PROPERTY TAX POLICY REVIEW COMMISSION 2014 REPORT

Presentation to
City of Vancouver Council

February 18, 2014

CITY OF VANCOUVER

City of Vancouver

Property Tax Policy Review Commission

- Stanley Hamilton, PhD, Commission Chair
- Enid Slack, PhD, Commissioner
- Peter Adams, MSc, Commissioner
- Mr. Allan Neilson. Research Director

PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

Terms of Reference

- The Commission was reconvened on April 24, 2013 to work with City staff on:
  - Achieving an appropriate tax share amongst residential and business property classes
  - Enhancing tax stability and predictability
  - Recommending a set of metrics for monitoring tax share over the long term
- And under each of these, a number of specific deliverables are identified.

Guiding Principles

- Consultation
- Alignment with City Council's Public Policy Objectives
- Objectivity
- Balanced approach (all classes)
- Easy to understand and administer
- Use "tax share" approach
- Limited to Municipal property tax only
- Transparency

Consultation

- The Commission was directed to "engage the business community, residential property taxpayers, and other key stakeholders throughout the process, and consider their input in formulating recommendations.
  - Three public hearing, two in July with virtually no attendance, one in September with approximately 30 attendees
    - Web page receiving a limited number of submissions
  - Private meetings with
    - 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
    - Several academics and consultants whose papers we had received and reviewed
    - A telephone meeting with Mr. Ian McKay, Vancouver Economic Commission
    - Several meetings and consultation with City staff and BC Assessment personnel

Tax Share: What Did we Hear?

- *Further Tax Shift* —the tax shift recommended in 2006-07 was helpful but insufficient.
- *Specific Target* — In general stakeholders acknowledged that there is no "magic number" to define the fairest tax share
- *Loss of Business* — Some stakeholders suggested that the high Class 6 tax burden is causing businesses to leave parts of the City and is making Vancouver unattractive to businesses.
- *Consumption of Services* — The view that based on benefits received, businesses pay a disproportionately large share of the tax burden.
- *Level of Taxation* — Several stakeholders expressed the view that the total level of property taxes collected by the City is too high.
- *Changes to the Assessment Base* — Some stakeholders suggested that the residential sector benefits from higher growth by being able to spread its fixed tax share over a larger tax base.

Tax Share: What Did we Hear?

- Metrics —Confidence in tax allocation decisions would be improved if Council were to adopt its own set of guiding metrics.
- Tax Rate Ratio — The Commission heard a number of concerns about the Class 6 to Class 1 tax rate ratio, which in 2013 was approximately 4.2:1. Some suggested that:
  - Vancouver match the regional average,
  - 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.

Tax Share: What Did we Hear?

- The Commission also heard some considerable confusion on the “tax share-tax ratio” issue
- Tax rate ratio is frequently promoted and referred to by tax experts.
- The City of Vancouver uses the tax share to distribute its local tax burden.
- When tax rate ratio is used to determine taxes, the share of taxes collected from each class of property changes 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.

Illustration of the Difference Between Tax Ratio and Tax Share

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%			

PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

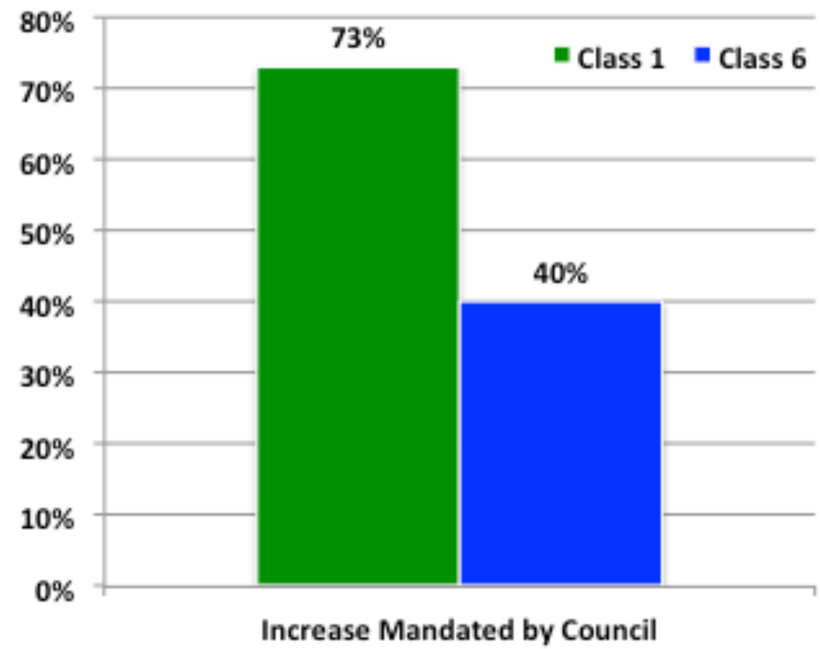
Illustration of the Difference Between Tax Ratio and Tax Share

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%			

Council-Directed Tax Increases

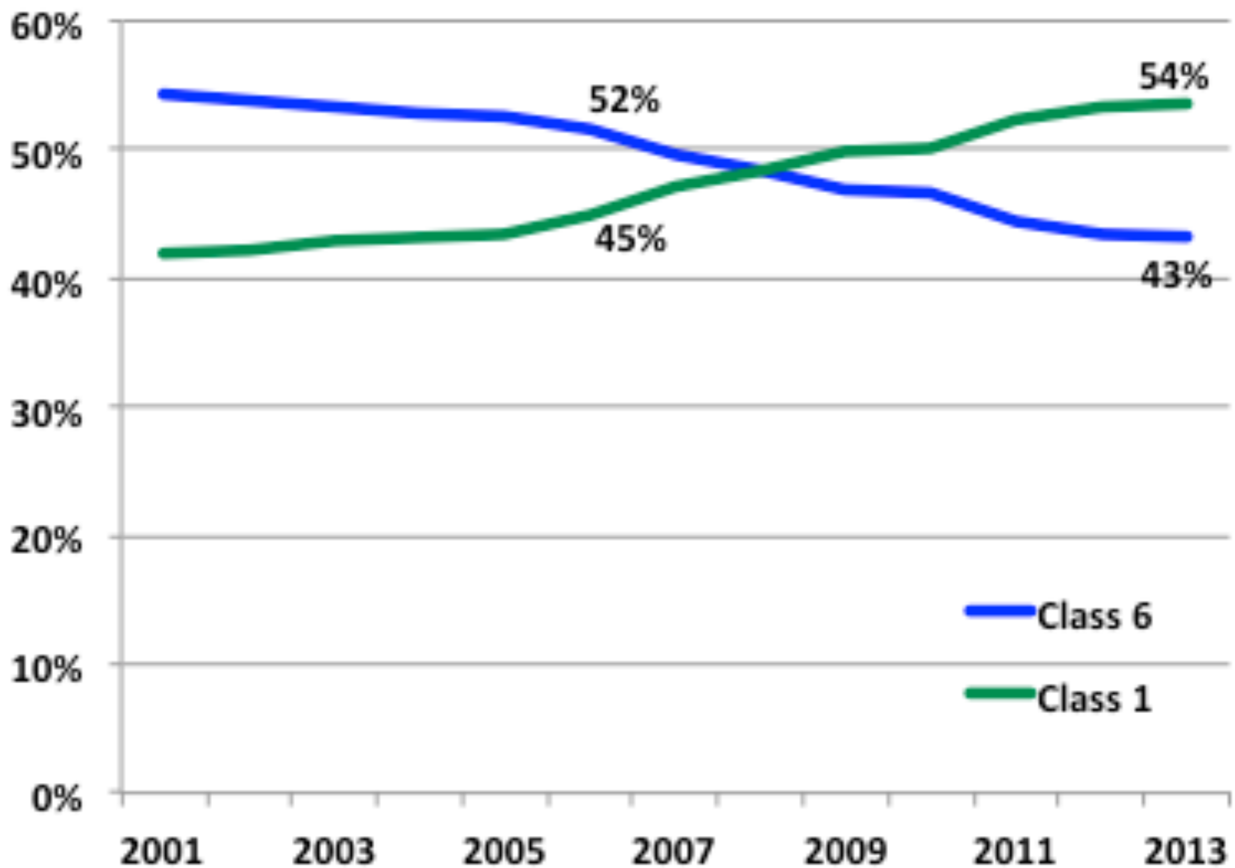
- An underlying theme presented to the Commission was that Class 6 taxes have risen faster over the years than Class 1 taxes. However, Council-mandated tax increases imposed on the residential sector have actually exceeded those imposed on commercial properties for the period 1995-2013.



