PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

City of Vancouver
Property Tax Policy Review Commission

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CITY OF VANCOUVER

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EXECUTIVE SUMMARY

In 2006, the City of Vancouver established the Property Tax Policy Review Commission to study, and provide recommendations on, two specific policy issues:

- the allocation of the municipal tax burden between residential properties and non-residential properties
- the volatility in property taxes faced by individual properties that experience sudden and significant year-over-year increases in market value

Based on the Commission's work, the City implemented a five-year tax shift to move $23.8 million of municipal taxes from the non-residential sector (Classes 5 and 6) to the Class 1 residential sector and Classes 8 and 9. Volatility was addressed through a continuation of the City's assessment-averaging method.

In 2013, Council re-convened the Policy Review Commission. The Commission's 2013 mandate targeted the two main issues that were examined earlier. The Commission was asked as well to recommend a set of metrics to assist Council in monitoring the allocation of taxes, and in assessing the need for future tax shifts among classes of property.

ALLOCATION OF THE MUNICIPAL TAX BURDEN

➤ Stakeholder Input

The Commission held three separate public hearings and a series of meetings with various business stakeholder groups. The following comments were put forward:

- *Further Tax Shift* — It was suggested the City's tax shift recommended by the Commission in 2006-07 was helpful but insufficient.

- *Specific Target* — In general, stakeholders who met with the Commission acknowledged that there is no "magic number" to define the fairest tax share for Class 6 properties.

- *Loss of Business* — Some stakeholders suggested that the high portion of the tax burden assigned to Class 6 properties is causing businesses to leave high-demand parts of the City, and is making Vancouver unattractive to businesses in search of new locations.

- *Metrics* — It was suggested that confidence in tax allocation decisions would be improved if Council were to adopt its own set of guiding metrics.

- *Consumption of Services* — The view was put forward that, based on benefits received from municipal services, businesses as a whole pay a disproportionately large share of the tax burden.

- *Changes to the Assessment Base* — Some stakeholders suggested that the residential sector benefits by being able to spread its fixed tax share over a tax base that is made larger from new growth.

- *Level of Taxation* — Several stakeholders expressed the view that the total level of property taxes collected by the City is too high.

- *Tax Rate Ratio* — The Commission heard a number of concerns expressed about the Class 6 to Class 1 tax rate ratio.

➤ Review of the Data

The Commission examined a variety of data on Vancouver, a set of municipalities within Metro Vancouver, and cities across Canada. The Commission's findings are presented as follows:

- *Tax Share* — Vancouver's overall tax shift from non-residential to residential properties has exceeded that of every other municipality examined.

- *Class 6 Tax Rates* — The rate has declined more significantly over the period in Vancouver than it has in all other cities examined.

- *Class 6 Assessment* — Class 6 property values, on average, have remained among the strongest of the comparison group since 2010.

- *Class 6 Taxes per capita* — The data show a decrease in taxes paid since 2006 in Vancouver, but an increase in almost all other comparison cities.

- *Commercial Development* — Vancouver's relative ability to attract investment, as measured by Class 6 building permit values, has been strong.

- *Vacancy Rates* — Available data, though limited, do not suggest problems in the office and retail (mall-based) sectors in Vancouver.

- *Taxes Across Canada* — Municipal business taxes in Vancouver are competitive with those in other large Canadian cities.

➤ Conclusion on Current Tax Share

In its report to City Council in 2007, the Commission recommended that once the 48% tax share for Classes 5 and 6 was achieved, the City leave the situation unchanged for a period of five years, unless the business tax differential between the City and its neighbours in Metro Vancouver widened considerably, or the balance of business investment tilted away from Vancouver to other parts of the region. The Commission finds no evidence of an increasing business tax differential, or of business investment leaving to other municipalities in Metro. Accordingly, the Commission recommends that the City leave the tax shares unchanged at this time.

➤ Future Decisions on Tax Share

There is no single definition of the "correct", most appropriate share of the municipal property tax burden that should be borne by the commercial sector. Ultimately, the task of allocating the burden requires a degree of judgement on the part of decision-makers. In the Commission's view, however, there are certain metrics that can be used to help guide decision-makers.

A total of eight metrics are identified. Taken together, the metrics compare the commercial property tax situation in Vancouver to that in other municipalities in the region, and gauge Vancouver's ability to retain and attract business investment relative to the abilities of other places in Metro. All of the metrics are taken from the assessment of data on the current environment for commercial properties in Vancouver. The metrics are as follows:

- Tax Share
- Class 6 Tax Rates
- Class 6 Taxes per square foot
- Class 6 Taxes per capita
- Tax Rate Ratio
- Change in Class 6 Building Permits
- Change in Class 6 Assessment
- Change in Class 6 Vacancy Rates

➤ Recommendations

The Commission concurs with its earlier conclusions from 2007, and makes the following recommendation on the issue of tax share:

- THAT Council leave the Class 5 and 6 tax shares unchanged at this point in time.

- THAT Council endorse and use the eight metrics, identified in Figure 2.15, to guide future decisions on the distribution of the municipal property tax burden among tax classes.

- THAT Council invest the resources necessary to refine and strengthen the data for the metrics.

TAX VOLATILITY

➤ Hot Spots

The Commission defines hot spots as properties that experience an unanticipated, year-over-year increase in total net assessed value, before land averaging is applied, that exceeds the average assessment increase for the same property class by more than ten percent. Hot spots may result from a number of different factors, or combination of factors, including:

- re-zoning
- speculation
- infrastructure development
- market trends
- changes initiated by BC Assessment

Individual properties typically face sharp increases in assessed value as a result of new construction, subdivision or owner-initiated rezoning. The assessment growth in these cases should be reasonably anticipated by the property owner. For the purpose of this *Report*, these properties are not targeted for intervention, even though they may be hot properties.

The evidence reviewed by the Commission indicates that hot spots have been somewhat less prevalent in Vancouver since 2007 than they were in the preceding period. The problem, however, has not disappeared. Indeed, since 2006-07 significant numbers of hot properties have been recorded, particularly in the commercial sector. The location of hot spots varies somewhat from year to year.

➤ Stakeholder Input

Several comments were made to the Commission on the topic of tax volatility at the September public hearing, and in the various meetings held by the Commission with BIA representatives and others. Written input was also provided to the Commission. Key comments and perspectives presented to the Commission are as follows:

- *Commercial Tenants Impacted* — The Commission heard that it is commercial tenants, as opposed to commercial property owners and owner-operators, that are most seriously impacted by upward spikes in property assessment and taxes.

- *Character of Business Community* — The Commission heard that tax volatility issues could threaten small, independent businesses in Vancouver.

- *Interim Period* — It is during the interim period between the unanticipated tax increases and the end of the leases that commercial tenants need some measure of tax relief.

- *Advance Notice* — Assessment notices from BC Assessment do not indicate the degree to which the percentage change in a property's assessed value exceeds, if at all, the average change for the class. Some notification would be considered helpful.

- *Planning Policy* — The City's neighbourhood planning efforts were identified as a major cause of hot spots by several stakeholders.

- *Highest-and-Best-Use* — Stakeholders stated that the problem for businesses is made worse by the way in which the new, highest-and-best-use value translates into actual property taxes.

- *Tax Incentives* — Some stakeholders suggested that Vancouver use its broad revitalization tax exemption authority to provide incentives to retain and attract all or certain types of businesses.

- *Averaging* — Little if any support was expressed to the Commission for the City's current three-year averaging approach to dealing with volatility.

- *Hot Spot Threshold* — Different stakeholders proposed new measures for defining hot spots.

➤ Further Action Required

Based on its review of the data, and based on its consultations with business stakeholder groups, the Commission remains concerned about tax volatility and hot spots in Vancouver. Significant, unanticipated increases in assessed value — and in the tax levies that accompany such increases — undermine confidence in the property assessment and taxation systems. Businesses that rent their space under standard, triple-net leases may be particularly hard hit by assessment spikes that provide no short- or long-term return to the tenant.

When it first examined the volatility issue in 2006-07, the Commission determined that the problem was more pronounced for commercial properties than for residential parcels. The Commission's view in this regard has not changed.

➤ Policy Criteria

The Commission supports interventions that are:

- time-limited
- targeted to the specific properties in need of attention, rather than to all properties in a given class
- tailored to match the level of assistance to the size of the problem
- easy to understand

- straightforward to administer
- designed to minimize unintended consequences
- designed to maintain the market-based assessment system as much as possible
- designed to not unduly defer redevelopment to the highest and best use

➤ Policy Options

The Commission identified and assessed eight different policy options, including the *status quo*. Each option is considered separately along with its perceived strengths and weaknesses. The full list of options includes:

- Three-Year Land Assessment Averaging (*status quo*)
- Five-Year Land Assessment Averaging
- Targeted Five-Year Land Averaging
- Capping
- Phase-In
- Rebate Program for Tenants
- Tax Deferral
- Split Assessment Class

The Commission also examined the revitalization tax exemption authority that is available to all municipalities throughout British Columbia. RTEs may be used as delivery mechanisms to implement the various tax mitigation options.

➤ Conclusion & Recommendations

The Commission believes that the targeted five-year land assessment averaging option best meets the criteria that guided the Commission's work.

The Commission's recommendations on tax volatility are as follows:

- THAT Council endorse the Targeted Five-Year Land Assessment Averaging method in place of the existing Three-Year Land Assessment Averaging program for Classes 1, 5 and 6.

- THAT Council invite neighbouring municipalities and the Union of British Columbia Municipalities to join the City in submitting a request to BC Assessment to prepare and distribute a report on the advantages and disadvantages of the Split Class Assessment option.

- THAT Council ask BC Assessment to indicate in every assessment notice the degree to which the percentage change in an individual property's assessed value exceeds, if at all, the average change for the property class.

CHAPTER 1
INTRODUCTION

In 2006, the City of Vancouver established the Property Tax Policy Review Commission in response to concerns expressed by groups in the business community regarding the impact of the City's taxation policies on the health of Vancouver's economy. The Commission was asked at the time to study, and provide recommendations on, two specific tax policy issues:

- the allocation of the municipal tax burden between residential properties and non-residential properties

- the volatility in property taxes faced by individual properties that experience sudden and significant year-over-year increases in market value

Based on the Commission's work, the City implemented a five-year tax shift to move $23.8 million of municipal taxes from the non-residential sector (Classes 5 and 6) to the Class 1 residential sector and Classes 8 and 9. Volatility was addressed through a continuation of the City's assessment-averaging method. The City also requested an amendment to the *Vancouver Charter* to allow for five-year land averaging (the amendment was received in the Spring of 2013).

In 2013, in response to renewed concerns voiced by parts of the business sector, Council decided to re-convene the Policy Review Commission. The Commission's 2013 mandate targeted the two main issues that were examined earlier, namely, the allocation of the tax burden between residential and non-residential sectors, and the property tax volatility that can result in "hot spots" in different parts of the City. The 2013 mandate went further, however, than the Commission's earlier instructions on the issue of tax allocation. Specifically, the Commission was asked in 2013 to recommend a set of metrics to assist Council in monitoring the allocation of taxes, and in assessing the need for future tax shifts among classes of property.[1]

COMMISSION'S 2014 REPORT

This document constitutes the *2014 Report* of the Property Tax Policy Review Commission. The *Report* is presented as an update to the Commission's earlier work, and consists of three chapters:

- *Chapter 1: Introduction* — Chapter 1 sets out the Commission's purpose, describes the Commission's stakeholder consultation program, and introduces the three Commissioners.

[1] The Commission's 2013 Terms of Reference are presented in *Appendix I*.

- *Chapter 2: Allocation of Tax Burden* — Chapter 2 presents the Commission's assessment of the tax share issue. The chapter reviews the Commission's findings in 2006-07. The chapter then summarizes the stakeholder input received during the current process, and examines the changes that have occurred to the situation for commercial properties in Vancouver since the Commission's first assignment. The Commission's conclusions on the existing tax allocation are presented. The second part of the chapter presents a set of metrics designed to help Council in monitoring tax shares, and in determining the need for future shifts. Recommendations to the City are presented to close the chapter.

- *Chapter 3: Tax Volatility* — Chapter 3 presents the Commission's assessment of the tax volatility issue. The text defines tax volatility and the hot spots that arise from it. The Commission's findings from 2006-07 are reviewed, changes in the prevalence of hot spots are identified, and stakeholder input received by the Commission is summarized. Policy options available to deal with hot spots are outlined and assessed, and recommendations to the City are given.

The Commission's recommendations in Chapters 2 and 3 focus on the municipal portion of the local property tax — that is, the portion over which the City has direct control. This focus respects the instructions to the Commission in its *Terms of Reference*. The Commission is not completely silent, however, on its views related to specific property assessment constraints and provisions under the control of the provincial government. In the chapter on volatility, the Commission identifies specific issues with the assessment system that the City may wish to pursue with the Province.

Data to support the Commission's findings and recommendations are provided throughout the *Report* in various charts and graphs. Other data examined by the Commission are presented in the appendices to the *Report*.

STAKEHOLDER CONSULTATION

The Commission's *Terms of Reference* directed the Commission to "engage the business community, residential property taxpayers, and other key stakeholders throughout the process, and consider their input in formulating recommendations."[2] To fulfill these terms, the Commission developed a consultation program that featured three public hearings.

- The first public hearing was held from 6:00 pm until 9:00 pm on July 22, 2013 at the Renfrew Public Library. No groups or individuals attended the hearing.

[2] See p. 3 of *Terms of Reference* in *Appendix I*.

- The second hearing occurred the following night on July 23, also from 6:00 pm until 9:00 pm, at the Kitsilano Public Library. One person appeared but only to ask questions about the Commission's public process. No presentations were made.

- The final hearing was held at Van Dusen Gardens from 6:00 pm until 9:00 pm on September 25, 2013. Over the course of the evening approximately 30 individuals appeared. Most attendees came from the business community and were affiliated in some capacity with one or more small or medium-size business. Executive Directors from the following four Business Improvement Areas (BIAs) made presentations to the Commission:

  - Robson Street Business Association
  - Hastings North Business Improvement District
  - South Granville Business Improvement Association
  - Marpole Business Improvement Area

  Two individuals at the hearing spoke about residential property taxes.

In addition to the public hearings, the Commission held several meetings to explore the concerns of individual groups. In all, separate meetings were held with the:[3]

- Vancouver Fair Tax Coalition (two meetings)
- Vancouver Board of Trade
- Executive Directors of the South Granville and Hastings North BIAs
- Executive Members of the Downtown Vancouver Business Improvement Association
- Canadian Federation of Independent Businesses

Three emails were submitted to the Commission through *www.vancouvertaxcommission.com*. A number of groups made written submissions to the Commission, including:

- Vancouver Board of Trade (submissions dated July 23, 2013, and December 16, 2013)
- Vancouver Fair Tax Coalition (submission of two commissioned reports, written by consultant B. Brunnen — *Strengthening Vancouver's Commercial Property Tax Framework*, and *Options to Enhance Property Tax Stability & Predictability and Minimize Hot Spots*)
- Downtown Vancouver Business Improvement Association (submission presented September 27, 2013)

[3] The Commission Chair also spoke on the group's behalf with the Executive Director of the City's Economic Development Commission.

- Canadian Federation of Independent Businesses (submission dated September 27, 2013)
- Real Property Association of Canada (submission dated September 17, 2013)
- South Granville Business Improvement Association (*BIA Property Tax Comparisons*, July 28, 2013)

In its various consultations the Commission was able to develop a good understanding of the concerns held, primarily, by representatives of the small business sector. The specific input received from these stakeholder groups is summarized into the body of the *Report* in Chapters 2 and 3.

COMMISSION MEMBERS

The Commission was chaired by Dr. Stanley Hamilton, the Philip H. White Emeritus Professor of Real Estate at the University of British Columbia's Sauder School of Business. Dr. Hamilton has extensive experience as an educator and researcher in the areas of real estate investment, real property assessment, property taxation and pensions. He served as a member of the BC Commission of Inquiry on Property Taxation and Assessment for the Province of British Columbia, and as a member of the Board of Directors of BC Assessment. Dr. Hamilton was Chair of the Property Tax Policy Review Commission during its first mandate in 2006.

Joining Dr. Hamilton on the Commission were Dr. Enid Slack and Mr. Peter Adams. Dr. Slack is the Director of the Institute on Municipal Finance and Governance at the Munk School of Global Affairs at the University of Toronto. She is a recognized expert in the field of public finance who is called upon regularly by governments and private companies for advice on municipal issues, including property taxation. Dr. Slack has written extensively on property taxes, intergovernmental transfers and a range of other topics. She serves on the Advisory Board of the International Property Tax Institute, and was awarded the Queen's Diamond Jubilee Medal in 2013 for her work on cities.

Mr. Adams in an economist with degrees from the London School of Economics. His fields of expertise include public finance, tax policy and public policy analysis. As an independent consultant based in Victoria, Mr. Adams has completed more than 250 assignments since 1986 for a wide range of public and private sector clients including the Province, property taxpayers and local governments. In 2009, he served as a member of Metro Vancouver's Port Property Tax Commission.

Both Dr. Slack and Mr. Adams served on the Property Tax Policy Review Commission in 2006-07 with Dr. Hamilton.

Staff

The Commission was supported throughout its assignment by local government consultant Mr. Allan Neilson. Mr. Neilson is the Principal of Neilson-Welch Consulting Inc., a BC-based firm that specializes in local government service reviews, restructure studies, and municipal finance.

CHAPTER 2
ALLOCATION OF MUNICIPAL TAX BURDEN

This chapter of the *Report* presents the Commission's assessment of the tax share issue. The chapter begins by reviewing the Commission's findings in 2006-07. The chapter then summarizes the input received by the Commission from stakeholders on the tax share issue, and examines the changes that have occurred to the situation for commercial properties since the Commission's first assignment. The Commission's conclusions on the existing tax allocation are presented.

The second part of the chapter deals with future decisions on the tax share issue. The text lays out a suggested starting point for allocation discussions, and presents a set of metrics designed to help Council in monitoring tax shares, and in determining the need for future shifts. Recommendations to the City are presented to close the chapter.

It is important to explain at the outset that there are two different approaches to determining a fair allocation of the municipal tax burden among property classes. The first approach relies on establishing tax shares for each class of property — that is on assigning a percentage of the total burden to each class. The second approach relies on setting tax rates or, more specifically, the ratio of the rate for one class to the rate for another. The City of Vancouver uses the tax share approach to allocate its municipal tax burden among property classes in Vancouver.[4] The City has asked the Commission to focus its study and its recommendations on tax share.[5]

FINDINGS IN 2006-07

In 2006-07, the Commission was asked to recommend a long-term policy aimed at defining a fair portion of the municipal tax burden for commercial taxpayers. The Commission considered three factors in its approach to this task:

- *Consumption of Services* — Consumption studies attempt to measure the relationship between property taxes paid for, and benefits received from, local government services by different groups of taxpayers. In 2006, the City commissioned a study to examine the cost-benefit issue for residential and non-residential property classes in Vancouver.[6] The study concluded that the non-residential sector paid considerably more in taxes for services than

[4] Several municipalities in British Columbia use the tax share approach to allocate the municipal tax burden.

[5] Further discussion on the different approaches to allocating the local tax burden is presented later in the chapter.

[6] MMK Consulting, *Consumption of Tax-Supported Municipal Services*, 2006.

it received in benefits, whereas the residential sector paid considerably less than it received.

The Commission agreed in 2006-07 that the consumption approach had some legitimacy and should not be disregarded entirely. The Commission noted, however, that the value of consumption studies in the policy-making process is ultimately limited. Consumption studies are based on a set of assumptions that may not be valid, and that may not be supported by all stakeholders. Such studies also do not effectively measure the various indirect service benefits enjoyed by non-residential property classes. Indirect benefits, which help to determine a city's quality of life, can influence significantly businesses' location decisions as well as their ability to attract skilled labour.

- *Competitiveness* — The Commission examined municipal tax regimes for commercial properties in a select group of Canadian cities, and across municipalities in Metro Vancouver. The Commission concluded that Vancouver's property taxes did not appear to put the City at a competitive disadvantage relative to major centres outside of the Metro region. The Commission also found that, despite having higher Class 6 taxes than other municipalities in Metro, there was little evidence of a decline in commercial activity in Vancouver. The Commission was concerned, however, that the relatively high tax levels in the City had the potential to compromise Vancouver's ability to remain competitive within Greater Vancouver.

