



ADMINISTRATIVE REPORT

Report Date: February 8, 2013
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Meeting Date: February 26, 2013

TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: 2012 Property Tax Exemptions

RECOMMENDATION

That Council receive the 2012 Property Tax Exemption Report for information.

REPORT SUMMARY

The purpose of this report is to meet the *Vancouver Charter* requirement of an annual report outlining the objectives and policies for the year in relation to the use of tax exemptions. The report also summarizes the statutory and permissive property tax exemptions that were available to real property in Vancouver and any compensating payments and rent in-lieu of taxes payable to the City in 2012.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Section 219 of the *Vancouver Charter* stipulates that a report be submitted to Council, by April 30, outlining the objectives and policies for that year in relation to the use of tax exemptions under sections 396A (exemptions for heritage property), 396C (exemptions for riparian property), 396E (revitalization tax exemptions), and 396F (exemptions for not-for-profit property).

Section 396 of the *Vancouver Charter* sets out two types of property tax exemptions that can be applied within the City:

Statutory Exemptions - Specified in the *Vancouver Charter* as well as the *Canadian Constitution Act*, these exemptions are administered by BC Assessment as part of the assessment and classification process; Council approval is not required.

Permissive Exemptions - These exemptions are provided under Council's authority when determining the eligibility of individual properties in accordance with program criteria set by Council.

Council has established the following policies regarding property tax exemptions:

- The City will rely on the statutory property tax exemptions available under Section 396(1) of the *Vancouver Charter* and limit the use of permissive property tax exemptions to heritage properties only (396A).
- Tenants occupying City-owned properties held for non-civic use, will make lease payments which include an amount equivalent to property taxes to ensure equity among tenants occupying privately owned properties and those occupying tax exempt City-owned properties.
- City support for not-for-profit organizations will continue through the existing range of statutory property tax exemptions available under Section 396(1) and the City's extensive grant programs as opposed to permissive property tax exemptions.
- Property tax exemptions are applicable only to property owners, and are not extended to tenants. The City does not have jurisdiction over how property owners share costs with their tenants.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager concurs with the report.

REPORT

Background/Context

This section outlines the various tax exemptions available under the *Vancouver Charter* and the amount of forgone tax revenue which is partially offset by payments and rents in lieu of taxes.

Vancouver Charter Exemptions

Section 396 of the *Vancouver Charter* outlines the eligibility requirements for property tax exemptions.

Statutory Exemptions (396(1))

These exemptions are prescriptive and eligibility requirements are established by legislation, not Council. All taxes levied by the City and other taxing authorities are exempt for these eligible properties:

- Crown lands - property owned and occupied by the federal, provincial, or regional governments, or a Crown corporation
- City of Vancouver property
- property owned¹ and occupied by incorporated charitable institutions, and wholly in use for charitable purposes
- property owned¹ and occupied by incorporated institutions of learning, and wholly in use for providing to children education accepted as equivalent to that furnished in a public school

¹ As a registered owner or owner under agreement

- property owned¹ and occupied by hospitals receiving aid under the Hospital Act, and wholly in use for the purposes of the hospital or held for future use as a hospital-site
- churches owned¹ and occupied by religious organizations, and in use for the public worship of God
- property occupied by Simon Fraser University at the Sears Harbor Centre
- emergency shelters for persons or domestic animals
- property for pollution control
- Vancouver Court House occupied by the Vancouver Art Gallery Association
- British Columbia Cancer Agency Branch located on the north side of the 600 Block of West 10th Avenue

Over the years, the applicability of these exemptions has been clarified and further defined by the Property Assessment Appeal Board and court decisions.

Permissive Exemptions (396 A, C, E and F)

Permissive exemptions under the Vancouver Charter are the following:

- 396A Heritage Property
- 396C Riparian Property
- 396E Revitalization Program
- 396F Not-for-Profit Organizations

Within the limitations set out by the legislation, Council, by two thirds of the votes cast, has the authority to determine the application of these exemptions. If enacted, eligible properties would receive exemption for all taxes levied by the City and other taxing authorities, except for Revitalization Program exemptions which apply only to City taxes. Permissive exemptions are an “optional” form of tax relief whereby Council, at its sole discretion, may choose to exempt certain properties from taxation, in whole or in part, for periods of up to 10 years in order to promote specific goals and objectives of the City. To effect an exemption in any calendar year, Council must adopt a by-law specifying the exemption on or before October 31 in the preceding year.

