Supports Item No. 4
CF&S Committee Agenda
February 27, 2013

CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	February 20, 2013
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Meeting Date:	February 27, 2013

TO: Standing Committee on City Finance and Services

FROM: Director of Finance

SUBJECT: 2013 Property Taxation: 3-year Land Assessment Averaging

RECOMMENDATION

A. THAT Council approve the continuous application of the 3-year land assessment averaging program in 2013 for the purpose of calculating property taxes for Residential (Class 1), Light Industrial (Class 5), and Business & Other (Class 6) properties.

B. THAT Council instruct the Director of Legal Services, in consultation with the Director of Finance, to prepare a by-law authorizing the use of 3-year land assessment averaging that reflects Council's decision on Recommendations A, and bring it forward to Council for consideration on March 12, 2013.

C. THAT, subject to adoption of the by-law on March 12, 2013, Council instruct the Director of Finance to make appropriate arrangements with BC Assessment for the production of the 2013 Average Assessment Roll at an estimated cost of $25,000 plus applicable taxes; source of funding to be the 2013 Operating Budget.

D. THAT Council reconvene the Property Tax Policy Review Commission as an advisory panel to work with staff on two key areas:

- assess viable options to enhance property tax stability and predictability arising from significant year-over-year market value changes; and

- assess viable options for tax distribution; validate whether the current tax share 53% residential / 47% non-residential (after completing the recommended 5-year, $23.8 million tax shift program) continues to be an appropriate distribution; and recommend metrics for monitoring tax share over the long-term and its impact on residents and business climate.

E. THAT Council instruct the Director of Finance to bring forward a recommendation on the appointment of the Commission chairperson and two additional members, Terms of Reference, and project budget in April 2013.

REPORT SUMMARY

The purpose of this report is two-fold:

- to seek Council approval on the continuous application of the 3-year land assessment averaging program in 2013 for the purpose of calculating property taxes for Residential (Class 1), Light Industrial (Class 5), and Business & Other (Class 6) properties; and

- to seek Council approval to reconvene the Property Tax Policy Review Commission as an advisory panel to work with staff on two key areas: i) assess viable options to enhance property tax stability and predictability, and ii) assess viable options for tax distribution; validate whether the current residential and business tax share continues to be an appropriate distribution; and recommend metrics for monitoring tax share over the long-term and its impact on residents and business climate.

3-year land assessment averaging is an optional mitigation tool available to Council under the *Vancouver Charter*, which complements other provincial measures such as Section 19(8) of the *Assessment Act*, Property Tax Deferment and Home Owner Grant, in alleviating tax impact on eligible properties. It is a long-term policy and consistent application is crucial to ensure predictability and fairness over the long-term. The analysis contained in this report demonstrates that the program continues to function as intended - to phase in year-over-year property tax impact arising from land value changes and to minimize the number of properties that experience extreme property tax increases driven by significant market volatility.

In its report to Council in September 2007, the Property Tax Policy Review Commission reaffirmed the effectiveness of land assessment averaging in enhancing property tax stability and predictability, and recommended Council to seek an amendment to the *Vancouver Charter* to allow the City to use of up to five years of land values in the averaging formula. That request has been forwarded to the Province. At the time of this report, the Province has announced but not enacted such authority. Staff have included in this report an impact analysis comparing the two programs (3-year versus 5-year). The 5-year program is for Council's information in preparation for 2014 while the 3-year program is recommended for 2013.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Section 374.4 of the *Vancouver Charter* requires that Council considers the application of the 3-year land assessment averaging program each year and, if Council decides to proceed, a by-law be adopted, before March 31, authorizing the use of such a mechanism.

Since 1993, it has been Council policy to apply the 3-year land assessment averaging program for the purpose of calculating property taxes for Residential (Class 1) and Business & Other

(Class 6) properties; in 2007, Council extended the program to Light Industrial (Class 5) properties.

In March 2008, Council instructed staff to seek an amendment to the *Vancouver Charter* to allow the City to use up to five years of land values in the averaging formula.

In February 2012, Council instructed staff to report back on ideas raised by the Vancouver Fair Tax Coalition with regards to tax stability and predictability, and how to achieve a fairer property tax system recognizing the current challenges.

In April 2012, Council instructed staff to monitor the differential of business taxes and business investment in Vancouver and neighboring municipalities and report back.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

Every tax system has inherent limitations and challenges; property tax is no exception. Over the years, most discussions and debates revolve around two areas: i) property tax stability and predictability and ii) residential and business tax share, both of which have some impact on affordability and business climate. The complexity of these challenges are apparent on consideration of “hot spots” (properties that experience extreme tax increases due to rezoning and other market forces) with triple net leases where landlords transfer the entire tax burden to small business tenants while benefiting from future capital gain upon redevelopment.

Recognizing the constraints within the existing framework and that most issues are beyond its jurisdiction, Council has been proactive in addressing the aforementioned issues and has advanced a number of key action plans that target affordability and economic development. Below are some highlights:

- work to keep property tax increase in line with inflation while renewing and upgrading our public amenities and services in the areas of housing, community centres, libraries, and cultural facilities
- completed the 5-year, $23.8 million tax shift program in 2012 and lowered the business tax share to 47% and the tax rate ratio to 4.3, both at historical low
- applied 3-year land assessment averaging while preparing for a potential 5-year program to further enhance stability and predictability
- launched the first Vancouver Economic Action Strategy in 2011
- adopted Transportation 2040 which envisions a sustainable and efficient transportation system that supports a thriving economy
- adopted land use policies that preserve commercial and industrial space and promote affordable purpose-built rental

Vancouver’s business climate has improved noticeably in recent years. In 2012, KPMG ranked Vancouver as having the second lowest total overall business taxes among 113 major international cities. Below are additional indicators that demonstrate such positive development:

- robust commercial development activities: over 5 million sq. ft. of commercial and office space were completed between 2007 and 2011, and over 3 million sq. ft. are currently underway or being proposed through 2017
- commercial property vacancy among the lowest in Metro Vancouver: office vacancy ranged from 3.3% to 5% depending on location, and retail centre vacancy below 2.5%
- business property tax rate below regional average
- significant improvement in the tax rate ratio (business tax rate/residential tax rate): from 5.5 in 2007 to 4.3 in 2012 upon completion of the 5-year, $23.8 million tax shift program, much lower than some major Metro Vancouver municipalities

While the City's property tax regime generally functions well, it is important to ensure that our tax policies continue to be progressive and current in meeting the needs of residents and businesses, and align with the broader public policies and long-term goals. As such, staff recommend that Council reconvene the Property Tax Policy Review Commission as an advisory panel to work with staff on two key areas: property tax stability and predictability, and residential and business tax share.

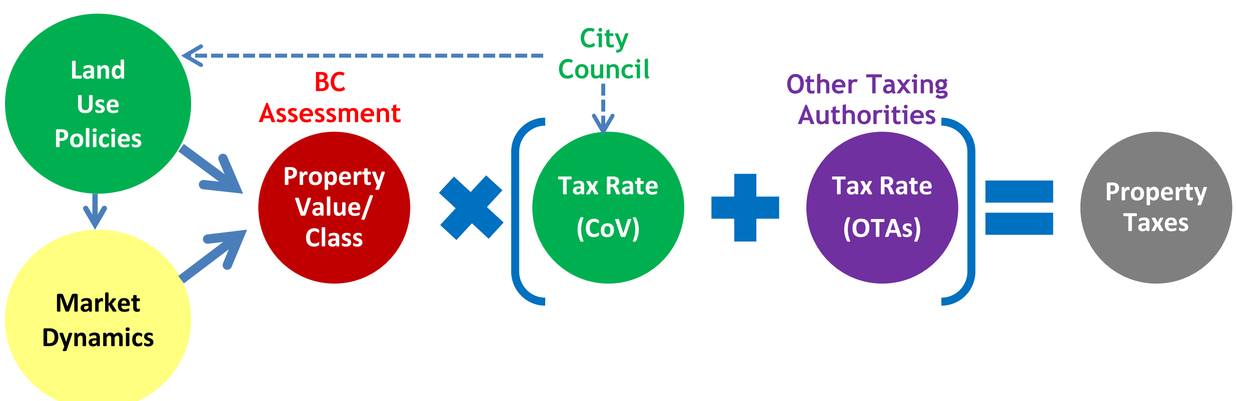
REPORT

Background/Context

BC's property taxation framework has been recognized as one of the best in class due mainly to the segregation of assessment and taxation functions that ensures objectivity and credibility; and the annual market valuation approach that ensures currency, equity and transparency.

