



## CITY OF VANCOUVER

### ADMINISTRATIVE REPORT

Date: March 30, 2004  
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TO: Standing Committee on City Services and Budgets  
FROM: General Manager of Corporate Services / Director of Finance  
SUBJECT: 2004 Property Tax Options: Tax Levy Distribution

#### **CONSIDERATION**

***THAT Council approve a shift in the property tax distribution equal to one percent of the 2004 general purposes tax levy (approximately \$4.3 million), applied proportionately from the non-residential classes (Class 2 Utilities, Class 4 Major Industrial, Class 5 Light Industrial and Class 6 Business/Other) to the residential classes (Class 1 Residential, Class 8 Seasonal/Recreational and Class 9 Farm).***

#### **GENERAL MANAGER'S COMMENTS**

***This report deals with the issue of how the property tax levy should be distributed among the property classes and the impacts of shifting that distribution from the non-residential classes to the residential class. Council has made decisions on this distribution in each year since 1994, following the recommendations of the Property Tax Task Force. It should be noted that prior to the shift, the 2004 tax levy is estimated to be split 43.3% residential classes and 56.7% non-residential 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.*

## **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**

The rationale for shifting the burden of the taxation from the non-residential classes to the residential classes 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.

### **Distribution of Tax Levy - Recent History**

From 1983, when municipalities received this authority, until 1994, Council generally maintained the relative taxation burden among property classes, allowing only for adjustments to the distribution resulting from property reclassifications, new construction and zoning changes.

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 the 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 were approved in each of 1994, 1995, 1997 and 2000. In 2003, Council approved a shift of one half of one percent of the 2003 general purposes tax levy. In addition, Council added approximately \$3.8 million in costs to the residential class in 1998 as part of the implementation of solid waste user fees. The six shifts in the property tax levy have resulted in approximately \$18.45 million being shifted from the non-residential classes to the residential classes over the past ten years. This represents a total reduction in taxes for non residential properties over this period in excess of \$115 million.

Table 1 contains a history of tax levy shifts from the non-residential classes to the residential classes since 1993. Appendix A contains a listing of the other major taxation program decisions made by Council since 1989.

These shifts have resulted in a change in the distribution of the property tax levy with the share paid by the residential classes increasing from 39.3% to 43.3%. This change in the ratio has occurred despite other influences that work against a change in the ratio, including the implementation of the solid waste and sewer utilities and the relative

impacts of growth in the assessment base among the classes of property. Had these factors not influenced the distribution of the tax levy, it is likely that the ratio would have shown an even greater shift.

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

| YEAR | % OF TAX LEVY: RESIDENTIAL | % OF TAX LEVY: RESIDENTIAL | TAX RATE RATIO CLASS 6:CLASS 1 | FACTORS AFFECTING LEVIES  |
|------|----------------------------|----------------------------|--------------------------------|---|
| 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<br>Phase 1 of sewer utility implementation                                   |
| 2001 | 41.8%                      | 54.2%                      | 4.9                            | Phase 2 of sewer utility implementation   |
| 2002 | 42.2%                      | 43.8%                      | 5.0                            | -   |
| 2003 | 42.9%                      | 53.4%                      | 5.2                            | Shift of \$2.05 million to Class 1  |
| 2004 | 43.3%                      | 52.8%                      | 5.4                            | ← If no shift   |
| 2004 | 44.3%                      | 51.8%                      | 5.2                            | ← If \$4.3 million shifted to Class 1   |

**Notes to Table 1**

1. The tax ratio is affected by interventions such as land averaging and tax capping, as well as by 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.

## DISCUSSION

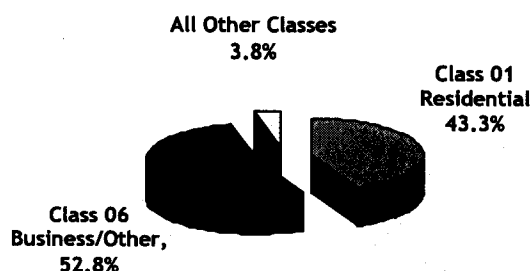
There are a number of approaches that can be taken to tax distribution and, there is no "right" answer to the question of how the tax burden should be distributed among the property classes. One of the reasons municipal councils in British Columbia were given the power to determine this distribution, starting in 1983, was to ensure that local circumstance and taxation policy could be reflected in each municipality's tax distribution. However, implicit in its decisions since 1994, is an acknowledgement by Council that the non-residential classes bear a disproportionate share of the property tax levy.

