



ADMINISTRATIVE REPORT

Report Date: March 1, 2019
Contact: Grace Cheng
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Meeting Date: March 12, 2019

TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: 2019 Property Taxation: Targeted Land Assessment Averaging

RECOMMENDATION

- A. THAT Council approve, in principle, the application of targeted 5-year land assessment averaging for the purpose of calculating property taxes for Residential (Class 1), Light Industry (Class 5), and Business and Other (Class 6) properties for 2019.
- 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 2019 property class average change for Class 1 and for Classes 5 & 6 be finalized upon publication of the 2019 Revised Assessment Roll in April 2019;

AND FURTHER, THAT for properties that are eligible for targeted averaging, the year-over-year change in values derived from the averaging formula for the purpose of calculating property taxes not fall below the Council-adopted "threshold".

- C. THAT properties impacted by a Director of Planning-initiated amendment to the Zoning & Development By-law or an Official Development Plan be considered for targeted averaging, in accordance with the criteria set out in the annual Land Assessment Averaging By-law.
- D. THAT the Director of Legal Services, in consultation with the Director of Finance, bring forward for enactment applicable by-laws authorizing the use of targeted 5-

year land assessment averaging that reflect Council's decision on Recommendations A, B and C.

- E. THAT, subject to adoption of any applicable by-laws, the Director of Finance make appropriate arrangements with BC Assessment for the production of the 2019 Average Assessment Roll at an estimated cost of \$25,000 plus applicable taxes; source of funding to be the 2019 Operating Budget.

REPORT SUMMARY

The purpose of this report is to seek Council approval to implement targeted 5-year land assessment averaging, as recommended by the Property Tax Policy Review Commission ("the Commission"), for the purpose of calculating property taxes for residential (Class 1), light industry (Class 5), and business & other (Class 6) properties for 2019. Since 2015, the City has used targeted 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. The intent of the program is to reduce the level of tax increases on the target properties above the "threshold" until such time they are no longer "hot". Properties that are below the "threshold" will pay taxes based on their BC Assessment values. Prior to 2015, the City used across-the-board averaging, which was in effect since 1993.

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 relative changes in property assessed values.

The City strives to balance the affordability and competitiveness of property taxes, utility fees and user fees while sustaining the breadth and quality of public amenities, infrastructure and services for businesses and residents. While more businesses and residents add to the city's economic and social vitality, the City needs to address the growing demand for services. By transforming the way services are delivered, the City has maintained or increased the breadth and quality of services, and demonstrated leadership as a sustainable and livable city with budgets defined by modest tax and fee increases relative to other Metro Vancouver municipalities.

In recent years, however, the influx of investment capital and speculative real estate demand in Vancouver continues to drive up land values, resulting in significant volatility year-over-year in property assessment and taxes, causing hardship for some residents and small businesses. In British Columbia, real estate properties are assessed at their highest and best use, and taxes are allocated to individual properties based on such values. In the case where a property is under-developed, its assessed value could substantially increase to reflect its development potential.

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

The challenge is particularly prevalent for small business tenants because most landlords pass on all property taxes, on both rented space and development potential, to tenants through their lease agreements. As tenants do not benefit from an increase in property values in the same way that an owner does, 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).

While there are a number of Provincial mitigations available for eligible residential properties (see below), those measures do not apply to commercial properties. Land assessment averaging is an optional tool available to Council under the *Vancouver Charter*. Despite the fact that other municipalities have similar authority under the *Community Charter*, Vancouver is the only municipality in British Columbia 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 key mitigating measure that provides businesses with short-term, multi-year relief to enable market adjustments and/or lease renegotiations.

It is important to note that the affordability challenge arising from a variety of factors including real estate speculation is a regional issue impacting most Metro Vancouver municipalities, not just Vancouver. Given the limited authority and policy tools available to municipalities to address property assessment and taxation issues, Council submitted a written request to the Province in February 2018 to initiate an inter-governmental workgroup 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. The City also received written support from Metro Vancouver and the Union of BC Municipalities in Q3 2018. In Q4 2018, the cross-governmental workgroup commenced with participation of the Province, BC Assessment and seven Metro Vancouver municipalities (Vancouver, Burnaby, Coquitlam, North Vancouver, West Vancouver, Richmond and Surrey) to examine viable options. Staff will report back as soon as practical on the work program, shortlisted options and timeline.

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 the 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 industry (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 section 374.4(12) & (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 not change for at least 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 the taxation impact arising from assessment volatility, in February 2014, the Commission recommended *targeted* 5-year 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 June 2017, Council instructed staff to submit a request to the Province to enact the necessary legislative amendments to allow the City to transition from *targeted* 3-year to 5-year averaging in 2018 (one year ahead of the original target transition in 2019). The request was denied by the Province in January 2018.

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, 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.

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 industry (Class 5), and business (Class 6) properties for the 2015 tax year. Council again adopted *targeted* 3-year averaging for the 2016, 2017 and 2018 tax years.

