# The Distribution of Taxes Among Property Classes

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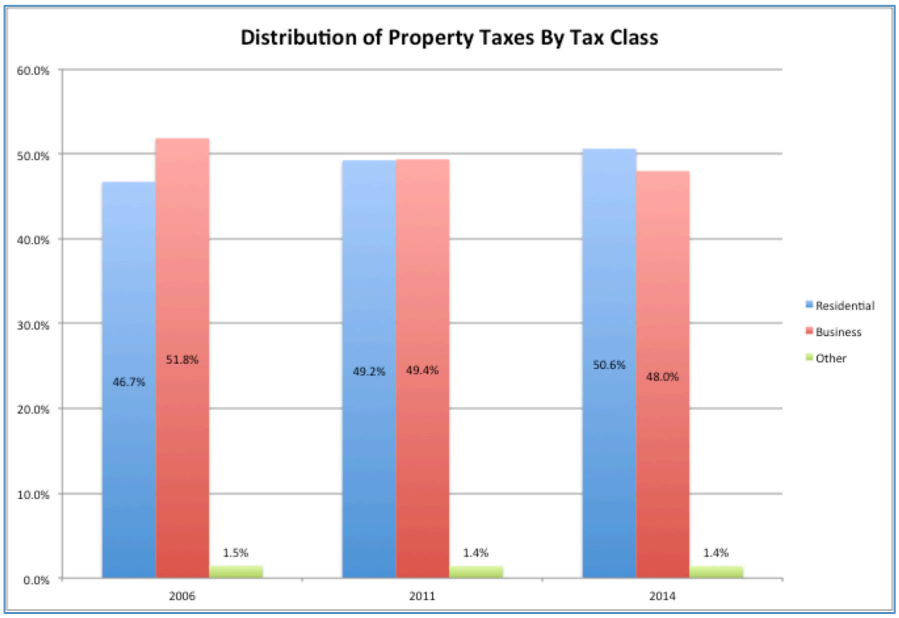
# Table of Contents

## 1. INTRODUCTION

Each year, Council must decide how to the total property tax bill is to be allocated among different tax classes. Since 2007, Council has had a policy of shifting some of the burden of taxation off of the business tax class and onto the residential class – see Chart One.

### CHART ONE




We have been asked to advise the City on two issues:

- Should there be a further reduction in the share of taxes paid by the business class; and,
- Which indicators the City should be used by City staff to monitor the need for further tax shifts?

This paper provides our answers to the questions posed to us and the analysis used to reach our conclusions. To keep the paper short, we have placed supplementary information and analysis in the Appendices.

## 2. BACKGROUND

In 2007, Council felt that the property tax burden on the business community was too large relative to the burden on residential taxpayers. The primary evidence for this was the fact that the business tax ratio (the ratio of the tax rate paid by the business class divided by the tax rate paid by the residential class) had risen sharply in the previous six years and was higher than in many comparable municipalities. Consequently, Council adopted a policy of lowering the business tax ratio with the goal of reaching a tax ratio of 3.0:1.

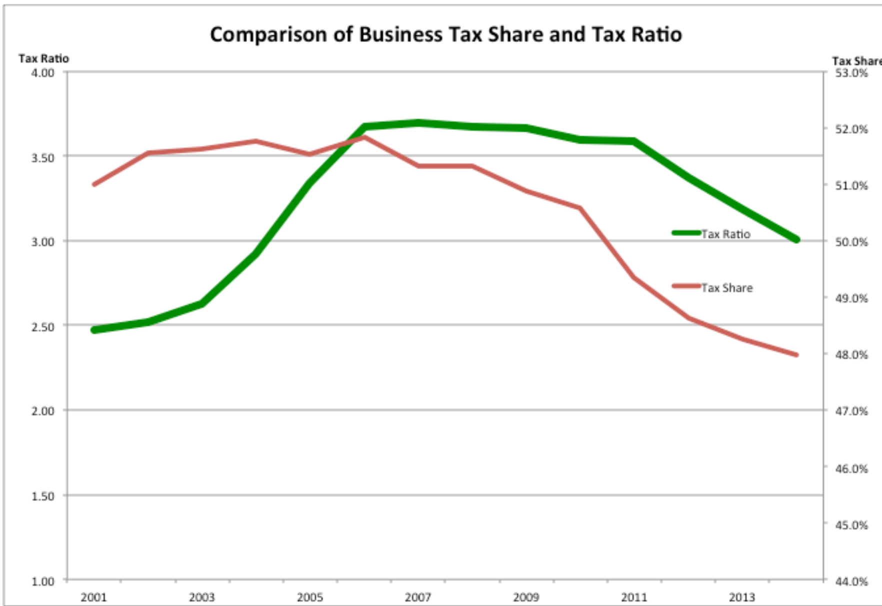
In 2012, we recommended that the City continue to reduce the share of taxes on the business class but change the focus of the policy away from the business tax ratio to the actual tax share. In particular, we recommended that the share of taxes paid by the business class be reduced from 49.4% to 48% over three years.[1] These recommendations were accepted by Council and have been implemented.

We recommended that Council focus its attention on the business tax share not the business tax ratio for two principal reasons:

- Changes in the tax ratio are not a reliable guide to changes in tax shares. For many years, the share of taxes paid by businesses in Victoria remained constant even though the tax ratio increased – see Chart Two. The business tax ratio has increased in many municipalities over time simply because the assessed value of homes has increased much faster than the assessed value of commercial properties. In order to keep tax shares unchanged, municipal councils' have responded to these assessment shifts by increasing the business tax ratio. Table One provides a simplified example of how rapidly increasing residential property values has a very different effect under a fixed share policy and a fixed tax ratio policy.
- By focusing on the tax share, Council can precisely control the pace at which taxes increase in each class. Chart Three compares the annual tax increase by tax class over the past twelve years. Prior to 2007 increases were the same in each of the classes and shares remained constant. Between 2007 and 2011, tax increases were higher for residential taxpayers than business taxpayers but the difference was erratic because they were strongly influenced by changes in market values. Since 2011, the difference has bee relatively even except in 2014 when unexpected funds from new development were used to moderate the increase for the residential sector.

[1] Excluding the effects of new construction, which could change the share of taxes paid by a tax class.

## CHART TWO




## TABLE ONE:
## COMPARISON OF FIXED TAX SHARE AND FIXED TAX RATIO POLICY

**Fixed Share**

| | Residential | | | Business | | | | | Tax Shares | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Assess ($b) | Tax Rate | Taxes ($m) | Assess ($b) | Tax Rate | Taxes ($m) | Total Taxes ($m) | Bus. Tax Ratio | Res. | Bus. |
| Year 1 | $13.5 | $4.47 | $60 | $4.1 | $13.44 | $55.7 | $116 | 3.0 | 52.0% | 48.0% |
| Year 2 | $14.2 | $4.40 | $62 | $4.1 | $13.88 | $57.5 | $120 | 3.2 | 52.0% | 48.0% |
| change | 5.0% | -1.7% | 3.25% | 0.0% | 3.25% | 3.25% | 3.25% | | | |

**Fixed Ratio**

| | Residential | | | Business | | | | | Tax Shares | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Assess ($b) | Tax Rate | Taxes ($m) | Assess ($b) | Tax Rate | Taxes ($m) | Total Taxes ($m) | Bus. Tax Ratio | Res. | Bus. |
| Year 1 | $13.5 | $4.47 | $60 | $4.1 | $13.44 | $55.7 | $116 | 3.0 | 52.0% | 48.0% |
| Year 2 | $14.2 | $4.50 | $64 | $4.1 | $13.53 | $56.1 | $120 | 3.0 | 53.2% | 46.8% |
| change | 5.0% | 0.6% | 5.66% | 0.0% | 0.63% | 0.63% | 3.25% | | | |

**CHART THREE**


Interestingly, since 2011, the business tax ratio has fallen significantly and has reached the previous target level of 3.0:1. However, this reduction has been largely the result of market forces not tax policy. Commercial property values have continued to increase while residential values have declined – the opposite of the situation in the early 2000s. As a result, the tax ratio would have declined substantially even if Council had not shifted taxes from the business class – see Table Two.

**TABLE TWO:**
**IMPACT OF TAX POLICY ON BUSINESS TAX RATIO**

| | 2011 | 2014 If no Shift in Taxes | 2014 Actual | Impact of Tax Shift |
|---|---|---|---|---|
| **Share of Taxes** | | | | |
| Residential | 49.2% | 49.3% | 50.6% | 1.3% |
| Business | 49.4% | 49.3% | 48.0% | -1.3% |
| | | | | |
| **Tax Rate ($ per $1,000)** | | | | |
| Residential | $3.77 | $ 4.35 | $4.47 | $ 0.11 |
| Business | $13.55 | $13.81 | $13.44 | -$0.36 |
| | | | | |
| **Business Tax Ratio** | 3.59 | 3.17 | 3.01 | -0.16 |

We continue to recommend that Council use the tax share approach to the distribution of taxes not the tax ratio. The key question is whether the reduction in share that has taken place for the business class since 2007 is adequate or whether a further shift is appropriate. Unfortunately, there is no single indicator that, by itself, provides an unambiguous measure of the right proportion of taxes that should be paid by the business class. Instead, a number of different indicators have to be examined. Five are considered in this paper:

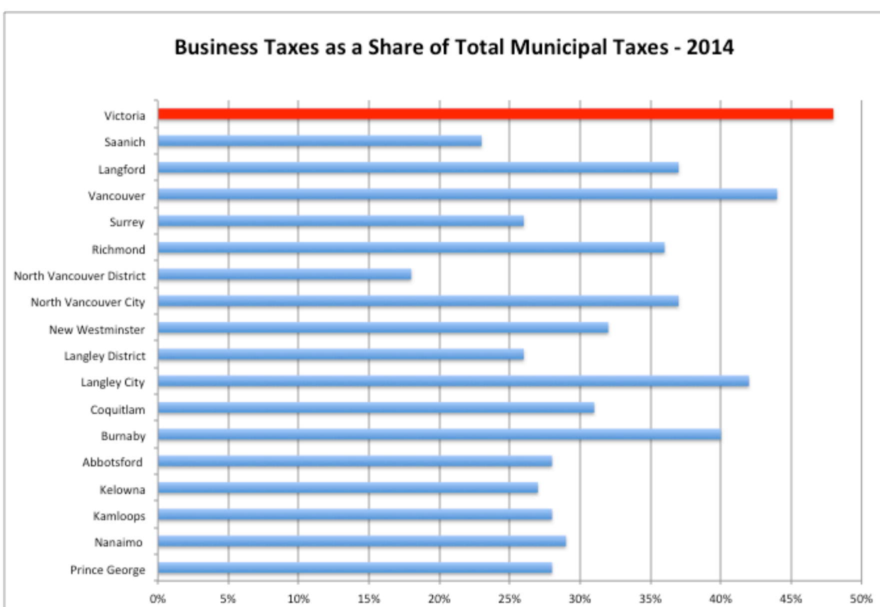
- The share of taxes paid by the business sector in Victoria compared to other jurisdictions.
- Business tax rates in Victoria compared to other jurisdictions.
- The tax burden on residential taxpayers in Victoria compared to other jurisdictions.
- The viability of the commercial core.
- The relationship between spending and taxing decisions.

These indicators are discussed in the following Sections. Where comparisons are made to other municipalities, we use the same benchmark communities that we used in our 2012 study.

## 3. THE SHARE OF TAXES PAID BY BUSINESS

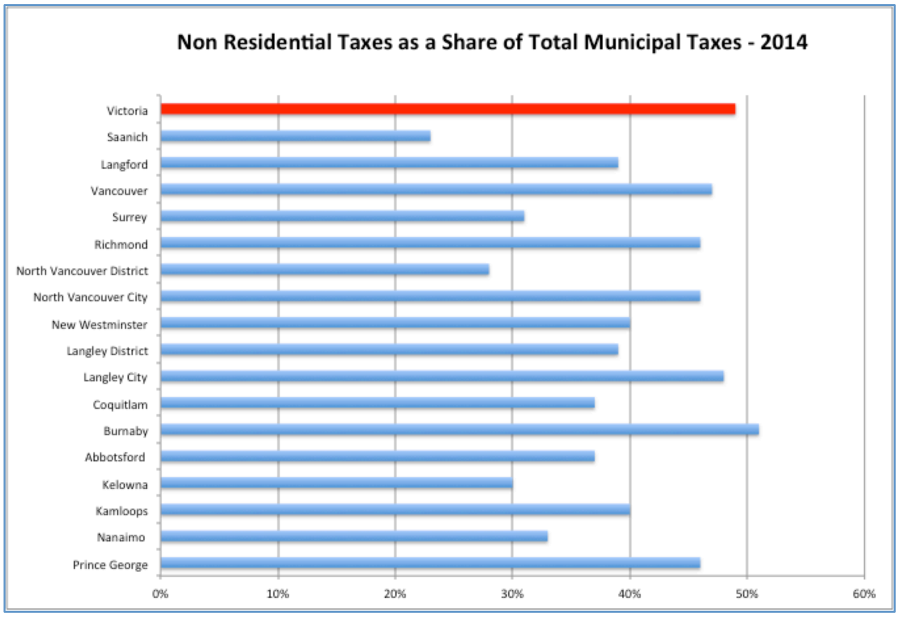
Victoria continues to rely more heavily on taxes from the business class than any of the municipalities in the benchmark group - see Chart Four.