### The 2004 Tax Year

March 9<sup>th</sup>, 2004, Council approved a property tax increase of 2.93%. Prior to the consideration of the shift in the distribution of property taxes, this increase will be applied to the levy of each property class. On March 25<sup>th</sup>, 2004, Council approved the use of averaged land values in the calculation of taxable value for the Class 01 Residential and Class 06 Business classes for 2004.

Following these decisions, the relative shares of the 2004 tax levy for Class 01 and Class 06 are anticipated to be approximately 43.3% and 52.8% respectively, prior to consideration of a further shift.

FIGURE 1. DISTRIBUTION OF 2004 TAX LEVY,  
WITH NO TAX SHIFT



The following analysis looks at the impacts of a \$4.3 million (one percent) shift of the property tax levy from non-residential properties to residential properties.

### Modelling the Impacts of Tax Burden Shifting

The tax modelling is based on samples of Class 01 and Class 06 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 as the tax levy distribution decision made by Council will not impact on the levies of other taxing authorities.

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.

Because the averaged assessment roll produced by BCAA is not available for this modelling, the same database and averaging calculation used in the land averaging

decision has been utilized in this analysis. In total, it is anticipated the impacts will not be significantly different than those produced by the final averaged roll.

**Tax Impacts: Base Case versus Shift Scenario**

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 2.93% increase to the tax levy.

The shift scenario starts with these same assumptions, and incorporates an adjustment to the tax levy distribution in which \$4.3 million is removed proportionately from the non residential classes (the utilities, major industrial, light industrial and business classes) and added to the residential classes.

Comparisons of the distributions of tax increases for Classes 01 and 06 under the base case versus the shift scenario are shown in Appendices B and C. Tables 2 and 3 following, lay out the implications of such a shift.

**Table 2. ONE PERCENT SHIFT IN TAX LEVY,  
 IMPACTS ON CLASS 1 RESIDENTIAL PROPERTY CLASS IN 2004**

|   | BASE CASE | \$4.3 M SHIFT | \$ CHANGE | % CHANGE |
|---|-----------|---------------|-----------|----------|
| Tax levy (\$ millions)                  | \$187.6   | \$191.9       | \$4.3     | 2.3%     |
| Tax Rate (per \$1,000 taxable value)    | \$3.058   | \$3.128       | \$0.07    | 2.3%     |
| Average \$ change in taxes over 2003    | \$37      | \$65          | -         | -        |
| Average % change in taxes over 2003     | 3.1%      | 5.4%          | -         | -        |
| # properties > 6% tax increase          | 29,076    | 56,790        | -         | -        |
| # properties > 6% tax increase, % total | 20%       | 40%           | -         | -        |

The impact of a tax shift on the average class 01 property is an additional property tax increase of \$0.07 per \$1,000 of taxable value (2.3%) above the base case, or an increase of about \$30 on the average residential property. When compared to 2003, a 1% shift results in an increase in taxes of \$65 on the average residential property, compared to \$35 if the 1% shift is not approved. Finally, a decision to shift the tax burden will result in approximately 56,790 properties experiencing a tax increase exceeding 6% compared to only 29,076 if no shift is approved.