Figure 1 below shows the key drivers and stakeholders within the property taxation framework.

Figure 1: Property Taxation Framework



Property taxes are levied by taxing authorities based on real property values, which are driven by zoning as defined in **land use policies** and by **market dynamics**.

BC Assessment determines the value of all real properties in BC based on their "highest and best use" as defined by zoning and market evidence, and assigns them to appropriate property class(s) based on their "actual use" in accordance with the *Assessment Act*. An *Assessment Roll* is produced annually for municipalities and other taxing authorities (OTAs) such as Provincial School, Translink, Metro Vancouver, Municipal Finance Authority and BC Assessment to levy property taxes.

City Council sets land use policies that define zoning; determines the amount of general purpose tax levy required to support City operations; sets residential and business tax share and tax rates; and levies property taxes using the *Assessment Roll*. Council may also decide whether to apply mitigation tools such as land assessment averaging in any given year. The City's general purpose tax portion accounts for ~50% of the overall tax rate.

OTAs set tax share and tax rate for each property class, and levy property taxes using the *Assessment Roll*. If land assessment averaging is applied, the tax rates for the impacted property classes will be adjusted to ensure revenue neutrality. OTAs accounts for ~50% of the overall tax rate.

As a general rule, the extent of change in a property's taxes year over year is determined primarily by how that property's assessed value has changed relative to the average change within its property class. While changes in assessed values will not change the total general purpose tax levy generated from each property class, differential changes among properties within the same class will result in differential shifts in taxes paid by individual property owners. This situation is particularly prevalent in neighborhoods with significant growth opportunities and/or development potential where property values could experience a much higher increase relative to other areas in the City and, as a result, pay higher taxes.

Figure 2 below outlines how property value changes impact property taxes in general terms.

Figure 2: Impact of Property Value Changes on Property Taxes

If a property's value has increased…	its property tax…
…*at the same rate* as the property class average change,	…will increase *at the same rate* as the property class average increase.
…*more* than the property class average change,	…will increase *more* than the property class average increase.
…*less* than the property class average change,	…will increase *less* than the property class average increase.

The following **Provincial tax relief measures** are available to BC residential property owners which can be applied independently or in combination to alleviate some taxation impact.

Assessment Act s19(8) - available to property owners who have continuously occupied their principal residence for at least 10 years; the land will be assessed based on current zoning rather than anticipated zoning and development potential.

Property Tax Deferment - available to property owners 55 years of age or older who occupy their principal residence and families with children under 18 years of age.

Home Owner Grant - available to property owners who occupy their principal residence of which the value falls within the qualifying range.

Similar to other Metro Vancouver municipalities, Vancouver has experienced cycles of active real estate markets from neighborhood to neighborhood which resulted in uneven property value increases and taxation impact. Figure 3 and 4 below shows the distribution of residential and business property value changes in selected major Metro Vancouver municipalities from 2010-2013. (Note: Staff excluded 2009 in the analysis as the Province legislated Bill 45 which effectively "froze" the 2009 *Assessment Roll* at the 2008 level.)

Figure 3: Distribution of Residential Property Value Changes (2010-2013)

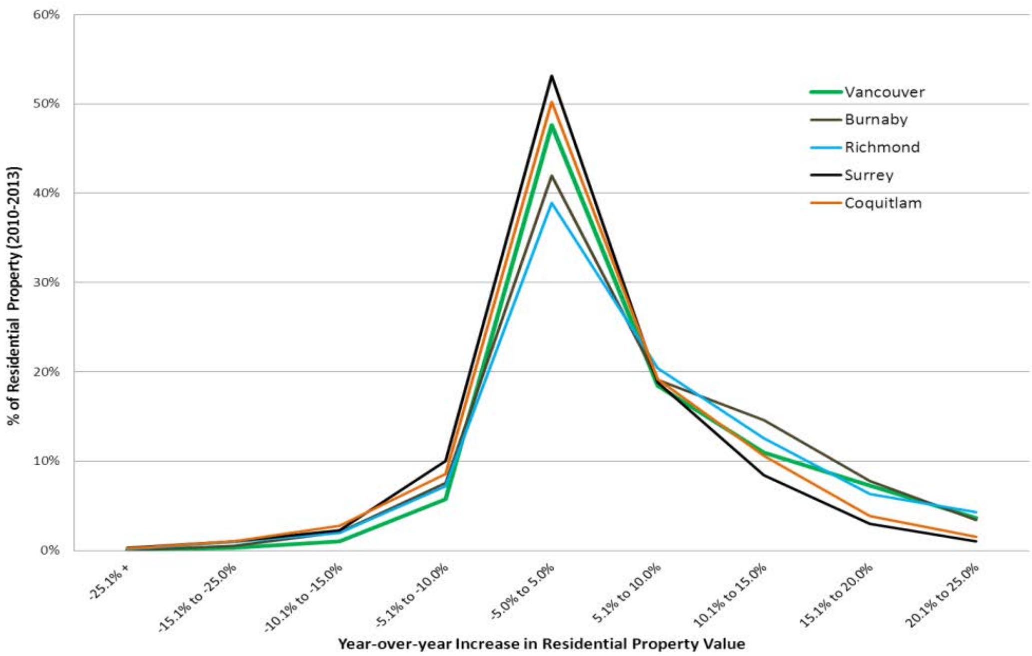
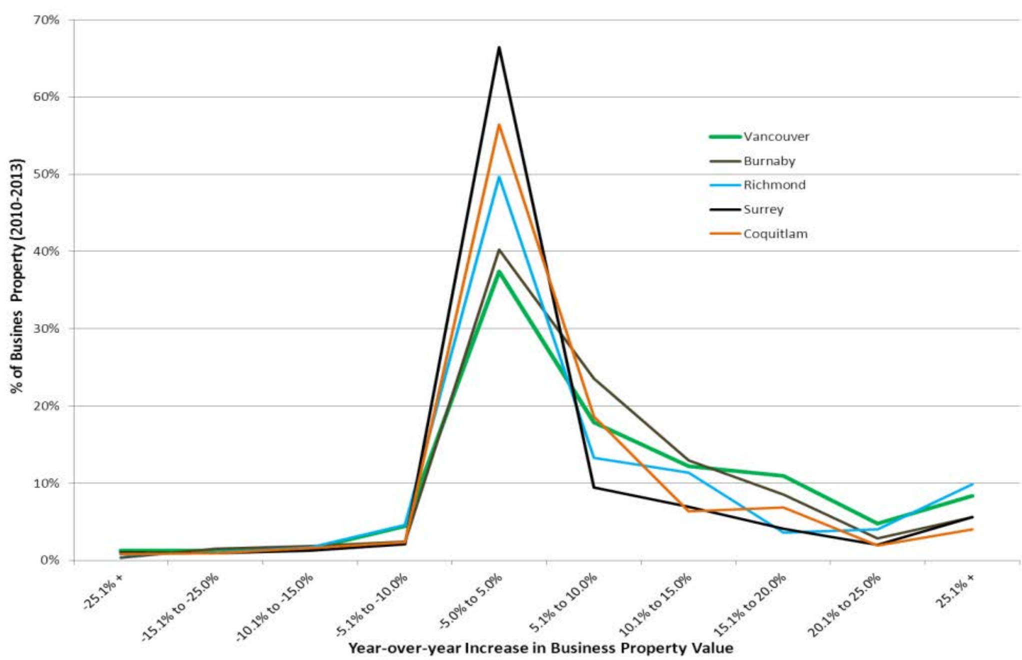


Figure 4: Distribution of Business Property Value Changes (2010-2013)

