



Governance and Priorities Committee Report

For the Meeting of April 23, 2015

To: Governance and Priorities Committee
From: Susanne Thompson, Director, Finance
Subject: 2015 Property Tax Rates

Date: April 15, 2015

Executive Summary

Under section 197 of the Community Charter, after the adoption of the financial plan bylaw but before May 15th each year, Council must approve the annual tax bylaw.

In addition, under section 197 (3.1), prior to adopting the tax bylaw, Council must consider the proposed tax rates for each property class in conjunction with the objectives and policies for the distribution of property taxes among property classes. The City of Victoria's Revenue and Tax Policy (Appendix A) includes these objectives and policies.

On January 29, 2015, following a review of the Revenue and Tax Policy, Council amended the policy for the distribution of property taxes among property classes to maintain the current share, excluding the impact of new assessment revenue, by allocating tax increases equally. The policy to impose the same tax rate on business, light and major industrial tax classes remained unchanged.

The overall property tax increase for 2015 is 2.23%. Allocating this increase as per the approved Revenue and Tax Policy equates to \$50 for an average residential property assessed at \$518,000 and \$151 for a typical business property assessed at \$500,000. The proposed Tax Bylaw, 2015 outlines the resulting tax rates (Appendix B).

Recommendations:

That Council:

1. Approve 2015 tax rates based on approved policy as follows:

Residential 4.4414; Utility 37.7158; Major Industrial 13.8749; Light Industrial 13.8749; Business 13.8749; Rec/Non Profit 8.2188

2. Give first, second and third reading to Tax Bylaw, 2015 at the April 23, 2015 Council meeting

Respectfully submitted,


Jo-Ann O'Connor
Manager, Financial Planning


Susanne Thompson
Director, Finance

Report accepted and recommended by the City Manager:

Date:



April 16/15

Attachments:

Appendix A – Revenue and Tax Policy

Appendix B – Tax Bylaw, 2015

Purpose

The purpose of this report is to seek approval for 2015 property tax rates.

Background

Under section 197 of the Community Charter, after the adoption of the financial plan bylaw but before May 15th each year, Council must approve the annual tax bylaw.

In addition, under section 197 (3.1), prior to adopting the tax bylaw, Council must consider the proposed tax rates for each property class in conjunction with the objectives and policies for the distribution of property taxes among property classes. The City's Revenue and Tax Policy (Appendix A) includes these objectives and policies.

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% over three years (2012-2014).

Since the final year of implementation for the policy was 2014, and in accordance with Council's direction, the policy was reviewed by updating and analysing the same indicators from the 2011

review, such as the share of taxes paid by the business sector and the tax burden on residential taxpayers in Victoria, both compared to benchmark municipalities and the trend of commercial building permits. Based on the findings, it was recommended that no further shifting of taxes. On January 29, 2015, Council approved the recommendation to maintain the current share of distribution of property taxes among property classes excluding the impact on new assessment.

Options & Impacts

The overall tax increase for all options is 2.23%.

1. Allocate tax increases as per the approved Revenue and Tax Policy (recommended)

	<u>Tax Rate</u>	<u>Tax Increase</u>
Residential	4.4414	2.23%
Utility	37.7158	2.23%
Major Industrial	13.8749	-7.05%
Light Industrial	13.8749	3.91%
Business	13.8749	2.23%
Rec/Non Profit	8.2188	2.23%

The tax increase is equal to \$50 for average residential property assessed at \$518,000 and \$151 for a typical business assessed at \$500,000.

2. Increase taxes evenly among tax classes

	<u>Tax Rate</u>	<u>Tax Increase</u>
Residential	4.4414	2.23%
Utility	37.7158	2.23%
Major Industrial	15.2607	2.23%
Light Industrial	13.6507	2.23%
Business	13.8749	2.23%
Rec/Non Profit	8.2188	2.23%

The tax increase is equal to \$50 for average residential property assessed at \$518,000 and \$151 for a typical business assessed at \$500,000.

