



Governance and Priorities Committee Report

For the Meeting of January 22, 2015

To: Governance and Priorities Committee
From: Susanne Thompson, Director, Finance
Subject: Revenue and Tax Policy Review

Date: January 9, 2015

Executive Summary

The purpose of this report is to outline the results of the review of the Revenue and Tax Policy and seek Council direction on changes to the policy.

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. The purpose of the review is to update the policy for the distribution of taxes among property tax classes since the final year of implementation of the current policy was 2014.

The policy review analyzed the share of taxes paid by business; business tax rates; the burden on residential tax payers; the viability of the commercial core; and the relationship between spending and taxes. Based on the findings, it appears that no additional shifting of taxes from the business class is warranted at this time.

It is proposed that a number of indicators be monitored, such as the share of taxes paid by the business sector in Victoria compared to benchmark municipalities; the tax burden on residential taxpayers in Victoria compared to benchmark municipalities; and the trend of commercial building permits. If any of the indicators show a different pattern than benchmark municipalities, further review would be warranted at that time.

Recommendation

That Council:


1. Direct staff to amend the policy on distribution of property taxes among property classes based on Council's discussion of the review findings.
2. Direct staff to bring forward a monitoring report on benchmarks identified in this report on an annual basis prior to the adoption of the annual property tax rate bylaw.

Respectfully submitted,



Susanne Thompson
Director, Finance

Report accepted and recommended by the City Manager:



Date:

January 13, 2015

Attachments:

Appendix A – Revenue and Tax Policy

Appendix B – The Distribution of Taxes Among Property Classes by Victoria Consulting Network Ltd.

Purpose

The purpose of this report is to outline the results of the review of the Revenue and Tax Policy and seek Council direction on changes to the policy.

Background

As part of the financial planning process, a review of the City's Revenue and Tax Policy (attached as Appendix A) was initiated as directed by Council in 2012 when the current policy was approved. As required under section 165 of the *Community Charter*, the financial plan must set out the objectives and policies regarding revenue proportions by funding source; distribution of property taxes among property classes; and permissive property tax exemptions. In addition, section 197 requires that before adopting the annual property tax bylaw, Council 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. The purpose of the review is to update the policy for the distribution of taxes among property tax classes.

In April of 2012, Council approved the current policy for implementation starting in 2012. The policy on the distribution of taxes among tax classes reduced the tax share allocated to the business class to 48% (excluding the impact of new assessment revenue) over three years. The final year for the implementation of this policy was 2014.

Prior to the current policy and until 2007, it was Council's practice to modify tax ratios to allocate tax increases equally to all property classes. Starting in 2007, business and industrial tax ratios were held constant resulting in higher tax increases for the residential class. In 2012, the focus shifted from tax ratios to tax shares and between 2012 and 2014 the business tax share was reduced.

Issues & Analysis

The policy review included updating and analyzing the same information that was used in the 2011 review, including the share of taxes paid by business; business tax rates; the burden on residential tax payers; the viability of the commercial core; and the relationship between spending and taxes. Based on the findings, the consultant is recommending that no additional shifting of taxes from the business occurs at this time. The full report detailing the review findings is attached as Appendix B and Mr. Peter Adams of Victoria Consulting Network will present his findings to the Governance and Priorities Committee at the January 22, 2015 meeting.

Going forward, it is proposed that a number of indicators be monitored, such as the share of taxes paid by the business sector in Victoria compared to benchmark municipalities; the tax burden on residential taxpayers in Victoria compared to benchmark municipalities; and the trend of commercial building permits. If any of the indicators show a different pattern than benchmark municipalities (Saanich, Langford, Vancouver, Surrey, Richmond, District of North Vancouver, City of North Vancouver, New Westminster, District of Langley, City of Langley, Coquitlam, Burnaby, Abbotsford, Kelowna, Kamloops, Nanaimo and Prince George), further review would be warranted at that time.

Options & Impacts

Option 1

Amend the policy to 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 increases will depend on changes to assessed values; no further relief will be provided to the business class.

Option 2

Amend the policy to continue to shift taxes away from business to residential taxpayers.

Impacts: The burden on residential tax payers will increase; further relief will be provided to the business class.

Recommendation

That Council direct staff to amend the policy based on Council's discussion of the review findings.

Appendix A

Department of Finance Policies and Procedures	
Revenue and Tax	
Authorized by: Council	Date of issue: February 16, 2009 Date of revision: April 26, 2012

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 is \$1.51 million.

Policy 2.0

The share of the property tax levy for the business class will be reduced to 48% over three years (2012-2014).

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.