

**SUBMISSION
TO THE CITY OF VANCOUVER
TAX POLICY REVIEW COMMISSION**

VANCOUVER FAIR TAX COALITION

February 2007

The Issue:

**Vancouver's commercial properties
account for a sixth of the total assessed value,
consume less than a third of total city services,
yet pay more than half
the municipal property tax burden.**

TABLE OF CONTENTS

Executive summary	3
Residential and commercial class growth	4
Residential and commercial property taxes	12
Hot spots	15
Development hot spots	15
Neighbourhood hot spots	17
Conclusions.....	18
Vancouver decisions	20
Variable tax rates -1983	20
General policy - 1984	21
Biannual assessments - 1987	21
City of Vancouver Property Tax Task Force - 1993	22
Study of Consumption of Tax-Supported City Services - 1995	22
Request for Policy Clarification - 2006	23
Conclusions.....	27
Residential Conversions	29
Tax topography and budget shortfall.....	31
VFTC recommendations	33
Sustainability	37
Summary	39

APPENDICES

- A. Variable Tax Rates: A guide to implementation, Section 3.0 – 3.5.5
- B. Report to Standing Committee of Council on City Services and Budgets, including 1984 Finance Report and 2006 Policy Report
- C. Letter to Mayor: Commercial Electronics
- D. Tax Topography Model
- E. Three Year Average Assessed Values 1990 - 2006
- F. City of Vancouver Property Tax Rates Levy Assessment History

Executive summary

The Vancouver Fair Tax Coalition (VFTC) is a non-partisan group of local business improvement associations, small business owners and managers, industrial and office property owners and developers, and business associations. Together the associations represent 43,000 local businesses operating in the City of Vancouver.

VFTC members are concerned about the high municipal property taxes they pay, and the inequitable allocation of the tax burden between residential and commercial real estate. Their concern is based not only on the economic viability of their businesses, but equally so on the impact the current tax situation will have on the livability of our city and its neighbourhoods.

We recognize this situation has evolved over 25 years and many councils, and at its heart is the reality that while the City has adopted a *method* for property tax allocation, it has never developed a policy to guide council and staff on how to accommodate changes in a dynamic city like Vancouver, nor has it adequately addressed the concept of *fairness*.

Vancouver business owners pay six times the municipal property taxes paid on comparably valued residential properties. Yet we consume less than a third of total municipal services – ranging from water, sewer and garbage collection to parks, community services and civic theatres – but we subsidize 50 per cent of every dollar of municipal services consumed by Vancouver residents.

This is a very serious issue for the future of our city, and it needs a solution.

Vancouver businesses are more than willing to pay their share of property taxes, but not at the current rate. It is unfair and unsustainable.

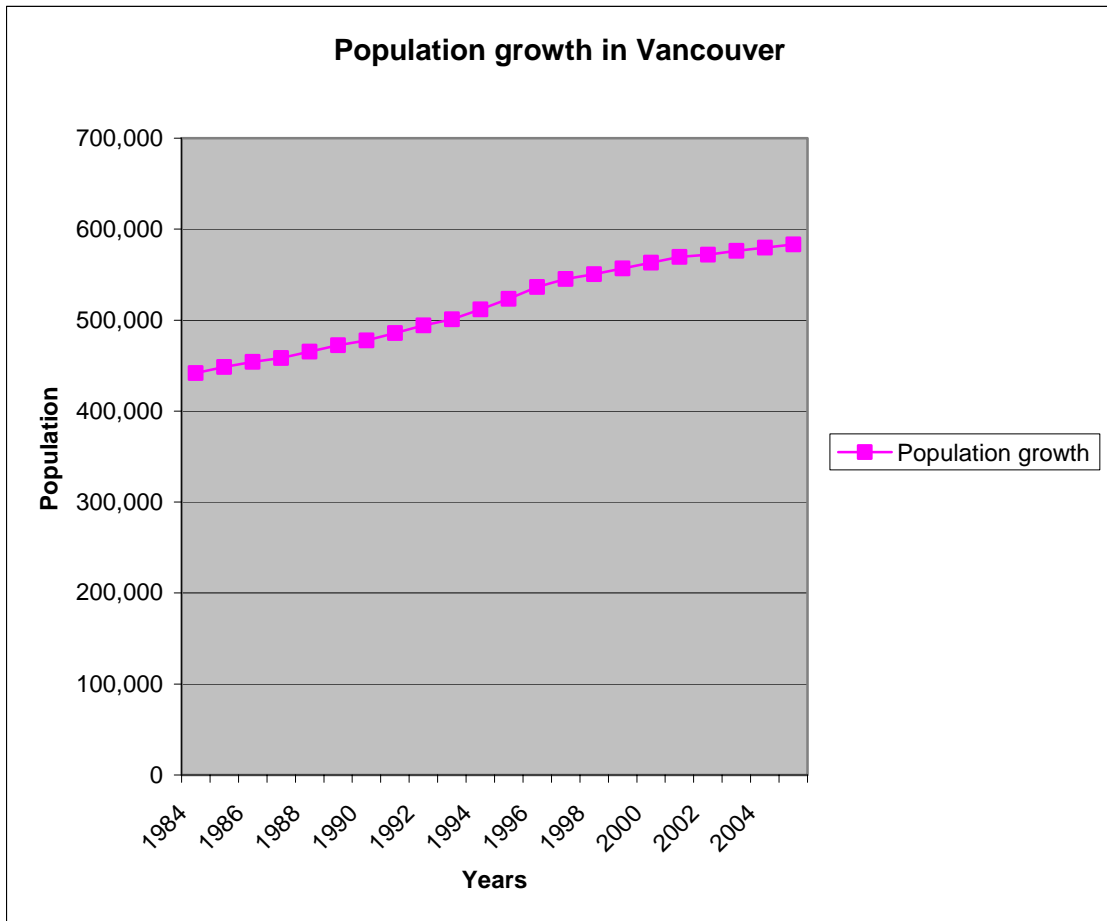
The Vancouver Fair Tax Coalition looks forward to leadership from the City of Vancouver Tax Policy Review Commission in finding a solution to the unfair subsidy paid by commercial taxpayers.

This is an opportunity to correct mistakes of the past, and you have our full support.

Residential and commercial class growth, 1982 – 2007

Following a population decrease during the 1970s, Vancouver has been growing steadily since the early 1980s and particularly since we “welcomed the world” as hosts of Expo 86.

Consistently considered one of the best cities in the world to live in, Vancouver’s population has increased 27 per cent since 1984. It is now home to about 600,000, and is currently averaging a population growth of 6,000 more people in the city every year.



With this population growth has come the need for an increasing number of residential properties. According to the City of Vancouver website (Community Services/Planning/City Plans):

“In the ten years since 1991 the number of dwellings increased by 36,160. Most of this growth is from redevelopment, and includes considerable growth in the number of apartments in the downtown. As apartments are developed in the old industrial areas, along arterials, and above stores in commercial areas, the percentage of purpose-built apartments in the total housing stock has increased from 50 per cent in 1991 to 56 per cent in 2001.



The King Edward under construction at Kingsway and Knight Street

Some of the other additional dwellings have come from the creation of new secondary suites, which in turn means that property moves from single detached to the 'duplex' category. Some increases also arise from more accurate recording of secondary suites. If duplex suites are considered as apartments, the percentage of apartments rose from 58 per cent in 1986 to 67 per cent in 2001.”

