CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	April 4, 2018
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Meeting Date:	April 17, 2018

TO:	Vancouver City Council
FROM:	Director of Finance
SUBJECT:	Property Taxation: 2018 Tax Distribution and 2017 Tax Exemptions

RECOMMENDATION

A. THAT Council instruct the Director of Finance to calculate the 2018 general purpose tax rates for all property classes to achieve a tax share of ~54.7% residential and ~45.3% non-residential.

B. THAT Council receives the 2017 tax exemptions report for information.

REPORT SUMMARY

The primary purpose of this report is to seek Council approval of the allocation of general purpose tax levy across property classes for the purpose of calculating 2018 tax rates. Based on the metrics presented in this report, no tax shift is recommended for 2018.

It also serves to meet the *Vancouver Charter* requirement of an annual report outlining i) the objectives and policies relating to the use of tax exemptions and ii) the statutory and permissive tax exemptions and any compensating payments in lieu of taxes in 2017.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Tax Distribution

Section 219 of the *Vancouver Charter* requires that, by April 30, the Director of Finance submits to Council a report that sets out the distribution of the general purpose tax levy across property classes for that year.

It has been Council policy that the tax rates for Class 1, 8 & 9 and for Class 5 & 6 be calculated on a blended basis, which means the classes within these two groups are taxed at the same rate before application of land assessment averaging.

Since 1983, it has been Council policy to allocate the general purpose tax levy across property classes through a “tax share” approach under which the share of the levy collected from each property class remains constant over time, subject to adjustments arising from non-market changes on the *Assessment Roll* (e.g. transfer of properties among classes, new construction within each class) and Council decisions to adjust the tax share for each class. This approach ensures that tax share is set by Council policy, not driven by market forces. This policy was reaffirmed by Council in April 2005, and endorsed by the Property Tax Policy Review Commission (the “Commission”) in its 2007 review.

In 2007, the Commission provided a thorough review of the City’s property tax policy. With regards to tax distribution, the Commission recommended shifting $23.8 million from commercial to residential property classes. The tax shift program was completed in 2012.

In 2013, Council reconvened the Commission to provide an updated assessment of the City’s property tax policy. In 2014, Council adopted most of the Commission’s recommendations, and instructed staff to implement the following with regards to tax share:

- maintain the current tax distribution; and
- incorporate metrics to help guide future tax distribution decisions.

In December 2017, Council approved the 2018 Operating Budget of $1.4 billion of which $752 million is to be funded from general purpose tax levy.

In March 2018, Council adopted the *2018 Land Assessment Averaging By-law* that authorized the use of targeted 3-year land assessment averaging for the purpose of calculating property taxes for residential (Class 1), light industrial (Class 5), and business (Class 6) properties for the 2018 tax year.

Tax Exemptions

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
- 396F – exemptions for not-for-profit property

Section 396 of the *Vancouver Charter* sets out two types of tax exemptions that are available in Vancouver:

- **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 and practices regarding tax exemptions:

- The City will rely on the statutory exemptions available under Section 396(1) of the *Vancouver Charter* and limit the use of permissive exemptions to heritage properties only (396A).

- The City's support for charitable and not-for-profit organizations will continue through the existing range of statutory exemptions available under Section 396(1) and the City's extensive grant programs as opposed to permissive exemptions (RTS 08713).

- 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.

- Tax exemptions are applicable to property owners; the City does not have jurisdiction over how property owners share these costs with their tenants.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

The City plays a leading role in enabling a thriving business environment and building a world class, sustainable community. Vancouver is consistently ranked as one of the most livable cities in the world and, in 2016, the global accounting firm KPMG ranked the City as the second-most tax competitive in the world. Stability and predictability are two desirable attributes of a property tax system whereby businesses and residents can plan their expenditures within reasonable limits. Changes in property taxes generally reflect two factors: Council-directed tax increase (as part of annual budget) and changes in property assessed values.

To ensure property tax in Vancouver remains competitive and affordable, through continuous business transformation and innovation, the City has consistently had one of the lowest average tax increases in Metro Vancouver in recent years while achieving Council and community priorities. As well, over the last decade, Council twice engaged the Commission to review the impact of property tax on businesses.

In 2007, the Commission recommended shifting $23.8 million in property taxes from non-residential to residential property classes at a rate of 1% of tax levy per year to achieve a target tax share of 52% residential and 48% non-residential; and holding the target tax share for five years unless the business tax differential between the City and its neighboring municipalities widened considerably, or the balance of business investment tilted away from Vancouver to other parts of Metro Vancouver. The program was completed in 2012.

In 2013, Council reconvened the Commission to provide an updated assessment of the City's property tax policy. In its report to Council in February 2014, the Commission concluded there was no evidence of an increasing business tax differential between Vancouver and other Metro Vancouver municipalities, or business investment moving from Vancouver to neighboring municipalities. This suggested that the tax shift program was effective in bringing Vancouver's business tax share in line with its peers. As a result, the Commission recommended i) no change to the tax share for Classes 5 & 6 and ii) use of metrics to help guide future tax distribution decisions. These metrics have been incorporated in the annual Budget Report (December) and Tax Distribution Report (April).

With regards to property tax predictability and stability, rampant real estate speculation in Vancouver in recent years continues to drive up land values, resulting in significant volatility in property assessment and taxes year-over-year and causing hardship for some residents and small businesses. Key factors include:

- market trends driven by supply and demand of the day
- major investment in rapid transit infrastructure in close proximity
- City-led zoning amendments, typically as part of a broader neighborhood planning effort, which define new highest and best uses for existing properties
- market speculation on properties in close proximity to an area under redevelopment and/or in anticipation of City-led planning initiatives which may introduce higher density and mixed uses

In British Columbia, real estate properties are assessed at their highest and best use, and taxes are allocated to individual properties based on such value. In the case where a property is under-developed, its assessed value could substantially increase to reflect additional development potential.

The City does not generate higher tax revenue as a result of rising property values as the required general purpose tax levy to be collected is determined by Council as part of annual budget. To achieve "revenue neutrality", tax rates are lowered to reflect assessment increases. However, differential assessment increase for individual properties could shift tax burden from one property to another in any given year.

