

**POLICY RECOMMENDATION
TO THE CITY OF VANCOUVER
FOR MUNICIPAL PROPERTY TAX
REDISTRIBUTION**

**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 quarter of total city services, yet pay more than half the municipal property tax burden.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
THE CURRENT SITUATION	6
HOW WE GOT HERE – POPULATION GROWTH.....	7
Types of housing	8
Comparing residential and commercial growth	10
MUNICIPAL PROPERTY TAXES.....	16
CONVERSIONS AND HOT SPOTS.....	18
Conversions and tax topography.....	18
Developmental hot spots	20
Neighbourhood hot spots	22
CONSUMPTION OF MUNICIPAL SERVICES	24
REACTIVE DECISION-MAKING	27
VFTC RECOMMENDATIONS.....	29
Impacts on residential taxpayers	30
A caution to council members.....	31
APPENDICES	
Appendix A - Vancouver Fair Tax Coalition	
Appendix B – How Property Tax is Calculated	
Appendix C – Residential and Commercial Property Tax Comparisons and Impacts	
Appendix D – Municipal Comparisons	
Appendix E – Implementation Strategies	
Appendix F – Sustainability	

***Vancouver is known as a great place to live.
We also want it to be known as a great place to do business.***

EXECUTIVE SUMMARY

There are many compelling economic arguments for adjusting property taxes in Vancouver that demonstrate the imbalance and worrying trends in our city. But the Vancouver Fair Tax Coalition feels that *a lack of fairness* is the core of the issue and needs to be addressed.

City council has demonstrated it wishes to find fairness in the way property taxes are distributed between the residential and non-residential classes. Council established and charged the 2006 Property Tax Policy Review Commission to assist in finding a long term solution, as have previous city councils with the Citizens Tax Force on Property Taxation formed in the mid 90s. So this submission deals with why the current system has been unfair, and offers recommendations on how to make it fair.

Since 1984, when Vancouver established a fixed share method for allocating property taxes among property classes with a variable mill rate, the city has seen dramatic change. Vancouver's population has grown. In response, the need for municipal services has grown even faster.

Residential properties have grown in both number and value. Non-residential properties have grown modestly by comparison and have actually decreased in number.

At the same time, there have been conversions of non-residential properties to residential developments, which has resulted in the shifting of taxes between classes.

The result has been an increasing subsidy of the residential property class by the non-residential classes, and a growing dissatisfaction by business owners with the unfairness of this excessive subsidy. This subsidy is economically unsustainable.

The disparity has resulted in an unfair burden being placed on the non-residential property taxpayers. Due to political pressure placed upon various city councils from affected businesses, business organizations and property owners, there have been a variety of reactive and ad hoc adjustments made to the share in non-election years.

In 1983, when Vancouver chose to allocate property taxes using a fixed share methodology, it was also a requirement of the original legislation to have a policy on how to allocate property taxes over time. The Vancouver Fair Tax Coalition believes that policy should now be established.

The current city council and previous city councils have indicated that a policy of fairness should be applied to making adjustments to the share of property taxes paid by each class. Indeed every year council is asked by staff to consider fairness (and other criteria) when determining tax allocation, but provides no measure, principle or policy to aid elected representatives in making that decision.

The VFTC believes fairness should be based upon the principle of each class paying for the benefits it receives from municipal services.

It has been stated that the principle of fairness can vary, but we are confident the idea of 'paying for what you use' is commonly understood and indeed valued by all Canadians.

We also believe fairness will bring a natural equilibrium between what citizens expect to receive from their city services, and what they are prepared to pay for. Vancouver residents are not currently aware of the actual costs of the services they consume, or what it means to them as taxpayers when additional city services are requested.

The VFTC also believes fairness will lead to an economic balance between Vancouver and other cities competing for economic stability.

Finally, the VFTC is unaware of any other 'principles of fairness' being offered as an alternative. We understand the Consumption of Services study is not a perfect measure, but to date there have been no challenges to the data or the methodology. With some tolerance for small errors, the report is a reasonable measure of service consumption.

Once a principle of fairness is adopted by the city it will then be necessary to measure the fairness from year to year to ensure small adjustments can be made to stay in balance. This should be done by commissioning a consumption study, similar to the ones done in 1995 and 2006, and repeating it every three years.

Along with this study council should have other reports prepared that clearly indicate the cost per citizen of delivering the five performance areas of government (see Appendix D – Implementation Strategies), and in comparison to surrounding municipalities and other major cities.

Since the imbalance over the past 25 years has grown dramatically, with only very minor adjustments made along the way, the need to do something about this issue has become critical.

To continue to neglect this situation would be irresponsible and only serve to make any future adjustments profoundly dramatic.

The VFTC is strongly recommending the city stop any increases in taxes to the non-residential classes for two years and make a series of adjustments to the share to bring us into equilibrium by 2017. The final adjustment will bring us into balance with a share of 68 per cent to 32 per cent in 10 years.

The VFTC also has a recommendation for the perplexing hot spot issue. There is no doubt that bringing the tax share into equilibrium will have a positive effect on the hot spot problem. A reduced tax burden means a smaller effect when hot spots occur. However, this is not a long term solution. We believe the answer lies in calculating the capitalized value of commercial properties by using its commercial value as expressed by the rent.

We would like the city and the assessment authority to work with us towards this type of evaluation for all commercial properties in Class 6. This will flatten the assessment topography in the city. It will result in fewer incidents of radical changes in assessments. Most importantly, it will make property taxes more predictable for those actually paying the tax – the commercial tenants.

If our elected representatives are serious about solving the hot spot problem, we believe this is the direction to consider. An economic analysis of the impact of such a change will need to be undertaken before making any permanent changes.

All of us who live and work in Vancouver recognize we are fortunate to be in one of the truly great cities of the world. As business owners and managers, VFTC members also want it to be a great city in which to do business.

We firmly believe Vancouver residential taxpayers understand the importance of the 'user-pay' principle, and will accept what will actually be a minimal impact on their property taxes.

According to our calculations, and as we explain later in this document, a 4.8 per cent increase on \$2,000 in municipal property taxes would equal a \$96 increase in a household's annual budget. This does not include consideration of the BC government Home Owner Grant, which is a subsidy to residential property owners in Vancouver not available to businesses.

That means a net impact of just \$8 a month – \$2 a week – in the interest of fairness.

THE CURRENT SITUATION – WHERE WE ARE TODAY

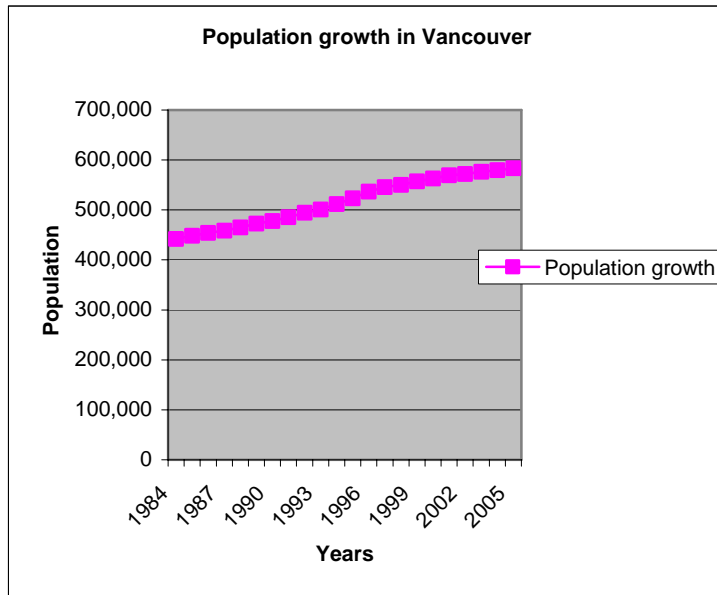
Vancouver's *unfair and inequitable* tax distribution system has put the city on a dangerous and unsustainable course. Businesses are suffering, residents are unaware of the true cost of services they consume, and the city is losing potential tax revenue every time another commercial building is replaced by or converted to residential.

