CITY OF VANCOUVER

REPORT

Report Date: April 10, 2022
Contact: Grace Cheng
Contact No.: 604.871.6654
RTS No.: 14711
VanRIMS No.: 08-2000-25
Meeting Date: April 26, 2022
Submit comments to Council

TO: Vancouver City Council

FROM: Director of Finance

SUBJECT: 2022 Property Taxation: Distribution of Property Tax Levy

RECOMMENDATION

THAT Council instruct the Director of Finance to calculate the 2022 general purpose tax rates for all property classes to achieve a tax share of approximately 57.0% residential and approximately 43.0% non-residential.

REPORT SUMMARY

The primary purpose of this report is to seek Council approval of the allocation of general purpose tax levy across property classes for the purpose of calculating 2022 tax rates; and to report back on Council's request (April 2021) for information about how much of the three-year tax shift program (2019-2021) benefitted large corporations and businesses as opposed to smaller ones before Council makes its tax distribution decision.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

s219 of the *Vancouver Charter* requires that, by April 30, the Director of Finance submits to Council a report that sets out the distribution of the general purpose tax levy across property classes for that year.

It has been Council policy that the tax rates for Class 1, 8 & 9 and for Class 5 & 6 be calculated on a blended basis, which means the classes within these two groups are taxed at the same rate before application of land assessment averaging.

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

In 2007, the Commission provided a thorough review of the City's property tax policy. With regards to tax distribution, the Commission recommended shifting $23.8 million from commercial to residential property classes. The tax shift program was completed in 2012.

In 2013, Council reconvened the Commission to provide an updated assessment of the City's property tax policy. In 2014, Council adopted most of the Commission's recommendations, and instructed staff to implement the following with regards to tax share:

- maintain the current tax distribution; and
- incorporate metrics to help guide future tax distribution decisions.

In April 2019, Council directed staff to implement a 2% tax shift ($15.8 million) from non-residential properties (Classes 2, 4, 5 and 6) to residential properties (Classes 1, 8 and 9) over three years, at a rate of 1% in 2019, 0.5% in 2020 and 0.5% in 2021. The program was completed in 2021.

In December 2021, Council approved the 2022 Operating Budget of $1.7 billion of which $958.4 million is to be funded from general purpose tax levy.

In March 2022, Council adopted the *2022 Land Assessment Averaging By-law* that authorized the use of targeted 5-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 2022 tax year.

CITY MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

As the affordability challenge continues to impact most Metro Vancouver municipalities, it is critical for all levels of government to work together to alleviate the financial hardship on our residents, businesses and community partners.

The Class 6 General School Tax remission granted by the Province on a one-time basis in 2022 provides the much needed tax relief for those properties impacted by the reversal of "Amacon" split classification; however, the systemic challenges faced by small businesses, and the arts, culture and non-profit sectors remains.

Property assessment reform is sorely needed as hundreds of small businesses and community partners are struggling with the taxation impact arising from the highest and best use (market value) assessment methodology and development potential issue. While staff appreciate the Province's effort in enacting the Interim Business Property Tax Relief Legislation in Spring 2020, the program focuses on assessment and taxation volatility rather than development potential, and poses significant implementation challenges for municipalities. As part of the post-pandemic recovery effort, staff (through the regional Intergovernmental Working Group) will continue to engage with the Province to work on implementing "Split Assessment through a Commercial Sub-class" to support small businesses and our community partners.

REPORT

Background/Context

It has been long-standing Council policy to distribute the general purpose tax levy across property classes through a "tax share" approach. Under this approach, Council approves the share of levy among residential and non-residential property classes, subject to adjustments arising from new construction and other non-market changes on the Assessment Roll. As well, same tax rate applies to Class 1, 8 & 9 and to Class 5 & 6 before targeted 5-year land assessment averaging is applied.

For the 2022 Operating Budget of $1.7 billion approved in December 2021, $958.4 million is to be funded from general purpose tax levy.

Strategic Analysis

I. 2021 Revised Roll

Below is a high level summary of the year-over-year assessment and taxation changes:

(i) The taxable assessment base has increased by $46.5 billion (11.7%).

(ii) The overall increase in general purpose tax levy for the City is $62.2 million (6.9%), which is comprised of the following:

2021 -		
Assessment appeals & other adjustments		($1.0 M)
2022 -		
New construction, class transfers & other non-market changes	+	$11.7M
Tax increase	+	$51.5M
Increase in general purpose tax levy	+	$62.2M

(iii) New construction, class transfers and other non-market changes have shifted 0.1% of the overall tax levy between non-residential and residential property classes.

(iv) Three sites totaling $192 million in assessed value have converted from business (Class 6) to recreation (Class 8) (e.g. parks & gardens), resulting in $0.6 million of general purpose tax levy being redistributed to other taxpayers.

Please refer to Appendix E for further details on the year-over-year changes in the City's assessment base and tax levy.

II. Distribution of General Purpose Tax Levy

Table 1 below shows the distribution of 2022 general purpose levy.

