



CITY OF VANCOUVER ADMINISTRATIVE REPORT

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Meeting Date: September 28, 2006

TO: Standing Committee on City Services and Budgets

FROM: General Manager of Corporate Services / Director of Finance

SUBJECT: City of Vancouver Property Tax Policy Review Commission

RECOMMENDATIONS

- A. THAT Council approve the establishment of a Property Tax Policy Review Commission, whose mandate will be to recommend to Vancouver City Council:
 - i. a long-term policy for defining and achieving a "fair" distribution of the property tax levy and addressing the perceived inequity in the share of the City of Vancouver's property tax levy that is paid by the non-residential property classes, as compared to the share paid by the residential property class, and
 - ii. 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 within property classes.
- B. THAT Council approve the Terms of Reference for the Property Tax Policy Review Commission as laid out in Appendix A of this report.

- C. THAT City Council direct its Nominations Sub-Committee to report to Council by October 31, recommending a Chairperson and two additional members to make up the City of Vancouver Property Tax Policy Review Commission, following the nominations process and selection criteria laid out in Appendix B of this report.

- D. THAT Council approve a \$100,000 preliminary budget for the Property Tax Policy Review Commission, with source of funds to be the 2006 Contingency Reserve, and instruct the Commission Chairperson, in consultation with the Director of Finance, to report back to Council with any further financial requirements of the Commission.

CITY MANAGER'S COMMENTS

The central question concerning tax policy faced by Council is how to apportion the cost of the City's tax-supported services among the various classes of property (termed the *tax distribution*). Because the City must raise a fixed amount of funds with property taxes in order to support its operating budget, any time Council lowers the share of the tax levy paid by one property class, other property classes will pay more. In making this decision, Council can consider factors such as ability to pay, benefits received, land use impacts, regional or national comparators and/or anecdotal evidence of tax impacts, but in the end, there is no objectively "right" or "wrong" distribution.

Because of the lack of a definitive answer to the question of how to apportion the tax levy among property classes, as well as perceived staff and/or political bias around this topic, staff believes that the issue would be best assessed by an arm's-length Commission. For this process to be successful, it is important that each Commission member has expertise in the field of public finance and/or property taxation, and, equally importantly, possesses a willingness to approach the issue objectively in order to make recommendations to Council that are best for Vancouver as a whole. Through the work of this Commission, Council will be in a better position to make long-term tax policy decisions that will affect the City and its taxpayers.

The City Manager RECOMMENDS approval of Recommendations A, B, C and D.

COUNCIL POLICY

Since 1983, it has been Council policy to collect a fixed share of the total property tax levy from each of the seven property classes in Vancouver. Over time, these shares have been adjusted slightly as the result of property transfers between classes, the addition of new construction value to property classes, and Council decisions that have affected the tax distribution. On April 28, 2005 and again on April 20, 2006, Council confirmed the existing policy of managing the property tax levy through this “fixed share” approach.

On July 20, 2006, Council adopted a series of recommendations arising from the *Report of the Roles, Relationships and Responsibilities Committee*. Some of these pertain to the Commission recommended in the current report, such as the recommendations concerning governance principles, the code of conduct, assessment criteria for the advisory bodies, as well as various recommendations concerning appointments to advisory bodies. The recommendations of the *Report the Roles, Relationships and Responsibilities Committee* will be distributed to Commission members.

PURPOSE

This report provides Council with a recommended process for establishing and supporting a Property Tax Policy Review Commission, including Terms of Reference, a membership appointment process and a preliminary budget for the Commission.

BACKGROUND

For the past several years, representatives of the Vancouver business community have raised concerns with Council about the level of property taxes levied on non-residential property owners. This is a complex issue that has been studied extensively by City staff and by series of Council-appointed citizens’ advisory bodies through the 1990s.

Council has acted on many of the recommendations of these advisory bodies, for example, significantly reducing the overall tax levy through the creation of sewer and solid waste utilities, lessening the tax impacts of sudden, large changes in market value through the consistent use of three-year year averaged land values in tax calculations, and in several years since 1994, shifting a portion of the tax levy from the non-residential to the residential classes.