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

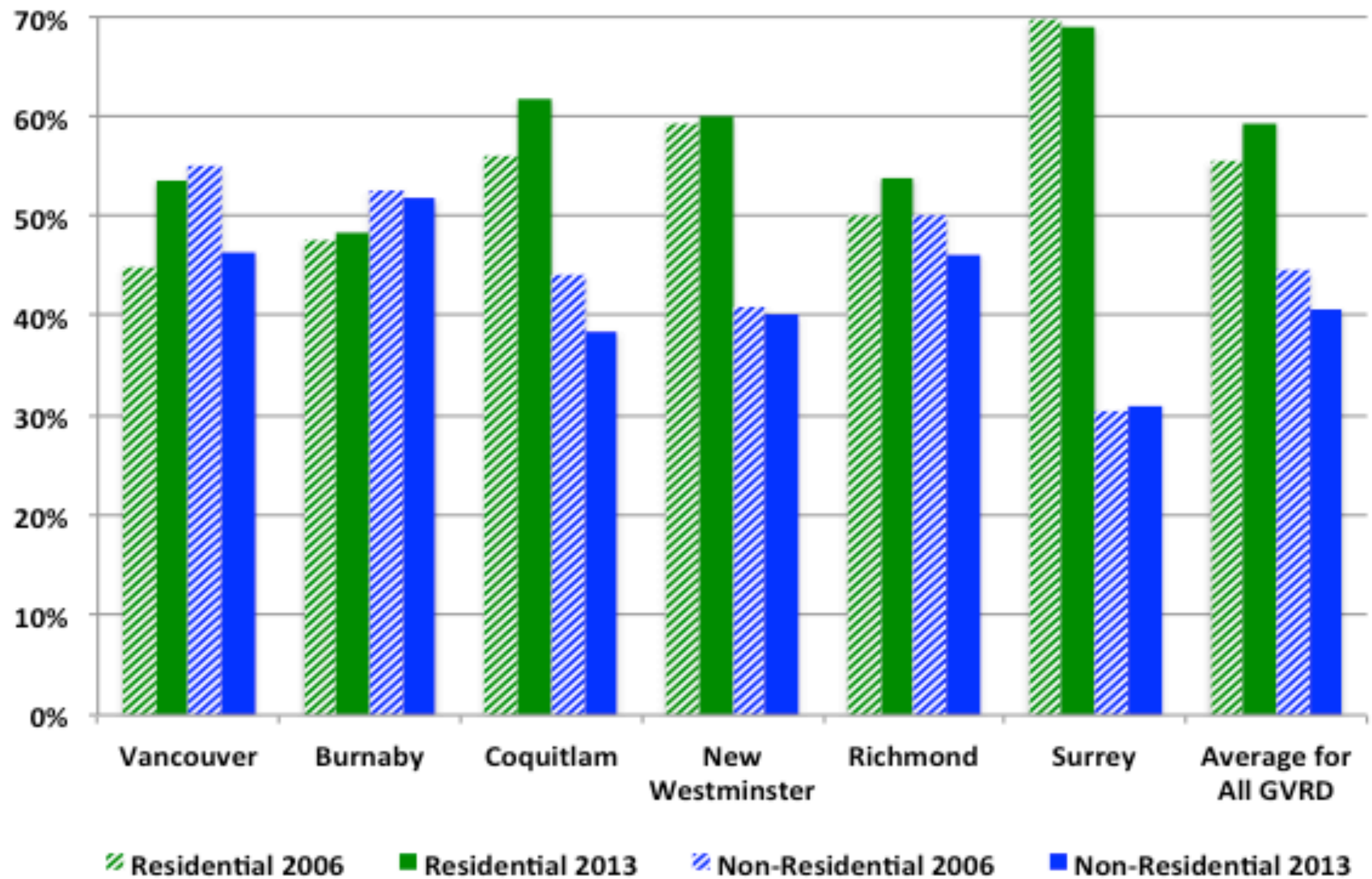
The Evidence: Tax Share in Vancouver



PROPERTY TAX
POLICY REVIEW
COMMISSION

2014 REPORT

The Evidence:
Tax Shares Across Metro Vancouver

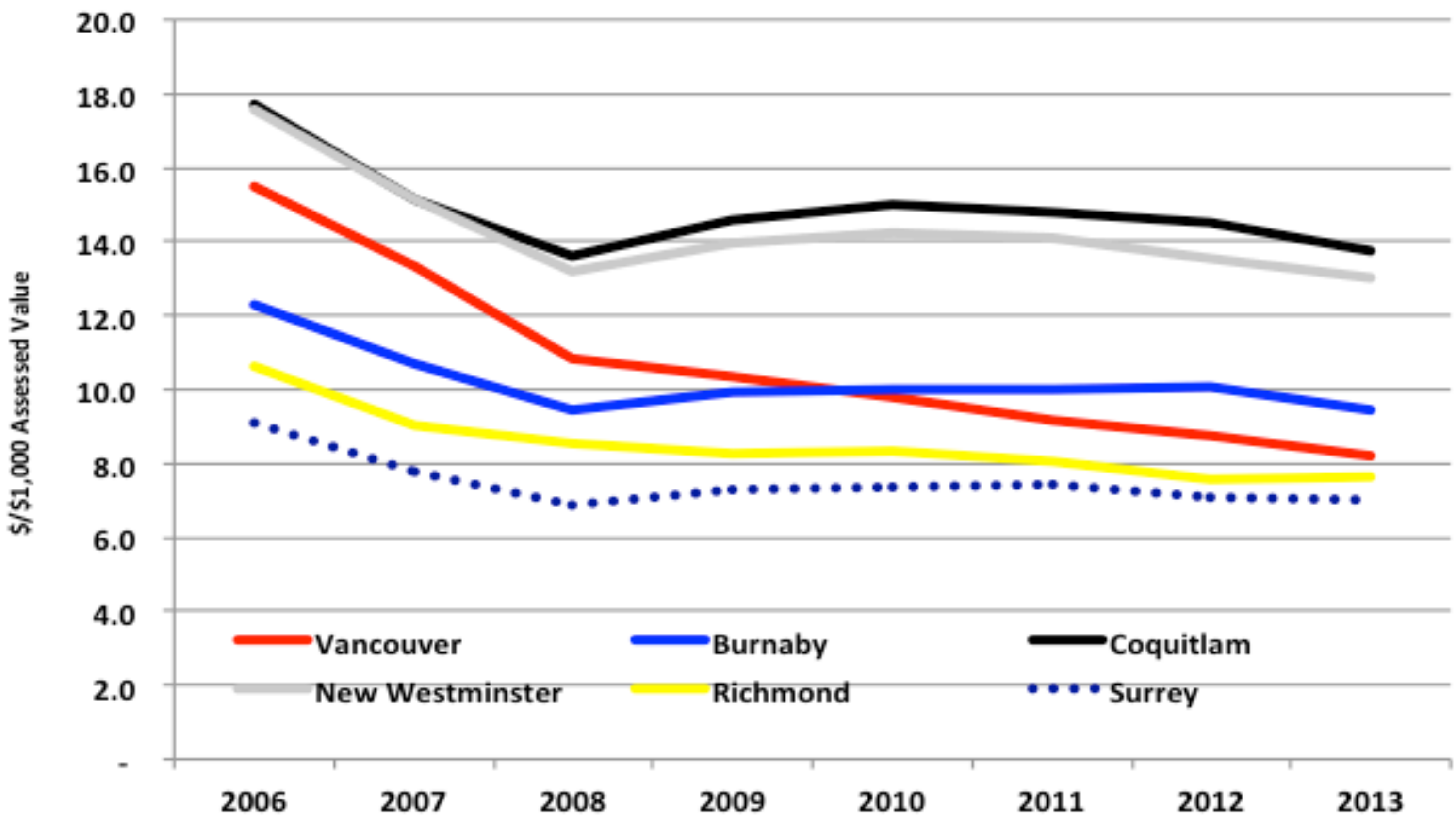


PROPERTY TAX
POLICY REVIEW
COMMISSION

2014 REPORT

The Evidence:

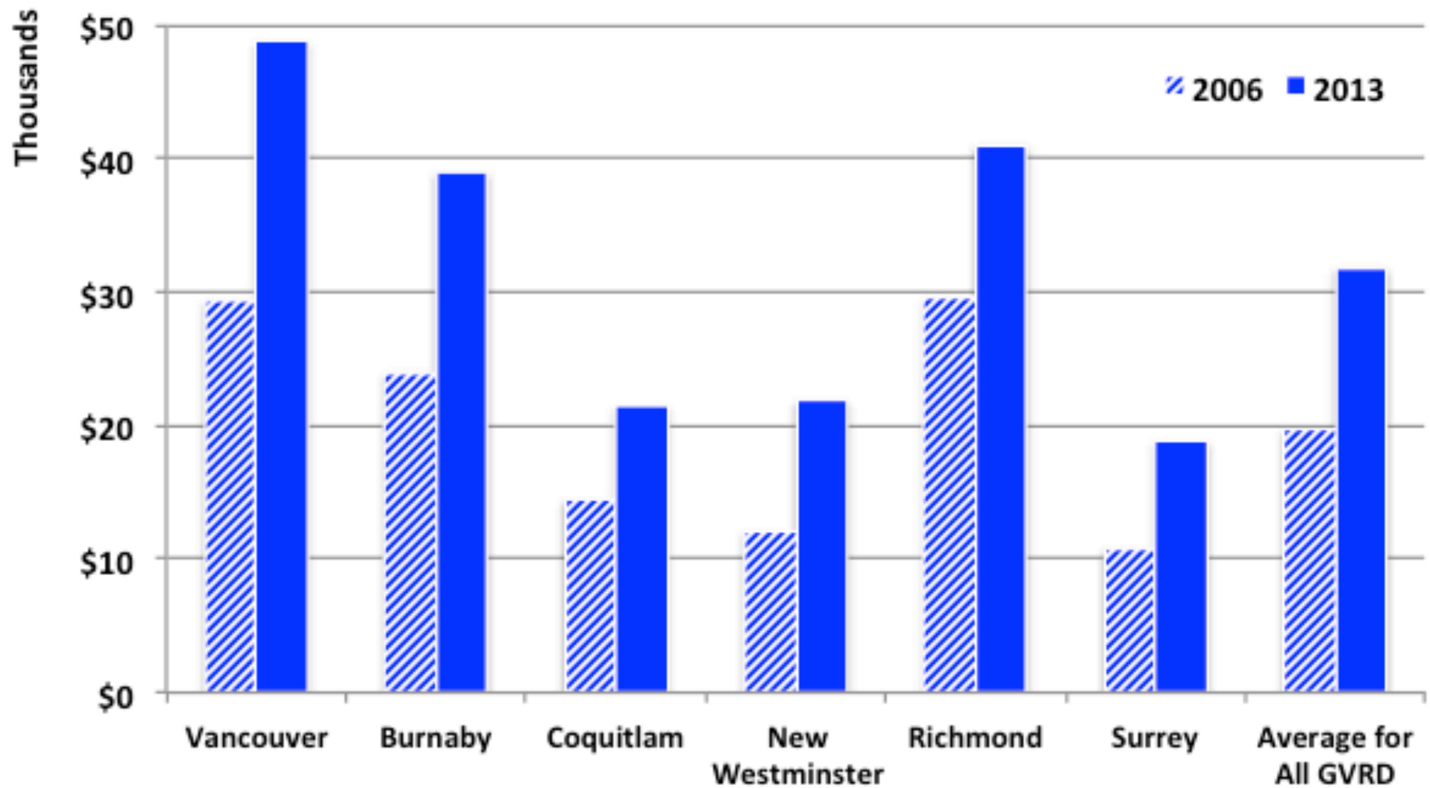
Comparison of Class 6 Tax Rates



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

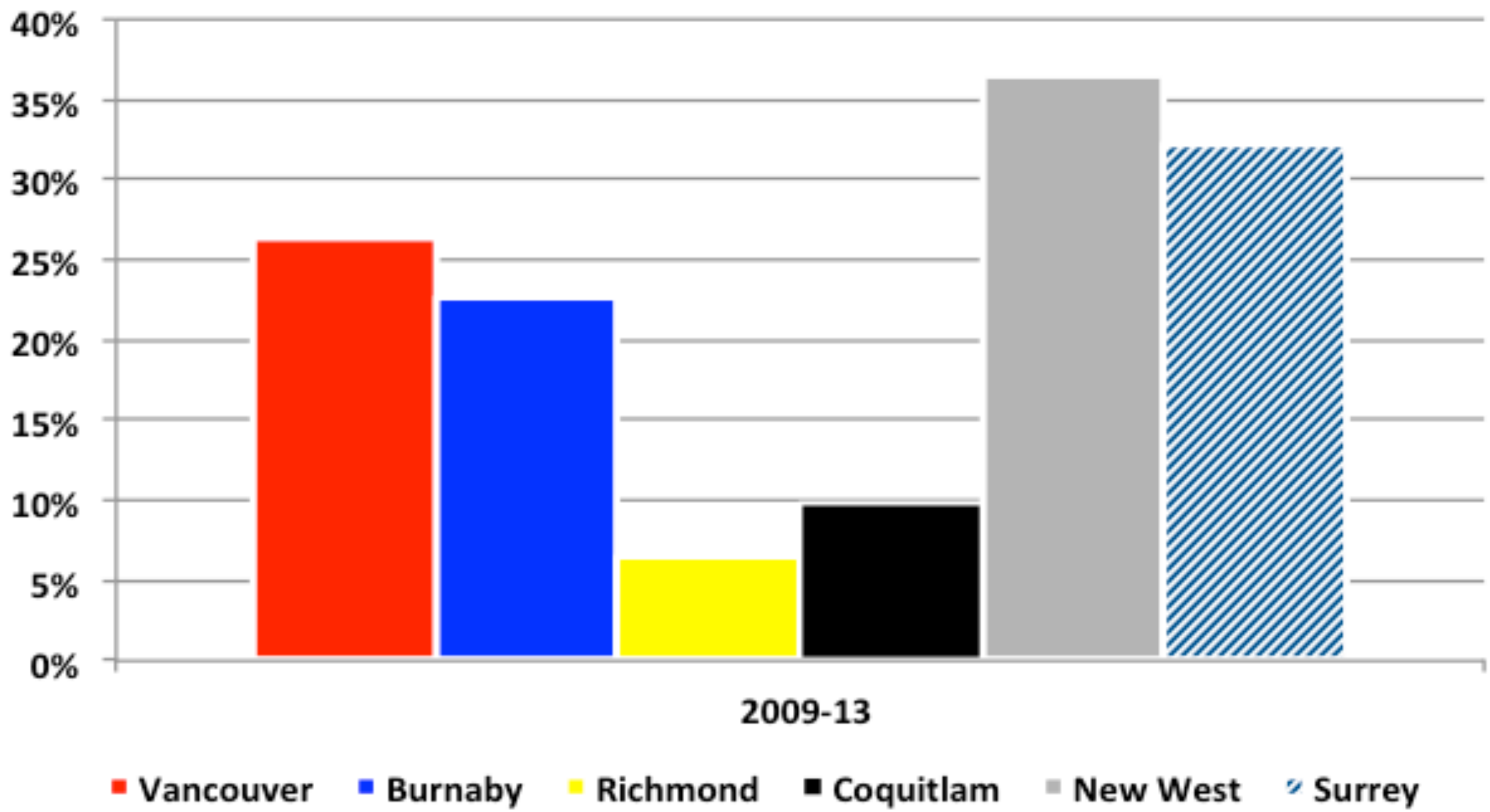
The Evidence:
Class 6 Per Capita Assessment