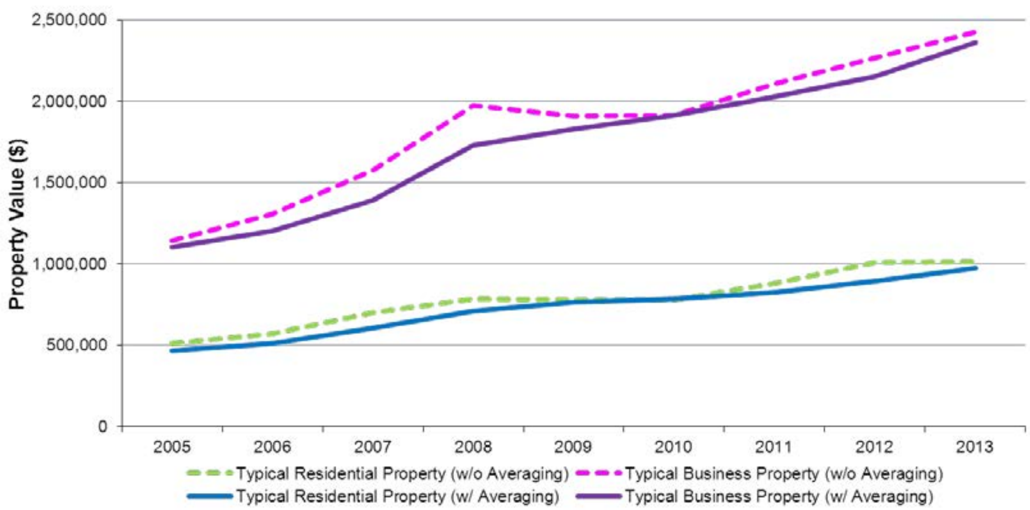


Among the five selected major Metro Vancouver municipalities, Richmond has the highest percentage of properties experiencing over 20% increase in value (12% residential & 14% business), followed by Vancouver (9% residential & 13% business) and Burnaby (6% residential & 8% business). The **City of Vancouver** is the only BC municipality that has elected to apply **land assessment averaging** consistently over the years to phase in taxation impact arising from volatility in land values and minimize the number of properties experiencing extreme tax increases.

Land assessment averaging is intended to provide temporary tax relief, NOT permanent reduction and/or exemption, to eligible residential and business property owners. Averaging is a “zero-sum” mechanism: Properties experiencing a higher than average increase in land value will benefit from the program while those experiencing a lower than average increase in land value will contribute to the program. The total general purpose tax levy collected by the City remains the same with or without averaging. Any tax savings benefited by some properties are redistributed among other properties such that some taxpayers will pay more tax than they otherwise would without averaging while some will pay less. Consequently, averaging may have a different, even opposite, taxation impact on individual properties when compared to the market value approach.

Figure 5 below shows how land assessment averaging phases in property value increases for a typical Residential property and a typical Business property in Vancouver from 2005 to 2013.

Figure 5: Value of a Typical Residential & Business Property (2005-2013) With & Without Averaging



Land assessment averaging is a long-term policy that ensures consistency, predictability and fairness for property owners. While short-term market conditions could affect the result of averaging in any given year, in deciding whether to continue with the program, Council must weigh the relative impacts of intra-class tax shifts created by the program against the benefit of mitigating extreme property tax increases arising from significant volatility in land values.

Section 374.4 of the *Vancouver Charter* stipulates the legislative and administrative requirements for the implementation of land assessment averaging.

a) **Land Assessment Averaging By-law -** Must be adopted before March 31.

b) **Eligible Property Classes -** Residential (Class 1), Light Industrial (Class 5), and Business & Other (Class 6) properties only.

c) **Eligible Properties** – Eligibility and exemption criteria are stipulated in the *By-law*. As Council can only establish one tax rate for each class, properties that are not eligible for averaging are also subject to the averaged tax rates.

d) **Averaging Applies to All Taxes -** As averaging affects the taxable values for calculating taxes levied by the City as well as OTAs, a decision to apply averaging to a property class requires that adjustment be made to OTAs' tax rates to ensure revenue neutrality.

e) **Public Notification -** Must be published in two consecutive issues of a newspaper at least two weeks in advance of the adoption of the *By-law*. For 2013, the notice has been placed in the Courier on February 15 and 22, and on the City's website since February 15. A copy of the notice can be found in Appendix E.

f) **Appeal Process -** The *By-law* provides for a municipal Court of Revision for appeals that cannot be resolved within the administrative processes provided for in the *Vancouver Charter*.

Please refer to Appendix A for further details on the Provincial tax relief measures and the City's land assessment averaging program.

Strategic Analysis

LAND ASSESSMENT AVERAGING

In response to the Property Tax Policy Review Commission's recommendation, Council submitted a request to the Province for an amendment to the *Vancouver Charter* to allow the City to use of up to five years of assessed land values in the averaging formula to enhance property tax stability and predictability. At the time of this report, the Province has announced but not enacted such authority. Staff have included in this report an impact analysis comparing the two programs (3-year versus 5-year). The 5-year program is for Council's information in preparation for 2014 while the 3-year program is recommended for 2013.

Key inputs and assumptions are as follows:

a) **Data Source -** Based on the 2013 *Completed Roll* available at the time of this report; the 2013 *Revised Roll* which incorporates updates from the Property Assessment Review Panel decisions will not be available until April.

b) **Eligibility Criteria** – The set of eligibility criteria and proxies used in the model is similar to those contained in the *By-law*, which excludes new construction, class transfers, and other ineligible properties.

c) **Impact on General Purpose Tax Levy Only -** While averaging is applicable to all taxes levied by the City as well as OTAs, only the City's general purpose tax levy is considered in the model as OTAs' tax rates are not available at the time of this report. However, a similar pattern would apply.

d) **Tax Shift** – None assumed for 2013 after completion of the 5-year, $23.8 million tax redistribution program in 2012.

Subject to the 2013 *Revised Roll* as well as Council's decision on tax distribution in April 2013, the impact of land assessment averaging presented in this report could change.

I. Class 1 - Residential Properties

The 2013 *Completed Roll* indicates a year-over-year increase of $3.8 billion (2.1%) in the total assessed value for the residential property class, of which $0.6 billion (0.3%) represents an increase in market value and $3.2 billion (1.8%) represents non-market changes which include new construction and inter-class transfers that are not eligible for land assessment averaging.

In December 2012, Council approved an overall tax levy of $615 million. Assuming no further tax shift in 2013, the target tax levy to be collected from the residential property class would be $330 million. Tax rates are calculated based on the total taxable value on the *Assessment Roll*. If averaging *reduces* the total taxable value of a property class, the tax rate will be *higher*. As illustrated in Figure 6 below, applying 3-year land assessment averaging *reduces* the total taxable value from $182 billion to $174.4 billion and *increases* the tax rate from $1.81 to $1.89 per $1,000 taxable value.

Figure 6: Class 1 - Residential
Estimated Impact of Averaging on 2013 Taxable Value & Tax Rate

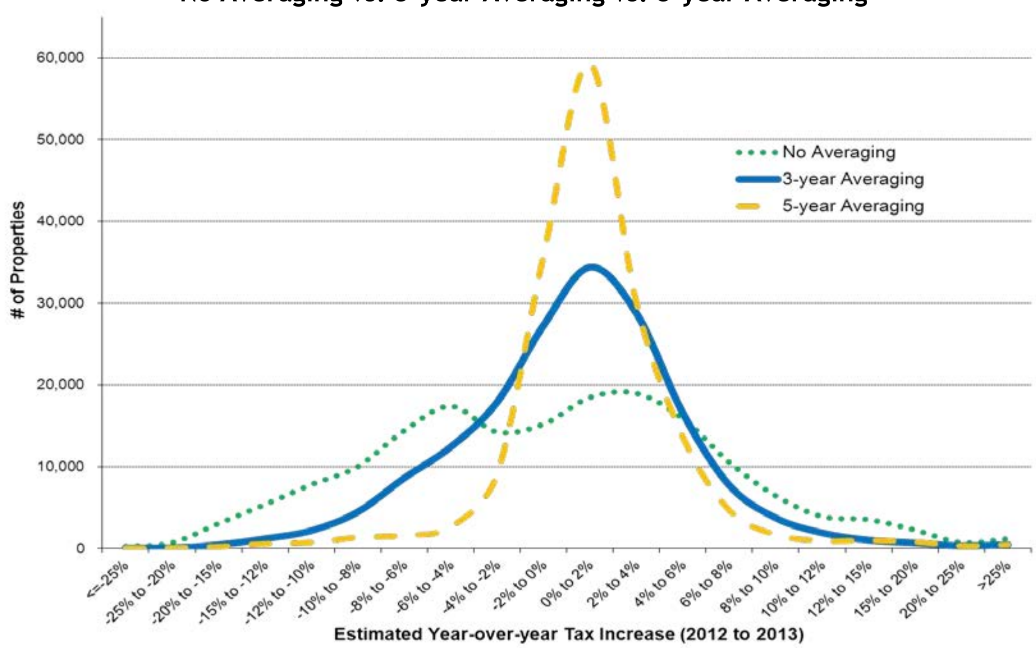
	No Averaging	**Recommended** 3-year Averaging	(Information Only) 5-year Averaging
Taxable Value	$182,000,773,000	$174,418,921,000	$162,891,842,000
Tax Rate (per $1,000 Taxable Value)	$1.81261	$1.89140	$2.02525
Target General Purpose Tax Levy	$329,896,000	$329,896,000	$329,896,000

Figure 7 and 8 below shows the distribution of property value increase and taxation impact with and without averaging for Class 1 – Residential properties.

