Committee of the Whole Report
For the Meeting of April 11, 2024

To:	Committee of the Whole	**Date:**	March 27, 2024
From:	Jo-Ann O'Connor, Deputy Director of Finance		
Subject:	Revenue and Tax Policy Benchmark Monitoring and 2024 Tax Rates		

RECOMMENDATIONS

That Council:

1. Approve the following changes to the Revenue and Tax Policy:
   a. Policy 2.1 Tax rates for light and major industrial tax classes will not exceed the business tax rate to support the City's desire to retain industrial businesses.
   b. Policy 3.2 Revitalization property tax exemptions are governed by revitalization property tax exemption program bylaws adopted for specific purposes.
2. Approve 2024 tax rates in alignment with the amended Revenue and Tax Policy as follows:

Residential	3.0569
Utility	36.7426
Major Industrial	10.3154
Light Industrial	11.0279
Business	11.2419
Rec/Non Profit	6.6667

3. Direct staff to bring forward Tax Bylaw, 2024 for introductory readings to the daytime Council meeting on April 28, 2024.
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.

As requested by Council during the 2024 financial planning process, staff reported on ways to support industrial properties which have experienced significant increases in assessed values over the last several years. The current policy sets the industrial tax rates the same as business, which results in a shifting of taxes to industrial properties when their assessed values increase more than business properties. One approach to avoid shifting property taxes to these properties is to amend the Revenue and Tax Policy to allow industrial tax rates to be lower than the tax rates for business properties. Therefore, it is recommended that the policy be amended to reflect this.

In addition, Council has approved, or provided direction to create, revitalization property tax exemption bylaws for several purposes. As a result, the Revenue and Tax Policy requires updating to refer to the program bylaws for these revitalization exemptions.

As determined through the financial planning process, the overall revenue increase for property taxes equals $13.2 million or 7.93%. BC Assessment sets the assessed values for all properties and for 2024, residential properties decreased by an average of -0.75% and business properties increased by an average of 2.69%. 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 per the proposed amendments to the Revenue and Tax Policy equates to an increase of $235 for an average residential property assessed at $1,046,000 and $604 for a typical business property assessed at $733,000.

The recommended tax rates option reflects the proposed amendments to the 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, recommend changes to the Policy, and seek direction on the 2024 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 these 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>
  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.

- <u>Policy 2.1</u>
  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.

- <u>Policy 2.2</u>
  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.

Impact on Taxpayers

Victoria's 2024 assessment roll from BC Assessment indicates that overall property values have increased compared to 2023. On average, residential properties have decreased by -0.75%, business properties have increased by 2.69%, light industry has increased 4.68% and major industry has increased 11.91%.

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 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, 2024.

ISSUES & ANALYSIS

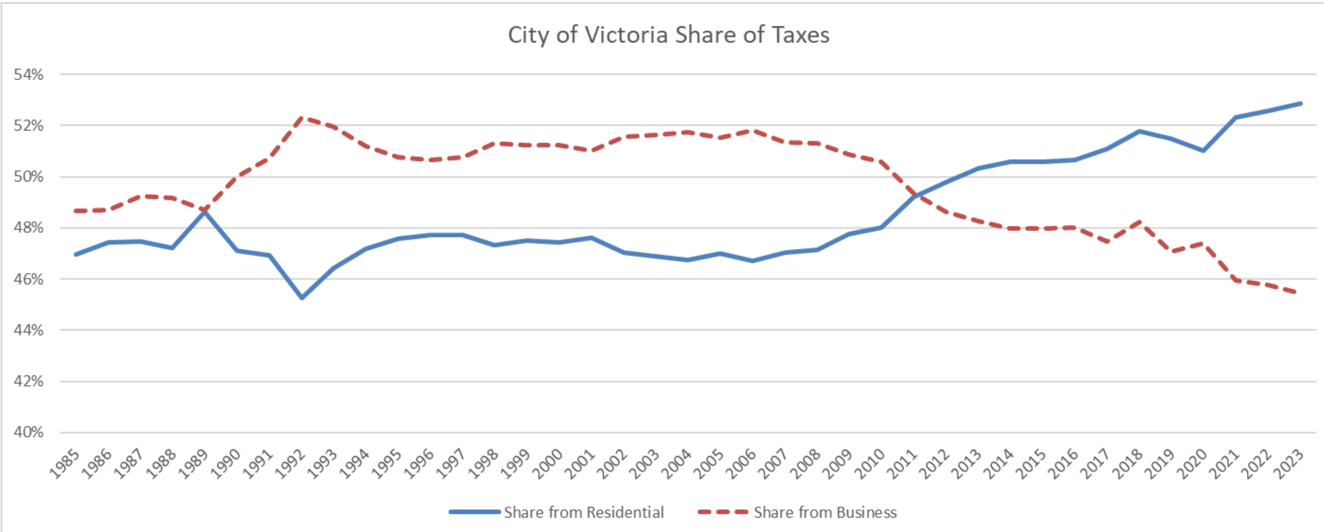
The following section outlines the 2023 benchmark measures and proposed changes to the Revenue and Tax Policy, followed by tax rate options for 2024 for Council's consideration.