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

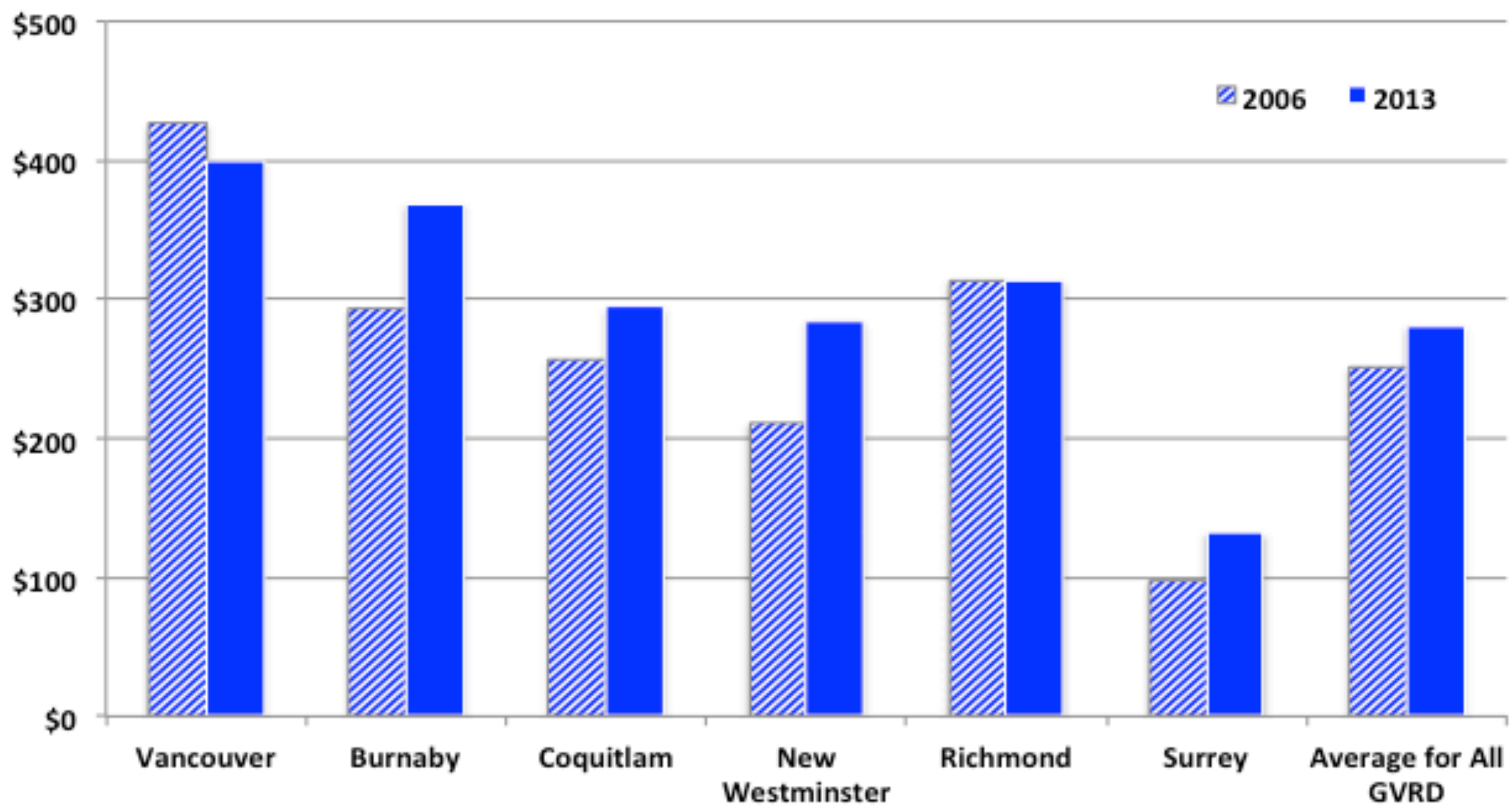
The Evidence: Cumulative 2009-2013 Change in Class 6 Assessments NET of All Non-Market Changes



