



ADMINISTRATIVE REPORT

Report Date: November 12, 2013
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RTS No.: 10282
VanRIMS No.: 08-2000-20
Meeting Date: November 19, 2013

TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: 2014 Land Assessment Averaging Program: Notice to BC Assessment Authority

RECOMMENDATION

- A. THAT, pursuant to Section 374.4 (4b) of the Vancouver Charter, the City Clerk be instructed to notify the BC Assessment Authority, before January 1, 2014, of Vancouver City Council's intent to consider the adoption of land assessment averaging for the purpose of property tax calculations for 2014.

It should be noted that this notice of intent is revocable should Council, at a later date, decide not to proceed with this mechanism.

- B. THAT the Director of Finance be instructed to provide the required two weeks' notice to the public in advance of Council's consideration of the use of land assessment averaging and, before March 31, 2014, report on the projected taxation impacts of the land assessment averaging program based on the assessed values provided by the BC Assessment Authority in the 2014 Completed Roll.
- C. THAT the Area Assessor for Vancouver be invited to address Council on the assessment trends in the 2014 Completed Roll.

REPORT SUMMARY

The purpose of this report is to recommend that the BC Assessment Authority be notified of Council's intent to consider the adoption of land assessment averaging for the purpose of property tax calculations for 2014. This notification is a statutory requirement for Council to consider the use of land assessment averaging but does not commit Council to the implementation of this mechanism.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

In 1993, Council implemented three-year land assessment averaging for the purpose of calculating annual property taxes for Residential (Class 1) and Business & Other (Class 6) properties; and in 2007, Council extended the same to Light Industrial (Class 5) properties.

In its report to Council in September 2007, the Property Tax Policy Review Commission (the "PTPRC") 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 up to five years of land values in the averaging formula. In March 2008, Council instructed staff to seek such an amendment. In April 2013, the amendment was enacted by the Province.

In April 2013, Council reconvened the PTPRC to work with staff on the following areas and approved the Terms of Reference (RTS#9950):

- 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 tax share of 53% residential / 47% non-residential 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.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

This notice of intent is a statutory requirement to preserve Council's authority to consider the use of land assessment in 2014 among the viable options that will be presented by the PTPRC for Council's consideration in Spring of 2014. It does not commit Council to implement this mechanism.

REPORT

Background/Context

In 1992, the provincial government enacted legislation which provided Council with two options to mitigate the impacts 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 options are: three-year land assessment averaging and land assessment phasing. In 1993, Council implemented three-year land assessment averaging for the calculation of annual property taxes for Residential (Class 1) and Business & Other (Class 6) properties; and in 2007, Council extended the same to Light Industrial (Class 5) properties.

At the request of Council, in April 2013, the Province enacted an amendment to the *Vancouver Charter* that allows the City to use up to five years of land values in the averaging formula. The enactment came into effect after the legislative deadline for adoption of the annual land assessment averaging by-law for the 2013 tax year (March 31).

Based on the Council-approved Terms of Reference (Appendix A), the PTPRC is in the process of assessing viable options to enhance tax stability and predictability and will report to staff before year-end. Land assessment averaging is one of the options under consideration. Staff will bring forward the analysis, recommendations and implementation strategies to Council for consideration in Spring of 2014.

Strategic Analysis

Section 374.4 (4b) of the *Vancouver Charter* requires that Council notify the President and Chief Executive Officer of the BC Assessment Authority, before January 1, 2014, of its intent to consider the adoption of land assessment averaging and/or land assessment phasing for the purpose of property tax calculations for 2014. This notice of intent does not commit Council to the implementation of either of these mechanisms.

Existing process requires that Council consider the adoption of the land assessment averaging program each year. In advance of Council's consideration, staff will complete an analysis of the projected taxation impacts of the land assessment averaging program and provide the required two weeks' notice to the public of Council's intent to consider the program. Should Council decide to proceed, Section 374.4 (4d) of the *Vancouver Charter* requires that Council adopt a by-law, before March 31, 2014, authorizing the use of this mechanism.

Once the *2014 Completed Roll* is available in January 2014, Council may wish to invite the Area Assessor for Vancouver to make a presentation on the 2014 assessment trends.

