CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	July 2, 2014
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Meeting Date:	July 9, 2014

TO: Standing Committee on City Finance and Services

FROM: General Manager of Financial Services Group

SUBJECT: Property Tax Policy Review Commission Report – Staff Analysis and Implementation Strategies

RECOMMENDATION

Tax Stability & Predictability

A. THAT Council instruct staff to:

i) seek confirmation from the Province on the authority under section 374.4 of the *Vancouver Charter* to use the "threshold" value (e.g. 10% above class average change) to define eligibility for targeted averaging and, if necessary, request a change in regulation to effect such authority; and

ii) seek an amendment to the *Vancouver Charter* to allow the City to use the "threshold" value, in addition to the assessed value provided by BC Assessment and the averaged value derived from the averaging formula, as the taxable value for the calculation of property taxes.

B. THAT, if the amendments described in Recommendation A are approved and enacted by the Province in time for the 2015 tax year, Council instruct staff to implement targeted land assessment averaging for Classes 1, 5 and 6 in two phases:

- Phase I (2015) – targeted 3-year land assessment averaging
- Phase II (2019) – targeted 5-year land assessment averaging

C. THAT, if the amendments described in Recommendation A are *not* approved and enacted by the Province, in whole or in part, in time for the 2015 tax year, Council instruct staff to report back with an analysis on the implications of implementing targeted land assessment averaging , and make recommendations for Council's consideration no later than March 2015.

D. THAT Council instruct staff to invite major Metro Vancouver municipalities and the Union of British Columbia Municipalities (UBCM) to join the City in submitting a written request to the Chief Executive Officer of the BC Assessment Authority (BC Assessment) to prepare and distribute a report on the advantages and disadvantages of the "split class" assessment option and other mitigation options such as the application of Section 19(4) of the *Assessment Act* with regards to the "value-in-use as going concern" assessment option.

E. THAT Council instruct staff to submit a written request to the Chief Executive Officer of BC Assessment to incorporate in the annual property assessment notice key drivers for significant year-over-year changes in assessed land and improvement values, and direct property owners to the City's website for class average change information.

Tax Distribution

F. THAT Council instruct staff to maintain the current tax distribution for the time being, and incorporate the eight metrics recommended by the Property Tax Policy Review Commission into the City's economic performance evaluation framework to help guide future tax distribution decisions.

REPORT SUMMARY

In 2012, Council completed the 5-year, $23.8 million tax shift program recommended by the Property Tax Policy Review Commission (PTPRC) in its 2007 report. In April 2013, Council reconvened the PTPRC to update its work on two specific areas: i) tax distribution and ii) tax stability and predictability.

In February 2014, Council received a report from the PTPRC with the following recommendations:

Tax Distribution

- THAT Council leave the Class 5 and 6 tax shares unchanged at this point in time.
- THAT Council endorse and use the eight metrics[1] identified 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 Stability & Predictability

- 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 neighboring 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 Calls Assessment option.

[1] Eight metrics recommended by the PTPRC: i) tax share ii) Class 6 tax rates iii) Class 6 taxes per sq. ft. iv) Class 6 taxes per capita v) tax rate ratio vi) change in Class 6 building permits vii) change in Class 6 assessment viii) change in Class 6 vacancy rates

- THAT Council request 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.

The purpose of this report is to present staff analysis on the PTPRC recommendations and implementation strategies for Council's consideration.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Since 1983, it has been Council policy to distribute the general purpose tax levy across property classes through a "tax share" approach under which the share of the levy collected from each property class remains constant over time, subject to adjustments arising from non-market changes on the *Assessment Roll* (e.g. transfer of properties among classes, new construction within each class) and Council decisions to adjust the tax share for each class. This approach ensures that tax share is set by Council policy, not by market value changes. This policy was reaffirmed by Council in April 2005, and endorsed by the PTPRC in its Final Report to Council in September 2007.

Since 1993, it has been Council policy to apply the 3-year land assessment averaging program for the purpose of calculating property taxes for Residential (Class 1) and Business & Other (Class 6) properties; in 2007, Council extended the program to Light Industrial (Class 5) properties.