Figure 7: Class 1 – Residential
2012/2013 Property Value Increase
No Averaging vs. 3-year Averaging vs. 5-year Averaging

It is quite evident that with averaging, more properties will experience an increase in value closer to the class average increase and fewer properties will experience increases over 20%. Such stability in property values is further enhanced when averaging is extended from three years to five years.

Figure 8: Class 1 – Residential
2012/2013 Property Tax Increase
No Averaging vs. 3-year Averaging vs. 5-year Averaging



With 3-year land assessment averaging:

- ***More Residential properties will experience a property tax increase closer to the class average increase*** – number of properties that fall within the -10% and +10 tax increase bracket increases from 141,501 (83%) to 161,862 (95%)

- ***Fewer Residential properties will experience significant tax increases*** – number of properties that experience a tax increase over 10% will decrease from 11,546 (7%) to 4,375 (3%)

- ***63% of Residential properties will pay the same or lower taxes*** – 45,524 (27%) properties would pay lower taxes; 61,307 (36%) would pay approximately the same amount of taxes (within +/- $24 differential); and 63,372 (37%) would pay higher taxes

Such stability in property tax is further enhanced when averaging is extended from three years to five years. Figure 9 below summarizes the impact of 3-year and 5-year land assessment averaging on Residential property values and taxes.

Figure 9: Class 1 - Residential
Estimated Impact of Land Assessment Averaging on Property Value & Tax Increases

% of Residential Properties with…	No Averaging	**Recommended** 3-year Averaging	(Information Only) 5-year Averaging
Value increase -10% to 10%	45%	73%	97%
Value increase >20%	11%	1%	0%
Tax increase -10% to 10%	83%	95%	97%
Tax increase >10%	7%	3%	2%

The impact of 3-year land assessment averaging on median Residential properties by neighborhood is presented in Appendix B.

II. Class 5 - Light Industrial & Class 6 - Business Properties

The 2013 *Completed Roll* indicates a year-over-year increase of $2.3 billion (7.2%) in the combined assessed value for the Light Industrial and Business & Other property classes, of which $2.1 billion (6.7%) represents an increase in market value and $0.2 billion (0.6%) represents non-market changes which include new construction and inter-class transfers that are not eligible for land assessment averaging.

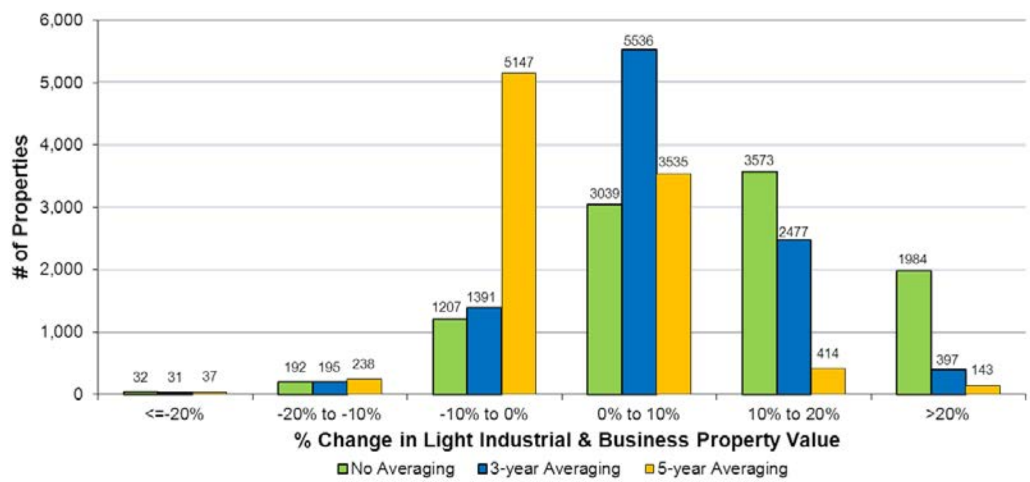
In December 2012, Council approved an overall tax levy of $615 million. Assuming no further tax shift in 2013, the target tax levy to be collected from the light industrial and business property classes would be $272.2 million. As illustrated in Figure 10 below, applying 3-year land assessment averaging *reduces* the combined taxable value from $34.4 billion to $33.5 billion and *increases* the blended tax rate from $7.90 to $8.13 per $1,000 taxable value.

Figure 10: Class 5 - Light Industry & Class 6 - Business
Estimated Impact of Averaging on 2013 Taxable Value & Tax Rate

	No Averaging	**Recommended** 3-year Averaging	(Information Only) 5-year Averaging
Taxable Value	$34,445,729,000	$33,484,217,000	$32,572,198,000
Tax Rate (per $1,000 Taxable Value)	$7.90279	$8.12972	$8.35735
Target General Purpose Tax Levy	$272,217,000	$272,217,000	$272,217,000

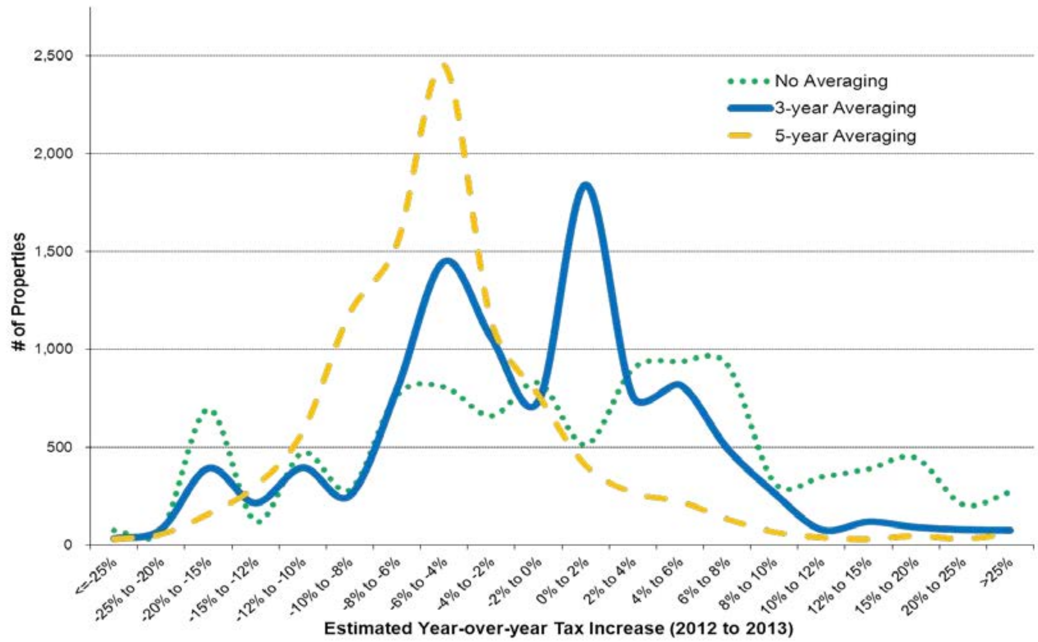
Figure 11 and 12 below shows the distribution of property value increase and tax impact with and without averaging for Class 5 – Light Industry and Class 6 – Business.

Figure 11: Class 5 - Light Industry & Class 6 - Business
2012/2013 Property Value Increase
No Averaging vs. 3-year Averaging vs. 5-year Averaging



It is evident that with averaging, more properties will experience an increase closer to the class average increase and fewer properties will experience increases over 20%. Such stability in property values is further enhanced when averaging is extended from three years to five years.

Figure 12: Class 5 – Light Industry & Class 6 – Business
2012/2013 Property Tax Increase
No Averaging vs. 3-year Averaging vs. 5-year Averaging



With 3-year land assessment averaging:

- ***More Light Industrial and Business properties will experience a property tax increase closer to the class average increase*** – number of properties that fall within the -10% and +10 tax increase bracket increases from 6,933 (69%) to 8,468 (84%)

- ***Fewer Light Industrial and Business properties will experience significant tax increases*** – number of properties that experience a tax increase over 10% will decrease from 1,661 (17%) to 441 (4%)

- ***85% of Light Industrial and Business properties will pay the same or lower taxes*** – 4,865 (49%) properties would pay lower taxes; 3,618 (36%) would pay approximately the same amount of taxes (within +/- $60 differential); and 1,544 (15%) would pay higher taxes.

