



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: September 11, 2007
Author: Karen Levitt
Phone No.: 604.873.7251
RTS No.: 6744
VanRIMS No.:
Meeting Date: September 18, 2007

TO: Vancouver City Council
FROM: General Manager of Corporate Services
SUBJECT: Final Report of the Property Tax Policy Review Commission

RECOMMENDATIONS

- A. THAT Council receive the final report of the Property Tax Policy Review Commission for information.
- B. THAT Council instruct staff to implement the public consultation process design with the timeline described in this report, at a cost not to exceed \$25,000, with source of funding to be the 2007 Contingency Reserve.
- C. THAT Council instruct staff to report back to Council by no later than the end of January 2008 with staff's analysis of and comments on the Property Tax Policy Commission's final recommendations.

CITY MANAGER'S COMMENTS

The City has had the benefit of three of the country's foremost experts in property taxation working on two key elements of Vancouver's property tax policy for almost a full year: the distribution of the tax levy among property classes, and the year-to-year volatility in property taxes experienced by some taxpayers. The final report of the Property Tax Policy Review Commission, attached to this Council report is the culmination of this work.

Property taxes are the single most important revenue source for the City of Vancouver, and Council's taxation policy affects all residential and commercial tenants and landowners in our city. Over the years, City staff and Council have endeavoured to ensure the City's taxation policies are as fair, equitable and efficient as possible. However, there have been challenges -- some inherent in the fundamental nature of any property tax, some related to Vancouver's very active real estate market, and some arising from how various stakeholders define terms such as "fair" and "equitable."

Any policy decision that is made to alleviate tax-related issues for one stakeholder group inevitably has an impact across the tax system. Because the City collects a set amount of property taxes each year, any time Council decreases taxes paid by one group of taxpayers, this means an increase for the others.

It is staff's view that before making any decisions about the Commission's recommendations, Council needs some time to review and absorb the contents of the Commission's final report, and should hear from the public and from City staff. To this end, staff has recommended a timeline that includes opportunities for public input that will allow sufficient time for Council to make decisions about the Commission's recommendations when setting taxation policy for 2008.

This report is a valuable third-party review and assessment of two of the most important issues related to the City's property tax policies, and will be very helpful as Council makes decisions about tax policy going forward. We would like to express our sincere appreciation for the time, dedication and effort invested into this work by the three members of this Commission -- Professor Stan Hamilton, Mr Peter Adams and Dr Enid Slack.

COUNCIL POLICY

There is no applicable Council Policy.

PURPOSE

The purpose of this report is to present for Council's information the final report and recommendations of the Property Tax Policy Review Commission, and to instruct staff:

- to implement a consultation process to allow Council to hear stakeholders' comments on the Commission's recommendations, and
- to report back to Council with staff's analysis and comment on the Commission's recommendations, no later than the end of January 2008.

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.*

In accordance with their Terms of Reference, the Commission provided Council an interim report on March 15, 2007, which made two recommendations to Council (RTS 6518):

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.

Council incorporated both of these recommendations into their 2007 property tax policy decisions. Three-year land averaging was approved by Council on March 15, 2007. And, on April 19, 2007, Council approved the following recommendation for a differential tax increase, which resulted in a tax distribution shift of approximately two percent of the overall levy from the non-residential to the residential property classes.

THAT Council instruct the Director of Finance to calculate general purposes tax rates for 2007 by applying the 3.98% property tax increase differentially so that the entire increase is allocated to the residential classes and the non-residential tax levies are frozen at the 2006 level (excepting non-market change) and achieving a distribution of approximately 47.3% residential and 52.7% non residential.

DISCUSSION

The final report of the Property Tax Policy Review Commission (referred to in this report as "the Commission") is attached in Appendix B of this report. The Commission's final report contains:

- a discussion of the process undertaken by the Commission,
- an explanation of the evaluation principles used by the Commission to assess the tax distribution and tax volatility issues the Commission was mandated to review,
- a review and analysis of the tax share issue, with conclusions about the scale and scope of the problem, and recommended related policy options, and
- a review and analysis of the tax volatility issue, with conclusions about the scale and scope of the problem, and recommended related policy options.

The Commission's report responds fully to the issues identified in their Terms of Reference, and makes the following five recommendations.

On the tax share issue:

1. The tax share paid by non-residential property (Classes 5 and 6) should be reduced from its current level to 48 percent. [Staff notes that in 2007, Classes 5 and 6 together paid 50.4% of the City's general tax levy.]
2. The City should reduce the tax share borne by business by one percentage point per year in each of the next years until the 48 percent share is achieved.
3. Following implementation of the 48% goal, the City should keep the tax share unchanged for a period of 5 years unless the differential between business taxes in Vancouver and business taxes in neighbouring municipalities widens considerably and/or the balance of business investment shifts substantially away from Vancouver to neighbouring jurisdictions.

