

## ADMINISTRATIVE REPORT

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Author/Local: Karen Levitt /7251

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TO: Standing Committee on City Services and Budgets  
FROM: General Manager of Corporate Services / Director of Finance  
SUBJECT: 2003 Property Tax Options: Tax Levy Distribution

### CONSIDERATION

*THAT Council approve a shift in the property tax distribution equal to one percent of the 2003 general purposes tax levy (approximately \$4.1 million), applied proportionately from Class 2 (utilities), Class 4 (major industrial), Class 5 (light industrial) and Class 6 (business/other) to Class 1 (residential) properties.*

### GENERAL MANAGER'S COMMENTS

*This report deals with the issue of how the property tax levy should be distributed among the property classes and impacts of shifting that distribution from the non-residential classes to the residential class. While there is no policy governing how the tax levy is apportioned among the property classes, Council has made decisions on this split in each year since 1994, following the recommendations of the Property Tax Task Force. It should be noted that prior to the shift, the 2003 tax levy is estimated to be split 42.4% residential (Class 1) and 57.6% non-residential (all other property classes).*

### COUNCIL POLICY

*There is no Council policy governing the shifting of the distribution of the tax levy among property classes. From 1983 – when the City received authority to establish how the property tax levy is distributed among the property classes – to 1994, Council maintained a practice of holding the relative shares of the levy constant. Since 1994, Council has made decisions regarding this shift each year, based on the recommendations from the Property Tax Task Force and the KPMG Consulting Group.*

## PURPOSE

The purpose of this report is to provide Council the information required to make a decision about whether to adjust the relative shares of the tax levy paid by the non-residential and the residential property classes.

## BACKGROUND

### Distribution of Tax Levy – Recent History of Shifts

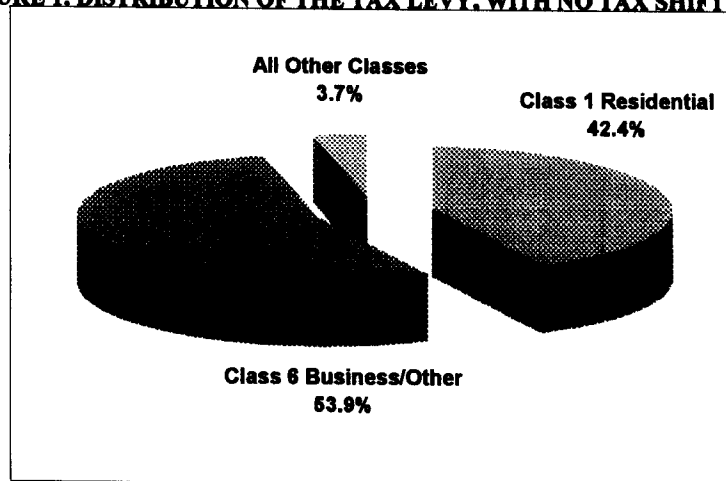
Beginning in 1994, Council has made an annual decision as to whether to shift the distribution of the property tax levy from non-residential to residential properties. This process follows from 1994 recommendations of the Property Tax Task Force and the 1995 recommendations from the KPMG report entitled “Consumption of Tax Supported City Services.”

Shifts equivalent to approximately one percent of the tax levy have been approved in each of 1994, 1995, 1997 and 2000. Also, in 1998 Council added approximately \$3.8 million in costs to the residential class as part of the implementation of solid waste user fees. The impact of these decisions, prior to consideration of any further shift associated with the 2003 tax levy, is that approximately \$16.4 million has been shifted from non-residential properties to residential properties since 1994.

### The 2003 Tax Year

In 2003, the relative shares of the tax levy for Class 1 and Class 6 are estimated to be 42.4% and 53.9% respectively. If solid waste and sewer user fees (which are collected independent of the tax levy) are taken into consideration, these shares become approximately 45.9% and 50.5%.

