CITY OF VICTORIA

Committee of the Whole Report

For the Meeting of April 11, 2019

To:	Committee of the Whole	**Date:**	April 3, 2019
From:	Jo-Ann O'Connor, Deputy Director of Finance		
Subject:	Revenue and Tax Policy Benchmark Monitoring and 2019 Tax Rates		

RECOMMENDATIONS

That Council:

1. Approve 2019 tax rates based on current policy as follows:

Residential	3.1564
Utility	31.6048
Major Industrial	10.9821
Light Industrial	10.9821
Business	10.9821
Rec/Non Profit	7.1031

2. Direct staff to bring forward Tax Bylaw, 2019 for first, second and third readings to the April 25, 2019 Council meeting and for adoption at the daytime Council meeting on May 2, 2019

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 2019 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 2018, there were changes in the business tax ratio, building permit value proportions and vacancy rates when compared to 2017. The business tax ratio increased (from 3.3992 to 3.5349) as a result of assessment changes in 2018 where residential properties increased more in value than commercial properties. Council mitigated the ratio increase slightly by shifting taxes away from the business tax class. Commercial building permit values as a proportion of the total values in the CRD decreased (from 52.65% to 42.34%), and downtown office and suburban office vacancy decreased while retail vacancy increased. In the body of this report is detailed discussion on 2018 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 $5.2 million or 3.98%. Including utilities, the average increase is 3.52% for residential properties and 3.77% for business properties. Allocating the property tax increase per the current Revenue and Tax Policy equates to an increase of $97 for an average residential property assessed at $805,000 and $272 for a typical business property assessed at $644,000.

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 adoption of the tax rate bylaws at the daytime Council meeting on May 2. The next scheduled evening Council meeting where adoption of the bylaws could take place if not done during the daytime meeting on May 2 is on May 9, 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 2019 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.

In BC, property assessments are undertaken by BC Assessment and form the basis on which taxation at the local level is established through the variable tax rate system in the Community Charter. There are nine different property classes under this system. Within the City, there are seven property classes, each of which has a specific tax rate established by Council. City Policy noted below establishes some framework for the way in which City taxes are apportioned between the various property classes.

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 2017 and 2018 Council reviewed the benchmarks and left the Revenue and Tax Policy unchanged. However, for 2018, Council shifted taxes away from the business class and allocated a larger tax increase to residential (4% for residential compared to 1.11% for business).

ISSUES & ANALYSIS

The following section outlines the 2018 benchmark measures, followed by tax rate options for 2019 for Council's consideration.

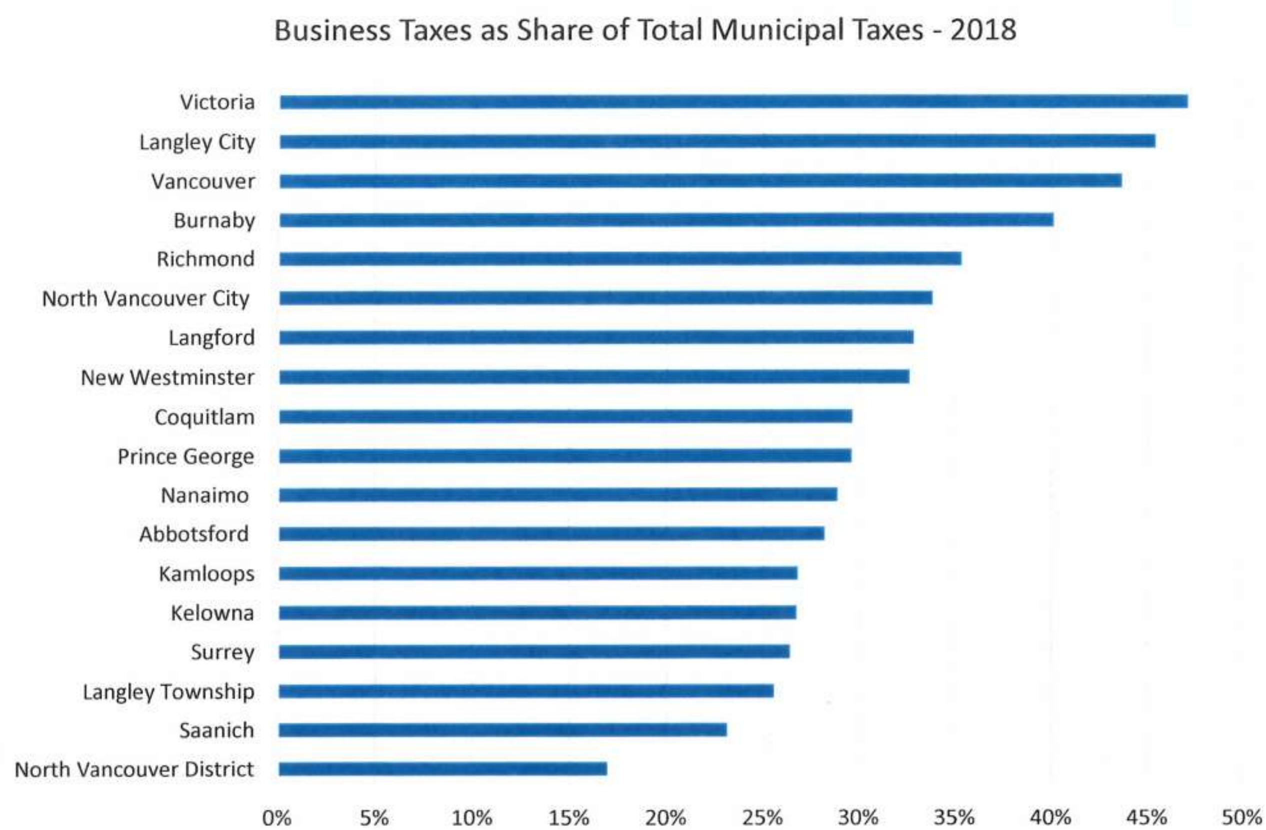
Revenue and Tax Policy Benchmark Measures