Since 2015, the City has used targeted averaging to provide short-term relief to "hot" properties (defined as those that have experienced significant year-over-year increases in property values above the "threshold" set by Council) as recommended by the Commission in 2014. Prior to 2015, the City used across-the-board averaging which was in effect since 1993. The intent of the program is to provide short-term, multi-year tax relief to targeted properties until such time as the property is no longer "hot".

Land assessment averaging is an optional tool available to Council under the *Vancouver Charter*. To date, Vancouver is the only municipality in British Columbia that uses land assessment averaging to phase in significant property tax increases arising from assessment volatility at a city-wide level.

- For eligible residential properties, this program complements other provincial measures such as Section 19(8) of the Assessment Act, Property Tax Deferment and the Home Owner Grant in alleviating significant year-over-year tax increases.

- For light industrial and business properties, this program is the only mitigating measure that provides businesses with short-term, multi-year relief to enable market adjustments and/or lease renegotiations.

While there are a number of Provincial mitigations available for eligible residential properties, those measures do not apply to commercial properties. The challenge is more prevalent for small business tenants as most landlords pass on all property taxes, on both rented space and development potential, to tenants through leases. As tenants do not benefit from increase in property values as owners would upon redevelopment or sale, the practice could cause significant financial distress for small business tenants who have very limited ability to absorb and/or finance such an unanticipated surge in expenses during their lease term (typically five years or longer).

It is important to note that the affordability challenge arising from rampant real estate speculation, on both residential and commercial properties, is a regional issue impacting most Metro Vancouver municipalities, not just Vancouver. Given the very limited authority and policy tools available for municipalities to address property assessment and taxation issues, Council submitted a written request to the Province in February 2018 to initiate an intergovernmental work group that involves BC Assessment, City of Vancouver and other interested Metro Vancouver municipalities to:

- clarify and address assessment and classification issues relating to development potential, and
- identify viable policy options (e.g. split tax bill, tax deferment) to support small businesses in time for the 2019 tax year.

Once the workgroup is struck, City staff will provide updates to Council as soon as practical.

Strategic Analysis

Part I: Property Tax Distribution

In December 2017, Council approved the 2018 Operating Budget of $1.4 billion of which $752 million is to be funded from general purpose tax levy.

I. 2018 Revised Roll

Below is a high level summary of the year-over-year assessment and taxation changes:

(i) The taxable assessment base has increased by $33.5 billion (8.9%).

(ii) The overall increase in general purpose tax levy for the City is $35.2 million (4.9%), which is comprised of the following:

2017 -	
Assessment appeals & other adjustments	- $1.8 million
2018 -	
New construction, class transfers & other non-market changes	+ $6.2 million
Tax increase	+ $30.8 million
Increase in general purpose tax levy	+ $35.2 million

(iii) Six properties totaling $107 million in assessed value have converted from business (Class 6) to recreation (Class 8) (e.g. parks & gardens), resulting in overall tax loss of ~$0.9 million (City ~$0.5 million & other taxing authorities ~$0.4 million).

(iv) 10 properties totaling $146.1 million in assessed value are eligible for heritage tax exemptions, resulting in ~$0.7 million of forgone general purpose tax levy which is shared by taxable properties in the course of balancing the annual operating budget.

(v) To-date, 108 property folios have been designated as Supportive Housing (Class 3), resulting in over $2 million of forgone general purpose tax levy and payment-in-lieu of taxes. This represents additional subsidies from Vancouver beyond the City's land and capital contributions towards the development of supportive housing, as the forgone tax has to be borne by all taxpayers.

(vi) As part of the Ports Competitiveness Initiative that took effect in 2004 and extended through 2018, the Province has legislated municipal tax rate caps to eligible tenant-occupied port properties: $27.50 (per $1,000 taxable value) on existing properties and $22.50 (per $1,000 taxable value) on new investments. Seven folios are eligible under this provision, resulting in ~$1.4 million of forgone general purpose tax levy.

Please refer to Appendix C for future details on the year-over-year changes in the City's assessment base and tax levy.

II. Distribution of General Purpose Tax Levy

Consistent with Council policy of allocating the general purpose tax levy through a "tax share" approach, staff have calculated the tax share and tax rate for each property class based the *2018 Revised Roll* in Table 1 below.

Table 1: 2018 Tax Distribution

	Residential Class 1	Utilities Class 2	Supportive Housing Class 3	Major Industry Class 4	Light Industry Class 5	Business & Other Class 6	Recreational & Non-profit Class 8	Farm Class 9	Total
Taxable Value	$339,880,080,731	$273,801,773	$112	$224,965,000	$1,990,436,900	$68,780,766,776	$914,422,600	$208,248	$412,064,682,140
Base Tax Levy	$394,146,888	$6,957,481	$0	$7,390,220	$8,100,995	$305,003,209	$919,592	$254	$722,518,639
Tax Increase	$16,683,636	$297,084	$0	$315,562	$1,081,070	$12,288,480	$185,716	($3)	$30,851,546
Final Tax Levy	$410,830,524	$7,254,565	$0	$7,705,782	$9,182,065	$317,291,689	$1,105,308	$252	$753,370,185
Share of Tax Levy	*54.53%*	*0.96%*	*0.00%*	*1.02%*	*1.22%*	*42.12%*	*0.15%*	*0.00%*	*100.00%*
UNAVERAGED TAX RATES	**1.20875**	**26.49568**	**0.00000**	**34.25325**	**4.61309**	**4.61309**	**1.20875**	**1.20875**	

	Residential (Class 1, 3, 8 & 9)	Non-Residential (Class 2, 4, 5 & 6)
Taxable Value	82.70%	17.30%
Tax Levy Distribution	54.68%	45.32%

Note: $753.4M final general levy less $1.4M forgone taxes on eligible port properties = $752M Council-approved tax levy.

