taxes per square foot of gross leasable area in office buildings. Office building data is focused on buildings in prime locations within each municipality. Hamilton’s property taxes for this property type are competitive in comparison to proximate municipalities being 1.42% lower than the proximity comparator group in 2023 (down from 3.52% in 2022) and 6.38% lower than the population group. Hamilton’s property taxes in this category first surpassed the overall average in 2018 and remains 8.10% higher than the overall average in 2023.

**Figure 8: Commercial Property Taxes – Office Building**



### Industrial and Large Industrial Property Class

Figure 9 to Report FCS24012 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 industrial taxes in Hamilton and the overall average have been relatively stable. In 2023, Hamilton's industrial taxes per square foot was 17.86% higher than the proximity comparator group and 25.12% 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, 60.00% higher than the overall average.

**Figure 9: Industrial Property Taxes – Industrial**

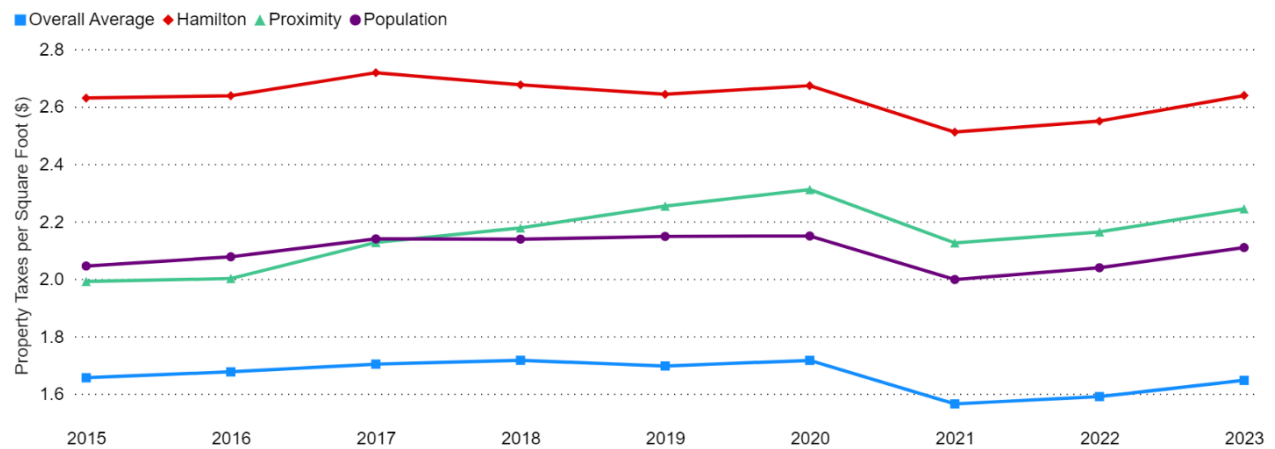
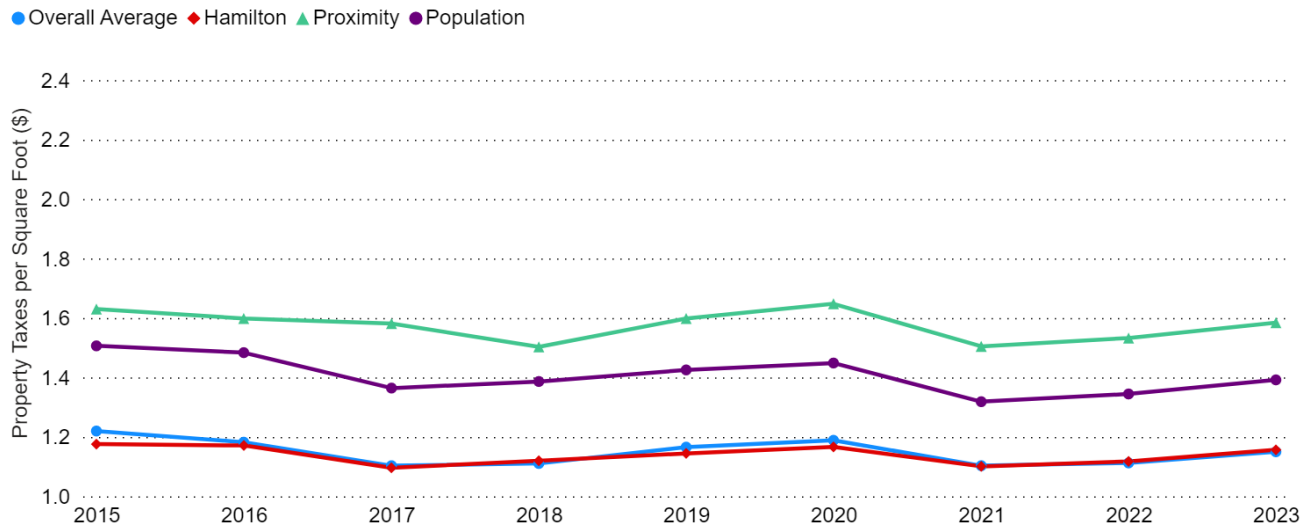