The following table provides an overview of the work done by advisory bodies, consultants and City staff in the recent past.

TABLE 1. OVERVIEW OF RECENT ADVISORY BODIES, CONSULTING AND STAFF WORK ON PROPERTY TAX POLICY

DATE	WORK UNDERTAKEN	MANDATE & DELIVERABLES
1993 - 1994	Property Tax Task Force	Reviewed the property tax system and assessment process, with a particular emphasis on commercial taxes, and recommended to City Council what changes in the assessment and/or taxation systems the City should undertake within its own authority and what changes should the City propose to the provincial government for legislative consideration. Delivered April 1994 report, <i>Task Force on Property Taxation Report to Council</i> .
March 1995	KPMG Consulting	Hired on the recommendation of the Property Tax Task Force, to provide an estimated breakdown of the consumption of City services between residential and non-residential property classes. Delivered March 1995 report, <i>Study of Consumption of Tax-Supported of City Services</i> .
1994-1995	Property Tax Advisory Committee	Served as an advisory body to KPMG Consulting through the preparation of the 1995 <i>Study of Consumption of Tax-Supported of City Services</i> .
1995-2001	Citizens' Advisory Group on Property Taxation	Continued the work undertaken by the Property Tax Task Force and the Property Tax Advisory Committee, with an ongoing mandate to provide comment to Council on property tax policy matters.
April 2005	Council report	Staff report reviewed Council's property tax policy and methodology, and reaffirmed Council's policy of calculating property taxes using a fixed share approach to tax distribution. Report contained a detailed history of the City's property tax policy, methodology and issues. <i>2005 Property Taxation: Distribution of the Property Tax Levy</i> (RTS no. 5041).
April 2006	Council report	Staff report reviewed Council's property tax policy and methodology, with a focus on detailed analysis of tax distribution options available to Council, including the option proposed by the Vancouver Fair Tax Coalition. <i>2006 Property Taxation: Distribution of Property Tax Levy</i> (RTS no. 5776).

NOTE TO TABLE 1

All reports referenced in this table are available through the City of Vancouver City Clerk's Office.

Despite the measures that have been taken by Council, property tax levels for non-residential classes remain an issue for the business community. The Vancouver Fair Tax Coalition (VFTC, headed by the Vancouver Board of Trade and made up of representatives from local business improvement associations, small business owners and managers, industrial and office property owners and developers and business associations) has argued that there is a fundamental inequity in the current distribution of the tax levy. The VFTC has appealed to Council for lower non-residential property taxes, and for a mechanism that would buffer businesses from the tax impacts of sudden, large year-over-year increases in property values.

In response to this, at the April 20, 2006 City Services and Budgets Committee meeting, Council approved the following recommendation:

THAT Council instruct staff to propose a process to engage the business community, residential taxpayers and other key stakeholders to arrive at a long-term goal of defining and achieving a "fair tax" for commercial taxpayers. The goal should be achieved within the current framework of a "fixed burden" approach where the allocation of the levy among the classes of property remains constant over time subject to physical changes within classes or to Council action, and the report is to articulate processes on how shifts might occur.

This current report is provided to Council in response to this recommendation, laying out a recommended process for evaluating the City's current tax policy, and for making recommendations for changes to existing policy.

DISCUSSION

Establishing a Tax Policy Review Commission

This current report recommends that Council establish a three-person Commission, to be charged with the task of reporting to Council on the following five deliverables.

TABLE 2. SUMMARY OF TAX POLICY REVIEW COMMISSION'S DELIVERABLES
(DETAIL IN APPENDIX A)

