



City of Vancouver Support to Small Business and Retail

Presented to
Vancouver City Council
February 20, 2018



Purpose

Report back to Council on the January 17, 2018 motion concerning small business, and update Council on a number of small business-related initiatives.

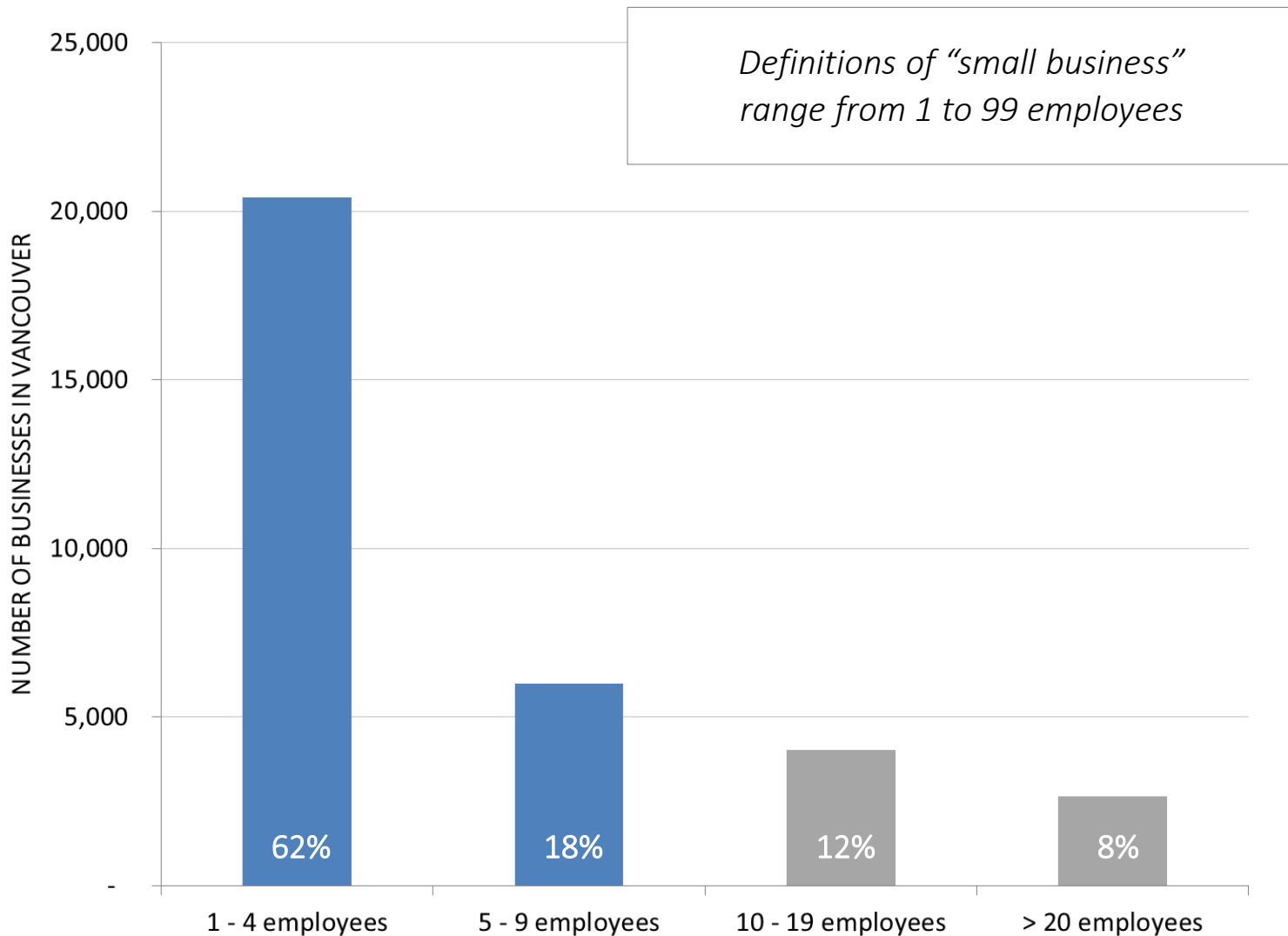


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 - a. Commercial District Small Business Study
 - b. Vancouver Small Business Strategy
 - c. Small business engagement
 - d. Supporting small business through provincial tax reform

1. Background

~ 80% of Vancouver businesses have less than 10 employees



Many small business challenged with rising rent, property taxes and other issues

This is a regional issue, small businesses in many Lower Mainland cities dealing with the same challenges.



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business
west sid

KERRY GOLD >
SPECIAL TO THE GLOBE
PUBLISHED JULY 9, 2016
UPDATED JUNE 5, 2017

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Why A
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Posted on December

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Empty store tax, rent control protection and a voice at the table — small businesses look for solutions
By Clare Hennig, CBC News Posted: Jan 05, 2018 12:35 PM PT | Last Updated: Jan 05, 2018 12:50 PM PT

June 13, 2017 resolution re: property assessment and tax policy

- A. *THEREFORE BE IT RESOLVED THAT Vancouver City Council call on the Province of BC to enable the City to transition from three-year to five-year land assessment averaging in 2018 through an exemption to the legislative requirement or legislative amendments as appropriate;*

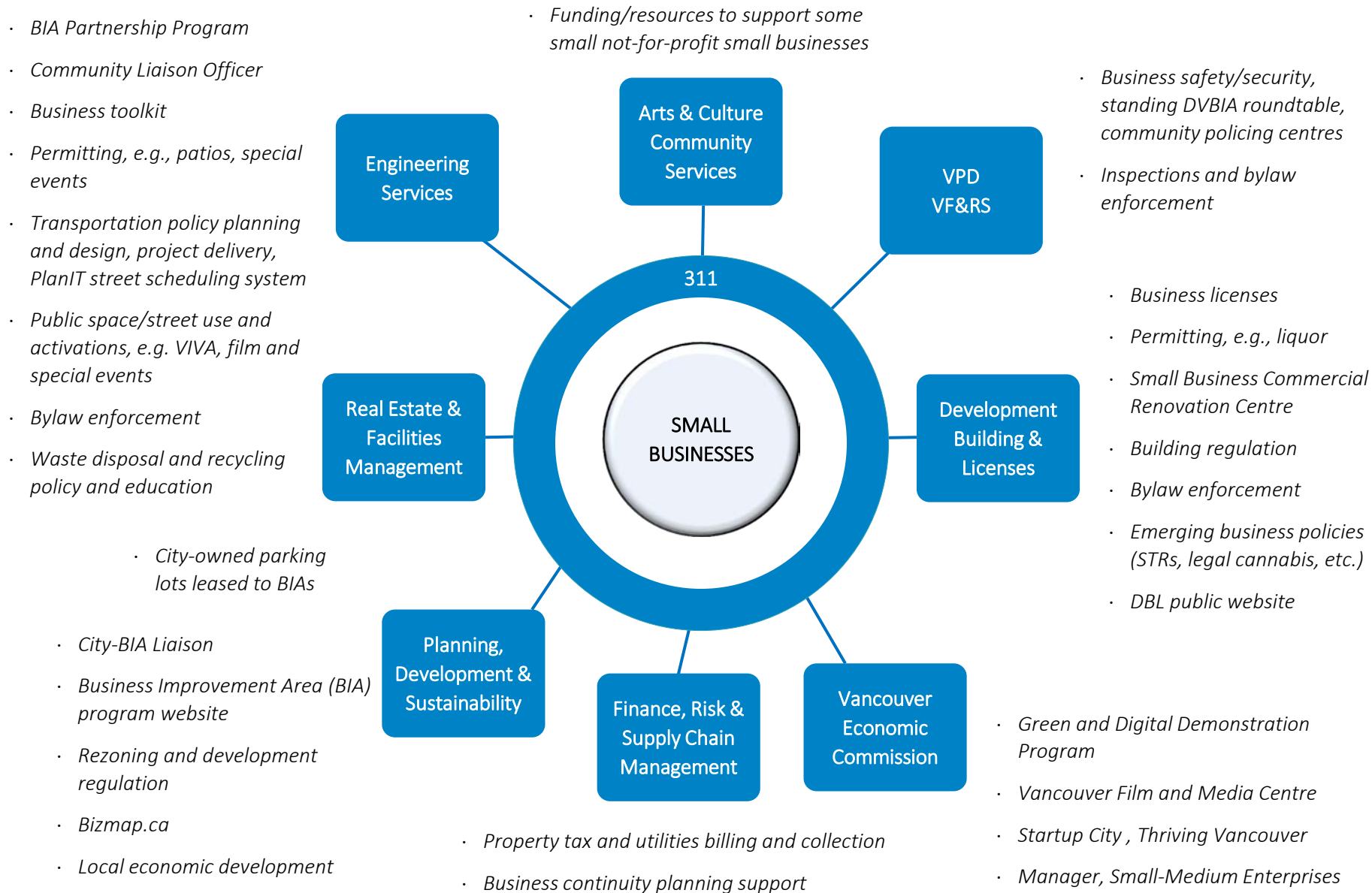
- B. *BE IT FURTHER RESOLVED THAT City staff report back on the outcome of the work with the Province of BC, BC Assessment Authority and key stakeholders, with associated policy recommendations that specifically address the impact of triple net leases on property tax payments for small business tenants.*

