

2017 Property Taxation: Targeted Land Assessment Averaging

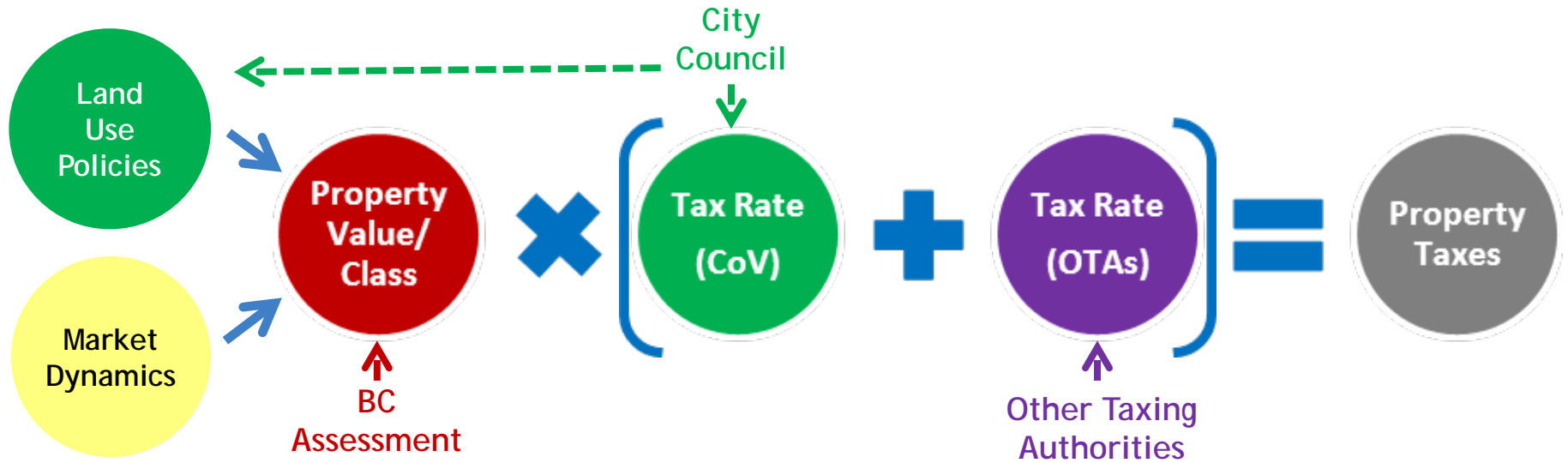
Standing Committee on City Finance & Services

March 8, 2017

Agenda

- Property Assessment & Taxation Framework
- Provincial & CoV Property Tax Relief Programs
- Tax Relief for “Hot” Residential Properties
- Tax Relief for “Hot” Commercial Properties
- Recommendations & Next Steps

Property Assessment & Taxation Framework



BC Assessment determines:

- property value based on zoning & market activities
- property class based on actual use

City Council determines:

- land use policies (zoning, density, etc.)
- total tax levy & residential/business tax share
- tax rate for each property class
- tax relief programs

Property Assessment & Taxation Framework

Property value increases do NOT increase property taxes that the City receives

- City does not get more tax revenues; tax rates are adjusted down to collect Council-approved levy
- properties with increases higher than average will experience an increase higher than Council-approved % tax increase
- properties with increases lower than average will experience an increase lower than Council-approved % tax increase; some may even get a tax reduction

Impact of Assessment Changes on Property Taxes



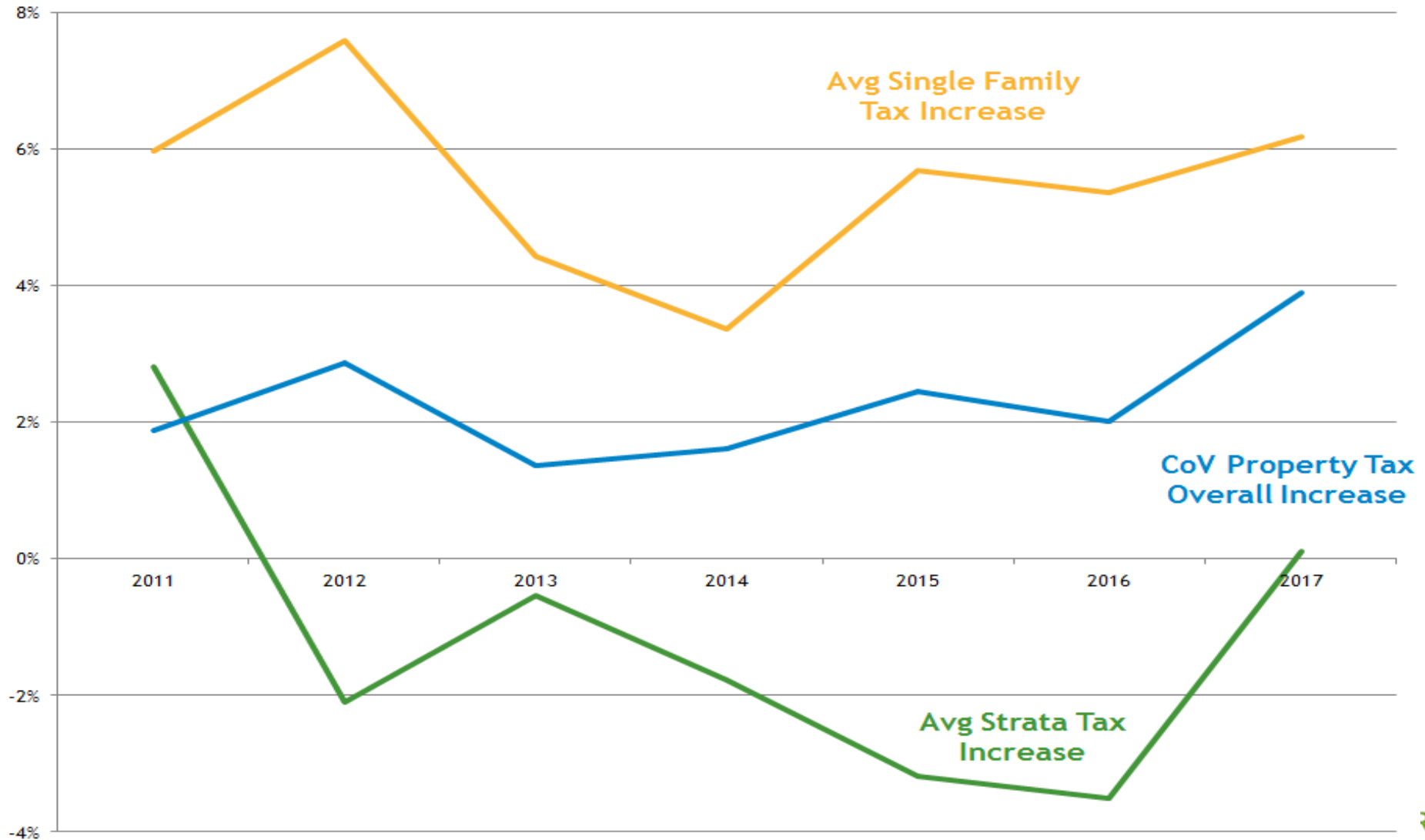
Year 1
Total Property Value \$3M Total Tax Levy \$6,000 Tax Rate \$2 per \$1,000
Property Value \$1M Tax Bill \$2,000
Property Value \$1M Tax Bill \$2,000
Property Value \$1M Tax Bill \$2,000



Year 2
Total Property Value \$3.3M (+10%) Total Tax Levy \$6,000 (flat) Tax Rate \$1.82 per \$1,000 (-9.1%)
Property Value \$1.1M (+10%) Tax Bill \$2,000 (flat)
Property Value \$1M (flat) Tax Bill \$1,818 (-9.1%)
Property Value \$1.2M (+20%) Tax Bill \$2,182 (+9.1%)

If a property's value increase > class average increase → higher tax increase
 If a property's value increase < class average increase → lower tax increase

Differential Property Value Increases Results in Differential Property Tax Impact



Informing the Public

A video at vancouver.ca/property-tax illustrates the relationship between assessment changes and property taxes

The screenshot shows the City of Vancouver website's navigation menu with 'Home, Property, and Development' selected. The breadcrumb trail reads 'Home > Home, Property, and Development > Property tax'. A sidebar on the left lists various services under 'Home, Property, and Development', with 'Property tax' expanded to show sub-items like 'Balance and tax notice', 'Paying your taxes', and 'Understanding your tax notice'. The main content area features a video titled 'How your property taxes are calculated' with a large red play button. The video thumbnail includes the City of Vancouver logo, an illustration of a family, and a sign listing services: 'Services: police station, fire depart., library, public park, pools'. Social media icons for YouTube, Facebook, and Twitter are visible in the top right of the video area.