Table 1: 2022 General Purpose Tax Distribution

	Residential Class 1	Utilities Class 2	Supportive Housing Class 3	Major Ind. Class 4	Light Ind. Class 5	Business Class 6	Recreation & Non-profit Class 8	Farm Class 9	Total
Taxable value	357,074,207,439	293,794,874	122	267,690,000	2,062,954,600	82,617,929,142	1,191,655,300	185,852	443,508,417,329
Base tax levy	516,234,275	7,697,419	-	8,626,122	9,243,130	364,885,788	1,778,728	297	908,465,759
Tax increase	29,328,694	436,445	-	489,103	388,000	20,825,102	41,966	(13)	51,509,297
Final tax levy	**545,562,969**	**8,133,864**	**-**	**9,115,225**	**9,631,130**	**385,710,890**	**1,820,694**	**284**	**959,975,056**
Share of tax levy	56.8%	0.8%	-	0.9%	1.0%	40.2%	0.2%	0.0%	100.0%
Unaveraged tax rate	1.52787	27.68552	-	34.05142	4.66861	4.66861	1.52787	1.52787	

	Residential (Class 1, 3, 7 & 9)	Non-residential (Class 2, 4, 5 & 6)
Taxable value	80.8%	19.2%
Tax levy distribution	57.0%	43.0%

Note: As part of the Ports Competitiveness Initiative that took effect in 2004, the Province has legislated municipal tax rate caps to eligible tenant-occupied port properties: $27.50 per $1,000 on existing properties and $22.50 per $1,000 on new investments. Seven folios are eligible under this provision, resulting in ~$1.6 million of forgone general purpose tax levy.

$960 million final general levy less ~$1.6 million forgone on eligible port properties equals $958.4 million Council-approved tax levy.

Table 2 below summarizes the general purpose tax levy for a property valued at $1 million in Class 1 Residential and Class 6 Business & Other.

Table 2: 2022 Tax Impact - Residential vs. Non-residential

	Property valued @ $1 million	
	Residential (Class 1)	**Business (Class 6)**
General Purpose Tax Levy[1]		
Base	$1,446	$4,418
Tax Increase	$82	$251
Total[2]	**$1,528**	**$4,669**
Year-over-year Tax Increase	*5.67%*	*5.67%*

Applying the *2022 Averaged Roll* will change the taxable values and tax rates for Classes 1, 5 & 6, but the overall tax levy and tax share across property classes will be the same. The final tax rates, including those levied by Other Taxing Authorities, and applicable rating by-laws and resolutions will be presented to Council for adoption in May 2022.

[1] Taxes levied by Other Taxing Authorities (Provincial School, TransLink, BC Assessment, Metro Vancouver, and Municipal Finance Authority) are not included. Council has no control over these tax requisitions.

[2] Impact on individual properties may vary depending on the relative change in value of a property compared to other properties in the same class, and the impact that the City's targeted 5-year land assessment averaging program has on the value of a property for tax calculation purposes.

A summary of the property assessment & taxation framework, tax distribution approaches and mitigations is presented in Appendix A. The history of Council-directed tax shift between residential and commercial property classes is presented in Appendix D.

III. Commission-recommended Metrics to Guide Tax Distribution

In its report to Council in February 2014, the Commission reiterated that there is no single definition of the “correct”, most appropriate tax share that should be borne by the commercial sector. The task of allocating taxes across property classes requires a degree of judgment. It recommended a number of metrics to gauge Vancouver’s commercial property tax situation and ability to retain and attract business investments relative to other comparable Metro Vancouver municipalities, and to inform future decisions on tax share.

The Commission emphasized that these metrics are not meant to be prescriptive; they help gauge Vancouver’s business climate over the long-term and are considerations for Council when determining tax share in the future. If the metrics suggest that the property tax situation for the commercial sector is worsening in Vancouver relative to other comparable Metro Vancouver municipalities, Council may consider shifting more taxes from commercial to residential properties. Conversely, if the metrics indicate that the tax situation for the commercial sector in Vancouver is relatively competitive, and that there is little evidence that Vancouver is losing its ability to attract and retain business investments, a further tax shift from commercial to residential properties may not be warranted.

The following charts show how Vancouver compares with five comparable Metro Vancouver municipalities with substantial commercial sectors (Burnaby, Coquitlam, New Westminster, Richmond and Surrey) on the Commission-recommended metrics.

Figures 1 & 2 below compare ***Business Tax Share*** and ***Business Tax Rate Ratio*** (business tax rate/residential tax rate) trends respectively. Over the last decade, Vancouver’s business tax share and tax rate ratio has reduced substantially – the most improved among comparable Metro Vancouver municipalities.