January 17, 2018 Council resolution re: support to small businesses

- A. *THAT the City Council direct City staff to conduct a comprehensive economic and community development study to identify existing City programs and policies that support/retain local small businesses and to recommend actions that can be taken by the City to create more optimal conditions for small businesses to succeed and thrive, including a small business retention program.*
- B. *THAT the City Council direct City staff to conduct a study to identify existing City programs and policies that support/retain local small businesses and to recommend actions that can be taken by the City to create more optimal conditions for small businesses to succeed and thrive, including a small business retention program.*
- 1. Review.** *Review of existing City programs and policies that support/retain local small businesses*
 - 2. Recommended actions.** *Recommendations for policies and strategies the City can implement, and actions that can be taken by the City, to create more optimal conditions for small businesses to succeed and thrive, including a small business retention program*
 - 3. Advisory body.** *Recommendations for establishing a small business advisory body or roundtable, with proposed terms of reference*
- above.*

2. Current City of Vancouver-small business support/interface

Many touchpoints between the City and small business



NOTE: ILLUSTRATIVE LIST, UNDER DEVELOPMENT

Existing City forums and committees concerning small business

A. BUSINESS IMPROVEMENT AREAS (BIAs)

- *Led by GM, PDS*
- *22 self-funded districts managed by non-profit groups of property owners and business tenants, to promote/improve their business district*

B. COV-BIA LIAISON COMMITTEE

- *Led by GM, PDS*
- *Forum for senior City staff and BIA-nominated representatives to resolve issues affecting BIAs city-wide, and to solicit BIA input into select City initiatives*

C. BIA-ENGINEERING PARTNERSHIP PROGRAM

- *Led by GM, Engineering Services*
- *Ongoing liaison between Engineering Services and BIAs via a dedicated staff person, to prioritise and address BIAs' needs related to work of Engineering Services*

D. SMALL BUSINESS COORDINATION GROUP

- *Led by GM, PDS*
- *Internal staff forum for information-sharing and coordination on initiatives, issues and opportunities, includes Vancouver Economic Commission*

Small business issues and opportunities, preliminary staff situational analysis

A. AFFORDABILITY/ SPACE

1. *Escalating rents*
2. *Limited affordable space*
3. *Lease insecurity/
displacement due to
rapid pace of change*
4. *Property tax download
from landlords to
tenants*
5. *Cost of living for
employees and owners*

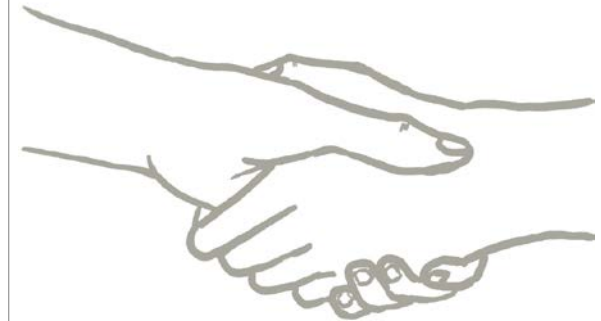
B. CITY PROCESSES

1. *Permits and licensing*
2. *Difficult to find
information*
3. *Too many visits per
transaction, touchpoints
across many
departments*
4. *Regulatory and fee
burden*



C. ENGAGEMENT/SUPPORT

1. *Insufficient City support
for small business*
2. *No single City point of
contact*
3. *Potential improvements
to Business Improvement
Area framework*



Key initiatives underway: Affordability/space



1. **Provincial property assessment and tax reform:** *Working with the provincial government to establish a Province-led intergovernmental working group (Province, BC Assessment, City of Vancouver) to engage key partners and stakeholders to develop assessment and tax policy options to support small businesses* [GM, Finance, Risk and Supply Chain Management]
2. **Commercial District Small Business Study:** *Undertaking an evaluation of the current state of the small business and retail landscape in a selection of Vancouver's commercial districts, and making recommendations re: how the City can best support ongoing viability/success of these businesses* [GM, Planning, Urban Design and Sustainability]

Key initiatives underway: Affordability/space (continued)



- 3. Chinatown/Vancouver Legacy Business Studies:** *Exploring policy options to support retention of longstanding legacy businesses, based upon San Francisco model [GM, Arts, Culture and Community Services]*
- 4. Employment Lands and Economy Study:** *Initiating the development of the City's employment lands and economy strategy and action plan, to ensure that the beneficial use of all employment lands across Vancouver, including office, retail and industrial uses, is maximized over time [GM, Planning, Urban Design and Sustainability]*
- 5. The Flats Economic Development Strategy:** *Have developed a plan for evolving the False Creek Flats neighbourhood to support light industrial business, with a focus on innovation, sustainability and resilience [CEO, Vancouver Economic Commission]*

Key initiatives underway: City processes



1. **Regulatory review:** *Undertaking a cross-departmental regulatory review associated with the City's development and planning processes, to include bylaws, regulations, policies, processes, online tools, public/stakeholder engagement, and a review of the mandates/roles of advisory committees [GM, Planning, Urban Design and Sustainability]*
2. **Small Business Commercial Renovation Centre:** *Adding resources and undertaking continuous improvement initiative to streamline processes, reduce wait times and improve customer service [GM, Development, Buildings and Licensing]*
3. **Public space activations:** *Ongoing partnerships between the City and small business for public space activations, e.g., parklets, patios, merchandise displays, food vendors, special events, with policy work underway to ensure appropriate prioritization and internal coordination [GM, Engineering Services]*

Key initiatives underway: Engagement and support



1. *Small business guide web portal: Creating a small business portal on the City website that connects small business owners/operators to all relevant City services and requirements, as well as to outside agencies, organisations and resources [GM, Planning, Urban Design and Sustainability]*
2. *Engineering Services-BIA Partnership Program: Significantly enhanced engagement between Engineering Services and the Business Improvement Area societies, with a senior Engineering staff person dedicated to working proactively with each BIA [GM, Engineering Services]*

Key initiatives underway: Engagement and support (continued)



- 3. BizMap upgrade: Upgrading the City's Bizmap.ca website to provide interactive statistical profiles of BIA commercial districts and their neighbourhood customer base, to facilitate marketing, staff recruitment/retention and forward planning for small businesses [GM, Planning, Urban Design and Sustainability]*
- 4. VIVA Vancouver partnerships: Ongoing partnerships with community groups, local businesses and regional partners to facilitate activation of public streets, including short- and long-term street-to-plaza conversions, creation of public spaces for walking and activities, e.g., recently partnered with the Downtown Vancouver BIA to convert a laneway to a new public space [GM, Engineering Services]*

Small business issues/opportunities, Feb 2018 pre-consultation, purpose



- Initial intention was a focused discussion with an inter-governmental working group re: provincial property assessment and tax reform options
- Scope was expanded to create a single integrated conversation, including other issues/opportunities facing small business and retail

February 2018 pre-consultation, participants

1. **Building Owners and Managers Association of BC (BOMA)** – *Commercial real estate industry association*
2. **Business Improvement Associations (BIAs)** – *District-based non-profit groups representing property owners and business tenants*
3. **Canadian Federation of Independent Business (CFIB)** – *Small business advocacy organisation*
4. **Greater Vancouver Board of Trade** – *Business association*
5. **NAOIP** – *Commercial Real Estate Development Association*
6. **REALpac** – *Industry association for owners/managers of investment real estate*
7. **Urban Development Institute (UDI)** – *Property development industry association*