Q4 2016 - BCA mailed notifications to property owners with significant assessment increases in 2017 ($\geq 15\%$ higher than class average increase)

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Provincial & CoV Property Tax Relief Programs

Residential	Non-residential
Provincial Programs	
1. Assessment Act s19(8) (long-term owner/occupier adjustment)	N/A
2. Home Owner Grant	N/A
3. Property Tax Deferment	N/A
City of Vancouver Program	
Targeted Land Assessment Averaging for “hot” properties (currently 3-yr; transition to 5-yr in 2019)	

Targeted averaging provides short-term, multi-year relief to property owners and tenants to enable market adjustments and/or lease renegotiations. Taken together, these measures have addressed major property tax increases for residents and businesses.

What is a “Hot” Property?

Property Tax Policy Review Commission’s definition (2014)

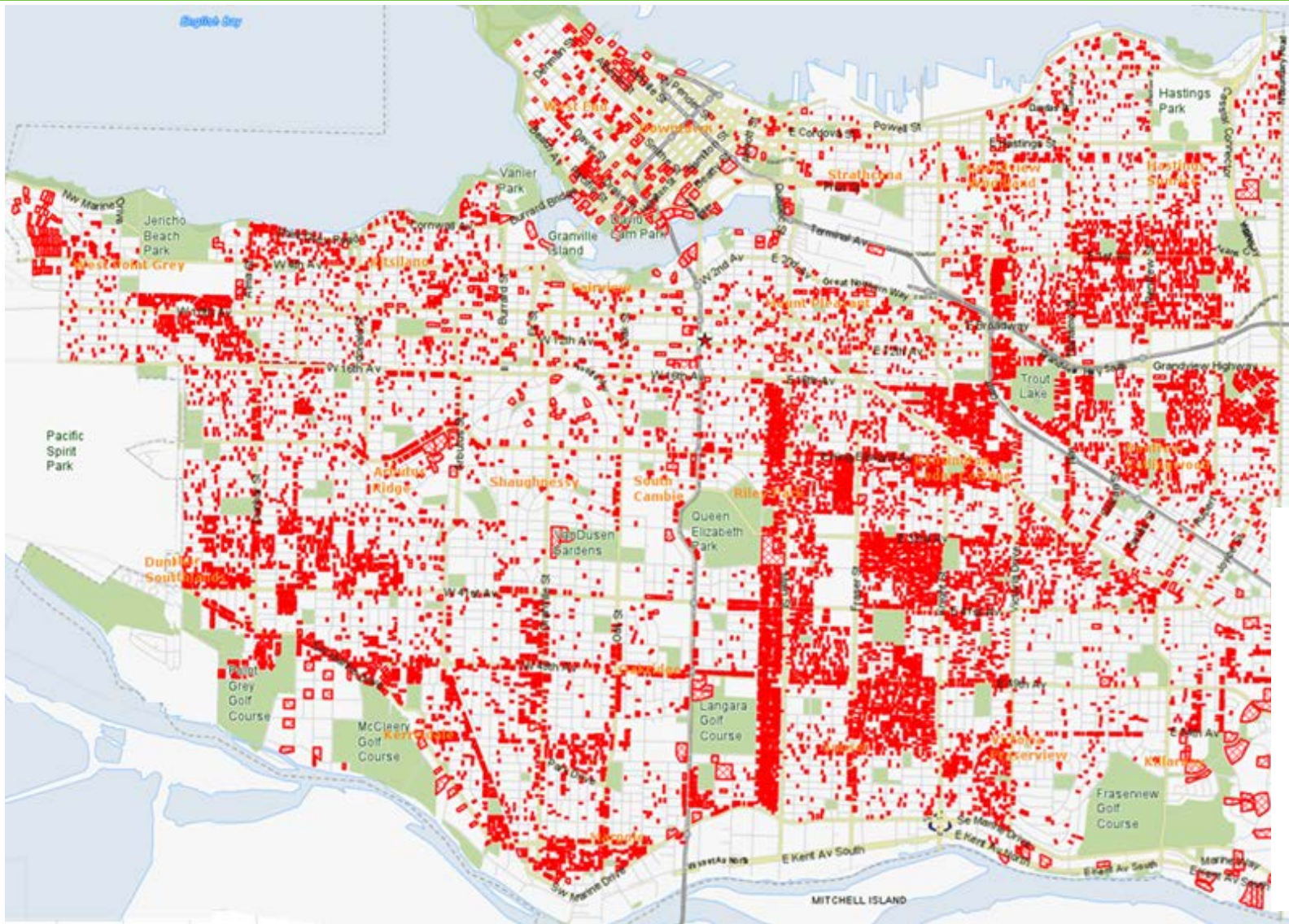
A property that experiences an unanticipated, year-over-year increase in total net assessed value, before land averaging is applied, which exceeds the average assessment increase for the same property class by more than 10%

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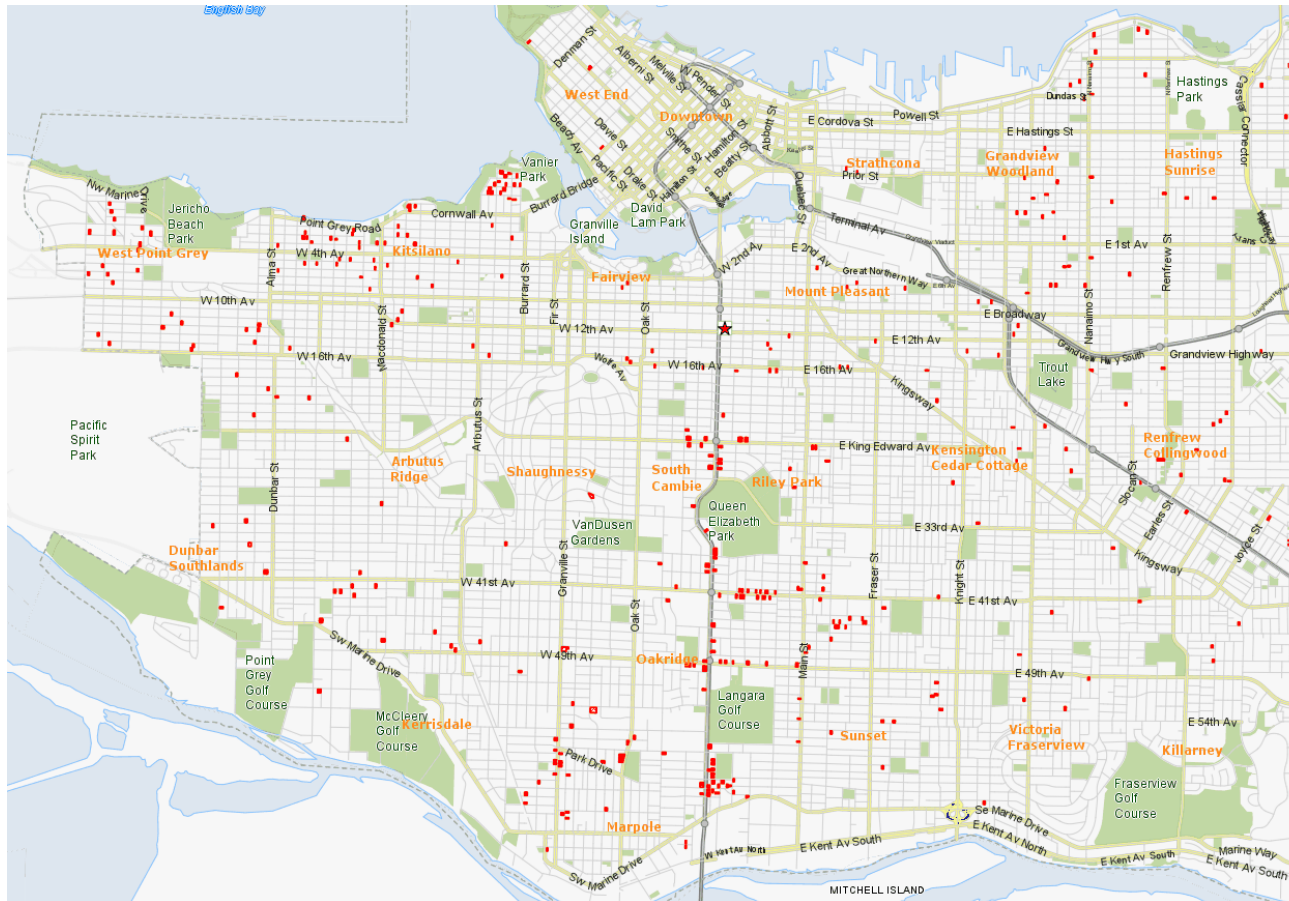
Where are the “Hot” Residential Properties?