- *Accountability* — The Commission noted that Class 6 property owners — or, as is often the case, the businesses that lease space from the owners — pay municipal property taxes but, unlike residents, are not eligible to vote in municipal elections.[7] This situation, the Commission felt, undermines the principle of accountability and makes the non-residential property tax less appropriate than other forms of taxation for financing local government expenditures. Accountability is not well served when residents have the greatest influence over the type and level of local services provided, but do not pay a proportionate share of service costs.[8] The Commission also noted that business property taxes might be partially exported to residents of other jurisdictions who are consumers of products and services produced in Vancouver. Tax exporting serves to reduce accountability further since

[7] Class 6 property owners and lessees may be eligible to vote as residents of the City of Vancouver if they live within the municipality. In such cases, however, the individuals are voting in their capacity as residents, not as business persons.

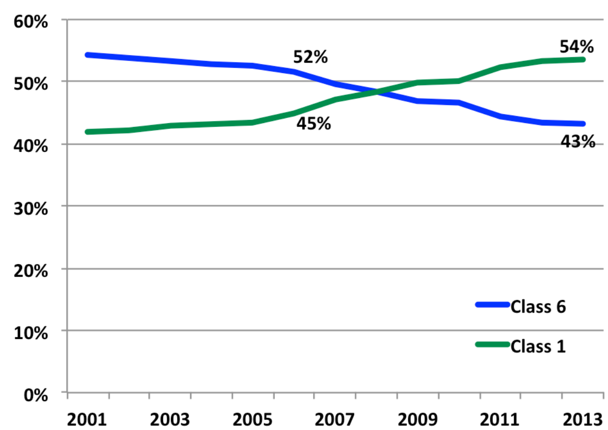
[8] It should be noted that commercial property taxpayers have the ability outside of the electoral process to influence municipal decisions. Indeed, in Vancouver Class 6 taxpayers wield considerable influence through their BIAs and other effective representatives. Class 6 taxpayers are not able, however, to hold decision-makers accountable at election time for policy decisions taken. This inability to hold decision-makers to account at the ballot box makes commercial property taxes less-than-ideal as a form of taxation.

those who bear the burden of the tax may not be the beneficiaries of the services that the taxes are used to provide.

A review of the property tax literature did not point to a single, clear definition of a fair share of the municipal tax burden for the commercial sector. Based on its concerns around consumption of services, competitiveness and accountability, however, the Commission concluded that a shift in the tax burden from non-residential to residential properties was warranted.

The Commission recommended that the City shift one percentage point of the non-residential (Class 5 and 6) tax burden each year until the Class 5 and 6 tax share reached 48%. The Commission recommended, as well, that following this tax shift the City leave the situation unchanged for a period of five years, unless the business tax differential between the City and its neighbours in Metro Vancouver widened considerably, or the balance of business investment tilted away from Vancouver to other parts of the region.

Figure 2.1
Tax Shares in Vancouver



Source: City of Vancouver Financial Services

City Council accepted and implemented the Commission's tax share recommendations. From 2008 through 2012 inclusive, the City transferred a total of $23.8 million from non-residential properties (comprised almost entirely of Class 6) to the residential sector, and to Classes 8 and 9. Over this time the tax shares for Class 1 and Class 6 shifted significantly, as illustrated in Figure 2.1. The share of taxes assigned to Class 1 increased from 44.9% to 53.6% over this period. The share assigned to Class 6, conversely, fell from 51.6% to 43.2%.[9]

THE CURRENT SITUATION

In response to concerns expressed in some quarters of the business community in 2013, City Council has asked the Commission to review the issue of tax allocation

[9] The 8.4% fall exceeds the cumulative 1% per year primarily because of new residential construction.

now that the recommended shift has been completed. The Commission has been asked, specifically, to advise Council on the appropriateness of the existing distribution of the municipal tax burden between Classes 1 and 6, and on the need for further shifts in tax share from commercial to residential property taxpayers.

As noted earlier, the Commission reported in 2006-07 that there was no clear definition of the most appropriate share of the municipal property tax burden that should be borne by the commercial sector. Based on the evidence reviewed at the time, however, and after hearing the concerns expressed by stakeholders, the Commission felt that a shift in the share of the tax burden from the commercial to the residential sectors was warranted.

How has the situation changed since 2006-07? Is the current split between Class 1 and Class 6 appropriate, or is a further shift of the tax burden warranted? What are the current views of stakeholders on the matter? What do the data say? These questions are addressed in the sections that follow, beginning with the views expressed by stakeholders.

STAKEHOLDER INPUT

As noted earlier, the Commission held three separate public hearings and a series of meetings with various business stakeholder groups. Much of the input received by the Commission at the hearings concerned the tax volatility issue. During the meetings with business groups, however, the tax share issue was discussed and the following views were presented:

- *Further Tax Shift* — It was suggested the City's tax shift recommended by the Commission in 2006-07 was helpful but insufficient. The City should continue the shift at 1% per year until the commercial share of the burden is lower. Some stakeholders felt that the residential sector, with its large assessment base, could easily absorb a greater portion of the tax burden.

- *Specific Target* — In general, stakeholders who met with the Commission acknowledged that there is no "magic number" to define the fairest tax share for Class 6 properties. In a meeting with the Vancouver Fair Tax Coalition, however, a set of metrics was used to peg the desired share at 37%.[10]

- *Loss of Business* — Some stakeholders suggested that the high portion of the tax burden assigned to Class 6 properties is causing businesses to leave high-demand parts of the City (e.g., Downtown Vancouver), and is making Vancouver unattractive to businesses in search of new locations. It was

[10] These metrics and the 37% outcome were contained in an independent study commissioned and endorsed by the Fair Tax Coalition, and presented at the meeting with the Commission.

suggested as well that there are many street-level vacancies in Downtown Vancouver caused by high taxes. No systematic data were presented to substantiate the comments.

- *Metrics* — It was suggested that confidence in tax allocation decisions would be improved if Council were to adopt its own set of guiding metrics. Metrics that compare Vancouver to surrounding municipalities are considered particularly useful.

- *Consumption of Services* — The view was put forward that, based on benefits received from municipal services, businesses as a whole pay a disproportionately large share of the tax burden. It was suggested that commercial properties should simply "pay for the services they use".

- *Changes to the Assessment Base* — Some stakeholders pointed out to the Commission that residential construction, as a proportion of total residential assessment, typically outpaces new construction in the commercial sector. These stakeholders suggested that the residential sector benefits from this trend by being able to spread its fixed tax share over a tax base that is made larger from the new growth. The stakeholders suggested, as well, that the conversion of business properties to residential properties that occurs as a result of re-development benefits residential taxpayers in the same way.[11]

- *Level of Taxation* — Several stakeholders expressed the view that the total level of property taxes collected by the City is too high. It was suggested that lower municipal taxes, made possible through lower municipal expenditures, would benefit all taxpayers.

- *Tax Rate Ratio* — The Commission heard a number of concerns expressed about the Class 6 to Class 1 tax rate ratio, which in 2013 was approximately 4.2:1. Almost all of the stakeholders who met with the Commission put forward the view that the ratio was unfairly high and represents a subsidy to the residential sector by business. Stakeholders feel that the ratio should be lowered to minimize this "subsidy", and to better reflect the level of benefit received by businesses from municipal services. Most stakeholders did not identify a target for the ratio. Some suggested, however, that Vancouver match the regional average, while others pointed to the recent commitment by the City of Toronto to lower its ratio to 2.5:1. The Canadian Federation of Independent Business, and representatives of the Downtown Business Improvement Association, recommended a ratio of 2:1.

11 The notion that the City spreads a fixed tax share over a growing residential tax base is not accurate. Every year the City allows the tax share to shift slightly to reflect non-market changes (i.e., changes from new construction and class shifts) to each class' assessment base.

It is worth noting that no residential associations or other groups representing homeowners expressed views to the Commission on the matter of tax share over the course of the Commission's assignment. Input from individual homeowners at the public hearings was limited.

- **Tax Share vs. Tax Rate Ratio**

As noted in the summary of stakeholder input, concerns were expressed regarding the Class 6 to Class 1 tax rate ratio. Tax rate ratio is frequently promoted in discussions on tax equity, and is referred to regularly in the literature by tax experts. It is preferred by stakeholders and others who believe that the taxes imposed on different types of property should vary based primarily on assessed value. For proponents of the tax rate ratio measure, equity is achieved when the gap between tax rates imposed on different classes of property is reduced.

Tax rate ratio is one of the legitimate ways to view equity and to allocate the tax burden across types of property. It is not the way, however, that the City of Vancouver uses to distribute its local tax burden. Vancouver, as explained earlier, distributes it tax burden by establishing tax shares for each class of property. When tax rate ratio is used to determine taxes, the share of taxes collected from each class of property will change in response to market changes in property assessments. Conversely, when the burden is allocated in accordance with Council-established tax shares, the tax ratio will fluctuate as assessments move up or down.

Figure 2.2 presents a scenario in which residential property values increase more, in relative terms, than commercial property values.[12] The figure illustrates how the tax burden is distributed differently under the two approaches. Consider the following points:

- *Fixed Tax Rate Ratio* — When the ratio between Class 6 and Class 1 rates is fixed, the amount of taxes paid and the total share of the tax burden will increase faster for the residential sector than for the commercial sector in response to a relative increase in residential assessments. In this example, the taxes on the average home increase, while taxes on the average commercial property decline. The tax share for Class 6 declines.

- *Fixed Tax Share* — When the tax share is fixed by Council, the amount of taxes paid by each class, and the taxes paid on average residential and commercial properties, will increase *by the same amount* (2% in Figure 2.2). The tax share remains the same under this example, while the tax ratio increases.

[12] The scenario in Figure 2.2 illustrates how allocation of the tax burden is handled under the two approaches when the assessment base grows because of market changes — that is, increases in the assessed value of existing properties. *Appendix II* explores how the different allocation approaches work in the face of market and non-market (e.g., new construction) changes.

Figure 2.2
Tax Share vs. Tax Rate Ratio

Fixed Tax Rate Ratio

	Residential			Business					Tax Share	
	Assess ($ bn)	Tax Rate	Taxes ($mn)	Assess ($ bn)	Tax Rate	Taxes ($mn)	Total Taxes	Tax Rate Ratio	Res. Share	Bus. Share
Year 1	$ 170	$ 1.90	$ 323	$ 30	$ 8.20	$ 246	$ 568	**4.32**	**56.8%**	**43.2%**
Year 2	$ 187	$ 1.83	$ 343	$ 30	$ 7.91	$ 237	$ 580	**4.32**	**59.1%**	**40.9%**
Change	10%	-3.5%	6.2%	-	-3.5%	-3.5%	2%			

Fixed Tax Share

	Residential			Business					Tax Share	
	Assess ($ bn)	Tax Rate	Taxes ($mn)	Assess ($ bn)	Tax Rate	Taxes ($mn)	Total Taxes	Tax Rate Ratio	Res. Share	Bus. Share
Year 1	$ 170	$ 1.90	$ 323	$ 30	$ 8.20	$ 246	$ 569	**4.32**	**56.8%**	**43.2%**
Year 2	$ 187	$ 1.76	$ 329	$ 30	$ 8.36	$ 251	$ 580	**4.75**	**56.8%**	**43.2%**
Change	10%	-7.3%	2%	-	2%	2%	2%			

In distributing the City's local tax burden, Vancouver City Council has focused on setting the tax share, and on implementing equal tax increases to residential and business tax classes. This approach is considered by many to be equitable, despite the changes in the tax rate ratio that result.

It is worth noting that the increases in Vancouver's business tax rate ratio in the 1980s, 1990s and early 2000s, was a result of the rapid increases in residential assessment relative to commercial assessments, as well as desire on the part of Council to apply the same rate of increase in taxes raised to the average home and average commercial property. The increase in the ratio over these years was not an indication of, and did not result from, any deliberate shift in taxes from residential to commercial properties.

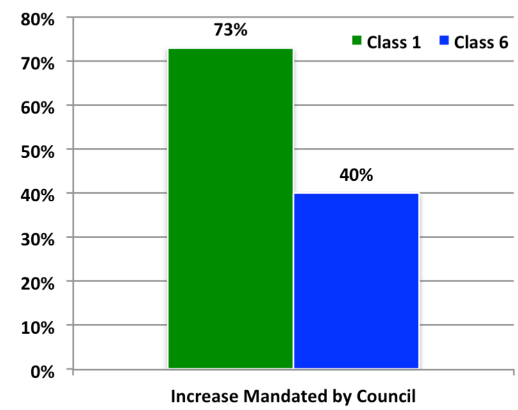
➤ Council-Directed Tax Increases

An underlying theme in the comments presented to the Commission was the notion that the residential sector in Vancouver benefits at the expense of the business sector, and that Class 6 taxes have risen faster over the years than Class 1 taxes. As illustrated in Figure 2.3, however, Council-mandated tax increases imposed on the residential sector have exceeded those imposed on commercial properties. Over an extended time period of 1995-2013, Council has increased taxes from the residential sector by 73%, compared to 40% for the commercial sector. The difference in increase has been starker in more recent years during Council's mandated tax shift from Class 6 to Class 1 properties.

REVIEW OF THE DATA

To further gauge how the situation for commercial property taxpayers has changed since the Commission's first assignment, the Commission examined a variety of data on Vancouver, a set of municipalities within Metro Vancouver, and cities across Canada. The Commission's findings are presented in this section of the text.

Figure 2.3
Council-Mandated Tax Increase
1995-2013



Source: Commission analysis of data obtained from City of Vancouver Financial Services

An understanding of the relative situation is as important as an understanding of the situation in Vancouver alone. In discussions on tax share, Vancouver cannot be considered in isolation of the broader tax environment, particularly the environment in Metro Vancouver.

➤ **Tax Share**

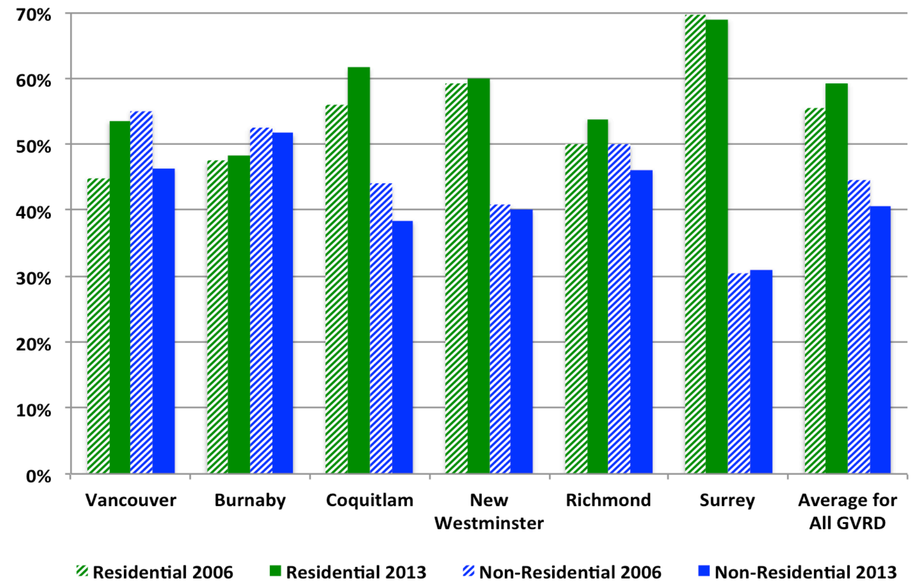
Figure 2.1, presented earlier, showed changes to the allocation of the municipal tax burden between the residential and commercial sectors in the City of Vancouver in recent years. The period from 2006 to 2013 illustrated the impact of Council's one percent annual tax shift between classes.

Figure 2.4, presented here, compares Vancouver to a set of municipalities within Metro Vancouver.[13] Changes to the tax shares are measured for residential properties and for the broader non-residential sector. The use of the entire non-residential sector allows for a more useful comparison to municipalities such as Burnaby that have significant amounts of non-residential property assessment in classes other than Class 6.[14]

[13] The set of comparison municipalities was limited to include the largest cities in the region and/or those with significant commercial sectors.

[14] In Vancouver, 84% of all assessment is Class 1; 15% is Class 6. All other classes combined account for only 1% of the City's assessment base.

Figure 2.4
Tax Shares Across Metro Vancouver



Sources: Ministry of Community, Sport & Cultural Development (Statistics) — Schedule 707 (2006 & 2013)
City of Vancouver Financial Services

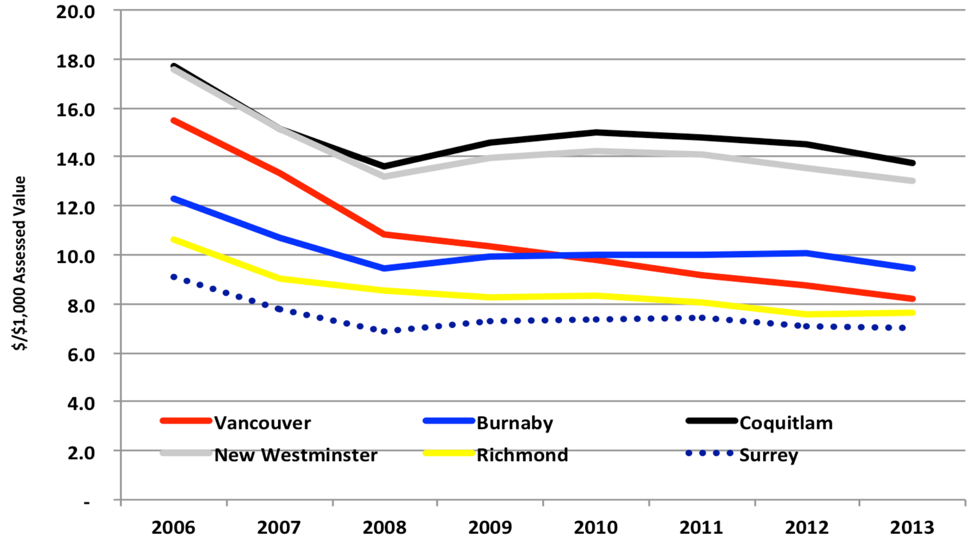
The data in Figure 2.4 show that Vancouver's overall tax shift from non-residential to residential properties has exceeded that of every other municipality in the comparison group. Taken together, Figures 2.1 and 2.4 show an improvement in the property tax situation for non-residential properties — and, in particular, the Class 6 commercial sector — in Vancouver since 2006.

➤ Class 6 Tax Rates

Figure 2.5 presents the Class 6 tax rates from 2006 to 2013 for Vancouver and the comparison municipalities in Metro.[15] The rate has declined more significantly over the period in Vancouver than it has in all other cities shown. The rate in 2013 is at the low end of the group, suggesting an improvement in the property tax situation for businesses.

[15] The tax rate for Vancouver is determined using land-averaged assessment figures.