In September 2006, Council established the PTPRC to make recommendations on a long-term policy that will define and achieve a fair **tax distribution**, and a strategy to enhance the **stability and predictability** of property taxes for individual properties in the face of sudden, large, year-over-year increases in market value. Pursuant to the PTPRC Final Report presented in September 2007, in March 2008, Council adopted the following recommendations:

- shift $23.8 million from non-residential to residential property classes at a rate of 1% of the overall tax levy per year to achieve a target distribution of 52% residential and 48% non-residential (based on the 2007 Assessment Roll); and
- seek an amendment to the *Vancouver Charter* to allow the City to use up to five years of land values in the averaging formula.

In April 2013, Council reconvened the PTPRC to update its work on the following:

- assess viable options for **tax distribution**; validate whether the tax share of 53% residential/ 47% non-residential continues to be an appropriate distribution; and recommend metrics for monitoring tax share over the long-term and its impact on residents and business climate; and
- assess viable options to enhance property **tax stability and predictability** arising from significant year-over-year market value changes.

In February 2014, Council received the report from the PTPRC, and deferred Council decision on its recommendations until staff report back with an analysis and implementation strategies.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

Vancouver has consistently been ranked by leading global authorities as one of the most livable cities in the world, and was ranked by KPMG as having one of the best business tax environments in 2014. To continue to capitalize on this competitive advantage, the City needs to maintain an affordable environment for businesses and residents.

While the City's property tax regime generally functions well, every tax system has inherent limitations and challenges. Over the years, tax share and assessment volatility have been top of mind issues within the business community. The challenge is more prevalent on "hot" properties with triple net leases where landlords transfer the entire tax burden to small business tenants while benefiting from future capital gain upon redevelopment.

Shortly after the 5-year, $23.8 million tax shift program was completed in 2012, Council reconvened the PTPRC in 2013 to provide an updated assessment of the tax share and assessment volatility issues, and recommend further actions as appropriate for Council's consideration. The intent is to ensure that the City's tax policies continue to be progressive and current in meeting the needs of businesses and residents, and align with the broader public policies and long-term goals.

In its report to Council in February 2014, it is encouraging to note that the PTPRC found no evidence of an increasing business tax differential between Vancouver and other parts of the region, or of business investment moving to neighboring municipalities. This suggests that the tax shift program was effective in bringing the City's business tax share in line with our peers and hence no additional tax shift is necessary at this point. With regards to concerns around assessment volatility and "hot" properties, staff support the PTPRC recommendation of a targeted land assessment averaging approach that applies mitigation to only "hot" properties if and when needed and hence minimizes unintended consequences. However, the City does not have the authority to fully implement the program at this time. Should Council support replacing the current 3-year land assessment averaging program with the targeted approach, staff will seek an amendment to the *Vancouver Charter* from the Province.

In addition to the significant progress made on the City's property tax policy, lowering the business tax share and tax rate ratio to 47% and 4.2 respectively (both at historical lows), Council has taken a number of proactive steps to enhance affordability and support economic development in Vancouver:

- keeping property tax increase in line with inflation;
- bringing transformative changes to streamline City operations for greater efficiencies, reduced duplication, and improved oversight and accountability;
- launching the Vancouver Economic Action Strategy in 2011;
- adopting Transportation 2040 to enable a sustainable, efficient transportation system; and
- adopting land use policies that preserve commercial and industrial space job space and promote affordable housing, affordable childcare and accessible recreational facilities to attract and retain workforce talent.

The result of these actions is significant, as there has been significant job growth in the city and commercial and office development activities have been robust in recent years. Vancouver continues to enjoy one of the lowest vacancy rates in Metro Vancouver.

