Development Potential Tax Relief & Targeted Land Assessment Averaging

Standing Committee on City Finance and Services

March 8, 2023

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Recommendations – Development Potential Relief

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- Implement a pilot development potential relief program (“DPRP”) for eligible Light Industry & Business Properties
- Approve City-specific exclusions (in addition to provincial eligibility criteria & exclusions)
- Set DPRP tax rate at 50% of blended Light Industry/Business tax rate
- Set % land value to be subject to DPRP tax rate by BC Assessment neighborhood / zoning district (not by property), up to $5.4M
- Require eligible property owner to notify tenants of DPRP

Recommendations – Land Assessment Averaging

- Apply targeted 5-yr land assessment averaging to eligible “hot” Residential, Light Industry & Business properties

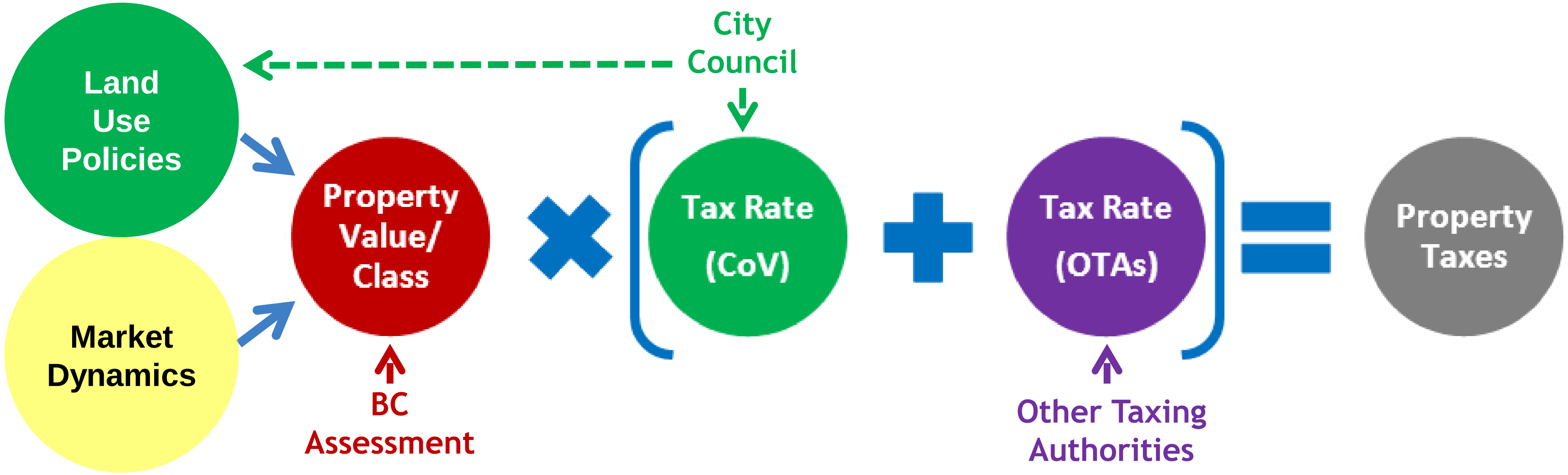
- Set “threshold” at 10% above class average y-o-y change to define “hot” property; limit impact of averaging (reduction in land value) up to the “threshold”

- Include properties impacted by City-initiated zoning & ODP amendments; exclude properties impacted by owner-initiated changes (zoning, use, etc.)

- Exclude properties benefitting from DPRP

Property Assessment & Taxation Framework

Property Assessment & Taxation Framework



BC Assessment determines:

- property value based on highest & best use & market data
- property class based on actual use

City Council determines:

- land use policies (zoning, density, etc.)
- total City tax levy to be collected
- residential/business tax share
- tax rate for each property class
- use of development potential relief & land averaging

How are City tax rates determined?

Step 1: Determine City tax levy required to support the budget

City Tax Levy = Annual Operating Budget – Non-tax Revenues
2023 City Tax Levy: $1.07 billion

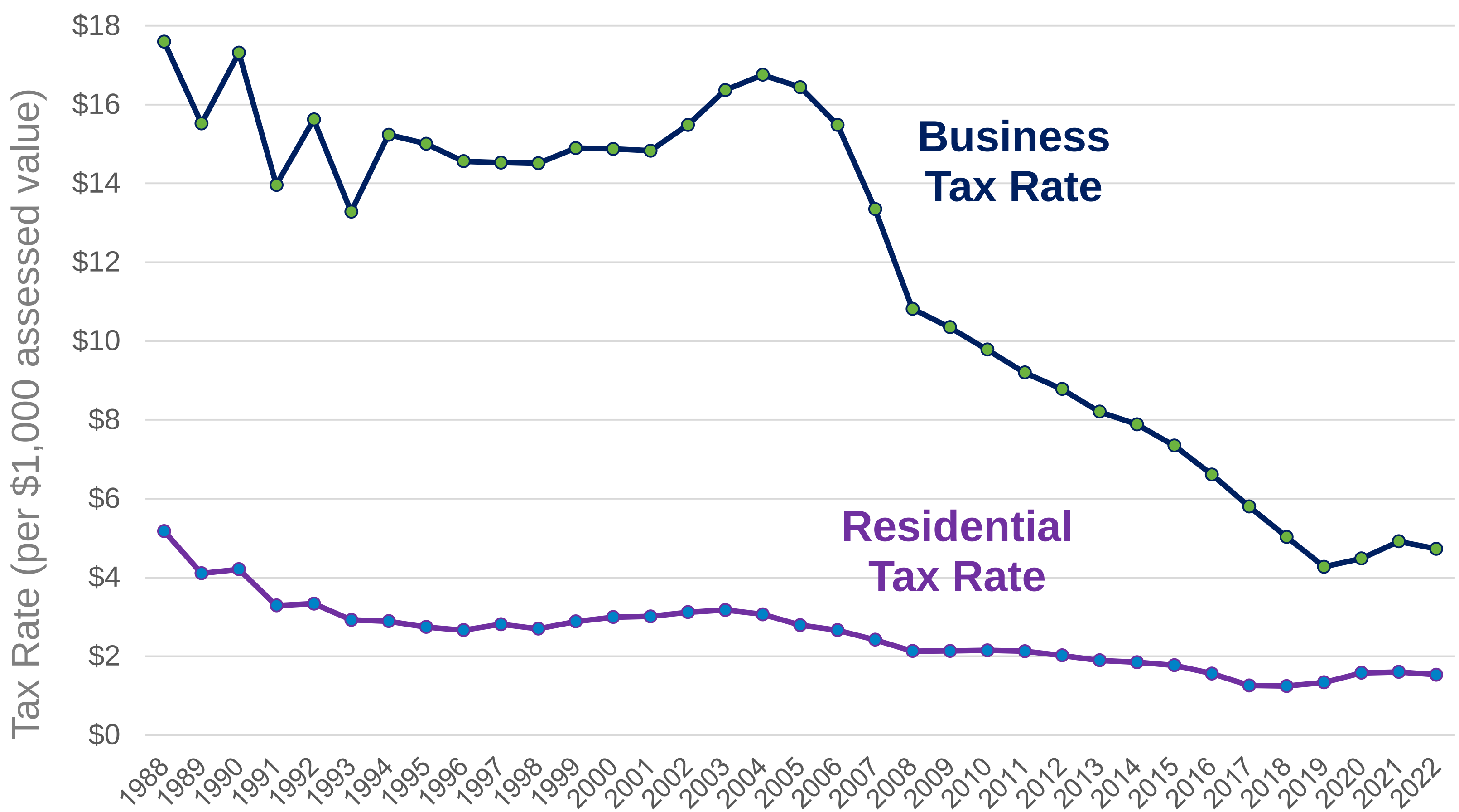
Step 2: Determine tax share between residential / non-residential property classes

2022: Residential 57% / Non-residential 43%

Step 3: Set City tax rate for each property class

City Tax Rate = Tax Levy ÷ Taxable Assessment Base

Revenue Neutrality



City does not collect more taxes due to rising assessed values
Tax rates are adjusted to collect tax levy set by Council as part of annual budget