As a result of the current distribution system:

- Vancouver commercial properties account for a sixth of the total assessed value, consume less than a quarter of total city services, yet pay more than half the municipal property tax burden.
- The commercial to residential municipal property tax ratio at 5.8 is the highest of major Canadian cities and significantly above the 3.9 average.
- In the past 10 years, assessed values of residential properties have increased more than commercial properties (55 per cent versus 34 per cent).
- From 1984 to 2006, the gap between the residential and commercial municipal tax rates has more than doubled.
- The City of Vancouver's 2006 residential municipal tax levy at 2.66 is the lowest of major municipalities in the Lower Mainland, and well below the 3.3 average.
- An alarming trend for Vancouver's economic future is the declining number of commercial properties. This past year, 2006, was the second successive year that there were fewer commercial properties than the year before.
- As the number of commercial properties declines, there are fewer businesses to share an increasing tax burden. These businesses are also paying an increasing amount of excess subsidy of residential tax base as more residential properties are created.
- The 1% shift from commercial to residential taxpayers did not work in 2006, nor has it worked in any of the years it has been randomly applied since 1995. Ad hoc measures applied intermittently will not resolve problems created by the lack of a long-term policy based on fairness and equity.

HOW WE GOT HERE - THE CITY'S POPULATION GROWTH

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 world's best cities 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."

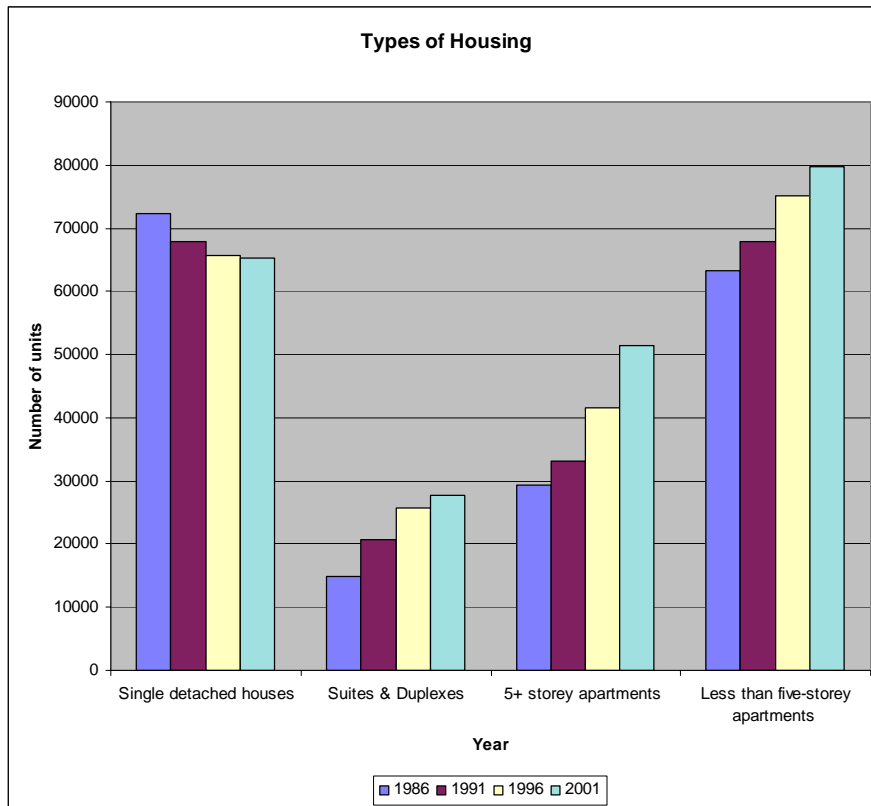


The King Edward under construction at Kingsway and Knight Street is an example of commercial use going to a mixed commercial and residential use.

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.

“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.”

Source: City of Vancouver statistics

In the last few years, 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

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

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.



The Hudson just north of The Hudson Bay store on Granville looking north is a conversion from commercial use to residential use.



A changing neighbourhood, looking south on Homer from Davie

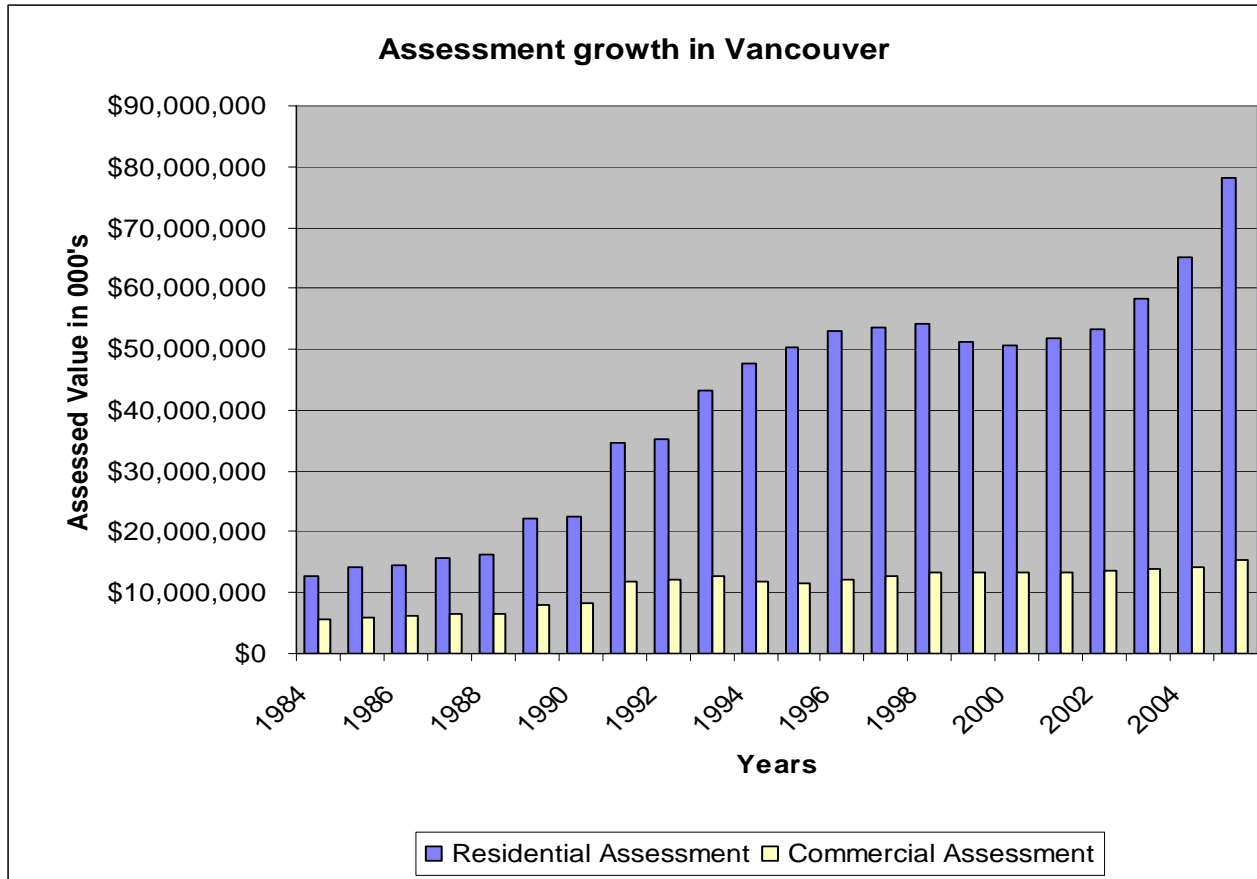
Comparing residential and commercial growth

For many years, as the population grew, so too did the number of commercial properties, albeit in much smaller numbers. However, the alarms began going off in 2003 when the total number of commercial properties increased by only 83, and by only 61 the following year.

In 2005, the actual number of commercial properties dropped by 152. This sad scenario was repeated in 2006 with another decrease of 269 properties.

