



City of Vancouver

Property Tax Policy Review Phase 1

24 April 2024






Building a better
working world

Agenda

1. Team Introductions
2. Introduction and Background
3. Property Tax Policy Reviews
4. Overview of Approach
5. Stakeholder Engagement
6. Metric Results
7. Conclusion

1. Team Introductions

Core team members and subject matter advisors from EY and the City are shown below.

City of Vancouver 
 Advisors 
 EY 

Core Delivery Team

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Engagement Manager

Rob Evans



Associate Director, LTFS

Brett Totham



Project Manager

Jeremie Stephenson



Senior Analyst, LTFS

Muhammad Faisal



Policy Analyst

Subject Matter Advisors

Dr. Stanley Hamilton



Advisor

Kevin Brenan



Public Finance

Mohamed Bhamani



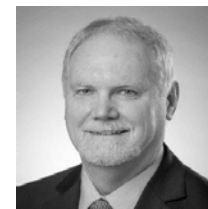
Government and Public Sector

Dr. Enid Slack



Advisor

Fred O'Riordan



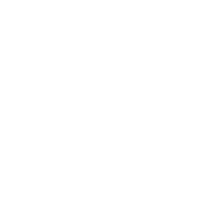
Property Tax

Heather Taylor



Municipality

Peter Adams



Advisor

Kirsten Tisdale



Government and Public Sector

Andrew Evans



Real Estate

2. Introduction and Background

Below is an introduction to the 2024 Property Tax Policy Review for the City of Vancouver.

Introduction

Vancouver uses property taxes to fund services, with the distribution determined by Council through principles such as:

- ▶ 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

Background

- ▶ The City's current property tax policy **utilizes a "tax share" approach** to distribute property tax **across residential and non-residential property classes**.
 - ▶ This City's current tax share is **residential (57%) and non-residential (43%)**.
- ▶ Throughout the engagement, EY considered the **unique features of property taxation**, which include:
 - ▶ Increases in assessed property values may be balanced by corresponding decreases in the tax rates.
 - ▶ Increases in assessed property values do not translate to increased capacity to pay property taxes.
 - ▶ Headline property tax rates are not a direct measure of property taxation levels in a municipality.

3. Property Tax Policy Reviews

Below is an overview of the previous property tax policy reviews and an introduction to the 2024 Review.

Previous Property Tax Policy Reviews

- ▶ The City's previous property tax policy reviews studied two-specific policy issues:
 - ▶ **Tax Share** - the allocation of the municipal tax burden between property classes.
 - ▶ **Tax Volatility** - the volatility in property taxes due to significant year-over-year increases in assessed market values (also referred to as Tax Stability and Predictability).
- ▶ The 2007 Review recommended shifting **\$23.8 million from commercial to residential property classes.**
- ▶ The 2014 Review **found no evidence** to support a further shift.
 - ▶ In addition, **it proposed a set of metrics** to help guide future tax distribution decisions.

2024 Property Tax Policy Review

- ▶ In April 2023, Vancouver City Council instructed staff to plan a two-phased Property Tax Policy Review.
- ▶ **EY was engaged by the City to undertake Phase 1** of this review with the objectives of:
 - ▶ Determine whether the **current property tax share is balanced** between the property classes.
 - ▶ Update and supplement the **non-residential metrics** identified in 2014 to compare the City's property taxation policies.
 - ▶ In addition, extend the comparison to major urban cities across Canada, including the cities of **Toronto, Calgary, and Montréal.**
 - ▶ Recommend **additional metrics** to gauge the affordability for Vancouver homeowners and renters.

4. Overview of Approach

Below is an overview of EY's approach to achieve the objectives of the 2024 Property Tax Policy Review.

Overview of Approach

- ▶ EY included all metrics listed in the 2014 Review and **added additional metrics** to help determine the need for a shift in the tax shares (as shown in the list to the right).
- ▶ EY also **explored normalization methods** to facilitate **robust comparisons** with the cities of Toronto, Calgary, and Montréal.
 - ▶ This involved combining multiple methods to adjust property tax rates, property classes, and property assessment values.
 - ▶ However, these methods introduced additional risks and limitations associated with interpretation, communication, and replication of the metric results.
 - ▶ Subsequently, Toronto, Montréal, and Calgary were only included in new metrics, where differences between taxing authorities have been reconciled by adopting an "all property tax" approach.

