CITY OF VICTORIA

Committee of the Whole Report

For the Meeting of October 10, 2024

To:	Committee of the Whole	**Date:**	September 27, 2024
From:	Susanne Thompson, Deputy City Manager and Chief Financial Officer		
Subject:	Development Potential Tax Relief Pilot Program (DPTR)		

RECOMMENDATION

That Council:

1. Approve a pilot development potential tax relief (DPTR) program for eligible Light Industry (Class 5) and Business and Other (Class 6) properties in the Harris Green district of the Downtown neighbourhood in 2025 as authorized by s.198.1 of the *Community Charter*.

2. Approve that, 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, be taxed at the municipal tax rate that is 50% lower than the rates established for Classes 5 and 6 (tax rates to be finalized based on the 2025 Revised Assessment Roll).

3. Approve the additional City exclusions and additional eligibility criteria generally as outlined in Option 1 of this report.

4. Require that, subject to recommendation 1, upon receiving from BC Assessment the list of properties that meet the Provincial eligibility criteria for the 2025 tax year, the owners/agents of each property on the list within the Harris Green district provide a written declaration to the City, by February 7, 2025 that:
   a. the property was in use from October 1 to December 31, 2024;
   b. the primary use of the property does not fall into one or more of the City exclusions; and
   c. the tenants of the property must be informed of any tax relief resulting from the 2025 DPTR Pilot Program

5. Require that properties whose owners/agents fail to provide such written declaration to the City by February 7, 2025 not be considered for the 2025 Pilot DPTR.

6. Include in the applicable bylaw that it is an offence, subject to a fine of up to $10,000, to complete, file or provide a false declaration to the City.

7. Direct staff to bring forward the applicable bylaws in accordance with the above recommendations.

EXECUTIVE SUMMARY

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 increases in assessed values.

Implementation of a development potential tax relief program is at the discretion of Council. While properties must meet basic eligibility criteria under the *Community Charter*, Council can set additional parameters and determine the amount of tax relief applied to the eligible portion of the property. This legislation is intended to provide a period of temporary relief up to 5 years and properties must meet eligibility criteria each year. The purpose of the time limitation is to ensure that development is not discouraged over the long-term.

This legislation is available to municipalities under the *Community Charter* and *Vancouver Charter*. To date, the City of Vancouver is the only municipality in BC that has implemented a development potential tax relief program, and key elements of their program are outlined in further detail in this report.

As directed by Council, this report outlines a recommended approach to implementing this new legislation based on lessons learned from the City of Vancouver. The proposed program aims to provide relief to independent small businesses and non-profit organizations, aligns with the program established by the City of Vancouver, and is reasonable, objective, practically feasible to administer and transparent.

PURPOSE

The purpose of this report is to seek Council direction on the implementation of a pilot development potential tax relief program in 2025 as authorized under s. 198.1 of the *Community Charter* to reduce the City's municipal tax rate applied to a portion of the assessed land value of eligible Light Industry (Class 5) and Business and Other (Class 6) properties.

BACKGROUND

The City's Official Community Plan (OCP) is a 30-year plan with direction for growth and change in the community. As long-term plans such as the OCP are implemented, some properties will continue with their current use until such time that redevelopment occurs. Properties in British Columbia are assessed by BC Assessment at their highest and best use (i.e. market value) taking into account zoning as defined in land use policies, and market forces. While property owners benefit from rising property values, property taxes are commonly passed on to tenants through triple-net-lease agreements. A property's assessment change in a particular year relative to the average assessment change in its property classification determines the property tax increase for an individual property; therefore, where properties have significant changes in assessed value due to development potential, they may see a significant change in property taxes. This can create financial stress for businesses and non-profit organizations that may have limited financial resources to absorb significant increases in cost.

On November 3, 2022, the Province adopted legislation which introduced changes to the *Community Charter* and *Vancouver Charter* that allow municipalities to identify certain commercial and light industrial properties that are eligible for reduced property tax rates. The purpose of the legislation is to temporarily (up to 5 years) offset the impact of disproportionately high property taxes on businesses that occupy properties with high development potential (i.e. where the market value far exceeds the value of the current actual use).