Year	# of Residential Properties (1)	Change 2000-2006		# of Business Properties (6)	Change 2000-2006	
		%	Total #		%	Total #
1995	124,400			9,449		
1996	128,673			10,116		
1997	131,190			10,727		
1998	134,828			11,082		
1999	138,581			11,647		
2000	142,043	2.5%	3,462	12,082	3.73%	435
2001	144,116	1.46%	2,073	13,074	8.21%	992
2002	145,938	1.26%	1,822	13,498	3.24%	424
2003	147,584	1.13%	1,646	13,581	0.61%	83
2004	150,678	2.09%	3,094	13,642	0.45%	61
2005	152,891	1.5%	2,303	13,490	-1.1%	-152
2006	157,374	3.04%	4,833	13,221	-2.0%	-269

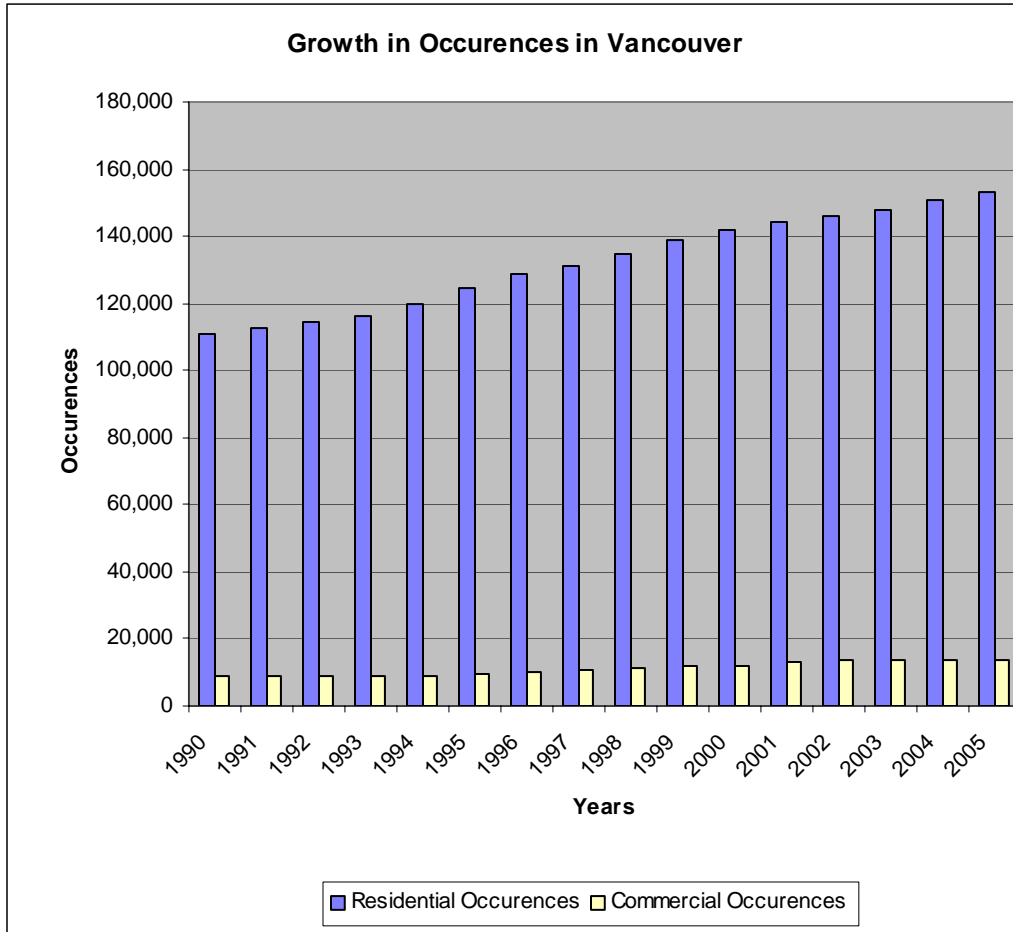
Source: City of Vancouver



The growth is easily seen in the previous graph where the growth of assessment in the residential class is compared to the commercial class. The total value of all residential properties has grown at a much higher rate than the commercial class, which has seen only moderate growth.

Although residential properties account for 83 per cent of Vancouver's total assessed values, they paid just 44.9 per cent of municipal property taxes in 2006. Commercial properties, on the other hand, account for only 17 per cent of the values, but paid 51.6 per cent

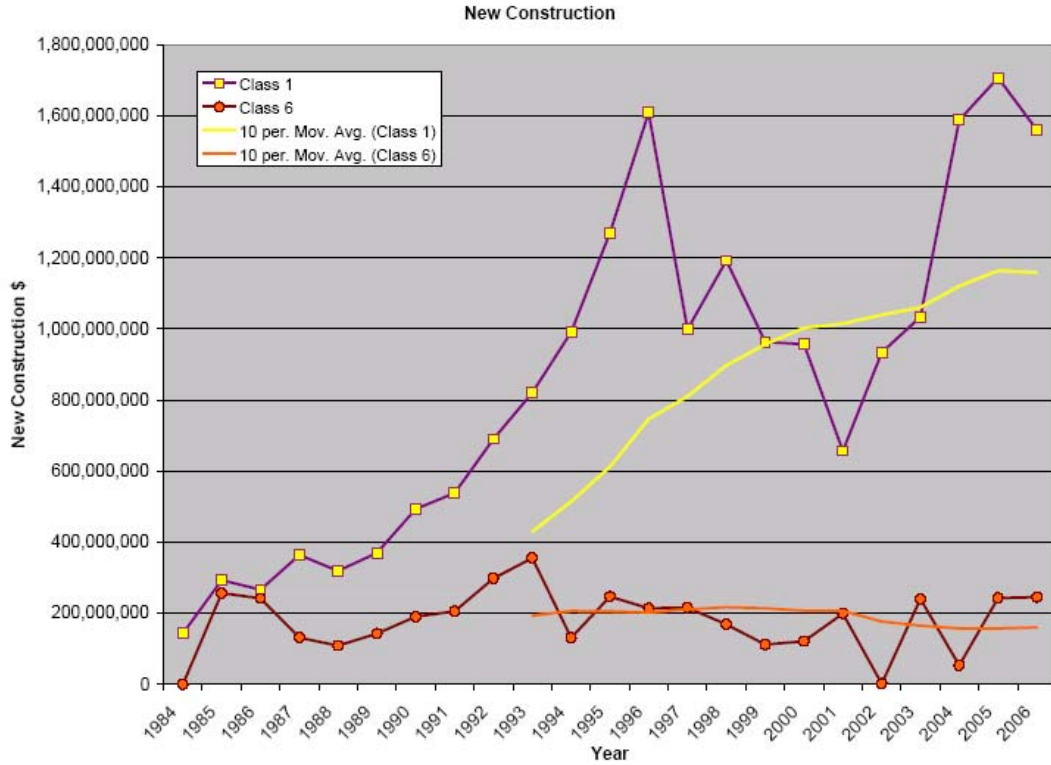
These trends become even more apparent in the Growth of Occurrences in Vancouver chart, in which the steady growth of residential properties and the relative stagnation of commercial properties can be readily seen.



While commercial growth in the city has long trailed residential, the last two years have seen a disturbing new trend. For the first time, more businesses closed than opened. All this says something is broken and needs to be fixed.

Don Cayo, The Vancouver Sun, February 16, 2007

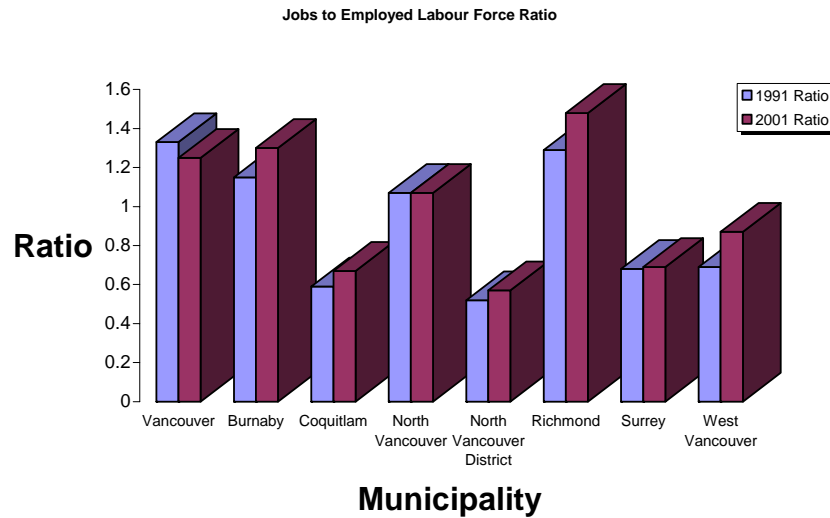
Another example – new construction as a moving average – shows that while the number of residential units or properties has increased dramatically, number of commercial properties has remained relatively constant.



