



COUNCIL REPORT

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TO: Standing Committee on City Finance and Services
FROM: Director of Finance
SUBJECT: 2023 Property Tax Policy Review – Revised Terms of Reference

Recommendations

THAT Council approve the amendments to the Terms of Reference for the Property Tax Policy Review in Appendix A.

Purpose and Executive Summary

The purpose of this report is to seek Council approval of a revised approach to the property tax policy review work as outlined in the Terms of Reference in Appendix A. Specifically, staff are recommending that the work contemplated in the Terms of Reference as originally approved by Council on July 12, 2023 be undertaken in two phases: Phase I, pertaining to tax distribution across property classes, would proceed immediately to inform Council's deliberation for the 2024 tax year; and Phase II, pertaining to tax stability and predictability, as well as the impact of tax policies from other taxing authorities on businesses, would be delivered in 2025.

Council Authority/Previous Decisions

On April 25, 2023, Council adopted the following motion:

THAT Council direct staff to report back with a plan to convene a new Property Tax Policy Review Commission to assess the City's property tax policy, efficacy of mitigation tools (targeted averaging, development potential relief, etc.), tax share approach, and other relevant metrics to gauge Vancouver's business climate and competitiveness relative to our neighboring municipalities;

FURTHER THAT Council direct staff to establish terms of reference for the Commission that include assessing how other taxing authorities' policies and decisions may impact the affordability and viability of businesses in Vancouver relative to the rest of the region. The assessment initiative could include for example the application of the speculation and vacancy tax on unbuilt residential airspace above commercial, and the disproportionate amount of

provincial school tax shouldered by businesses in Metro Vancouver relative to the rest of the province;

AND FURTHER THAT terms of reference for the Commission include an assessment and possible recommendations of how City's property tax policy and tax share approach could support vibrant local serving small business districts, without incentivizing the holding or hoarding of vacant and otherwise non-productive investment properties.

On July 12, 2023, Council approved the Terms of Reference and an overall budget of up to \$150,000 for the Property Tax Policy Review Commission.

City Manager's Comments

The City Manager concurs with the foregoing recommendation.

Context and Background

Over the last 15 years, the Commission was engaged multiple times to address two key issues concerning the impact the City's taxation policies have on Vancouver's economy:

- *Tax Stability & Predictability* – to assess viable options to enhance tax stability and predictability arising from significant year-over-year market value changes.
- *Tax Distribution* – to assess viable options to achieve a “fair” tax distribution; validate if the tax share between residential and non-residential property classes were appropriate; and recommend metrics for monitoring tax share and impact on residents and business climate.

Recommendations put forward by the Commission were adopted by Council and implemented over time, some of which were enabled by Provincial legislations:

- Transitioned from *across-the-board* 3-year land assessment averaging to *targeted* 5-year land assessment averaging to provide short-term relief to “hot” properties by phasing in significant property tax increases arising from assessment volatility.
- Completed a 5-year, \$23.8 million tax shift program in 2012 to redistribute 5% of the City's general purpose tax levy from non-residential to residential property classes.
- Tracking and reporting key metrics annually to guide tax share decisions.

In addition to the above, Council also approved the following:

- Completed a 3-year, \$15.8 million tax shift program in 2021 to redistribute 2% of the City's general purpose tax levy from non-residential to residential property classes.
- Enabled by Bill 28 which came into effect in November 2022, Council approved a pilot Development Potential Relief Program (the “DPRP”) in March 2023 to provide temporary relief on the City's general purpose tax levy for eligible commercial properties. In October 2023, Council approved in principle the continuation of the pilot DPRP for the 2024 tax year, including certain refinements, and directed staff to report back on final program details before March 31, 2024.