Through its annual property tax bylaw, the City may establish a lower tax rate for these properties and determine the extent of the reduction and the percentage of land value that is subject to the reduced rate. The legislation identifies various eligibility criteria as a prerequisite for the reduced tax rates, including:

- land and improvements must be in class 5 (light industry) or 6 (business or other);
- improvement must be in use as of October 31st of the previous tax year; and
- property has a combined class 5/6 land value that is a minimum of 95% of the total class 5/6 assessed value.

Properties are ineligible and disqualified if:

- more than four years have passed since it first received the relief (a property can only qualify for five consecutive years);
- any portion of the property is in class 2, 3, 4, 7, 8 or 9 (the property can only be split with class 1);
- it is a restricted-use property or ski hill property;
- any portion is already exempt from municipal taxation unless otherwise specified by regulation;
- the land value is subject to assessment averaging or phasing; or
- the Province has identified certain prescribed properties.

Most of these exclusions are related to properties that already receive preferential treatment for assessment and taxation purposes and ensures that a property would not receive a double benefit. For eligible properties, a municipality can specify a different percentage of the land to be taxed at the lower rate for different areas, properties or kinds of properties. Only the municipal portion of property taxes can be reduced under the new legislation. While there is no loss of revenue to the City due to taxing eligible light industrial and business properties at a lower rate, the property taxes that would have otherwise been collected from these properties would be redistributed to the remaining properties within those classes. Therefore, Council may wish to consider balancing relief provisions in consideration of the resulting tax impact on non-exempt properties.

City of Vancouver Development Potential Relief Program (DPRP)

In May 2024, City staff met with the City of Vancouver to learn more about the mechanics of their DPRP program.

Cap and Tax Rate Reduction - The City of Vancouver established a maximum cap of $5.4 million on the amount of land value that can be taxed at a lower rate to ensure that the most benefit is provided to the most impacted small business operators; without the cap, large properties with high assessed values would negatively impact the relief provided to smaller properties. The cap amount was determined by analyzing assessed value data specific to eligible properties in Vancouver. In addition, Vancouver set the DPRP tax rate at a rate that is 50% lower than their blended Class 5/6 tax rate and set the amount of relief (the portion of the assessed value to be taxed at a lower rate) based on the median imputed development potential within a neighbourhood/zoning district.

Eligibility for Multi-Tenant, Mixed Use Properties - Since many properties have multiple tenants with a mix of eligible and ineligible uses, the City of Vancouver added clearer eligibility criteria by establishing 50% of floor space as the minimum threshold for “primary use” in their declaration form and website material in response to inquiries seeking clarity on eligibility. In other words, if 50% or more of the floor space of all the units in a property have eligible uses, the entire property would qualify for the relief. Vancouver also implemented a $10,000 penalty for submitting a false declaration.

Validation of a Property’s Primary Use - For the initial year of the pilot program in 2023, the City of Vancouver relied on BC Assessments property use codes, cross-referenced with Google Maps and VanMap to screen eligible properties. BC Assessment’s use codes do not always reflect the actual use of the property. For example, properties coded as “warehouses” which are ineligible under City of Vancouver criteria were occupied by artist production or performance space. For 2024, rather than relying on BC Assessments use codes, the City of Vancouver sent out declarations to each property eligible under provincial criteria to validate that not more than 50% of the floor area was used for one of more of the following categories:

- Properties owned or operated by any government or its agents
- Big box stores, international or national chains
- Financial services, including banks, credit unions, investment advisors, insurance and trust companies
- Gasoline stations, parking garages and surface parking
- Vehicle dealers, car wash, automotive service
- Storage**, warehouses**
- Hotels
- Office use, including general office, health care office, health enhancement centre and laboratory**
- Development presentation centres or temporary sales offices billboards or signs
- Manufacturing**, production**, wholesale**, utility, communication and logistics
- Neighbourhood or regional shopping centres
- Redevelopment sites for which zoning has been approved in principal following a public hearing

**unless >50% floor area occupied by qualifying arts, culture & NPOs

While the categories of properties listed above will be excluded from the program, where more than 50% of the floor space of properties classified as storage, warehouse, office use, manufacturing, production, or wholesale is occupied by qualifying arts, culture and not-for-profit organizations, these properties will be eligible to participate in the program in Vancouver.