Types of housing in Vancouver

This growth has not been happenstance, but rather the result of deliberate policies established to encourage higher densities and residential growth throughout the city.

The City of Vancouver's "Vancouver's New Neighbourhoods: Achievement in Planning and Urban Design" (December 2003) notes that the tradition of distinctive neighbourhood environments "was embraced in the mid-1980s as the essential planned framework for a *remarkable expansion* that is profoundly redefining and differentiating our city."

It goes on to say, "Downtown Vancouver, in particular, has undergone a profound change as it has urbanized and densified ... with almost 40,000 new residents being added in the past fifteen years alone, the downtown peninsula now is home to about 80,000 people and is set to double its pre-Expo 86 population to over 110,000 people within the next decade."



A changing neighbourhood, looking south on Homer from Davie



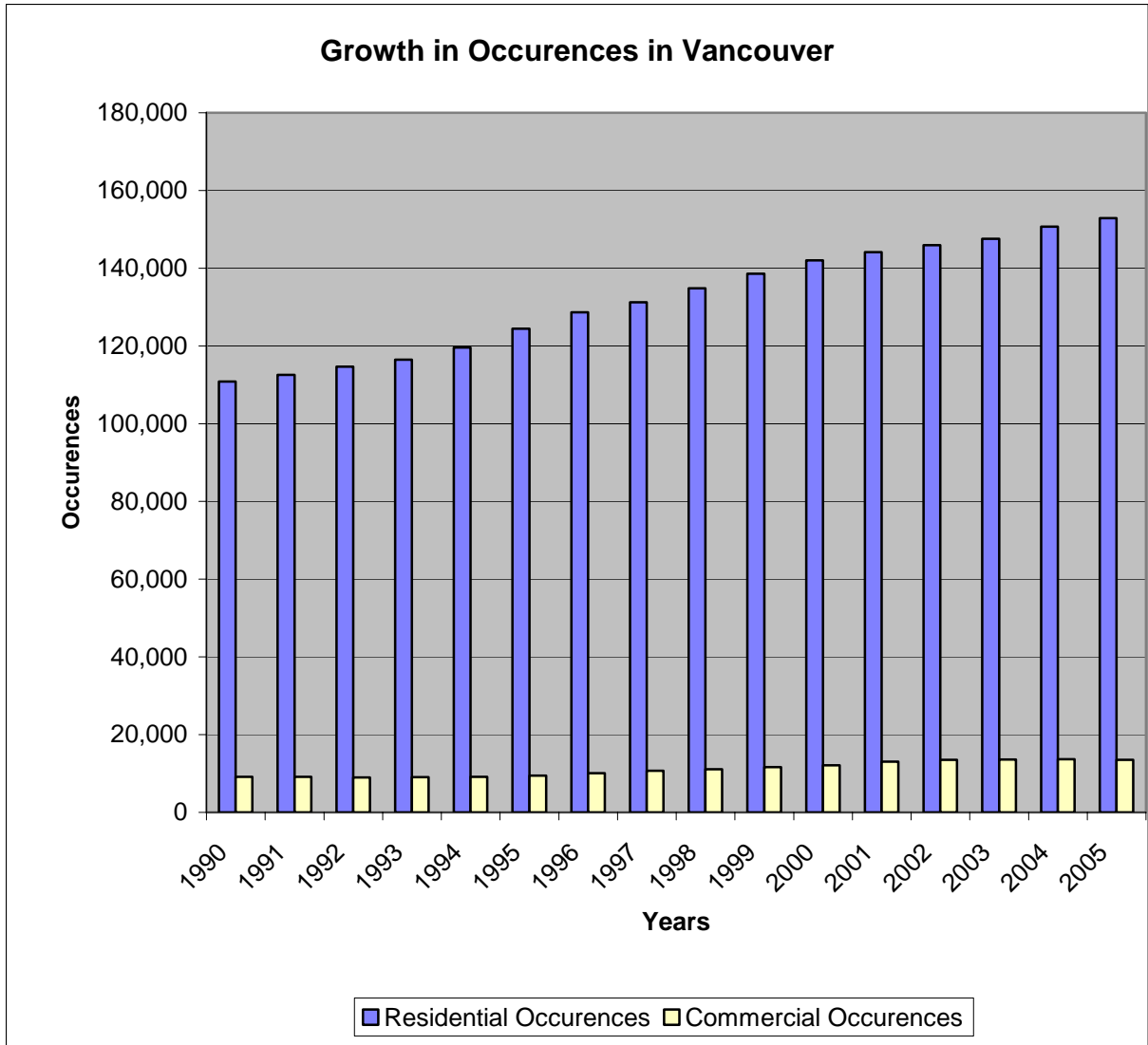
Classic three-storey "above retail" arterial residential development at 18th and Dunbar, surrounded by underdeveloped buildings.

In the last few years, city council has recognized the downside of this focus on residential growth and, in 2004, adopted interim policies that put a "hold" on residential development under current zoning in the central business district extension areas.¹

Unfortunately, this does not change the reality that Vancouver's strong residential growth has substantially outpaced the business sector in both the number of occurrences being built and assessed values.

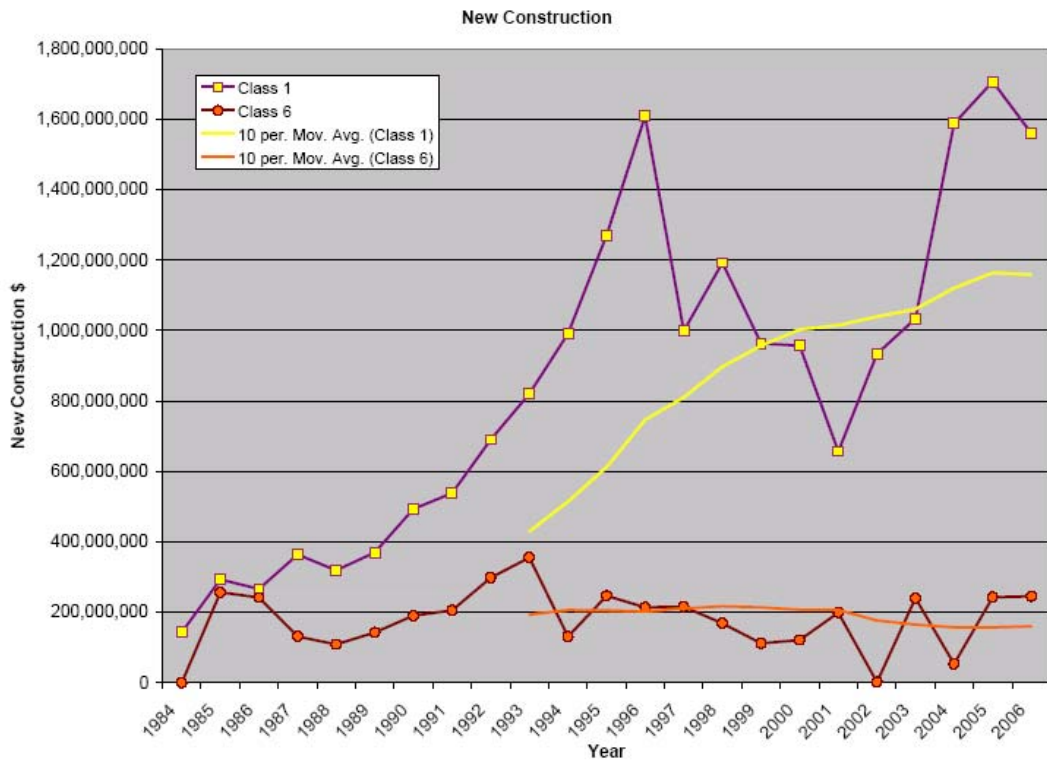
¹ City of Vancouver, Backgrounder: Employment Space – Supply and Demand to 2031, November 30, 2006





A comparison of unaveraged values from 1984 to 2006 clearly shows that commercial assessments have tripled while residential assessments are seven times higher in the same period.

