CITY OF VICTORIA

Committee of the Whole Report

For the Meeting of April 8, 2021

To:	Committee of the Whole	**Date:**	March 29, 2021
From:	Jo-Ann O'Connor, Deputy Director of Finance		
Subject:	Revenue and Tax Policy Benchmark Monitoring and 2021 Tax Rates		

RECOMMENDATIONS

That Council:

1. Approve 2021 tax rates in alignment with the Revenue and Tax Policy as follows:

Residential	3.0982
Utility	36.0440
Major Industrial	11.1231
Light Industrial	11.1231
Business	11.1231
Rec/Non Profit	6.1384

2. Direct staff to bring forward Tax Bylaw, 2021 for introductory readings to the daytime Council meeting on April 15, 2021.

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.

Due to the ongoing COVID-19 pandemic, the benchmarks that are outlined in this report are likely not helpful indicators for this year's tax rate setting. However, they are included in the report for consistency.

The overall revenue increase for property taxes equals $2.6 million or 1.82%. Assessed values increased for residential properties by an average of 2.26% and decreased for business by an average of -5.29%. Council's decision on how to allocate taxes among the property classes determines the property tax change for a property with an <u>average</u> change in assessed value in each class.

Allocating the property tax increase per the current Revenue and Tax Policy equates to an increase of $43 for an average residential property assessed at $834,000 and $122 for a typical business property assessed at $647,000.

The recommended tax rates option reflects the Council-approved Revenue and Tax Policy.

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 2021 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.

Since that time, Council has reviewed the benchmarks annually and no changes have been made to the Revenue and Tax Policy. However, in 2016 Council held the business tax share to 48% and in 2018 Council shifted taxes from business to residential.

ISSUES & ANALYSIS

The following section outlines the 2020 benchmark measures, followed by tax rate options for 2021 for Council's consideration.

Revenue and Tax Policy Benchmark Measures

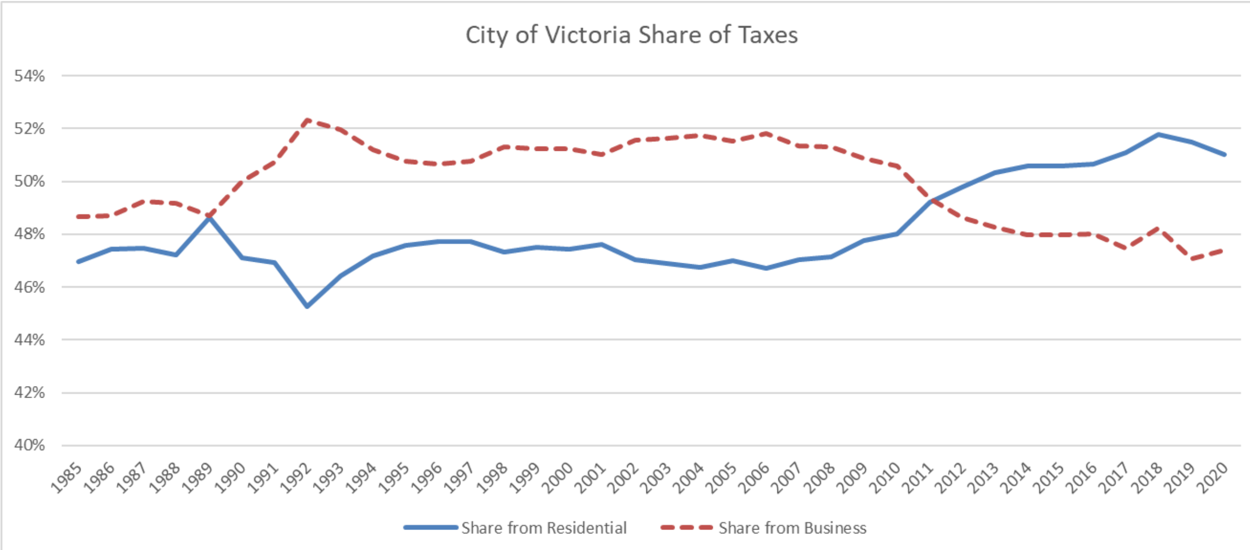
Below are the benchmark measures that Council directed staff to monitor annually. These benchmarks can inform Council's decision on the desired share of property tax distribution among property classes.