Occupancy Status as of October 31 - Provincial legislation requires that a property be in use for only one day on October 31 of the previous year. To avoid a situation where a property could be vacant after October 31 but eligible for relief, or in use after October 31 but ineligible for relief, the City of Vancouver broadened the eligibility window from October 1 to December 31 of the previous year and established that 50% or more of the floor area must be in use during this period.

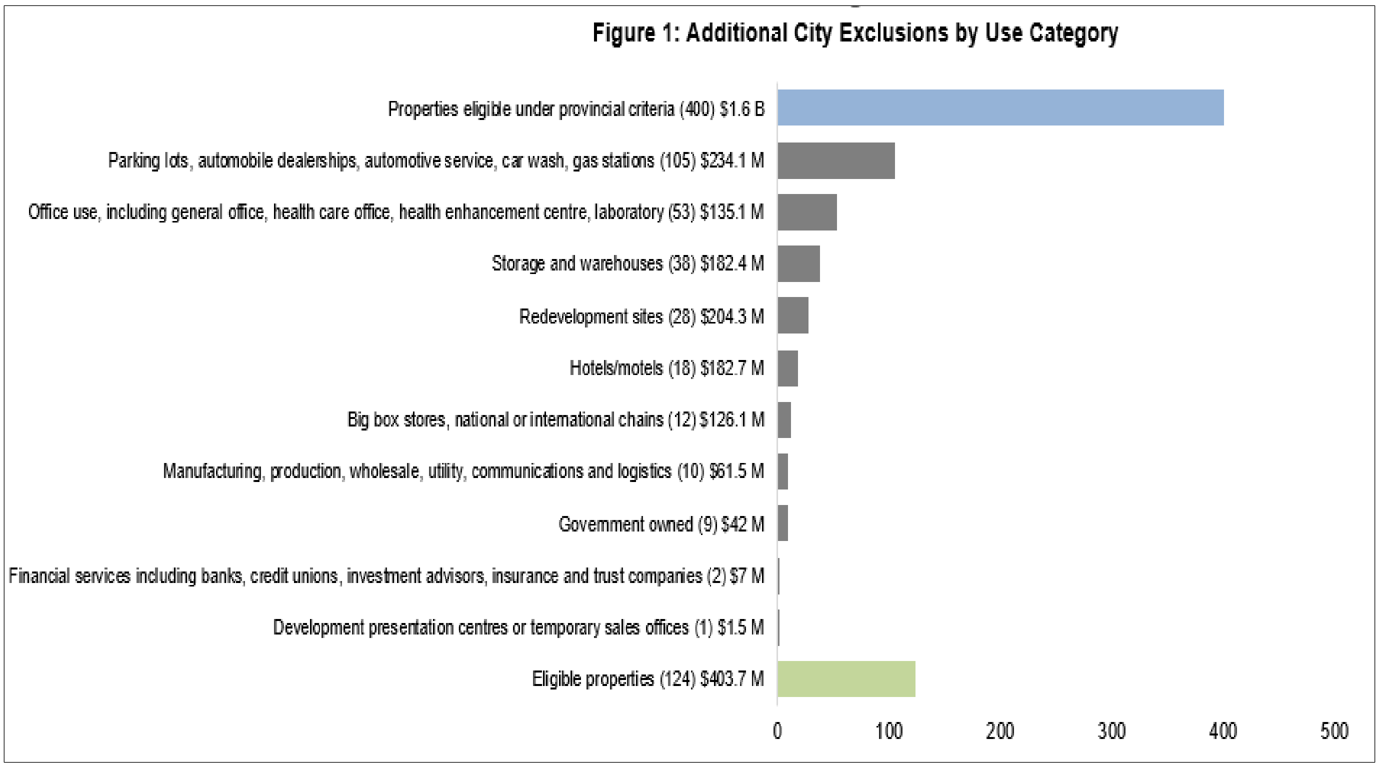
ISSUES & ANALYSIS

<u>City of Victoria Property Data Analysis</u>

Provincial Eligibility Requirements and Proposed Additional City Exclusions

Based on the 2024 Revised Assessment Roll, BC Assessment generated a list of city-wide Light Industrial (Class 5) and Business and Other (Class 6) properties that meet provincial eligibility criteria for development potential relief. As show in Figure 1 below, 400 properties in Class 5 and Class 6 totalling approximately $1.6 billion in assessed value are eligible under the provincial eligibility criteria.