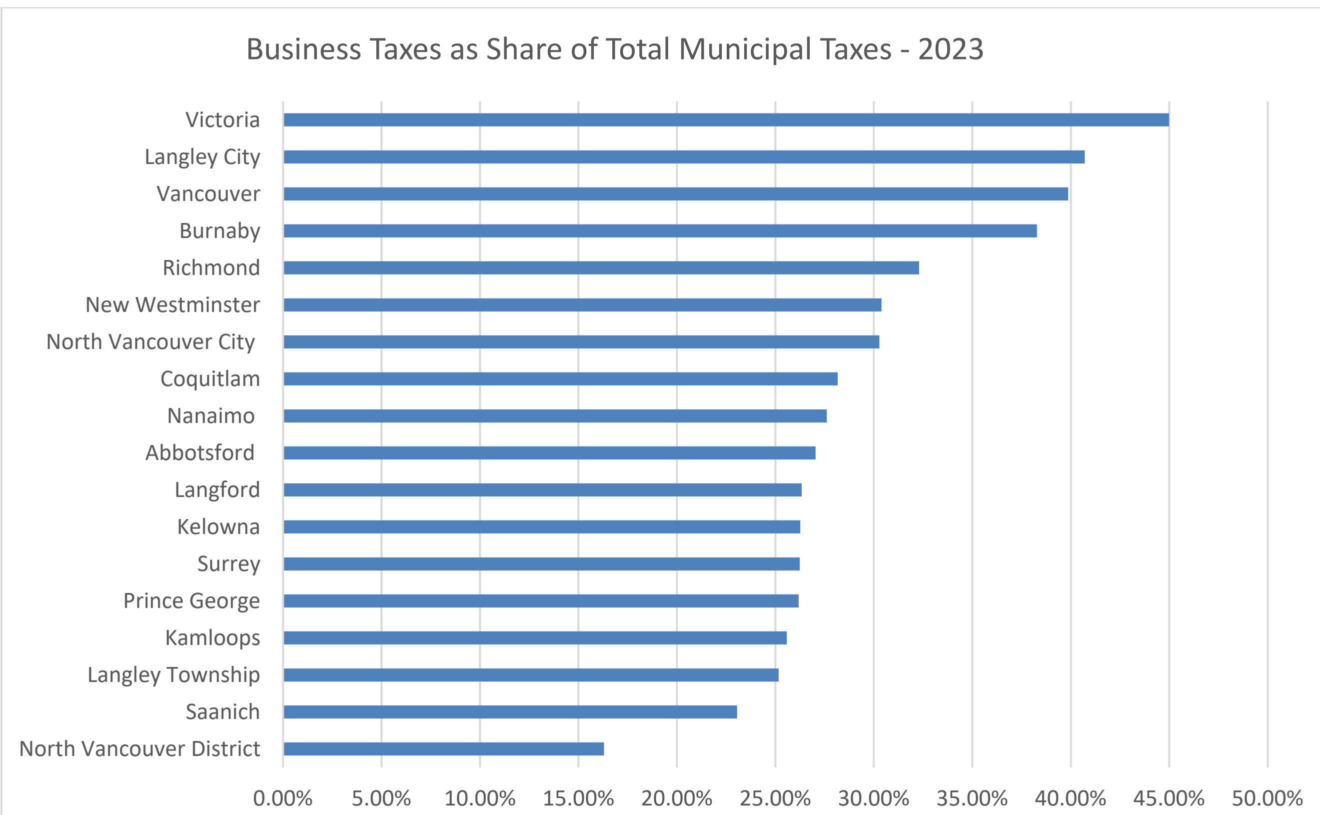
Revenue and Tax Policy Benchmark Measures
Below are the benchmark measures that Council directed staff to monitor annually. These benchmarks can inform Council's decision on the desired share of property tax distribution among property classes.