Figure 2.5
Class 6 Tax Rates

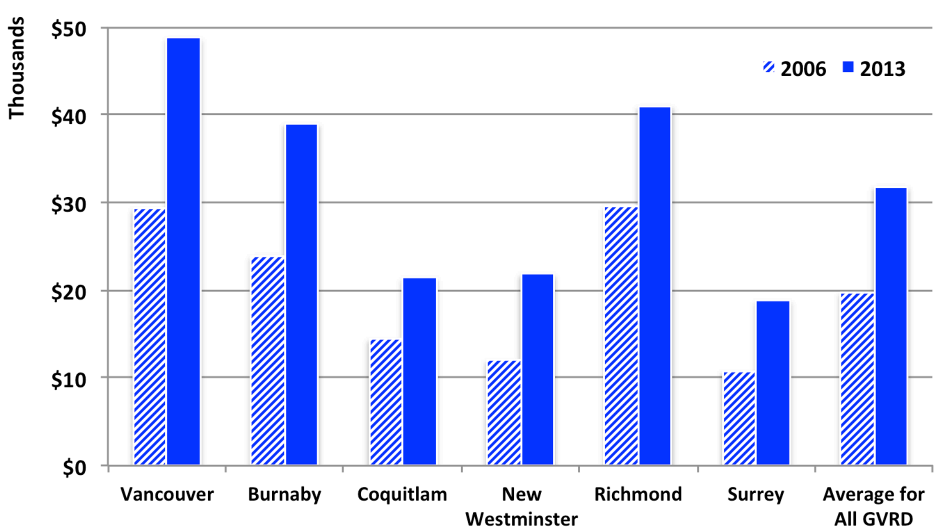


Source: Ministry of Community, Sport & Cultural Development (Statistics) — Schedule 702 (2006-2013)

Class 6 Assessment

Figure 2.6 shows the Class 6 assessments per capita in 2006 and 2013. Growth in per capita assessments over the period is attributable to a combination of two

Figure 2.6
Class 6 Per Capita Assessment

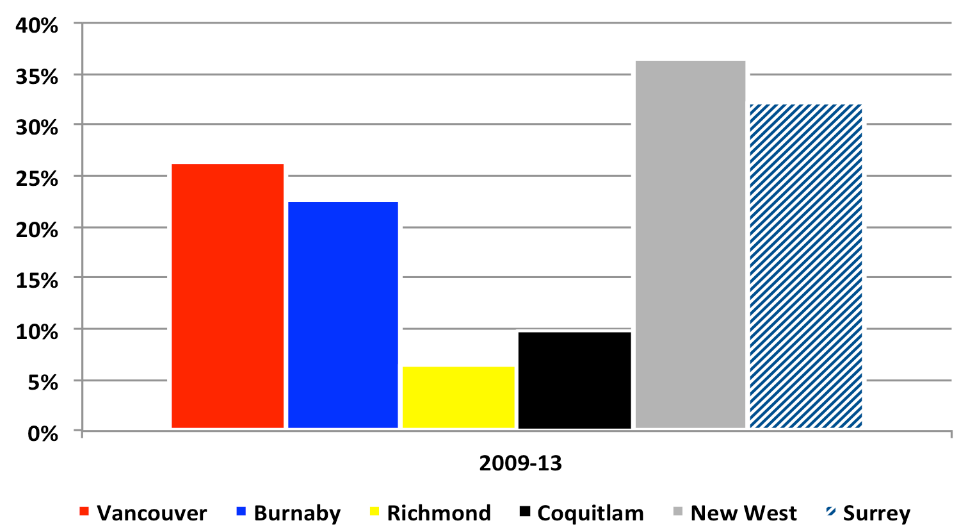


Source: Ministry of Community, Sport & Cultural Development (Statistics) — Schedule 707 (2006 & 2013)
City of Vancouver Financial Services

factors: non-market changes (including new construction) and market changes. Measured by this combination, Vancouver's commercial sector has done well relative to that in other places. Vancouver's growth of 66% exceeds that of several neighbouring municipalities (e.g., Burnaby, Richmond, Coquitlam), as well as the average (61%) for the GVRD as a whole.

Figure 2.7 attempts to isolate market changes (i.e., changes in assessed value) from non-market changes (including new construction) in Class 6 assessments. For each municipality the figure shows the cumulative annual change in total Class 6 assessment, *net* of all non-market activity, over the period 2009-2013. The data suggest that Class 6 property values in Vancouver, on average, have remained stable relative to those in the comparison group since 2010.[16] This finding is particularly important given that average base land values in the city, prior to the increases in market assessment, are the highest in the region.

Figure 2.7
Cumulative Change in Class 6 Assessments NET of All Non-Market Changes
2009-2013



Source: BC Assessment, 2008-2013 NMC Roll Comparison by Reason

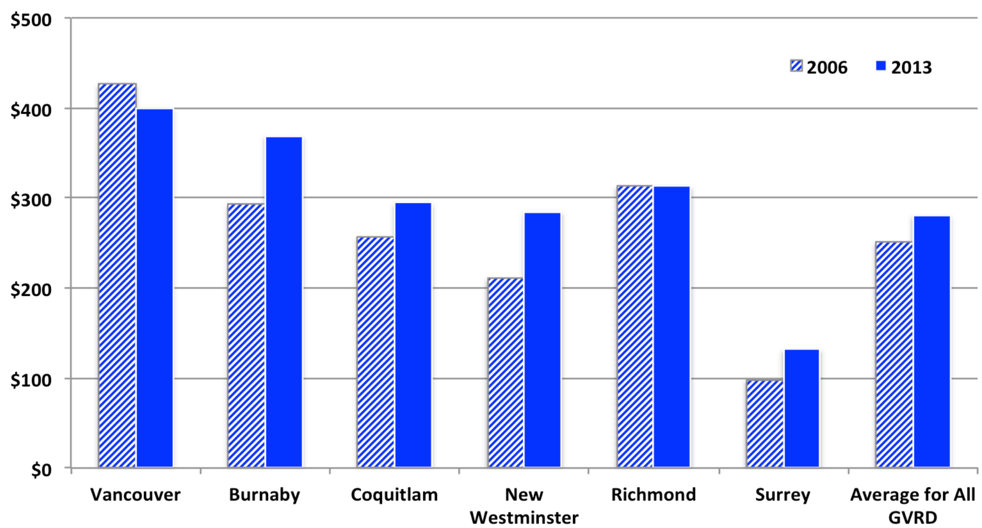
[16] The Commission was able to obtain data for the period 2008-2013. Since the data measure change in value, the first year in the chart is 2009. The Commission had hoped to isolate new construction figures (i.e., changes to inventory) from other forms of non-market changes. Unfortunately, however, the data on new construction alone are not inclusive of all changes to inventory. Some construction figures are embedded in other categories of non-market changes.

- **Class 6 Taxes Per Capita**

Figure 2.8 shows the Class 6 municipal property taxes paid, per capita, in 2006 and 2013 for the set of municipalities. The data show a decrease in taxes paid since 2006 in Vancouver, but an increase in almost all other comparison cities. The average across the region as a whole in taxes paid has also increased since 2006. These findings bolster the view that Vancouver's Class 6 property tax situation has improved since the Commission's first assignment.

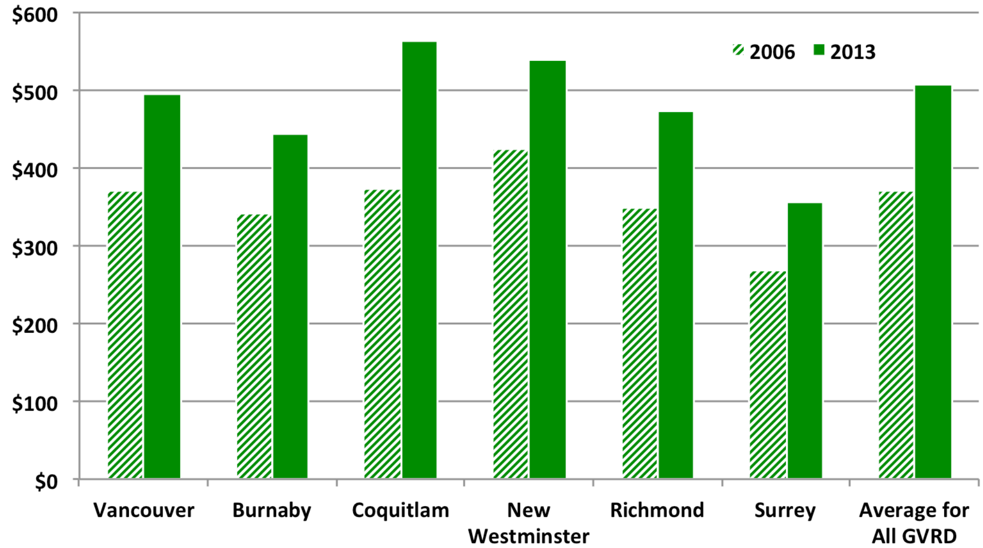
On the other hand, the per capita Class 6 taxes in Vancouver remain the highest in absolute terms. This finding can be explained, in part, by the City's role as the commercial hub of Metro. It can also be explained by the range and cost of services (e.g., emergency services, social services) provided by the City of Vancouver compared to other municipalities in the region. Residential taxes per capita, shown in Figure 2.9, are also higher than in many other places in order to pay for the range and cost of services provided in Vancouver.

Figure 2.8
Class 6 Per Capita Taxes



Source: Ministry of Community, Sport & Cultural Development (Statistics) — Schedule 707 (2006 & 2013)
City of Vancouver Financial Services

Figure 2.9
Class 1 Per Capita Taxes



Source: Ministry of Community, Sport & Cultural Development (Statistics) — Schedule 707 (2006 & 2013)
City of Vancouver Financial Services

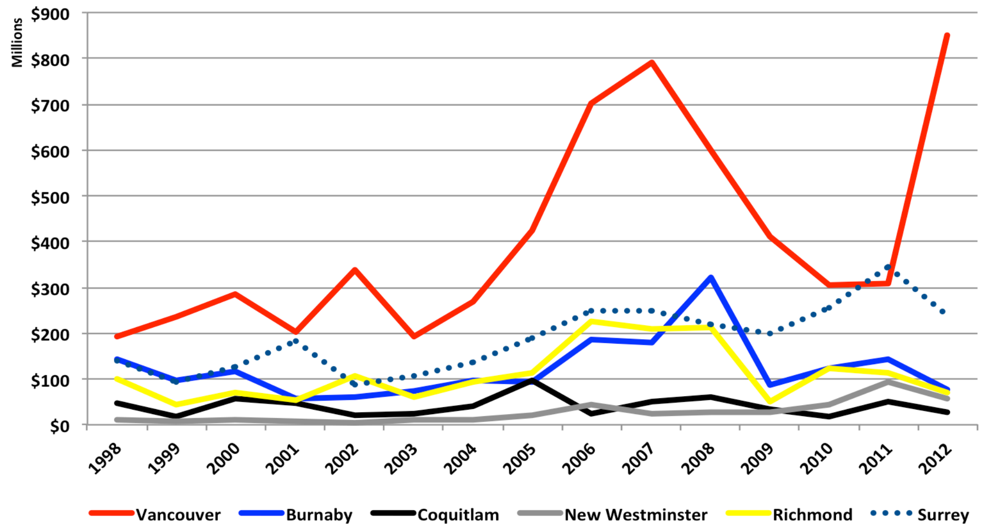
➤ Commercial Development

Changes in building permit values give an indication of a municipality's ability to attract commercial investment. Figure 2.10 shows that the absolute value of commercial permits in Vancouver has exceeded that of all other cities over an extended time that begins in 1998.[17] This finding is expected given Vancouver's role as the region's commercial centre. In relative terms, the trend in commercial building permits values in Vancouver leading up to 2012 has been similar to that in other parts of the region. In 2012, however, Vancouver experienced a surge that was not recorded elsewhere. This increase was the result of permits that were taken out for new office tower construction — an initiative that in and of itself speaks to the City's ability to attract new investment.

Figure 2.11 bolsters the view that Vancouver's relative ability to attract investment, as measured by Class 6 building permit values, has remained strong over the extended period. The trend line shows that Vancouver has accounted for a growing percentage of the total commercial building permit value in the region.

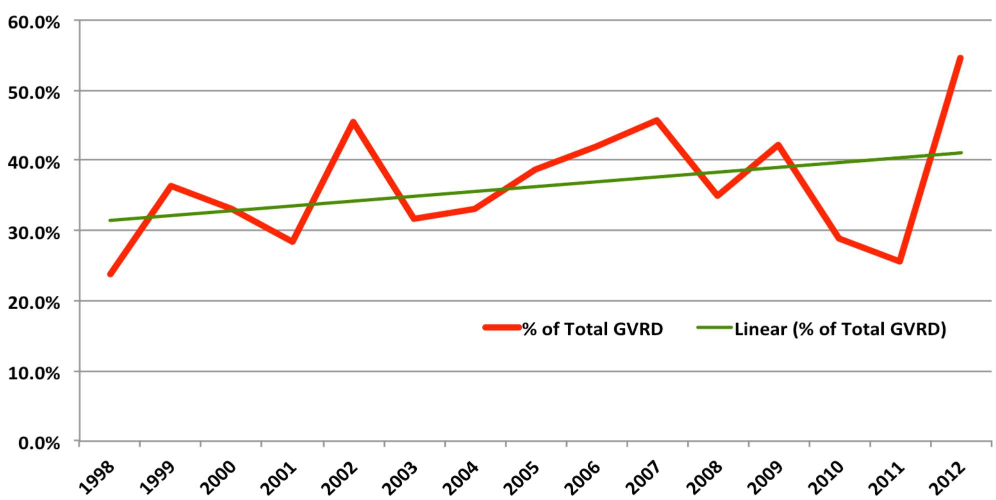
[17] It should be noted that commercial building permit data for all places understate the actual level of commercial investment. In mixed-used developments with residential floors over street-level commercial, building permits are recorded as residential permits. These types of developments are common in many parts of Metro Vancouver, particularly in the City of Vancouver.

Figure 2.10
Commercial Building Permit Values



Source: BC Stats — BC Building Permits for Development Regions & Regional Districts by Type (1998-2012)

Figure 2.11
Vancouver Class 6 Building Permit Values as Percentage of Total Value for GVRD 1998-2012



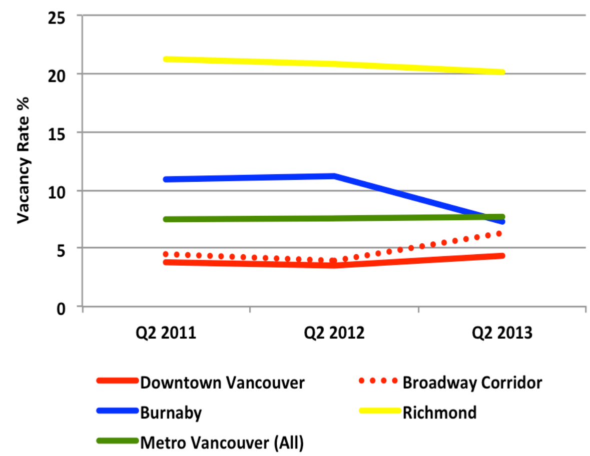
Source: BC Stats — BC Building Permits for Development Regions & Regional Districts by Type (1998-2012)

- **Vacancy Rates**

Accurate vacancy rate data for business properties in Vancouver and the region are difficult to find for all types of businesses and for consecutive years. Figure 2.12 presents some published office vacancy numbers that the Commission obtained from commercial real estate firms.[18] Figure 2.13 presents vacancy data for open and enclosed (urban) retail malls. The data, limited though they are, do not point to problems in these particular segments of the commercial sector in Vancouver.

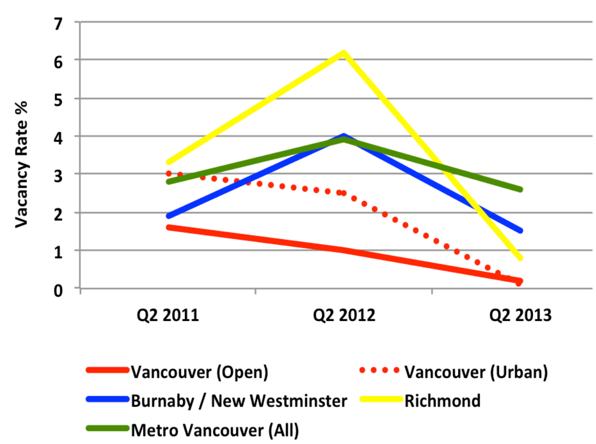
In its discussions with BIA representatives, the Commission heard concerns regarding street-level vacancy rates in different parts of the city. Hard, reliable data on such rates, however, are not reported on a consistent basis. The Commission succeeded in obtaining figures for certain Vancouver streets for 2012, but not for other years.

Figure 2.12
Office Vacancy Rate



Source: Colliers International

Figure 2.13
Retail Vacancy Rate
(Shopping Malls >50,000 ft^2)



Source: Colliers International

It is important to exercise caution when reviewing all data on vacancy rates for different commercial sectors. There are problems in the consistency with which data for all sectors are collected and reported. Moreover, even where complete time series do exist, the data are not typically clear on the cause of high or low vacancy rates.[19]

[18] Data were not available for Surrey or Coquitlam for Figure 2.12 or 2.13.

[19] A low vacancy rate could result at least in part from spaces being leased at below-market rates. In such cases, the data may not give a clear sense of an area's strength, relative to other areas, to

Taxes Across Canada

The Commission noted in its earlier work that *inter*-metropolitan tax differences have less influence over business location decisions than *intra*-metropolitan differences. Indeed, inter-metropolitan competition for business is not likely to involve retail, service or locally-owned enterprises that serve community, sub-regional or regional markets. In the Commission's view, the only businesses that may pay close attention to inter-metropolitan differences are those that actually have location options. Head offices and niche firms that operate in national and international markets are examples of such businesses.

As in 2006-07, the Commission obtained and examined data on representative high-quality, downtown office buildings in Vancouver and other major cities across Canada — the set of comparison places reviewed in 2013 includes Toronto, Montreal, Calgary and Ottawa. For each building in each municipality, the Commission calculated total municipal taxes per square foot, and total municipal taxes as a percentage of the gross lease rates, per square foot. These data, presented in Figure 2.14, show that municipal business taxes in Vancouver are competitive with those in other large Canadian cities.

Figure 2.14
Taxes Across Canada

	Vancouver	Toronto	Montreal	Calgary	Ottawa
Municipal Taxes per square foot	\$3.59 - \$6.37	\$6.56 - \$6.80	\$4.74	\$4.97 - \$6.62	\$5.17 - \$9.38
Municipal Taxes as % Gross Lease per square foot	8.7% - 10.9%	11.6% - 11.9%	15.5%	9.8% - 10.7%	14.7% - 18.4%

Source: Major property management firms in each city were contacted for data on key buildings. Tax rates and certain other data were obtained from each municipality.

Conclusions

The data presented suggest that the municipal property tax situation in Vancouver for the commercial sector has *not* worsened since the Commission's first study in 2006-07 — on the contrary, the situation has improved in many respects. The data suggest, as well, that Vancouver remains competitive as a centre for commercial investment both within its region, and compared to major cities across Canada.

attract high-value commercial investment. It is important to note, however, that there is no indication that lease rates in Vancouver are at below-market levels.

CONCLUSION ON CURRENT TAX SHARE

Based on its consultations with stakeholders and its review of the data, the Commission does not believe that there is a compelling case for a further shift in the municipal tax burden from Class 6 to Class 1 at this point in time.

It may be the case that the residential sector could absorb a further shift — certainly that view emerged in some of the discussions with stakeholders, the relatively high current level of residential taxation notwithstanding (see Figure 2.9). The capacity of the residential sector to assume a larger portion of the tax burden, however, is not the question that the Commission set out to examine. The Commission was concerned, instead, with determining whether a further tax shift from commercial properties to residential properties is warranted. The Commission holds the view that a further shift is not warranted at this time.

In its report to City Council in 2007, the Commission recommended that at the end of the five-year, 1% per annum tax shift the City leave the situation unchanged for a period of five years, unless the business tax differential between the City and its neighbours in Metro Vancouver widened considerably, or the balance of business investment tilted away from Vancouver to other parts of the region. The Commission finds no evidence of an increasing business tax differential, or of business investment leaving to other municipalities in Metro. Accordingly, the Commission recommends that the City leave the tax shares unchanged at this time.

FUTURE DECISIONS ON TAX SHARE

The allocation of the municipal tax burden among classes of property is an exercise that Council must undertake every year. The Commission's conclusion regarding the current tax shares may help Council in its financial deliberations in the short term, particularly in deliberations on the 2014 budget. In future years, however, Council will need to re-examine the tax shares and determine again whether changes are necessary. What are the factors that Council should consider when undertaking this task each year?

The first point for Council to remember is that there is no single definition of the "correct", most appropriate share of the municipal property tax burden that should be borne by the commercial sector. Ultimately, the task of allocating the burden requires a degree of judgement on the part of decision-makers. In the Commission's view, however, there are certain criteria and metrics that can be used to help guide decision-makers.

➤ Criteria

In the Commission's view, the following two criteria are important to consider:

- *Benefits Received* — The Commission feels that the commercial sector, on average, derives less benefit from City services than the residential sector. The Commission recognizes that it is not possible to determine the actual benefit differential because of the inability to quantify the indirect benefit component. The Commission is satisfied, however, that the overall benefit to Class 6 properties is lower relative to that enjoyed by Class 1.