Just last year, new residential occurrences were up 4,833 properties over 2005. That's double the average increase in the last five years. But commercial decreased by 269 occurrences, or twice the decline seen in 2005.



Prepared by: Norm Stickelmann
 8. New Construction 1984 to 2006.XLS (Value New Constr 10 YrMA (1-6))
 E:\WBT\2007 Tax Year\Analysis\

Page 1 of 1
 Printed 16/01/2007 at 6:41 AM

Another example – new construction as a moving average – shows a trend in which the number of residential units or properties has increased dramatically while the number of commercial properties has remained relatively constant. There are now 47,000 residential properties, but only 4,000 commercial properties in the City of Vancouver.

A very useful exercise for this Commission would be to request statistical information on the number of businesses that have been established in the City of Vancouver over the past 10 to 15 years.

What all of this tells us is that the City of Vancouver has changed, but what has really changed is the growth in residential properties and the increased demand for services this entails.

Summary of residential/non-residential tax rate ratios

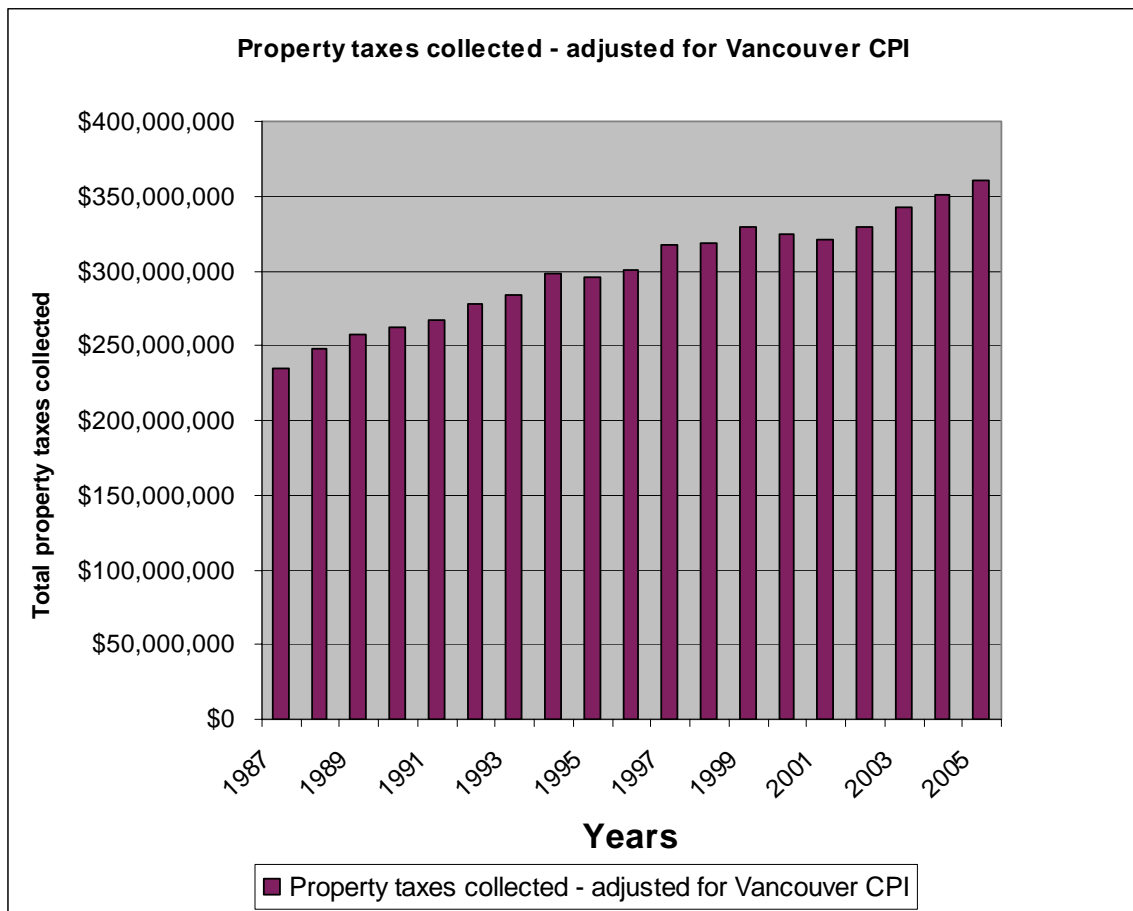
	1984	1995	2006
Share of taxable values: (Residential/Non-residential)	67.1/32.9	80.7/19.3	83.2/16.8
Share of taxes: (Residential/Non-residential)	39.8/60.2	41.5/58.5	45.0/55.0
Tax rate ratio	3.0	5.9	6.1

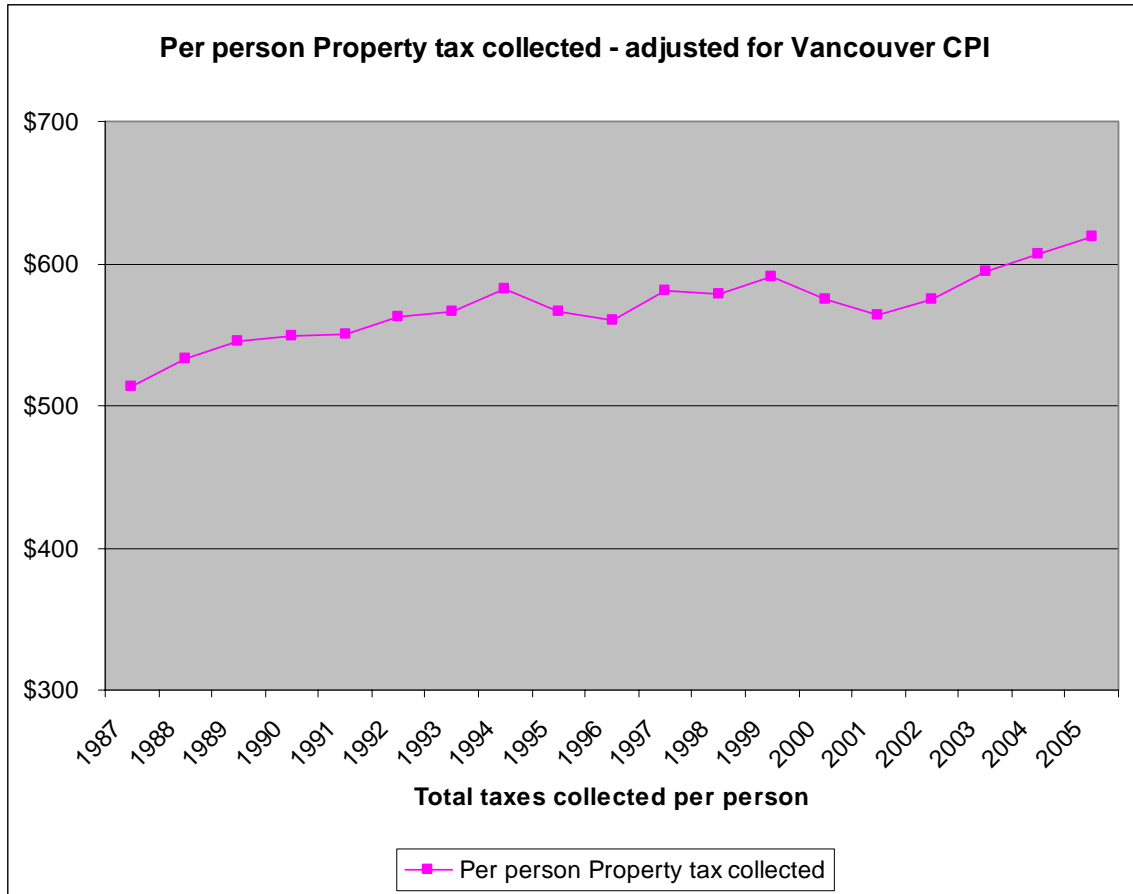
Source: BC Assessment Authority data from 2006 Consumption Study