DELIVERABLE	DESCRIPTION
1. ASSESSMENT OF CURRENT PROPERTY TAX POLICIES	Provide Council with an assessment of the City's current property tax policies, and an analysis of the impact of these policies on Vancouver's business, industrial and residential taxpayers. Explicitly identify which evaluation criteria and measures are used in this analysis.
2. FAIR TAX DISTRIBUTION TARGET	Recommend to Council a definition of a "fair tax," expressed as a set of target percentage shares of the City's property tax levy among the various property classes.
3. IMPLEMENTATION STRATEGY	Recommend a strategy that would allow Council to arrive at the recommended fair tax distribution target, with specific timelines identified.
4. LONG-TERM POLICY & MECHANISM	Recommend to Council a long-term policy and mechanism that would allow Council to permanently maintain a fair tax distribution among the City's property classes.
5. STRATEGY FOR ENHANCED STABILITY & PREDICTABILITY	Assess the causes of the negative tax impacts of year-over-year land value changes for properties located in market "hot spots," where forces such as market activity or zoning changes lead to a rapid increase in property taxes for certain properties, and recommend to Council measures that could be implemented to mitigate these impacts, for both residential and non-residential properties.

Why a Commission?

Council has a history of establishing commissions to address issues that are complex, and cannot necessarily be answered through quantifiable, objective analysis alone. A properly-composed commission can undertake independent, objective work on a topic, and effectively remove perceived and/or real staff or political bias when developing recommendations to Council.

Some recent examples where commissions have contributed to Council's decision-making process include the following.

- In 1989, a *Municipal Taxation Review Commission* was established to address sudden year-over-year increases in property taxes due to rapid increases in market value in some of the city's neighbourhoods.

- In 2003, a *Commission on Electoral Reform* was established to address the question of implementing an electoral system based on wards.
- In 2006, a *Roles, Relationships and Responsibilities Review Committee* was established to provide advice to Council on various aspects of the City's governance.

It is the opinion of City staff that a commission comprised of individuals who understand the issues at hand, and at the same time can assess the issue objectively, is the best way to approach the question of tax distribution policy at this time.

Timeline

The Commission is expected to deliver their recommendations to City Council by March 1, 2007, in time for implementation for the City of Vancouver's 2007 taxation year. Should the work of the Commission not be completed by that date, the recommendations made at that time can be made as interim recommendations, with the final recommendations of the Commission to be delivered to Council no later than June 1, 2007.

Commission Membership

It is recommended that the Commission be comprised of a Chairperson plus two other members, to be recommended to Council by the Nominations Sub-Committee of City Council, using the following selection criteria:

- a. have a strong technical expertise in taxation, public finance and/or economics,
- b. possess a willingness to approach the issue and make recommendations to City Council objectively,
- c. have an appreciation of the impacts of any changes to the tax distribution on both residential and non-residential taxpayers, and
- d. be deemed by the Nominations Sub-Committee to have no conflict of interest serving on this Commission.

Appendix B contains the proposed selection process and selection criteria for the Commission members.

FINANCIAL IMPLICATIONS

The Commission will be provided a preliminary budget of \$100,000 to pay for operating costs, which may include contract or consulting services, public forums, honoraria, advertising, printing, meeting expenses and/or office supplies. The Terms of Reference recommend a one-time honorarium of \$15,000 for the Commission Chair, and \$10,000 one-time honoraria for each of the other two Commissioners. The rest of the budget is to be developed in consultation with the City of Vancouver Director of Finance. In addition to this budget, the City will provide staff support to the Commission as required. If it is determined that the Commission needs funding over and above the preliminary budget amount, this will be reported to Council.

CONCLUSION

The question of how to apportion the City's property tax levy among property classes must be answered by balancing a number of factors, none of which provides a conclusive "right" or "wrong" tax distribution. The Vancouver Fair Tax Coalition, representing a wide range of Vancouver business owners, has been appealing to City Council in recent years to establish a policy that will create a "fair tax" for commercial property taxpayers, and will buffer the effects of sudden, large changes in market land values for individual properties located in market "hot spots."

This report recommends that Council establish a Property Tax Policy Review Commission that will recommend to Council a tax distribution target, a strategy for achieving and maintaining that target, as well as a strategy for enhancing the stability and predictability of property taxes for taxpayers.

