

CITY OF VANCOUVER



POLICY REPORT
FINANCE

Report Date: March 8, 2007
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VanRIMS No.: 08-3000-01
Meeting Date: March 15, 2007

TO: Standing Committee on City Services and Budgets
FROM: General Manager of Corporate Services / Director of Finance
SUBJECT: Property Tax Policy Review Commission - Interim Report

RECOMMENDATION

- A. *THAT Council receive the Interim Report of the Property Tax Policy Review Commission for INFORMATION.*
- B. *THAT Council direct staff to report back on April 19, 2007 with an analysis of the recommendations for 2007 that are contained in the Interim Report of the Property Tax Policy Review Commission.*

COUNCIL POLICY

There is no applicable Council Policy.

PURPOSE

The purpose of this report is to present for Council's information the interim recommendations of the Property Tax Policy Review Commission, and direct staff to report back with an analysis of these recommendations, in order for Council use them as part of their decisions concerning the 2007 tax distribution.

BACKGROUND

On September 28, 2006 Vancouver City Council approved the establishment of a Property Tax Policy Review Commission. Council's Terms of Reference (Appendix A) directed the Commission 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.

The Commission was asked to provide its final report to Council by June 1, 2007, and to provide interim recommendations in March 2007, in time for implementation for the City of Vancouver's 2007 taxation year.

DISCUSSION

Appendix B of this report contains the Interim Report of the Property Tax Policy Review Commission, with specific recommendations for Council to consider implementing in April 2007, prior to Council setting the 2007 property tax rates.

Staff recommends that Council receive the Commission's interim report for information, and direct staff to report back on April 19, 2007 with comments on and statistical modelling of the Commission's recommendations for 2007. This work would be incorporated into the staff report on the distribution of the 2007 tax levy.

FINANCIAL IMPLICATIONS

There are no financial implications associated with the recommendations in this report.

CONCLUSION

This report presents Council with the interim recommendations of the Property Tax Policy Review Commission, per the Terms of Reference that were set out by Council in September 2006. The report recommends that Council receive the Commission's report for information, and direct staff to report back with an analysis of these recommendations at the same time the 2007 tax distribution will be discussed, on April 19, 2007.

APPENDIX A

TERMS OF REFERENCE FOR THE CITY OF VANCOUVER PROPERTY TAX POLICY REVIEW COMMISSION APPROVED BY VANCOUVER CITY COUNCIL SEPTEMBER 28, 2006

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 public process minuted, 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.

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</i> , Chapter 21 and various amendments
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</i> , as well as related <i>Table of Statutes</i> , updated to December 31, 1996
1983	<i>British Columbia Gazette</i> , December 27, 1983
1984	<i>Variable Tax Rates: A Guide to Implementation</i> , Province of British Columbia Ministry of Municipal Affairs
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</i> , KPMG Consulting , March 1995
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</i> (www.toronto.ca/finance/tax_policies.htm)
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
Currently underway	Update to the Study of Consumption of Tax-Supported Services, by MMK Consulting Inc.

APPENDIX B

City of Vancouver Property Tax Policy Review Commission Interim Report, March 8, 2007

1. Introduction

We would like to thank the City Council for appointing us to the Commission. We appreciate the opportunity to assist the City and recognize the significance of this undertaking. We look forward to filing our final report in June.

In the meantime, as required in our Terms of Reference, we are submitting an Interim Report. Although the Commission has not completed its deliberations, it has had an opportunity to hear from individuals and delegations at public hearings and has benefited from the extensive previous work on these same topics.

In September 28, 2006 the Council approved the Terms of Reference for the City of Vancouver Property Tax Policy Review Commission. The Mandate of the Commission includes two major objectives:

1. "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
2. "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."

In addressing these two objectives, the Commission has been asked to consider several principles and guidelines, including equity, sustainability, independence, objectivity, simplicity, consultation, transparency, maintaining the fixed-share approach, and limiting the recommendations to the property taxes that are levied by the City of Vancouver only (general taxes).

The Terms of Reference set a schedule for delivery of recommendations for March 1, 2007, but provide that should the work of the Commission not be completed by March 1, 2007, the recommendations made at that time could be made as interim recommendations, with the final recommendations delivered to Council by June 1, 2007.