Implications/Related Issues/Risk (if applicable)

Financial

There are no financial implications.

CONCLUSION

This report seeks Council authority to notify the BC Assessment Authority of its intent to consider the adoption of land assessment averaging for the purpose of property tax calculations for 2014. This notification does not commit Council to the implementation of this mechanism.

Staff will report back in Spring of 2014 on the projected taxation impacts of the land assessment averaging program based on the assessed values provided by the BC Assessment Authority in the *2014 Completed Roll*, at which time Council will decide whether to adopt this mechanism for the purpose of property tax calculations for 2014.

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1. OBJECTIVES

While Vancouver's property tax regime generally functions well, it is important to ensure that the City's tax policies continue to be progressive and current in meeting the needs of residents and businesses, and align with City Council's public policy objectives and long-term goals with regards to economic, social, fiscal and environmental sustainability. City Council will reconvene the Property Tax Policy Review Commission to work with City staff on the following areas:

- enhance tax stability & predictability
- achieve an appropriate tax share among residential & business property classes

2. BACKGROUND/CONTEXT

2.1 Property Tax Policy Review by the Commission (2007)

Key recommendations brought forward by the Commission and adopted by City Council in March 2008:

2.1.1 Tax Stability & Predictability

Seek Vancouver Charter amendments to enable the City to use up to 5 years of land values, as opposed to 3 years currently allowable, in the land assessment averaging formula for calculating property taxes (Status: Vancouver Charter amendments enacted by the Province in Spring 2013)

2.1.2 Tax Distribution

- continue with the "tax share" approach
- achieve a target distribution of 52% residential and 48% non-residential (2007 Assessment Roll) by shifting \$23.8 million of tax levy proportionately from Classes 2, 4, 5 and 6 to Classes 1, 8 and 9 at a rate of 1% of the overall tax levy per year until the \$23.8 million target is achieved to avoid the significant impact of the shift in one year (*Status: Completed in 2012*)

2.2 Council Motions (Spring 2012)

2.2.1 Tax Stability & Predictability

On February 28, 2012, City 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

2.2.2 Tax Distribution

On April 19, 2012, Council instructed staff to monitor the differential of business taxes and business investment in Vancouver and neighboring municipalities and report back.

3. DELIVERABLES

The Commission will report to Council on the following items.

3.1 Assess Viable Options to Enhance Property Tax Stability & Predictability

3.1.1 Define the top three to five key issues that drive volatility in property assessed values (land and improvement), which may include but are not limited to market forces, actual and/or anticipated zoning changes, and underdeveloped properties valued at full development potential.

3.1.2 Determine how various property assessment methodologies under the Assessment Act may contribute to the significant changes in property assessed values (land and improvement).

3.1.3 Benchmark significance of property assessment volatility in Vancouver versus other comparator municipalities in BC, expressed as a % of properties and/or assessment base, # of properties, etc., by key factors/categories outlined in 3.1.1.

3.1.4 Explore viable mitigation strategies through research of best practices and review of practices deployed by other municipalities (Canadian and international) that could address issues identified in 3.1.1 and 3.1.2, and determine whether changes should be considered within the existing legislative framework at the provincial and/or municipal level. A number of strategies have been suggested by organizations including the Property Tax Policy Review Commission, City of Richmond, Vancouver Fair Tax Coalition, and Vancouver Board of Trade, such as:

- land assessment averaging
- land & improvement assessment averaging
- tax incentives
- split assessment
- value-in-use as going concern

3.1.5 Recommend to City Council any viable option(s) for Vancouver that align with City Council's property taxation framework and long-term goals with regards to economic, social, fiscal and environmental sustainability, along with a workable implementation strategy.

3.2 Assess Viable Options for Tax Distribution

3.2.1 Provide advice to Council on criteria for assessing the tax share among residential and non-residential property classes. Such criteria may include but are not limited to: benefits received, ability to pay, equal treatment of equals, accountability, stability and predictability, cost of administration, socio-economic and business impacts.