**Table 3. ONE PERCENT SHIFT IN TAX LEVY,  
 IMPACTS ON CLASS 6 BUSINESS PROPERTY CLASS IN 2004**

|   | BASE CASE | \$4.3 M SHIFT | \$ CHANGE | % CHANGE |
|---|-----------|---------------|-----------|----------|
| Tax levy (\$ millions)                  | \$229.0   | 224.9         | (\$4.1)   | (1.8%)   |
| Tax Rate (per \$1,000 taxable value)    | \$16.626  | \$16.326      | (\$0.30)  | (1.8%)   |
| Average \$ change in taxes over 2003    | \$448     | \$102         | -         | -        |
| Average % change in taxes over 2003     | 2.3%      | 0.5%          | -         | -        |
| # properties > 6% tax increase          | 2,916     | 2,296         | -         | -        |
| # properties > 6% tax increase, % total | 28%       | 22%           | -         | -        |

*Notes for Tables 2 & 3*

1. *Analysis uses three-year averaged land values and assumes a 2.93% tax increase over 2003*
2. *\$0.3 million is shifted from non-residential classes other than Class 6 (the utilities, light and heavy industry classes).*

The impact of a tax shift on the average class 06 property is a property tax reduction of \$0.30 per \$1,000 of taxable value (1.8% below the base case). For a property valued at \$500,000, this savings will be approximately \$150. Appendix D indicates the impacts of this shift on a sample of commercial properties.

**CONCLUSION**

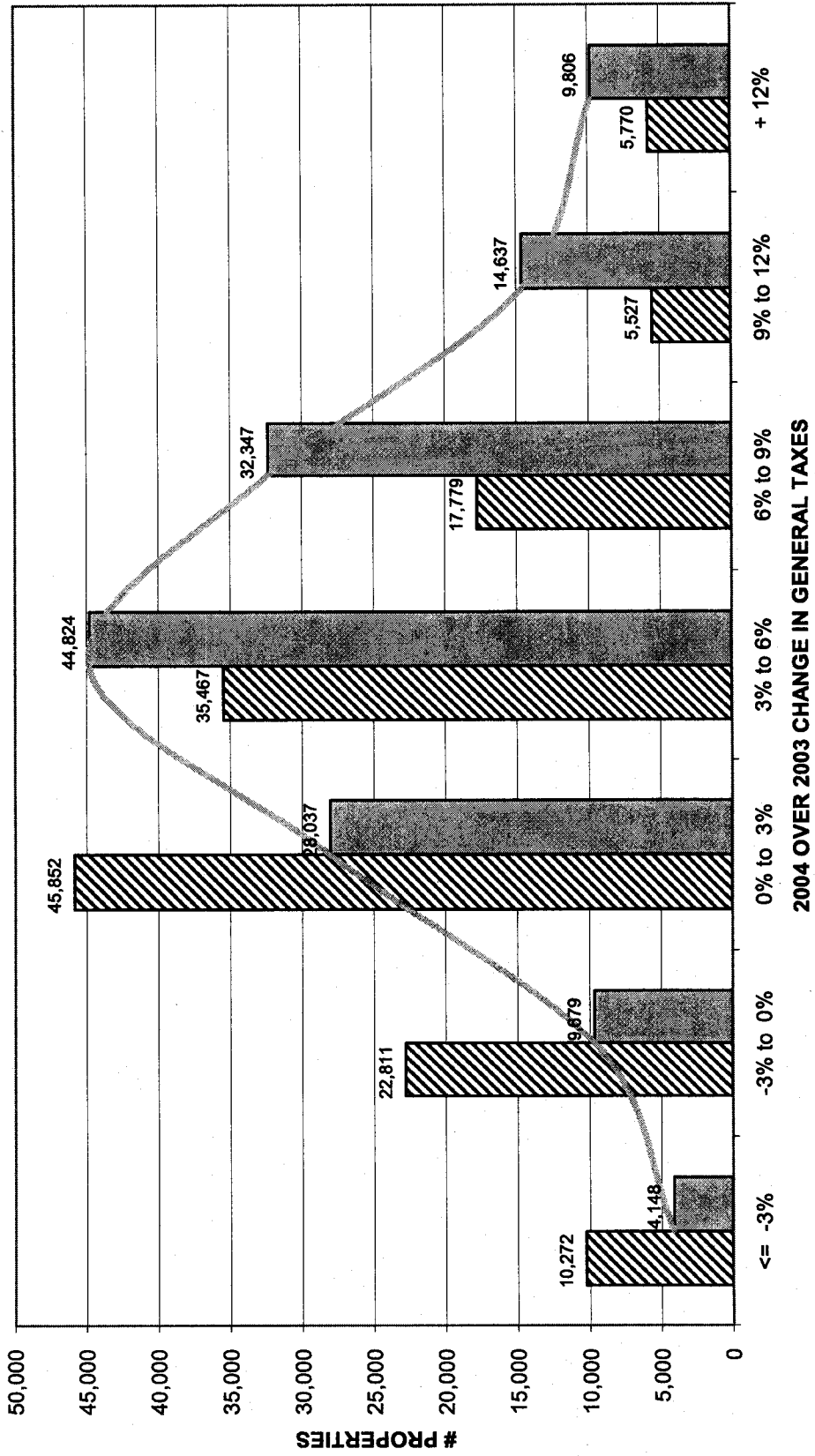
Shifting the burden of taxation from the non-residential to the residential classes by \$4.3 million will impact residential properties by increasing their tax rate by 2.3% and the non-residential classes by decreasing their tax rates by 1.8%. As Council has not adopted a specific policy concerning changes 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