(2017: ~19,500 (10.3%) | 2016: 15,800 | 2015: 9,900)



Provincial Property Tax Relief Programs

Residential #1 - Assessment Act s19(8)



Intent:

Protect long-term home owners whose assessed values would rise due to zoning changes

How:

Land is assessed based on current zoning, not anticipated redevelopment potential

Eligibility:

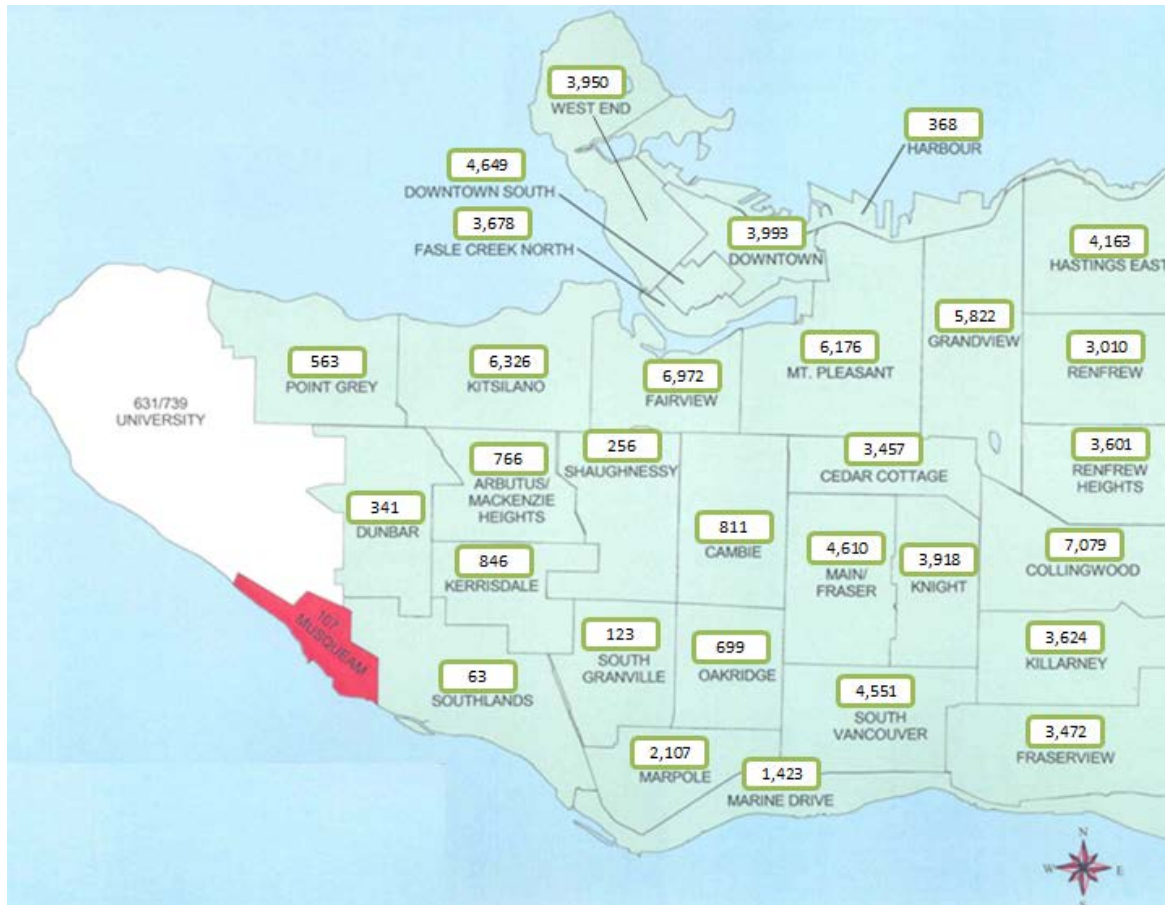
Owner/occupier @ principal residence ≥ 10 yrs

of Properties:

2017 - 423

Provincial Property Tax Relief Programs

Residential #2 - Home Owner Grant ("HOG")



Intent:

Provincial grant to offset taxes to protect lower value homes & seniors

How:

Up to \$570 grant for lower value homes; additional \$275 grant to seniors

Eligibility:

Owner/occupier @ principal residence valued up to \$1.6M (reduced to zero @ \$1.714M)

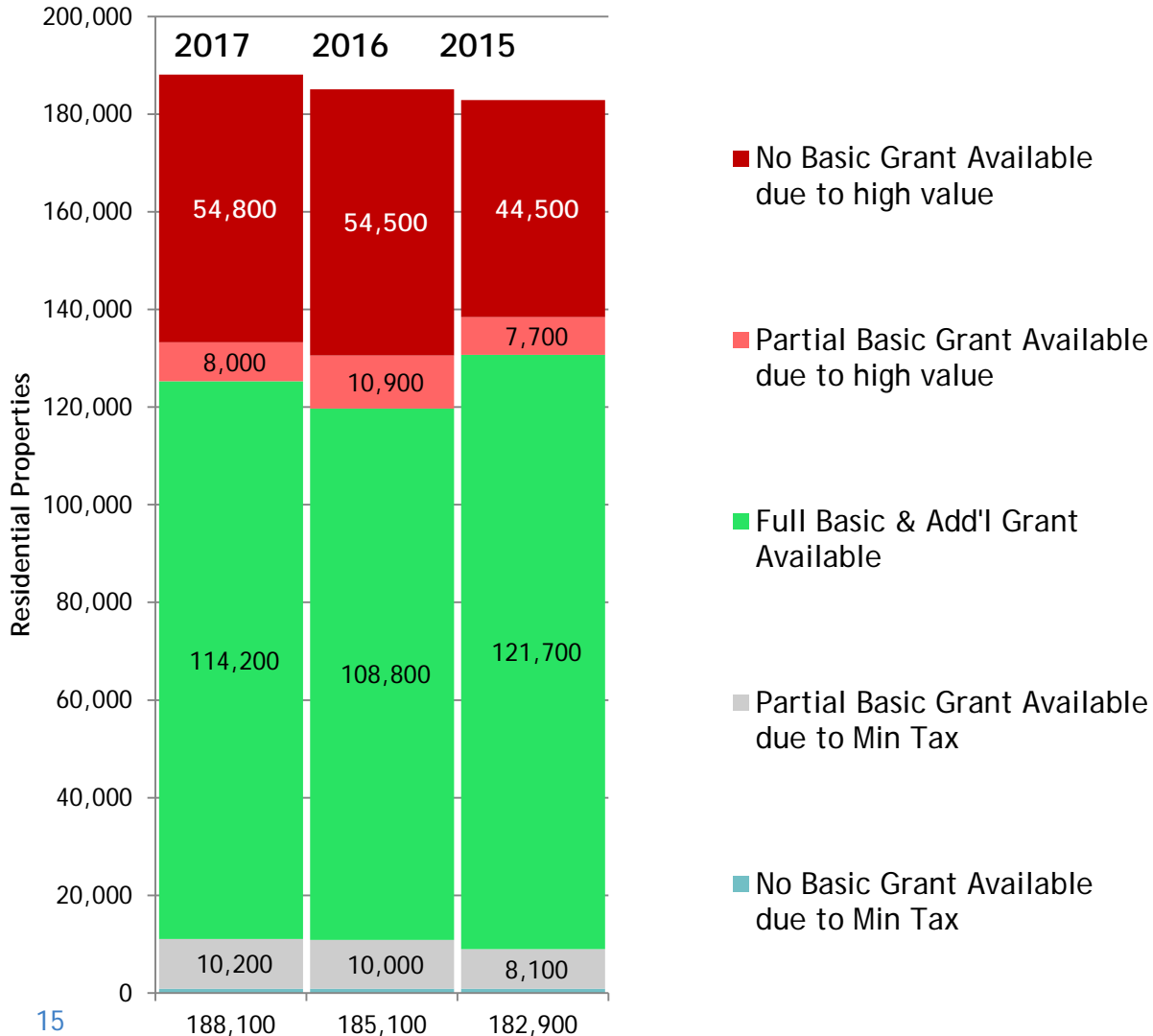
of Claims:

