CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Date:	March 5, 2004
Author:	Liz Jones
Phone No.:	604-871-6169
RTS No.:	04041
CC File No.:	1551
Meeting Date:	March 25, 2004

TO: Standing Committee on City Services and Budgets

FROM: General Manager of Corporate Services / Director of Finance

SUBJECT: 2004 Property Tax Options: Averaging Effects

INFORMATION

This report is submitted for INFORMATION.

PURPOSE

The purpose of this report is to respond to Council's request for additional information on how three-year land averaging impacts residential properties. In addition, this report describes some proposed changes to the land averaging by-law, intended to clarify the administration of the by-law that is before Council this day.

BACKGROUND

On February 26, 2004, Council considered a report from the Director of Finance outlining the impacts of three year land assessment averaging on Class 1 (residential) and Class 6 (business/other) properties for 2004. This report showed that in the current year, in the residential property class, significantly more properties benefited from averaging than those that did not. Approximately 87,900 residential properties would benefit from the application of averaging, while 55,600 would pay higher taxes than they otherwise would without the application of land averaging. Based on this conclusion, the report recommended that Council approve the utilization of land averaging in calculating property taxes for these classes in 2004.

Council instructed staff to proceed with the advertising required in advance of bylaw approval and to bring the bylaw enabling the land averaging program to City Services & Budgets Committee on March 25, 2004.

Council also requested that staff report back with the results of further modelling, in order to provide more information about the impacts of land averaging on lower-valued residential properties.

DISCUSSION

1. Modelling Results

Analysis Framework

Council requested that staff model the impacts of land averaging on three value ranges of residential property over several years. The three ranges were:

GROUP A - LOWER-VALUE PROPERTIES = Assessed value between $250,000 & $500,000

GROUP B - MID-VALUE PROPERTIES = Assessed value between $500,000 & $750,000

GROUP C - HIGHER-VALUE PROPERTIES = Assessed value between $750,000 & $1,000,000

The intent of the analysis was to explore whether the application of land averaging systematically advantages or disadvantages properties within these groupings.

The modelling covers a ten-year period, from 1995 to 2004. Taxable values for individual properties were taken from the BC Assessment Authority Authenticated and Averaged property tax rolls. Properties that were not eligible for land averaging were screened from the datasets. Market and Averaged property tax bills for each eligible property were calculated and the average differences between the two methodologies were calculated. The results of the modelling are presented in Appendix A.

The following is provided as context for understanding the conclusions drawn from this work.

- The benefit of the application of averaging is that it lessens the impact of large year-over-year changes in market value on property owners.
- Land averaging inherently advantages some properties and disadvantages others in any given year.
- "Advantaged" means that a property owner pays less tax with the application of land averaging in a given year than would be the case without averaging.
- "Disadvantaged" means that a property owner pays more tax with the application of land averaging in a given year than would be the case without averaging.

- Because the City must collect the same amount of total taxes with or without averaging, to the extent some property owners pay less in a given year due to averaging, others will pay more.
- The modelling focussed on the impact of averaging on the entire group of properties rather than on individual properties. In each group, it is possible that there are individual properties that have been disadvantaged or advantaged more than the average.

Findings & Interpretation

Based on a number of measures, the work done shows clearly that over the past ten years, lower-valued properties have benefited significantly from the application of land averaging, in some ways more so than have higher-valued properties. (It is noted that properties valued at less than $250,000 and higher than $1,000,000 were not included in this analysis.)

The details that underlie the following findings are in Appendix A.

Finding 1. The majority of lower-valued properties have been advantaged by averaging in six of the past ten years, compared to four of the past ten years for higher-valued properties.

	GROUP A $250,000-$500,000	GROUP B $500,000-$750,000	GROUP C $750,000-$1,000,000	TOTAL
No. Years Majority of Properties in Group are Advantaged by Averaging	6	8	4	-

Finding 2. Over the past ten years, 55% of lower-valued properties have been advantaged by averaging, compared to 50% of higher-valued properties.

	GROUP A $250,000-$500,000	GROUP B $500,000-$750,000	GROUP C $750,000-$1,000,000	TOTAL
Total No. Properties Advantaged by Averaging Over 10 Years	321,124	89,147	22,618	432,889
Total No. Properties Disadvantaged by Averaging Over 10 Years	263,487	66,204	22,310	352,001
Total No. Properties in Each Group	584,611	155,351	44,928	784,890
Total % Properties Advantaged by Averaging Over 10 Years	55%	57%	50%	-
Total % Properties Disadvantaged by Averaging Over 10 Years	45%	43%	50%	-
Total No. Properties in Each Group	100%	100%	100%	-

Finding 3. ***Over the past ten years, the average percentage change in taxes due to land averaging has been consistent across various values of properties - on average, a 3% savings for those advantaged by averaging and a 3% increment in taxes for those disadvantaged.***