In April 2016, at Council's request, staff submitted a request to the Province to seek authority to limit the effect of averaging on the target properties up to the "threshold" set by Council in order to fully align with the Commission's recommendations presented in February 2014. In February 2019, the Province confirmed that, under section 374.4(5)(b) of the *Vancouver Charter*, the City has the authority to limit the effect of averaging where averaging would result in an increase in a property's value falling below a "threshold" set by Council.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

The affordability challenge arising from a variety of factors including real estate speculation is a regional issue impacting most Metro Vancouver municipalities, not just Vancouver. The majority of businesses in Vancouver are small businesses with nearly 60% of Vancouver enterprises having fewer than five employees. Small and local businesses are a key driver of the City's

economy, vibrancy, and unique character. Over recent years, the strength of the City's economy, the pace of change of development, supply and demand of commercial space, the influx of investment capital and speculative demand have had negative impacts on some local businesses.

Recognizing the challenges facing small businesses, Council adopted a motion to support small business, including: A review of existing City programs and policies that support/retain local small business; recommendations for policies and strategies the City can implement to create more optimal conditions for small businesses to succeed and thrive; and development of a recommended approach to establishing a small business advisory body or roundtable. This holistic approach identifies issues and opportunities for recommended actions, and ensures all the City's small business-related initiatives underway and contemplated on the near horizon are appropriately aligned and coordinated.

A Small Business Roundtable of key stakeholders and experts was organized for February 2019 to inform the prioritization of issues and provide input to a review of the current strategy for supporting small business, as well as to supplement existing communication/collaboration programs such as the BIA Liaison Committee and the BIA Engineering partnership program. In addition to the Provincial Property Assessment and Taxation Reform initiative that is currently underway, there are over 20 initiatives across the City that support small businesses and are being coordinated as part of the Small Business Strategy, including:

- A comprehensive review and update of commercial renovation permit policies and processes to clarify and streamline tenant improvements and other commercial redevelopments;
- Providing individualized service for small business novice permit applicants at the Small Business Commercial Renovation Centre.
- A local retail study intended to inform development of policy and regulatory support for Vancouver's shopping districts;
- Recent launch of the updated BizMap tool that allows easy access to market data tailored to customized business districts;
- Employment Lands and Economy Study;
- Regulatory Redesign intended to simplify, enhance, clarify and streamline zoning and development and related by-laws; and
- Development of a small business portal on the City website that connects small business owners/operators to all relevant City services and requirements, as well as to outside agencies, organizations and resources.

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 and 13 (enacted in 2013) 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 averaging. Once the choice is made, the number of years used in the averaging formula cannot change for at least 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. As a result, a shift in the averaging formula from 3 years to 5 years could not be considered until 2019. In June 2017, Council instructed staff to submit a request to the Province to enact the necessary legislative amendments to allow the City to transition from *targeted* 3-year to 5-year averaging in 2018 (one year ahead of the original target transition in 2019). The request was denied by the Province in January 2018.

- c) **Eligible Property Classes** – Residential (Class 1), light industry 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 2019, the notice was placed in Star Metro Vancouver on February 22 and 25. A copy of the notice can be found in Appendix B.
- 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 and taxation framework, provincial tax relief measures and the City’s land assessment averaging program.

Strategic Analysis

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, Council reconvened the Commission in April 2013 to work with staff on the two key areas:

- assess viable options to enhance property tax stability and predictability and minimize “hot spots” arising from significant year-over-year market value increases; and
- assess viable options for tax distribution; validate whether the current residential and business tax share continues to be an appropriate distribution; and recommend metrics for monitoring tax share over the long-term and its impact on residents and the business climate.

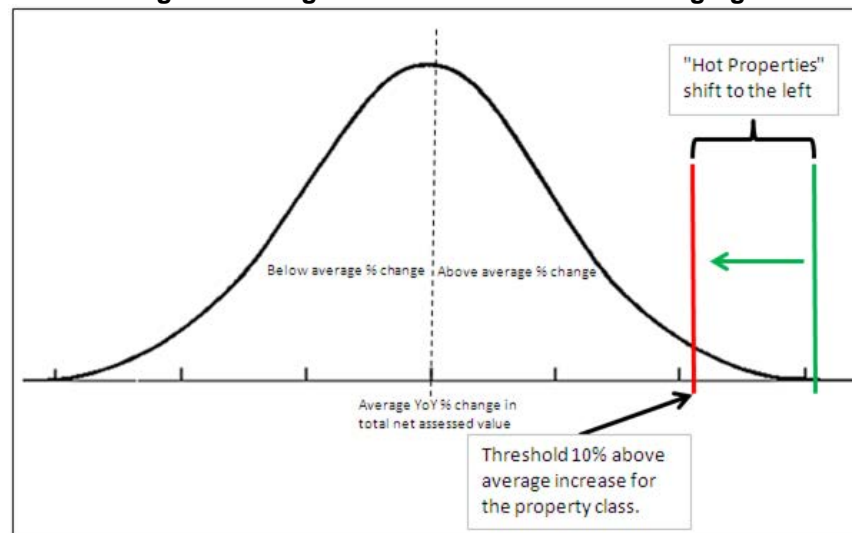
With regards to tax stability and predictability, in its report to Council on February 18, 2014, the Commission recommended that “*Council endorse the Targeted Five-Year Land Assessment*

Averaging method in place of the existing Three-Year Land Assessment Averaging program for Classes 1, 5 and 6” that focuses on “hot” properties defined as “properties that experience an unanticipated, year-over-year increase in total net assessed value, before land averaging is applied, which exceeds the average assessment increase for the same property class by more than ten percent”.