Benchmark	2022 Measure	2023 Measure
Share of taxes – excluding NMC:		
Business	45.76%	45.45%
Non-residential (including business)	47.44%	47.14%
Residential	52.57%	52.86%
Business tax ratio	3.6465	3.8049
Ratio of business/residential building assessment	34.9	32.03
Business property tax rates	10.5323	10.6951
Residential taxes per capita	$866	$913
% 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	5.60%	7.30%
Vacancy rates – suburban office buildings	6.40%	6.40%
Downtown retail vacancy rates	10.20%	9.20%

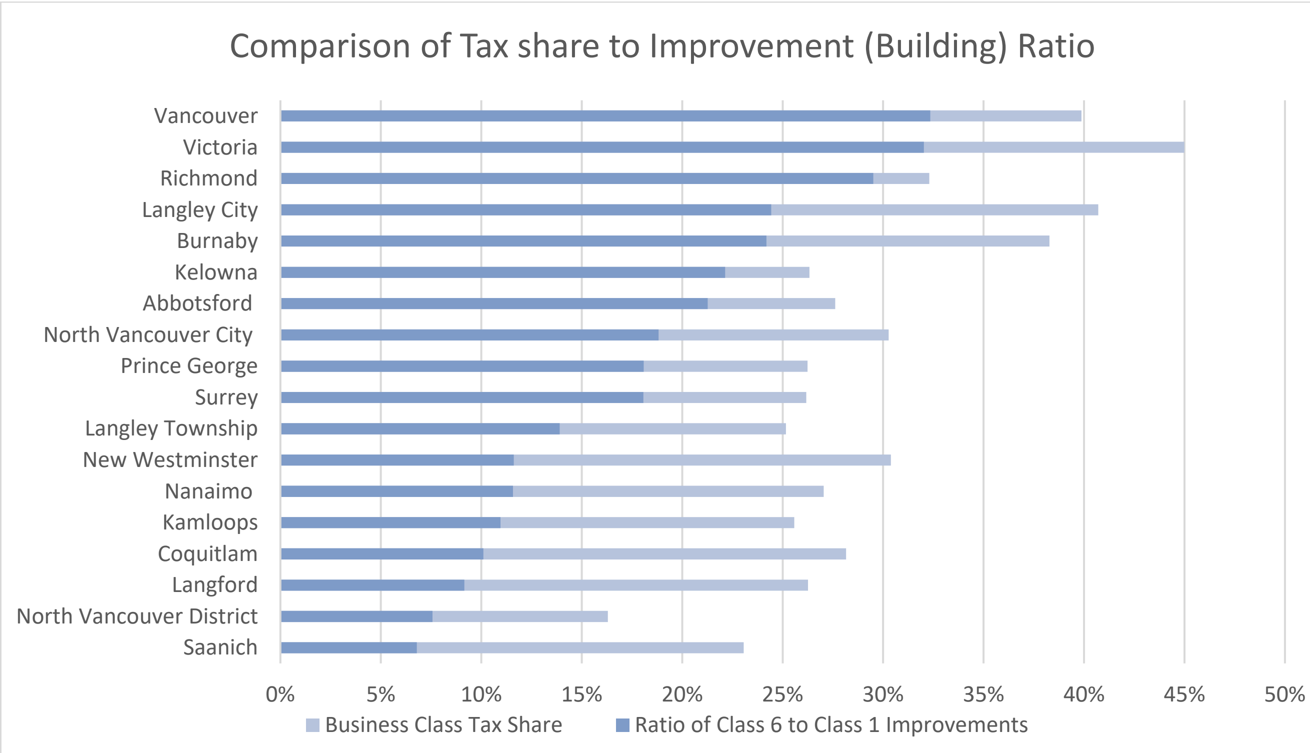
* At the present time, BC Stats no longer produces building permit statistics

Share of Taxes
In 2023, 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 2023, decreasing to 32% from 35% in 2022. 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 2023 compared to 2022. 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>