In 2018, ~$567.6 million has been reclassified from business (Class 6) to residential (Class 1) as a result of appeals relating to the Amacon (split assessment) case. The ~$1.9 million reduction in tax for the City is currently being shared across all property classes as shown in Table 1 above. If the shortfall were to be shared by business properties within Class 6 only, the residential tax rate would reduce from $1.209 to $1.206 (0.2%) and the business tax rate would increase from $4.613 to $4.629 (0.3%). Staff is working closely with the Province and BC Assessment to clarify application of split assessment, and will report back to Council on potential implications and options as soon as practical. Council could decide at such time how to address the tax loss arising from split assessment.

Applying the *2018 Averaged Roll* will change the taxable values and tax rates for Classes 1, 5 & 6, but the overall tax levy and tax share across property classes will be the same. The final tax rates, including those levied by other taxing authorities (Provincial School, TransLink, BC Assessment, Metro Vancouver, and Municipal Finance Authority), and applicable rating by-laws and resolutions will be presented to Council for adoption in May 2018.

A summary of the property assessment & taxation framework, tax distribution approaches and mitigations is presented in Appendix A. The history of Council-directed tax shift between residential and commercial property classes is presented in Appendix B.

III. Commission-recommended Metrics to Guide Tax Distribution

In its report to Council in February 2014, the Commission reiterated that there is no single definition of the "correct", most appropriate tax share that should be borne by the commercial sector. The task of allocating taxes across property classes requires a degree of judgment. It recommended a number of metrics to gauge Vancouver's commercial property tax situation and ability to retain and attract business investments relative to other comparable Metro Vancouver municipalities, and to inform future decisions on tax share.

The Commission emphasized that these metrics are not meant to be prescriptive; they help gauge Vancouver's business climate over the long-term and are considerations for Council when determining tax share in the future. If the metrics suggest that the property tax situation for the commercial sector is worsening in Vancouver relative to other comparable Metro Vancouver municipalities, Council may consider shifting more taxes from commercial to residential properties. Conversely, if the metrics indicate that the tax situation for the commercial sector in Vancouver is relatively competitive, and that there is little evidence that Vancouver is losing its ability to attract and retain business investments, a further tax shift from commercial to residential properties may not be warranted.

The following charts show how Vancouver compares with five comparable Metro Vancouver municipalities with substantial commercial sectors - Burnaby, Coquitlam, New Westminster, Richmond and Surrey on the Commission-recommended metrics.

Figures 1 & 2 below compare ***Business Tax Share*** and ***Business Tax Rate Ratio*** (business tax rate/residential tax rate) trends respectively. As a result of the tax shift decisions made by successive Councils over the last decade, Vancouver's business tax share and tax rate ratio has reduced substantially — the most improved among comparable Metro Vancouver municipalities.

Figure 1: Business Tax Share (Class 6)

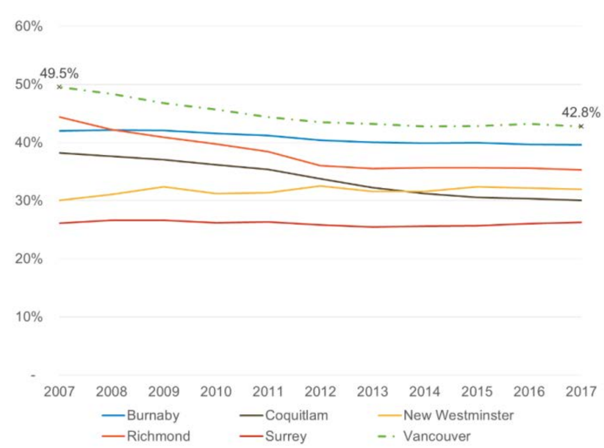
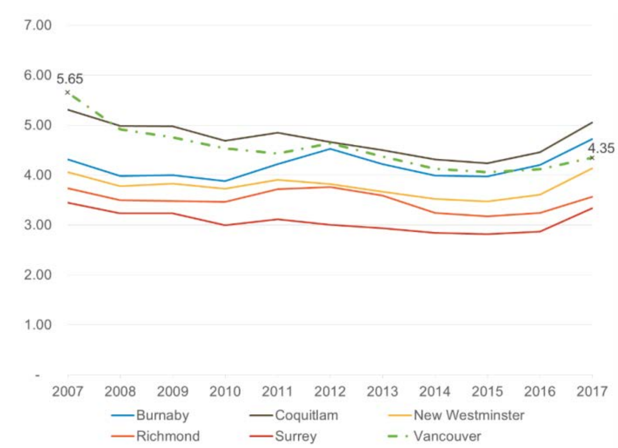


Figure 2: Business Tax Rate Ratio



It is important to note that the business tax rate ratio is impacted by market forces that are beyond Council's control. As the value of residential property continues to appreciate at a much faster pace than commercial property, the tax rate ratio will naturally increase even though the business tax share is decreasing. As such, relying on just the tax rate ratio to gauge tax equity among property classes without considering other complementary metrics could be misleading.

Figures 3 & 4 below compare ***Business Tax Rate*** and ***Business Taxes per Capita*** trends. Over the last decade, Vancouver's business tax rate has reduced substantially — the lowest among comparable Metro Vancouver municipalities. Business taxes per capita have increased modestly relative to comparable Metro Vancouver municipalities.

Figure 3: Business Tax Rate

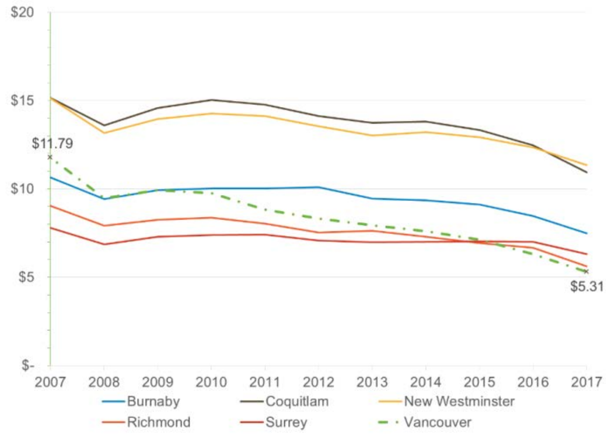
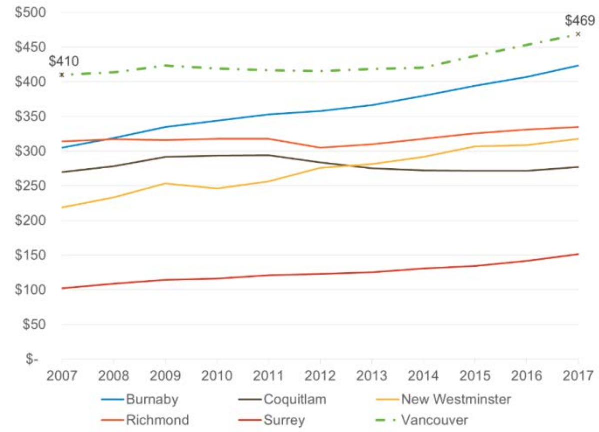