|      | CLASS 1 RESIDENTIAL   | CLASS 6 BUSINESS/OTHER   |
|------|---|--|
| 1989 | <ul style="list-style-type: none"> <li>Capped land value increases at 61%</li> </ul>  | <ul style="list-style-type: none"> <li>Capped tax increases at 40%</li> </ul>  |
| 1990 | <ul style="list-style-type: none"> <li>No adjustment to taxation methodology</li> </ul>   | <ul style="list-style-type: none"> <li>Capped tax increases at 10.1%</li> </ul>  |
| 1991 | <ul style="list-style-type: none"> <li>Capped tax increases at 5.5%</li> <li>No limit on tax credit</li> </ul>  | <ul style="list-style-type: none"> <li>Capped tax increases at 7.5%</li> <li>\$400,000 limit on tax credit</li> </ul>  |
| 1992 | <ul style="list-style-type: none"> <li>Capped tax increases at 6.0%</li> <li>\$5,000 limit on tax credit</li> </ul>   | <ul style="list-style-type: none"> <li>Capped tax increases at 10.0%</li> <li>\$100,000 limit on tax credit</li> </ul>   |
| 1993 | <ul style="list-style-type: none"> <li>Implemented three-year land value averaging</li> <li>Tax increases capped at 25% for select properties</li> </ul>                                  | <ul style="list-style-type: none"> <li>Implemented three-year land averaging</li> <li>Tax increases capped at 25% for select properties</li> </ul>   |
| 1994 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>Tax increases capped at 10% for select properties</li> <li>\$500 limit on tax credit</li> </ul> | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>Tax increases capped at 10% for select properties</li> <li>\$15,000 limit on tax credit</li> </ul>                                 |
| 1995 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>No tax capping</li> </ul>   | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>Tax increases capped at 15% for select properties under a phasing out methodology</li> <li>\$10,000 limit on tax credit</li> </ul> |
| 1996 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>No tax capping</li> </ul>   | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>Tax increases capped at 20% for select properties under a phasing out methodology</li> <li>\$7,500 limit on tax credit</li> </ul>  |
| 1997 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>No tax capping</li> </ul>   | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>Tax increases capped at 25% for select properties under a phasing out methodology</li> <li>\$5,000 limit on tax credit</li> </ul>  |
| 1998 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>Implemented the Solid Waste Utility</li> </ul>  | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>  |
| 1999 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>   | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>  |
| 2000 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>Phase I of Sewer Utility implementation (50% sanitary fee)</li> </ul>                           | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>  |
| 2001 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> <li>Phase II of Sewer Utility implementation (100% sanitary fee)</li> </ul>                         | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>  |
| 2002 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>   | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>  |
| 2003 | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>   | <ul style="list-style-type: none"> <li>Continued three-year land value averaging</li> </ul>  |