The work of the Commission is not complete at this time but we fully expect to meet the June 1, 2007 deadline. Therefore, this report is our Interim Report and we have two recommendations to make at this time for implementation for the City of Vancouver's 2007 taxation year. Before presenting the two recommendations, the Commission would like to outline the process that has been followed and provide a brief summary of the key points raised at the hearings and in the written submissions.

Consultation and Transparency

The Terms of Reference for the Commission included several guidelines and principles including:

"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." and

"4.6 Transparency - The work done by the Commission should be transparent, with the Commission's public process minuted, and the recommendations reported to Council and available to the public."

The Commission embraces these two guidelines and is committed to a transparent approach that encourages input from all stakeholders.

In terms of engagement, the Commission has thus far structured a number of meetings, including four public meetings. Meetings of the Commission thus far include:

1. November 28, 2006: Preliminary conference call with all Commission members to establish workplan, timelines and next steps. City staff (Ms Karen Levitt and Ms Liz Jones) participated in this call.
2. December 19, 2006: Meeting with City staff (Mr. Ken Bayne, Ms. Estelle Lo, Ms Liz Jones) to discuss Terms of Reference and other business matters relating to the operation of the Commission.
3. December 19, 2006: Meeting with the British Columbia Assessment Authority (Mr. Jason Grant) to ensure the Commission fully understood the assessment process and timetable for annual assessment work.
4. December 19, 2006: Meeting with the Vancouver Fair Tax Coalition representatives (Mr. Ed Des Roches, Mr. Rob Fitzgerald, Mr. Bob Laurie and Ms. Sharon Townsend) to help the

Commissioners understand their composition and structure and to ensure the Commission had a comprehensive set of the prior work of the Coalition.

5. December 20, 2006: Meeting with Mr. Stuart Mackay, Mr. Jim Pammeter and Ms. Treena Cook, the authors of the 2007 study, *Consumption of Tax-supported Municipal Services* by MMK Consulting, to allow the Commissioners to ask detailed questions.
6. December 19 and 20, 2006: The Commissioners met on their own to discuss the work plan and outline of data required.
7. February 5, February 6 and February 7, 2007: The Commissioners met on their own during the mornings to continue their discussions. Ms. Karen Levitt and Ms. Liz Jones joined the meetings on February 6th and 7th to take notes and to assist in providing additional information and data the Commissioners requested. Mr. Ken Bayne was asked to join one of the meetings to provide additional information requested by the Commissioners.
8. February 7, 2006: The Commission met briefly with the City Manager, Ms. Judy Rogers, and with Ms. Estelle Lo, Ms. Karen Levitt and Ms. Liz Jones to discuss the matters relating to the work of the Commission.

Public Meetings

In December 2006, the Commission decided to hold public meetings in February 2007. The Commission was guided by the process that the City of Vancouver typically uses for promoting public hearings (see Appendix 1). The Commission initially concluded that four hearings would be sufficient (February 5th and February 6th, both afternoon and evening) but reserved the right to schedule more, if required. The Commission asked the staff at the City to use their "regular process" to advertise the public meeting. The public hearings were widely advertised in the print media (in several languages), online at the Commission's website (www.vancouver.ca/taxcommission), via an email distribution list of over 460 people and associations, and through a print flyer that was distributed at various locations including community centres, libraries and City Hall. All parties that had recently made submissions to the City relating to the taxation issues were included in the email distribution list.

The public meetings were held as follows:

February 5, 2007, 1:30 -4:30, VanDusen Gardens

February 5, 2007, 6:00-9:00, VanDusen Gardens

February 6, 2007, 1:30-4:30, Kensington Community Centre

February 6, 2007, 6:00-9:00, Kensington Community Centre

During the four public meetings the Commission had 27 presentations and there were approximately 15 other individuals who attended but did not make presentations. The number of presentations is misleading because the Vancouver Fair Tax Coalition is counted as one speaker when, in fact, it had a team making the presentation. Several other speakers who appeared also represented other taxpayers through an agency or organization. Overall, the speakers represented both residential and non-residential interests. They included homeowners, residential tenants, seniors and both owners and tenants from small and large businesses.

Two members of Council attended one or more of the hearings but did not make presentations or participate in the open discussion periods. The Commission decided not to introduce the Council members as it wanted to ensure the speakers were addressing the Commission rather than appealing directly to Council members.

