



REPORT

Report Date: November 28, 2022
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Meeting Date: December 6, 2022
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TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: 2023 Land Assessment Averaging: Notice to BC Assessment Authority

RECOMMENDATION

- A. THAT, pursuant to Section 374.4 (4b) of the *Vancouver Charter*, the City Clerk be instructed to notify the BC Assessment Authority (“BC Assessment”), before January 1, 2023, of Council’s intent to consider the adoption of targeted land assessment averaging for the purpose of property tax calculations for 2023.

It should be noted that this notice of intent is revocable should Council, at a later date, decide not to proceed with this mechanism.

- B. THAT the Director of Finance be instructed to provide the required two weeks’ notice to the public in advance of Council’s consideration of the use of targeted land assessment averaging and, before March 31, 2023, report on the projected taxation impacts of the program based on the assessed values provided by BC Assessment in the 2023 Completed Roll.
- C. THAT the Area Assessor for Vancouver be invited to address Council on the 2023 assessment trends.

REPORT SUMMARY

Staff recommend that Council notify BC Assessment of its intent to consider the adoption of land assessment averaging for the purpose of property tax calculations for 2023. This notice of intent is a statutory requirement for Council to consider the use of averaging but does not commit Council to implement this mechanism.

Land assessment averaging is an optional tool available to Council under the *Vancouver Charter* to phase in significant property tax increases arising from assessment volatility at a city-wide level. This program is revenue neutral to the City as the total general purpose tax levy collected from each property class is the same with or without averaging.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Section 374.4 of the *Vancouver Charter* allows Council to consider the application of land assessment averaging each year. Should Council decide 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 industrial (Class 5) properties.

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

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

In May 2013, Council reconvened the Commission to provide an updated assessment of the City’s property tax policy. To further address taxation impact arising from assessment volatility, in February 2014, the Commission recommended *targeted* 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 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 2015, 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, 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 2015. Council again adopted *targeted* 3-year averaging for 2016, 2017 and 2018.

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.

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 land assessment averaging in 2018 (one year ahead of the original target transition in 2019). The request was denied by the Province in January 2018.

In March 2019, Council approved the transition from *targeted* 3-year to 5-year land assessment averaging with a threshold to limit the effect of averaging. Council again adopted *targeted* 5-year averaging with a threshold for 2020, 2021 and 2022.

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

REPORT

Background/Context

While the Council-directed property tax increase applies to the City's total general purpose tax levy, the extent of change in a property's taxes is determined primarily by how that property's assessed value has changed relative to the average change within its property class.

Properties with a higher increase in value relative to the average change, such as those in neighborhoods with significant growth and/or development potential, 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.

Pursuant to the *Vancouver Charter*, Council is required to consider whether or not to adopt land assessment averaging each year. This program is revenue neutral to the City as the total general purpose tax levy collected from each property class is the same with or without averaging. 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.

Strategic Analysis

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

- Notify BC Assessment, before January 1, 2023, of its intent to consider the adoption of land assessment averaging for 2023. This notice of intent does not commit Council to the implementation of this mechanism.
- Should Council decide to proceed, adopt a by-law, before March 31, 2023, authorizing the use of land assessment averaging for the purpose of property tax calculations for 2023.

- Specify in the by-law the eligibility requirements for properties to be considered for land assessment averaging.

In advance of Council's consideration, staff will complete an analysis of the projected taxation impacts of targeted 5-year land assessment averaging and provide the required two weeks' notice to the public of Council's intent to consider the program.

Development potential tax relief program – The City's targeted land assessment averaging program is intended to address assessment volatility. To address the taxation impact arising from the highest and best use (market value) assessment methodology, staff have advocated for a number of years to the Province to implement "Split Assessment through a Commercial Sub-class" to enable local governments to levy a lower tax rate on the development potential on under-developed properties.

Introduced by the Province in October, Bill 28 – 2022: Municipal Affairs Statutes (Property Taxation) Amendment Act, 2022 received Royal Assent and came into effect in November. This new legislation enables municipalities to apply a lower tax rate (compared to the commercial tax rate) on a portion of the land value which represents "development potential" on eligible commercial properties.

Staff are undertaking detailed analyses and will report to Council in the new year on how to implement the development potential tax relief program alongside the targeted land assessment averaging program in accordance with the legislation for 2023.

Financial Implications

Should Council adopt the mechanism for 2023, the final tax rates for the City's municipal general purpose tax levy and other taxing authorities will be adjusted to give effect to land assessment averaging to maintain revenue neutrality.

The Province's additional school tax on high-valued residential properties (over \$3 million) is levied based on the unaveraged assessment roll. The additional tax rate is 0.2% on property values between \$3 million and \$4 million, and 0.4% over \$4 million.

CONCLUSION

Staff recommend that Council notify BC Assessment of its intent to consider the adoption of targeted land assessment averaging for the purpose of property tax calculations for 2023.

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