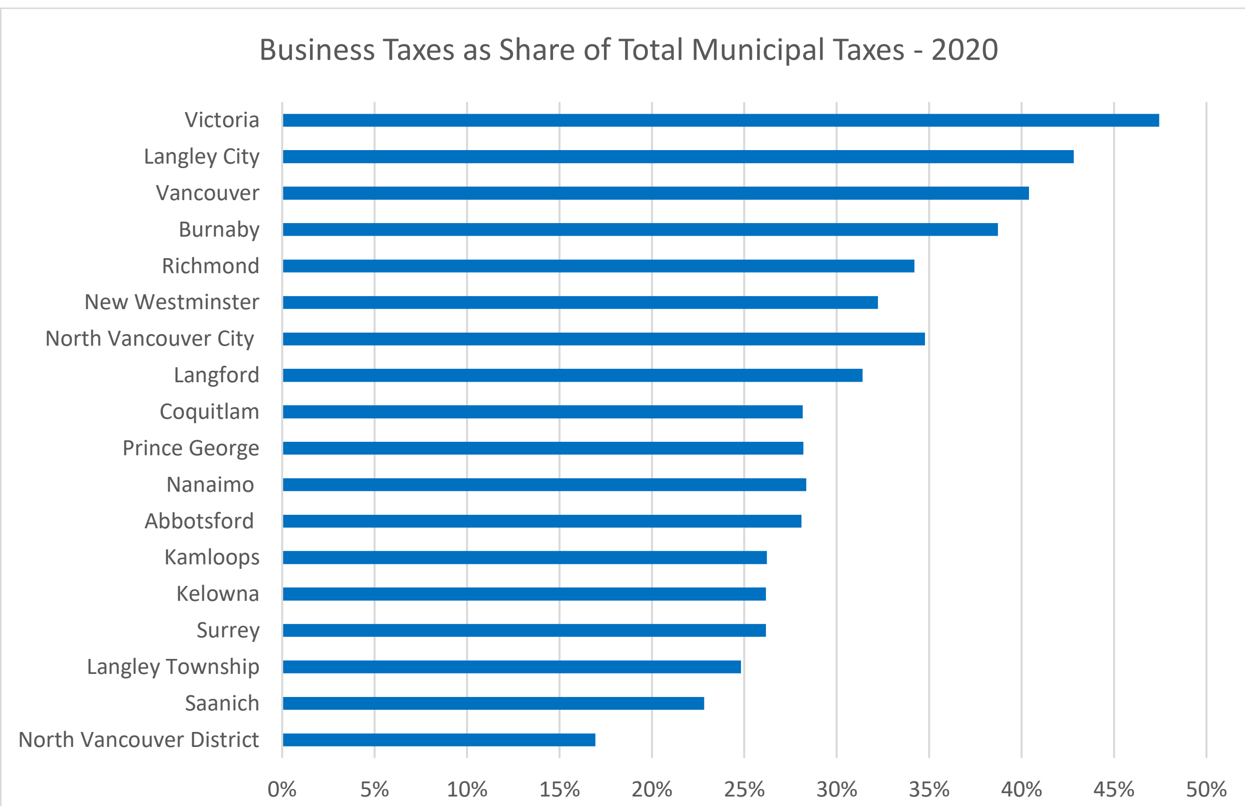
Benchmark	2019 Measure	2020 Measure
Share of Taxes – excluding NMC:		
Business	47.06%	47.39%
Non-residential (including business)	48.49%	48.96%
Residential	51.50%	51.03%
Business Tax Ratio	3.4794	3.3250
Ratio of business/residential building assessment	48.0	46.8
Business Property Tax Rates	10.9821	10.3581
Residential Taxes per capita	$774.88	$769.66
% 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	4.70%	7.10%
Vacancy rates – suburban office buildings	5.60%	5.00%
Downtown retail vacancy rates	3.10%	6.00%