**CHART FOUR**



The comparison is not as dramatic when we compare taxes from all non-residential property because many other communities receive substantial revenue from the major and light industry tax classes as well as the business class – see Chart Five. Nevertheless, Victoria remains the second highest of the group.

**CHART FIVE**




On the surface, therefore, it would seem that Victoria is out of line with other municipalities. However, the relatively high share of taxes raised from the business class is reasonable given Victoria's much higher concentration of commercial properties relative to residential properties. The difference is illustrated by Chart Six, which compares the improvement values in the business class to the improvement values in the residential class.

The improvement values are an estimate of the value of the physical structures on the land and exclude the value of the land itself. Because land values vary markedly among municipalities, excluding land values provides a better reflection of the underlying differences in the value of the physical structures in the communities. As Chart Six shows, the ratio of Class 6 (business) to Class 1 (residential) improvements is much higher in Victoria than in any of the comparison group.[2] This is not surprising given the relatively small footprint of the City of Victoria.[3] Therefore, given the special nature of Victoria as

[2] For this Chart, we have included only those municipalities from our benchmark group that could be considered core municipalities - plus Saanich and Langford.

[3] Interestingly, if Victoria and Saanich were combined, they would have a similar ratio in Chart 6 as the City of Vancouver but the combined percentage of taxes raised from the business class would be much less than in Vancouver.

the most 'core' of core cities, it is not unreasonable that its share of taxes from the business class be above the share in the benchmark group.

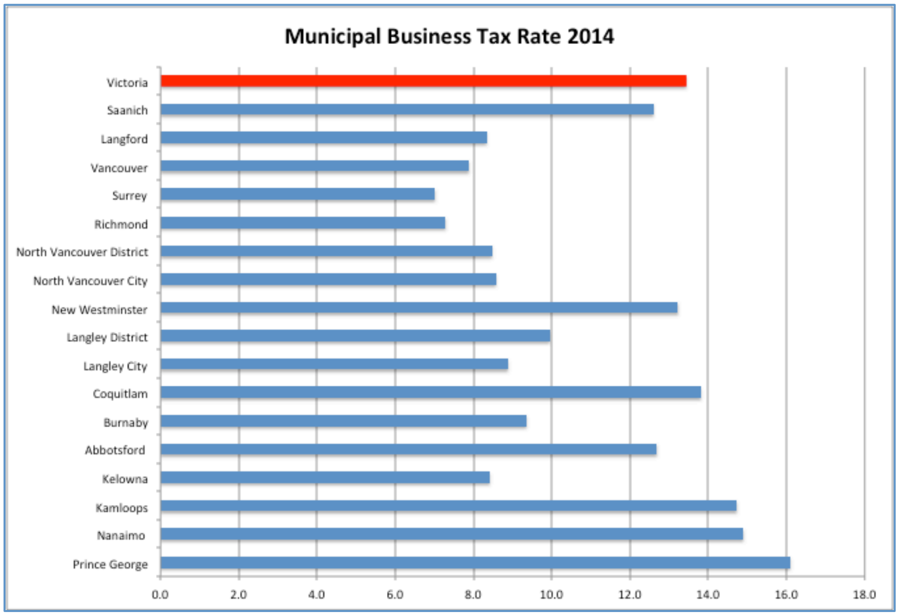
**CHART SIX**


## 4. BUSINESS TAX RATES

Victoria continues to have a business tax rate that is higher than most of the comparison municipalities – see Chart Seven. The usefulness of this comparison, however, is limited by the differences in land values among the communities. For example, tax rates in the Lower Mainland are generally lower than in Victoria but land values are higher. Therefore, differences in taxes paid will be less than differences in the tax rate. Similarly, the tax rate in Nanaimo is higher than in Victoria but land values are lower so taxes may be higher or lower than in Victoria.

Within the CRD, the picture is clearer. Tax rates are higher in Victoria than in Saanich and Langford but property values and rents also tend to be higher in Victoria. Therefore, it is safe to say that taxes paid by commercial properties are higher in Victoria than in neighbouring communities. One of the reasons for higher taxes is the fact that Victoria, as a core community, incurs greater costs in some service areas than neighbouring communities, notably for policing. The key question is whether the higher tax load on commercial property is reasonable given that it is the presence of the commercial core that creates the demand for additional services and, therefore, additional costs. Without clear evidence on the scale of these additional costs, it is hard to be definitive.

**CHART SEVEN**



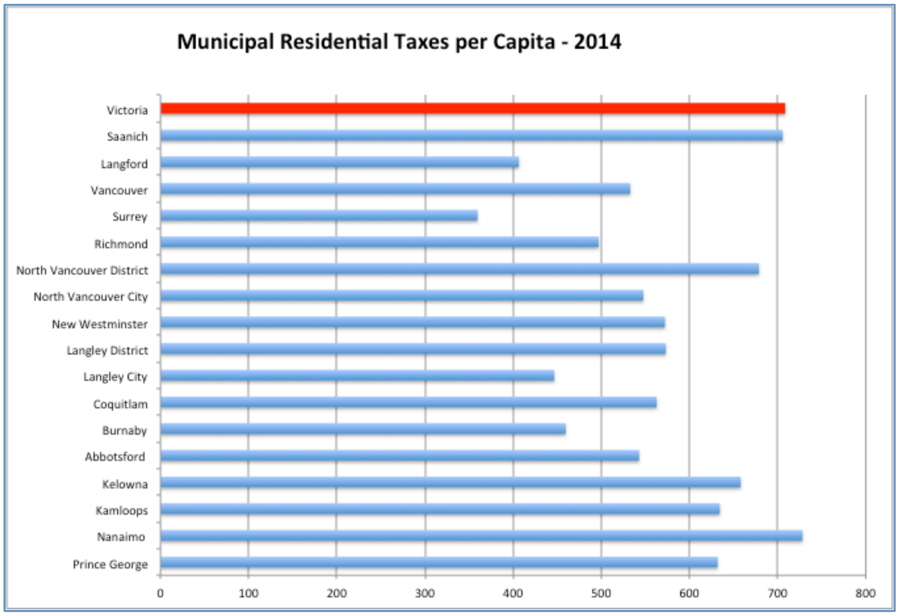

Over the past three years, the gap between the Victoria business tax rate and the rates in Saanich and Langford has narrowed; in part because of efforts to contain the overall rate of growth of taxes in the City and the shift of taxes off of the business tax class. Continuation of both policies would likely further reduce the gap between business tax rates. Whether or not the difference in taxes paid has a significant impact on investment decisions by owners and location decisions by tenants is debatable since such differences are only one element in a variety of factors than influence investment decisions. We examine recent investment and location trends in Section Six. [4]

## 5. THE BURDEN ON RESIDENTIAL TAXPAYERS

As taxes are reduced on the business class, they are increased on the residential class. Therefore, one way of looking at the reasonableness of further tax shifts is to compare the level of residential taxes in Victoria to other jurisdictions. Chart Eight shows that residential taxes per person are high in Victoria both within the CRD and in comparison to benchmark municipalities. Some of the difference in the CRD is attributable to the higher costs and taxes associated with a core municipality.

[4] In the final version of this report, commentary will be added on differences in taxes per square foot in the CRD if reliable data can be supplied by BC Assessment.

## CHART EIGHT

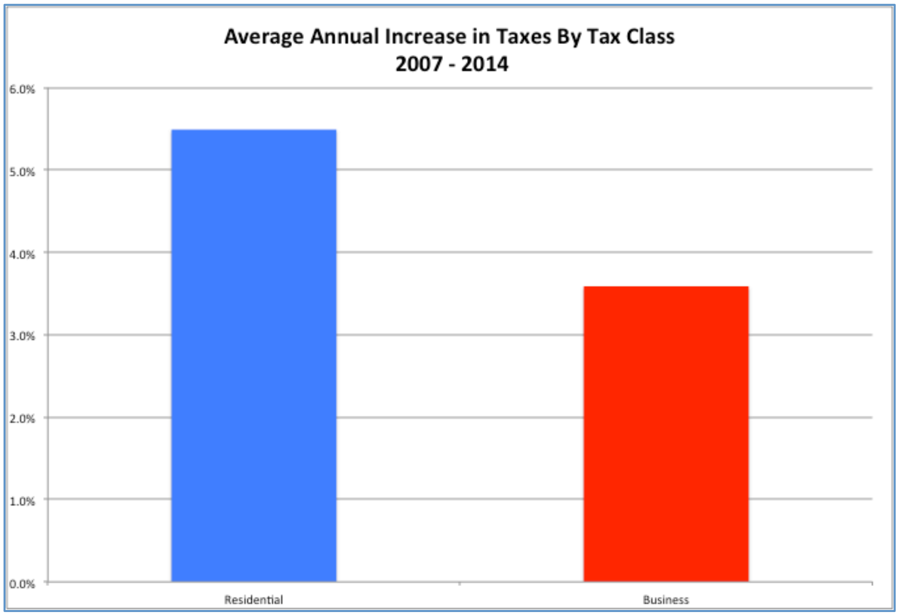



The relatively high level of residential property taxes in Victoria is contrary to the pattern of incomes in the region. As Table Three shows, Victoria residents tend to have lower incomes than residents of Saanich and Langford. Also, because taxes have been shifting, residential taxes have been increasing considerably faster than business taxes since 2007 – see Chart Nine. This already high level of residential taxation does not support a large additional shift in taxes off of the business sector.

## TABLE THREE:
## MEDIAN HOUSEHOLD INCOME - 2011 CENSUS

| | Victoria | Saanich | Langford |
|---|---|---|---|
| **Single Person Households** | $31,309 | $35,188 | $35,412 |
| **Two or More Person Households** | $67,041 | $85,060 | $82,883 |