Figure 4: Business Taxes per Capita



Figures 5 & 6 below compare ***Commercial Building Permits*** and ***Business Property Market Assessment*** trends. Vancouver's permits and total taxable commercial property assessment (net of new construction) has increased substantially — the highest among comparable Metro Vancouver municipalities. This indicates market demand for commercial space in Vancouver continues to be strong.

Figure 5: Commercial Building Permits ($M)

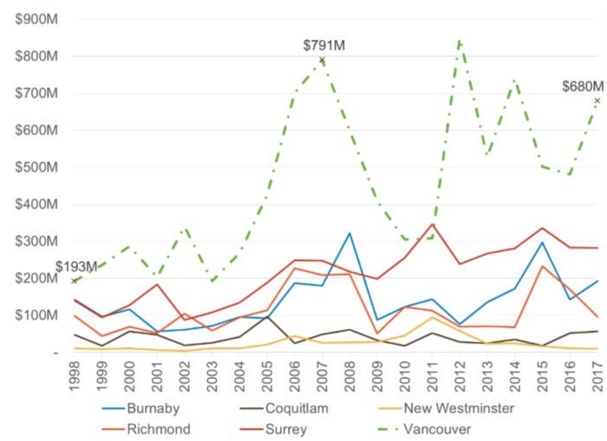


Figure 6: Business Property Market Assessment

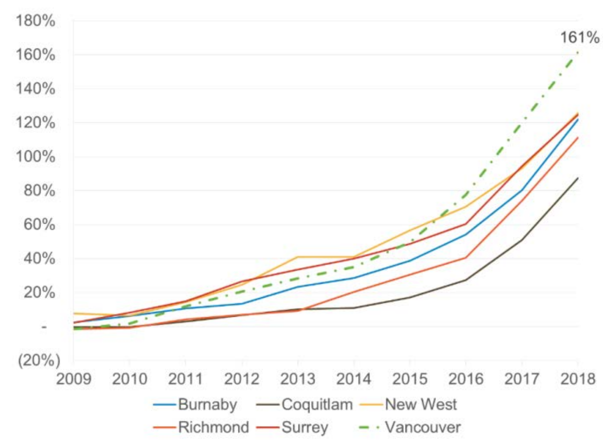
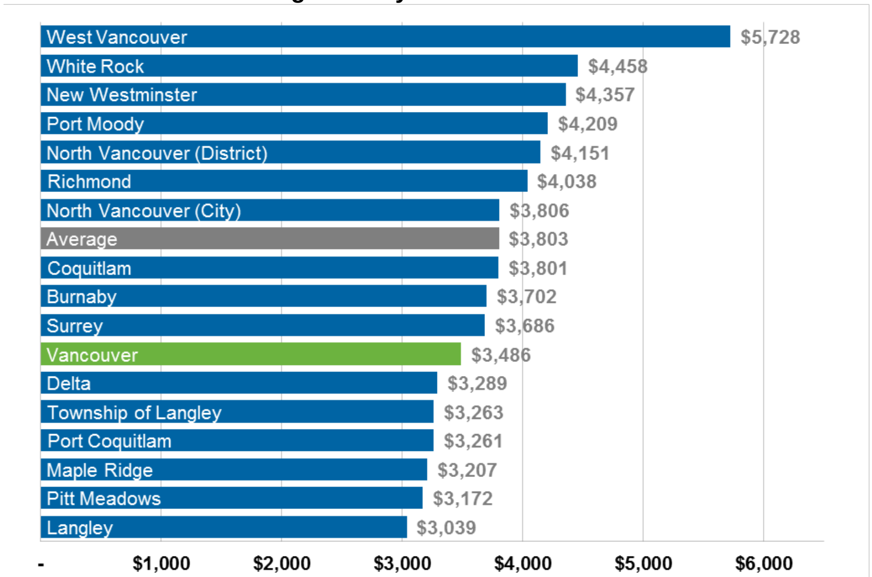


Figure 7 below compares the 2017 municipal property tax and utility fees for a median single family home relative to other Metro Vancouver municipalities. As many municipalities have not established their 2018 tax rates, the comparison is based on 2017 data. Vancouver sits below the Metro Vancouver average.

Figure 7: 2017 Municipal Property Tax & Utility Fees
Median Single Family Home in Metro Vancouver



Part II: Property Tax Exemptions

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.

Tax Exemptions Available Under the *Vancouver Charter*

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 eligible properties as follows:

- Crown lands – property owned and occupied by the federal, provincial or regional governments, or a Crown corporation
- City of Vancouver property
- Property owned[1] and occupied by incorporated charitable institutions, and wholly in use for charitable purposes
- Property owned[1] 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
- Property owned[1] 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 owned[1] 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

[1] As a registered owner or owner under agreement

- British Columbia Cancer Agency Branch located on the north side of the 600 Block of West 12th Avenue

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

Permissive Exemptions – The following exemptions are available under the *Vancouver Charter*:

- 396A – exemptions for heritage property
- 396C – exemptions for riparian property
- 396E – revitalization tax exemptions
- 396F – exemptions for not-for-profit property

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. Within the limitations set out by 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 exemptions which apply only to City taxes. 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 ("HBRP") to encourage the upgrading of heritage buildings and stimulate economic revitalization within the Downtown Eastside historic areas including Chinatown, Gastown, Victory Square and the Hastings Street Corridor. The program included heritage exemptions and was originally established as a 5-year initiative. Council extended the program in April 2010 and then again in December 2013 (RTS 10148) to end of 2015. The HBRP is currently under review. Council has approved 22 properties under the program of which two did not proceed with the heritage upgrade. The value of exemptions for the remaining 20 properties total $24.1 million (Appendix D).

