CITY OF **VANCOUVER** **RR-2**

**ADMINISTRATIVE REPORT**

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| Report Date: | December 1, 2007 |
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| Meeting Date: | December 11, 2007 |

TO: Vancouver City Council

FROM: General Manager of Corporate Services

SUBJECT: Staff Analysis of the Recommendations of the Property Tax Policy Review Commission

**RECOMMENDATION**

**THAT Council receive this report for INFORMATION and defer the following recommendations and considerations until after a public consultation process on this issue has been completed.**

*RECOMMENDATIONS*

*A. THAT Council instruct staff to seek an amendment to the Vancouver Charter, to allow the City to use up to five years of land assessments in the land assessment averaging formula available to the City for the calculation of property taxes, as compared to the current formula which allows for three-year land averaging only.*

B. *THAT, if the Charter amendment described in Recommendation A is approved, Council instruct the General Manager of Corporate Services to report back with an analysis that compares the use of five-year land averaging to three-year land averaging in the calculation of property taxes, with respect to their respective efficacy in mitigating year-over-year volatility in property taxes for individual properties*.

*CONSIDERATIONS*

C. *THAT Council approve a target redistribution of the tax levy, that would shift $23.8 million proportionately from Classes 2, 4, 5 and 6, to Classes 1, 8 and 9, in order to achieve the Property Tax Policy Review Commission's recommended tax levy distribution of 48% non-residential and 52% residential.*

D. *THAT in order to achieve the target redistribution described in Consideration C, Council reduce the tax share borne by the non-residential property classes (Classes 2, 4, 5 and 6) at a rate of one percent of the overall tax levy per year, and increase the share borne by the residential classes (Classes 1, 8, and 9) by the same amount until a total of $23.8 million has been shifted from the non-residential property classes to the residential property classes.*

E. *THAT following the achievement of the recommended target tax redistribution described in Consideration C, Council keep the tax distribution shares unchanged for a period of five years.*

**CITY MANAGER'S COMMENTS**

For the past one and a half decades, Council has deliberated on a year-by-year basis about how to achieve the appropriate balance in dividing the total taxes collected between residential and non-residential taxpayers. In their final report, the Property Tax Policy Review Commission has presented Council with a comprehensive and expert analysis of this issue.

The Commission has recommended that a long-term policy be put in place, in which the distribution of the property tax levy would be shifted from the current 53% non-residential and 47% residential, to 48% non residential and 52% residential. This represents a shift in the tax levy of $23.8 million, equivalent to a 10.1% tax increase for the residential class and a 9.0% reduction for the non-residential classes. Recognising the impact that a one-time increase would have, the Tax Commission has recommended the shift be phased at a rate of one percent of the total levy per year, or about $5.0 million.

If the Tax Commission's recommendations concerning a redistribution of the tax levy were approved, this would be a five to ten year policy: five years to phase in the distribution, and then an incremental five years in which the distribution would be monitored, but not adjusted unless Council believed there was a significant reason to do so. The benefit of adopting the approach recommended by the Tax Commission is that it would establish a long-term policy, and not require Council to revisit this issue annually.

Council has faced the issue of year-over-year volatility in property taxes resulting from sudden, large changes in market land values since the late 1980s. From 1989 through 1992, this was addressed by using emergency Charter authority to cap tax increases. In 1993, Council implemented the use of three-year averaged land values in property tax calculations. In response to Council's request to explore any other possible options for improving stability and predictability, the Tax Commission recommended that a revised land phasing formula replace three-year land averaging.

While staff's analysis confirms the efficacy of this recommended revised land phasing formula, it is not recommended that it be implemented. Staff believe that, for the reasons set out in this report, seeking an amendment to the *Vancouver Charter* that would allow Council to use an expanded land assessment averaging approach, that would include up to five years of land values would provide Council with more options for improving stability.

Staff is recommending that Council defer making any decisions about the Tax Commission's recommendations, until after a public consultation process has been completed. With this approach, Council will be able to consider the recommendations of both the Tax Commission and of staff, with the information contained in the Tax Commission's final report, the staff analysis contained in this Council report, and the information collected through a public consultation process.

The City Manager therefore RECOMMENDS that Council put these options out for consultation with the community and instruct staff to report back in March 2008.

## COUNCIL POLICY

Since 1982, it has been Council's policy to collect a fixed share of the total property tax levy from each of the seven property tax classes in Vancouver. Over time, this share has been adjusted slightly by properties transferring between classes, by the addition of new construction value to a property class and by Council decisions that have affected the shares of the tax levy.

On April 28, 2005, Council confirmed the policy of managing the property tax levy through a "fixed share" approach, in which the allocation of the total levy among property classes remains constant over time, subject to physical changes in the classes or to Council action to adjust the allocation.

The *Vancouver Charter* was amended in the early 1990s to provide Council with two mechanisms for helping property taxpayers with large year-over-year increases resulting from sudden, significant changes to property market values: three-year land averaging and land phasing. In each year, Council can opt to calculate property taxes using either of these tools, or using assessed taxable (market) values provided by the BC Assessment Authority. In each year since 1993 Council has chosen to use three-year land averaging, which has been demonstrated to be more effective than land phasing at mitigating the largest tax increases.

## PURPOSE

This report provides Council with the staff analysis and recommendations related to the recommendations in the September 2007 *City of Vancouver Property Tax Policy Review Commission Final Report*. This report also recommends that Council refer the recommendations of the Property Tax Policy Review Commission to public consultation, before considering the recommendations and considerations in this report.

**BACKGROUND**

On September 28, 2006 Vancouver City Council approved the establishment of a Property Tax Policy Review Commission (referred to in this report as "the Tax Commission"). The Terms of Reference approved by Council (Appendix B) 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*

- *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 Tax Commission provided Council an interim report on March 15, 2007, and recommended that Council continue the use of three-year land averaging, and shift one to two percent 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, and shifted approximately two percent of the tax levy from the non-residential to the residential class.