Clearly, if there was ever a time, or a reason, to consider changes to how taxes are distributed among Vancouver property classes, this is it.

Residential and commercial property taxes, 1982 to 2007

While the balance in the number and value of residential to commercial properties has shifted significantly, there has been no relative change in taxes – except for an overall increase in taxes. The share that each class pays has not changed significantly because of the fixed share method for allocating tax revenues.

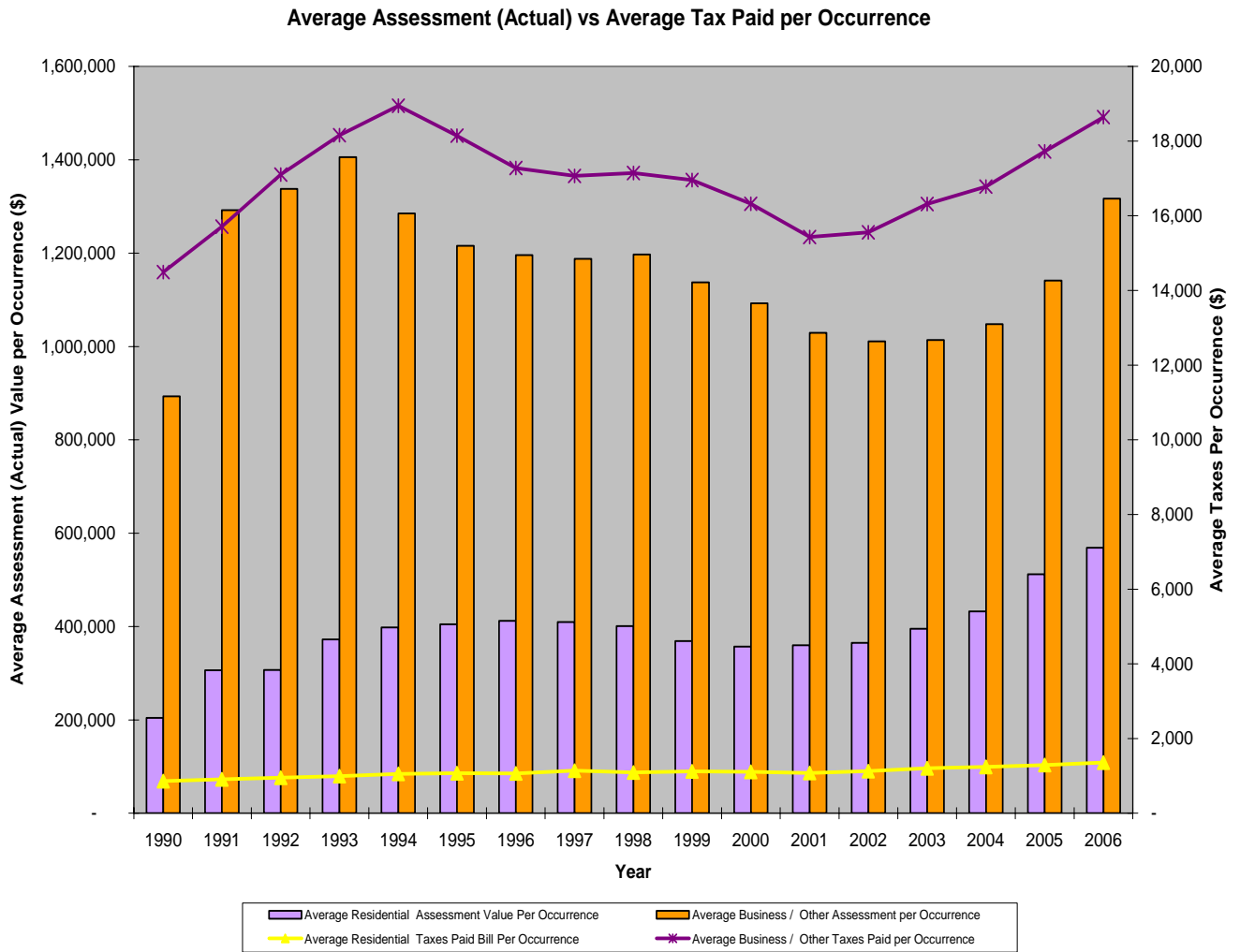




As the above graph demonstrates, the total municipal property taxes have increased by 54 per cent since 1987 (adjusted to reflect the Vancouver CPI based on \$1.00 = 1972).

At the same time, the total per person property tax – the cost to run the city per resident regardless of taxpayer status – has increased by 21 per cent per person.

Considering that the residential rate has decreased significantly, and the commercial tax rate has increased, it becomes clear that the commercial sector is paying the city's increased expenses.



Looking at the actual tax rates or mill rates demonstrates that while residential tax rates are now one half of what they were in 1984 (2.6 vs. 5.2), The average non-residential rate per occurrence has increased from \$14.50 to \$18.60 (an increase of 28.7 per cent) while the average residential rate per occurrence has gone from \$4.20 to \$2.40 (a decrease of 43.3 per cent).

Hot spots

Hot spots in Vancouver's real estate market are caused by residential growth.