**CHART NINE**

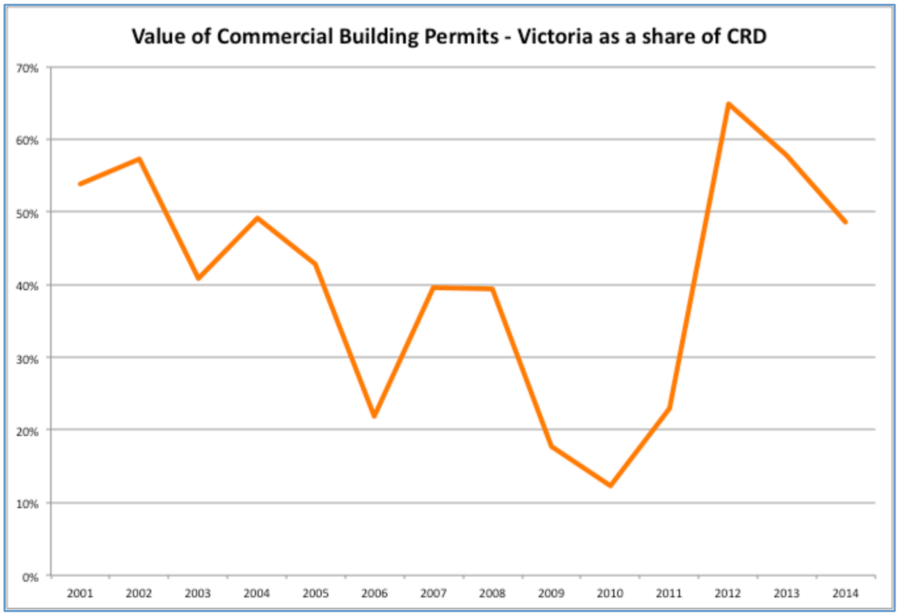



## 6. VIABILITY OF THE COMMERCIAL CORE

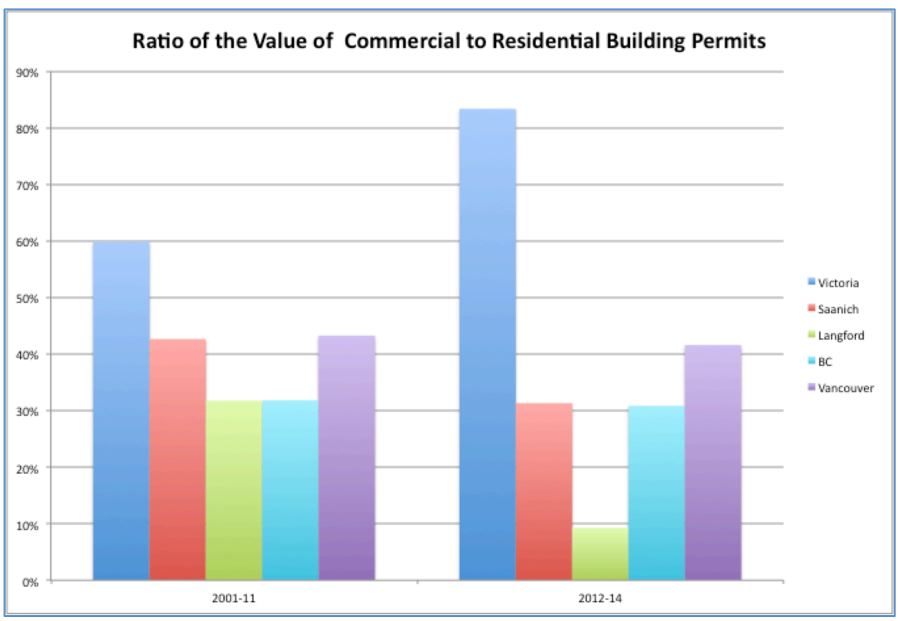
### Building Permits

Planned investment in the commercial core of greater can be measured using the value of building permits issued in Victoria. When we considered this issue in 2012, we saw a disturbing downward trend in Victoria's share of the value of commercial building permits issued in the region. As Chart Ten shows, this pattern has turned around over the past three years. Similarly, the ratio of the value of commercial to residential permits issued has been significantly higher in the past three years than in the previous ten years and continues to be higher than in other communities – see Chart Eleven. Therefore, the recent pattern of investment in commercial facilities does not prompt the same concern as was noted by us three years ago.

## CHART TEN



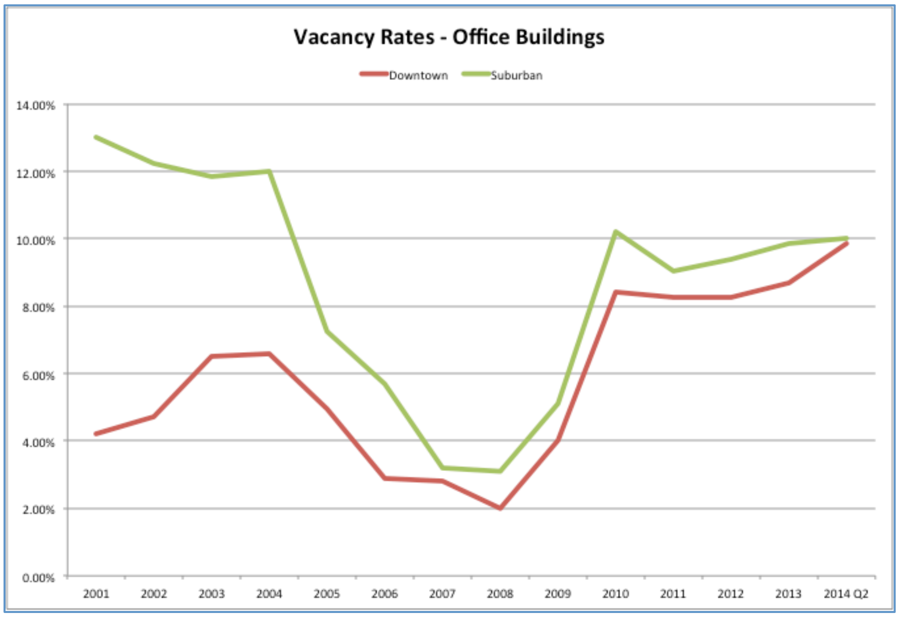

## CHART ELEVEN



### Vacancy Rates[5]

Average vacancy rates in downtown offices in Victoria continue to be high relative to rates experienced prior to 2009 and are similar to average rates outside of downtown – see Chart Twelve. The average rates mask significant differences within the downtown office sector. Class A office buildings continue to be in demand and significant additions to Class A buildings are in the planning stages. In contrast, vacancy rates in Class B space have risen significantly and the overall amount of downtown office space occupied was lower in 2014 than in 2001. Therefore, the economic outlook for the office sector is mixed with some serious pressure on lease rates for the older properties.

**CHART TWELVE**




In the retail sector, the pattern of vacancy rates in the region has continued to be upward for shopping centres, attributable largely to the new capacity that has come on stream in recent years – see Chart Thirteen. The vacancy rate remains lower in Victoria than in the region as a whole but attractive lease rates in new retail space in other communities have had an impact - see Appendix D. The Colliers index for downtown street level retail shows a reduction in the vacancy rate in 2012 and 2013 but the rate remains higher than the average rate for shopping centres in the region. While the situation for street level retail seems to has improved somewhat, the number of retail vacancies in the downtown remains disturbing. The effects of new shopping centre capacity have not fully worked through the market and the downtown retail sector remains vulnerable.

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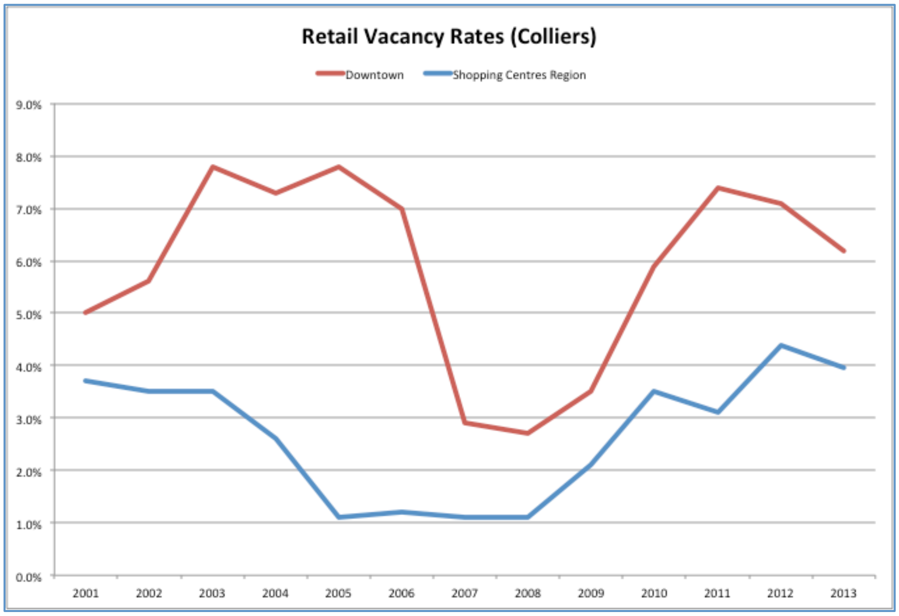
[5] This section is based on data published by Colliers International for the Capital Region. At this time, there is only partial information for the office sector for 2014 and no information for the retail sector beyond 2013.

**CHART THIRTEEN**




## 7. THE RELATIONSHIP BETWEEN SPENDING AND TAXES

### Benefits Received

One way to set the share of taxes payable by the business sector is to look at the benefits received by business from spending by the municipality. Policing, fire protection and roads are all obvious examples of services that directly and substantially benefit businesses.

Some municipalities have tried to estimate the proportion of services that directly benefit business. For example, a study for the City of Vancouver concluded that the business sector directly benefits from 25% of the tax-supported services provided by the City whereas the residential sector benefits from 75% of the services. The proportion is likely to be more heavily weighted toward the business sector in Victoria because Victoria has a higher proportion of commercial to residential investment than Vancouver. However, the share of benefits is unlikely to match the current share of taxes paid by the business sector.

Unfortunately, the estimated share of benefits generated by these studies is open to criticism and debate. First, the method used to determine the share of benefits to business is based on a large number of assumptions and any change in those assumptions would alter the calculated share. Second, the studies do not consider the indirect benefits to business of services to residents. These indirect benefits include making Victoria a more attractive place for employees to live and customers to visit. If these indirect benefits could be measured and included in the calculation, the share of benefits attributable to the business community would increase. Despite these caveats, it is still arguable, that the share of taxation paid by the business sector should be further reduced on a benefits-received basis.

### Accountability to Voters and Taxpayers

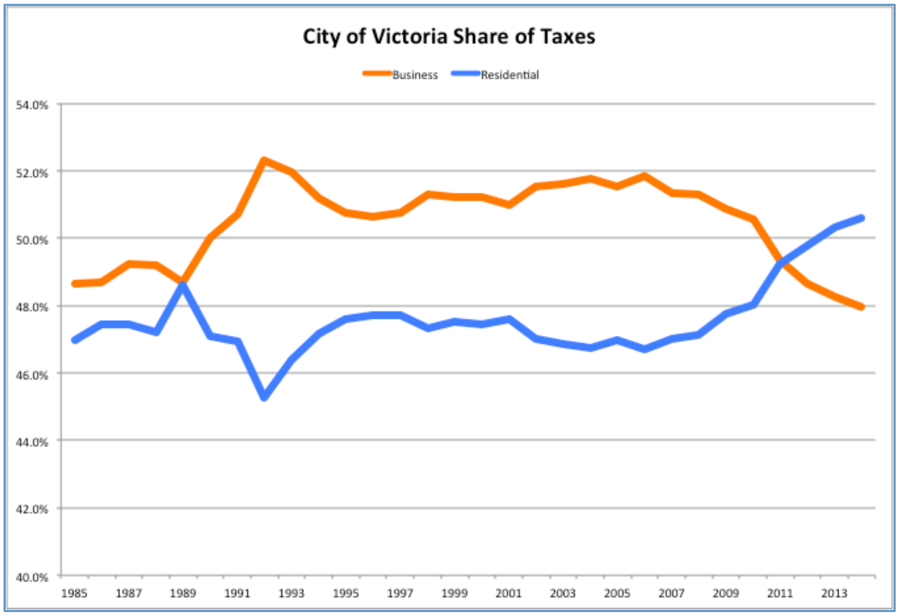
Since residents vote and businesses do not, we expect residents to have a greater impact on the size and character of public spending than the business community. Therefore, voter accountability is increased if residents are asked to pay for services that are wanted or expected by residents. However, businesses can have considerably influence over public policy even if they do not vote; local governments regularly consult with and take into account the views of the business community. Nevertheless, voter accountability is somewhat weakened if voters do not pay a significant proportion of the cost of services. Although the exact proportion is open to debate, any further increase in the share of taxes paid by residents would increase the level of accountability to voters.

## 8. CONCLUSIONS

As noted above, there is no single indicator that can be used to demonstrate whether taxes should be shifted from one tax class to another. Instead, a variety of factors have to be considered. Having reviewed the evidence, we do not find a compelling reason for a further shift in taxes from business to residential at this time for the following reasons:

- The share of taxes paid by the business sector has been reduced considerably since 2007 and is now at its lowest level since the mid 1980s when local governments were given the authority to set different tax rates on different tax classes – see Chart Fourteen.
- When comparing tax shares to other municipalities, the share of taxes paid by the business sector is consistent with the fact that Victoria is the most "core" of core cities. The share paid by the business sector, therefore, is not inconsistent with shares in other municipalities.
- Residential taxes have increase substantially faster than business taxes over the past seven years and residential taxes per person are high relative to benchmark municipalities even though incomes are not.
- Building permit data suggests that the downward trend in Victoria's share of commercial investment has turned around over the past three years.
- Despite the arguments for reducing the business share based on the arguments of benefits received and greater accountability to voters, we do not believe that Victoria is out of line with other municipalities and further reductions would be warranted only if benchmark communities began to consistently reduce the share paid by business.

## CHART FOURTEEN




Although it is not an indicator that we favour, some observers will point to the reduction in the business class tax ratio from 3.7:1 to 3.0:1 as another indicator of the shift in taxes. Victoria's tax ratio is well below the ratio in many benchmark municipalities – see Appendix C.