**DISCUSSION**

**1. ADJUSTING THE TAX DISTRIBUTION**

The Tax Commission was asked to comment on the distribution of the City's property tax levy among the residential and non-residential classes and propose a long-term policy that would provide for a "fair tax" for commercial taxpayers.

The Tax Commission concluded that *"… although the share of property taxes paid by business has been declining over the past decade, business taxes in Vancouver are high relative to residential taxes and relative to business taxes in neighbouring GVRD jurisdictions. … There is little evidence to suggest that property taxes have had a negative impact on business investment or the demand for commercial space. … While we find little evidence that a major problem exists, we do conclude that taxes on the business class in Vancouver are at the high end of what might be considered a reasonable range for the class."*

Based on these conclusions, the Tax Commission made three recommendations:

1. ADJUST THE DISTRIBUTION OF THE PROPERTY TAX LEVY TO 52% RESIDENTIAL: 48% NON-RESIDENTIAL - *The tax share paid by non-residential property (Classes 2, 4, 5 and 6) should be reduced from its current level to 48 percent.*

It is noted that in their report, the Tax Commission inadvertently referred only to Classes 5 and 6 in this recommendation, but later confirmed that it had been intended that this recommendation refer to all four non-residential classes.

The Tax Commission recommended that this target distribution be achieved without taking into account the effects of either class transfers or new construction. In effect, this means a total shift of $23.8 million from the non-residential to the residential classes using the 2007 assessment roll and tax levy as the base. However, since the Tax Commission also recommended phasing in this shift over a number of years, the actual tax distribution in future years will not likely be exactly 52% residential and 48% non-residential.

2. PHASE IN AT ONE PERCENT PER YEAR - *The City should reduce the tax share borne by business by one percentage point (of the total tax distribution) per year until the 48 percent share is achieved.*

3. FOLLOW WITH A FIVE-YEAR FREEZE - *After achieving the tax redistribution target, the City should keep the tax share unchanged for a period of five 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.*

The current (2007) distribution is 52.8% non-residential, and 47.2% residential. Table 1 shows the overall impact of shifting the distribution to achieve the recommended target distribution of 48% non-residential, and 52% residential. If this target were achieved, approximately $23.8 million would be added to the residential share of the levy (a 10.1% increase), and the same amount subtracted from the non-residential share of the levy (a 9.0% decrease).

**TABLE 1. COMPARISON OF TAX DISTRIBUTION – CURRENT VERSUS RECOMMENDED TARGET ($000s)**

| | 2007 PROPERTY TAX LEVY | | |
|---|---|---|---|
| | **RESIDENTIAL** | **NON-RESIDENTIAL** | **TOTAL** |
| **A. CURRENT DISTRIBUTION** | | | |
| Class 1 - Residential | $235,934.7 | - | $235,934.7 |
| Class 8 - Seasonal/Recreational | $297.6 | - | $297.6 |
| Class 9 - Farm | $0.2 | - | $0.2 |
| Class 2 - Utilities | - | $6,291.1 | $6,291.1 |
| Class 4 - Major Industry | - | $5,457.1 | $5,457.1 |
| Class 5 - Light Industry | - | $4,494.5 | $4,494.5 |
| Class 6 - Business/Other | - | $247,662.9 | $247,662.9 |
| **Totals** | **$236,232.5** | **$263,905.6** | **$500,138.1** |
| Share of Total Levy | 47.2% | 52.8% | 100.0% |
| | | | |
| **B. TAX COMMISSION TARGET** | | | |
| Tax Commission Target | 52.0% | 48.0% | 100.0% |
| **Share of Total Levy** | **$260,071.8** | **$240,066.3** | **$500,138.1** |
| | | | |
| **C. Change** | | | |
| $ Change | $23,839.3 | ($23,839.3) | ($0.0) |
| % Change | 10.1% | -9.0% | 0.0% |

If Council were to adopt the recommended phase-in of one percent of the tax levy per year ($5.0 million) it would take five years to achieve the recommended tax distribution:

- The result of this would be an approximate 2% increase to the residential levy in each of the first four years and a 1.5% increase in the fifth year of shifting.

- For non-residential properties, the impact would be an approximate 2% decrease in the tax levy for four years and a 1.5% decrease in the fifth year. Appendix C shows the impact of these tax shifts on selected residential and business properties.

The year-by-year analysis shown in Table 2 shows only the effect of a tax shift. It therefore does not factor in any other changes to property taxes, such as any future tax increases required to balance the City's operating budget. These would have to be added to the tax increases shown in Table 2, in order to project actual annual tax increases.

**TABLE 2. IMPACT OF SHIFTING ONE PERCENT OF TAX LEVY PER YEAR UNTIL RECOMMENDED TARGET TAX DISTRIBUTON IS ACHIEVED**

**CLASS 1 RESIDENTIAL**

| YEAR | AMOUNT SHIFTED ($M) | RESIDENTIAL SHARE OF TAX LEVY | NON-RESIDENTIAL SHARE OF TAX LEVY | % CHANGE IN TAX LEVY | CUMULATIVE % CHANGE IN TAX LEVY |
|---|---|---|---|---|---|
| 1 | $5.0 | 57.2% | 42.8% | - | - |
| 2 | $5.0 | 48.2% | 51.8% | 2.1% | 2.1% |
| 3 | $5.0 | 49.2% | 50.8% | 2.1% | 4.2% |
| 4 | $5.0 | 50.2% | 49.8% | 2.0% | 6.4% |
| 5 | $5.0 | 51.2% | 48.8% | 2.0% | 8.5% |
| 6 | $2.5 | 52.0% | 48.0% | 1.5% | 10.1% |

**CLASS 6 BUSINESS**

| YEAR | AMOUNT SHIFTED ($M) | RESIDENTIAL SHARE OF TAX LEVY | NON-RESIDENTIAL SHARE OF TAX LEVY | % CHANGE IN TAX LEVY | CUMULATIVE % CHANGE IN TAX LEVY |
|---|---|---|---|---|---|
| 1 | ($5.0) | 47.2% | 52.8% | - | - |
| 2 | ($5.0) | 48.2% | 51.8% | -1.9% | -1.9% |
| 3 | ($5.0) | 49.2% | 50.8% | -1.9% | -3.8% |
| 4 | ($5.0) | 50.2% | 49.8% | -2.0% | -5.7% |
| 5 | ($5.0) | 51.2% | 48.8% | -2.0% | -7.6% |
| 6 | ($2.5) | 52.0% | 48.0% | -1.6% | -9.0% |

Staff presents for Council's consideration the three recommendations of the Tax Commission concerning the tax distribution.