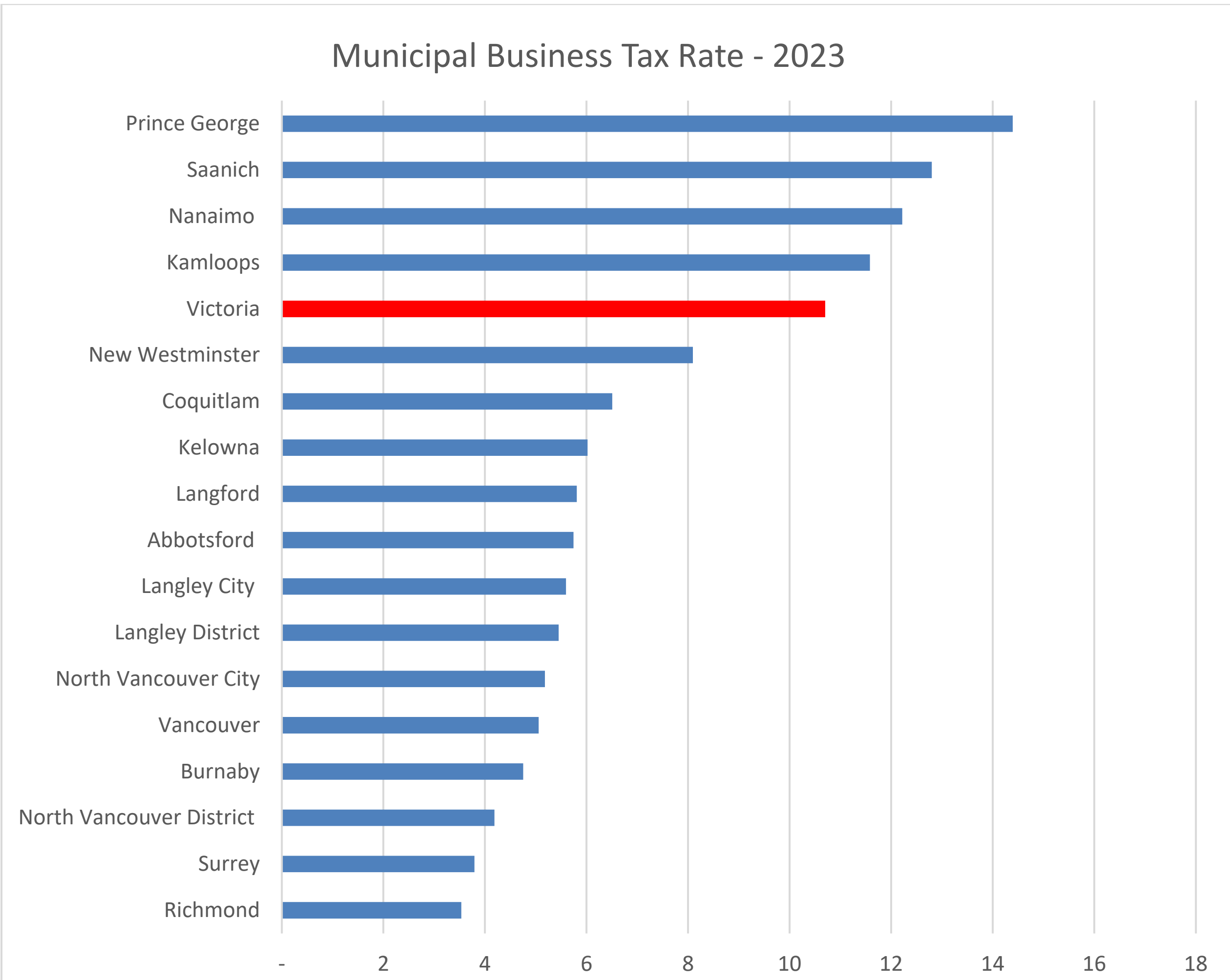
The tax ratio is a direct comparison of the tax rates between all classes to the residential tax rate. Fluctuations in the market value for residential class will affect all resulting tax ratios since tax rates are adjusted annually to ensure that the City collects the required tax levy.