List of Metrics

▶ Existing Metrics ▶ New Metrics

Non-Residential Metrics

- ▶ Business tax share, ▶ All property taxes per square foot for office properties
- ▶ Business tax rate
- ▶ Business tax per capita, ▶ All property taxes per square foot as a percentage of average net asking rent for downtown office properties
- ▶ Commercial building permit growth
- ▶ Business assessment growth
- ▶ Business tax rate ratio ▶ Vacancy rates for downtown office properties

Residential Metrics

- ▶ Residential tax share
- ▶ Residential tax rate
- ▶ Residential tax per capita
- ▶ Residential building permit growth
- ▶ Residential assessment growth
- ▶ All property taxes to median after-tax household income

*All property taxes include all taxes appearing on a property tax bill. For Metro Vancouver municipalities these include the general levy, the Provincial education tax, and taxes from other taxing authorities such as TransLink, BC Assessment etc.

5. Overview of Stakeholder Engagement

Below is an overview of the stakeholder engagement conducted to inform the 2024 Property Tax Policy Review.

Overview

EY engaged with representatives from:

- ▶ The Greater Vancouver Board of Trade (“GVBT”)
- ▶ The Canadian Federation of Independent Businesses (“CFIB”)
- ▶ Business Improvement Areas of BC (“BIA”)
- ▶ Building Owners and Managers Association of BC (“BOMA BC”)

Common Themes Raised by Stakeholder Groups:

- 1** *Consumption of municipal services*
Stakeholders highlighted a need to further investigate a consumption study to examine the cost-benefit issue across property classes. It should be noted that a consumption study was not in scope of Phase 1.

- 2** *Representative properties*
Stakeholders suggested a comparison of representative properties in select metrics. Due to data limitations, downtown office spaces have been analyzed as a proxy for non-residential properties.

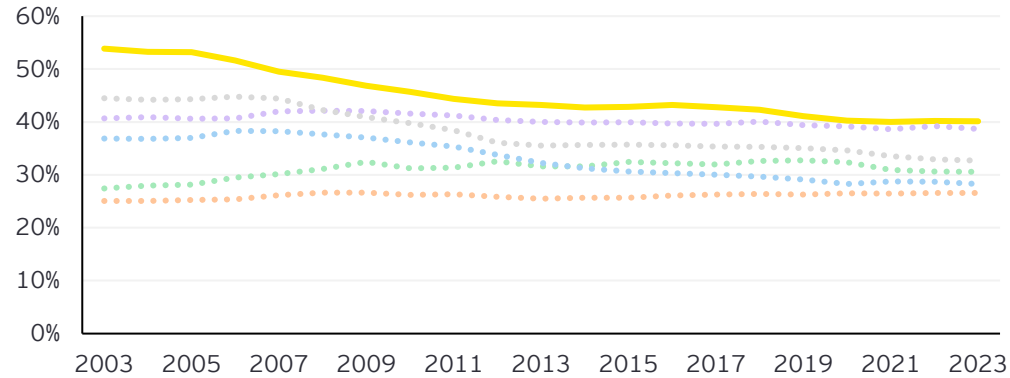
- 3** *Small businesses*
Stakeholders highlighted that property taxes are placing operating pressures on small business who are already dealing with challenging economic conditions.

- 4** *Proportional taxation*
Stakeholders believe that non-residential properties may be paying a disproportionate tax amount compared to the assessment base they constitute. However, after adjusting for intrinsic assessment differences between property classes we find this concern may not be valid.

