Committee of the Whole Report
For the Meeting of April 17, 2025

To:	Committee of the Whole	**Date:**	April 7, 2025
From:	Jo-Ann O'Connor, Deputy Director of Finance		
Subject:	Revenue and Tax Policy Benchmark Monitoring and 2025 Tax Rates		

RECOMMENDATIONS

That Council:

1. Approve the following 2025 tax rates to achieve a business to residential tax ratio of 3.5 to 1, while incorporating the adjustments for the Development Potential Tax Relief program.

Residential	3.3749
Utility	39.9997
Major Industrial	10.8602
Light Industrial	11.5372
Business	11.8167
Rec/Non Profit	7.1920

2. Direct staff to bring forward Tax Bylaw, 2025 for introductory readings to the daytime Council meeting on April 24, 2025.
3. Direct staff to bring forward Development Potential Annual Property Tax Relief Bylaw, 2025 for introductory readings to the daytime Council meeting on April 24, 2025.
4. That this recommendation be forwarded to today's daytime Council meeting.

EXECUTIVE SUMMARY

Under the *Community Charter*, as part of the financial plan, Council is required to outline its objectives and policies regarding revenue proportions by funding source; distribution of property taxes among property classes; and permissive property tax exemptions. In addition, before adopting the annual property tax bylaw, Council must consider the tax rates proposed in conjunction with its objectives and policies for the distribution of property taxes among property classes. The City's Revenue and Tax Policy outlines these objectives and policies.

A Development Potential Tax Relief pilot program was implemented this year for eligible Light Industry (Class 5) and Business and Other (Class 6) properties in the Harris Green district of the downtown neighbourhood. For each eligible property in the Harris Green district, 20% of the Class 5 and Class 6 land value, up to a maximum of $925,000, will be taxed at a municipal tax rate that is 50% lower than the rates established for those classes in Tax Bylaw 2025. For 2025, there were

12 eligible properties for the pilot program. The regular tax rates for those classes are increased to offset for the reduction offered through this program.

In March 2025, Council directed staff to implement a tax policy aimed at gradually reducing the business-to-residential property tax ratio to 3.0:1 over time. The reduction will begin with a ratio of no more than 3.5:1 in 2025, 3.4:1 in 2026, 3.3:1 in 2027, 3.2:1 in 2028, 3.1:1 in 2029, and 3.0:1 in 2030. The proposed tax rates incorporate the new policy, and the adjustments for the Development Potential Tax Relief program.

As determined through the financial planning process, the overall revenue increase for property taxes equaled $13.0 million or approximately 7.23%. However, Council also approved a policy change to use all new property tax revenue from new development to offset the planned tax increases for capital infrastructure. The final roll data results in additional property tax revenue from new development and this has lowered the property tax increase to $12.6 million, resulting in a 6.99% overall property tax revenue increase.

BC Assessment sets the assessed values for all properties and for 2025, residential properties decreased by an average of -2.02% and business properties increased by an average of 0.50%. Council's decision on how to allocate taxes among the property classes determines the property tax change for a property with an average change in assessed value in each class.

Allocating the property tax increase as recommended results in an increase of $261 for an average residential property assessed at $1,024,000 and $469 for a typical business property assessed at $737,000.

The recommended tax rates option reflects the Revenue and Tax Policy, as amended through previous Council direction.

This report also includes some analysis of assessment and tax exemption information in Appendix B that may provide additional context for Council.

PURPOSE

The purpose of this report is to provide updated benchmark measures related to the City's Revenue and Tax Policy and seek direction on the 2025 tax rates.

BACKGROUND

Legislation

Under section 165 of the *Community Charter*, as part of the financial plan, Council is required to outline its objectives and policies regarding revenue proportions by funding source; distribution of property taxes among property classes; and permissive property tax exemptions.

Section 197, of the *Community Charter*, requires that each year Council adopt, by bylaw, the tax rates for the current year. Before adopting the annual property tax bylaw, Council must consider the proposed tax rates for each property class in conjunction with its objectives and policies on the distribution of property taxes among the different property classes. The annual tax bylaw must be approved before May 15th each year, but after the Financial Plan Bylaw.

Property Tax Rates

Property tax rates are set each year to enable the City to collect the tax levy that is required to support the municipal programs and services as approved by Council in the Five-Year Financial Plan. Setting the property tax rates for each property class is the last step in the annual budget process.

All municipalities in BC are required to calculate tax rates based on property assessed values as established by BC Assessment. The tax rates are based on the final assessed values (revised roll) which is received at the end of March each year. The assessed values reflect the market condition as of July 1st of the preceding year and are adjusted for any resolutions of appeals and other adjustments since December 31st.

BC Assessment places each property in one or more of nine classes, and this placement is typically based on the property's type or use. Within the City, there are seven property classes, each of which has a specific tax rate established by Council. The City's Revenue and Tax Policy establishes a framework for the way in which City taxes are apportioned between the various property classes. This rate setting is what determines how much each class pays.

The following illustration shows a simplified version of how property tax rates are calculated:

The rates are set for each property class as a whole and Council does not have the ability to impact how much an individual property pays. How much an individual property pays is determined by an individual property's change in assessed value as it compares to the average for that class. The tax rate applies to each $1,000 of net assessed value and the following illustrates that calculation:

<u>Revenue and Tax Policy</u>

The City's Revenue and Tax Policy (Appendix A) outlines the objectives and policies. The City's current policies for the distribution of property taxes among the property classes are as follows:

- <u>Policy 2.0</u>
  To reduce the business to residential tax ratio to no more than:

  3.5 to 1 in 2025

  3.4 to 1 in 2026

  3.3 to 1 in 2027

  3.2 to 1 in 2028

  3.1 to 1 in 2029

  3.0 to 1 in 2030

- Policy 2.1
  Tax rates for the light and major industrial tax classes will not exceed the business tax rate to support the City's desire to retain industrial businesses.