February 2018 pre-consultation, themes

1. **Pressures.** *Recognition of the stress in the small business and retail communities, and that pace of change has resulted in the displacement of small businesses*
2. **Advisory committee.** *Support for small business advisory committee or roundtable*
3. **Coordinated approach.** *Interested in coordinated approach within the City and across the region*
4. **Study.** *Support for commercial and retail study, and interest in participation*
5. **Definition.** *Questions as to how best to identify/define small business*
6. **Tax deferral.** *Supportive of tax deferral program for business owners, possibly landlords*
7. **Provincial property assessment and tax reform.** *Support for split assessment, mixed response to split tax bill, developers/landlords concerned may lead to rent control*
8. **Rent control.** *Concern about negative financial impact to landlords, significant departure from current commercial lease terms, unintended consequences, e.g., forcing owner/operators to sell, dampened investment in commercial properties*
9. **Zoning.** *Some interest in refining commercial zoning bylaws to enable split assessments*

3. City support to small business, 2018 workplan

2018 workplan, City support to small businesses

CITY SUPPORT TO SMALL BUSINESS FRAMEWORK

Internal governance, staff structure, external advisory committee/roundtable

Deputy City Manager

Q2-2018

VANCOUVER SMALL BUSINESS STRATEGY

Deputy City Manager

Property
Assessment
and Tax Reform

GM, FRS
June 2018

Commercial District
Small Business
Study

GM, PDS
Q4-2018

Aligning
Existing Programs/
Initiatives

Deputy
City Manager

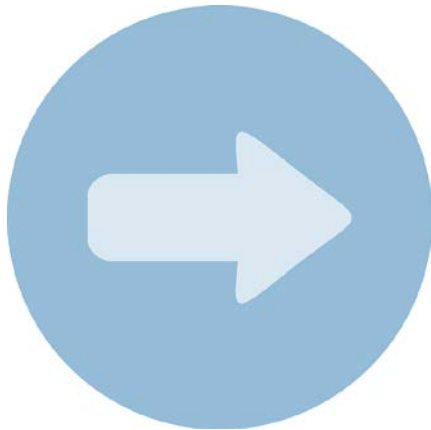
Potential New
Strategies/
Initiatives

Deputy
City Manager

Stakeholder Engagement

Director, Corporate Communications
Timeline will accommodate workplan harmonization

2018 workplan, immediate next steps



1. **Advisory.** *Establish a small business advisory committee or roundtable*
2. **Study.** *GM, PDS to launch the Commercial District Small Business Study*
3. **Tax.** *GM, FRS to complete property assessment and tax reform work by June 2018*
4. **Strategy.** *Deputy City Manager to initiate development of the Vancouver Small Business Strategy in Q2-2018*
5. **Engagement.** *Director, Corporate Communications to support all of the above work with appropriate stakeholder consultation and engagement*

4. Work-in-progress updates

4a.

Update, Commercial District Small Business Study

Commercial District Small Business Study, purpose



Undertake an evaluation of the current state of the small business and retail landscape in a selection of Vancouver's commercial districts, and make recommendations concerning how the City can best support the ongoing viability/success of small business and retail enterprises in Vancouver's commercial districts.

Commercial District Small Business Study, scope

In scope

- A selection of small businesses in Vancouver's commercial districts/high streets, with a focus on independent retail and commercial enterprises

Out of scope

- Light and heavy industrial enterprises, manufacturing
- Home-based businesses
- Businesses located in malls and large office towers



Precise scope and definitions to be developed as part of detailed study design, study title may be refined

Commercial District Small Business Study, workplan

PHASE 1 WHERE WE ARE

- a. **Current state.** *Qualitative and quantitative snapshot of current state – data, stakeholder engagement*
- b. **Leading practices.** *Review and evaluate best practices in comparable jurisdictions*
- c. **Drivers.** *Identify key drivers of small business viability/success*
- d. **Metrics.** *Establish a set of metrics for evaluating and monitoring the health of Vancouver's commercial district small business and retail sector*
- e. **Evaluation.** *Evaluate present and future viability of small business in Vancouver*

PHASE 2 WHERE WE'RE GOING

- a. **Recommendations.** *Develop a set of recommendations concerning how the City can best support the ongoing viability/success of small businesses in Vancouver's commercial districts*
- b. **Implementation plan.** *Develop and execute implementation plan*

4b.
Update, Vancouver Small Business Strategy

Vancouver Small Business Strategy, overview

Overarching

Integrate and build on various work components underway to develop recommended strategies, actions and/or policies to support local small business, based on a comprehensive current-state evaluation

Scope

Small businesses in Vancouver, with a focus on independent retail and commercial enterprises, precise definitions tbd

Consultation

To be developed in consultation with new small business advisory committee/ roundtable and the Vancouver Economic Commission, and supported by appropriate stakeholder engagement

Timing

Target launch Q2-2018



4c.
Update, small business engagement

Stakeholder engagement, key elements

- *To the greatest extent possible, engagement will be aligned/integrated across all work components*
- *Engagement will involve (a) initial outreach and information-gathering, and (b) subsequently sharing emerging recommendations as they are developed*

PROPERTY TAX REFORM OPTIONS

COMMERCIAL DISTRICT SMALL BUSINESS STUDY & SMALL BUSINESS STRATEGY

PUBLIC
EDUCATION

FEB

MAR

APR

MAY

JUN

JUL

AUG

SEPT

OCT

NOV

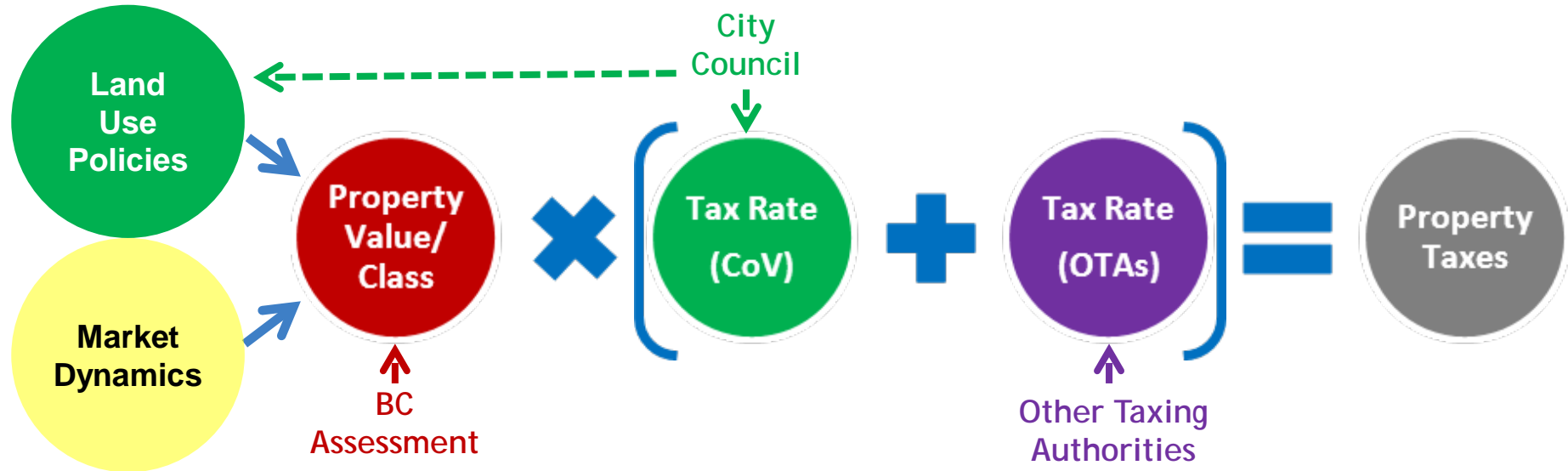
DEC

4d.