2016 - 81,000

2017 applications pending

Provincial Property Tax Relief Programs

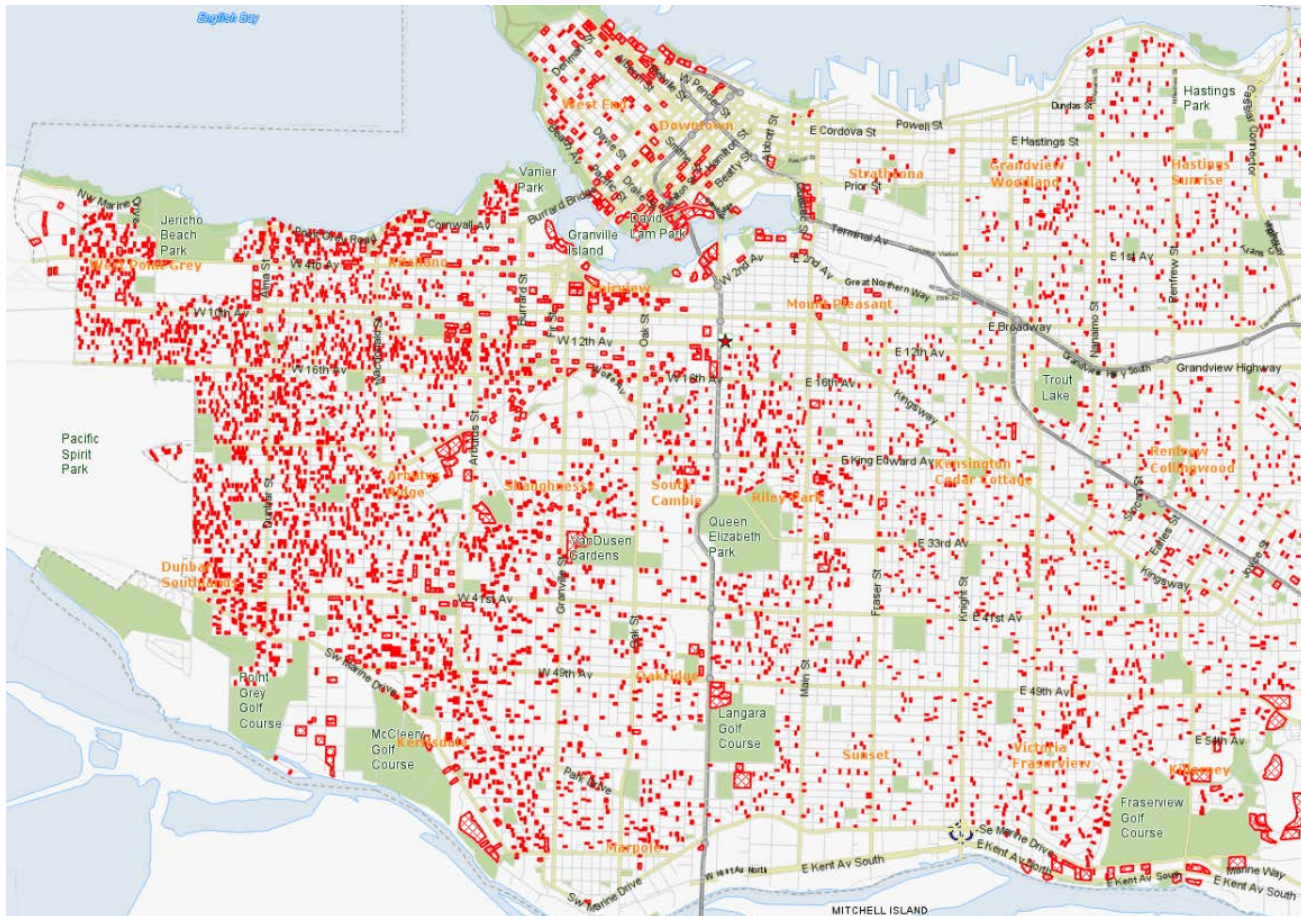
Residential #2 - Home Owner Grant ("HOG") (Continued)



Due to the disproportionate increase in property values in Vancouver (relative to the rest of BC), the number of properties not eligible for HOG has been increasing over time. That said, the increase in HOG threshold in 2017 increases eligible properties from 59% (109K) to 61% (114K) of residential properties in Vancouver

Provincial Property Tax Relief Programs

Residential #3 - Property Tax Deferment



Intent:

Tax deferral for seniors & families with children; taxes & low rate interest paid upon sale of property

How:

Charge against the property on equity released resulting from sale

Eligibility:

Owner/occupier

- ≥ 55 yrs old, or
- with children ≤ 18 yrs old

of Properties:

2016 - 5,700

2017 applications in progress

CoV Property Tax Relief Program

Residential - Targeted Land Assessment Averaging

- Targeted
 - i) “hot” properties only
 - ii) unanticipated increases only, not owner-induced increases (rezoning, improvement upgrades)
 - Tailored mitigation to intensity of volatility
 - Time-limited to allow tenants time to react (renegotiate, relocate)
-
- Easy to understand
 - Straightforward to administer
 - Minimize unintended consequences
 - Maintain market assessment as much as possible
 - Not to unduly defer redevelopment to highest & best use

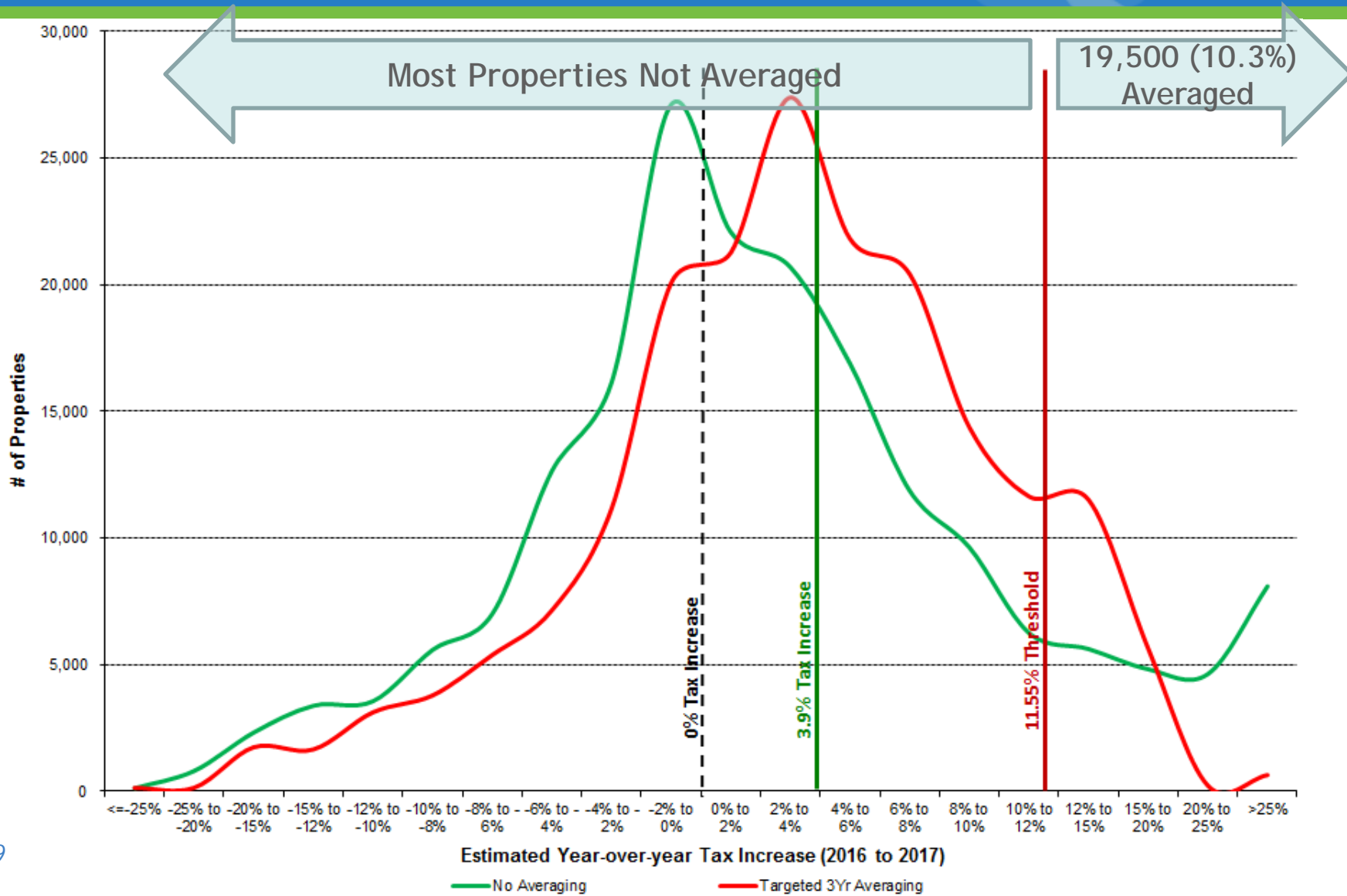
CoV Property Tax Relief Program

Residential - Targeted Land Assessment Averaging (Continued)