- Policy 2.2
  Farm tax rates will be set at a rate so taxes paid by properties achieving farm status will be comparable to what the property would have paid if it were assessed as residential.

Over the years, Council has approved various tax rate approaches. Prior to 2007, it was Council's practice to apply increases equally among the property classes to avoid shifts between the property classes due to uneven assessed value changes.

In 2007 and 2008, Council chose to hold the business class and industrial class ratios constant. This resulted in a higher tax increase being passed on to the residential class compared to business and industrial property classes.

Council approved the Revenue and Tax Policy in 2009, where the industrial tax ratios were reduced to the same level as the business tax ratio. The business and industrial class ratios were also reduced marginally in 2009, 2010 and 2011.

In 2012, a comprehensive review of the Revenue and Tax Policy was conducted to determine if Council's objective of reducing the tax burden on the business class was still appropriate and if so, if the approach of reducing the tax ratio was the most effective mechanism to achieve this objective.

The review concluded that additional relief for the business tax class was warranted. However, the tax ratio was not the best mechanism for achieving that goal; a better mechanism was tax share (i.e. the proportion of tax revenue collected by each property class.) As a result, Council changed the policy to focus on the tax share rather than tax ratios, and to reduce the business class share of property taxes to 48%, excluding new property tax revenue from new construction, over three years between 2012 and 2014.

Council directed another review of the policy including the analysis of the same indicators from the 2012 review. Based on the findings, it was recommended that no further shifting of the business class tax share was required. On January 29, 2015, Council approved to maintain the current share of distribution of property taxes among property classes excluding the impact on new assessment and for staff to bring forward an annual report monitoring the benchmarks.

Since then, Council has reviewed the benchmarks annually and has not made changes to the current Revenue and Tax Policy. However, Council has approved tax options that differ from the current policy. In 2016, Council held the business tax share to 48%, in 2018 Council changed the percentage change of the business and residential class contribution, in 2021 Council held the tax ratios the same as the prior year and in 2022 Council approved an equal property tax increase across all property classes; all changes resulted in shifting taxes from business to residential. In 2023, Council approved an equal property tax increase across all property classes and holding the industrial tax rate the same as business, in alignment with current policy, resulting in a shift in taxes from business and residential to industrial classes.

In 2024, to support the retention of industrial properties, Council amended the policy to allow the industrial tax rates to be lower than the business rate, therefore reducing the tax burden on industrial properties.

Council further revised Policy 2.0 in 2025, to instead of allocating tax increases equally to all classes to gradually reducing the business to residential tax ratio over six years. The reduction will start with a ratio of no more than 3.5 to 1 in 2025, followed by 3.4 to1 in 2026, 3.3 to1 in 2027, 3.2 to1 in 2028, 3.1 to 1 in 2029, and 3.0 to1 in 2030.

Impact on Taxpayers

Victoria's 2025 assessment roll from BC Assessment indicates that overall property values have decreased by -1.54% compared to the 2024 assessment roll. On average, residential properties have decreased by -2.02%, business properties have increased by 0.50%, light industry has increased by 0.94% and major industry has increased by 0.30%.

There is a common misunderstanding that a change in a taxpayer's assessed value will result in an equal change in property taxes. The key factor is the change of one's assessed value relative to the average assessment change in the property class. Properties with assessments that increased above the average for their property class would see a higher percent increase in property taxes payable, and vice versa for those with below average increases for their class.

The diagram below illustrates this concept.

Property Tax Notices

Property tax notices are generated for each folio to collect the required overall property tax revenue for the City.

A tax rate for each property class is applied to each folio within the City's seven property classes to ensure that each property pays its portion of property taxes based on its assessed value.

Once Council has adopted the annual Tax Rate Bylaw, staff prepare and mail the property tax notices starting in mid-May and taxes are due on July 2, 2025.

ISSUES & ANALYSIS

The following section outlines the 2024 benchmark measures and proposed changes to the Revenue and Tax Policy, followed by tax rate options for 2025 for Council's consideration.