All participants were invited to provide written materials and several did so, either at the hearings or following the hearings. In addition to the attendance at the hearings, the Commission had invited written comments and received to date 63 written submissions. The Commission indicated to several of the speakers that they may want to contact them for follow-up information. All speakers agreed to assist, if contacted.

Subject to the privacy guidelines of the City of Vancouver, it is the intention of the Commission to post the submissions and transcript of the hearings on the Commission website.

What Did We Hear?

As might be expected, the views expressed to the Commission covered a wide number of themes and resulted in a number of suggestions. In general, the presentations focused on the Residential, Business and Light Industry classes. The major points expressed can be summarized under three broad themes:

1. **Property taxes are “too high.”** A few speakers stated that they felt property taxes were too high or, alternatively, that the annual increase in property taxes was too large. These speakers did not believe the solution was to transfer taxes to other property classes but rather to reduce the level of property taxes overall. At the same time, these speakers did not advocate a decrease in services. While these issues are clearly outside the Terms of Reference for the Commission, they do have an impact on the views that these speakers expressed towards other tax issues.

2. **Share of taxes paid by each class.** The most dominant theme was that the share of the overall taxes paid by the Business Class was too high compared to the share paid by the Residential Class, although some individual residential taxpayers (especially seniors) felt that they could not pay higher taxes. Even among the speakers that were not directly associated with a business, there was some sympathy for taxpayers in the Business Class. Several speakers mentioned the need for a “fair sharing” of the tax burden but offered few new suggestions about what constituted “fair.” Mention was made about “fair relative to other classes,” “fair relative to past taxes,” “fair relative to other jurisdictions” and “fair relative to services consumed.” The Vancouver Fair Tax Coalition offered the most extensive analysis in support of a reduction in the Business Class share of total property taxes and relied heavily on the “benefits consumed” position as evidenced in the 2007 MMK *Consumption of Tax-Supported Municipal Services*.

There was recognition among those in favor of lowering the share of taxes paid by the Business Class that it will take a number of years to reach the desired level. The Vancouver Fair Tax Coalition, for example, suggested that it could take 10 years to reach the level of equity it advocates and it recommended that the overall tax levy for the Business Class be frozen for the next two years as a start.

3. **“Hot Spots.”** Several speakers mentioned the problems associated with “hot spots.” In general, hot spots were defined as geographic areas of the city that experienced unusually large increases in taxes in one year. In some cases, a “hot spot” was taken to mean a collection of properties with some common feature (such as pending (re)development potential) that experienced unusually large increases in taxes in one year. Given that total property taxes for the City do not change by a significant percentage each year and given that the share of total taxes paid by each class has not changed significantly from year to year, it follows that the hot spot issue results when a group of properties within a class experience a change in taxable assessed value that is significantly above the average change in taxable assessed value for the class.

There was no general agreement as to what relative percentage change in taxes results in a hot spot. For example, if the average increase in taxes for the class is 4%, would a subset of properties in that class that experience a 8% increase be a hot spot? Most presenters agreed that the land averaging, if available to the class, helps to address the hot spot issue. What was not clear from the presentations is the extent to which the hot spot persists over a number of years, hence the extent to which the land averaging effectively addresses the hot spot issue.

A further extension of the “hot spot” issue was raised with respect to commercial tenants. In the case of an owner-occupier, the consequence of an above-average increase in taxes falls directly to the owner who presumably has the benefit of the enhanced property value (albeit potential and not necessarily realized gain). But when a property is occupied by one or more tenants and the tenants have signed leases whereby the tenant agrees to pay a base rent plus all expenses including property tax (a “triple net” lease), then the tenant faces an immediate problem when taxes increase at a level not anticipated by the tenant. When leases were originally negotiated, the tenants would have made an estimate of the likely property taxes (and other expenses borne by the tenant) and negotiated the base rent with this estimate in mind. If suddenly the property taxes are much higher than originally estimated, the tenant has little recourse other than to ask the landlord to renegotiate the lease terms. The tenant does not directly enjoy the gains that are reflected in the assessed values. The tenant can address this matter when the lease is renegotiated, but that may be a matter of several years away.