Staff used similar exclusion categories as the City of Vancouver and examined BC Assessment assigned use codes, supplemented by property ownership, development data, business licences, and cross-referenced Google Maps data on a sample basis to group the properties. Based on these groupings, staff estimate that approximately 124 properties city-wide would be eligible as referenced in Figure 1 below, subject to validation of the primary use and that the property was in use between October 1 and December 31 of the previous year.



It is recommended that the above use category exclusions be implemented. However, it is also recommended that where over 50% of the floor space of properties classified as storage, warehouse, office use, manufacturing, production, or wholesale is occupied by arts, culture and not-for-profit organizations, these properties be eligible to participate in the program. This exception to the exclusion aligns with emerging direction in the Industry, Arts, and Innovation District Action Plan which is under development.

In addition, since some properties have multiple tenants with a mix of eligible and ineligible uses, it is recommended that properties with eligible uses of over 50% of floor space be eligible for the program. In other words, if over 50% of the floor space of all the units in a property have eligible uses (primary use), the entire property would qualify for the relief.

Furthermore, to avoid a situation where a property is largely unoccupied but eligible under the base provincial criteria, it is recommended that a property be occupied from October 1 to December 31 of the previous year with over 50% of the floor space in use during this period.

The following table outlines the remaining uses and the number of eligible properties based on BC Assessment use codes. While BC Assessment use codes may not be 100% accurate, it provides an initial basis for screening eligible properties.

Table 1: BC Assessment Use Codes

BC Assessment Use Codes	Number of Properties
Fast food restaurants	1
Stores and commercial services	79
Stores and living quarters	9
Stores and offices	14
Stores and/or offices with apartments	2
Neighbourhood pub	3
Neighbourhood store	2
Restaurant only	12
Retail strip	1
Shopping centre (neighbourhood)	1
Total	**124**

Imputed Development Potential Relief

The intent of the legislation is to allow municipalities to reduce the tax impact on the portion of the assessed land value that is related to development potential. The legislation does not require BC Assessment to include a development potential value on the assessment roll, however properties that have a land value greater than or equal to 95% of the total assessed value is deemed underdeveloped. The legislation anticipates that municipalities will calculate the value of development potential for tax relief purposes based on the limited data available from BC Assessment. Due to these assessment data limitations, staff recommend implementing a similar approach as the City of Vancouver by providing relief based on the median imputed development potential value across all eligible properties within a neighbourhood rather than on a property-by-property basis. The following table shows the recommended amount of relief and the number of eligible properties for each of the City's neighbourhoods.

Table 2: % Land Value Subject to the DPTR Tax Rate by Neighbourhood

Neighbourhood	Median DPTR	Number of Eligible Properties
Burnside	25%	15
Downtown	20%	50
Fairfield	5%	4
Fernwood	30%	11
Gonzales	20%	2
Hillside/Quadra	25%	9
James Bay	25%	6
Jubilee	10%	6
North Park	35%	14
Oaklands	25%	4
Victoria West	30%	3
Total		**124**

***There are no properties in the Rockland neighbourhood based on the 2024 Revised Assessment roll meeting provincial criteria; therefore, no median DPTR percentage has been included for this neighbourhood.*

Maximizing Benefit
Staff analyzed several DPTR cap and tax rate scenarios as shown in Table 3 below to maximize the greatest tax relief to the greatest number of properties while minimizing the impact to non-exempt properties. Based on the analysis, staff recommend that the amount of land value that is subject to the reduced DPTR rate be capped at $925,000 per property which represents the 80th percentile of imputed development potential and a DPTR tax rate that is 50% of the regular Class 5 and 6 tax rates. The intent of the cap and 50% rate discount is to limit the amount of relief going to a few high value sites and to limit the additional tax shift for non-exempt properties.