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

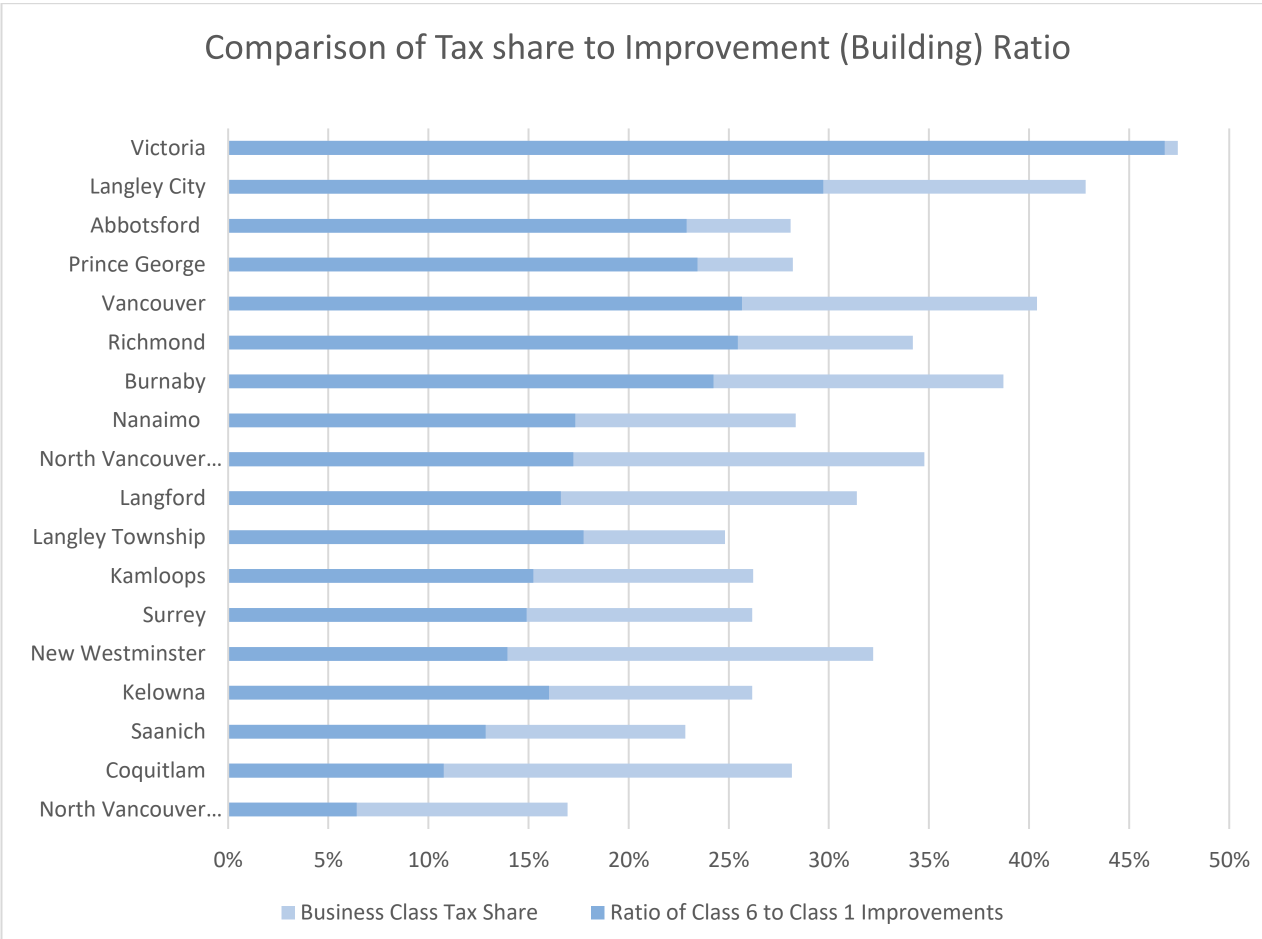
Share of Taxes

In 2020, 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.





