

# Revenues and Taxation

Presentation to Audit and Finance | December 19, 2012



# Outline

- **Overview of Revenues**
  - Taxation
- **The Key Commercial Tax Issues**
  1. How Competitive are Halifax's Taxes
  2. Link to Residential taxes
  3. Bias in the Tax System – area, type, size
  4. Predictability of Taxes
- **Commercial Tax Options**
- **The Budget – Balancing Taxes and Service**
  - Working Assumptions - the Next Three Years
  - HRWC – Additional Pressure
  - Balancing Taxes and Services
- **Conclusions and Recommendations**

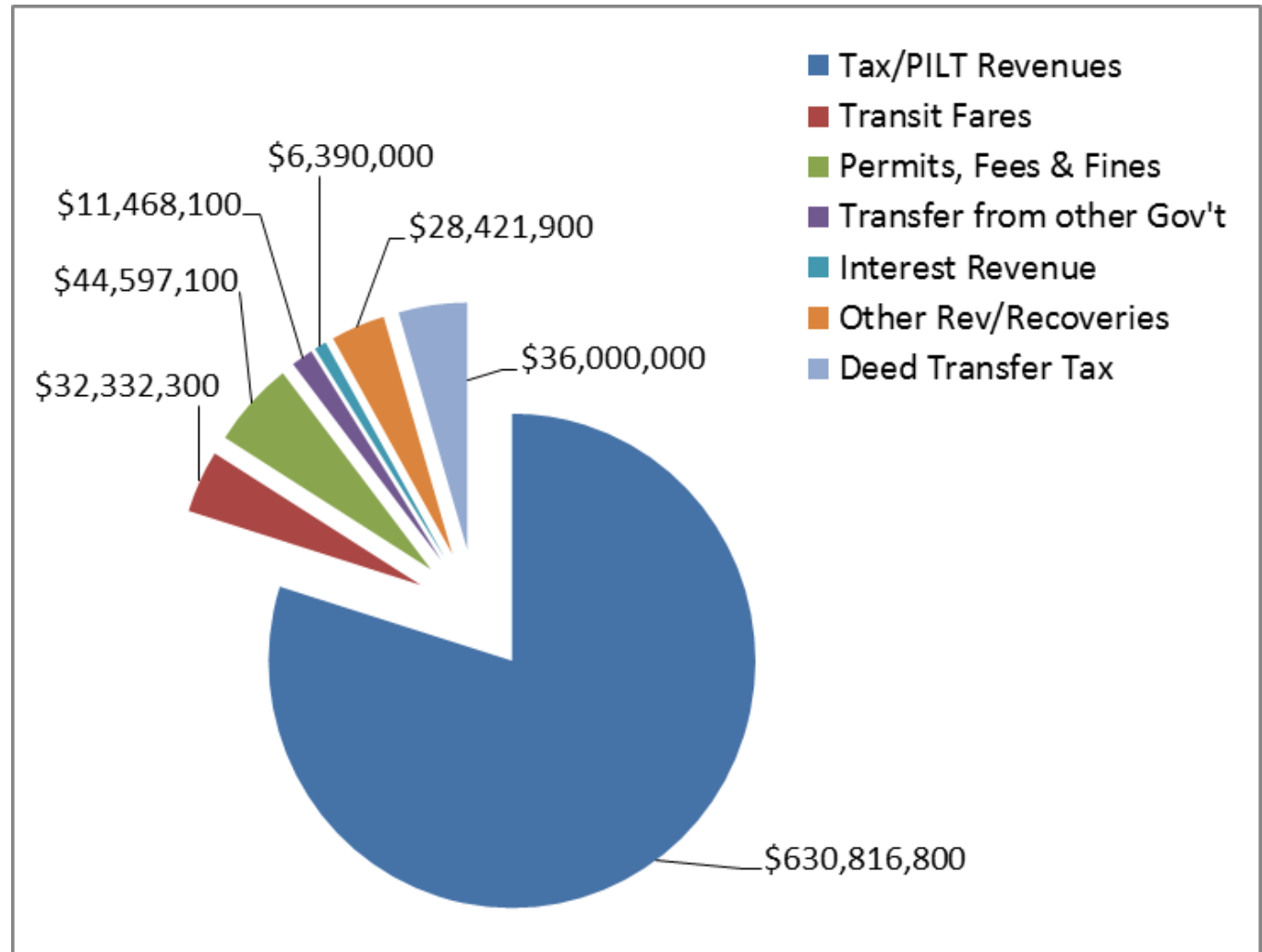


# Overview



# Overview of Revenues

**HRM 's tax  
revenue  
taxation is  
80% of  
operating  
revenues  
(2012-13)**





# Taxation – Halifax Tax Rates

- **Halifax is required to have Urban, Suburban and Rural Tax rates**
- **Halifax also uses “area rates”**
  - Transit
  - Provincial Costs
  - Supplementary Education
  - Hydrants
  - Many small, local area rates
- **Council has guidelines for introduction of new area rates**



# Taxation - Assessment

- **Assessments are undertaken annually by Property Valuation Services Corporation (PVSC)**
  - Administers the Provincial Assessment Act
  - Municipally run by a Board
- **Property Tax revenues are based on “Assessed” Values. Key influences include:**
  - Location of property,
  - Size of Land,
  - access to waterfront,
  - Age, Size of buildings on the property,
  - Water and Sewer servicing
- **Availability of sales data is key to assessing properties**
- **Assessment of Certain properties can only increase by Consumer Price Index (CPI).**





# Taxation – Assessment Cap

- **Residential Taxation:**
  - Single Family Homes are `capped` at CPI.
  - Non-residents, Apartments, New Homes, Sales, Renovations are not capped (ie Market Value). Taxes are being shifted onto these properties.
  - HRM has Low Income Tax Exemption/Deferral Program
- **Commercial Taxation:**
  - Based on Market Value.
  - The `Multiplier`: Commercial tax rates are substantially higher than residential (3:1 approximately).



# Residential Assessment, Tax Rates and Average Tax Bills

- Average tax bill down
  - average single-family home paid \$1,789 to HRM\* in 2011-12, (\$2,444 total tax, incl. provincial)
  - average assessment rose 5%
  - tax rates dropped 5+%
  - Avg. home in HRM pays slightly less municipal tax in 2012 than last year



\* Based on application of urban general, transit, hydrant and supplementary education rates on a \$192,600 home.





# Tax Rates and Average Tax Bills

## Average Single-Family Home Tax Bill

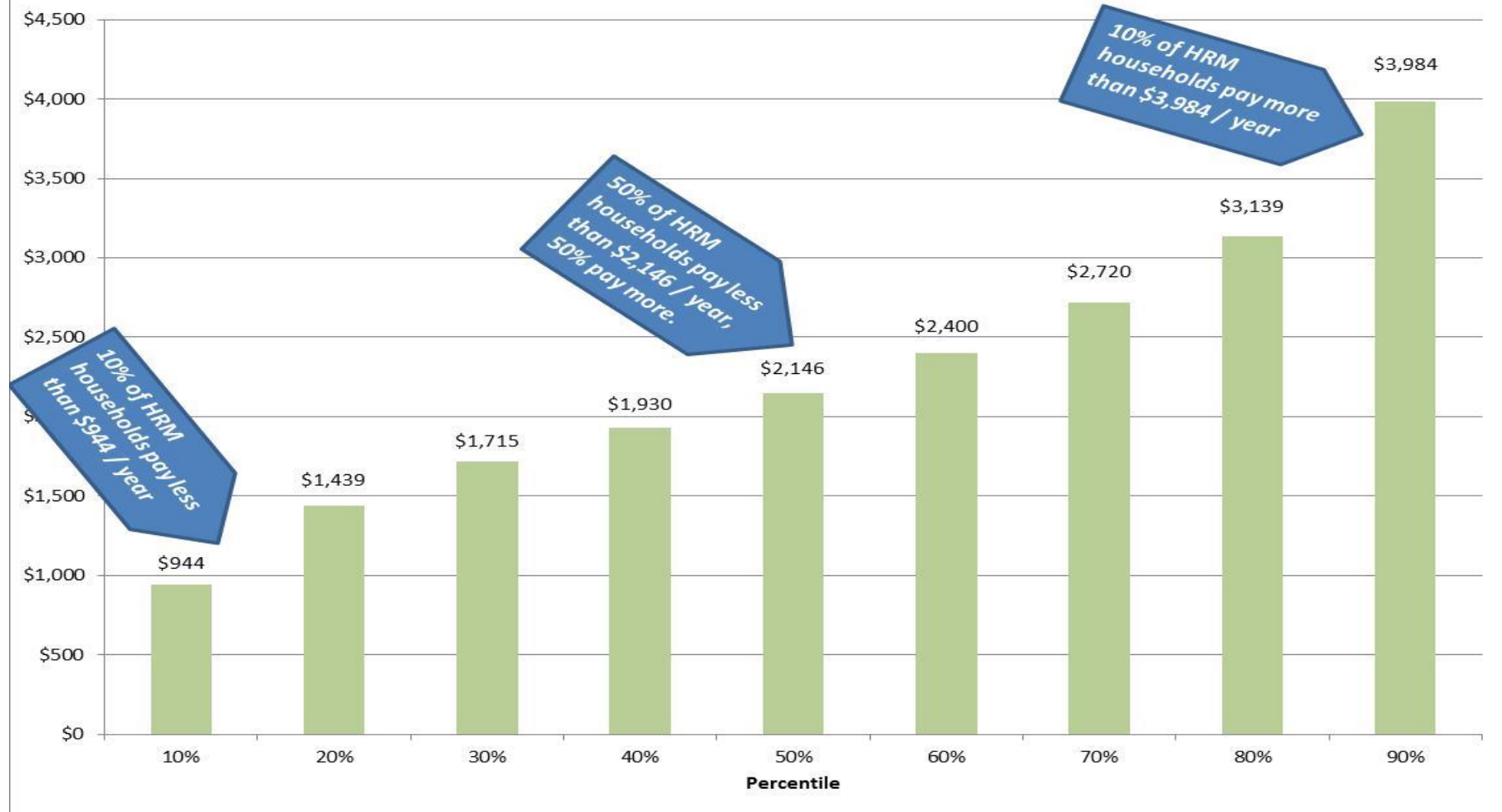
	<b>2012 Rates</b> <i>(cents per \$100)</i>	<b>Avg. 2012 Tax</b> <i>(single-family home)</i>	<b>Change in Tax*</b> <i>2012 (from 2011)</i>
Urban General	66.1	\$1,337	-\$29
Local Transit	10.5	\$212	\$10
Reg'l Transport'n	5.1	\$103	\$5
<b><i>subtotal</i></b>	<b><i>81.7</i></b>	<b><i>\$1,652</i></b>	<b><i>-\$14</i></b>
Hydrants	2.8	\$57	\$12
Suppl. Education	3.7	\$75	-\$4
<b><i>Municipal Taxes</i></b>	<b><i>88.2</i></b>	<b><i>\$1,784</i></b>	<b><i>-\$6</i></b>
Provincial Taxes	34.0	\$687	\$33
<b><i>Total Taxes</i></b>	<b><i>122.2</i></b>	<b><i>\$2,471</i></b>	<b><i>\$27</i></b>

\* Based on application of urban general, transit, hydrant and supplementary education rates on a \$192,600 home in 2011 and a \$202,200 home in 2012.