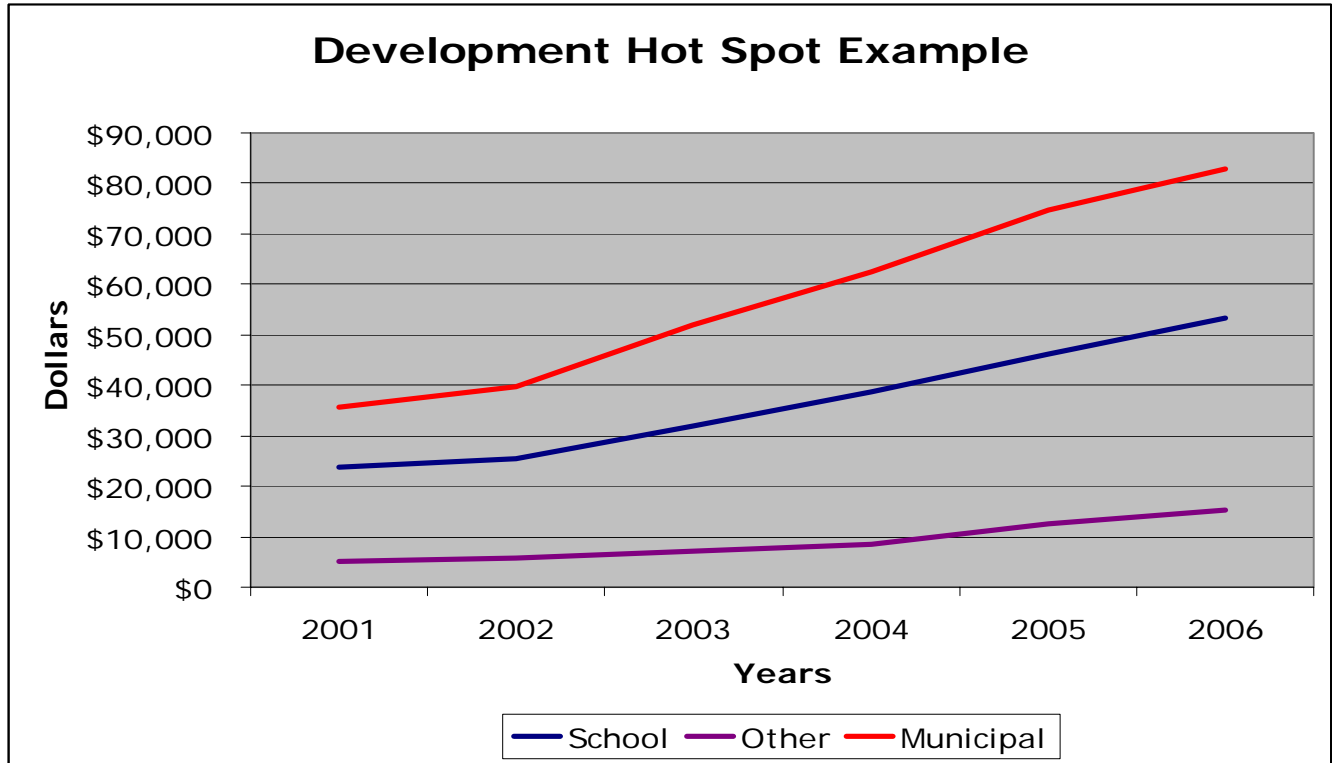
Development hot spots

Art Works Gallery, located on Smithe Street in Yaletown, is a classic example of what happens to an established business when its neighbourhood is subject to concentrated and extensive residential development.



The following table tracks the site's increasing property value, and the resulting increases in taxes borne by Art Works.

	2001	2002	2003	2004	2005	2006	2007
Assessment	2,764,000	2,749,900	4,049,800	4,407,100	5,201,600	6,461,100	9,841,300
School	23,728	25,488	31,967	38,592	46,227	53,344	TBD
Other	5,039	5,870	7,259	8,534	12,719	15,324	TBD
Municipal	35,624	39,778	51,956	62,446	74,778	82,844	TBD
Total taxes	64,391	71,136	91,182	109,572	133,724	151,512	TBD



Property tax is in reality a wealth tax. In the case of most residential properties, the owner and the occupier are the same, so any increase in assessment that results in an increase in taxes is for the same individual, i.e. the owner/occupier.

In the case of commercial properties, the owner and occupier/tenant are not usually the same. Therefore, whereas a market value increase can benefit the owner, the occupier will receive no benefit but is responsible for taxes. That is because the standard lease provides income net to the owner, meaning that all costs, including taxes are borne by the tenant. The market value of the real estate is not necessarily a reflection of its value to a business enterprise but rather in this case, its densified residential potential. In Vancouver that can mean that, although the assessed value is based upon its residential potential (highest and best use), its taxes are calculated at almost six times the residential taxes.

The property tax system already makes a distinction between the owner and occupier when it comes to residential tenants. A multi-unit residential building with renters is taxed at the residential rate even though the property itself is a commercial enterprise. Here the tax system distinguishes between the business owner of the property and occupier. No such distinctions are made for commercial properties.

This is a particularly dramatic example, but similar situations are occurring throughout the city.

Land averaging does NOT work, because with or without averaging, Art Works' taxes are still skyrocketing. These taxes should reflect the commercial value – not the residential potential.

Neighbourhood hot spots

We are also seeing many hot spots created when relatively few properties change hands. This can result in an entire neighbourhood being reassessed at a much higher value. If the increase is greater than the average increase of the class it can result in property taxes shifting from other parts of the city.

When this happens, the smaller niche businesses that helped create much of the unique character of the neighbourhood are the ones that suffer.

Commercial property taxes are often referred to as “business tax.” But it is far from a business tax that treats all businesses in Vancouver equally, even though there is little or no relationship to their profitability. Neighbourhood retail, restaurant and service businesses, which require high valued locations for their success, are singled out to pay a disproportionately large share of the tax burden. That is especially the case in Vancouver where the tax levels are so large.

Therefore, any dramatic increases in assessments can have profound effects on neighbourhood businesses that often serve needs ‘particular’ to a neighbourhood and may not meet with any success in other locations. Examples may be Chinatown, Davie Village, Commercial Drive, Main Street south of 16th, Kerrisdale, the Punjabi market etc. In Vancouver, where character neighbourhoods of this type are of high value to residents, it is of particular concern.

This occurred in the late 1980s and early 1990s when all of the major banks went after the affluent retirement community in Kerrisdale. Suddenly every bank had to have space along 41st Avenue, and there was a virtual bidding war.

A high profile example was Windmill Toys, which was discussed in the legislature on Friday, July 9, 1993:

"As we know, property values on the west side of Vancouver ... have just skyrocketed. It's a different plateau altogether. This has created a very large problem for small businesses that don't own these properties but pay the taxes. Windmill Toys is one such business. ... Their taxes have gone up from \$18,000 in 1987 to being projected to go over \$52,000 in 1993. That's \$1,000 a week that this small store in Kerrisdale, a one-storey commercial facility, would have to pay. Frankly, they just can't afford it; they would have to close down. It's just impossible."²

Dramatic tax increases are occurring now in Kitsilano and South Granville and we predict it will begin to happen soon on Main south of 16th Avenue.

Conclusions

Most discussions on this topic within the Vancouver Fair Tax Coalition come back to making a distinction between the tenant and commercial value of a property and the market value of the property.

In theory, over time they would balance out to being the same. Although at this point the VFTC has no conclusive answers it is generally felt that a capitalized assessment based upon the commercial value (i.e. the rental rate) would be more equitable and predictable. It would tend to remove sudden spikes in property tax increases and flatten out the tax topography across the city.

It is also possible that because rental rate increases are less likely to be as dramatic as market value assessments, they could be done bi-annually to offset the possible increase in cost of rental-based assessments.

(The Vancouver Fair Tax Coalition does not have the resources to conduct a study of the effects of doing assessments based upon rental rates, and would urge the Commission to recommend this study.)

² Hansard, Volume 12, Number 2, Friday, July 9, 1993

Of course, any changes in the current methodology for assessments would entail legislation changes by the provincial government. This would take time and it is likely many businesses will be lost due to slow progress of government.

