CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	March 7, 2018
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Meeting Date:	March 14, 2018

TO: Standing Committee on City Finance and Services

FROM: Director of Finance

SUBJECT: 2018 Property Taxation: Targeted Land Assessment Averaging

RECOMMENDATION

A. THAT Council approve the application of targeted 3-year land assessment averaging for the purpose of calculating property taxes for Residential (Class 1), Light Industrial (Class 5), and Business & Other (Class 6) properties for 2018.

B. THAT, in addition to the standard exclusions as outlined in the annual *Land Assessment Averaging By-law*, Council adopt a “threshold” of 10% above the property class average change for Class 1 and for Classes 5 & 6 to define eligibility for targeted averaging;

FURTHER, THAT the 2018 property class average change for Class 1 and for Classes 5 & 6 be finalized upon receipt of the 2018 *Revised Assessment Roll* in April 2018.

C. THAT properties impacted by the Director of Planning-initiated amendments to the Zoning & Development By-law and/or Official Development Plan in the Mount Pleasant Industrial Area, Railtown (Historic Industrial) District, and False Creek Flats Area be considered for targeted averaging, in accordance with the criteria as set out in the annual *Land Assessment Averaging By-law*.

D. THAT the Director of Legal Services, in consultation with the Director of Finance, prepares a by-law authorizing the use of targeted averaging that reflects Council’s decision on Recommendations A, B and C.

E. THAT, subject to adoption of the by-law, the Director of Finance makes appropriate arrangements with BC Assessment for the production of the 2018 *Average Assessment Roll* at an estimated cost of $25,000 plus applicable taxes; source of funding to be the 2018 Operating Budget.

REPORT SUMMARY

The City plays a leading role in enabling a thriving business environment and building a world-class, sustainable community. Vancouver is consistently ranked as one of the most livable cities in the world and, in 2016, the global accounting firm KPMG ranked the City as the second-most tax competitive in the world. Stability and predictability are two desirable attributes of a property tax system whereby businesses and residents can plan their expenditures within reasonable limits. Changes in property taxes generally reflect two factors: Council-directed tax increase (as part of annual budget) and changes in property assessed values.

To ensure property tax in Vancouver remains competitive and affordable, through continuous business transformation and innovation, the City has consistently had one of the lowest average tax increases in Metro Vancouver in recent years while achieving Council and community priorities. However, rampant real estate speculation in Vancouver in recent years continues to drive up land values, resulting in significant volatility in property assessment and taxes year-over-year and causing hardship for some residents and small businesses. Key factors include:

- market trends driven by supply and demand of the day
- major investment in rapid transit infrastructure in close proximity
- City-led zoning amendments, typically as part of a broader neighborhood planning effort, which define new highest and best uses for existing properties
- market speculation on properties in close proximity to an area under redevelopment and/or in anticipation of City-led planning initiatives which may introduce higher density and mixed uses

In British Columbia, real estate properties are assessed at their highest and best use, and taxes are allocated to individual properties based on such value. In the case where a property is under-developed, its assessed value could substantially increase to reflect additional development potential.

The City does not generate higher tax revenue as a result of rising property values as the required tax levy to be collected is determined by Council as part of annual budget. To achieve “revenue neutrality”, tax rates are lowered to reflect assessment increases. However, differential assessment increase for individual properties could shift tax burden from one property to another in any given year.

While there are a number of Provincial mitigations available for eligible residential properties (e.g. 19(8), tax deferral), those measures do not apply to commercial properties. The challenge is more prevalent for small business tenants as most landlords pass on all property taxes, on both rented space and development potential, to tenants through leases. As tenants do not benefit from increase in property values as an owner would, upon redevelopment or sale, the practice could cause significant financial distress for small business tenants who have very limited ability to absorb and/or finance such an unanticipated surge in expenses during their lease term (typically five years or longer).
Land assessment averaging is an optional tool available to Council under the *Vancouver Charter*. To date, Vancouver is the only municipality in British Columbia that uses land assessment averaging to phase in significant property tax increases arising from assessment volatility at a city-wide level.

- For eligible residential properties, this program complements other provincial measures such as Section 19(8) of the *Assessment Act*, Property Tax Deferment and the Home Owner Grant in alleviating significant year-over-year tax increases.

- For light industrial and business properties, this program is the only mitigating measure that provides businesses with short-term, multi-year relief to enable market adjustments and/or lease renegotiations.

Since 2015, the City has used targeted land assessment averaging to provide short-term relief to "hot" properties (defined as those that have experienced significant year-over-year increases in property values above the "threshold" set by Council) as recommended by the Property Tax Policy Review Commission's (the "Tax Commission") in 2014. Prior to 2015, the City used across-the-board averaging which was in effect since 1993. The intent of the program is to reduce tax increases on targeted properties until such time as the property is no longer "hot". Targeted averaging focuses only on "hot" properties above the "threshold", and properties below the "threshold" will be left untouched by averaging, and pay taxes based on their BC Assessment values.

Given the wide range of assessment increases across property types and neighborhoods in Vancouver and the resulting tax shifts within property classes, staff recommend that Council support the targeted averaging program again this year in order to provide the much needed temporary relief to ~39,700 (23%) residential properties and ~4,400 (30%) light industrial and business properties that are most impacted in 2018.

It is important to note that the affordability challenge arising from rampant real estate speculation, on both residential and commercial properties, is a regional issue impacting most Metro Vancouver municipalities, not just Vancouver. Given the very limited authority and policy tools available for municipalities to address property assessment and taxation issues, Council submitted a written request to the Province in February 2018 to initiate an inter-governmental work group that involves BC Assessment, City of Vancouver and other interested Metro Vancouver municipalities to i) clarify and address assessment and classification issues relating to development potential, and ii) identify viable policy options (e.g. split tax bill, tax deferral) to support small businesses in time for the 2019 tax year. Once the workgroup is struck, City staff will provide updates to Council as soon as practical.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Section 374.4 of the *Vancouver Charter* allows Council to consider the application of land assessment averaging each year. If Council decides to proceed, a by-law must be adopted before March 31 authorizing the use of such a mechanism. Each year, Council can also specify certain eligibility requirements for properties to be considered for averaging under the by-law.

In 1993, Council implemented across-the-board 3-year land assessment averaging for the purpose of calculating property taxes for residential (Class 1) and business (Class 6) properties; and in 2007, Council extended the program to light industrial (Class 5) properties.

In 2007, the Commission provided a thorough review of the City's property tax policy. To address taxation impact arising from assessment volatility, the Commission recommended that Council submit a request to the Province to amend the *Vancouver Charter* to allow 5-year land assessment averaging.

In April 2013, the Province amended sections 374.4 (12) and (13) of the *Vancouver Charter* to allow Council to establish, by by-law, the number of preceding years to be applied in determining the average land value, up to a maximum of five years, for the purpose of land assessment averaging. Once the choice is made, the number of years used in the averaging formula must be held for five years. 2014 was the first year that the averaging program was governed by this amendment.

In May 2013, Council reconvened the Commission to provide an updated assessment of the City's property tax policy. To further address taxation impact arising from assessment volatility, in February 2014, the Commission recommended targeted land assessment averaging.

In March 2014, Council approved the continuation of across-the-board 3-year land assessment averaging, pending staff analysis on the Commission's recommendations presented in February 2014. As a result, a shift in the averaging formula from 3 years to 5 years could not be considered until 2019.

In July 2014, Council adopted the Commission's recommendation and instructed staff to transition from across-the-board to targeted 3-year land assessment averaging for the 2015 tax year, subject to confirmation of authority from the Province. In February 2015, staff received such confirmation from the Province.

In March 2015, Council adopted the *2015 Land Assessment Averaging By-law* that authorized, for the first time, the use of targeted 3-year land assessment averaging for the purpose of calculating property taxes for residential (Class 1), light industrial (Class 5), and business (Class 6) properties for the 2015 tax year. Council again adopted targeted 3-year averaging for the 2016 and 2017 tax years.

In June 2017, Council adopted a motion to request the Province to make necessary legislative amendments to allow the City to transition to 5-year averaging in 2018 (one year ahead of the original target transition in 2019 pursuant to the *Vancouver Charter*). The request was denied by the Province in January 2018.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

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

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

b) **Number of Preceding Years to be Applied in the Averaging Formula** – Subsections 12 & 13 (enacted in 2013) allows Council to establish, by by-law, the number of preceding years to be applied in determining the average land value, up to a maximum of five years, for the purpose of averaging. Once the choice is made, the number of years used in the averaging formula must be held for five years. 2014 was the first year that the averaging program was governed by the amendment.

In March 2014, Council approved the continuation of across-the-board 3-year averaging pending staff analysis and a report back on the Commission's recommendations. Under this amendment, a shift to 5-year averaging cannot be considered until 2019. (In June 2017, Council adopted a motion to request the Province to make necessary legislative amendments to allow the City to transition to 5-year averaging in 2018. The request was denied by the Province in January 2018.)

c) **Eligible Property Classes** - Residential (Class 1), light industrial and business (Classes 5 & 6) properties only.

d) **Eligible Properties** – Eligibility and exemption criteria are stipulated in the by-law. For targeted averaging, the by-law must stipulate a "threshold" to define "hot" properties eligible for averaging. As Council can only establish one tax rate for each class, properties that are not eligible for averaging are also subject to the averaged tax rates.

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

f) **Public Notification** - Must be published in two consecutive issues of a newspaper at least two weeks in advance of the adoption of the by-law. For 2018, the notice was placed in the Vancouver Courier on February 15 and 22. A copy of the notice can be found in Appendix E.

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

Please refer to Appendix A for further details on the property assessment & taxation framework, provincial tax relief measures and the City's land assessment averaging program.