**FIGURE 1. DISTRIBUTION OF THE TAX LEVY, WITH NO TAX SHIFT (2003)**



On March 27, 2003 Council approved the use of land averaged values in the calculation of taxable value for the residential and business classes for 2003. On April 8, 2003, Council balanced the 2003 Operating Budget by approving a property tax increase of 4.67%. Prior to consideration of the shift in the distribution of property taxes, this increase will be applied to the levy of each property class.

## DISCUSSION

The rationale for shifting the burden of taxation from the non-residential classes to the residential class is found in the 1995 report, "Consumption of Tax-Supported City Services," authored by the KPMG Consulting Group. This report recommended development of a "rate-of-adjustment policy" which would allow for a shift in the tax distribution from the non-residential classes to the residential class. No specific tax distribution target was proposed in the report and none has been adopted by Council.

One of the important conclusions of this KPMG report is that there is no "right" answer to the question of how the tax levy should be distributed among the property classes. Historically in British Columbia, one of the reasons municipal councils were given the power to determine this distribution themselves was to ensure that local circumstance and policy could be reflected in each municipality's tax distribution.

From 1983, when municipalities received this authority, until 1994, Council generally maintained the relative taxation burden between property classes, allowing only for adjustments to the distribution resulting from property reclassifications, new construction and zoning changes. However, in its decisions since 1993, Council has acknowledged that the non-residential classes bear a disproportionate share of the property tax levy, and has chosen in five of the past nine years to shift a portion of the levy to the residential class. Appendix A contains a listing of the major taxation program decisions made by Council since 1989.

As illustrated in Table 1, these decisions have resulted in approximately \$16.4 million being shifted to the residential class over the past nine years.

**TABLE 1. RELATIVE SHARE OF TAX LEVY, CLASS 1 & CLASS 6**

YEAR	% OF TAX LEVY: RESIDENTIAL CLASS 1	% OF TAX LEVY: BUSINESS CLASS 6	TAX RATE RATIO CLASS 6:CLASS 1 (CLASS 1 = 1.00)	FACTORS AFFECTING LEVIES
1990	39.4%	54.9%	4.1	-
1991	39.4%	55.3%	4.2	-
1992	39.4%	55.4%	4.7	-
1993	39.3%	55.8%	4.5	-
1994	40.0%	54.8%	5.3	\$3.0 million shifted to Class 1
1995	41.4%	53.4%	5.5	\$3.0 million shifted to Class 1
1996	41.9%	53.2%	5.5	-
1997	42.9%	52.6%	5.2	\$2.9 million shifted to Class 1
1998	41.8%	54.0%	5.4	\$3.8 million added to Class 1 with solid waste utility implementation (collected via utility fees not taxes)
1999	42.3%	53.9%	5.2	-
2000	42.7%	53.4%	5.0	\$3.7 million shifted to Class 1 Phase 1 of sewer utility implementation
2001	41.8%	54.2%	4.9	Phase 2 of sewer utility implementation
2002	42.2%	53.8%	5.0	-
2003	42.4%	53.9%	5.2	← If no shift
2003	43.4%	52.9%	5.0	← If \$4.1 million shifted to Class 1

**Notes to Table 1**

1. The tax rate ratio is affected by interventions such as land averaging and tax capping, as well as changes to the overall market value of each class.
2. 1998 figures were affected by the implementation of the solid waste utility, which resulted in the residential levy being reduced by \$8.4 million, subsequently collected via user fees. Part of the solid waste utility fee that was introduced that year was a new recycling charge, which represented a \$3.8 million increase in the total (taxes plus utility fees) paid by taxpayers in the residential class.
3. Over 2000 and 2001 the sewer utility was implemented, which resulted in \$25 million of sewer-related costs being removed from the tax levy and subsequently collected via user fees. As a result the Class 1 tax levy was reduced by \$17 million and the Class 6 levy by \$8 million.
4. The other property classes (utilities, light industrial, heavy industrial, recreational/seasonal and farm) account for the remaining 4% to 6% of the tax levy not paid by Class 1 and Class 6.

**How Tax Impacts Are Modelled**

In 2003, the relative shares of the tax levy for Class 1 and Class 6 are anticipated to be approximately 42.4% and 53.9% respectively, prior to consideration of a further shift. The following analysis looks at the impacts of a \$4.1 million (one percent) shift of the property tax levy from non-residential properties to residential properties.