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APPENDIX A
TERMS OF REFERENCE FOR THE CITY OF VANCOUVER
PROPERTY TAX POLICY REVIEW COMMISSION

1. OBJECTIVE

The Property Tax Policy Review Commission has been established to engage Vancouver's business and residential communities, as well as other key stakeholders, in order to:

- recommend to Vancouver City Council a long-term policy that will define and achieve a "fair tax" for commercial property taxpayers, addressing the perceived inequity in the share of the City of Vancouver's property tax levy that is paid by the non-residential property classes, as compared to the share paid by the residential property class, and
- to 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.

2. BACKGROUND

2.1 Purpose of the review – The Property Tax Distribution Commission has been established by Council in response to concerns expressed to Council by the business community about the impacts of the City's current property tax policy on the health and competitiveness of Vancouver's economy. In recent years, the Vancouver Fair Tax Coalition (led by the Vancouver Board of Trade, and made up of representatives from local business improvement associations, small business owners and managers, industrial and office property owners and developers and business associations) has been telling City Council that they feel annual property tax increases are exceeding local business's ability to pay and are affecting the long-term competitiveness of business in Vancouver. They also feel that Council's land policy has been resulting in disproportionate growth of the residential class, and that these policies may ultimately be counter-productive to achieving the City's long-term goals.

In response, on April 20, 2006, Council recommended:

THAT Council instruct staff to propose a process to engage the business community, residential taxpayers and other key stakeholders to arrive at a long-term goal of defining and achieving a "fair tax" for commercial taxpayers. The goal should be achieved within the current framework of a "fixed burden"

approach where the allocation of the levy among the classes of property remains constant over time subject to physical changes within classes or to Council action, and the report is to articulate processes on how shifts might occur.

2.2 Study of Consumption of Tax-Supported Services – In 1995, at the recommendation of the Property Tax Task Force, Council commissioned KPMG Consulting to undertake a review of the consumption tax-supported City services by the residential and non-residential classes of property. The report was received by Council and has formed part of the rationale for the shifts of property taxation from the non-residential to the residential property classes in subsequent years. On July 18, 2006, Council commissioned MMK Consulting to undertake an update of this 1995 study. It is expected that the results of this work will be used by the Commission as an important component of their review of the City's property tax distribution.

2.3 The Current Tax Distribution – This table shows the share of the City of Vancouver's property tax levy paid by each of the seven property classes in 2006.

	2006 TAX LEVY (\$000s)	% SHARE
Class 1 - Residential	\$214,239	44.9%
Class 2 - Utilities	\$6,296	1.3%
Class 4 - Major Ind.	\$5,542	1.2%
Class 5 - Light Ind.	\$4,529	0.9%
Class 6 - Business	\$246,451	51.6%
Class 8 - Seasonal	\$291	0.1%
Class 9 - Farm	< \$1	< 0.0%
Total	\$477,348	100.0%

3. DELIVERABLES

The Property Tax Distribution Commission is asked to report to Council on the following items.

3.1 Assessment of Current Policies – Review the City of Vancouver's current property tax policies, and analyse the impact of these policies on Vancouver's business, industrial and

residential taxpayers, highlighting key issues and identifying any inequities. Include as part of this work the following:

- a. *Evaluation Criteria* – Recommend to Council the appropriate criteria to use to assess the fairness of the City’s property tax policies. The Commission can use as a starting point the evaluation criteria set out in the April 1994 *Task Force on Property Taxation Report to Council*. Evaluation criteria may include benefits received, ability to pay, equal treatment of equals, accountability, stability and predictability of taxes for an individual property from year to year, cost of administering and collecting the tax, socioeconomic impacts of the tax and/or impact of the tax on the competitiveness of Vancouver businesses.
- b. *Appropriate Measures* – Recommend to Council the appropriate measures to use in order to assess the impact of the City’s property tax policies on taxpayers within each of the City’s property classes, to determine the fairness of the City’s property tax policies, and to understand the impact of Vancouver’s property taxes on commercial competitiveness. The Commission is asked to select measures that can be calculated using supportable, proven methodology, and to ensure that any comparisons made between Vancouver and other cities are meaningful, taking into account the considerable differences among municipalities in property tax and assessment systems, methodologies, market values and property types.