Discussion

Since the Terms of Reference was adopted by Council on July 12, 2023, staff have engaged previous Commissioners to formulate a viable work plan to achieve Council's directives. Through those discussions, it has become clear that the scope of work contemplated in the Terms of Reference would be best delivered in two phases:

- Phase I – Section 3.2 “Tax Distribution” to be delivered in time to inform Council’s deliberation on the tax distribution in April 2024
- Phase II – Section 3.1 “Tax Stability & Predictability” and Section 3.3 “Impact of Tax Policies from Other Taxing Authorities on Businesses” to be delivered in 2025

The main reasons for deferring Sections 3.1 and 3.3 are:

- Section 3.1 “Tax Stability & Predictability” – The City has just launched the Pilot DPRP in March 2023 and is working to refine the program for the 2024 tax year based on lessons learned and stakeholder feedback. As such, staff feel that it is premature to assess the overall efficacy and identify opportunities to synergize the use of DPRP alongside the Targeted Land Assessment Averaging program with only one year of data.
- Section 3.3 “Impact of Tax Policies from Other Taxing Authorities on Businesses” – The hybrid work-from-home arrangement and e-commerce continues to evolve post-pandemic, and their impact on Metro Vancouver’s commercial and industrial property assessment is still unclear at the moment. As such, staff feel that it is prudent to wait until sufficient data can be collected to inform this work.

In order to proceed with the Phase I work expeditiously, in place of the Commission structure, staff will engage an external consultant to lead the work, with guidance from Expert Advisors, and report the findings and recommendations to inform Council’s deliberation on the tax distribution in April 2024.

Refer to Appendix A: Revised Terms of Reference for details on the deliverables, project timeline and guiding principles.

Financial Implications

On July 12, 2023, Council approved an overall budget of up to \$150,000 for the Property Tax Policy Review, including honoraria and funding for contract and/or consulting services, public engagement, project management and other administrative expenses. The Phase I work will be funded from the approved budget.

Legal Implications

There are no legal implications associated with this report’s recommendations.

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TERMS OF REFERENCE PROPERTY TAX POLICY REVIEW COMMISSION CONSULTANCY

1. TERMS OF REFERENCE

On April 25, 2023, Vancouver City Council directed staff to develop a plan to convene a Property Tax Policy Review Commission (the “Commission”) to perform the following:

- An assessment of the City’s property tax policy, efficacy of mitigation tools, tax share approach, and other relevant metrics to gauge Vancouver’s business climate and competitiveness relative to its neighboring municipalities;
- An assessment of how other taxing authorities’ policies and decisions – including but not limited to the application of the Speculation and Vacancy Tax on unbuilt residential airspace above commercial, and the disproportionate amount of Provincial School Tax shouldered by businesses in Metro Vancouver relative to the rest of the province – may impact the affordability and viability of businesses in Vancouver relative to the rest of the region; and
- An assessment of and possible recommendations on how the City’s property tax policy and tax share approach could support vibrant local serving small business districts, without incentivizing the holding or hoarding of vacant and otherwise non-productive commercial investment properties.

2. BACKGROUND / CONTEXT

Over the last 15 years, the Commission was engaged multiple times to address two key issues concerning the impact the City’s taxation policies have on Vancouver’s economy:

- **Tax Stability & Predictability** – to assess viable options to enhance tax stability and predictability arising from significant year-over-year market value changes.
- **Tax Distribution** – to assess viable options to achieve a “fair” tax distribution; validate if the tax share between residential and non-residential property classes were appropriate; and recommend metrics for monitoring tax share and impact on residents and business climate.

2.1 Tax stability and predictability

Between 1993 and 2014, it had been Council policy to apply across-the-board 3-year land assessment averaging to eligible Residential (Class 1) and Business (Class 6) properties to phase in significant property tax increases arising from assessment volatility. In 2007, Council extended the program to Light Industry (Class 5) properties.

The Commission made the following recommendations:

- 2008: Seek *Vancouver Charter* amendment to enable 5-year land assessment averaging (*granted by the Province in 2013*).
- 2014:
 - i) Implement targeted land assessment averaging to provide short-term relief to “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 10%”; and
 - ii) Invite neighboring municipalities and Union of British Columbia Municipalities to join the City in submitting a request to BC Assessment to prepare and distribute a report on the advantages and disadvantages of the Split Classification (Amacon) methodology to address taxation impact arising from development potential.

Vancouver City Council adopted the use of targeted land assessment averaging in 2015, and transitioned from 3-year to 5-year averaging in 2019.

Enabled by Bill 28 which came into effect in November 2022, Vancouver City Council approved a pilot Development Potential Relief Program (the “DPRP”) in March 2023 to provide temporary relief on the City’s general purpose tax levy for eligible Light Industry (Class 5) and Business (Class 6) properties. Properties that are eligible for the pilot DPRP are not eligible for targeted land assessment averaging.