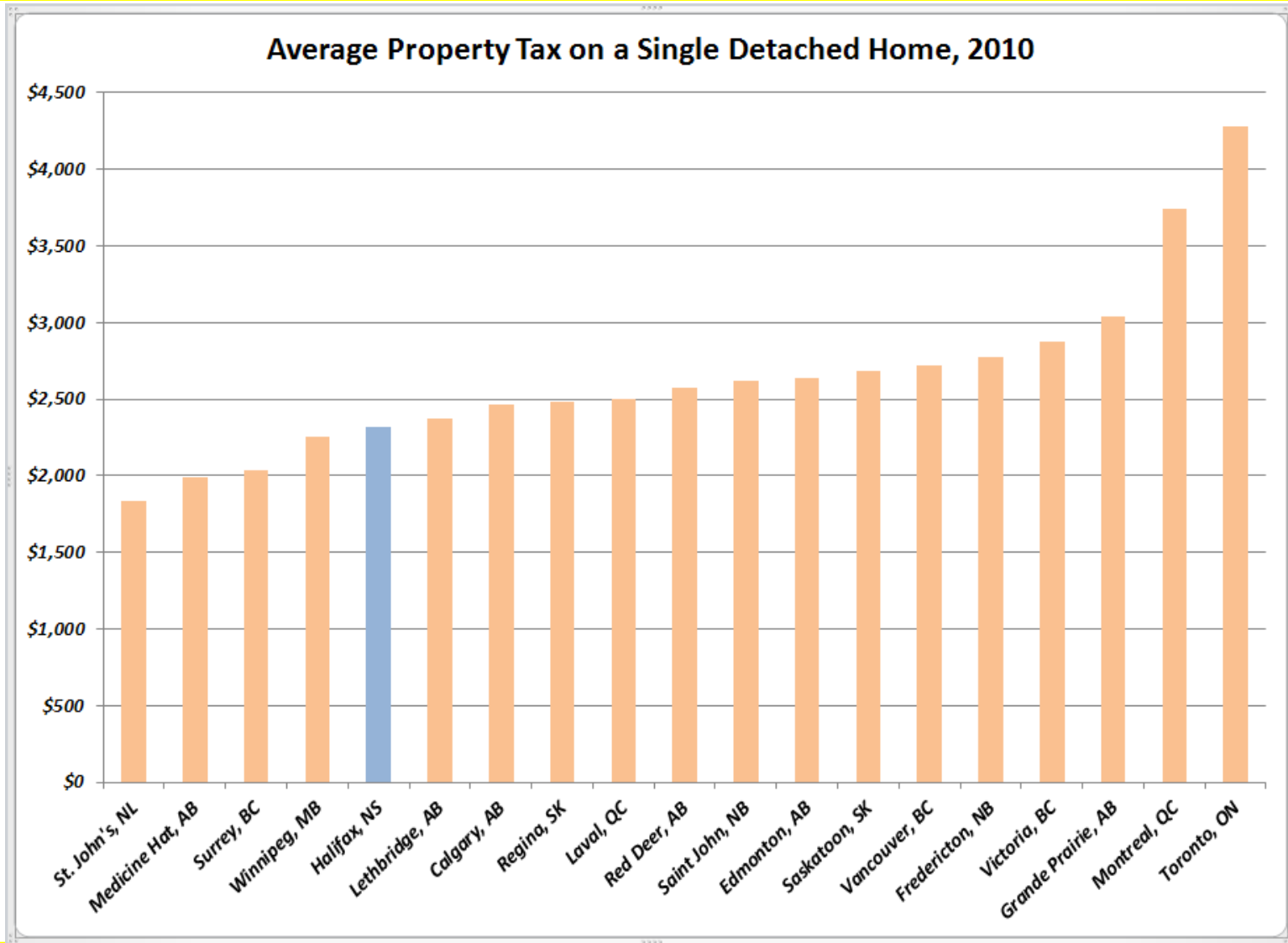
# Tax by range

**Distribution of Total Property Tax on Single-Family Homes, 2011**



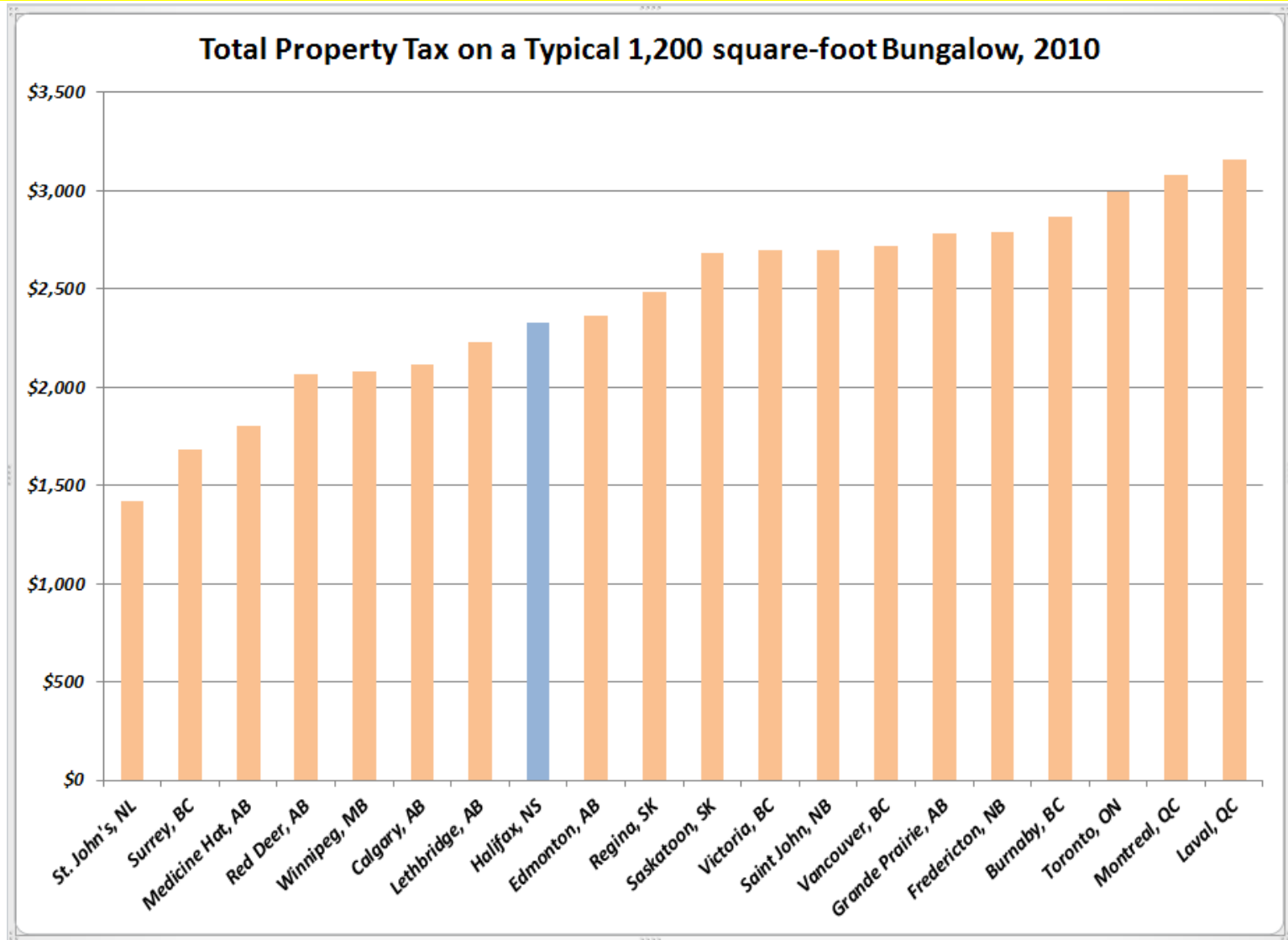


# Total Property Taxes vs Other Cities





# Total Property Taxes vs Other Cities





# Commercial Assessment, Tax Rates and Average Tax Bills

- Average tax bill
  - average business paid \$40,360 to HRM in 2011-12; (\$44,110 total tax, incl. provincial)
  - average assessment rose 5.4%
  - tax rates dropped 5.5%
  - average property pays \$125 less municipal tax in 2012 than last year





# Commercial Tax Rates and Average Tax Bills

	<b>2012 Rates</b> <i>(cents per \$100)</i>	<b>Avg. 2012 Tax</b> <i>(all business classes)</i>	<b>Change in Tax*</b> <i>2012 (from 2011)</i>
Urban General	308.4	\$37,876	-\$258
Local Transit	0	0	0
Reg'l Trans'n	0	0	0
Hydrants	8.2	\$1,007	\$203
Suppl. Education	11.0	\$1,351	-\$70
<b><i>Municipal Taxes</i></b>	<b><i>327.6</i></b>	<b><i>\$40,234</i></b>	<b><i>-\$125</i></b>
Provincial Taxes	32.2	\$3,955	\$204
<b><i>Total Taxes</i></b>	<b><i>359.8</i></b>	<b><i>\$44,189</i></b>	<b><i>\$79</i></b>

\* Based on application of urban general, hydrant and supplementary education rates on a \$1,164,750 commercial property in 2011 and one valued at \$1,228,150 in 2012.





# The Key Commercial Tax Issues



# The Key Commercial Tax Issues

- 1. How Competitive are Halifax's Taxes**
- 2. Link to Residential taxes**
- 3. Bias in the Tax System – area, type, size**
- 4. Predictability of Taxes**



# How Competitive are Halifax Taxes

1

- **What We Hear:**

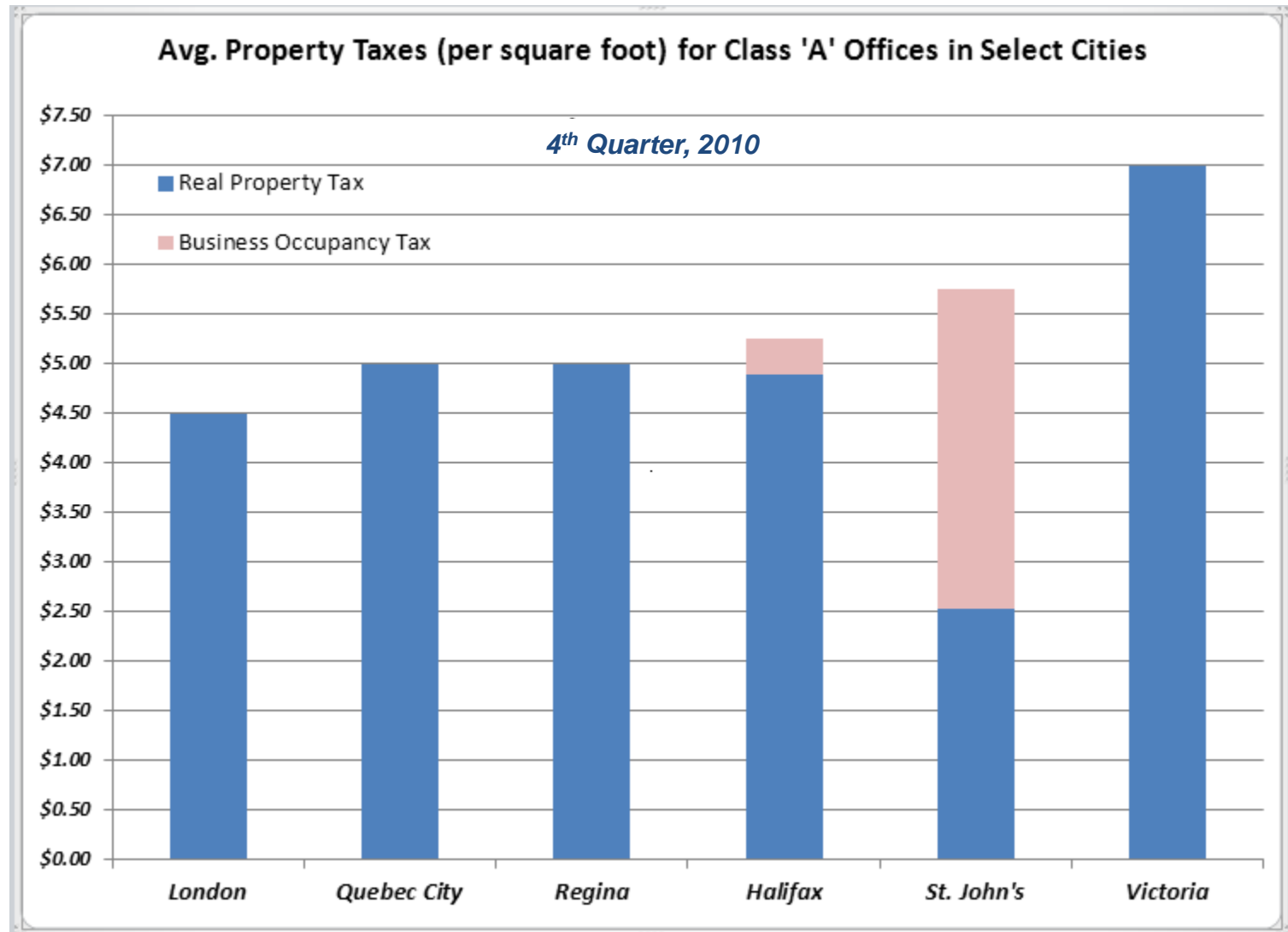
- Highest Taxes in the Country (anecdotal)
- Highest Tax Commercial Rates in Canada (Altus)