Update, supporting small business
through provincial assessment & tax reform

- Property assessment & taxation framework
 - provincial vs. municipal mandate
- Issues:
 - development potential/speculation drives up property values
 - apportionment of tax burden: landlord & tenants
 - challenges faced by owner/operators
 - increasing tax burden from provincial/regional taxing authorities
- Policy options being discussed with stakeholders
- Approach & next steps

Property Assessment & Taxation Framework – Provincial vs. municipal mandate



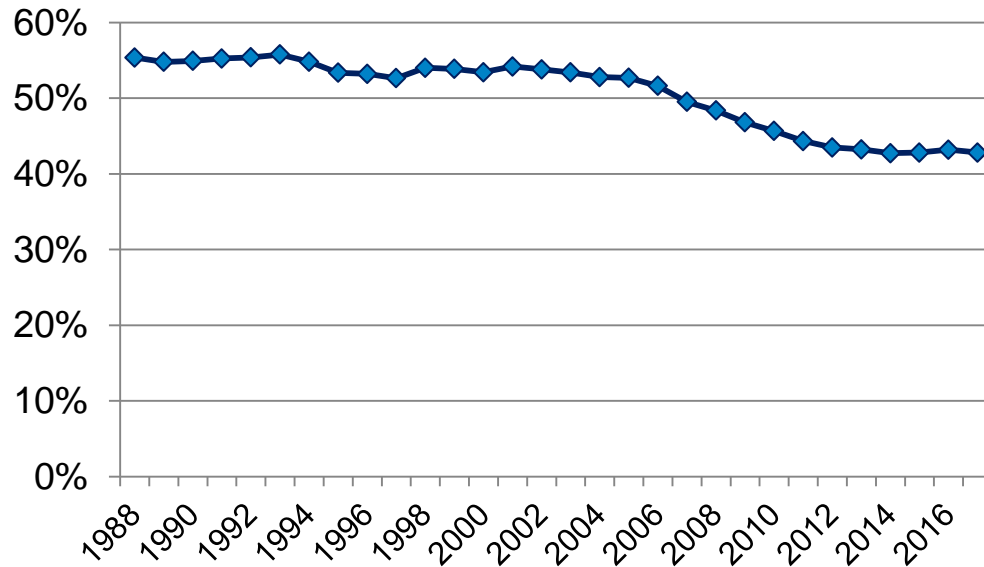
BC Assessment determines:

- property value based on highest & best use & market activities
- property class based on actual use

City Council determines:

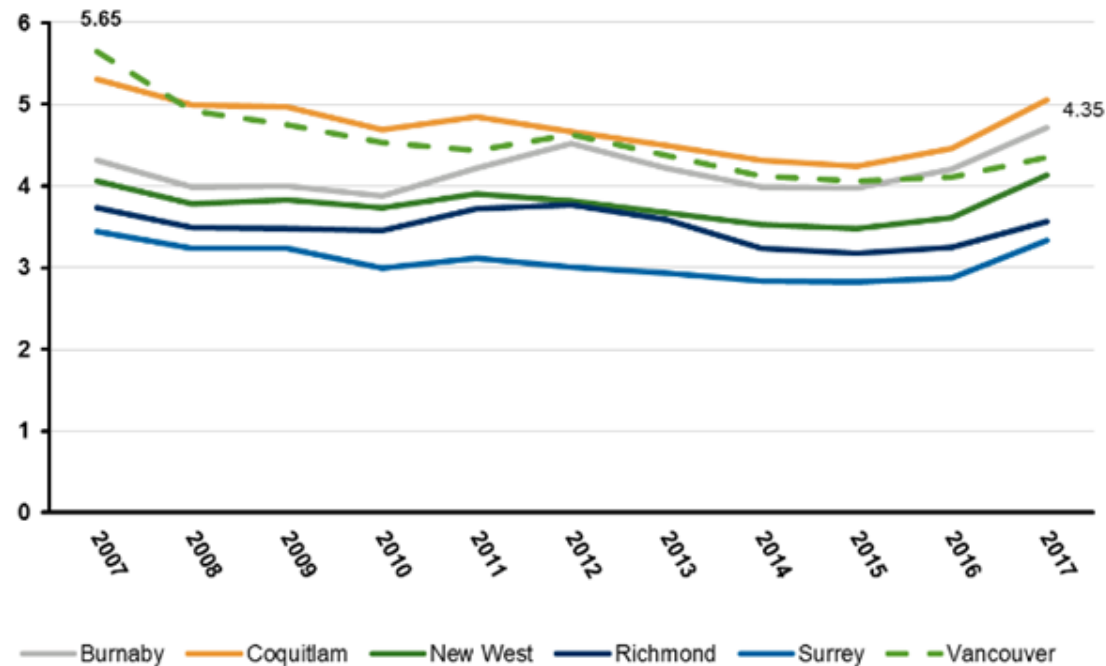
- land use policies (zoning, density, etc.)
- total tax levy to be collected
- residential/business tax share
- tax rate for each property class
- use of land assessment averaging