Assessment Changes & Taxation Impact

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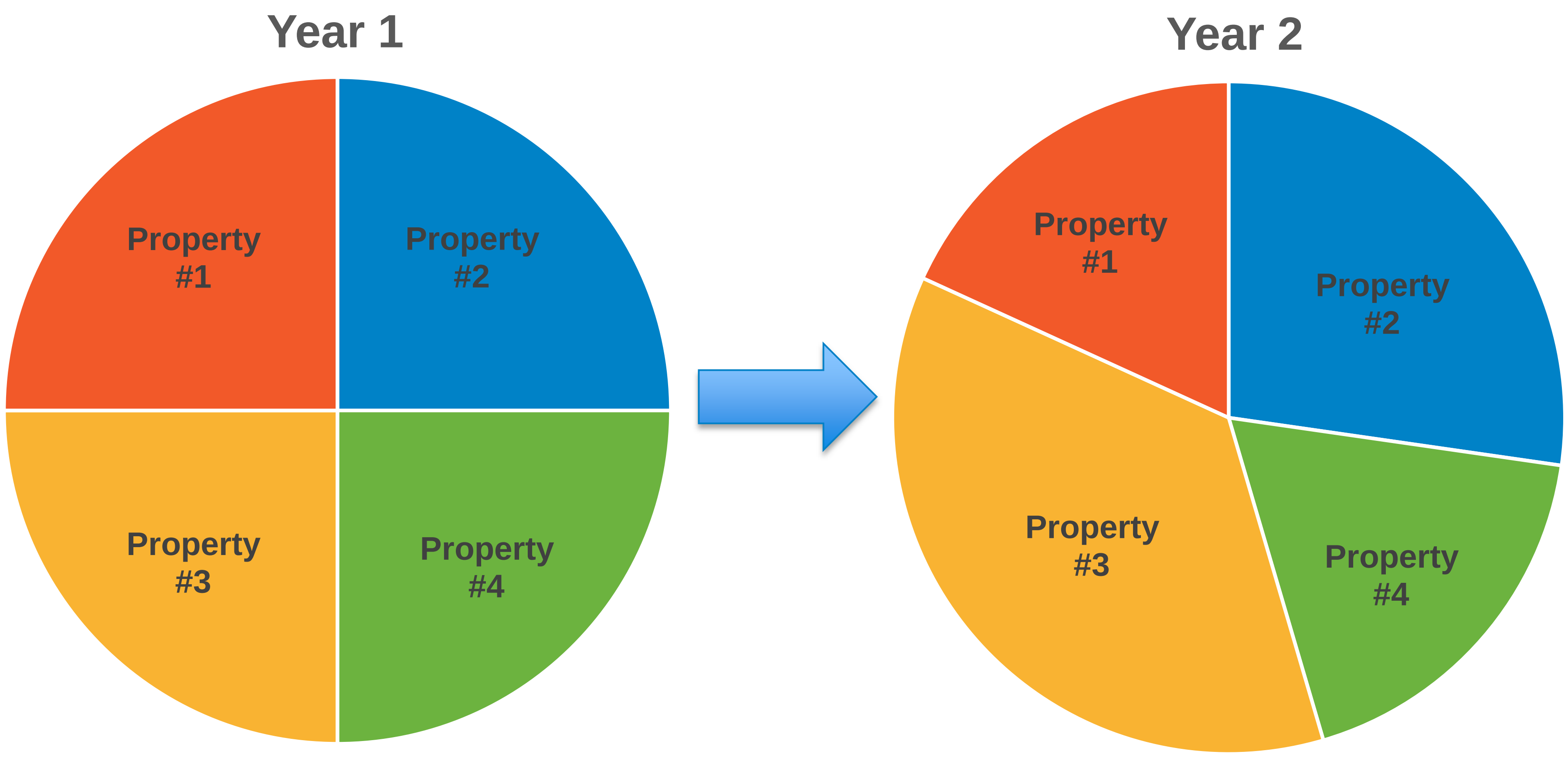
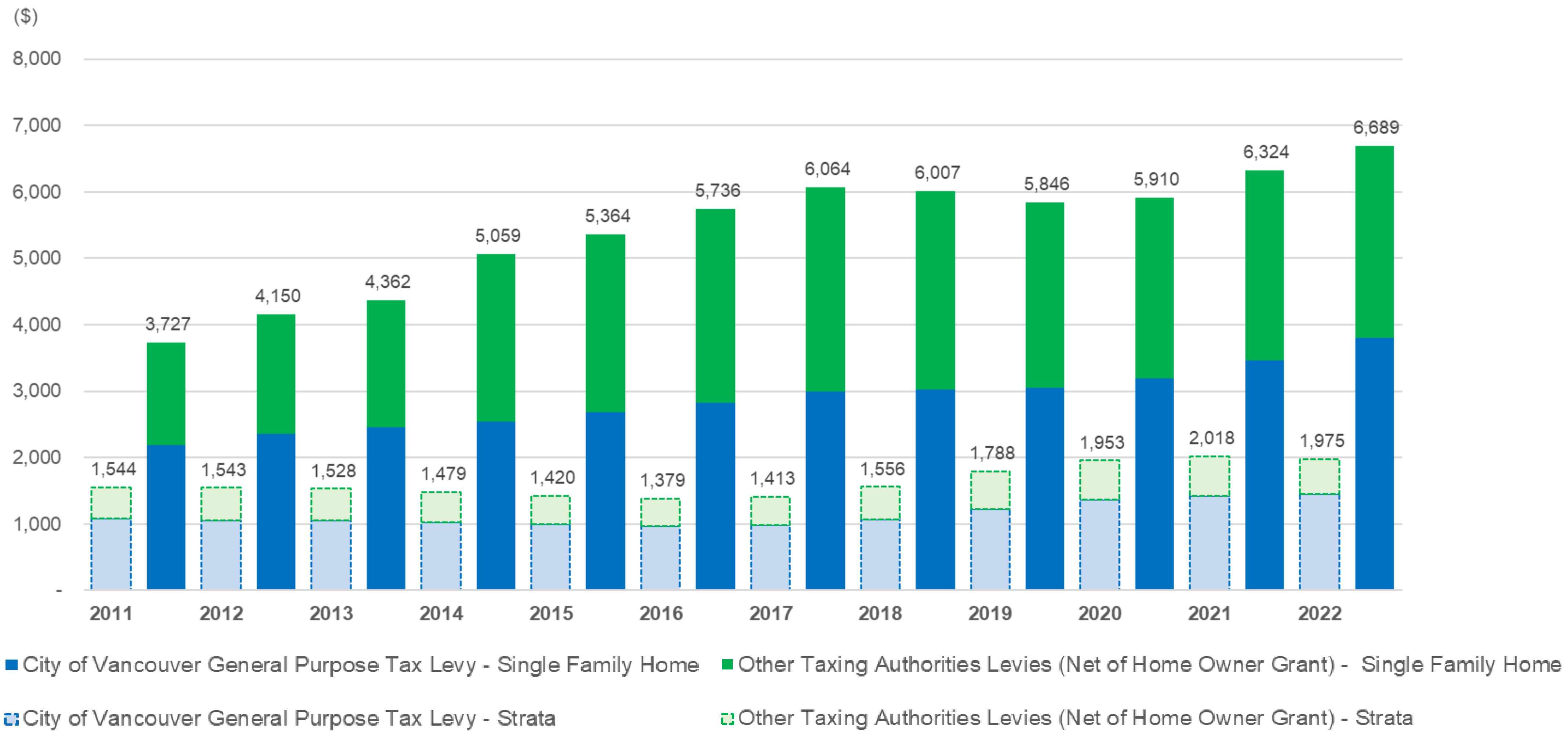


In Year 2… Properties (1 & 4) with below average increase pay lower taxes
Properties (2 & 3) with above average increase pay higher taxes

Assessment Changes & Taxation Impact – Residential



Single family homes have had higher tax increases than strata

Assessment Changes & Taxation Impact – Commercial

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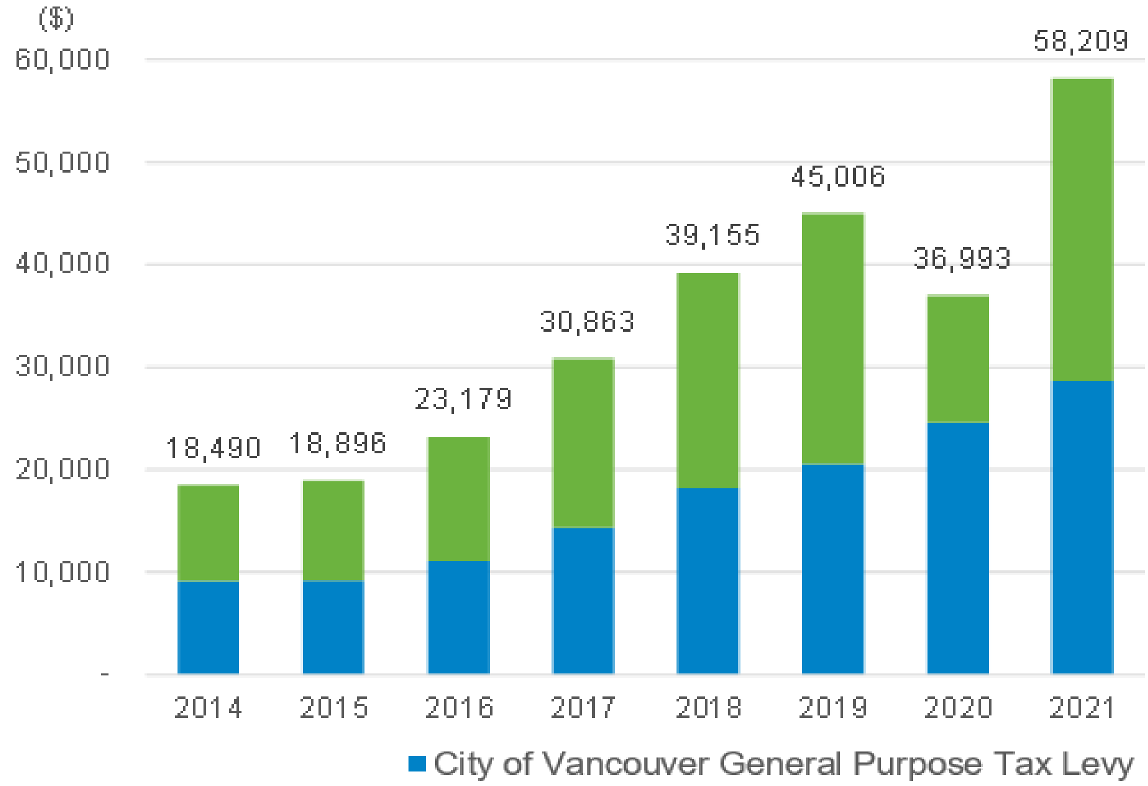
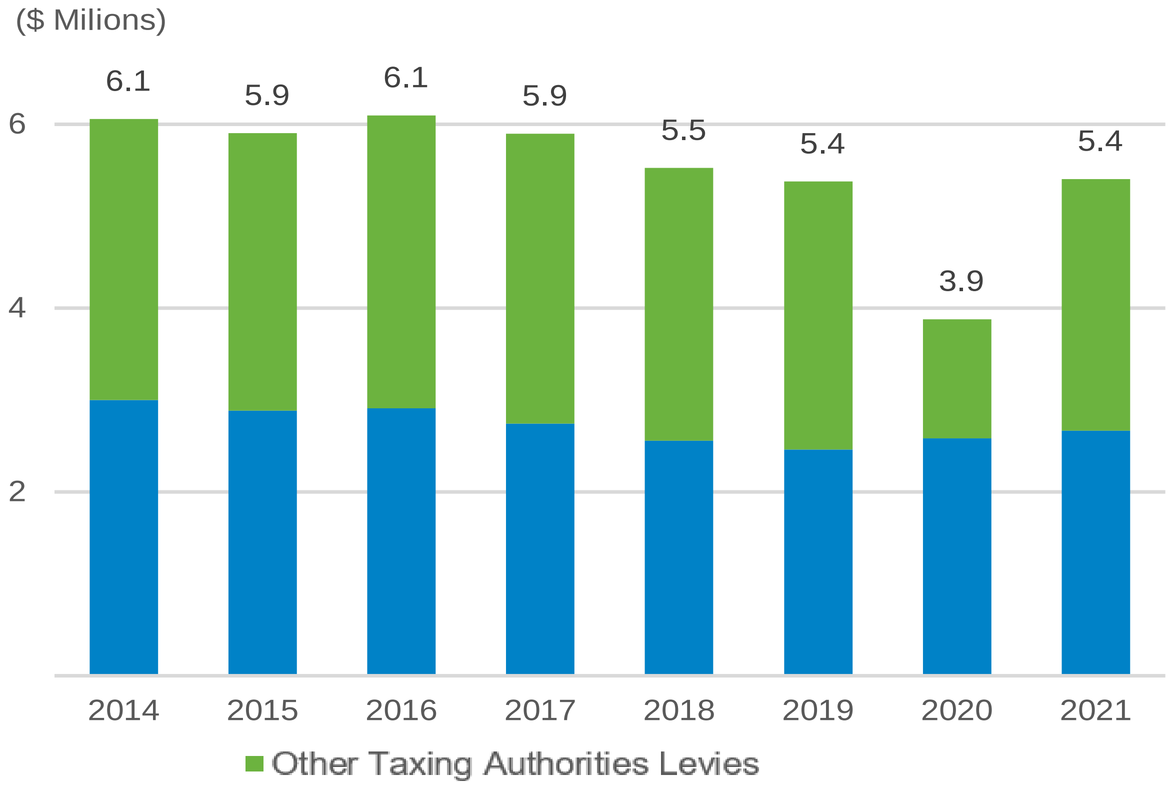
Sample Non-Highest & Best Use Property



Sample AAA Office Building



Non-HBU properties have had higher tax increases than downtown office buildings

(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.)