3.2.2 Recommend to Council a set of metrics for monitoring tax share over the long term and its impact on residents and businesses. Where possible, the metrics should indicate how the tax share align with City Council's public policy objectives, and enable meaningful comparisons between Vancouver and other comparator

municipalities in BC considering the differences in property tax policy framework, real estate market, property values and types, and land use policies.

- 3.2.3 Provide advice to Council whether the 52% residential and 48% business (based on 2007 Assessment Roll) achieved in 2012 continues to be an appropriate tax share that aligns with City Council's public policy objectives and long-term goals with regards to economic, social, fiscal and environmental sustainability. Should a new tax share target be considered, provide advice to Council on a workable strategy and timeline for achieving the new tax share target.

4. GUIDING PRINCIPLES

- 4.1 **Alignment with City Council's Public Policy Objectives** - Advice of the Commission should align with City Council's public policy objectives and long-term goals with regards to economic, social, fiscal and environmental sustainability
- 4.2 **Objectivity** - The Commission should serve objectively and make recommendations that aim to achieve the best possible outcome for Vancouver as a whole, without favoring any one stakeholder group over another.
- 4.3 **Balanced Approach** - The Commission should balance the impact of property tax policies on all classes of property taxpayers.
- 4.4 **Easy to Understand & Administer** - Advice of the Commission should be reasonably easy to understand by property taxpayers and the general public, and can be effectively administered by the City within the existing legislative framework and resources.
- 4.5 **Consultation** - The Commission should engage the business community, residential property taxpayers, and other key stakeholders throughout the process, and consider their input in formulating their recommendations.
- 4.6 **"Tax-Share" Approach** - Advice of the Commission should be developed within City Council's current property tax policy framework of a "tax share" approach where the share of the total general purpose tax levy for each property class is determined by City Council rather than by aggregate assessed values of each property class.
- 4.7 **Municipal Property Tax Only** - The work of the Commission should be limited to property tax levied by the City of Vancouver (termed "general purpose tax levy"), and should not include property taxes levied by other taxing authorities.
- 4.8 **Transparency** - The work of the Commission, including but not limited to public consultation, data/policy analyses, and advices/recommendations, should be documented and accessible by the public.

5. SCHEDULE

- 5.1 The Commission is expected to deliver interim recommendations to City Council by October 2013 and final recommendations by December 2013.
- 5.2 The stakeholder consultation process will include opportunities for public input; the specific details and schedule for this process will be determined by the Commission, in consultation with the Director of Finance and the Director of Communications.

6. WORKING RELATIONSHIPS

- 6.1 **Vancouver City Council** - The Commission will provide advice to City Council that address each of the items listed in the Deliverables section of these Terms of Reference.
- 6.2 **City of Vancouver Staff** - City staff support will be made available to the Commission. The Director of Finance will provide applicable financial and non-financial policies and data as requested by the Commission, and will coordinate the Commission's requests for any other staff support and/or services.
- 6.3 **Vancouver Economic Commission** - The Commission, in consultation with the Director of Finance, will incorporate into their work input from the Vancouver Economic Commission as it relates to the Vancouver Economic Action Strategy.
- 6.4 **BC Assessment Authority** - The Commission, in consultation with the Director of Finance, will incorporate into their work input from BC Assessment on property assessment policies and issues, and obtain assessment data of Vancouver and other comparator municipalities in BC required for analytical and benchmark purposes
- 6.5 **External Stakeholders** - The Commission, in consultation with the Director of Finance and the Director of Communications, will determine the appropriate process for incorporating into their work input from various classes of property taxpayer groups, plus any other stakeholders that wish to have input into this process.
- 6.6 **Professional and Academic Experts** - In the course of their work, the Commission may wish to consult various professional and/or academic experts in the field of property taxation, public finance, social policy, economics, real estates and property appraisals.

7. HONORARIA & BUDGET

- 7.1 The Commission will be allocated a budget of up to \$70,000.
- 7.2 \$28,000 of the budget will be allocated to honoraria for the Commissioners: \$12,000 to the Chair and \$8,000 to each of the other two Commissioners.
- 7.3 \$42,000 of the budget will be allocated to discretionary spending which will be determined by the Chair in consultation with the Director of Finance.