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

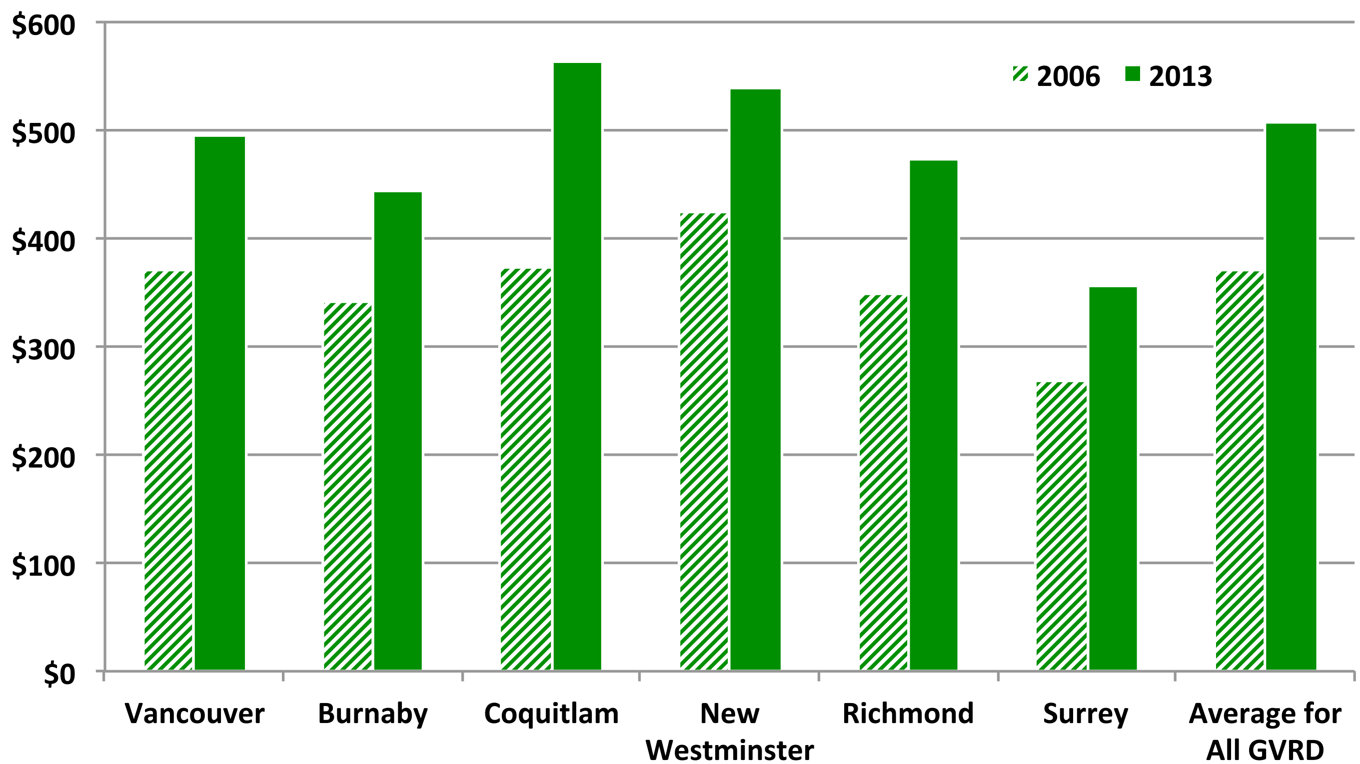
The Evidence:
Class 6 Per Capita Taxes



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

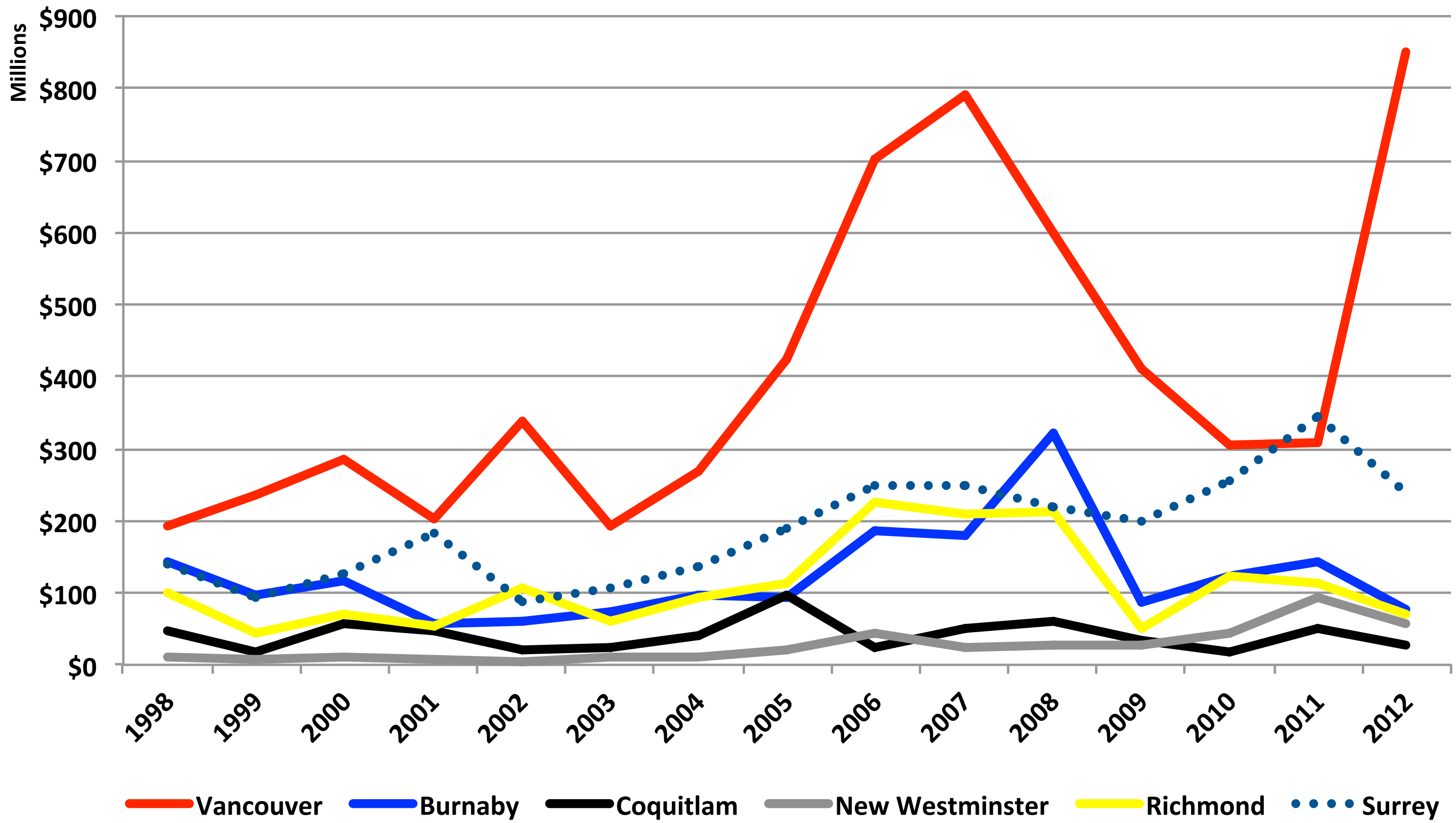
The Evidence: Class 1 Per Capita Taxes



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

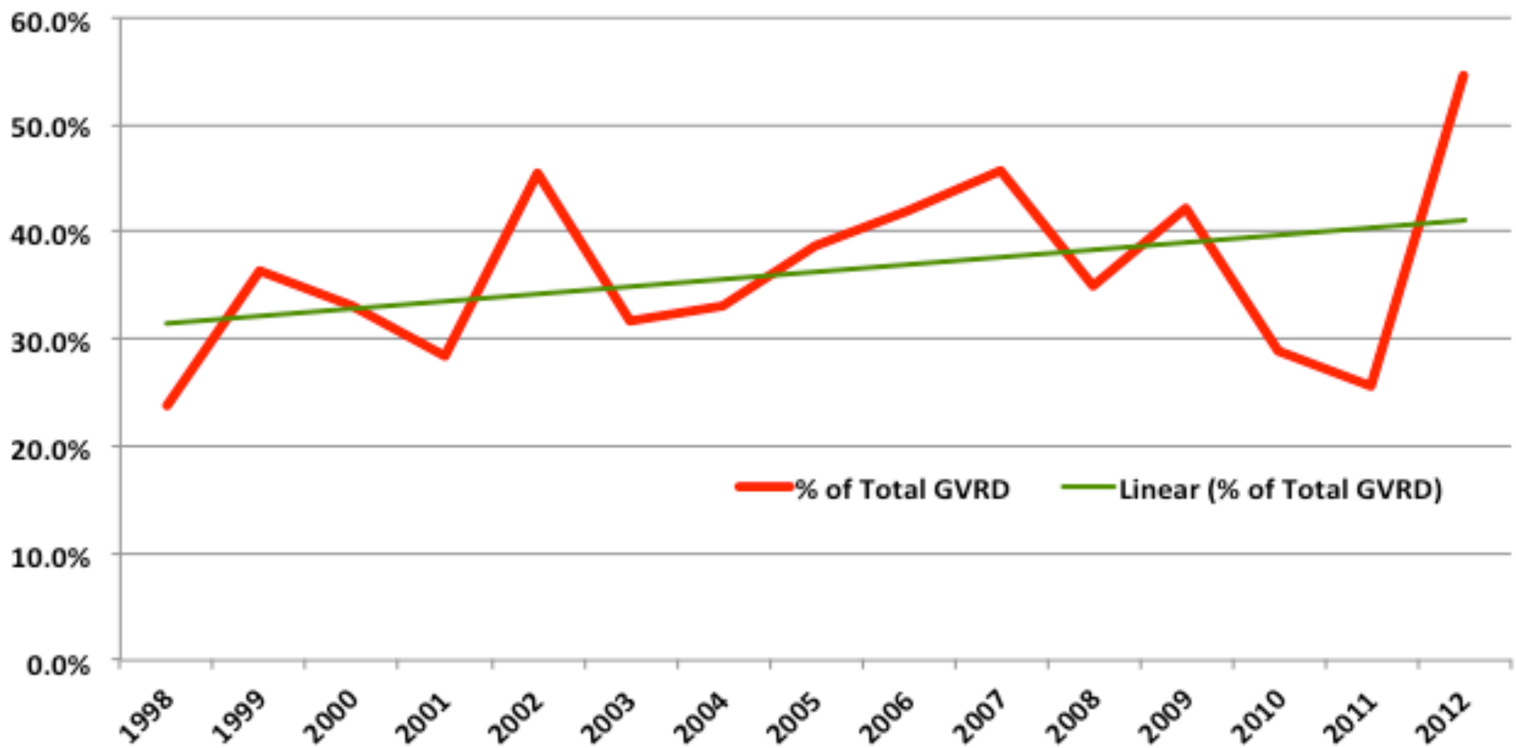
The Evidence: Commercial Building Permit Values



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

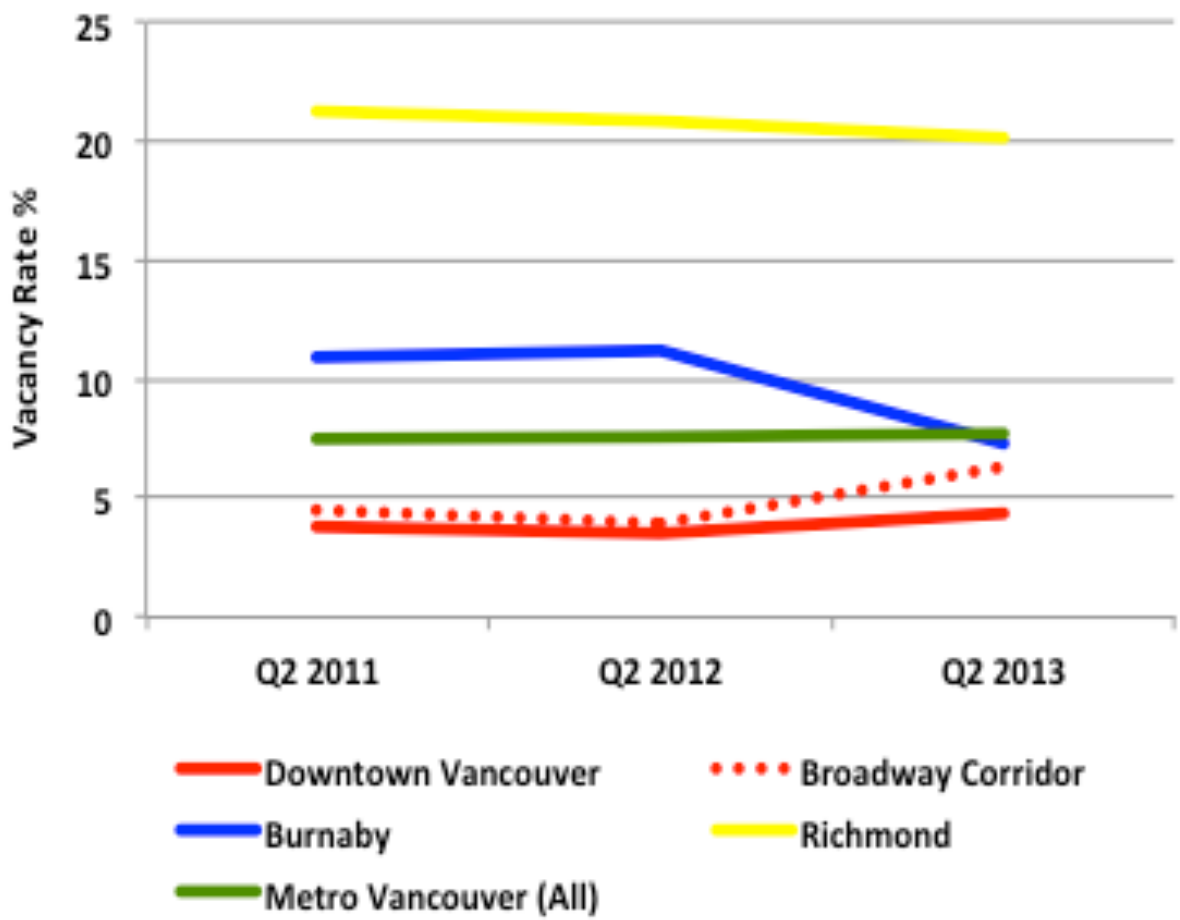
The Evidence: Vancouver Class 6 Building Permit Values as % of Total Value for GVRD, 1998-2012



PROPERTY TAX
POLICY REVIEW
COMMISSION

2014 REPORT

The Evidence:
Office Vacancy Rate



The Evidence:

Business Taxes Across Canada

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%

CITY OF VANCOUVER

Tax Share: Conclusions

- The data 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.

PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

FUTURE DECISIONS ON TAX SHARE

The Metrics

- The first point 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.

Key Criteria

- ***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.
- ***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.
- The challenging question is how much less.