The targeted averaging method is designed to address the “hot” properties in Class 1 (Residential), 5 (Light Industry) and 6 (Business and Other). The intent is to reduce the severity of the increase in assessments 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 below shows how the targeted averaging method is intended to work. If a property is deemed “hot” (above the “threshold” set by Council), averaging would move the target property towards, but not lower than, the “threshold”. The rest of the properties will not be subject to any intervention.

Figure 1: Targeted Land Assessment Averaging



Depending on how the land values of individual target properties have changed in recent years, the impact of averaging will likely differ for each target property.

To ensure targeted averaging would not over mitigate a “hot” property, the Commission recommended that the City limit the impact of averaging up to the “threshold” (10% above class average change). Otherwise, 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, 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. In February 2019, the Province confirmed that, under section 374.4(5)(b) of the *Vancouver Charter*, the City has the authority to limit the effect of averaging, where averaging would result in a property’s averaged value falling below the “threshold” set by Council.

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

- a) **Data Source** – The 2019 *Completed Assessment Roll* available at the time of this report; the 2019 *Revised Assessment Roll* which incorporates updates from the Property Assessment Review Panel decisions will not be available until April.
- b) **Eligibility Criteria** – For targeted averaging, a “threshold” of 10% above the class average increase (provided by BC Assessment) is used to define “hot” properties. Vacant land, new construction, class transfers, and other ineligible properties as set out in the by-law are typically excluded.

Based on the 2019 *Completed Assessment Roll*, the class average increase (2019 *Completed Assessment Roll* value vs. 2018 *Average Assessment Roll* value) and “threshold” are summarized in Figure 2 below.

Figure 2: Preliminary “Threshold” based on 2019 *Completed Assessment Roll*

	Class average change		“Threshold” Class average change + 10%	
	2019	2018	2019	2018
Residential (Class 1)	1.7%	10.2%	11.7%	20.2%
Light Industry & Business (Classes 5 & 6)	24.7%	26.3%	34.7%	36.3%

The class average increase (provided by BC Assessment) will be finalized upon publication of the *Revised Assessment 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, a similar impact would apply.

(Note: Introduced by the Provincial government as part of the 2018-2019 provincial budget, the additional school tax on high-valued residential properties will be implemented in 2019. The additional tax rate is 0.2% on property values between \$3 million and \$4 million, and 0.4% over \$4 million, and is based on BC Assessment values, not averaged values.)

Subject to the 2019 *Revised Assessment Roll* as well as Council’s decision on tax distribution in April 2019, the impact of averaging presented in this report could change.

I. Residential (Class 1) Properties

In December 2018, Council approved the 2019 budget with an estimated tax increase of 4.5% and an overall tax levy of ~\$791 million. 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 the average change within its class.

Prior to Council’s tax distribution decision in April 2019, the tax levy to be collected from the residential property class would be ~\$434 million. 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.

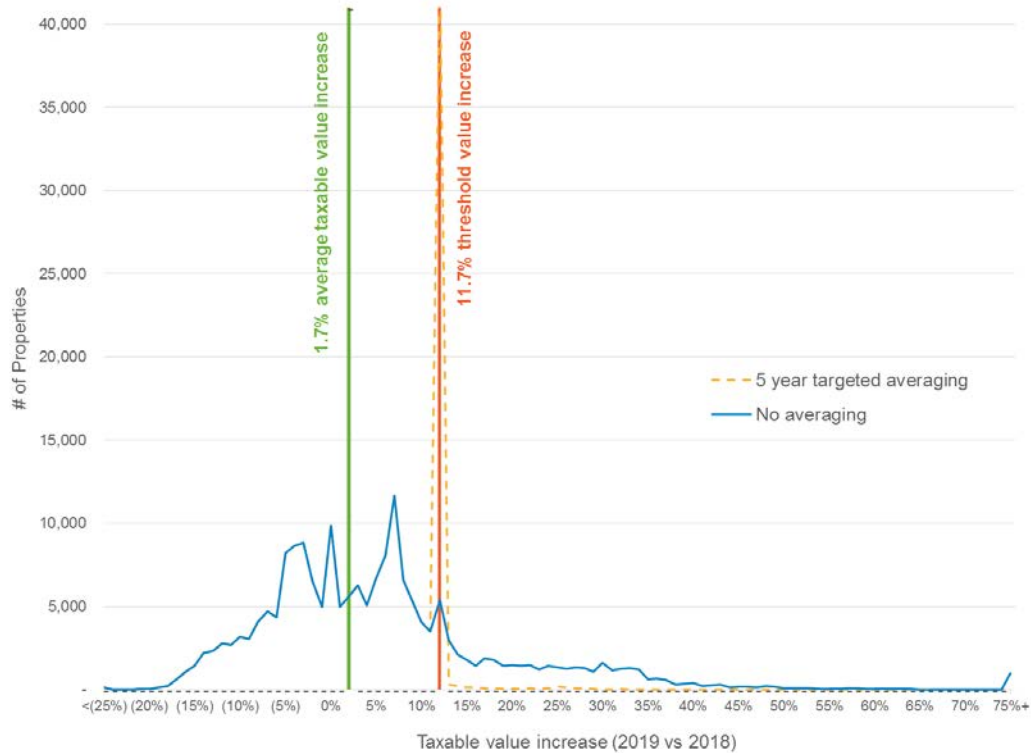
As illustrated in Figure 3 below, applying targeted averaging reduces the total taxable value slightly from \$337 to \$330 billion, and increases the tax rate by ~2.2% [2018: 3%] from \$1.287 to \$1.315 per \$1,000 taxable value.