In the interim, capping of dramatic increases to individual tenants should be considered. A precedent has been established in the 90s and did save businesses. It is not necessarily a long-term solution but would be a responsible action considering the unfairness of having civic taxes contributing to the demise of a citizen's livelihood.

Vancouver decisions

Prior to 1983, when the Province of BC set tax rates, the ratio of the general business property tax rate to residential property tax rate in the City of Vancouver was approximately 2.5:1. In other words, for every \$1.00 on assessment that residential owners paid, commercial owners paid \$2.50.

Since that time, successive city councils have grappled with the annual exercise of establishing the municipal budget and collecting the necessary taxes.

The following is an overview of some of those decisions over the past 25 years.

Variable tax rates – 1983

Introduced by the Provincial Government, this property tax reform legislation gave municipalities the responsibility for distributing the burden of general municipal taxes among eight classes of real estate property.

Municipal officials were provided a guide (“Variable Tax Rates: A guide to implementation”) that explained how to “choose general municipal tax rates which will maintain a *fair, stable and predictable distribution* of municipal taxes in each municipality.”

Included in this guide was Section 3.0 – Rate Setting for General Municipal Purposes, which described both the mechanics of choosing variable tax rates and the policy issues surrounding the tax distribution decision (Section 3.0 – 3.5.5 – Appendix A).

Under Section 3.5.1. – Tax Policy Objectives, the guide requires municipalities to select tax policy objectives, with stability and equity as two of many possible objectives.

City council of the day chose stability through a fixed share method, which at the time meant residential properties paid 40 per cent of the overall taxes and non-residential properties paid 60 per cent. Although the share method was understandable given the economic instability at that time, there was no policy or accommodation for equity or fairness or a mechanism for dealing with assessment changes from year to year.

General policy – 1984

The concept of fairness was introduced in a General Policy outlined in a 1984 Director of Finance Report (Appendix B), which states:

“The general policy at the moment is to avoid shifts in the share of taxation borne by the various categories of property over time, other than caused by adjustments for new construction, or to correct obvious inequities such as the shift that occurred in 1982.

There are other policy stances that may be adopted. For example, stability can be expressed as stability of the tax burden on each class of property, or stability of the effective tax rate on each property class. Alternatively, Council may wish to provide tax relief for particular sectors for “equity” or “fairness” reasons. The most important point is that the distribution of the taxes should be guided by and governed by a distinct taxation policy.

The City’s present policy stance, of stability for each class, also guides the distribution of the business tax shift in 1984. In other words, the increase in business taxes should be shifted on the categories that would otherwise have paid that business tax, in as reasonable and fair a manner as possible. This we have attempted to do.”

Biannual assessments - 1987

In 1987, the property assessments were changed from annual to biannual assessments.

In 1989 Vancouver property owners saw extreme assessment increases – particularly on the west side, in Chinatown and for some parts of Commercial Drive – that led to taxes for some businesses climbing by more than 100 per cent in one year.

This then led to the formation of an ad hoc group of effected small business owners called ATAC-Angry Taxpayer Action Committee that convinced council, with approval from the province, to various caps on commercial property taxes for a few years and, in the process, saved some businesses from failure.

City of Vancouver Property Tax Task Force - 1993

For similar reasons as today's Tax Policy Review Commission was set up in 2006, the 1993 task force was established to find a solution to distribution fairness. It was made up of business owners, Board of Trade members and residential representatives to "identify and develop recommendations to address problems related to Vancouver's property tax system."

The task force submitted 14 recommendations that were accepted by council, and its work led to a three-year averaging program to mitigate sudden spikes in taxes and the return of annual assessments.

Study of Consumption of Tax-Supported City Services -1995

Task force members representing the business community had difficulty accepting city staff's assurances that the commercial class was paying for services that it benefited from, and recommended an analysis of consumption.

The result was the 1995 Study of Consumption of Tax-Supported City Services conducted by KPMG with the guidance of an advisory panel of former task force members and other community representatives.

The study analyzed the relationship between residential and non-residential sectors to understand the relationship between taxes paid and services consumed. It found:

- Business properties paid \$2.07 for every \$1 of services consumed
- Residential properties paid \$0.57 for every \$1 of services consumed

It provided a range of options for deciding the appropriate rate of adjustment if the city decided to reduce the current ratio of payment for dollar consumed, noting that:

"The 0% to 2% spectrum represents a wide range of options, with very different five-year results:

- The continuation of the current 40/60 tax burden policy would hold the payment-per-dollar consumed ratio at 3.7 for existing residences.
- A 0.5% annual shift would reduce the ratio to 3.3 and would add about 6% to general taxes paid by residents (3% to the overall tax bill). Residential share of taxes would increase to 42%.

- A 1.0% annual shift would reduce the ratio to 3.0 and would shift the residential/non-residential tax burden to about 45/55 by 1999. It would add 13% to general taxes paid by residents (6% of the overall tax bill).
- A 1.5% annual shift would reduce the ratio by 2.7 by 1999, and would add 19% to general taxes paid by residential (10% to the overall tax bill). The residential share of taxes would be 47%.
- A 2.0% annual shift would reduce the ratio by 2.4, and move the tax burden to about 50/50 by 1999. It would add 25% to general taxes paid by residential (13% to the overall tax bill).

Council chose the 1% option, but subsequent Councils applied it randomly in non-election years (1994, 1995, 1997, 2000 and 2006 with a one-half per cent shift in 2003).

[An outcome of the consumption study was the Solid Waste Utility Fees established in 1998. This meant that solid waste costs were removed from the general property tax levy and replaced with fees based on cost for the service by each class, or a proxy for consumption, rather than on assessed value of property. In other words, a user-pay model that ensured residential property taxes paid for residential waste removal.]

Request for Policy Clarification - 2006

In late 2006, the Vancouver Fair Tax Coalition requested clarification of the policy that drives the city's property tax decisions. The coalition was referred to the 1984 tax distribution report prepared by the director of finance, Peter Leckie, and the minutes of the April 20, 2006 meeting in which council confirmed the policy for setting tax rates on a fixed distribution approach (Appendix B).

Any number of objectives and methods could have been chosen. However, as noted previously, council chose "stability," but not equity or fairness as an "objective" of a tax distribution policy.

Stability to the city meant stability of taxes collected from each class as opposed to a shifting in taxes from one class to another depending on unpredictable swings in assessments. In a stable system, an increase in the budget would result in an equal increase in taxes collected from each class. It would seem that the definition of stability in this case means "political" stability because it could be perceived to have political consequences if the tax burden was shifted from the non-residential classes to the residential class.

The policy report submitted at the April 20, 2006 meeting stated that:

“Since 1983, it has been Council’s policy to collect a fixed share of the total property tax levy from each of the seven property tax classes in Vancouver.

On April 28, 2005, Council confirmed the policy of managing the property tax levy through a “fixed burden” approach where the allocation of the levy among the classes of property remains constant over time, subject to physical changes in the classes or to Council action to adjust the allocation.”

The report offers criteria for council to consider including:

- Ability to pay / taxation impacts
- Benefits received
- Equal treatment of equals
- Stability in the tax system
- Economic development objectives
- Regional and national competitiveness objectives
- Land use policy

The staff reports in 1984 and again in 2006 mention that these criteria must be considered, and would seem to indicate that there was a necessity for making fair and equitable judgments in determining how to allocate the tax burden. However, there is no principle of fairness mentioned, and no mechanism to help determine equity or any analytical reports to council.