Such stability in property tax is further enhanced when averaging is extended from three years to five years. Figure 13 below summarizes the impact of 3-year and 5-year land assessment averaging on Light Industrial and Business property values and taxes.

Figure 13: Class 5 - Light Industry & Class 6 - Business
Estimated Impact of Land Assessment Averaging on Property Value & Tax Increases

% of Light Industrial & Business Properties with…	No Averaging	**Recommended** 3-year Averaging	(Information Only) 5-year Averaging
Value increase -10% to 10%	42%	69%	91%
Value increase >20%	20%	4%	2%
Tax increase -10% to 10%	69%	84%	86%
Tax increase >10%	17%	4%	2%

The impact of 3-year land assessment averaging on median Business properties by neighborhood is presented in Appendix C.

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RECONVENING PROPERTY TAX POLICY REVIEW COMMISSION

Every tax system has inherent limitations and challenges; property tax is no exception. Over the years, most discussions and debates seem to revolve around two areas: i) property tax stability and predictability and ii) residential and business tax share, both of which have some impact on affordability and business climate. The complexity of these challenges are apparent on consideration of “hot spots” (properties that experience significant tax increases due to rezoning and other market forces) with triple net leases where landlords transfer the entire tax burden to small business tenants while benefiting from future capital gain upon redevelopment.

While the City’s property tax regime generally functions well, it is important to ensure that our tax policies continue to be progressive and current in meeting the needs of residents and businesses, and align with the broader public policies and long-term goals. To address the tax stability and tax share issues, staff recommend that Council reconvene the Property Tax Policy Review Commission as an advisory panel to work with staff on the two key areas:

- assess viable options to enhance property tax stability and predictability and minimize “hot spots” arising from significant year-over-year market value increases; and

- assess viable options for tax distribution; validate whether the current residential and business tax share continues to be an appropriate distribution; and recommend metrics for monitoring tax share over the long-term and its impact on residents and business climate.

The Commission is expected to report back to Council in Fall 2013 in time for the 2014 tax year. Through the work of this Commission, Council will be in a better position to make long-term tax policy decisions that balance the needs of residents and businesses.

The Director of Finance will report back in April 2013 with a recommendation on the appointment of the Commission chairperson and two additional members based on the following criteria, which are similar to those in Phase I:

- objectivity in analysing issues and making recommendations
- strong expertise in property taxation, public finance, economics, and social policy
- an appreciation of the taxation impact on residents and businesses
- no conflict of interest

Implications/Related Issues/Risk (if applicable)

Financial

Should Council approve the continuation of the 3-year land assessment averaging program in 2013, the City will require an *Average Assessment Roll* for calculating property taxes. Since 1993, BC Assessment has offered to produce an average or phased assessment roll to any municipal jurisdiction on a user-fee basis. The cost of producing an *Average Assessment Roll* in 2013 is estimated at $25,000 plus applicable taxes; source of funding to be the 2013 Operating Budget.

Should Council wishes to reconvene the Property Tax Policy Review Commission, the Director of Finance will bring forward a recommendation on the appointment of the Commission chairperson and two additional members, Terms of Reference, and project budget for Council consideration in April 2013.

CONCLUSION

The analysis contained in this report demonstrates that land assessment averaging continues to function as intended - to phase in year-over-year property tax impact arising from land value changes and to minimize the number of properties that experience extreme property tax increases driven by significant market volatility. Such stability is further enhanced when averaging is extended from three years to five years once the authority is in place. As such, staff recommends that Council approve the continuous application of 3-year land assessment averaging in 2013 for the purpose of calculating property taxes for Residential (Class 1), Light Industrial (Class 5), and Business & Other (Class 6) properties.

Staff also recommends that Council reconvene the Property Tax Policy Review Commission as an advisory panel to work with staff on property tax stability and predictability, and residential and business tax share. The Director of Finance will bring forward a recommendation on the appointment of the Commission chairperson and two additional members, Terms of Reference, and project budget for Council consideration in April 2013.

* * * * *

Over the last few decades, Vancouver has experienced cycles of very active real estate market, particular residential, from neighborhood to neighborhood which has resulted in uneven property value increases and taxation impact across the City. There are a number of provincial and municipal mechanisms available for property owners which, when applied independently or in combination, could mitigate the taxation impact.

PROVINCIAL MITIGATING MEASURES (RESIDENTIAL PROPERTIES ONLY)

(i) ***Assessment Act* s19(8)** (property value reduction)
This option applies to properties within an area where there is a change in the land use policy involving "upzoning" and additional development potential which significantly increases the underlying land value. Under s19(8), residential property owners who have continuously owned and occupied the property as their principal residence for at least 10 years are eligible for a reduced property assessment. For eligible properties, the land portion of the assessed value will be based on current zoning rather than on anticipated future zoning and development potential. BC Assessment has been proactive in notifying potentially eligible property owners of this option. Any reduction in assessed values could shift tax burden among property owners, but the total general purpose tax levy remains the same; City revenue is not impacted.

(ii) **Property Tax Deferment** (tax deferral)
Eligible residential property owners who occupy their principal residence may defer all or a portion of the taxes owing net of home owner grant, if applicable. The Province finances the property tax payments at prescribed low interest rates and puts a charge against the property. Repayment is not required until ownership is transferred. Property tax deferment is available to individuals who are 55 years of age or older and, effective 2010, to families with children under 18 years of age. Financing is provided by the Province; City revenue is not impacted.

(iii) **Home Owner Grant** (tax reduction)
Residential property owners who occupy their principal residence are eligible for the Home Owner Grant if the value of their home falls within the qualifying range. The grant is applied first to offset school taxes, and any residual grant is then applied to reduce the general purpose tax levy. Effective 2006, individuals who are 65 years of age or older who fall within the lower income levels are able to claim the full senior home owner grant irrespective of the value of their property. Grants are funded by the Province; City revenue is not impacted.

CITY OF VANCOUVER MITIGATING MEASURES (RESIDENTIAL & BUSINESS PROPERTIES)

In the late 1980's, a very active real estate market resulted in uneven property value increases among properties in both residential and business property classes and, consequently, significant shifts in property tax burden among individual properties within these classes. The trend continued into the early 1990's when some residential properties faced up to 100% tax increases and some business properties up to 300% tax increases.

Since 1989, Council has taken various means of intervention in the market value-based taxation system each year to mitigate the impacts of large shifts in property tax burden within the residential and business property classes. In 1992, the Province enacted legislation which provided Council with two mechanisms to mitigate the impact of uneven year-over-year assessment changes on property taxes and to improve the year-over-year stability and predictability of property taxes. The two mechanisms are:

(i) Land Assessment Averaging
This mechanism entails averaging three years of land value (current year and two prior years) to phase in year-over-year property tax impact arising from land value changes and to reduce the number of properties that experience extreme volatility in property taxes driven by significant increase and decrease in land values. The current assessed improvement value is then added to the adjusted land value for calculating property taxes. Vancouver is the only municipality in British Columbia that applies land assessment averaging.

(ii) Land Assessment Phasing
This is a "peak shaving" mechanism that applies to current year's assessed land value based on a formula established by the Province. Council has discretion in deciding the amount of land value to be sheltered from property taxes, which ranges from 50% to 66% of a property's land value increase in excess of the average change in land value for the entire class. The current assessed improvement value is then added to the adjusted land value for calculating property taxes.

Both mechanisms are revenue neutral to the City as the total general purpose tax levy collected from each property class is the same with or without application of any of these mechanisms.

ADOPTION OF LAND ASSESSMENT AVERAGING

In 1993, Council implemented three-year land assessment averaging for calculating annual property taxes for Residential (Class 1) and Business & Other (Class 6) properties. Over the years, staff's analyses consistently demonstrated that land assessment averaging is more effective than land assessment phasing in mitigating the property tax impact arising from uneven year-over-year land value changes. In 1998, Council stopped considering land assessment phasing as an intervention mechanism. In 2007, Council extended the use of three-year land assessment averaging to Light Industrial (Class 5) properties.

Over the years, various independent studies by industry experts re-affirmed the effectiveness of land assessment averaging in enhancing property tax stability and predictability.