3.2 Fair Tax Target Distribution Target – Recommend to Council a definition of a “fair tax,” expressed as a set of target percentage shares of the City’s property tax levy among the various property classes.

3.3 Implementation Strategy – Recommend a strategy that would allow Council to arrive at the recommended fair tax distribution target, with specific timelines identified.

3.4 Long-Term Policy and Mechanism – Recommend to Council a long-term policy and mechanism that would allow Council to permanently maintain a fair tax distribution among the City’s property classes.

3.5 Strategy for Enhanced Stability and Predictability – Assess the causes of the negative tax impacts of year-over-year land value changes for properties located in market “hot spots,” where forces such as market activity or zoning changes lead to a rapid increase in property taxes for certain properties, and recommend to Council measures that could be implemented to mitigate these impacts, for both residential and non-residential properties.

4. PRINCIPLES AND GUIDELINES

The Commission is asked to undertake their work using the following principles and guidelines.

- 4.1 Equity** – Members of the Commission should have an appreciation of the impacts of any changes to the tax distribution on all classes of taxpayers.
- 4.2 Sustainability** – The recommendations made to Council by the Commission should be consistent with the City's long-term objectives concerning economic, fiscal and social sustainability.
- 4.3 Independence and objectivity** – Members of the Commission should serve independently, and to the best of their abilities make recommendations to Council that will result in the best possible outcome for Vancouver as a whole, without favouring any one stakeholder group over another.
- 4.4 Simplicity** – Any recommended changes to the City's property tax policies should be simple, transparent, and readily understandable by the City's taxpayers and other stakeholders.
- 4.5 Consultation** – The Commission should appropriately engage the business community, residential taxpayers and other key stakeholders in the process undertaken to arrive at their recommendations.
- 4.6 Transparency** – The work done by the Commission should be transparent, with the Commission's process and recommendations reported to Council and available to the public.
- 4.7 Maintain Fixed-Share Approach** – The recommendations of the Commission should be developed within Council's current tax policy framework of a "fixed share" approach to determining the property tax distribution, in which the share of the total tax levy allocated among property classes is determined by Council rather than by changes to market values.
- 4.8 Municipal Taxes Only** – The work of the Commission should be limited to a review of the distribution of property taxes levied by the City of Vancouver (termed "general taxes"), and should not include property taxes collected by the City of Vancouver on behalf of other taxing authorities.

5. SCHEDULE

1. The Commission is expected to deliver recommendations to City Council by March 1, 2007, in time for implementation for the City of Vancouver's 2007 taxation year.

2. Should the work of the Commission not be completed by March 1, 2007, the recommendations made at that time can be made as interim recommendations, with the final recommendations of the Commission to be delivered to Council no later than June 1, 2007.
3. The number of Commission meetings and the schedule for these meetings will be determined by the Commission members.
4. The stakeholder consultation process will include opportunities for public input; the specific details of and the schedule for this process will be determined by the Commission members.

6. WORKING RELATIONSHIPS

1. **Vancouver City Council** – The Commission will make recommendations to Council that address each of the items listed in the Deliverables section of these Terms of Reference.
2. **City of Vancouver Staff** – City staff support will be made available to the Commission. The Director of Finance will provide financial data as requested by the Commission, and will manage the Commission's requests for any other staff support or services.
3. **Stakeholders** – The Commission will determine the appropriate process for incorporating into their work input from various non-residential and residential taxpayer groups, plus any other stakeholders that wish to have input into this process.
4. **Professional and Academic Experts** – In the course of their work, the Commission may wish to consult various professional and/or academic experts in the field of property taxation or public finance.

7. HONORARIA AND BUDGET

1. The Commission will be allocated a preliminary budget of \$100,000.
2. \$35,000 of the Commission's budget will be allocated to honoraria paid to the Commissioners: \$15,000 to the Chair and \$10,000 to each of the other two Commissioners.
3. Spending the discretionary component of the budget will be determined by the Chair in consultation with the City of Vancouver's Director of Finance.
4. The Commission Chairperson, in consultation with the Director of Finance, will report back to Council with any further financial requirements of the Commission.