Figure 3: Residential (Class 1) Properties
Estimated Impact of 5-year Averaging on 2019 Taxable Value & Tax Rate

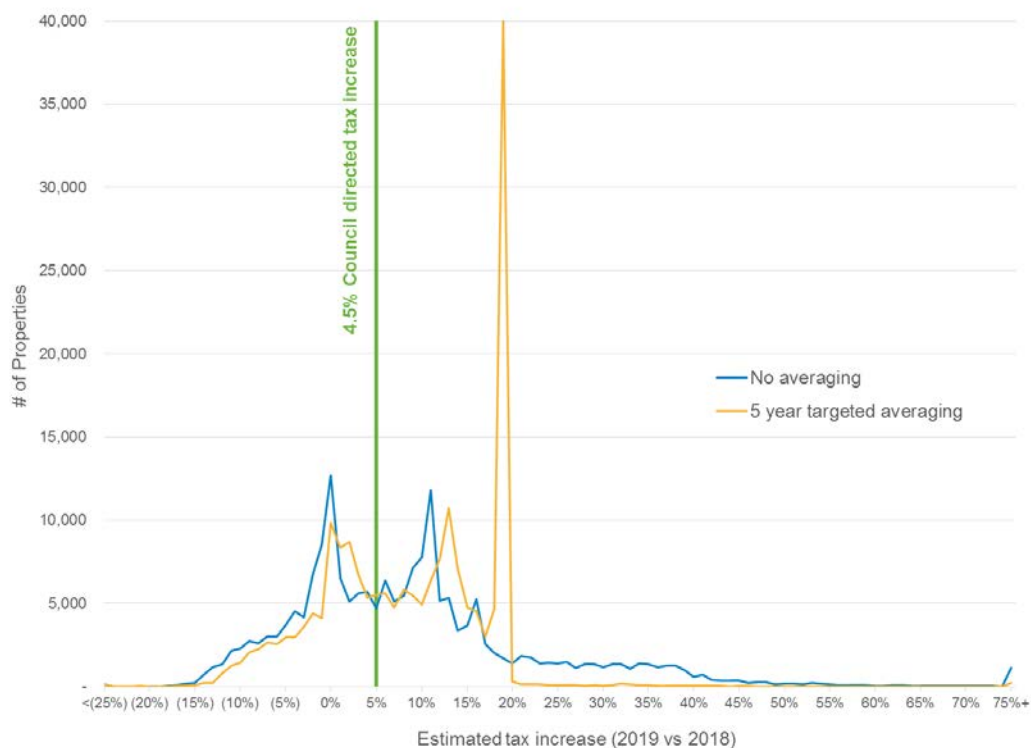
Class 1 – Residential	No Averaging (BCA Value)	Targeted 5-yr Averaging
Taxable Value	\$337B	\$330B
Tax Rate (per \$1,000 Taxable Value)	\$1.287	\$1.315
Target General Purpose Tax Levy	\$434M	\$434M

Figures 4 & 5 below demonstrate the effect of targeted 5-year averaging on the year-over-year increase (%) in taxable values and City property tax in 2019 for residential (Class 1) properties.

**Figure 4: Estimated 2019 Taxable Value Increase – Residential (Class 1)
No Averaging vs. Targeted 5-yr Averaging**



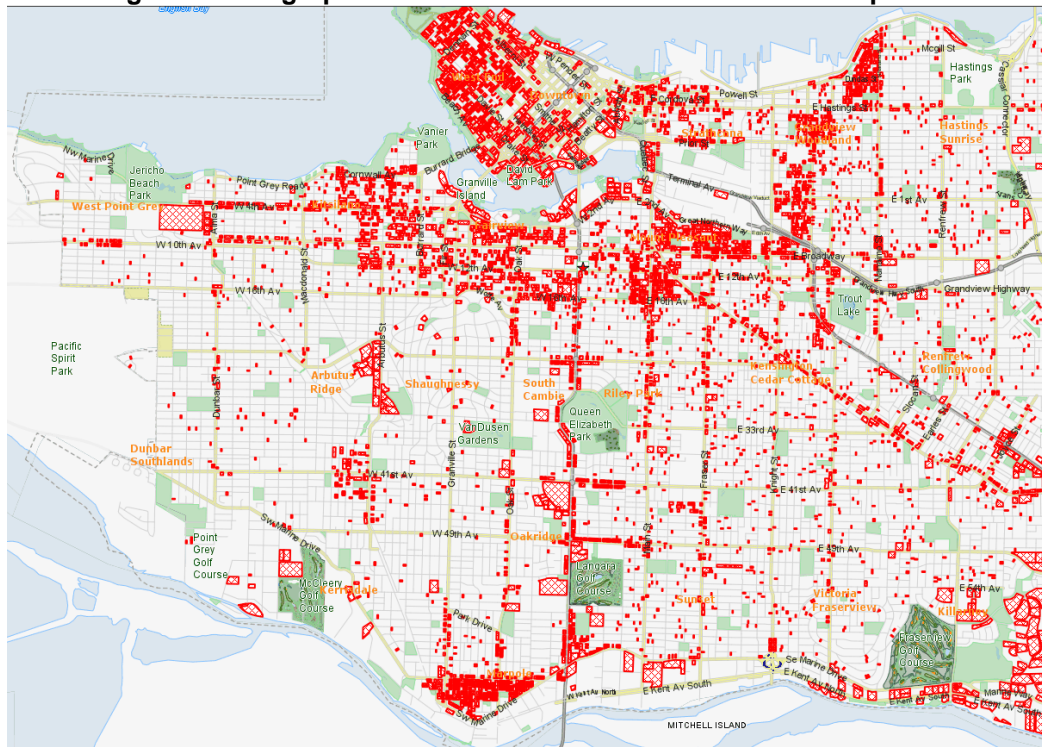
**Figure 5: Estimated 2019 City Property Tax Increase – Residential (Class 1)
No Averaging vs. Targeted 5-yr Averaging**



With targeted 5-year averaging, ~42,200 properties (21%) [2018: 39,700 (21%)] 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.