- Targeted averaging is only applicable to eligible “hot” properties (~10%), leaving most properties untouched
 - 2017 threshold: $\sim 36\%$ average property value increase + 10% = $\sim 46\%$
- “Non-hot” properties (~90%) will pay higher tax to compensate for the tax relief for “hot” properties
- For eligible “hot” properties, targeted averaging should reduce their values for property tax calculation; under limited circumstance where averaging would increase their values, property tax will be calculated based on the assessed values provided by BC Assessment

Targeted Averaging - Residential Properties

Threshold: **Property Value Increase >~46%**
Property Tax Increase >~11.55%

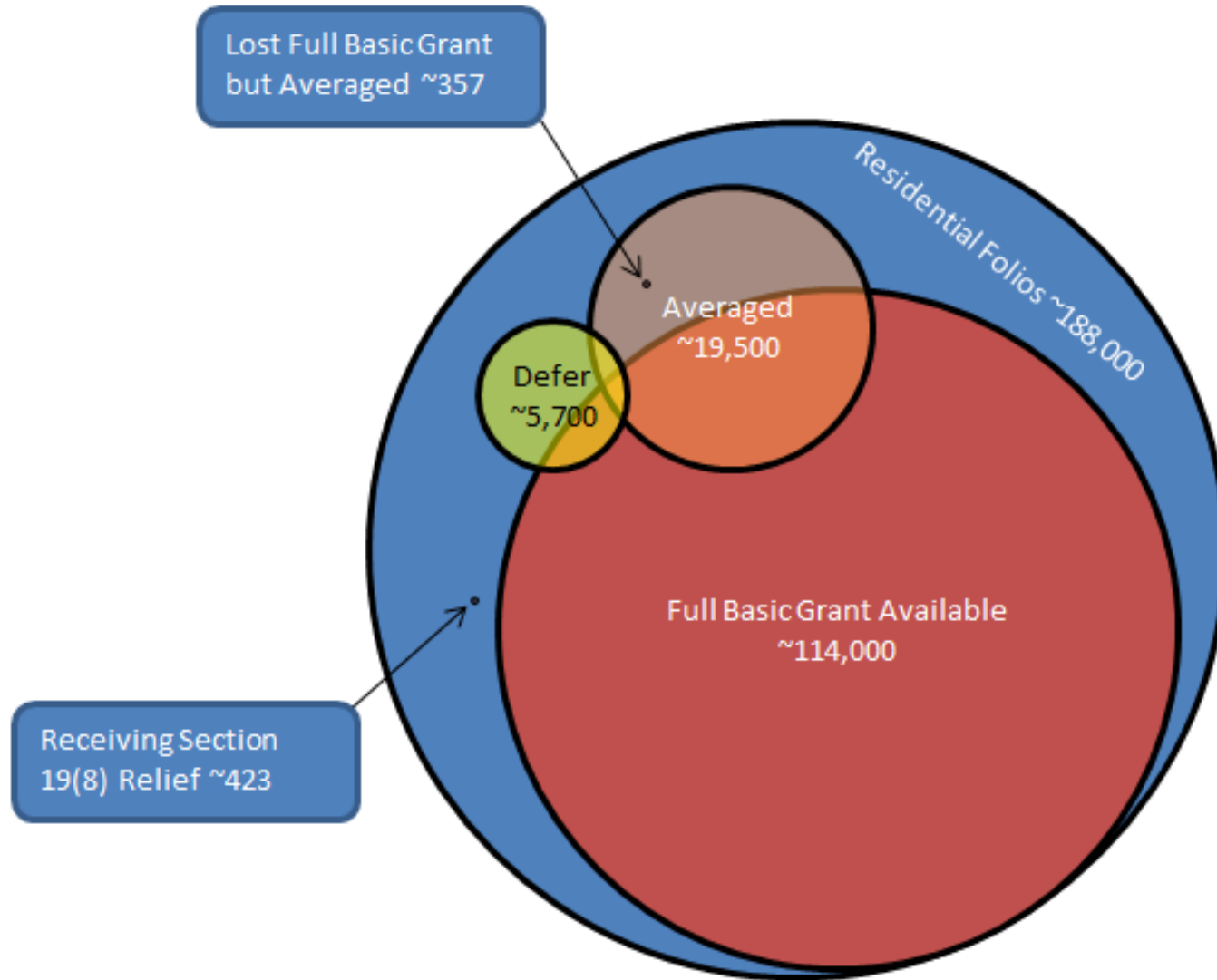


Impact of Targeted Averaging on Tax Rates

Residential

	Preliminary Tax Rate (per \$1,000 assessed value)	Change (from No Avg'g)
No Averaging (BC Assessment Value)	\$1.217	-
2017 Targeted Averaging (as proposed)	\$1.257	+3%
2016 Targeted Averaging	\$1.562	+2%

How Provincial & CoV Property Tax Relief Programs Complement Each Other



How Provincial & CoV Property Tax Relief Programs Complement Each Other (Cont'd)

Loss of Home Owner Grant Offset by Targeted Averaging

- 365 properties went from full grant in 2016 to no grant in 2017
- 357 properties (98%) could be eligible for targeted averaging
- Impact of targeted averaging to these properties:

24.9%	Median Property Tax Increase with HOG loss <i>(before targeted averaging)</i>
5.7%	Median Property Tax Increase with HOG loss <i>(after targeted averaging)</i>

(Note: Analysis based on City's property tax only; taxes levied by other authorities not included)

Targeted averaging largely offsets property tax increase arising from HOG loss

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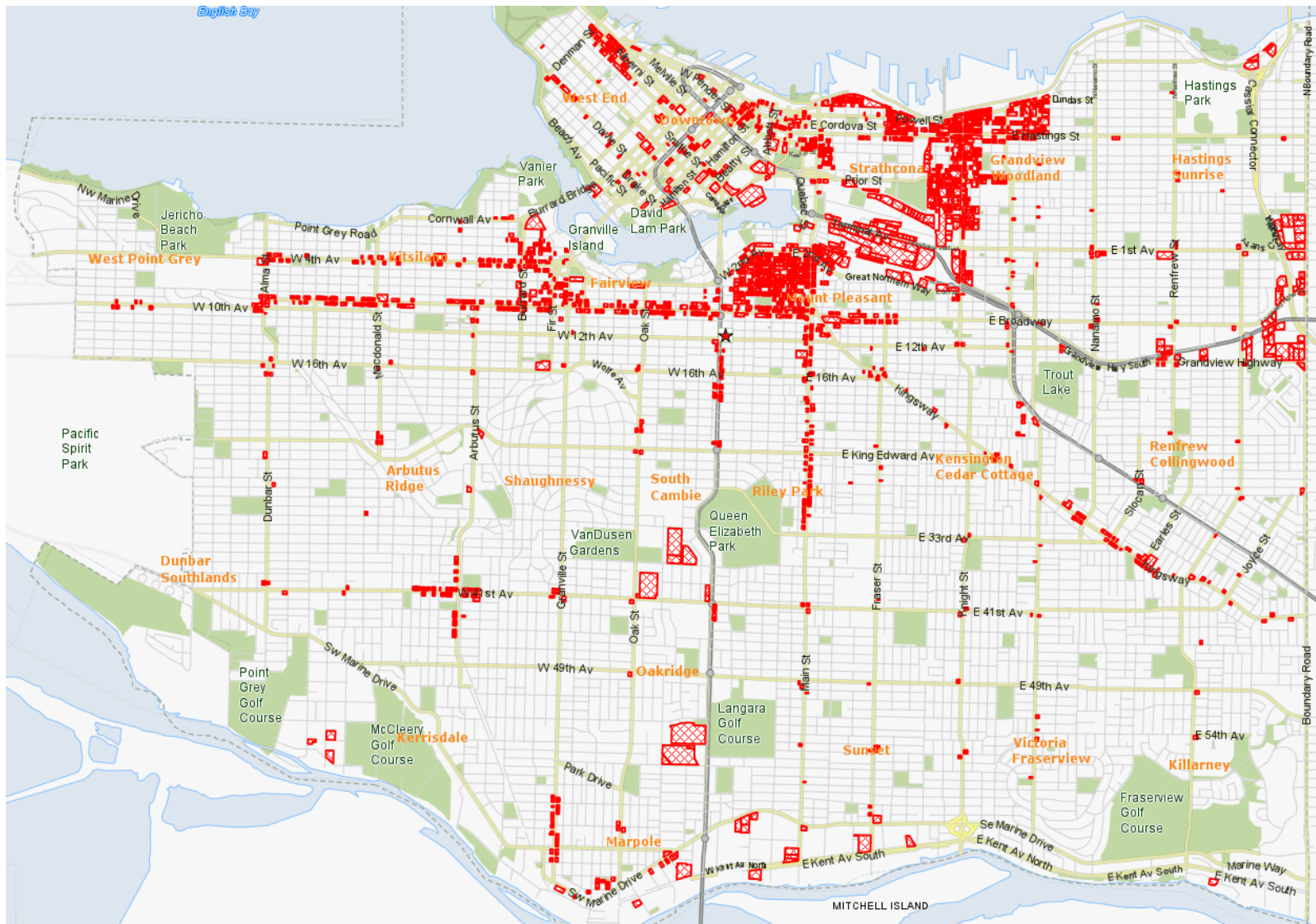
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Why Commercial Properties become “Hot”?