Business Tax Share & Tax Rate Ratio

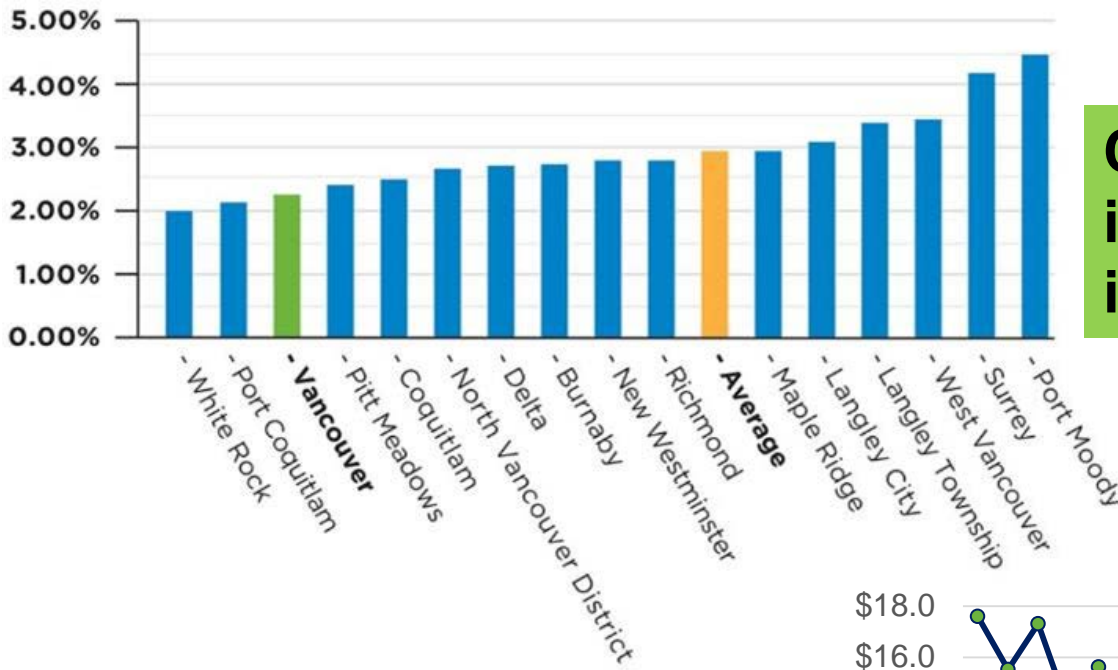


Business tax share declining for three decades

Business tax rate ratio continues to improve

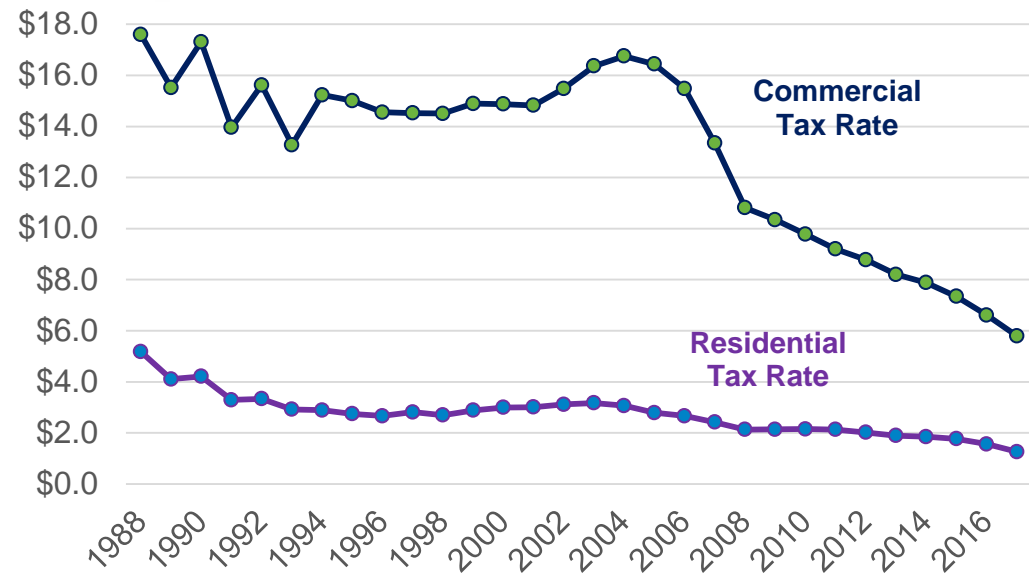


Property Taxation – Fiscal Restrain & Revenue Neutrality



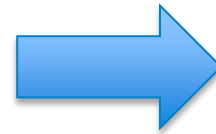
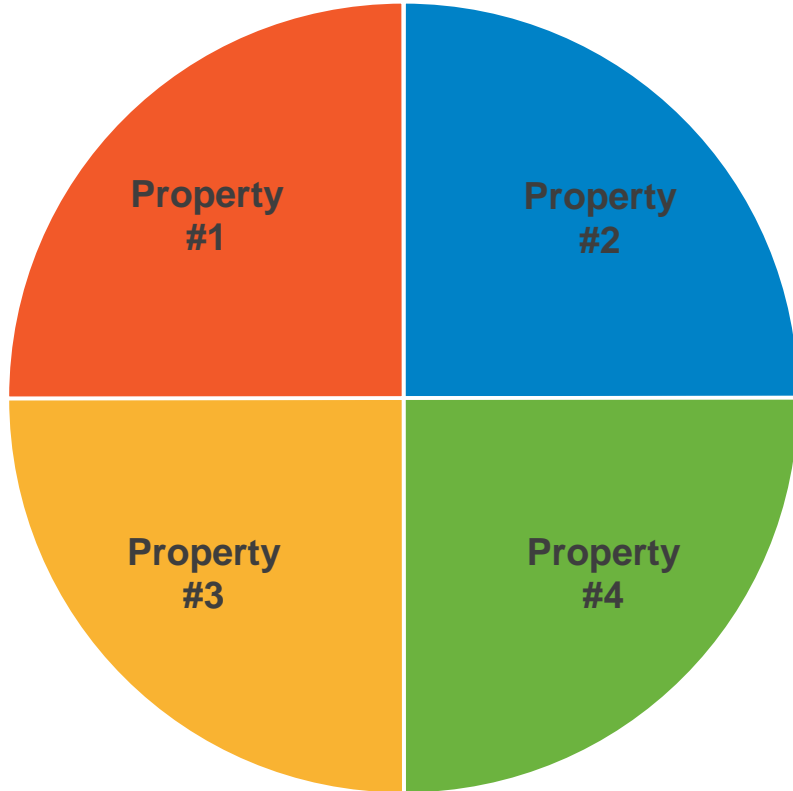
City's 5-yr average tax increase among the lowest in Metro Vancouver

City does NOT get more taxes due to higher assessment; tax rates are adjusted annually to collect levy set by Council

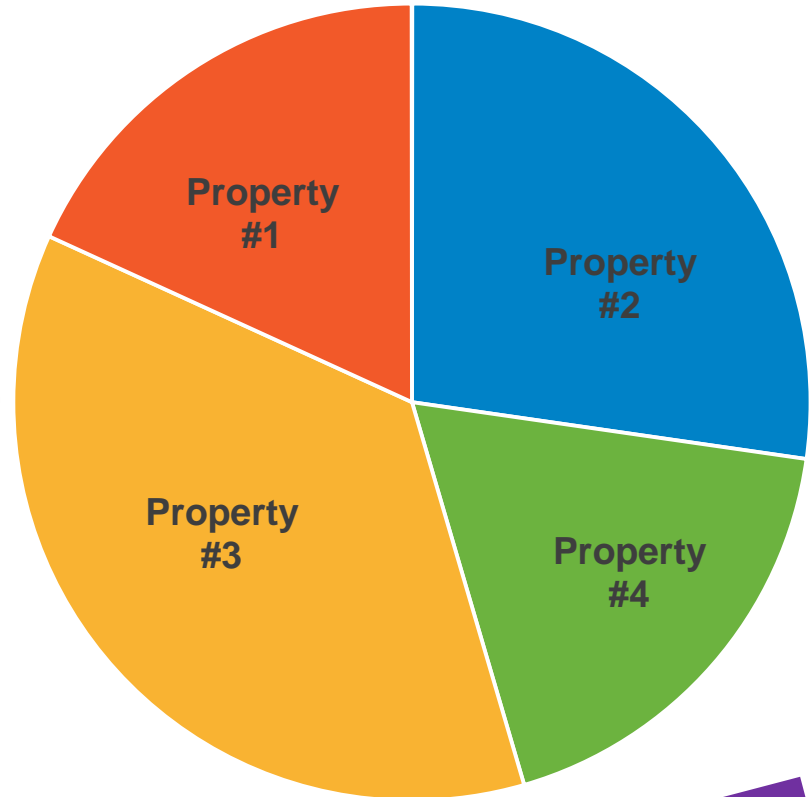


Differential Property Value Increases Result in Differential Taxation Impact

Year 1



Year 2



City allocates taxes among properties based on a

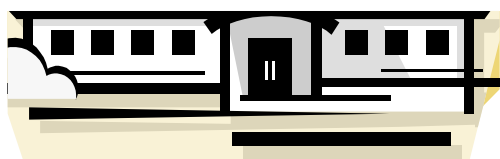
- below avg increase in property value for 1 & 4
- above avg increase in property value for 2 & 3

**TARGETED
AVERAGING**

- Property assessment & taxation framework
 - provincial vs. municipal mandate
- **Issues:**
 - **development potential/speculation drives up property values**
 - **apportionment of tax burden: landlord & tenants**
 - **challenges faced by owner/operators**
 - **increasing tax burden from provincial/regional taxing authorities**
- Policy options being discussed with stakeholders
- Approach & next steps

Issue #1:
**Actual/anticipated development potential
drives up property values**

developed commercial density



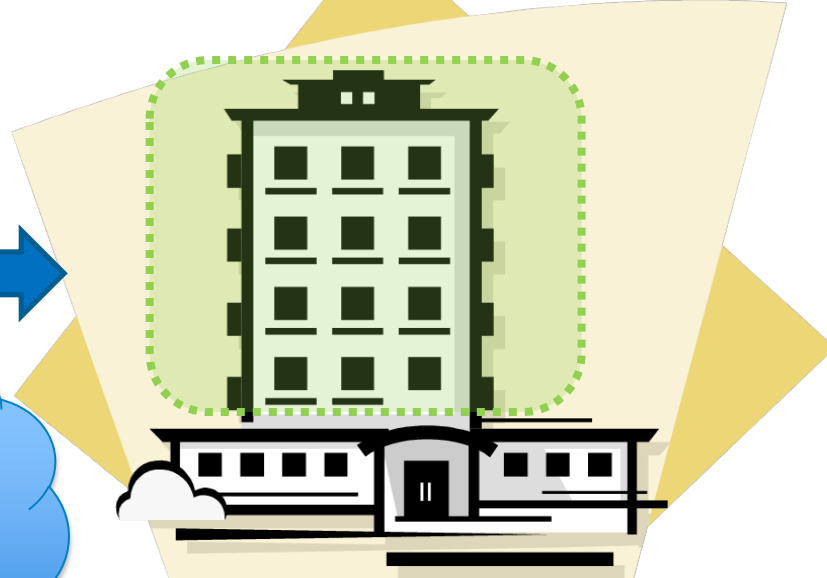
Assessment
Value: 1 storey retail
Class: 100% commercial