To date, Council has not implemented additional permissive exemptions outside of heritage exemptions. In September 2011 (RTS 08713), Council adopted the policy to continue to support not-for-profit organizations through the existing range of statutory exemptions available under Section 396(1) of the *Vancouver Charter* and the City's grant programs; permissive exemptions will not be considered.

Supportive Housing (Class 3)

In addition to statutory and permissive exemptions, eligible supportive housing properties (Class 3) are assessed at nominal value and effectively exempt from taxation. This property class was created by the Province for assessment purposes, pursuant to the Small Business and Revenue Statutes Amendment Act 2008. In 2017, 103 properties in Vancouver were designated as supportive housing (Class 3), all of which are operated by not-for-profit organizations with financial support from the Province. This represents additional subsidy from the City beyond the capital funding and land already committed to the development of supportive housing, as any forgone tax revenue arising from the special assessment is borne by all taxpayers.

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) – The Federal and Provincial governments are constitutionally exempt from property taxation; however, 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 taxes 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 payments to be made. Discrepancies between PILTs billed and collected can be appealed at the Taxes Dispute Advisory Panel[2].

Rent-in-lieu of Taxes – The City has a large portfolio of properties, primarily held in the Property Endowment Fund, that are not required for civic purposes and are leased to commercial, residential and not-for- profit tenants. These properties are exempt from property taxes 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 setting lease payments for City properties to equalize the impact of taxes.

The following table summarizes the 2017 statutory and permissive tax exemptions in Vancouver.

Table 2: 2017 Summary of Property Tax Exemptions

PROPERTY TAX EXEMPTIONS	EXEMPT VALUE	FORGONE GENERAL PURPOSE TAX LEVY	PAYMENTS-IN-LIEU OF TAXES BILLED
STATUTORY EXEMPTIONS			
Federal Crown & Agencies	1,085,829,000	7,503,000	4,436,000
Provincial & Crown Agencies	3,130,119,000	26,505,000	13,084,000
Metro Vancouver	392,558,000	2,205,000	-
Transit	1,261,953,000	35,098,000	-
School, Colleges & Universities	9,287,571,000	53,375,000	33,000
Hospitals and Health Authorities	3,077,120,000	17,282,000	-
Charitable Organizations	1,507,611,000	4,445,000	-
Churches	2,069,154,000	2,772,000	-
Other Partial Exemptions	16,444,000	58,000	-
Statutory Exemptions - Non-City Properties	**21,828,359,000**	**149,243,000**	**17,553,000**
City Properties	27,176,646,000	71,236,000	9,749,000
TOTAL STATUTORY EXEMPTIONS	**49,005,005,000**	**220,479,000**	**27,302,000**
PERMISSIVE EXEMPTIONS			
Heritage Property	146,135,000	712,000	-
TOTAL EXEMPTIONS	**49,151,140,000**	**221,191,000**	**27,302,000**

[2] The mandate of the PILT 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 value, dimension or effective rate applicable to any federal property

Implications/Related Issues/Risk (if applicable)

Financial

In December 2017, Council approved the 2018 Operating Budget of $1.4 billion, of which $752 million is to be funded from general purpose tax levy. Consistent with prior years, the final property tax increase has been adjusted based on the *2018 Revised Roll* to generate the Council-approved tax levy – from the earlier estimate of 4.24% (December 2017) to 4.27% (April 2018). Any forgone tax revenue arising from statutory and permission exemptions and supportive housing (Class 3) are borne by non-exempt properties.

Subject to Council approval, the tax share for residential and non-residential property classes would be 54.7%/45.3%.

CONCLUSION

Property tax is the primary funding source for City services and programs. In 2018, ~54% of the Operating Budget is funded from general purpose tax levy. Staff recommend that Council approve the tax share for residential and non-residential property classes at 54.7%/45.3% for the purpose of calculating 2018 tax rates, and no tax shift in 2018 based on the metrics presented in this report.

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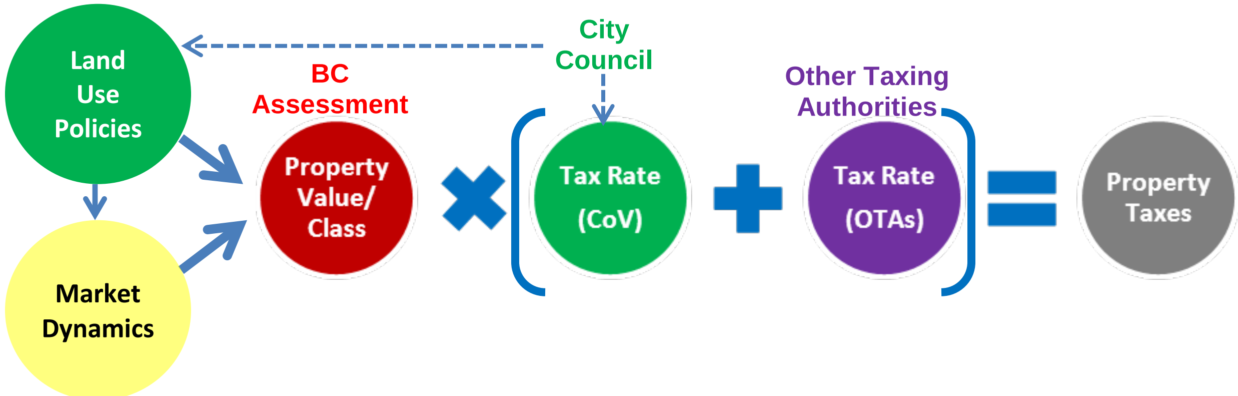
PROPERTY ASSESSMENT & TAXATION FRAMEWORK

British Columbia's property assessment and taxation framework has been recognized as one of the best in class due mainly to the segregation of assessment and taxation functions that ensure objectivity and credibility; and the annual market valuation approach that ensures currency, equity and transparency.