Revenue and Tax Policy Benchmark Measures

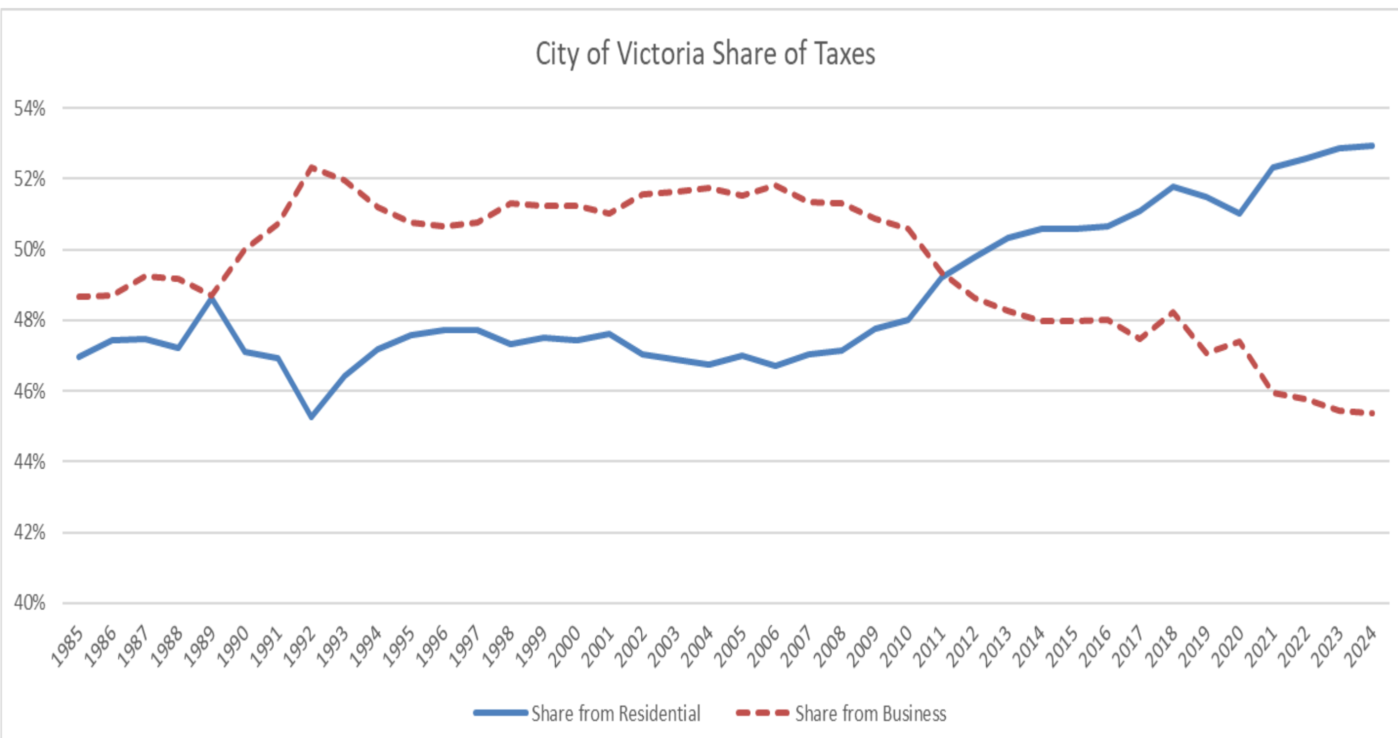
Below are the benchmark measures that Council directed staff to monitor annually. These benchmarks can inform Council's decision on the desired share of property tax distribution among property classes.

