

---

City of Kelowna

**MEMORANDUM**

---

DATE: April 18, 2002  
FILE: 1970-01  
TO: City Manager  
FROM: Deputy Director of Finance  
RE: **2002 Tax Distribution Policy**

Report prepared by: Financial Planning Manager

---

**RECOMMENDATION:**

THAT Council approve a Municipal Tax Distribution Policy for the year 2002 which will result in a modification of the 2001 Tax Class Ratios to reflect the uneven market value changes which have been experienced between property classes, as follows:

<u>Property Class</u>	<u>Description</u>	<u>2002 Tax Class Ratios</u>	<u>2001 Tax Class Ratios</u>
01/08	Residential/Recreation/Non-Profit	1.0000:1	1.0000:1
02	Utilities	3.6638:1	3.5815:1
04	Major Industrial	2.6777:1	2.6265:1
05/06	Light Industrial/Business/Other	1.9955:1	1.9400:1
09	Farm Land	.0778:1	.0780:1
91	Farm Improvements	.4977:1	.5091:1

AND THAT Council approve development of 2002 tax rates to reflect the 2002 assessment changes in property market values.

**BACKGROUND:**

The 2002 assessment roll is based on market values established on July 1, 2001. The market value change to assessments is outlined in the following table:

<u>Property Class</u>	<u>Description</u>	<u>Market Increase (Decrease)</u>
01/08	Residential/Recreation/Non-Profit	1.4%
02	Utilities	(0.9)%
04	Major Industrial	(0.5)%
05/06	Light Industrial/Business/Other	(1.4)%
09	Farm Land	0.2%
91	Farm Improvements	3.7%

Market value changes which result in **uneven increases** between property classes **result in a tax burden shift** to the class experiencing greater market value increases unless tax class ratios are modified to mitigate this shift. It has been Council's policy to modify tax class ratios to the extent necessary to avoid such shifts. **Under normal circumstances, this policy provides an effective tax increase that is the same for all classes.**

In times of rapid growth in assessed values it may be necessary to review the tax distribution policy to recognize the increased asset values of particular classes in relation to other property classes. Trends in tax class multiples are monitored to ensure that the tax policy is integrated with the overall corporate objectives.

### **Impact on Properties Within Each Property Class**

It is important to be aware that the tax rates established as a result of new tax class ratios are designed to avoid shifts between property classes, however the rates established are based on the average market value increase for the entire class or classes.

**The establishment of tax class ratios which prevent shifts between classes do not eliminate potential shifts within a property class where a property has experienced a market value change which is greater than the average for that class (except as noted above for the Utility Class).**

The establishment of modified tax class ratios simply provides a basis for an equitable distribution of general municipal taxes between classes, however the establishment of the **required tax rate** will be dependent on the final tax demand as determined by Council during deliberations for Amendment #2 of the Financial Plan.

### **Background Information**

Background information, attached to this report, provides additional related information on the following topics:

- The B.C. Assessment Authority and the Assessment System
- The Taxation System
- Historical Council Policy - Tax Class Ratios
- The 2002 Assessment Roll

### **Conclusion**

Tax class ratios for 2002 have increased in relation to the residential class for all property classes except farm land and farm improvements. This reflects the market value increase experienced in the residential class while assessments in other classes have either decreased, or increased slightly, in comparison to the residential class.

---

P. Macklem

KG

Attach.

cc: Director of Finance & Corporate Services  
Revenue Supervisor  
Financial Planning Manager

## **BACKGROUND INFORMATION**

### **ASSESSMENT SYSTEM/TAXATION SYSTEM**

#### **The B.C. Assessment Authority and the Assessment System**

The B.C. Assessment Authority is an independent body created by the Provincial Legislature and is charged with the responsibility of preparing an Assessment Roll for all of the properties in British Columbia.

Taxing authorities, at various levels of government (e.g. Provincial, Municipalities, Regional Districts, Hospitals, School Districts) use the Assessment Roll to assist them with the distribution of the taxes required to operate their corporations.

The Assessment Authority had, from 1984 to 1993, established the value of each property based on its market value as of July 1 of the previous year and had updated those values every two years. **The latest assessment roll, referred to as the 2002 Roll (because it will be used to levy 2002 taxes), represents the ninth year in which properties can be compared based on newly assessed values for consecutive annual assessment rolls.**

Although the Assessment Roll preparation is the responsibility of the Assessment Authority, for use by various taxing jurisdictions, B.C. Assessment has nothing to do with the actual levying of taxes, other than for its own operating levy.