Taxation
100% business tax rate

rezoning/
land speculation

Valuation & Classification out of sync

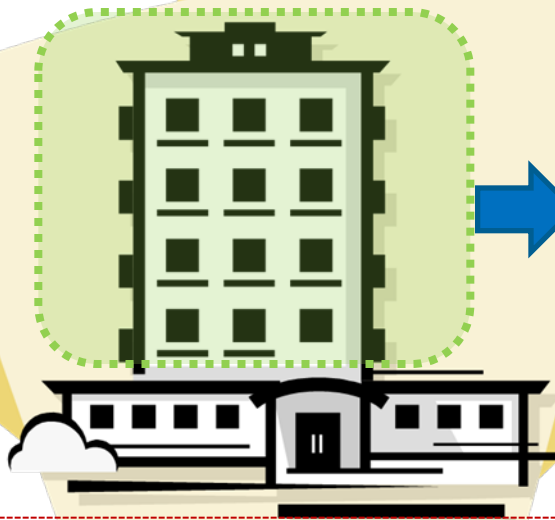
developed commercial density + undeveloped residential density



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

Taxation
100% business tax rate

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

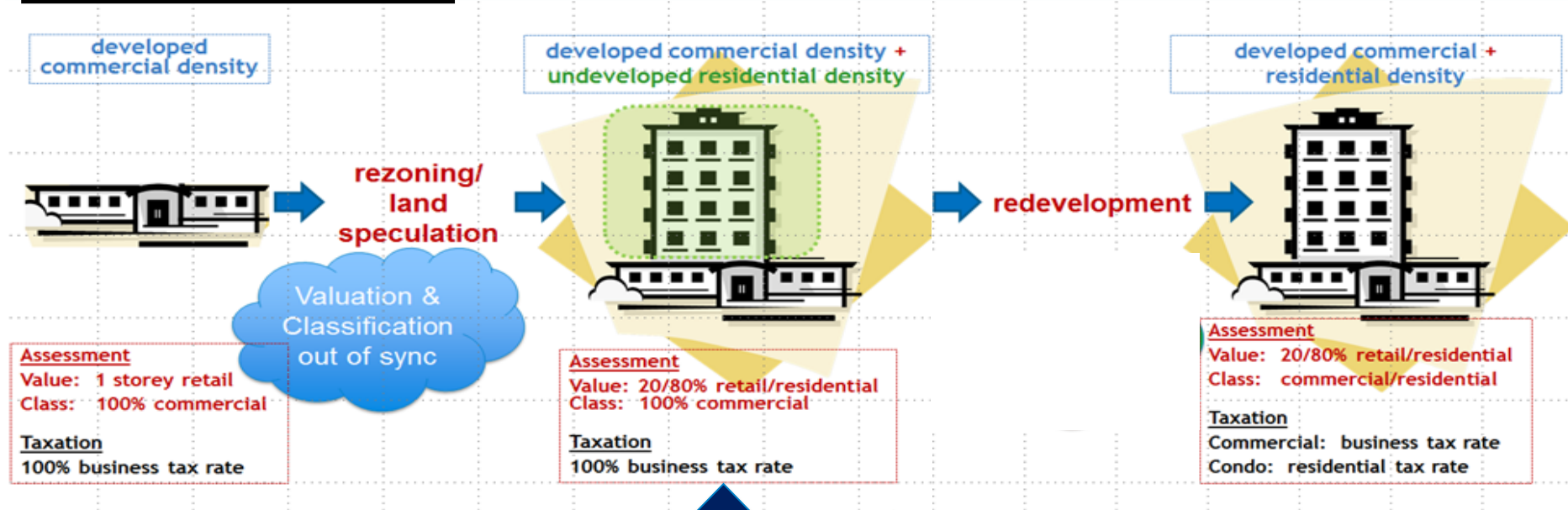
Value: 20/80% retail/residential
Class: commercial/residential

Taxation

Commercial: business tax rate
Condo: residential tax rate

Redevelopment Sites – Current Regime

Current situation



Emerging situation

Appeals underway in zones with specificity
 Successful appeals see development potential moved to residential (lower tax)

Using appeals to correct anomalies undermines the integrity of the assessment framework, creates uncertainty and is subject to manipulation.
 A better approach is to conduct a holistic review/update of the Assessment Act.

Issue #2:
Apportionment of tax burden:
landlords & tenants



Rent includes...

Add'l charges...

Gross Lease

Base rent, taxes, insurance,
maintenance, utilities, janitorial

Modified Gross Lease

Base rent, taxes, insurance,
maintenance

Utilities,
janitorial

“N” Lease

Base rent, insurance,
maintenance

Tax, utilities,
janitorial

“NN” Lease

Base rent,
maintenance

Tax, insurance, utilities,
janitorial

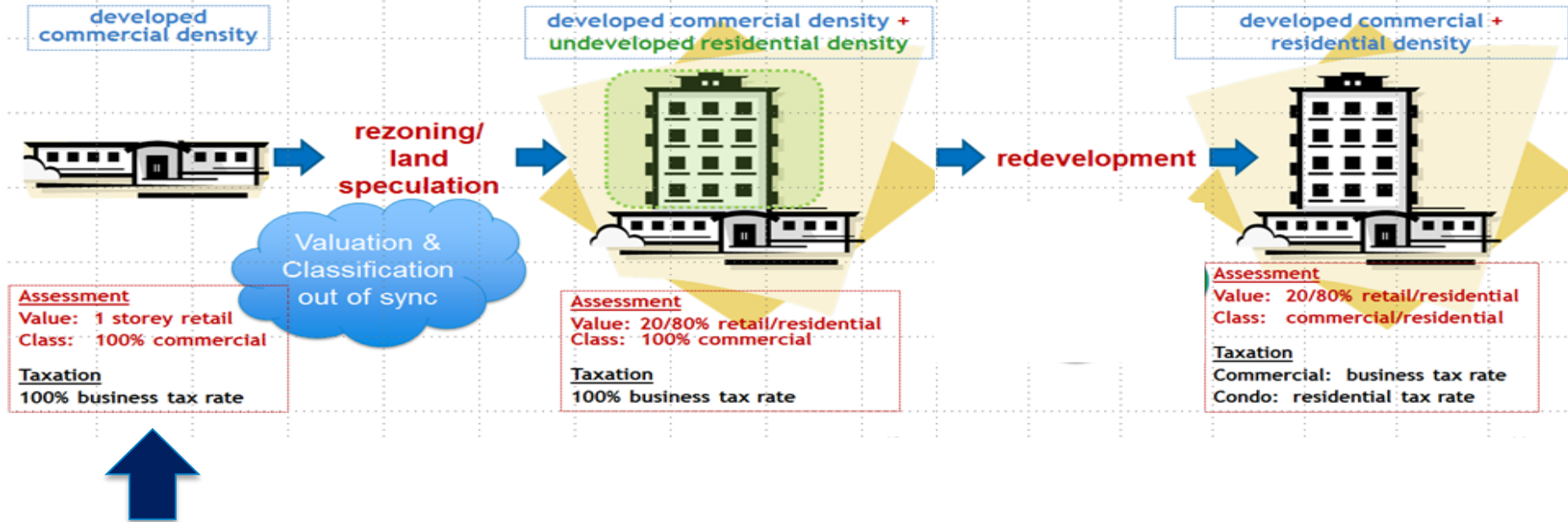
“NNN” Lease

Base
rent

Tax, insurance, maintenance,
utilities, janitorial

Challenges Faced by Small Business

Tenants




Tenants enter into leases before assessment increases, cannot reasonably anticipate, nor afford to pay, significantly higher taxes resulting from undeveloped density during lease term



Averaging is effective in mitigating short-term volatility, but not intended for significant increase from development potential