The Commission received a number of other comments and recommendations and these will be addressed in the final report of the Commission.

Interim Recommendations

As noted above, the work of the Commission is not complete. Based on the available evidence and the nature of the issues facing the Commission, however, we are comfortable in making two recommendations. We are confident that adoption of these two recommendations will be consistent with our final recommendations.

Recommendation 1. The Commission recommends that the City of Vancouver continue the Land Assessment Averaging Program.

Recommendation 2. The Commission recommends that the City of Vancouver adopt a policy to shift between 1% and 2% of the 2007 tax levy from the non-residential to the residential class.

Recommendation 1 is based on the evidence that the land averaging process helps to address the “hot spot” issue and the general support for it in the consultations. The hot spot issue was identified in the hearings and submissions as a serious problem. Although the Commission is continuing to investigate this issue, it recognizes that hot spots create problems for some

sub-sets of properties and that the land averaging process plays an important role in helping to address the hot spot issue.

Recommendation 2 is based on our overall conclusion that the share of the total tax levy paid by the non-residential sector is too high. Although the Commission has not finished its analysis of this issue, we are confident that a shift of between 1% and 2% will not be inconsistent with our final recommendations.

The range of 1% to 2% has been selected for the following reasons. The Commission believes that shift of less than 1% may be interpreted as an indication that the City of Vancouver is not serious about addressing the imbalance between residential and non-residential classes. On the other hand, the Commission believes that a shift above 2% in one year would create unacceptable hardships for some properties in the residential class. The Commission is also aware that the Council has adopted shifts in the order of 1% of the total tax levy on several occasions in the past. As to where the final percentage should be between 1% and 2%, we encourage Council to consider the overall impact of the annual increase on residential property taxpayers.

The Commission will make recommendations in its final report on the appropriate tax shares for the different classes of property after it has completed its analysis. It will also recommend a process for getting to and maintaining the desired tax shares.

Stanley Hamilton

Chair

On behalf of the City of Vancouver Property Tax Policy Review Commission

Appendix 1: Advertising for the Public Hearings

The print advertising schedule recommended to the Commission by the Communications Department of the City was adopted. The advertising was as follows:

Ming Pao (Chinese daily)	Saturday, Jan 27 and Feb 3
Sing Tao (Chinese daily)	Saturday, Jan 27 and Feb 3
Business in Vancouver (English business weekly)	Monday, Jan 29
Vancouver Courier (English community newspaper)	Wednesday, Jan 31 and Friday, Feb 2
Vancouver Sun (English daily newspaper)	Saturday, Jan 27 & Feb 3
The Voice (Indo-Canadian weekly)	Saturday, Jan 27 & Feb 3
The Link (Indo-Canadian weekly)	Saturday, Jan 27 & Feb 3
The Georgia Straight (English weekly newspaper)	Thursday, Feb 1
The WestEnder (English community newspaper)	Thursday, Feb 1
The World Journal (Chinese newspaper)	Saturday Feb 3

Announcements were also placed on the City website and distributed via email to residents and business associations and other potentially interested stakeholders. In addition, the Commission published a "Q&A Backgrounder" for distribution to community centres, libraries and other central locations.

APPENDIX C

BACKGROUND INFORMATION SHEET PUBLISHED
IN ASSOCIATION WITH THE
PROPERTY TAX POLICY REVIEW COMMISSION
PUBLIC CONSULTATION SESSIONS, FEBRUARY 5 & 6, 2006

Property Tax

Background Information to
Public Consultation Sessions,
February 5 & 6, 2007



Policy Review

Provide Feedback

Residential and non-residential property owners and tenants are invited to share their views on the two topics being studied by the Property Tax Policy Review Tax Commission, either in person or in writing.

Open Houses

Monday, February 5, 2007
VanDusen Garden, Floral Hall
5251 Oak Street
(at West 37th Avenue)
1:30 - 4:30 pm or 6 - 9 pm

Tuesday, February 6, 2007
Kensington Community Centre,
Seniors' Lounge
5175 Dumbfries Street
1:30 - 4:30 pm or 6 - 9 pm

Written Comments

The Commission welcomes written comments, which can be e-mailed to taxcommission@vancouver.ca or mailed to:

Liz Jones,
Corporate Services Division,
453 West 12th Avenue,
Vancouver, BC V5Y 1V4

Deadline for written comments is Monday, February 19, 2007.