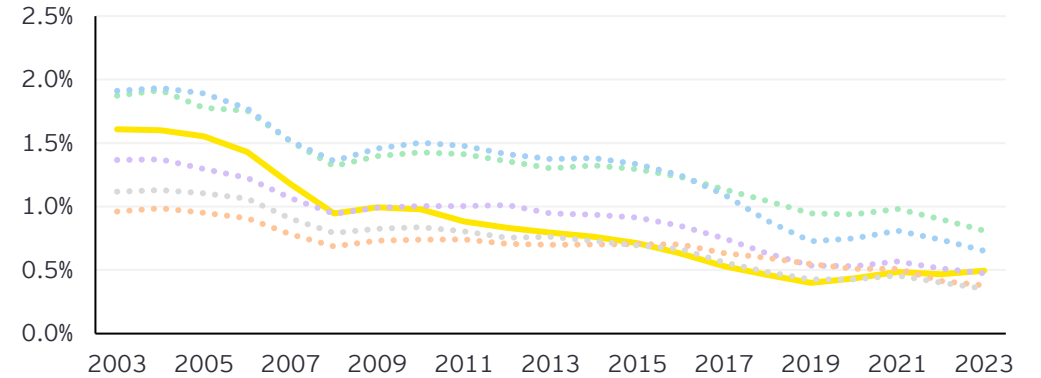
6. Metric Results - Non-Residential Metrics

— Vancouver
 - - - Burnaby
 - - - Coquitlam
 - - - New Westminster
 - - - Surrey
 - - - Richmond
 — Toronto
 — Montréal
 — Calgary

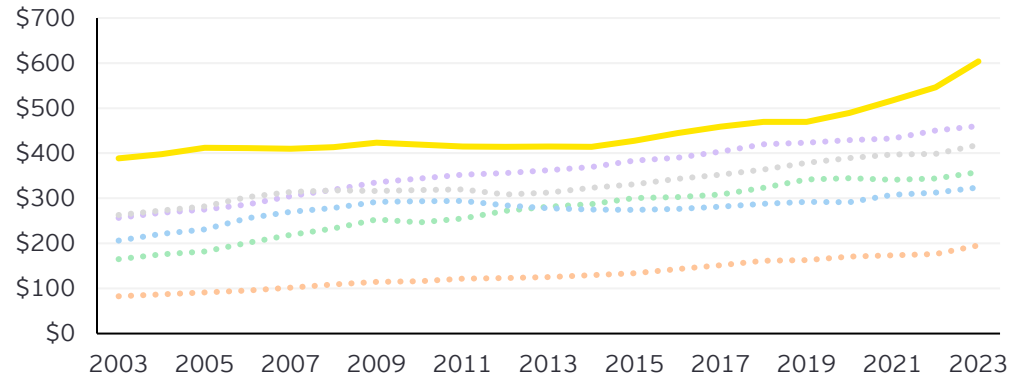
Business Tax Share



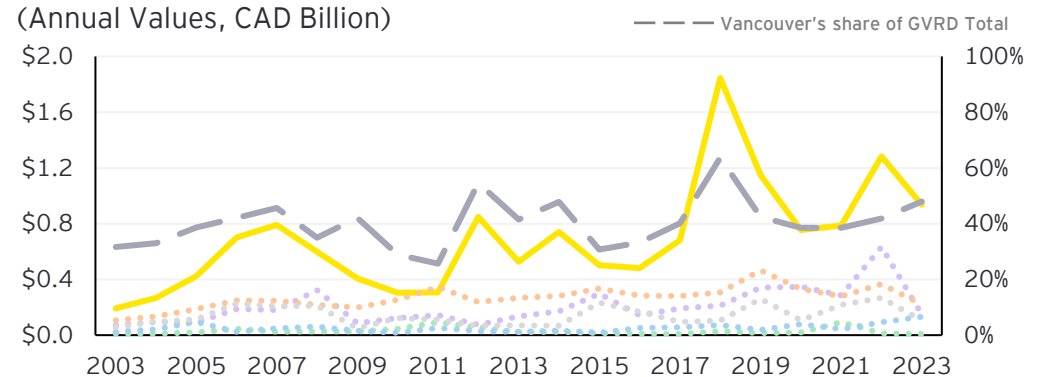
Business Tax Rate



Business Tax per Capita



Commercial Building Permits



Notes: (1) Charts may not begin in the same year due to data limitations; (2) Toronto, Montréal, and Calgary were only included in new metrics to facilitate comparison of existing metrics with results from the 2014 Review.