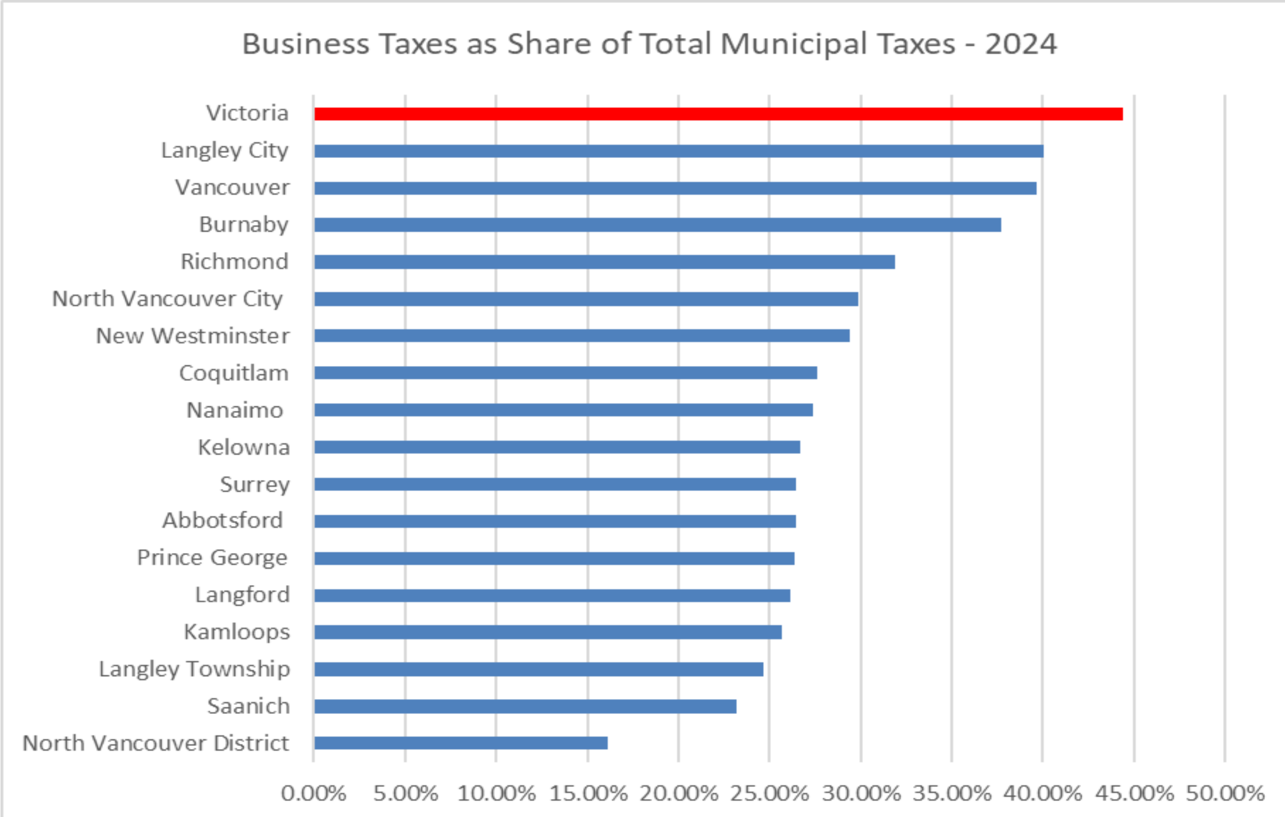
Benchmark	2023 Measure	2024 Measure

Share of taxes – excluding NMC: **Business** **Non-residential (including business)** **Residential**	 45.45% 47.14% 52.86%	 45.36% 47.08% 52.93%
Business tax ratio	3.8049	3.6776
Ratio of business/residential building assessment	32.03	29.57
Business property tax rates	10.6951	11.2419
Residential taxes per capita	$913	$969
% Value of commercial building permits in CRD*	n/a	n/a
Ratio of commercial to residential building permits*	n/a	n/a
Vacancy rates – downtown office buildings	7.30%	10.70%
Vacancy rates – suburban office buildings	6.40%	6.20%
Downtown retail vacancy rates	9.20%	11.00%

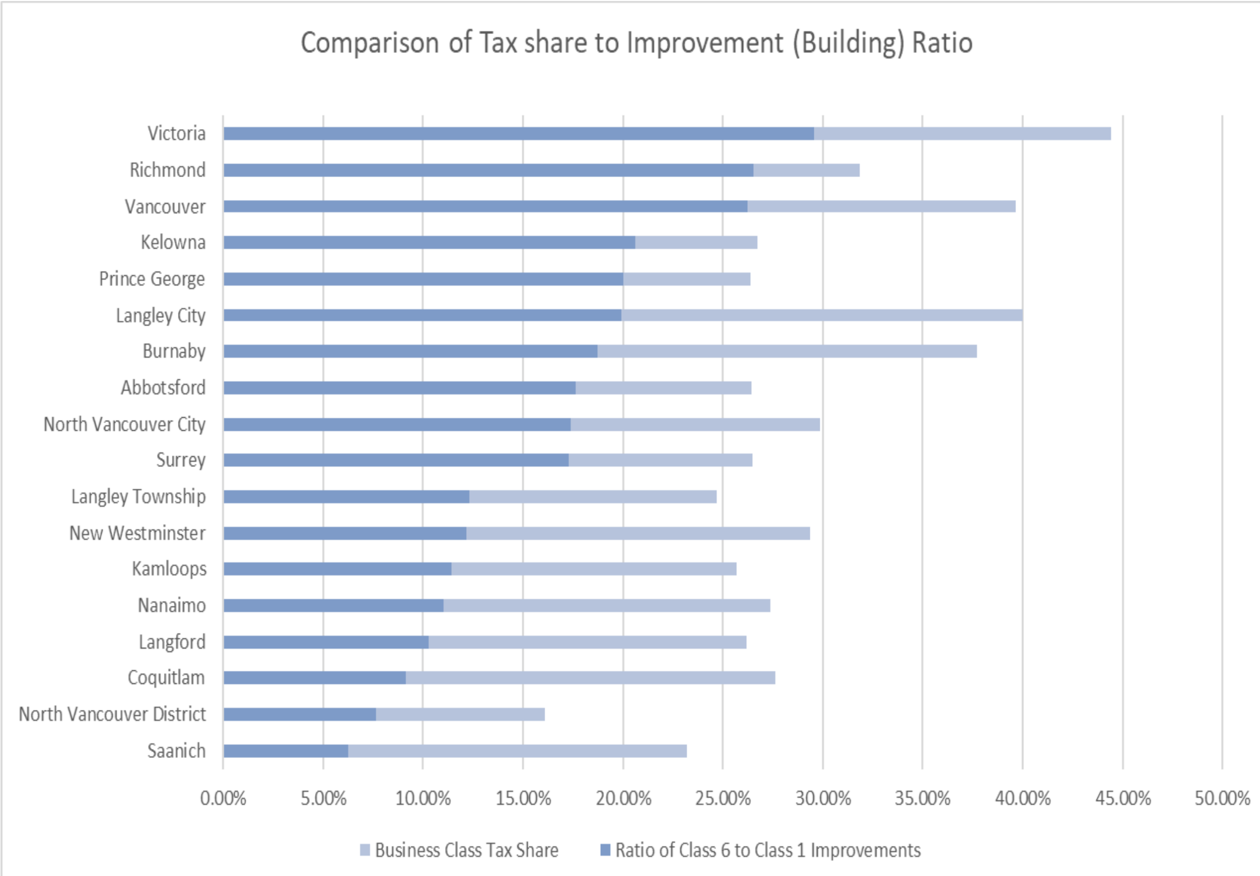
* At the present time, BC Stats no longer produces building permit statistics

<u>Share of Taxes</u>
In 2024, the share of municipal taxes paid by the business class remained high when compared to other municipalities. However, the share of taxes paid by the business class continues to be at a historical low for Victoria.





The 2015 comprehensive review concluded that based on the following indicator, the share of taxes paid by the business class is not considered unreasonable given the City's high concentration of commercial properties and relatively small footprint. This concentration can be measured by comparing business class building values to residential class building values. The building values are an estimate of the value of the physical structures on the land and exclude the value of land itself. The City's improvement (building) ratio has remained relatively constant for a number of years until 2021 and has continued the downward trend in 2024, decreasing to 30% from 32% in 2023. This is due to the decrease in the improvement (building) assessed value of business class properties relative to the increase of residential properties. The business class tax share remained around 45% in 2024 compared to 2023. As the chart below depicts, several of the comparable municipalities collect a larger share of taxes from the business class compared to the building values.



