CITY OF VICTORIA

# Committee of the Whole Report
**For the Meeting of April 12, 2018**

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| **To:** | Committee of the Whole | **Date:** | April 5, 2018 |
| **From:** | Susanne Thompson, Director of Finance | | |
| **Subject:** | Revenue and Tax Policy Benchmark Monitoring and 2018 Tax Rates | | |

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## RECOMMENDATIONS

That Council:

1. Approve 2018 tax rates based on current policy as follows:

| | |
|---|---|
| Residential | 3.2448 |
| Utility | 33.5070 |
| Major Industrial | 11.7983 |
| Light Industrial | 11.7983 |
| Business | 11.7983 |
| Rec/Non Profit | 8.0460 |

2. Direct staff to bring forward Tax Bylaw, 2018 for first, second and third readings to a special Council meeting on April 19, 2018.

## EXECUTIVE SUMMARY

The purpose of this report is to provide updated benchmark measures related to the City's Revenue and Tax Policy (Appendix A) and seek direction on 2018 tax rates.

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.

In 2017, there were changes in the business tax ratio, permit value proportions and vacancy rates when compared to 2016. The business tax ratio increased (from 3.054 to 3.3992) as a result of assessment changes in 2017 where residential properties increased more in value than commercial properties, commercial permit values as a proportion of the total values in the CRD decreased (from 58.98% to 52.65%), downtown office and suburban office vacancy increased while retail vacancy decreased. In the body of this report is detailed discussion on 2017 benchmark figures. Staff request Council's direction regarding any changes to the policy based on these benchmarks.

The overall revenue increase for property taxes equals $3.3 million or 2.62%. Including utilities, the average increase is 2.71% for residential properties and 2.66% for business properties. Allocating the property tax increase per the current Revenue and Tax Policy equates to an increase of $61 for an average residential property assessed at $743,000 and $175 for a typical business property assessed at $585,000.

To accommodate the printing and mailing of property tax notices before the May long weekend to allow ample time for taxpayers to receive notices and pay before the tax due date, staff are proposing a special Council meeting after Committee of the Whole on April, 19 for first three readings of the financial plan and tax rate bylaws and subsequent adoption at the regularly scheduled meeting on April 26. Without the special meeting, the next scheduled open Council meeting where adoption of the bylaws could take place is on May 10, which would delay the mailing timeline.

## 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 2018 tax rates.

## BACKGROUND

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. In addition, under section 197, 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.

The annual tax bylaw must be approved before May 15th each year, but after the financial plan bylaw as required under section 197 of the Community Charter.

The policies on Distribution of Property Taxes Among Property Classes, as detailed in the City's Revenue and Tax Policy are:

**Policy 2.0**
Maintain the current share of distribution of property taxes among property classes, excluding the impact of new assessment revenue, by allocating tax increases equally. Business and industrial classes will be grouped as outlined in Policy 2.1.

**Policy 2.1**
Tax rates for the light and major industrial tax classes will be equal to 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.

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.

Until 2007, it was Council's practice to modify tax ratios to avoid shifts *between* property classes, due to uneven assessed value changes. This practice provided tax increases that were equal for all classes.

For 2007 and 2008 Council chose to hold the business class and industrial class ratios at the 2006 level. This resulted in a higher tax increase being passed on to the residential class compared to business and industrial.

In 2009 Council adopted the Revenue and Tax Policy. 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 appropriate and if so, that the mechanism of achieving the objective (reduction of tax ratio) was the most effective mechanism. 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. 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 from 49.35% to 48%, excluding new property tax revenue from new construction, over three years (2012-2014).

Since the final year of implementation for the policy was 2014, and in accordance with Council's direction, another comprehensive review of the policy was completed, including the analysis of the same indicators from the 2011 review. Based on the findings, it was recommended that no further shifting of taxes be done. On January 29, 2015, Council approved maintaining the current share of distribution of property taxes among property classes excluding the impact on new assessment, and directed staff to annually bring forward a monitoring report on benchmarks as outlined in the January 29, 2015 report.

For 2016 and 2017 Council reviewed the benchmarks and left the Revenue and Tax Policy unchanged.

## ISSUES & ANALYSIS

The following section outlines the 2017 benchmark measures, followed by tax rate options for 2018 for Council's consideration.