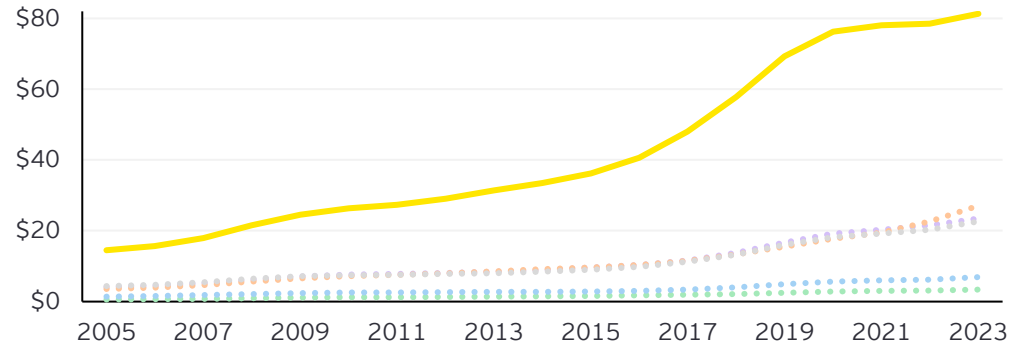


6. Metric Results - Non-Residential Metrics

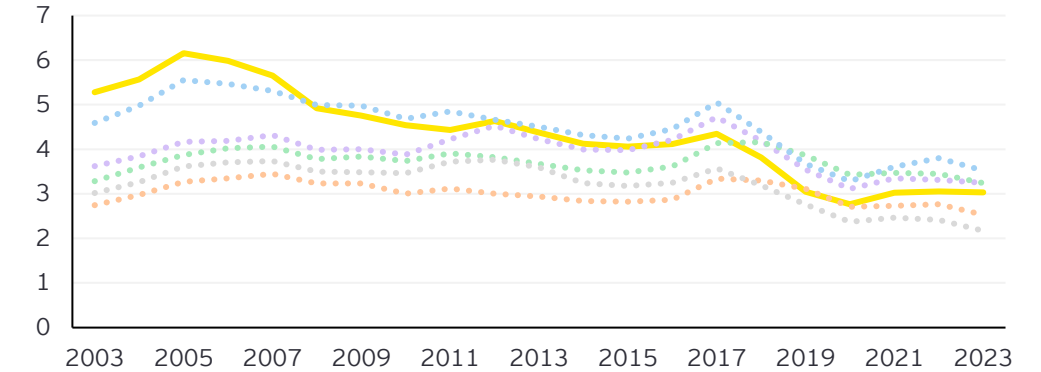
— Vancouver
 - - - Burnaby
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Business Assessment

(3-Year Moving Average Annual Values, CAD Billion)