Figure 1: Business (Class 6) Tax Share

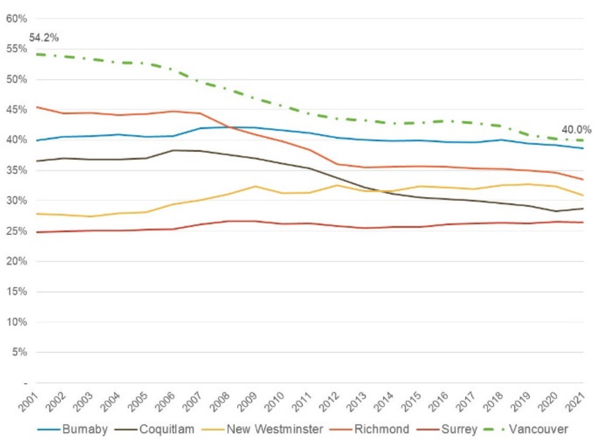
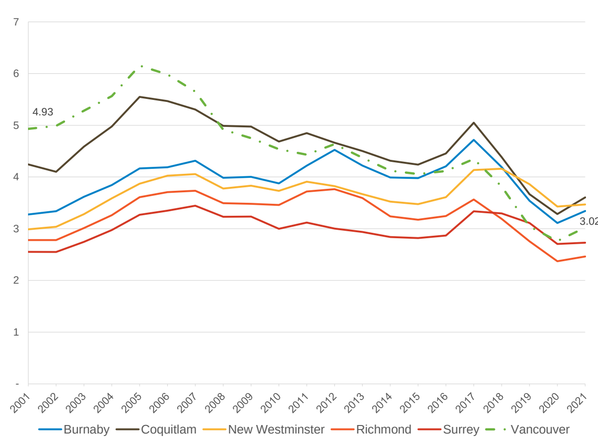


Figure 2: Business (Class 6) Tax Rate Ratio



It is important to note that the business tax rate ratio is impacted by market forces that are beyond Council's control. Assuming no Council-directed tax shift, if the value of residential property appreciates faster than commercial property, the tax rate ratio will naturally increase even though the business tax share remains the same. Conversely, if the value of commercial property appreciates faster than residential property, the tax rate ratio will naturally decrease. As such, relying on just the tax rate ratio to gauge tax equity among property classes without considering other complementary metrics could be misleading.

Figures 3 & 4 below compare ***Business Tax Rate*** and ***Business Taxes per Capita*** trends. Over the last decade, Vancouver's business tax rate has reduced substantially – the lowest among comparable Metro Vancouver municipalities. Increase in business taxes per capita is in line with comparable Metro Vancouver municipalities.

Figure 3: Business (Class 6) Tax Rate

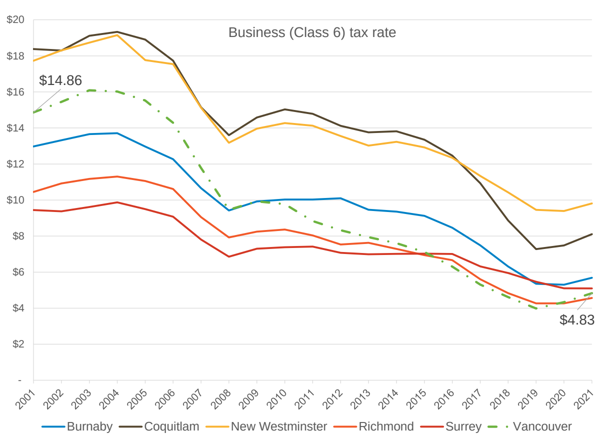
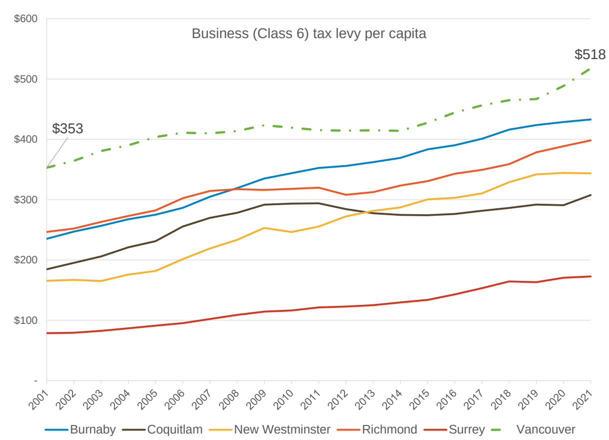


Figure 4: Business (Class 6) Taxes per Capita



Figures 5 & 6 below compare ***Commercial Building Permits*** and ***Business Property Market Assessment*** trends, showing that market demand for commercial space in Vancouver has been strong over the last two decades.

Figure 5: Commercial Building Permits* ($B)

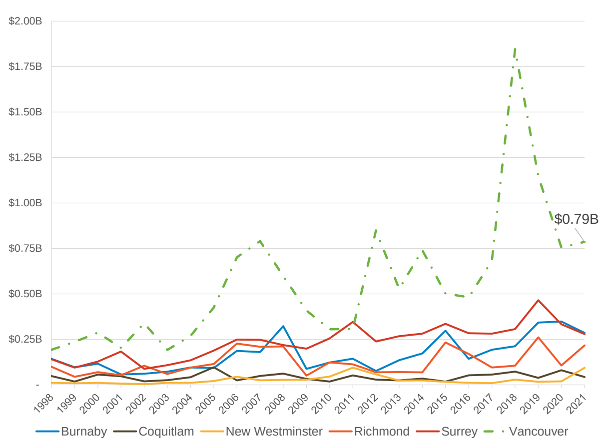
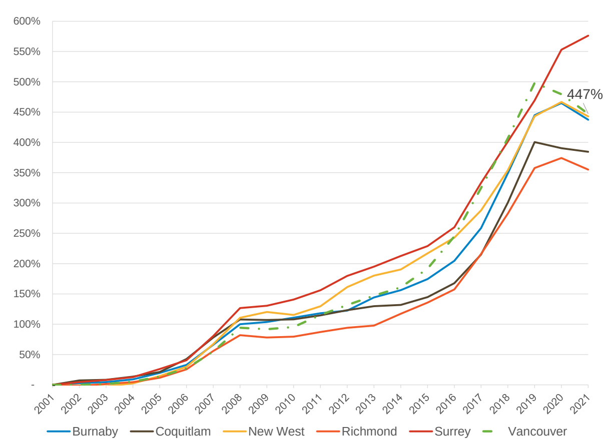


