Municipal Hall
1229 Esquimalt Road
Esquimalt, B.C. V9A 3P1

Legislation Details (With Text)

File #:	19-522	**Version:** 1	**Name:**		
Type:	Staff Report		**Status:**	Passed	
File created:	11/6/2019		**In control:**	Committee of the Whole	
On agenda:	12/9/2019		**Final action:**	12/9/2019	
Title:	Property Taxation Policy, Staff Report No. FIN-19-021				
Sponsors:					
Indexes:					
Code sections:					
Attachments:					

Date	Ver.	Action By	Action	Result
12/9/2019	1	Committee of the Whole	approved	Pass

REQUEST FOR DIRECTION

DATE: December 3, 2019 Report No. FIN-19-021

TO: Laurie Hurst, Chief Administrative Officer

FROM: Ian Irvine, Director of Financial Services

SUBJECT:

Property Taxation Policy

ESSENTIAL QUESTION:

What potential changes to the Township's property taxation distribution policies would the Committee wish to see?

RECOMMENDATION:

That the COTW receive Staff Report No. FIN-19-021 for information, provide any additional direction to staff as the COTW considers advisable, and direct staff to prepare an updated Revenue, Tax, Budget and Financial Sustainability Policies & Objectives document for Council's consideration.

BACKGROUND:

Consideration of the Township property taxation policies and objectives occurs each year during the financial plan and tax rates discussions. During the 2019 process, Council decided not to increase the tax revenue requirements for the Business class and shifted the resulting tax burden to the Residential class. As well, a report from staff was requested regarding the potential for additional reductions to the ratio over the short and long term.

The following simple, non-specific statements, as found in Schedule A of Financial Plan Bylaw, 2019, No. 2959, guide staff in the setting of annual tax rates:

Objectives and Policies:

a. Distribute property tax increases equitably among all property classes
b. Adjust the tax rate ratios each year to maintain stability while ensuring the tax rate is reflective of both market and non-market changes
c. Set annual property tax rates after considering significant new growth or loss of assessment in each property class

The ultimate question to be answered is whether or not Council wishes to see any change to the way the tax burden is distributed between classes. If so, detailed options could be presented with respect to how the desired changes could be implemented, and over what time frame. This report provides some background information and potential options to assist Committee members during this important policy discussion.

ISSUES:

The presentation during the 2019 budget process provided some of the required background information related to the Township's current tax distribution practices, and outlined where we stand regionally. Our Commercial multiple for 2019 was 3.048 (i.e. the Commercial tax rate was 3.048 times the Residential tax rate) but there has been discussion to decrease the Commercial multiple to as low as 2.0 (i.e. 2 times the Residential rate).

Across the province, only three tiny communities had a ratio of 1:1 in 2019, and only 17 of 161 communities were at or below 2.0:1. The Township's commercial to residential ratio last year was equal to, or lower, than 55 of 161 communities, and was only 10% above the provincial average of 2.74.

Ratio	Total Municipalities	% of Total
1:1	3	2%
<2.0:1	17	11%
>2.0<2.5:1	53	33%
>2.5<3.0:1	33	20%
>3.0<3.5:1	33	20%
>3.5:1	22	14%

If Council wishes to lower the tax burden for Commercial properties, we may need to establish a plan to phase in the shift to the Residential class. While it can be argued that a healthy community needs a healthy commercial sector it should be noted that businesses pay their taxes in pre-income tax dollars, while homeowners pay in after tax dollars. If Council is satisfied with the current tax distribution, then no additional analysis is required other than maintaining our current methods and ensuring our tax policy is adequately worded.

While all taxpayers would ideally like to see their taxes reduced, the only group visibly lobbying for this specific ratio is the Canadian Federation of Independent Business (CFIB). They advocate for this position on behalf of businesses yet they provide no clear rationale for why a 2:1 ratio is considered the most appropriate. Ultimately, it appears that what they are seeking is a reduction in the gap between Commercial and Residential tax rates.

Staff would appreciate hearing from Committee members about any views they may have with respect to taxation policies. If any changes are contemplated prior to the next budget process and tax rate setting, advance notice would lead to a smoother transition. Whatever policy change is made by Council, either on a one-time or ongoing basis, will have to be articulated in our 2020-2024 Financial Plan Bylaw.

<u>Options for a 2.0 Commercial to Residential Multiple</u>

If there is a desire to reduce the Commercial multiple to 2.0 times (or a different multiple) the Residential rate, the following options may be considered. Each will be discussed in more detail, along with other related considerations:

a) Reduce the multiple all at once, in 2020
b) Phase in a reduction over a set number of years (perhaps 3 to 5)
c) Gradually reduce the multiple by applying Non-Market Change revenue (or a portion thereof) to the credit of Class 6, rather than to all classes.