To date, Vancouver is the only municipality in British Columbia that uses land assessment averaging and development potential relief on a city-wide basis.

2.2 Tax distribution

Since 1983, it has been Council policy to allocate the general purpose tax levy across property classes through a “tax share” approach. Under this approach, Vancouver City Council approves the tax share for residential and non-residential property classes each year, including any tax shift decisions, subject to adjustments arising from non-market changes on the Assessment Roll (e.g. new construction, transfer of properties among classes). This approach ensures that tax share is set by Council policy, not driven by market forces.

The Commission endorsed the “tax share” approach and made the following recommendations:

2008: Shift \$23.8 million (5% of total general purpose tax levy) from non-residential to residential property classes over five years (*completed in 2012*).

2014: No tax shift; use metrics to guide tax share decisions (*implemented*).

2019: No tax shift based on metrics (*recommended by Commission Chair*).

In 2019, Vancouver City Council directed staff to shift \$15.8 million (2% of total general purpose tax levy) from non-residential to residential property classes over three years (*completed in 2021*).

3. DELIVERABLES

3.1 Tax Stability & Predictability

Since the last Commission review, the City has transitioned from across-the-board 3-year land assessment averaging to targeted 5-year land assessment averaging to address taxation impact arising from assessment volatility, and implemented a pilot DPRP to address taxation impact arising from development potential. Stakeholder engagement on the pilot DPRP ~~is underway~~ **was completed in June/July 2023 and feedback was reported to Vancouver City Council in October 2023 to inform the pilot DPRP for the 2024 tax year** ~~feedback will be shared with the Commission.~~

The ~~Commission~~ **Consultant, with guidance from Expert Advisors**, will report to Vancouver City Council on the following:

- i) Assess the efficacy of the City’s targeted 5-year land assessment averaging program and the pilot DPRP, including but not limited to eligibility requirements and level of tax relief, and identify potential areas for improvement.
- ii) Identify opportunities to synergize the use of targeted land assessment averaging, DPRP, and grants to support independent businesses and community partners in the most effective way.

3.2 Tax Distribution

In the past reviews, the Commission had consistently supported the use of the “tax share” approach (over the “tax rate ratio” approach and “consumption study”) where tax distribution across property classes is

based on Council policy supported by key metrics.

The ~~Commission~~ **Consultant, with guidance from Expert Advisors**, will report to Vancouver City Council on the following:

- i) Validate whether the current tax share of ~57% residential and ~43% business (based on 2023 Assessment Roll) is appropriate. Should a new tax share target be considered, recommend an approach (e.g. phasing) and timeline for achieving the new tax share target.
- ii) Confirm and update the current set of metrics for gauging Vancouver's business climate and competitiveness relative to neighboring municipalities within Metro Vancouver and major urban cities across Canada. (*Current set of metrics: business tax share, business tax rate ratio, business tax rate, business tax per capita, commercial building permit, business assessment growth*)
- iii) Similar to those business metrics in 3.2 ii, recommend key metrics to gauge the affordability for Vancouver homeowners and renters, taking into consideration factors such as home values, housing charges, household income and expenses, relative to neighboring municipalities within Metro Vancouver and major urban cities across Canada.
- iv) Recommend a set of guiding principles and criteria to guide future tax share decisions.
- v) Assess the efficacy of the City's property tax policies in supporting local serving small business districts, and recommend viable approaches without incentivizing the holding or hoarding of vacant and otherwise non-productive commercial investment properties.

3.3 Impact of Tax Policies from Other Taxing Authorities on Businesses

Since the last Commission review, a lot has changed over the past few years that has a direct impact on the viability of independent businesses and community partners, including the COVID-19 pandemic, additional taxes levied by the Province (e.g. Additional School Tax, Speculation and Vacancy Tax, Employee Health Tax), escalating rent, high inflation, and an extremely tight labor market. In particular, the hybrid work-from-home arrangement and a growing e-commerce is expected to fundamentally shift the demand for office and commercial space across neighbourhoods in Vancouver and across Metro Vancouver.