- **What Are the Facts:**

- Tax Rates poor indicator of competitiveness
- High Industrial Taxes (per Sq Ft)
- Office towers, warehouses Taxes consistent with other cities (per Sq Ft)

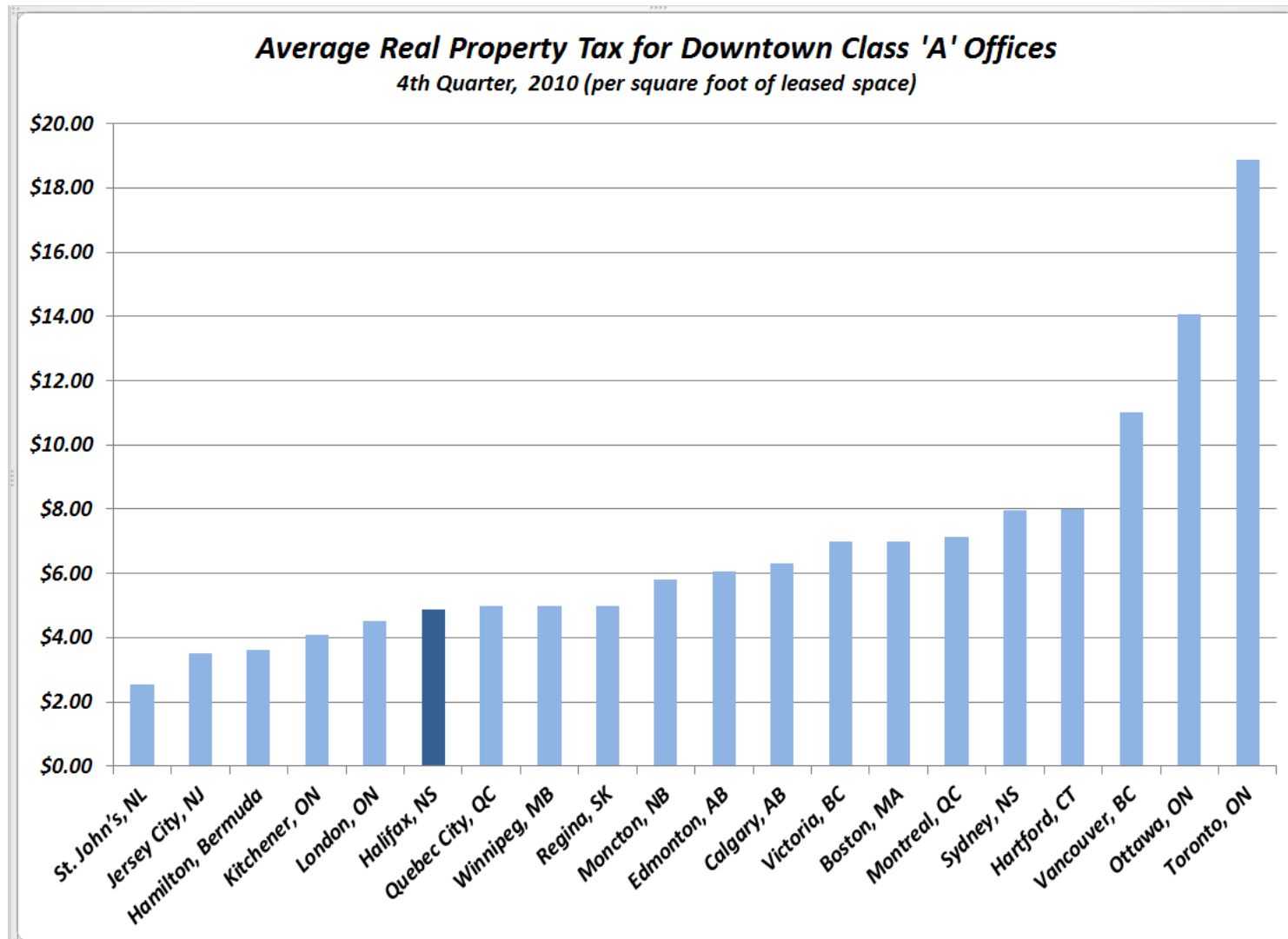


# Property Taxes on Downtown Offices, Benchmark Cities in Canada (Colliers)



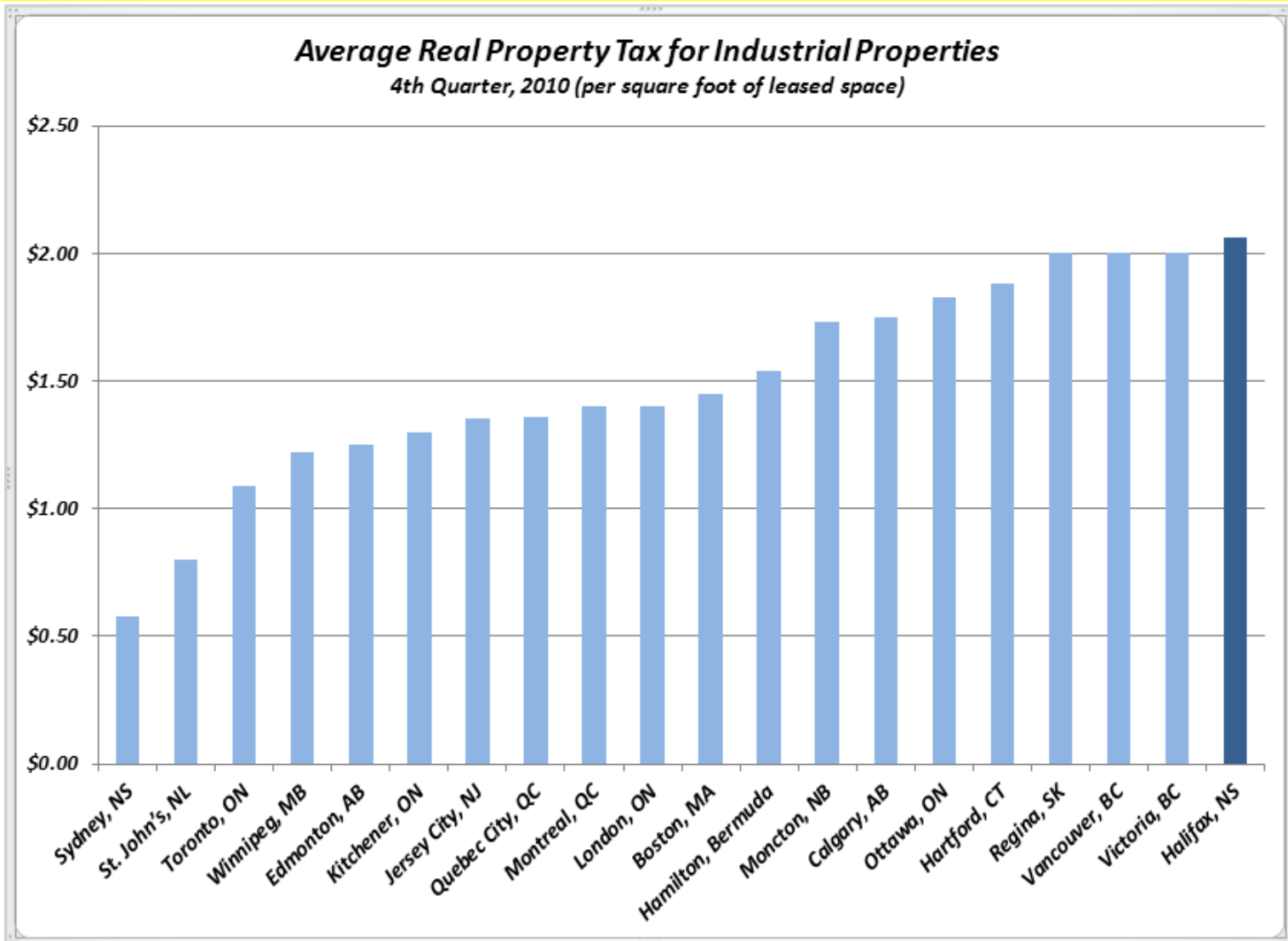


# Property Taxes on Downtown Offices, Canada & Eastern Seaboard (Colliers)





# Property Taxes on Industrial Space, Canada & Eastern Seaboard (Colliers)

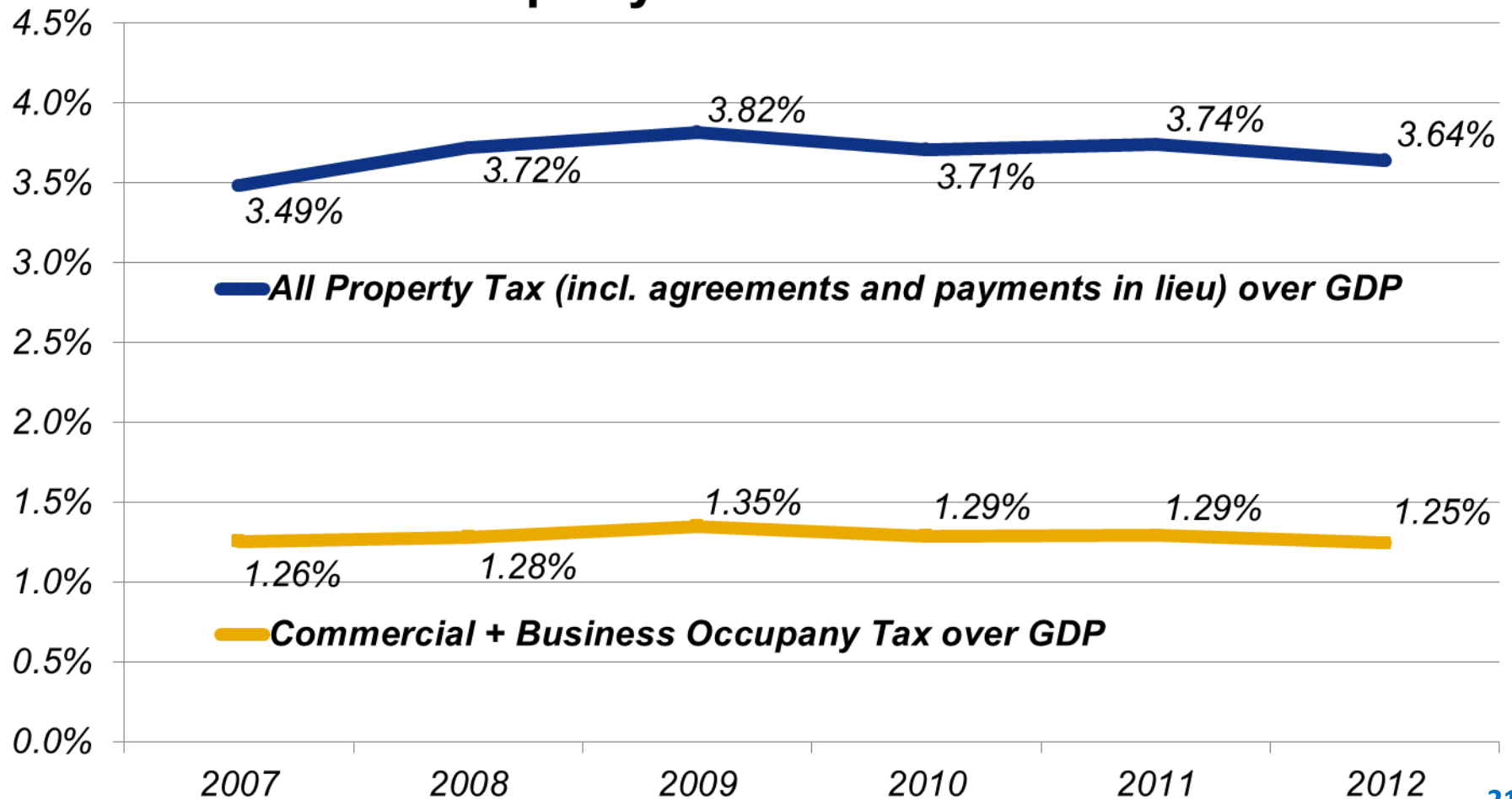






# Commercial Tax Trend per GDP

## Property Taxes over GDP





# Options for Tax Competitiveness

- **Set a target for Commercial Taxation as a percent of Gross Domestic Product (GDP)**
- **Considerations:**
  - Links to growth/decline of economy
  - Easily understood
  - Data limitations. Use moving average.
  - Subject to ups and downs of business cycle.



# Link to Residential Tax

2

- **What We Hear:**

- Taxes high relative to Residential Tax
- Assessment Cap has increased commercial taxes
- Taxes are shifting to Commercial taxpayers

- **What Are the Facts:**

- Council Policies
  - Commercial “Multiplier” means a high tax rate
  - Assessment Cap Not shifted to commercial
- Commercial share of Taxes is actually stable



# The “Multiplier”

- **What Are the Facts:**

- Council Policy (1997) was to set Commercial and Business Occupancy Tax Rates at 2.55 times the residential tax rate (“Multiplier”).
- Since 1997
  - Business Occupancy phased out, shifted to Commercial