**A Note About New Construction and Class Transfers**

The Tax Commission was specific that their recommended target tax distribution of 48% non-residential and 52% residential *not include* the effects of new construction or transfers of properties between the residential and non residential classes over the time period during which taxes are shifted. In effect, the Tax Commission is recommending a one-time $23.8 million shift in the tax levy from non-residential to residential property classes, as they exist in 2007. If this entire shift had been done in 2007 the target distribution would have been achieved as a one-time shift. If the shift is phased in over several years, the added impact of new construction and class transfers might result in the tax distribution being something other than 52:48.

**Assessing Tax Distribution Once Target Achieved**

The Tax Commission recommended to Council that once the recommended target distribution is achieved, Council not alter the distribution for a period of five 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."* Staff will report on this issue as part of the annual report on the distribution of the tax levy.

## 2. MANAGING VOLATILITY IN ASSESSMENT CHANGES

The Tax Commission was also asked to address was the issue of volatility in taxes from year to year, and to recommend a strategy to enhance the stability and predictability of property taxes for individual properties that face sudden, large year-over-year increases in market value, which the Tax Commission has termed "hot" properties, in their report.

The Tax Commission found *" … a significant number of residential and non-residential properties facing relatively large annual increases in taxes as a result of volatility in the market and beyond the level property owners might have reasonably anticipated. The problem is significantly worse for non-residential properties than residential properties."*

In response to this, the Tax Commission made two recommendations:

1. A REVISED LAND ASSESSMENT PHASING FORMULA - *The City should seek Vancouver Charter authority to 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.*

2. MAINTAIN LAND AVERAGING UNTIL LAND PHASING IMPLEMENTED - *The City 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.*

At the time three-year land averaging was added to the *Vancouver Charter*, Council was granted the authority to apply a land phasing formula to the annual calculation of property taxes. In several years of statistical modelling, staff consistently found that three-year land averaging was more effective at mitigating the largest of the tax increases than the Charter land phasing formula.

**Land Phasing Described**

Both land phasing and land averaging are discretionary tools provided for in the *Vancouver Charter* to help with volatility in property taxes from year to year. Both are "zero-sum" mechanisms, which means that any tax savings enjoyed by some properties in a given year are redistributed among other taxpayers, and the total City tax levy is unaffected. This is necessary since Council needs to raise a fixed amount of property taxes in each year, in order to meet the City's operating budget needs.

In a year that land averaging or land phasing is applied, some taxpayers will pay more tax than they otherwise would, without the application of these tools. In deciding whether to use either land averaging or land phasing, Council must weigh the impact of these intra-class tax shifts against the benefit of mitigating the impacts of the highest tax increases in a property class.

When land phasing is applied, if a property's land value has increased by more than the class average increase, some portion of that difference is sheltered from taxes. Appendix D shows a step-by-step illustration of the land phasing calculation provided for in the Vancouver Charter. Staff note that this approach is significantly more complex than the land averaging calculation.

Table 3 shows the main differences between land averaging and land phasing, and Table 4 follows with the differences between the land phasing authority currently in the *Vancouver Charter*, as compared to the land phasing formula that has been recommended by the Tax Commission.

**TABLE 3. COMPARISON OF LAND AVERAGING VERSUS LAND PHASING**

| | LAND AVERAGING | LAND PHASING |
|---|---|---|
| **Is applied to …** | All properties in the class with exception of properties with significant physical changes (e.g. new construction). | Only properties with highest changes in land value. |
| **General effect is to …** | Move all properties toward the average tax increase for the class. | Reduce taxes for selected properties with the highest increases, and increases taxes for all others. |
| **Individual properties …** | May have a higher or lower taxable value resulting from averaging, and pay more or less taxes as a result. | Will have lower taxable value and lower taxes if they meet the phasing criteria, and will have the same taxable value but pay higher taxes, if not phased. |

**TABLE 4. COMPARISON OF LAND PHASING AUTHORITY IN CHARTER VERSUS LAND PHASING FORMULA RECOMMENDED BY TAX COMMISSION**

| ELEMENT | VANCOUVER CHARTER FORMULA | TAX COMMISSION FORMULA |
|---|---|---|
| **Eligibility criterion** | All properties eligible for phasing. | Year-over-year relative tax increase greater than 10%. |
| **Amount of land value increase "sheltered" from taxes** | Between 50% and 66% of the difference between property's change in land value and average change in land value for whole class. | 80% of difference between property's change in land value and average change in land value for whole class. |
| **Year-over-year increase in land value** | Compare current year land value to last year assessed land value. | Compare current year land value to last year phased land value. |
| **Market value implications** | Does not tend to move properties away from market value over the long term. Sheltered taxable value is phased in over three years. | More like a "tax capping formula," may move properties away from market value over a longer term. |

### Assessing the Tax Commission Recommended Land Phasing Formula

The Tax Commission's recommended land phasing formula was designed to provide relief for those properties most affected by unexpected, significant tax increases (termed "hot" properties in the Tax Commission's report). In order to assess the recommended land phasing formula, staff undertook a statistical analysis that compared six different volatility mitigation alternatives.

OPTION 1 Three-year land averaging, as currently applied.