The tax modelling is based on samples of Class 1 and Class 6 properties that have been screened to eliminate those that are not eligible for land assessment averaging. Only impacts on the general purpose tax levy are modelled.

Impacts on the other non-residential classes have not been modelled, but it is expected that the impact on these classes would be similar to the impact on Class 6, as all non-residential tax rates would be reduced by the same percentage amount under a shift scenario.

### **1. Tax Impacts: Base Case**

The base case shows the impact of the following actions approved by Council:

- three-year land averaging for the residential and business classes, and
- a 3.9% increase to the tax levy.

It is noted that since this statistical modelling was undertaken, Council approved a 4.67% tax increase for 2003. The discrepancy between this increase and the 3.9% that was assumed in the statistical modelling will not change the fundamental patterns of the results of this analysis. It will however add 0.8% to the average tax increase in each class, which means that in Table 2, the average tax increase for residential properties will be 5.1% under the base case and 7.5% with a one percent shift. In Table 3, the average tax increase for business properties will be 4.3% under the base case and 2.5% with a one percent shift. Also, the distributions plotted in Appendices B and C will be shifted somewhat to the right.

### **2. Tax Impacts: Shift Scenario**

The shift scenario starts with the same assumptions used in the base case (three-year land averaging and a 3.9% tax increase), and adds to this an adjustment to the tax levy distribution in which \$4.1 million is added to the Class 1 tax levy and proportionately removed from the non-residential classes (the utilities, major industrial, light industrial and business classes).

Comparisons of the distributions of tax increases for Classes 1 and 6 under the base case versus the shift scenario are shown in Appendices B and C. The following two tables lay out the implications of such a shift.

**TABLE 2. ONE PERCENT SHIFT IN THE TAX LEVY,  
IMPACTS ON CLASS 1 RESIDENTIAL PROPERTY CLASS IN 2003**

	BASE CASE	\$4.1 M SHIFT	\$ CHANGE	% CHANGE
Tax levy (\$ millions)	\$174.9	\$179.0	\$4.1	2.4%
Tax rate (per \$1,000 taxable value)	\$3.114	\$3.188	\$0.073	2.4%
Average \$ change in taxes over 2002	\$48	\$76	-	-
Average % change in taxes over 2002	4.3%	6.7%	-	-
# properties > 6% tax increase	27,459	67,998	-	-
# properties > 6% tax increase, % total	20%	51%	-	-

**TABLE 3. ONE PERCENT SHIFT IN THE TAX LEVY,  
IMPACTS ON CLASS 6 BUSINESS PROPERTY CLASS IN 2003**

	BASE CASE	\$4.1 M SHIFT	\$ CHANGE	% CHANGE
Tax levy (\$ millions)	\$221.9	\$218.0	(\$3.9)	(1.7%)
Tax rate (per \$1,000 taxable value)	\$16.298	\$16.015	(\$0.283)	(1.7%)
Average \$ change in taxes over 2002	\$644	\$312	-	-
Average % change in taxes over 2002	3.5%	1.7%	-	-
# properties > 6% tax increase	4,102	3,168	-	-
# properties > 6% tax increase, % total	41%	32%	-	-

**Notes for Tables 2 & 3**

1. Analysis uses three-year averaged land values and assumes a 3.9% tax increase over 2002.
2. \$0.2 million is shifted from non-residential classes other than Class 6 (the utilities, light and heavy industry classes).
3. Average (mean) property value used in this analysis is \$396,000 for Class 1 & \$1.3 million for Class 6.
4. With an actual tax increase of 4.67% (rather than the 3.9% assumed in statistical modelling), the average percent changes in taxes over 2002 shown in these tables will be increased by 0.8% for both the residential and business class. Also, a larger number of properties than those indicated in these tables will experience a tax increase of over 6%, under both the base case and the shift scenarios.