Strategic Analysis

Staff has completed an analysis of the impact of targeted averaging on properties within the residential (Class 1), light industrial and business (Classes 5 & 6) property classes based on the following:

a) **Data Source** - The 2018 *Completed Roll* available at the time of this report; the 2018 *Revised Roll* which incorporates updates from the Property Assessment Review Panel decisions will not be available until April.

b) **Eligibility Criteria** – The set of eligibility criteria and proxies used in the model is similar to those contained in the by-law, which excludes vacant land, new construction, class transfers, and other ineligible properties. For targeted averaging, a "threshold" of 10% above the class average increase is used to define "hot" properties as recommended by the Commission.

   Based on the *Completed Roll*, the average increase in property values (difference between the 2018 *Completed Roll* value and the 2017 *Average Roll* value) and "threshold" are summarized in Figure 1 below.

Figure 1: Preliminary "Threshold" based on 2018 ***Completed Roll***

	Class average change		"Threshold" Class avg change + 10%	
	2018	*2017*	**2018**	*2017*
Residential (Class 1)	10.15	*34.38*	20.15%	*44.38%*
Light Industrial & Business (Classes 5 & 6)	26.3%	*28.5%*	36.3%	*38.5%*

The class average increase in property values will be finalized upon receipt of the *Revised Roll* in April.

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

d) **Tax Shift from Non-residential to Residential** – None contemplated for 2018, which is consistent with the Commission's recommendations presented in February 2014 and adopted by Council in July 2014.

Subject to the 2018 *Revised Roll* as well as Council's decision on tax distribution in April 2018, the impact of land assessment averaging presented in this report could change.

I. Residential (Class 1) Properties

Compared to the 2017 *Revised Roll*, the 2018 *Completed Roll* indicates a year-over-year increase of $22.7 billion (7.19%) in the total assessed value for the residential property class, of which $17.9 billion (5.6%) is from an increase in market value and $4.8 billion (1.56%) is from non-market changes (e.g. new constructions, inter-class transfers, rezonings) that may not be eligible for averaging.

In December 2017, Council approved an overall tax levy of $752 million. Assuming no tax shift in 2018, the tax levy to be collected from the residential property class would be ~$411 million. Tax rates are calculated based on the total taxable value on the *Assessment Roll*. As averaging reduces the total taxable value of a property class, the tax rate will be adjusted higher to collect the same amount of tax levy.

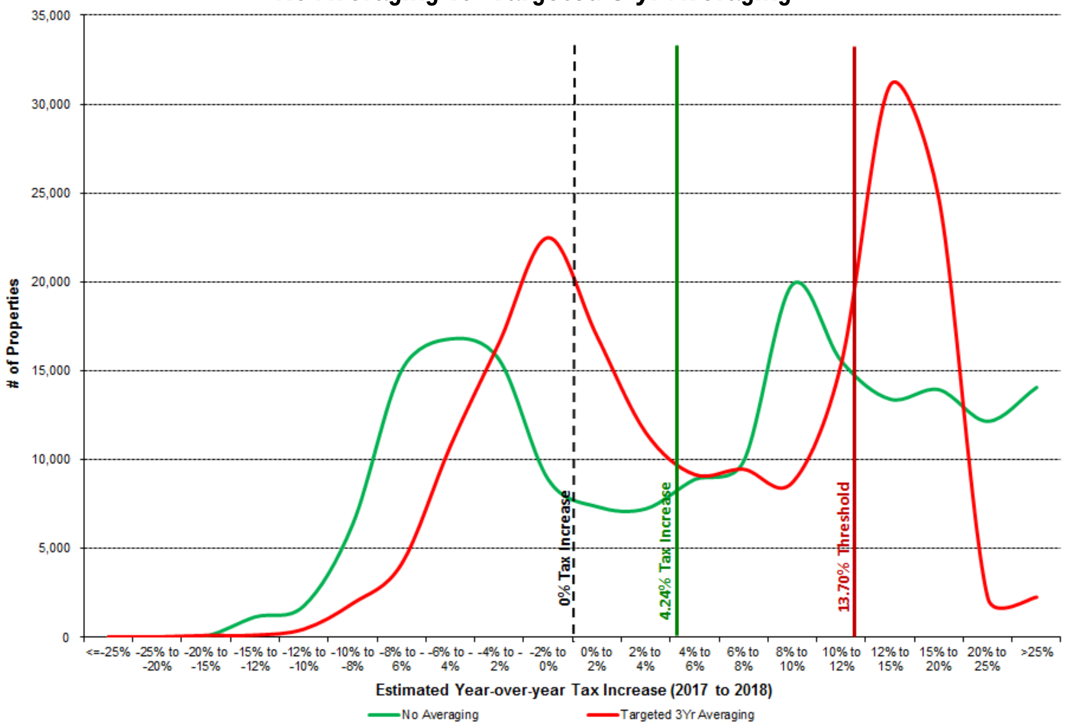
As illustrated in Figure 2 below, applying targeted averaging reduces the total taxable value slightly from $341 to $331 billion and increases the tax rate by ~3% [2017: 3%] from $1.20 to $1.24 per $1,000 taxable value.

Figure 2: Residential (Class 1) Properties
Estimated Impact of Averaging on 2018 Taxable Value & Tax Rate

Class 1 – Residential	No Averaging (BCA Value)	Targeted 3-yr Land Assessment Averaging
Taxable Value	$341B	$331B
Tax Rate (per $1,000 Taxable Value)	$1.20	$1.24
(% adjustment in tax rate)	-	*(+3%)*
Target General Purpose Tax Levy	$411M	$411M

Figure 3 below demonstrates the estimated impact on property tax increases in 2018 for residential (Class 1) properties under targeted averaging. In December 2017, Council approved the 2018 budget with an estimated tax increase of 4.24%. However, individual properties could experience a tax increase different from the Council-approved tax increase, depending on how a property's value has changed relative to average change within its class.

Figure 3: Estimated 2018 Property Tax Increase - Residential (Class 1)
No Averaging vs. Targeted 3-yr Averaging



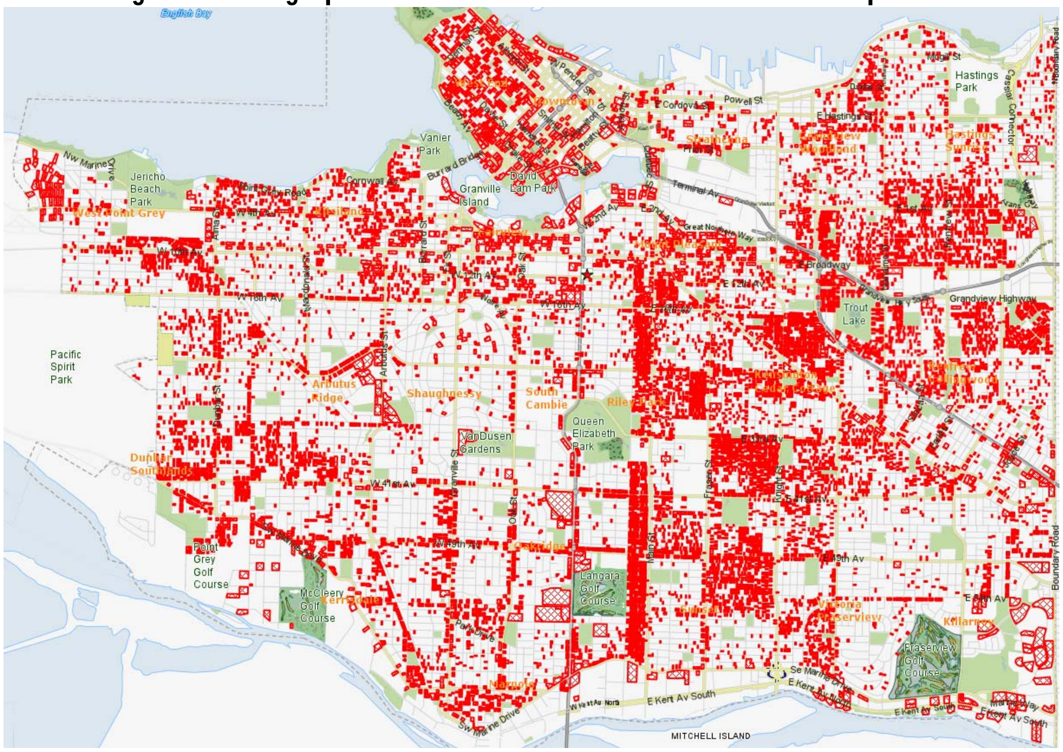
With *targeted 3-year averaging*, 39,700 properties (21%) [2017: 19,500 (10.3%)] are above the "threshold" and deemed "hot" and will be eligible for averaging. The vast majority of properties below the "threshold" will pay higher taxes to subsidize the tax relief for those "hot" properties.

If a residential property experiences an increase of ~10.15% in value (class average increase), it will receive a property tax increase of ~4.24% (average tax increase). If a residential property experiences an increase in value above 20.15% ("threshold"), it will receive a property tax increase above 13.70% before targeted averaging is applied. *(Note: Due to settlement of appeals during the first quarter of the year, total values by property class in the Revised Roll tend to be lower than in the Completed Roll. The change can lower the class average increase, put more properties above the threshold, and raise the tax rate slightly.)*

The impact of targeted averaging on sample residential (Class 1) properties is presented in Appendix B.

Figure 4 below shows the geographical distribution of "hot" residential properties that have experienced a year-over-year increase in property values above the "threshold" and would be eligible for targeted averaging.

Figure 4: Geographical Distribution of "Hot" Residential Properties



Besides targeted averaging, the following Provincial tax relief measures are available for eligible residential properties.