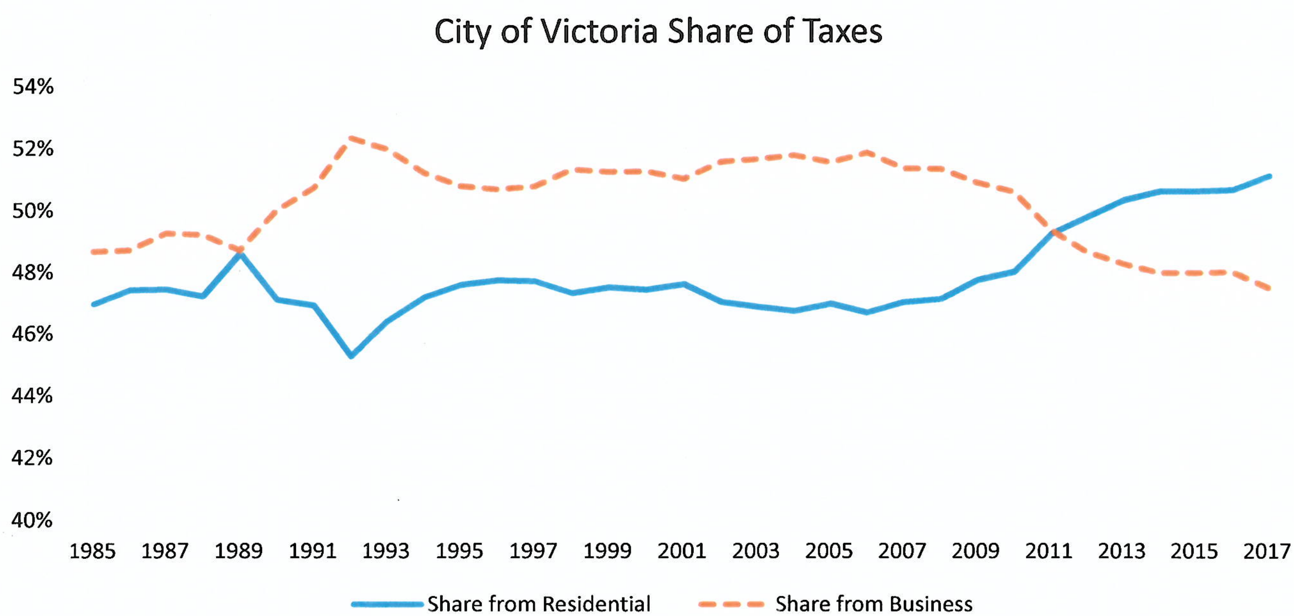
### Revenue and Tax Policy Benchmark Measures

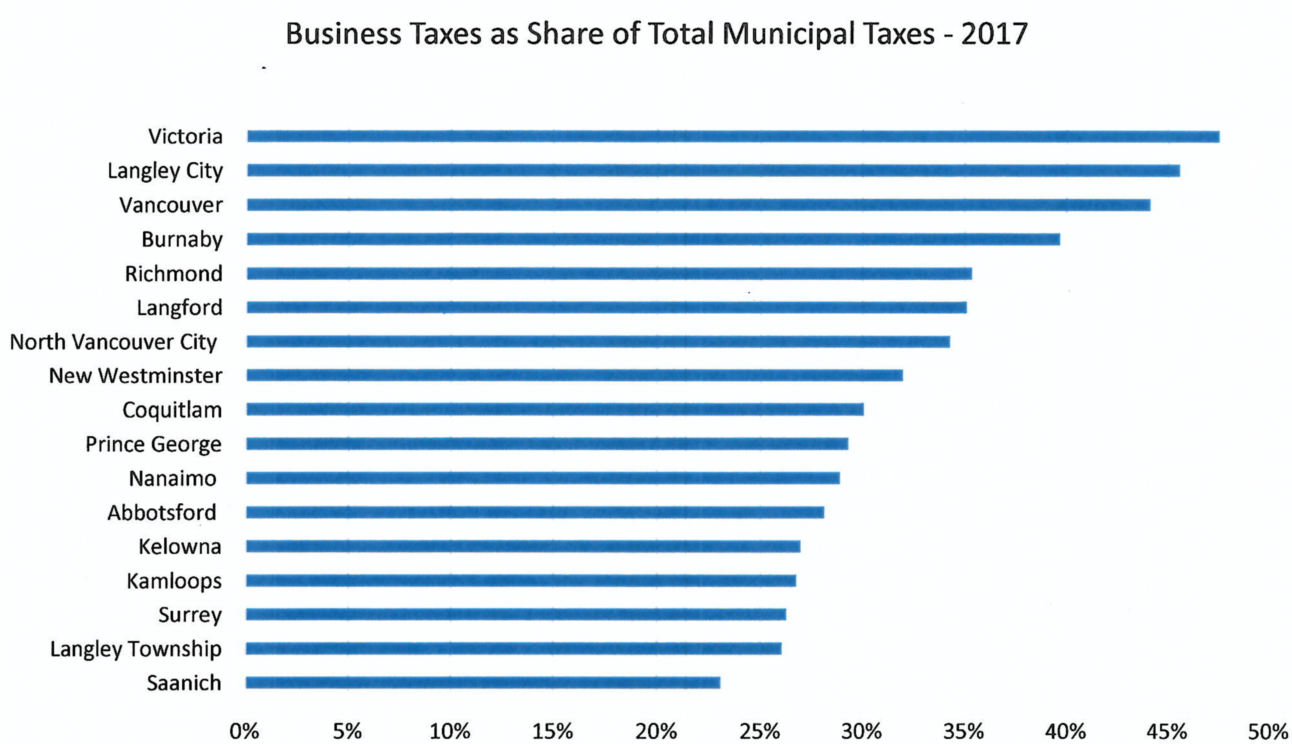
Below are the benchmark measures that Council directed staff to monitor annually. These benchmarks can inform Council's decision on the desired share of property tax distribution among property classes.