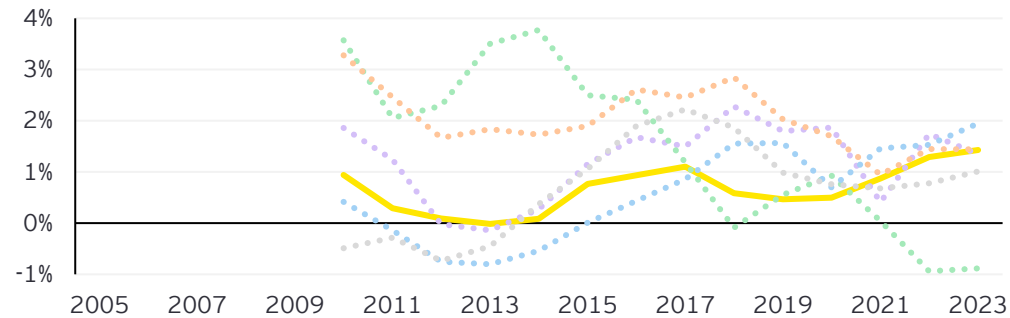


Business Tax Rate Ratio

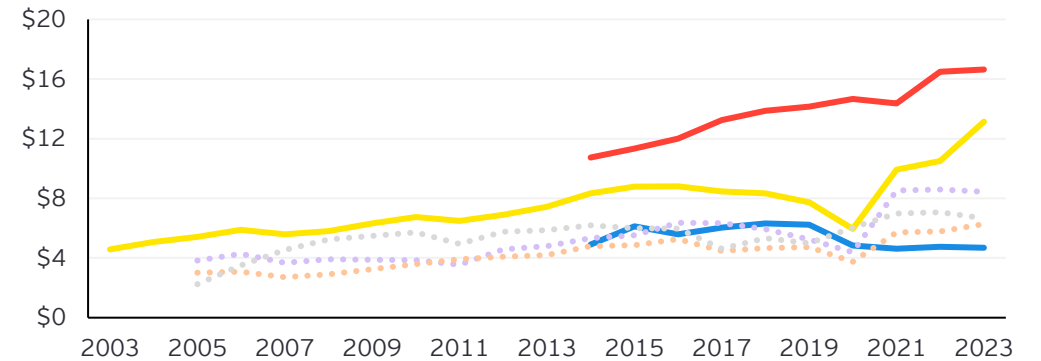


Share of Non-Market Changes in Business Assessment

(3-Year Moving Average Values)



All Property Taxes per Square Foot for Office Properties

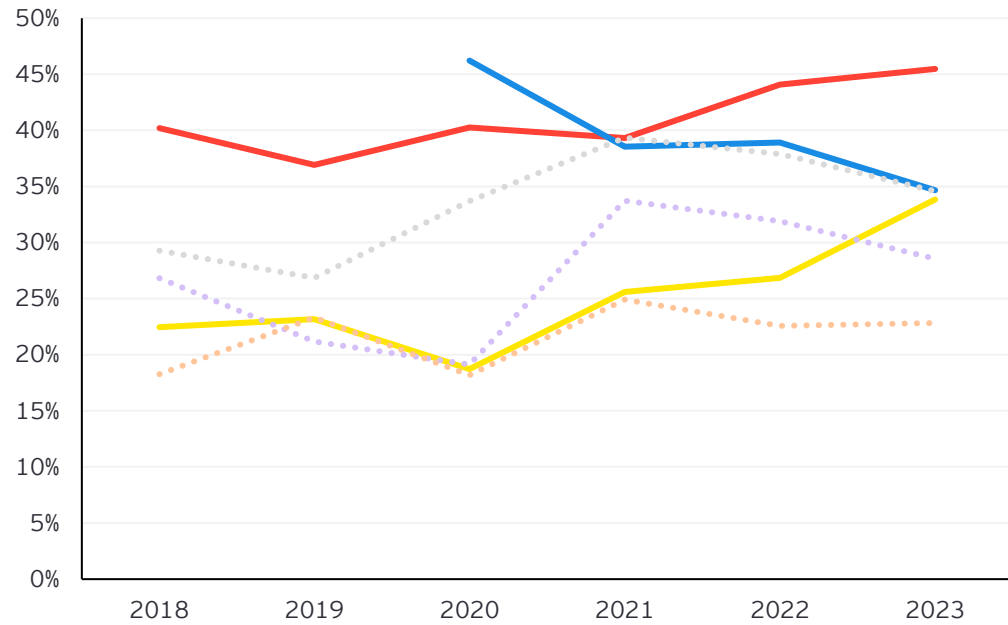


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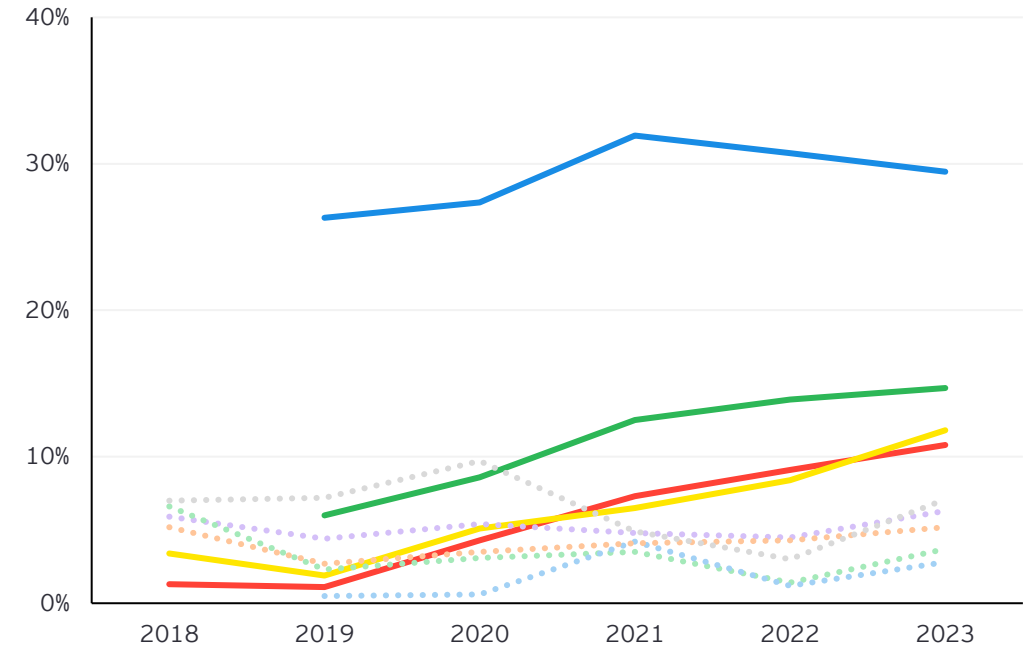
6. Metric Results - Non-Residential Metrics