Option a)

Reducing the commercial multiple all in one year would have a fairly significant impact on residential rates. Based on 2019 figures, this impact has been estimated at the equivalent to a 7.3% municipal tax rate increase, or approximately $187 for the average residential property. This would be in addition to the annual tax increase approved by Council during the 2020 budget discussions.

While the potential exists to pass some of the impact to other property classes, a reduction of the Commercial multiple cannot be easily achieved without impacting the Residential property class, which makes up 92% of all property tax folios. If Council does wish to support the commercial taxpayer on an ongoing basis, there will need to be a shift to the Residential class.

Option b)

If the multiple is to be reduced to 2.0, phasing in the impact over a number of years may provide a more palatable option. Rather than a $187 average increase to all residential properties in one year, it could be done incrementally over a longer period. If so, it may be seen as positive to simply indicate, through policy, that the Township is moving toward a reduced multiple of 2.0, following a defined plan.

Option c)

Another way to phase in a reduction to the commercial multiple, without a *direct* impact on residential tax rates, is to use non-market change (NMC) revenue solely for the purpose of reducing the burden on commercial properties (until the target is met). This NMC revenue represents the growth in the tax base and, as new developments are built, the taxes attributable to these improvements are classified as NMC revenue in the year they materialize. Currently, we use this new revenue as the first funding source for any budgetary increases.

It could be possible to direct all NMC revenue, or perhaps only the non-residential component, to reduce the commercial tax revenue requirement. That is, rather than treating it as new revenue, the new taxes would be used exclusively to reduce taxes for existing commercial taxpayers. Even if only the non-residential NMC was redirected for this purpose - thus leaving a portion of NMC for the benefit of all classes - it would represent movement towards the reduction target. Redirecting only a portion of it would simply require a longer phase in period.

Multiples for Other Governments

It is important to note there are six different multiples used to determine the amount of taxes that appear on the annual tax notice. The Township can only influence one multiple, which is applied to Municipal and CRD taxes. This limitation means that only 73% of a property tax bill is impacted by multiples set by the Township. Regardless of our tax distribution policy, commercial properties will effectively continue to pay an overall tax multiple greater than 2.0, as the other five requisitions increase. The table below illustrates that various multiples that were used for 2019 property taxes:

Class	Municipal & CRD	CRHD	School	Transit	BCA	MFA
1-Residential	1.0000	1.00	1.0000	1.0000	1.0000	1.00
2-Utilities	5.3716	3.50	10.9954	5.3999	12.4165	3.50
4-Major Industry	8.7117	3.40	3.0820	5.3999	12.4165	3.50
5-Light Industry	3.8122	3.40	3.0820	5.3999	2.7815	3.50
6-Commercial/Other	3.0480	2.45	3.0820	5.3999	2.7815	2.50
8-Recreation/Non-profit	1.2699	1.00	1.9159	1.0000	1.0000	1.00

Current Distribution Approach

Currently, the percentage of tax revenue collected from each class of property remains stable from year to year as the annual increase is applied equally to all classes. This approach has the effect of maintaining the percentage of revenue coming from each class, subject to very small changes due to NMC. The only variance to the percentage comes from NMC revenue, otherwise known as growth in the tax base (primarily from new construction), which is not part of the general tax base.

In addition to providing equality among property classes, this distribution approach considers that fluctuations in assessment tend to be cyclical. In other words, Residential property assessments will increase at a greater rate than Commercial for one or more years, and then Commercial will reduce that gap in subsequent years. This approach becomes more difficult to support if Residential assessments grow at higher rates than Commercial assessments over an extended period.

The disadvantage of this approach is that the natural redistribution of the tax burden between classes is evened out through how our tax rates are calculated. An argument could be made that if one class of property grows in assessed value far more than others, then that class should assume a bigger portion of the tax burden. However, this significant assessment increase is currently offset by the lowering of the applicable tax rate. Of note, The Township has worked very hard during recent years to communicate the fact that an increase in assessments does not mean a corresponding increase in taxes which is the result of this method.

The biggest impact of strictly focusing on multiples is that the annual tax increase will no longer be applied evenly. The current rate setting procedure evens out shifts in assessed value between different classes of property each year, and then applies the tax increase evenly. If we are to focus on a multiple of 2.0, then by definition the other adjustments would not apply; the Class 6 rate would simply be twice the Class 1 rate, regardless of what happens to the relative assessment value of the two classes each year. One argument is that the annual assessment process is largely a redistribution of the tax burden between all properties, and by smoothing out some of the relative change between classes, we are artificially manipulating that redistribution; but there are tradeoffs regardless of the approach taken. There is no single “correct’ method; the rate setting is a matter of policy and choice among each local government.

ALTERNATIVES:

1. That the COTW receive Staff Report No. FIN-19-021 for information, provide any additional direction to staff as the COTW considers advisable, and direct staff to prepare an updated Revenue, Tax, Budget and Financial Sustainability Policies & Objectives document for Council’s consideration.
2. That the COTW provide alternative direction to staff.
3. That the COTW request further information from staff.