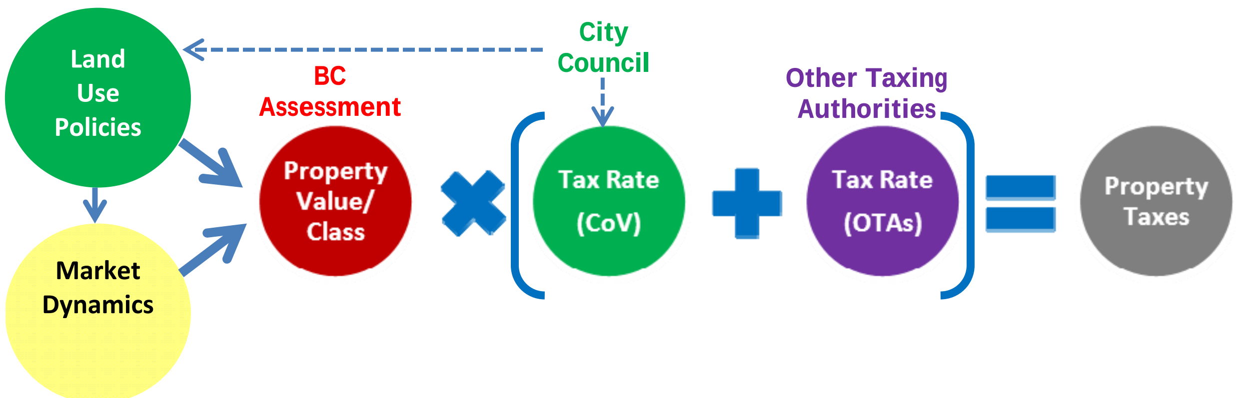
REPORT

Background/Context

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

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

Figure 1: Property Taxation Framework



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

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

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

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In September 2006, Council established the PTPRC to make recommendations on a long-term policy that will define and achieve a fair **tax distribution**, and a strategy to enhance the **stability and predictability** of property taxes for individual properties in the face of sudden, large, year-over-year increases in market value. Pursuant to the PTPRC Final Report presented in September 2007, in March 2008, Council adopted the following recommendations:

- **Shifting $23.8 million from non-residential to residential property classes at a rate of 1% of the overall tax levy per year** to achieve a target distribution of 52% residential and 48% non-residential (based on the *2007 Assessment Roll*) - The program commenced in 2008 and was completed in **2012**. Once the target was achieved, the City should leave the tax share unchanged for a period of five years, unless the business tax differential between the City and its neighbors in Metro Vancouver widened considerably, or the balance of business investment tilted away from Vancouver to other parts of the region.

- **Seek an amendment to the Vancouver Charter to allow the City to use up to five years of land values in the averaging formula** - The amendment was enacted by the Province in 2013. 2014 is the first year that the averaging program is governed by the amendment. As a result of the amendment, Council is authorized to enact applicable by-laws choosing the number of years that are included in the averaging formula, up to a maximum of five years. Once the choice is made, the averaging formula needs to hold for five years. However, Council can specify the eligibility requirements for properties to be considered for the averaging program every year in the by-law.

In April 2013, Council reconvened the PTPRC to update its work on the following:

- assess viable options for **tax distribution**; validate whether the tax share of 53% residential/ 47% non-residential continues to be an appropriate distribution; and recommend metrics for monitoring tax share over the long-term and its impact on residents and business climate; and
- assess viable options to enhance property **tax stability and predictability** arising from significant year-over-year market value changes.

The PTPRC submitted a report to Council in February 2014 with six recommendations for Council's consideration. Staff has since reviewed and performed further analysis on those recommendations which is summarized in the following section.

Strategic Analysis

I. TAX DISTRIBUTION

In its 2007 report, the PTPRC recommended a $23.8 million tax shift program to achieve a target tax share of 52% residential/48% non-residential, and holding the tax share for five years unless the business tax differential between Vancouver and the neighboring municipalities widened considerably, or the balance of business investment tilted away from Vancouver to other parts of the region. The program was completed in 2012.

In its 2014 report, the PTPRC affirmed that there was no evidence of an increasing business tax differential, or of business investment moving to neighboring municipalities. It also reiterated that there is no single definition of what the most appropriate tax share for the commercial sector should be as allocation of tax burden requires a degree of judgment. To help inform the City's tax share policy discussion, the PTPRC recommended eight metrics to gauge Vancouver's relative competitiveness in retaining and attracting business investments among other Metro Vancouver municipalities.

i) tax share
ii) Class 6 tax rates
iii) Class 6 taxes per capita
iv) tax rate ratio

v) change in Class 6 assessment
vi) Class 6 taxes per sq. ft.
vii) change in Class 6 building permits
viii) change in Class 6 vacancy rates

Taken together, these metrics provide some indication of the commercial property environment in Metro Vancouver.