Property taxes are levied by taxing authorities based on real property values, which are driven by zoning as defined in land use policies and by market dynamics.

BC Assessment determines the value of all real properties in BC based on their "highest and best use" as defined by zoning and market evidence, and assigns them to appropriate property class(es) based on their "actual use" in accordance with the Assessment Act. An Assessment Roll is produced annually for municipalities and other taxing authorities ("OTAs") - Provincial schools, Translink, BC Assessment, Metro Vancouver and Municipal Finance Authority – to levy property taxes.

City Council sets land use policies that define zoning; determines the amount of general purpose tax levy required to support City operations; sets residential and business tax share and tax rates; and levies property taxes using the Assessment Roll. Council may also decide whether to apply mitigation tools such as land assessment averaging in any given year. If averaging is applied, the overall tax rates (City and OTAs) for the impacted property classes will be adjusted to ensure revenue neutrality. The City's general purpose tax portion accounts for ~50% of the overall tax rate.

OTAs set tax share and tax rate for each property class, and levy property taxes using the Assessment Roll. OTAs accounts for ~50% of the overall tax rate.

TAX DISTRIBUTION

Distribution of the general purpose tax levy across property classes has been a subject of discussion since the mid-1970s when market value assessments were introduced in British Columbia. There are two common approaches to tax distribution:

(i) "Tax Rate Ratio" Approach

"Class multiples" are used to fix the ratio between the Class 1 Residential tax rate and the tax rates of all other property classes. This often leads to significant year-over-year tax shifts between residential and non-residential property classes arising from differential market value changes among those classes.

(ii) "Tax Share" Approach

Distribution of the tax levy across property classes is determined by Council, subject to non-market changes within the classes (e.g. property transfers between classes, new construction) and/or Council decisions to adjust the share for each class. This means differential market value changes will not impact the tax share for each class.

In the late 1970s and early 1980s, the Province established the tax rate ratios for municipal governments annually. This resulted in significant year-over-year inter-class tax shifts arising from differential market value changes. At the request of Council and the Union of British Columbia Municipalities, the Province granted municipal governments the authority to determine their own tax distribution approach beginning in 1983. Since then, it has been Council policy to use the "tax share" approach.

There are different approaches for distributing the costs of tax-supported City services and programs among property classes. The following guiding principles are typically used to evaluate taxation policies; how they fit together is primarily a subjective consideration by Council.

- Equal treatment of equals
- Fairness, based on benefits received
- Fairness, based on ability to pay
- Economic behavior
- Accountability
- Stability and predictability
- Simplicity and ease of administration
- Regional and national competitiveness

When comparing tax share across municipalities, it is important to note that a number of factors may contribute to such differences:

- Different Council priorities and public policy objectives
- Different programs and services levels
- Different revenue strategies: property tax, utility charges and user fees
- Different mix of residential and non-residential properties on the *Assessment Roll*
- Different funding mechanisms for public transit, tourism and other programs:
  - public transit - the federal gas tax is allocated directly to Translink for all Metro Vancouver municipalities, while such funding flows through other municipalities (e.g. Abbotsford)
  - tourism – some municipalities retain the hotel room tax (up to 2% of sales of accommodation); in Vancouver, such funding has been directed by the Province to Tourism Vancouver

Since the early 1990s, representatives of the business community have been advocating that distribution of tax levy be based on “consumption” of tax-supported City services and programs by each property class. Council did not support the use of “consumption” studies as the basis for tax distribution in 1995 and again in 2007. One of the key reasons is that consumption models in general focus on properties that receive immediate and direct benefits, though fall short on identifying those that receive secondary and/or ultimate benefits from city services and programs. Furthermore, determining benefits received is only one of the several aforementioned guiding principles to be considered in setting tax distribution. Nevertheless, to address the impacts of tax distribution on businesses, Council agreed to gradually shift the tax levy from non-residential property classes to residential property classes.

In November 2006, Council established the PTPRC to address two key issues concerning the impact the City’s taxation policies have on Vancouver’s economy:

> ***Tax Share*** – Recommend a long-term policy that will define and achieve a “fair” tax distribution for commercial property taxpayers, addressing the perceived inequity in the share of the City’s general purpose tax levy that is paid by the non-residential property classes.
>
> ***Volatility*** – Recommend a strategy to enhance the stability and predictability of property taxes for individual properties in the face of sudden, large year-over-year increases in market value.

In March 2008, Council approved the following recommendations brought forward by the PTPRC:

> ***Tax Share*** – Redistribute $23.8 million of tax levy proportionately from Classes 2, 4, 5 and 6 to Classes 1, 8 and 9 over five years, at a rate of 1% of the overall tax levy per year, in order to achieve the PTPRC’s recommended tax levy distribution of 52% residential and 48% non-residential *(based on 2007 Assessment Roll)* and to avoid the significant impact of the shift in one year.
>
> ***Volatility*** - Seek an amendment to the *Vancouver Charter* to enable the City to use up to five years of assessed land values, as opposed to three years currently allowable, in the land assessment averaging formula for calculating property taxes. A request for the amendment was submitted to the Province and enacted in 2013.

It should also be noted that the use of “consumption” studies within the context of property taxation policies was also considered by the PTPRC and was not recommended due largely to the reasons cited above.

TAX RATE CALCULATION

Under the “tax share” approach, Council determines the share of tax levy for each property class, but not for each individual property within the class. Section 374.2 (1) of *Vancouver Charter* further stipulates that Council determines and imposes a single tax rate for each property class, but not for each individual property within the class. To generate the Council-approved tax levy, when the total assessed value of a property class increases, the tax rate for the class is adjusted down; when the total assessed value decreases, the tax rate is adjusted up.

IMPACT OF ASSESSMENT CHANGES ON PROPERTY TAXES

The Council-directed property tax increase applies to the overall tax levy. While changes in assessed values will not change the total general purpose tax levy generated from each property class, the extent of change, year over year, in an individual property's tax is determined primarily by how that property's assessed value has changed relative to the average change within its property class. Differential changes among properties within the same class will result in differential shifts in taxes paid by individual property owners from year to year.