- *Assessment Act* **s19(8)** - available to property owners who have continuously occupied their principal residence for at least 10 years; the land will be assessed based on current zoning rather than anticipated zoning and development potential. [2018: 846 properties]
- **Property Tax Deferment** - available to property owners 55 years of age or older who occupy their principal residence and families with children under 18 years of age. [2017: 7,000 properties; 2018 applications in progress]
- *Home Owner Grant* - available to property owners who occupy their principal residence of which the value falls within the qualifying range. [2017: 82,000 properties; 2018 applications in progress]

See Appendix D for the geographical distribution of properties under each program.

II. Light Industrial & Business (Classes 5 & 6) Properties

Since 2000, the light industrial and business (Classes 5 & 6) properties have been "blended" for the purpose of calculating property taxes, i.e. the tax rates for these classes are the same.

Compared to the 2017 *Revised Roll*, the 2018 *Completed Roll* indicates a year-over-year increase of $11.8 billion (19.8%) in the combined assessed value for the light industrial and business property classes, of which $11.7 billion (19.8%) is from an increase in market value and $0.1 billion (0.1%) is from non-market changes (e.g. new construction, inter-class transfers, rezonings) that may not be eligible for averaging.

In December 2017, Council approved an overall tax levy of $752 million. Assuming no tax shift in 2018, the tax levy to be collected from the light industrial and business property classes would be ~$328 million. Tax rates are calculated based on the total taxable value on the *Assessment Roll*. As averaging reduces the total taxable value of a property class, the tax rate will be adjusted higher to collect the same amount of tax levy.

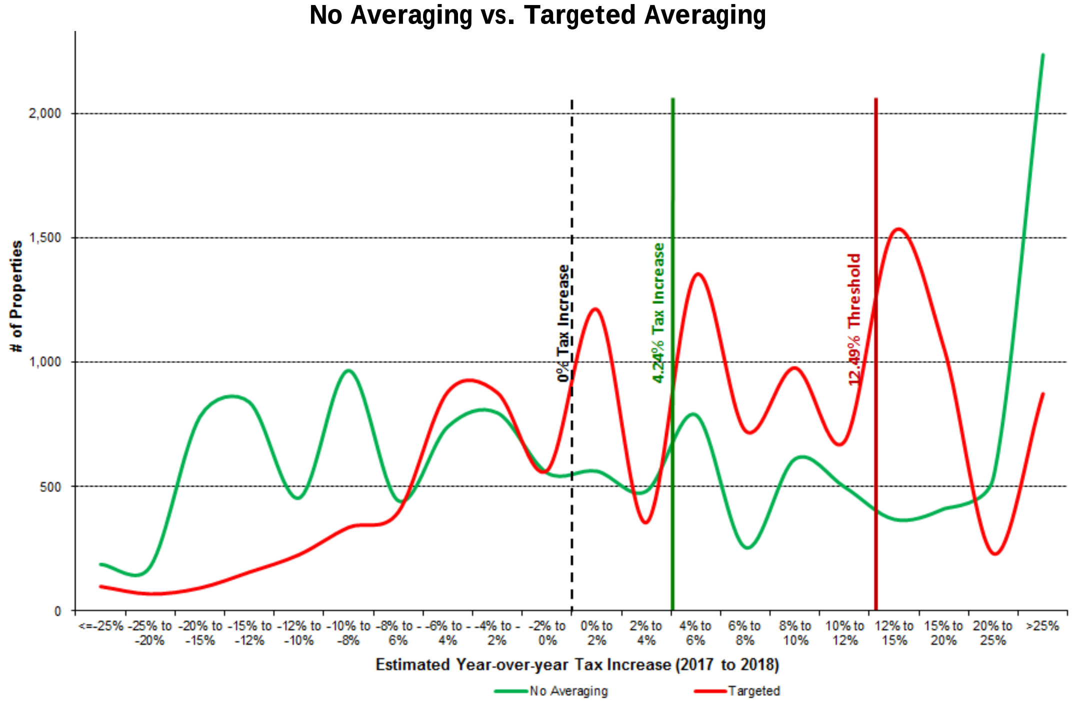
As illustrated in Figure 5 below, applying targeted averaging reduces the total taxable value from $71.0 billion to $64.8 billion and increases the tax rate by 9.6% [2017: 9.8%] from $4.6 to $5.1 per $1,000 taxable value.

Figure 5: Light Industry & Business (Classes 5 & 6)
Estimated Impact of Averaging on 2018 Taxable Value & Tax Rate

Class 5 & 6 – Light Industrial & Business	No Averaging (BCA Value)	Targeted 3-yr Land Assessment Averaging
Taxable Value	$71.0B	$64.8B
Tax Rate (per $1,000 Taxable Value)	$4.62	$5.06
(% adjustment in tax rate)	-	*(+9.6%)*
Target General Purpose Tax Levy	$328M	$328M

Figure 6 below demonstrates the estimated impact on property tax increases in 2018 for light industrial and business (Classes 5 & 6) properties under targeted averaging. In December 2017, Council approved the 2018 budget with an estimated tax increase of 4.24%. However, individual properties could experience a tax increase different from the Council-approved tax increase, depending on how a property's value has changed relative to average change within its class.

Figure 6: Estimated 2018 Property Tax Increase – Light Industry & Business (Classes 5 & 6)
No Averaging vs. Targeted Averaging



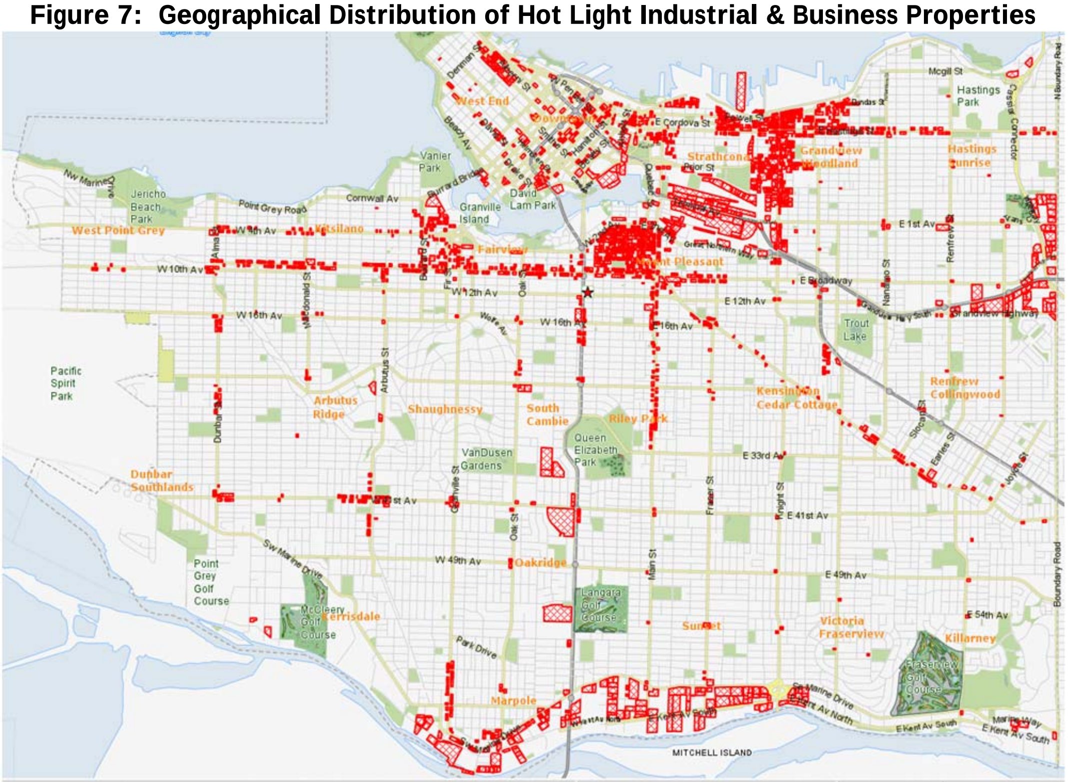
With targeted 3-year averaging, 4,400 properties (30%) [2017: 3,300 (23%)] are above the "threshold" and deemed "hot" and will be eligible for averaging. The vast majority of properties below the "threshold" will pay higher taxes to subsidize the tax relief for those "hot" properties.

If a light industrial/business property experiences an increase of ~26.3% in value (class average increase), it will receive a property tax increase of ~4.24% (average tax increase). If a light industrial/business property experiences an increase in value above 36.3% ("threshold"), it will receive a property tax increase above 12.49% before targeted averaging is applied. *(Note: Due to settlement of appeals during the first quarter of the year, total values by property class in the Revised Roll tend to be lower than in the Completed Roll. The change can lower the class average increase, put more properties above the threshold, and raise the tax rate slightly.)*

The impact of *targeted* land assessment averaging on sample light industrial and business properties is presented in Appendix C.

Figure 7 below shows the geographical distribution of "hot" light industrial and business properties that have experienced a year-over-year increase in property values above the "threshold" and would be eligible for targeted averaging.

Figure 7: Geographical Distribution of Hot Light Industrial & Business Properties



III. Director of Planning-initiated Amendments to Zoning & Development By-law and/or Official Development Plan

Council approved the Mount Pleasant Light Industrial Area (RTS11751) and Railtown (Historical Industrial) Area (RTS11641) in 2016, and False Creek Flats Area Plan (RTS11741 & 12109) in 2017. To implement these, amendments to the applicable Zoning & Development By-law and/or Official Development Plan were initiated by the Director of Planning and enacted by Council prior to October 31, 2017.

It has been Council practice to mitigate the impact of Director of Planning-initiated amendments to the Zoning & Development By-law and/or Official Development Plan under the averaging program, especially in circumstances where there has been no physical change to the property and no action by the property owner to change the zoning on the site. Prior examples include Norquay, West End, Downtown Eastside and Marpole.