OPTION 2 Land phasing formula, as recommended by the Tax Commission.

OPTION 3 Five-year land averaging; identical to three-year land averaging (Option 1), except use five years in the average land value rather than three years.

OPTION 4 Land phasing formula, as currently allowed in the *Vancouver Charter*.

OPTION 5 Land phasing formula, as recommended by the Tax Commission, modified to use prior-year assessed land value instead of prior-year phased land value.

OPTION 6 Land phasing formula, as currently allowed in the *Vancouver Charter*, modified to use an 80% phasing reduction factor (instead of 66%).

Only Options 1 through 4 are presented in this report, as Options 5 and 6 were not found to yield appreciably different results from these first four.

**TABLE 5. OPTIONS FOR ADDRESSING VOLATILITY ISSUES, EVALUATED BY STAFF**

| Element | Option 1 - Current Method (Three-Year Land Averaging) | Option 2 - Tax Commission Phasing Formula, As Recommended | Option 3 - Five-Year Land Averaging | Option 4 - Vancouver Charter Phasing Formula | Option 5 - Tax Commission Phasing Formula, Modified | Option 6 - Vancouver Charter Phasing Formula, Modified |
|---|---|---|---|---|---|---|
| 1. Use averaged land values | yes (three years) | no | yes (five years) | no | no | no |
| 2. Apply phasing eligibility screen | n/a | Year over year relative tax increase > 10% | n/a | none | Year over year relative tax increase > 10% | none |
| 3. Phasing reduction factor used in formula | n/a | 80% | n/a | 66% | 80% | 80% |
| 4. Prior-year land value used in formula | n/a | Prior-year land phased value | n/a | Prior-year assessed value | Prior-year assessed value | Prior-year assessed value |

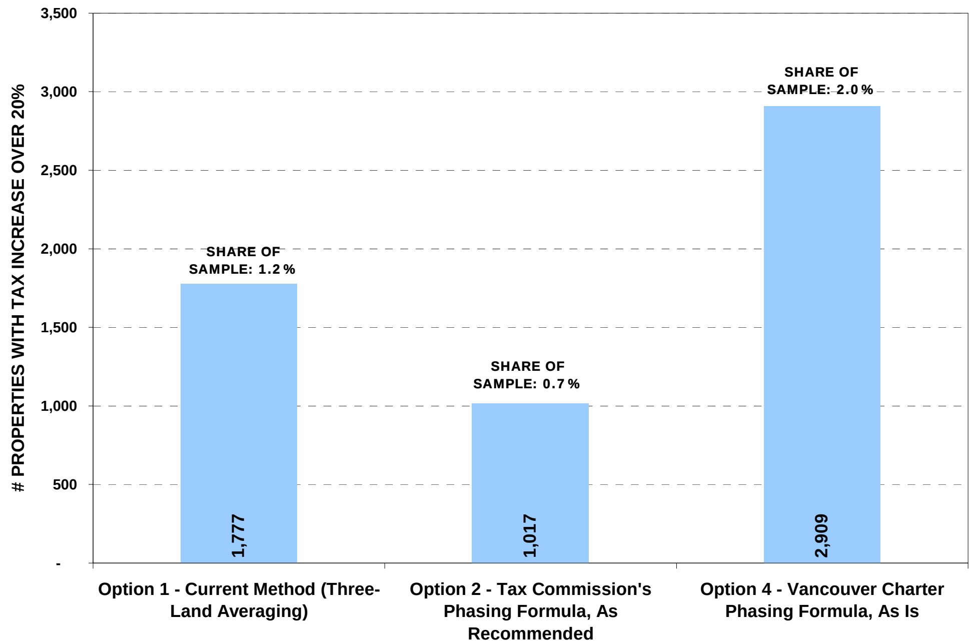
### Statistical Evaluation of Tax Commission's Recommended Land Phasing Formula

The staff analysis compared Options 1 through 4 in terms of how effective each of these various tools were in mitigating very high tax increases for "hot" properties, and also what impact each had on all other taxpayers in the same class. The analysis was done using actual historical data from 2004 through 2007. Properties with new construction were screened from the sample because under the current and recommended approach they are not eligible for relief.

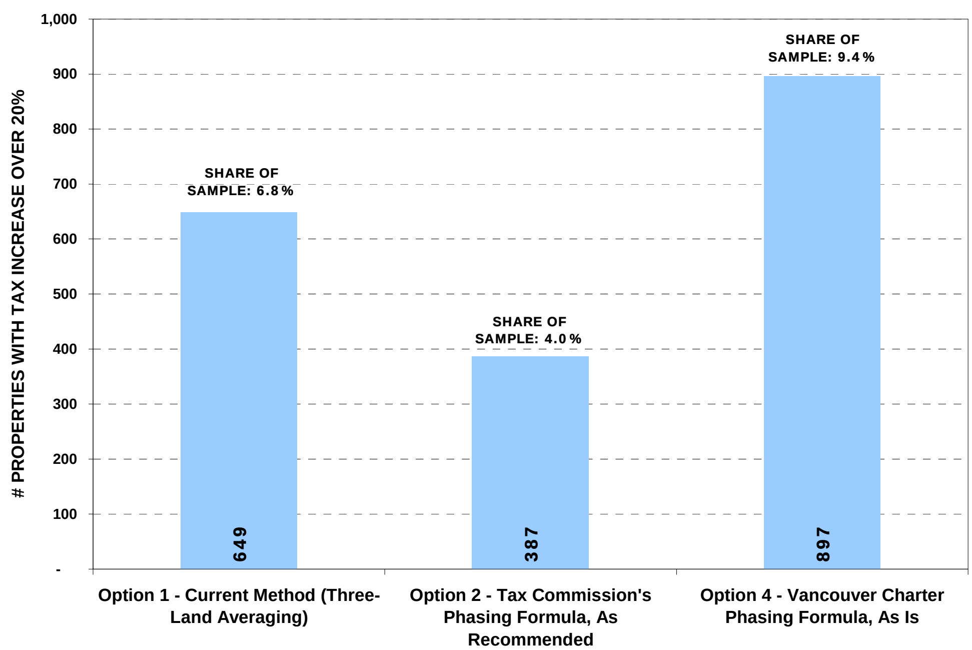
Staff analysis confirmed the Tax Commission's findings that the recommended land phasing formula did reduce the number of properties with the highest tax increases more effectively than both three-year land averaging and the land phasing formula currently allowed for in the *Vancouver Charter*. This was the case in both Class 1 and Class 6 (shown in Table 6).