Figure 6 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 6: Geographical Distribution of “Hot” Residential Properties



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

- **Assessment Act s. 19(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. [2019: 1,021 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. [2018: 8,750 properties; 2019 applications in progress]
- **Home Owner Grant** - available to property owners who occupy their principal residence of which the value falls within the qualifying range. [2018: 83,200 properties; 2019 applications in progress]

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

II. Light Industry and Business & Other (Classes 5 & 6) Properties

Since 2000, the light industry 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.

In December 2018, Council approved the 2019 budget with an estimated tax increase of 4.5% and an overall tax levy of ~\$791 million. 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.

Prior to Council’s tax distribution decision in April 2019, the tax levy to be collected from the light industry and business property classes would be ~\$344 million. 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.

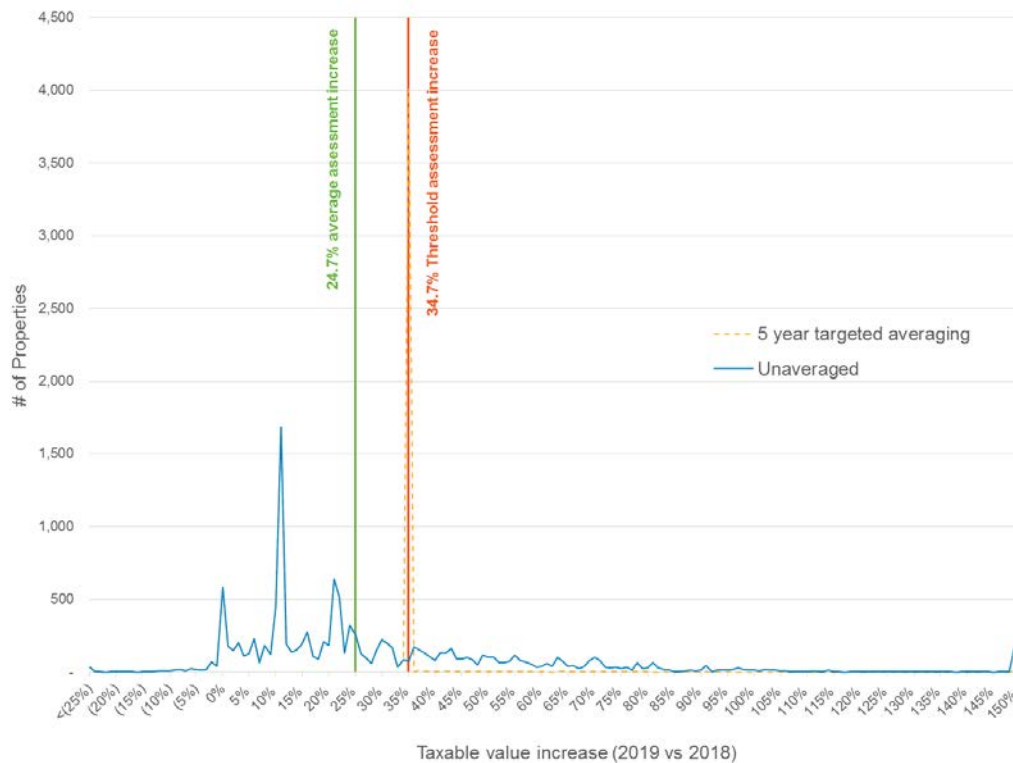
As illustrated in Figure 7 below, applying targeted averaging reduces the total taxable value from \$85 billion to \$79 billion, and increases the tax rate by 7.7% [2018: 9.6%] from \$4.04 to \$4.35 per \$1,000 taxable value.

**Figure 7: Light Industry and Business & Other (Classes 5 & 6)
Estimated Impact of Averaging on 2019 Taxable Value & Tax Rate**