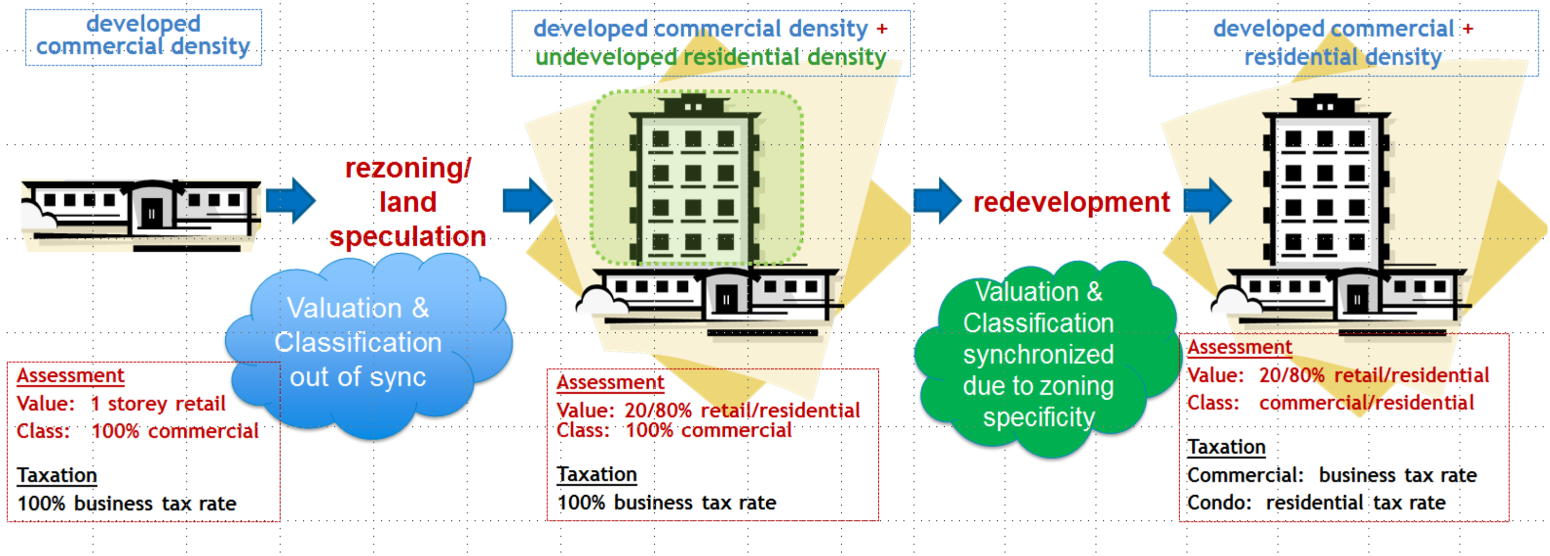
Development Potential & Taxation Impact

What Drives Property Values?

- Supply and demand
- Monetary policy
- Market speculation
- Major infrastructure investment
- Land use plans that create a higher and better use than current use

Development Potential & Taxation Impact

For properties that face the prospect of redevelopment, the market expects a higher and better use than their current use, and begins to price in a premium over and above the value that is justified by the current use alone



This is a <u>transitional</u> issue as non-HBU properties will eventually be redeveloped

Development Potential & Taxation Impact

- Properties are assessed at “highest & best use” (market value) in accordance with the *Assessment Act*, and property taxes are levied on that basis

- For under-developed/non-HBU commercial properties, the unrealized development potential could result in significant property tax implications

Development Potential & Taxation Impact

Independent businesses, arts, culture & NPOs operating in under-developed/non-HBU properties, particularly those in neighbourhoods that are experiencing fast pace of change and dramatic increase in values, are impacted the most

- Through triple net leases, landlords pass the entire tax burden onto tenants (taxes on the space they rent and taxes on the development potential)

- Independent owner/operators may also experience significant cashflow challenges until they redevelop/sell their properties

Council Directions on Provincial Assessment & Tax Reform Work

Council Resolution (Jun 13, 2017): Property Assessment & Tax Policy

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BE IT FURTHER RESOLVED THAT City staff report back on the outcome of the work with the Province of BC, BC Assessment Authority and key stakeholders, with associated policy recommendations that specifically address the impact of triple net leases on property tax payments for small business tenants.

UBCM Motion (Sept 18, 2018): Supporting Independent Small Businesses Through Provincial Assessment & Tax Reform

Whereas the widespread land speculation and soaring assessment on commercial and industrial properties continue to pose significant affordability challenges to independent small businesses who have limited ability to absorb extraordinary increases in rent and assume all property taxes passed on to them by their landlords, including taxes on the development potential;

And whereas Vancouver City Council has formally submitted a request to the Province of BC in February 2018 to initiate a province-led intergovernmental workgroup to assess the options put forward by the City of Vancouver to address the impact of soaring property assessments on independent small business tenants in time for the 2019 tax year. The City of Vancouver has not formally heard back from the Province to-date;

Therefore be it resolved that UBCM request the Province of BC to initiate a province-led intergovernmental workgroup to address these assessment and taxation issues immediately to <u>enable the long-term viability of independent small businesses</u> in Metro Vancouver and the rest of British Columbia.

Provincial Assessment & Tax Reform Work

An Inter-governmental Working Group was established in Q4 2018 based on Council's proposal (Feb 2018), with support from Metro Vancouver (Jul 2018) and UBCM (Sept 2018)

Province

- Ministry of Municipal Affairs & Housing
- Ministry of Finance
- BC Assessment

CFOs from Metro Vancouver cities

- Vancouver, Burnaby, Coquitlam, North Vancouver (District), Richmond, Surrey & West Vancouver
- North Vancouver (City) & Delta joined in Jan 2020
- Victoria & Kelowna joined in 2022

Municipalities need tool to lower tax rate on development potential to support independent small businesses & community partners

Council Resolution (Apr 26, 2022): Property Assessment & Tax Policy

THAT Council request the Mayor write to the Minister of Finance to strongly convey Council's support for and the importance of the implementation of Split Assessment through a Commercial Sub-class consistent with the May 2019 recommendation from the Intergovernmental Working Group submitted to the Province, as the most targeted and effective approach to <u>address the core issue of taxes on development potential that is punitively impacting small business, arts, culture and non-profit organizations.</u>

Bill 28 – 2022 Municipal Affairs Statutes (Property Taxation) Amendment Act

Bill 28 – Municipal Affairs Statutes (Property Taxation) Amendment Act

- In 2022, Ministry of Finance initiated the *Property Assessment Strategic Review* with the aim to develop a long-term solution in time for 2023 that would provide property tax relief to businesses impacted by development potential while minimizing legislative and administrative complexities

- In Oct 2022, the Province introduced legislation that 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

- *Bill 28 - 2022: Municipal Affairs Statutes (Property Taxation) Amendment Act* came into effect in Nov 2022

Bill 28 – Permissive Authority

Municipalities have authority to, by by-law:

- Identify certain Light Industry & Business properties to be eligible for relief
- Specify % land value for each eligible property to be subject to DPRP tax rate
- Set DPRP tax rate (lower than standard Class 5/6 tax rates)
- Require that owner gives notice of tax relief to occupiers

The legislation is permissive in nature
Municipalities can decide whether or not to offer tax relief and set own criteria

Bill 28 – Development Potential NOT Defined in *Assessment Act*

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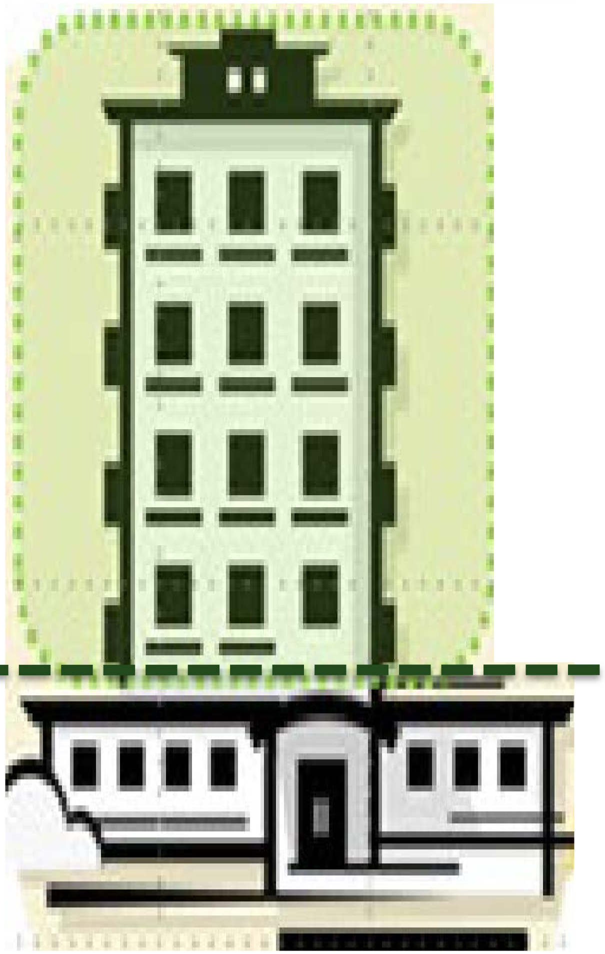
- BC Assessment is NOT required to provide "development potential" value on *Assessment Roll*
- As a proxy, a property with land value ≥ 95% of total assessed value is considered under-developed
- BC Assessment generates a list of properties that meet provincial criteria, *subject to declaration that they were "in use" as of Oct 31 of preceding year*
- Municipalities impute "development potential" value to inform % land value to be subject to DPRP tax rate

How Does Development Potential Relief Work?



"Imputed" Development Potential = Assessed Value (HBU) *minus* Current Use Value

Current Use Value = "Income Approach" value from BCA, if available

1. Portion of **"Imputed" Dev Potential** subject to DPRP tax rate *(up to a $ limit)*
2. **"% Discount"** from Blended Class 5/6 Tax Rate