In 2018, there are ~230 properties in these areas - 16% residential (Class 1) and 84% light industrial and business (Class 5 & 6) properties. It is estimated that ~170 properties (73%) would be eligible for targeted averaging - ~12 residential (Class 1) and ~158 light industrial and business (Class 5 & 6) properties.

Figures 8 and 9 below show the estimated impact on property tax increases under targeted averaging for residential (Class 1) and light industrial and business (Class 5 & 6) in the three areas. The number of "hot" properties as well as the level of tax increases above the "threshold" has noticeably reduced.

Figure 8: Estimated Property Tax Increase w/ Targeted Averaging (Residential)
Mount Pleasant Industrial Area, Railtown (Historic Industrial) District & False Creek Flats

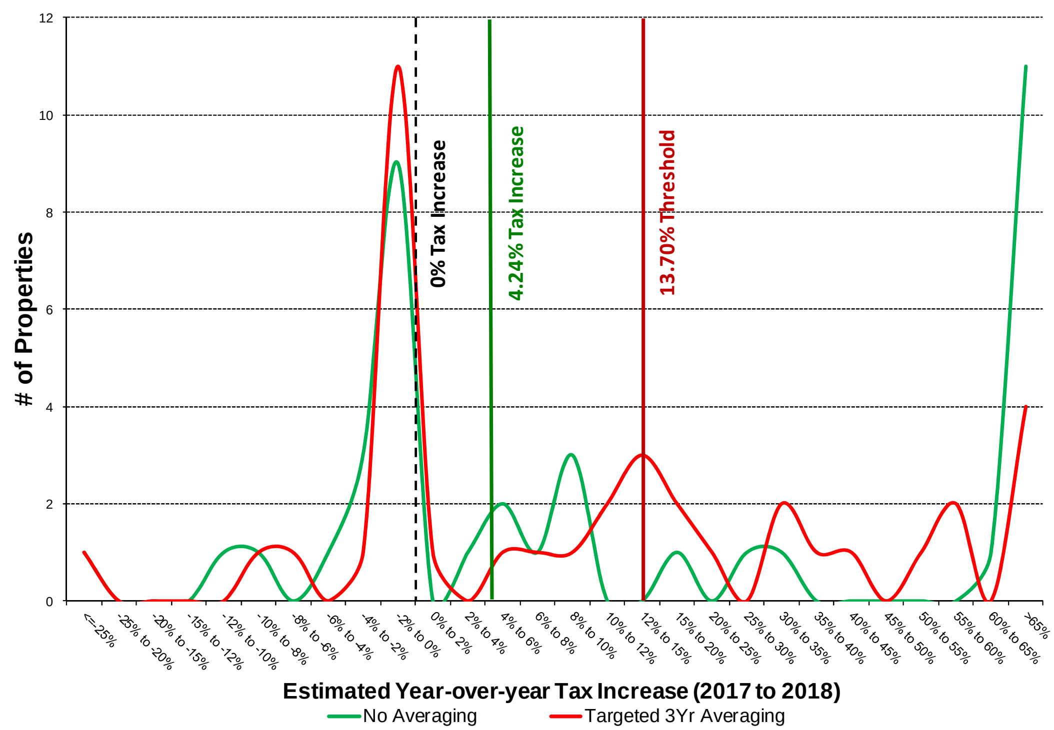
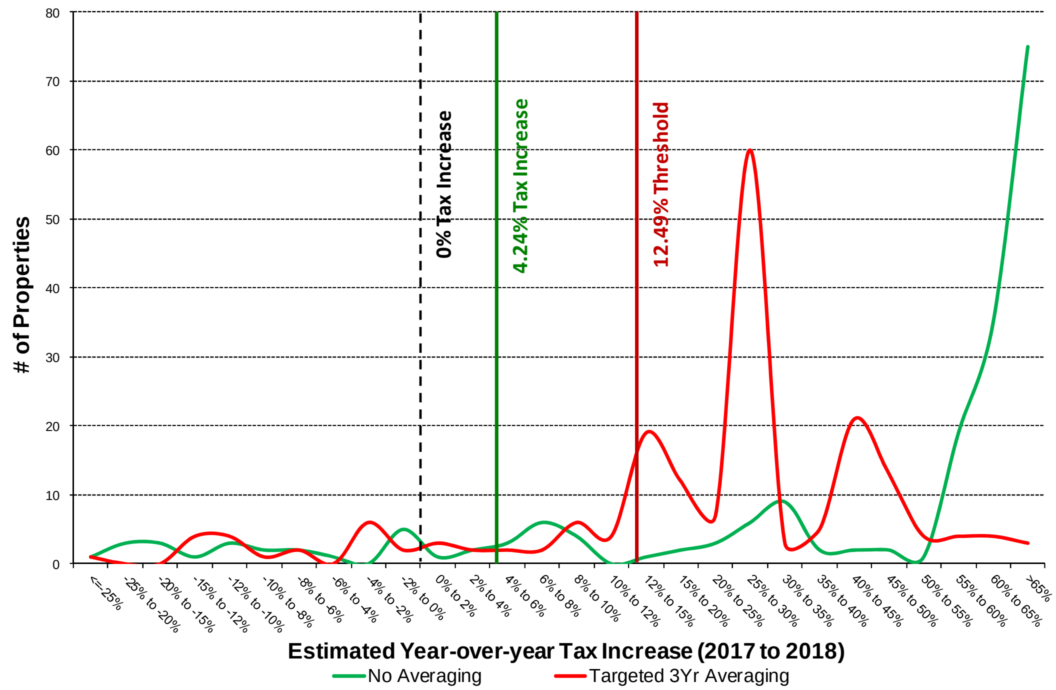


Figure 9: Est. Property Tax Increase w/ Targeted Averaging (Light Industrial & Business) Mount Pleasant Industrial Area, Railtown (Historic Industrial) District & False Creek Flats



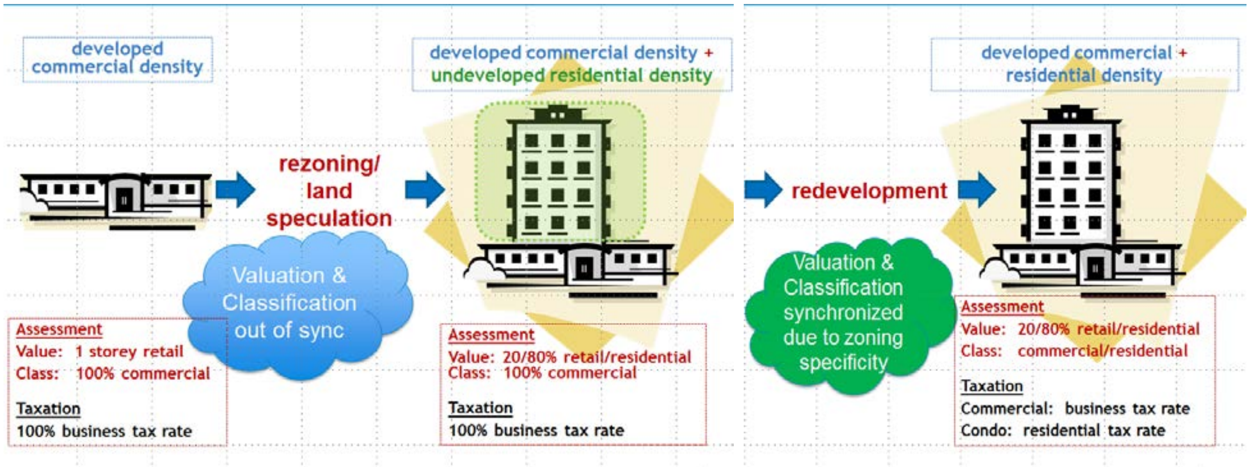
Staff therefore recommend that properties that are impacted by the Director of Planning-initiated amendments to the Zoning & Development By-law and/or Official Development Plan in the Mount Pleasant Industrial Area, Railtown (Historic Industrial) District, and False Creek Flats Area be considered for targeted averaging, in accordance with the criteria as set out in the annual *Land Assessment Averaging By-law*.

IV. Properties that Received "Amacon" Split Assessment in 2018

During the Land Assessment Averaging Court of Revision in October 2017, Council requested a report back on whether a property that has undergone reclassification initiated by BC Assessment (such as in the case of the First Baptist Church where the parking lot was reclassified from Class 1 to Class 6 to correct a prior error) could be considered under targeted averaging. Since then, staff received a number of inquiries on whether a property that has successfully appealed for Amacon-like "split assessment", which triggered reclassification of some value from Class 6 to Class 1, would be eligible for targeted averaging.

What is "split assessment"? - For properties that face the prospect of redevelopment, the market expects that there is a higher and better use than its current use, and begins to price in a premium over and above the value that is justified by the current use alone. Figure 10 below illustrates the property assessment and taxation over the time horizon.