**TABLE 6. COMPARING MITIGATION OPTIONS: NUMBER OF PROPERTIES WITH YEAR-OVER-YEAR TAX INCREASE GREATER THAN 20%**

**CLASS 1 RESIDENTIAL**




**CLASS 6 BUSINESS**



**NOTES TO TABLE 6**

1. Bars show the average of 2005, 2006 and 2007 data samples.

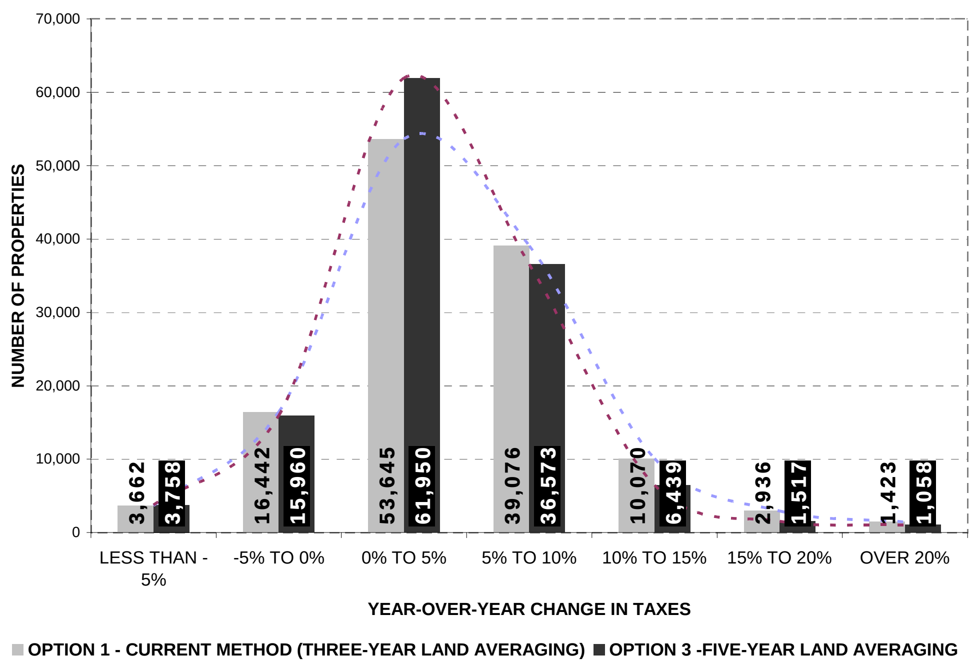
2. When comparing Option 1 to Options 2 and 4 shown in these charts, it is important to note that the charts show two concurrent effects – (i) removing land averaging, and (ii) applying land phasing. Some properties will benefit simply from the removal of land averaging, depending on specific land value change patterns over the sample years.

## Statistical Evaluation of Five-Year Land Averaging

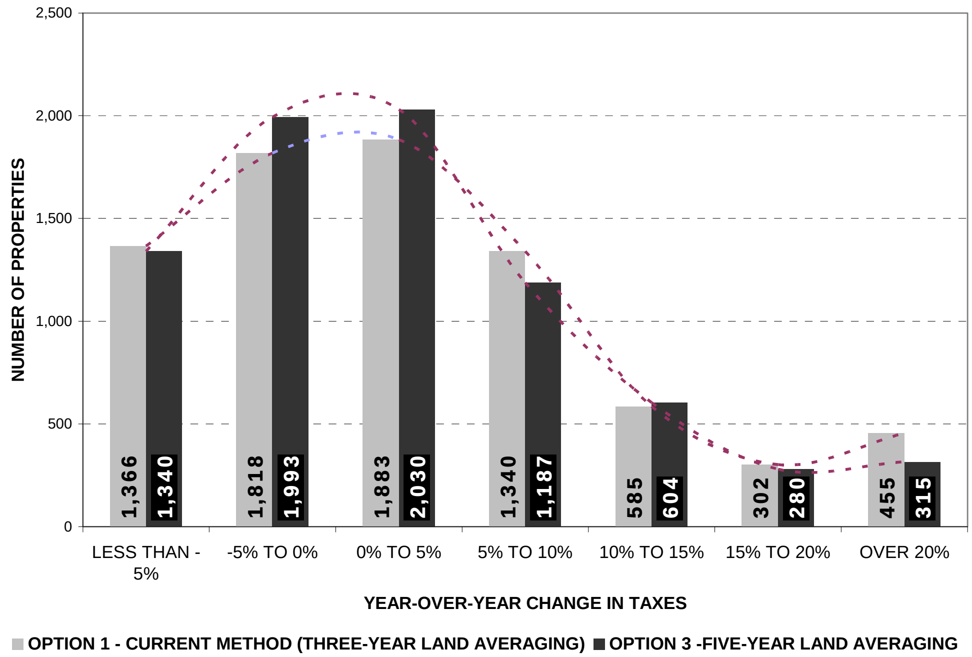
In their report, while the Tax Commission recommended that Council implement a revised land phasing option, they also found that five-year land averaging is an effective way to help "hot" properties. The results of staff's comparative analysis of three-year land averaging to five-year land averaging confirm that the latter is more effective at reducing the number of properties with the greatest year-over-year tax increases. The results of this analysis are shown in Table 7.