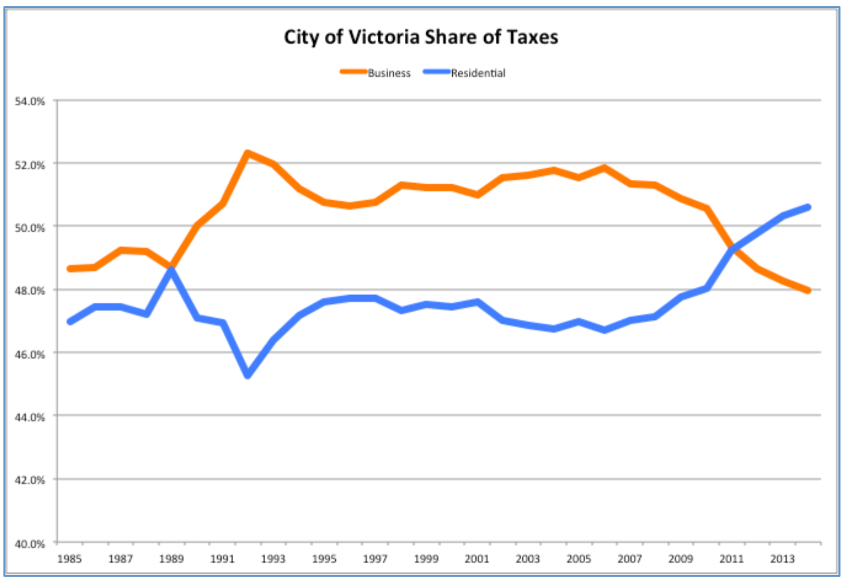
Many in the business community will continue to argue in favour of a further shift in taxes and will point to the continued vulnerability of the many commercial enterprises in the downtown core of Victoria. We are sympathetic to the their concerns but feel that should be addressed in ways that would benefit **both** business and residential sectors (e.g. by continued efforts to reduce the overall rate of increase in taxes and user fees and to improve the efficiency of service delivery.)

If Council accepts our recommendation to maintain the current share of taxes for the next few years (adjusted only for new construction), we recommend that staff continue to monitor the same indicators we have used in the body of this paper. If these indicators show that the tax situation or the economic situation in Victoria is significantly worsening compared to other municipalities, further shifts between the tax classes may have to be considered. At a minimum, we suggest that staff review these indicators every four years (i.e. at least one time in the term of each Council).

# APPENDIX A – LONG TERM TRENDS IN TAX SHARES, TAX RATIOS AND TAX RATES

### Tax Shares

- As a result of Council's tax policy, the tax share for the business class has been decreasing since 2007 after a long period of relative stability.[6] The tax share for the business class in 2014 was 48%. The business class tax share is now the lowest it has never been.
- The tax share for the residential class is the highest it has even been at 50.6%.
- The tax share paid by tax classes other than the residential and business classes is very small – only 1.4% in total in 2014.




### Property Assessment

- Over time, the value of residential assessment has grown much faster than business class assessment – see the next Chart. The data in the Chart does not differentiate market and non-market changes but the difference in the two trends is primarily the result of the faster rate of growth in the value of residential properties compared to commercial property.[7]
- Since 2011, residential assessed values have been declining while commercial values have continued to increase modestly. This is the primary reason why the business tax rate ratio has declined (see Page A10).

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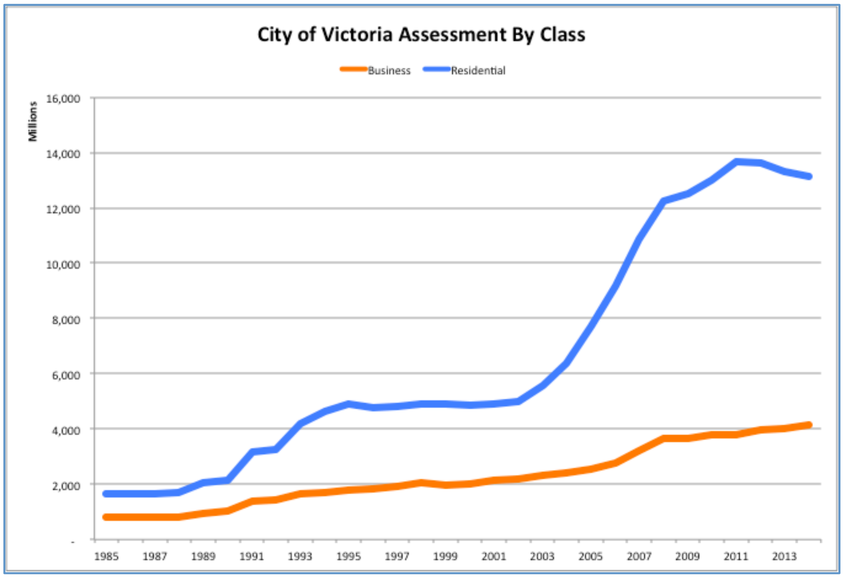
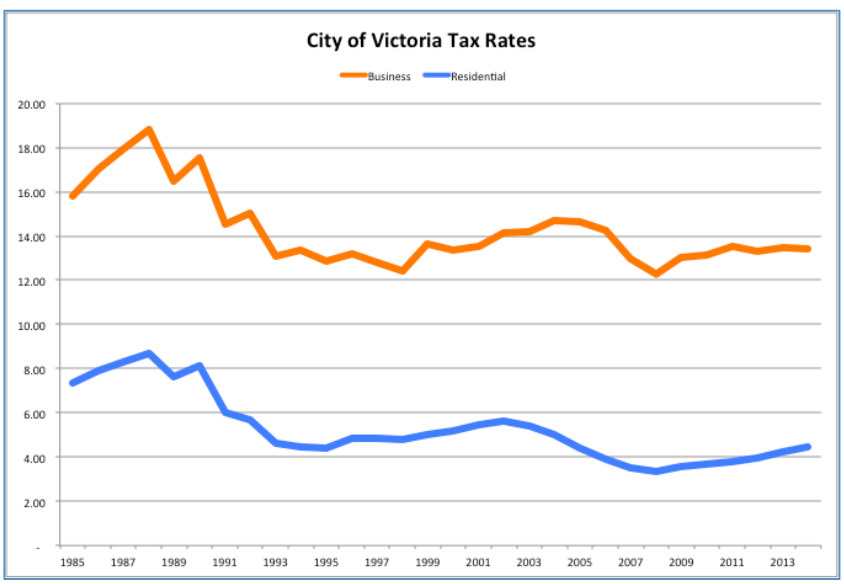
[6] For ease of presentation we refer to Tax Class 6, the 'business & other' tax class, as the business class.
[7] This has been a general trend in most of BC. It is not unique to Victoria.



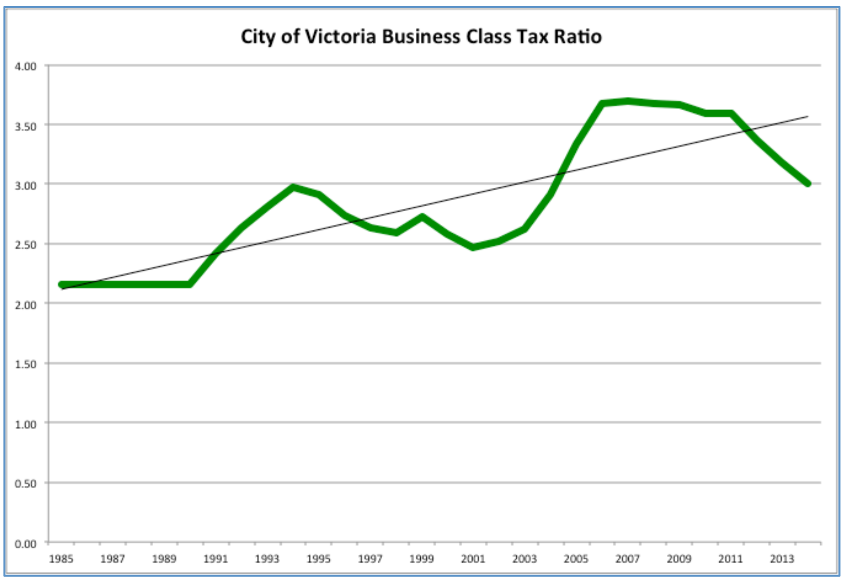

## Tax Rates

- The business tax rate is about the same today as in 2001 and lower today than in the late 1980s and early 1990s. Residential tax rates declined in the early part of this decade and are much lower than in the late 1980s and early 1990s. Reductions in tax rates over time have been possible because of rising assessments even though taxes collected have been increasing. Residential tax rates have increased over the past three years because assessed values have declined and taxes have been shifted to the residential class.



**Business Class Tax Ratio (Ratio of Business tax rate to Residential tax rate)**

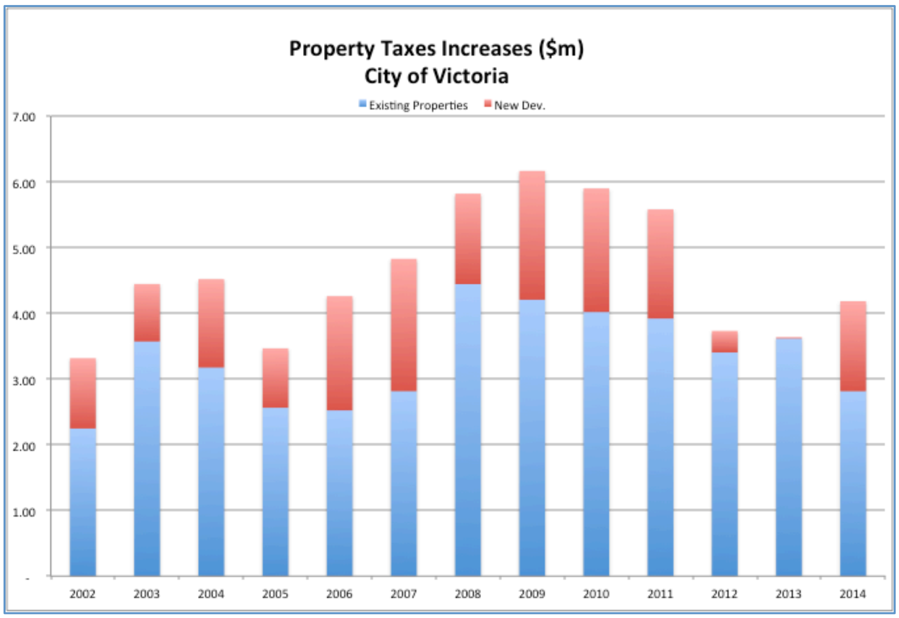
- The business class tax ratio was 3.0 in 2014, its lowest level since 2005. The ratio was reduced by policy over the period 2007 to 2011 from 3.67 to 3.59. Since then, changes in market values coupled with the shift of taxes off of the business class have led to a steep decline in the ratio from 3.59 to 3.0.
- When the City was first given authority to set variable tax rates, the tax ratio was 2.2. Since that time, the ratio has generally trended upward as a result of differences in the rate of increase in the market value of residential and commercial property and the desire of Council's to keep the rate of increase of taxes similar on commercial and residential properties.



# APPENDIX B – RECENT TRENDS IN TAXES PAID

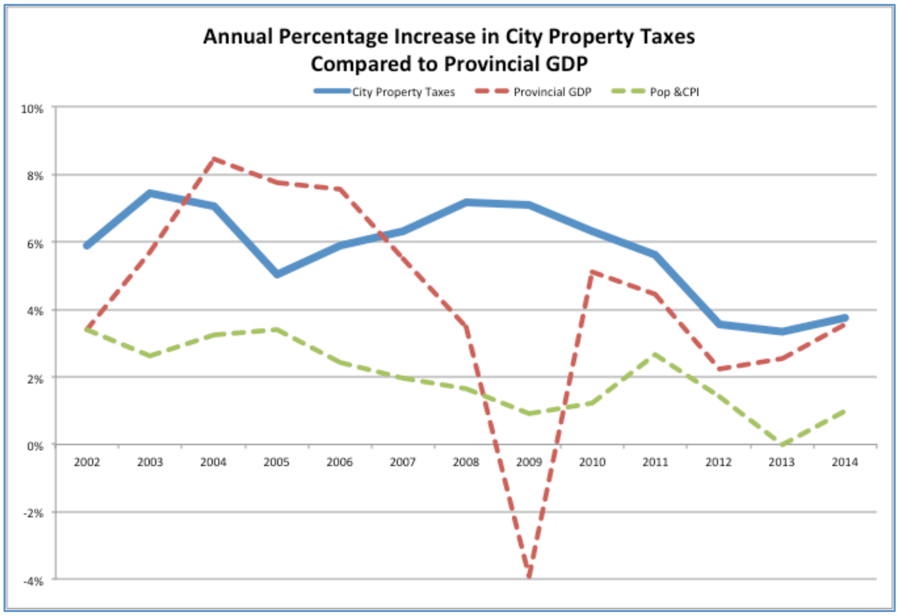
**Annual Property Tax Increases**

- Each year the City sets the amount of property taxes that have to be raised to help pay for municipal spending. For example, in 2014 the City raised $116.2 million in property taxes compared to $112 million in 2013, an increase in taxes of 4.2 million (i.e. an increase of 3.7%).
- Some of the annual increase in property taxes is paid by new construction that was not on the tax roll in the previous tax year. The balance of the tax increase is paid by properties that were on the roll in the previous year. The following Chart shows the annual increase in taxes in each of the past 13 years subdivided into tax increases on existing properties and taxes increases associated with new construction.[8]




- The annual rate of increase in City taxes levied has averaged around 5.7% over the last 13 years but has been much lower in the last three years.[9] As the following Chart shows, the rate of increase in taxes has exceeded the rate of growth of the provincial economy in most years and has always exceeded the combined rate of increase of population and the CPI in Victoria.