FUTURE DECISIONS ON TAX SHARE

The Comparative Metrics

1. Tax share for each class
2. Class 6 tax rates
3. Class 6 taxes per square foot
4. class 6 taxes per capita
5. Tax rate ratio
6. Changes in Class 6 building permits
7. Changes in Class 6 assessments
8. Changes in Class 6 vacancy rates

CITY OF VANCOUVER

PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

Tax Share: Conclusions

- 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,

Recommendations of the Commission on Tax Shares

- THAT Council leave the Class 5 and 6 tax shares unchanged at this point in time.
- THAT Council endorse and use these eight metrics 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.

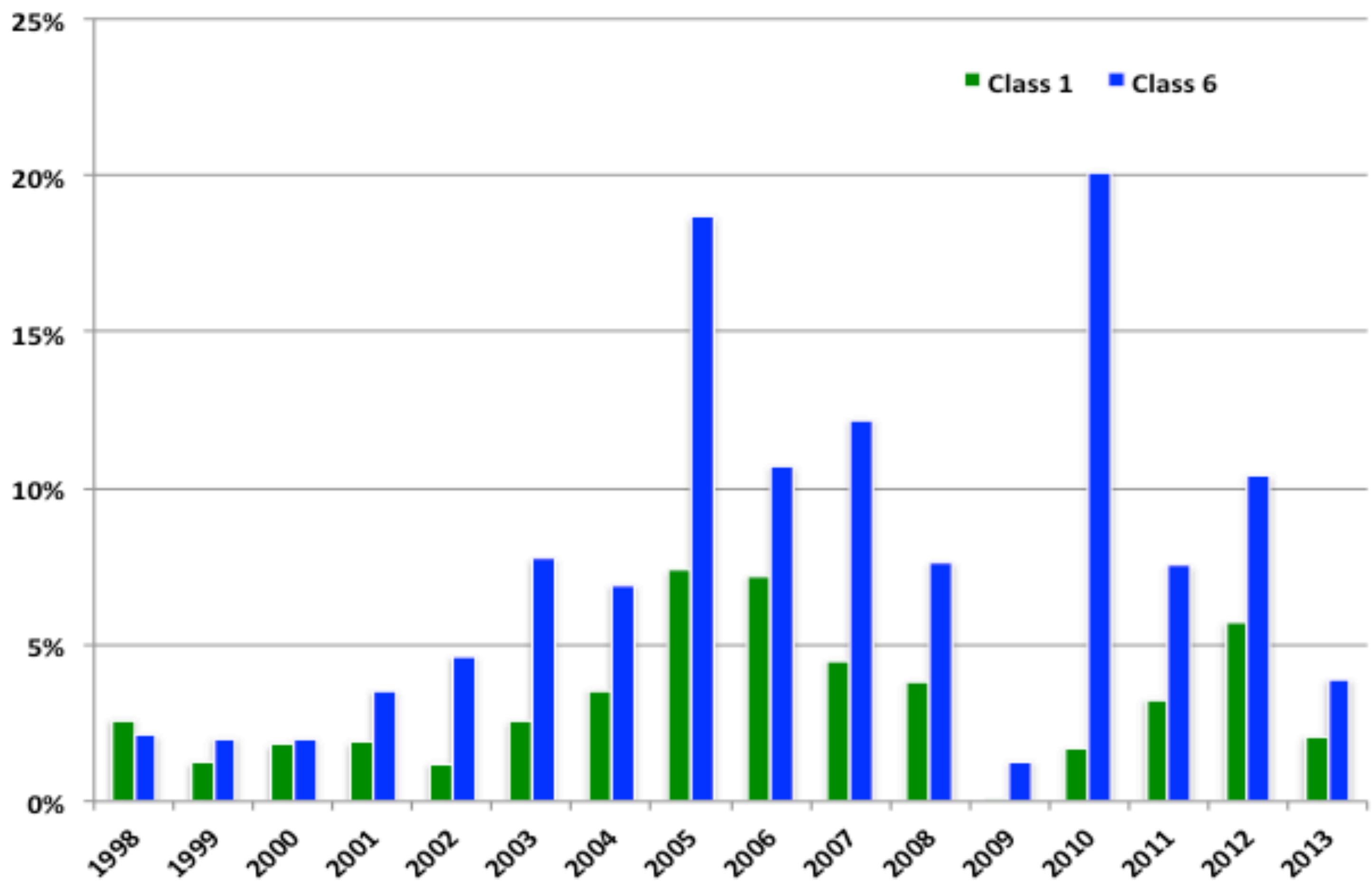
Volatility: The Hot Spot Issue

- Stability and predictability are two desirable characteristics of tax systems
- Predictability result when taxes do not change significantly from year to year in response to forces over which taxpayers have no control.
- 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.

Hot Spot Defined

- 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 a policy determined benchmark (10%),
  - excludes of new construction

Hot Spots: The Evidence



PROPERTY TAX
POLICY REVIEW
COMMISSION

2014 REPORT

CITY OF VANCOUVER

PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

Hot Spots: Contributing Factors

- Changes in City initiated land use and land density (or even anticipation of changes)
  - Note that owner initiated rezoning and density changes would be excluded since they should be anticipated
- Land speculation
- Changes in infrastructure
- Market trends
- Changes by BC Assessment based on previously unavailable evidence

CITY OF VANCOUVER

Class 6 Hot Spots: The Evidence

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

PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

Hot Spots: The Stakeholders Comments

- The Vancouver Board of Trade "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".
- It is commercial tenants, as opposed to owners that are most seriously affected - linked primarily to triple-net leases that effectively transfer all volatility-related risk to lessees during the terms of their leases.
- Volatility threatens the viability of small, independent businesses in Vancouver.
- In the interim period between the unanticipated tax increases and the end of the triple net leases that commercial tenants need some measure of tax relief.
- *Advance Notice* — Stakeholders stated that the difficulties experienced by commercial tenants are made worse by the absence of any advance notice or warning system of sharp increases in property taxes owing.

Hot Spots: The Stakeholders Comments

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

Hot Spots: The Stakeholders Comments

- *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.
- *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.

Hot Spots: Current Interventions

- *Property Tax Deferment Program* — Eligible homeowners can receive low interest loans from the Province to pay their property taxes on their principal residences.
- *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.
- Three-year land averaging.

Hot Spots: The Commission's Basic 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.
- *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.
- *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.

CITY OF VANCOUVER

Class 6 Hot Spots: Options Considered

- Three-year land averaging (Status quo)
- Five-year land averaging
- Capping
- Phase-in (recommended last time and rejected by the City)
- Tax deferral
- Rebate to tenants
- Revitalization tax exemption
- Targeted five-year land averaging
- Split class assessment
- The Commission rejected the first seven options for a variety of reasons and focused on the last two options

Targeted Five-Year Land Assessment Averaging

- The targeted five-year land assessment averaging option would intervene in the market only when, and as long as, an individual property is hot.
- It 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.
- The averaging will only apply to land and be subject to the filters currently used for three-year land averaging.
- It is built on information that is readily available to the City