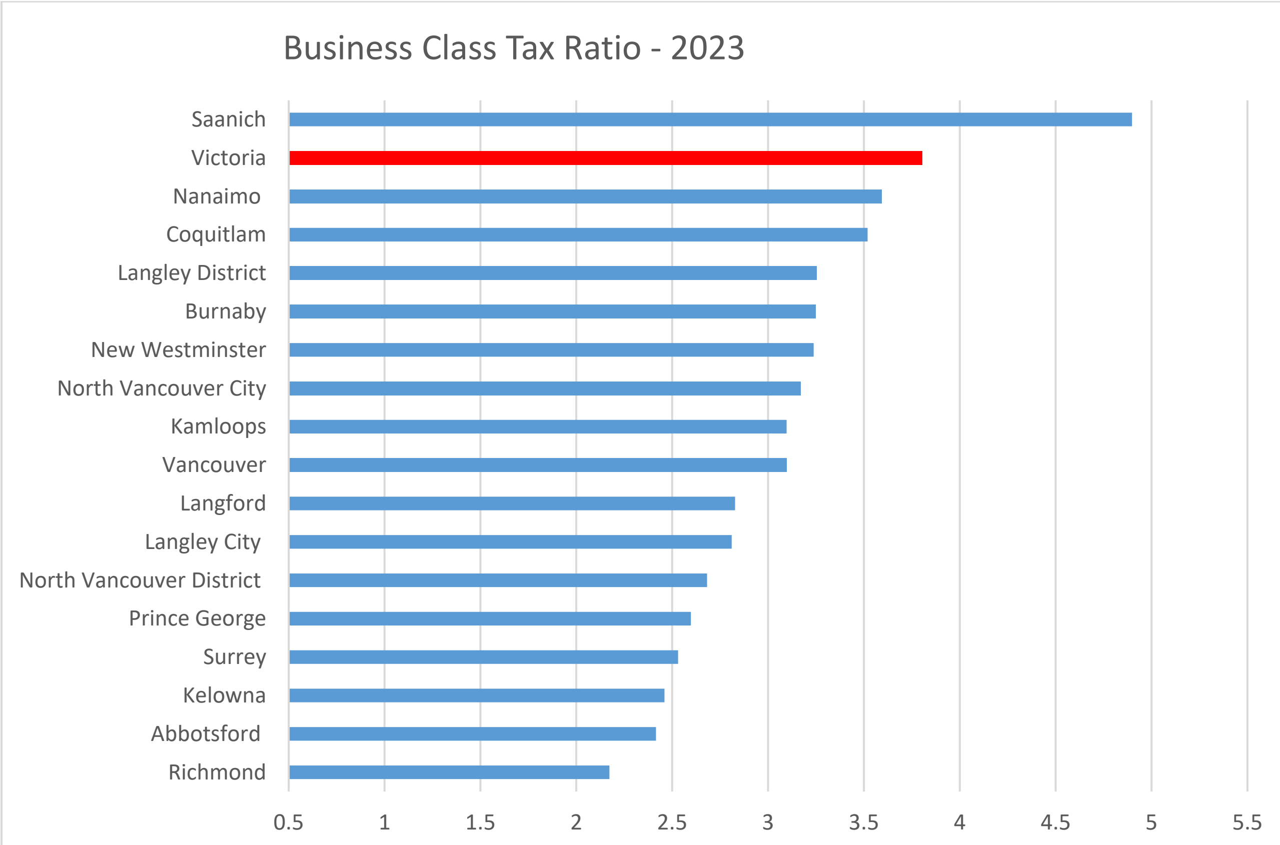
The business to residential tax ratio (business tax rate divided by residential tax rate) is often used when discussing the issue of tax burden on businesses. However, the ratio is only part of the equation and an increase or decrease in the ratio does not necessarily mean that the share of taxes payable 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 other words, in a year like 2024, when the average increase in assessed value for industrial properties is higher than the increase for business and residential properties the share of taxes (the total dollars collected) will shift to the industrial classes unless the industrial class ratios are lower than the business class ratio.

From 2022 to 2023, there were changes in the business tax ratio and business class tax rates. These changes were due to a combination of market forces and Council approving two different tax options between the two years. In 2022, Council equalized the tax increase across all tax classes while in 2023, Council chose to equalize the tax change, holding the industrial tax rate the same as business in accordance with current policy.