Figure 10: Property Assessment, Classification & Taxation for Under-developed Properties

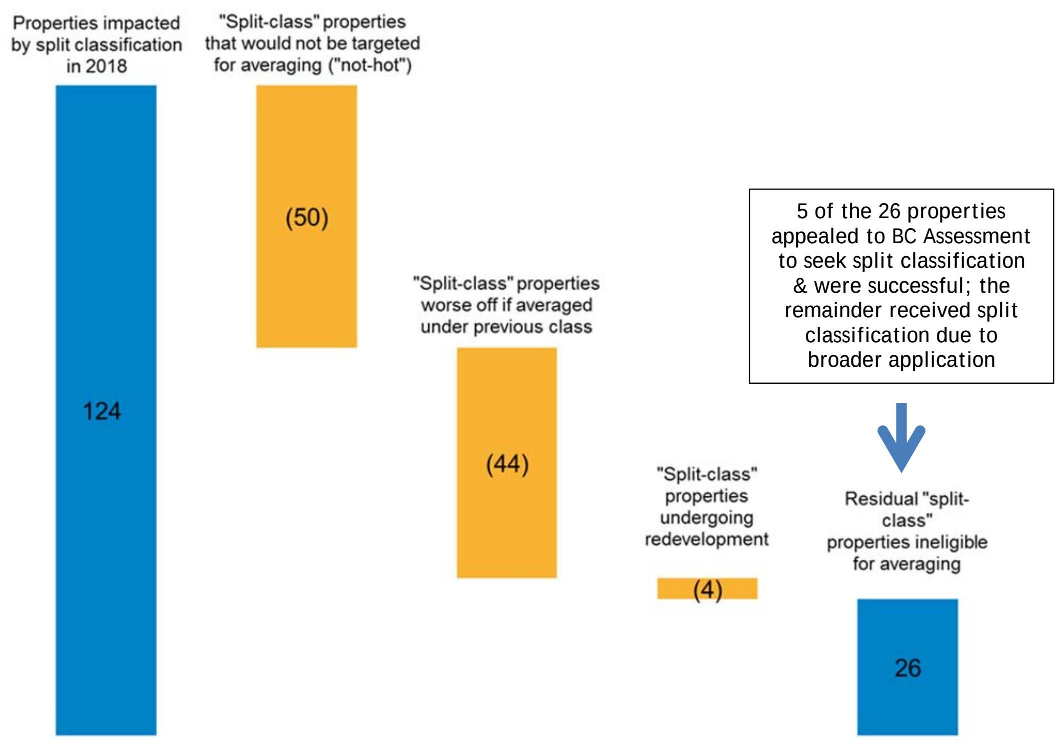


At the start, the one-storey retail space is assessed and classified by BC Assessment as Class 6 - Commercial. As time passes, the market expects a higher and better use of the property, which may include some residential density above the commercial retail space. This expectation is priced in the market value of the property, and is reflected in its assessed value. As the actual use of the building continues to be retail, the property is classified as Class 6 – Commercial. Upon redevelopment, which includes retail at grade and residential condominium above, the property will be split-classified as Class 1 – Residential and Class 6 – Commercial. This situation applies to most zoning areas in Vancouver.

The Amacon ruling in 2014 introduced the possibility of "split assessment" - classifying undeveloped density as Class 1 – Residential - should there be enough specificity in the zoning by-law to cap the commercial density. Since then, a number of appeals that have similar characteristics as the Amacon properties have been settled in the last few months. More appeals are underway that are relating to the Amacon ruling.

As summarized in Figure 11 below, in the 2018 *Completed Roll*, 142 properties received "split assessment" arising from the Amacon-related appeals.

Figure 11: Properties Received "Split Assessment" in 2018



Of the 124 properties, 50 properties are not considered "hot" based on the "threshold", 44 properties would have been worse off if averaging was applied to their pre-split assessment value and classification, and four properties are undergoing redevelopment. Of the remaining 26 properties, receiving "split assessment" results in ~20% tax reduction on average; however, due to reclassification of some values from Class 6 to Class 1, these properties are no longer eligible for targeted averaging due to the following reasons:

- For the purpose of targeted averaging, a "threshold" is set for Class 1 and for Classes 5 & 6 separately, not in aggregate. Where certain portion of the value of the property is reclassified from Class 6 to Class 1 in 2018 and there is no Class 1 value in the prior two years, the 3-year averaging formula cannot be applied. As well, such reclassification will reduce the value in Class 6 in 2018, and hence the year-over-year increase will likely be under the "threshold" for Classes 5 & 6.

- BC Assessment cannot treat a property differently on the *Assessment Roll* versus the *Averaged Roll*; that is, properties that have received reclassification in any given year cannot be treated as if such reclassification did not occur for the sole purpose of averaging.

- In addition to those properties that received reclassification as a result of the "Amacon" ruling, there are other reclassifications being made by BC Assessment due to a variety of reasons in any given year. There were also prior assessment appeals where property values came down or values got shifted between land and improvement, but resulted in a higher tax amount during the transition year. In those situations, there were no exceptions granted.

From a policy perspective and a technical feasibility perspective, staff believe there are no alternatives that could mitigate these unintended consequence during the transition year. However, having "split assessment" should help lower the overall tax bill over the long term.

Implications/Related Issues/Risk (if applicable)

Financial

Should Council approve the adoption of the targeted 3-year land assessment averaging program in 2018, the City will require an Average Assessment Roll for calculating property taxes.

Since 1993, BC Assessment has offered to produce an average or phased assessment roll to any municipal jurisdiction on a user-fee basis. The cost of producing an Average Assessment Roll in 2018 is estimated at $25,000 plus applicable taxes; source of funding to be the 2018 Operating Budget.

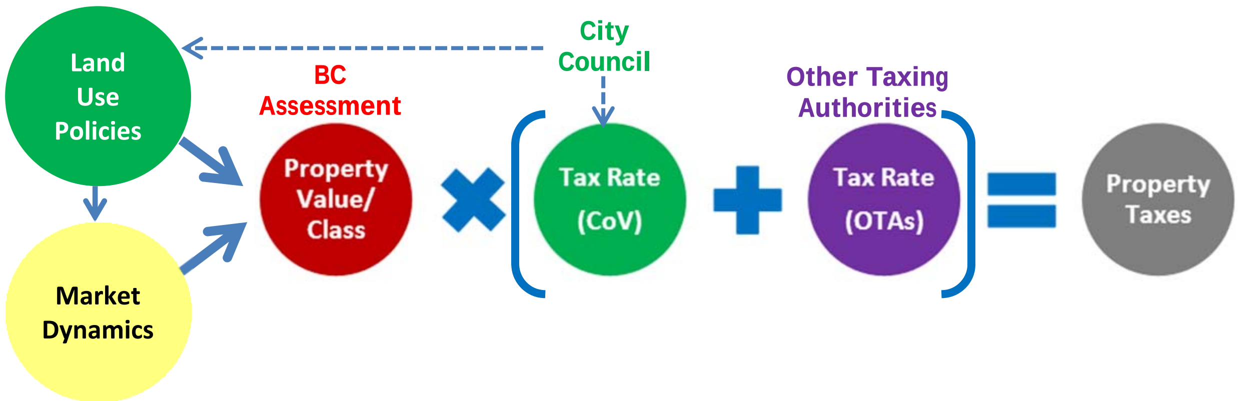
CONCLUSION

Based on the analysis, staff recommend that Council approve the use of targeted averaging in 2018 for the purpose of calculating property taxes for residential (Class 1), light industrial and business (Class 5 & 6) properties, including those properties that are impacted by the Director of Planning-initiated amendments to the Zoning & Development By-law and/or Official Development Plan in the Mount Pleasant Industrial Area, Railtown (Historic Industrial) District, and False Creek Flats Area, in accordance with the criteria as set out in the annual *Land Assessment Averaging By-law*.

* * * * *

PROPERTY ASSESSMENT & TAXATION FRAMEWORK

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



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") - Provincial schools, Translink, BC Assessment, Metro Vancouver and Municipal Finance Authority – 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. If averaging is applied, the overall tax rates (City and OTAs) for the impacted property classes will be adjusted to ensure revenue neutrality. The City's general purpose tax portion accounts for ~50% of the overall tax rate.

OTAs set tax share and tax rate for each property class, and levy property taxes using the Assessment Roll. OTAs accounts for ~50% of the overall tax rate.

IMPACT OF ASSESSMENT CHANGES ON PROPERTY TAXES

While the Council-directed property tax increase applies to the overall tax levy, the extent of change, year over year, in an individual property's tax is determined primarily by how that property's assessed value has changed relative to the average change within its 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.

Properties with a higher increase in value relative to the average change of the class could experience a much higher increase in property tax beyond the Council-directed increase, while properties with a lower increase in value could experience no change or a reduction in property tax. 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.

MITIGATION MEASURES

Land assessment averaging is an optional tool available to Council under the Vancouver Charter. 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. To date, Vancouver is the only municipality in BC that uses averaging to phase in significant property tax increases arising from assessment volatility at a city-wide level.

- For eligible residential properties, this program complements other provincial measures such as Section 19(8) of the *Assessment Act*, Property Tax Deferment and the Home Owner Grant in alleviating significant year-over-year tax increases.

- For light industrial and business properties, this program is the only mitigation that provides businesses with short-term, multi-year relief to enable market adjustments and/or lease renegotiations.

Land assessment averaging - In 2013, Council reconvened the Commission to provide an updated assessment of the tax share and assessment volatility issues, and recommend further actions as appropriate for Council's consideration. In its report to Council in February 2014, the Commission 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. The Commission defines "hot" spots as properties that experience an unanticipated, year-over-year increase in total assessed value before land averaging is applied, which exceeds the average increase for the 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 determining which mitigation tool is the most appropriate, the Commission 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 and best use

The Commission concluded that *targeted 5-year land assessment averaging* best meets the above guiding principles. *Targeted averaging* applies to only "hot" properties (defined as those that have experienced significant year-over-year increases in property values above the "threshold" set by Council). The intent of the policy is to reduce the level of tax increases until such time as the property is no longer "hot". Properties below the "threshold" will be left untouched and pay taxes based on their BC Assessment values.