  - Provincial Area Rates split out of General Tax rates
  - Transit Area Rates split out of General Tax rates
  - Residential taxes are now capped
- Now less transparent. To get to 2.55 there are multipliers on General, Transit and Area rates and multiple steps.

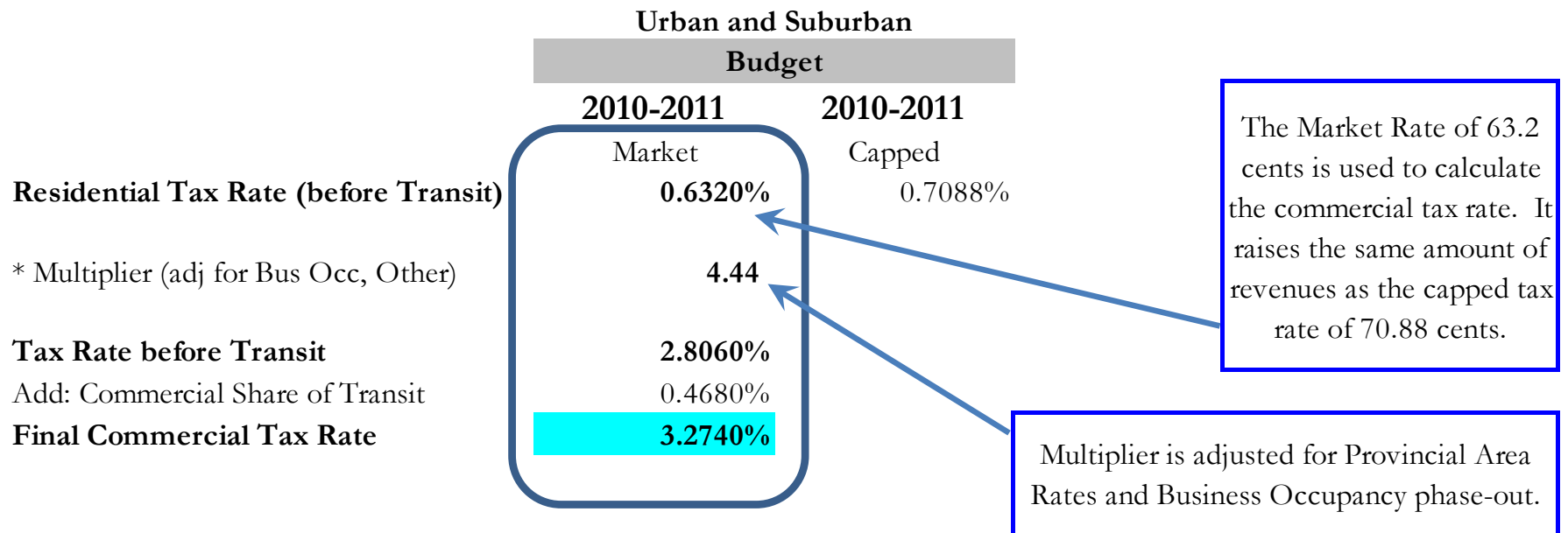


# Multiplier

- **Commercial tax rate is substantially higher than residential tax rates. However, tax rates are not comparable.**
  - Commercial      \$3.598 ← **Market Value**
  - Residential      \$1.222 ← **Capped Value**
- **Most cities levy commercial tax rates higher than residential tax rates.**



# Example of Multiplier





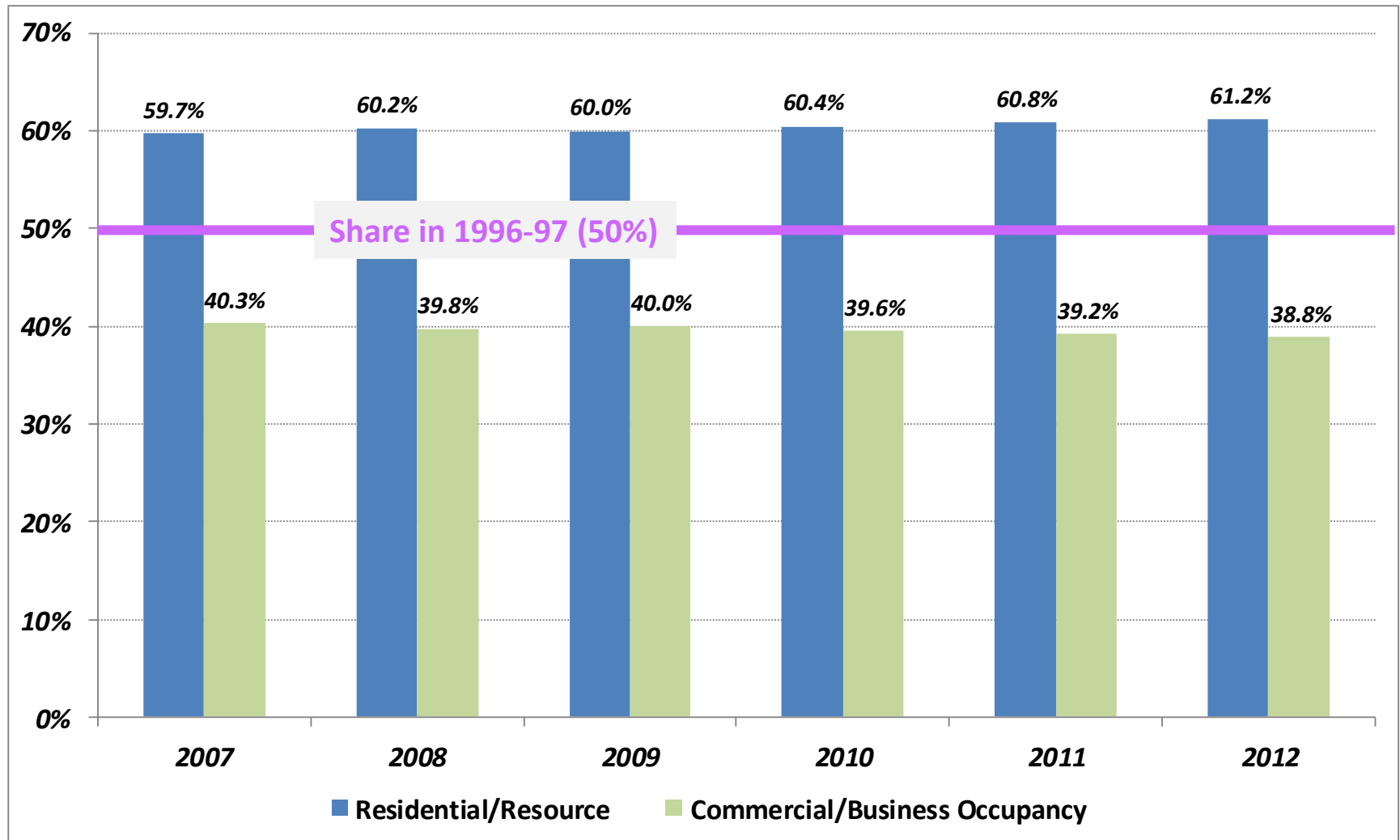


# Shifts due to Assessment Cap

- **What are the Facts:**
  - Council passed specific instructions that any financial impact of residential assessment cap be borne by residential taxpayers.
    - “... commercial rates be adjusted so that the residential assessment cap does not impact commercial taxpayers....” (February 18, 2008)



# Share of Property Taxes paid by Business and Residents





# What should the Link be?

- **Commercial taxpayers use different services than residents (eg solid waste).**
- **Many services benefit all taxpayers (eg Police), so there is no simple answer.**
  - Research suggests that homes pay about 85% of their cost, while businesses pay almost 150%. Other properties (eg churches, schools, non-profits) pay little or no tax.
  - Commercial taxpayers may be eligible for income tax deductions.