| Benchmark | 2016 Measure | 2017 Measure |
|---|---|---|
| Share of Taxes – excluding NMC: | | |
| Business | 48.00% | 47.75% |
| Non-residential (including business) | 49.36% | 49.08% |
| Residential | 50.64% | 50.92% |
| Business Tax Ratio | 3.0540 | 3.3992 |
| Ratio of business/residential building assessment | 47.4 | 44.3 |
| Business Property Tax Rates | 13.0546 | 12.4577 |
| Residential Taxes per capita | $721.22 | $749.02 |
| % value of commercial building permits in CRD | 60% | 53% |
| Ratio of commercial to residential building permits | 48% | 68% |
| Vacancy rates – downtown office buildings | 6.02% | 7.16% |
| Vacancy rates – suburban office buildings | 9.98% | 10.59% |
| Downtown retail vacancy rates | 5.45% | 3.77% |

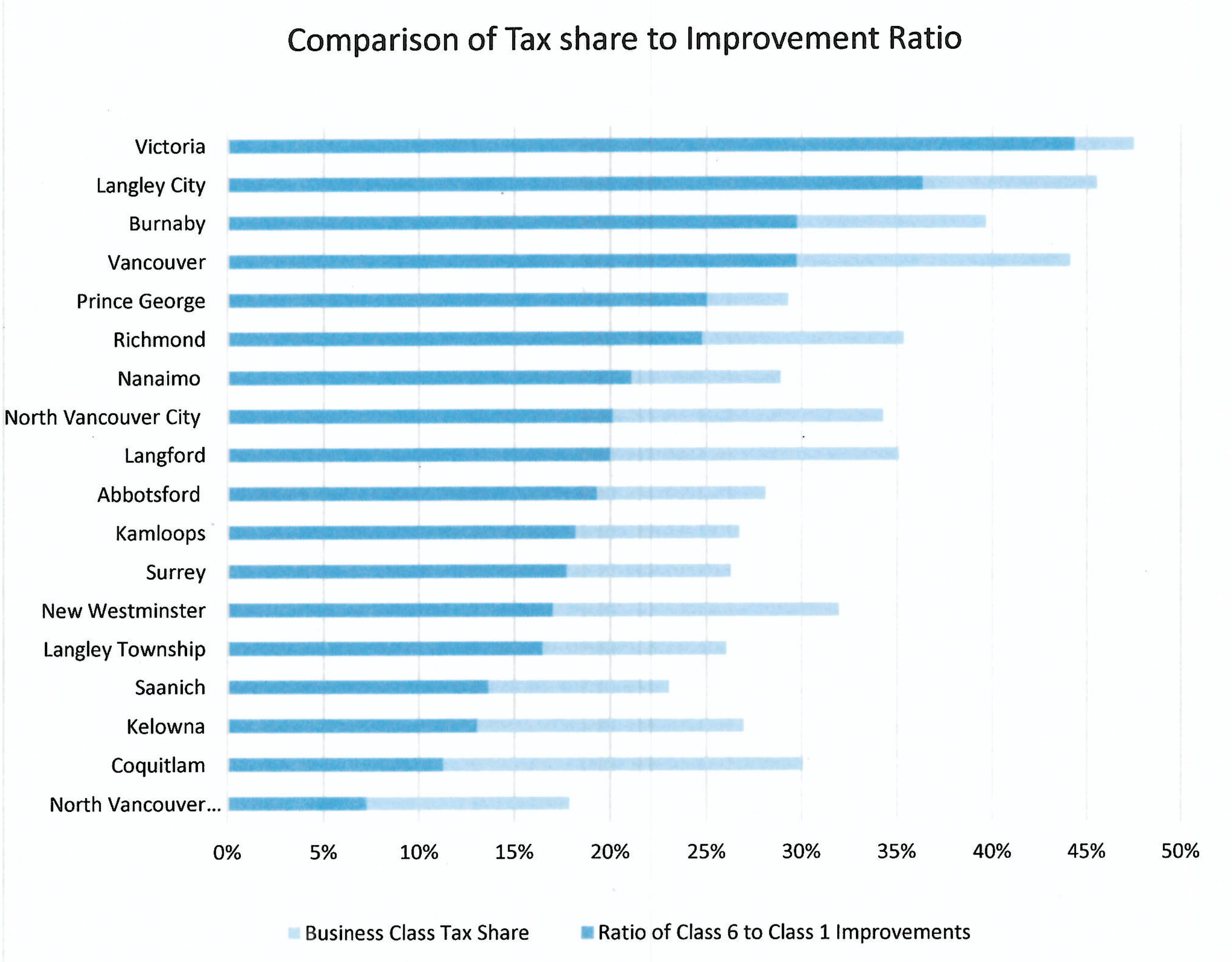
## Share of Taxes

In 2017, 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.



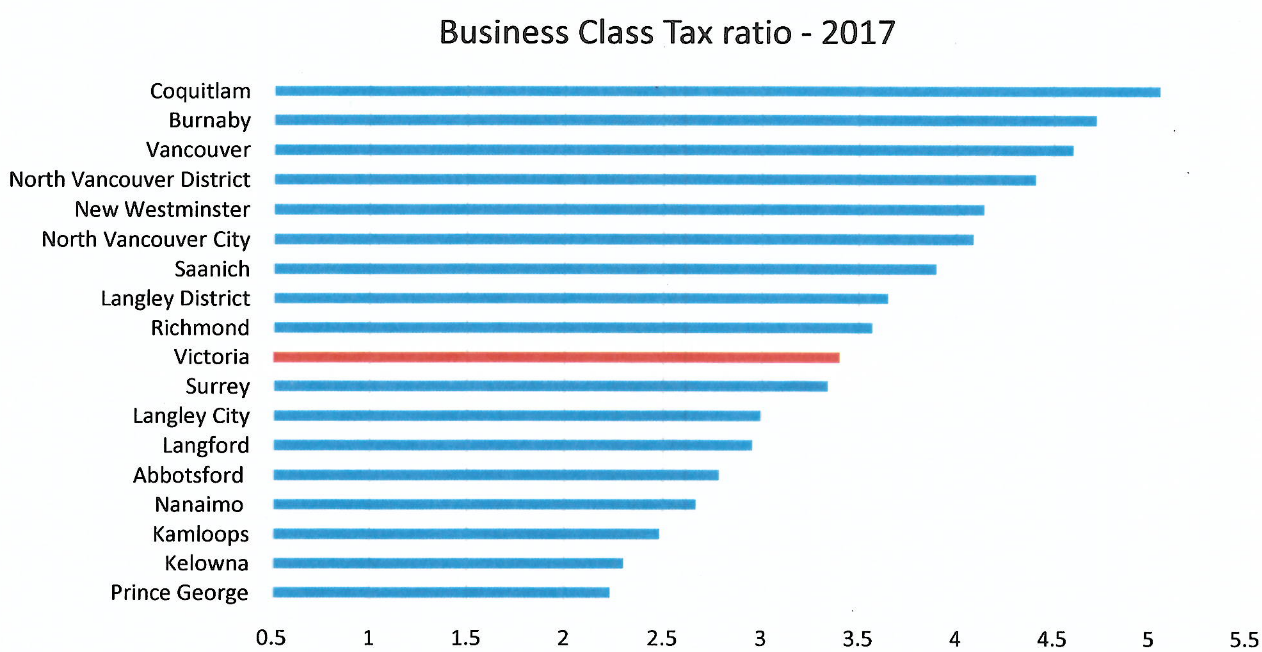

The share of taxes paid by the business class is not considered unreasonable given the City's high concentration of commercial properties and relatively small footprint. This concentration can be measured by comparing business class building values to residential class building values. The building values are an estimate of the value of the physical structures on the land and exclude the value of land itself.