Prepared by: Norm Stickelmann
 8. New Construction 1984 to 2006.XLS (Value New Constr 10 YrMA (1-8))
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Page 1 of 1
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As the city's population growth outpaces job growth, more and more Vancouver residents will be commuting to jobs in surrounding municipalities



Source: Greater Vancouver Regional District

In fact, as the above chart shows, Vancouver is the only municipality in the Greater Vancouver Regional District where the ratio of jobs to employed labour declined in the 10 years from 1991 to 2001, indicating the Vancouver labour force is growing faster than the jobs available in the city.

A new, finely detailed analysis done by the city's planning department indicates that Vancouver, if it sticks to existing zoning policies, could run out of space for jobs in its downtown core within five to 25 years.

Frances Bula, The Vancouver Sun, December 5, 2006

To summarize the property growth trends:

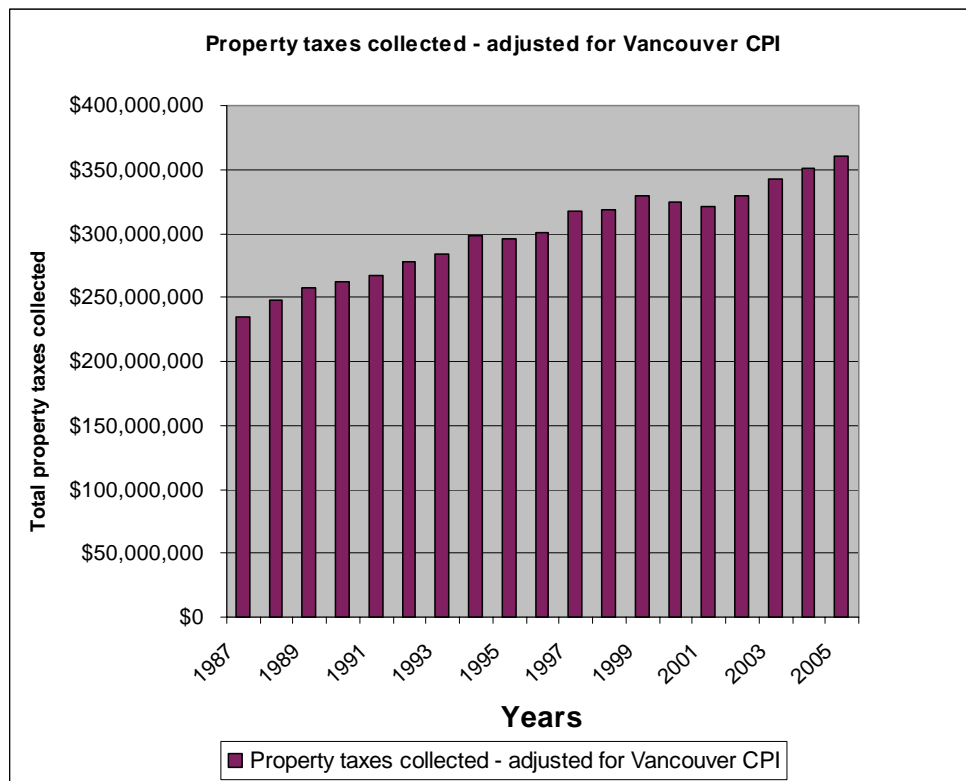
- Residential property growth in Vancouver is constant and strong while the number of commercial properties and prospects of jobs they bring is declining.
- As the number of residential properties increases, the City of Vancouver faces an increasing burden of providing municipal services. Because these are not funded directly from any increase in residential property tax revenue, it is unsustainable.
- As the number of commercial properties declines or when buildings are converted from commercial to residential, the City of Vancouver puts an excessive tax burden on commercial properties that currently pay a fixed share of municipal revenues.
- The liveability of the city is diminishing as residential property growth outstrips commercial property growth, creating a growing imbalance of the ratio of residents to employment, and fewer private sector services conveniently located within residential communities.

MUNICIPAL PROPERTY TAX

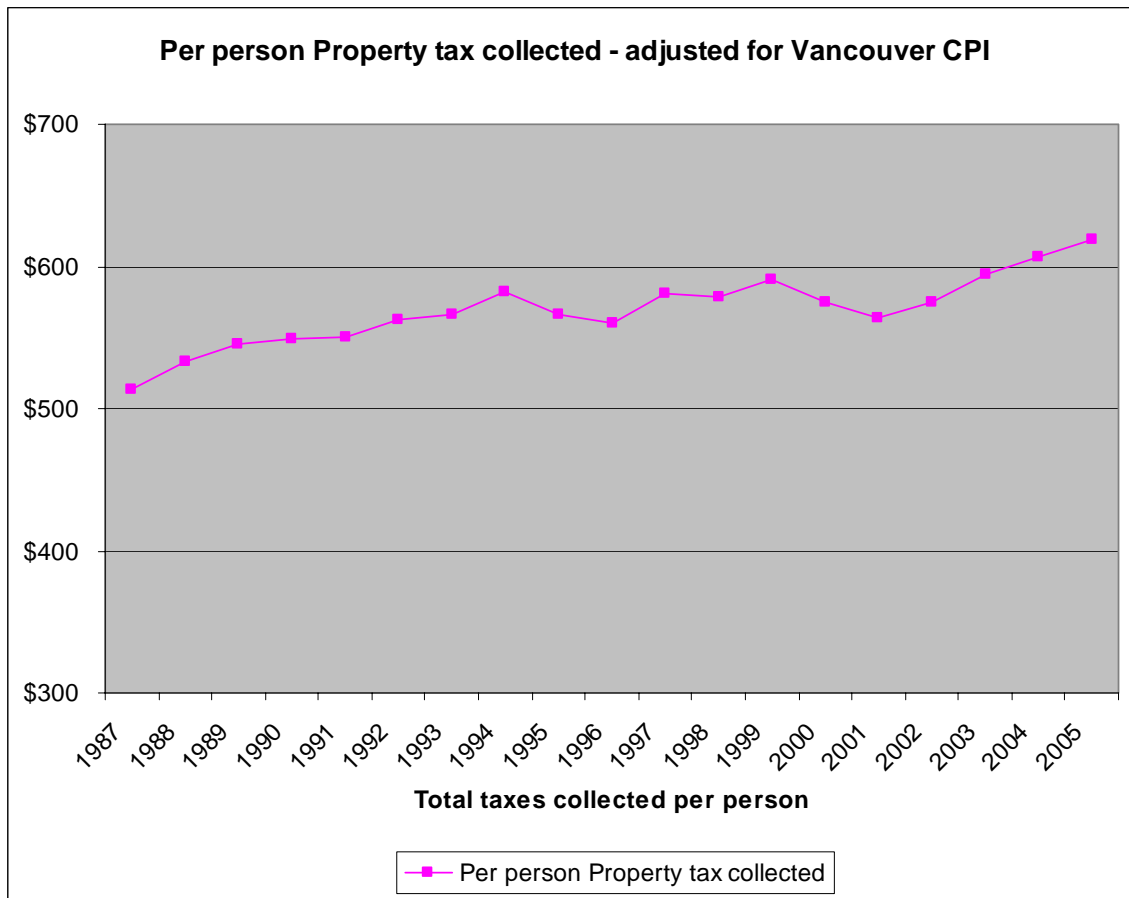
In British Columbia, the BC Assessment Authority is responsible for assessing property (its value and classification) throughout the province, while each municipality then calculates, on an annual basis, the tax rate, or mill rate for each class of property to generate the required revenue for that year. (See Appendix B for more information.)

The total tax levy consists of municipal tax, regional district tax, hospital tax, school tax and other tax. The municipal tax covers city services such as garbage pick-up and recycling, utilities, policing, fire protection and local improvements.