- Rezoning
- Speculation
- Rapid Transit (or other major infrastructure development)
- Market Trends
- Changes initiated by BC Assessment

Where are the "Hot" Commercial Properties?

(2017: ~3,300 (23%) | 2016: ~2,800 | 2015 ~1,500)



“Hot” Redevelopment Sites & Impacts on Commercial Tenants

Issue 1: Property valuation & classification out of sync for redevelopment sites

- Value = commercial + residential development potential
- Class = commercial (actual use)
- Property Tax Rate = Commercial = 4x Residential

Issue 2: Landlord passes on property tax to commercial tenants through triple net leases

- Landlord realizes land value appreciation
- Tenant pays all carrying costs

Redevelopment Sites: Current Assessment Regime

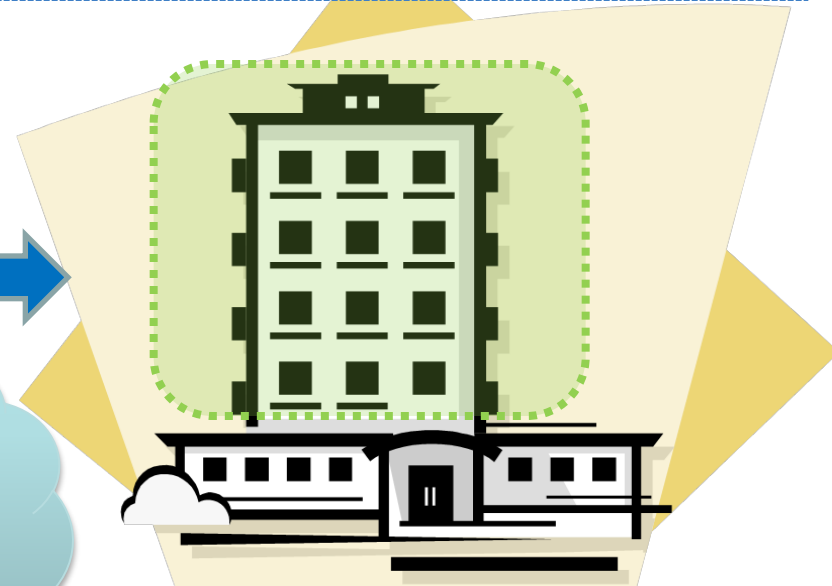
Valuation: Highest & Best Use | Classification: Actual Use

developed commercial density



rezoning/
land speculation

developed commercial density + undeveloped residential density



Valuation & Classification out of sync

Assessment

Value: 1 storey retail
Class: 100% commercial

Taxation

100% business tax rate

Assessment

Value: 20/80% retail/residential
Class: 100% commercial

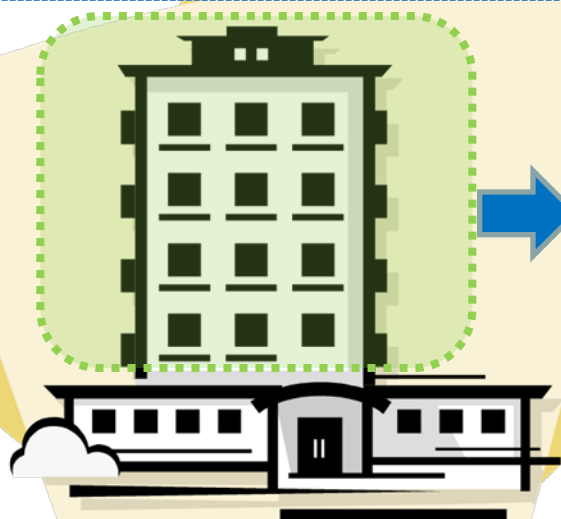
Taxation

100% business tax rate

Redevelopment Sites - Current Assessment Regime (Cont'd)

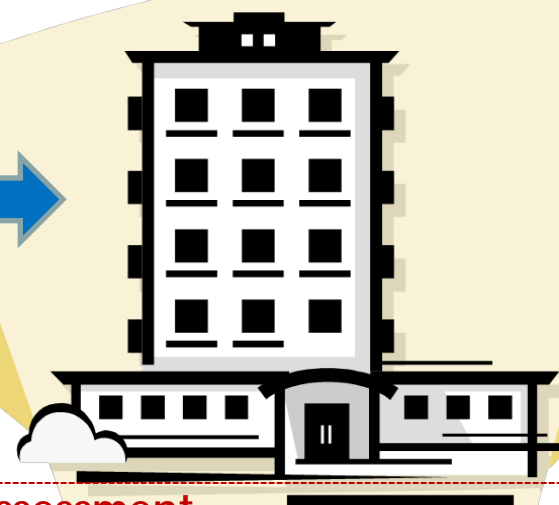
Valuation: Highest & Best Use | Classification: Actual Use

developed commercial density +
undeveloped residential density



redevelopment

developed commercial +
residential density



Assessment

Value: 20/80% retail/residential

Class: 100% commercial

Taxation

100% business tax rate

Assessment

Value: 20/80% retail/residential

Class: commercial/residential

Taxation

Commercial: business tax rate

Condo: residential tax rate

Council Motion (Feb 2016) – Action to Protect Taxpayers from Soaring Assessments

WHEREAS

1. Very large increases in property assessments, in some cases up to 65 percent, on commercial properties in certain areas of the city could pose the risk of business failures by self-employed business owners on fixed term triple-net leases who have limited ability to pass on increases to customers or to renegotiate the lease prior to expiry or renewal;
2. Increases in residential assessments by the BC Assessment Authority (BCAA) have also been very high, causing real concern and hardship to homeowners where those increases are above average and sometimes must be managed on fixed incomes;
3. Increases for some non-profit and co-op housing societies are high enough to threaten affordability for residents in certain locations;
4. The City of Vancouver has implemented land assessment averaging solutions to assist property owners and businesses that may only partially mitigate the impact of these very high assessment increases;
5. The BC Supreme Court ruling in the Amacon case, on the application of split assessments, released February 1, 2016, should clarify the assessment and classification of properties that could be the subject of mixed use development;
6. Staff, in response to Council's motion of July 2014, have requested that BC Assessment Authority undertake a review of split class assessment and value in use.

THEREFORE BE IT RESOLVED THAT Vancouver City Council call on the BC Assessment Authority (BCAA) to:

- a. Justify the very large increases established in many areas of the city and urge a careful review of the assessment methodology;
- b. Make their methodology available in open data format so the public can better understand what factors most affect increases;
- c. Take steps to complete its review of split assessments once the court verdict is received and "value in use as going concern" based on the court ruling;
- d. Provide clarification on applications for split assessments and "value in use as going concern"; and

BE IT FURTHER RESOLVED THAT that Council direct staff to report back on the outcomes of the BCAA work, the implications of the BC Supreme Court ruling and any other steps that could be taken by the Province to mitigate these increases, especially the impact of triple net leases on property tax payments for tenants.