Properties with a higher increase in value relative to the average change of the class could experience a much higher increase in property tax beyond the Council-directed increase, while properties with a lower increase in value could experience no change or a reduction in property tax. This situation is particularly prevalent in neighbourhoods with significant growth opportunities and/or development potential where property values could experience a much higher increase relative to other areas in the city and, as a result, pay higher taxes. This applies to both residential and non-residential property classes.

MITIGATION

Land assessment averaging is an optional tool available to Council under the Vancouver Charter. Land assessment averaging is revenue neutral to the City as the total general purpose tax levy collected from each property class is the same with or without application of this mechanism. To date, Vancouver is the only municipality in BC that uses averaging to phase in significant property tax increases arising from assessment volatility at a city-wide level.

- For eligible residential properties, this program complements other provincial measures such as Section 19(8) of the *Assessment Act*, Property Tax Deferment and the Home Owner Grant in alleviating significant year-over-year tax increases.

- For light industrial and business properties, this program is the only mitigation that provides businesses with short-term, multi-year relief to enable market adjustments and/or lease renegotiations.

Land assessment averaging - In 2013, Council reconvened the Commission to provide an updated assessment of the tax share and assessment volatility issues, and recommend further actions as appropriate for Council's consideration. In its report to Council in February 2014, the Commission remained concerned about "hot" spots in the commercial sector, assessment volatility and resulting tax impact on businesses, particularly those that rent space under triple-net leases which could be hard hit by assessment spikes with no ability of sharing any upside in property values upon redevelopment. The Commission defines "hot" spots as properties that experience an unanticipated, year-over-year increase in total assessed value before land averaging is applied, which exceeds the average increase for the property class by more than 10%. "Hot" spots may result from a number of different factors, including rezoning, speculation, market trends, infrastructure development (e.g. rapid transit), and assessment changes initiated by BC Assessment.

In determining which mitigation tool is the most appropriate, the Commission sets out the following guiding principles:

i) targeted
- "hot" properties only, not all properties
- unanticipated increases only, not owner-induced increases (rezoning, improvement upgrades)

ii) tailored mitigation to intensity of volatility

iii) time-limited to allow tenants time to react (re-negotiate, relocate)

iv) easy to understand

v) straightforward to administer

vi) minimize unintended consequences

vii) maintain market assessment as much as possible

viii) not to unduly defer redevelopment to highest and best use

The Commission concluded that *targeted 5-year land assessment averaging* best meets the above guiding principles. *Targeted averaging* applies to only "hot" properties (defined as those that have experienced significant year-over-year increases in property values above the "threshold" set by Council). The intent of the policy is to reduce the level of tax increases until such time as the property is no longer "hot". Properties below the "threshold" will be left untouched and pay taxes based on their BC Assessment values.

On February 20, 2015, the Province confirmed that, under section 374.4 of the *Vancouver Charter*, the City has the authority to use a "threshold" to define eligibility for *targeted averaging*. With this authority, the value of the target properties would be reduced through averaging, thereby reducing the level of tax increases. Depending on how the land values of individual target properties have changed over the recent three years, the impact of averaging will likely differ for each target property. For eligible "hot" properties, targeted averaging should reduce their values for property tax calculation; under limited circumstances where averaging would increase their values (e.g. properties that experienced significant shift in value between land and improvement), property tax will be calculated based on the assessed values provided by BC Assessment.

To ensure *targeted averaging* would not over mitigate a "hot" property, the City requires additional authority to limit the impact of averaging up to the "threshold" (10% above class average change). Without such authority, averaging could reduce the value of a target property below the "threshold". As a result, some target properties could have an undue advantage over those properties that are not eligible for *targeted averaging*. As well, a "hot" property is defined as having a year-over-year increase in property value (difference between the current year's BC Assessment value and the preceding year's averaged value) above the "threshold". If *targeted averaging* keeps reducing the value of a "hot" property below the "threshold", the year-over-year increase would be arbitrarily higher. As a result, a "hot" property could stay in the *targeted averaging* program for longer than required, and a higher subsidy is necessary from other properties. This authority is being pursued with the Province.

"Brighouse Solution" - In May 2011, the Province enacted 2011 Municipalities Enabling & Validating Act (MEVA) (No. 4) in response to the City of Richmond's request for specific authority to provide targeted, transitional tax relief to eligible light industrial and business

properties in the Brighouse neighborhood. The program did not apply to other areas in Richmond or other municipalities in BC. The intent of that policy was to address the high vacancies and job loss arising from volatility in assessments and property taxes in the area, which were triggered by changes in Richmond's Official Community Plan (adopted in mid-2009) allowing higher density residential development in and around that neighborhood. In addition to exempting municipal taxes under the Revitalization Tax Exemption provision, the 2011 MEVA (No. 4) enables partial exemption of the provincial school tax. The program ran from 2012 to 2016, starting with only 39 eligible properties in 2012 and reduced to 29 properties by 2016 when the program terminated.

Year	
1994	▪ Shifted $3.0 million from Class 6 to Class 1
1995	▪ Shifted $3.0 million from non-residential classes to Class 1
1996	▪ No shift
1997	▪ Shifted $2.9 million from non-residential classes to Class 1
1998	▪ No shift
1999	▪ No shift
2000	▪ Shifted $3.7 million from non-residential classes to residential classes
2001	▪ No shift
2002	▪ No shift
2003	▪ Shifted $2.1 million from non-residential classes to residential classes
2004	▪ No shift
2005	▪ No shift
2006	▪ Shifted $4.8 million from non-residential classes to residential classes
2007	▪ Allocated the entire 3.98% tax increase to residential classes, which is equivalent to a shift of $10 million
2008	▪ Shifted $5.2 million from non-residential classes to residential classes
2009	▪ Shifted $5.5 million from non-residential classes to residential classes
2010	▪ Shifted $5.7 million from non-residential classes to residential classes
2011	▪ Shifted $5.8 million from non-residential classes to residential classes
2012	▪ Shifted $1.6 million from non-residential classes to residential classes
2013	▪ No shift
2014	▪ No shift
2015	▪ No shift
2016	▪ No shift
2017	▪ No shift
2018	▪ No shift (subject to Council approval on April 17, 2018)

Note: Tax shifts between 2008 and 2012 were effected as part of the multi-year tax redistribution program recommended by the PTPRC. The target was to shift $23.8 million proportionately from non-residential property classes (2, 4, 5 & 6) to residential property classes (1, 8 & 9) at a rate of 1% of the overall tax levy per year.