This is where the policy shows itself as being inadequate and incomplete. Although the provincial government requires a review of the policy each year, there was nothing brought forward to help council make changes.

It is at this point that the Vancouver Fair Tax Coalition recommends adopting a principle of fairness in the following recommendations.

The following summarizes major property tax policy decisions in the City of Vancouver from 1989 to 2005, and council-directed shifts in tax distribution during that same period.

***Tax Capping & Land Averaging Policies in the City of Vancouver
Class 1 Residential Class 6 Business/Other***

1989	Capped land value increases at 61% Capped tax increases at 40%
1990	No adjustment to taxation methodology Capped tax increases at 10.1%
1991	Capped tax increases at 5.5% No limit on tax credit Capped tax increases at 7.5% \$400,000 limit on tax credit
1992	Capped tax increases at 6.0% \$5,000 limit on tax credit Capped tax increases at 10.0% \$100,000 limit on tax credit
1993	Implemented three-year land value averaging Tax increases capped at 25% for select properties Implemented three-year land value averaging Tax increases capped at 25% for select properties
1994	Continued three year land value averaging Tax increases capped at 10% for select properties \$500 limit on tax credit Continued three year land value averaging Tax increases capped at 10% for select properties \$15,000 limit on tax credit
1995	Continued three year land value averaging No tax capping Continued three year land value averaging Tax increases capped at 15% for select properties under a phasing out methodology \$10,000 limit on tax credit
1996	Continued three year land value averaging No tax capping Continued three year land value averaging Tax increases capped at 20% for select properties under a phasing out methodology \$7,500 limit on tax credit

1997	Continued three year land value averaging No tax capping Continued three year land value averaging Tax increases capped at 25% for select properties under a phasing out methodology \$5,000 limit on tax credit Last year of tax increase capping
1998	Continued three year land value averaging Implementation of solid waste utility Continued three year land value averaging
1999-2005	Continued three year land value averaging Continued three year land value averaging

Council-directed shifts in tax distribution

1994	Shifted \$3.0 million from Class 6 to Class 1
1995	Shifted \$3.0 million from all non-residential classes to Class 1
1996	No shift
1997	Shifted \$2.9 million from all non-residential classes to Class 1
1998	No shift
1999	No shift
2000	Shifted \$3.7 million from all non-residential classes to Class 1
2001	No shift
2002	No shift
2003	Shifted \$2.0 million from all non-residential classes to Class 1
2004	No shift
2005	No shift
2006	Shifted \$4.0 million from all non-residential classes to Class 1

Conclusions

The variable tax rate system introduced in 1983 required municipalities to select tax policy objectives or, more specifically, that they must consider how they wish the general municipal tax burden to be distributed among property classes.

Vancouver council at the time, and in successive years has chosen:

- Political stability and not equity
- To be reactive to political pressure from business owners
- To apply small shifts randomly
- To encourage residential growth resulting in a profound increase in the number and demand for services by residents

The result has been ad hoc reactive responses to political pressure. Each new council has had to educate itself on the tax system (a daunting task at best) and has been guided only by the recommendations of staff. As a result, their only consideration has been for the perceived political fall out of shifting taxes from non-residential rate payers to residential rate payers as presented by staff.

It should be noted here that there is considerable political incentive to have a fixed share of tax allocation from year to year without being forced to make decisions of fairness. Politicians would prefer not to have to make these kinds of decisions.

It is also worthwhile noting that municipal staff is in much the same position. If municipal expenses have a direct dollar-for-dollar effect on the revenues from the voting public, then added pressure for accountability of expenditures is the natural outcome.

In short: no one wants to act. So a long-term policy will benefit everyone and make decisions easier and more predictable.

Elected representatives also need to know how the city is doing with its expenditures. So comparative analysis at budget time is critical.

Vancouver has become less and less competitive as non-residential tax rates and tax rate ratios have increased.

Selected municipalities: 2006 data

	% OF ASSESSED VALUE		% OF TAX LEVY	
	Residential	Business & Other	Residential	Business & Other
Vancouver	83%	16%	46%	51%
Victoria	76%	24%	47%	52%
Burnaby	81%	17%	47%	41%
Richmond	79%	19%	50%	45%
Coquitlam	88%	11%	56%	38%
Abbotsford	85%	12%	63%	28%
Kelowna	85%	13%	69%	28%
Surrey	89%	10%	70%	25%
North Vancouver District	93%	6%	73%	17%

2006 TAX RATE COMPARISON

	Class 1	Class 6	Ratio
Vancouver	2.66174	15.48272	5.82
Coquitlam	3.2431	17.7335	5.47
Burnaby	2.929	12.2655	4.19
North Vancouver District	2.74553	10.53087	3.84
Richmond	2.8618	10.61137	3.71
Victoria	3.8864	14.273	3.67
Surrey	2.70972	9.07748	3.35
Abbotsford	4.64255	14.79875	3.19
Kelowna	4.1755	10.8559	2.60
AVERAGE	3.31726	12.84768	3.98
Average (excluding Vancouver)	3.3992	12.51830	3.75

Residential conversions

There are numerous examples of industrial and commercial land and individual properties converting to residential, from warehouses and office towers to areas such as False Creek and Collingwood, to name a few.

Every time a piece of land or building converts, the non-residential tax formerly paid on the site is shifted to other businesses, while more residents are contributing to the same residential share of property tax.

There are many very real examples:

- Shangri La example, brought in as a live/work under the guise of creating commercial spaces but went completely residential
- BC Hydro, Shaw Tower, Southeast False Creek, Hudson House

These are all a result of Vancouver not having a clear tax policy.



Shangri-La



Shaw Tower, conversion to residential



The Hudson on Granville at Dunsmuir

Tax topography and budget shortfall

A consequence of conversions, or the redevelopment of commercial properties to residential, is the impact on tax topography, one of the many areas impacting the tax distribution policy. The changing physical landscapes are compared to tax revenues.

Attached as an appendix is the *Tax Topography Model* which sets out the following analysis:

- Part 1: Calculates consumption of services for the average residential and business property.
- Part 2: Calculates the tax revenues obtained from the average residential and business property.
- Part 3: Compares averaged assessed values to tax rates.
- Part 4: Tax Topography demonstration.

One of the reasons for the inequity in the tax distribution is a result of the method adopted in shifting the levy when a property converts from a low-density commercial folio to a newly redeveloped residential property.

With each conversion, two things occur:

- 1) a property tax recovery shortfall is created and redistributed to all property classes, effectively increasing the tax load on commercial and
- 2) the excess subsidy of residential tax payers increases as the demand on municipal services is not accounted for.

Some key points from the *Tax Topography Model* are as follows:

- Value of “property” increases approximately 50 per cent and tax revenues decline.
- The annual shortfall to consumption created from a single 100-unit tower is \$104,901. Given that Vancouver has built 2,000 to 4,000 residential units per year for the past decade, the cost is millions of dollars per year in excess subsidization.

- The budget shortfall created with the conversion of a business property to residential is recovered at a rate of **13.2** times higher from commercial properties, even though it is the creation of a residential property that results in this shortfall.
- With the conversion of a typical property, the consumption of municipal services will increase by some **227 per cent** but tax revenues from the property will actually decrease by **15 per cent**.
- As a result of historical methodology, the consumption payment ratio has increased to 4.3:1 (MMK) in spite of shifting that has taken place.