# Bias in the Tax System

3

- **What We Hear:**

- Downtown business taxes are high, companies in the “Burbs” are subsidized (anecdotal)

- **What are the Facts:**

- Commercial Taxes are high regardless of location.
- Key factors in commercial assessment include
  - Size, Location of Land
  - Type, Size and Age of Building

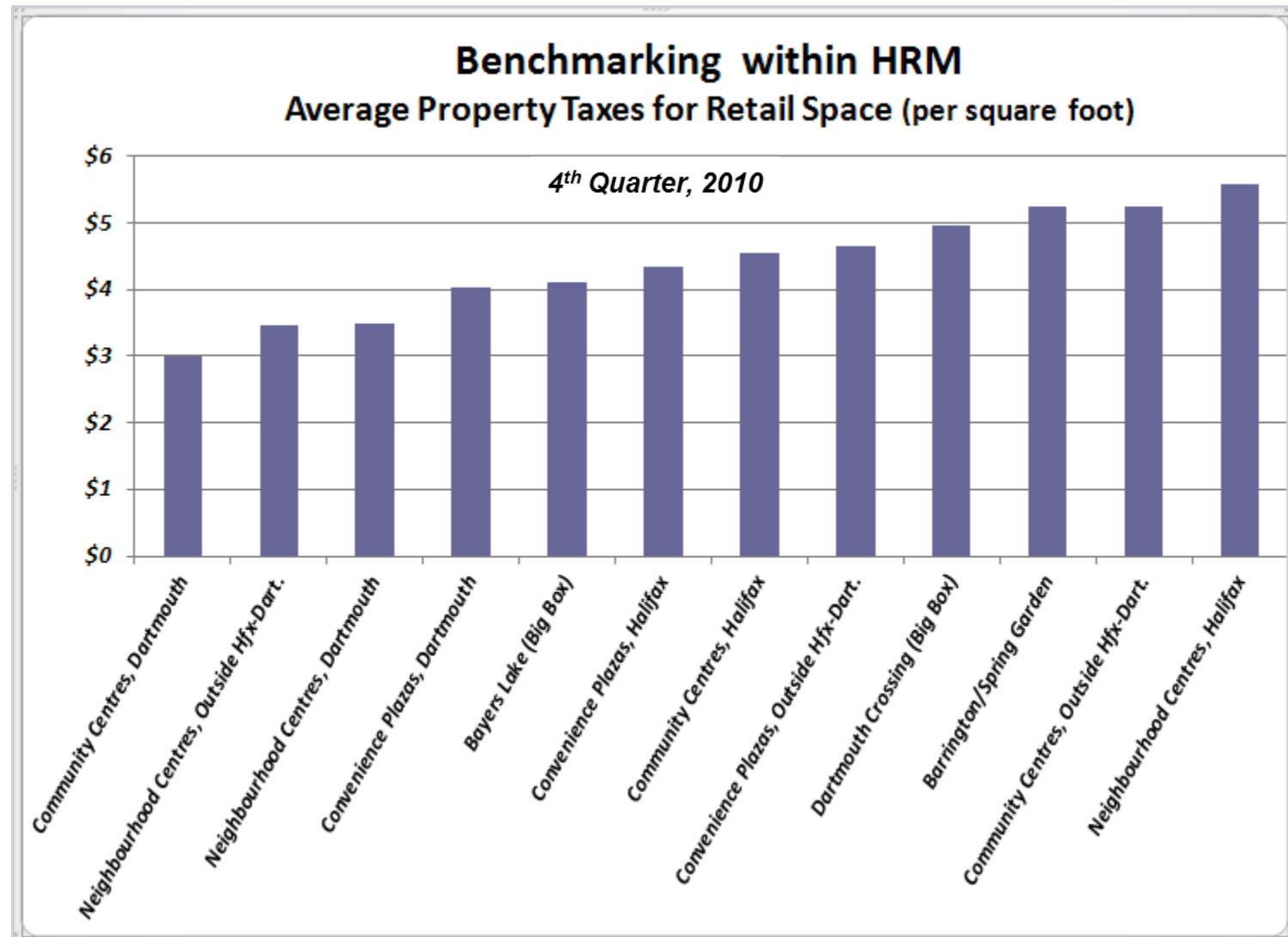


# Commercial Taxation within HRM

- **Colliers Benchmarks - 2010** (by HRM)
  - Class A Office is higher Downtown but Class B is higher in Industrial Parks. Retail tax is highest in MicMac Mall.
- **Square Footage data**
- **Altus Locational Study** (HRM/Strategic Urban Partnership)
  - Interviews with Tenants, Landlords, Developer
  - Main issues are parking, transit, availability of retail space downtown, location of employees and clients.



# Property Taxes on HRM Retail Space, by property type & location (Colliers)

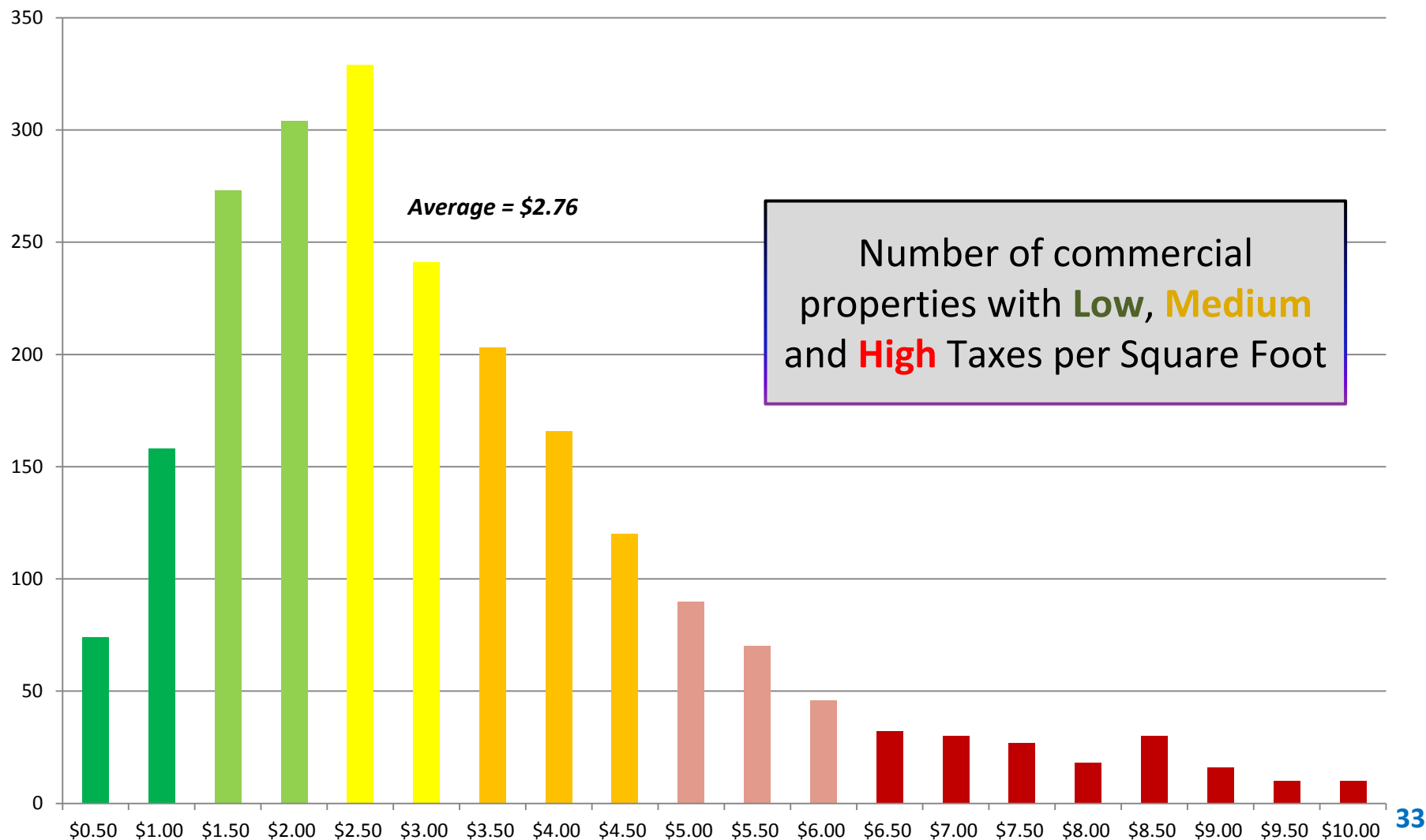






# Commercial Tax per Square Foot

(Based on 45% of properties, includes mixed use properties. Estimated 2012-13 Municipal and Provincial Taxes, excluding hydrants and snow plowing)