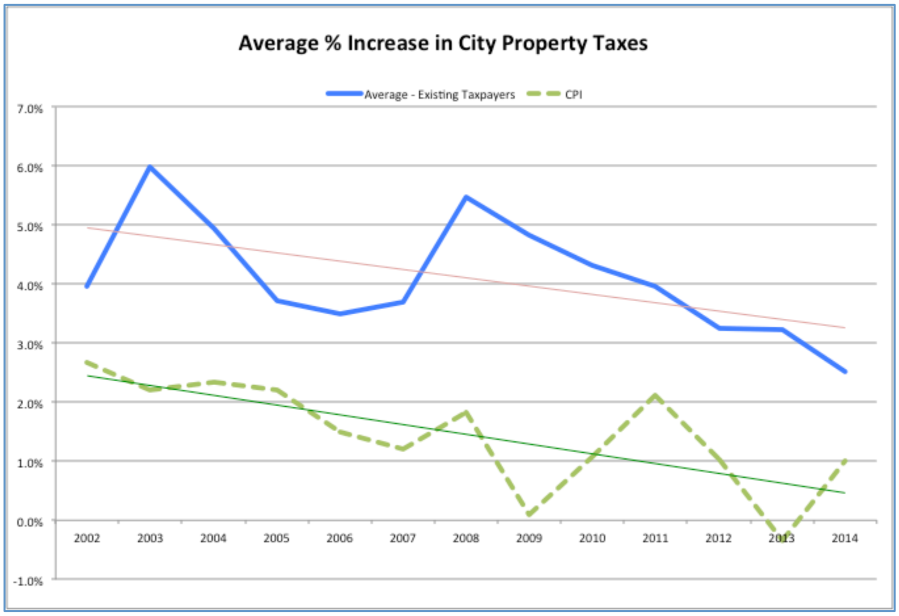
[8] Strictly speaking the split is between market changes and non-market changes. The latter is mostly new construction but can include other changes such as a changes in tax class and tax exemptions.
[9] The rate of increase quoted is based on the total tax increase including new-construction.




| | Total % Change 2001 to 2014 | Annual Ave % Change |
|---|---|---|
| City Taxes | 106% | 5.7% |
| Provincial GDP | 72% | 4.3% |
| Victoria Pop +CPI | 29% | 2.0% |

**Annual Property Tax Increases on the Average Taxpayer**

- The annual rate of increase in taxes paid by the average taxpayer is less than the increase shown in the previous Chart. For example, in 2014 the tax increase on existing properties was $2.8 million (i.e. $4.2 million less the $1.4 million raised from new construction). On average, this translated into a 2.5% increase in taxes for existing taxpayers compared to the 3.7% increase in total taxes collected.
- The following Chart shows the average increase in city taxes over the last 13 years excluding the amount raised from new construction. While the average annual rate of increase of taxes has been around 4%, there has been a clear downward trend over the period. The average rate of increase in taxes on existing properties has consistently outstripped the rate of inflation as measured by the Victoria CPI.




- The increase in taxes has been larger for the average residential taxpayer than for the average business taxpayer because of Council's decision to shift taxes off of the business class – see the following Chart and Table.

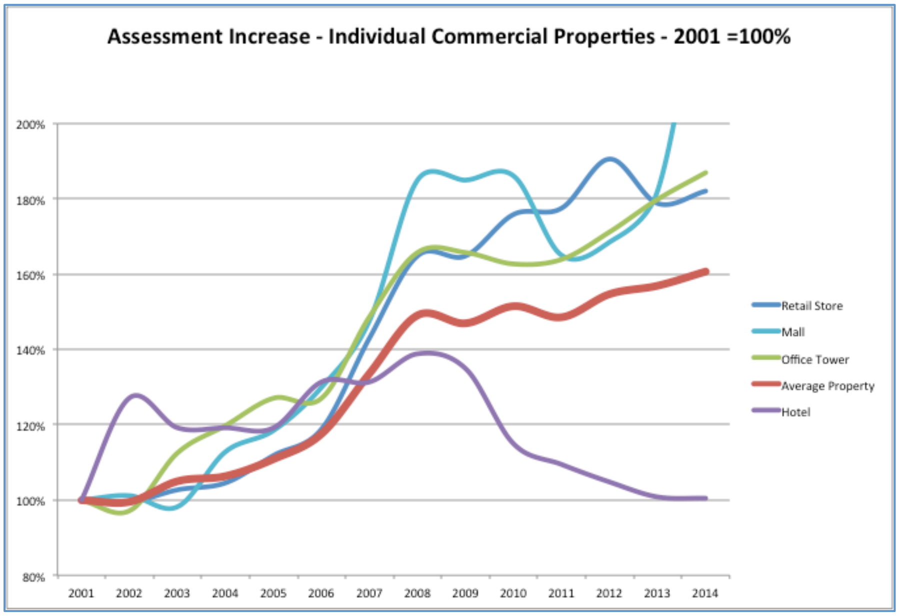
| | Total % Change 2001 to 2014 | Annual Ave % Change |
|---|---|---|
| Average City Taxes | 69% | 4.1% |
| Victoria CPI | 21% | 1.5% |
| | | |
| Ave Residential – City Taxes | 79% | 4.6% |
| Ave Business – City Taxes | 60% | 3.7% |
| | | |
| Residential Taxes Per Capita | 105% | 5.7% |

- The annual increases for homeowners and businesses have been larger for City taxes than for property taxes paid to other taxing jurisdiction. The difference is attributable to the much smaller increase in provincial school taxes, especially for non-residential taxpayers.

| | Total % Change 2001 to 2014 | Annual Ave % Change |
|---|---|---|
| Ave Residential – City Taxes | 79% | 4.6% |
| Ave Business – City Taxes | 60% | 3.7% |
| | | |
| Ave Residential – Other taxing jurisdictions | 24% | 1.7% |
| Ave Business – Other taxing jurisdictions | 7% | 0.5% |
| | | |
| Ave Residential – All jurisdictions combined | 53% | 3.3% |
| Ave Business – All jurisdictions combined | 33% | 2.2% |

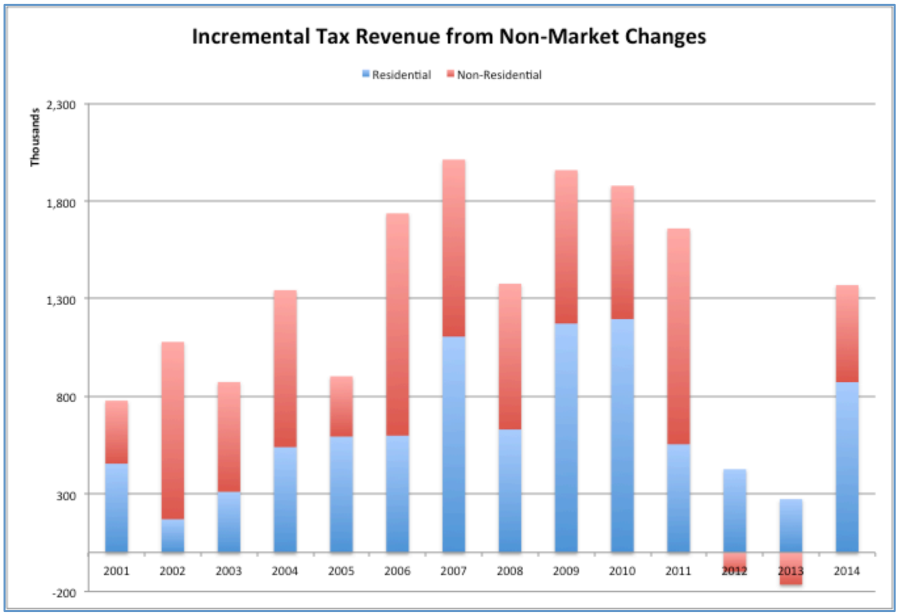
**Individual Properties**

- The previous section shows increases for the average business property but the average disguises variations around the average that are attributable to different assessment patterns. The following Chart shows how increases in assessment for selected business properties have varied from the average. For this reason, individual property owners may have experienced faster or slower increases in taxes than those shown in the previous section.




**Taxes from Non-Market Changes**

- Each year, the City generates additional tax revenue from new construction. The City can also gain or lose tax revenue as a result of changes in property structure (e.g. sub-division), changes in actual use (e.g. a change in property use from commercial to residential; or a change from light industry to business) and changes in tax exemptions (e.g. a government owned property is sold to the private sector). Together these changes are labelled 'non-market changes' by BC Assessment to distinguish them from changes in assessed value associated with market forces.
- The following Chart shows the incremental revenue associated with non-market changes in recent years broken down by the residential and non-residential tax classes. For simplicity, revenue from non-market changes is often labelled revenue from new development because, typically, most of the additional revenue is associated with new construction.
- Since 2001, around 51% of additional revenue associated with non-market changes has been associated with the residential tax class and 49% from the non-residential classes. Although the pattern has varied from year to year. In 2012 and 2013, revenue from non-market changes was much lower than in previous years with a decline in revenue from the business class.




### Impact of the 2011 Decision to Reduce Business Tax Share

- The following Table shows the impact of Council's 2012 decision to shift taxes from the business class to the residential class over three years. It shows the impact on tax share, tax rates and the business class tax ratio.
- Most of the reduction in the business tax ratio since 2011 is attributable to market value changes not the policy of shifting taxes. The increase in the residential share from 2011 to 2014 is explained in small part by the pattern of new development but mostly by the shift in taxes.

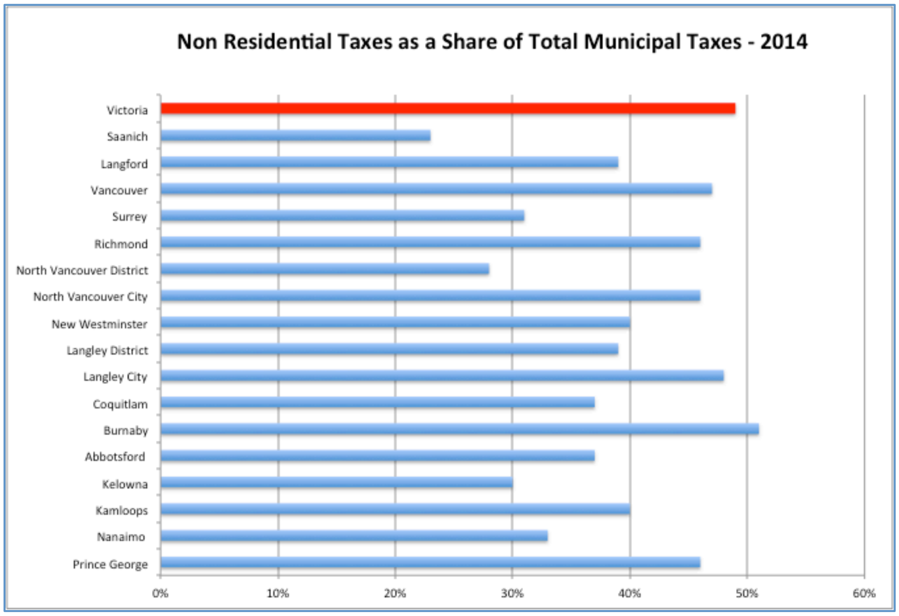
| | 2011 | 2014 No Shift in Taxes | 2014 Actual | Impact of Tax Shift |
|---|---|---|---|---|
| **Share of Taxes** | | | | |
| Residential | 49.2% | 49.3% | 50.6% | 1.3% |
| Business | 49.4% | 49.3% | 48.0% | -1.3% |
| | | | | |
| **Tax Rate ($ per $1,000)** | | | | |
| Residential | $3.77 | $ 4.35 | $4.47 | $ 0.11 |
| Business | $13.55 | $13.81 | $13.44 | -$0.36 |
| | | | | |
| **Business Tax Ratio** | 3.59 | 3.17 | 3.01 | -0.16 |