VFTC recommendations

The Vancouver Fair Tax Coalition, on behalf of its members, submits the following recommendations to the City of Vancouver Tax Policy Commission for inclusion in the commission's report to council.

1. **Adopt a principle of fairness** for the distribution of property taxes in the city of Vancouver.

The City of Vancouver does not currently have a policy requiring fairness and equity in the distribution of property taxes between classes.

Although reports to council refer to having to make considerations of fairness and equity there is no formal policy, principle or mechanism where our elected representatives can determine fairness. The current Council and the Vancouver Fair Tax Coalition believe that formal principles of fairness need to be established.

2. **Create a (long term) policy for the fair and equitable distribution of property taxes based upon the benefits received by each class.**

- "Paying for benefits received" is a basic value that is easily understood and generally accepted by Canadian citizens.
- "Paying for benefits received" was the premise for the Consumption Study initiated by Council in 1995 and again in 2006.
- "Paying for benefits received" is the basis of "user pay" initiatives carried out by Council in other areas like solid waste disposal.
- "Paying for benefits received" is the only basis for the value of fairness expressed to date. The VFTC is unaware of any other fairness principles expressed by Council, staff or other citizens regarding the issue of distribution of property taxes.

The policy should set the target for a fair and equal distribution of property taxes by 2017. Also, it should account for the marginal corporate tax rate into the equation of determining the share paid by commercial property owners and be based on the consumption of services.

There has never been a requirement or a publicly stated policy to have the commercial ratepayer subsidize the residential ratepayer for the benefits they receive from the city. Essentially, it has been an exercise of neglect that has allowed the subsidy to persist.

3. Any differential between revenue collected from a class of property and the costs of the benefits received by this class should be called the subsidy amount.

Any revenue shortfall should be called a subsidized amount. It should be quantifiable from year to year and tracked from year to year as progress towards equilibrium.

4. Hold tax increases to the non-residential classes for two years.

Business property owners are justified in seeking immediate relief from the historic inequitable allocation of the tax burden between residential and commercial real estate.

5. That the Tax Policy Review Commission study the effects of changing commercial property assessments using a capitalization rate from rental value.

The Vancouver Fair Tax Coalition believes that these recommendations can be successfully implemented in concert with the following:

1. A third party analysis of consumption of services on a regular basis, but not less than every three years.
2. Annual reports to Council by city staff on five performance areas, providing comparisons year-to-year and with other municipalities. The five areas are:
 - 1) General government
 - 2) Protective services
 - 3) Engineering
 - 4) Planning and development
 - 5) Recreation and culture
3. Annual reports to Council by city staff on the relative tax rate comparisons for the above performance areas with neighbouring municipalities and other Canadian cities. (Due to variances from municipality to municipality, this will not be a perfect study, but it will indicate trends.)
4. Annual reports to Council by city staff on the per person tax rate for the entire budget and for the residential share of taxes paid. While it is not necessary to achieve absolute equity with other municipalities, it is important to know where the municipal budget is being allocated.
5. Annual reports to Council by city staff on the progress towards the balancing of taxes to the principle of benefits received.
6. Council decisions regarding additional expenditures should include an analysis of who will benefit as well as the net effect on property taxes in order to understand what property classes are affected by the decisions being made.
7. Zero-based budgeting should be introduced for the budget process. The current process is woefully inadequate. It does not eliminate expenditures made in the past that are no longer valid, and encourages year-over-year increases in costs and taxes.

8. Economic analysis on the consumption of services required and tax revenue measured for any major project in the city should be implemented. In other words, the tax consequences of any major development must be considered.
9. Annual measurements of economic, social and environmental impacts on city policies, developments and key issues to ensure sustainability.
10. Mitigation of the large fluctuations in assessment increases for neighbourhoods to smooth out large property tax increases on underdeveloped properties.
11. Better use of city council and staff resources with the competitive forces of the marketplace to ensure value to municipal taxpayers.

Sustainability

The Vancouver Fair Tax Coalition strongly supports the concept of a sustainable city, and the need to balance economic, social and environmental considerations in civic management. As such, the following should be considered in the development of a long-term tax policy.

1. Economic implications

The current reality is that residential growth is outpacing commercial growth – and job growth opportunities – because of the policies and actions taken by city council and staff.

The excessive subsidy of the residential class, with no quantifying of the subsidy or reasoning behind it, creates an economic incentive for these ratepayers to demand an ever-increasing number of services.

At the same, there is selective culling of neighbourhood businesses as sudden general re-assessments cause otherwise successful businesses to be economically challenged and in some cases to fail. There is a competitive disadvantage to the commercial ratepayer compared to surrounding municipalities and other major cities.

Vancouver's retail diversity, for the most part is made up of "one-off" retailers, which give character and diversity to the shopping experience. This retail diversity, which reflects the surrounding neighbourhoods, is under attack through innocent political neglect.

This reality will continue unless there is a re-alignment of the property tax ratio to reflect a benefits-received model, and an adjustment to the city's development policy.

2. Social implications

With no accommodation for the principle of fairness in the city's tax allocation policy, there is an excessive subsidy of the residential class. Therefore there is a built-in incentive for voters to demand services not completely paid for by them.

Further, city staff is under no obligation to provide council with criteria for making fairness or economic judgments when deciding on allocation of property taxes. And, without a guiding principle there is an economic incentive for municipal staff, and a political incentive for council, to allocate less tax to voters.

3. Environmental implications

The increasing imbalance in the ratio of commercial to residential development will cause a general trend for businesses to locate outside of Vancouver, causing transportation pressures to meet the demands of Vancouver residents commuting to jobs in other municipalities and/or having to drive farther for fundamental and affordable food staples. This is in direct conflict with the city planners' goal of residents living and working in Vancouver.

At the same time, there will be considerable pressure to develop park space while potential park space is earmarked for development opportunities for work and service space.

Summary

The City of Vancouver Tax Policy Review Commission has the opportunity to end what has been an ongoing systemic dysfunction and to set the city on the right course.

Vancouver's business community wants to pay its fair share of the municipal tax burden, but cannot continue to subsidize residents at the expense of our economic sustainability.

Without change, and the methodical policy to replace random decisions in reaction to political pressure, the problem will continue to grow each year, just as it has for the last two decades or more.

Since 1983, when the City of Vancouver was given the power to determine the share of municipal property tax borne by businesses and residents, tax rates for residents have dropped 43.4 per cent while commercial rates have dropped a mere 12.8 per cent. In 1983, the ratio of business property tax rate to the residential property tax rate was 2.6:1. Now it is 5.9:1. In other words, the gap between residential and commercial has more than doubled.

More importantly, despite these equity adjustments, no change to the current imbalance has occurred. The commercial class is still subsidizing the residential class to the same degree and perhaps worse.

It is time for a change – a permanent change.

Appendix A

Variable Tax Rates: A guide to implementation, Section 3.0 – 3.5.5

Appendix B

Report to Standing Committee of Council on City Services and Budgets, including 1984 Finance Report and 2006 Policy Report

Appendix C

Letter to Mayor: Commercial Electronics

Appendix D

Tax Topography Model

Appendix E

Three Year Average Assessed Values 1990 - 2006

Appendix F

City of Vancouver Property Tax Rates Levy Assessment History