Figure 6: Business (Class 6) Assessment Growth



* Source: BC Stats.

IV. Report Back on Impacts of the 3-Year (2019-2021) Tax Shift Program

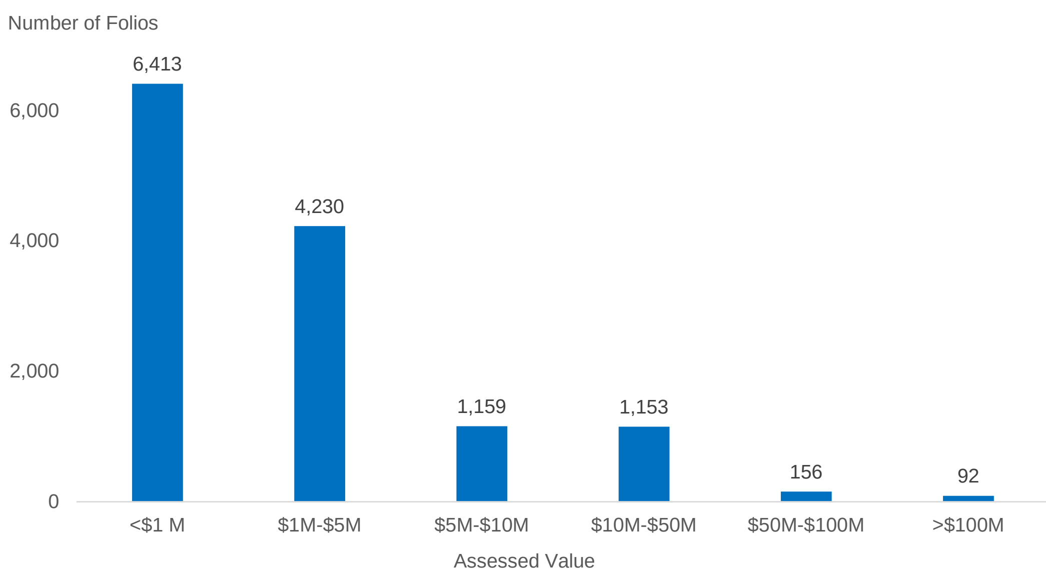
In April 2019, Council directed staff to implement a 2% tax shift ($15.8 million) from non-residential properties (Classes 2, 4, 5 and 6) to residential properties (Classes 1, 8 and 9) over three years, at a rate of 1% in 2019, 0.5% in 2020 and 0.5% in 2021.

In April 2021, Council instructed staff to bring forward information about how much of the tax shift benefitted large corporations and businesses as opposed to smaller ones before Council makes its tax distribution decision.

As the vast majority of commercial properties are occupied by multiple tenants, some with owner/operators, and the City does not collect commercial tenancy data for taxation purposes, staff could only estimate tax savings by property uses and assessed values contained in the assessment roll. Staff further assumed that any tax savings from the tax shift program were passed on to tenants through triple net leases.

Figure 7 below shows the composition of non-residential properties by assessed value in 2021. 81% (~10,600) of non-residential properties were assessed at or below $5 million and held 17% ($12.9 billion) of the overall non-residential assessment base; in contrast, the top 10 non-residential properties held 7% ($5.6 billion) of the overall non-residential assessment base. Anecdotally, most small business, arts, culture and non-profit tenants tend to be occupants of lower value properties (under $5 million).

Figure 7: 2021 Non-residential Properties by Assessed Value



Of the $15.8 million tax shifted over three years, ~$2.4 million was provided to properties at or below $5 million (or $226 per property on average) and ~$13.4 million to properties above $5 million (or $4,766 per property on average). In particular, ~$6.9 million (43%) was provided to the following types of commercial properties:

- Office buildings developed at, or close to, “highest and best use” (e.g. downtown AAA office buildings)
- Regional malls (e.g. Pacific Centre)

- Banks
- Hotels
- Auto dealer shops
- Big box retail
- Warehouse & storage

Figure 8 below shows the estimated cumulative savings from the three-year tax shift program for sample commercial properties.