<u>Business Tax Ratio & Tax Rates</u>

The tax ratio is a direct comparison of the tax rates between all classes to the residential tax rate. Fluctuations in the market value for residential class will affect all resulting tax ratios since tax rates are adjusted annually to ensure that the City collects the required tax levy.

The business to residential tax ratio (business tax rate divided by residential tax rate) is often used when discussing the issue of tax burden on businesses. However, the ratio is only part of the equation and an increase or decrease in the ratio does not necessarily mean that the share of taxes payable has increased. Market value changes that result in uneven assessment changes between property classes result in a tax burden shift to the class experiencing greater market value increases, unless tax ratios are modified.

In 2024, there was a decrease in the residential assessed values of -0.75%, whereas the assessed values for the business class increased by 2.69%. These market value changes resulted in the business tax ratio decreasing from 3.8049 in 2023 to 3.6776 in 2024. With Council approving an equal tax increase amongst all property classes in 2024, the overall business tax share decreased slightly to 45.36%

The graph below shows that the City of Victoria business tax rates are higher than many comparable municipalities. Though the usefulness of this measure is limited by differences in land values among communities. For example, tax rates in the Lower Mainland are generally lower than in Victoria, but that is because land values are higher.


Municipal Business Tax Rate - 2024
Prince George
Saanich
Nanaimo
Kamloops
Victoria
New Westminster
Coquitlam
Langford
Vancouver
Abbotsford
North Vancouver City
Langley City
Kelowna
Langley District
Burnaby
North Vancouver District
Surrey
Richmond
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2
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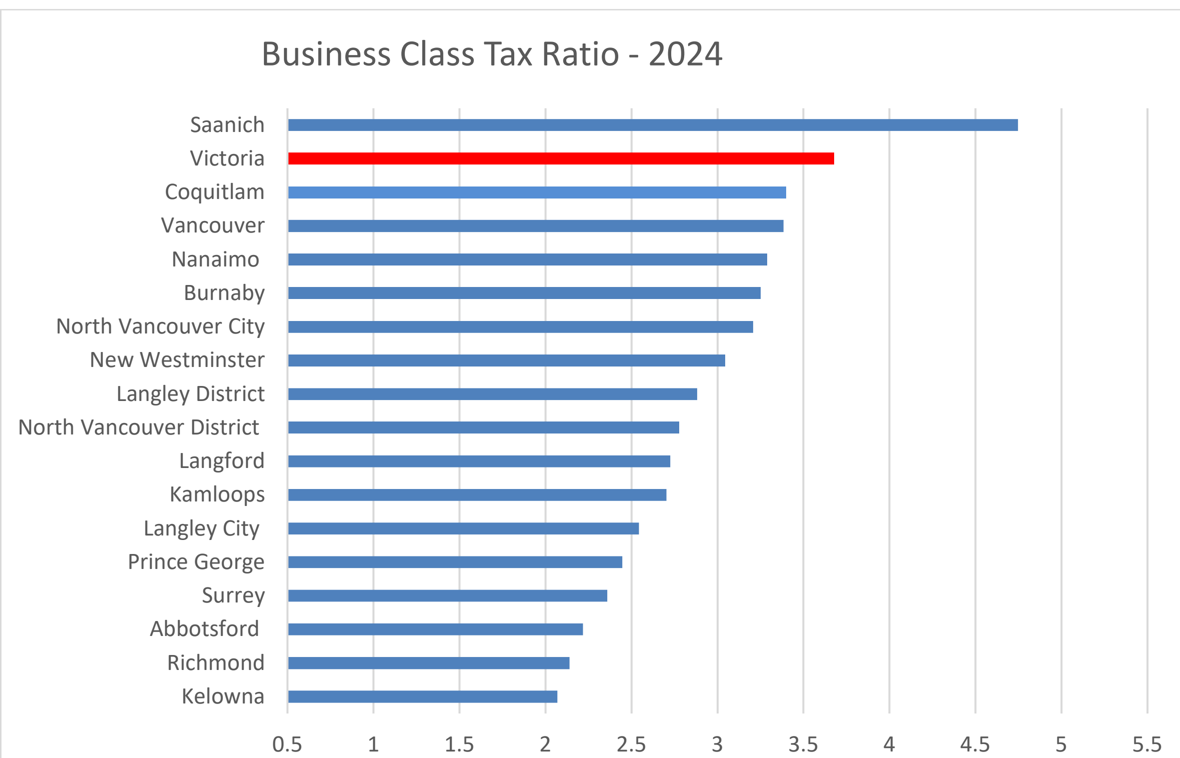
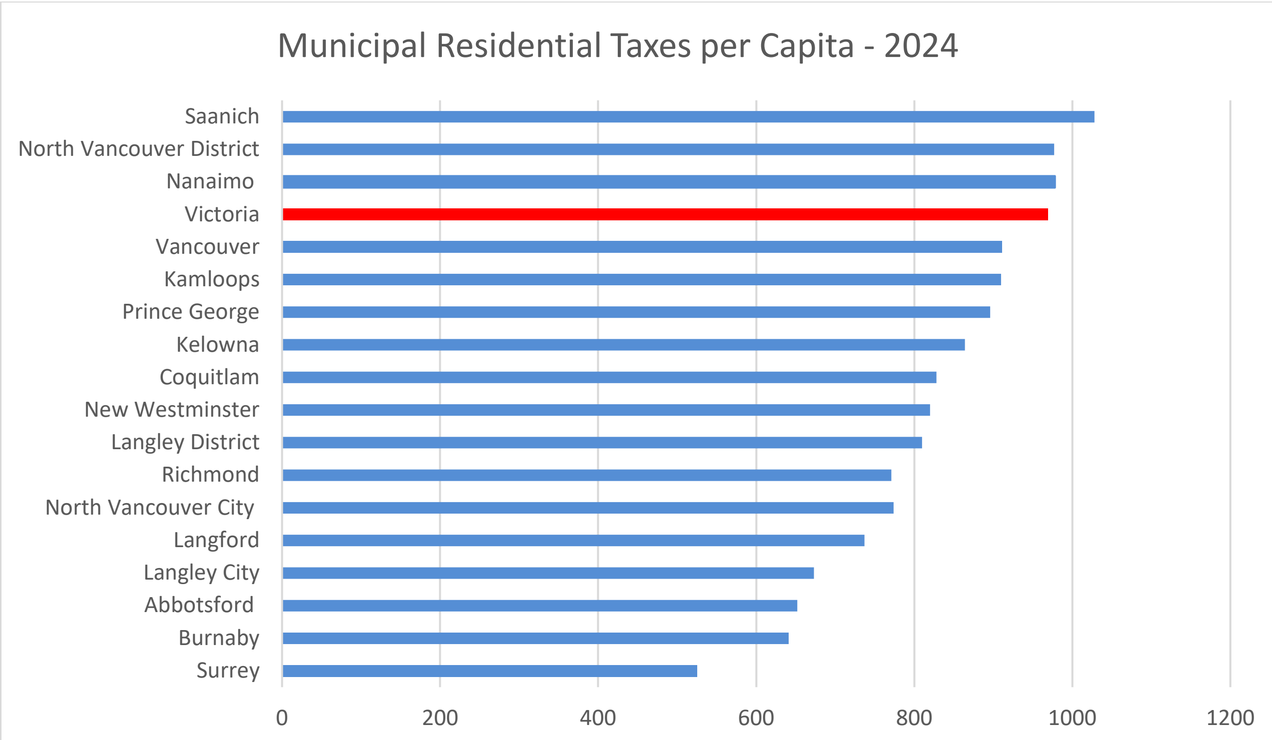
6
8
10
12
14
16
18