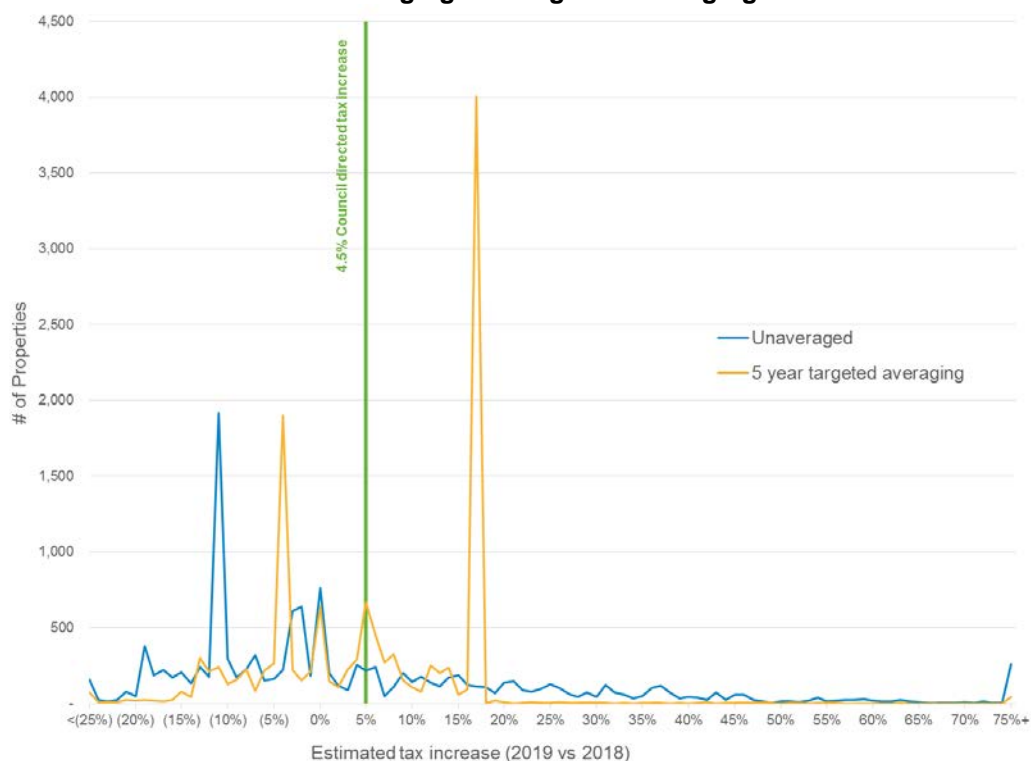
Class 5 & 6 – Light Industry & Business	No Averaging (BCA Value)	Targeted 5-yr Averaging
Taxable Value	\$85B	\$79B
Tax Rate (per \$1,000 Taxable Value)	\$4.04	\$4.35
Target General Purpose Tax Levy	\$344M	\$344M

Figures 8 & 9 below demonstrate the effect of targeted 5-year averaging on the year-over-year increase (%) in taxable values and City property tax in 2019 for light industry and business & other (Classes 5 & 6) properties.

**Figure 8: Estimated 2019 Taxable Value Increase – Light Industry & Business (Classes 5 & 6)
No Averaging vs. Targeted 5-yr Averaging**



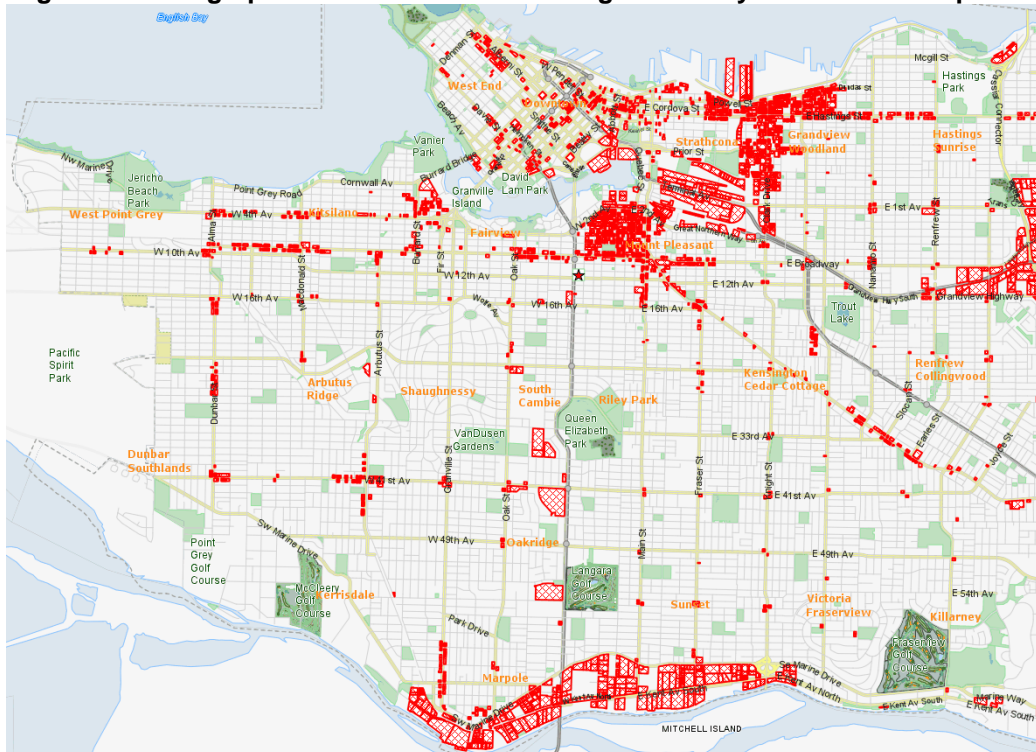
**Figure 9: Estimated 2019 City Property Tax Increase – Light Industry & Business (Classes 5 & 6)
No Averaging vs. Targeted Averaging**



With targeted 5-year averaging, ~4,200 properties (28%) [2018: 4,400 (30%)] are above the “threshold” and deemed “hot” and would be eligible for averaging. The vast majority of properties below the “threshold” would pay higher taxes to subsidize the tax relief for those “hot” properties.