Apply DPRP Tax Rate

Apply Blended Class 5/6 Tax Rate

Pilot Development Potential Relief Program

Bill 28 – Provincial Eligibility Criteria & Exclusions

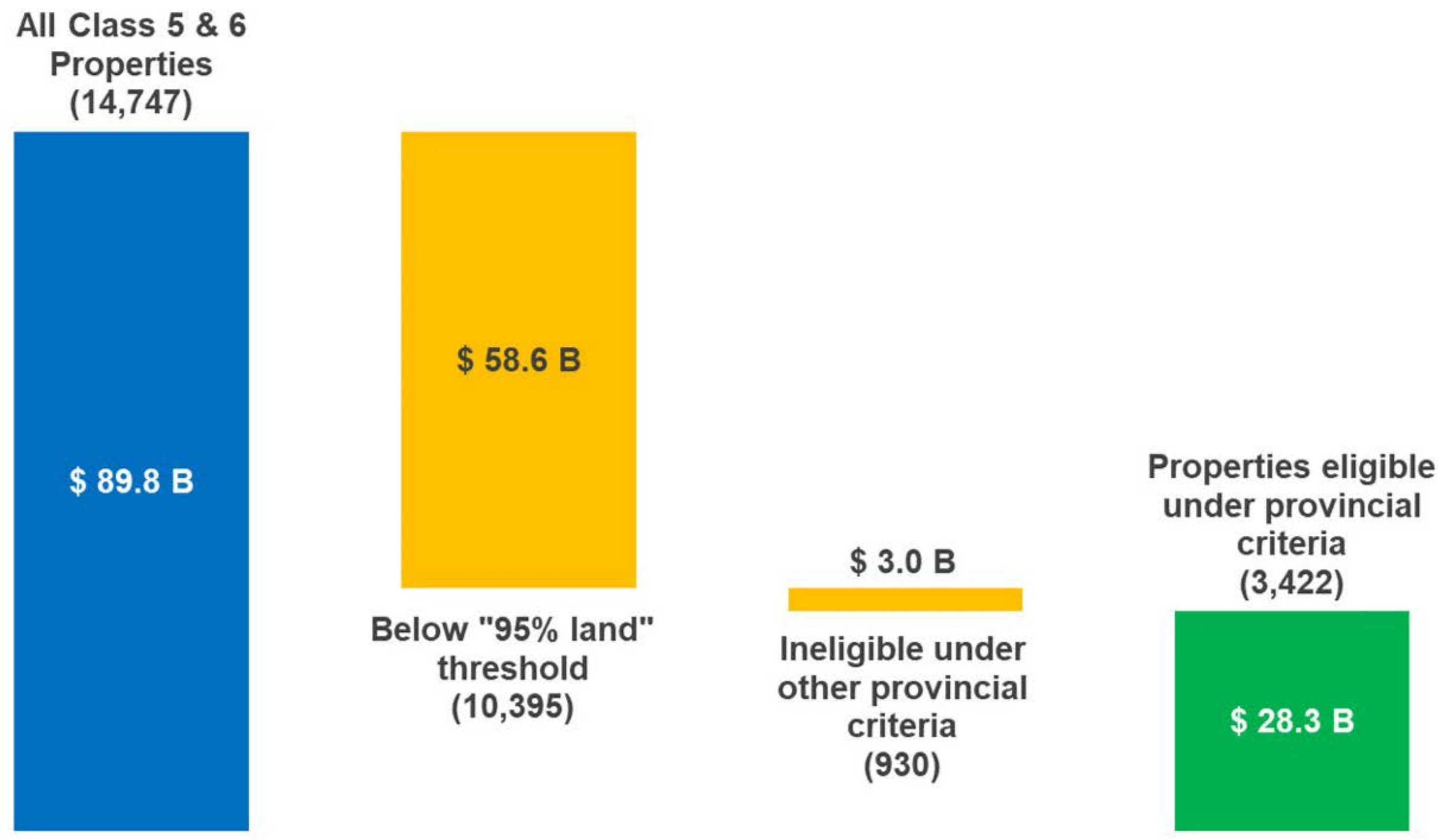
A commercial property would be ***eligible*** if:

- It has land & improvements in Class 5 (Light Industry) and/or 6 (Business)
- It was in use (not vacant) as of Oct 31 of the preceding year
- It has a combined Class 5/6 land value ≥ 95% of total Class 5/6 assessed value

A commercial property would be ***ineligible*** if:

- It has a portion of assessed value in Classes 2,3,4,7,8 or 9
- It is a restricted-use property or has a prescribed value
- It has a portion of assessed value exempt from municipal taxation
- It benefits from land averaging or phasing

Bill 28 – Eligible Properties Under Provincial Criteria (# / $)



~3,420 properties ($28.3B) eligible under provincial criteria (~32% of Classes 5/6)

Of the ~3,420 Eligible Properties Under Provincial Criteria…

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~1,720 properties (~$18.8B)

senior government agencies
big box stores, international/national chains
banks & financial institutions
development presentation centres
gas stations, parking lots
car dealerships & auto service
self-storage & warehouses
hotels, office use, strata properties
billboards

~295 properties (~$1.2B)

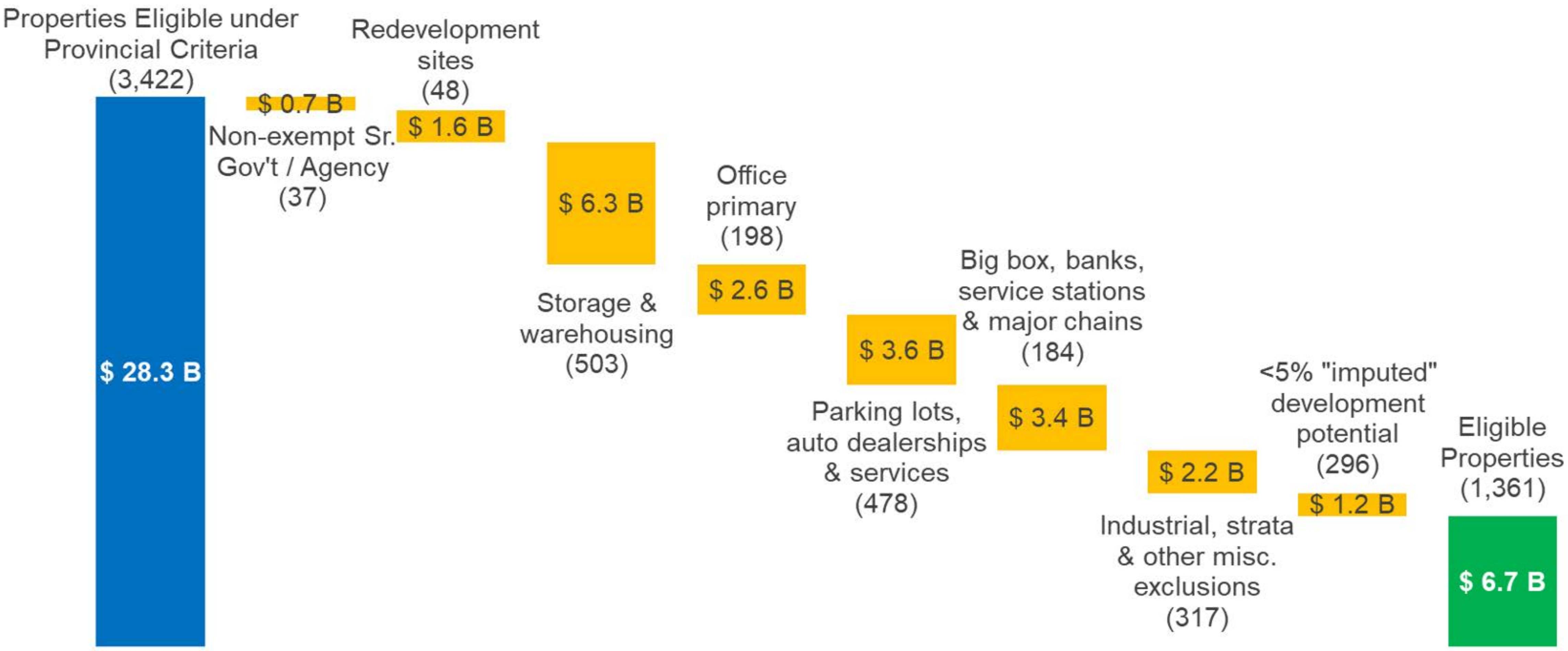
- Little or no development potential value
- Imputed development potential (HBU minus current use) < 5% of land value

~48 properties (~$1.6B)

Property owners seeking additional density or change in use

DPRP is intended to target support for independent businesses & community partners in non-HBU properties, particularly neighborhood retail along high streets

Pilot DPRP – City Criteria (2,060 ineligible properties)



Applying City criteria, ~1,360 properties would be eligible for DPRP

Pilot DPRP – City Criteria (sample ineligible properties)

Senior Gov't/Agencies
(Cambie)

Office/Shopping Centres
(Fairview)

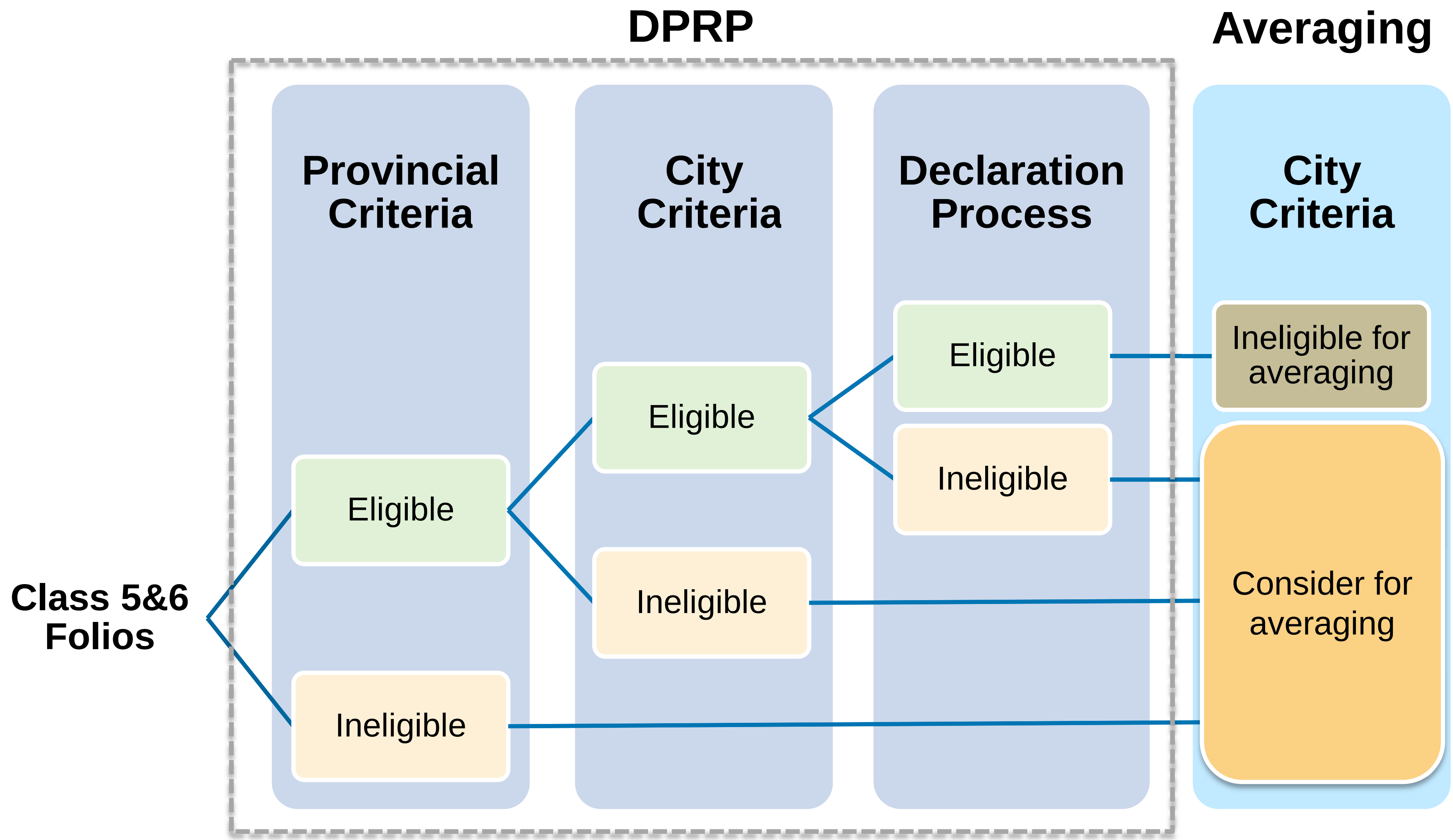
Hotels
(West End)

Office Primary
(Downtown)

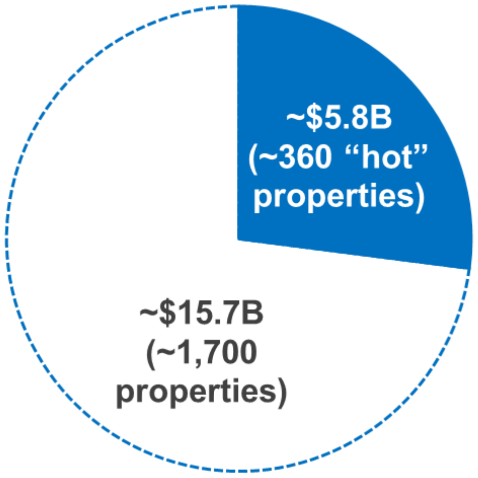
Big Box Stores
(Mt Pleasant)