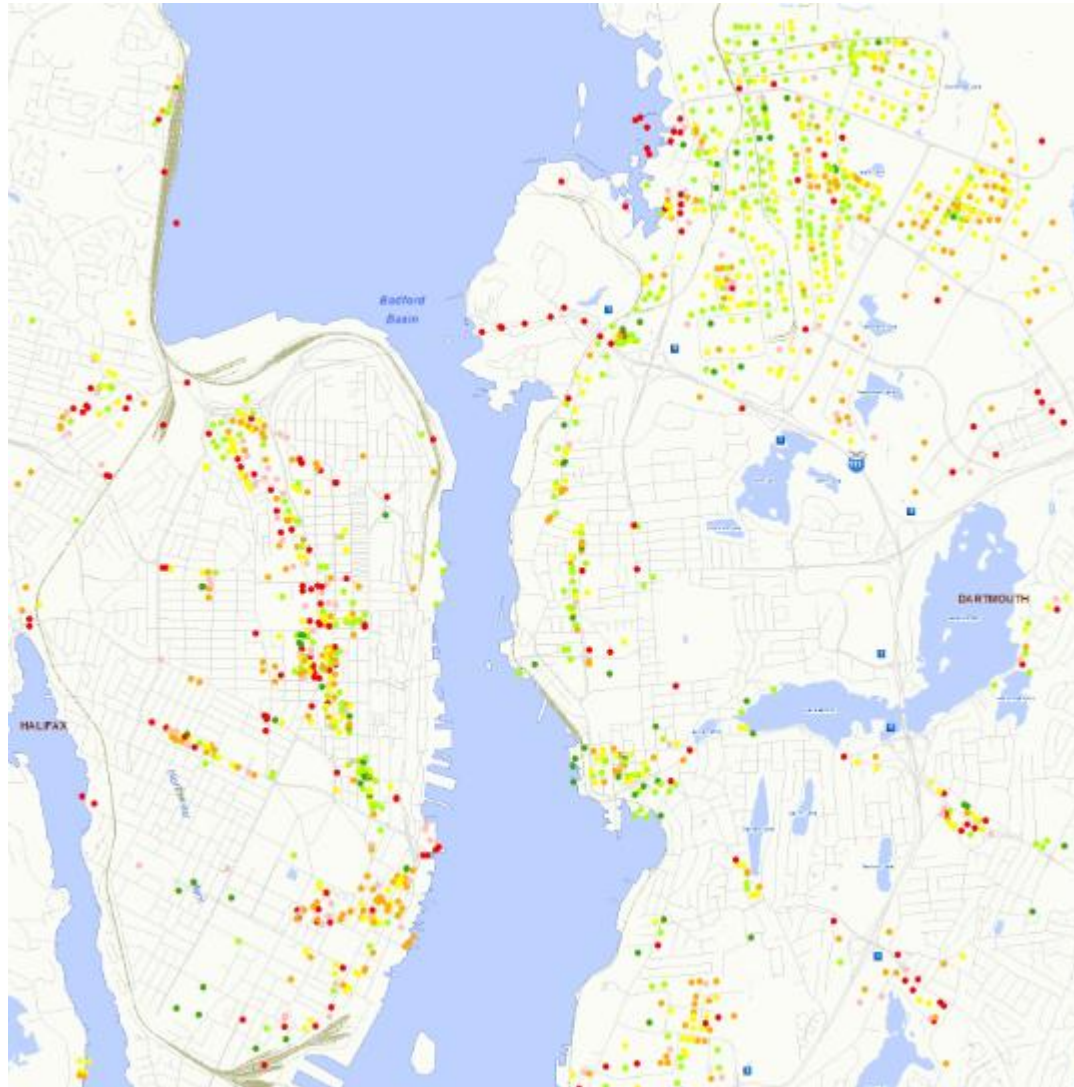


# Where are they?



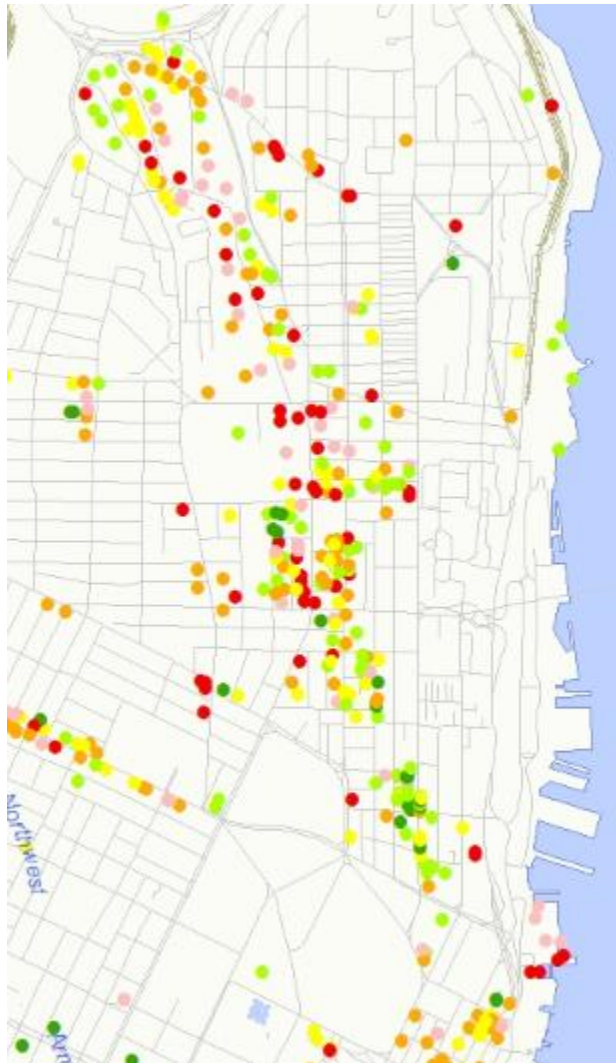


# Where are they?





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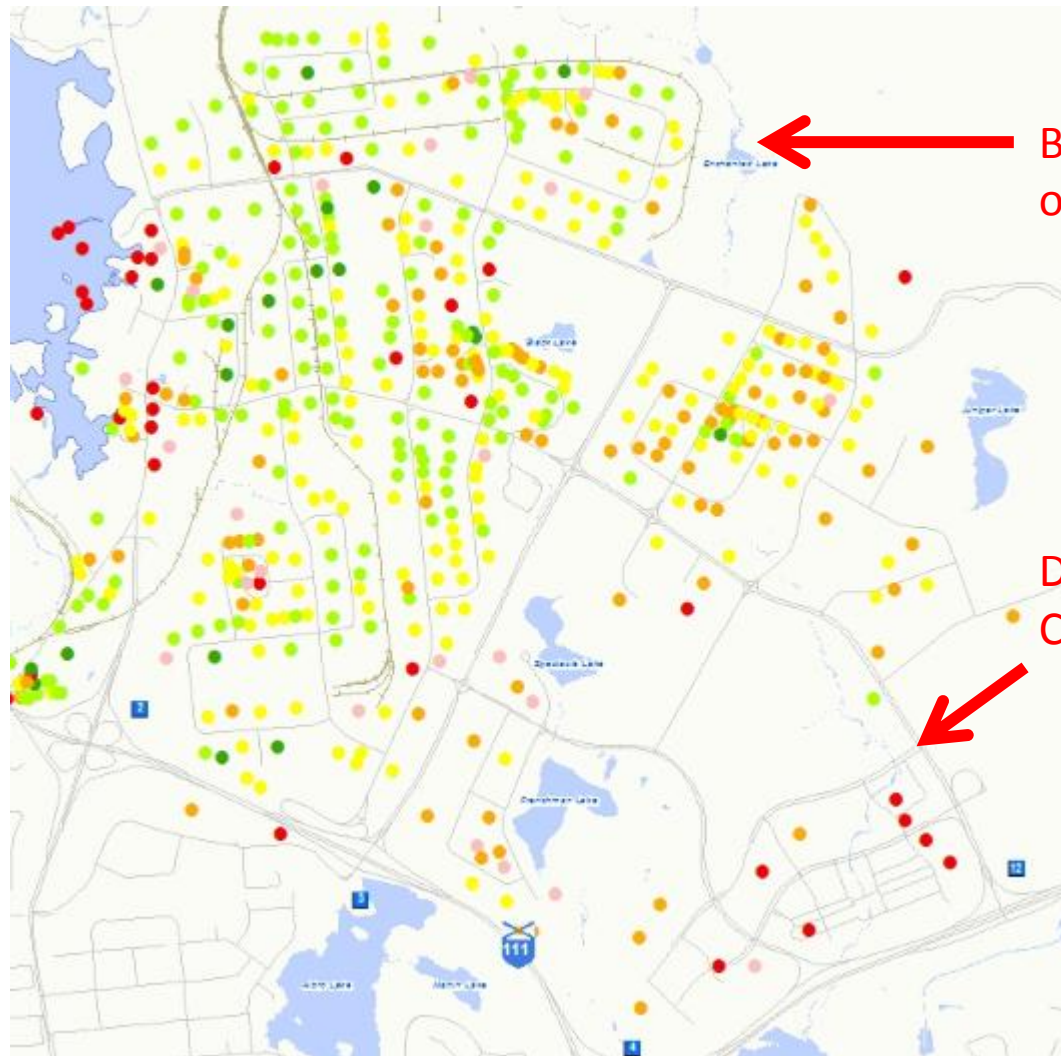


← Peninsula





# Where are they?

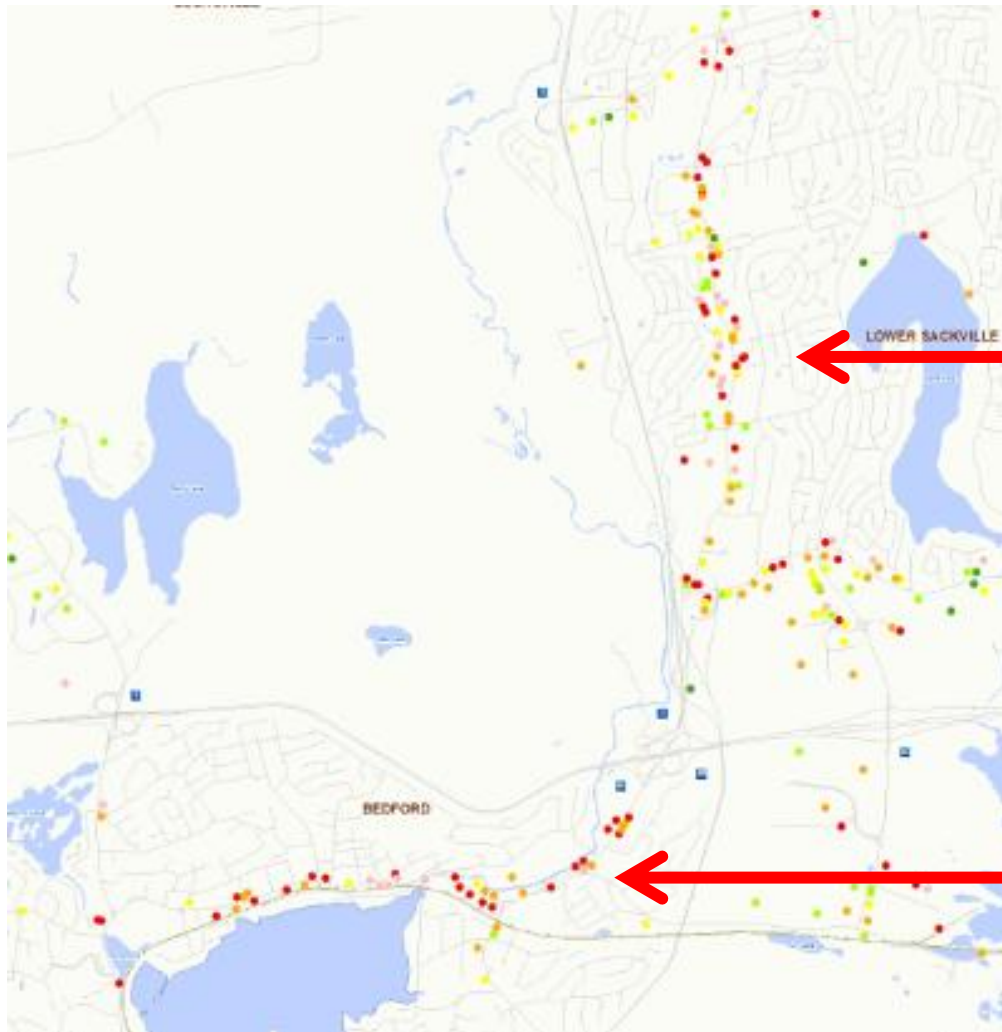


Burnside, City  
of Lakes

Dartmouth  
Crossing



# Where are they?



Sackville Drive

Bedford Highway



# Where are they?



← Bayers Lake



# What Causes the Variation

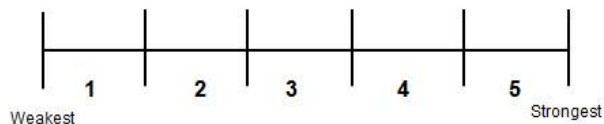
- **Types of Buildings**
  - Office Towers > Warehouses, Big Box
  - Retail > Industrial
- **Age of Buildings**
  - Newer > Older
- **Location Factors**
  - Customers, Clients, Prime Traffic areas
- **Value of Land**
  - Impacts on smaller properties





# Altus Locational Study (Draft)

- 300+ suburban and downtown office and retail tenants contacted
- 50+ scored office tenant interviews
- 50+ scored retail tenant interviews
- Agents, brokers, property managers and property owners