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All Property Taxes per Square Foot as a Percentage of Average Net Asking Rent for Downtown Office Properties



Vacancy Rate (Downtown Offices, All Grades)

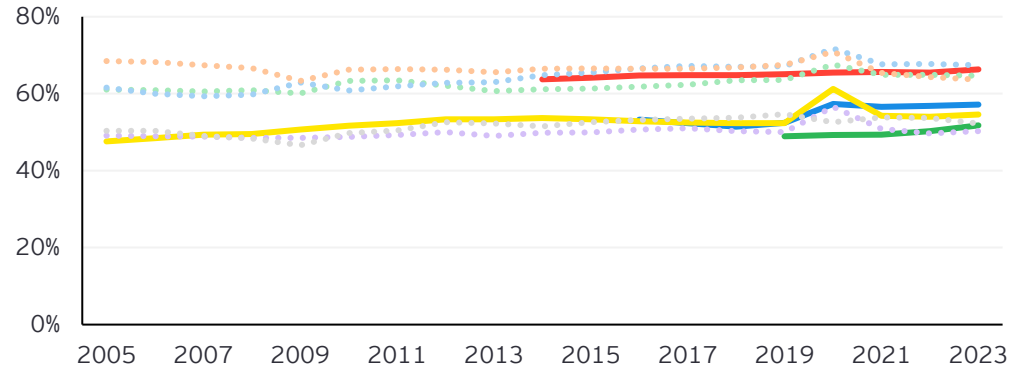


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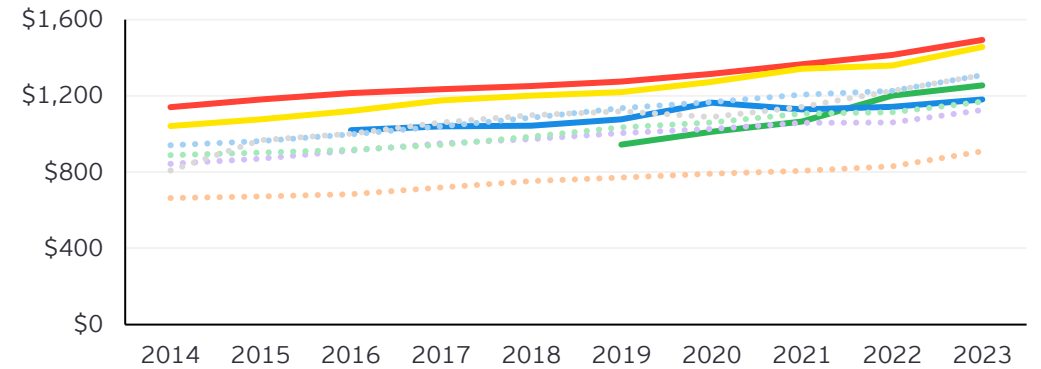
6. Metric Results - Residential Metrics

— Vancouver
 - - - Burnaby
 - - - Coquitlam
 - - - New Westminster
 - - - Surrey
 - - - Richmond
 — Toronto
 — Montréal
 — Calgary