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.

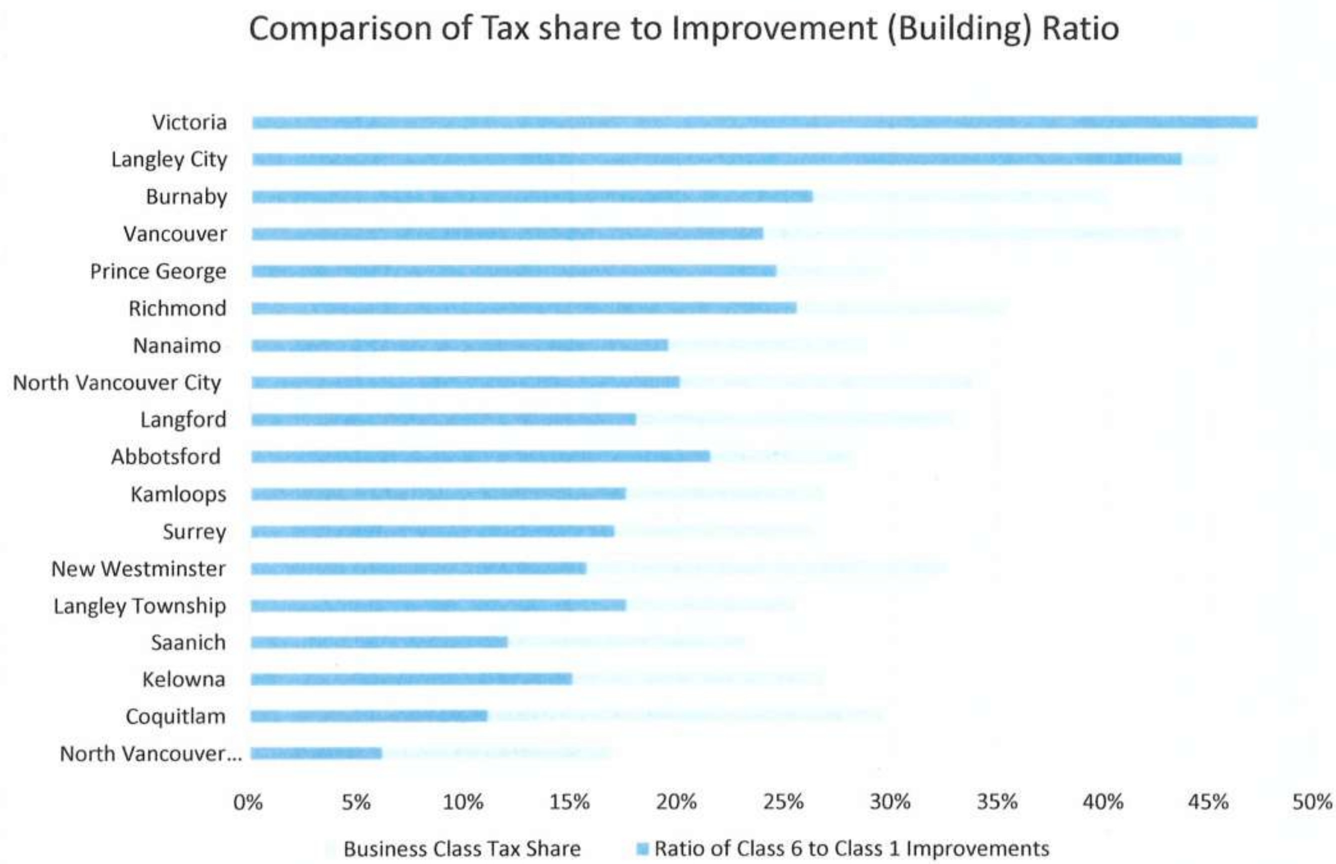
Benchmark	2017 Measure	2018 Measure
Share of Taxes – excluding NMC:		
Business	47.75%	46.78%
Non-residential (including business)	49.08%	48.23%
Residential	50.92%	51.77%
Business Tax Ratio	3.3992	3.5349
Ratio of business/residential building assessment	44.3	47.2
Business Property Tax Rates	12.4577	11.6261
Residential Taxes per capita	$749.02	$781.91
% value of commercial building permits in CRD	53%	42%
Ratio of commercial to residential building permits	68%	28%
Vacancy rates – downtown office buildings	7.16%	6.40%
Vacancy rates – suburban office buildings	10.59%	6.70%
Downtown retail vacancy rates	3.77%	4.10%