- *Accountability* — This principle recognizes that Class 6 property taxpayers, who have no right to vote (in their capacity as business owners) in local elections, have less ability than residents to hold elected officials accountable for expenditure and tax decisions. In keeping with this principle, Class 1 taxpayers should shoulder a larger portion of the tax burden.

In the Commission's view, these two criteria suggest that that non-residential share of property taxes should be less than half of the total municipal burden. This goal was identified by the Commission in its first assignment with the City. The goal was reached by the City in recent years as a result of the five-year tax shift recommended by the Commission in 2006-07.

➤ Metrics

In assessing the appropriateness of the existing tax share earlier in the chapter, the Commission examined data related to a number of different metrics. These metrics can be used by Council in future years to monitor the property tax situation for the commercial sector, and the attractiveness of Vancouver for business investment, relative to other parts of the region. The information provided by the metrics will help Council to determine whether future additional tax shifts from the commercial sector to residential properties are warranted.

Figure 2.15 identifies and explains the list metrics and explains how they can be interpreted to inform future decisions on the Class 6 tax share. A total of eight metrics are featured:

- the first five compare the commercial property tax situation in Vancouver to that in other municipalities in the region[20]

- the final three gauge Vancouver's ability to retain and attract business investment, relative to the abilities of other places in Metro

[20] The list of comparison municipalities is the same as that which was used earlier in the chapter. It features the largest cities in Metro, as well as those with substantial commercial sectors. It includes the Cities of Burnaby, Coquitlam, New Westminster, Richmond and Surrey.

Almost all of the metrics were examined earlier in the assessment of the current environment for commercial properties in Vancouver.

It should be emphasized that the metrics are not prescriptive. They are intended, instead, to guide decision-makers in determining whether future tax shifts between classes are necessary. If the metrics suggest that the tax situation for the commercial sector is worsening in Vancouver relative to that in other parts of the region, or if they provide evidence of business investment leaving Vancouver for other Metro municipalities, it follows that the City should consider shifting more of the tax burden from the commercial sector to Class 1 properties. Conversely, if the metrics indicate that the tax environment for the commercial sector is competitive with the environment in the broader region, and that there is little evidence of Vancouver losing its ability to attract and retain business investment, it follows that a further tax shift from commercial to residential properties may not be warranted.

Finally, it should be noted that the data needed to build the various metrics are not readily available in all cases. In some instances, considerable effort and cost may be required to assemble reliable data sets. The City will need to consider investing the resources necessary to collect and, in some cases, develop better data.

Figure 2.15
Suggested Metrics to Guide Future Decisions

Metric	Explanation	Interpretation
1. Tax Share	Plots the Class 6 tax shares in Vancouver and other municipalities in Metro. Compares, first, the absolute size of tax shares in each place. Compares, second, the year-over-year changes in commercial tax shares in each place. The comparison group to assess the size of tax shares should include only those municipalities with significant portions of commercial development. Burnaby, Richmond and New Westminster are examples. Surrey is not an example. The comparison group to assess the year-over-year changes can include a wider set, including Surrey and Coquitlam.	A high commercial tax share in Vancouver relative to that of other places may suggest the need to consider a tax shift to the residential class. An average or relatively low commercial tax share may prompt the City to do nothing. Sustained year-over-year decreases in the commercial tax share in other places may suggest the need for change in Vancouver.
2. Class 6 Tax Rates	Compares Class 6 tax rates in the full set of comparison municipalities in Metro (see Figure 2.5).	Increase in Vancouver's rate relative to that of other places may suggest worsening situation for Vancouver's commercial sector.

Metric		Explanation	Interpretation
3.	Class 6 Taxes per square foot	Calculates the Class 6 taxes paid per square foot in Vancouver and the full set of comparison municipalities. Compares the absolute value in each place, as well as the year-over-year level of change in each place. Using the square footage measure allows for a comparison of tax impacts across cities with significant differences in amount of commercial development. May be difficult to obtain aggregate data on Class 6 built space. *Appendix III* illustrates metric using sample properties.	A high level of tax per square foot relative to other places may be cause for concern. A downward shift in other places, relative to Vancouver's trend, may also be reason to consider a shift in the burden from the commercial sector.
4.	Class 6 Taxes per capita	Calculates the Class 6 taxes per capita in Vancouver and the narrow group of comparison municipalities (i.e., those places with significant commercial bases). Considers the absolute level in each place, and the year-over-year changes. Population figure acts as proxy for total square footage of commercial development, and may be useful in cases where aggregate Class 6 built space data are difficult to obtain (see Figure 2.8).	Interpreted in same way as previous metric.
5.	Tax Rate Ratio	Plots the business tax rate ratio (Class 6 to Class 1) in Vancouver and the full set of comparison municipalities. Considers the absolute size of ratio, and the changes over years.	A high ratio relative to that in other places, or an increasing ratio relative to the trend in other places, may prompt the City to consider change.
6.	Change in Class 6 Building Permits	Presents changes in the total value of Class 6 construction planned for each city. Building permit data are one indicator of a municipality's attractiveness as a place for commercial development (see Figure 2.10).	The trend of activity, relative to that of other places, is the key information. A drop in Vancouver may suggest a loss of Class 6 investment to other parts of the region. Vancouver can be expected to have a (much) higher absolute level of Class 6 building permit activity than other places in any one year — Vancouver is Metro's commercial hub, and has the largest stock of commercial

Metric	Explanation	Interpretation
		buildings to maintain, improve and replace.
7. Change in Class 6 Assessment	Measures the year-over-year change in the total value of Class 6 properties, *net* of new construction. Provides an indication of the market demand for (and thus strength of) commercial space in Vancouver (see Figure 2.7).	A decline in total Class 6 assessment in Vancouver, *net* of new construction, relative to that in other municipalities may suggest a decline in the City's attractiveness as a centre for commercial investment. This finding may prompt the City to consider adjusting the tax share.
8. Change in Class 6 Vacancy Rates	Measures the year-over-year change in vacancy rates for different types of Class 6 uses, including office, mall retail and street-level retail (see Figures 2.11, 2.12). Data on vacancy rates are difficult to collect for all uses, all years, and all municipalities. The City may need to commission special studies from third parties, such as commercial real estate firms or the City's Economic Commission. If reliable data can be assembled, metric would be useful in helping to gauge attractiveness of Vancouver as centre for investment.	High vacancy rates relative to those in other cities may prompt the City to adjust the tax share. As noted earlier in the text, vacancy data need to be treated with some caution.

RECOMMENDATIONS

In its 2006-07 assignment, the Commission recommended that once the tax share for Classes 5 and 6 reached 48% (the $23.8 million tax shift) the City leave the situation unchanged for a period of five years, unless:

- the business tax differential between the City and its neighbours in Metro Vancouver widened considerably, or
- the balance of business investment tilted away from Vancouver to other parts of the region

The Commission has found no evidence of an increasing business tax differential, or of business investment leaving to other municipalities in Metro. Based on its review of the available data and its consultation with stakeholders, therefore, the

Commission concludes that a further tax shift from commercial to residential properties is not warranted at the present time. The Commission concurs with its earlier conclusions from 2007, and makes the following recommendation on the issue of tax share:

- THAT Council leave the Class 5 and Class 6 tax shares unchanged at this point in time.

Every year during the budget process Council must address the tax distribution issue.[21] The Commission has set out suggested metrics to guide Council in this task. The Commission's recommendations are as follows:

- THAT Council endorse and use the eight metrics, identified in Figure 2.15, to guide future decisions on the distribution of the municipal property tax burden among tax classes.

- THAT Council invest the resources necessary to refine and strengthen the data for the metrics.

[21] Future changes in assessed values (caused, for example, by new construction) will result in some shift without any intervention by the City. The Commission does not feel that *deliberate* action on the part of the City to further shift the tax burden is warranted at this time.

CHAPTER 3
TAX VOLATILITY

This chapter presents the Commission's assessment of the tax volatility issue. The text begins by defining volatility and the "hot spots" that arise. The chapter then reviews the Commission's findings in 2006-07, identifies the changes in volatility that have occurred since that time, and summarizes the input received by the Commission during its consultations with stakeholders. Policy options available to Vancouver to deal with hot spots are then outlined and assessed, and the Commission's recommendations to the City are presented.

VOLATILITY DEFINED

Stability and predictability are two desirable characteristics of tax systems in general, and to property tax systems in particular where taxpayers receive annual or semi-annual tax bills. Local taxpayers, as well as the City, desire property tax systems that are both stable and predictable. Stability and predictability result when tax payments do not change significantly from year to year in response to forces over which taxpayers have no control. In a stable and predictable system, homeowners and business owners (including both owner-occupiers and tenants) can plan, anticipating within reasonable limits, what to expect on their tax notices.

Changes in property taxes will reflect two factors: changes in the taxable assessed values and changes in the tax rates. In general terms, providing that the taxing authority's budget is not itself volatile, the taxing authority may manage the change in tax rates to temper the impact of volatility in taxable assessed values. Vancouver's property tax system, in general, provides considerable stability and predictability to the City's taxpayers, as evidenced by annual tax increases. However, significant, unanticipated changes in individual property assessment values do occur in different parts of the City as a result of various market pressures. These changes create a degree of instability and serve to undermine tax predictability where they occur. Put differently, they introduce a degree of tax volatility. The City wishes to identify the best way to mitigate individual incidents of tax volatility where and when they occur.

➤ Hot Spots

In a broad sense, the term "hot spot" is used to describe an individual property, or a geographic cluster of properties, that experiences a significant year over year change in taxes over a given period of time. For the purposes of this *Report*, the Commission defines hot spots as properties that experience an unanticipated, year-over-year increase in total net assessed value, before land averaging is applied, which exceeds the average assessment increase for the same property class by more than ten percent.[22] The reason that hot spots are estimated using taxable assessed values before land averaging is twofold. First, land averaging is itself one form of intervention designed to help mitigate the impact of hot spots. Second, because the City is the only jurisdiction in British Columbia that uses land averaging, a measure of hot spots based on taxable assessed values prior to averaging makes for more reasonable comparisons.

Hot spots may result from a number of different factors, or combination of factors. Consider the following points:

- *Re-Zoning* — The City's zoning bylaw sets out the land uses and development densities that are permitted in the City's various zones. When zoning or density specifications for a particular area are changed, the range of land uses allowed in the area, and the density to which the area may be developed, typically change as well. It is often the case that changes to an area's zoning will result in new highest-and-best-uses for existing properties, which, in turn, may result in higher property prices. The extent of the change in property prices will depend on the extent to which the market had already anticipated these changes and altered bid prices for the affected properties. BC Assessment integrates the new price into its assessment.

  If the zoning and density changes are initiated by the City, either as "spot changes" or as part of a broader neighbourhood planning effort, the cause of the increase in assessed value is deemed to be outside of the control of the land owners and tenants, and thus unanticipated. The hot properties in these cases would be considered for some form of intervention. If, on the other hand, the property owners themselves initiate the rezoning, the properties may still be hot; however, because any increase in assessed values can or should be anticipated from the owners' efforts to re-zone, the properties would not be targeted for intervention.[23]

- *Speculation* — There will be cases in which the effort by property owners or the City to re-zone an area or alter permitted densities will result in a degree of property speculation that will push up the prices of nearby properties. The market in these cases may anticipate that the nearby properties will either be re-zoned themselves over time, or will increase in desirability (and

[22] This definition, including the ten percent threshold, was used by the Commission in 2006-07. The size of the threshold will determine how many properties qualify as "hot". Applying a threshold of higher than 10% will reduce the number of hot properties, whereas a threshold of below 10% will produce a higher number of hot spots. The Commission feels that a 10% figure is reasonable.

The definition refers specifically to increases in taxable assessed value before land averaging. Since all properties in the same class are taxed at the same rate, however, the definition applies to increases in taxes paid as well.

[23] Tenants in these cases would be expected to anticipate the changes and take the necessary steps to adjust.

thus value) as a result of their close proximity to the area under re-development. Properties in the area of speculation may become hot.

Property speculation may also occur in anticipation of City-led planning initiatives, such as the creation of a new neighbourhood plan. In a vibrant and growing city, new neighbourhood plans invariably include provisions for increased density and mixed uses. The market understands that changes featured in the plan could result in higher property values. Increased demand for such properties, in advance of the planning initiative beginning, may result.

- *Infrastructure* — Major public investments in new infrastructure and assets — for example, the construction of a new rapid transit line, or the development of certain types of parks — will often put upward pressure on the prices of properties that benefit most from the investment. Where pressure is substantial hot spots may result.

- *Market Trends* — In the evolution of every city different areas will be considered *in vogue* at one time or another. Some areas will remain trendy for an extended period; others will enjoy a heightened status for only a short time. Properties located in the "it" neighbourhoods may experience higher-than-average demand, accompanied by higher-than-average assessment increases for their class. Hot properties may result.

- *Changes Initiated by BC Assessment* — BC Assessment is responsible for assessing the market value of every property in the City. The agency tracks market activity, development levels, changes to City land use policies and a range of other trends that may influence the value of a particular property or set of properties. There will be occasions when BC Assessment uncovers new evidence of market changes — evidence that may not have been available at previous times. In these cases, sudden and significant changes to assessed values may occur, thus rendering certain properties as hot. The challenge BC Assessment faces is to determine when a few new and higher prices reflect an overall trend for a neighbourhood or property type, thus prompting a change in assessed values. In some markets, the number of property transactions may produce ample price information. In other markets, sales occur infrequently and BC Assessment must work with very little new evidence.

Individual properties typically face sharp increases in assessed value as a result of new construction, subdivision or owner-initiated rezoning. The assessment growth in these cases should be reasonably anticipated by the property owner. For the purpose of this *Report*, these properties are not targeted for intervention, even though they may be hot properties.

FINDINGS IN 2006-07

The evidence reviewed by the Commission in its 2006-07 assignment suggested that there was a problem with hot spots in Vancouver at the time, and that the problem was significant in the period from 2001-2007. The evidence indicated, as well, that the hot spots were more prevalent in Class 6 as a percentage of total assessment than in Class 1. Within the commercial sector, properties with re-development potential — that is, those properties that were older, and/or whose assessed value was attributable primarily to the land component — were more likely than others to experience extreme volatility.

The Commission found in 2006-07 that the hot spot issue was more challenging for commercial tenants than it was for owner-operators of commercial properties. Most commercial tenants in Vancouver are responsible, generally through their triple-net leases, for paying the annual property tax in addition to their base rent. Higher tax bills that come from unanticipated surges in assessed values must be borne by the tenants during the period of their leases. Tenants may be able to achieve some relief when their leases are re-negotiated; however, such relief is by no means guaranteed or necessarily quick to materialize. Owner-operators must also pay the increased taxes when their properties become hot. This group may face unanticipated cash flow problems, but ultimately benefits from the increase in the value of the properties.

For several years leading up to the Commission's 2006-07 assignment, the City of Vancouver had been using its assessment averaging authority under the *Vancouver Charter* to mitigate the impacts of sharp increases in land assessments that characterize hot spots.[24] The Commission felt that this method had many advantages, but also some significant weaknesses. The Commission was concerned, in particular, that averaging was not targeted to hot properties specifically, but rather was applied to all residential and commercial properties.[25] The Commission was also concerned that the averaging method did not tailor the level of assistance provided to the scale of the problem. Properties with exceedingly high increases in value were treated in the same way as parcels with only moderate changes.

The Commission recommended in its 2007 report that the City adopt a phase-in mechanism that would retain the desirable features of averaging, but that would also be targeted to hot properties. The phase-in mechanism was designed, as well,

[24] The authority is provided in section 374.4 of the *Charter*, and allows the City to average, over a three year period, the land component of most individual properties in Classes 1, 5 and 6. Local tax rates, including the general municipal rate, are applied to the properties' average values. The City has been using land assessment averaging since 1993.

[25] Averaging applies to Class 5 properties as well. Class 5 properties are not assessed in any detail in the *Report*; however, the Commission's recommendations (presented later) apply to Class 5 properties. Within Classes 1, 5 and 6, certain properties are excluded from averaging, including those that are vacant, those that have been subdivided, and those that have experienced certain changes to their zoning.

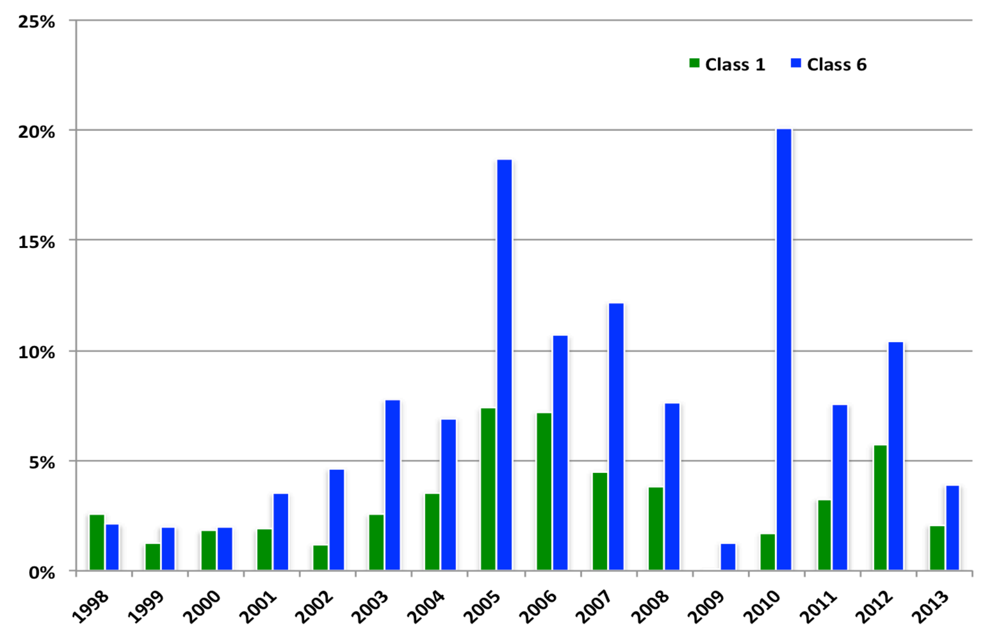
to extend the mitigation period for properties that faced the largest relative increases in land value.

The City chose not to accept the Commission's recommendation of phasing for a variety of reasons, including the concern that the option would be too complicated to implement. The City opted, instead, to seek legislative approval for authority to extend its land-averaging program to five years. Approval was granted for five-year averaging in the Spring of 2013. The City chose to retain the three-year land-averaging program in the meantime.

CHANGES SINCE 2006-07

The evidence reviewed by the Commission in its current assignment indicates that hot spots have been somewhat less prevalent in Vancouver since 2007 than they were in the preceding period. The problem, however, has not disappeared. Indeed, since 2006-07 significant numbers of hot properties have been recorded, particularly in the commercial sector. Figure 3.1 presents the evidence. The figure shows the

Figure 3.1
Hot Properties As Percentage of All Properties in Class



Source: Commission analysis of BC Assessment Data hot properties as a percentage of the total number of properties in each class over an extended time period of 1998-2013.[26]

The Commission is interested not only in the prevalence of hot spots in Vancouver as a whole, but also in the geography of hot properties within the City. Have specific areas been more affected than others? Has volatility emerged in different places in different years, or has it been spatially concentrated in parts of the City?

Figure 3.2 shows the prevalence of Class 1 hot properties from 2010 to 2013 in each of 30 Vancouver neighbourhoods used by BC Assessment.[27] Figure 3.3 shows the same information for Class 6 properties. Both figures identify the five neighbourhoods with the highest percentages of hot spots every year since 2010. In the list of the top five Class 1 neighbourhoods, only Shaughnessy, Oakridge, Cedar Cottage and the West End have been featured more than once in the four-year data set. For Class 6, the neighbourhoods of Mt. Pleasant, Marine Drive, Kitsilano and Dunbar have been represented more than once.

[26] Very few hot properties were recorded in 2009 because of the province-wide assessment freeze imposed by the provincial government in 2008. The high number of commercial hot properties in 2010 is attributable, in part, to the "unfreezing" of assessments in that year.