Figure 10 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 10: Geographical Distribution of Hot Light Industry & Business Properties



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

During the 12 month period ending October 31, 2018, Council approved various amendments to Zoning and Development By-law and the various Official Development Plans that were initiated by the Director of Planning, such as changes related to implementation of the Grandview Woodland and Cambie Corridor Community Plans and the Joyce Collingwood Station Precinct Plan.

It has been Council practice to mitigate the impact of Director of Planning-initiated amendments to the Zoning and Development By-law and/ the various Official Development Plans 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 of the site. Prior examples include Norquay, West End, Downtown Eastside, Marpole, Mount Pleasant, Railtown and False Creek Flats.

Staff recommend that properties that are impacted by Director of Planning-initiated amendments to the Zoning and Development By-law or the various Official Development Plans be considered for targeted averaging, in accordance with the criteria as set out in the annual *Land Assessment Averaging By-law*.

Financial Implications

Should Council approve the adoption of the targeted 5-year averaging program in 2019, 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 2019 is estimated at \$25,000 plus applicable taxes; source of funding to be the 2019 Operating Budget.

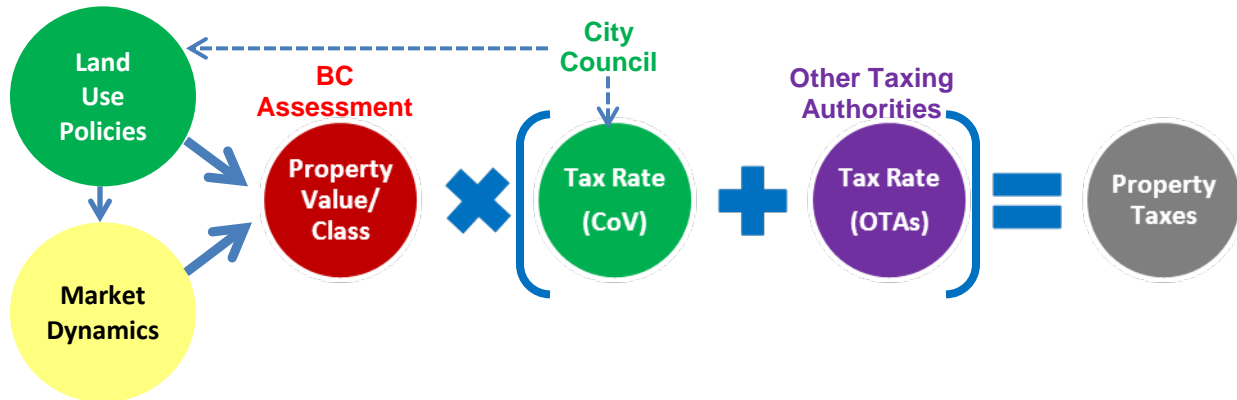
CONCLUSION

Staff recommend that Council approve the implementation of targeted 5-year averaging in 2019 for the purpose of calculating property taxes for residential (Class 1), light industry and business & other (Class 5 & 6) properties, including those properties that are impacted by Director of Planning-initiated amendments to the Zoning and Development By-law and the various Official Development Plans, 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 neighbourhoods 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 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 also has authority to limit the impact of averaging up to the “threshold” (10% above class average change). Without such limit, 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.

“Brighthouse 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 Brighthouse neighbourhood. 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 neighbourhood. 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

The table below compares the calculation of property taxes under the market value approach and the land assessment averaging approach. The total general purpose tax levy for the City is the same under both approaches.

Market Value Approach	5-yr Land Assessment Averaging Approach
2019 Land Value	Average of 2015/16/17/18/19 Land Value
+ 2019 Improvement Value	+ 2019 Improvement Value
= 2019 Taxable Value <u>Market</u>	= 2019 Taxable Value <u>Average</u>
x 2019 Tax Rate <u>Market</u>	x 2019 Tax Rate <u>Average</u>
= 2019 Total General Purpose Tax Levy	= 2019 Total General Purpose Tax Levy

As shown in above table, application of 5-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 prior four 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 must not change for at least five years.
- (iii) **Eligible Property Classes**
Averaging is applicable to Residential (Class 1), Light Industry (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 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.

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. While averaging does not increase or decrease the City's tax revenue, it affects the amount of taxes paid by individual property owners.

The City plans to transition from three-year to five-year targeted averaging in 2019. Under the targeted averaging approach, only those properties facing significant year-over-year increases in property values above a certain threshold ("hot" properties) would be eligible for averaging. For eligible "hot" 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 four years, plus their current assessed improvement value, provided that this averaged value does not go below the threshold value. All other properties would continue to pay property taxes based on their current year BC Assessment value.