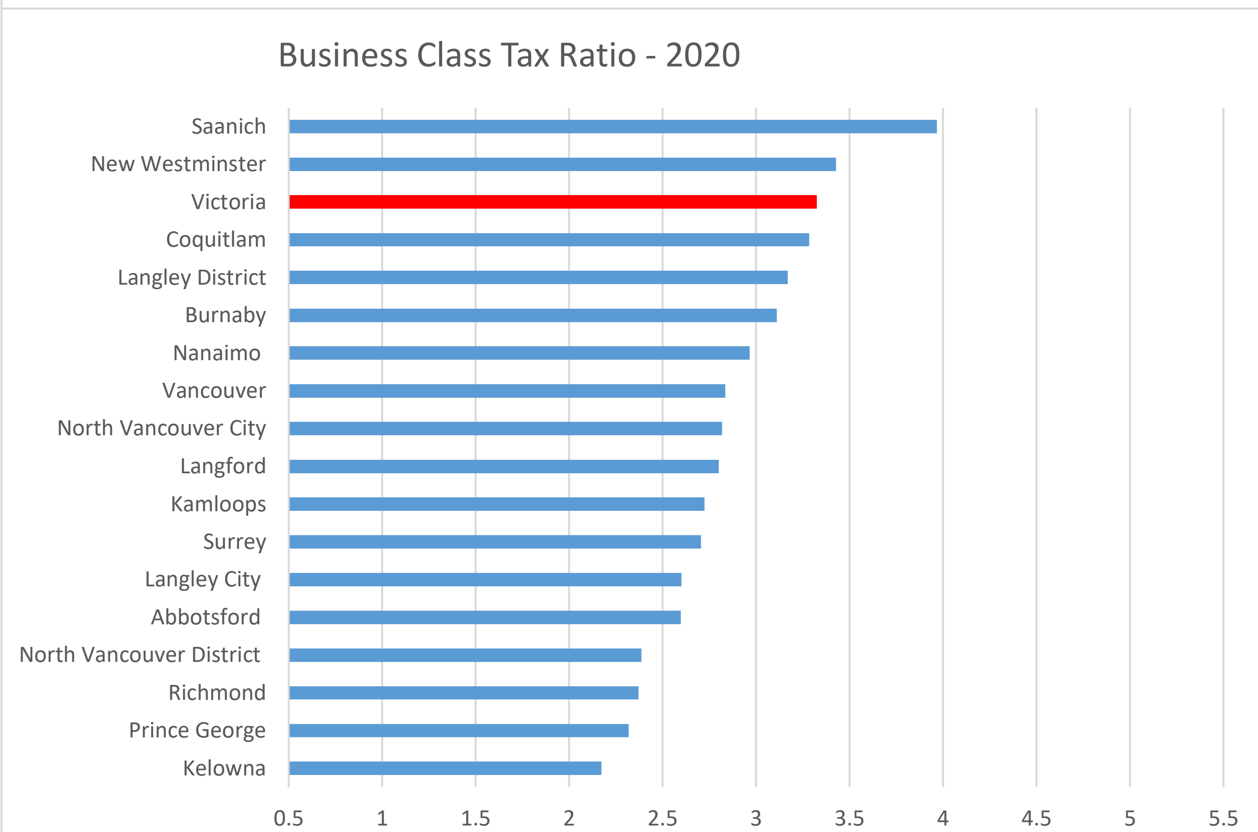
The review done in 2015 concluded that based on the following indicator, the share of taxes paid by the business class is not considered unreasonable given the City's high concentration of commercial properties and relatively small footprint. This concentration can be measured by comparing business class 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.