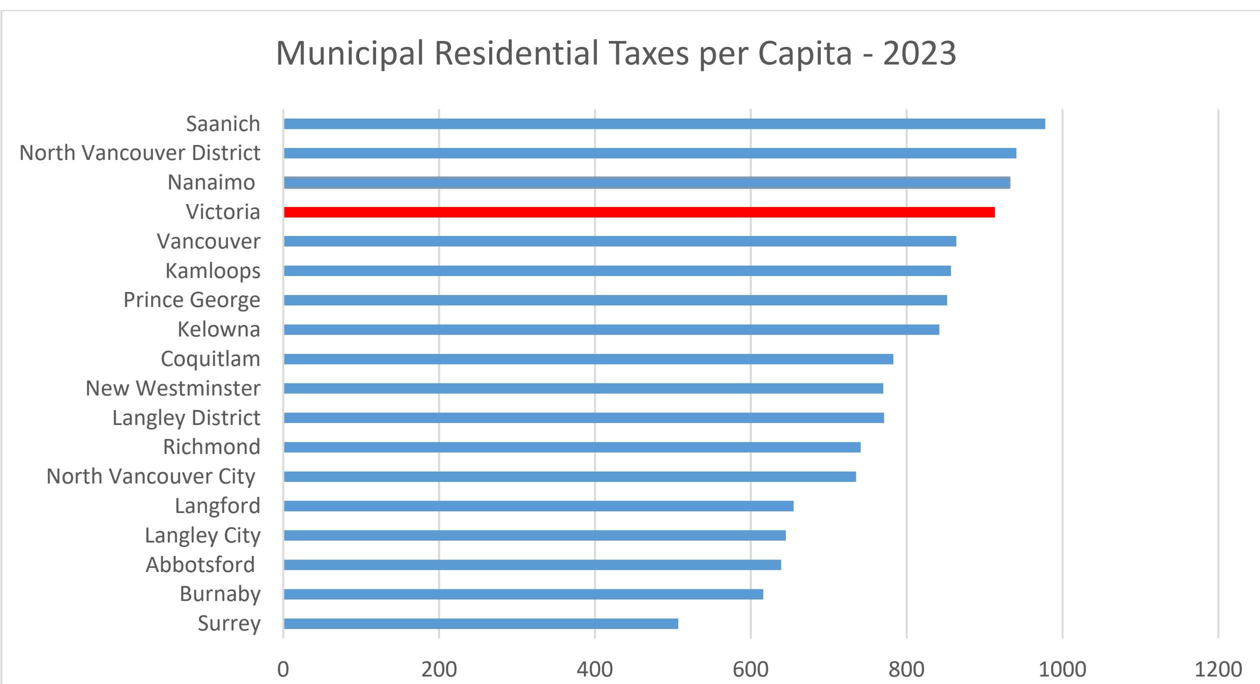
In 2023, there was an overall increase in the assessed values for business and residential class properties of 4.53% and 9.07% respectively. The business tax ratio increased from 3.6465 to 3.8049, due to a combination of a higher assessed value increase for residential properties compared to business and the change in the distribution of taxes among tax classes between the two years, resulting in a decrease in the residential tax rate and an increase in the business rate. While the business tax rate increased in 2023, the overall business tax share, excluding the impact of new assessment slightly decreased to 45.45%.

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.



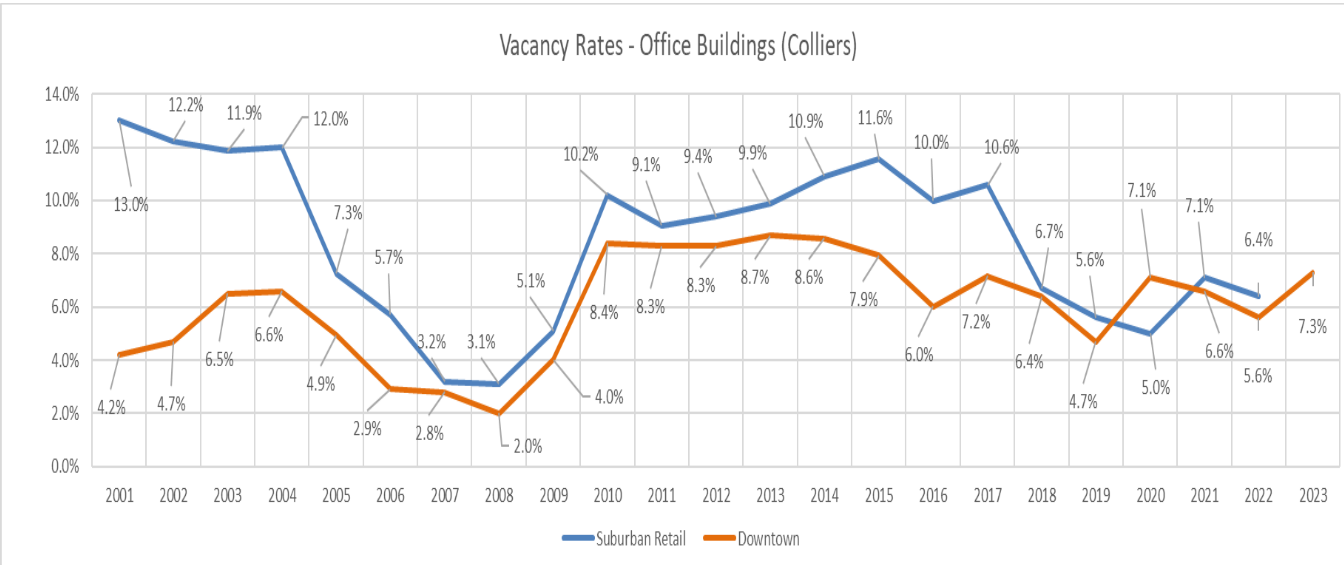


Despite how the tax burden is shared between property classes, the overall residential tax burden is similar when compared to neighbouring communities such as Saanich and Nanaimo, though remains high when compared to other comparable communities. One of the reasons for higher taxes is the fact that Victoria, 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.