The following chart shows the total municipal property taxes collected by the city increased by 54 per cent from 1987 to 2005 (adjusted to reflect the Vancouver CPI based on \$1.00 = 1972).



Although the population has grown, the total amount of property tax collected per person has outpaced this growth. The total property tax collected (and adjusted for inflation) has gone from just over \$500 per person to more than \$600 per person. Of course the average taxpayer did not pay all of this increase because more than 50 per cent of the tax burden is borne by the commercial classes. Therefore, a sizable portion of the growth in tax-supported municipal expenditures has been paid by the non-residential classes.



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.

There is no justification for businesses to pay a higher mill rate than residents. Evidence suggests that businesses do not consume more services and they cannot pass higher taxes on to consumers. Furthermore, while some argue businesses should pay more because they can deduct property taxes as an expense, even this does not account for the inequities in rates.

Canadian Federation of Independent Business

CONVERSIONS AND HOT SPOTS

A discussion about municipal property taxes and commercial properties is not complete without considering the impacts of conversions and 'hot spots.'

Conversions and tax topography

Vancouver has many examples of industrial and commercial land and individual properties converting to residential. But because Vancouver does not have a clear tax policy, every time a piece of land or building converts, the city collects less property tax. The result is unacknowledged tax shifting between classes.

A consequence of conversions is the impact on tax topography, one of the many areas impacting the tax distribution policy. The changing physical landscapes are compared to changes in tax revenues.

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.



Shangri-La, live/work becomes live



Shaw Tower, conversion to residential

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 properties.
- 2) The excess subsidy of residential taxpayers increases as the demand on municipal services is not accounted for.

Without a policy addressing the fair and equitable distribution of municipal property taxes, conversions mean that:

- When the value of a converted property increases approximately 500 per cent, the tax revenues tend to decline.
- When comparing the average consumption increase per 100 units created, to the increase in taxes collected, there is a shortfall of \$104,901. The shortfall is paid for by non-residential ratepayers. 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 being paid for by commercial taxpayers in the form of 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. Vancouver's residential growth in services is being carried by an excess subsidy from the non-residential classes.
- With the conversion of a typical property, the average consumption of municipal services will increase by some **227 per cent** but average tax revenues from the property will actually decrease by **15 per cent**.



The Hudson on Granville at Dunsmuir is an example of residential development in the heart of Vancouver's business district.

Conclusion:

Although there are tax adjustments made when there are property conversions from non-residential to residential properties, there is no analysis of the results of supplying increased municipal services to the new residential units comparing the revenue received by the new units. Therefore there is a 'hidden' shift in the tax topography that favours the residential class.

Hot spots

Hot spots in Vancouver's real estate market are caused by residential growth, and may be developmental or neighbourhood hot spots.

Developmental 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

When assessment values on a residential property increase, the owner and the occupier are usually one and 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 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 by virtue of the common lease that allocates rent as 'net' to the landowner.

Our property tax system 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.

In Vancouver, it's very unlikely anybody's going to build an office building with all the land being used up by the residential juggernaut.

Fergus Cameron of Barclay Street quoted in The Vancouver Sun, February 14, 2007

Neighbourhood hot spots

Hot spots are also created when even 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 where increases are less than the average to areas where increases are greater than the average. It takes a surprisingly few property sales to make this situation occur.

The sales can be for any number of reasons and often have no bearing on the immediate commercial value to tenant businesses. Speculation, competition for particular properties, amalgamation of smaller properties, or redevelopment for residential potential rather than commercial potential can all drive values. But the effect can be dramatic when an entire neighbourhood is reassessed based upon one or two sales.

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 equally, because 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 in the city. That is especially the case in Vancouver where the tax levels are so excessively 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.

It is expected that Main Street will be the next hot spot, although other neighbourhoods including Chinatown, Davie Village, Commercial Drive, Kerrisdale, and the Punjabi market are all vulnerable.

In Vancouver, where 'character' neighbourhoods are highly valued by local residents, it is of particular concern.

Conclusion:

The reality is that tenants pay property taxes. The Vancouver Fair Tax Coalition generally feels the most appropriate methodology of evaluating commercial locations is by its value to a commercial enterprise IE: the business tenant. The most effective way of doing this is by doing an assessment on average rent paid by tenants and capitalized to its market value. This will tend to flatten out the assessment topography across the city, relating it to the tenants rent. This will bring fairness from business to business and make the taxes more predictable.

The record spread between commercial and residential has to stop growing at some point. The responsible choice is to start to lower the ratio now. Residential taxpayers have to understand that empty storefronts are not in their interest either. Politicians have to understand that small businesses are their neighbours and their neighbours' employers, without whom a sustainable, animated city is a fiction.

Peter Ladner writing in Business in Vancouver before the last civic election.

CONSUMPTION OF MUNICIPAL SERVICES

Consumption of Tax-supported Municipal Services studies have been commissioned by the City of Vancouver in 1995 (KPMG) and again in 2006 (MMK). The goal was to look at the amount of city services consumed and paid for by residential and by commercial properties.

The 1995 study results substantiated what businesses were saying at the time: residential properties were being subsidized by commercial properties for the amount of city services residents consumed.

This finding was confirmed by the 2006 study, which also showed that more residential properties are consuming more city services but paying about the same as they did in 1995. Non-residential properties were consuming less, but paying a greater amount of the share.

For example, the study stated Vancouver residents used \$388 million in city services in 2006, but the city collected just \$217 million for these services through residential property taxes.

By contrast, Vancouver businesses used \$111 million, but paid \$292 million through property taxes.

The report also stated that costs for services have remained the same for residential property owners since 1995. Residents pay \$0.56 for each dollar of city services used. Businesses now pay \$2.42 for each dollar of services used, up from \$2.09 in 1995.

The table on the following page is from the 2006 consumption study, and compares the net service consumption to the property taxes paid by residential and non-residential classes.

While there has been the occasional expressed doubt about being able to determine the exact share of benefits received by each class, as yet there have been no challenges to the methodology or results of either study. The reports by their very nature cannot be exact, but even with a small measure of tolerance they are a very fair representation of the actual benefits received by residential and non-residential classes.

6.4 Comparing net service consumption to property taxes

Exhibit 6d compares, for each property class group, the net consumption of property-tax-supported services in relation to its property-based taxes.

Exhibit 6d

Comparison of net service consumption to property taxes

	Total - all property classes	Residential	Non-residential			Total Non-residential
			Utilities	Major Industry	Bus./Light Industry	
Consumption of Services						
• Gross services consumed (\$'000)	\$680,043	\$465,785	\$1,682	\$3,496	\$209,080	\$214,258
• Less: Non-tax revenues (\$'000)	(\$171,281)	(\$77,852)	(\$2,663)	(\$1,030)	(\$89,735)	(\$93,429)
• Net tax-supported services (\$'000)	\$508,762	\$387,933	(\$981)	\$2,466	\$119,345	\$120,830
- Percentage	100%	76.3%	(0.2%)	0.5%	23.5%	23.7%
Comparison of Taxes Paid to Services Consumed						
• Property taxes & PILTs ¹ (\$'000)	\$508,762	\$216,875	\$16,071	\$5,870	\$269,945	\$291,887
- Percentage	100.0%	42.6%	3.2%	1.2%	53.1%	57.4%
• Excess (shortfall) of services consumed over taxes paid (\$'000)	\$0	\$171,057	(\$17,052)	(\$3,404)	(\$150,601)	(\$171,057)
• Taxes paid per dollar of services consumed	\$1.00	\$0.56	n/a ²	\$2.38	\$2.26	\$2.42
• Consumption payment ratio ³		1.0	n/a ²	4.3	4.0	4.3

1 Payments In Lieu of Taxes (PILTs) are paid by some government agencies (e.g. Vancouver Port Authority) and by utilities. PILTs for some utilities are paid as a percentage of revenue.

2 Calculation is not meaningful for Utilities Class (non-tax revenues greater than gross consumption).

3 The consumption payment ratio is the ratio of (1) non-residential taxes per dollar of services consumed, to (2) residential taxes per dollar of services consumed.

This next chart, also from the 2006 consumption study, shows the lack of progress from 1995 to 2006.

