

TO: CHAIR AND MEMBER
FINANCIAL MANAGEMENT COMMITTEE

DATE: 2016 March 17

FROM: DIRECTOR FINANCE

FILE: 7400-03

SUBJECT: ASSESSMENT AVERAGING

PURPOSE: To provide background information in response to correspondence received from the Minister for Community, Sport and Cultural Development, on 2016 February 10 regarding potential tax implications of the 2016 assessment roll.

RECOMMENDATION:

1. **THAT** the Financial Management Committee recommend Council not implement property tax averaging given that it redistributes the tax burden from higher valued properties to lower valued properties in a given year.

REPORT

1.0 BACKGROUND

On 2016 February 10, the Minister for Community, Sport and Cultural Development, Peter Fassbender responded to Mayor Corrigan's letter of 2015 December 17. The Mayor's letter highlighted Burnaby Council's concerns regarding the potential implications of the significant increase in the 2016 assessment roll on Burnaby property taxes and the Home Owner Grant threshold.

In response to the significant increase in the 2016 property assessment roll, Minister Fassbender suggested Burnaby consider implementing property assessment averaging, similar to the City of Vancouver. Burnaby Council requested staff review the Minister's recommendation to use property assessment averaging to determine if it was a good solution to reduce the impact of major increases in assessments on property taxes in Burnaby.

In addition staff were asked to consider Minister Fassbender's comments regarding Council's concerns with the Home Owner Grant threshold.

This report is written in response to Council's direction.

2.0 ASSESSMENT AVERAGING

As noted by Minister Fassbender, “the BC Assessment Authority is an independent Crown corporation mandated to create a fair and accurate assessment roll, which is then used by local governments to distribute the tax burden within property classes - as well as across classes - by adjusting tax rates accordingly”.

Burnaby City Council, like other cities, does make adjustments to the tax rate to reduce the impact of assessment changes prior to considering any tax increase for current year inflationary costs or new services. However, all properties that experience above-average value increases will pay more taxes relative to others due to market conditions. An additional impact to these homes is the fact that many will lose the opportunity to claim a Provincial Home Owner Grant.

Due to provisions in the *Community Charter*, local governments cannot vary tax rates within a class. However, Minister Fassbender suggests, another option available to local governments which experience dramatic increases in market-driven assessed values is to pass a bylaw to average assessed values over three years (Part 7, Division 3, Section 198(1)), similar to the City of Vancouver.

The Minister suggested that Burnaby Council consider this measure to help address tax impacts that may arise when properties experience a significant assessed value increase above the average for the class.

2.1 City of Vancouver Experience

To review and evaluate assessment averaging staff have used information provided by the City of Vancouver’s website. To date the City of Vancouver is the only municipality to have implemented assessment averaging in BC.

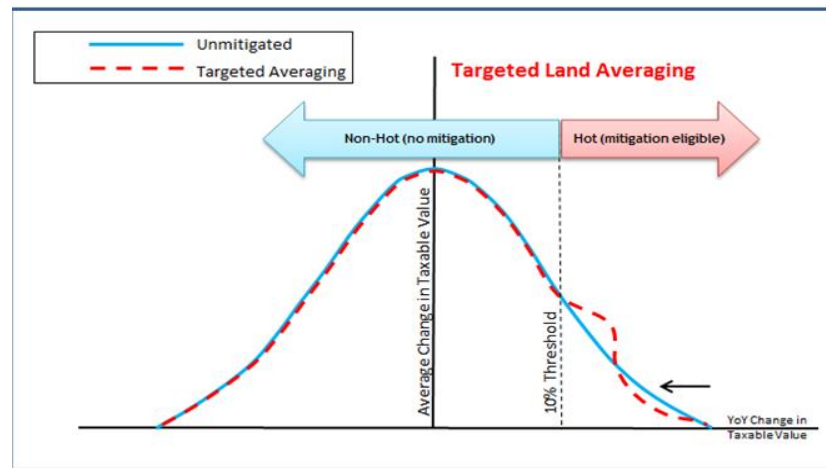
Between 1993 to 2014 Vancouver used “across the board” Land Assessment Averaging, however in 2015 Vancouver changed to a “targeted” averaging approach to focus attention on the most volatile of property assessment value changes.

Targeted averaging affects properties that have assessment increases above a certain threshold. The threshold set for 2015 was at 10% above the average assessment increase in each property class. The 2015 property class thresholds were: 18.76% for residential (Class 1) and 24.21% for Light Industry (Class 5) and Business (Class 6). For 2015, approximately 9,900 (5.6%) residential properties and 1,300 (13%) light industrial and business properties were targeted for mitigation, resulting in varying degrees of temporary tax relief.¹

Figure 1 graphs the impact of targeted averaging on assessments for Vancouver in 2015. The graph illustrates that higher value properties are moved closer to the average value in that class. The rest of the properties that are below the threshold are not subject to averaging.