**TABLE 7. COMPARING THREE-YEAR LAND AVERAGING AND FIVE-YEAR LAND AVERAGING**

**CLASS 1 RESIDENTIAL**



**CLASS 6 BUSINESS**




**NOTE TO TABLE 7**

1. Bars show the average of 2005, 2006 and 2007 data samples.

## Conclusions About the Tax Commission's Recommended Land Phasing Formula

Staff's analysis shows that the Tax Commission's land phasing formula is an effective, targeted solution for addressing the issue of "hot" properties and, therefore, responds to Council's request for a method to enhance stability and predictability of property taxes.

However, the option is not without its negative aspects:

- The formula is significantly more complex than the either the three or five year land averaging formula, and is therefore significantly more difficult to administer and explain.

- The land phasing formula may have the tendency to move properties away from market value over a longer term, as compared to land averaging.

- In almost all years, three-year (or four- or five- year) land averaging would benefit a greater number of properties than the Tax Commission land phasing formula. This is because averaging is applied to all properties, not just those with the largest increases.

- The land phasing formula will *not* be helpful for those properties that were previously “hot” (e.g. those that experienced a sudden, unexpected increase in land value in prior years). A great number of such properties are underdeveloped, which means there is relatively low value of improvements on relatively highly valued land. In most of these cases, land averaging (either three, four or five-year) would be of more benefit than land phasing.

**Staff Recommendations on the Volatility Issue**

With respect to mitigating volatility in property taxes from year to year for properties with the largest changes in assessed value, staff make two recommendations to Council in this current report.

- SEEK AUTHORITY FOR FIVE-YEAR AVERAGING: Recommendation A instructs staff to seek an amendment to the *Vancouver Charter*, to allow the City to use up to five years of land assessments in the land assessment averaging formula for the calculation of property taxes. This recommendation follows from the analysis above which concluded that five-year averaging offers a broader benefit and significantly easier administration and communications than the phasing option. The Tax Commission indicated that five-year averaging was also effective at mitigating the volatility issue for “hot” properties. Land averaging will also be effective in helping those underdeveloped properties that have already experienced large increases in assessed market land values.

- ANALYSE FIVE-YEAR AVERAGING ONCE AUTHORITY GRANTED: Recommendation B recommends that staff report back with an analysis of three-year versus five-year averaging, if/when the Charter amendment is granted. Council could then assess the relative effectiveness of three-year and five-year averaging, using actual data for the current tax year.

Council can continue the current practice of considering the use of three-year land averaging in the calculation of property taxes annually. Under current Charter authority, it is the most effective tool available to Council for dampening the effects of large tax increases due to changes in market land value.

## CONCLUSION

This report provides Council with staff’s evaluation of the five recommendations in the September 2007 *City of Vancouver Property Tax Policy Review Commission Final Report.* The report recommends seeking amendments to the *Vancouver Charter* that would extend the land averaging formula currently available to Council from three years to up to five years.

It is recommended that Council defer making a decision about the recommendations and considerations in this report that pertain to altering the current tax distribution, until after Council’s public consultation process has been completed.

* * * * *

# APPENDIX A
# ASSESSMENT AVERAGING AND PHASING-IN BYLAW AUTHORITY IN THE VANCOUVER CITY CHARTER

**(i) Assessment averaging and phasing in by-laws**

**374.4** (1) Instead of levying rates on the assessed value of land and improvements, the Council may, by by-law, levy the rates under subsection (2) or (3).

(2) For an assessment averaging option, rates may be imposed on the amount determined in accordance with the following formula:

*Amount = averaged land value + assessed improvements value*

where

averaged land value = the average of the assessed value of the land in the current year and the 2 preceding years;

assessed improvements value = the assessed value of improvements in the current year.

(3) For an assessment phasing option, rates may be imposed on the amount determined in accordance with the following formula:

*Amount = (assessed land value - phasing reduction) + assessed improvements value*

where

assessed land value = the assessed value of the land in the current year;

phasing reduction = the phasing percentage established by the bylaw, being not less than 50% and not more than 66%, of the difference between

(a) the increase in the assessed value of the land in the current year from the previous year, and

(b) the assessed value of the land in the previous year multiplied by the average percentage increase in the assessed value from the previous year to the current year of all land within the city included in the same property class;

assessed improvements value = the assessed value of improvements in the current year.

(4) The Council shall not adopt a by-law under this section unless the following requirements are met:

(a) the Council complies with the requirements of any regulations under subsection (11);

(b) before January 1 of the year in which the by-law is to take effect, notice of intent to consider the by-law is provided to the assessment commissioner;

(c) after January 1 of the year in which the by-law is to take effect and at least 2 weeks before the adoption of the by-law, a notice that

(i) contains the prescribed information, and

(ii) describes the estimated effect of the by-law on the taxation of sample properties within the city

is published in 2 consecutive issues of a newspaper;

(d) the by-law is adopted before March 31 in the year in which it is to take effect;

(e) the by-law establishes a procedure to allow property owners to complain to the Council, sitting as a Court of Revision, about errors made in applying the by-law to their property.

(5) Subject to any regulation made under subsection (11), a by-law under this section may

(a) apply to one or more property classes, or

(b) modify the averaging formula in subsection (2) or the phasing formula in subsection (3) to exempt from the by-law or govern the application of the by-law to particular types of property within a property class.

(6) The authority under subsection (5) (b) includes authority in relation to property with an assessed value of that is different from that on the previous assessment roll because of one or more of the following:

(a) an error or omission;

(b) a subdivision or consolidation or a new development to, on or in the land;

(c) a change in

(i) physical characteristics,

(ii) zoning,

(iii) the classification of the property under section 19 (14) of the *Assessment Act*, or

(iv) the eligibility of the property for assessment under section 19 (8), 23 or 24 of the *Assessment Act;*

(d) any other prescribed factor.