Share of Taxes

In 2018, 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.



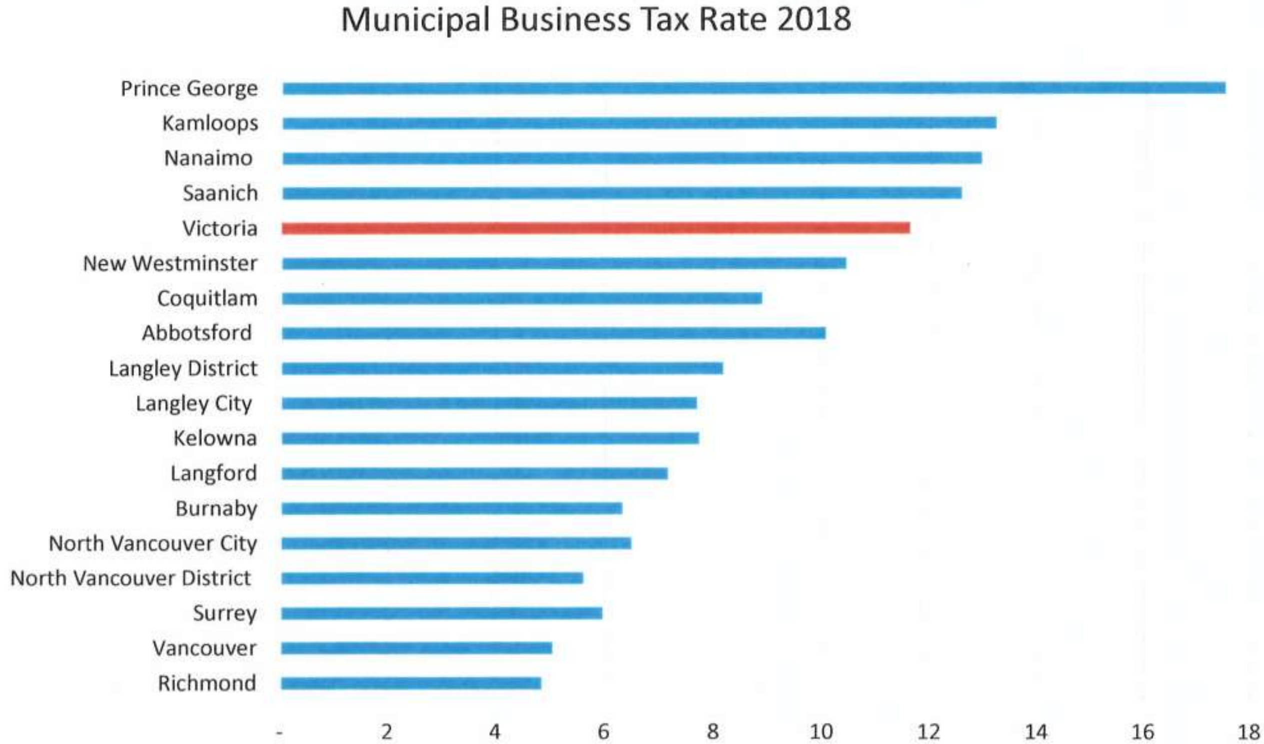
The review done in 2015 concluded that based on the following indicator, the share of taxes paid by the business class is not considered unreasonable given the City's high concentration of commercial properties and relatively small footprint. This concentration can be measured by comparing business class 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. As the chart below depicts, the City's ratio is even, whereas the comparable municipalities collect a larger share of taxes from the business class compared to the building values.