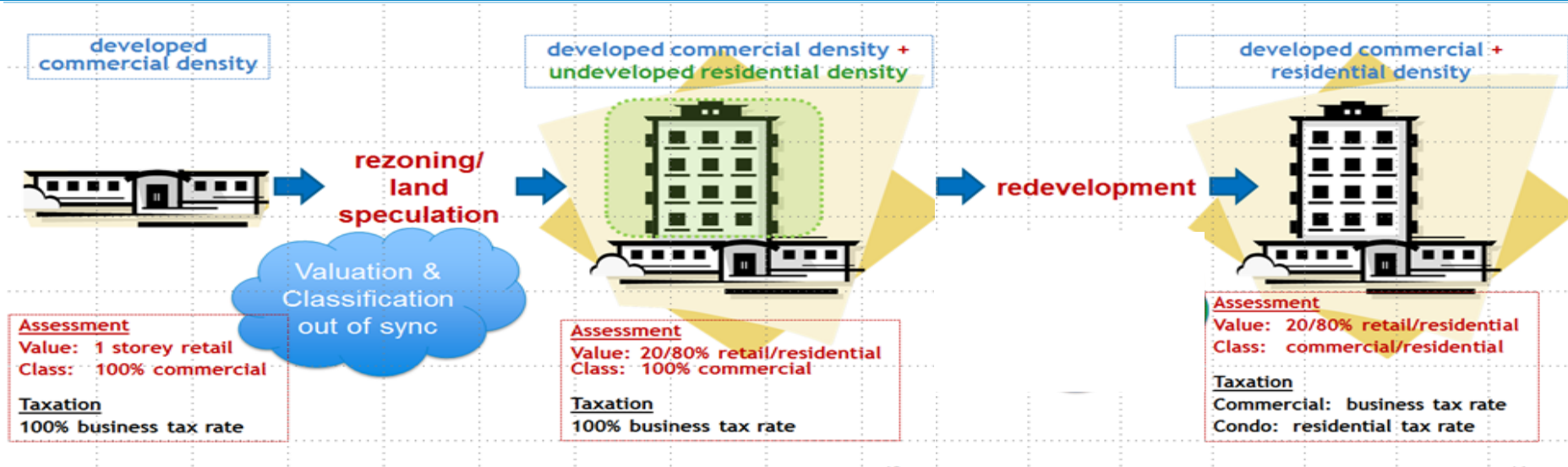
Challenges Faced by Small Business Tenants

- Properties are assessed/taxed at highest and best use.
- While property owners benefit from rising property values upon redevelopment or sale, small business tenants continue to shoulder the entire tax burden pertaining to the rented space as well as the unrealized development potential.
- Typical commercial leases do not convey development rights to tenants and tenants do not realize any benefit of the increase in property values, as an owner would, upon redevelopment or sale.
- Taking on the full burden of property taxes can cause significant financial distress for small businesses
- Fixed-term leases offer certainty on rent but not property taxes, especially when spike in taxes arise from actual/perceived development potential that occurs during the lease term.



Issue #3:
Challenges faced by owner/operators

Challenges Faced by **Owner/Operators**



Similar to tenants, **owner/operators** cannot reasonably anticipate, and may not be able to afford to pay, significantly higher taxes resulting from undeveloped potential

Unlike tenants, **owner/operators** could potentially:

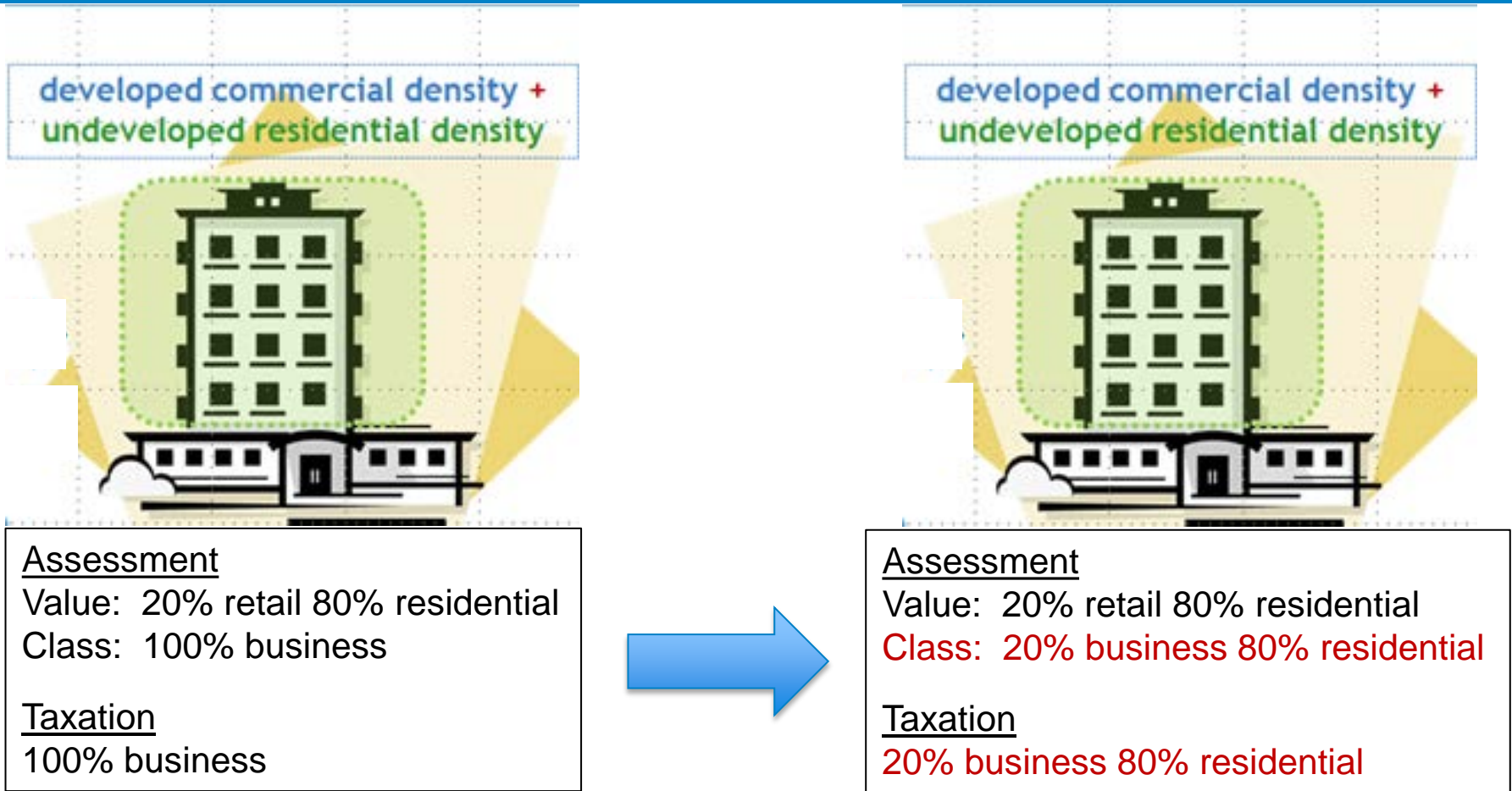
- finance through a mortgage on the property
- relocate and sell/redevelop property

- Property assessment & taxation framework
 - provincial vs. municipal mandate
- Issues:
 - development potential/speculation drives up property values
 - apportionment of tax burden: landlord & tenants
 - challenges faced by owner/operators
 - increasing tax burden from provincial/regional taxing authorities
- **Policy options discussed with stakeholders**
- Approach & next steps