Figure 10 to Report FCS24012 summarizes the dollar value of property taxes imposed per square foot for buildings in the large industrial property class. Large industrial buildings are greater than 125,000 square feet. Hamilton is very competitive in the large industrial property class where Hamilton's tax rate is below the comparator groups and has been at or below the overall average since data is available in 2015. In 2023, Hamilton's tax rate was 26.58% 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 that began in 2021. Since the low in 2021, Hamilton's tax rate has increased 5.46%.

**Figure 10: Industrial Property Taxes – Large Industrial**

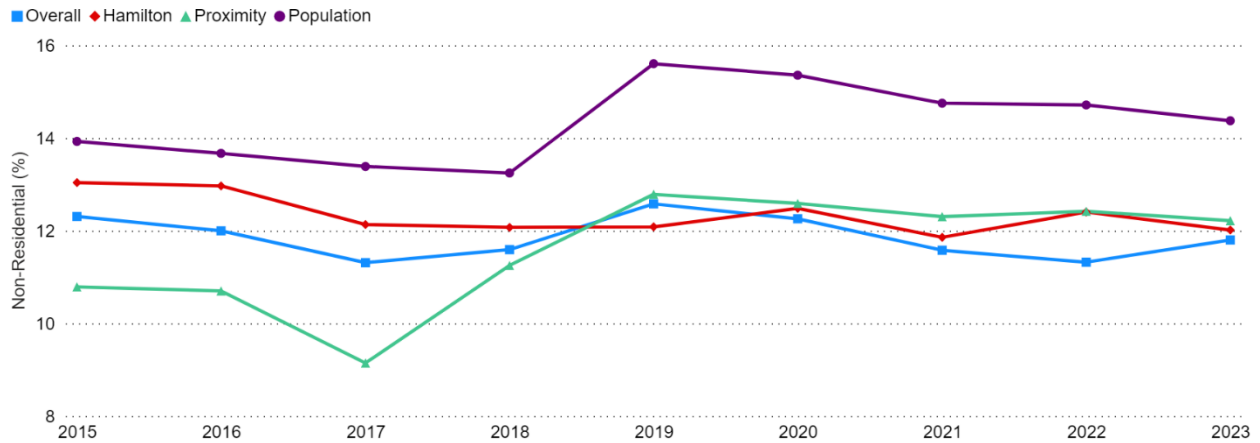


The gap between the comparators and Hamilton can be attributed to a variety of factors including the overall decline of the manufacturing industry in Ontario which has left many municipalities with a reduced industrial assessment base. In addition, successful appeals of assessment contribute to a reduced 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”. Details of appeals during 2023 will be available later in the year.

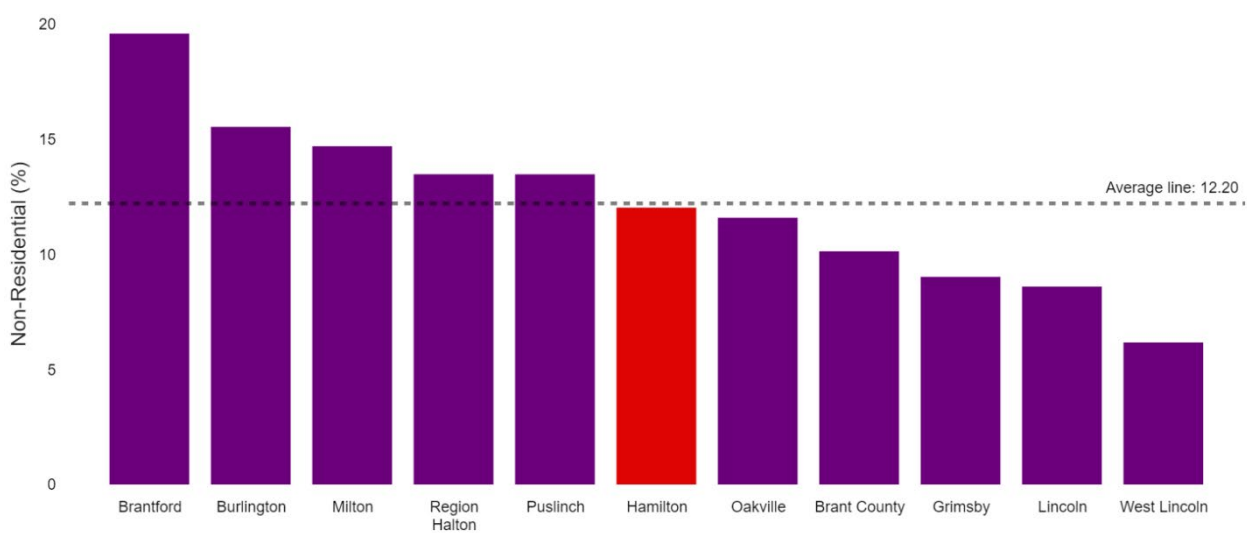
#### Residential versus Non-Residential Split