**CONCLUSION**

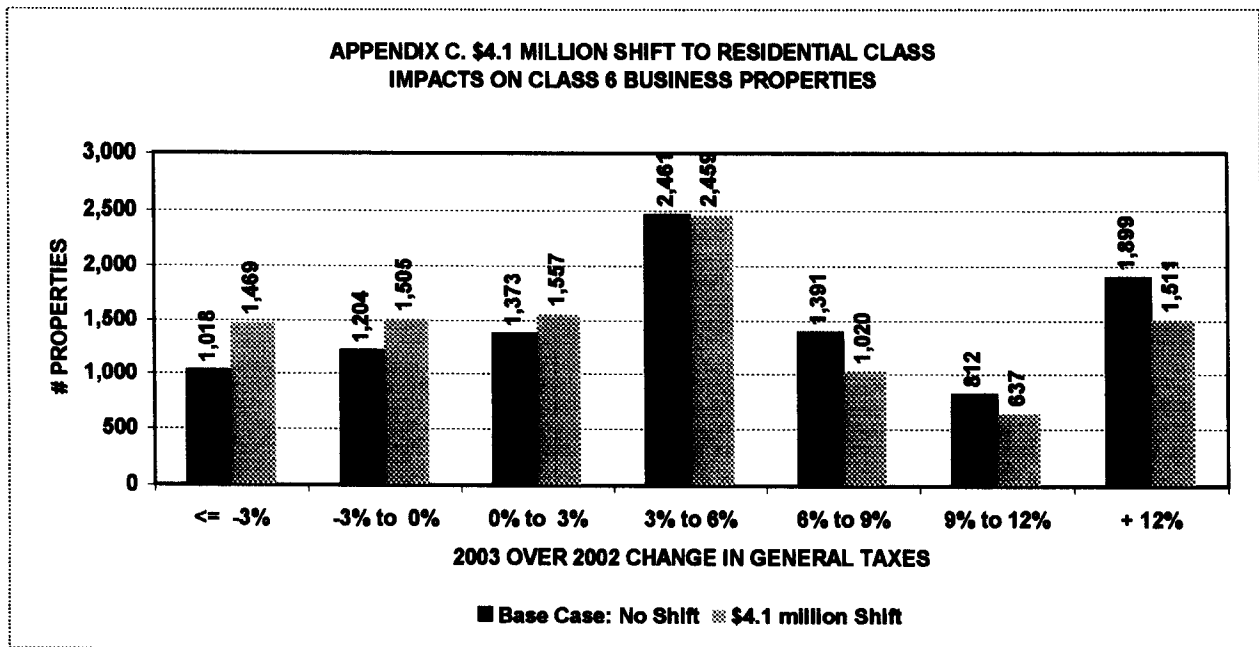
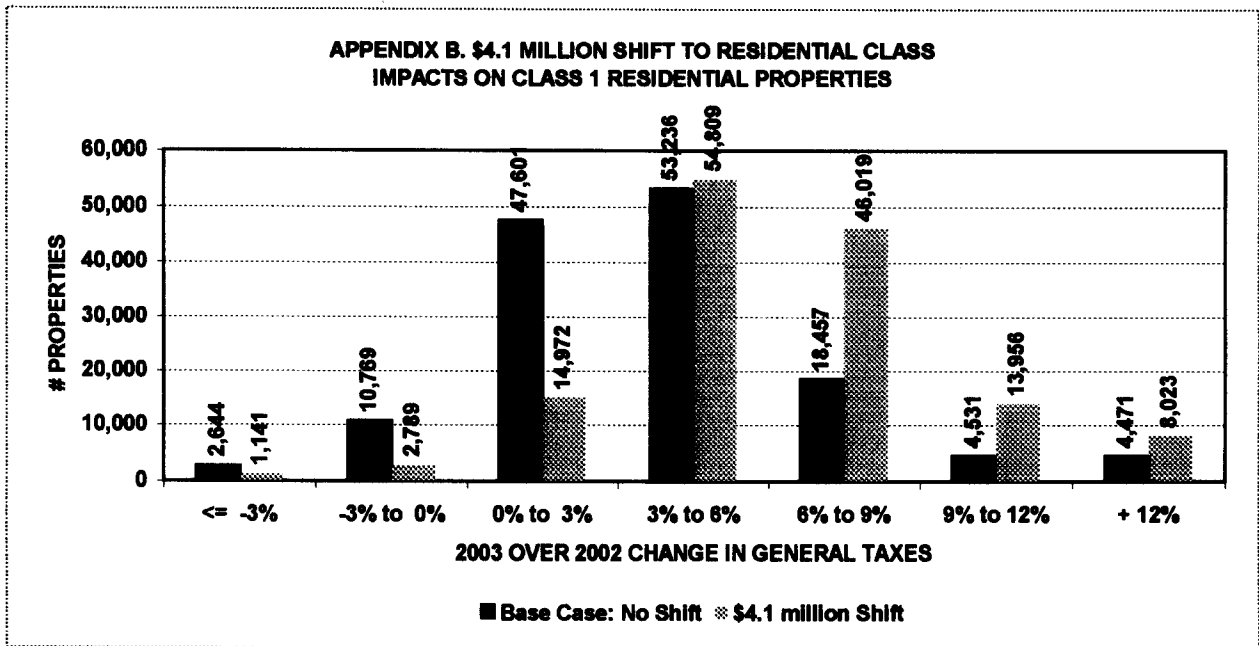
Shifting the burden of taxation from the non-residential to the residential classes by \$4.1 million will impact residential properties by increasing the tax rate by 2.4% and the non-residential classes by decreasing their tax rates by 1.7%. As Council has not adopted a specific policy concerning changes to the distribution of the property tax levy, the Director of Finance submits a one percent shift of the tax burden from the non-residential classes to the residential class to Council for consideration.