PTPRC Recommendation #1: THAT Council leave the Class 5 and 6 tax shares unchanged at this point in time.

Staff Comment: Agreed. Upon conclusion of the 5-year, $23.8 million tax shift program in 2012, Vancouver's business tax rate is now below the regional average, the tax rate ratio (business tax rate/residential tax rate) improved substantially from 5.5 in 2007 to 4.2 in 2014, and the business tax share reduced from 60% in the mid-90's to 46% in 2014, both at historical lows. (Recommendation F)

PTPRC Recommendation #2: THAT Council endorse and use the eight metrics to guide future decisions on the distribution of the municipal property tax burden among tax classes.

Staff Comment: Agreed. The eight metrics would supplement other macro-economic indicators that are currently tracked by the City as part of long-term financial planning. In aggregate, they would provide an indication of the business climate and commercial property environment in Vancouver relative to other major Metro Vancouver municipalities over time. (Recommendation F)

PTPRC Recommendation #3: THAT Council invest the resources necessary to refine and strengthen the data for the metrics.

Staff Comment: Staff has assessed the accessibility and quality of data required for the metrics. The first five metrics (tax share, Class 6 tax rates, Class 6 taxes per capita, tax rate ratio, and change in Class 6 assessment) can be implemented immediately as such data is available on the Local Government Statistics website and from BC Assessment.

For Class 6 taxes per sq. ft., staff propose to start with the following categories:

- *commercial buildings for office, hotel and industrial use*
- *single level retail, restaurants, grocery stores and garages*
- *retail at grade as part of residential property*

For each category, representative property folios will be selected from key business districts in Vancouver and neighboring municipalities for tracking and benchmark purposes.

Data for the last two metrics (change in Class 6 building permits and change in Class 6 vacancy rates) may not be publicly available on a consistent basis. Where practical, staff will collect available data from Statistics Canada, BC Statistics, Conference Board of Canada, Real States Board of Greater Vancouver, and BC Assessment.

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II. TAX STABILITY & PREDICTABILITY

The PTPRC 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 10%. Hot spots may result from a number of different factors, including rezoning, speculation, market trends, infrastructure development (e.g. rapid transit), and assessment changes initiated by BC Assessment.

In its report to Council in February 2014, the PTPRC indicated that hot spots have been less prevalent in Vancouver since 2007, but it remained concerned about hot spots in the commercial sector, assessment volatility and resulting tax impact on businesses, particularly those that rent space under triple-net leases which could be hard hit by assessment spikes with no ability of sharing any upside in property values upon redevelopment.

In determining which mitigation tool is the most appropriate, the PTPRC sets out the following guiding principles:

i) targeted
   - "hot" properties only, not all properties
   - unanticipated increases only, not owner-induced increases (rezoning, improvement upgrades)

ii) tailored mitigation to intensity of volatility
iii) time-limited to allow tenants time to react (re-negotiate, relocate)
iv) easy to understand
v) straightforward to administer
vi) minimize unintended consequences
vii) maintain market assessment as much as possible
viii) not to unduly defer redevelopment to highest & best use

Of the following options considered:

- 3-year land assessment averaging (current program)
- 5-year land assessment averaging
- targeted 5-year land assessment averaging
- capping
- phase-in
- rebate program for tenants
- tax deferral
- split class assessment

the PTPRC concludes that the targeted 5-year land assessment averaging best meets the above guiding principles.

PTPRC Recommendation #4: 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.

