City of Burnaby

Meeting 2019 Feb 19

COMMITTEE REPORT

TO:	CHAIR AND MEMBERS FINANCIAL MANAGEMENT COMMITTEE	**DATE:**	2019 February 13
FROM:	DIRECTOR FINANCE	**FILE:**	7815-01
SUBJECT:	**PROPERTY TAXES**		
PURPOSE:	To provide information on potential solutions to the problem of rising property valuations driving significant property tax bills for local businesses.		

RECOMMENDATIONS:

1. **THAT** Financial Management Committee recommend Council receive this report as information.

2. **THAT** A copy of this report is sent to the Burnaby Board of Trade.

REPORT

1.0 INTRODUCTION

On 2019 February 11, Council received a delegation by the Burnaby Board of Trade (BBOT) regarding property taxes in Burnaby and potential solutions to the problem of rising property valuations driving significant property tax bills for local businesses. This report will provide information on the proposed solutions outlined by the delegation.

Assessment notices for 2018 were sent to property owners by the British Columbia Assessment Authority (BCAA) in 2018 December. The property tax rate for 2019 has not been approved by Council however landlords of commercial buildings are estimating potential property tax increases based on assessment increases year over year. Once the property tax rate is approved by Council, property tax increases will only apply to those properties whose assessments are higher than the average assessment value in their respective area.

The City collects property taxes for municipal services as well as other taxing authorities, including Metro Vancouver, Translink, School, Municipal Finance Authority, Business Improvement Districts, Tourism Burnaby and BC Assessment Authority. The amount of property taxation revenue required by a municipality for the delivery of municipal services to citizens is determined through the budgeting process. Expenses are estimated based on contract increases and service level requirements. Revenues from fees and charges and transfers from reserves are also estimated and then deducted from expenses leaving the residual amount of revenue required through property taxation. As a result, a municipality will only collect enough property taxation revenue to meet operational needs and nothing more. Higher assessment values do not equate to more property taxation revenue, however, higher than average assessed valued properties pay a higher amount of property tax than the average.

It is important to note that Single Family Dwellings encountered similar assessment value increases in the past and are now seeing reductions in assessment values and property taxation. Of the residential property class, it is now the Strata / Multi-Family properties that are seeing higher increases in assessments, while Single Family Dwellings are in most cases seeing a decline.

2.0 POLICY

Goal

- A Thriving Organization
    - Financial viability –

      Maintain a financially sustainable City for the provision, renewal and enhancement of City services, facilities and assets

3.0 PROVINCIAL OPTIONS

An inter-municipal group has been struck consisting of Metro Vancouver municipalities advocating the Province to look at options to alleviate the impact of assessment increases on small businesses. The Province has been requested to review split classification assessments such that the residential portion of a commercially zoned property be taxed at Class 1 while the commercial portion continues to be taxed at Class 6 versus the entire property being taxed as per the mill rate for Class 6 while actually having two different uses. The current BCAA approach is based on 'Highest and Best Use' (HBU). Split classification assessments would enable split billing, allowing for transparency on which part of the property would be classed and valued at residential versus commercial rates.

Residential property owners (Class 1) can, if eligible, apply to defer their taxes for which they are charged a low interest rate by the Province. This option is currently not afforded to any other classification of property. Exploration of this as an option for certain types / sizes of business to address the impact of assessment fluctuations, however, this could only be an option for business owners who are the registered owner of the property, and not a tenant on title. Hence, business operators may not benefit from a deferral program as the benefit would be realized by registered property owners who may or may not pass on the deferral benefit to the operators.

The Assessment Amendment Act 2018 was recently passed in the Legislature to support the ongoing operation of Class 4 major industry properties subject to significant property assessment and taxation increases as a result of changes to an Official Community Plan. The Act provides for the actual value of eligible major industry property to be based on actual use in described circumstances. Only one property in the Province was affected by this change in legislation. The Province can also look at a similar legislation change for Class 6 business properties.

4.0 MUNICIPAL OPTIONS

There are tools available to a municipality in order to adjust property taxation for a Class however it is important to understand that a municipality only collects enough property taxation required to deliver services to citizens and hence any option exercised results in a shift of the property tax burden among the available classes.