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**Appendix A: Recent History of City of Vancouver  
Taxation Policy Decisions, Residential and Business Classes**

	<b>CLASS 1 RESIDENTIAL</b>	<b>CLASS 6 BUSINESS/OTHER</b>
1989	· Capped land value increases at 61%	· Capped tax increases at 40%
1990	· No adjustment to taxation methodology	· Capped tax increases at 10.1%
1991	· Capped tax increases at 5.5% · No limit on tax credit	· Capped tax increases at 7.5% · \$400,000 limit on tax credit
1992	· Capped tax increases at 6.0% · \$5,000 limit on tax credit	· Capped tax increases at 10.0% · \$100,000 limit on tax credit
1993	· Implemented three-year land value averaging · Tax increases capped at 25% for select properties	· Implemented three-year land value averaging · Tax increases capped at 25% for select properties
1994	· Continued three year land value averaging · Tax increases capped at 10% for select properties · \$500 limit on tax credit	· Continued three year land value averaging · Tax increases capped at 10% for select properties · \$15,000 limit on tax credit
1995	· Continued three year land value averaging · No tax capping	· Continued three year land value averaging · Tax increases capped at 15% for select properties under a phasing out methodology · \$10,000 limit on tax credit
1996	· Continued three year land value averaging · No tax capping	· Continued three year land value averaging · Tax increases capped at 20% for select properties under a phasing out methodology · \$7,500 limit on tax credit
1997	· Continued three-year land value averaging · No tax capping	· Continued three-year land value averaging · Tax increases capped at 25% for select properties under a phasing out methodology · \$5,000 limit on tax credit
1998	· Continued three-year land value averaging · Implemented the Solid Waste Utility	· Continued three-year land value averaging
1999	· Continued three-year land value averaging	· Continued three-year land value averaging
2000	· Continued three-year land value averaging · Phase I of Sewer Utility implementation (50% sanitary fee)	· Continued three-year land value averaging
2001	· Continued three-year land value averaging · Phase II of Sewer Utility implementation (100% sanitary fee)	· Continued three-year land value averaging
2002	· Continued three-year land value averaging	· Continued three-year land value averaging

## Appendices B & C: Comparison of Tax Distributions With and Without \$4.1 million Shift to Residential Class



### NOTES TO CHARTS

- n = 141,709 residential class, n = 10,158 business class
- Sample is screened for new construction, class transfers and vacant land
- Assumes a 3.9% tax increase over 2002
- Uses three year averaged land values