Staff Comment: Agreed. Comparing to the current averaging program (Figure 1) which applies to all eligible properties in Class 1, 5 and 6 whether or not the properties require intervention, targeted averaging (Figure 2) is designed to address only "hot" properties that *are above the threshold set by Council. The intent is to reduce the severity of the volatility until such time as the property is no longer "hot". As such, the percentage change in land value will decrease during such time when intervention is applied.*

Figure 1: Current Land Assessment Averaging

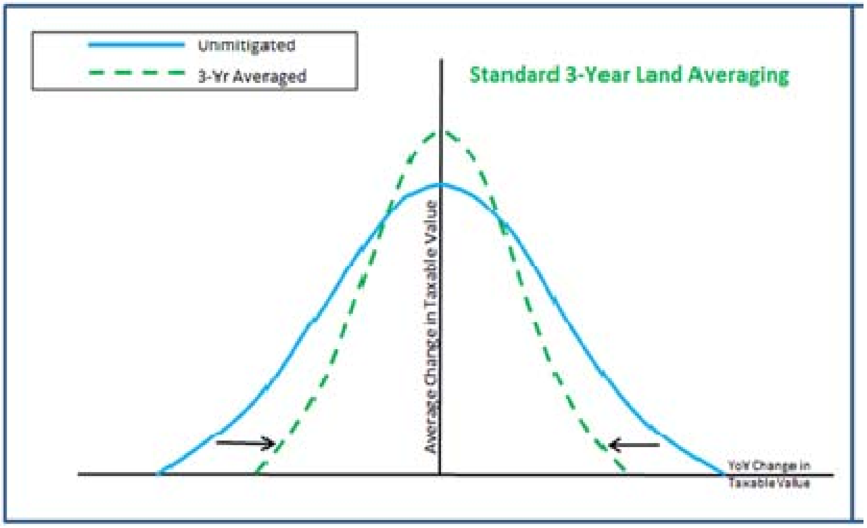
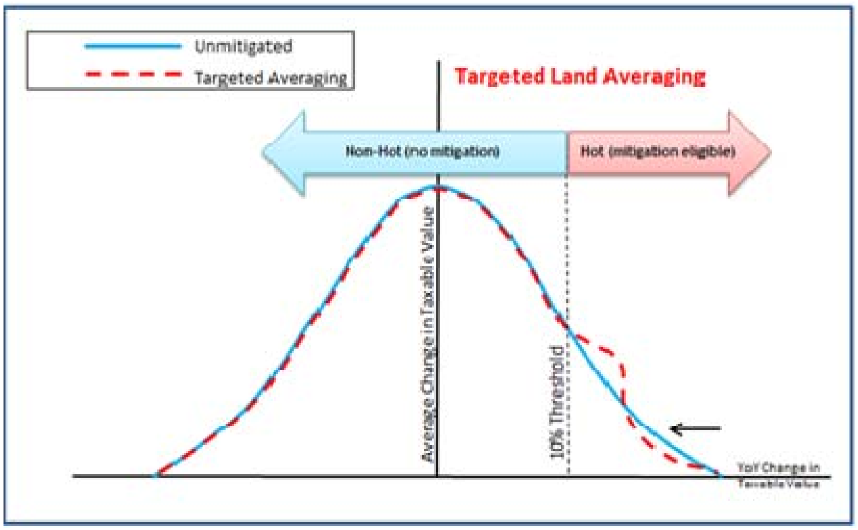
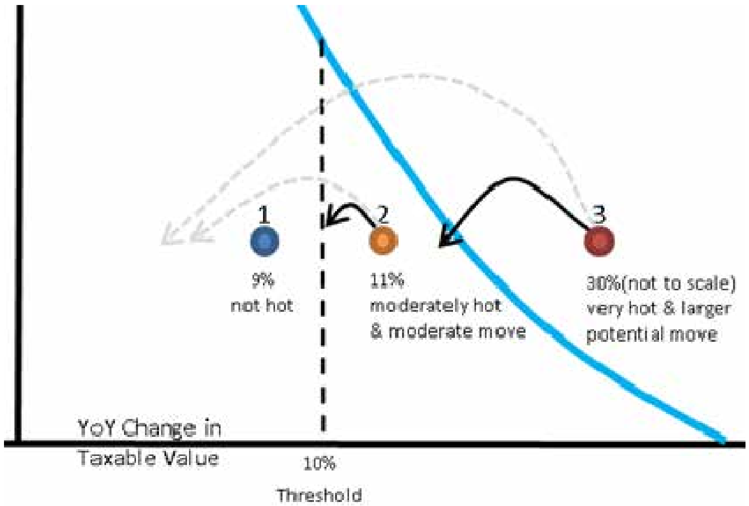


Figure 2: Targeted Land Assessment Averaging



As shown in Figure 2 above, if a property is deemed "hot", targeted averaging will be applied to move the property towards, but not lower than, the threshold. The rest of the properties that are below the threshold will not be subject to any intervention.