Banks
(Pt Grey)

DPRP & Targeted Land Assessment Averaging Interface



360 of 2,060 DPRP-ineligible properties would be considered for averaging



Pilot DPRP – % Land Value Subject to DPRP Tax Rate

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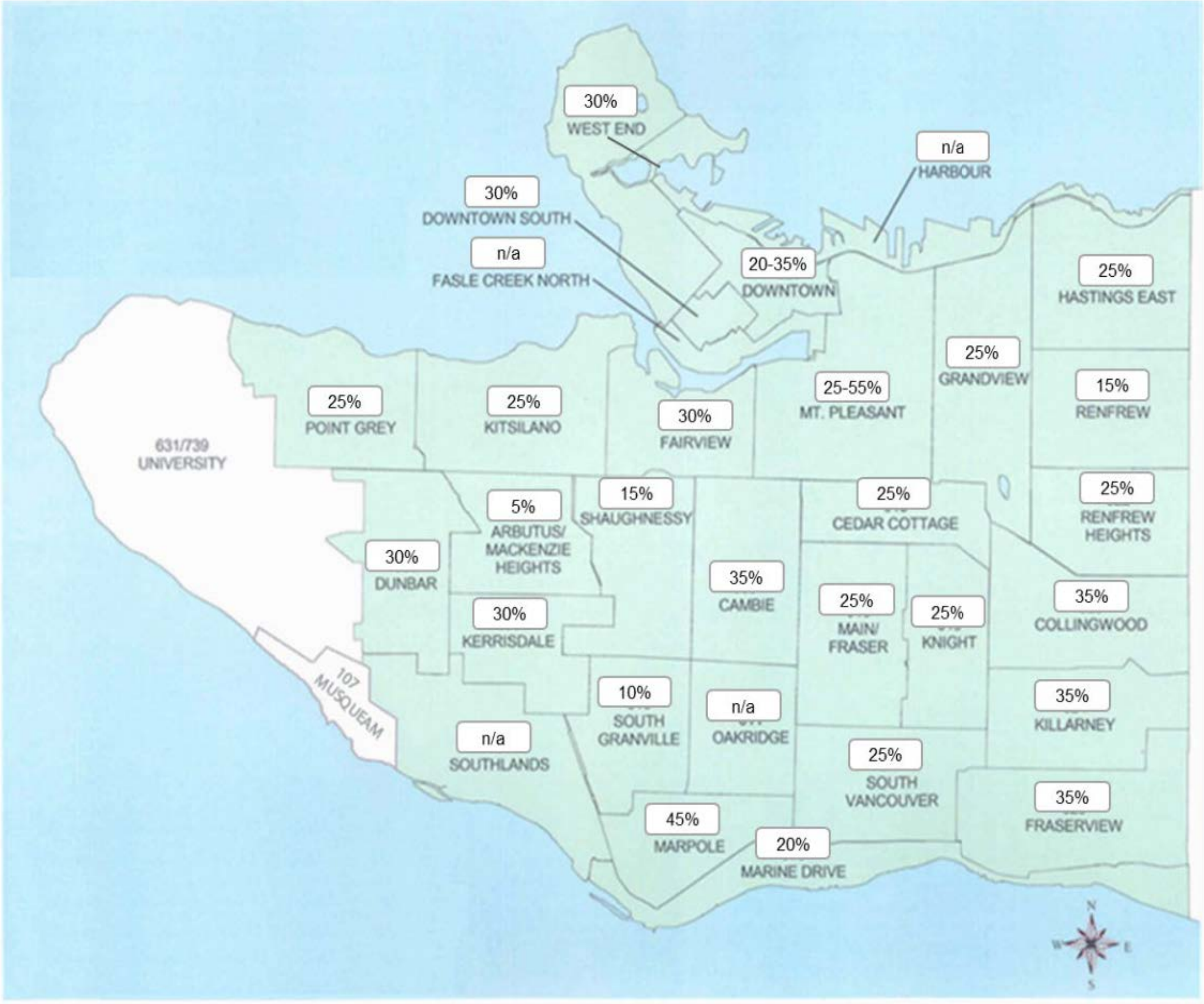

- Given assessment data limitations, development potential relief (% land value subject to DPRP tax rate) is set at a neighborhood/zoning district level based on median “imputed” development potential value within each area
- To limit relief going to a few high value sites, max. land value subject to DPRP tax rate is $5.4M (95th percentile of imputed development potential value)

Pilot DPRP – Class 5/6 Tax Rate Impact

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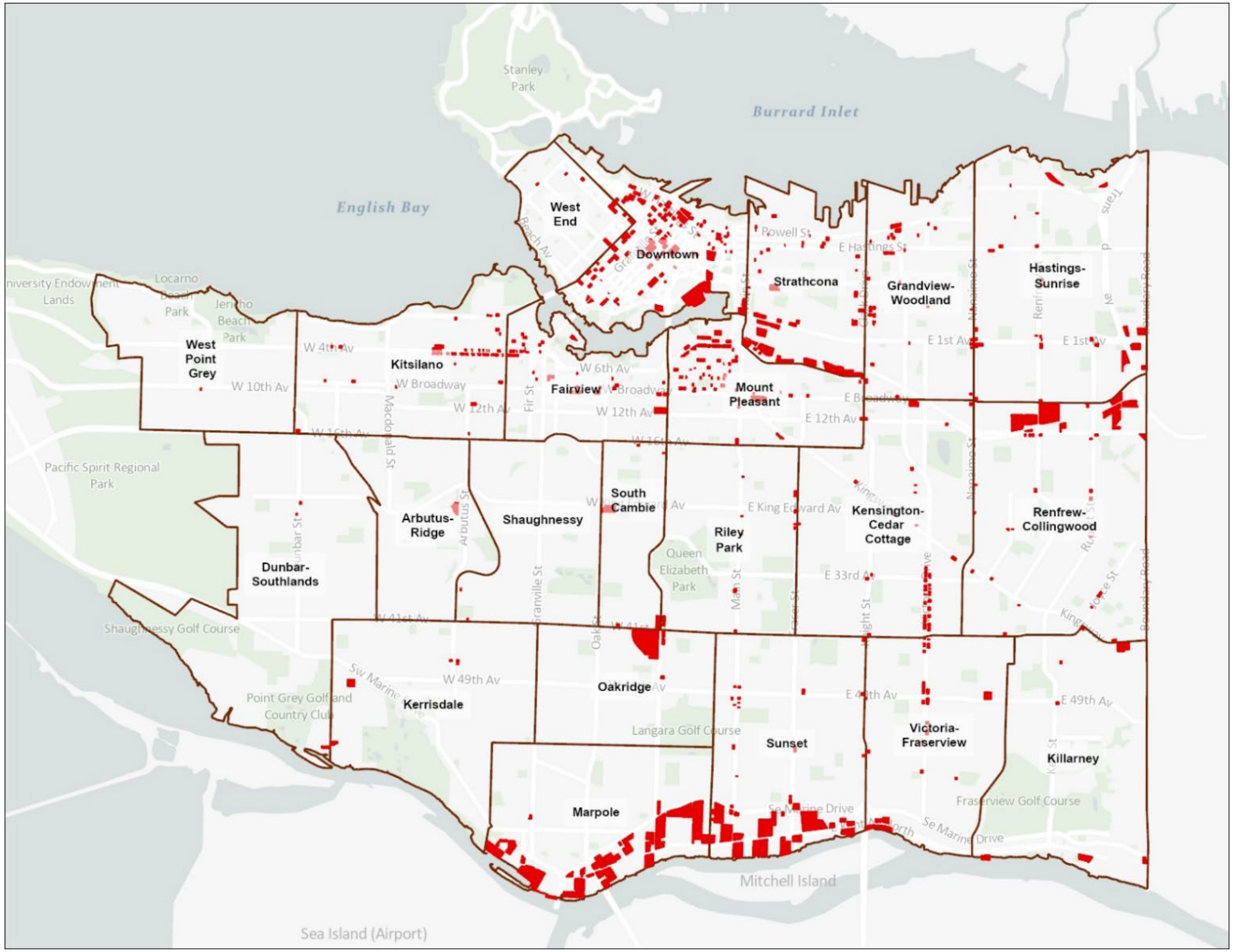
Recommended DPRP tax rate = 50% of blended Class 5/6 tax rate

	% Discount off Class 5/6 Rate			# of Properties with tax savings reduced by cap
	33.3%	50.0%	66.7%	
No cap	0.75%	1.14%	1.52%	-
$5.4M Cap (95th percentile)	0.69%	1.04%	1.40%	40 (3%)
$3.8M Cap (90th percentile)	0.66%	0.99%	1.33%	81 (6%)
$1.9M Cap (75th percentile)	0.55%	0.82%	1.10%	301 (22%)

To subsidize development potential relief for 1,360 eligible properties, blended Class 5/6 tax rate will increase 1% to collect same amount of City tax

Pilot DPRP – 1,360 Eligible Properties (location)



Note: Eligible properties subject to declaration whether they were "in use" as of Oct 31, 2022

Pilot DPRP – Estimated City Tax Relief (sample properties)

Restaurant / Cafe
(Marpole)

$12,800
(from ~$63,700 to ~$50,900)

Restaurant
(Collingwood)

$7,200
(from ~$43,400 to ~$36,200)

Restaurant
(Kitsilano)

$4,600
(from ~$39,800 to ~$35,200)

Development potential relief does NOT apply to Provincial School Tax and taxes levied by Translink, Metro Vancouver, BC Assessment, and BC Municipal Finance Authority

Pilot DPRP – Estimated City Tax Relief (sample properties)

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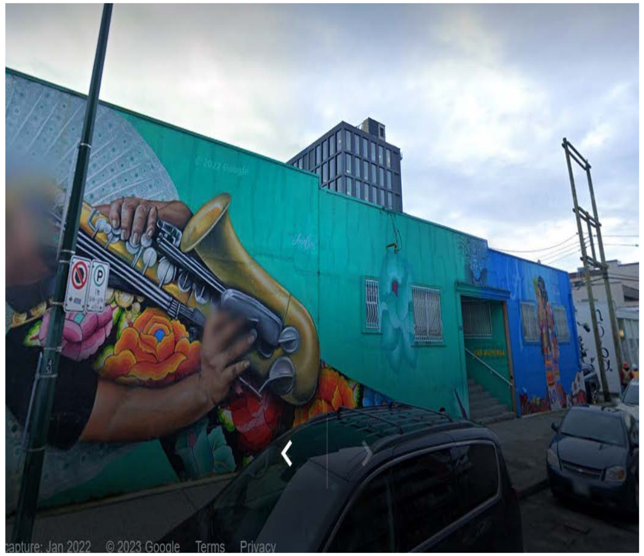
Beaumont Studios
(Mt Pleasant)

$8,800
(from ~$62,400 to ~$53,600)

Eastside Studios
(Grandview)

$3,600
(from ~$31,000 to ~$27,400)



TrebleFive Music
(Mt Pleasant)

$12,700
(from ~$72,600 to ~$59,900)

Development potential relief does NOT apply to Provincial School Tax and taxes levied by Translink, Metro Vancouver, BC Assessment, and BC Municipal Finance Authority

Pilot DPRP – Summary

- ~1,360 properties eligible under City criteria
- 5% to 55% of their assessed land value subject to DPRP tax rate, depending on BC Assessment neighborhood / zoning district, up to $5.4M
- DPRP tax rate 50% lower than blended Class 5/6 tax rate
- Property owners must notify their tenants of tax relief in order to qualify

Pilot DPRP – Summary

- **Extremely tight timeline**: Just 6 weeks since *2023 Completed Roll was* available
- **Assessment data limitations**: Availability, accuracy and completeness of data to comply with provincial criteria and City exclusions
- **Tax relief by neighborhood/zoning district**: Imputing development potential value to inform DPRP based on incomplete assessment data
- **Interface with targeted averaging**: Complexity and interdependencies in designing and coordinating DPRP and targeted land averaging

Pilot DPRP – Summary

- Since Bill 28 came into effect in Nov 2022, other municipalities have expressed interest but most are concerned about assessment data limitations and an extremely aggressive implementation timeline.
- While staff acknowledge these risks, implementation of a pilot DPRP is intended to kick-start the much needed relief for independent businesses and community partners in the best possible way in 2023.
- Over the past 6 weeks, stakeholder engagement has mainly been limited to a few status updates, with little on program design.
- Staff fully intend to engage key stakeholders to assess efficacy of the pilot DPRP and explore enhancement opportunities for future years.