Figure 8: Cumulative Tax Savings ($) for Sample Commercial Properties

	Sample Downtown AAA Office Building	Sample Downtown Hotel	Sample Cedar Cottage Commercial Property
Est. Cumulative Tax Savings ($)	181,800	20,500	1,600

In recent years, tax burden has been gradually shifting from properties developed at, or close to, “highest and best use” (e.g. downtown AAA office buildings) to under-developed properties with significant development potential. As noted in the 2019 Property Taxation: Distribution of Property Tax Levy report, any tax relief arising from the 2% tax shift would apply to all non-residential properties as opposed to only those that are most impacted by unbuilt development potential.

Figures 9 and 10 illustrate the tax trend from 2014 to 2021 on sample commercial properties, including five years preceding the tax shift program. The sample AAA office building, already experiencing a relatively stable and downward tax trend, received further relief from the tax shift program. The sample under-developed commercial property, on the other hand, continued to experience a steep upward tax trend with relatively minor relief from the tax shift program.

Figure 9: Sample Under-Developed Property

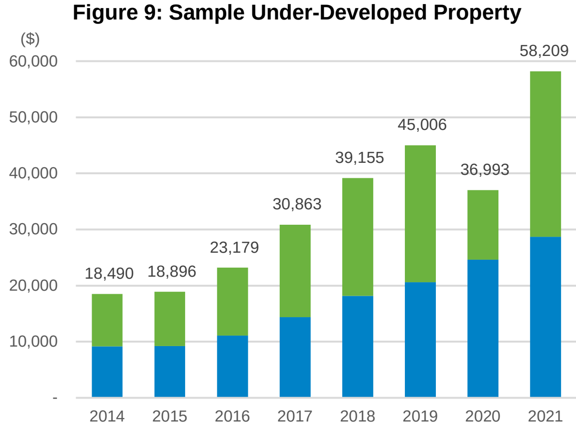
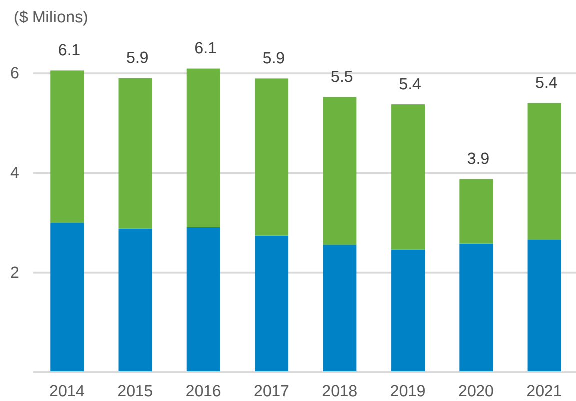


Figure 10: Sample AAA Office Building



■ City of Vancouver General Purpose Tax Levy ■ Other Taxing Authorities Levies

(Note: The much lower levies from other taxing authorities in 2020 reflect the Province’s one-time reduction in the School Tax for non-residential property classes as part of the COVID relief program.)

As demonstrated above, the blanket 2% tax shift from commercial to residential did not effectively target those properties impacted by development potential; instead, it reduced property tax for all commercial properties regardless of the need.

In 2022, BC Assessment estimated that over 2,800 (~22%) commercial properties in Vancouver are deemed under-developed with their assessed values reflecting a higher and better use relative to their existing use. The Inter-governmental Working Group continues to support the “Split Assessment through a commercial sub-class” approach under which Council could define eligible properties for “Split Assessment”, set a lower tax rate (compared to commercial) for the development potential, and limit the duration of such tax relief. With support from the Province, “Split Assessment” could provide the most targeted and time-limited tax relief to small businesses currently residing in under-developed property in neighborhoods that are experiencing significant pace of change. This is intended to provide temporary tax relief to those impacted properties, not all commercial properties.

Financial Implications

In December 2021, Council approved the 2022 Operating Budget of $1.7 billion, of which $958.4 million is to be funded from general purpose tax levy.

Consistent with prior years, the final property tax increase has been adjusted based on the *2022 Revised Roll* to generate the Council-approved tax levy – from the earlier estimate of 6.35% (December 2021) to 5.67% (April 2022). Any forgone taxes from exempt properties and supportive housing (Class 3) are borne by non-exempt properties.

Subject to Council approval, the tax share for residential and non-residential property classes would be ~57%/~43%.