Figure 3: Tailored Intervention



With the threshold value as the floor, targeted averaging is able to tailor intervention to address varying degree of volatility. As illustrated in Figure 3 above,

- *Folio #1 experiences a 9% increase in total value. As its increase is below the 10% threshold, it does not require any intervention.*
- *Folio #2 experiences an 11% increase in total value. As its increase is slightly above the 10% threshold, it will be eligible for intervention. If targeted averaging brings the property below the threshold, the adjusted taxable value will be set at the 10% threshold, which is 1% below its original increase.*
- *Folio #3 experiences a 30% increase in total property value. As its increase is significantly above the 10% threshold, it will be eligible for intervention. Targeted averaging will bring the property to a level above the threshold, but significantly below the original increase.*

As targeted averaging focuses only on "hot" properties above the threshold, all properties below the threshold will be left untouched; as a result, unintended consequences are minimized. As an example, a property that is below the threshold but experiences a significant shift in value between land and improvement could be disadvantaged under the current averaging program, but will be left untouched under the targeted approach.

Based on our analysis, targeted averaging seems to meet the guiding principles more effectively than the current averaging program. Below is a summary of the key difference between the two programs.

Current Averaging (Classes 1/5/6)	**Targeted Averaging (Classes 1/5/6)**
• apply to *all* properties whether or not intervention is required • intervention blind to severity of volatility	• apply only to "hot" properties above threshold • tailor intervention to address severity of volatility • lower value towards, but not below, threshold
• ongoing intervention	• intervene only when a property is "hot"
• 50% of properties pay higher tax to subsidize the other 50% - higher tax impact	• Typically >80% of properties pay higher tax to subsidize <20% properties - lower tax impact
• property value could be adjusted higher, resulting in higher tax	• value will only be adjusted lower or unchanged, never higher

Under Section 374.4 of the Vancouver Charter, it is not clear whether Council has explicit authority to set a "threshold" as a way to define eligibility for targeted averaging (e.g. 10% above class average change). As well, additional authority needs to be sought to allow Council to use the "threshold" value as the taxable value for the calculation of property tax. Should Council support this, staff will i) seek confirmation from the Province on the authority under section 374.4 of the Vancouver Charter and, if necessary, request a change in regulation to effect such authority; and ii) seek an amendment to the Vancouver Charter to enable the use of the "threshold" value as the taxable value.

Section 374.4 (12) & (13) of the Vancouver Charter (enacted in 2013) allows Council to use up to five years of land value in the averaging formula. Once selected, the averaging formula must hold for five years. In March 2014, Council approved the continuation of 3-year averaging pending staff analysis and report back on the changes proposed by the PRPRC in February. The earliest time to switch to 5-yr averaging would be 2019 unless legislative change is sought with the Province. Should Council support transitioning from 3-year land assessment averaging to targeted 5-year land assessment averaging, staff will seek an amendment to the Vancouver Charter to move to 5-year averaging in 2015.

If the above amendments, in whole or in part, are not approved and enacted by the Province in time for the 2015 tax year, staff will report back with an analysis on the implications of implementing targeted land assessment averaging, and make recommendations for Council's consideration no later than March 2015. (Recommendations A to C)

PTPRC Recommendation #5: THAT Council invite neighboring 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.