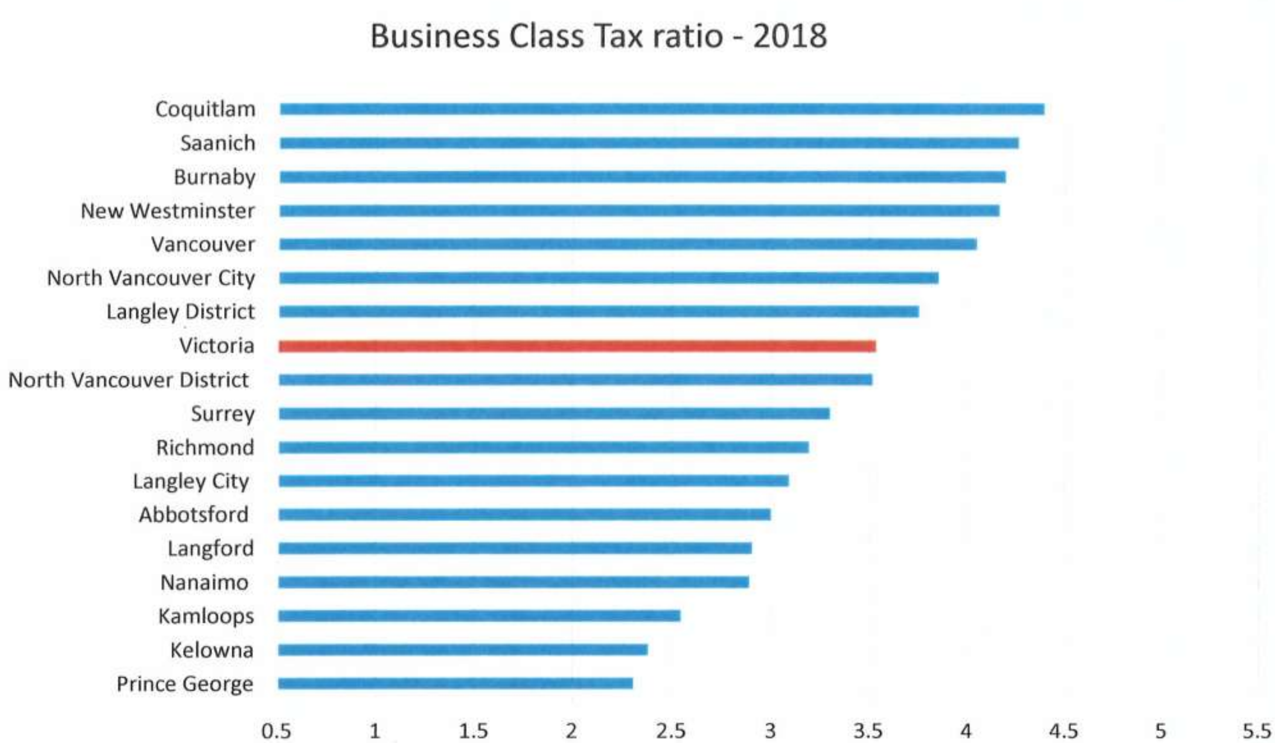


<u>Business Tax Ratio & Tax Rates</u>

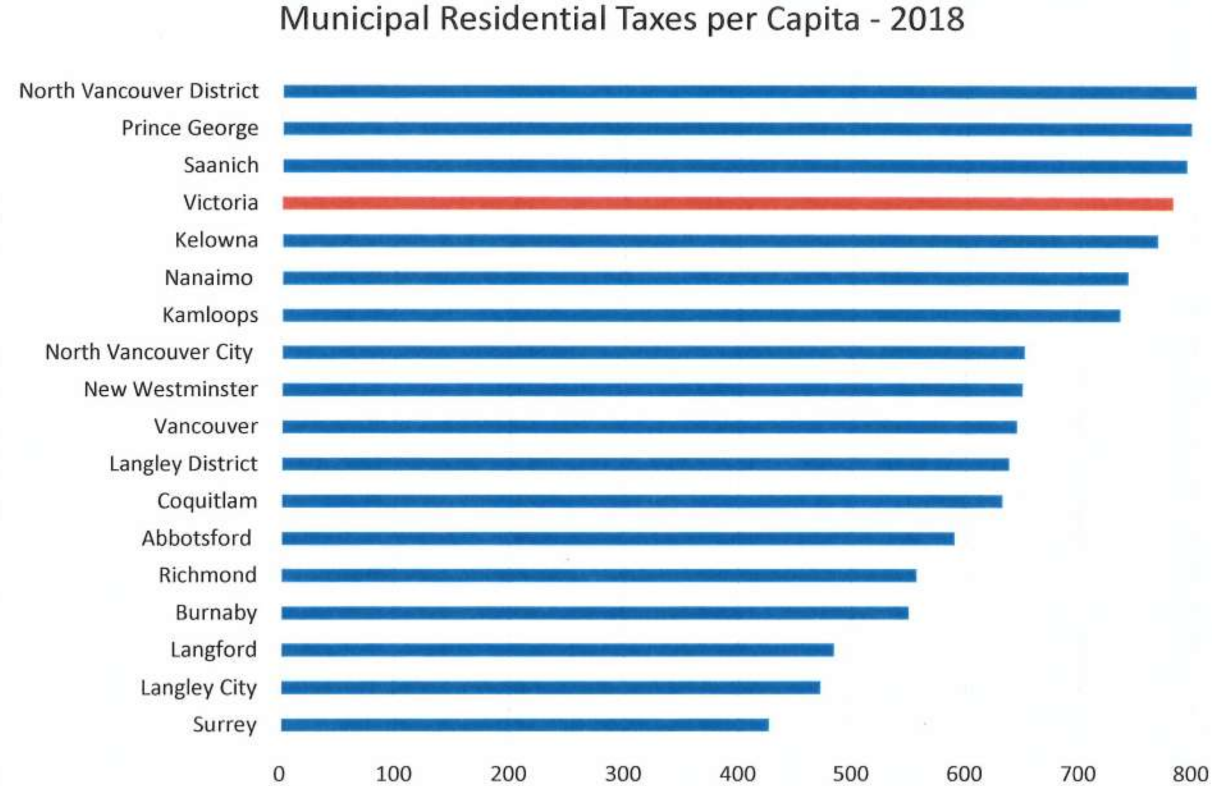
From 2017 to 2018, there were changes in the business tax ratio and business class tax rates. Overall assessed values for the business and residential classes increased significantly (8.34% for business and 15.88% for residential) and tax rates decreased; however, the ratio increased due to the much higher assessed value increase for residential properties. The business class tax ratio increased from 3.3992 to 3.5349, and there was a slight change in the tax share per class, excluding the impact of new assessment. The ratio increase was a direct result of market forces and not tax policy. However, Council did mitigate the ratio increase slightly through a policy choice of allocating more of the tax increase to residential properties (4% tax increase for residential compared to 1.11% for business). This resulted in the ratio of 3.5349 as opposed to a ratio of 3.6361 had the tax increase been allocated evenly between residential and business tax classes.

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.