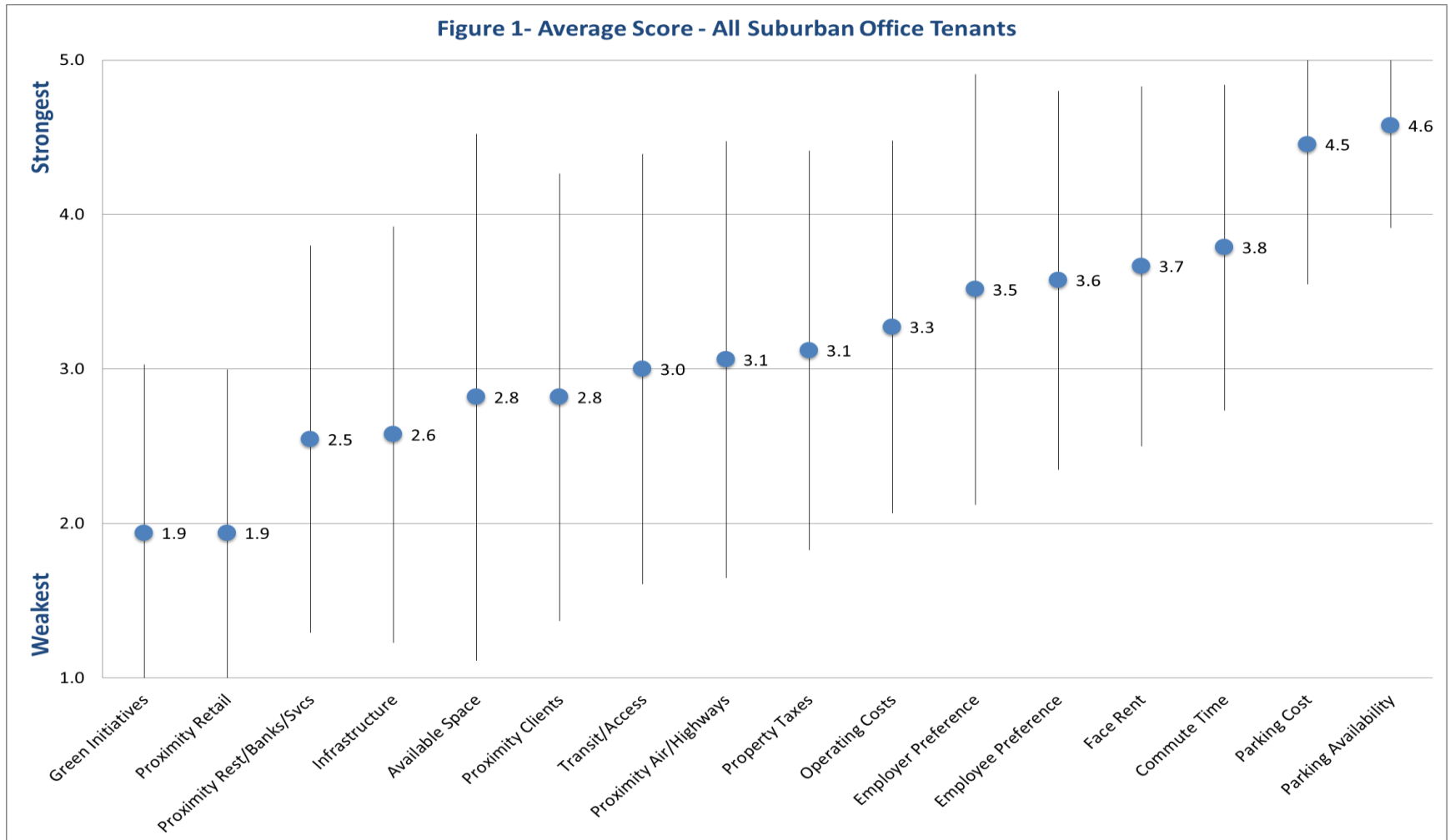


- Scored list of factors for level of consideration in location decision
- Interviews with 8 leading Halifax developers



# Suburban Office Tenant Responses

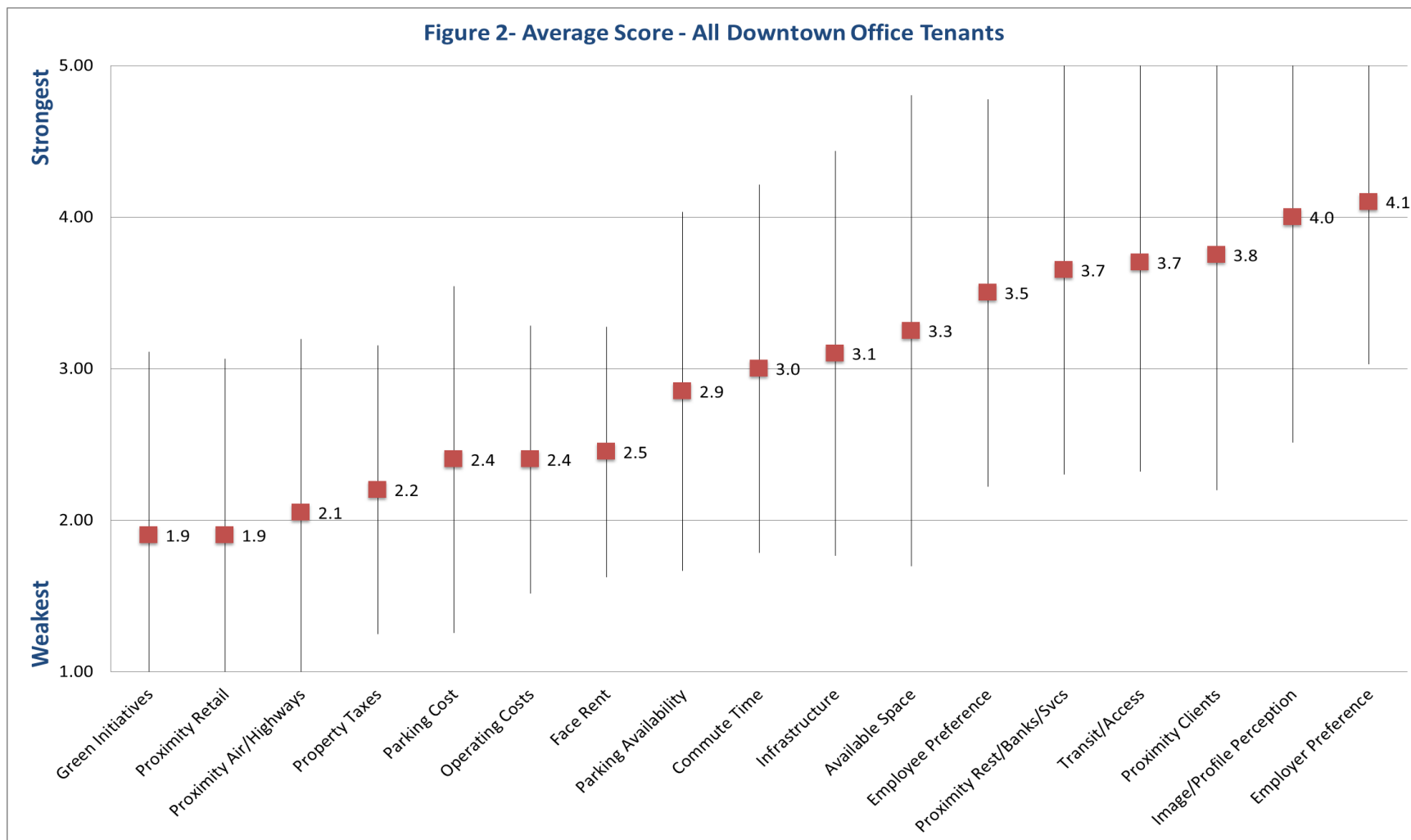
Figure 1- Average Score - All Suburban Office Tenants





# Downtown Office Tenant Responses

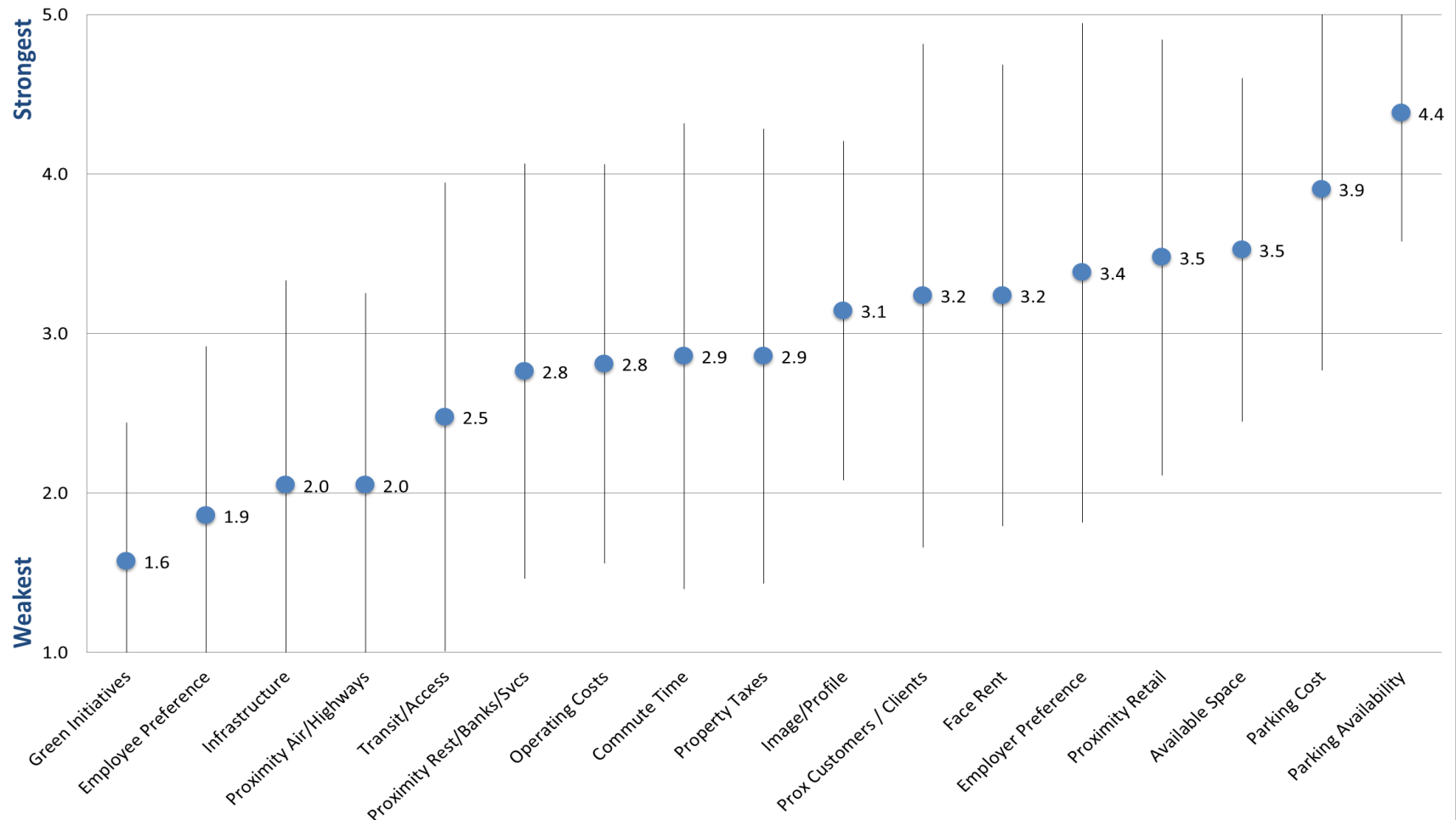
Figure 2- Average Score - All Downtown Office Tenants