On February 20, 2015, the Province confirmed that, under section 374.4 of the *Vancouver Charter*, the City has the authority to use a "threshold" to define eligibility for *targeted averaging*. With this authority, the value of the target properties would be reduced through averaging, thereby reducing the level of tax increases. Depending on how the land values of individual target properties have changed over the recent three years, the impact of averaging will likely differ for each target property. For eligible "hot" properties, targeted averaging should reduce their values for property tax calculation; under limited circumstances where averaging would increase their values (e.g. properties that experienced significant shift in value between land and improvement), property tax will be calculated based on the assessed values provided by BC Assessment.

To ensure *targeted averaging* would not over mitigate a "hot" property, the City requires additional authority to limit the impact of averaging up to the "threshold" (10% above class average change). Without such authority, averaging could reduce the value of a target property below the "threshold". As a result, some target properties could have an undue advantage over those properties that are not eligible for *targeted averaging*. As well, a "hot" property is defined as having a year-over-year increase in property value (difference between the current year's BC Assessment value and the preceding year's averaged value) above the "threshold". If *targeted averaging* keeps reducing the value of a "hot" property below the "threshold", the year-over-year increase would be arbitrarily higher. As a result, a "hot" property could stay in the *targeted averaging* program for longer than required, and a higher subsidy is necessary from other properties. This authority is being pursued with the Province.

"Brighouse Solution" - In May 2011, the Province enacted 2011 Municipalities Enabling & Validating Act (MEVA) (No. 4) in response to the City of Richmond's request for specific authority to provide targeted, transitional tax relief to eligible light industrial and business properties in the Brighouse neighborhood. The program did not apply to other areas in Richmond or other municipalities in BC. The intent of that policy was to address the high vacancies and job loss arising from volatility in assessments and property taxes in the area, which were triggered by amendments to Richmond's Official Community Plan (adopted in mid-2009) allowing higher density residential development in and around that neighborhood. In addition to exempting municipal taxes under the Revitalization Tax Exemption provision, the 2011 MEVA (No. 4) enables partial exemption of the provincial school tax. The program ran from 2012 to 2016, starting with only 39 eligible properties in 2012 and reduced to 29 properties by 2016 when the program terminated.

Calculating Property Taxes Using Land Assessment Averaging

Figure 9 below compares the calculation of property taxes under the market value approach and the land assessment averaging approach (same for *across-the-board averaging* and *targeted averaging*). The total general purpose tax levy for the City is the same under both approaches.

Market Value Approach	3-yr Land Assessment Averaging Approach (Across-the-board & Targeted)
2018 Land Value	Average of 2016/17/18 Land Value
+ 2018 Improvement Value	+ 2018 Improvement Value
= 2018 Taxable Value $_{Market}$	= 2018 Taxable Value $_{Average}$
x 2018 Tax Rate $_{Market}$	x 2018 Tax Rate $_{Average}$
= 2018 Total General Purpose Tax Levy	= 2018 Total General Purpose Tax Levy

As shown in Figure 9, application of 3-year land assessment averaging affects two components in the property tax calculation:

Taxable Value $_{Average}$ – The taxable value of a property is calculated using the average land value of the current year and the two prior years plus the current improvement value.

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

IMPLEMENTATION – LEGISLATIVE & ADMINISTRATIVE REQUIREMENTS

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

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

(ii) Number of Preceding Years to be Applied in the Averaging Formula
Council must establish by by-law the number of preceding years to be applied, up to a maximum of five years, in determining the average land value for the purposes of land assessment averaging. Once the choice is made, the averaging formula needs to hold for five years.

(iii) Eligible Property Classes
Averaging is applicable to Residential (Class 1), Light Industrial (Class 5), and Business & Other (Class 6) properties only. It is not applicable to Seasonal & Non-Profit properties

(Class 8) and other properties valued at special rates – Utilities (Class 2), Supportive Housing (Class 3), Major Industry (Class 4), and Farm (Class 9).

(iv) Eligible Properties

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

Below are sample properties that are not eligible for averaging:

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

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

(v) Calculation of All Tax Levies

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

(vi) Notification to the Public

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

(vii) Appeal Process

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

PROPERTY TAX IMPACT OF TARGETED LAND ASSESSMENT AVERAGING

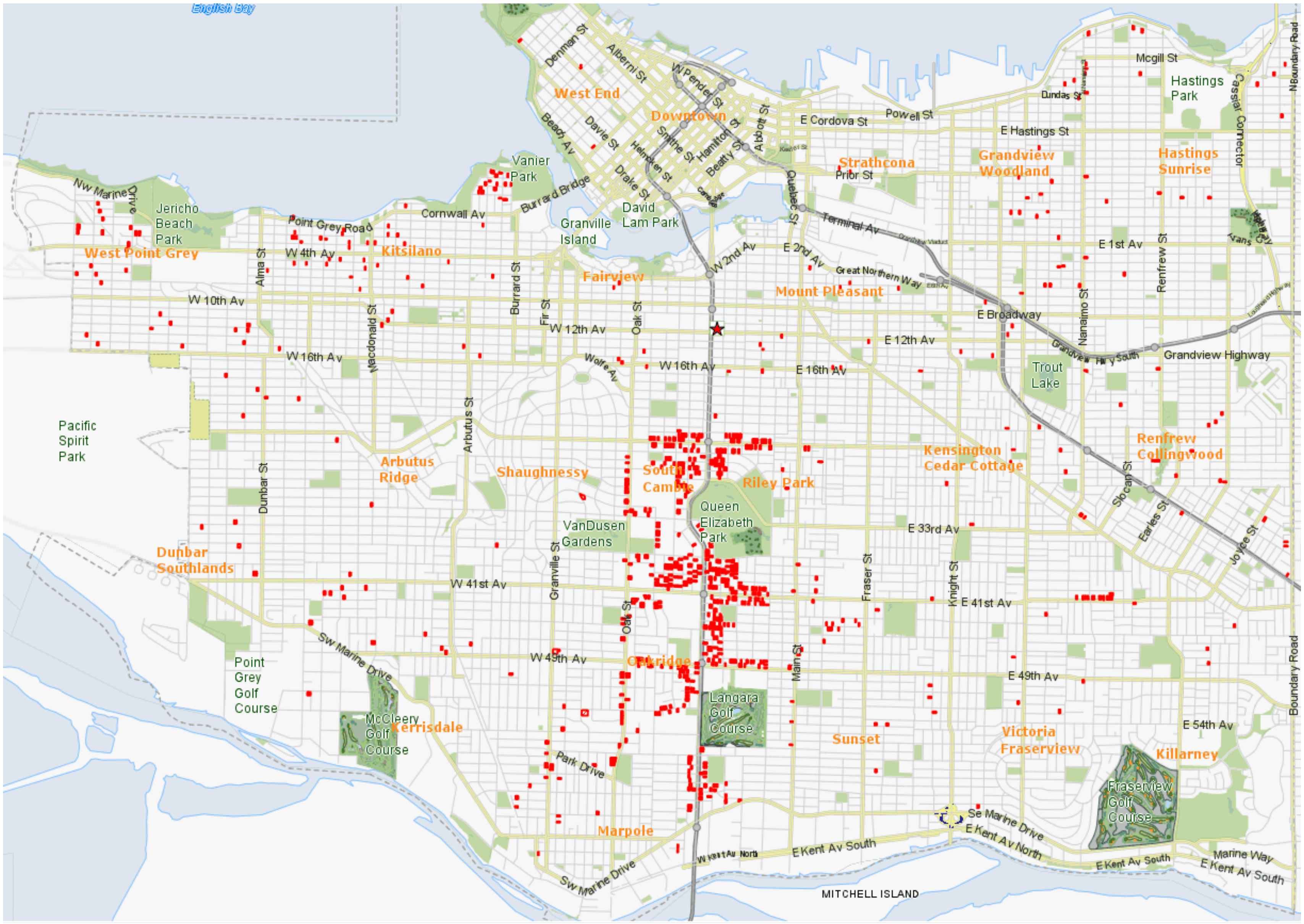
SAMPLE RESIDENTIAL PROPERTIES (CLASS 1)