(7) If the Council adopts a by-law under this section, the following rules apply:

(a) the assessed value or the net taxable value shall continue to be the basis for determining the amount of money to be raised in the city for the purposes of the following:

(i) section 805.1 of the *Local Government Act;*

(ii) sections 119 and 137 of the *School Act;*

(iii) section 17 of the *Assessment Authority Act;*

(iv) sections 15 and 17 of the *Municipal Finance Authority Act;*

(v) section 14 of the *British Columbia Transit Act;*

(vi) any other prescribed enactment;

(b) the value determined under the by-law, and not the assessed value or the net taxable value referred to in this or any other Act, shall be the basis for taxing properties within the property classes specified in the by-law to raise the money required under the provisions referred to in paragraph (a).

## APPENDIX B
## TERMS OF REFERENCE FOR THE PROPERTY TAX POLICY 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 processional 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** | *1979 Assessment Act,* Chapter 21 and various amendments |
| **1982** | *Municipal Expenditures Restraint Act Chapter 22 (assented to June 2, 1982)* |
| **1983** | *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 |
| **1983** | *British Columbia Gazette,* December 27, 1983 |
| **1984** | *Variable Tax Rates: A Guide to Implementation, Province of British Columbia Ministry of Municipal Affairs* |
| **1984** | Local Government Act, Tax Rate Limits Regulation |
| **1989** | *Report of the Municipal Taxation Review Commission, March 1989* |
| **1994** | *City of Vancouver Task Force on Property Taxation Report to Council, April 1994* |
| **1995** | *Study of Consumption of Tax-Supported City Services*, 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** | *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) |

| DATE | DOCUMENT / REFERENCE |
|---|---|
| **2004** | Local Government Act, Improvement District Tax Regulation |
| **2005** | Council report, *2005 Property Taxation: Distribution of Property Tax Levy* and associated meeting minutes, April 28, 2005 |
| **2006** | Council report, *2006 Property Taxation: Distribution of the Property Tax Levy* 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** | *Comparison of Municipal Operating Expenditures*, prepared for the Fair Tax Coalition by MMK Consulting, March 16, 2006 |
| **2006** | City of Vancouver *2005 Annual Financial Report, March 2006* |
| **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 C
## IMPACT OF SHIFTING TO RECOMMENDED TARGET TAX DISTRIBUTION AT ONE PERCENT OF TAX LEVY PER YEAR

### CLASS 1 RESIDENTIAL

| CLASS 1 TAX RATE | YEAR 1 $2.42 | YEAR 2 $2.47 | YEAR 3 $2.52 | YEAR 4 $2.57 | YEAR 5 $2.63 | YEAR 6 $2.66 | CUMULATIVE |
|---|---|---|---|---|---|---|---|
| **1. CHARLES & COMMERCIAL DRIVE - CONDO** | | | | | | | |
| Taxable Value | $262,133 | $262,133 | $262,133 | $262,133 | $262,133 | $262,133 | - |
| Taxes | $634 | $648 | $661 | $675 | $688 | $699 | - |
| Year/Year $ Change | - | $13 | $13 | $13 | $13 | $10 | **$64** |
| **2. EAST 36TH & VICTORIA - SFR** | | | | | | | |
| Taxable Value | $598,000 | $598,000 | $598,000 | $598,000 | $598,000 | $598,000 | - |
| Taxes | $1,447 | $1,478 | $1,509 | $1,539 | $1,570 | $1,594 | - |
| Year/Year $ Change | - | $31 | $31 | $31 | $31 | $24 | **$146** |
| **3. EAST 23RD & SLOCAN - SFR** | | | | | | | |
| Taxable Value | $664,333 | $664,333 | $664,333 | $664,333 | $664,333 | $664,333 | - |
| Taxes | $1,608 | $1,642 | $1,676 | $1,710 | $1,744 | $1,770 | - |
| Year/Year $ Change | - | $34 | $34 | $34 | $34 | $26 | **$162** |

## CLASS 1 RESIDENTIAL (continued)

| CLASS 1 TAX RATE | YEAR 1 $2.42 | YEAR 2 $2.47 | YEAR 3 $2.52 | YEAR 4 $2.57 | YEAR 5 $2.63 | YEAR 6 $2.66 | CUMULATIVE |
|---|---|---|---|---|---|---|---|
| **4. WEST GEORGIA & BROUGHTON - CONDO** | | | | | | | |
| Taxable Value | $991,333 | $991,333 | $991,333 | $991,333 | $991,333 | $991,333 | **-** |
| Taxes | $2,399 | $2,450 | $2,501 | $2,552 | $2,603 | $2,642 | **-** |
| Year/Year $ Change | - | $51 | $51 | $51 | $51 | $39 | **$242** |
| **5. WEST 23RD & TRAFALGER - SFR** | | | | | | | |
| Taxable Value | $1,214,333 | $1,214,333 | $1,214,333 | $1,214,333 | $1,214,333 | $1,214,333 | **-** |
| Taxes | $2,939 | $3,001 | $3,064 | $3,126 | $3,188 | $3,236 | **-** |
| Year/Year $ Change | - | $62 | $62 | $62 | $62 | $48 | **$297** |
| **6. WEST 43RD & VINE - SFR** | | | | | | | |
| Taxable Value | $2,860,333 | $2,860,333 | $2,860,333 | $2,860,333 | $2,860,333 | $2,860,333 | **-** |
| Taxes | $6,923 | $7,070 | $7,216 | $7,363 | $7,510 | $7,622 | **-** |
| Year/Year $ Change | - | $147 | $147 | $147 | $147 | $113 | **$699** |