More Information

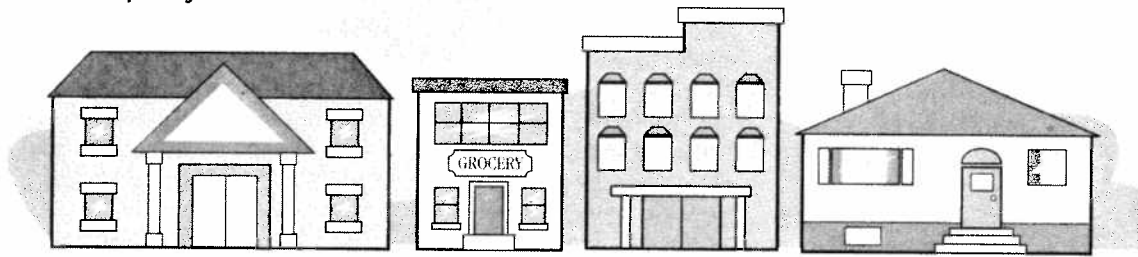
More information is available at vancouver.ca/taxcommission or contact:

Liz Jones, 604.871.6169
liz.jones@vancouver.ca

City of Vancouver Property Tax Policy Review Commission

The Property Tax Policy Review Commission was established by Vancouver City Council in September 2006, and has been asked to make recommendations to Council by June 2007 on two key elements of property tax policy:

1. How much of the total property taxes collected by the City of Vancouver should be paid by residential properties, and how much by non-residential properties?
2. What strategies can be implemented to address issues relating to the year-to-year stability and predictability of property taxes for individual properties?



THE COMMISSION IS looking at the municipal portion of your property tax bill, which is the property tax revenue that is used by the City of Vancouver to fund its operating budget. This is about 51% of the total property taxes collected by the City; the remaining 49% is collected on behalf of other taxing authorities.

Issue #1: Residential versus non-residential property taxes

The overall amount of property taxes collected by the City each year does not depend on property values.

Rather, each year, Council determines the total amount of property tax revenue required to balance the municipal budget. Council also decides **what share of the total tax revenue** is to be collected from each property class.

There are seven property classes in the City of Vancouver: residential, business, utilities, major industry, light industry, recreational/non-profit and farm. In 2006, approximately 45% of taxes were collected from residential properties, and 55% from business and industrial properties.

Once, for each class of property, the total tax revenue and the tax rate are determined, the taxes on an individual property are calculated by applying the class tax rate to the value of that property.

Since 1984, property values have changed at different rates among the various property classes in Vancouver. Overall, residential property values have increased more rapidly than non-residential values. The share of property taxes collected by the City from each class has remained relatively stable over time. Because the total collected does not depend on property values, **property tax rates** are adjusted to account for changes in property values each year.

This has meant that over this period, residential tax rates have decreased significantly, and business class tax rates have not changed very much. While this has not affected the overall amount of taxes collected from each property class, it has meant that relative to the residential tax rate, the business tax rate has increased over time (Figure 1 on reverse side).

In response to requests from representatives of non-residential taxpayers to address this issue, Vancouver City Council has asked the Property Tax Policy Review Commission to determine whether how the City divides total property taxes among the property classes should be adjusted.

(Continued on back)

Figure 1. City of Vancouver Property Taxes: Changes Between 1985 and 2006

	1985	% OF TOTAL	2006	% OF TOTAL
TAXABLE VALUE (\$000s)				
Residential Property Class	\$14,207,601	68%	\$89,736,085	83%
Business Property Class	\$6,040,930	29%	\$17,411,839	16%
All Other Property Classes *	\$539,690	3%	\$828,944	1%
	\$20,788,221	100%	\$107,976,868	100%
TAX LEVY (\$000s)				
Residential Property Class	\$69,008	39%	\$214,239	45%
Business Property Class	\$96,141	55%	\$246,451	52%
All Other Property Classes *	\$10,666	6%	\$16,658	3%
	\$175,815	100%	\$477,348	100%
TAX RATE (per \$1,000 taxable value)				
Residential Property Class	\$4.86	-	\$2.66	-
Business Property Class	\$15.92	-	\$15.48	-
Business: Residential Tax Rate Ratio **	3.3	-	5.8	-

* Made up of the utilities, major industry, light industry, recreational/non-profit and farm classes.