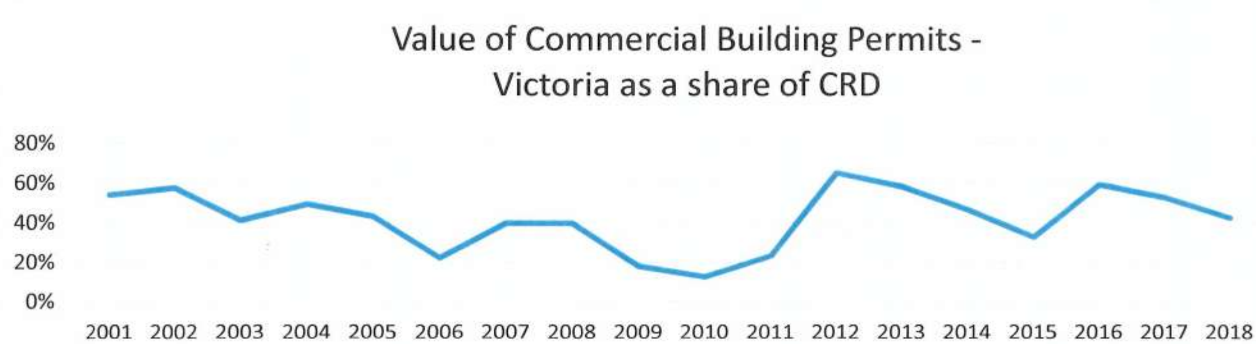
Despite how the tax burden is shared between property classes, the overall tax burden remains high when compared to neighbouring and comparable communities. One of the reasons for higher taxes is the fact that Victoria, as a core community, incurs greater costs in some service areas than neighbouring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



<u>Building Permits</u>

From 2017 to 2018, the City of Victoria's share in the region's commercial permits has decreased from 54% to 43%. The majority of CRD municipalities (7 out of 13) saw an increase in their commercial permits in 2018. Sooke, Central Saanich and Colwood, however, saw significant increases. This decreased the City of Victoria's share of permits significantly. Had these municipalities permit values remained flat from 2017 to 2018, the City's share would have increased to 55%.

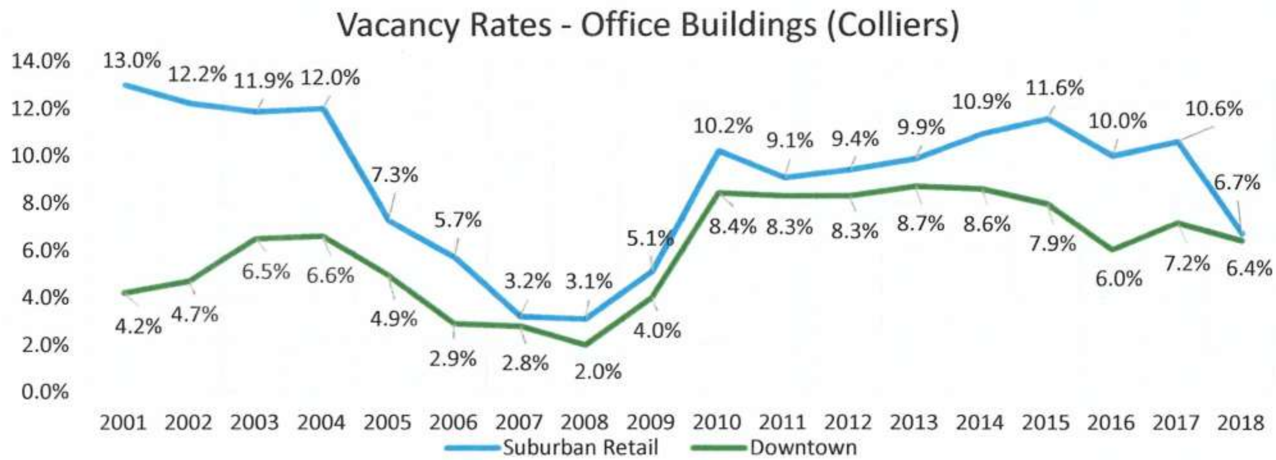
The ratio of commercial building permits to residential building permits dropped from 68% to 28% from 2017 through 2018. This was due to two main factors: commercial building permits shrunk by 26% from 2017 through 2018 and residential building permits rose approximately 81%.



Vacancy Rates

Downtown office vacancy rates decreased from 2017 (7.16%) through 2018 (6.40%). The total downtown inventory increased by 280,000 square feet in the past year but vacancy rates remain compressed, a testament to the high demand and positive market conditions Victoria is experiencing. 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 2018, the vacancy rate for Class A downtown office buildings was 3.7% (up from 1.17% in 2017) while the vacancy rate for Class C downtown office buildings was 11.5% (down from 11.95% in 2017).