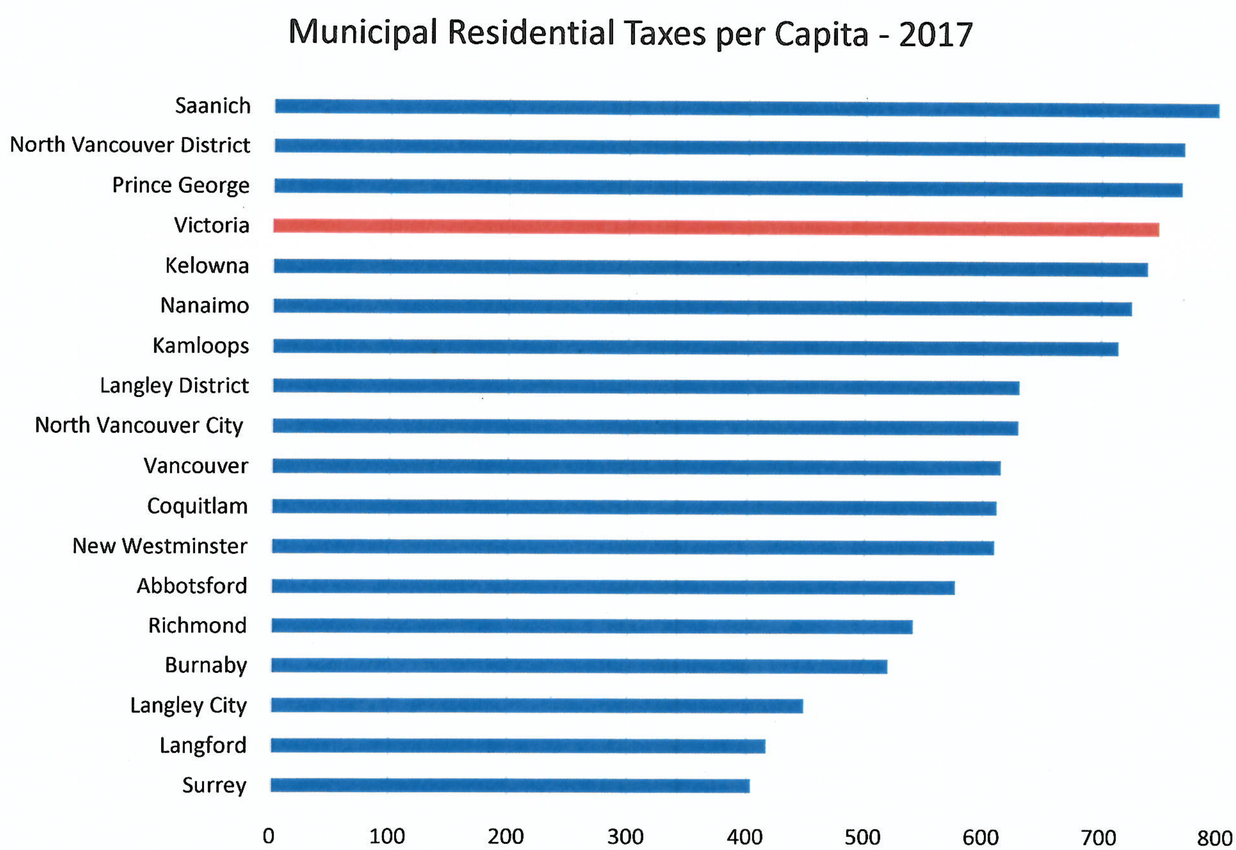
## Business Tax Ratio & Tax Rates

From 2016 to 2017, there were changes in the business tax ratio and business class tax rates. Overall assessed values for the business and residential classes increased significantly (7.94% for business and 20.14% for residential) and tax rates decreased; however, the ratio increased due to the much higher assessed value increase for residential properties. The business class tax ratio increased from 3.0540 to 3.3992, and there was a slight change in the tax share per class, excluding the impact of new assessment. This is a direct result of market forces and not tax policy.

City of Victoria business tax rates are higher than many comparable municipalities. 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 land values are higher.