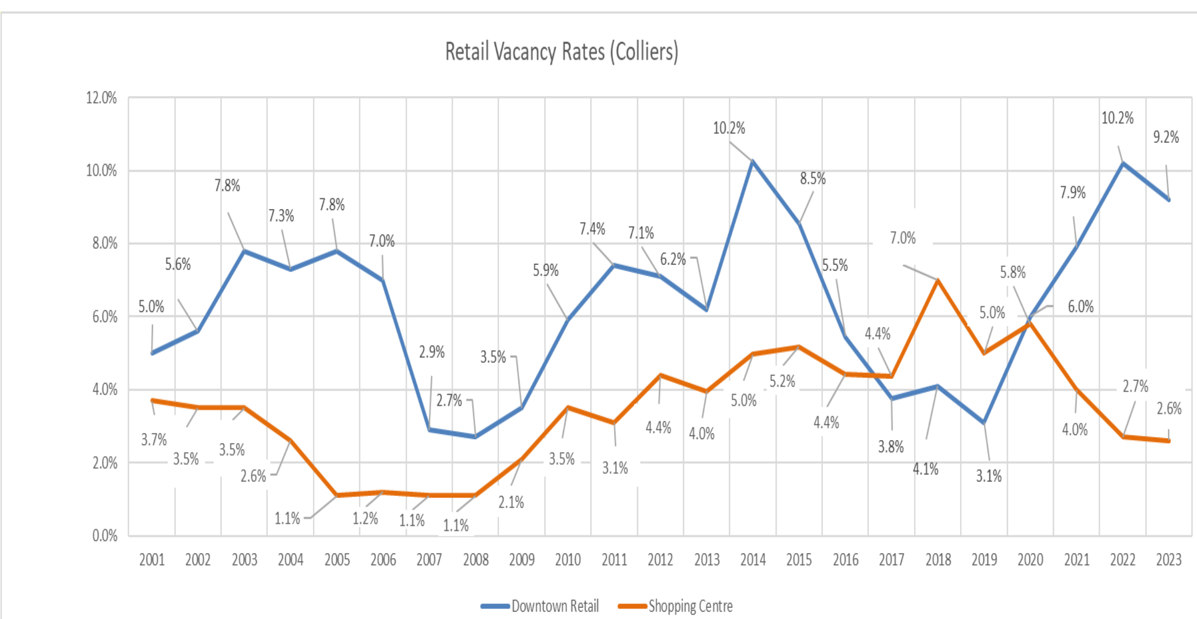


Vacancy Rates (from report by Colliers)

Downtown office vacancy rates increased in 2023 to 7.3% from 5.6% in 2022, while suburban office vacancy rates remained unchanged at 6.4% from 2022. Despite high interest rates and the continuation of hybrid work arrangements, the Victoria office market remained resilient in 2023. The demand for move-in ready space remained high as the cost of tenant improvements are increasing and financing challenges create limitations. Colliers predicts for the coming year to be challenging for the office market as tenants continually adjust their footprint in response to uncertainty surrounding employees returning to the office.



Downtown retail vacancy rates decreased from 2022 at 10.2% to 9.2% in 2023. This modest decrease may be partially attributed to an expansion of the Collier's downtown retail boundaries which have been adjusted to account for the continuous growth of the downtown core in addition to street front vacancy slated for redevelopment unsuitable for long-term occupancy as developers look to break ground in the short term. Shopping centre vacancy rates decreased slightly from 2022 at 2.7% to 2.6% in 2023. This is largely attributed to new development coming to the market already leased and speaks to the stability of Victoria's shopping centres.



Proposed Amendments to the Revenue and Tax Policy

Industrial Tax Rates

As part of the financial planning process, staff reported on an approach to address high property tax increases for industrial properties. The current policy holds the tax rates for business, light and major industry the same. This policy was implemented to support industrial properties at a time when the industrial tax rates charged were much higher than the business tax rate. However, over the last several years, assessed values for industrial properties have exceeded business property assessed value increases, resulting in a shift of property taxes to industrial properties. As noted by BC Assessment during a recent presentation to Council, industrial properties continue to be in high demand and therefore assessed value increases reflect this trend. This can be avoided by amending the Policy to allow the industrial tax rates to be lower than the business tax rate while at the same time capping them at no more than the business tax rate to ensure that the rates do not revert to the historical highs. Therefore, this amendment is recommended.