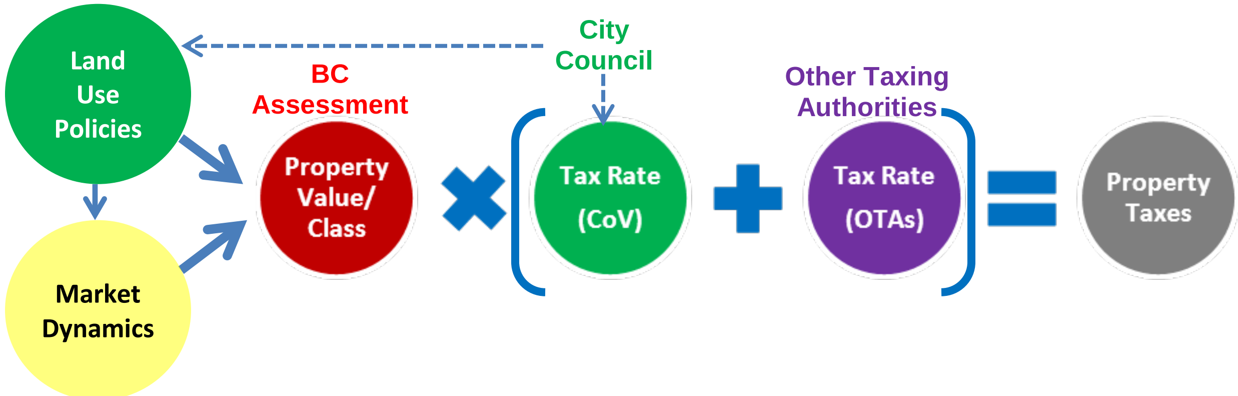
CONCLUSION

Staff recommend that Council approve the tax share for residential and non-residential property classes at 57%/43% for the purpose of calculating 2022 tax rates.

* * * * *

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.

TAX DISTRIBUTION

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

(i) "Tax Rate Ratio" Approach

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

(ii) "Tax Share" Approach

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

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

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

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

When comparing tax share across municipalities, it is important to note that a number of factors may contribute to such differences:

- Different Council priorities and public policy objectives
- Different programs and services levels
- Different revenue strategies: property tax, utility charges and user fees
- Different mix of residential and non-residential properties on the *Assessment Roll*
- Different funding mechanisms for public transit, tourism and other programs:
  - public transit - the federal gas tax is allocated directly to Translink for all Metro Vancouver municipalities, while such funding flows through other municipalities (e.g. Abbotsford)
  - tourism – some municipalities retain the hotel room tax (up to 2% of sales of accommodation); in Vancouver, such funding has been directed by the Province to Tourism Vancouver

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

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

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

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

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

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

TAX RATE CALCULATION

Under the “tax share” approach, Council determines the share of tax levy for each property class, but not for each individual property within the class. s374.2 (1) of *Vancouver Charter* further stipulates that Council determines and imposes a single tax rate for each property class, but not for each individual property within the class. To generate the Council-approved tax levy, when the total assessed value of a property class increases, the tax rate for the class is adjusted down; when the total assessed value decreases, the tax rate is adjusted up.

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. This applies to both residential and non-residential property classes.

MITIGATION

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 s19(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 s374.4 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.

"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.

DEVELOPMENT POTENTIAL & PROPERTY TAX IMPACT ON SMALL BUSINESSES, ARTS, CULTURE & NON-PROFIT SECTORS

The affordability challenge is a regional issue impacting most Metro Vancouver municipalities, not just Vancouver. In British Columbia, properties are assessed at their "highest and best use" (market value). Hundreds of small businesses and community partners are impacted by property taxation on development potential for properties that are not developed to their highest and best use. In 2019, BC Assessment estimated that approximately 3,000 (~21%) commercial properties in Vancouver are deemed under-developed with their assessed values reflecting a higher and better use relative to their existing use.

As Metro Vancouver cities grow and evolve, OCPs and Neighborhood Plans are developed to set out 20-25 year plans to increase density in communities to support anticipated population and job growth, and to expand commercial and light industrial space. As OCPs and Neighborhood Plans are implemented over time, certain properties will continue their existing use for a number of years until redevelopment occurs, while their assessed value reflects a higher & better "future" use as per OCPs/Neighborhood Plans.

At present, there is no property class for this future development potential as a type of use. Existing use value and the future development potential value is aggregated into the same property class. As a result, municipalities cannot set different tax rates for existing use vs. future development potential. This limitation has significantly impacted the viability of local independent businesses as well as the arts, culture and NPO sectors, particular for tenants on triple net leases.

While there are a number of Provincial mitigation tools 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*. Vancouver is the only municipality that uses targeted 5-year 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 s. 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.

Split Assessment through a Commercial Sub-class ("Split Assessment") – In May 2019, the Intergovernmental Working Group submitted a recommendation to the Province for "Split Assessment as the most targeted approach to address the core issue – taxes on development potential – impacting small business, arts, culture and non-profit organizations:

- It addresses the root cause of the problem by creating a sub-class for future development potential and allowing municipalities to tax existing use versus development potential differently.
- It offers a common platform for municipalities while allowing a high degree of flexibility, scalability and customization.
- Municipalities can decide whether or not to use the tool (permissive in nature) and determine the eligibility requirement, tax rate and duration of the tax relief by-laws.
- It is more transparent and straight-forward to administer than permissive exemptions.

- It will not result in tax shift across municipalities – for municipalities that chose to use split assessment, any tax reallocation will be confined within the municipality.

In July 2019, a joint letter of support for Split Assessment was signed by the Mayors of the Cities of Burnaby, Coquitlam, and Surrey and District of North Vancouver, and submitted to the Honorable Premier of British Columbia. Separately, in July and September 2019, two joint letters of support were signed by key stakeholders and community partners (The Vancouver BIA Partnership, Greater Vancouver Board of Trade, BC Chamber of Commerce, Canadian Federation of Independent Business, Urban Development Institute Pacific Region, National Association for Industrial and Office Parks Vancouver, and Building Owners and Managers Association of British Columbia) and submitted to the Province.