# *APPENDIX C – COMPARISON TO OTHER MUNICIPALITIES*

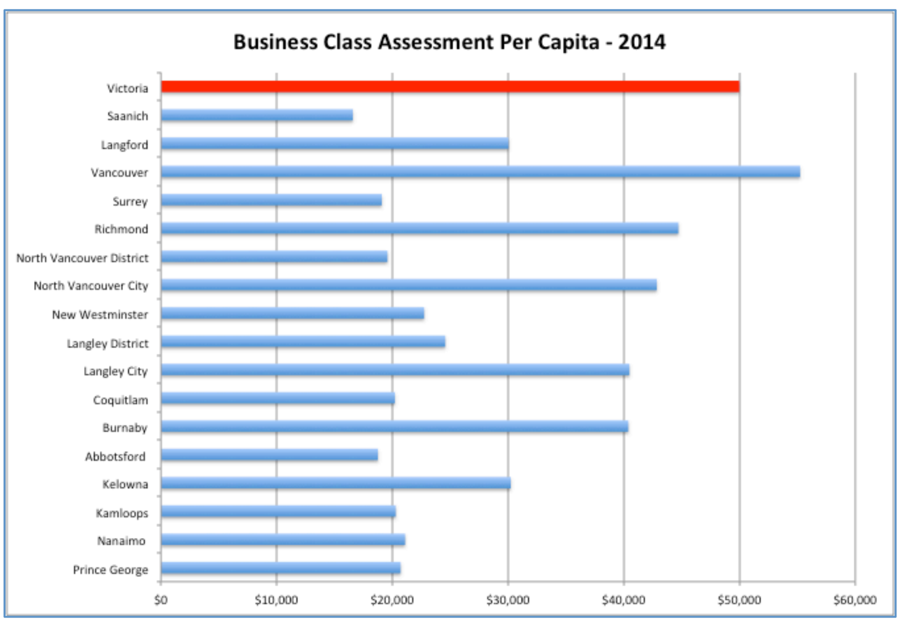
**Business Share of Taxes**

- Victoria collects a significantly higher proportion from the business tax class than any of the comparison group including Vancouver.


- The differences among the municipalities are not as great when we compare the share of revenue raised from all non-residential tax classes including business, utilities, major industry and light industry. The share raised in Victoria is still relatively high but close to the share raised in Vancouver, Burnaby, Richmond and Langley City.




- We expect the share in Victoria to be relatively high because it is a core city with a high proportion of commercial to residential property as is illustrated by the following two Charts.

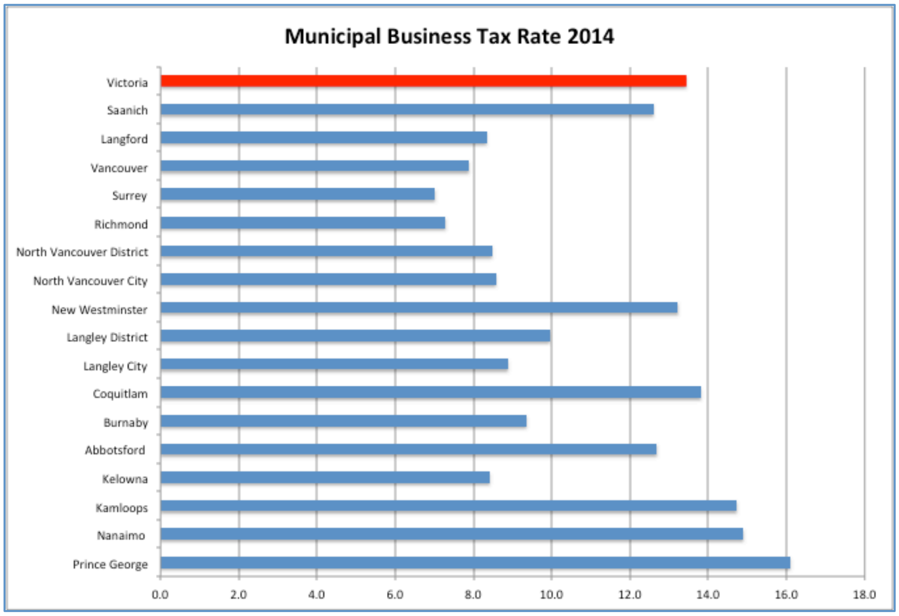



- Victoria is also one of the more densely populated of our comparison municipalities – see the following Table

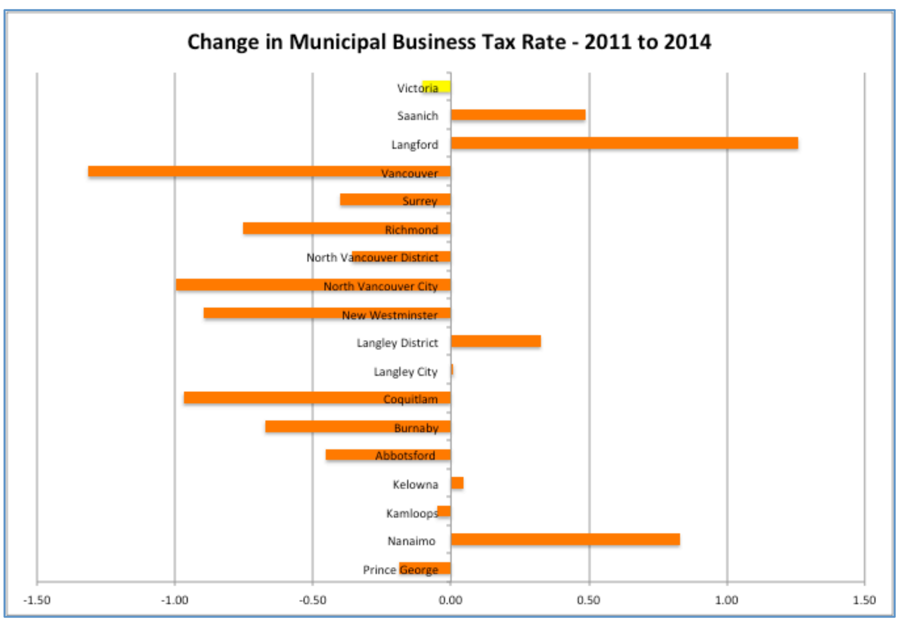
| Population Density – 2011 Census | | | |
|---|---|---|---|
| | **Population Per Sq Kilometre** | | **Population Per Sq Kilometre** |
| Vancouver | 5,249 | Nanaimo | 918 |
| New Westminster | 4,222 | Langford | 732 |
| **Victoria** | **4,109** | Delta | 554 |
| North Van City | 4,074 | Kelowna | 554 |
| Burnaby | 2,464 | North Van District | 525 |
| Langley City | 2,455 | Abbotsford | 356 |
| Surrey | 1,480 | Langley District | 338 |
| Richmond | 1,474 | Kamloops | 286 |
| Saanich | 1,058 | Prince George | 226 |
| Coquitlam | 1,034 | | |

### Business Tax Rates

- The municipal business tax rate in Victoria is among the highest of the comparison group and the highest in the CRD. Within the CRD, commercial properties in Victoria tend to have higher assessed values than in other municipalities; therefore, taxes tend to be higher in Victoria than on comparable commercial properties in capital region.

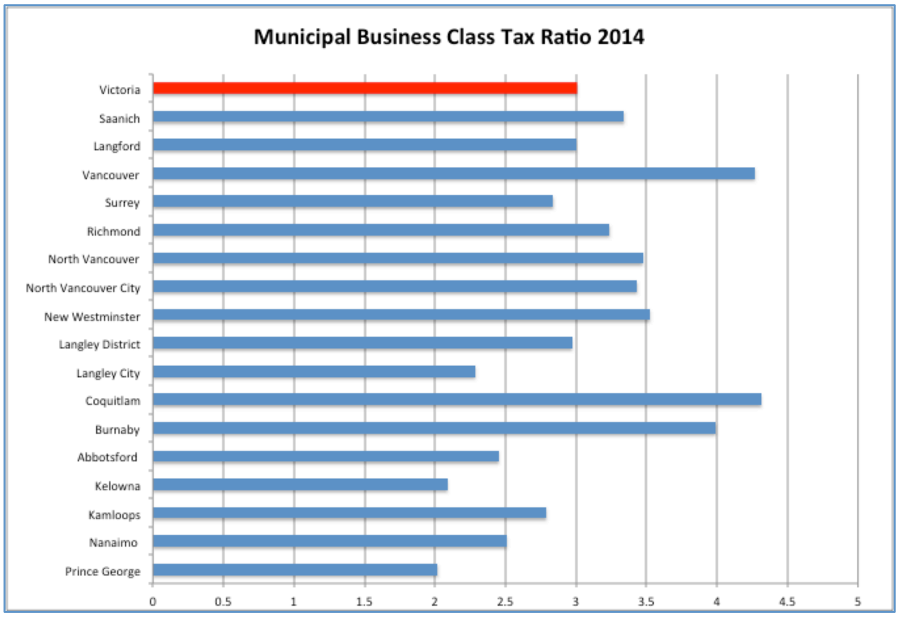



- The following Chart shows that municipal business tax rates have fallen in most of the benchmark communities in years. However, the reasons for the decline have been different in different areas. Changes in tax rates are influenced by the overall increase in municipal taxes raised, the share of taxes raised from the business sector and the pattern of assessment changes. Most of the reduction in tax rates in the Metro Vancouver is explained by increases in assessed values with corresponding reductions in tax rates. The business tax rate in Victoria has been reduced over the last three years as a result of the deliberate policy to shift taxes.

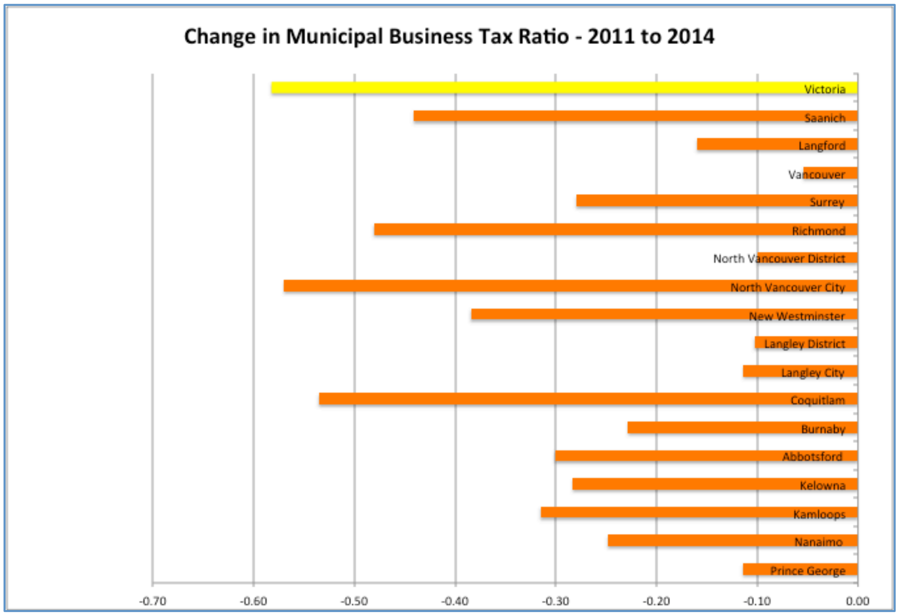


**Business Class Tax Ratio**

- The business class tax ratio in Victoria in 2014 is 3.0:1, which is lower than in many of the comparison communities.

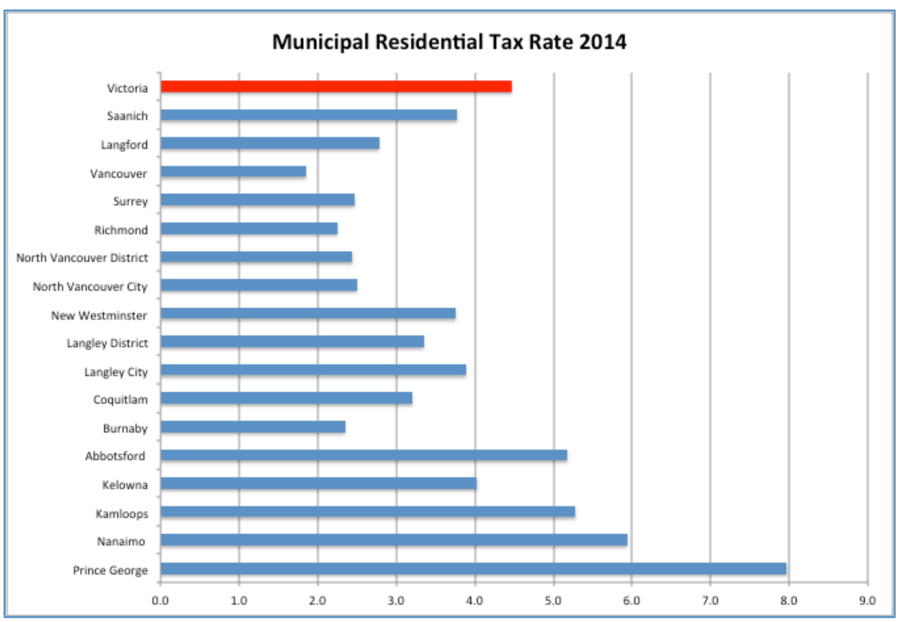



- Over the past three years, the business class tax ratio has declined in every one of the benchmark communities. Hence, business tax rates have increased more slowly or declined more quickly than tax rates on residential properties. Changes in tax ratios are usually explained by differential changes in assessed values. In Victoria the reduction in the tax ratio has resulted from assessment changes and Council's decision to shift the tax burden from business properties.