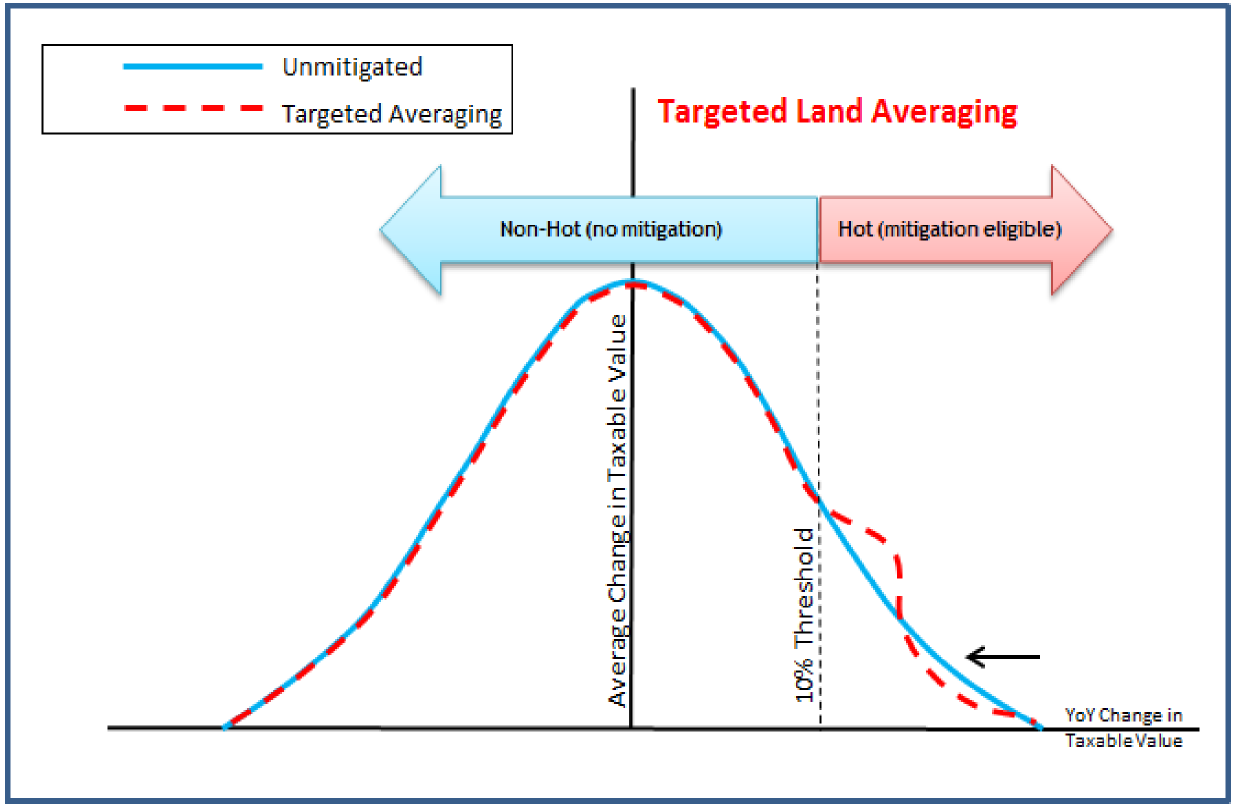
Targeted Land Assessment Averaging

Targeted Land Assessment Averaging

- Targeted averaging provides short-term, multi-year relief to “hot” properties to mitigate significant tax increases due to assessment volatility

  A “hot” property is one that experiences an unanticipated, yoy increase in assessed value which exceeds the average increase for the same property class by ≥10%

- Targeted 5-year averaging is currently applied to residential, light industrial & business properties



Only “hot” properties above the threshold are eligible for averaging; averaging could lower value up to, but not below, the threshold

~7,570 (4%) "Hot" Residential Properties [2022: ~13,800 (7%)]

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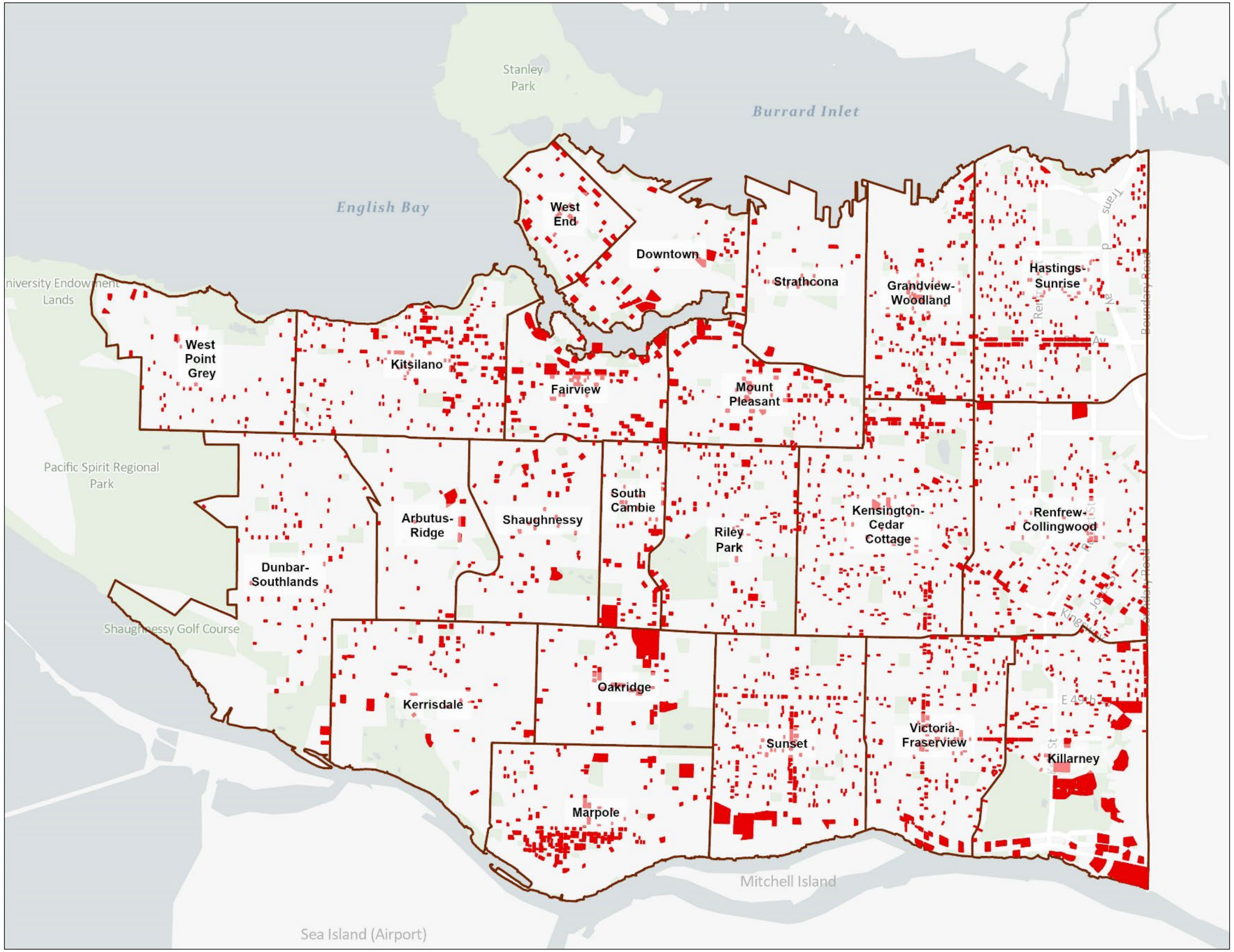
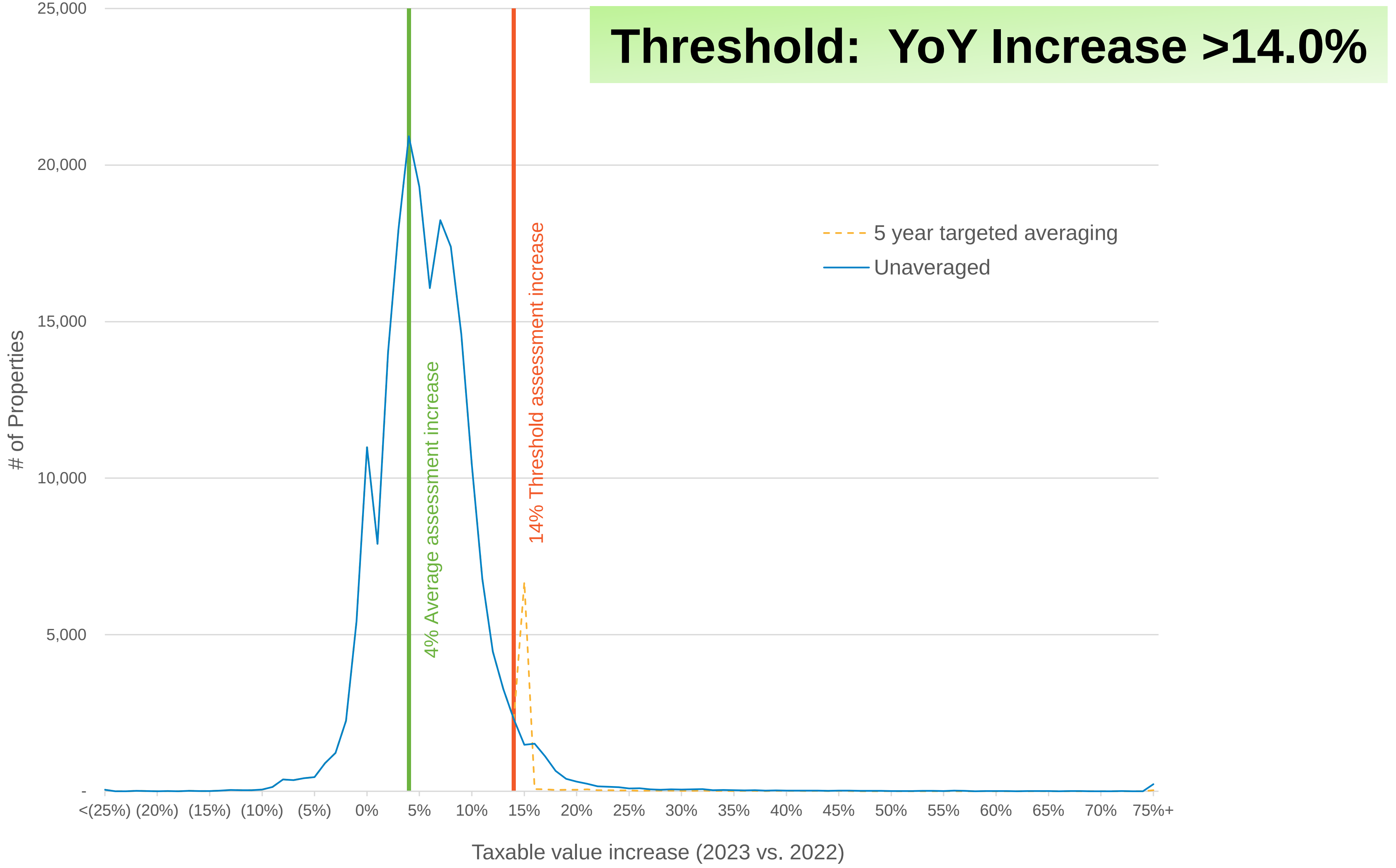
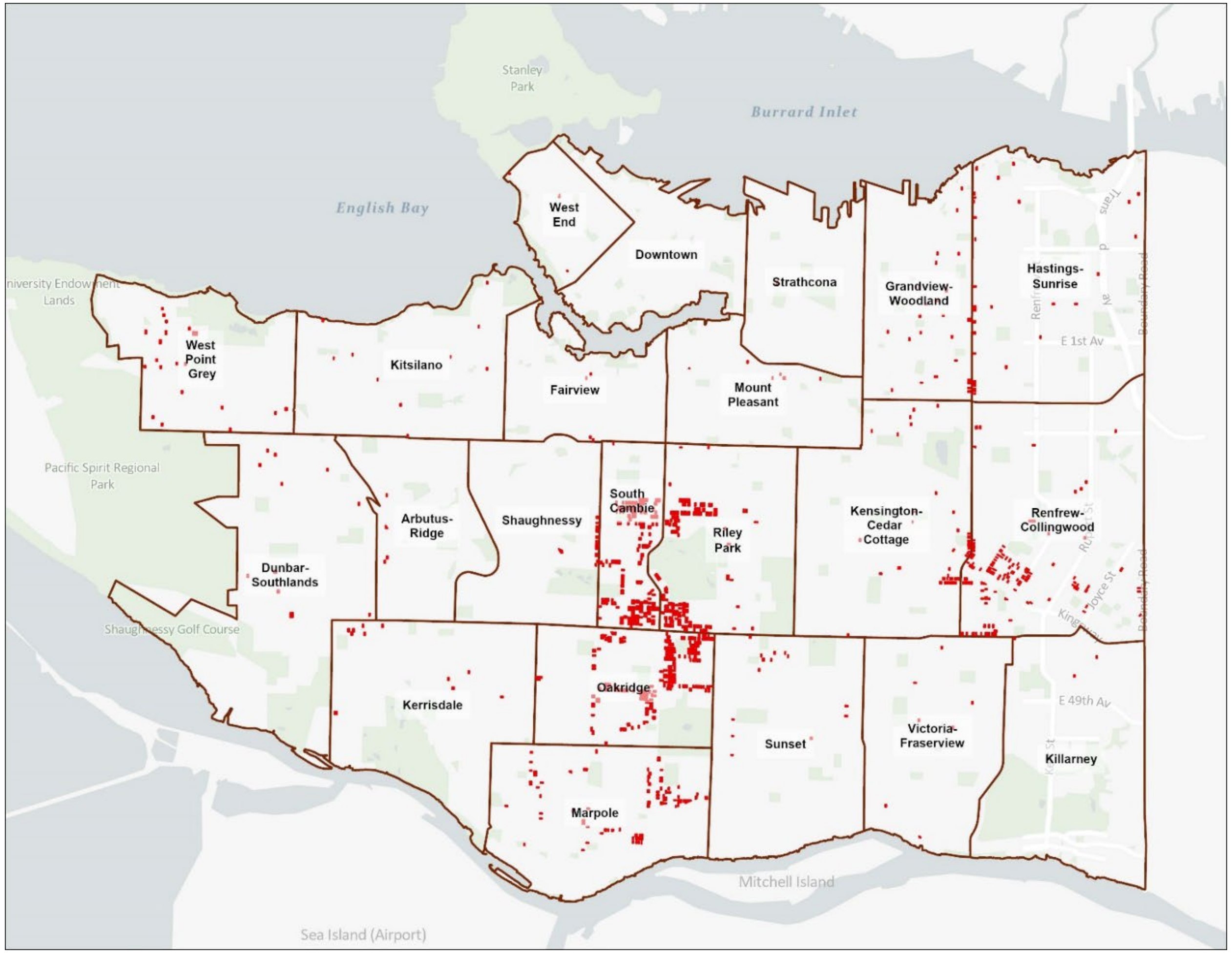