Exhibit 7a
Comparison of 2006 results with 1995

	1995 ¹		2006 ²	
	Residential	Non-residential	Residential	Non-residential
Net consumption:				
• Dollars (\$M)	\$249	\$102	\$388 ²	\$121 ²
• Share of net consumption	71%	29%	76%	24%
Share of property tax burden	40%	60%	42.6% ³	57.4% ³
Payment per dollar of services consumed	\$0.56	\$2.07	\$0.56	\$2.42
Consumption payment ratio	1 to 3.7		1 to 4.3	

This demonstrates the distribution of property taxes is unfair and inequitable – a reality that is only compounded in light of the fact that non-residential taxpayers do not have the right to vote or have a say on who and what services are provided *even though they are footing the bulk of the bill.*

To put it simply:

- **Residents consume the majority of city services**
- **Businesses pay for the majority of city services**

REACTIVE DECISION-MAKING

Although the city chose the fixed share method of allocating taxes among the various property classes, the City of Vancouver has not had a policy to address the fair and equitable distribution of property taxes and therefore successive city councils have made ad hoc decisions in response to political pressure.

The Provincial Government introduced variable tax rates in 1983, which gave municipalities the responsibility for choosing "general municipal tax rates which will maintain a *fair, stable and predictable distribution* of municipal taxes" among eight classes of real estate property.

Vancouver's city council of the day chose a fixed share method, with residential properties paying 40 per cent of the overall taxes and commercial properties paying 60 per cent. There was no policy or accommodation for changes in the various classes or for equity or fairness.

Angry Taxpayer Action Committee - 1989

In 1989, Vancouver property owners saw extreme assessment increases that led to taxes for some businesses climbing by more than 100 per cent in one year. This led to the formation of the Angry Taxpayer Action Committee which was made up of affected small business owners from the west side, Chinatown, Commercial Drive, plus other parts of the city.

In reaction, city council eventually capped commercial property taxes to no more than an arbitrary 40 per cent increase (for a few years) that saved some businesses from failure.

City of Vancouver Property Tax Task Force - 1993

In response to this unrest within the commercial class, city council established a task force to find a solution to distribution fairness. 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

At the request of the Property Tax Task Force, the city commissioned the 1995 Study of Consumption of Tax-Supported City Services. This study analyzed, for the first time, the relationship between taxes paid and services consumed by residential and non-residential classes. It found:

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

The study provided city council with a range of options, noting, "The 0% to 2% spectrum represents a wide range of options, with very different five-year results."

Council chose the 1% annual shift option that the study said “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).”

Unfortunately, the shift was not applied annually. It was applied in 1995, 1997, 2000 and 2006 with a one-half per cent shift in 2003. All of these were non-election years.

Consumption of Tax-Supported Municipal Services - 2006

This latest study is essentially an update of the study conducted in 1995, and it is the VFTC’s position that it was done in response to repeated requests from the business community.

The 2006 study confirmed that, since 1995, more residential properties are consuming more city services but paying about the same as they did in 1995. Non-residential properties were consuming less, but paying a greater amount of the share.

No progress has been made in more than a decade.

The population grew, the number of residential properties grew, and the residential assessment values grew much faster than those of commercial properties. And the city made ad hoc decisions that resulted in commercial properties being much worse off than they were 10 and 20 years ago.

This deteriorating situation can only be resolved by Vancouver City Council doing the following:

- Creating a policy based on fair and equitable distribution
- Basing fairness and equity on consumption of services received
- Defining the differential as the ‘subsidy amount’
- Holding tax increases to the non-residential classes for two years

The following section elaborates on these four points.

VFTC RECOMMENDATIONS

The Vancouver Fair Tax Coalition, on behalf of its members, submitted the following recommendations to the City of Vancouver Tax Policy Commission. To assist in implementing these recommendations, we have also included suggested strategies in Appendix D.

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 elected representatives can determine fairness. The current council and the Vancouver Fair Tax Coalition believe formal principles of fairness need to be established to guide council and staff decisions, to add some measure of predictability, and to depoliticize the decision making process.

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 a target for a fair and equal distribution of property taxes by 2017. Also, the marginal corporate tax rate should be factored into the equation for determining the share paid by commercial properties. We estimate this will bring us into balance with a share of 68 per cent for residential and 32 per cent for non-residential in 10 years.

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 and indifference 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.

Whatever basis of fairness is determined by council to be appropriate it should state that any revenue shortfall for any class of property should be called a subsidized amount. The differential between the cost of benefits received and the taxes paid by class should constitute a subsidy received or a subsidy paid. 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. There is no justification for any immediate increase in taxes paid by non-residential classes.

Impacts on residential taxpayers

The VFTC has considered the impact of our recommendations on residential property owners – after all, we are ALSO homeowners in this city.

As stated in our letter to council members dated February 15, 2007:

“If the increase to the city’s 2007 operating budget is absorbed by the residential class only, this will increase the residential tax rate by roughly double than what they would otherwise experience. For example a four per cent budget increase overall will result in an 8.8 per cent increase to the residential classes.

This means the residential class would pay the four per cent budget increase plus an additional 4.8 per cent. That 4.8 per cent on \$2,000 in municipal property taxes would equal \$96 a year. The net impact would be an increase of just \$8 to the household’s monthly budget, or \$2 a week.

We believe the vast majority of homeowners will accept this modest increase, particularly when the increase is based on the consumption of services from which they benefit.”

This belief was anecdotally supported by Vancouver residents attending the Property Tax Policy Review open houses on February 5 and 6 of this year, who endorsed the concept of paying for those services they consume.

It was also supported by the results of an online survey conducted by the Vancouver Fair Tax Coalition in March 2006. Respondents included business owners and managers, as well as city residents. The survey showed:

- 76 per cent of Vancouver residents believed it was unfair that businesses pay six times the tax rate residents pay.
- 73 per cent of Vancouver residents believed Vancouver's tax ratio between business and residential taxpayers should be in line with the regional average.
- 91 per cent of residents agreed local neighbourhood businesses are important to them.
- 75 per cent of respondents agreed the City of Vancouver should hold property taxes for business owners to the 2005 levels.
- 60 per cent of homeowners would consider a municipal property tax **increase of \$50 to \$200** in 2006 to correct the unfairness in tax rates between business and residential taxpayers.

The impact on residential taxpayers is further reduced by the availability of the Home Owner Grant. This provides a reduction for current year property taxes, and the purpose of the grant is to reduce the burden of residential property taxes on homeowners. The grant entitles the owner to a maximum reduction in residential property taxes of \$570, and an additional grant is provided for homeowners 65 years and older, or permanently disabled, of \$275. The threshold was increased by the provincial government this year to \$950,000.

A caution to council members

In 2006, the VFTC asked city council to hold municipal property taxes for commercial properties to 2005 levels for the 2006 year. Despite our caution that a 1% shift would be ineffective, that is what council chose to do.

While the shift may have been well intended it was a deep disappointment. It was 'too little, too late' for some, and commercial properties actually paid MORE municipal property tax than they had the year before.

The recommendations we are now making are the **ONLY** way to correct the current situation. We are in a tax crisis.

Band-aid reactive measures such as another 1% shift, or tax deferral through land averaging, will again be ineffective – and even destructive.

Appendix A

VANCOUVER FAIR TAX COALITION

VANCOUVER FAIR TAX COALITION

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, which represent approximately 43,000 local businesses.

We are concerned about the high municipal property taxes paid by commercial properties in Vancouver, and the inequitable allocation of the tax burden between residential and commercial real estate. As a result we are seeking the City of Vancouver's commitment to permanently bring taxes in line with regional and national averages.

The VFTC is a growing coalition, which now represents 27 organizations:

Building Owners and Managers Association BC	Marpole Business Association
Business Improvement Area BC	National Association of Industrial and Office Properties
Cambie Business Association	Point Grey Village Business Association
Chinatown Business Improvement Association (BIA)	Real Estate Board of Greater Vancouver
Collingwood Business Association	Retail BC
Commercial Drive Business Society	Robson Street Business Association
Davie Village BIA	South Granville BIA
Downtown Vancouver Association	Strathcona BIA
Downtown Vancouver BIA	The Vancouver Board of Trade
Gastown Business Improvement Society	Vancouver Hotel Association
Hastings North BIA	Victoria Drive BIA
Kerrisdale Business Association	UpTown Vancouver Mount Pleasant BIA
Kitsilano 4 th Avenue Business Association	Yaletown BIA
Kitsilano Chamber of Commerce	

Our concerns about property tax are shared by many affiliate organizations, including residents' associations. We all believe that Vancouver is a great place to live. It should also be a great place to do business.