** Business: Residential Tax Rate Ratio = Business Tax Rate/Residential Tax Rate (Residential = 1.00)

Issue #2: Stability and predictability of property taxes for individual properties

Since the late 1980s, the real estate market in Vancouver has been very active, with large year-over-year changes in market value in different neighbourhoods over time. This has been true for both residential and non-residential properties.

When an individual property value increases significantly more than the total percentage increase for that property's class in a given year, there can be a sudden, significant increase to the taxes charged to that property. This is an issue for both residential and non-residential property owners.

In order to soften the impacts of sudden, large increases to market value on individual properties, City Council has used "land averaging" for the residential and business classes since 1993. This technique uses the average land value of the current tax year and that of the two prior years, rather than just the current year land value, in the calculation of each property's taxes. Using this averaged land value phases in more slowly the tax impacts of larger increases (or decreases) in land value for individual properties.

However, even with land averaging, large property tax increases resulting from extraordinary changes in market value remain a problem for some Vancouver taxpayers. These jumps tend to cluster in certain neighbourhoods in a given year, sometimes called real estate "hot spots." In response to requests from representatives of both residential and non-residential taxpayers to address this issue, Vancouver City Council has asked the Property Tax Policy Review Commission to suggest a strategy for enhancing the year-to-year stability and predictability of property taxes for individual properties.

Frequently Asked Questions

1. My property assessment went up over 20% from 2006 to 2007. Does this mean that I'll be paying 20% more in property taxes?

No. How much more or less you pay in property taxes depends on two main things:

- (1) how much your property's assessed value has changed relative to the total percentage change in value of your property's class, and
- (2) how much City Council decides to increase the overall tax levy over the prior year. Land averaging (discussed in this brochure) can help lessen the tax impacts of a large year-over-year increase in your assessed land value.

2. What do my property taxes pay for?

Of the City's \$813 million operating budget, 63% is currently funded using property taxes, and the other 37% is funded through utility fees, user-pay fees and other revenues sources. The City's operating budget funds a wide

range of municipal services provided by your local government: roads, traffic lights, parks, community centres, water, solid waste and sewer systems, police and fire services, to name just a few.

3. What if I have questions about my property assessment?

The City of Vancouver is not responsible for property valuation or classification. Any questions you have about your property assessment should be directed to the BC Assessment Authority, 604.739.8588 or vancouver@bcassessment.ca.

4. Is this Commission part of the Vancouver Fair Tax Coalition?

No. The Vancouver Fair Tax Coalition is a group representing a broad range of local business, industry and commercial property owners, and is one of many stakeholder groups from which the Property Tax Policy Review Commission is interested in hearing.

Who is on the Commission?

The Commission is made up of three experts in the field of property taxation: Professor Stan Hamilton, Mr. Peter Adams and Dr. Enid Slack.

The Commissioners

Dr. Stanley W. Hamilton, Chair

Dr. Hamilton is the Philip H. White Emeritus Professor of Real Estate, Sauder School of Business, University of British Columbia and a member of the Finance Division. Stan served as a member of the BC Commission of Inquiry on Property Taxation and Assessment for the province of British Columbia and as a Director for the BC Assessment Authority.

Mr. Peter Adams

Mr. Adams is an independent consultant based in Victoria, BC. He is an economist by training with Bachelor and Master's degrees from the London School of Economics and Political Science. His fields of expertise include public finance, taxation and public policy analysis. Prior to joining the consulting field, he held a number of senior positions with the government of British Columbia including Director of the Tax and Fiscal Policy Branch of the Ministry of Finance.

Dr. Enid Slack

Dr. Slack is the Director of the Institute on Municipal Finance and Governance at the Munk Centre for International Studies at the University of Toronto. In 1999, she was a member of the Business Reference Group to the Assessment and Tax Policy Task Force for the City of Toronto. Enid Slack Consulting Inc. has been providing advice to governments and private companies in Canada and abroad on property taxes, intergovernmental transfers, and other local finance issues since 1981.

More Information

vancouver.ca/taxcommission