[27] The Commission used BC Assessment's neighbourhood classifications by year and the City's own 2013 Business Improvement Areas as tools to assess the clustering of hot properties.

Figure 3.2
Class 1 Hot Properties By City Neighbourhood

Neighbourhood	2010	2011	2012	2013
Point Grey	0.8%	3.0%	7.1%	1.2%
Kitsilano	1.3%	0.3%	1.3%	2.4%
Dunbar	0.2%	3.5%	43.0%	0.0%
Arbutus	3.2%	13.5%	39.3%	0.2%
Kerrisdale	1.1%	20.2%	14.7%	1.2%
Southlands	0.7%	20.4%	17.3%	0.4%
Fairview	3.1%	0.4%	0.1%	4.0%
Shaughnessy	8.5%	25.9%	58.5%	0.4%
Cambie	1.3%	4.3%	24.7%	1.3%
South Granville	2.2%	34.5%	17.9%	0.7%
Oakridge	3.3%	29.7%	37.9%	0.5%
Marpole	1.5%	8.5%	4.8%	2.2%
Mt. Pleasant	4.3%	0.5%	0.5%	2.1%
Grandview	2.2%	0.6%	0.3%	7.0%
Cedar Cottage	3.4%	1.1%	2.7%	6.1%
Main/Fraser	1.9%	0.5%	4.0%	1.0%
South Vancouver	0.7%	0.1%	4.2%	0.4%
Marine Drive	4.6%	0.8%	1.6%	0.4%
Knight	0.1%	0.1%	1.1%	0.2%
Hastings East	0.3%	0.4%	0.0%	0.2%
Renfrew	0.1%	0.7%	0.0%	0.1%
Renfrew Heights	0.4%	0.6%	0.1%	0.1%
Collingwood	0.8%	0.2%	0.1%	1.1%
Killarney	0.3%	2.7%	1.2%	0.1%
Fraserview	1.0%	0.6%	2.9%	2.8%
Downtown	0.2%	1.5%	0.1%	2.0%
West End	4.1%	0.6%	0.6%	5.5%
Harbour	0.3%	0.1%	0.1%	1.8%
Downtown South	1.3%	0.4%	0.3%	0.8%
False Creek North	1.2%	0.4%	0.1%	3.5%
Percentage of All Class 1	1.7%	3.3%	5.7%	2.1%

Highest % Hot Properties in Given Year

Figure 3.4 shows Class 6 hot spots for the same years in the City's 22 Business Improvement Areas. These data were examined in response to the concerns expressed by BIA members and BIA Executive Directors. The data show that the area covered by the Chinatown BIA — an area that falls partly within BC Assessment's Downtown neighbourhood — experienced a serious volatility problem

Figure 3.3
Class 6 Hot Properties By City Neighbourhood

Neighbourhood	2010	2011	2012	2013
Point Grey	39.1%	0.6%	16.6%	0.0%
Kitsilano	34.5%	1.6%	14.9%	0.6%
Dunbar	33.6%	1.4%	26.1%	2.1%
Arbutus	38.1%	0.0%	4.8%	0.0%
Kerrisdale	31.2%	1.0%	2.5%	0.5%
Southlands	54.4%	3.5%	5.5%	0.0%
Fairview	25.9%	6.7%	13.6%	4.4%
Shaughnessy	25.0%	0.0%	4.8%	0.0%
Cambie	24.5%	2.0%	29.3%	0.0%
South Granville	0.0%	7.7%	0.0%	0.0%
Oakridge	4.0%	0.0%	4.0%	0.0%
Marpole	23.7%	19.9%	14.9%	1.3%
Mt. Pleasant	10.2%	11.0%	16.3%	5.7%
Grandview	8.9%	7.0%	1.7%	9.1%
Cedar Cottage	6.8%	25.2%	7.0%	0.2%
Main/Fraser	7.7%	24.0%	2.4%	0.3%
South Vancouver	19.7%	11.8%	3.3%	3.3%
Marine Drive	43.9%	4.5%	0.3%	8.1%
Knight	14.1%	26.5%	1.4%	1.4%
Hastings East	5.0%	6.8%	3.6%	10.6%
Renfrew	16.7%	11.9%	0.5%	6.0%
Renfrew Heights	0.0%	38.7%	0.0%	0.0%
Collingwood	6.0%	21.5%	3.3%	0.3%
Killarney	26.3%	9.8%	3.0%	0.0%
Fraserview	0.0%	19.0%	0.0%	0.0%
Downtown	18.5%	2.9%	12.9%	5.2%
West End	21.6%	1.2%	9.9%	3.9%
Harbour	1.1%	0.0%	0.5%	2.2%
Downtown South	26.2%	8.8%	14.3%	0.4%
False Creek North	31.6%	2.2%	2.0%	0.4%
Percentage of All Class 6	20.1%	7.5%	10.4%	3.9%

Highest % Hot Properties in Given Year

Source: Commission analysis of BC Assessment Data

in 2013 relative to other BIAs in the City. Chinatown also ranked in the top five BIAs for hot spot prevalence for three consecutive years, beginning 2011. Hastings Crossing BIA, also in the Downtown neighbourhood, ranked in the top five BIAs for three of the past four years as well. In general, however, the hot spot issue appears to have moved around the city from year to year.

Figure 3.4
Class 6 Hot Properties By City BIA

Business Improvement Area	2010	2011	2012	2013
Cambie Village	30.5%	7.3%	19.5%	0.0%
Chinatown	14.4%	13.6%	14.6%	42.9%
Collingwood	24.0%	4.5%	8.3%	0.0%
Commercial Drive	18.4%	1.2%	3.1%	0.4%
Downtown	20.7%	1.7%	16.4%	0.6%
Dunbar Village	38.5%	0.0%	7.4%	1.7%
Fraser Street	6.9%	0.0%	1.1%	0.0%
Gastown	30.6%	6.3%	1.7%	1.0%
Hastings Crossing	15.3%	15.8%	19.7%	7.6%
Hastings North	8.0%	10.3%	0.0%	5.1%
Kerrisdale	22.8%	0.7%	3.4%	0.0%
Marpole	22.4%	0.0%	0.0%	0.0%
Mount Pleasant	25.7%	32.0%	6.6%	0.0%
Point Grey Village	32.4%	0.0%	7.7%	0.0%
Robson Street	5.5%	0.0%	0.0%	0.0%
South Granville	38.1%	5.3%	0.0%	0.0%
Strathcona	0.5%	4.0%	5.5%	4.0%
Victoria Drive	18.6%	14.7%	0.0%	0.6%
West 4th	13.8%	0.0%	6.6%	0.0%
West Broadway	37.4%	13.3%	6.7%	0.7%
West End	5.2%	0.5%	0.5%	1.1%
Yaletown	46.5%	2.1%	2.1%	0.4%
Percentage of All BIAs	21.3%	4.6%	10.1%	2.4%
Percentage of All Class 6	19.1%	5.8%	8.0%	2.4%

Highest % Hot Properties in Given Year

Source: Commission analysis of BC Assessment Data

The review of the spatial data on hot properties shows that the location of hot spot clusters varies somewhat from year to year, the experiences in Chinatown and Hastings Crossings BIAs notwithstanding. In order to be effective, any efforts taken by Vancouver to address volatility need to apply throughout the entire city and cannot be targeted geographically on a particular neighbourhood or set of neighbourhoods.

STAKEHOLDER INPUT

Several comments were made to the Commission on the topic of tax volatility at the September public hearing, and in the various meetings held by the Commission with BIA representatives and others. Written input was also provided to the Commission in key submissions, including a study commissioned by the Vancouver Fair Tax Coalition,[28] and a letter from the Vancouver Board of Trade. In its submission, the Board noted that the issue of hot spots demands "urgent attention", and that the hot spot issue "has significant economic consequences and harms our city's tax competitiveness".

The key comments and perspectives are summarized in the following points:

- *Commercial Tenants Impacted* — The Commission heard from a number of sources that it is commercial tenants, as opposed to commercial property owners and owner-operators, that are most seriously impacted by upward spikes in property assessment and taxes. This point, as noted earlier, was identified by the Commission in its first assignment, and is linked primarily to triple-net leases that effectively transfer all volatility-related risk to lessees during the terms of their leases.[29] Policies developed to address volatility, it is suggested, should focus on tenants.

- *Character of Business Community* — The Commission heard from several stakeholders that tax volatility issues could threaten the viability of small, independent businesses in Vancouver. The profit margins of many such enterprises are simply too small to absorb significant, unanticipated increases in property tax bills. The unpredictability in the system results, ultimately, in a loss of the small independent businesses and a change in the character of the commercial sector and the neighbourhoods they help to define. This change in character is lamented by many stakeholders.

  Anecdotal evidence was presented to the Commission to support assertions that small, independent businesses are, indeed, exiting neighbourhoods. Hard data on business movements, however, were limited (and, indeed, are difficult to obtain).

- *Interim Period* — The previous point notwithstanding, several stakeholders acknowledged that property values and rents will change in a high-demand city, and that in response to this change neighbourhoods will evolve to

[28] *Strengthening Vancouver's Commercial Property Tax Framework: Options to Enhance Property Tax Stability and Predictability and Minimize Hot Spots*, prepared by Ben Brunnen, Policy Economic and Advocacy Consultant

[29] The Commission was told that triple-net leases are the predominant form of contract in high-demand markets such as Vancouver. Large anchor tenants (e.g., department stores) and others with significant market power may be able to protect themselves from tax volatility. Smaller local tenants do not have the same degree of market power and are more likely to be "price takers".

feature new types of businesses. Stakeholders recognize, as well, that individual businesses that are unable to pay increased taxes associated with a higher-value neighbourhood will ultimately need to seek out new locations. Stakeholders note, however, that affected commercial tenants may be unable to re-locate to more affordable neighbourhoods before the end of their leases — leases which are typically five or more years in duration. It is during the interim period between the unanticipated tax increases and the end of the leases that commercial tenants need some measure of tax relief. Policies to address volatility, therefore, should focus on providing temporary relief.

- *Advance Notice* — Some stakeholders referenced the difficulties experienced by commercial tenants are made worse by the absence of any advance notice or warning system of sharp increases in property assessments and accompanying taxes owing. Assessment notices are provided to property owners in January of each year, several months before tax notices are sent by the City. The assessment notices do not indicate, however, the degree to which the percentage change in a property's assessed value exceeds, if at all, the average change for the class. Some notification on the assessment notice would be considered helpful.[30]

- *Planning Policy* — The City's neighbourhood planning efforts were identified as a major cause of hot spots by several stakeholders who spoke with the Commission. These efforts often call for the introduction of mixed-use developments and increased densities — both of which tend to result in higher property assessments and taxation. It was suggested that the initiation of a planning process, through the release by the City of terms of reference, drives speculation that ultimately results in higher values.

- *Highest-and-Best-Use* — Zoning changes initiated by the City (often to implement a new neighbourhood plan) are considered by stakeholders to be a significant — and in the case of the Board of Trade, the most significant — contributor to the hot spot problem. The specific problem identified by stakeholders relates to the market assessment and taxation system in place in BC, under which BC Assessment assesses properties based on their highest-and-best-use. When zoning regulations change, for example, to allow for the addition of new residential space above an existing business, the property is deemed to have a new highest-and-best-use. BC Assessment assigns a new value to the property based on this highest-and-best-use. In cases where the property is not re-developed, or not re-developed immediately, a portion of the new assessed value is assigned in effect to "air

[30] Assessment notices may not always be immediately shared with commercial tenants (although responsible landlords would be expected to do so). Property owners should be required to share the information with their tenants, or explain to tenants how they can access the information themselves.

space". The business that receives the assessment pays property tax on the entire site, including the "air space".

Stakeholders stated that the problem for the business is made worse by the way in which the new, highest-and-best-use value translates into actual property taxes. Until an affected property is re-developed to include residential improvements, the entire assessed value is identified by BC Assessment as Class 6, and is taxed by the City and all other property tax authorities at the Class 6 business rates. Once residential units are in place the tax situation changes. Post-development, BC Assessment separates the Class 1 portion of the total site assessment from the Class 6 portion and provides new assessment data to the City. The Class 1 portion is then taxed at the Class 1 rate. Stakeholders did not appear to share the same concern for a Class 1 property that is facing a potential redevelopment to Class 6.

The focus on highest-and-best-use, and the taxation of mixed-use development potential at the Class 6 rate, are acknowledged by stakeholders as features of BC's market-based property assessment and taxation system. They are not unique to the City of Vancouver, but rather extend throughout the entire province. The features may contribute to the hot spot issue and be most problematic, however, in high-demand cities such as Vancouver where zoning changes to encourage mixed-use development and flexible density requirements tend to be most prevalent.

- *Tax Incentives* — Some stakeholders suggested that businesses are leaving Vancouver for neighbouring municipalities that use revitalization tax exemptions to attract commercial investment. It was suggested by some that Vancouver should use its broad revitalization tax exemption authority to provide incentives to retain and attract all or certain types of businesses. In the work commissioned by the Fair Tax Coalition, exemptions were identified as a preferred tool for dealing with hot spots that arise as a result of City planning efforts (the Fair Tax Coalition has not endorsed this conclusion). These exemptions, it was suggested, would provide temporary relief to properties most in need of such relief, without distorting the underlying market based system of property valuation.

- *Averaging* — Little if any support was expressed to the Commission for the City's current three-year averaging approach to dealing with volatility. Averaging is considered by stakeholders to benefit many properties that do not require relief, and to provide insufficient assistance to properties that are seriously impacted by unanticipated increases. Averaging is also perceived to create winners and losers in that:

  - businesses in some areas of the City pay more to mitigate the impacts on businesses in other areas

- properties with the same current market assessment can end up paying different levels of tax once assessments have been averaged

· *Hot Spot Threshold* — The Commission considers a property to be a hot spot when the increase in the property's total net assessed value exceeds the average increase for the property class as a whole by more than 10%. Different stakeholders put forward measures other than the 10% threshold. One stakeholder called for a threshold of 5% (which would increase the number of hot properties); another suggested that the threshold be two times the average increase (a measure which could result in a lower or higher threshold than the Commission's 10%, depending on the property in question). A third stakeholder suggested using the standard deviation to determine the threshold.

FURTHER ACTION REQUIRED

Based on its review of the data, and based on its consultations with business stakeholder groups, the Commission remains concerned about tax volatility and hot spots in Vancouver. Significant, unanticipated increases in assessed value — and in the tax levies that accompany such increases — undermine confidence in the property assessment and taxation systems. These increases can have a significant impact on the bottom line of local businesses, and in some cases may endanger their viability. Businesses that rent their space under standard, triple-net leases may be particularly hard hit by assessment spikes that provide no short- or long-term return to the tenant. Even owner-operators located in hot spots must pay higher property taxes out of current funds before any future capital gains can be realized.

When it first examined the volatility issue in 2006-07, the Commission determined that the problem was more pronounced for commercial properties than for residential parcels. The Commission's view in this regard has not changed. To be sure, hot spots do exist in the residential sector, and where they arise they can impact property owners negatively. The Commission notes, however, that provincial government programs are in place to mitigate some of the impacts on homeowners. Two programs are particularly important:

· *Property Tax Deferment Program* — Eligible homeowners can receive low interest loans from the Province to pay their property taxes on their principal residences.[31] Loans are repaid at the time of sale, transfer, subdivision or refinancing. The program enables property owners, in effect, to pay their current taxes using their accumulated home equity.

[31] Eligible homeowners include persons who are 55 years or older, surviving spouses of any age, persons with disabilities and families with dependent children.

- *Section 19(8) of Assessment Act* — Homeowners who have owned and lived in their principal residences for at least ten consecutive years may have their properties assessed on actual current use rather than any potential use. This program serves to protect some homeowners from volatility caused by rezoning, market trends and speculation.

Persons who rent rather than own residential properties are not eligible for these programs. Unlike commercial tenants, however, residential tenants are not typically required to assume responsibility for paying property taxes separate from their gross monthly rents. Rents may be adjusted upwards when leases are renewed annually; however, rent increases imposed on existing tenants are constrained under the provincial *Residential Tenancy Act*.[32]

➤ Policy Criteria

The Commission believes that the City needs to continue to take measures to mitigate the impacts of upward tax volatility, particularly the impacts on commercial tenants. The Commission supports measures that meet the following key criteria:

- *Time-Limited* — The Commission supports measures that provide relief to affected properties only when such relief is required — that is, when the properties are hot. Once a property is no longer considered hot mitigation should cease.

- *Targeted* — Measures that target the specific properties in need of attention are preferred over measures that apply broadly to all properties in a given class.

- *Tailored* — There are different degrees of "hot" in any given year. The Commission favours measures that match the level of assistance to the size of the problem. Hot properties that experience extreme sudden increases should receive the most assistance; those that face more moderate increases should receive less assistance.

- *Easy to Understand* — Any measure chosen by the City needs to be understood by policy-makers, City staff, stakeholder groups and taxpayers.

- *Straightforward to Administer* — Measures must be relatively straightforward for City staff to administer. The Commission's recommended phase-in option in 2007 was rejected in part because of its perceived administrative complexity.

[32] As per s.22 of the *Residential Tenancy Regulation*, a landlord may impose an annual rent increase equal to inflation (BC CPI) plus 2%. Under specific circumstances listed in section 23 of the *Regulation* a landlord may apply to the province for permission to impose a higher rent increase.

- *Unintended Consequences* — In their attempts to mitigate the impacts of assessment spikes, the measures taken should not unnecessarily create new problems for the City or taxpayers.

POLICY OPTIONS

Through its research and consultation, the Commission identified and assessed eight different policy options, including the *status quo*. These options are listed in Figure 3.5 and are reviewed in this section of the *Report*. Each option is considered separately along with its perceived strengths and weaknesses.

Figure 3.5
Policy Options Considered

The Commission identified and assessed the following eight options:

- Three-Year Land Assessment Averaging (*status quo*)
- Five-Year Land Assessment Averaging
- Targeted Five-Year Land Averaging
- Capping
- Phase-In
- Tax Deferral
- Rebate Program for Tenants
- Split Assessment Class

The Commission also examined the revitalization tax exemption authority that is available to all municipalities throughout British Columbia. RTEs may be used as delivery mechanisms to implement the various tax mitigation options. They are explained at the end of the section after the review of options.

It should be noted that under all of the policy options there may be a small number of cases at the threshold margin in which taxes owing on a property increase, even though the property's total assessed value decreases as a result of intervention by the City. In these cases the tax rate increase, imposed by the City to fund the cost of intervention, would exceed the decrease in assessed value provided through the intervention.

➤ Three-Year Land Assessment Averaging (*Status Quo*)

The City's existing land assessment averaging mechanism applies to most residential (Class 1), business (Class 6) and light industrial (Class 5) properties. Annually under the program the City calculates the three-year average value for the land component of each property's total assessed value. The three-year period includes the current assessment year and previous two years. Only the land value is averaged under the program; improvement values are left untouched. The averaged land value is combined with the unaveraged improvement value to determine the total adjusted value for the property. The City's applies its tax rate to the total adjusted value.

In the Commission's view the three-year land averaging mechanism has a number of strengths. For example:

- Averaging serves to "smooth out" sharp changes in market values that may occur in any particular year, but also tracks underlying changes in market values over time.

- The approach is well known to, and well understood by, the City and property tax stakeholders. Vancouver has applied three-year averaging since 1993.

- Averaging is permitted under existing legislation — specifically, under section 374.4 of the *Vancouver Charter*. There is no need to seek new authority from the Province.

- The mechanism is revenue neutral for the City. Tax reductions given to taxpayers with high land assessments are offset by a combination of an increase to the tax rates for the affected classes, and by an increase in the assessment (and thus tax payment) for taxpayers with below average assessments.

- Averaging serves to change a property's land (and thus total) assessed value. The changed assessment is used as the basis for determining all local property tax payments. Taxpayers in hot spots, therefore, benefit from a reduction in all property taxes, not only those levied by the City.

The Commission also feels that the City's current approach has some significant weaknesses, and that these weaknesses, taken together, make three-year averaging a less-than-ideal solution to the hot spot problem. Key weaknesses are as follows:

- Averaging is not applied in a targeted way, but rather is applied to all properties (with few exceptions) irrespective of the degree of change they experience in their land assessments. This blanket application adds an unnecessary level of complexity to the assessment system, and provides little value to the majority of taxpayers.[33]

- Related to the previous point is the concern that averaging does not "turn off", or end, when a property is no longer experiencing volatility.