CITY OF VANCOUVER TAX POLICY REVIEW COMMISSION, PRELIMINARY BUDGET

Honorarium, Chairperson	\$15,000
Honoraria, Other Two Commissions	\$20,000
Discretionary Budget	\$65,000
Total Budget	\$100,000

8. BACKGROUND MATERIALS

The following is a list of important background documents and information for Commission members. City staff will provide the Commission any other available documentation and data that is requested.

DATE	DOCUMENT / REFERENCE
1979	<i>1979 Assessment Act, Chapter 21 and various amendments</i>
1982	<i>Municipal Expenditures Restraint Act Chapter 22 (assented to June 2, 1982)</i>
1983	<i>Property Tax Reform Act, No. 1 1983, Chapter 23 & The Property Tax Reform Act, No 2, 1983, Chapter 24, as well as related Table of Statutes, updated to December 31, 1996</i>
1983	<i>British Columbia Gazette, December 27, 1983</i>
1984	<i>Variable Tax Rates: A Guide to Implementation, Province of British Columbia Ministry of Municipal Affairs</i>
1984	Local Government Act, Tax Rate Limits Regulation
1989	<i>Report of the Municipal Taxation Review Commission, March 1989</i>
1994	<i>City of Vancouver Task Force on Property Taxation Report to Council, April 1994</i>
1995	<i>Study of Consumption of Tax-Supported City Services, KPMG Consulting , March 1995</i>
1996	Local Government Act; Sechelt Indian Government District Enabling Act, Vancouver Charter – Taxation Rate Cap for Class 2 Property Regulation, November 18, 1996
2004	<i>Enhancing Toronto's Business Climate – It's Everybody's Business, Attachment 2, 2004 Public Consultation – Synopsis of Tax Policy Workshop Comments (www.toronto.ca/finance/tax_policies.htm)</i>
2004	Local Government Act, Improvement District Tax Regulation
2005	Council report, <i>2005 Property Taxation: Distribution of Property Tax Levy</i> and associated meeting minutes, April 28, 2005
2006	Council report, <i>2006 Property Taxation: Distribution of the Property Tax Levy</i> and associated meeting minutes, April 20, 2006
2006	Report of the City of Vancouver Roles, Relationships and Responsibilities Review Committee and associated meeting minutes, July 20, 2006
2006	<i>Comparison of Municipal Operating Expenditures</i> , prepared for the Fair Tax Coalition by MMK Consulting, March 16, 2006
2006	<i>City of Vancouver 2005 Annual Financial Report, March 2006</i>
Currently underway	City of Vancouver Metropolitan Core Jobs and Economy Land Use Plan – www.city.vancouver.bc.ca/commsvcs/planning/corejobs

DATE	DOCUMENT / REFERENCE
Currently underway	Update to the Study of Consumption of Tax-Supported Services, by MMK Consulting Inc.

APPENDIX B
SELECTION PROCESS AND CRITERIA FOR THE CITY OF VANCOUVER
PROPERTY TAX POLICY REVIEW COMMISSION

1. The Property Tax Policy Review Commission is to be comprised of a Chair plus two other commissioners.
2. Nominations for commissioners will be open between **October 2, 2006** and **October 23, 2006**, during which time individuals can submit their application to the City of Vancouver City Clerk's Office.
3. During the nomination period, the City will solicit nominations from organisations, post-secondary institutions and individuals with an interest in this topic, who may wish to nominate individuals who meet the selection criteria.
4. The Nominations Sub-Committee of City Council will recommend to Council a Commission Chairperson plus two additional commissioners, using the following selection criteria:
 - a. have a strong technical expertise in taxation, public finance and/or economics,
 - b. possess a willingness to approach the issue and make recommendations to City Council objectively,
 - c. have an appreciation of the impacts of any changes to the tax distribution on both residential and non-residential taxpayers, and
 - d. be deemed by the Nominations Sub-Committee to have no conflict of interest serving on this Commission.
5. The Nominations Sub-Committee will bring their recommendations for the Chairperson and other two commissioners for this Commission to Council for their approval no later than **October 31, 2006**.