
City of Kelowna
MEMORANDUM

DATE: November 6, 2003
File No: 1970-01

TO: City Manager

FROM: Director of Financial Services

RE: **BILL 66 (1992) - ASSESSMENT AND PROPERTY TAX REFORM ACT**

RECOMMENDATION:

THAT Council tax properties on the 2004 Authenticated Roll, as provided by the BC Assessment Authority, at the full market taxable values.

BACKGROUND AND COMMENTS:

Phasing and Averaging Options

Bill 66, the Assessment and Property Reform Act, 1992 introduced the return of the annual assessment roll throughout the Province and provides local government with the option to average and phase assessments in order to deal with the impact of rapidly changing property values on property taxes in their community.

Council last reviewed these options in 1994 and, with substantial market increases over the past 2 years, there have again been questions raised by homeowners and business owners whose assessments have been higher than the class average. Under the legislation, municipalities must file an "intent to consider" notice with the Inspector of Municipalities if phasing or averaging options are being considered for the following year by December 31.

The options available to Council are:

Phasing

Phasing allows the municipality to adjust the assessed value of land in the current year by a factor of 50% to 66% of the difference between the increase in the value of the land and the percentage increase in the value of all land included in the same property class.

Averaging

The averaging option allows municipalities to sum the assessed value over the past three years, including the current, calculate an average and use that average as the current year's assessed value for taxation purposes.

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Phasing or averaging applies only to the land component of the total assessed value of the property and applies only to those property classes for which values are market driven which are Class 01 - Residential, Class 05 - Light Industrial, Class 06 - Business/Other and Class 08 - Recreation/Non-Profit.

2004 Assessment Roll

For the 2004 assessment roll, the market increase represents the change in market values covering the one year period from July, 2002 to July, 2003. For the City of Kelowna this will result in average market increases on residential properties nearing 10.0%. While this level of average increase is not a concern, there is generally a more widely distributed variance around the average than if it were closer to 0.

Advantages and Disadvantages of Averaging or Phasing Options

Positives

1. The underlying reason for provision of the averaging or phasing options is in response to concerns raised by some municipalities that extreme market shifts were resulting in instability, in terms of tax increases being experienced, as a result of those shifts.

In that sense, averaging or phasing of the land component of the assessed value which is the most volatile, will provide some stability to those properties experiencing higher than average increases.

2. Averaging or Phasing will provide municipalities some flexibility to deal with these shifts.
3. In situations where property owners have experienced above average market value increases and have no desire to sell their property and realize those gains, averaging or phasing will provide some measure of relief in one or more years. Eventually, however, the tax burden will still be based on the market value of the property.

Negatives

1. **In each and every case**, averaging or phasing will result in a shifting of the tax burden from those properties eligible for averaging or phasing to those which are not.
2. The communication of the impacts of averaging or phasing, particularly to those property owners being adversely affected, will be difficult. In general, there will be an overall lack of understanding of how the assessment notice value relates to the value used for taxation purposes.

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3. It will be extremely difficult to put an end to the averaging process, and measure the impacts of this option, if and when market values begin to decline. The result could be that the assessed value for taxation purposes could be greater than the value assigned by the Assessment Authority in any given year.
4. If a municipality chooses to use either option, the values used for taxation purposes will apply to all taxing jurisdictions even though those taxing jurisdictions are using full market assessment to establish their tax rates and levies.
5. There is no doubt a benefit to property owners not wishing to sell their homes, and experiencing higher than average market increases, by applying the phasing or averaging option.

On the other hand, property owners who have large or for that matter small tracts of non-constrained, developable land particularly in infill areas would also benefit from averaging or phasing.

This benefit may simply result in these lands remaining undeveloped for a further period of time which may not be in the best interests of the municipality.

6. The administrative effort to implement either option will be onerous given the regulations which have been established for this process. Significant liaison with the BC Assessment Authority is necessary to modify the roll to match the required by-law, there is a need to communicate with the public via newspaper advertisement and a Court of Revision will be required to allow property owners the right to appeal their modified assessments as those assessments relate to the by-law.

Other Municipalities

The Ministry of Community, Aboriginal and Women's Services advises that only the City of Vancouver is using one of the options. In their case, averaging is being applied.

Conclusions

In the final analysis each municipality must decide on its own definition of "fairness", as it relates to the modification of assessed values, and may be required to defend this position to taxpayers. For example, is "fairness" ensured through smoothing of what would otherwise be potentially larger than average tax increases on unrealized property gains?

Or, is it more "fair" to charge those taxpayers enjoying significant appreciation on their property with proportionately higher taxes as a result of that appreciation in value?

There is no "right" answer to these questions.

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Options for Residential Property Owners

In cases where the annual property tax burden becomes difficult when compared to disposable incomes, relief may be available through the Ministry of Provincial Revenue to homeowners who qualify. Essentially, the program allows a property tax deferral on a principal residence if the owner:

- Has a minimum equity of 25% of the current assessed value,

AND

- Is age 60 or over (only one spouse must be 60) or,
- Is a widow or widower or,
- Is a person with a disability as defined by Regulation,

AND

- The owner is a Canadian citizen or landed immigrant and has lived in British Columbia for at least one year before applying for Tax Deferment.

In closing, Financial Services believes that interjection into the established market based assessment system will result in a shift of any perceived imbalance to properties with average or less than average assessment increases. In the end, it becomes more difficult to arrive at a measure of "fairness and equity". Therefore, we believe that the options should not be applied to the City of Kelowna for the 2004 taxation year.

P. Macklem

PM:pb

3-8-40

cc: Revenue Supervisor
Financial Planning Manager