		TAXABLE VALUES			GENERAL PURPOSE TAX LEVY			$ CHANGE IN TAXES 2018 Estimate vs 2017 Actual		% CHANGE IN TAXES 2018 Estimate vs 2017 Actual	
Sample Property	Methodology	2017 Averaged	2018 Market	2018 Targeted Averaging	2017 Actual	2018 Market	2018 Targeted Averaging	2018 Market	2018 Targeted Averaging	2018 Market	2018 Targeted Averaging
Downtown											
Sample Property #1 (1st Quartile)	Not Targeted	$554,000	$636,000	$636,000	$699	$766	$789	$67	$91	9.7%	13.0%
Sample Property #2 (2nd Quartile)	Not Targeted	$657,000	$739,000	$739,000	$828	$890	$917	$62	$89	7.4%	10.7%
Sample Property #3 (3rd Quartile)	Not Targeted	$798,000	$895,000	$895,000	$1,006	$1,078	$1,111	$72	$104	7.1%	10.4%
West											
Sample Property #1 (1st Quartile)	Not Targeted	$975,000	$1,087,000	$1,087,000	$1,229	$1,309	$1,349	$80	$119	6.5%	9.7%
Sample Property #2 (2nd Quartile)	Not Targeted	$2,350,000	$2,405,000	$2,405,000	$2,963	$2,897	$2,984	-$67	$21	-2.3%	0.7%
Sample Property #3 (3rd Quartile)	Not Targeted	$3,405,600	$3,214,100	$3,214,100	$4,294	$3,871	$3,989	-$423	-$306	-9.9%	-7.1%
East											
Sample Property #1 (1st Quartile)	Not Targeted	$1,159,100	$1,217,700	$1,217,700	$1,462	$1,467	$1,511	$5	$50	0.3%	3.4%
Sample Property #2 (2nd Quartile)	Not Targeted	$1,530,000	$1,438,000	$1,438,000	$1,929	$1,732	$1,784	-$197	-$145	-10.2%	-7.5%
Sample Property #3 (3rd Quartile)	Not Targeted	$1,643,000	$1,610,000	$1,610,000	$2,072	$1,939	$1,998	-$133	-$74	-6.4%	-3.6%
Downtown											
Sample Property #1 (1st Quartile)	Targeted	$551,000	$682,000	$559,000	$695	$821	$694	$127	-$1	18.2%	-0.2%
Sample Property #2 (2nd Quartile)	Targeted	$751,000	$936,000	$763,333	$947	$1,127	$947	$180	$0	19.0%	0.0%
Sample Property #3 (3rd Quartile)	Targeted	$948,333	$1,351,000	$1,129,667	$1,196	$1,627	$1,402	$431	$206	36.1%	17.2%
West											
Sample Property #1 (1st Quartile)	Targeted	$732,000	$889,000	$767,000	$923	$1,071	$952	$148	$29	16.0%	3.1%
Sample Property #2 (2nd Quartile)	Targeted	$1,057,633	$1,438,300	$1,332,300	$1,334	$1,732	$1,653	$399	$320	29.9%	24.0%
Sample Property #3 (3rd Quartile)	Targeted	$2,176,200	$2,795,700	$2,500,367	$2,744	$3,367	$3,103	$623	$359	22.7%	13.1%
East											
Sample Property #1 (1st Quartile)	Targeted	$502,000	$634,000	$503,667	$633	$764	$625	$131	-$8	20.6%	-1.3%
Sample Property #2 (2nd Quartile)	Targeted	$945,000	$1,151,000	$879,000	$1,192	$1,386	$1,091	$195	-$101	16.3%	-8.5%
Sample Property #3 (3rd Quartile)	Targeted	$1,146,433	$1,453,100	$1,344,767	$1,446	$1,750	$1,669	$304	$223	21.1%	15.4%

PROPERTY TAX IMPACT OF TARGETED LAND ASSESSMENT AVERAGING

SAMPLE LIGHT INDUSTRIAL & COMMERCIAL PROPERTIES (CLASSES 5 & 6)

		TAXABLE VALUES			GENERAL PURPOSE TAX LEVY			$ CHANGE IN TAXES 2018 Estimate vs 2017 Actual		% CHANGE IN TAXES 2018 Estimate vs 2017 Actual	
Sample Property	Methodology	2017 Averaged	2018 Market	2018 Targeted Averaging	2017 Actual	2018 Market	2018 Targeted Averaging	2018 Market	2018 Targeted Averaging	2018 Market	2018 Targeted Averaging
Downtown											
Sample Property #1 (1st Quartile)	Not Targeted	$202,900	$203,800	$203,800	$1,176	$941	$1,033	-$235	-$143	-20.0%	-12.2%
Sample Property #2 (2nd Quartile)	Not Targeted	$329,500	$381,200	$381,200	$1,910	$1,761	$1,933	-$149	$22	-7.8%	1.2%
Sample Property #3 (3rd Quartile)	Not Targeted	$767,000	$954,000	$954,000	$4,447	$4,407	$4,836	-$40	$390	-0.9%	8.8%
West											
Sample Property #1 (1st Quartile)	Not Targeted	$459,000	$553,000	$553,000	$2,661	$2,555	$2,804	-$106	$143	-4.0%	5.4%
Sample Property #2 (2nd Quartile)	Not Targeted	$615,200	$802,500	$802,500	$3,567	$3,707	$4,068	$141	$502	3.9%	14.1%
Sample Property #3 (3rd Quartile)	Not Targeted	$1,252,000	$1,623,000	$1,623,000	$7,258	$7,498	$8,228	$239	$970	3.3%	13.4%
East											
Sample Property #1 (1st Quartile)	Not Targeted	$461,000	$581,000	$581,000	$2,673	$2,684	$2,945	$11	$273	0.4%	10.2%
Sample Property #2 (2nd Quartile)	Not Targeted	$872,000	$1,072,000	$1,072,000	$5,055	$4,952	$5,435	-$103	$379	-2.0%	7.5%
Sample Property #3 (3rd Quartile)	Not Targeted	$1,488,500	$1,951,800	$1,951,800	$8,629	$9,016	$9,895	$387	$1,266	4.5%	14.7%
Downtown											
Sample Property #1 (1st Quartile)	Targeted	$187,400	$259,100	$206,100	$1,086	$1,197	$1,045	$110	-$42	10.2%	-3.8%
Sample Property #2 (2nd Quartile)	Targeted	$192,667	$295,700	$235,367	$1,117	$1,366	$1,193	$249	$76	22.3%	6.8%
Sample Property #3 (3rd Quartile)	Targeted	$459,000	$653,000	$520,667	$2,661	$3,017	$2,640	$356	-$21	13.4%	-0.8%
West											
Sample Property #1 (1st Quartile)	Targeted	$1,441,667	$2,049,000	$1,745,333	$8,358	$9,466	$8,848	$1,108	$490	13.3%	5.9%
Sample Property #2 (2nd Quartile)	Targeted	$2,506,333	$4,607,000	$3,525,000	$14,530	$21,282	$17,871	$6,752	$3,340	46.5%	23.0%
Sample Property #3 (3rd Quartile)	Targeted	$5,128,667	$7,422,000	$6,102,667	$29,733	$34,287	$30,939	$4,553	$1,205	15.3%	4.1%
East											
Sample Property #1 (1st Quartile)	Targeted	$922,667	$1,874,000	$1,383,333	$5,349	$8,657	$7,013	$3,308	$1,664	61.8%	31.1%
Sample Property #2 (2nd Quartile)	Targeted	$2,333,000	$3,251,000	$2,811,000	$13,525	$15,018	$14,251	$1,493	$725	11.0%	5.4%
Sample Property #3 (3rd Quartile)	Targeted	$3,503,667	$5,272,000	$4,234,000	$20,312	$24,354	$21,465	$4,042	$1,153	19.9%	5.7%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Kensington Cedar Cottage
Renfrew Collingwood
Dunbar Southlands
Kerrisdale
Oakridge
Sunset
Victoria Fraserview
Killarney
Marpole
Pacific Spirit Park
Jericho Beach Park
Vanier Park
Granville Island
David Lam Park
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Queen Elizabeth Park
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McCleery Golf Course
Langara Golf Course
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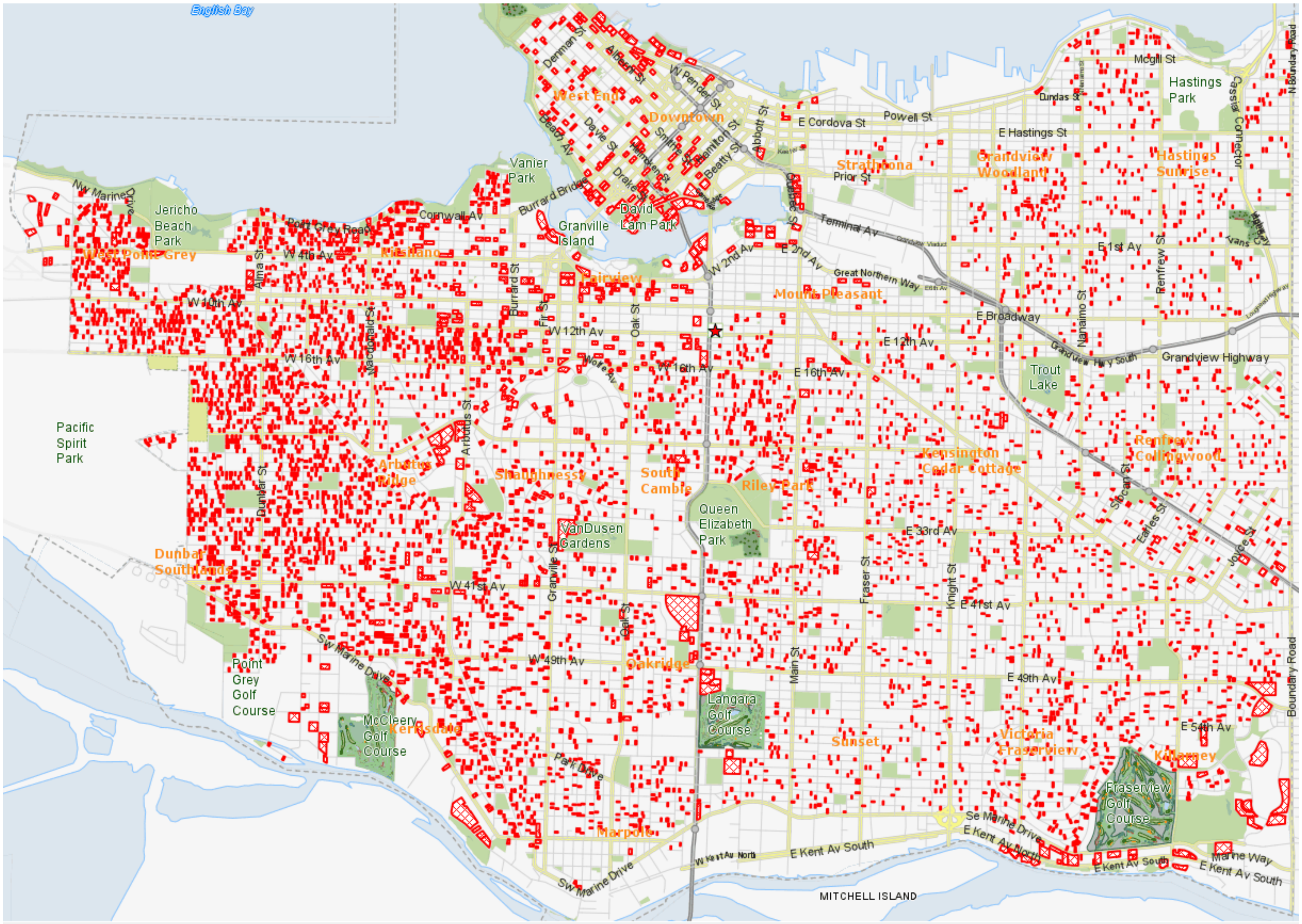
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Hastings Park
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Pacific Spirit Park
Arbutus Ridge
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Renfrew Collingwood
Queen Elizabeth Park
VanDusen Gardens
Dunbar Southlands
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Point Grey Golf Course
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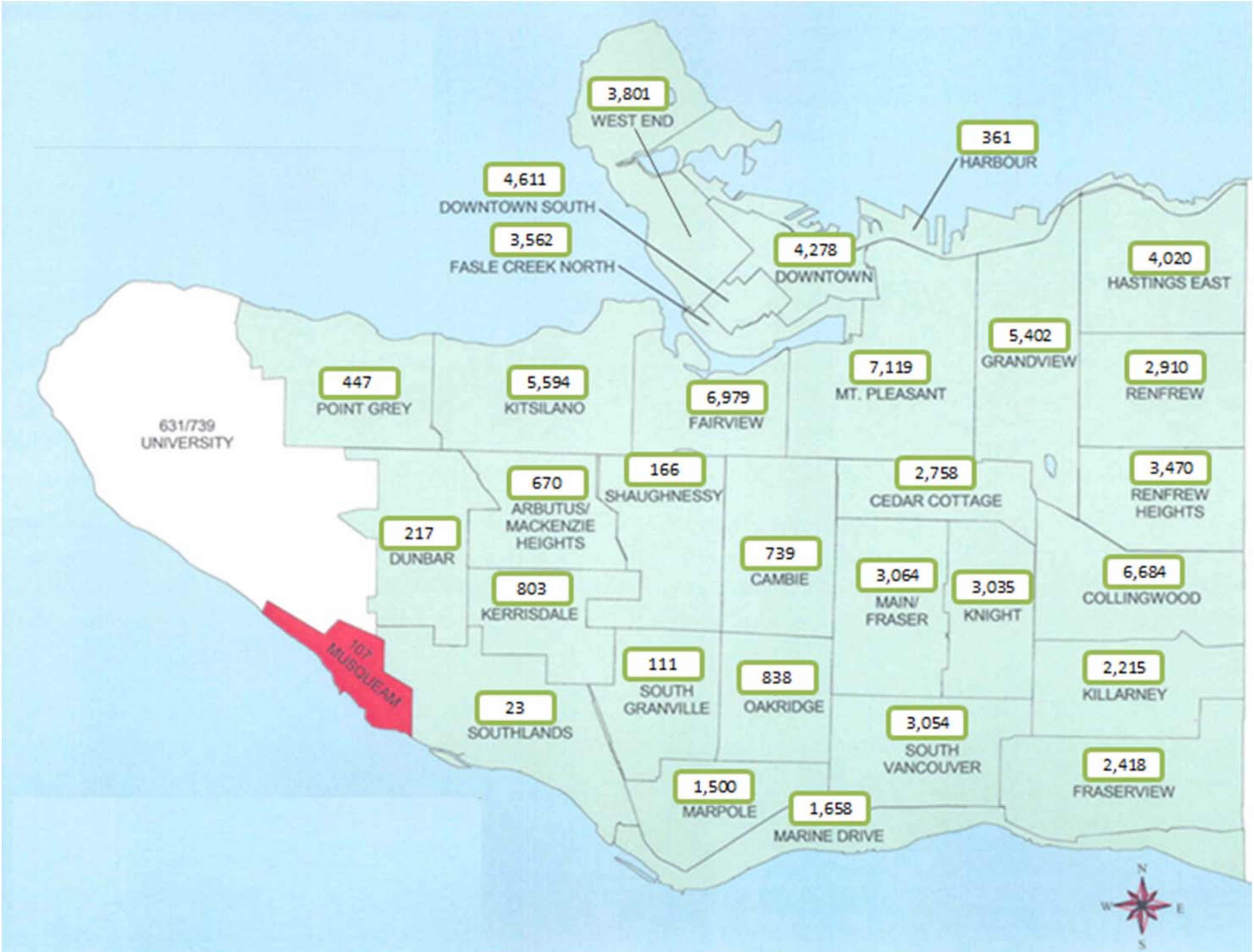
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GRANDVIEW
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RENFREW
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5,594
KITSILANO
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FAIRVIEW
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MT. PLEASANT
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UNIVERSITY
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MACKENZIE
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166
SHAUGHNESSY
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CEDAR COTTAGE
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RENFREW
HEIGHTS
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DUNBAR
739
CAMBIE
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MAIN/
FRASER
3,035
KNIGHT
6,684
COLLINGWOOD
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KERRISDALE
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MUSQUEAM
111
SOUTH
GRANVILLE
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OAKRIDGE
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KILLARNEY
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FIND OUT WHAT'S HAPPENING IN YOUR CITY

