

## Taxing questions for Joe Rinaldo

### A timely Q&A with the City of Hamilton's finance manager

Joe Rinaldo, City View  
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Is it true that a Flamborough householder pays less tax than a Hamilton resident, on a home of equal value? Please explain why, in some cases, they would pay more.

The residents of Flamborough actually pay less taxes for a property of equal value than all former Area Municipalities other than the former Township of Glanbrook. To illustrate, the following are the actual taxes which will be paid in 2008 by a homeowner in the the former Area Municipalities for a property valued at \$300,000:

Former Municipality:

Hamilton \$4,938.00

Dundas \$4,442.00

Ancaster \$4,417.00

Stoney Creek \$4,382.00

Flamborough \$4,306.00

Glanbrook \$4,163.00

Since amalgamation, City Council has elected to area rate certain services in order to mitigate the tax shifts that would have occurred as a result of amalgamation in 2001.

In 2008, the cost of Fire, Culture and Recreation and Transit are charged to the taxpayers of the former Area Municipalities on the basis of the actual cost for that particular community. Since the former area municipalities other than Hamilton utilizes a composite force for the delivery of Fire Services (i.e. a combination of full-time and volunteer firefighters), the cost of this service is considerably less in the outlying area municipalities.

In Flamborough, the cost of Fire Services is only \$257 for a property valued at \$300,000, compared to the former City of Hamilton where the cost is approximately \$495. In addition, since Flamborough receives limited Transit Service, which will commence in 2008, the cost to the average taxpayer is only \$46 in Waterdown compared to \$274 in the former city.

It should be noted that only areas which receive transit service pay for that service. Therefore, the rural parts of the city do not contribute to Transit Services. This is also true of Water, Wastewater and land drainage service. Residents who are not connected to our systems do not pay for this service.

Please explain briefly the role of Market Value Assessment and the impact it has on municipal taxes.

The Province of Ontario began to update Market Value Assessment in 1998. While the Assessment Act always provided that properties were to be assessed on the basis of Market Value Assessment (willing buyer, willing seller), the property values prior to 1998, on a relative basis, were not reflective of the current market values unless a municipality had requested an update.

Since the former Region of Hamilton Wentworth and/or the former Township of Flamborough never requested an update, the values were significantly outdated. When the Province updated the values in the 1998 taxation year, there was very little impact in Flamborough. Actually, residential property owners had an overall net tax benefit of 1.3 per cent in 1998.

The old system had a tendency to over assess newer properties and therefore overtax on a relative basis newer residential properties vs older properties. The 1998 reassessment was the only one that actually shifted the residential taxes to the former City of Hamilton (by 2.4 per cent).

Unfortunately, the reassessments in 2001 and 2003 created a combined tax shift of more than 11% to the residents of Flamborough. The 2004 reassessment was tax neutral for Flamborough and the 2006 reassessment had an overall benefit of 2.8 per cent.

Therefore, the reassessments which are imposed by the province have had a very negative impact on the

residents of Flamborough since the property values in this part of the city have grown at a faster pace than the rest of the city. The reassessments, along with the tax shift resulting from amalgamation, is the primary reason that Flamborough residents have experienced larger tax increases than the rest of the city.

Unlike some U.S. states, municipalities in Ontario are prohibited from generating additional tax revenues from reassessments. Municipalities are re-quired to reduce their tax rates to reflect the actual growth generated by the increased values. In general, if a property experiences a larger increase in assessment than the overall city average, the property will experience a tax increase as a result of the reassessment. Conversely, if a property experiences a smaller increase in assessment than the overall city average, this property will enjoy a tax decrease as a result of the reassessment. This excludes the impact of the city budget and changes to the city area rating policies. The next reassessment will occur in the 2009 taxation year, based on property values as at January 1, 2008.

Example: If in 2009, the city-wide average increase in property values is 10 per cent, the property whose assessment has increased by 10 per cent will have no tax increase due to the assessment.

However, the property whose assessment has increased by 20 per cent will have a tax increase of approximately 10 per cent (20 percent - 10 per cent).

This increase will be phased-in over a four year period.

On the other hand, the property whose assessment increased by 5 per cent will have a tax de-crease of 5 per cent (5 per cent-10 per cent). This decrease will be passed through in 2009. I would like to emphasize that the impact of reassessments have tax impacts on a property-by-property basis.

Please explain briefly the role of area rating and the impact it has on municipal taxes.

Since 2001, area rating has been used to reduce the tax shifts from the former City of Hamilton to the outlying municipalities.

This legislation (set out in the Municipal Act) allows the city to tax certain parts of our community at a lower rate, where services are lower or cost less for a particular part of our community.

It also provides the city the flexibility to tax a higher rate where a part of the city receives a higher standard of service. For example, as indicated above, the cost of providing fire service is considerably lower in Flamborough than the former City of Hamilton because of the use of volunteer firefighters. The Area Rating Legislation permits the city to charge a lower tax rate for Fire Service to the former suburban municipalities than the former city where only full-time firefighters are utilized.

This is why a property with the same assessment pays more in the former City of Hamilton than the former suburban communities. This is also true of the tax increase in any specific year since the cost of the increase of area rated services varies in each of the former municipalities.

What is the basic "formula" used to determine the municipal tax rate? Why does the tax increase vary between wards every year?

If all properties in a municipality were assessed and taxed at their current market value, the formula to determining the tax rate and taxes paid is very simple. A municipality would simply take the total taxable assessment (the assessment of all properties being taxed in a specific year) and the total net cost of municipal services to calculate the tax rate. Then a property owner would simply take the tax rate and multiply it by the assessed value of the property to calculate their taxes.

However, since commercial/ industrial properties pay a higher tax rate than residential property owners, adjustments are made to reflect this factor.

In addition, the city currently area rates the direct cost of providing Fire, Culture and Recreation, and Transit Services by former area municipalities. Therefore, specific calculations are made for these services. This is the reason that the taxes paid on a property of the same value is different by former communities and the tax increase also varies.

In 2008, the application of the slots revenues to all properties in the city (instead of using \$3.1 million of it to reduce taxes in Flamborough alone) creates an increase of 4.5 per cent to the residents of Flamborough. The introduction of transit service to Waterdown (urban area) means an additional tax increase of 1.2 per cent and the cost of providing full time fire services in Flamborough added 1.3 per cent.

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