The Interim Business Property Tax Relief Legislation ("Interim Solution") *(enacted in Spring 2020)*

Program Criteria – The Interim Solution requires a property to be assessed in a commercial class – Class 5 (light Industry), Class 6 (Business & Other), or a combination of the two – and have at least one tenant responsible for all or a portion of the property taxes to qualify for the exemption.

Municipalities will need to set further parameters to identify properties where the taxes have increased significantly due to a spike in land value in their communities. Those parameters include:

- A base tax year of 2015 or later to use as comparison to the current tax year
- A minimum percentage of increase in commercial land value since the base year
- A minimum percentage of the total property value that must be land value
- The percentage of the exemption by property, area or kind

For the 2020 tax year, Municipalities must have the by-law passed by April 22.

Staff Analysis – Staff, in consultation with the CFO's from eight Metro Vancouver municipalities, reviewed and analyzed the Interim Solution, and concluded that not only does it not address the core issue of development potential, it poses significant implementation challenges:

i) No Opportunity for Public Consultation – The timing of the legislation does not allow sufficient time to engage stakeholders in a meaningful way, or to put processes in place to implement the legislation.

Similar to the Province needing more time for consultation across British Columbia before implementing Split Assessment, municipalities need time for public consultation and engagement with stakeholders prior to implementing any solution including a permissive tax exemption. Among other things, the public and stakeholders need to understand how and who can qualify for an exemption and the impacts of a permissive exemption.

The proposed legislation will result in a redistribution of both municipal and school taxes among taxpayers. Municipalities will be required to collect the same amount of school tax.

A structured policy is required to determine who receives benefits, the amount of the benefits, and who pays for the benefits. Time for proper consultation is critical to enable staff and Council to understand the issues and answer questions as to why some businesses receive benefits and others do not. This is particularly important as the proposed legislation is not based on development potential, something that the public is keenly aware of and understands. An appropriate public consultation process will ensure that the opinions of all those impacted are considered when creating changes.

ii) Lack of Required Data to Meet Criteria as per Proposed Legislation –

- There is no common definition of "small business" for property assessment/taxation purposes.
- Commercial lease agreements and owner/operator versus tenant data is not available from BC Assessment or other sources.

- A process to validate lease agreements to ensure only those with triple net leases are receiving the exemption is required and there is insufficient time to implement such a policy.

iii) Unintended Consequences and Risks – There could be unintended consequences such as businesses receiving tax relief for the wrong reasons, and struggling businesses and organizations end up paying higher taxes.

The proposed permissive exemption that segments the business class on such a short time frame without sufficient public consultation and proper due diligence creates risks for municipalities such as potential legal challenges, error and omission in inclusion/exclusion of properties, and undetermined impacts on tax revenues

Risk of the small businesses, arts culture and non-profit organizations subsidizing big box/chain stores is a major concern. Based on proposed legislation, if a tenant on a triple net lease occupies the same property as a big box store, the entire property would receive the tax exemption due to private legal contractual agreements. However, a small mom-and-pop owner occupied and operated business will not be eligible to receive the exemption. This will result in small owner operated businesses potentially subsidizing big box stores.

The original intent was to provide relief to small businesses, arts, culture and non-profit organizations from large increases in property taxes created by development potential. The interim solution risks placing additional tax pressures on some of these properties and ultimately, there is insufficient time to address these risks.

Conclusion – Staff do not recommend proceeding with the interim solution but continue with the 5-year targeted land assessment averaging. Staff further recommend that Council direct staff to continue working with the Province to focus on the necessary work to implement Split Assessment through a commercial sub-class.

Year	
1994	▪ Shifted $3.0 million from Class 6 to Class 1
1995	▪ Shifted $3.0 million from non-residential classes to Class 1
1996	▪ No shift
1997	▪ Shifted $2.9 million from non-residential classes to Class 1
1998-99	▪ No shift
2000	▪ Shifted $3.7 million from non-residential classes to residential classes
2001-02	▪ No shift
2003	▪ Shifted $2.1 million from non-residential classes to residential classes
2004-05	▪ No shift
2006	▪ Shifted $4.8 million from non-residential classes to residential classes
2007	▪ Allocated the entire 3.98% tax increase to residential classes, which is equivalent to a shift of $10 million
2008	▪ Shifted $5.2 million from non-residential classes to residential classes
2009	▪ Shifted $5.5 million from non-residential classes to residential classes
2010	▪ Shifted $5.7 million from non-residential classes to residential classes
2011	▪ Shifted $5.8 million from non-residential classes to residential classes
2012	▪ Shifted $1.6 million from non-residential classes to residential classes
2013-18	▪ No shift
2019	▪ Shifted $7.9 million from non-residential classes to residential classes
2020	▪ Shifted $4.2 million from non-residential classes to residential classes
2021	▪ Shifted $3.6 million from non-residential classes to residential classes
2022	▪ No shift (subject to Council approval on April 26, 2022)

Notes:

1. Tax shifts between 2008 and 2012 were effected as part of the multi-year tax redistribution program recommended by the Commission. The target was to shift $23.8 million proportionately from non-residential property classes (2, 4, 5 & 6) to residential property classes (1, 8 & 9) at a rate of 1% of the overall tax levy per year.
2. Tax shifts for 2019, 2020 and 2021 were directed by Council in April 2019 as part of the 3-year, 2% tax shift program. The target was to shift $15.8 million proportionately from non-residential property classes (2, 4, 5 & 6) to residential property classes (1, 8 & 9) over three years, at a rate of 1% in 2019, 0.5% in 2020 and 0.5% in 2021.