Vancouver Matters

CITY OF VANCOUVER

IMPORTANT NOTICE TO PROPERTY OWNERS: Land Assessment Averaging

Since 2015, the City of Vancouver has used targeted land assessment averaging to calculate property taxes as recommended by the Property Tax Policy Review Commission in 2014. (Prior to 2015, the City used across-the-board averaging which was in effect since 1993.) Averaging does not generate any extra revenue for the City, but affects the amount of taxes paid by individual property owners.

Under the targeted averaging approach, only those properties facing significant year-over-year increases in property values above a certain threshold would be eligible for averaging. For eligible properties, the program calculates property taxes for the City and other taxing authorities using an average of the assessed land value for the current and prior two years, plus their current assessed improvement value. All others would pay property taxes based on the BC Assessment value instead of an averaged value.

The table on the right shows the estimated effect of targeted averaging on the City of Vancouver's general purpose taxes for sample properties based on the thresholds approved by Vancouver City Council for 2017 (i.e. an increase in property value that is 10 per cent above the average property class increase), subject to Council approval for 2018. The vast majority of properties below the threshold will pay slightly higher taxes to provide tax relief for those properties above the threshold.

Amounts levied by other taxing authorities such as provincial schools, TransLink, BC Assessment, and Metro Vancouver are not included.

On March 14, 2018, Vancouver City Council will consider whether to continue with targeted land assessment averaging for residential (Class 1), light industrial (Class 5) and business (Class 6) properties, and determine the appropriate thresholds for these property classes if targeted averaging is adopted. Should Council decide to continue with targeted averaging, a by-law will be adopted on the same day.

The report, which details the program and how it could impact property taxes, will be posted on our website at: **vancouver.ca/averaging**

FOR MORE INFORMATION:
3-1-1 or vancouver.ca/averaging

COMMENTS?
vancouver.ca/your-government/contact-council
or write to:
Mayor and Council
453 West 12th Avenue
Vancouver, BC V5Y 1V4

SPEAK TO COUNCIL:
Prior to adoption of the bylaw, you may speak to Council in person at the City Finance and Services meeting on March 14, 2018.

Email: **speaker.request@vancouver.ca** or phone **604-829-4272** to register.

TARGETED LAND ASSESSMENT AVERAGING

	Sample properties BELOW targeting threshold (NOT eligible for averaging)			Sample properties ABOVE targeting threshold (eligible for averaging)		
	2018 Assessed Value	Est. Taxes **without** Targeted Averaging	Est. Taxes **with** Targeted Averaging	2018 Assessed Value	Est. Taxes **without** Targeted Averaging	Est. Taxes **with** Targeted Averaging
Residential ($)						
Downtown	636,000	766	789	682,000	821	694
	739,000	890	917	936,000	1,127	947
	895,000	1,078	1,111	1,351,000	1,627	1,402
West	1,087,000	1,309	1,349	889,000	1,071	952
	2,405,000	2,897	2,984	1,438,300	1,732	1,653
	3,214,100	3,871	3,989	2,795,700	3,367	3,103
East	1,217,700	1,467	1,511	634,000	764	625
	1,438,000	1,732	1,784	1,151,000	1,386	1,091
	1,610,000	1,939	1,998	1,453,100	1,750	1,669
Light Industrial and Business & Other ($)						
Downtown	203,800	941	1,033	259,100	1,197	1,045
	381,200	1,761	1,933	295,700	1,366	1,193
	954,000	4,407	4,836	653,000	3,017	2,640
West	553,000	2,555	2,804	2,049,000	9,466	8,848
	802,500	3,707	4,068	4,607,000	21,282	17,871
	1,623,000	7,498	8,228	7,422,000	34,287	30,939
East	581,000	2,684	2,945	1,874,000	8,657	7,013
	1,072,000	4,952	5,435	3,251,000	15,018	14,251
	1,951,800	9,016	9,895	5,272,000	24,354	21,465

Sample properties may be single or multi-unit

Development Permit Board Meeting: February 19

The Development Permit Board and Advisory Panel will meet:

Monday, February 19, 2018, 3 pm
Vancouver City Hall, 453 West 12th Avenue
Ground Floor, Town Hall Meeting Room

to consider the following development permit application:

Proposal: To develop at 833 West Pender Street a new 13-storey, 106 room hotel with two levels of underground parking accessed from the lane via a vehicular elevator operated by valet service.
The hotel will have a restaurant/guest lounge on the ground floor, lobby access from Pender Street, and a vehicle drop-off area on the lane side with a rooftop garden amenity for hotel guests.

TO SPEAK ON THIS ITEM: 604-873-7469 or camilla.lade@vancouver.ca