The table presented shows the estimated effect of the targeted five-year averaging program on the City of Vancouver's general purpose tax levy for sample properties based on the thresholds proposed for 2019 (10% above class average change), subject to Council approval. The program requires an adjustment to the tax rates such that properties below the threshold would pay slightly higher taxes to provide tax relief for those "hot" properties above the threshold. Amounts levied by other taxing authorities such as provincial schools,

	Prior year		Current year without averaging		Current year with averaging	
	Taxable value (\$)	2018 taxes (\$)	Taxable value (\$)	Est. 2019 taxes (\$)	Taxable value (\$)	Est. 2019 taxes (\$)
Sample Residential Strata (Class 1) properties						
Targeted "hot" property	527,667	679	740,000	952	589,328	775
Other property not targeted	735,000	946	740,000	952	740,000	973
Sample Residential Single Family (Class 1) properties						
Targeted "hot" property	1,352,300	1,740	1,757,000	2,261	1,618,600	2,128
Other property not targeted	1,796,000	2,311	1,757,000	2,261	1,757,000	2,310
Sample Light Industrial (Class 5) properties						
Targeted "hot" property	1,960,667	9,863	3,544,000	14,324	2,640,958	11,496
Other property not targeted	2,879,700	14,485	3,655,000	14,772	3,655,000	15,909
Sample Business & Other (Class 6) properties						
Targeted "hot" property	588,333	2,959	990,000	4,001	792,466	3,449
Other property not targeted	870,000	4,376	989,000	3,997	989,000	4,305

TransLink, BC Assessment, and Metro Vancouver are not included in the analysis.

On March 12, 2019, Vancouver City Council will consider whether to use targeted five-year averaging for residential (Class 1), light industrial (Class 5) and business and other (Class 6) properties, and determine the appropriate thresholds for these property classes if targeted averaging is adopted. Should Council decide to use targeted five-year 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

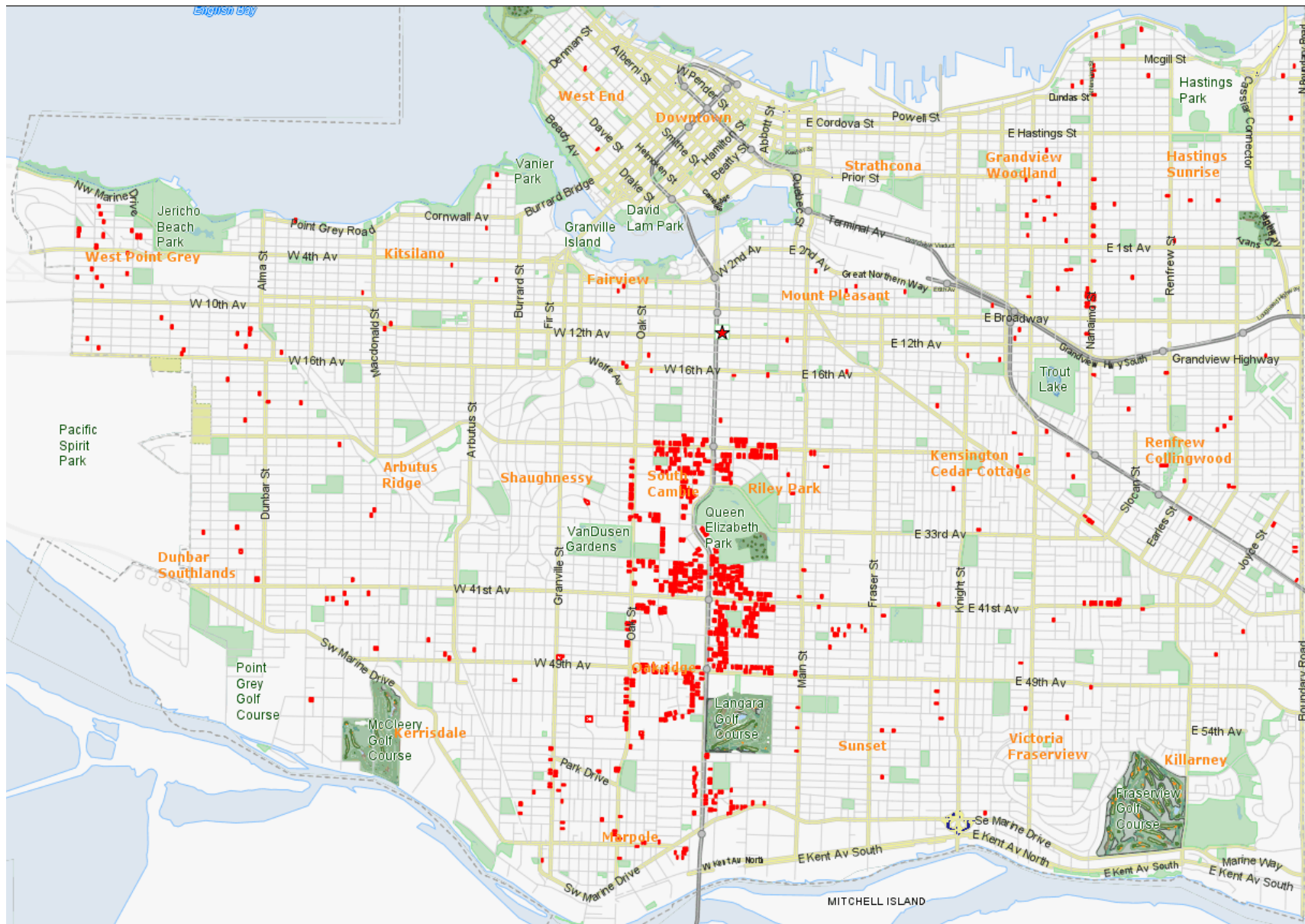
COMMENTS? Contact Council:
vancouver.ca/your-government/contact-council
or write to: **Mayor and Council 453 West 12th Avenue Vancouver, BC V5Y 1V4**

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 13, 2019.

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

PROVINCIAL MITIGATION – ASSESSMENT ACT S19(8)
PROPERTIES HAVING A LOWER ASSESSED VALUE UNDER S19(8)

APPENDIX C
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