	GROUP A $250,000-$500,000	GROUP B $500,000-$750,000	GROUP C $750,000-$1,000,000	TOTAL
Average $ Advantage Due to Averaging	($25)	($46)	($67)	-
Average $ Disadvantage Due to Averaging	$28	$53	$75	-
Average % Advantage Due to Averaging	-3%	-3%	-3%	-
Average % Disadvantage Due to Averaging	3%	3%	3%	-

Finding 4. ***Over the past ten years, the lower-valued properties as a group have saved $1.5 million in taxes due to averaging, as compared to higher-valued properties as a group having paid an incremental $200,000 as a result of the application of averaging.***

	GROUP A $250,000-$500,000	GROUP B $500,000-$750,000	GROUP C $750,000-$1,000,000	TOTAL
Total $ Amount Advantage Due to Averaging Over 10 Years	($8,362,687)	($4,115,889)	($1,552,885)	($14,031,461)
Total $ Amount Disadvantage Due to Averaging Over 10 Years	$6,882,424	$3,687,735	$1,739,936	$12,310,095
Total Amount Redistributed Due to Averaging	($1,480,263)	($428,154)	$187,051	($1,721,366)

In summary, over the ten year period, Group A properties saved, on average, $2.53 per house-year compared to Group C properties that incurred average higher taxes of $4.15 with the averaging program.

2. Changes To The Averaging By-Law

The bylaw required to give effect to the Averaging Program for 2004 is included in the Council agenda portion of this meeting.

Two changes to the by-law are proposed this year, each intended to clarify the intent of the by-law rather than substantively change its application. These changes are described briefly

below. These amendments have been made so that the by-law reflects the philosophy that land averaging is applied to those properties that have experienced large changes in land value due to *market forces*, and is not applied to those properties that have experienced large changes in land value for other reasons.

Section 2(c). The bylaw exempts properties that have a change in zoning from the averaging program, even though that change may not affect land value. The wording of this section is changed to exclude properties from land averaging in the year that a change in its zoning classification occurs only if there is a change in land value that results. This wording clarifies that a zoning change alone does not exempt a property from the averaging program; that a change in land value is required before the exclusion applies.

Section 2(d). The bylaw exempts properties that have a physical change in the land from the averaging program, even though that change may not affect land value. According to BCAA's definitions, a change in physical characteristics to a property's land could include, a hole being dug on the land, addition of servicing to that land, improvement in the view from the land, or addition of access lanes to the land.

The wording of this section is amended to ensure that a change in physical characteristics of the land will only exclude properties from land averaging in the year that a change in the physical characteristics of the land results in a change in the parcel's land value.

CONCLUSION

A comprehensive examination of the impacts of the application of land averaging over the past ten years shows that based on a number of measures, lower-valued properties benefit from averaging at least as much as, and in some cases more than, higher-valued properties. While in any given year some properties will be advantaged by averaging and others will be disadvantaged, averaging continues to be an effective means of smoothing the tax impacts of large year-over-year increases in market value. Interpretation of the results of the work contained in this report shows no evidence that, overall, the lower-valued group of properties are in any way subsidising higher-valued properties with averaging.

* * * * *

APPENDIX A: CITY OF VANCOUVER: COMPARISON OF IMPACTS OF LAND AVERAGING, 1995 TO 2004
GROUP A: LOWER-VALUE PROPERTIES
TAXABLE VALUE: $250,000 - $500,000

YEAR	# PROPERTIES			% PROPERTIES			AVERAGE DIFFERENCE PAID (SAVED) DUE TO AVERAGING ($)		AVERAGE DIFFERENCE PAID (SAVED) DUE TO AVERAGING (%)		TOTAL DIFFERENCE PAID (SAVED) DUE TO AVERAGING ($)	
	ADV	DISADV	TOTAL # GROUP A	ADV	DISADV	TOTAL % GROUP A	ADV	DISADV	ADV	DISADV	ADV	DISADV
1995	45,538	12,299	57,837	79%	21%	100%	($33)	$40	-4%	4%	($1,502,754)	$491,960
1996	24,370	32,140	56,510	43%	57%	100%	($20)	$19	-2%	2%	($487,400)	$610,660
1997	17,569	37,784	55,353	32%	68%	100%	($18)	$21	-2%	2%	($316,242)	$793,464
1998	36,247	22,662	58,909	62%	38%	100%	($17)	$27	-2%	3%	($616,199)	$611,874
1999	36,825	21,378	58,203	63%	37%	100%	($29)	$60	-3%	5%	($1,067,925)	$1,282,680
2000	31,173	24,138	55,311	56%	44%	100%	($25)	$31	-2%	3%	($779,325)	$748,278
2001	27,282	29,002	56,284	48%	52%	100%	($26)	$26	-2%	3%	($709,332)	$754,052
2002	20,010	36,998	57,008	35%	65%	100%	($21)	$16	-2%	2%	($420,210)	$591,968
2003	38,523	24,990	63,513	61%	39%	100%	($30)	$24	-3%	2%	($1,155,690)	$599,760
2004	43,587	22,096	65,683	66%	34%	100%	($30)	$18	-3%	2%	($1,307,610)	$397,728
TOTAL/AVG	**321,124**	**263,487**	**584,611**	**55%**	**45%**	**100%**	**($25)**	**$28**	**-3%**	**3%**	**($8,362,687)**	**$6,882,424**
										Net	**($1,480,263)**	