And, on the volatility issue:

4. The City should adopt a phase-in mechanism that would replace three-year land averaging for Class 1, Class 5 and Class 6. The phase-in mechanism would apply only to properties that would otherwise experience a tax increase that is 10% or more above the average for the class, exclusive of new construction.
5. The City of Vancouver should maintain the present three-year land averaging program for Class 1, Class 5 and Class 6 properties until such time as a phase-in mechanism is developed.

Staff is recommending that Council have the opportunity to hear from stakeholders and to receive analysis from City staff, before making any decisions about the Commission's final recommendations.

TIMELINE FOR PUBLIC CONSULTATION PROCESS AND STAFF EVALUATION

The public consultation process described in this section will allow Council the opportunity to incorporate the Commission's recommendations into their 2008 property tax policy decisions, with the benefit of:

- sufficient time to consider and analyse the Commission's report and recommendations,
- the chance to hear from the various stakeholders with their views on the Commission's recommendations,
- staff's analysis and comments on the Commission's recommendations.

With these objectives in mind, staff is recommending the process and timeline laid out in Table 1.

TABLE 1. PROPERTY TAX POLICY REVIEW COMMISSION RECOMMENDATIONS:
PROPOSED PUBLIC CONSULTATION PROCESS & DECISION TIMELINE

DATE	ACTION / DECISION
September 18, 2007	<p>1. COMMISSION SUBMITS REPORT TO COUNCIL</p> <ul style="list-style-type: none"> • Council receives the final report of the Property Tax Policy Review Commission for information. • Council decides on a public consultation process and timeline.
October to December 2007	<p>2. PUBLIC CONSULTATION PROCESS</p> <ul style="list-style-type: none"> • Implement the public consultation process described in this report. • Place ads in local print publications and on the City's website, inviting the public to provide written submissions to Council commenting on the Commission's final recommendations.
January 31, 2008 (at latest)	<p>3. COUNCIL MAKES DECISIONS ON COMMISSION'S RECOMMENDATIONS</p> <ul style="list-style-type: none"> • Report back to Council with staff's analysis and comments on the Commission's recommendations. • Council decides on actions relating to the Commission's recommendations.
February 2008	<p>4. COUNCIL DECISION RE: 2008 LAND-AVERAGING</p> <ul style="list-style-type: none"> • Council decision to apply three-year land averaging in the calculation of taxes for Classes 1, 5 and 6 for 2008.
April 2008	<p>5. COUNCIL DECISION RE: 2008 TAX DISTRIBUTION</p> <ul style="list-style-type: none"> • Council makes decision about the 2008 tax distribution (share of total property taxes that will be paid by each property class), and sets the final 2008 tax rates.

PUBLIC CONSULTATION PROCESS DESIGN

The proposed public consultation process has two steps:

- Step 1: Council holds a series of three public consultation meetings, in various neighbourhoods around the city.
- Step 2: Council holds a special Council meeting, to be scheduled by the City Clerk, at which Council can review the findings of the public consultation meetings.

For the three public consultation meetings in Step 1, it is recommended that:

- the primary objective of these meetings be an opportunity for stakeholders to provide input to Council,
- three meetings be held -- one of the east side of Vancouver, one on the west side of Vancouver, and one downtown,
- the Mayor and Council and selected members of City staff attend the meetings,
- the members of the Property Tax Policy Review Commission not attend these meetings,
- the meetings be led by a third-party facilitator and are minuted,
- the meetings begin with a short presentation by City staff on the Commission's recommendations, and
- stakeholders be invited to present their view to Council, for up to a maximum of five minutes each, with presentation topics limited specifically to the Commission's recommendations and their implications.

FINANCIAL IMPLICATIONS

The cost of the public consultation process recommended in this report is estimated to be no greater than \$25,000. The source of funding for this is the 2007 Contingency Reserve.

CONCLUSION

This report submits the final report of the Property Tax Policy Review Commission to Council for information, along with a recommended process for Council to seek public input about the Commission's final recommendations in advance of making any decisions on adopting the recommendations. It is recommended that Council postpone making any decisions related to the Commission's recommendations, until after a public consultation process has been

conducted, and Council has had the opportunity to hear staff's analysis of and comments about the Commission's recommendations.

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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.

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

DATE	DOCUMENT / REFERENCE
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	City of Vancouver <i>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.