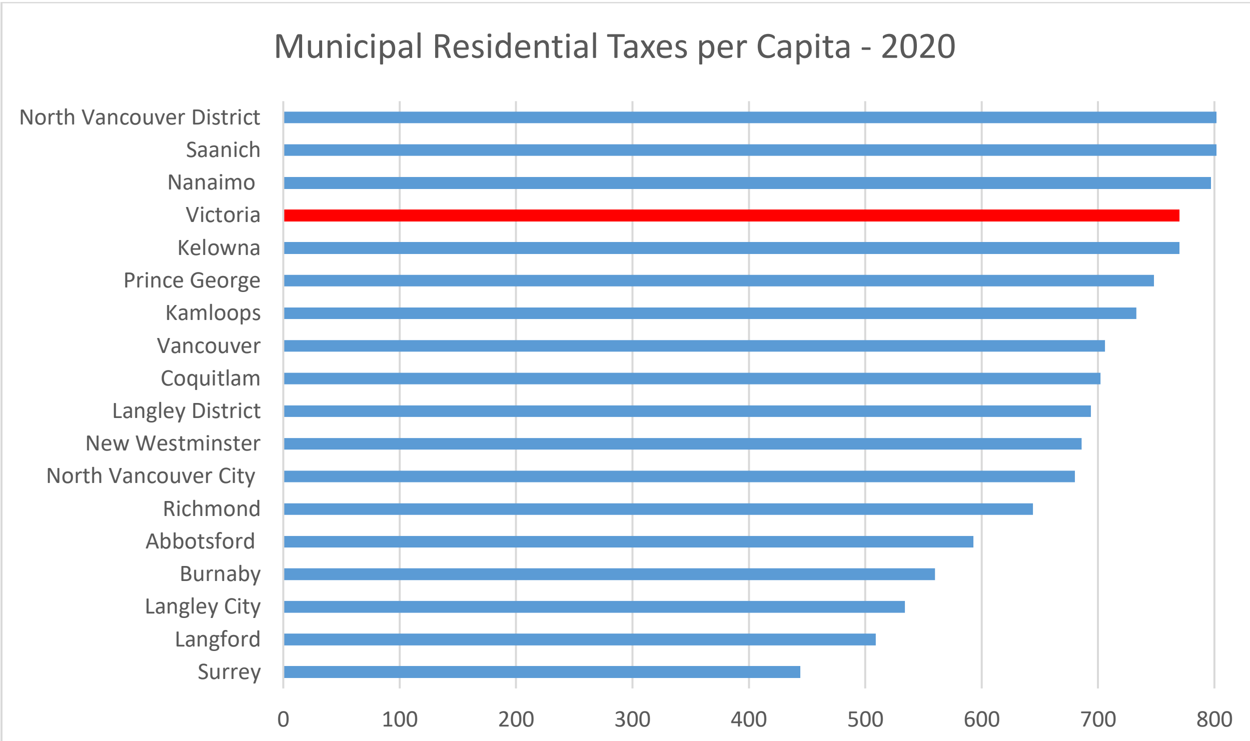
Business Tax Ratio & Tax Rates

From 2019 to 2020, there were changes in the business tax ratio and business class tax rates. Overall assessed values for the business and residential classes increased 5.98% for business and 1.28% for residential and tax rates decreased; however, the ratio decreased due to the higher assessed value increase for commercial properties. The business class tax ratio decreased from 3.4793 to 3.3250, and there was a slight change in the tax share per class, excluding the impact of new assessment. The ratio decrease was a direct result of market forces and not tax policy.