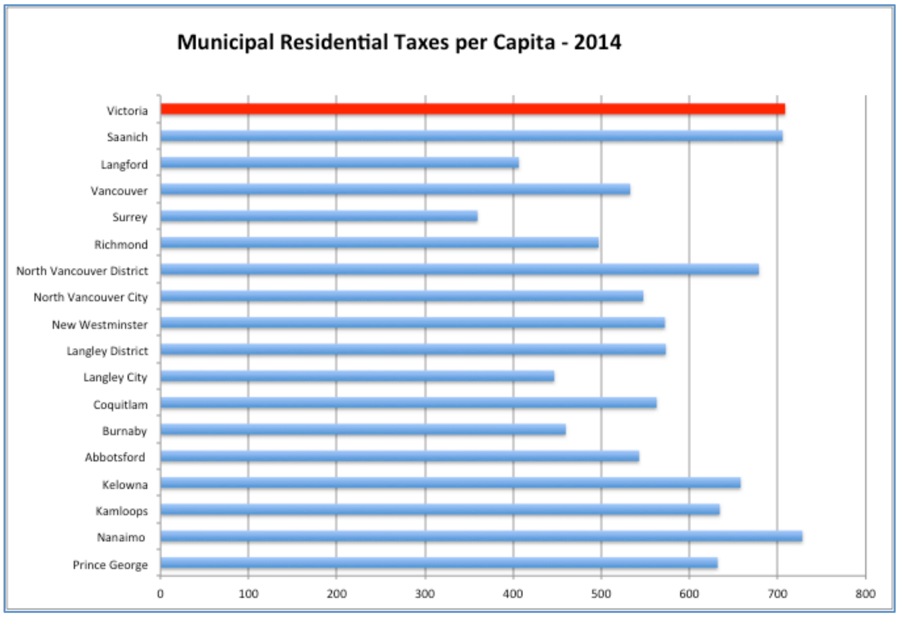

## Residential Tax Rates

- The residential tax rate in Victoria tends to be higher than in most comparison communities. Tax rates tend to be higher outside the CRD and Metro Vancouver because residential property values tend to be lower in those communities.

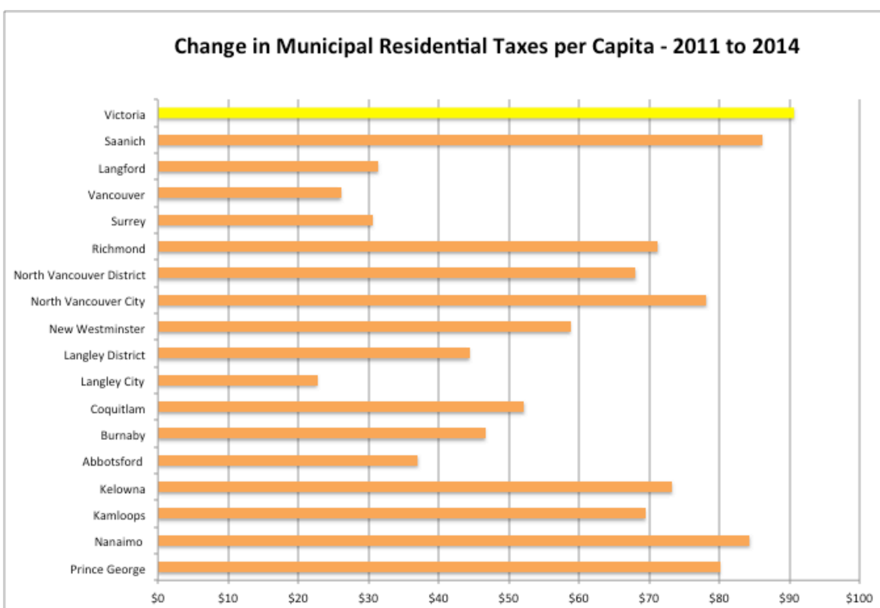


## Residential Taxes Per Capita

- Municipal residential taxes per capita in Victoria are among the highest across the benchmark communities.




- Among the benchmark municipalities, residential taxes per capita in Victoria have increased the most over the past three years.

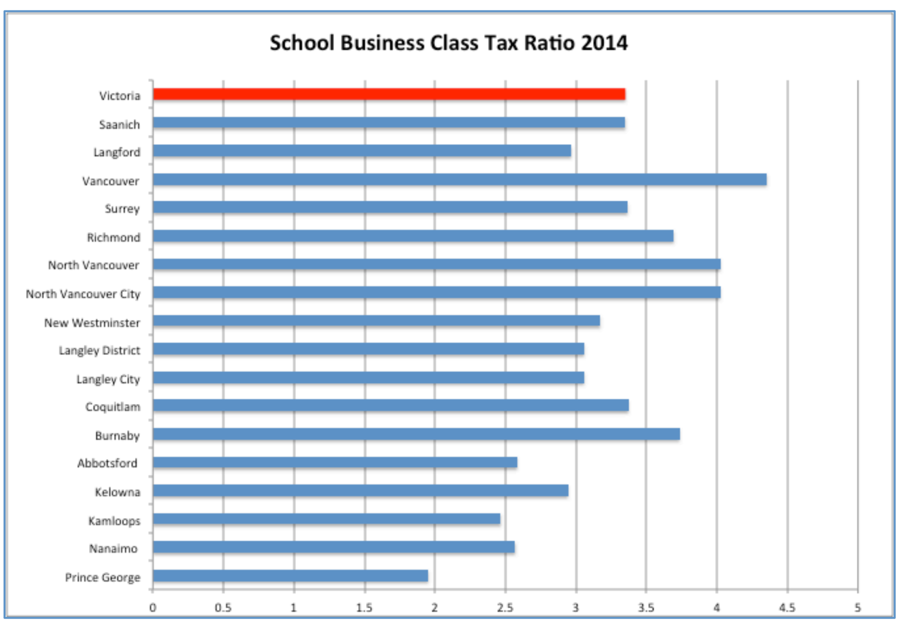


- Within the CRD, residential taxes per capita are highest in Victoria among the comparator communities but incomes are lowest as is shown in the following Table.

| 2010 Household Income from Census Data | | | | |
|---|---|---|---|---|
| | Victoria | Saanich | Langford | Oak Bay |
| **Single Person Households** | | | | |
| Median Income | $31,309 | $35,188 | $35,412 | $36,593 |
| Average Income | $37,763 | $43,560 | $39,425 | $55,840 |
| **Two or More Person Households** | | | | |
| Median Income | $67,041 | $85,060 | $82,883 | $107,910 |
| Average Income | $78,583 | $98,096 | $91,820 | $134,479 |

**Business Tax Ratios – School Taxes**

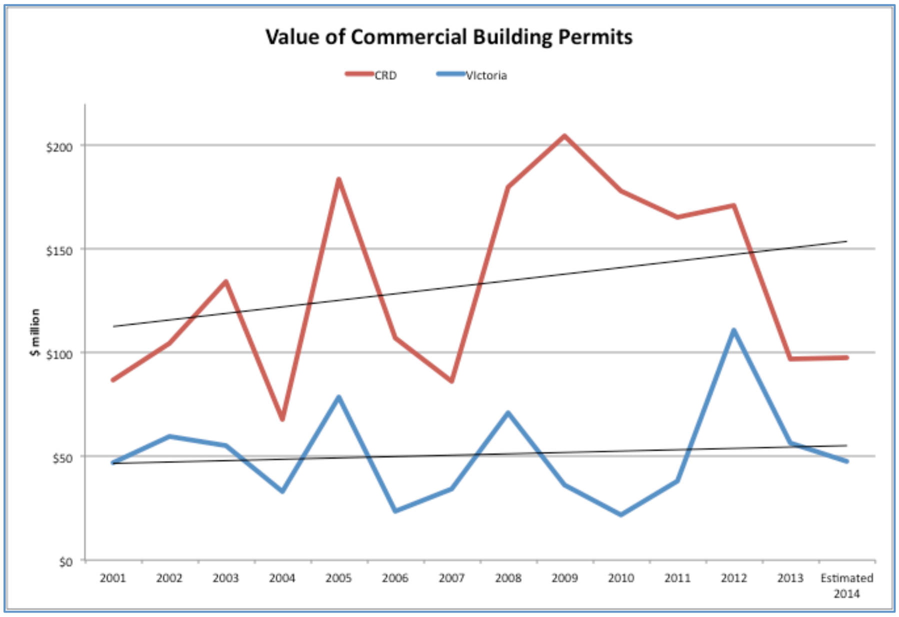
- The business class tax ratio varies among municipalities not just for municipal taxes but some other taxes including school taxes, which are set by the province. The province charges a uniform rate of tax across the province on the business class for school purposes. However, the school tax rate on residential property varies across school districts. The tax rate is lower in areas that have higher residential property values. Hence, the business class tax ratio tends to be higher in areas that have higher residential property values. For this reason, the school business class tax ratio in Victoria is lower than in many municipalities in Metro Vancouver. However, it is higher in Victoria that the municipal business tax ratio.

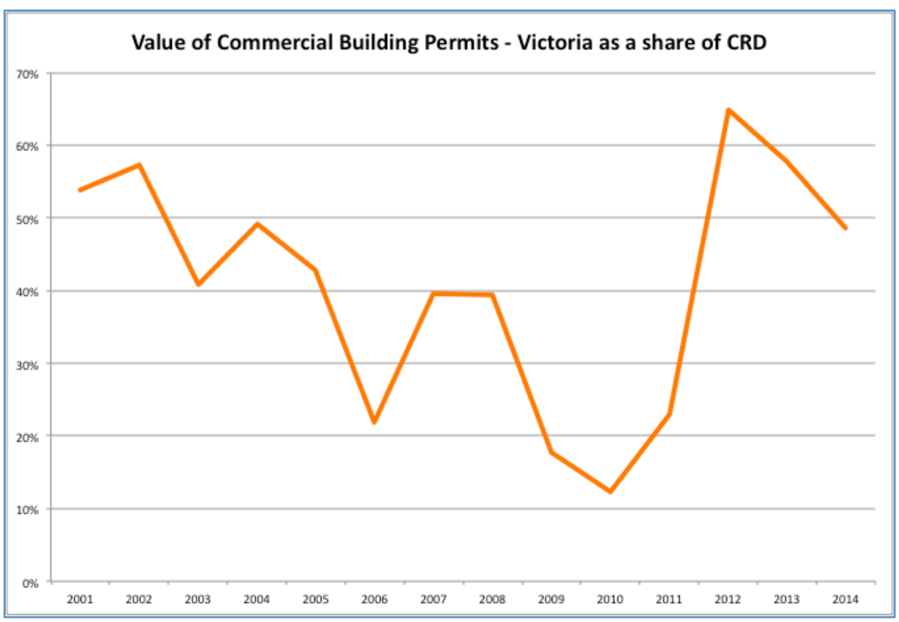


## APPENDIX D – ECONOMIC INDICATORS

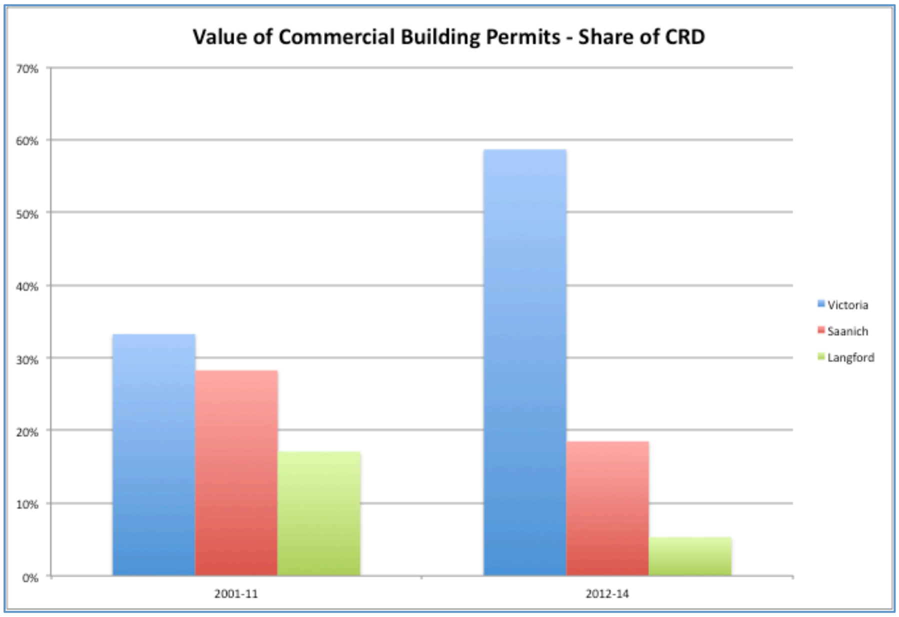
### The Value of Commercial Building Permits

- In the decade before 2011, the value of commercial building permits issued by the City of Victoria was showing a downward trend that contrasted sharply with the pattern for the CRD as a whole. Since 2011, this situation has turned around - as is illustrated by the following two Charts.