[33] It should be noted that some properties that receive large increases in land value may not experience large increases in total assessed value if improvements constitute a significant proportion of their overall assessments. Properties that experience increases in total taxable assessed value, but that fall below the 10% above-average threshold, would not be targeted for mitigation. The 10% threshold used by the Commission applies to the total assessed value, not only the land component.

- The length of assistance provided through the City's averaging does not vary depending on the degree of the problem. A property with an excessively high spike in land value is treated in the same way as properties with more moderate changes. The three-year term may not be adequate for all properties.

- The need to address those situations in which BC Assessment adjusts the costing of the improvements that, in turn, alters the allocation between land and improvements, hence altering the impact of land averaging.

- Taxpayers in general are receptive to the importance of moderating sharp increases in assessed value. Taxpayers are less accepting, however, of the need to moderate assessment declines. The averaging method does both.

- Averaging raises some equity concerns for taxpayers. There is a perception that the program creates winners — i.e., those taxpayers whose market assessments are reduced — and losers — i.e., those whose assessments are increased. It is also the case under averaging that properties in the same class with the same pre-averaged market assessment do not pay the same amount of tax.

➤ Five-Year Land Assessment Averaging

The five-year assessment averaging option is identical to the *status quo* model apart from the longer period of time — i.e., five years — over which the land values would be averaged. The use of this extended period is the chief advantage of this option over the current approach. Properties that are experiencing significant increases in land value would benefit from a longer period of adjustment.

The five-year option presents the same disadvantages as the three-year model.

➤ Targeted Five-Year Land Assessment Averaging

As its name suggests, the targeted land averaging option would apply averaging only to a select group of properties — specifically, to properties that qualify as hot properties in the current year or at some point in the previous four years. Unlike the City's current land averaging approach, and unlike the conventional five-year land averaging option, the targeted land averaging approach would not apply to all properties.

Properties that receive the benefit of assessment averaging under this option would receive it only for the period of time during which it is actually needed (the period would be determined on a pre-defined formula). Properties that experience the most significant increases would receive the longest period of assistance, up to a maximum of five years. Properties that experience only modest difficulties would receive shorter periods of relief. Properties could be averaged for more than five years if they become hot again during the period of averaging — that is, if they experience another sharp increase in their market value. In all cases averaging would end when the property is no longer deemed to be hot.[34]

Hot properties would be defined under the option in accordance with the Commission's earlier definition — that is, as properties for which the rate of increase in the total assessed value is more than 10% above the class' average change. The cost of the program would be recovered through a higher tax rate on all properties in the affected tax classes.

The targeted five-year land averaging option would build on the City's existing land averaging tool, which is well understood by the City and stakeholders. This familiarity with the concept is considered a strength of the option. In addition, targeted land averaging has a number of advantages over the current approach and the non-targeted five-year method. For example:

- The targeted approach would be focused on hot properties. In any given year most properties in the affected classes would not be averaged. Indeed, most properties would never be averaged because they would never qualify as hot spots.

- The option would provide a longer period of adjustment, compared to the *status quo*, for properties that have large increases in land value. Importantly, however, the benefits would stop once properties are no longer hot.

- The total cost to taxpayers in each of the affected classes for the option would be transparent and more easily understood than at present.

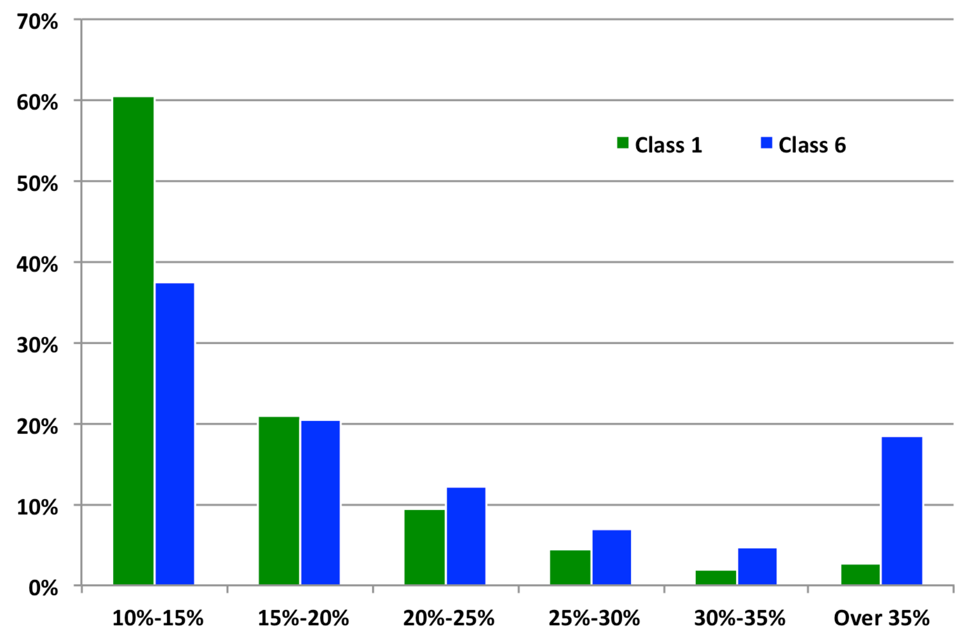
- The length of time over which properties are averaged would be directly related to the severity of the problem. Large increases in market value would be averaged over a five-year period. Smaller increases would be averaged over two-to-four years, depending on the magnitude of the increase.

- As with averaging in general, there would be a need to address situations in which BC Assessment adjusts the costing of the improvements, which, in turn, alters the allocation of value between land and improvements, and alters the impact of land averaging.

[34] Targeted five-year land averaging would be designed in a way to avoid situations in which averaging were continued on properties that no longer qualify as hot. Put differently, the option would be designed to "turn off" when no longer required. The mechanics of the calculation are explained in *Appendix IV*.

The option's ability to tailor assistance to the magnitude of increase is perhaps the strongest argument in favour of targeted five-year land averaging. Figure 3.6 shows the distribution of all hot properties in Vancouver, by level of change, from 1998-2013. Most Class 1 hot properties over the period experienced increases of between 10% and 15% above the average for the class. Very few hot properties experienced increases in excess of 25%. In Class 6, however, the situation was quite different. Over 40% of all Class 6 properties in the time period experienced increases in excess of 20%; 18.4% of Class 6 hot properties faced increases of more than 35% above the class average. Under five-year targeted averaging, the period of assistance would vary to provide greater assistance to those properties that experience greater increases. Shorter periods of assistance would be provided to properties with more modest relative increases.

Figure 3.6
Hot Properties by Level of Percentage Change Above Class Average
Classes 1 and 6, All Years Combined 1998-2013



Source: Commission analysis of BC Assessment Data

The key challenge with the targeted five-year land averaging approach is that it may or may not be permitted under the existing averaging provision of the *Vancouver Charter*. The City will need to get confirmation on the matter.

➤ Capping

The City could use tax capping to limit the annual rate of increase in taxes paid, either directly by capping changes in taxes, or indirectly by capping changes in total assessed value. The option would be designed to focus only on properties that experience an increase in total assessed value of more than 10% above the increase for the class as a whole — in other words, to match the Commission's threshold for hot spots. The cost of a capping program, measured in terms of in foregone tax revenues, would be recovered using a tax increase for the class as a whole.

There are a number of advantages associated with the capping option. Unlike the City's existing land averaging approach, capping would target only hot properties and place a clear limit on the rate of tax increase. In this sense, capping would provide greater certainty and predictability. Capping would also be designed to mitigate the most extreme tax increases. Finally, capping is well-understood as a form of tax mitigation. It is used for multi-family and non-residential properties in Ontario, and was used in Vancouver in the early 1990s to address tax concerns that resulted from rapid increases in assessment.

There are some important disadvantages to capping, the most significant of which is the time it could take for land values of capped properties to reach their full assessed values. Under both averaging and targeted land averaging, affected benefiting properties also take time to reach their full assessed values on their land components. Under these options, however, the amount of time required once markets have stabilized is known and limited. Under capping, it is less clear how many years are required for capped land values to reach their full assessed values once markets have stabilized.

The Commission analyzed capping in detail in its 2006-07 report. The option was ultimately dismissed because of the high amount of time required, relative to other options, to eliminate the mitigation on properties no longer deemed hot. The Commission's modelling showed that some properties would continue to be assessed below full value for many years.

- **Phase-In**

The phase-in option would be designed to spread over time, or phase in, the spike in assessed value on a hot property. The phase-in approach would work in a very similar way to the targeted five-year averaging option. In both options, hot properties would be targeted and given a measure of temporary assessment relief. The major difference is the formula that would be used to calculate the relief.

The phase-in option has the same strengths as the targeted averaging option. In addition, however, the phase-in approach would feature a period of assistance that could exceed, for particularly hot properties, the five-year maximum under targeted averaging.

The weaknesses of the phase-in option are also the same as the targeted averaging approach. A phase-in formula is contemplated in the *Vancouver Charter*; however, as with targeted averaging the authority to target hot spots through phase-in is not entirely clear.

- **Tax Deferral Program**

Under a tax deferral program the City would allow an owner of a Class 6 hot property to defer a portion of taxes owed for a specified period of time. This period of time could be a fixed number of years, could elapse when the property changes hands, or could elapse when a development application is made. Upon sale, development application or at the end of an otherwise specified period, the taxes owing on the property would be paid to the City. Interest would be charged on deferred taxes over the term of the deferral, and the debt would be a charge on the property.

The option could apply to City taxes only, or to all property taxes if the province so elected. Only properties that qualify as hot spots would be eligible for the program. The deferral would be offered to owner-occupiers and to property owners who lease-out their sites. The program would target Class 6 properties only — residential parcels would not qualify for assistance. The program would mirror, in key respects, the provincial tax deferral program offered to qualifying Class 1 owners, except that only taxes in excess of the threshold would qualify for deferment.

The program's strengths are that it would offer short-term cash flow relief to property owners. It would not offer any direct relief to tenants, however, since under a trip-net lease the taxes would still be levied, just not paid. The landlord would collect the full taxes from the tenant, but would only pay a portion of the taxes to the City. If the City were to attempt to require the landlord to pass on some of the deferred tax benefit to the tenant, the landlord would be left with the final responsibility to pay the deferred taxes plus interest, and would have limited recourse to the tenant. Indeed, the original tenant may be gone before the landlord is required to repay the City.

It would be the property owners that would choose whether or not to pursue the benefits offered through the program. There is no compelling reason why a landlord would pass a portion of the benefits on to the tenant, other than as a means of keeping a desirable tenant in place. Quite the contrary, most owners would be expected to continue to require their tenants to pay the taxes, as per the terms of their tenants' triple-net leases. To act otherwise would result in the transfer of the tax liability from the tenants to the owners — a prospect that would likely cause many owners to reject the program.

The lack of authority under existing legislation for a Class 6 tax deferral program is an additional weakness, as is the need for staff to develop a new administrative process. Also, the City would have to establish a financing mechanism

➤ Rebate Program for Tenants

The key feature of the tenant rebate program option is that it would target commercial tenants of hot properties — the business owners, that is, that are required under the terms of their triple-net leases to pay the Class 6 property taxes. Tenants would apply to the City each year for a rebate that would be similar to the scale of benefit provided through the phase-in option identified earlier. The rebate would be time-limited.

The narrow focus on tenants with triple-net leases is the option's principal strength. It may also be viewed, however, as one of its weaknesses since it would serve to exclude owner-occupiers of hot properties. An additional weakness would be the option's impact on the City staff that would need to develop a new administrative process. Finally, authority for the option does not appear to exist under current legislation.

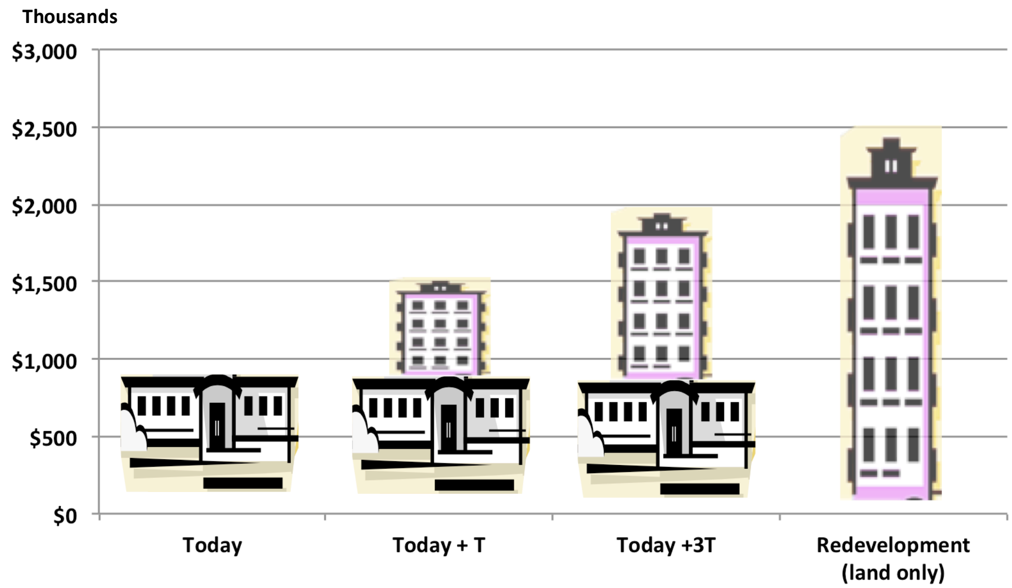
➤ Split Assessment Class Before Development

This option is considerably different from the options described previously in that it would reduce the taxes paid on hot properties by modifying the way in which the properties are classified for tax purposes by BC Assessment. This change, in turn, would require a modification to the manner in which such properties are assessed (i.e., separate assessments for current use and for development potential, but with the total assessed value remaining the same).

It is helpful to more clearly set out the issues behind this split class proposal. First and foremost this split class model is advocated for properties that face the prospect of redevelopment. This situation refers to that time period between when the highest and best use is the current use and when the market expects there is a higher and better use. It is during this period that the market begins to pay a premium over and above that value that is justified by the current use alone. It is a period of uncertainty as bidders for the property build expectations on what the higher and better use will actually be (type of use and density) and when redevelopment is likely to occur. Over time changes in the surrounding areas (market forces) and greater clarity on future uses and density will tend to stabilize price movements.

Figure 3.7 illustrates this pattern. At the start the highest and best use is an older one-storey building with a market value of $1 million (and for simplicity the assessed value is assumed to reflect market value.) For purposes of illustration this building is assumed to be a Class 6 property that is taxed at $12.00 per $1,000. As time passes, the market starts to believe this property has a higher and better use. At the first stage the market may still be quite uncertain as to the specific future use and timing, but prepared to pay a premium over the price that the actual current use would justify. BC Assessment would in turn reflect these higher market prices in the

Figure 3.7
Split Class Assessment Option



assessed value. The property is still classified as Class 6 (the actual use).

Over time the market begins to get a clearer picture of both the future use (zoning and density) and time of redevelopment. Figure 3.7 assumes the news is such that the market bids up the price, all well above that price that the current use would justify. Finally a redevelopment application is made and the future use and density is confirmed. The example is assumed to be a residential condominium for purposes of illustration with a tax of $3.00 per $1,000 in taxable assessed value. One should note that occasionally the market forms overly optimistic expectations and pays more for the site that the future use warrants.

It is important to note that this split class model would not be an issue if all classes had the same tax rate. In the absence of a class change, both the owner and any potential tenants would simply be dealing with a property that increases in value awaiting redevelopment to a higher density. But this is not the case: the tax rate varies by class. Second it should be noted that the split class model would not be an issue if the classification of the property in its current use remains the same as the expected classification once redeveloped. Hence simple changes in permitted density unaccompanied by a change in class would not justify adopting this model.

The split class model only has significance when the classification of the current use differs from the expected classification of the future use. The concern that the Commission has heard is that as a property advances towards redevelopment, a larger portion of the market value is due to the redevelopment, which in turn reflects the expected new use. So, for example, in Figure 3.7 when the property value reaches $1.5 million (based on expectations of a redevelopment to residential) the taxes would be $18,000 and one-third of the value is predicated on an expected redevelopment to Class 1 residential. Once developed, the entire land value would be residential and taxed at the residential rate.

The advocates of the split class assessment suggest the premium over the current use market value (assumed to be at all times $1 million in Figure 3.7) should be taxed at the rate applicable to the most likely class following redevelopment (residential rate in this case). Hence once the market value reached $1.5 million in Figure 3.7, the advocates would recommend the taxes should be the Class 6 rate on $1.0 million (Market value of current use without redevelopment potential) plus the residential rate on the $500,000 premium being paid in the market, for a total of $13,500 rather than $18,000 (hence the notion of a split class assessment).

Five points need further attention relating to the split class assessment:

- First, every example provided to the Commission used examples of a Class 5 or Class 6 property (higher tax class) facing redevelopment to residential use (lower tax class). No examples were presented showing a residential class property facing redevelopment to Class 5 or Class 6 and it would be instructive to determine if in such circumstances the split assessment model would be embraced with the same enthusiasm.

- Second, in the absence of more complete analysis, it is not clear what additional valuation problems would be involved and to what extent the market would provide good information for BC Assessment to use.

- Third, it must be noted that between the time when the current use represents the highest and best use and the point of actual redevelopment, the market value is based on expectations- expectations about future use, density and timing. At what point is it reasonable to consider applying the split class assessment: simply when prices move above that justified by the current use, upon rezoning or when the premium becomes "too large" relative to current use value?

- Fourth, to what extent might the split class assessment delay redevelopment to the use the City encourages?

- Finally, adoption of the model would almost certainly increase the number of assessment appeals as owners would be able to appeal both the total value and the split in value between classes (and in the City the split between land and improvement) and it is necessary to weight the gain and the administrative costs of more appeals.

Addressing these issues is beyond the terms of reference provided to the Commission. However the Commission, while not endorsing the model, does believe the proposal merits investigation.

The option would address some of the concerns raised to the Commission by representatives of key BIAs in parts of Vancouver that have been the subject of recent neighbourhood planning initiatives. These initiatives typically result in rezoning to allow for development to a high density, and often to a different actual use, including mixed-use buildings that feature several stories of residential space above commercial units. The act of rezoning to a higher and better use — indeed, the prospect of rezoning — tends to cause the market prices of a commercial properties in these areas to increase, often significantly, even before any actual re-development of the property occurs.[35]

This option, unlike the others considered by the Commission, could not be developed by the City as a made-in-Vancouver solution. The Province would need to endorse the direction and implement it through amendments to the provincial *Assessment Act*. The legislative amendments would affect every local taxing jurisdiction in BC — a feature that would make it important for the City to seek and obtain the support of other municipalities in the province.

It is worth noting that even if changes were made to make the option possible, individual properties may still experience significant tax increases. The City may need, therefore, to introduce one of the other options in addition to the split-class assessment to mitigate the hot problem issue.

➤ Revitalization Tax Exemption

The City may use the revitalization tax exemption provision in section 396E of the *Vancouver Charter* to deliver to hot properties the tax relief designed under one of the mitigation options outlined earlier. Under the terms of the legislation, the City must establish a revitalization tax exemption program by bylaw. The bylaw must set out the:

- reasons for and objectives of the program
- types of properties (e.g., Class 1, Class 5, Class 6) that may qualify for assistance
- area over which assistance may be provided (the entire City may be designated as the benefitting area)
- conditions under which an exemption may be provided
- extent of exemptions possible, as well as the formula used to calculate exemptions
- maximum term of exemption (which may not exceed ten years)

[35] It is the expected redevelopment potential that helps determine market prices and, hence, assessed values.

A property owner must apply to the City for relief under the tax exemption program. The owner must also enter into an exemption agreement, and must receive an exemption certificate. The cost of the program is recovered against all properties in the affected tax class(es).

One strength of the revitalization tax exemption mechanism is that the program is allowed under current legislation. The legislation did not envision that the tool would be used to combat hot spots; however, the provisions in the *Charter* do not preclude this use. A second strength is that there are few restrictions on the eligibility criteria that the City may choose to apply the exemption. The City, put differently, may design the tool to target the exemptions to the most serious situations.