Targeted Five-Year Land Assessment Averaging

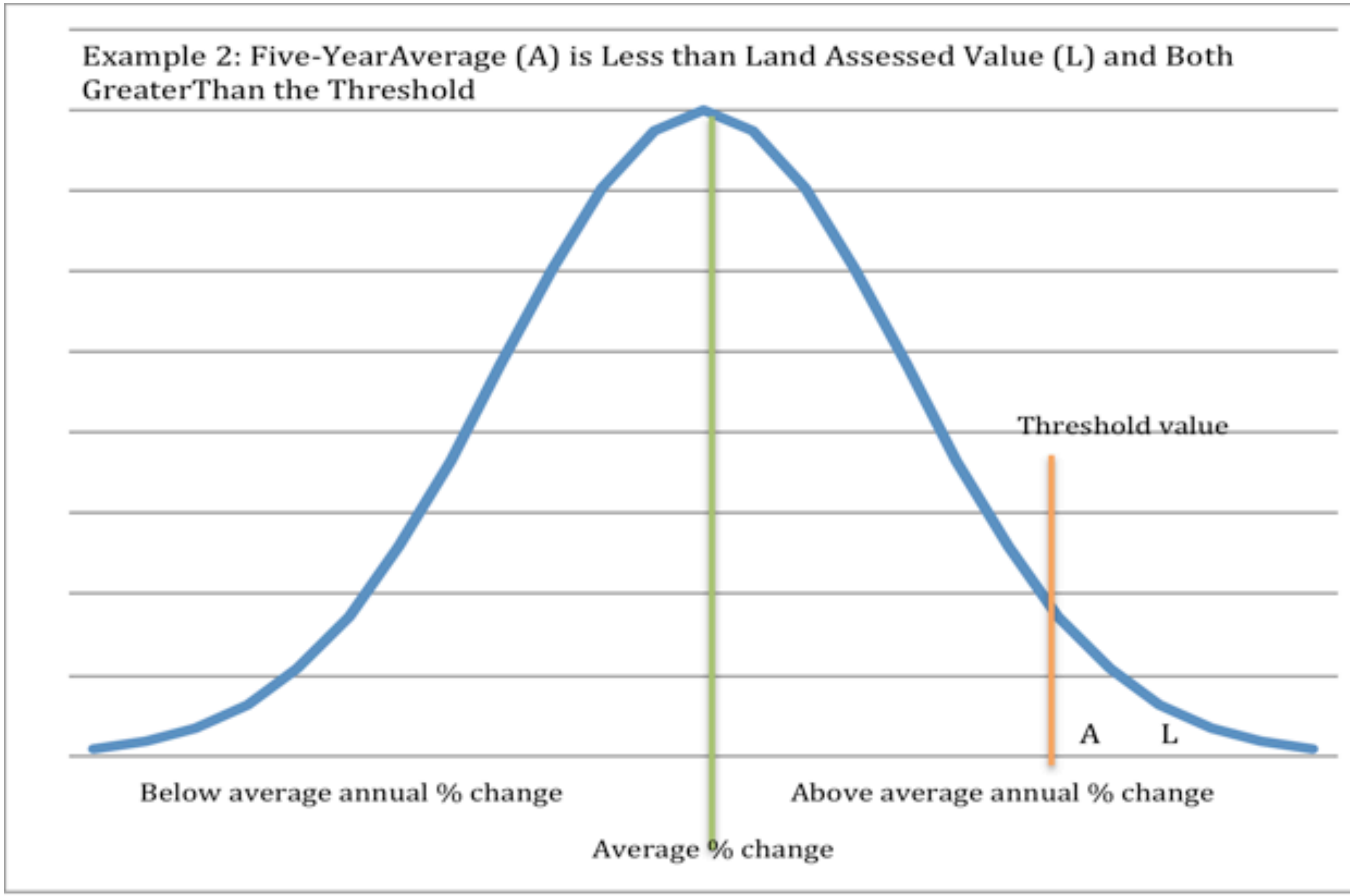
- Set a policy determined benchmark rate to identify hot properties (the Commission believes 10% is reasonable)
- Calculate an annual threshold rate that is equal to:
  - ((1+benchmark rate)*(1+ annual change for the total net assessed land value for the class))-1
  - For example, if the annual percentage 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%

PROPERTY TAX
POLICY REVIEW
COMMISSION

2014 REPORT

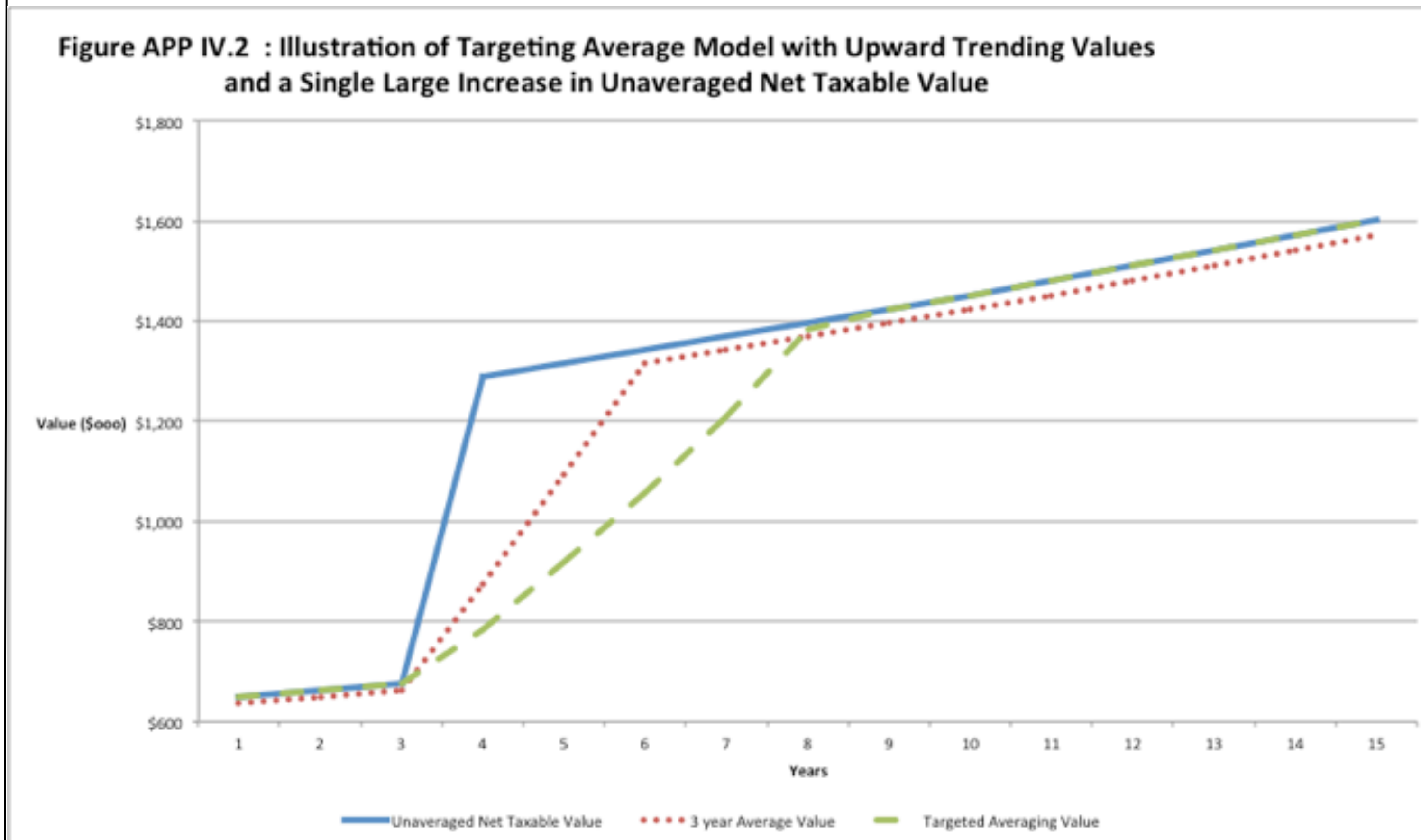
Targeted Five-Year Assessment Averaging



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

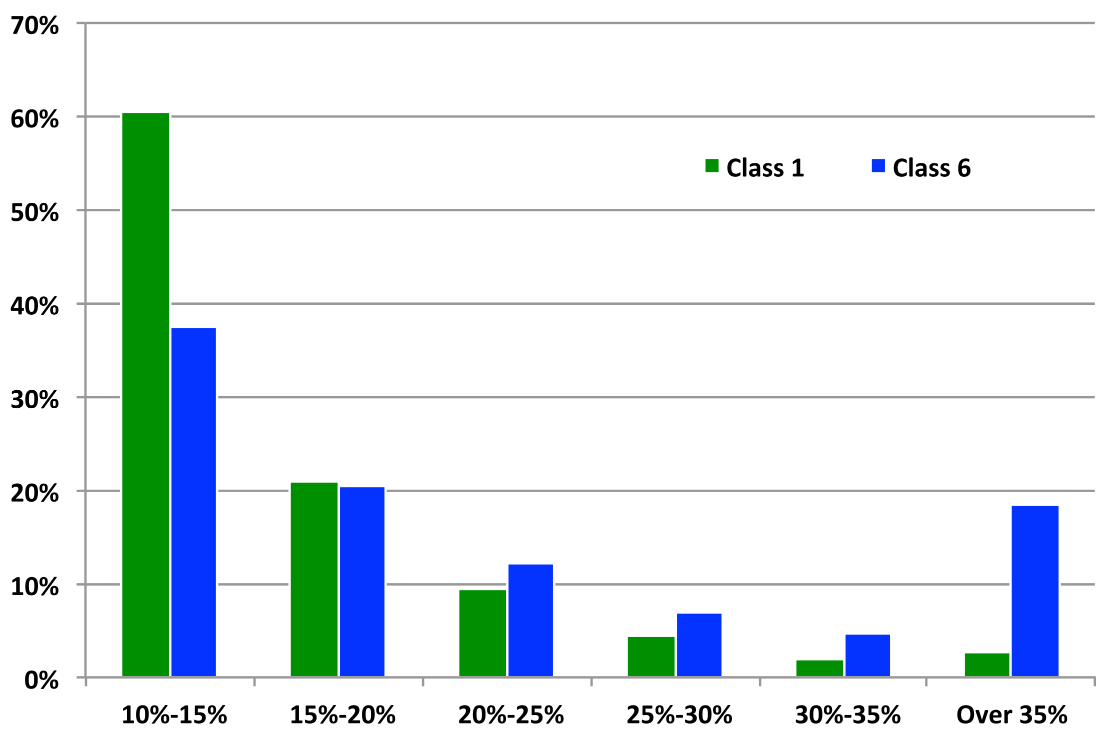
Targeted Five-Year Assessment Averaging
One Single Large "Shock"