Suburban office vacancy rates saw a reduction from 2017 (10.59%) through 2018 (6.7%). Both Class A and Class C suburban office vacancy rates decreased (approximately 8.7% and 13.90% respectively). All classes of suburban office showed positive absorption, with strong leasing activity at Uptown being a large contributing factor. Class C suburban office vacancy rates remain consistent through 2017. Currently Class A, B, and C properties occupy 22.2%, 67.2% and 10.6% of the Victoria market place respectively.



Downtown retail vacancy rates increased from 2017 (3.77%) through 2018 (4.1%). Shopping centre vacancy rates increased from 2017 (4.37%) through 2018 (7.0%).

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

2019 Tax Rate Options

For 2019, assessed values increased for residential properties by an average of 8.33% and for business by an average of 10.06%. 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 8.33% 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. Since the total assessed value increase for the residential class is lower than the increase for business, the business class ratio will be mathematically reduced if the current policy of allocating an equal tax increase is implemented.

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 2019, all but industrial classes would see an increase of 3.97% whereas industrial classes would see changes reflecting the assessment changes for those classes.

	Tax Ratio	Tax Share Exluding NMC	Tax Rate	Tax Change	2018 Tax Rates
Residential	1.0000	51.51%	3.1564	3.97%	3.2889
Utility	10.0130	0.45%	31.6048	3.97%	33.9650
Major Industrial	3.4794	0.11%	10.9821	15.14%	11.6261
Light Industrial	3.4794	0.67%	10.9821	4.09%	11.6261
Business	3.4794	47.06%	10.9821	3.97%	11.6261
Rec/Non Profit	2.2504	0.20%	7.1031	3.97%	8.1556

The increase would be approximately $97 for the average residential property ($805,000 assessed value) and $272 for a typical business ($644,000 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 3.98%. However, industrial classes would have different tax rates than business.

	Tax Ratio	Tax Share Exluding NMC	Tax Rate	Tax Change	2018 Tax Rates
Residential	1.0000	51.51%	3.1567	3.98%	3.2889
Utility	10.0129	0.45%	31.6082	3.98%	33.9650
Major Industrial	3.1417	0.10%	9.9175	3.98%	11.6261
Light Industrial	3.4755	0.67%	10.9713	3.98%	11.6261
Business	3.4794	47.07%	10.9834	3.98%	11.6261
Rec/Non Profit	2.2504	0.20%	7.1039	3.98%	8.1556

The increase would be approximately $97 for the average residential property ($805,000 assessed value) and $272 for a typical business ($644,000 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, and does not reflect the changes to new assessments coming on-stream since the shift in 2014. The resulting tax rates are outlined in the following table:

	Tax Ratio	Tax Share Exluding NMC	Tax Rate	Tax Change	2018 Tax Rates
Residential	1.0000	50.56%	3.0986	2.06%	3.2889
Utility	10.0130	0.44%	31.0260	2.07%	33.9650
Major Industrial	3.6150	0.12%	11.2013	17.44%	11.6261
Light Industrial	3.6150	0.69%	11.2013	6.16%	11.6261
Business	3.6150	48.00%	11.2013	6.04%	11.6261
Rec/Non Profit	2.2504	0.19%	6.9730	2.07%	8.1556

The increase would be approximately $50 for the average residential property ($805,000 assessed value) and $413 for a typical business ($644,000 assessed value).

Option 4 – hold ratios same as in 2018 (tax policy 2007-2011)

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

	Tax Ratio	Tax Share Exluding NMC	Tax Rate	Tax Change	2018 Tax Rates
Residential	1.0000	51.09%	3.1314	3.14%	3.2889
Utility	10.3270	0.46%	32.3377	6.38%	33.9650
Major Industrial	3.5349	0.11%	11.0691	16.05%	11.6261
Light Industrial	3.5349	0.68%	11.0691	4.91%	11.6261
Business	3.5349	47.44%	11.0691	4.79%	11.6261
Rec/Non Profit	2.4797	0.22%	7.7649	13.66%	8.1556

The increase would be approximately $77 for the average residential property ($805,000 assessed value) and $328 for a typical business ($644,000 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.

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

Report accepted and recommended by the City Manager: Jocelyn Jenkins

Date: April 5, 2019

List of Attachments
Appendix A: Revenue and Tax Policy