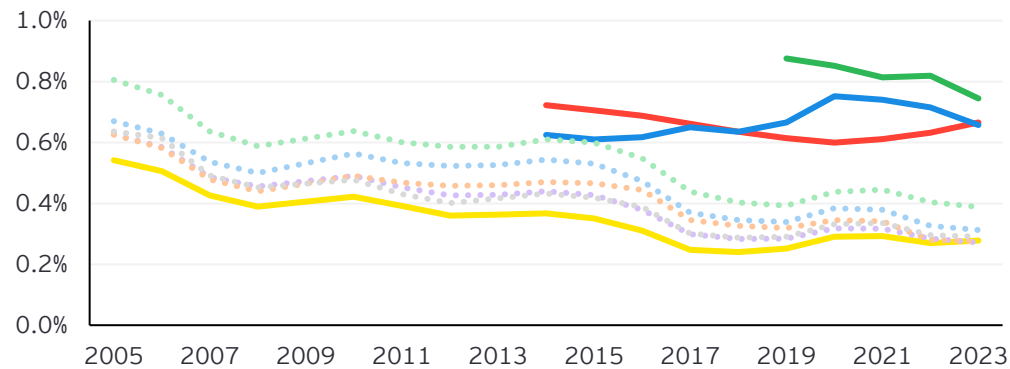
Residential Tax Share



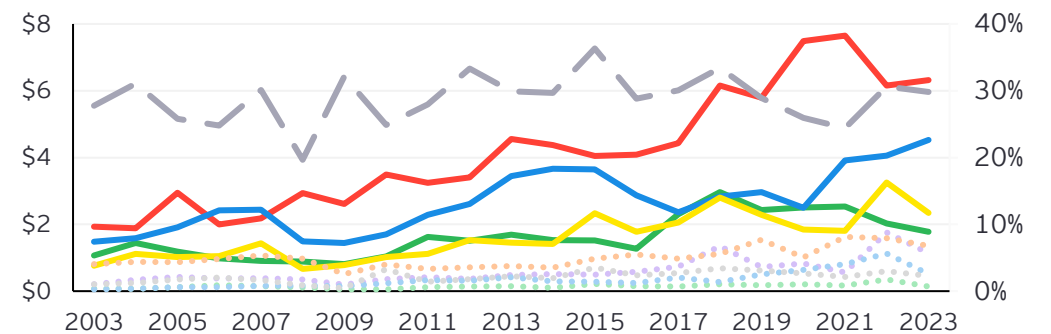
All Residential Property Taxes Per Capita



Residential Tax Rate



Residential Building Permits (Annual Values, CAD Billion)

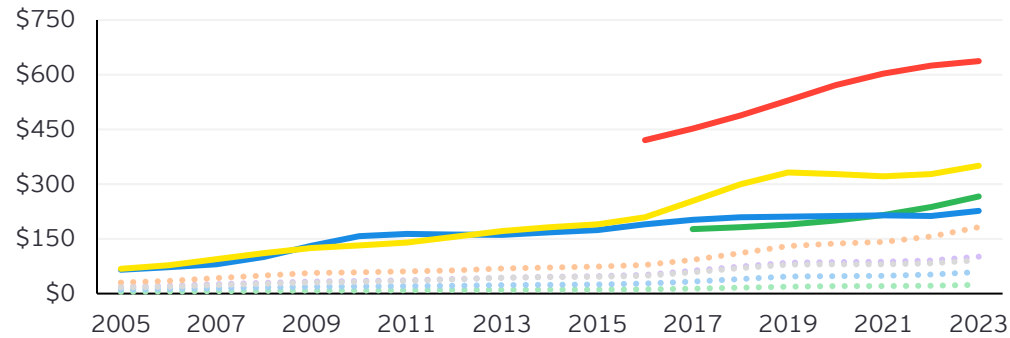


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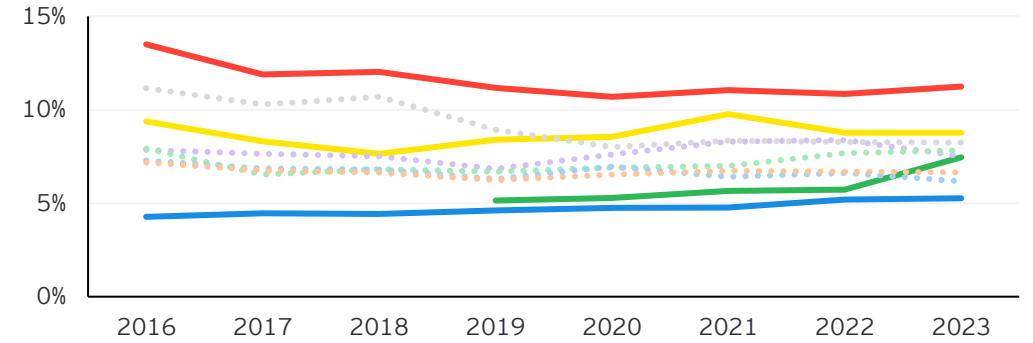
6. Metric Results - Residential Metrics