Many small businesses hold triple net leases, meaning that landlords will pass down taxation increases to their tenants. The City does not have any tools to dictate how and when such increases are passed down, as this falls within the legal agreement between tenant and landlord. It is unclear if any changes in assessment methodology, mill rates or taxation legislation would have any direct impact on such agreements; however, staff have attempted to set out within this report various options available to the City for assisting Class 6 properties in general.

4.1 Adjust Mill Rates/Tax Rates

Table 1 outlines the relationship of all property tax classes to Class 1 – Residential.

Table 1: Relationship of All Property Tax Classes to Class 1 – Residential

Property Class	2018 Tax Rates	Tax Burden	Relationship to Residential Tax Rate Res. = 1.0
1. Residential	**1.5063**	49.27%	1.00
2. Utilities	**25.1773**	2.16%	16.71
3. Supportive Housing	**1.5063**	0.00%	1.00
4. Major Industry	**31.9027**	2.86%	21.18
5. Light Industry	**6.3109**	5.62%	4.19
6. Business/Other	**6.3109**	40.05%	4.19
7. Managed Forest Land	**0.0000**	0.00%	0.00
8. Recreation/Non-Profit Organization	**0.7489**	0.04%	0.50
9. Farm	**6.3109**	0.00%	4.19

Currently when the mill rate for Class 6 increases, it does so by the same % as residential (i.e. a 1% increase to the mill rate for Class 1 results in a 1% increase in the mill rate for Class 6). As such, when the prior year mill rate is restated as part of the annual levy setting process, the effective mill rate increase for Class 6 can be greater than that stated for Class 1.

In order to reduce the taxes payable by commercial properties, the mill rate can be decreased for Class 6 however the ratio for another Class would have to change to compensate. As a result, the consequence of altering ratios results in the shifting of the tax burden from one Class to another.

4.2 Assessment Averaging

The concept of Assessment Averaging smooths assessment fluctuations. This tactic entails targeted or across the board averaging. The targeted model is currently used in the City of Vancouver, and involves identification of significant increases for a limited number of property classes. The major benefit of this approach is a reduction to the peaks and troughs of assessment changes and the resulting impact upon taxation. There are however a number of down sides to this approach; property owners do not experience savings immediately when their assessed value falls, new owners will be impacted by assessment activity that took place in prior years, the administration around this process would require additional resources, bylaw changes and set up of an appeal review panel would be required, and the collection of taxes for other taxing authorities is also further complicated. Although property taxes may increase gradually through an averaging process, the same amount of taxation will be paid in the end by the property owner. As well, each year, the tax burden will shift among other classes until the averaging catches up. In some years the average may be higher than the actual assessment providing relief to other property classes.

Clear policies for the treatment of averaging appeals would be required, as would the criteria around which classes and property value increases would be subject to averaging.

4.3 Revitalization Tax Exemptions

A tax exemption can be given to business(s) within a set area. A revitalization tax exemption program must be established by a bylaw clearly outlining the reasons for and the objectives of the program; how the program is intended to accomplish the objectives; the kinds of property, or related activities or circumstances, that will be eligible for tax exemptions under the program; extent of the tax exemptions available; the amounts of tax exemptions, and the maximum term of a tax exemption that may be provided (maximum of 10 years). Note – a business owner must be the actual property owner and not a tenant in order to be in receipt of such an exemption, therefore those tenants with triple net leases would not be eligible.

The revitalization program bylaw itself can contain special provisions applicable to the program. As such, the program can differ based on geographic area, property class, activity, use and zoning. There are a number of provisions contained within the Community Charter that govern administration of such a program. Such a program would require considerable consideration and analysis to determine the targeted classes, areas and overall program objectives. The City of Richmond provided a partial revitalization tax exemption program for businesses that were affected around where the Richmond Oval was developed. The City of Chilliwack currently has a revitalization tax exemption program in place for businesses located in its downtown area. Again, it is important to note that the taxation that would have been payable by the exempted properties now gets spread amongst the remaining taxed properties.

This report has been provided as information for Council.

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DIRECTOR FINANCE

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Copied to: City Manager