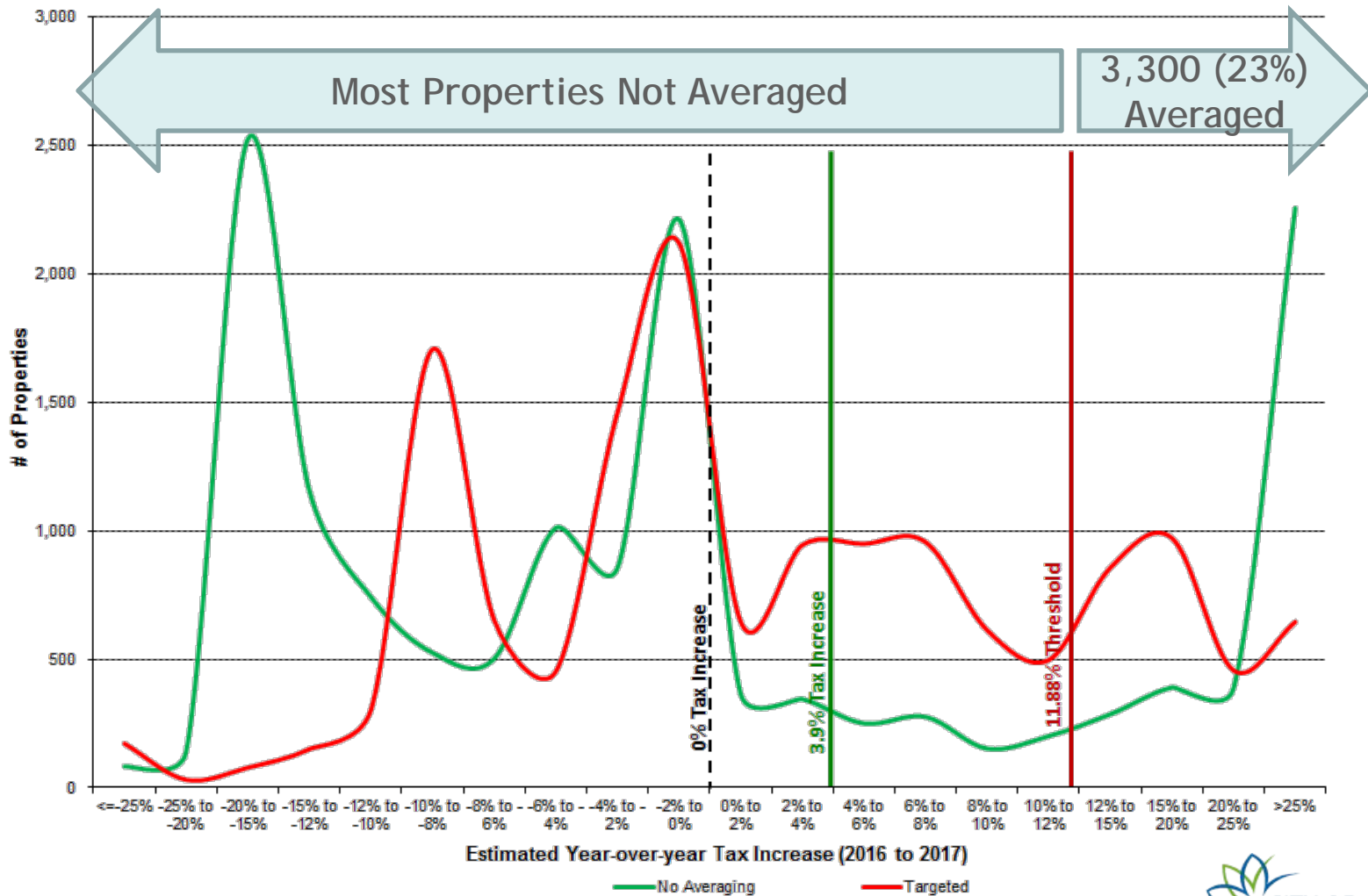
Staff currently working with the Province, UDI, BoT & BIAs to evaluate viable options and assess implications to the City, business & residential property taxpayers; anticipate to report back in summer 2017

Amacon (Split Assessment) Court Ruling

- “land” is deemed 3-D for assessment purposes (incl. air space above land) whether or not a legal ASP is created
- eligibility requires commercial density be capped in zoning by-law & ODPs
- limited application by BC Assessment in 2017 (only Amacon properties)
- broader application uncertain at this point

Targeted Averaging - Light Industrial & Business Properties

Threshold: Property Value Increase >~40%
Property Tax Increase >~11.88%



Impact of Targeted Averaging on Tax Rates Light Industrial & Business Properties

	Preliminary Tax Rate (per \$1,000 assessed value)	Change (from No Avg'g)
No Averaging (BC Assessment Value)	\$5.27	-
2017 Targeted Averaging (as proposed)	\$5.79	+9.8%
2016 Targeted Averaging	\$6.61	+5.4%

2015-2017 Summary of Targeted Averaging

Year	Residential		Light Industrial & Business	
	Hot Property Count	Tax Rate Change (from no Averaging)	Hot Property Count	Tax Rate Change (from no Averaging)
2017 *	19,500	+3%	3,300	+9.8%
2016	15,800	+2%	2,800	+5.4%
2015	9,900	+1%	1,500	+3.8%

* More properties need mitigation in 2017 than past years

Public Notification for Targeted Averaging Vancouver Courier – Feb 9 & 16

FIND OUT WHAT'S HAPPENING IN YOUR CITY

Vancouver Matters

CITY OF VANCOUVER

IMPORTANT NOTICE TO PROPERTY OWNERS: Land Assessment Averaging

Since 2015, the City of Vancouver has used targeted land assessment averaging to calculate property taxes as recommended by the Property Tax Policy Review Commission in 2014. (Prior to 2015, the City used across-the-board averaging which was in effect since 1993.) Averaging does not generate any extra revenue for the City, but affects the amount of taxes paid by individual property owners.

Under the targeted averaging approach, only those properties facing significant year-over-year increases in property values above a certain threshold would be eligible for averaging. For eligible properties, the program calculates property taxes for the City and other taxing authorities using an average of the assessed land value for the current and prior two years, plus their current assessed improvement value. All others would pay property taxes based on the BC Assessment value instead of an averaged value.

The table on the right shows the estimated effect of targeted averaging on the City of Vancouver's general purpose taxes for sample properties based on the thresholds approved by Vancouver City Council for 2016 (i.e. an increase in property value that is 10 per cent above the average property class increase), subject to Council approval for 2017.

Amounts levied by other taxing authorities such as provincial schools,

TransLink, BC Assessment, and Metro Vancouver are not included.

On March 8, 2017, Vancouver City Council will consider whether to continue with targeted land assessment averaging for residential (Class 1), light industrial (Class 5) and business (Class 6) properties, and determine the appropriate thresholds for these property classes if targeted averaging is adopted. Should Council decide to continue with targeted averaging, a by-law will be adopted on March 28, 2017.

The report, which details the program and how it could impact property taxes, will be posted on our website at vancouver.ca/averaging

FOR MORE INFORMATION:
3-1-1 or vancouver.ca/averaging

COMMENTS?

Write to:
Mayor and Council
453 West 12th Avenue
Vancouver, BC V5Y 1V4
or email:
mayorandcouncil@vancouver.ca

SPEAK TO COUNCIL:

Prior to adoption of the bylaw, you may speak to Council in person at the City Finance and Services meeting on March 8, 2017.

Phone 604-873-7269 to register.