With the reduced DPTR rate on eligible properties, the Class 5 and Class 6 tax rates for non-exempt properties will need to be increased to collect the same amount of property taxes from these property classes. As shown in Table 3 below, staff also examined several cap scenarios under three different tax rate discount options ranging from 33.3% to 66.7% that would result in a tax rate increase ranging from 0.04%-0.08% for Class 5 and increase of 0.23% to 0.86% for Class 6. Based on this analysis, staff recommend setting the tax rate discount at 50% resulting in a tax rate increase of 0.06% and 0.43% for Class 5 and Class 6 respectively, while providing a balance between the lowest and highest discount options. A 50% tax rate discount combined with a cap of $925,000 (80th percentile) also maximizes the median DPTR savings for eligible properties, while limiting the impact to non-exempt properties. This cap amount captures the majority of properties to receive the full value of the imputed development potential based on their neighbourhood median. Therefore, by implementing this cap rate, approximately 99 properties would receive the full value of the imputed development potential, whereas 25 properties with imputed development potential greater than $925,000 would receive partial relief. Increasing the cap beyond the 80th percentile of imputed development potential value, reduces the median tax relief savings since the regular tax rate must be increased as a result to ensure the same amount of tax levy is collected. In other words, increasing the cap has a negative overall effect on the savings.

Table 3: DPTR Impact on Class 5 and Class 6 Tax Rates

	% Discount off Class 5 Rate			# of Impacted
Class 5 Tax Rate Impact	**33.3%**	**50%**	**66.7%**	**Properties**
No Cap	0.04%	0.06%	0.08%	-
$2.0 M Cap (95th percentile)	0.04%	0.06%	0.08%	6 (5%)
$1.06 M Cap (85th percentile)	0.04%	0.06%	0.08%	19 (15%)
$925 K Cap (80th percentile)	0.04%	**0.06%**	0.08%	25 (20%)
$875 K Cap (75th percentile)	0.04%	0.06%	0.08%	31(25%)
$565 K Cap (65th percentile)	0.04%	0.06%	0.08%	44 (35%)
	% Discount off Class 6 Rate			**# of Impacted**
Class 6 Tax Rate Impact	**33.3%**	**50%**	**66.7%**	**Properties**
No Cap	0.43%	0.65%	0.86%	-
$2.0 M Cap (95th percentile)	0.36%	0.54%	0.72%	6 (5%)
$1.06 M Cap (85th percentile)	0.30%	0.46%	0.61%	19 (15%)
$925 K Cap (80th percentile)	0.29%	**0.43%**	0.58%	25 (20%)
$875 K Cap (75th percentile)	0.28%	0.42%	0.57%	31(25%)
$565 K Cap (65th percentile)	0.23%	0.34%	0.46%	44 (35%)
	% Discount off Class 5 & 6 Rates			
DPTR Median Savings	**33.3%**	**50%**	**66.7%**	
No Cap	$1,572	$2,366	$3,163	
$2.0 M Cap (95th percentile)	1,587	2,388	3,191	

$1.06 M Cap (85th percentile)	1,599	2,404	3,212
$925 K Cap (80th percentile)	1,602	**2,409**	3,218
$875 K Cap (75th percentile)	1,601	2,407	3,217
$565 K Cap (65th percentile)	1,558	2,341	3,127

Sample Calculation
For a sample Class 6 business property with an assessed value of $2,261,000 eligible for 20% of the land value taxed at the DPTR rate, the estimated municipal tax savings based on 2024 assessment data and tax rates is approximately $2,400 as shown in Table 4 below. As previously noted, DPTR only extends to the municipal portion of property taxes and not to other taxing authorities.