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

Severity of Hot Properties 1998-2013
Annual Percentage Change In Taxable Values



PROPERTY TAX
POLICY REVIEW
COMMISSION

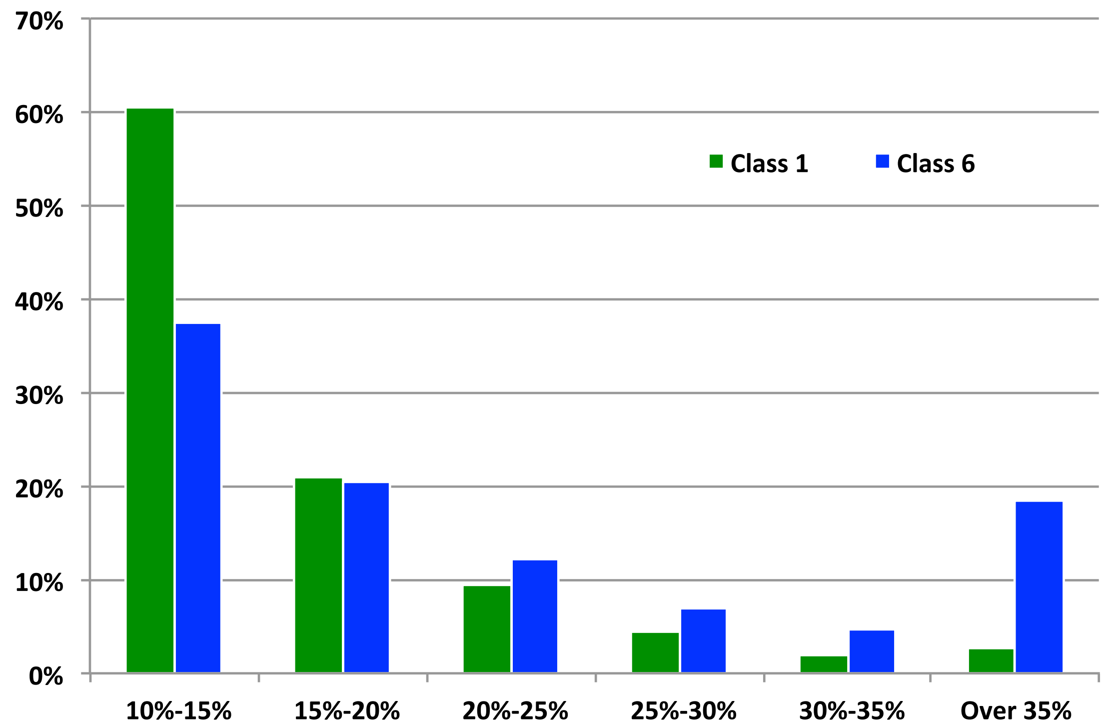
2014 REPORT

CITY OF VANCOUVER

Targeted Five-Year Assessment Averaging

- Tailor assistance to the magnitude of increase is perhaps the strongest argument in favour of targeted five-year land averaging.
- Most Class 1 hot properties over 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, 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.

Severity of Hot Properties 1998-2013
Annual Percentage Change In Taxable Values



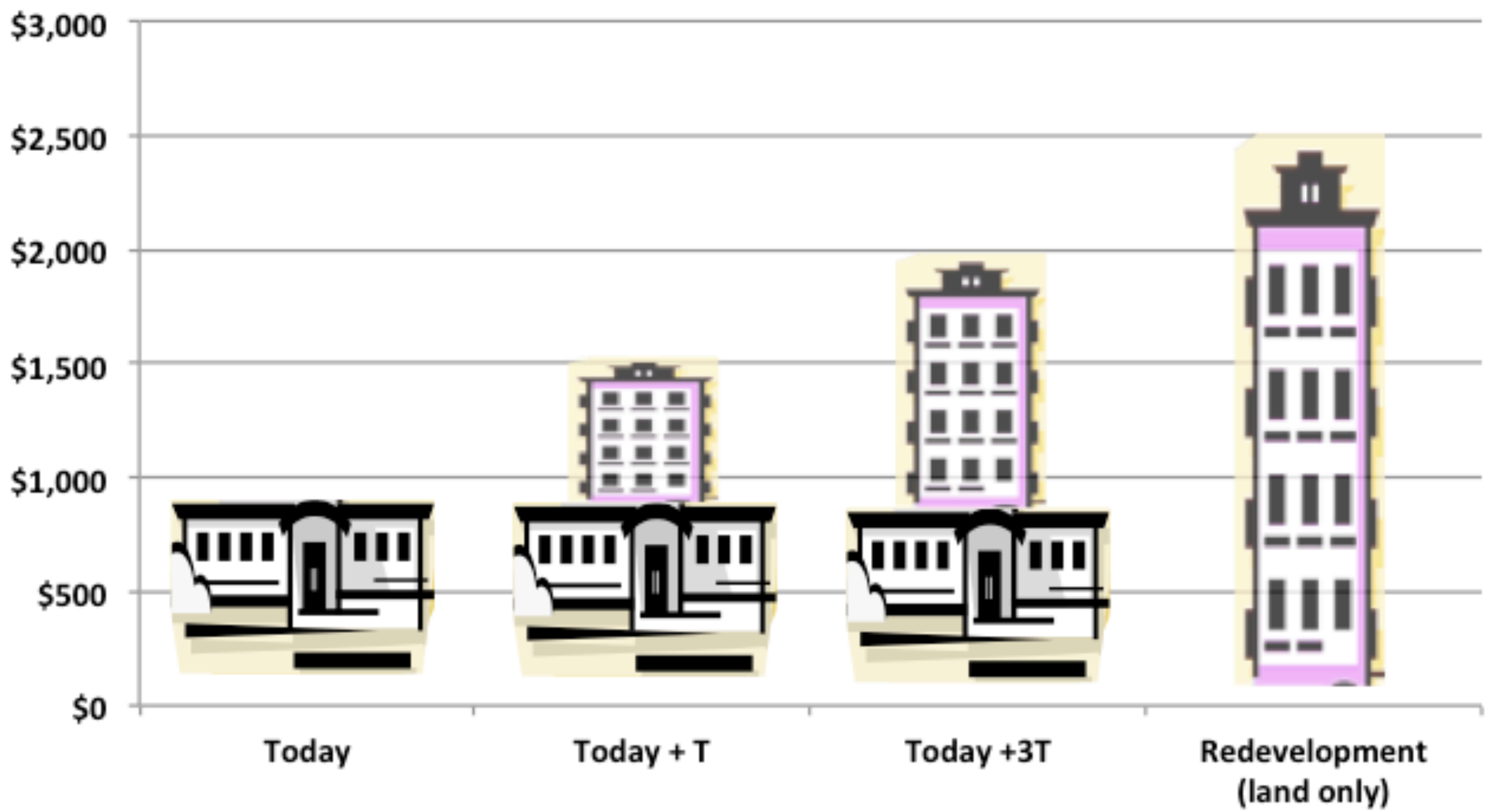
PROPERTY TAX
POLICY REVIEW
COMMISSION

2014 REPORT

Split Assessment Class

- In general, the split class model is advocated for properties that face the prospect of redevelopment.
- It differs from the other options in that it would reduce the taxes paid on hot properties by modifying the way in which the properties are <u>classified</u> for tax purposes by BC Assessment.
- This change would also require a modification to the manner in which such properties are assessed
  - separate assessments for current use
  - Separate assessments for development potential
  - but with the total assessed value remaining the same.

Illustration of Split Assessment Class



PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

Points to Consider Relating to the Split Class Assessment Option

- Every example provided to the Commission used Class 5 or 6 properties (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 6.
  - It would be instructive to determine if in such circumstances the split assessment model would be embraced with the same enthusiasm.
- 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.
- 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- <u>expectations about future use, density and timing.</u>
  - At what point is it reasonable to consider applying the split class assessment:

CITY OF VANCOUVER

Points to Consider Relating to the Split Class Assessment Option

- To what extent might the split class assessment delay redevelopment to the use the City encourages?
- Adoption of the model would almost certainly increase the number of assessment appeals as owners would be able to appeal
  - the total value,
  - the split between land and improvement
  - the split in value between classes

  It is necessary to weight the gain and the administrative costs of more appeals.

PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT

Recommendations Concerning Volatility
The Hot Spot Issue

- 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.

CITY OF VANCOUVER

Conclusions

- A special thanks to the City staff, especially Grace Cheng and Marty Radakovich
- Thanks to the staff at BC Assessment
- Thanks to the stakeholders
- And a special "thank you" to Council for allowing us to assist with this very important matter
- Questions?

PROPERTY TAX POLICY REVIEW COMMISSION

2014 REPORT