One weakness is that exemptions delivered through an exemption program only apply to the City of Vancouver portion of the property tax bill. Exemptions do not cover regional district service taxes, Translink taxes, school taxes and other local property taxes. Perhaps the most significant weakness, however, concerns the administrative burden that the option would impose on the City. Implementation of the measure would require the City to develop a new and onerous set of processes and procedures.

It is worth noting that the revitalization tax exemption mechanism is similar in some respects to the unique exemption measure developed by the City of Richmond. Both measures, for example, are time limited and focused on hot properties, and both must be implemented by bylaw. The differences between Richmond's program and the tool for Vancouver, however, are significant. For starters, Richmond's program applies to school taxes in addition to the City's general municipal levy.[36] Richmond's program is also focused on one geographic area only — namely, the City Centre area that experienced rapid changes in property values thanks in part to the construction of the Canada Line. Finally, eligible properties in Richmond are those that experienced more than a 100% increase in land value from 2005-2011. Vancouver's mechanism would target hot properties that emerged as a result of a significant increase in assessment in any year.

CONCLUSION ON TAX VOLATILITY

The Commission believes that the targeted five-year land assessment averaging option best meets the criteria that guided the Commission's work. In the Commission's view, the option would be:

- *time-limited*, designed to provide relief to affected properties only when

[36] Richmond's program is authorized through special provincial legislation (*Municipalities Enabling and Validating Act, No. 4*). The RTE authority under the *Community Charter* does not allow municipalities to exempt properties from non-municipal local taxes.

such relief is required

- *targeted* to properties in need of attention, not to all properties in a given class
- *tailored* to match the level of assistance to the size of the problem
- *easy to understand*, in part because it would build on the City's current land assessment averaging program
- *straightforward to administer*
- minimize *unintended consequences*

The cost of a targeted program would be recovered through a higher tax rate on all properties in the affected tax classes, and as such would be both transparent and more easily understood than the current three year land averaging program.

RECOMMENDATIONS

The Commission's recommendations on the matter of tax volatility are as follows:

- THAT Council endorse the Targeted Five-Year Land Assessment Averaging method in place of the existing Three-Year Land Assessment Averaging program for Classes 1, 5 and 6.

- THAT Council invite neighbouring neighbouring municipalities and the Union of British Columbia Municipalities to join the City in submitting a request to BC Assessment to prepare and distribute a report on the advantages and disadvantages of the Split Class Assessment option.

- THAT Council ask BC Assessment to indicate in every assessment notice the degree to which the percentage change in a property's assessed value exceeds, if at all, the average change for the property class.

APPENDIX 1
VANCOUVER PROPERTY TAX POLICY REVIEW COMMISSION TERMS OF REFERENCE

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.

CITY OF VANCOUVER

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 processional 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.

APPENDIX II
TAX ALLOCATION IN FACE OF MARKET AND NON-MARKET CHANGES

During the course of its work, the Commission found that many stakeholders do not fully understand the way in which the City of Vancouver's tax share approach to setting tax rates and tax shares operates in practice.

This *Appendix* provides three illustrative examples of how the City of Vancouver calculates tax shares and how those shares are affected by new construction and tax class shifts but are not affected by changes in the market value of properties. For ease of presentation, we have assumed that there are only two taxes classes: residential and business.

All three examples generate the same total revenue in years 1 and 2. As such they can be seen as three examples of what would happen to tax rates under different scenarios of market and non-market changes in assessed values.

EXAMPLE I

No new construction or class shifts, but market increase in assessed value of residential property
Revenue objective of raising $580 million

	Residential			Business					Tax Share	
	Assess ($ bn)	Tax Rate	Taxes ($mn)	Assess ($ bn)	Tax Rate	Taxes ($mn)	Total Taxes	Tax Rate Ratio	Res. Share	Bus. Share
Year 1	$ 170	$ 1.90	$ 323	$ 30	$ 8.20	$ 246	$ 569	**4.32**	**56.8%**	**43.2%**
Year 2 (adjust for mkt change)	$ 187	$ 1.73	$ 323	$ 30	$ 8.20	$ 246	$ 569	**4.75**	**56.8%**	**43.2%**
Year 2 (add tax increase)	$ 187	$ 1.76	$329	$ 30	$ 8.36	$ 251	$ 580	**4.75**	**56.8%**	**43.2%**
Change			2.0%				2.0%			

Note:

No shift in the tax share, despite change in market values.

EXAMPLE II

Example I with new construction (Residential only)
Revenue objective of raising $580 million remains unchanged

	Residential						Business					Tax Share	
	Assess ($ bn)	Tax Rate	Taxes ($mn)	New Const Assess ($ bn)	Taxes on Const ($ mn)	Total Res Taxes ($ mn)	Assess ($ bn)	Tax Rate	Taxes ($mn)	Total Taxes ($mn)	Tax Rate Ratio	Res. Share	Bus. Share
Year 1	$ 170	$ 1.90	$ 323			$ 323	$ 30	$ 8.20	$ 246	$ 569	**4.32**	**56.8%**	**43.2%**
Year 2 (mkt change + new const)	$ 187	$ 1.73	$ 323	$ 2	$ 3	$ 326	$ 30	$ 8.20	$ 246	$ 569	**4.75**	**57.0%**	**43.0%**
Change from New Construction						1.1%				0.6%			
Year 2 (add tax increase)	$ 187	$ 1.75	$327	$ 2	$ 4	$ 331	$ 30	$ 8.31	$ 249	$ 580	**4.75**	**57.0%**	**43.0%**
Change from Tax Increase						1.4%			1.4%	1.4%			
Change from New Const & Tax Increase						2.5%			1.4%	2.0%			

Note:
The residential tax share is higher in Year 2 than under Example I because of new construction.
The tax rate ratio is the same as under Example I.

EXAMPLE III

Example I with class shift from Business to Residential, but no new construction
Revenue objective of raising $580 million remains unchanged

	Residential						Business								Tax Share	
	Assess ($ bn)	Tax Rate	Taxes ($mn)	Class Change Assess ($ bn)	Class Change Taxes ($ mn)	Total Res Taxes ($ mn)	Assess ($ bn)	Tax Rate	Taxes ($mn)	Class Change Assess ($bn)	Class Change Taxes ($mn)	Total Bus Taxes ($ mn)	Total Taxes ($ mn)	Tax Rate Ratio	Res. Share	Bus. Share
Year 1	$ 170	$ 1.90	$ 323			$ 323	$ 30	$ 8.00	$ 246			$ 246	$ 569	**4.32**	**56.8%**	**43.2%**
Year 2 (mkt change + class shift)	$ 187	$ 1.73	$ 323	$ 1	$ 2	$ 325	$ 30	$ 8.20	$ 246	-$ 1	-$ 8	$ 238	$ 563	**4.75**	**57.7%**	**42.3%**
Change from Class Shift						1.0%						-3.0%	-1.0%			
Year 2 (add tax increase)	$ 187	$ 1.78	$333	$ 1	$ 2	$ 335	$ 30	$ 8.46	$ 254	-$ 1	-$ 9	$ 245	$ 580	**4.75**	**57.7%**	**42.3%**
Change from Tax Increase			3.2%			3.2%			3.2%			3.2%	3.2%			
Change from Class Shift & Tax Increase						3.7%						-0.3%	2.0%			

Note:
The residential tax share is higher in Year 2 than under Example I because of the class shift.
The tax rate ratio is the same as under Example I.
Taxes increase faster than under Example I to pay for the revenue loss associated with the class shift.

CITY OF VANCOUVER

APPENDIX III
COMPARISON OF CLASS 6 TAXES PER SQUARE FOOT IN VANCOUVER, BURNABY AND RICHMOND

Appendix III shows the taxes per square foot for a range of Class 6 office and retail properties in Vancouver, Burnaby and Richmond. The appendix is presented as follows:

- page ii profiles Downtown and Town Centre office buildings
- page iii profiles office buildings outside of Town Centres
- pages iv - v profile single story retail buildings
- page vi profiles two businesses with operations in all three municipalities

All figures presented are from 2013.

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DOWNTOWN & TOWN CENTRE MAJOR OFFICE

	Vancouver		
Description	AAA Downtown Office Building	Class B Downtown Office Building	Class A Downtown Office Building
Land Area (Sq.Ft.)	58,276	29,990	50,355
Floor Area	653,414	142,935	255,167
2013 Total Assessment	$335,133,000	$54,888,000	$141,707,000
2013 Total Average Assessment*	$333,271,333	$54,438,333	$141,707,000
2013 Municipal Tax Rate**	10.07895	10.07895	10.07895
2013 Taxes*	$3,359,025	$548,681	$1,428,258
2013 Taxes per Sq.Ft of Floor Area*	$5.14	$3.84	$5.60

	Burnaby		
Description	Major Class A Office Building	Class A Office Building	Class A Office Building
Land Area (Sq.Ft.)	261,450	47,908	40,469
Floor Area	263,194	90,860	197,833
2013 Total Assessment	$89,813,000	$23,857,000	$62,644,000
2013 Total Average Assessment*	n/a	n/a	n/a
2013 Municipal Tax Rate**	11.0954	11.0954	11.0954
2013 Taxes*	$996,511	$264,703	$695,060
2013 Taxes per Sq.Ft of Floor Area*	$3.79	$2.91	$3.51

	Richmond		
Description	Major Class A Office Building	Class A Office Building	Class A Office Building
Land Area (Sq.Ft.)	194,324	58,816	39,030
Floor Area	116,426	99,496	94,646
2013 Total Assessment	$40,489,000	$22,734,000	$21,129,000
2013 Total Average Assessment*	n/a	n/a	n/a
2013 Municipal Tax Rate**	9.26234	9.26234	9.26234
2013 Taxes*	$375,931	$210,890	$195,903
2013 Taxes per Sq.Ft of Floor Area*	$3.23	$2.12	$2.07

* these calculations rely on the use of the Average Assessed Values for Vancouver properties
** in addition to municipal taxes, in Richmond there is a tax (0.02257) that is on the land portion of the assessment only. This rate is factored into the 2013 calculation of the 2013 taxes.

OFFICE BUILDINGS OUTSIDE OF TOWN CENTRES

	Vancouver			
Description	Major Suburban Office Building	Office Park Building	Office Building	Office Building
Land Area (Sq.Ft.)	77,537	213,523	12,635	99,304
Floor Area	246,960	134,452	35,930	164,364
2013 Total Assessment	$53,859,000	$23,980,000	$11,600,000	$53,231,000
2013 Total Average Assessment*	$53,353,667	$25,034,000	$11,060,667	$53,050,333
2013 Municipal Tax Rate**	9.89323	9.89323	9.89323	9.89323
2013 Taxes*	$527,840	$247,667	$109,426	$524,839
2013 Taxes per Sq.Ft of Floor Area*	$2.14	$1.84	$3.05	$3.19

	Burnaby			
Description	Office Building	Office Park Building	Office Park Building	Office Park Building
Land Area (Sq.Ft.)	222,520	139,305	354,840	94,138
Floor Area	204,869	118,165	141,284	78,843
2013 Total Assessment	$38,343,000	$25,604,000	$32,606,000	$22,816,000
2013 Total Average Assessment*	n/a	n/a	n/a	n/a
2013 Municipal Tax Rate**	11.0954	11.0954	11.0954	11.0954
2013 Taxes*	$425,431	$284,087	$361,777	$253,153
2013 Taxes per Sq.Ft of Floor Area*	$2.08	$2.40	$2.56	$3.21

	Richmond		
Description	Office Park Building	Office Park Building	Office Park Building
Land Area (Sq.Ft.)	87,468	167,706	76,230
Floor Area	59,706	80,931	40,388
2013 Total Assessment	$7,253,000	$16,531,000	$5,434,000
2013 Total Average Assessment*	n/a	n/a	n/a
2013 Municipal Tax Rate**	9.26234	9.26234	9.26234
2013 Taxes*	$67,255	$153,259	$50,380
2013 Taxes per Sq.Ft of Floor Area*	$1.13	$1.89	$1.25

* these calculations rely on the use of the Average Assessed Values for Vancouver properties
** in addition to municipal taxes, in Richmond there is a tax (0.02257) that is on the land portion of the assessment only. This rate is factored into the 2013 calculation of the 2013 taxes.

SINGLE STOREY RETAIL

Description	Vancouver				
	Downtown Retail/Office Building	West Side Grocery Store	Open Mall - Oak Street	Grocery Store - Oak Street	Single Level Restaurant
Land Area (Sq.Ft.)	15,000	27,459	84,085	78,587	3,889
Floor Area	13,198	14,006	26,951	27,849	2,766
2013 Total Assessment	$12,362,300	$11,924,300	$13,471,000	$9,518,000	$1,540,000
2013 Total Average Assessment*	$11,364,967	$11,223,967	$12,665,667	$9,417,333	$1,369,000
2013 Municipal Tax Rate**	9.89323	9.89323	9.89323	9.89323	9.89323
2013 Taxes*	$112,436	$111,041	$125,304	$93,168	$13,544
2013 Taxes per Sq.Ft of Floor Area*	$8.52	$7.93	$4.65	$3.35	$4.90

Description	Vancouver			
	Single Level Retail Store	Single Level Retail Store	Single Level Retail Store	Single Level Retail Store
Land Area (Sq.Ft.)	3,126	5,808	4,700	3,778
Floor Area	1,566	2,563	8,025	4,290
2013 Total Assessment	$1,237,000	$1,954,000	$1,886,000	$897,000
2013 Total Average Assessment*	$1,099,667	$1,811,333	$1,770,000	$856,000
2013 Municipal Tax Rate**	9.89323	9.89323	9.89323	9.89323
2013 Taxes*	$10,879	$17,920	$17,511	$8,469
2013 Taxes per Sq.Ft of Floor Area*	$6.95	$6.99	$2.18	$1.97

Description	Burnaby			
	Single Level Retail Store	Single Level Retail Store	Single Level Retail Store	Single Level Retail Store
Land Area (Sq.Ft.)	3,585	5,872	5,027	5,294
Floor Area	1,520	6,853	3,672	3,746
2013 Total Assessment	$795,000	$2,863,000	$1,580,000	$2,366,000
2013 Total Average Assessment*	n/a	n/a	n/a	n/a
2013 Municipal Tax Rate**	11.0954	11.0954	11.0954	11.0954
2013 Taxes*	$8,821	$31,766	$17,531	$26,252
2013 Taxes per Sq.Ft of Floor Area*	$5.80	$4.64	$4.77	$7.01

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	Burnaby		
Description	Single Level Retail Store	Single Level Retail Store	Bank
Land Area (Sq.Ft.)	3,392	3,713	11,388
Floor Area	2,845	1,918	6,233
2013 Total Assessment	$860,000	$743,800	$2,380,500
2013 Total Average Assessment*	n/a	n/a	n/a
2013 Municipal Tax Rate**	11.0954	11.0954	11.0954
2013 Taxes*	$9,542	$8,253	$26,413
2013 Taxes per Sq.Ft of Floor Area*	$3.35	$4.30	$4.24

	Richmond		
Description	Single Level Retail Store	Single Level Retail Store	Single Level Retail Store
Land Area (Sq.Ft.)	8,145	8,842	8,755
Floor Area	4,716	4,505	5,977
2013 Total Assessment	$1,818,100	$1,972,900	$1,953,200
2013 Total Average Assessment*	n/a	n/a	n/a
2013 Municipal Tax Rate**	9.26234	9.26234	9.26234
2013 Taxes*	$16,881	$18,318	$18,135
2013 Taxes per Sq.Ft of Floor Area*	$3.58	$4.07	$3.03

* these calculations rely on the use of the Average Assessed Values for Vancouver properties
** in addition to municipal taxes, in Richmond there is a tax (0.02257) that is on the land portion of the assessment only.
This rate is factored into the 2013 calculation of the 2013

CITY OF VANCOUVER

RETAILERS OPERATING IN ALL THREE MUNICIPALITIES

	Building Supply Store		
Description	Vancouver	Burnaby	Richmond
Land Area (Sq.Ft.)	414,256	492,097	382,440
Floor Area	120,341	114,015	104,459
2013 Total Assessment	$25,048,000	$24,887,000	$22,802,000
2013 Total Average Assessment*	$20,085,000	n/a	n/a
2013 Municipal Tax Rate**	9.89323	11.09540	9.26234
2013 Taxes*	$198,706	$276,131	$211,604
2013 Taxes per Sq.Ft of Floor Area*	$1.65	$2.42	$2.03

	Paint Store			
Description	Vancouver	Vancouver	Burnaby	Richmond
Land Area (Sq.Ft.)	34,848	11,812	12,393	128,501
Floor Area	23,408	6,315	6,420	46,202
2013 Total Assessment	$4,426,000	$5,015,000	$2,692,000	$13,989,000
2013 Total Average Assessment*	$4,321,000	$4,599,000	n/a	n/a
2013 Municipal Tax Rate**	9.89323	9.89323	11.09540	9.26234
2013 Taxes*	$42,749	$45,499	$29,869	$129,884
2013 Taxes per Sq.Ft of Floor Area*	$1.83	$7.20	$4.65	$2.81

* these calculations rely on the use of the Average Assessed Values for Vancouver properties
** in addition to municipal taxes, in Richmond there is a tax (0.02257) that is on the land portion of the assessment only.
This rate is factored into the 2013 calculation of the 2013 taxes.

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APPENDIX IV
TARGETED FIVE-YEAR LAND ASSESSMENT AVERAGING

The targeted five-year land assessment averaging option is designed to address specifically the hot properties. This option would intervene in the market only when, and as long as, an individual property is hot. The model is designed to reduce the severity of the increase in assessments (hence taxes) until such time as the property is no longer a hot property.

It is important to note that the averaging will only apply to land and be subject to the filters currently used for three-year land averaging. For ease of presentation, this appendix will focus on the land component. Once the targeted adjusted land value is determined, a final step would be to add the net taxable assessed value of improvements to the targeted adjusted value of the land.

In order to more fully explain the option, it is helpful to illustrate how the option would work. The basic information required for each property would be as follows:

- net taxable assessed value of land before averaging (already supplied by BC Assessment) and the annual percentage change in this value
- five-year average net assessed value of land (the three-year average is already supplied by BC Assessment) and the annual percentage change in this value
- the annual percentage change for the total net assessed land value before averaging for each class (Class 1, 5 and 6 only), excluding non-market changes (already available from BC Assessment)
- a policy-determined benchmark rate to help define "hot properties" (the Commission has suggested a 10% rate)
- net taxable assessed value of improvements (already supplied by BC Assessment)

Two minor calculations are required. First, it is necessary to calculate a threshold rate that is equal to:

> ((1+benchmark rate)*(1+ annual change for the total net assessed land value for each class))-1

Hence, if the annual percentage change for a class is 4% and the benchmark rate is 10%, then the threshold rate would be:

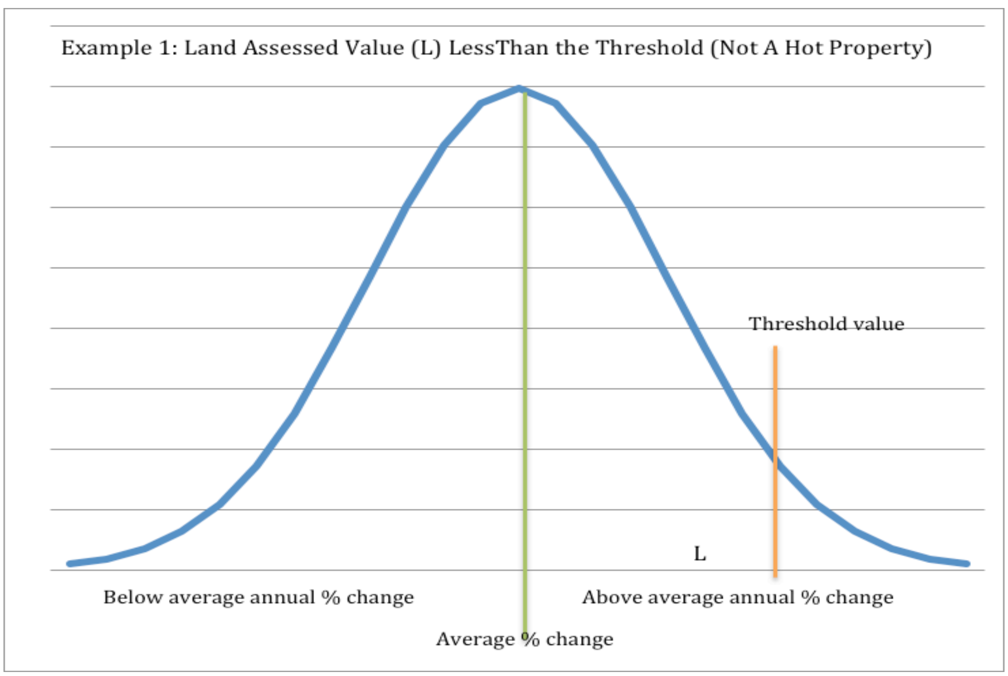
> ((1.04)*(1.10)-1)*100 or 14.4%

Second, it is necessary to calculate the current threshold net assessed land value, which is equal to last year's targeted adjusted land value multiplied by (1+ threshold rate).