(i) In 1993, Council established the **Vancouver Task Force on Property Taxation** which, in their April 1994 report (*Property Tax Task Force Report*), recommended that *"Council support the ongoing use of three-year land value averaging as a tool to buffer the impacts of large assessed value changes."*

(ii) In 2006, Council established the **Property Tax Policy Review Commission** which provided their final recommendations to Council in September 2007 (*PTPRC Final Report*). Council instructed staff to seek an amendment to the *Vancouver Charter* to allow the City to use up to five years of assessed land values in the averaging formula (*RTS#6947*).

Calculation of Property Taxes Using Land Assessment Averaging

Figure 14 below compares the calculation of property taxes under the market value approach and the land assessment averaging approach. The total general purpose tax levy is the same under both approaches.

Figure 14: Property Tax Calculation

Market Value Approach		Land Assessment Averaging Approach	
	2013 Land Value		Average of 2011/12/13 Land Value
+	2013 Improvement Value	+	2013 Improvement Value
=	2013 Taxable Value $_{Market}$	=	2013 Taxable Value $_{Average}$
x	2013 Tax Rate $_{Market}$	x	2013 Tax Rate $_{Average}$
=	2013 Total General Purpose Tax Levy	=	2013 Total General Purpose Tax Levy

As shown in Figure 13, application of land assessment averaging affects two components in the property tax calculation:

***Taxable Value** $_{Average}$* – The taxable value of a property is calculated using the average land value of the current year and the two prior years plus the current improvement value. In any given year, the average value could be higher, lower, or the same when compared to the market value of that property.

***Tax Rate** $_{Average}$* – For those property classes eligible for averaging, tax rates are recalculated based on the total average value of each class in order to generate the same amount of total general purpose tax levy. Therefore, if averaging *reduces* the total taxable value of a property class, the tax rate will be *higher*. If averaging *increases* the total taxable value of a property class, the tax rate will be *lower*.

General Rules

- Properties that experience significant increase or decrease in land value between 2011 and 2013 will be most affected by averaging as the program mitigates extreme volatility in property taxes arising from these changes.
- As land value increases, averaging will slow the rate of property tax increase; as land value decreases, averaging will slow the rate of property tax decrease.
- Properties with current land value higher than their past value are “averaged down” and may pay lower taxes relative to other properties; properties with current land value lower than their past value are “averaged up” and may pay higher taxes relative to other properties.
- Averaging applies to all properties that meet the eligibility requirements outlined in the Land Assessment Averaging By-law, not just properties that experience significant land value changes.

Implementation – Legislative & Administrative Requirements

Section 374.4 of the *Vancouver Charter* stipulates the legislative and administrative requirements for the implementation of land assessment averaging:

(i) Land Assessment Averaging By-law
The by-law must be adopted by Council before March 31 each year.

(ii) Eligible Property Classes
Averaging is applicable to Residential (Class 1), Light Industrial (Class 5), and Business & Other (Class 6) properties only. It is not applicable to Seasonal & Non-Profit properties (Class 8) and other properties valued at special rates – Utilities (Class 2), Supportive Housing (Class 3), Major Industry (Class 4), and Farm (Class 9).

(iii) Eligible Properties
Council can determine in the Land Assessment Averaging By-law the eligibility of individual properties within the eligible property classes. Generally speaking, in cases where there is a substantial change in the characteristics and/or use of a property from one year to the next and where such changes tend to enhance the value of the property to the benefit of the owner, the property will not be eligible for the tax-phasing benefits that the program offers. Once a property is excluded from the program, it must regain its eligibility over time.

Below are sample properties that are not eligible for averaging:

- a property that carries no improvement value (i.e. vacant land)
- a property that has undergone a change in assessment class and/or zoning district
- a property of which the physical characteristics have been changed as a result of consolidation or subdivision

As Council can only establish one tax rate for each class, properties that are not eligible for averaging are also subject to the averaged tax rate.

(iv) Calculation of All Tax Levies
Averaging is applicable to the calculation of taxes levied by the City and other taxing authorities on a revenue neutral basis. As averaging affects the taxable values used for calculating all taxes, a decision to apply averaging to a property class requires that Council approves a resolution adjusting the tax rates determined by other taxing authorities to ensure revenue neutrality.

(v) Notification to the Public
In accordance with the notification requirements set out in the *Vancouver Charter*, a notice to inform property owners on Council's intent to consider application of land assessment averaging and the resulting tax impacts on sample properties is required. The notice must be published in two consecutive issues of a newspaper at least two weeks in advance of the adoption of the Land Assessment Averaging By-law.

(vi) Appeal Process
Council is required to provide a process for property taxpayers to appeal the application of the Land Assessment Averaging By-law. The by-law provides for a municipal Court of

Revision after the tax billing date for appeals that cannot be resolved within the administrative processes provided for in the *Vancouver Charter*. Any tax levy losses arising from the averaging appeal process are borne by the City. Since 1993, staff have been able to resolve the majority of appeals administratively; only a handful of appeals proceeded to the Court of Revision. In all cases, the Court of Revision concluded that the Land Assessment Averaging By-law had been correctly applied.