Hamilton’s proportion of non-residential assessment as a percentage of the total assessment is 12.02% and the residential assessment as a percentage of the total assessment is 87.96%. The non-residential assessment percentage figure for 2023 is lower than most comparator groups as shown in Figures 11 and 12 to Report FCS24012. 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**



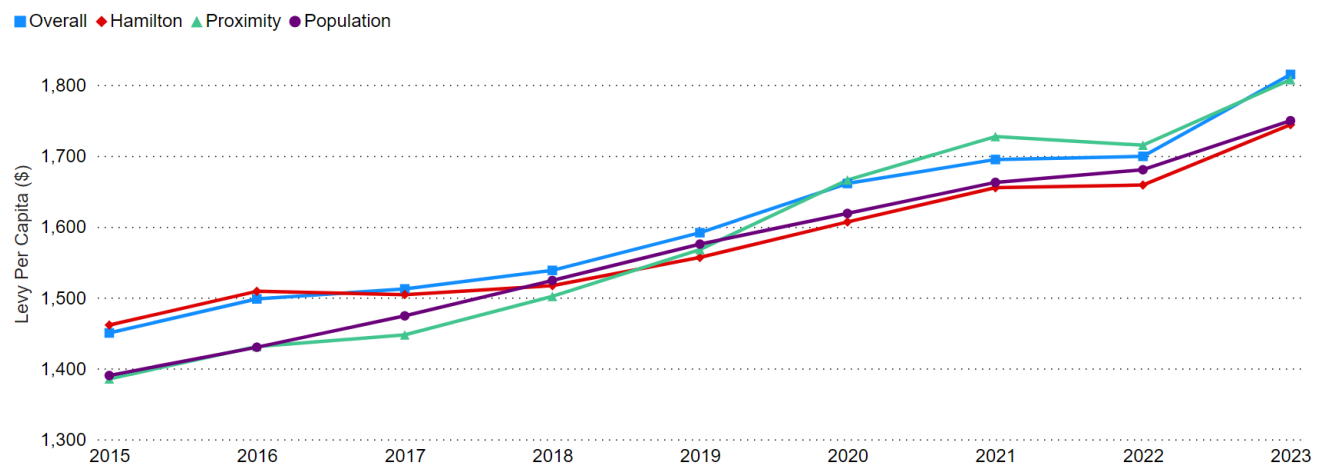
According to Report FCS24014, “2023 Assessment Growth” the City experienced an assessment growth of 1.8%, which is the highest the City has recorded. While the residential property class continues to be the main driver (1.0% growth), the non-residential property classes are experiencing continuous growth recording increases of 0.4% in 2021, 0.6% in 2022 and 0.8% in 2023. However, it takes a significant value of non-residential assessment to have an impact on the residential versus non-residential split and the non-residential assessment would need to outpace the growth of the residential class for a number of years to see a significant change on the trend.

### Net Levy per Capita

The net levy per capita reflects the total levy needed to provide municipal services on a per person basis. However, this metric does not assess the effectiveness or value of these services and it is not a direct comparison due to factors like service types, demographic differences and residential versus non-residential split. A rise in per capita spending could suggest that service costs are surpassing the community's financial capacity, particularly when such spending grows more rapidly than the combined personal income of the residents. Hamilton's net levy per capita is below that of all comparator groups as presented in Figure 13. The net levy per capita in Hamilton has increased 19.35% between 2015 and 2023 while the overall average has increased 25.15% over the same period.

The Municipal Study has categorized Hamilton as having a mid-range net levy per capita in comparison to the overall average of study participants.

**Figure 13: Net Levy per Capita**



### APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS24012 – Comparator Groups

AB/GR/dt