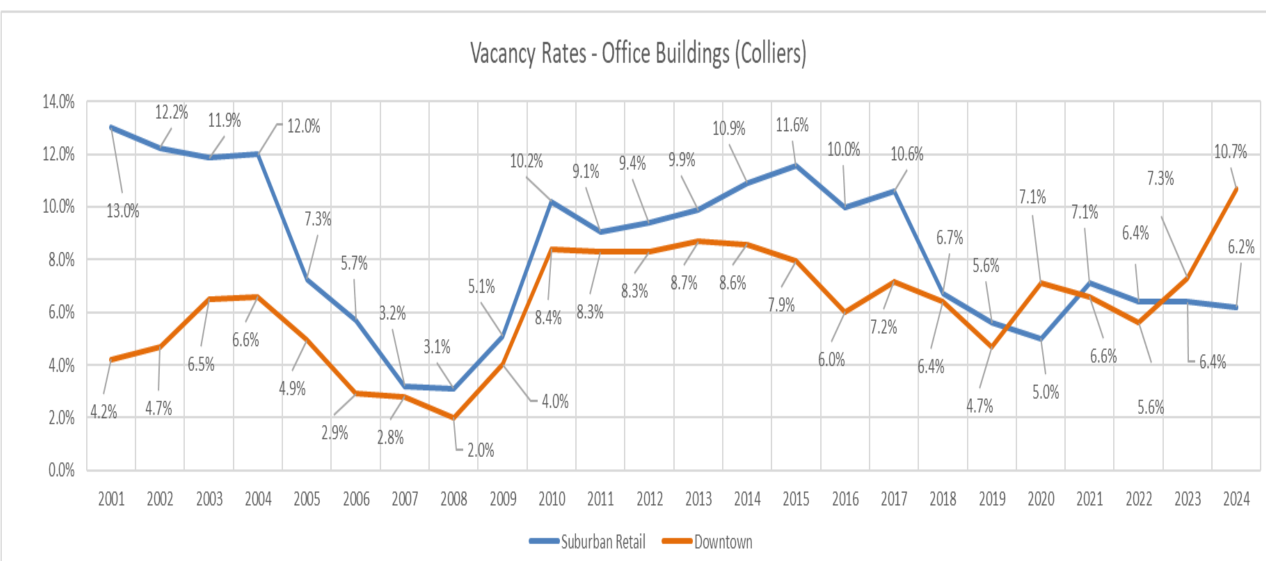

Business Class Tax Ratio - 2024
Saanich
Victoria
Coquitlam
Vancouver
Nanaimo
Burnaby
North Vancouver City
New Westminster
Langley District
North Vancouver District
Langford
Kamloops
Langley City
Prince George
Surrey
Abbotsford
Richmond
Kelowna
0.5
1
1.5
2
2.5
3
3.5
4
4.5
5
5.5

Despite how the tax burden is shared between property classes, the overall residential tax burden is similar when compared to neighbouring communities such as Saanich and Nanaimo, though remains high when compared to other comparable communities. One of the reasons for higher taxes is the fact that Victoria, as the downtown core of the region, incurs greater costs in some services and the population is not as large as other municipalities. Victoria ranks fourth highest in residential taxes per capita in the group of comparable municipalities.