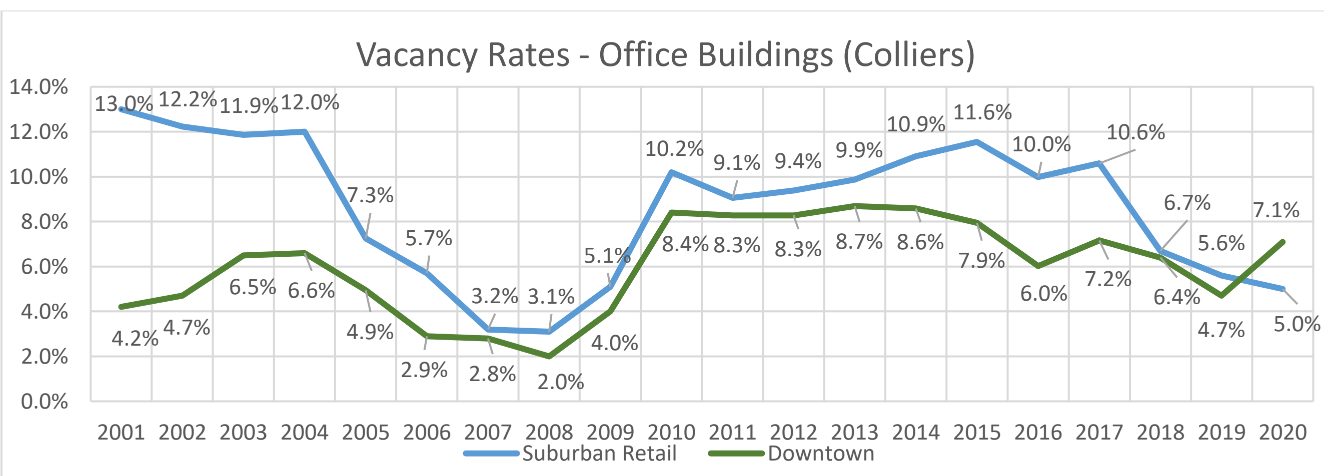
City of Victoria business tax rates are higher than many comparable municipalities. The usefulness of this measure is limited by differences in land values among communities. For example, tax rates in the Lower Mainland are generally lower than in Victoria, but land values are higher.



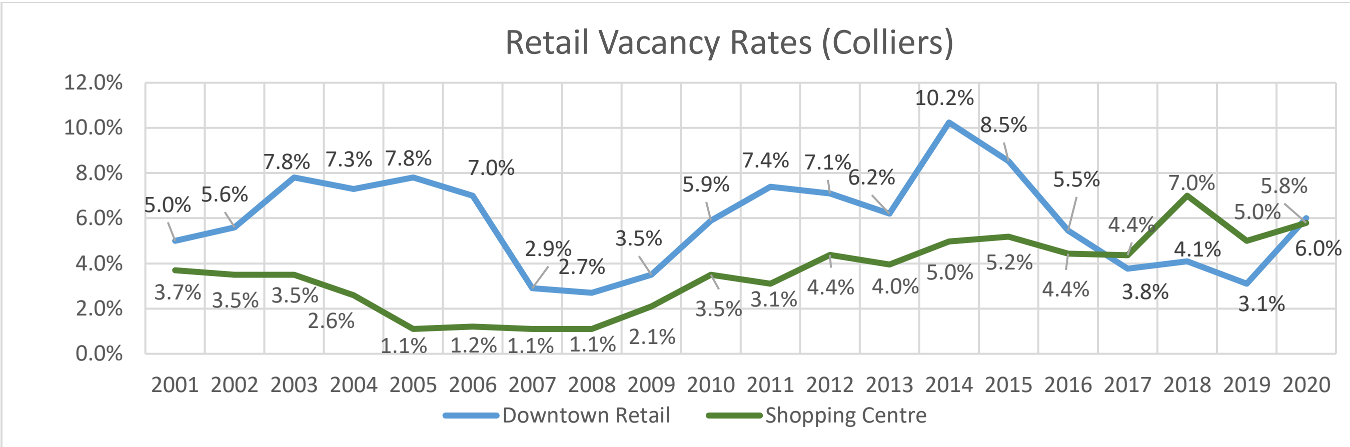
Despite how the tax burden is shared between property classes, the overall tax burden remains high when compared to neighbouring and comparable communities. One of the reasons for higher taxes is the fact that Victoria, as the downtown core of the region, incurs greater costs in some service areas than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



<u>Vacancy Rates</u> Downtown office vacancy rates increased from 2019 (4.70%) through 2020 (7.10%) while Suburban office vacancy rates saw a slight reduction from 2019 (5.6%) through 2020 (5.00%). This stability is attributed to public and private sector entities ability to maintain significant quantities of office space during the pandemic.