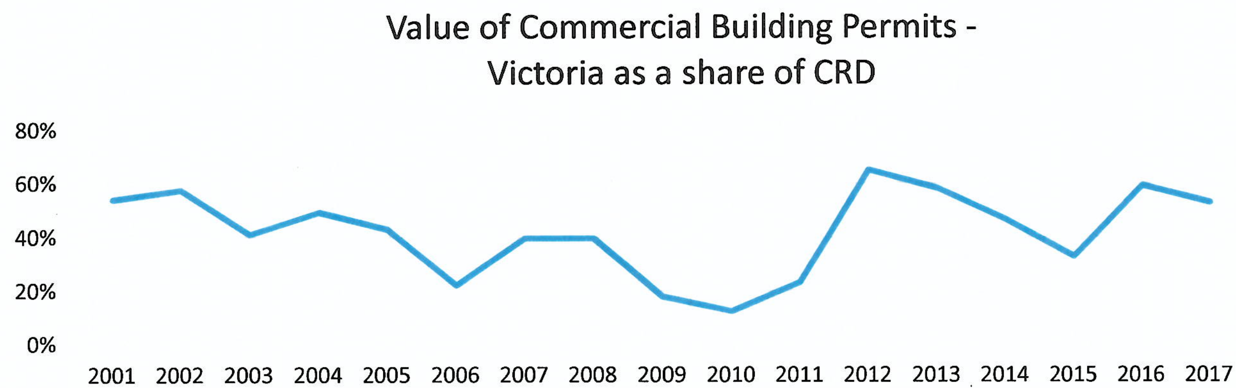



Despite how the tax burden is shared between property classes, the overall tax burden remains high when compared to neighbouring and comparable communities. One of the reasons for higher taxes is the fact that Victoria, as a core community, incurs greater costs in some service areas than neighbouring communities, notably for policing. Victoria ranks fourth highest residential taxes per capita in the group of comparable municipalities.



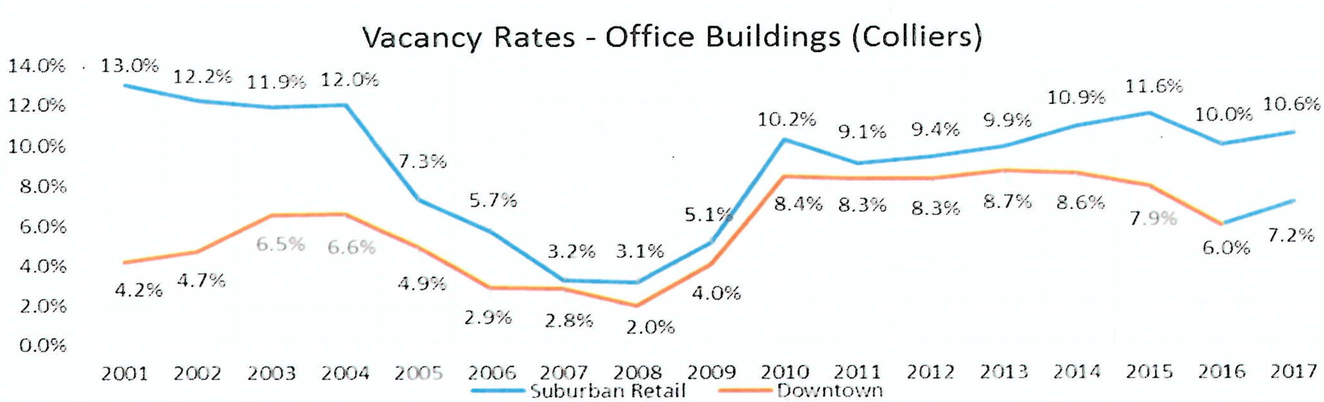
Building Permits
From 2016 to 2017, the City of Victoria's share in the region's commercial permits has decreased from 60% to 54%. The majority of CRD municipalities (7 out of 13) saw an increase in their commercial permits in 2017. Colwood and View Royal, however, saw significant increases. This decreased the City of Victoria's share of permits significantly. Had Colwood and View Royal permit values remained flat from 2016 to 2017, the City's share would have increased to 62%.

The ratio of commercial building permits to residential building permits rose from 56% to 68% from 2016 through 2017. This was due to two main factors: residential building permits shrunk by 6% from 2016 through 2017 and commercial building permits rose approximately 15%.