3. Tax ratios remain unchanged

	<u>Tax Rate</u>	<u>Tax Increase</u>
Residential	4.5263	4.18%
Utility	33.5477	-9.06%
Major Industrial	13.6138	-8.80%
Light Industrial	13.6138	1.95%
Business	13.6138	0.30%
Rec/Non Profit	8.2895	3.11%

The tax increase is equal to \$94 for average residential property assessed at \$518,000 and \$20 for a typical business assessed at \$500,000.

Recommendations

That Council:

1. Approve 2015 tax rates based on approved policy as follows:
Residential 4.4414; Utility 37.7158; Major Industrial 13.8749; Light Industrial 13.8749; Business 13.8749; Rec/Non Profit 8.2188
2. Give first, second and third reading to Tax Bylaw, 2015 at the April 23, 2015 Council meeting

Appendix A – Revenue and Tax Policy

Department of Finance

Policies and Procedures

Revenue and Tax

Authorized by: Council

Date of issue: February 16, 2009

Date of revision: January 29, 2015

Purpose

The purpose of the Revenue and Tax Policy is to outline the proportions of revenue sources, the distribution of property taxes among property classes and the use of permissive property tax exemptions.

Primary Objectives

- To provide tax payers with stable, equitable and affordable property taxation while at the same time providing high quality services.
- To support the OCP and other City plans as well as complement the Regional Context Statement.

Policies

1. Revenue Proportions by Funding Sources

Property taxes are the main source of revenue for the City and pay for services such as police and fire protection, bylaw enforcement, and infrastructure maintenance. Property taxes provide a stable and consistent source of revenue for services that are difficult or undesirable to fund on a user pay basis. Therefore, property taxes will continue to be the City's major source of revenue.

However, it is the City's desire to charge user fees where feasible. Some programs, such as recreation, are partially funded by user fees. The City also has several self-financed programs that are fully funded by user fees. These include Water Utility, Sewer Utility, Garbage Utility, and the Victoria Conference Centre.

In addition, the City has reviewed and updated its DCC bylaw to ensure that developers are paying their fair share of infrastructure required as a result of new development.

Policy 1.0

User pay funding will be used for such services that are practical and desirable to fund on a user pay basis.

Services that are undesirable or impractical to fund on a user pay basis will be funded by property taxes.

Policy 1.1

The City will continue to explore alternative revenue sources to diversity its revenue base.

2. Distribution of Property Taxes Among Property Classes

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 to mitigate the shift.

Until 2007, it was Council's practice to modify tax ratios to avoid such shifts. This equalization practice provided an effective tax increase that was equal for all classes. It is important to be aware that this practice only avoids shifts *between* property classes. There is still a potential for shifts *within* a property class where one property has experienced a market value change that is greater than the average for that class.

However, starting in 2007, business and industrial tax ratios have been held constant in recognition of the larger tax burden that has been placed on those classes. This resulted in higher tax increases being passed on to the residential class compared to business and industrial.

The pressure continues across the country to reduce the tax burden on the business and industrial classes. In recognition of this, and the desire to support a healthy business environment, Council's goal is to have a business class tax burden that is equitable.

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 to achieve the goal. The review concluded that additional relief for the business tax class was warranted. However, the tax ratio was not the best mechanism of achieving that goal. As a result, Council approved the following policy objective: *To reduce the business property tax class share of the total property tax levy to 48% over three years (2012-2014). The redistribution excludes impact of new assessment revenue. The total redistribution of the tax levy was \$1.51 million.*

In 2015, an update review was completed and based on the findings, policy 2.0 was amended to maintain the current share of taxes among tax classes.

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.

3. Use of Permissive Property Tax Exemptions

The City continues to support local non-profit organizations through permissive tax exemptions. Each year, a list of these exemptions is included in the City's Annual Report.