Appendix B

HOW PROPERTY TAX IS CALCULATED

HOW PROPERTY TAX IS CALCULATED

Like all municipalities in British Columbia, Vancouver has had a market-based assessment and taxation system since the mid-1970s. There are several steps in calculating property taxes:

- The BC Assessment Authority (BCAA), an arm's length Crown Corporation, classifies and values every property in Vancouver.
- Each year through the Operating Budget process, Vancouver's city council determines the property tax funding necessary to balance the city's operating budget.
- Based on council policy related to the distribution of the tax levy, a tax rate for each class of property is calculated to generate the required revenue for that year.
- Council has an established policy of collecting a fixed share of the total levy from each of seven property classes.
- These tax rates are applied to each property's assessed value, which establishes the property taxes payable by that property in a given year.

The tax rate for each class is calculated by:

$$\frac{\text{Amount of tax to be collected from the class (determined by council)}}{\text{Total taxable property value of the class (determined by the BCAA)}}$$

Municipal tax for each property is calculated by:

$$\frac{\text{Assessed Value} \times \text{Mill Rate}}{1,000}$$

Property taxes in BC consist of municipal tax, regional district tax, hospital tax, school tax and other tax.

Source: City of Vancouver

Appendix C

RESIDENTIAL AND COMMERCIAL PROPERTY TAX COMPARISONS AND IMPACTS

Residential and commercial property comparisons

Although residential properties account for 83 per cent of Vancouver's total assessed values, they paid just 44.9 per cent of municipal property taxes in 2006. Commercial properties, on the other hand, account for only 17 per cent of the values, but paid 51.6 per cent.

A comparison of business and residential properties of equal assessed values clearly shows this inequity on both the east and west sides of the city.

Vancouver East Side Properties



5128 Victoria

	2003	2006
Assessment	\$421,000	\$514,900
Municipal Taxes	\$6,890	\$7,972
Total Taxes	\$12,093	\$14,500



2089 East 36th

	2003	2006
Assessment	\$423,000	\$679,000
Municipal Taxes	\$1,342	\$1,807
Total Taxes	\$2,798	\$3829

Vancouver West Side Properties



3212/3228 Dunbar

	2003	2006
Assessment	\$618,400	\$1,113,900
Municipal Taxes	\$10,121	\$17,246
Total Taxes	\$17,763	\$31,476



3276 West 24th

	2003	2006
Assessment	\$617,700	\$1,190,600
Municipal Taxes	\$1,959	\$3,169
Total Taxes	\$4,086	\$6,713

Property tax impacts on Vancouver businesses

What happens when fairness and equity are not factored into municipal property tax distribution? The city's businesses suffer the consequences.

- The number of commercial properties begins to decline. This has now happened for two consecutive years.
- Some businesses relocate, particularly when they are actively enticed away by neighbouring municipalities such as Burnaby, Richmond and Surrey.
- The shops and services that once defined a neighbourhood begin relocating or even closing as the area becomes a 'high rent district' and the already high commercial property taxes increase.
- As property taxes impact the total operating costs, businesses look for ways of economizing, usually by laying off employees or cutting back on hours of work.

Exacerbating the situation are the changing dynamics of our city, in which escalating land values are driving developers to build residential rather than commercial properties.

Assessment impacts

The following chart shows that from 1995 to 2006, the total assessed value of Vancouver residential properties has increased by more than \$39 billion, while the assessed value of commercial properties has only increased by less than \$6 billion in the same period.

Year	Residential \$ (000,000)	Commercial \$ (000,000)
1995	50,348	11,483
1996	53,006	12,094
1997	53,723	12,739
1998	54,036	13,268
1999	51,144	13,246
2000	50,698	13,195
2001	51,814	13,457
2002	53,301	13,647
2003	58,336	13,768
2004	65,157	14,291
2005	78,282	15,398
2006	89,736	17,411

Source: City of Vancouver

But do these lower assessment value increases translate in tax savings for commercial properties? No, because business is paying SIX times the tax rate.

Appendix D

MUNICIPAL COMPARISONS

MUNICIPAL TAX COMPARISONS

Vancouver competes with nearby municipalities and major Canadian cities for businesses and employment opportunities. Comparing Vancouver's municipal property taxes with other cities shows Vancouver is at a disadvantage.

Vancouver's key competitors in attracting and retaining businesses and economic investment are Burnaby, Surrey and Richmond.

However, as the following table shows, while the taxes paid on residential properties in these four municipalities is comparable, Vancouver businesses are paying between \$1,600 and \$3,200 more in property taxes than their neighbouring competition. (Property taxes are based on an assessed value of \$500,000 in 2006.)

	Vancouver	Surrey	Richmond	Burnaby
House	\$1,330.50	\$1,354.00	\$1,430.00	\$1,465.00
Commercial Property	\$7,741.00	\$4,538.00	\$5,306.00	\$6,133.00

The next table compares selected municipalities based on the percentage of total assessed value represented by residential and non-residential classes in 2006, and the percentage of the total tax levy each pays.

	% 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 Van. District	93%	6%	73%	17%

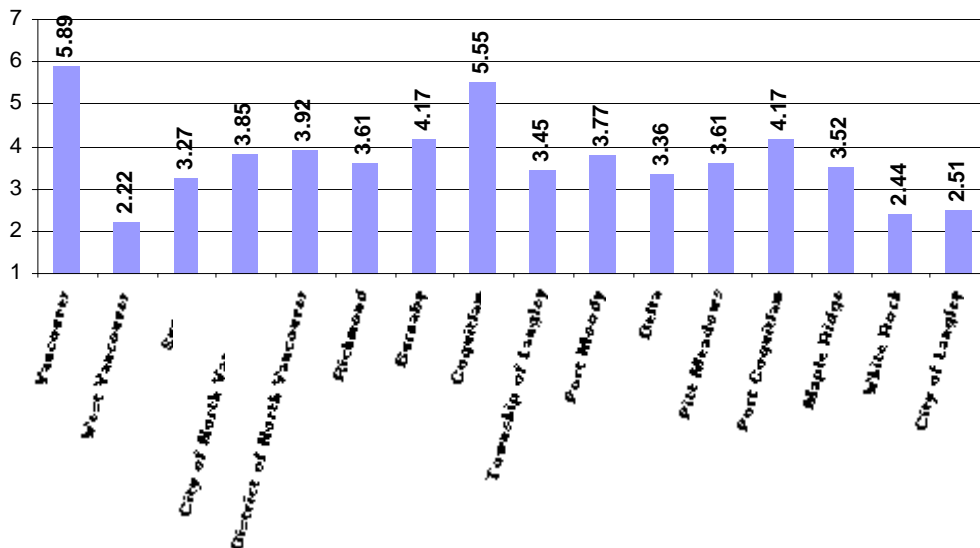
The following table illustrates Vancouver's position in terms of taxes paid by Class 1 (Residential) and Class 6 (Business) and the tax ratio in 2006.

2006 TAX RATE COMPARISON

	Class 1	Class 6	Ratio
Vancouver	2.66174	15.48272	5.82
Coquitlam	3.243100	17.733500	5.47
Burnaby	2.929000	12.265500	4.19
North Vancouver District	2.745530	10.530870	3.84
Richmond	2.861800	10.611370	3.71
Victoria	3.886400	14.273000	3.67
Surrey	2.709720	9.077480	3.35
Abbotsford	4.642550	14.798750	3.19
Kelowna	4.175500	10.855900	2.60
AVERAGE	3.31726	12.84768	3.98
Average (excluding Vancouver)	3.39920	12.51830	3.75

As stated previously, the municipal property tax rate for Vancouver commercial properties is almost six times higher than for residential properties. This is the highest of all municipalities in the Lower Mainland.