Downtown retail vacancy rates increased from 2019 (3.1%) through 2020 (6.0%). With many downtown employees working from home and tourism significantly reduced, the increase in vacancy rates is a testament to the pressures downtown retailers continue to face. Shopping centre vacancy rates increased slightly from 2019 (5.0%) through 2020 (5.8%). The Suburban shopping centre market remained stable due to a significant number of centres with retailers providing essential goods and services and a lack of new inventory. Interior enclosed shopping centres continue to face significant challenges during the pandemic due to increased consumer preference towards online shopping.



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

2021 Tax Rate Alternatives

For 2021, assessed values increased for residential properties by an average of 2.26% and decreased for business by an average of -5.29%. 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 dictate the property tax change for that specific property. If a residential property has a greater than 2.26% increase in assessed value, 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 increase for the residential class is higher than the change for business, the business class ratio will be mathematically increased if the current policy of allocating an equal tax change is implemented.

There are a number of 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 the various tax policies that Council has implemented in past years. The recommended option is the one that reflects the Council-approved Revenue and Tax Policy.

Option 1 – Equalize tax change, 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 2021, all but industrial classes would see an increase of 1.71% whereas industrial classes would see changes reflecting the assessment changes for those classes.

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change	2020 Tax Rates
Residential	1.0000	50.43%	3.0982	1.71%	3.1152
Utility	11.6339	0.57%	36.0440	1.71%	34.4916
Major Industrial	3.5902	0.13%	11.1231	11.28%	10.3581
Light Industrial	3.5902	0.86%	11.1231	14.63%	10.3581
Business	3.5902	47.83%	11.1231	1.71%	10.3581
Rec/Non Profit	1.9813	0.18%	6.1384	1.71%	6.8316

The increase would be approximately $43 for the average residential property ($834,000 assessed value) and $122 for a typical business ($647,000 assessed value).

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

This option would result in an overall property tax increase of 1.82%. However, industrial classes would have different tax rates than business.

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change	2020 Tax Rates
Residential	1.0000	50.48%	3.1015	1.82%	3.1152
Utility	11.6349	0.57%	36.0862	1.82%	34.4916
Major Industrial	3.2815	0.12%	10.1777	1.82%	10.3581
Light Industrial	3.1855	0.77%	9.8800	1.82%	10.3581
Business	3.5902	47.89%	11.1352	1.82%	10.3581
Rec/Non Profit	1.9813	0.18%	6.1451	1.82%	6.8316

The increase would be approximately $46 for the average residential property ($834,000 assessed value) and $129 for a typical business ($647,000 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 Excluding NMC	Tax Rate	Tax Change	2020 Tax Rates
Residential	1.0000	50.26%	3.0882	1.38%	3.1152
Utility	11.6340	0.57%	35.9285	1.38%	34.4916
Major Industrial	3.6139	0.13%	11.1606	11.66%	10.3581
Light Industrial	3.6139	0.86%	11.1606	15.01%	10.3581
Business	3.6139	48.00%	11.1606	2.05%	10.3581
Rec/Non Profit	1.9813	0.18%	6.1187	1.38%	6.8316

The increase would be approximately $35 for the average residential property ($834,000 assessed value) and approximately $148 for a typical business ($647,000 assessed value).

Option 4 – hold ratios same as in 2020 (tax policy 2007-2011)

This option would result in a decrease for business compared to residential due to the assessment decrease for business properties as outlined in the following table:

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change	2020 Tax Rates
Residential	1.0000	52.32%	3.2144	5.52%	3.1152
Utility	11.0720	0.57%	35.5899	0.42%	34.4916
Major Industrial	3.3250	0.12%	10.6879	6.93%	10.3581
Light Industrial	3.3250	0.83%	10.6879	10.14%	10.3581
Business	3.3250	45.96%	10.6879	-2.27%	10.3581
Rec/Non Profit	2.1930	0.20%	7.0492	16.80%	6.8316

The *increase* would be approximately $140 for the average residential property ($834,000 assessed value) and the *decrease* approximately $158 for a typical business ($647,000 assessed value).

OPTIONS & IMPACTS

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

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,

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: 2021 Tax Rate Alternatives Including the New Police Budget Allocation Formula Impact