#### **The Taxation System**

City Council is responsible only for the General Municipal portion of the property taxes appearing on the Kelowna tax bill that is sent to property owners in May of each year. The City of Kelowna is responsible for the billing and collection of taxes levied by other taxing jurisdictions such as the School District, however **City Council has no direct control over these levies.**

The General Municipal tax levy is the City's primary revenue source which is used to pay for the services that it delivers to its citizens such as fire and police protection, street and parks maintenance, library, new road construction, etc.

The provision of water, sewer and electrical services is funded by way of user rates. These costs are not included in the general municipal tax levy.

The Assessment System managed by B.C. Assessment and the Taxation System managed by the City of Kelowna are two separate systems, subject to different Acts of Legislature and meant for two different purposes.

Over the years, the taxation system has changed substantially and has been constantly reviewed and amended by the Province in an attempt to provide a more equitable and understandable method of sharing the taxation requirements within each municipality.

Prior to the present system, which provides the authority for Municipalities to set the tax class ratios, uneven market fluctuations between classes resulted in shifts in the taxation burden from one property class to another.

Tax Class ratios represent the relative tax amounts that each class will pay as a ratio of the residential tax class. For example, if the tax class ratio of the Business to

Residential class is 2.00:1 this means that for each dollar of market value the Business Class tax rate will be twice that of the Residential Class.

The ability to establish different tax rates for each class of property means that municipalities can avoid shifts of taxation between classes of property, unless there is a deliberate political decision to do otherwise.

**The differential tax rate powers granted to municipalities are not, however, designed to prevent shifts of taxation between properties within a particular class.**

### **Historical Council Policy - Tax Class Ratios**

From 1984, when City Council was granted the authority to establish tax class ratios, to 1988, **there was very little market value movement** in the City. As a result there was no need to adjust the tax class ratios to prevent shifts in the tax burden from one property class to another.

This changed slightly in 1989 and the City chose to modify the tax class ratios at that time to reflect the difference in market movement between the residential class and the business class.

In 1991 there was a more dramatic change in the market values of residential property which necessitated a more significant change in the tax class ratios to ensure that the residential class did not experience a greater percentage tax increase, on average, than other property classes that year.

The following is a historical recap of the tax class ratios which were established from 1985 through to the end of 2001 based on market value shifts which occurred during that period (some years are omitted to condense the information):

<u>Property Class</u>	<u>1985</u>	<u>1989</u>	<u>1991</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Residential	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Utilities	2.21	2.37	3.00	3.27	3.39	3.23	3.03	3.33	3.24	3.38	3.58
Ind. - Major	1.74	1.86	2.49	3.27	3.17	3.23	3.20	3.25	2.68	2.60	2.63
Ind. - Light	1.74	1.86	2.40	2.09	2.15	2.11	2.02	1.98	1.92	1.91	1.94
Business/Other	1.74	1.82	2.06	2.09	2.15	2.11	2.02	1.98	1.92	1.91	1.94
Rec/Non-Profit	1.00	1.00	.94	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Farm Land	.09	.08	.08	.08	.08	.08	.08	.08	.08	.08	.08
Farm Imprv	.41	.41	.38	.47	.50	.50	.46	.47	.48	.49	.51

### **The 2002 Assessment Roll**

The following is the 2002 split between market value increase and new construction as provided by B.C. Assessment:

	<u>(000's)</u>		<u>% Age</u>	
	<u>2002</u>	<u>2001</u>	<u>Market</u>	<u>New Const</u>
Res/Rec/Non-Profit	6,185,075.8	5,941,873.5	1.4%	2.7%
Utilities	9,312.5	10,044.4	(0.9)%	(6.4)%
Major Industrial	16,770.6	16,275.8	(0.5)%	3.6%
Light Ind/Bus/Other	1,430,956.1	1,394,779.5	(1.4)%	4.0%
Farm Land	22,450.4	22,545.8	0.2%	(0.6)%
Farm Improvements	95,546.2	92,107.4	3.7%	0.0%
Totals	7,760,111.6	7,477,626.4	0.9%	2.9%

The 2002 Assessment Roll includes a total of \$215.9 million in new construction values added and summarized as follows:

	<u>(000,000's)</u>	
01/08	Residential/Recreation/Non-Profit	\$160.0
02	Utilities	(0.6)
04	Major Industrial	0.6
05/06	Light Industrial/Business & Other	56.0
09/91	Farm Land/Farm Improvements	(0.1)
	Total	215.9