APPENDIX A: CITY OF VANCOUVER: COMPARISON OF IMPACTS OF LAND AVERAGING, 1995 TO 2004
GROUP B: MID-VALUE PROPERTIES
TAXABLE VALUE: $500,000 - $750,000

YEAR	# PROPERTIES			% PROPERTIES			AVERAGE DIFFERENCE PAID (SAVED) DUE TO AVERAGING ($)		AVERAGE DIFFERENCE PAID (SAVED) DUE TO AVERAGING (%)		TOTAL DIFFERENCE PAID (SAVED) DUE TO AVERAGING ($)	
	ADV	DISADV	TOTAL # GROUP B	ADV	DISADV	TOTAL % GROUP B	ADV	DISADV	ADV	DISADV	ADV	DISADV
1995	10,677	4,471	15,148	70%	30%	100%	($37)	$42	-2%	3%	($395,049)	$187,782
1996	11,610	4,150	15,760	74%	26%	100%	($51)	$34	-3%	2%	($592,110)	$141,100
1997	10,587	4,882	15,469	68%	32%	100%	($41)	$32	-2%	2%	($434,067)	$156,224
1998	5,023	10,174	15,197	33%	67%	100%	($35)	$54	-2%	3%	($175,805)	$549,396
1999	4,592	8,506	13,098	35%	65%	100%	($52)	$123	-3%	7%	($238,784)	$1,046,238
2000	6,534	6,491	13,025	50%	50%	100%	($43)	$85	-2%	5%	($280,962)	$551,735
2001	7,782	5,838	13,620	57%	43%	100%	($50)	$48	-3%	3%	($389,100)	$280,224
2002	7,886	6,454	14,340	55%	45%	100%	($46)	$32	-2%	2%	($362,756)	$206,528
2003	12,276	5,778	18,054	68%	32%	100%	($51)	$46	-3%	2%	($626,076)	$265,788
2004	12,180	9,460	21,640	56%	44%	100%	($51)	$32	-3%	2%	($621,180)	$302,720
TOTAL/AVG	**89,147**	**66,204**	**155,351**	**57%**	**43%**	**100%**	**($46)**	**$53**	**-3%**	**3%**	**($4,115,889)**	**$3,687,735**
										Net	**($428,154)**	

APPENDIX A: CITY OF VANCOUVER: COMPARISON OF IMPACTS OF LAND AVERAGING, 1995 TO 2004
GROUP C: HIGHER-VALUE PROPERTIES
TAXABLE VALUE: $750,000 - $1,000,000

YEAR	# PROPERTIES			% PROPERTIES			AVERAGE DIFFERENCE PAID (SAVED) DUE TO AVERAGING ($)		AVERAGE DIFFERENCE PAID (SAVED) DUE TO AVERAGING (%)		TOTAL DIFFERENCE PAID (SAVED) DUE TO AVERAGING ($)	
	ADV	DISADV	TOTAL # GROUP C	ADV	DISADV	TOTAL % GROUP C	ADV	DISADV	ADV	DISADV	ADV	DISADV
1995	2,254	2,311	4,565	49%	51%	100%	($41)	$55	-2%	2%	($92,414)	$127,105
1996	3,941	1,043	4,984	79%	21%	100%	($83)	$51	-4%	2%	($327,103)	$53,193
1997	4,097	1,074	5,171	79%	21%	100%	($82)	$39	-3%	2%	($335,954)	$41,886
1998	1,361	3,288	4,649	29%	71%	100%	($48)	$70	-2%	3%	($65,328)	$230,160
1999	1,146	2,527	3,673	31%	69%	100%	($92)	$178	-4%	7%	($105,432)	$449,806
2000	1,435	2,116	3,551	40%	60%	100%	($63)	$129	-2%	5%	($90,405)	$272,964
2001	1,965	1,623	3,588	55%	45%	100%	($58)	$64	-2%	2%	($113,970)	$103,872
2002	2,037	1,701	3,738	54%	46%	100%	($69)	$42	-3%	2%	($140,553)	$71,442
2003	2,288	2,628	4,916	47%	53%	100%	($49)	$63	-2%	2%	($112,112)	$165,564
2004	2,094	3,999	6,093	34%	66%	100%	($81)	$56	-3%	2%	($169,614)	$223,944
TOTAL/AVG	**22,618**	**22,310**	**44,928**	**50%**	**50%**	**100%**	**($67)**	**$75**	**-3%**	**3%**	**($1,552,885)**	**$1,739,936**
										Net	**$187,051**	