In addition, the City offers a Tax Incentive Program to eligible owners of downtown heritage designated buildings to offset seismic upgrading costs for the purposes of residential conversion of existing upper storeys. The exemptions are for a period up to ten years.

The City encourages redevelopment of lands within the City and the use of environmentally sustainable energy systems for those developments through revitalization property tax exemptions.

Policy 3.0

Permissive property tax exemptions are governed by the City's Permissive Property Tax Exemption Policy, which outlines the criteria for which property tax exemptions may be granted.

Policy 3.1

Heritage property tax exemptions are governed by the City's Heritage Tax Incentive Program.

Policy 3.2

Revitalization property tax exemptions are governed by the City's Revitalization Tax Exemption (Green Power Facilities) bylaw.

Appendix A – Tax Bylaw, 2015

NO. 15-036

A BYLAW OF THE CITY OF VICTORIA

The purpose of this Bylaw is to impose tax rates and taxes for the year 2015.

Under its statutory powers, including section 197 of the *Community Charter*, under the *Hospital District Act*, and the *Local Government Act*, the Council of The Corporation of the City of Victoria, in an open meeting assembled, enacts the following provisions:

1. This Bylaw may be cited as the "TAX BYLAW, 2015."
2. Taxes are imposed for 2015 by imposing the following rates upon all taxable land and improvements within the City, based on the assessed value, to provide the sums required for each of the following purposes:
 - a) for all general purposes of the City, except Policing, the rates shown in column A of Schedule 1;
 - b) to meet payments of interest and principal of debts incurred by the City for which other provision has not been made, the rates shown in column B of Schedule 1;
 - c) to provide monies for City Policing, the rates shown in column C of Schedule 1;
 - d) to provide monies which, when added to the amount remaining in the Capital Regional District Rate Account for the year 2014, are sufficient for the City's share of the expenses of the Capital Regional District and for the City's share of the debts incurred for regional district purposes according to the requisition submitted to City Council by the Capital Regional District Board, the rates shown in column D of Schedule 1;
 - e) to provide monies which, when added to the amount remaining in the Hospital Rate Account from the year 2014, are sufficient for the City's share of the expenses of the Capital Regional Hospital District and for the City's share of debts incurred for hospital purposes according to the requisition submitted to City Council by the Capital Regional Hospital District Board, the rates shown in column E of Schedule 1;
3. The rates and taxes imposed under this Bylaw must be paid to the City Collector's office at City Hall, Victoria, British Columbia, not later than 4:30 o'clock in the afternoon of July 2, 2015.

READ A FIRST TIME the	day of	2015.
READ A SECOND TIME the	day of	2015.
READ A THIRD TIME the	day of	2015.
ADOPTED the	day of	2015.

CORPORATE ADMINISTRATOR

MAYOR

**Schedule 1 - Bylaw No. 15-036
Tax Rates 2015**

(dollars of tax per \$1,000 taxable value)

Class	Assessment	A	B	C	Total Municipal	D	E
		General	Debt	Police		Regional District	Regional Hospital
Residential General	13,773,659,901	2.7811	0.1431	1.5172	4.4414	0.2992	
CRHD	13,773,659,901						0.3014
Utilities General	14,572,885	23.6168	1.2150	12.8840	37.7158	2.5406	
CRHD	60,476,885						1.0548
Supportive Housing	18	2.7811	0.1431	1.5172	4.4414	0.2992	0.3014
Industrial Major	9,188,000	8.6882	0.4470	4.7397	13.8749	0.9346	1.0247
Light	58,890,300	8.6882	0.4470	4.7397	13.8749	0.9346	1.0247
Business General	4,236,421,495	8.6882	0.4470	4.7397	13.8749	0.9346	
CRHD	4,236,421,495						0.7384
Recreational/Non profit	22,830,300	5.1464	0.2648	2.8076	8.2188	0.5536	0.3014