In 2003, Council established the Heritage Building Rehabilitation Program, a five year initiative to encourage the full upgrading of heritage buildings and stimulate economic revitalization within the Downtown Eastside historic areas including Chinatown and the Hastings Street Corridor, and in Gastown and Victory Square areas. Among the program incentives is the use of permissive exemption for heritage property. In April 2010, Council extended the permissive exemption initiative to the end of 2013. The maximum value of exemptions approved under this 10 year initiative includes 19 properties and a total tax exemption value of \$21.8 million (See Appendix A).

To date, Council has not implemented permissive exemptions outside of Heritage Exemptions. In September 2011, Council adopted the policy to continue to support not-for-profit organizations through the existing range of statutory property tax exemptions available under Section 396(1) of the Vancouver Charter and the City's grant programs, and not consider further permissive property tax exemptions. (RTS 8713)
<http://former.vancouver.ca/ctyclerk/ccclerk/20110922/documents/csbu3.pdf>

Compensating Payments-in-lieu of Taxes

Under the statutory exemption categories, there are properties for which the City receives payments in lieu of taxes:

Payments-in-lieu of Taxes (PILTs)

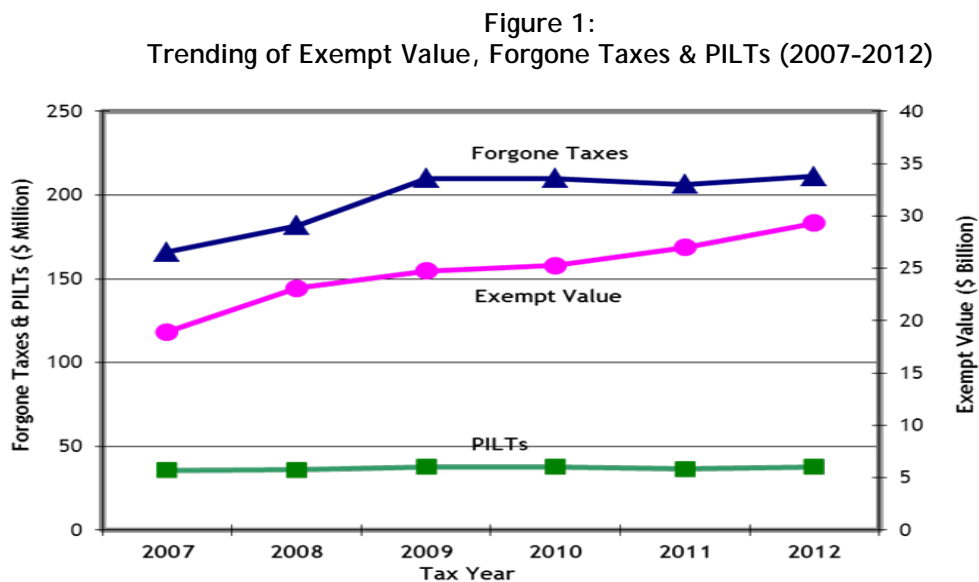
Senior governments are constitutionally exempt from local property taxation. At the federal and provincial levels, the *Payments in Lieu of Taxes Act* and the *Municipal Aid Act*, respectively, stipulate that payments be made to local governments in lieu of property taxes on certain exempt properties. In general, payments are calculated based on assessed values and local tax rates to generate an amount equivalent to that which would be paid by a taxable owner. However, both statutes provide some discretion for the granting government to determine which properties are grantable and the payments to be made. Discrepancies between PILTs billed and collected can be appealed at the Taxes Dispute Advisory Panel².

Rent-in-lieu of Taxes

The City has a large portfolio of properties, primarily held in the Property Endowment Fund, that are not currently being used for civic purposes and are leased to commercial, residential and non-profit tenants. These properties are exempt from property taxation pursuant to Section 396(1) of the *Vancouver Charter*. To ensure equity among tenants of City-owned and privately-owned properties, Council has a policy of requiring tenants of City properties to include in their lease payments an amount equivalent to property taxes.

Strategic Analysis

Figure 1 shows the trend of exempt values, forgone taxes and PIITs over the last six years.



² The mandate of the PILT Dispute Advisory Panel is to give advice to the Minister of Public Works and Government Services in the event that a taxing authority disagrees with the property value, property dimension or effective rate applicable to any federal property.

In 2012, \$29.3 billion of properties, (13.4% of the *Assessment Roll*) were exempt from paying taxes. General purpose taxes forgone totaled \$211.2 million, which was partially compensated by \$37.6 million of payments and rent-in-lieu of taxes.