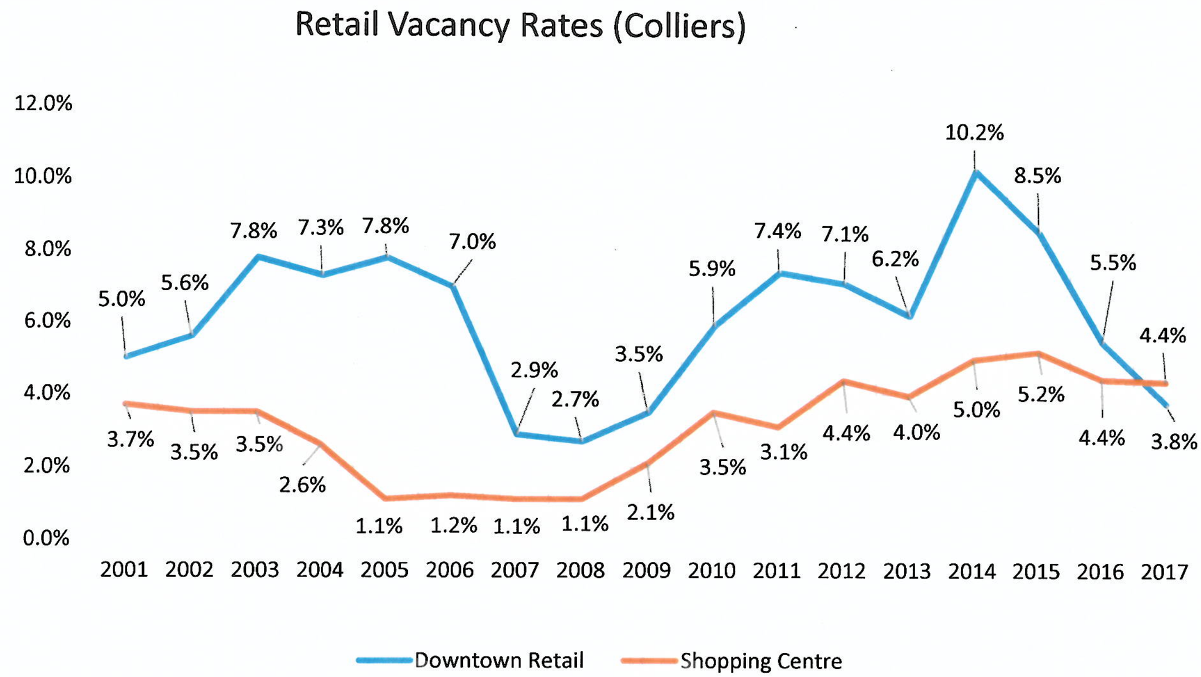



Vacancy Rates
Downtown office vacancy rates increased from 2016 (6.02%) through 2017 (7.16%) due to 120,000 square feet of new supply in Capital Park Phase 1. Overall downtown office vacancy rates mask significant differences in vacancy rates between highest quality (Class A) and lowest quality office buildings (Class C). For instance in 2017, the vacancy rate for Class A downtown office buildings was 1.17% (up from 1.07% in 2016) while the vacancy rate for Class C downtown office buildings was 11.95% (down from 13.06% in 2016).

Suburban office vacancy rates saw an increase from 2016 (9.98%) through 2017 (10.59%). Both Class A and Class C suburban office vacancy rates are high (approximately 19.87% and 13.90% respectively), due to an increase in supply – 16,500 square feet of new supply at 3645 Tillicum Road for Class A. Class C suburban office vacancy rates increased from approximately 12.77% in 2016. Currently Class A, B, and C properties occupy 19.87%, 6.39% and 13.9% of the Victoria market place respectively.



Downtown retail vacancy rates shrunk from 2016 (5.45%) through 2017 (3.77%). Shopping centre vacancy rates declined from 2016 (4.43%) through 2017 (4.37%), and are the lowest in four years.




Should Council wish to make a change to the existing Revenue and Tax Policy, a motion to direct staff to amend the policy outlining the desired changes would accomplish that.

## 2018 Tax Rate Options

For 2018, assessed values increased for residential properties by an average of 15.88% and for business by an average of 8.34%. Taxpayers will not necessarily experience a similar increase 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 dictate the property tax change for that specific property. If a residential property has a greater than 15.88% increase in assessed value, then that property will experience a higher than average tax increase 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. The much-greater assessed value increase in the residential class compared to business would require an increase to the business class ratio in order to avoid a shifting of taxes paid from the business class to the residential class.

There are a number of options 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 the various tax policies that Council has implemented in past years.

Option 1 – Equalize tax increase, hold industrial tax rate same as business (current tax policy) – recommended

Current tax policy equalizes any tax increase or decrease, with the exception of industrial classes which are held at the same tax rate as business. As outlined in the following table, for 2018, all but industrial classes would see an increase of 2.60% whereas industrial classes would see changes reflecting the assessment changes for those classes.

| | Tax Ratio | Tax Share Exluding NMC | Tax Rate | Tax Change | 2017 Tax Rates |
|---|---|---|---|---|---|
| Residential | 1.0000 | 51.07% | 3.2448 | 2.60% | 3.6649 |
| Utility | 10.3265 | 0.45% | 33.5070 | 2.60% | 34.8127 |
| Major Industrial | 3.6361 | 0.11% | 11.7983 | -2.92% | 12.4577 |
| Light Industrial | 3.6361 | 0.69% | 11.7983 | 5.62% | 12.4577 |
| Business | 3.6361 | 47.48% | 11.7983 | 2.60% | 12.4577 |
| Rec/Non Profit | 2.4797 | 0.20% | 8.0460 | 2.60% | 7.3998 |

The increase would be approximately $61 for the average residential property ($743,000 assessed value) and $175 for a typical business ($585,000 assessed value).