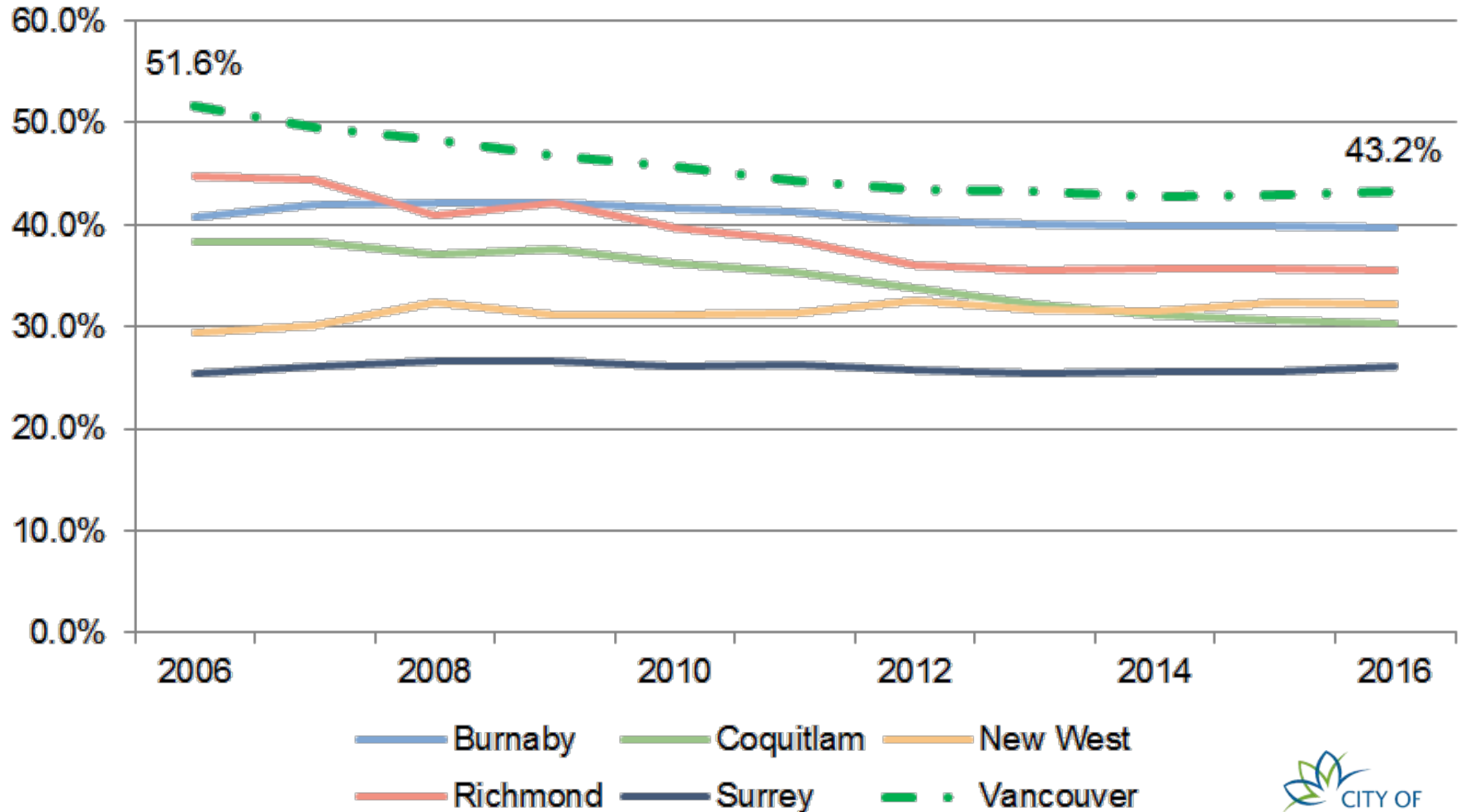
TARGETED LAND ASSESSMENT AVERAGING						
	Sample properties BELOW targeting threshold (NOT eligible for averaging)			Sample properties ABOVE targeting threshold (eligible for averaging)		
	2017 Assessed Value	Est. Taxes without Targeted Averaging	Est. Taxes with Targeted Averaging	2017 Assessed Value	Est. Taxes without Targeted Averaging	Est. Taxes with Targeted Averaging
Residential (\$)						
Downtown	564,000	688	710	599,000	730	661
	669,000	816	842	785,000	957	778
	827,000	1,008	1,041	1,058,000	1,290	1,051
West	899,000	1,096	1,131	2,741,000	3,341	2,572
	2,255,200	2,749	2,838	3,290,200	4,011	3,144
	3,171,700	3,866	3,991	3,956,100	4,823	3,647
East	956,000	1,165	1,203	1,412,100	1,721	1,350
	1,381,000	1,683	1,738	1,542,100	1,880	1,550
	1,572,000	1,916	1,978	1,712,600	2,088	1,722
Light Industrial and Business & Other (\$)						
Downtown	179,000	942	1,035	250,900	1,321	1,125
	269,400	1,418	1,557	481,300	2,533	1,464
	630,000	3,316	3,641	1,344,000	7,074	5,556
West	497,000	2,616	2,872	1,179,000	6,206	5,211
	702,000	3,695	4,057	3,679,000	19,364	18,292
	1,612,000	8,485	9,317	5,704,500	30,025	28,194
East	445,000	2,342	2,572	2,187,000	11,511	9,455
	833,200	4,386	4,816	3,452,000	18,169	12,925
	1,624,000	8,548	9,386	5,071,000	26,691	21,737
Sample properties may be single or multi-unit						

Besides Targeted Averaging...

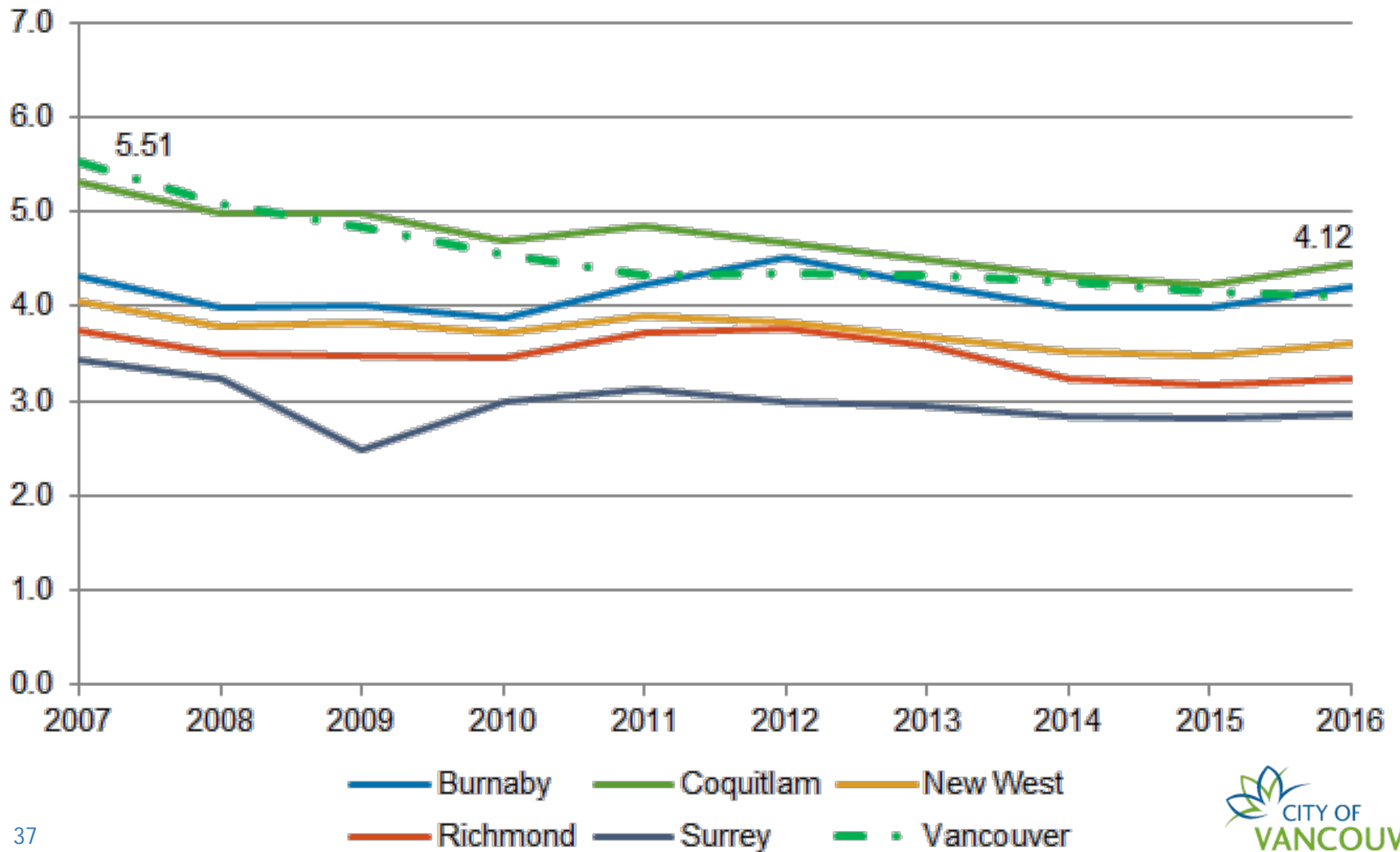
Council has taken proactive steps to enhance affordability and support economic development. This includes:

- keeping property tax, utility and user fees competitive within Metro Vancouver
- bringing transformative changes to enhance customer service, efficiencies and accountability
- lowering the business property tax share and the business tax rate ratio over the past 10 years, one of the most substantial improvements within Metro Vancouver

Business Tax Share Declining



Business/Residential Tax Rate Ratio Declining



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Recommendations

- A. THAT Council approve the **application of targeted 3-year land assessment averaging** for Residential (Class 1), Light Industrial (Class 5), and Business & Other (Class 6) properties for 2017.
- B. THAT Council adopt a “**threshold**” of 10% above the property class average change (*2017 Revised Roll*) for Class 1 and for Classes 5 & 6 to define eligibility for targeted averaging.
- C. THAT a **by-law** authorizing the use of targeted 3-year land assessment averaging be prepared.
- D. THAT the Director of Finance make appropriate arrangements with BC Assessment for the **production of the 2017 Average Assessment Roll**.

2017 Property Taxation - Next Steps