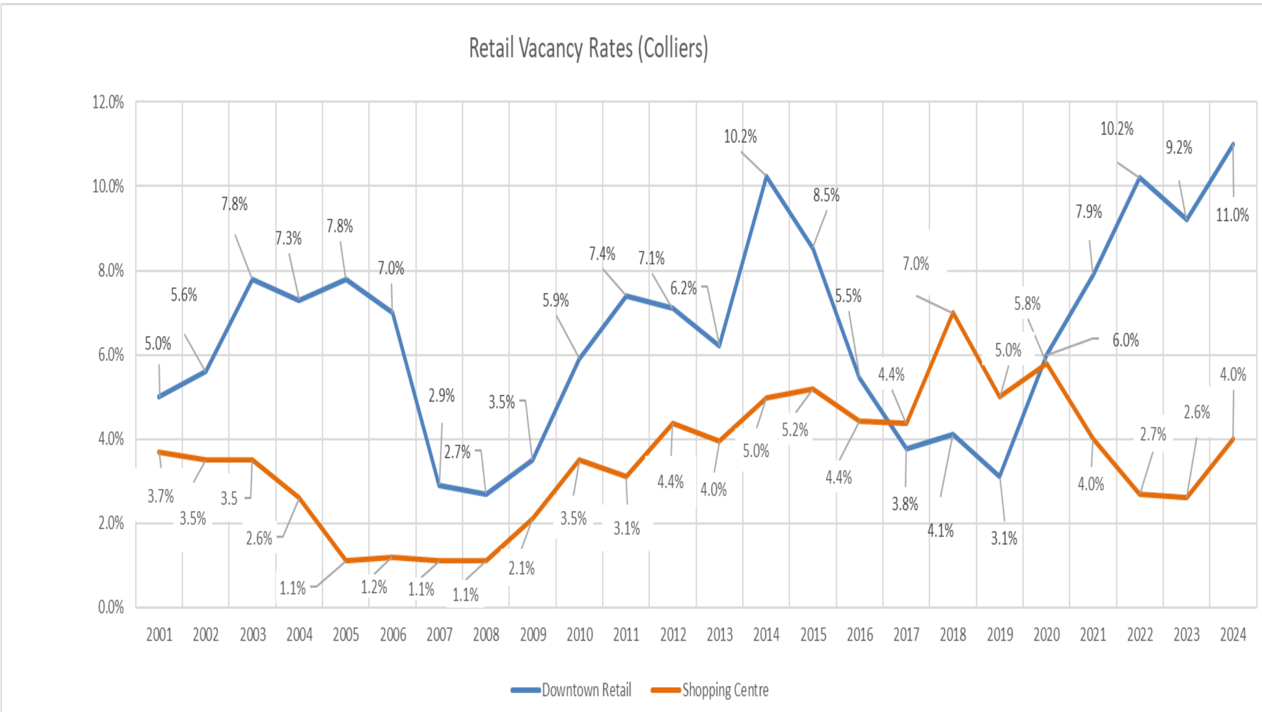


<u>Vacancy Rates (from report by Colliers)</u>

Downtown office vacancy rates increased in 2024 to 10.7% from 7.3% in 2023, while suburban office vacancy rates decreased from 6.4% in 2023 to 6.2% in 2024. The increase in downtown vacancy is primarily due to increased availability of Class B and Class C office space. This change is partially a result of the province's decision to consolidate office space into flexible workspaces and as a result has not renewed approximately 61,000 square feet in the Downtown core.



The Greater Victoria retail market faced several challenges in 2024 with increased vacancy in both shopping centres and downtown street front. Downtown retail vacancy rates increased from at 9.2% in 2023 to 11.0% in 2024 which is a historical high. According to Colliers, retail tenants in the downtown core continued to face challenges with road construction, lack of suitable parking options as well as ongoing social issues deterring locals from visiting downtown. Retailers are also impacted by the work from home transition in the office market that has resulted in less foot traffic Downtown. The overall shopping centre vacancy rates increased from 2.6% in 2023 to 4.0% in 2024 which is directly attributed to the challenges tenants face in regional shopping centres which saw a significant increase in vacancy largely due to challenges in the fashion sector. The pressures on downtown retailers and regional shopping centres is likely to continue in 2025.



Revenue and Tax Policy Changes

Development Potential Tax Relief Pilot Program

In the fall of 2022, the Province enacted legislation that allows municipalities to provide financial relief from municipal taxation (not other taxing authorities) to qualifying light industrial and business properties that have unrealized development potential and have therefore experienced significant increase in assessed values. This legislation is intended to provide a period of temporary relief up to 5 years and properties must meet eligibility criteria each year.

Council approved implementing a Development Potential Tax Relief pilot program in 2025 for eligible Light Industry (Class 5) and Business and Other (Class 6) properties in the Harris Green district of the downtown neighbourhood. For each eligible property in the Harris Green district, 20% of the Class 5 and Class 6 land value, up to a maximum of $925,000, will be taxed at the municipal rate that is 50% lower than the rates established for those classes. In 2025, there were 12 properties eligible for the pilot program, resulting in an approximate shift of $32,000 in property taxes to the remaining non-exempt properties.

Reduction of Business to Residential Tax Ratio

In March 2025, to support the retention of businesses, Council directed staff to implement a tax policy aimed at gradually reducing the business to residential property tax ratio to 3.0:1 over time. The reduction will begin with a ratio of no more than 3.5:1 in 2025, 3.4:1 in 2026, 3.3:1 in 2027, 3.2:1 in 2028, 3.1:1 in 2029, and 3.0:1 in 2030. The proposed tax rates incorporate the new policy, and adjustments for the Development Potential Tax Relief program.