# Suburban Retail Tenant Responses

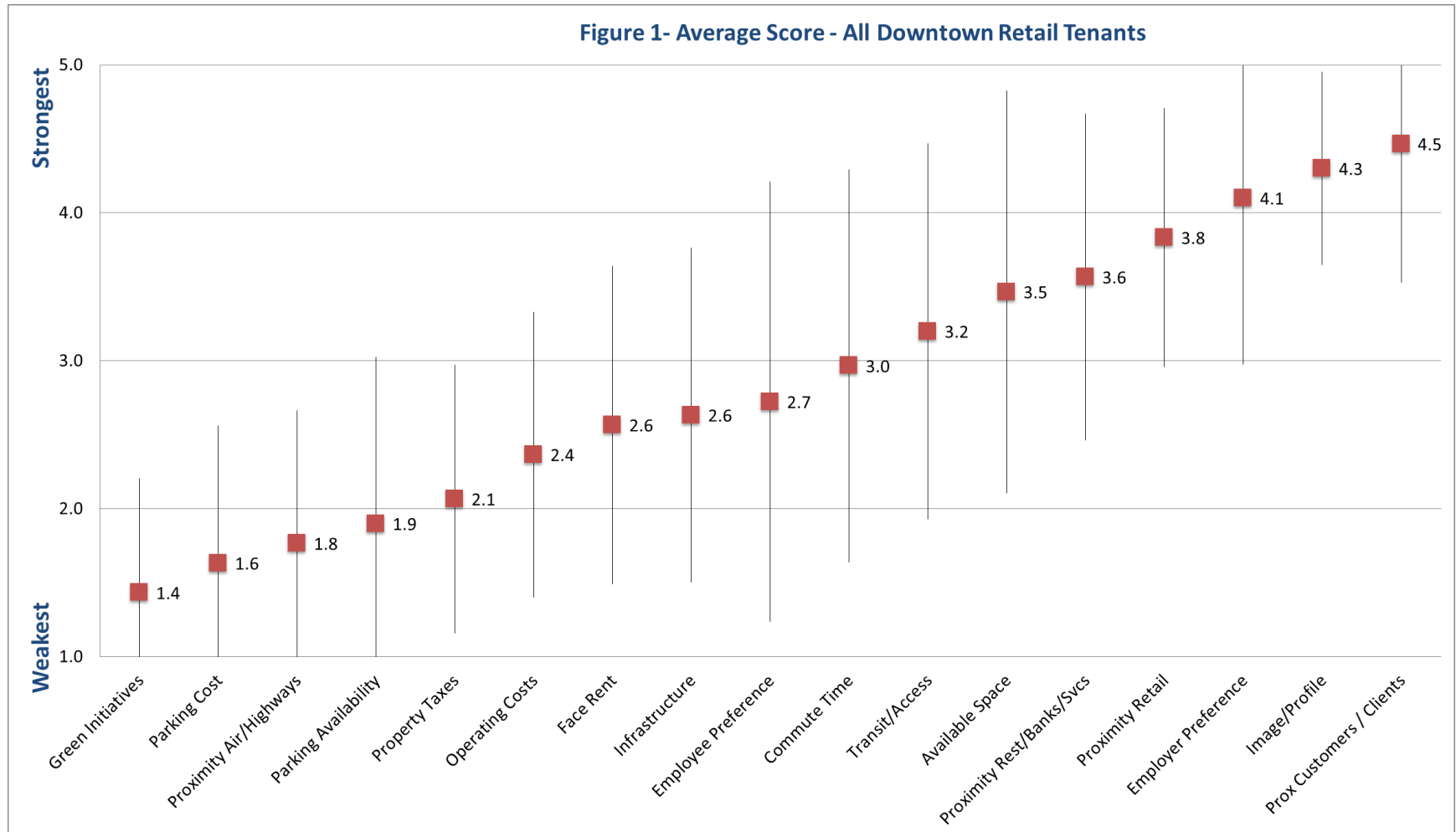
Figure 1- Average Score - All Suburban Retail Tenants





# Downtown Retail Tenant Responses

Figure 1- Average Score - All Downtown Retail Tenants





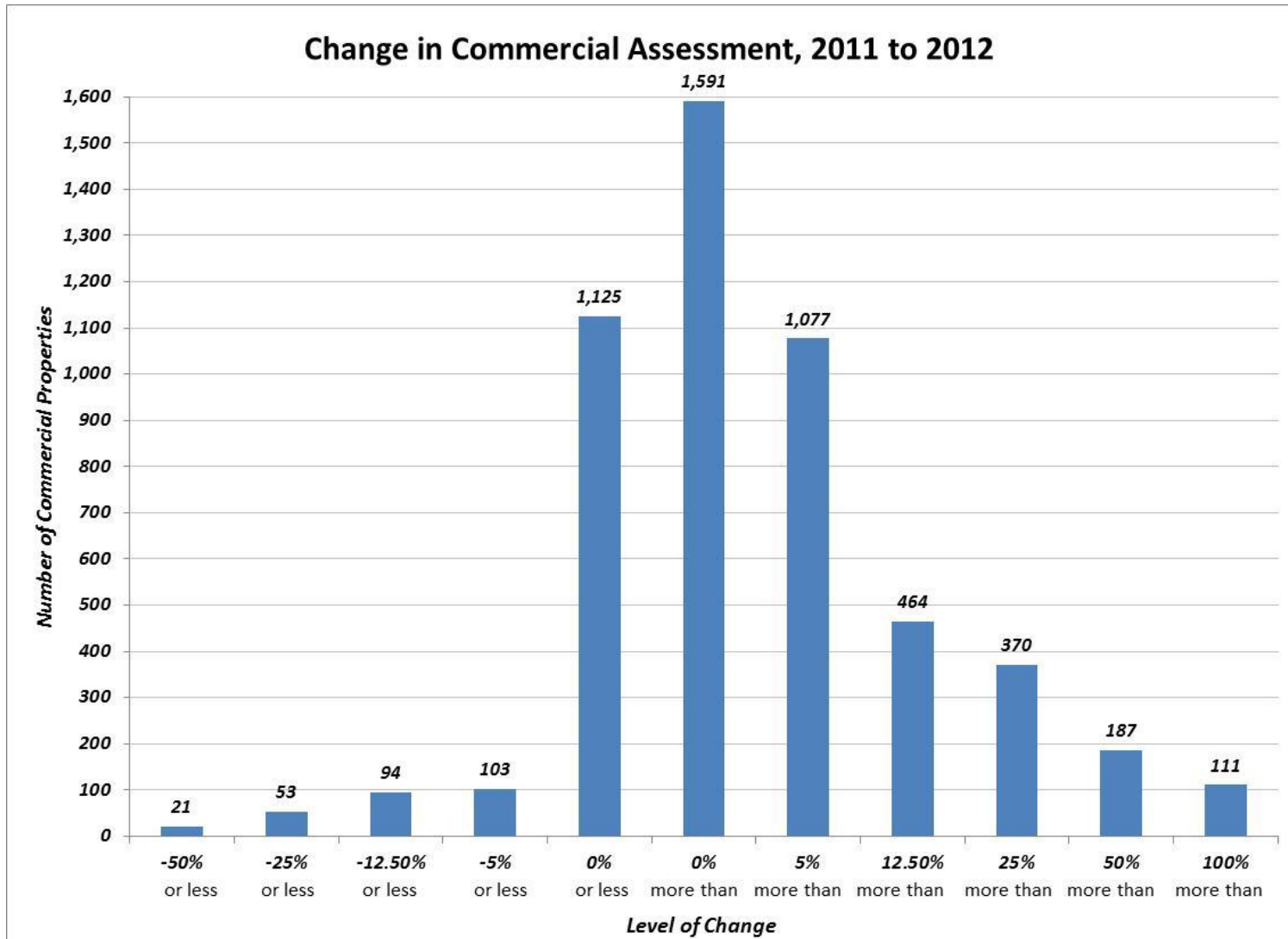
# Predictability of Taxes

## 4

- **What We Hear:**
  - Sudden, dramatic increases in tax
- **What Are the Facts:**
  - Market Value adjusted every year
    - Changes based on annual sales data, trends are often difficult to predict
  - Smaller properties can have more dramatic changes
    - Land is likely a bigger share to total value
  - There will continue to be properties rising faster than the average!



# Change in Commercial Assessment





# Commercial Tax Options





# Commercial Taxation Options

- Numerous `Tools` have been suggested to help downtown.
- **Broader changes might look at:**
  - Greater transparency in fixing commercial rates to residential rates.
  - Moving away from annual reassessments (eg a rolling average)
  - Lower tax rates for smaller properties (eg two tiered tax rates)
  - Lower taxes in Urban Core
  - Introduce separate tax rates for Property Type (eg Office, Industrial, Retail). Align with planning objectives. Eg, Office tax rate lower in core, Industrial/Warehouse tax rate lower outside core
  - Shift emphasis onto user fees
  - Other types of taxes such as frontage or square footage of buildings

**First, Define what we are trying to Achieve!**



# Balancing Taxes and Services



# Balancing Taxes and Services

## A Working Estimate for the Next Three Years

	Budget 2012-13	Year 1 2013-14	Year 2 2014-15	Year 3 2015-16
Gross Expenditures (\$m)	\$668.2	\$699.8	\$722.7	\$738.2
Less: Absorbed by Business Units		<u>-17.6</u>	<u>-19.6</u>	<u>-21.6</u>
<b>Targeted Expenditures</b>	<b>668.2</b>	<b>682.2</b>	<b>703.1</b>	<b>716.6</b>
Revenues	-\$213.2	-\$217.7	-\$219.2	-\$219.1
Property Taxes	<u>-455.2</u>	<u>-477.4</u>	<u>-496.4</u>	<u>-512.7</u>
<b>Targeted Revenues</b>	<b>-668.4</b>	<b>-\$695.1</b>	<b>-\$715.6</b>	<b>-\$731.8</b>
<b>Surplus/Deficit</b>	<b>\$0.0</b>	<b>-\$12.90</b>	<b>-\$12.50</b>	<b>-\$15.20</b>



# HRWC - additional pressures

- **HRWC has a 30 year Integrated Resource Plan totaling \$3.8 billion:**
  - Growth - based on the Regional Plan (25%)
  - Increased Standards - mostly waste water (25%)
  - State of Good Repair (50%)
- **If approved, there will be significant increases in development charges, water rates and debt servicing charges.**
- **When setting tax rates, we should be aware of the total impact on homes and businesses.**



# Balancing Taxes and Services

## Working Assumptions for the Next Three Years

	Year 1 2013-14	Year 2 2014-15	Year 3 2015-16
<b>Assumptions</b>			
<b>Inflation</b>	1.4%	2.2%	0.9%
<b>Tax Burden rises at CPI + 1%</b>			
<b>Residential Tax Burden</b>			
<b>Single Family Homes (existing)</b>	1,702	1,754	1,786
% Change	2.5%	3.1%	1.8%
<b>Single Family Homes (new)</b>	2,950	3,180	3,410
% Change	8.1%	7.8%	7.2%
<b>Apartments</b>	600	640	680
% Change	9.1%	6.7%	6.3%
<b>Tax Revenues as a % of Income</b>	1.4%	1.4%	1.4%
<b>Commercial Tax Burden</b>	42,540	44,063	45,315
% Change	6.0%	3.6%	2.8%

Note: The value of the average commercial firm is rising faster than the value of the average home. Hence when both rates move equally as per Council policy, commercial burden rises more than residential.



# Summary and Recommendations



# Summary

- **High dependence on Property Taxation**
- **Commercial Taxes:**
  - Benchmark well across Canada ✓
  - Grown with economy ✓
  - Increased pressure on small properties ✗
  - Subject to sudden jumps ✗
  - Link to Residential taxes outdated ✗
- **Need for three year financial targets**



# Recommendations

- **Base 2013-14 Tax Burden on an increase of CPI + 1%**
- **Investigate possible commercial changes:**
  - Taxes linked to GDP, not residential tax rate
  - Small Property Tax Rate
  - Taxes based on moving average of assessed values
  - Alternatives to assessment



# Questions, feedback

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