The ~~Commission~~ **Consultant, with guidance from Expert Advisors**, will report to Vancouver City Council on the following:

- i) Assess how property and business taxes levied by the Province and other taxing authorities impact the viability of businesses in Vancouver relative to neighboring municipalities in Metro Vancouver and major urban cities across Canada.
- ii) Identify key metrics and quantify the impact on Vancouver businesses arising from a shift in demand for office and commercial space out of the central business districts across Metro Vancouver (e.g. assessed value changes, intra-property class tax shift), and recommend viable policy options and intergovernmental advocacy approaches to mitigate the impact.

4. GUIDING PRINCIPLES

- i) **Alignment with Vancouver City Council's Public Policy Objectives** – The ~~Commission~~ **Consultant, with guidance from Expert Advisors**, should develop recommendations that align with Vancouver City Council's public policy objectives and long-term goals with regards to economic, social, fiscal and environmental sustainability.
- ii) **Consistent with Vancouver City Council's Property Tax Policy Framework** – The

~~Commission~~ **Consultant, with guidance from Expert Advisors**, should develop recommendations that align with Vancouver City Council's property tax policy framework, including but not limited to the "tax share" approach where distribution of the municipal general purpose tax levy across property classes is determined by Vancouver City Council rather than by external market forces.

- iii) **Objectivity** – The ~~Commission~~ **Consultant, with guidance from Expert Advisors**, should conduct their work objectively and develop recommendations that aim to achieve the best possible outcome for Vancouver as a whole, without favoring any one stakeholder group over another.
- iv) **Balanced Approach** – In developing their recommendations, the ~~Commission~~ **Consultant, with guidance from Expert Advisors**, should balance the impact of property tax policies on businesses, residents and community partners across all property classes.
- v) **Easy to Understand and Administer** – The ~~Commission's~~ **Consultant's** findings and recommendations should be reasonably easy to understand by the general public, and be effectively administered by the City within the existing legislative framework and resources. Where an issue resides outside of Vancouver City Council's jurisdiction, the ~~Commission~~ **Consultant** should identify opportunities for legislative changes and/or intergovernmental advocacy approaches.
- vi) **Public Engagement** – The ~~Commission~~ **Consultant** should engage the business community, residents, community partners, and other key stakeholders across property classes, and consider their input in developing their findings and recommendations.
- vii) **Transparency** – The work of the ~~Commission~~ **Consultant**, including but not limited to public engagement, data/policy analyses, and findings and recommendations, should be documented and accessible by the public.

5. PROJECT TIMELINE

- i) The ~~Commission~~ **Consultant** is expected to deliver ~~an interim report~~ to Vancouver City Council **the Phase I report** by January 2024 with a focus on 3.2 Tax Distribution by March 2024 under the Deliverables section, and **the Phase II a final report on 3.1 Tax Stability & Predictability and 3.3 Impact of Tax Policies from Other Taxing Authorities on Businesses in 2025** by June 2024.
- ii) The ~~Commission~~ **Consultant**, in consultation with the Chief Finance Officer and the Chief Communications Officer, will determine the appropriate public engagement approach and schedule.

6. WORKING RELATIONSHIPS

- i) **Vancouver City Council** – The ~~Commission~~ **Consultant** will report their findings and recommendations to Vancouver City Council on the work items listed in the Deliverables section.
- ii) **City of Vancouver Staff** – City staff will be made available to support the ~~Commission~~ **Consultant** throughout the course of this work, including provision of applicable data, financial models, analytics, policies and strategies as requested; and will coordinate the ~~Commission's~~ **Consultant's** requests for any other support and/or services across the organization and affiliated agencies (~~e.g. Vancouver Economic Commission~~).
- iii) **BC Assessment** – The ~~Commission~~ **Consultant** will seek input from BC Assessment on property assessment issues and obtain assessment data for analytical and benchmark purposes.
- iv) **Professional and Academic Expert Advisors ("Expert Advisors")** – The ~~Commission~~ **Consultant will** may consult various professional and/or academic experts in the field of property

and business taxation, real estate, economics, and public finance.

7. HONORARIA AND BUDGET

The ~~Commission~~ **Consultant** will receive a budget of up to \$150,000, including honoraria for **Expert Advisors** and funding for contract and/or consulting services, public engagement, project management and other administrative expenses.