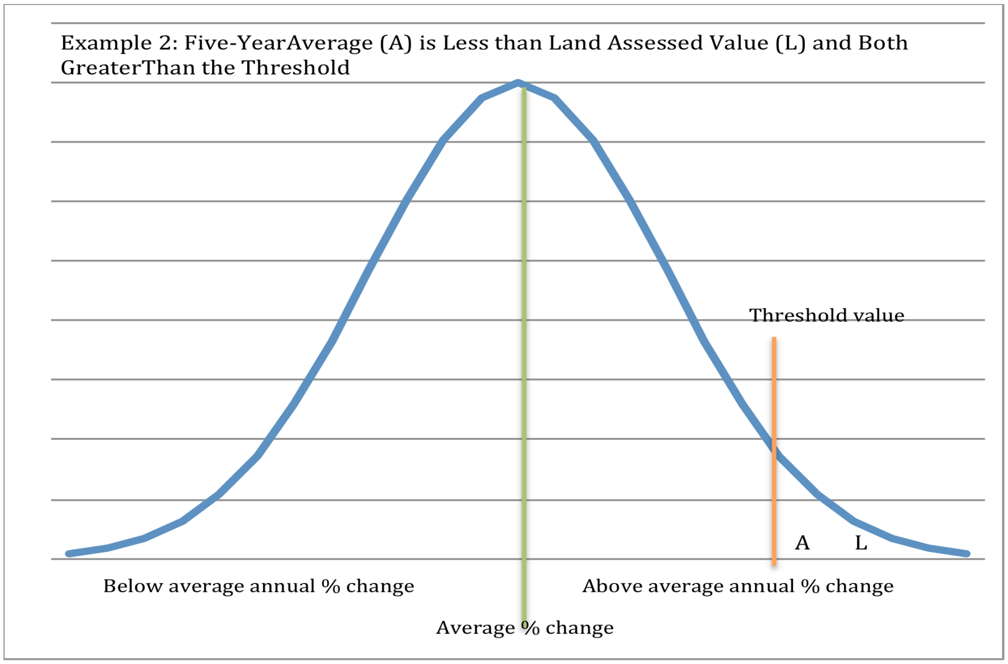
The targeting average model will not reduce the number of hot properties, but it will decrease the percentage change in land value while enforcing a limit on the number the years the intervention is applied. The four examples in Figure APP IV.1 illustrate how the targeted land value is determined. Note the examples are shown as annual percentage changes in the various values.

In Example 1 the annual percentage change in the unaveraged assessed land value (L) is less than the threshold, hence the property is not a hot property and no intervention is required. The targeted adjusted land value is the unaveraged assessed land value.

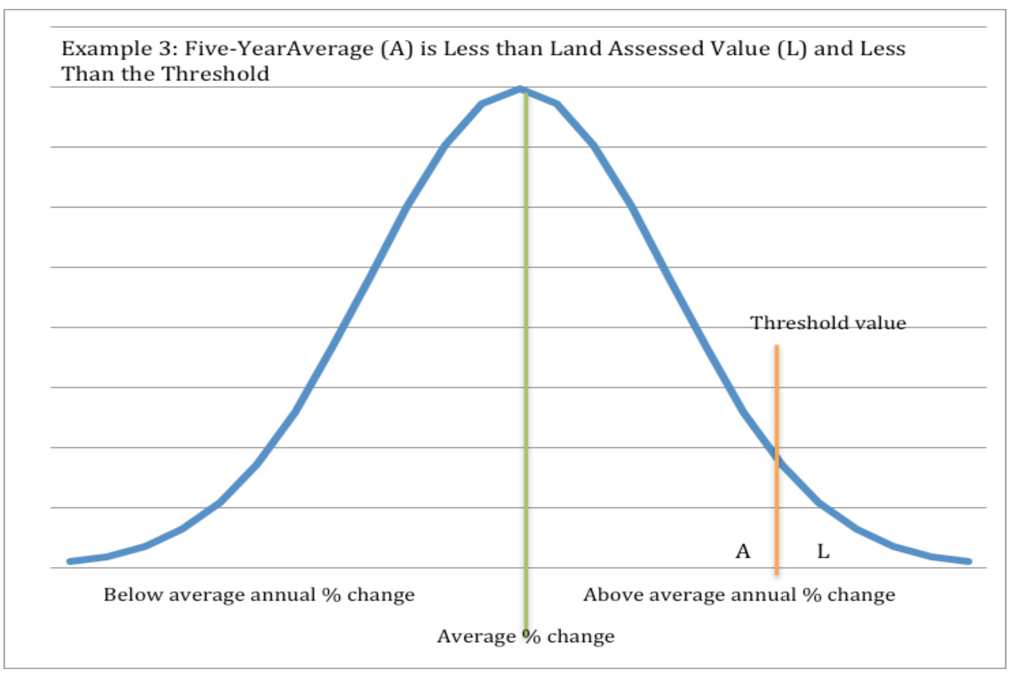
Figure APP IV.1
Setting the Targeted Land Value



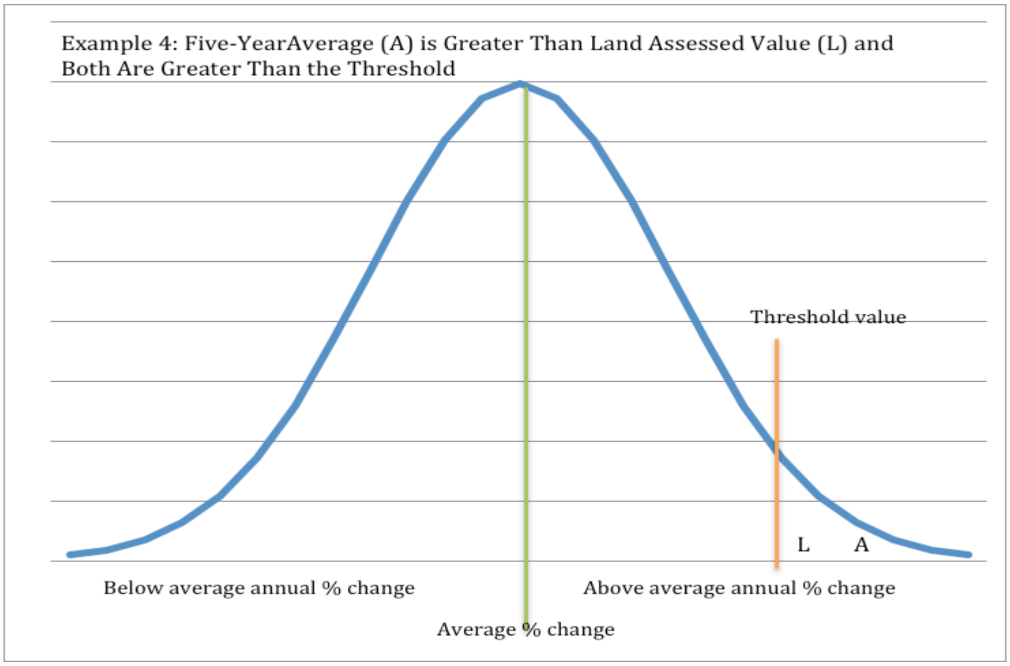
In Example 2, the annual percentage change in the unaveraged assessed land value (L) exceed the threshold, hence this is a hot property. The annual percentage change in the five-year average land value (A) also exceeds the Threshold, but is less than the unaveraged assessed land value (L). In this case the targeted adjusted land value is set at the five-year average land value.



In Example 3 the annual percentage change in the assessed value of land (L) exceeds the Threshold, hence this is a hot property, but since the change in the five-year average land value (A) is less that the Threshold, the targeted adjusted land value is set equal to the Threshold Value.



In Example 4 the annual percentage change in both the five-year land average (A) and the unaveraged land assessed value (L) exceed the Threshold, but since the annual percentage change in the five-year average exceeds the unaveraged land assessed value, the targeted adjusted land value is set to the Threshold value.



The figures in the remainder of the appendix illustrate how the targeted averaging model responds under differing market conditions ranging from single large shocks in the unaveraged assessed value of land to smaller shocks and multiple shocks. These are not intended to be exhaustive but rather illustrative of how the model works.

Figure APP IV.2 illustrates a simple model of the targeted averaging. It assumes the individual property land value increases at 2% per annum and the class total (net of non-market changes) increases at 4% per annum. An initial value of $600 (thousand) is used, as this is an approximation of the median value of residential properties. A significant shock (90%) in unaveraged assessed land value occurs in year 4. The targeted adjusted land value is initially set to the five-year land value for three years (as the five-year average is also above the threshold but below the assessed value of land (L), then as the five-year average falls below the threshold value, the threshold value takes over for the next two years. The time for the property to revert to net assessed land value is five years with this very major shock to the property.

This simple example is contrasted to how the current three-year land average would address the problem (Figure APP IV.2). Note that the three-year average reaches the new level more quickly, but it does so with larger increases for three years.

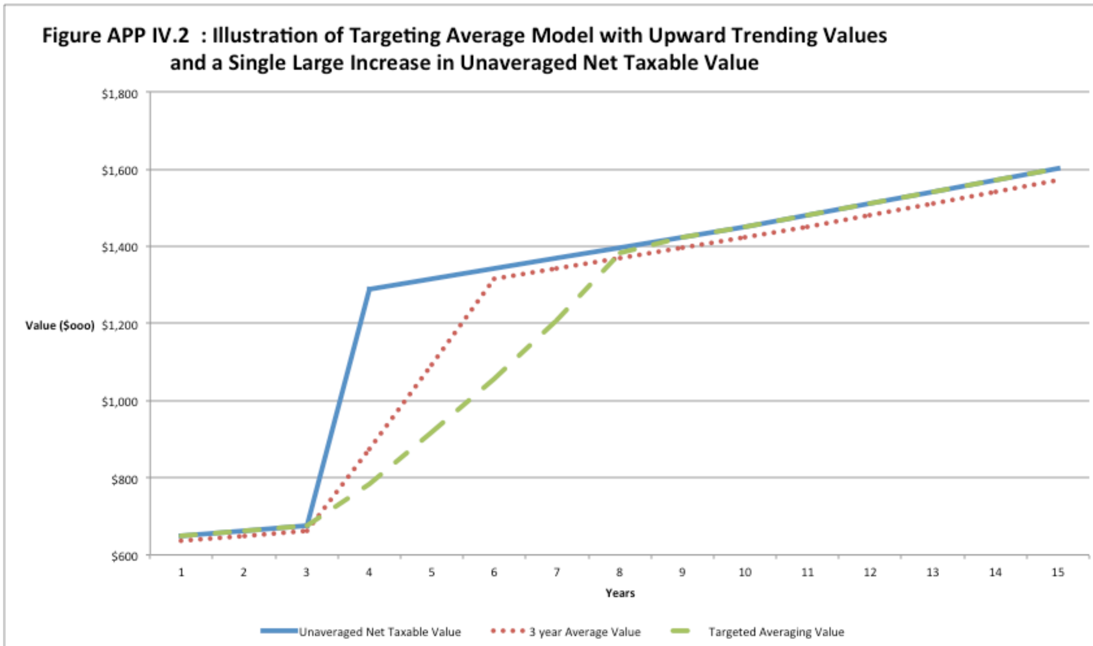


Figure APP IV.3 illustrates uses the same assumptions as Figure APP IV.2 except there are two positive shocks in the assessed value of land: one in year 4 (90%) and one in year 6 (17%). In this case the five-year land average is used for four years and the threshold value for the following one year. Note again that the targeted averaging value increases more gradually than the three-year average, moderating the annual percentage rate of increase.

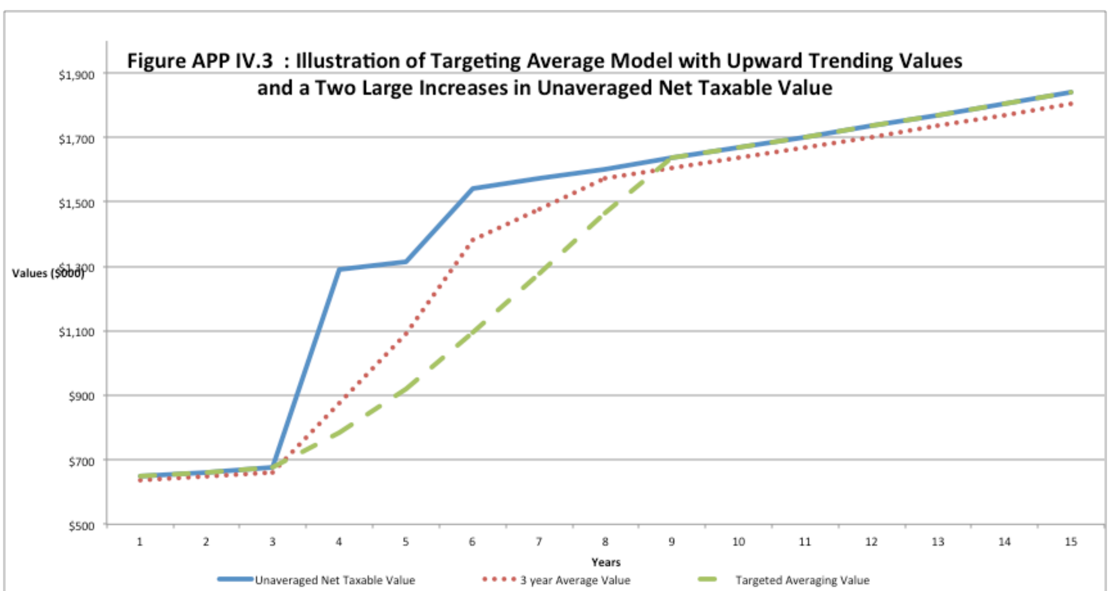


Figure APP IV.4 illustrates a smaller shock in assessed value of land (20%) in year 4. In this case the targeted land value is set equal to the threshold value, as the five-year average has not increased to above the threshold value.

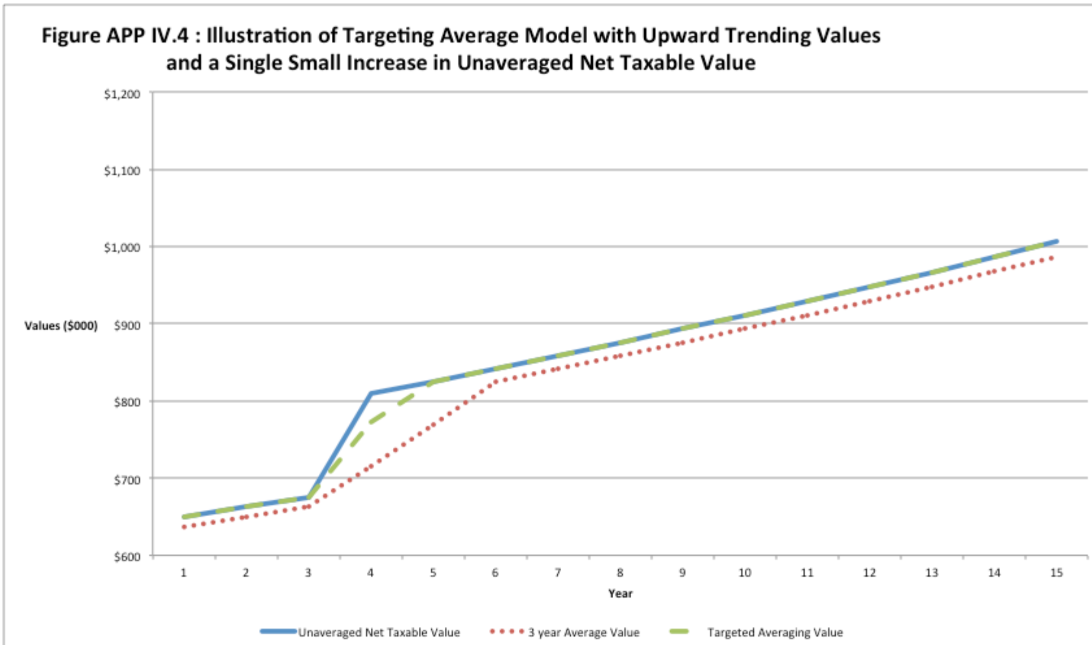


Figure APP IV.5 illustrates a smaller shock in assessed value of land (25%) in year 4 but with a mixed overall trend, both up and down in property values. The key point to note is that in this more volatile market, the targeted land value tends to not "over shoot" the market, but rather returns the targeted land value to the unaveraged assessed value of land more quickly since the period of the hot property is immediately followed by a declining market.

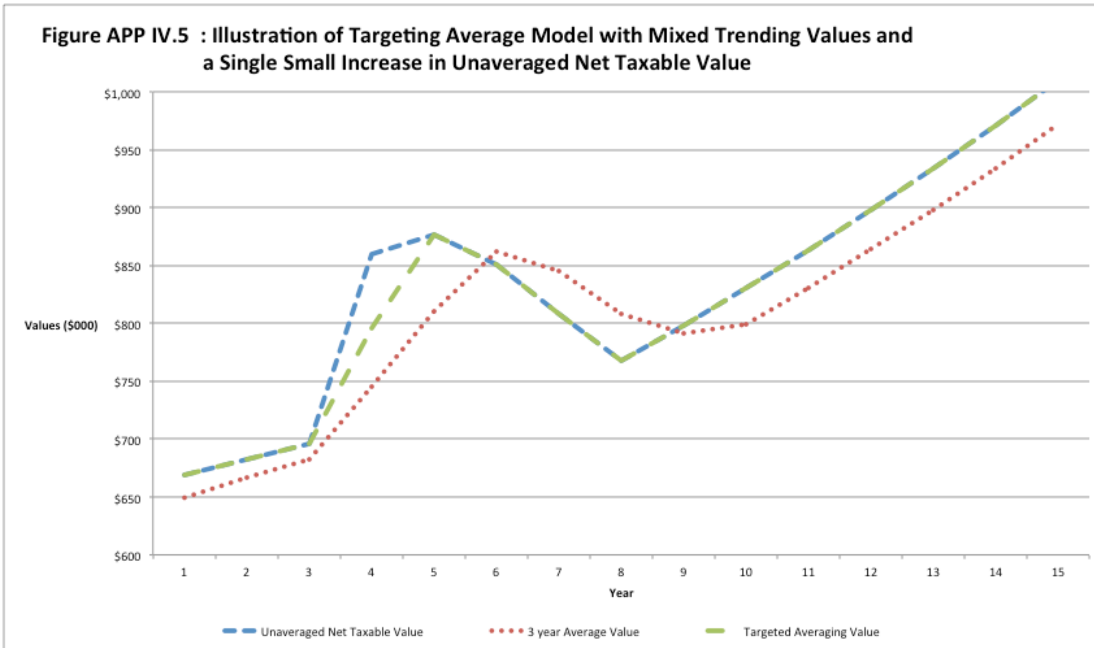


Figure APP IV.5 : Illustration of Targeting Average Model with Mixed Trending Values and a Single Small Increase in Unaveraged Net Taxable Value
$1,000
$950
$900
$850
$800
$750
$700
$650
$600
Values ($000)
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
Year
Unaveraged Net Taxable Value
3 year Average Value
Targeted Averaging Value