1 City of Vancouver: Targeted Land Assessment Averaging Report, March 1, 2016

Figure 1 – Targeted Averaging Threshold² in the City of Vancouver



2.2 Impact on Vancouver's Property Taxes

Averaging brings all properties closer to the average change in assessment value. It impacts property owners and lease tenants responsible for the payment of taxes. Averaging reduces the immediate impact of increases in assessment values on property taxes by smoothing out upward increases in assessments when there are significant changes in a given year. However, the purpose of property taxes is to provide needed revenue for City services. By reducing the taxes for properties with a higher than average increase, other lower valued properties pay higher amounts to make up the shortfall in total taxes collected.

Information obtained from the City of Vancouver's website notes that around 90% of properties pay a slightly higher level of taxes in order to help the 10% that are subject to averaging. In the example below the total assessed value of all Residential (Class 1) properties before averaging is \$49.2b, with a total tax levy of \$112m. If averaging reduces the overall assessed value for this class by 1%, and we use the existing tax rate, this produces a levy shortfall of \$1.1m. In order to make up for this shortfall the tax rate then has to increase for the whole class. A revised rate of 2.3170 per \$1,000 of assessed value generates the required target levy of \$112.8m. Any properties under the targeted averaging thresholds would experience a slightly higher increase in taxes.

Figure 2 – Impact on properties not subject to averaging

Class 1 Residential	No Averaging Program	Targeted Averaging Program
2015 Assessed Value	\$49,211,307,305	\$48,719,194,232
Percentage change	N/A	1.00%
2015 Tax Rate (per \$1,000 assessed value)	2.2938	2.2938
Levy	\$112,880,897	\$111,752,088
Shortfall	N/A	\$1,128,809
Revised rate to meet original levy	N/A	2.3170
SFD Municipal Taxes		SFD Municipal Taxes – (not applicable for averaging)
Assessed Value	\$950,000	\$950,000
Tax Rate	2.2938	2.3170
Taxes	\$2,179	\$2,201
Change	N/A	\$22
Percentage change		1.01%

Figure 3 is taken from data obtained from the City of Vancouver. The chart shows the impact of averaging for those in receipt of the benefit and for those without. As per Figure 2, the lower value properties are subsidising those in receipt of the averaging tax benefit.

Figure 3 – Impact on properties below and above the threshold

	2016 Assessed Value	Est. Taxes without Targeted Averaging	Est. Taxes with Targeted Averaging	Change in (\$)
Residential (\$) – Downtown				
Below threshold	430,000	660	674	+14
Below threshold	506,000	777	793	+16
Below threshold	620,000	952	972	+20
Above threshold	1,037,000	1592	932	-660
Above threshold	1,414,000	2171	1835	-336
Above threshold	2,172,000	3129	2663	-466

The result of property averaging is that owners of properties with significant assessment increases greater than the average pay less than they would if the market value assessment was used. Those who do not experience a significant increase in their property's value pay more in annual property taxes to compensate for those who benefit; assessment averaging redistributes the tax burden to properties of lower assessed market value.

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From: Director Finance

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2.3 Home Owner Grants

In response to Council's concerns about fewer homes in Burnaby qualifying to apply for a Home Owner Grant due to increases in assessed values for homes in Burnaby, Minister Fassbender advised that the Home Owner Grant "threshold and market trends are reviewed each year by the Ministry of Finance so that the Province can make appropriate adjustments to ensure that homeowners can appropriately benefit from the full Home Owner Grant program, while recognizing that a suitable threshold on assessed value is necessary to preserve fairness. The 2016 threshold has been increased to \$1.2m, and 91% of homes in the province fall below this threshold".

For 2016 in the City of Burnaby only 78% of Burnaby residential homes meet the lower eligibility threshold, based on an average residential property value of \$819,519. This is 13% less than the Provincial target. It is understood that simply increasing the grant threshold would benefit some but it would also reduce the amount of Provincial revenue collected. Staff are still researching the Home Owner Grant revenue collection and distribution. Once completed staff will provide a report to Finance Management Committee on an alternative method for the development of a Home Owner Grant threshold that takes into consideration the unique nature of property market changes in Metro Vancouver.

3.0 RECOMMENDATION

Based on staff's review, assessment averaging results in the redistribution of property taxes in a way that benefits those with higher property value increases by taxing those with lower property value increases in a given year. It is therefore recommended that the Financial Management Committee recommend that Council not implement property tax averaging given that it redistributes the tax burden from higher valued properties to lower valued properties in a given year.



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Copied to: City Manager