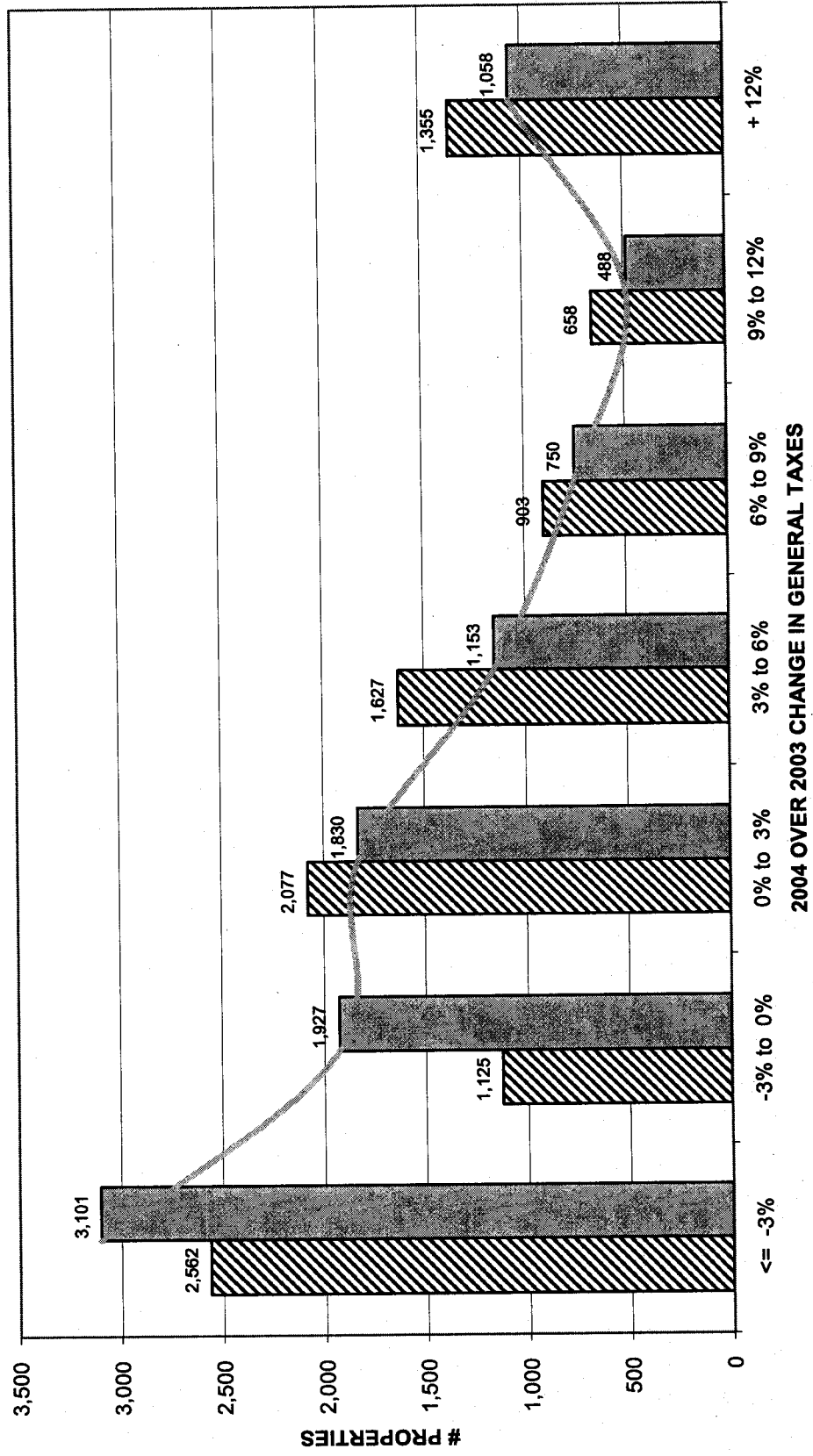
APPENDIX B. \$4.3 MILLION SHIFT TO RESIDENTIAL CLASS  
IMPACTS ON CLASS 1 RESIDENTIAL PROPERTIES



▨ Base Case: No Shift    ▤ \$4.1 Million Shift



APPENDIX C. \$4.3 MILLION SHIFT TO RESIDENTIAL CLASS  
IMPACTS ON CLASS 6 BUSINESS PROPERTIES



▨ Base Case: No Shift    ■ \$4.3 Million Shift

**Sample Class 6 Properties  
Impacts of Shifting**

This appendix summarizes the tax impacts on sample class 6 properties as a result of shifting 1% of the property tax levy from the non-residential classes to the residential classes. In this summary:

“*Base Taxes*” are the anticipated general purpose taxes in 2004 with all tax decisions except shifting reflected.