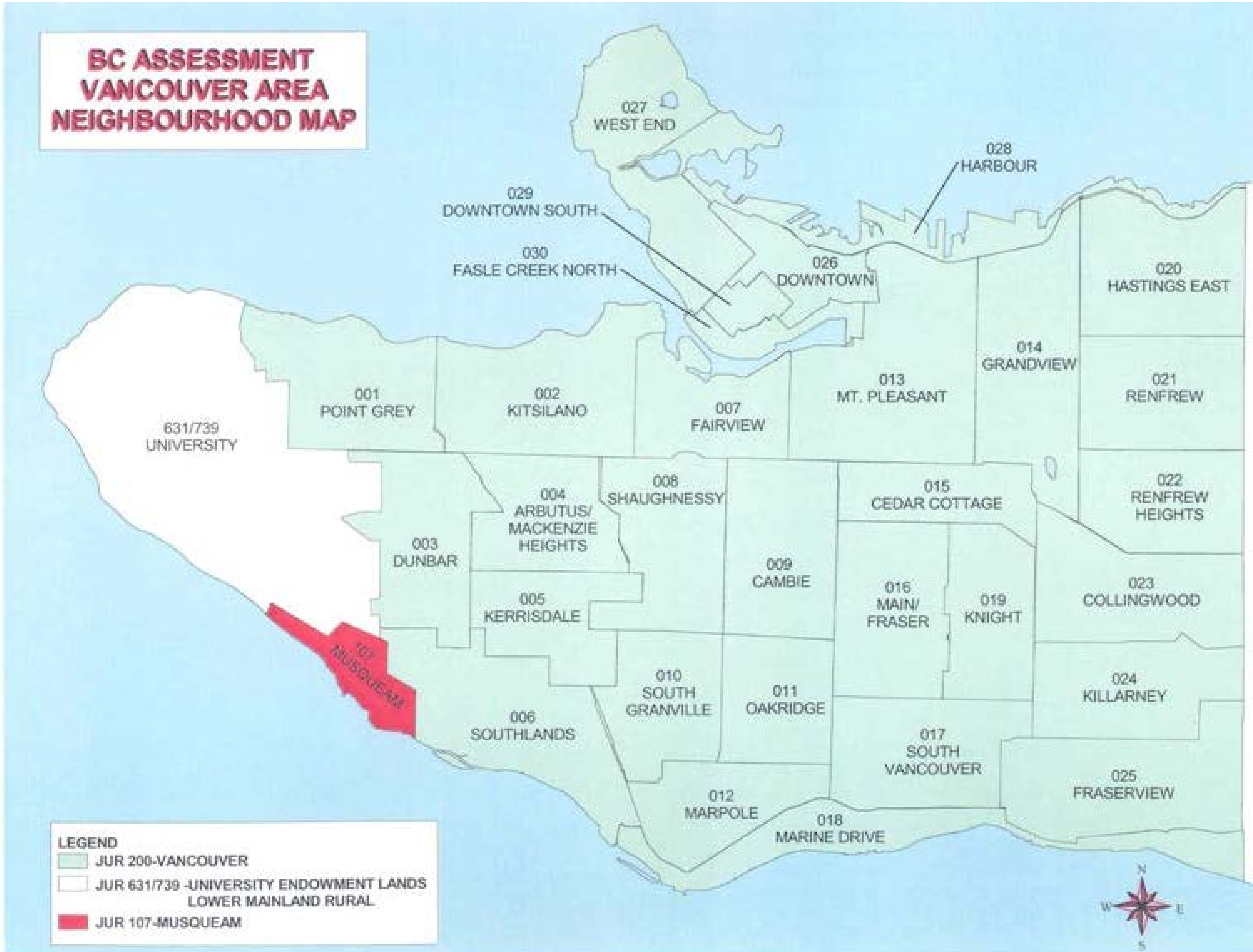
PROPERTY TAX IMPACT OF 3-YEAR LAND ASSESSMENT AVERAGING ON MEDIAN PROPERTIES

CLASS 1 - RESIDENTIAL

	TAXABLE VALUES			GENERAL PURPOSE TAX LEVY			$ CHANGE IN TAXES 2013 Estimate vs 2012 Actual		% CHANGE IN TAXES 2013 Estimate vs 2012 Actual	
NEIGHBOURHOOD (SEE BCAA MAP)	2012 Averaged	2013 Market	2013 Averaged	2012 Actual	2013 Market	2013 Averaged	Using 2013 Market	Using 2013 Averaged	Using 2013 Market	Using 2013 Averaged
001 - POINT GREY	$1,773,000	$1,903,000	$1,809,000	$3,582	$3,449	$3,422	-$132	-$160	-3.7%	-4.5%
002 - KITSILANO	$583,167	$682,500	$635,833	$1,178	$1,237	$1,203	$59	$25	5.0%	2.1%
003 - DUNBAR	$1,507,333	$1,733,000	$1,669,000	$3,045	$3,141	$3,157	$96	$112	3.2%	3.7%
004 - ARBUTUS	$1,451,667	$1,868,000	$1,725,667	$2,932	$3,386	$3,264	$454	$332	15.5%	11.3%
005 - KERRISDALE	$1,537,400	$1,766,400	$1,735,733	$3,106	$3,202	$3,283	$96	$177	3.1%	5.7%
006 - SOUTHLANDS	$1,684,000	$1,992,000	$1,870,000	$3,402	$3,611	$3,537	$209	$135	6.1%	4.0%
007 - FAIRVIEW	$500,000	$505,000	$491,333	$1,010	$915	$929	-$95	-$81	-9.4%	-8.0%
008 - SHAUGHNESSY	$2,563,333	$3,256,000	$3,007,667	$5,178	$5,902	$5,689	$724	$511	14.0%	9.9%
009 - CAMBIE	$1,235,667	$1,385,000	$1,323,333	$2,496	$2,510	$2,503	$14	$7	0.6%	0.3%
010 - SOUTH GRANVILLE	$2,038,000	$2,685,000	$2,343,667	$4,117	$4,867	$4,433	$750	$316	18.2%	7.7%
011 - OAKRIDGE	$1,164,333	$1,471,000	$1,351,333	$2,352	$2,666	$2,556	$314	$204	13.4%	8.7%
012 - MARPOLE	$897,533	$1,084,900	$997,900	$1,813	$1,967	$1,887	$153	$74	8.5%	4.1%
013 - MT PLEASANT	$472,333	$483,000	$503,000	$954	$875	$951	-$79	-$3	-8.2%	-0.3%
014 - GRANDVIEW	$584,000	$677,000	$606,333	$1,180	$1,227	$1,147	$47	-$33	4.0%	-2.8%
015 - CEDAR COTTAGE	$679,667	$791,000	$737,000	$1,373	$1,434	$1,394	$61	$21	4.4%	1.5%
016 - MAIN/FRASER	$766,433	$848,100	$823,433	$1,548	$1,537	$1,557	-$11	$9	-0.7%	0.6%
017 - SOUTH VANCOUVER	$742,000	$849,000	$793,000	$1,499	$1,539	$1,500	$40	$1	2.7%	0.1%
018 - MARINE DRIVE	$391,667	$393,000	$410,667	$791	$712	$777	-$79	-$14	-10.0%	-1.8%
019 - KNIGHT	$743,333	$813,000	$794,667	$1,502	$1,474	$1,503	-$28	$1	-1.9%	0.1%
020 - HASTINGS EAST	$660,000	$731,000	$701,000	$1,333	$1,325	$1,326	-$8	-$7	-0.6%	-0.6%
021 - RENFREW	$722,000	$808,000	$771,000	$1,458	$1,465	$1,458	$6	$0	0.4%	0.0%
022 - RENFREW HEIGHTS	$700,000	$819,000	$768,000	$1,414	$1,485	$1,453	$71	$39	5.0%	2.7%
023 - COLLINGWOOD	$558,667	$676,000	$616,667	$1,129	$1,225	$1,166	$97	$38	8.6%	3.4%
024 - KILLARNEY	$783,000	$962,000	$891,333	$1,582	$1,744	$1,686	$162	$104	10.2%	6.6%
025 - FRASERVIEW	$692,567	$874,400	$777,067	$1,399	$1,585	$1,470	$186	$71	13.3%	5.1%
026 - DOWNTOWN	$416,000	$434,000	$422,000	$840	$787	$798	-$54	-$42	-6.4%	-5.0%
027 - WEST END	$421,667	$438,000	$435,667	$852	$794	$824	-$58	-$28	-6.8%	-3.3%
028 - HARBOUR	$1,417,000	$1,456,000	$1,460,000	$2,862	$2,639	$2,761	-$223	-$101	-7.8%	-3.5%
029 - DOWNTOWN SOUTH	$396,000	$393,000	$393,667	$800	$712	$745	-$88	-$55	-10.9%	-6.9%
030 - FALSE CREEK NORTH	$572,333	$629,000	$616,000	$1,156	$1,140	$1,165	-$16	$9	-1.4%	0.8%

PROPERTY TAX IMPACT OF 3-YEAR LAND ASSESSMENT AVERAGING ON MEDIAN PROPERTIES
CLASS 6 - BUSINESS & OTHER

	TAXABLE VALUES			GENERAL PURPOSE TAX LEVY			$ CHANGE IN TAXES 2013 Estimate vs 2012 Actual		% CHANGE IN TAXES 2013 Estimate vs 2012 Actual	
NEIGHBOURHOOD (SEE BCAA MAP)	2012 Averaged	2013 Market	2013 Averaged	2012 Actual	2013 Market	2013 Estimated Averaged	Using 2013 Market	Using 2013 Averaged	Using 2013 Market	Using 2013 Averaged
001 - POINT GREY	$423,333	$483,000	$460,333	$3,717	$3,817	$3,742	$100	$25	2.7%	0.7%
002 - KITSILANO	$714,000	$779,000	$749,333	$6,270	$6,156	$6,092	-$113	-$178	-1.8%	-2.8%
003 - DUNBAR	$376,000	$429,000	$410,000	$3,302	$3,390	$3,333	$89	$32	2.7%	1.0%
004 - ARBUTUS	$1,265,333	$1,366,500	$1,323,167	$11,111	$10,799	$10,757	-$312	-$354	-2.8%	-3.2%
005 - KERRISDALE	$955,333	$1,040,000	$1,002,667	$8,389	$8,219	$8,151	-$170	-$237	-2.0%	-2.8%
006 - SOUTHLANDS	$981,800	$1,188,800	$1,101,800	$8,621	$9,395	$8,957	$774	$336	9.0%	3.9%
007 - FAIRVIEW	$658,333	$790,000	$730,000	$5,781	$6,243	$5,935	$462	$154	8.0%	2.7%
008 - SHAUGHNESSY	$369,900	$404,000	$389,333	$3,248	$3,193	$3,165	-$55	-$83	-1.7%	-2.6%
009 - CAMBIE	$1,772,000	$2,267,000	$2,087,667	$15,560	$17,916	$16,972	$2,356	$1,412	15.1%	9.1%
010 - SOUTH GRANVILLE	$4,605,367	$4,981,100	$4,823,100	$40,440	$39,365	$39,210	-$1,075	-$1,229	-2.7%	-3.0%
011 - OAKRIDGE	$5,647,500	$7,377,900	$6,557,233	$49,590	$58,306	$53,308	$8,716	$3,718	17.6%	7.5%
012 - MARPOLE	$1,161,333	$1,330,000	$1,258,333	$10,198	$10,511	$10,230	$313	$32	3.1%	0.3%
013 - MT PLEASANT	$935,000	$948,000	$886,333	$8,210	$7,492	$7,206	-$718	-$1,005	-8.7%	-12.2%
014 - GRANDVIEW	$986,333	$941,000	$916,333	$8,661	$7,437	$7,450	-$1,224	-$1,211	-14.1%	-14.0%
015 - CEDAR COTTAGE	$573,000	$654,000	$623,000	$5,031	$5,168	$5,065	$137	$33	2.7%	0.7%
016 - MAIN/FRASER	$988,000	$1,131,000	$1,101,333	$8,676	$8,938	$8,954	$262	$278	3.0%	3.2%
017 - SOUTH VANCOUVER	$614,333	$713,000	$693,000	$5,394	$5,635	$5,634	$240	$239	4.5%	4.4%
018 - MARINE DRIVE	$407,667	$449,000	$427,000	$3,580	$3,548	$3,471	-$31	-$108	-0.9%	-3.0%
019 - KNIGHT	$791,000	$806,000	$761,667	$6,946	$6,370	$6,192	-$576	-$754	-8.3%	-10.8%
020 - HASTINGS EAST	$318,333	$369,000	$345,000	$2,795	$2,916	$2,805	$121	$9	4.3%	0.3%
021 - RENFREW	$2,042,667	$2,211,000	$2,011,667	$17,937	$17,473	$16,354	-$464	-$1,582	-2.6%	-8.8%
022 - RENFREW HEIGHTS	$619,333	$704,000	$715,333	$5,438	$5,564	$5,815	$125	$377	2.3%	6.9%
023 - COLLINGWOOD	$461,000	$527,000	$503,333	$4,048	$4,165	$4,092	$117	$44	2.9%	1.1%
024 - KILLARNEY	$305,333	$322,000	$300,000	$2,681	$2,545	$2,439	-$136	-$242	-5.1%	-9.0%
025 - FRASERVIEW	$158,633	$187,600	$173,800	$1,393	$1,483	$1,413	$90	$20	6.4%	1.4%
026 - DOWNTOWN	$138,700	$168,100	$154,767	$1,218	$1,328	$1,258	$111	$40	9.1%	3.3%
027 - WEST END	$1,238,333	$1,230,000	$1,250,667	$10,874	$9,720	$10,168	-$1,153	-$706	-10.6%	-6.5%
028 - HARBOUR	$1,084,000	$1,079,000	$1,098,667	$9,519	$8,527	$8,932	-$991	-$587	-10.4%	-6.2%
029 - DOWNTOWN SOUTH	$330,333	$390,000	$363,333	$2,901	$3,082	$2,954	$181	$53	6.3%	1.8%
030 - FALSE CREEK NORTH	$658,000	$773,000	$716,667	$5,778	$6,109	$5,826	$331	$48	5.7%	0.8%