Targeted Averaging – Residential



Provincial Residential Tax Relief – Assessment Act s19(8)



Intent:

Protect long-term home owners whose assessed values would rise due to zoning changes

How:

Land is assessed based on current zoning, not anticipated redevelopment potential

Eligibility:

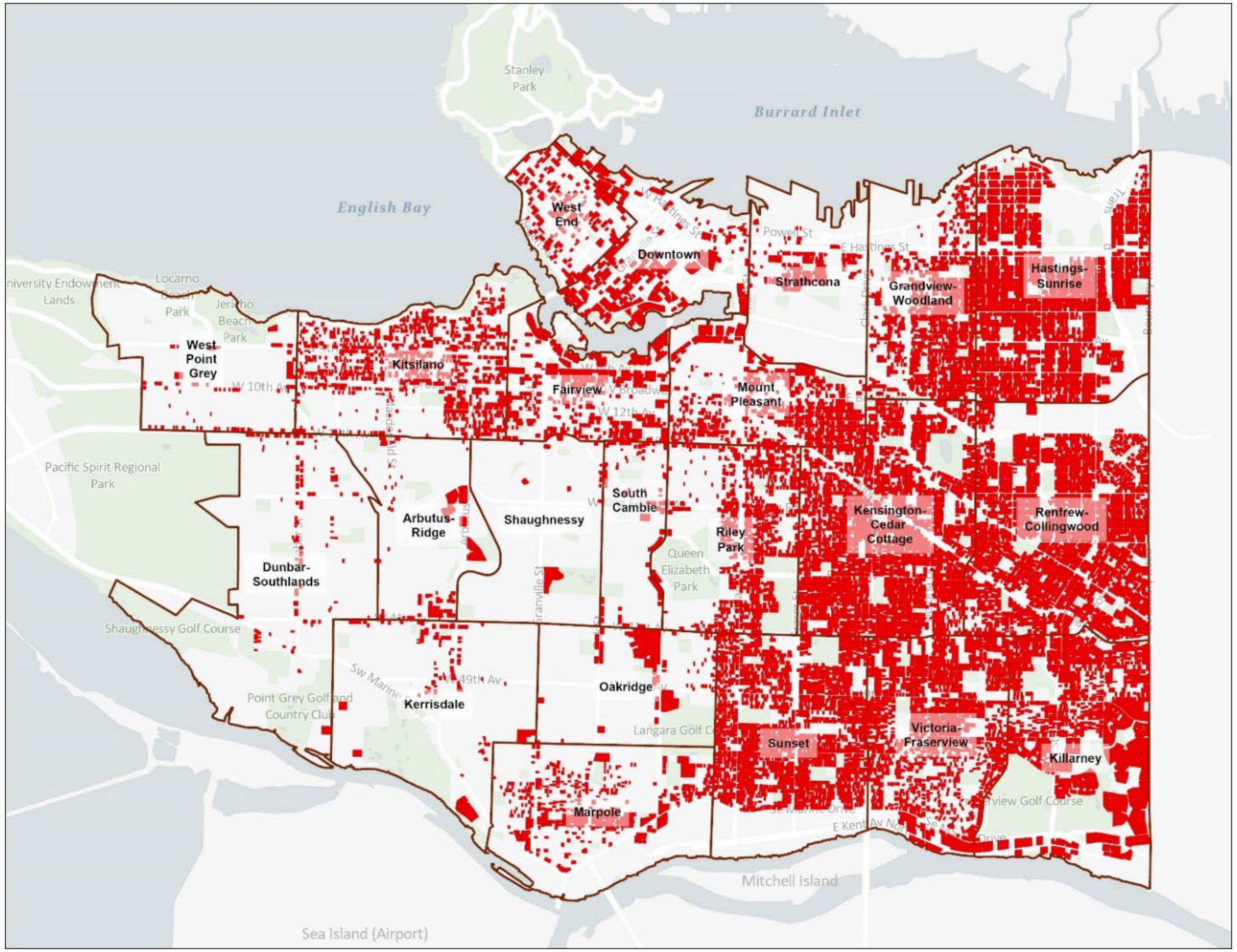
Owner/occupier @ principal residence ≥10 yrs

# of properties:

2023: 1,183

2022: 1,219

Provincial Residential Tax Relief – Home Owner Grant



Intent:

Provincial grant to offset taxes to protect lower value homes & seniors

How:

Up to $570 grant for lower value homes; additional $275 grant to seniors

Eligibility:

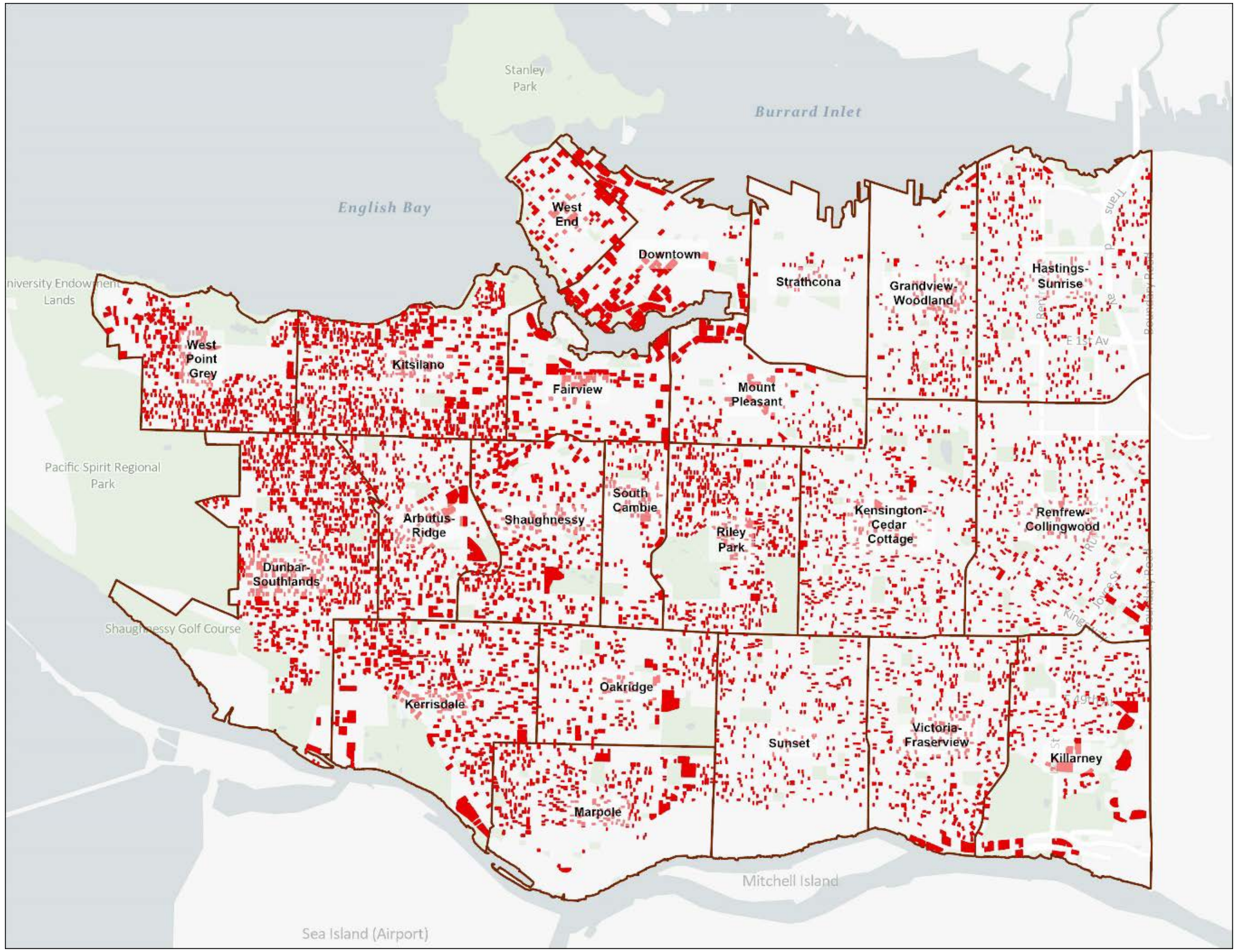
Owner/occupier @ principal residence valued up to $2.125M (reduced to zero @ $2.239M)

# of Claims:

2023: application in progress

2022: 90,114

Provincial Residential Tax Relief – Property Tax Deferment



Intent:

Tax deferral for seniors & families with children; taxes & low rate interest paid upon sale of property

How:

Charge against the property on equity released resulting from sale

Eligibility:

Owner/occupier

- ≥55 yrs old, or
- with children ≤18 yrs old

# of Properties:

2023: application in progress

2022: 9,851

~3,200 (25%) "Hot" Commercial Properties [2022: ~2,200 (15%)]

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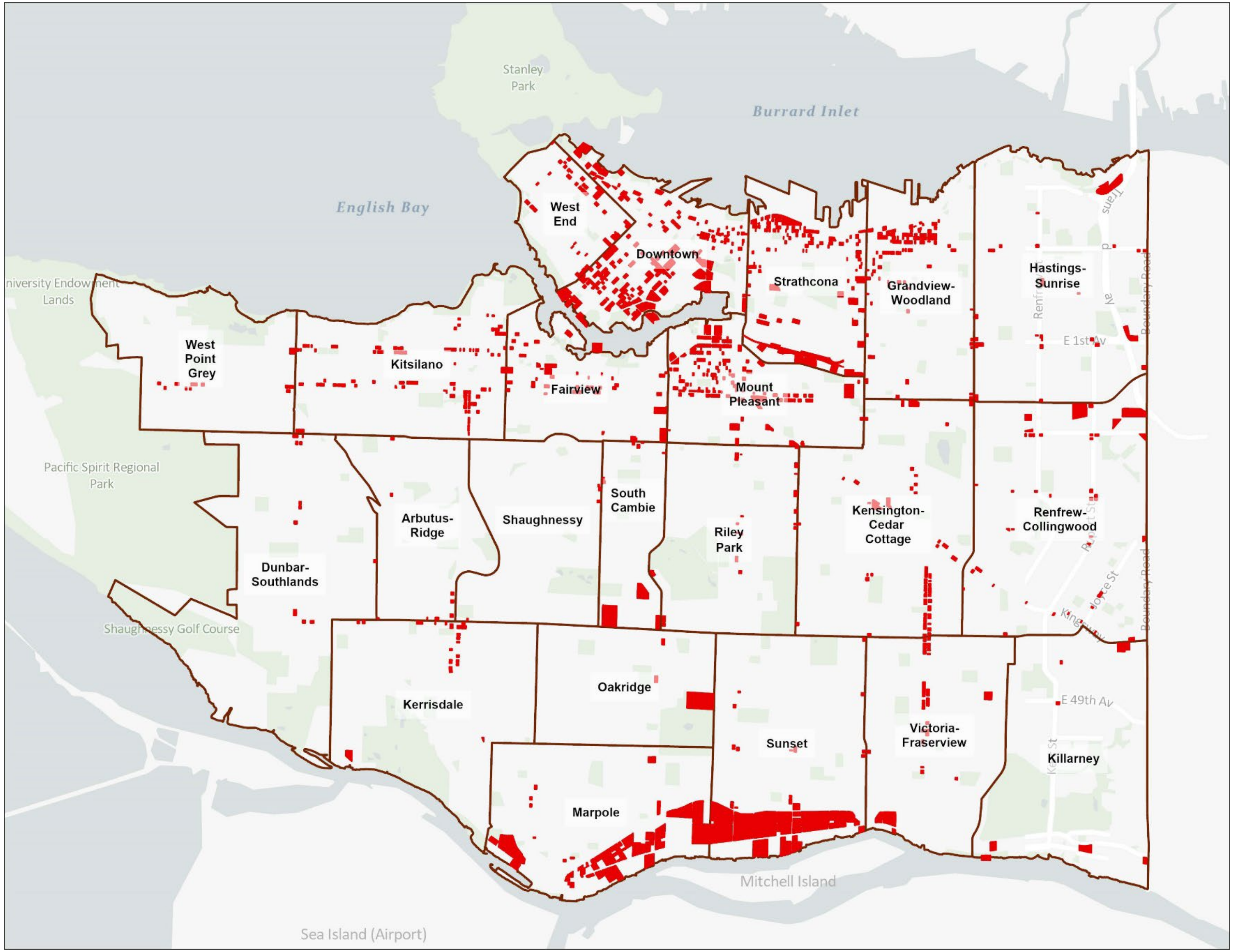
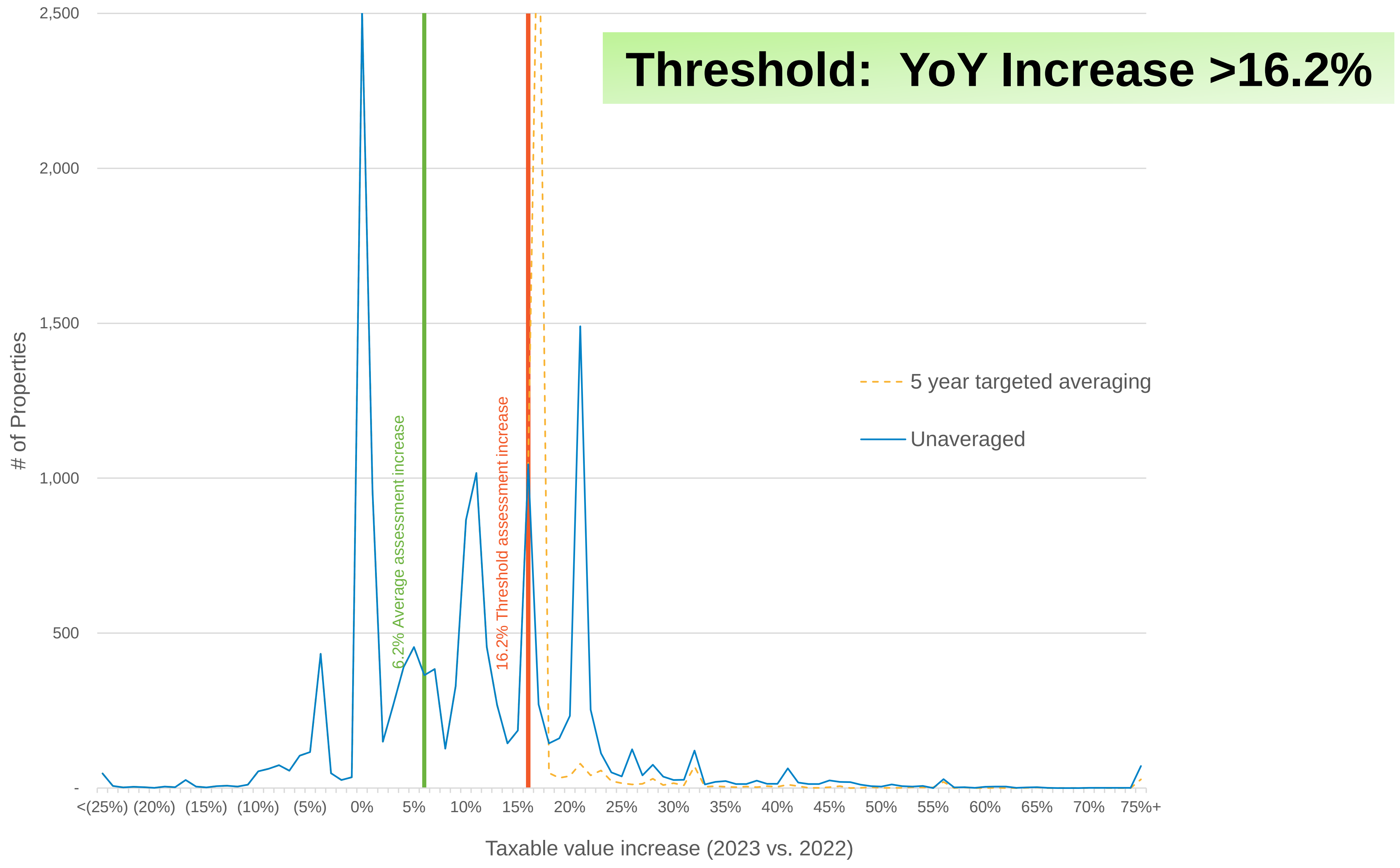


Targeted Averaging – Light Industry/Business



Tax Rate Impact

Pilot DPRP & Targeted Averaging – Tax Rate Impact

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Tax Rate (per $1,000 Taxable Value)	Class 1 Residential	Class 5 & 6 Light Industry & Business
No Mitigation	$1.615	$4.884
Applying Targeted 5-yr Averaging	$1.619 (+0.2%)	$4.958 (+1.5%)
Applying Development Potential Relief		
- Blended Rate	N/A	$5.010 (+1%)
- DPRP Rate (50% of Blended Rate)	N/A	$2.505

Proceeding with DPRP & targeted averaging, cumulative impact is ~0.2% increase in Class 1 tax rate & 2.6% increase in blended Class 5/6 tax rate

Pilot DPRP & Targeted Averaging – City Tax Savings/Impact

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Est. City *tax savings* for eligible light industry / business properties

	DPRP	Targeted Averaging
# of Properties	~1,360	~3,200
Average City Tax Savings	~ ($3,100)	~ ($1,800)
Median City Tax Savings	~ ($2,200)	~ ($100)

Est. City *tax impact* for ineligible light industry / business properties

	DPRP	Targeted Averaging
Average City Tax Impact	~$360	~$560
Median City Tax Impact	~$50	~$70

Questions?