Staff Comment: It is important to understand the definition of Split Class Assessment and the parameters within which this option could be applied. From a tax policy perspective, the viability of this option should be assessed considering a wide variety of factors including, but not limited to, the following:

- *one-time and ongoing implications on the City's assessment base and property tax base;*
- *one-time and ongoing implications on the valuation and classification of impacted properties over time (before and after redevelopment);*
- *potential tax shift from impacted properties to other properties within or outside the property class;*
- *potential tax impact on other properties; and*
- *potential deferral of redevelopment to achieve highest and best use.*

Should Council support further investigation of the Split Class Assessment option, staff will work with the UBCM and BC Assessment on a discussion paper. Any findings and conclusion must take into consideration those factors that are critical to maintaining the health of the City's property tax base and one-time and ongoing impact on taxpayers. (Recommendation D)

PTPRC Recommendation #6: THAT Council request 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.

Staff Comment: Agreed. As property owners receive assessment notices from BC Assessment in January, five months before they receive property tax notices from the City in *mid-May, it would be helpful for property owners to have an early indication on how the change in their property value compares to the class average change and, as a result, whether the property would experience above average property tax increase. Class average change information could be made available on the City's website for public reference.*

Should a property experience significant year-over-year change in its assessed land and/or improvement value, it would be helpful for the property owner to understand the key drivers for such a change. Staff will inquire BC Assessment about the feasibility of incorporating such information on the assessment notice. (Recommendation E)

Implications/Related Issues/Risk (if applicable)

Financial

Implementation of the PTPRC recommendations is expected to be undertaken within existing staffing resources. Should the City proceed with targeted land assessment averaging, any incremental systems and programming costs will be considered as part of the annual budget process.

CONCLUSION

In February 2014, Council received a report from the PTPRC with a number of recommendations, including i) leaving Class 5 and 6 tax shares unchanged, ii) adopting eight metrics to guide future decisions on tax share, and iii) replacing 3-year land assessment averaging with targeted 5-year land assessment averaging. Based on further analysis, staff support the PTPRC recommendations and propose a phased implementation approach as outlined in this report for Council's consideration.

* * * * *

TAX DISTRIBUTION

Distribution of the general purpose tax levy across property classes has been a subject of discussion since the mid-1970s when market value assessments were introduced in British Columbia. There are two common approaches to tax distribution:

(i) "Tax Rate Ratio" Approach
"Class multiples" are used to fix the ratio between the Class 1 Residential tax rate and the tax rates of all other property classes. This often leads to significant year-over-year tax shifts between residential and non-residential property classes arising from differential market value changes among those classes.

(ii) "Tax Share" Approach
Distribution of the tax levy across property classes is determined by Council, subject to non-market changes within the classes (e.g. property transfers between classes, new construction) and/or Council decisions to adjust the share for each class. This means differential market value changes will not impact the tax share for each class.

In the late 1970s and early 1980s, the Province established the tax rate ratios for municipal governments annually. This resulted in significant year-over-year inter-class tax shifts arising from differential market value changes. At the request of Council and the Union of British Columbia Municipalities, the Province granted municipal governments the authority to determine their own tax distribution approach beginning in 1983. Since then, it has been Council policy to use the "tax share" approach.

There are different approaches for distributing the costs of tax-supported City services and programs among property classes. The following guiding principles are typically used to evaluate taxation policies; how they fit together is primarily a subjective consideration by Council.

- Equal treatment of equals
- Fairness, based on benefits received
- Fairness, based on ability to pay
- Economic behavior
- Accountability
- Stability and predictability
- Simplicity and ease of administration
- Regional and national competitiveness

Since the early 1990s, representatives of the business community have been advocating that distribution of tax levy be based on "consumption" of tax-supported City services and programs by each property class. Council did not support the use of "consumption" studies as the basis for tax distribution in 1995 and again in 2007. One of the key reasons is that consumption models in general focus on properties that receive immediate and direct benefits, though fall short on identifying those that receive secondary and/or ultimate benefits from city services and programs. Furthermore, determining benefits received is only one of the several aforementioned guiding principles to be considered in setting tax distribution. Nevertheless, to address the impacts of tax distribution on businesses, Council agreed to gradually shift the tax levy from non-residential property classes to residential property classes.