IMPACT OF ASSESSMENT CHANGES ON TAX DISTRIBUTION

	Residential Class 1	Utilities Class 2	Supportive Housing Class 3	Major Industry Class 4	Light Industry Class 5	Business & Other Class 6	Recreational & Non-profit Class 8	Farm Class 9	Total
ASSESSMENT BASE									
2017 Revised Roll	318,185,641,214	247,027,440	106	210,936,000	1,609,850,900	57,674,373,332	596,084,000	198,689	378,524,111,681
2017 Adjustments	(146,864,900)	0	0	0	(41,205,600)	(266,938,147)	12,133,100	9,559	(442,865,988)
2017 Supplementary Roll	318,038,776,314	247,027,440	106	210,936,000	1,568,645,300	57,407,435,185	608,217,100	208,248	378,081,245,693
Share of Assessment Base	*84.12%*	*0.07%*	*0.00%*	*0.06%*	*0.41%*	*15.18%*	*0.16%*	*0.00%*	*100.00%*
2018 Market Change	16,774,659,565	28,903,913	0	10,678,000	477,220,700	11,310,977,078	130,138,200	0	28,732,577,456
	334,813,435,879	275,931,353	106	221,614,000	2,045,866,000	68,718,412,263	738,355,300	208,248	406,813,823,149
Share of Assessment Base	*82.30%*	*0.07%*	*0.00%*	*0.05%*	*0.50%*	*16.89%*	*0.18%*	*0.00%*	*100.00%*
2018 Non-market Change									
Class Transfers	684,395,422	1,653,200	6	0	(66,258,500)	(638,020,612)	136,624,400	0	118,393,916
Other	1,883,713,702	(1,500)	0	0	7,031,900	(20,030,799)	29,932,900	0	1,900,646,203
New Construction	2,498,535,728	(3,781,280)	0	3,351,000	3,797,500	720,405,924	9,510,000	0	3,231,818,872
	5,066,644,852	(2,129,580)	6	3,351,000	(55,429,100)	62,354,513	176,067,300	0	5,250,858,991
2018 Assessment Base for Tax Rate Calculation	**339,880,080,731**	**273,801,773**	**112**	**224,965,000**	**1,990,436,900**	**68,780,766,776**	**914,422,600**	**208,248**	**412,064,682,140**
Share of Assessment Base	*82.48%*	*0.07%*	*0.00%*	*0.05%*	*0.48%*	*16.69%*	*0.22%*	*0.00%*	*100.00%*
GENERAL PURPOSE TAX LEVY									
2017 Opening Tax Levy	388,450,576	7,011,595	0	7,280,138	8,545,314	306,143,648	727,717	243	718,159,230
2017 Roll Adjustments	(179,297)	0	0	0	(218,725)	(1,416,945)	14,812	12	(1,800,143)
2017 Adjusted Tax Levy	388,271,279	7,011,595	0	7,280,138	8,326,589	304,726,703	742,530	254	716,359,087
Share of Tax Levy	*54.20%*	*0.98%*	*0.00%*	*1.02%*	*1.16%*	*42.54%*	*0.10%*	*0.00%*	*100.00%*
2018 Non-market Change	2,978,145	41,971	0	0	(241,050)	(2,918,080)	167,499	0	28,485
2018 New Construction	2,897,463	(96,085)	0	110,082	15,456	3,194,587	9,564	0	6,131,067
	5,875,609	(54,114)	0	110,082	(225,594)	276,506	177,063	0	6,159,552
2018 Base Tax Levy (before tax increase)	**394,146,888**	**6,957,481**	**0**	**7,390,220**	**8,100,995**	**305,003,209**	**919,592**	**254**	**722,518,639**
Share of Tax Levy	*54.55%*	*0.96%*	*0.00%*	*1.02%*	*1.12%*	*42.21%*	*0.13%*	*0.00%*	*100.00%*
2018 Tax Increase	16,683,636	297,084	0	315,562	1,081,070	12,288,480	185,716	(3)	30,851,546
2018 Final Tax Levy (after tax increase)	**410,830,524**	**7,254,565**	**0**	**7,705,782**	**9,182,065**	**317,291,689**	**1,105,308**	**252**	**753,370,185**
Share of Tax Levy	*54.53%*	*0.96%*	*0.00%*	*1.02%*	*1.22%*	*42.12%*	*0.15%*	*0.00%*	*100.00%*

Note: Total tax levy $753.4 million – Forgone taxes on eligible Port properties $1.4 million = Council-approved tax levy $752 million

PROPERTY	COUNCIL APPROVAL	MAXIMUMUM DURATION	MAXIMUM VALUE
50 Water St *	29-Jan-04	10 yrs	$768,700
42 Water St *	29-Jan-04	10 yrs	$382,000
163 West Hastings*	16-May-06	10 yrs	$1,948,159
210 Carrall Street*	11-Jul-06	10 yrs	$314,307
5 West Pender	15-Feb-05	10 yrs	$247,294
53 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 *	21-Mar-06	3 yrs	$3,500,000
412 Carrall Street	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 Street – Commercial*	26-Sep-06	10 yrs	$1,033,686
12 Water Street - Residential *	26-Sep-06	3 yrs	$229,034
133 Keefer Street	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
564 Beatty St	01-Nov-11	10 yrs	$3,019,986
71 East Hastings	12-Feb-08	10 yrs	$173,670
9 West Cordova	24-Mar-15	10 yrs	$358,680
TOTAL			**$24,061,956**

*Heritage exemptions are for maximum duration or the maximum $ value, whichever is reached first. These properties have reached maximum duration or value.