Option 2 – Equalize tax increase across all tax classes (tax policy prior to 2007)

This option would result in an overall property tax increase of 2.62%. However, industrial classes would have different tax rates than business.

| | Tax Ratio | Tax Share Exluding NMC | Tax Rate | Tax Change | 2017 Tax Rates |
|---|---|---|---|---|---|
| Residential | 1.0000 | 51.09% | 3.2453 | 2.62% | 3.6649 |
| Utility | 10.3275 | 0.45% | 33.5157 | 2.62% | 34.8127 |
| Major Industrial | 3.8430 | 0.11% | 12.4716 | 2.62% | 12.4577 |
| Light Industrial | 3.5325 | 0.67% | 11.4640 | 2.62% | 12.4577 |
| Business | 3.6359 | 47.48% | 11.7995 | 2.62% | 12.4577 |
| Rec/Non Profit | 2.4797 | 0.20% | 8.0473 | 2.62% | 7.3998 |

The increase would be approximately $61 for the average residential property ($743,000 assessed value) and $176 for a typical business ($585,000 assessed value).

Option 3 – maintain the business tax share at 48%, excluding new assessment revenue (tax policy from 2012-2014 was to reduce share to 48%)

This option would result in a larger tax increase for business compared to residential as outlined in the following table:

| | Tax Ratio | Tax Share Exluding NMC | Tax Rate | Tax Change | 2017 Tax Rates |
|---|---|---|---|---|---|
| Residential | 1.0000 | 50.55% | 3.2111 | 1.54% | 3.6649 |
| Utility | 10.3268 | 0.44% | 33.1606 | 1.54% | 34.8127 |
| Major Industrial | 3.7150 | 0.11% | 11.9293 | -1.84% | 12.4577 |
| Light Industrial | 3.7150 | 0.70% | 11.9293 | 6.79% | 12.4577 |
| Business | 3.7150 | 48.00% | 11.9293 | 3.74% | 12.4577 |
| Rec/Non Profit | 2.4797 | 0.20% | 7.9626 | 1.54% | 7.3998 |

The increase would be approximately $36 for the average residential property ($743,000 assessed value) and $252 for a typical business ($585,000 assessed value).

Option 4 – hold ratios same as in 2017 (tax policy 2007-2011)

This option would result in a larger increase for residential compared to business as a result of the much larger assessment increase for residential properties as outlined in the following table:

| | Tax Ratio | Tax Share Exluding NMC | Tax Rate | Tax Change | 2017 Tax Rates |
|---|---|---|---|---|---|
| Residential | 1.0000 | 52.77% | 3.3527 | 6.01% | 3.6649 |
| Utility | 9.4990 | 0.43% | 31.8469 | -2.49% | 34.8127 |
| Major Industrial | 3.3992 | 0.10% | 11.3964 | -6.23% | 12.4577 |
| Light Industrial | 3.3992 | 0.67% | 11.3964 | 2.02% | 12.4577 |
| Business | 3.3992 | 45.86% | 11.3964 | -0.89% | 12.4577 |
| Rec/Non Profit | 2.0191 | 0.17% | 6.7694 | -13.68% | 7.3998 |

The increase would be approximately $141 for the average residential property ($743,000 assessed value) and a decrease of $60 for a typical business ($585,000 assessed value).

## OPTIONS & IMPACTS

Option 1: Do not amend the revenue and tax policy and approve tax rates as outlined in option 1 above

This option will pass on equal tax increases to all classes, except major and light industry whose tax rates will remain the same as business.

Impacts: Tax increases will be shared equally among tax classes, excluding major and light industry whose property tax changes will depend on changes to assessed values; no further relief will be provided to the business class.

Option 2: Amend the revenue and tax policy to shift taxes away from or toward the business class as determined by Council

This option will increase or reduce the burden on the business class with the equal and opposite burden to the residential class. This will influence the City's tax ratio and share of taxes, but overall taxes collected by the City will remain the same.

## 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,

Jennifer Lockhart
Manager of Revenue

Susanne Thompson
Director of Finance

**Report accepted and recommended by the City Manager:** Jocelyn Jenkyns

**Date:** April 6, 2018

**List of Attachments**
Appendix A: Revenue and Tax Policy