## CLASS 6 BUSINESS

| CLASS 6 TAX RATE | YEAR 1 $13.35 | YEAR 2 $13.09 | YEAR 3 $12.84 | YEAR 4 $12.59 | YEAR 5 $12.34 | YEAR 6 $12.14 | CUMULATIVE |
|---|---|---|---|---|---|---|---|
| **1. EAST 36TH & VICTORIA - RETAIL** | | | | | | | |
| Taxable Value | $408,567 | $408,567 | $408,567 | $408,567 | $408,567 | $408,567 | - |
| Taxes | $5,453 | $5,350 | $5,247 | $5,143 | $5,040 | $4,960 | - |
| Year/Year $ Change | - | ($103) | ($103) | ($103) | ($103) | ($80) | **($493)** |
| **2. WEST 18TH & DUNBAR - RETAIL** | | | | | | | |
| Taxable Value | $1,214,000 | $1,214,000 | $1,214,000 | $1,214,000 | $1,214,000 | $1,214,000 | - |
| Taxes | $16,204 | $15,897 | $15,590 | $15,283 | $14,976 | $14,739 | - |
| Year/Year $ Change | - | ($307) | ($307) | ($307) | ($307) | ($236) | **($1,465)** |
| **3. 1600 BLOCK DAVIE STREET - RETAIL** | | | | | | | |
| Taxable Value | $1,819,000 | $1,819,000 | $1,819,000 | $1,819,000 | $1,819,000 | $1,819,000 | - |
| Taxes | $24,279 | $23,819 | $23,359 | $22,899 | $22,439 | $22,084 | - |
| Year/Year $ Change | - | ($460) | ($460) | ($460) | ($460) | ($354) | **($2,195)** |
| **4. NELSON & HOWE - INSTITUTIONAL** | | | | | | | |
| Taxable Value | $5,696,000 | $5,696,000 | $5,696,000 | $5,696,000 | $5,696,000 | $5,696,000 | - |
| Taxes | $76,028 | $74,587 | $73,146 | $71,705 | $70,264 | $69,155 | - |
| Year/Year $ Change | - | ($1,441) | ($1,441) | ($1,441) | ($1,441) | ($1,109) | **($6,873)** |

## CLASS 6 BUSINESS (continued)

| CLASS 6 TAX RATE | YEAR 1 $13.35 | YEAR 2 $13.09 | YEAR 3 $12.84 | YEAR 4 $12.59 | YEAR 5 $12.34 | YEAR 6 $12.14 | CUMULATIVE |
|---|---|---|---|---|---|---|---|
| **5. MARPOLE - DEVELOPED OFFICE BUILDING** | | | | | | | |
| Taxable Value | $27,985,667 | $27,985,667 | $27,985,667 | $27,985,667 | $27,985,667 | $27,985,667 | - |
| Taxes | $373,540 | $366,461 | $359,382 | $352,303 | $345,224 | $339,773 | - |
| Year/Year $ Change | - | ($7,079) | ($7,079) | ($7,079) | ($7,079) | ($5,451) | **($33,767)** |
| **6. W. GEORGIA - DEVELOPED OFFICE BLDG** | | | | | | | |
| Taxable Value | $117,492,333 | $117,492,333 | $117,492,333 | $117,492,333 | $117,492,333 | $117,492,333 | - |
| Taxes | $1,568,234 | $1,538,514 | $1,508,794 | $1,479,073 | $1,449,354 | $1,426,470 | - |
| Year/Year $ Change | - | ($29,720) | ($29,720) | ($29,721) | ($29,720) | ($22,884) | **($141,764)** |

**NOTES TO TABLES**

1. The changes in taxes are shown exclusive of any tax increases required to balance the City's operating budget.

2. All Class 1 properties experience a cumulative 10% increase over the five years, approximately 2% per year. All Class 6 properties experience a cumulative 9% decrease over the five years, approximately 2% per year.

## APPENDIX D
## STEP-BY-STEP ILLUSTRATION OF THE LAND PHASING CALCULATION, AS CURRENTLY DESCRIBED IN THE VANCOUVER CHARTER

| | 2006 | 2007 | $ CHG | % CHG |
|---|---|---|---|---|
| **A. LAND VALUE CHG - WHOLE CLASS** | | | | |
| Land value, total class (billions) | $11.1 | $12.8 | n/a | 15% |
| | | | | |
| **B. TAXABLE VALUE - PROPERTY A** | | | | |
| Land value | $500,000 | $700,000 | $200,000 | 40% |
| Improvement value | $100,000 | $100,000 | $0 | 0% |
| Total value | $600,000 | $800,000 | $200,000 | 33% |
| | | | | |
| **C. CALCULATE SHELTERED LAND VALUE** | | | | |
| Force land value % increase to class average | | | | |
| (i) Starting with prior-year land value | | $500,000 | | |
| (ii) Multiply by land value change for whole class | | 15% | | |
| (iii) Property A land value | | $575,000 | | |
| **(iv) Calculated change in land value** | | **$75,000** | | |
| | | | | |
| Calculate sheltered land value | | | | |
| (iv) Compare: Actual change in land value | | $200,000 | | |
| (v) To: Calculated change in land value | | $75,000 | | |
| (vi) Difference | | $125,000 | | |
| (vii) Phasing Reduction (per Charter) | | 66% | | |
| **(viii) Sheltered land value** | | **$82,500** | | |
| | | | | |
| **D. CALCULATE CURRENT-YEAR TAXABLE LAND VALUE** | | | | |
| Phased land value is equal to: | | | | |
| Current-year land value | | $700,000 | | |
| Less: Sheltered amount | | -$82,500 | | |
| | | **$617,500** | | |
| | | | | |
| **E. CALCULATE TOTAL TAXABLE VALUE** | | | | |
| Phased land value | | $617,500 | | |
| Plus: Current-year improvement value | | $100,000 | | |
| Current-year taxable value, with phasing | | **$717,500** | | |
| | | | | |
| **F. COMPARE WITH/WITHOUT PHASING** | | | | |
| | | NO PHASING | WITH PHASING | |
| Prior-year taxable value | | $600,000 | $600,000 | |
| Current-year taxable value, no phasing | | $800,000 | $717,500 | |
| Increase in taxable value, no phasing | | **33%** | **20%** | |

**Result: Property's taxable value increases 20% with land phasing, versus 33% without land phasing.**