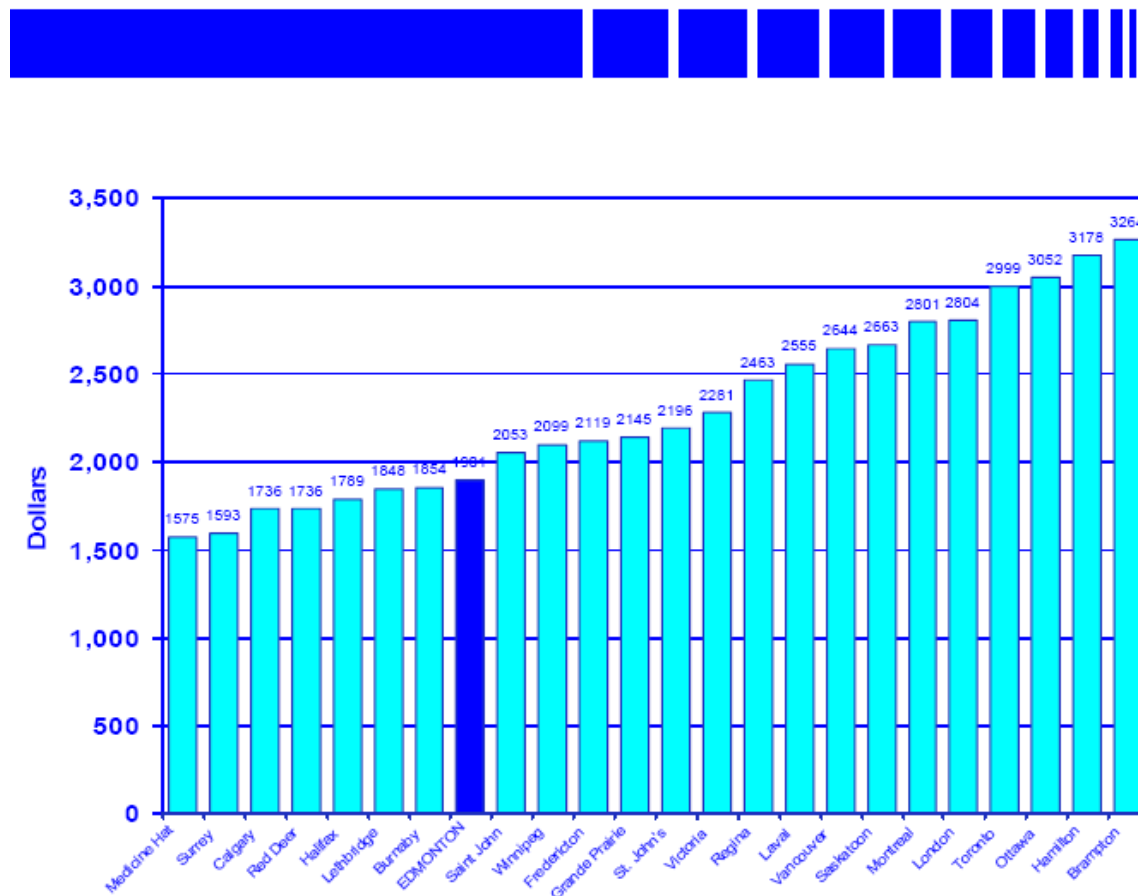
The chart below shows the average municipal property tax rate in other Lower Mainland municipalities is only about three times higher for commercial than residential properties.



Source: Government of BC, Ministry of Community Services

The City of Edmonton undertakes an annual survey of residential property taxes across Canada. Although Vancouver is Canada's third largest city – and certainly its most desirable city to live in – and has some of the highest residential property values in the country, Vancouver residents pay less municipal property taxes than residents of Toronto, Montreal, and Ottawa.

Chart 1: Total Property Tax for a Single Detached House in 2006 - Canadian Cities



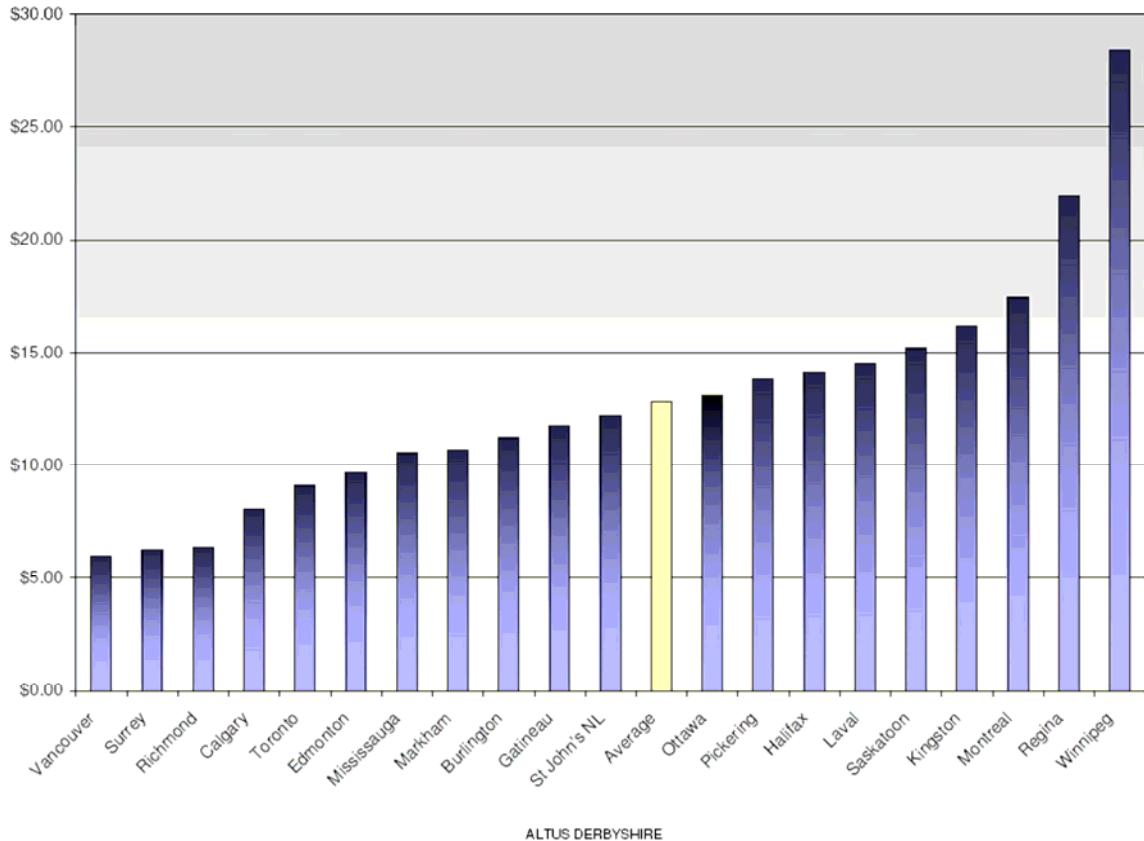
Prepared by: City of Edmonton, Planning and Development Department. December 2006

Notes:

- (1) Figures include municipal, regional and school taxes, net of homeowner grants if applicable.
- (2) The sample house is defined as a 25-30 year-old detached 3-bedroom bungalow with a main floor area of 1,200 square feet, finished full basement and a double car garage, on a 6,000 square foot lot.
- (3) Information for Vancouver, and Burnaby is based on an average-value single detached house which may not correspond to the sample house as described above.

Vancouver's residential property tax in relation to other cities becomes even more pronounced when the comparison is based on the residential assessment values.

2005 ESTIMATED PROPERTY TAXES PER \$1000 OF RESIDENTIAL ASSESSMENT



These comparisons are important, because they show that:

- Vancouver has some of the highest property values – residential and non-residential
- Vancouver has some of the lowest residential property tax rates
- Vancouver has the highest tax rate ratio

This should be a concern for any council members who support economic growth and sustainability in the City of Vancouver, particularly in view of the trend over the past 22 years.

Appendix E

IMPLEMENTATION STRATEGIES

IMPLEMENTATION STRATEGIES

The Vancouver Fair Tax Coalition believes our 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.

Appendix F

SUSTAINABILITY

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.