Revitalization Property Tax Exemptions

Council has approved, or given direction to implement, several revitalization property tax exemption programs such as for affordable rental housing, and market rental building greenhouse gas emission reductions and seismic upgrades. To comply with the *Community Charter*, the Revenue and Tax Policy requires an amendment to refer to these new programs.

2024 Tax Rate Alternatives

For 2024, assessed values decreased for residential properties by an average of -0.75%, increased for major industrial properties by an average of 11.91%, increased for light industrial properties by an average of 4.68% and increased for business by an average of 2.69%. 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 -0.75% 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 be mathematically decreased if the recommended policy 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 proposed changes to the Revenue and Tax Policy which recommends that tax rates for light and major industrial classes not exceed business to support the City's desire to retain industrial businesses.

The following outlines the three options:

Option 1 – Equalize tax change across all tax classes; industrial tax rates not to exceed business (proposed amended tax policy) Recommended

This option would result in an overall property tax increase of 7.93% and industrial classes would have lower tax rates than business as a result of higher assessed value increases, as shown in the following table.

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change		2023 Tax Rates
Residential	1.0000	52.93%	3.0569	7.93%		2.8109
Utility	12.0197	0.45%	36.7426	7.93%		34.7235
Major Industrial	3.3745	0.16%	10.3154	7.93%		10.6951
Light Industrial	3.6076	0.95%	11.0279	7.93%		10.6951
Business	3.6776	45.36%	11.2419	7.93%		10.6951
Rec/Non Profit	2.1809	0.16%	6.6667	7.93%		6.2949

The increase would be approximately $235 for the average residential property ($1,046,000 assessed value) and $604 for a typical business ($733,000 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 $81.

Option 2 – Equalize tax change, hold industrial tax rate same as business (current tax policy)

Current tax policy equalizes any tax change, with the exception of industrial classes which are held at the same tax rate as business. As outlined in the following table, for 2024, all but industrial classes would see an increase of 7.90% whereas industrial classes would see changes reflecting the assessment changes for those classes.

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change		2023 Tax Rates
Residential	1.0000	52.91%	3.0559	7.90%		2.8109
Utility	12.0200	0.45%	36.7316	7.90%		34.7235
Major Industrial	3.6776	0.17%	11.2383	17.59%		10.6951
Light Industrial	3.6776	0.97%	11.2383	9.99%		10.6951
Business	3.6776	45.34%	11.2383	7.90%		10.6951
Rec/Non Profit	2.1809	0.16%	6.6646	7.90%		6.2949

The increase would be approximately $234 for the average residential property ($1,046,000 assessed value) and $602 for a typical business ($733,000 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 $102.

Option 3 – Hold ratios the same as in 2023 (tax policy 2007-2011)

This option would result in a higher increase for business compared to residential as the assessment increase for business properties was higher than the residential increase; the results are outlined in the table below.

	Tax Ratio	Tax Share Excluding NMC	Tax Rate	Tax Change		2023 Tax Rates
Residential	1.0000	52.07%	3.0070	6.17%		2.8109
Utility	12.3533	0.46%	37.1463	9.12%		34.7235
Major Industrial	3.8049	0.17%	11.4413	19.71%		10.6951
Light Industrial	3.8049	0.98%	11.4413	11.98%		10.6951
Business	3.8049	46.16%	11.4413	9.85%		10.6951
Rec/Non Profit	2.2395	0.16%	6.7342	9.03%		6.2949

The increase would be approximately $183 for the average residential property ($1,046,000 assessed value) and $750 for a typical business ($733,000 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 $122.

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: Amend the Revenue and Tax Policy and approve tax rates as outlined in option 1 above (Recommended)

This option would pass on equal tax increases to all classes and avoids a shift to industrial classes that have experienced higher assessed value increases compared to other classes.

Option 2: Do not amend the Revenue and Tax Policy as outlined in option 2 above

This option would pass on equal tax increases to all classes except for industrial which would see a higher tax increase due to higher assessed value changes.

Option 3: Provide alternate policy direction to staff

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

Report accepted and recommended by the City Manager

List of Attachments

Appendix A: Amended Revenue and Tax Policy