“*Shift Taxes*” are the anticipated general purpose taxes in 2004 calculated with a 1% tax burden shift included.

“*2004 Shift Savings*” are the savings achieved from the 2004 Base Taxes as a result of the 1% tax burden shift. Negative values reflect an increase in taxes.

“*Shift Savings over 2003*” reflects the change in taxes on the sample properties from 2003 to 2004 if the tax burden shift is approved. Negative values reflect an increase in taxes.

**6690 Victoria Drive  
49<sup>th</sup> and Victoria Drive  
Corner Food Store**

| Value                   | \$259,000  | \$226,000  |
|-------------------------|------------|------------|
| 2003 General Taxes      | \$4,232.99 |            |
| 2004 Base Taxes         |            | \$3,757.48 |
| 2004 Shift Taxes        |            | \$3,689.90 |
| 2004 Shift Savings      |            | \$67.57    |
| Shift Savings over 2003 |            | \$543.09   |

**2262 Naniamo Street  
6<sup>th</sup> and Naniamo Street  
Corner Food Store**

| Value                   | \$92,000   | \$99,400   |
|-------------------------|------------|------------|
| 2003 General Taxes      | \$1,635.04 |            |
| 2004 Base Taxes         |            | \$1,652.62 |
| 2004 Shift Taxes        |            | \$1,622.90 |
| 2004 Shift Savings      |            | \$29.72    |
| Shift Savings over 2003 |            | \$12.14    |

**3122 Blenheim Street  
16<sup>th</sup> and Blenheim Street  
Corner Food Store**

| Value                   | \$369,700 | \$399,000  |
|-------------------------|-----------|------------|
| 2003 General Taxes      | \$6050.78 |            |
| 2004 Base Taxes         |           | \$6,633.77 |
| 2004 Shift Taxes        |           | \$6,514.47 |
| 2004 Shift Savings      |           | \$119.30   |
| Shift Savings over 2003 |           | (\$463.69) |

**5680 Main Street**  
**41<sup>st</sup> Avenue and Main Street**  
**Retail/Food Complex**

|                                |                    |                    |
|--------------------------------|--------------------|--------------------|
| <b>Value</b>                   | <b>\$1,463,000</b> | <b>\$1,450,000</b> |
| <b>2003 General Taxes</b>      | <b>\$23,944.54</b> |                    |
| <b>2004 Base Taxes</b>         |                    | <b>\$24,107.70</b> |
| <b>2004 Shift Taxes</b>        |                    | <b>\$23,674.15</b> |
| <b>2004 Shift Savings</b>      |                    | <b>\$433.55</b>    |
| <b>Shift Savings over 2003</b> |                    | <b>\$270.39</b>    |

**595 Burrard Street**  
**Burrard and Dunsmuir Streets**  
**Office/Retail/Food Complex**

|                                |                       |                       |
|--------------------------------|-----------------------|-----------------------|
| <b>Value</b>                   | <b>\$101,768,000</b>  | <b>\$99,568,000</b>   |
| <b>2003 General Taxes</b>      | <b>\$1,665,610.40</b> |                       |
| <b>2004 Base Taxes</b>         |                       | <b>\$1,655,417.57</b> |
| <b>2004 Shift Taxes</b>        |                       | <b>\$1,625,646.74</b> |
| <b>2004 Shift Savings</b>      |                       | <b>\$29,770.83</b>    |
| <b>Shift Savings over 2003</b> |                       | <b>\$39,963.66</b>    |