Table 1 below summarizes the 2012 statutory and permissive tax exemptions for real property in the City.

Table 1: 2012 Summary of Property Tax Exemptions - Statutory and Permissive

PROPERTY TAX EXEMPTIONS	EXEMPT VALUE	FORGONE GENERAL PURPOSE TAX LEVY	PAYMENTS-IN-LIEU OF TAXES BILLED
STATUTORY EXEMPTIONS			
Federal Crown & Agencies	1,139,373,000	9,320,000	6,462,000
Provincial & Crown Agencies	2,582,078,000	27,351,000	14,295,000
Metro Vancouver	206,405,000	1,425,000	-
Transit	1,155,910,000	43,223,000	-
Schools, Colleges & Universities	4,765,197,000	41,605,000	30,000
Hospitals and Health Authorities	1,835,665,000	15,836,000	-
Charitable Organizations	790,612,000	3,688,000	-
Churches	1,082,905,000	2,066,000	-
Other Partial Exemptions	11,655,000	74,000	-
Statutory Exemptions - Non-City Properties	13,569,800,000	144,588,000	20,787,000
City Properties	15,381,098,000	65,242,000	16,859,000
TOTAL STATUTORY EXEMPTIONS	28,950,898,000	209,830,000	37,646,000
PERMISSIVE EXEMPTIONS			
Heritage Property	394,530,000	1,341,000	-
TOTAL PERMISSIVE EXEMPTIONS	394,530,000	1,341,000	-
TOTAL EXEMPTIONS	29,345,428,000	211,171,000	37,646,000

Class 3 Supportive Housing

In addition to the statutory and permissive exemptions, properties classified as Class 3 Supportive Housing are effectively exempt from taxation. This class was created by the Province for assessment purposes, pursuant to the Small Business and Revenue Statutes Amendment Act 2008. Eligible "Supportive Housing" properties are assessed at nominal amount. In 2012, 72 properties in Vancouver were designated as Class 3 "Supportive Housing", all of which are operated by not-for-profit organizations with financial support from the Province. The amount of forgone taxes is estimated at \$0.7 million. This represents additional subsidy from the City beyond the capital funding and land already committed to the development of supportive housing, as other taxpayers must pay more to make up the shortfall arising from the exemptions.

Financial Implications

Values of exempt properties are not factored into general purpose tax rate calculations. Any forgone taxes are shared among non-exempt properties in the normal course of balancing the annual operating budget.

Any payments and rent in-lieu of taxes applicable to exempt properties (2012 - \$37.6 million) are reported as general revenues.

CONCLUSION

This report summarizes the statutory and permissive property tax exemptions provided under Section 396 of the *Vancouver Charter* and the compensating payments and rent in-lieu of taxes payable to the City in 2012.

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HERITAGE PROPERTY EXEMPTIONS
2003 - 2013

PROPERTY	COUNCIL APPROVAL	EXEMPTION	
		MAXIMUM DURATION	MAXIMUM \$
50 Water	29-Jan-04	10 yrs	\$768,700
42 Water	29-Jan-04	10 yrs	\$382,000
163 West Hastings	16-May-06	10 yrs	\$1,948,159
210 Carrall	11-Jul-06	10 yrs	\$314,307
5 West Pender	15-Feb-05	10 yrs	\$247,294
51 West Hastings Commercial	26-Sep-06	10 yrs	\$59,260
53 West Hastings Residential	26-Sep-06	3 yrs	\$125,339
108 & 128 West Cordova Residential	21-Mar-06	3 yrs	\$3,500,000
412 Carrall	11-Jul-06	10 yrs	\$947,502
1 Gaoler's Mews	13-Jun-06	10 yrs	\$1,299,928
51 East Pender	28-Feb-06	10 yrs	\$500,395
12 Water Commercial	26-Sep-06	10 yrs	\$1,033,686
12 Water Residential	26-Sep-06	3 yrs	\$229,034
133 Keefer	08-Jul-08	10 yrs	\$421,353
208 East Georgia	19-Jan-10	10 yrs	\$448,171
101 West Hastings Commercial	21-Mar-06	10 yrs	\$8,140,000
18 West Hastings	16-Sep-08	10 yrs	\$144,492
71 East Hastings	12-Feb-08	10 yrs	\$173,670
564 Beatty	01-Nov-11	10 yrs	\$3,019,986
TOTAL			\$23,703,276

Heritage exemptions are for maximum duration or the maximum \$ value, whichever is reached first.