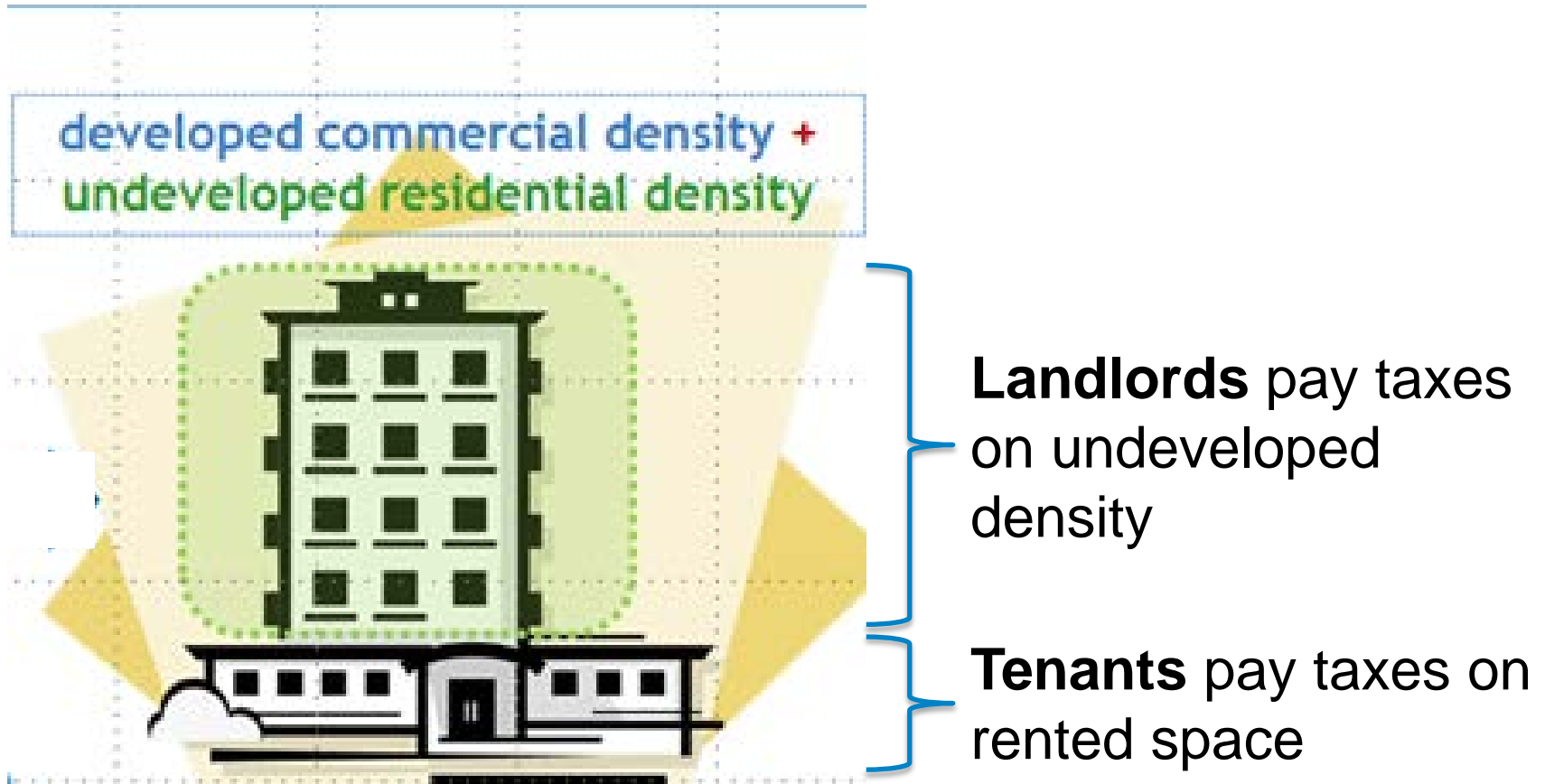
- alignment with Council's public policy objectives
 - economic, social, fiscal & environmental sustainability
- integrity of the property assessment system
 - objectivity, comparability, transparency
- equal treatment of equals
- fairness, based on benefits received
- fairness, based on ability to pay
- economic behavior
- accountability
- stability & predictability
- simplicity & ease of administration
- regional & national competitiveness



Potential Policy Tools – Split Assessment



Clarify & standardize criteria in the *Assessment Act* with regards to approach to split assessment

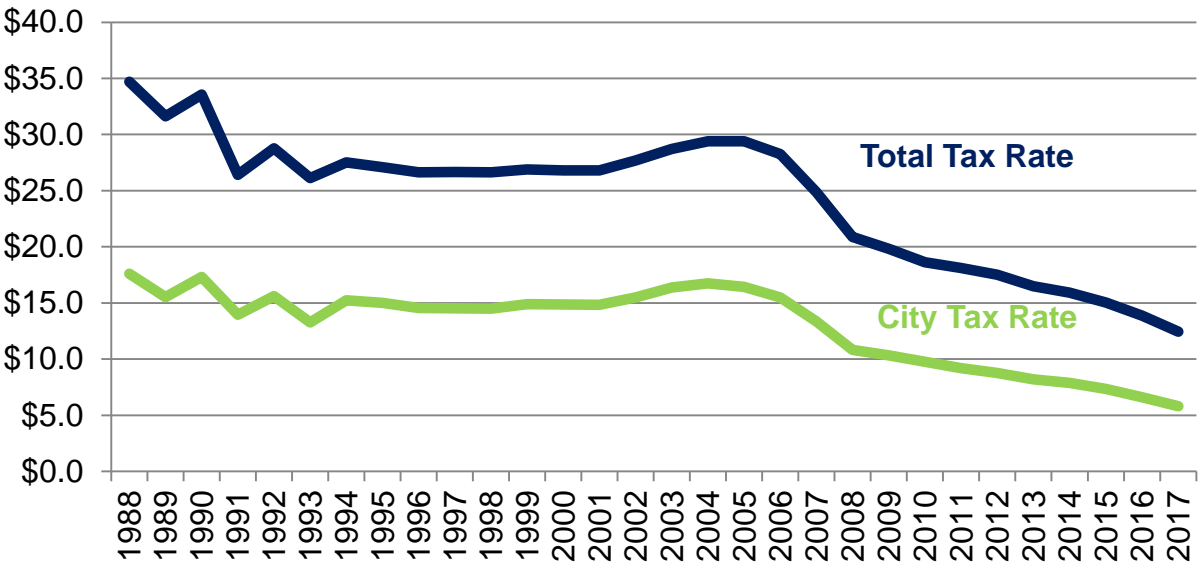




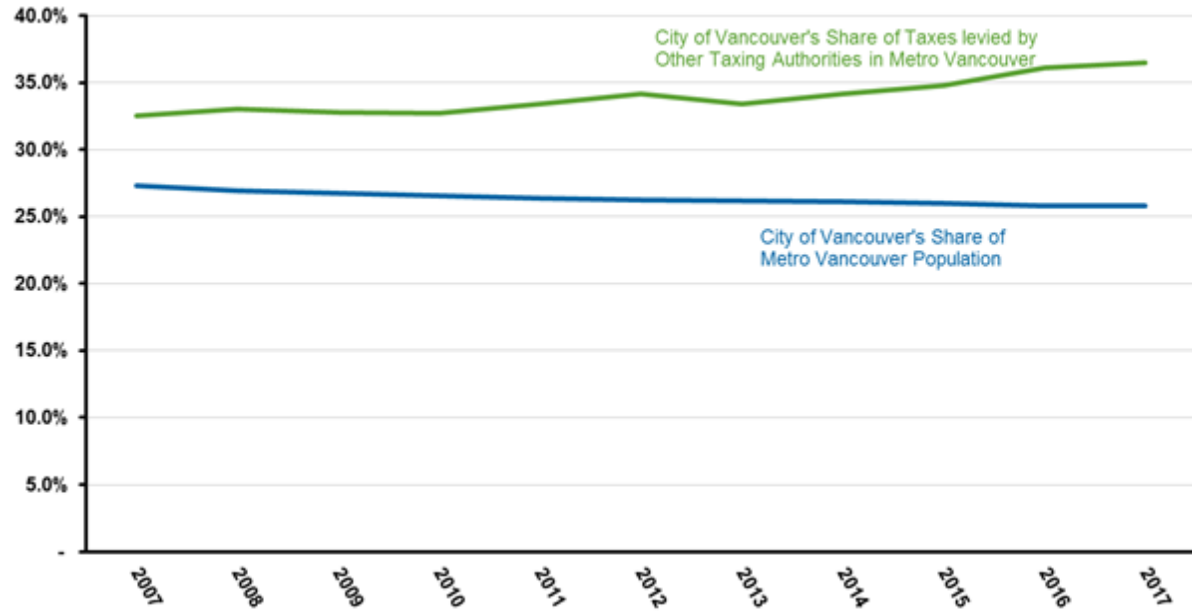
Issue #4:
**Increasing tax burden from
provincial/regional taxing authorities**

Increasing Tax Burden from Provincial/Regional Taxing Authorities

City tax <50% of total taxes (City + OTA's)



Vancouver's Share of Taxes Levied by OTAs Increasing



- City currently uses **Targeted Averaging** to smooth out short-term assessment volatility
- Potential policy tools that have been discussed with stakeholders:
 - **Split Tax Bill** to limit tenants' tax obligation to rented space
 - **Tax Deferral** to provide cashflow relief for owner/operators
 - Clarify & standardize criteria with regards to approach for **Split Assessment**
- Review & update the **Assessment Act** to address emerging assessment & taxation issues based on best practices

- Escalating property values are a regional issue, not just in Vancouver
- **Province-led inter-governmental workgroup**
(Province, BC Assessment, City of Vancouver, Metro Vancouver municipalities) to engage key stakeholders on policy options & make recommendations to Council for implementation in time for 2019
- Continue to work with Metro Vancouver to address increasing tax burden for small business from provincial/regional taxing authorities

Questions?