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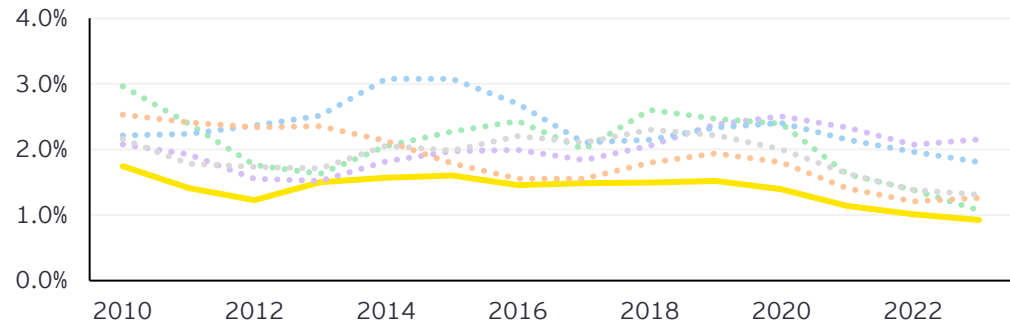
Residential Assessment
(3-Year Moving Average Values, CAD Billion)



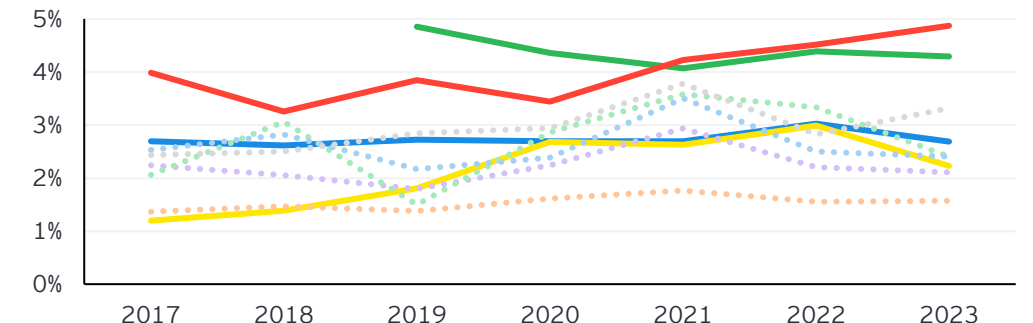
All Property Taxes to Median After-tax Household Income
(Median Value Single Detached House)



Share of Non-Market Changes in Residential Assessment
(3-Year Moving Average Values)



All Property Taxes to Median After-tax Household Income
(Median Value Apartment)



Notes: (1) Charts may not begin in the same year due to data limitations; (2) Toronto, Montréal, and Calgary were only included in new metrics to facilitate comparison of existing metrics with results from the 2014 Review.

7. Conclusion

Below includes a summary of metric results and EY's conclusion on the tax share.

Overview of Metric Results

- ▶ Comparison of residential and non-residential metrics suggests that the tax share across residential and non-residential property classes appear to be appropriately balanced.
 - ▶ For instance, both the Business Tax per Capita and Residential Tax per Capita metrics are higher when compared to other Metro Vancouver municipalities which may indicate little capacity to absorb a tax shift either way.
- ▶ As noted in the 2014 Property Tax Policy Review, there is no single definition of the “correct” or most appropriate residential and non-residential share of municipal property taxes.
- ▶ EY recognizes the limitations of the metrics and based our conclusion on the directional trend each metric provides, as we are unable to definitively rely on a single metric.

Conclusion

EY concludes that there is insufficient evidence to recommend a tax shift from non-residential to residential property classes.

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