In November 2006, Council established the PTPRC to address two key issues concerning the impact the City's taxation policies have on Vancouver's economy:

> *Tax Share* – Recommend a long-term policy that will define and achieve a "fair" tax distribution for commercial property taxpayers, addressing the perceived inequity in the share of the City's general purpose tax levy that is paid by the non-residential property classes.
>
> *Volatility* – Recommend a strategy to enhance the stability and predictability of property taxes for individual properties in the face of sudden, large year-over-year increases in market value.

In March 2008, Council approved the following recommendations brought forward by the PTPRC:

> *Tax Share* – Redistribute $23.8 million of tax levy proportionately from Classes 2, 4, 5 and 6 to Classes 1, 8 and 9 over five years, at a rate of 1% of the overall tax levy per year, in order to achieve the PTPRC's recommended tax levy distribution of 52% residential and 48% non-residential *(based on 2007 Assessment Roll)* and to avoid the significant impact of the shift in one year.
>
> *Volatility* - Seek an amendment to the *Vancouver Charter* to enable the City to use up to five years of assessed land values, as opposed to three years currently allowable, in the land assessment averaging formula for calculating property taxes. A request for the amendment was submitted to the Province and enacted in 2013.

It should also be noted that the use of "consumption" studies within the context of property taxation policies was also considered by the PTPRC and was not recommended due largely to the reasons cited above.

Between 1994 and 2014, $53.3 million of tax levy was redistributed from non-residential to residential property classes, reducing the business tax share from 60% to 46%. Although the relative tax burden on non-residential property classes has been declining, the rate at which they are levied (per $1,000 taxable value) has been increasing relative to the rate at which residential properties are levied. This is primarily the result of the differential escalation in property values: non-residential property values have not appreciated as fast as residential values. As such, it is important to note that a higher tax rate ratio between the non-residential property classes and Class 1 - Residential is not always an indicator of increasing tax burden on non-residential properties and that the tax rate ratio by itself is a misleading index of tax equity.

CALCULATION OF TAX RATES

Under the "tax share" approach, Council determines the share of tax levy for each property class, but not for each individual property within the class. Section 374.2 (1) of *Vancouver*

Charter further stipulates that Council determines and imposes a single tax rate for each property class, but not for each individual property within the class. To generate the Council-approved tax levy, when the total assessed value of a property class increases, the tax rate for the class is adjusted down; when the total assessed value decreases, the tax rate is adjusted up.

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

Table 7 below outlines how volatility in a property's assessed value impacts its property taxes in general terms. It does not, however, reflect the impact of non-market changes (e.g. new construction, class transfers) and redistribution of taxes among property classes.

Table 7: Impact of Assessed Value on Property Taxes

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

MITIGATING MEASURES

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

PROVINCIAL MITIGATING MEASURES (RESIDENTIAL PROPERTIES ONLY)

(i) *Assessment Act* **s19(8)** (property value reduction)
This option applies to properties within an area where there is a change in the land use policy involving "upzoning" and additional development potential which significantly increases the underlying land value. Under s19(8), residential property owners who have continuously owned and occupied the property as their principal residence for at least 10

years are eligible for a reduced property assessment. For eligible properties, the land portion of the assessed value will be based on current zoning rather than on anticipated future zoning and development potential. BC Assessment has been proactive in notifying potentially eligible property owners of this option. Any reduction in assessed values could shift tax burden among property owners, but the total general purpose tax levy remains the same; City revenue is not impacted.

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

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

CITY OF VANCOUVER MITIGATING MEASURE – LAND ASSESSMENT AVERAGING
(RESIDENTIAL & BUSINESS PROPERTIES)

Since 1993, it has been Council policy to apply the three-year land assessment averaging program for the purpose of calculating property taxes for Residential (Class 1) and Business & Other (Class 6) properties; in 2007, Council extended the program to Light Industrial (Class 5) properties.

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

In 2007, the PTPRC recommended using up to five years of assessed land values (instead of the current three years) in the averaging formula to enhance property tax stability and predictability. In Spring 2013, the Province enacted the necessary amendments to the *Vancouver Charter* to enable this approach.

Land assessment averaging is revenue neutral to the City as the total general purpose tax levy collected from each property class is the same with or without application of this mechanism.