IMPACT OF ASSESSMENT CHANGES ON TAX DISTRIBUTION

	Residential Class 1	Utilities Class 2	Supportive Housing Class 3	Major Industry Class 4	Light Industry Class 5	Business & Other Class 6	Recreational & Non-profit Class 8	Farm Class 9	Total
ASSESSMENT BASE									
2021 Revised Roll	319,525,213,661	299,262,201	118	258,444,000	1,957,275,100	74,240,073,516	966,215,900	185,852	397,246,670,348
2021 Adjustments	(1,052,000)	0	-	0	(29,228,600)	(187,327,300)	22,873,100	-	(194,734,800)
2021 Supplementary Roll	319,524,161,661	299,262,201	118	258,444,000	1,928,046,500	74,052,746,216	989,089,000	185,852	397,051,935,548
Share of Assessment Base	*80.47%*	*0.08%*	*0.00%*	*0.07%*	*0.49%*	*18.65%*	*0.25%*	*0.00%*	*100.00%*
2022 Market Change	33,915,607,076	24,376,673	0	8,778,000	151,092,700	6,960,119,032	70,595,200	0	41,130,568,681
	353,439,768,737	323,638,874	118	267,222,000	2,079,139,200	81,012,865,248	1,059,684,200	185,852	438,182,504,229
Share of Assessment Base	*80.66%*	*0.07%*	*0.00%*	*0.06%*	*0.47%*	*18.49%*	*0.24%*	*0.00%*	*100.00%*
2022 Non-market Change									
Class Transfers	(240,806,700)	(17,597,600)	4	-	(7,311,500)	117,794,400	120,775,400	-	(27,145,996)
Other	1,845,736,002	2,572,000	0	0	(8,873,100)	225,882,000	4,140,700	-	2,069,457,602
New Construction	2,029,509,400	(14,818,400)	-	468.0000	0	1,261,387,494	7,055,000	-	3,283,601,494
	3,634,438,702	(29,844,000)	0.0040	468,000	(16,184,600)	1,605,063,894	131,971,100	-	5,325,913,100
2022 Assessment Base for Tax Rate Calculation	**357,074,207,439**	**293,794,874**	**122**	**267,690,000**	**2,062,954,600**	**82,617,929,142**	**1,191,655,300**	**185,852**	**443,508,417,329**
Share of Assessment Base	*80.51%*	*0.07%*	*0.00%*	*0.06%*	*0.47%*	*18.63%*	*0.27%*	*0.00%*	*100.00%*
GENERAL PURPOSE TAX LEVY									
2021 Opening Tax Levy	510,981,526	8,479,331	-	8,611,041	9,456,868	358,702,051	1,545,163	297	897,776,278
2021 Roll Adjustments	(1,682)	-	-	0	(141,222)	(905,100)	36,578	-	(1,011,426)
2021 Adjusted Tax Levy	510,979,844	8,479,331	-	8,611,041	9,315,646	357,796,951	1,581,741	297	896,764,852
Share of Tax Levy	*56.98%*	*0.95%*	*0.00%*	*0.96%*	*1.04%*	*39.90%*	*0.18%*	*0.00%*	*100.00%*
2022 Non-market Change	2,320,301	(393,670)	-	0	(72,516)	1,517,862	186,456	-	3,558,433
2022 New Construction	2,934,130	(388,242)	-	15,081	0	5,570,974	10,531	-	8,142,475
	5,254,431	(781,912)	-	15,081	(72,516)	7,088,837	196,987	-	11,700,908
2022 Base Tax Levy (before tax increase)	**516,234,275**	**7,697,419**	**0**	**8,626,122**	**9,243,130**	**364,885,788**	**1,778,728**	**297**	**908,465,760**
Share of Tax Levy	*56.82%*	*0.85%*	*0.00%*	*0.95%*	*1.02%*	*40.17%*	*0.20%*	*0.00%*	*100.00%*
2022 Tax Increase	29,328,694	436,445	-	489,102	388,000	20,825,102	41,966	(13)	51,509,297
2022 Tax Shift	0	0	-	0	-	0	-	-	0
	29,328,694	436,445	-	489,102	388,000	20,825,102	41,966	(13)	51,509,297
2022 Final Tax Levy (after tax increase)	**545,562,969**	**8,133,864**	**0**	**9,115,225**	**9,631,130**	**385,710,890**	**1,820,694**	**284**	**959,975,057**
Share of Tax Levy	*56.83%*	*0.85%*	*0.00%*	*0.95%*	*1.00%*	*40.18%*	*0.19%*	*0.00%*	*100.00%*

Note: Total tax levy $960.0 million – Forgone taxes on eligible Port properties ~$1.6 million = Council-approved tax levy $958.4 million