BC ASSESSMENT
VANCOUVER AREA
NEIGHBOURHOOD MAP
027 WEST END
028 HARBOUR
029 DOWNTOWN SOUTH
030 FASLE CREEK NORTH
026 DOWNTOWN
020 HASTINGS EAST
014 GRANDVIEW
013 MT. PLEASANT
021 RENFREW
001 POINT GREY
002 KITSILANO
007 FAIRVIEW
631/739 UNIVERSITY
008 SHAUGHNESSY
015 CEDAR COTTAGE
022 RENFREW HEIGHTS
004 ARBUTUS/ MACKENZIE HEIGHTS
003 DUNBAR
009 CAMBIE
016 MAIN/ FRASER
019 KNIGHT
023 COLLINGWOOD
005 KERRISDALE
107 MUSQUEAM
010 SOUTH GRANVILLE
011 OAKRIDGE
024 KILLARNEY
006 SOUTHLANDS
017 SOUTH VANCOUVER
025 FRASERVIEW
012 MARPOLE
018 MARINE DRIVE
LEGEND
JUR 200-VANCOUVER
JUR 631/739 -UNIVERSITY ENDOWMENT LANDS LOWER MAINLAND RURAL
JUR 107-MUSQUEAM
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FIND OUT WHAT'S HAPPENING IN YOUR CITY

Vancouver Matters

CITY OF VANCOUVER

Important Notice to Property Owners: Land Assessment Averaging

Examples of Averaging Impact on Typical Vancouver Properties

The tables on the right reflect the City of Vancouver's general purpose taxes based on indicative tax rates.

Your tax notice also includes amounts levied by other taxing authorities such as provincial school, Translink, BC Assessment, and Metro Vancouver which are excluded from these tables.

On February 27, Vancouver City Council will consider whether to continue using land assessment averaging to calculate property taxes for residential (Class 1), light industrial (Class 5) and business (Class 6) properties. If Council decides to continue with the program, a bylaw will be brought forward to Council for consideration on March 12.

For properties eligible to be averaged, the program calculates property taxes for the City and other taxing authorities using an average of your assessed land value of the current and prior two years, plus your current assessed property improvement value.

The City has used land assessment averaging since 1993. The program is revenue neutral to the City but could affect the amount of tax paid by individual properties. The report which details the program and how it could impact property taxes is available on our website at **vancouver.ca/averaging** after February 21.

FOR MORE INFORMATION:
vancouver.ca/averaging

	RESIDENTIAL CLASS ($)			BUSINESS AND OTHER CLASS ($)		
Neighbourhood	2013 Assessed Value	Taxes Averaged	Taxes Not Averaged	2013 Assessed Value	Taxes Averaged	Taxes Not Averaged
Arbutus	1,868,000	3,264	3,386	1,366,500	10,757	10,799
Cambie	1,385,000	2,503	2,510	2,267,000	16,972	17,916
Cedar Cottage	791,000	1,394	1,434	654,000	5,065	5,168
Collingwood	676,000	1,166	1,225	527,000	4,092	4,165
Downtown	434,000	798	787	168,100	1,258	1,328
Downtown South	393,000	745	712	390,000	2,954	3,082
Dunbar	1,733,000	3,157	3,141	429,000	3,333	3,390
Fairview	505,000	929	915	790,000	5,935	6,243
False Creek North	629,000	1,165	1,140	773,000	5,826	6,109
Fraserview	874,400	1,470	1,585	187,600	1,413	1,483
Grandview	677,000	1,147	1,227	941,000	7,450	7,437
Harbour	1,456,000	2,761	2,639	1,079,000	8,932	8,527
Hastings East	731,000	1,326	1,325	369,000	2,805	2,916
Kerrisdale	1,766,400	3,283	3,202	1,040,000	8,151	8,219
Killarney	962,000	1,686	1,744	322,000	2,439	2,545
Kitsilano	682,500	1,203	1,237	779,000	6,092	6,156
Knight	813,000	1,503	1,474	806,000	6,192	6,370
Main/Fraser	848,100	1,557	1,537	1,131,000	8,954	8,938
Marine Drive	393,000	777	712	449,000	3,471	3,548
Marpole	1,084,900	1,887	1,967	1,330,000	10,230	10,511
Mount Pleasant	483,000	951	875	948,000	7,206	7,492
Oakridge	1,471,000	2,556	2,666	7,377,900	53,308	58,306
Point Grey	1,903,000	3,422	3,449	483,000	3,742	3,817
Renfrew	808,000	1,458	1,465	2,211,000	16,354	17,473
Renfrew Heights	819,000	1,453	1,485	704,000	5,815	5,564
Shaughnessy	3,256,000	5,689	5,902	404,000	3,165	3,193
South Granville	2,685,000	4,433	4,867	4,981,100	39,210	39,365
South Vancouver	849,000	1,500	1,539	713,000	5,634	5,635
Southlands	1,992,000	3,537	3,611	1,188,800	8,957	9,395
West End	438,000	824	794	1,230,000	10,168	9,720

	LIGHT INDUSTRY CLASS ($)		
Neighbourhood	2013 Assessed Value	Taxes Averaged	Taxes Not Averaged
Cedar Cottage	2,055,200	17,155	16,242
Fairview	132,700	1,066	1,049
Grandview	1,019,000	7,981	8,053
Harbour	9,042,000	63,648	71,457
Hastings East	1,097,000	7,856	8,669
Marine Drive	1,157,000	9,712	9,144
Mount Pleasant	1,718,000	13,674	13,577
Renfrew	1,325,900	10,226	10,478

FOR MORE INFORMATION:
Property Tax Office, 604-871-6893

COMMENTS? WRITE TO:
Mayor and Council
453 West 12th Avenue
Vancouver, BC V5Y 1V4
or email: mayorandcouncil@vancouver.ca

SPEAK TO COUNCIL:
Prior to adoption of the bylaw, you may speak to Council in person at the City Finance and Services meeting on February 27. Phone 604-871-6355 to register.