2025 Tax Rate Alternatives

For 2025, assessed values decreased for residential properties by an average of -2.02%, increased for major industrial properties by an average of 0.30%, increased for light industrial properties by an average of 0.94% and increased for business by an average of 0.50%. Taxpayers will not necessarily experience a similar change in their property taxes because it is the individual property's assessment change as compared to the average change in assessment for the entire property class that will determine the property tax change for that specific property.

If a residential property has a less than -2.02% change, then that property will experience a higher than average tax change and vice versa. Council's decision on how to allocate taxes among the property classes will determine the property tax change for a property with an average change in assessed value in each class. Since the total assessed value change for the residential class is lower than the change for business, the business class ratio will mathematically decrease.

There are three alternatives for the distribution of taxes among tax classes for Council's consideration. These are only a few of the possible options but are identified here to illustrate some tax policies that Council has implemented or considered.

The recommended option reflects the amended Revenue and Tax Policy which sets the business to residential tax ratio at not greater than 3.5 to 1 and sets tax rates for the light and major industrial classes to not exceed the business tax rate to support the City's desire to retain industrial businesses.

The following outlines the three options:

Alternative 1 - 3.5 to 1 Business to Residential Tax Ratio – Adjusted for the Development Potential Tax Relief Program

This option reflects an overall property tax increase of 6.99% and reduces the business tax ratio to 3.5. Industrial classes would have the same tax increase as business as shown in the following table. Utility class properties have separate legislation and can be charged a tax rate of no more than 40 and this option reflects that limitation.

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change	2024 Tax Rates
Residential	1.0000	54.09%	3.3749	8.18%	3.0569
Utility	11.8520	0.44%	39.9997	6.42%	36.7426
Major Industrial	3.2179	0.15%	10.8602	5.60%	10.3154
Light Industrial	3.4185	0.94%	11.5372	5.60%	11.0279
Business	3.5000	44.20%	11.8167	5.60%	11.2419
Rec/Non Profit	2.1310	0.18%	7.1920	8.18%	6.6667

The increase would be approximately $261 for the average residential property ($1,024,000 assessed value) and $469 for a typical business ($737,000 assessed value). Since the assessed values for light industrial properties have a very broad range and there is not a typical or representative average for this class, the meaningful comparative is the average increase per $100,000 of assessed value which for this option would be $61.

Alternative 2 – Equalize the tax change – Adjusted for the Development Potential Tax Relief Program

This option equalizes the tax change, except for the utility class because of separate legislation which caps that tax rate at no more than 40. As outlined in the following table, all classes except the utility class will see an increase of 7.00% for 2025.

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change	2024 Tax Rates
Residential	1.0000	53.49%	3.3381	7.00%	3.0569
Utility	11.9828	0.44%	39.9997	6.42%	36.7426
Major Industrial	3.2965	0.15%	11.0040	7.00%	10.3154
Light Industrial	3.5021	0.95%	11.6903	7.00%	11.0279
Business	3.5855	44.78%	11.9732	7.00%	11.2419
Rec/Non Profit	2.1311	0.18%	7.1138	7.00%	6.6667

The increase would be approximately $224 for the average residential property ($1,024,000 assessed value) and $584 for a typical business ($737,000 assessed value). Since the assessed values for light industrial properties have a very broad range and there is not a typical or representative average for this class, the meaningful comparative is the average increase per $100,000 of assessed value which for this option would be $76.

Alternative 3 – 3.4 Business to Residential Tax Ratio – Adjusted for the Development Potential Tax Relief Program

This option would result in a higher increase for residential compared to business as the assessment increase for business properties was higher than the residential increase; the results are outlined in the table below. Utility class properties have separate legislation and can be charged a tax rate of no more than 40 and this option reflects that limitation.

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change	2024 Tax Rates
Residential	1.0000	54.80%	3.4191	9.59%	3.0569
Utility	11.6991	0.44%	40.0000	6.42%	36.7426
Major Industrial	3.1260	0.15%	10.6880	3.92%	10.3154
Light Industrial	3.3208	0.92%	11.3540	3.92%	11.0279
Business	3.4000	43.50%	11.6291	3.92%	11.2419
Rec/Non Profit	2.1310	0.18%	7.2860	9.59%	6.6667

The increase would be approximately $307 for the average residential property ($1,024,000 assessed value) and $331 for a typical business ($737,000 assessed value). Since the assessed values for light industrial properties have a very broad range and there is not a typical or representative average for this class, the meaningful comparative is the average increase per $100,000 of assessed value which for this option would be $43.

OPTIONS & IMPACTS

All options impact tax rates and tax ratios in different ways, but the overall tax revenue collected by the City remains the same.

Option 1: Approve the tax rates as outlined in alternative 1 above (Recommended)

This option would shift tax burden from business properties and hold industrial class tax rates the same as business.

<u>Option 2: Do not amend the Revenue and Tax Policy as outlined in alternative 2 above</u>

This option would pass on equal tax increases to all classes except for utility which is capped at \$40 per \$1000 of assessed value due to legislation.

<u>Option 3: Provide alternate policy direction to staff</u>

Should Council wish to implement different policy changes, a motion detailing the desired changes would accomplish that.

CONCLUSION

As identified during the comprehensive tax policy review in 2015, there is no single indicator that can be used to demonstrate whether taxes should be shifted from one tax class to another. Therefore, a number of benchmark measures are provided to inform Council's decision making.

Respectfully submitted,

Layla Monk Manager of Revenue	Jo-Ann O'Connor Deputy Director of Finance	Susanne Thompson Deputy City Manager/CFO

Report accepted and recommended by the City Manager

List of Attachments

Appendix A: Revenue and Tax Policy
Appendix B: 2024 Assessment Roll Information