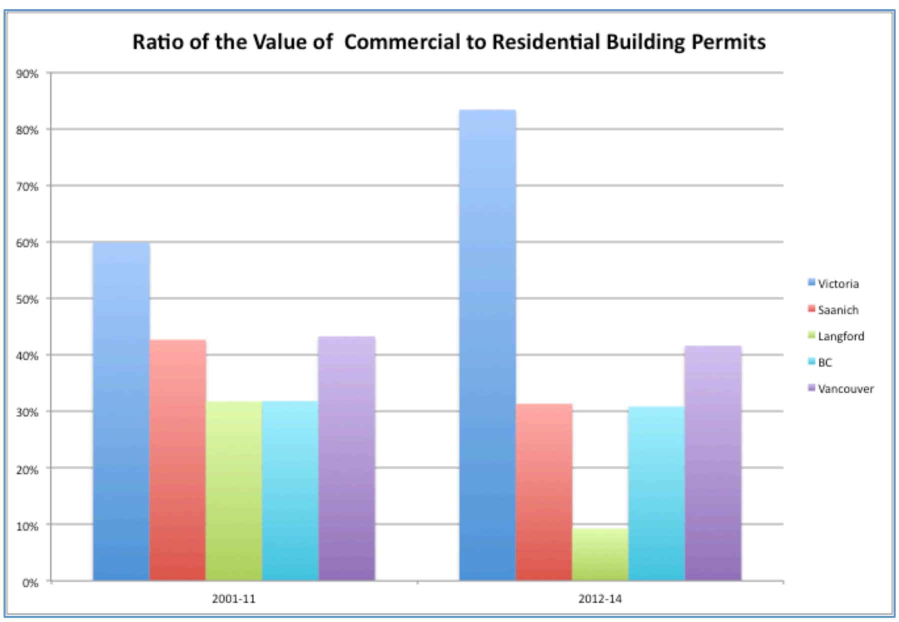


- Over the past three years, the value of commercial permits issued has been much higher in Victoria than in Saanich and Langford. There is usually a delay between issue of building permits and growth in the assessment base.

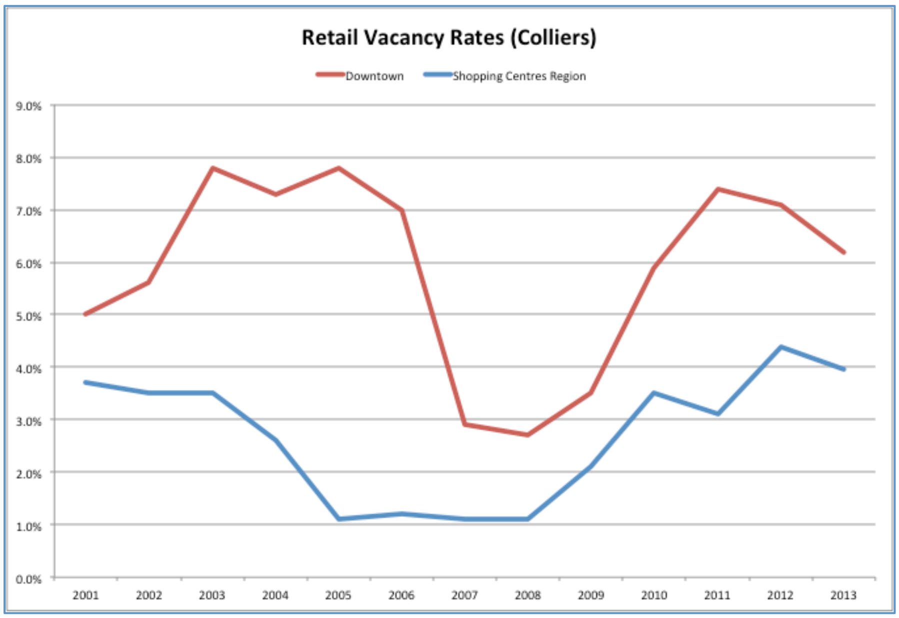



- The ratio of the value of commercial to residential building permits remains higher in Victoria than in other CRD communities, the City of Vancouver and the province as a whole.



**Market Trends – Retail (Published data is only available to 2013)**

- Colliers International publishes information on vacancy rates for shopping centres throughout the region and for street-front retail in downtown Victoria. Shopping centres include regional, community, neighbourhood and convenience centres.
- In 2011, the pattern of vacancy rates was clearly upward both for shopping centres in the region and for downtown street-front retail. Vacancy rates for street level retail have begun to decline but they remain well above the rates achieved prior to the 2008/9 recession.




- Shopping centre vacancy rates have continued to increase as a result of new capacity coming on stream. In Victoria, vacancy rates are below the regional average. Victoria has experienced little growth in shopping centre capacity since 2001. (Recent growth in Victoria has been at the Hillside Mall.)

| Shopping Centres by Location | | | | | | |
|---|---|---|---|---|---|---|
| | Gross Leasable Area (million sq ft) | | | Vacancy Rates | | |
| **Municipality** | **2001** | **2011** | **2013** | **2001** | **2011** | **2013** |
| Victoria | 1.82 | 1.85 | 1.94 | 4.0% | 2.9% | 3.2% |
| Saanich | 1.75 | 1.97 | 2.34 | 1.9% | 3.0% | 5.3% |
| Langford | 0.32 | 0.78 | 0.78 | 5.0% | 2.7% | 1.6% |
| Other areas | 0.94 | 0.96 | 0.86 | | | |
| **Total** | **4.83** | **5.57** | **5.92** | **3.7%** | **3.1%** | **4.0%** |

- The next Table shows shopping centre inventory and vacancy rates by type of centre. Average vacancy rates have increased considerable at the regional shopping centres with the addition of new capacity. Vacancy rates have come down in the other categories.

| Shopping Centres by Type | | | | | | |
|---|---|---|---|---|---|---|
| | Gross Leasable Area (million sq ft) | | | Vacancy Rates | | |
| **Type** | **2001** | **2011** | **2013** | **2001** | **2011** | **2013** |
| Regional | 1.65 | 1.74 | 2.38 | 3.5% | 0.3% | 5.2% |
| Community | 0.86 | 1.36 | 1.13 | 1.1% | 3.7% | 1.1% |
| Neighbourhood | 1.76 | 1.90 | 1.84 | 4.0% | 4.4% | 3.6% |
| Convenience | 0.56 | 0.57 | 0.57 | 7.2% | 6.4% | 5.4% |
| **ALL** | **4.83** | **5.57** | **5.92** | **3.7%** | **3.1%** | **3.1%** |

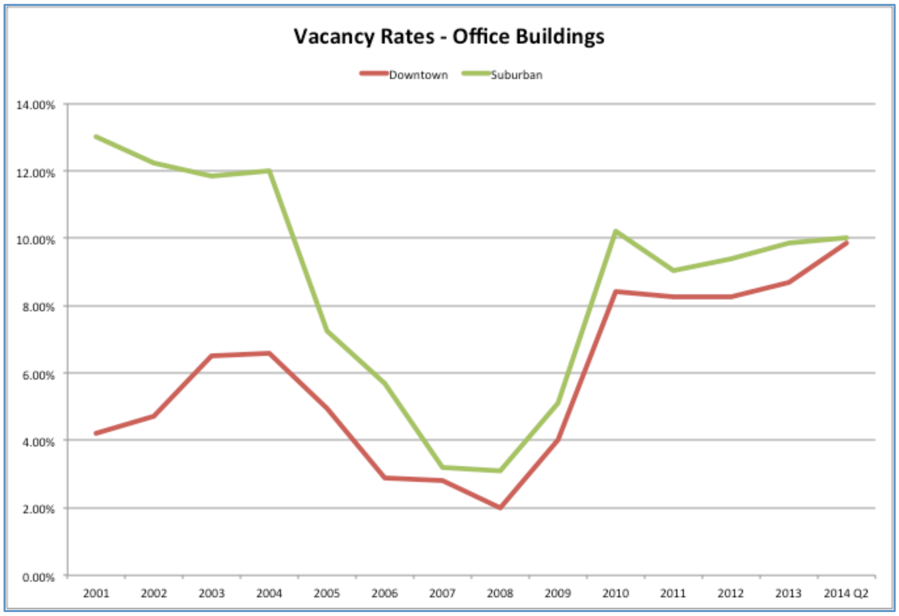
- With additional capacity coming on stream, average lease rates have either declined or remained stable since 2011 - see the next Table. Operating costs, which include property taxes, have for the most part increased modestly.

| | 2011 | | | 2013 | | |
|---|---|---|---|---|---|---|
| **Type** | **Net Lease Rates per Sq Ft** | **Operating Costs per Sq Ft** | **Total Occupancy Costs per Sq Ft** | **Net Lease Rates per Sq Ft** | **Operating Costs per Sq Ft** | **Total Occupancy Costs per Sq Ft** |
| Regional | $45.00 | $30.86 | $75.86 | $38.50 | $29.92 | $68.42 |
| Community | $32.00 | $13.82 | $45.82 | $32.00 | $14.57 | $46.57 |
| Neighbourhood | $25.51 | $10.02 | $35.53 | $21.26 | $11.15 | $32.41 |
| Convenience | $20.04 | $10.03 | $30.07 | $19.90 | $10.55 | $30.45 |

- No information is published on lease rates for street-front properties in downtown Victoria.

**Market Trends – Offices**

- Colliers International also publishes vacancy rates for office buildings and separates them into downtown and suburban groupings. The following Chart shows that vacancy rates have been increasing in both areas since 2008. In the downtown area, vacancy rates are much higher than they have been over the past 14 years and the amount of space occupied is slightly lower than in 2001. (Note: The data is not published by municipality and the Selkirk waterfront in included in the suburban area.)




- Average vacancy rates disguise significantly different patterns within the Office sector. For example, the downtown vacancy rate for Class A office space was less than 2% in mid 2014 compared to a vacancy rate of 9.4% for downtown Class B office space and 17.2% for Class A suburban office space.

| | Gross Leasable Area (million sq ft) | | | Vacancy Rates | | |
|---|---|---|---|---|---|---|
| | **2001** | **2011** | **2014 Q2** | **2001** | **2011** | **2014 Q2** |
| **Downtown** | | | | | | |
| Class A | 0.60 | 0.82 | 0.51 | 3.2% | 7.5% | 1.8% |
| Class B | 3.26 | 3.57 | 3.61 | 2.7% | 7.9% | 9.4% |
| Class C | 0.83 | 0.54 | 0.78 | 5.4% | 6.8% | 17.2% |
| **Total** | **4.69** | **4.94** | **4.90** | **3.2%** | **7.7%** | **9.85%** |
| | | | | | | |
| **Suburban** | | | | | | |
| A | n/a | 0.82 | 0.81 | n/a | 8.7% | 17.2% |
| B | 2.50 | 2.42 | 2.57 | 13.4% | 9.8% | 8.0% |
| C | 0.38 | 0.35 | 0.34 | 9.9% | 5.0% | 8.5% |
| **Total** | **2.88** | **3.59** | **3.72** | **6.3%** | **9.1%** | **10.0%** |

Note: The Suburban Class A category was created in 2003. Some downtown Class A space was reclassified as Class B or C in 2012.

- There has been only modest growth in total office space in the downtown core since 2001. Growth has been faster in the suburban areas. However, significant additions to downtown office space are in the planning stages.