Table 4: Sample DPTR Property Tax Calculation

Sample Property		No DPTR			With DPTR			
Land Value Improvements Value Total Assessed Value	$2,231,000 30,000 $2,261,000	City Portion	Other Agencies	Total Property Tax	City Portion	Other Agencies	Total Property Tax	Savings with DPTR
Land (20% of $2.231 million) subject to DPTR rate	$446,200	**$5,016**	$2,631	**$7,647**	**$2,519**	$2,631	**$5,150**	**$2,497**
Land and Improvements (remaining) taxed at regular rate	1,814,800	20,402	10,702	31,103	20,490	10,702	31,192	**-89**
Total	$2,261,000	**$25,418**	$13,333	**$38,751**	**$23,009**	$13,333	**$36,342**	**$2,409**

Harris Green Pilot Program
Given that this is a new initiative for the City that may require significant staff resources to administer, it is recommended that this program begin as a pilot focused on a specific area of the City. The Harris Green district of Downtown provides an ideal location for the pilot since it has several properties that meet provincial criteria for development potential tax relief. Staff recommend that properties in Harris Green be eligible for DPTR at 20% of the Class 5 and Class 6 land value, to a maximum (cap amount) of $925,000 per property. Based on 2024 assessment roll data, staff estimate that there would be approximately twenty properties eligible to participate in the pilot. The median DPTR savings for eligible properties in Harris Green ranges from $1,060 to $4,925 with a median savings of $2,490. As a result of the DPTR, approximately $56,000 in property taxes would be shifted to non-exempt properties, to be finalized based on the 2025 Revised Assessment Roll, Council approved tax increase, and the property owner submitting a valid declaration.

OPTIONS & IMPACTS

Option 1 – Approve a pilot DPTR program (Recommended)

That Council approve a pilot program for eligible properties as follows:

- In the Harris Green district
- With the assessment relief set at 20% of the Class 5 and Class 6 land value to a maximum of $925,000 per property, to be taxed at a municipal tax rate that is 50% lower than the rates established for Classes 5 and 6 (tax rates to be finalized based on the 2025 Revised Assessment Roll).
- Where the following uses are ineligible:
    - parking lots, automotive dealerships, automotive service, car wash, gas stations

    - office use (including general office, health care office, health enhancement offices and laboratory offices)
    - storage and warehouses
    - redevelopment sites
    - hotels and motels
    - big box stores, national chains, international chains
    - manufacturing, production, wholesale, utility, communications and logistics
    - properties owned by any government
    - financial services (including banks, credit unions, investment advisors, insurance and trust companies)
    - development presentation centres or temporary sales offices
- Where over 50% of the floor area of properties classified as storage, warehouse, office use, manufacturing, production or wholesale is occupied by arts, culture and not-for-profit organizations, these properties will be eligible to participate in the program
- Where over 50% of the floor area of properties are occupied by eligible uses the entire property would qualify for relief.
- A requirement that over 50% of the floor area is in use from October 1 to December 31 of the previous year
- A requirement to submit a declaration regarding the use of the property
- A penalty of $10,000 for submitting a false declaration to encourage that declarations be completed carefully and accurately

Implementing this initiative as a pilot is recommended since it will allow staff to establish the administrative processes for this new program while providing relief to an area of the city that has the largest number of properties that meet the provincial criteria and additional City eligibility criteria. An expansion of or changes to the program, incorporating any lessons from the pilot could be considered in the future.

Option 2 – Do not proceed with implementing a DPTR program at this time or provide alternative direction to staff.

Should Council wish to provide alternate direction to staff on program implementation, or not proceed with implementing a program at this time, DPTR tax rates would not be in place and properties would continue to be taxed under the regular scheme.

2023 – 2026 Strategic Plan

A development potential tax relief program would support the Economic Health and Community Vitality priority; specifically, to support small businesses and the visitor economy.

Impacts to Financial Plan

Approving a development potential tax relief program does not impact the City's Financial Plan since the City will levy the required amount of property taxes to support all the City's programs and services. However, taxing a portion of class 5 and class 6 properties at a reduced rate does shift the tax burden to other properties within these property classes.

Official Community Plan Consistency Statement

Not applicable to the development potential tax relief program.

CONCLUSIONS

Implementing a Development Potential Tax Relief program will provide temporary relief to retailers and community organizations for a maximum term of five years, while not impeding development in the long term. Any relief provided would shift the burden to non-eligible properties.

Respectfully submitted,

Layla Monk	Susanne Thomson
Manager of Revenue	Deputy City Manager and CFO

Report accepted and recommended by the City Manager