
CITY OF KELOWNA

MEMORANDUM

Date: April 22, 2009
File No.: 1970-01
To: City Manager
From: Financial Planning Manager
Subject: 2009 Tax Distribution Policy

RECOMMENDATION:

THAT Council approve a Municipal Tax Distribution Policy as outlined in the Report of the Financial Planning Manager dated April 22, 2009, for the year 2009 that will result in a modification of the 2008 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>2009 Tax Class Ratios</u>	<u>2008 Tax Class Ratios</u>
01/08/03	Residential/Rec/NP/SH	1:0000:1	1.0000:1
02	Utilities	6.1541:1	6.1729:1
04	Major Industrial	3.9580:1	3.9701:1
05/06	Light Industrial/Business/Other	2.7177:1	2.7067:1
09	Farm Land	.1579:1	.1562:1
91	Farm Improvements	.5503:1	.5535:1

AND THAT Council approve development of 2009 tax rates to reflect the 2009 assessment changes in property market values.

BACKGROUND:

The 2009 assessment roll is based on market values established on July 1, 2008. The market value change to assessments is outlined in the following table:

<u>Property Class</u>	<u>Description</u>	<u>Market Increase (Decrease)</u>
01/08/03	Residential/Rec/NP/SH	(0.30)%
02	Utilities	0.00%
04	Major Industrial	0.00%
05/06	Light Industrial/Business/Other	(0.71)%
09	Farm Land	0.56%
91	Farm Improvements	0.27%



Page 2 Tax Distribution Policy

Under Provincial legislation, Community Charter section 165(3.1), municipalities must set out objectives and policies in relation to the distribution of property value taxes among the property classes. The current Council policy is to modify tax class ratios to provide an effective tax increase that is the same for all classes. Market value changes that result in **uneven changes** 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. This policy works well when market changes are similar between all property classes. However, over time this can lead to large changes in the tax ratios of one, or several, property classes if their market change is different than the residential class.

From 2008 information, Kelowna had the third lowest Business Class ratio and was one of five municipalities over 50,000 population that had a Business class ratio under 3.00. To remain competitive Kelowna should ensure that business and light industry property tax ratios should remain below the average of BC municipalities with populations greater than 50,000. A maximum of 3.00 should be considered for the Light Industrial/Business class ratio and the impacts on the other property classes from this cap should be reported to Council during the annual Tax Distribution Policy review.

The Utility Class 02 is getting close to the maximum ratio that can be used and this may impact the tax sharing in future years. The impact will be minimal due to the small assessment in that property class but there is a Provincial regulation capping the class multiple at 2.5 times the Business property class.

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 that prevent shifts between classes do not eliminate potential shifts within a property class where a property has experienced a market value change that is greater than the average for that 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 Final Budget deliberations.

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 2009 Assessment Roll

Page 3
Tax Distribution Policy

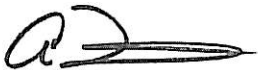
Conclusion

Tax class ratios for 2009 have increased for the light industrial/business property classes and decreased for all other classes (except Farm Land which is a fixed rate) in relation to the residential class. This reflects the market value decrease experienced in the residential and business classes in comparison to the change in the other property classes.

Considerations that were not applicable to this report:

**INTERNAL CIRCULATION TO:
LEGAL/STATUTORY AUTHORITY:
LEGAL/STATUTORY PROCEDURAL REQUIREMENTS:
EXISTING POLICY:
FINANCIAL/BUDGETARY CONSIDERATIONS:
PERSONNEL IMPLICATIONS:
TECHNICAL REQUIREMENTS:
EXTERNAL AGENCY/PUBLIC COMMENTS:
ALTERNATE RECOMMENDATION:**

Submitted by:



A. Thiessen, Financial Planning Manager

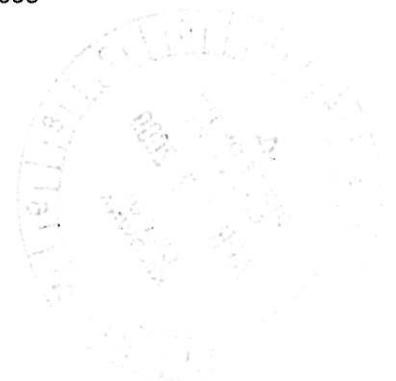
Approved for Inclusion:



K. Grayston, Director, Financial Services

Attach.

Cc: General Manager, Corporate Sustainability



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.

July 1st is the assessment valuation date for properties listed in the assessment roll.

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 2.50:1 this means that for each dollar of market value the Business Class tax rate will be two and one half times 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.

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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 2009 based on market value shifts that 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>/1997</u>	<u>/ 1999</u>	<u>/ 2003</u>	<u>/ 2004</u>	<u>/ 2005</u>	<u>/2007/</u>	<u>2008/</u>	<u>2009</u>
Residential	1.00	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	3.03	3.24	3.76	4.40	5.00	6.15	6.17	6.15
Supportive Housing												1.00
Ind. - Major	1.74	1.86	2.49	3.27	3.20	2.68	2.93	3.39	3.97	3.60	3.97	3.96
Ind. - Light	1.74	1.86	2.40	2.09	2.02	1.92	2.04	2.20	2.59	2.59	2.71	2.72
Business/Other	1.74	1.82	2.06	2.09	2.02	1.92	2.04	2.20	2.59	2.59	2.71	2.72
Rec/Non-Profit	1.00	1.00	0.94	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Farm Land	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.09	0.11	0.14	0.16	0.16
Farm Imprv	0.41	0.41	0.38	0.47	0.46	0.48	0.51	0.52	0.55	0.51	0.55	0.55

The 2009 Assessment Roll

The following is the 2009 split between market value increase and new construction as provided by B.C. Assessment:

	<u>(000's)</u>		<u>% Age</u>	
	<u>2009</u>	<u>2008</u>	<u>Market</u>	<u>New Const</u>
Res/Rec/NP/SH	19,662,532.0	19,076,284.2	-0.30%	3.38%
Utilities	20,801.1	20,513.8	0.00%	1.40%
Major Industrial	26,565.1	26,565.1	0.00%	0.00%
Light Ind/Bus/Other	3,089,610.2	3,032,848.8	-0.71%	2.58%
Farm Land	21,736.7	21,673.4	0.56%	-0.27%
Farm Improvements	<u>221,400.2</u>	<u>222,608.4</u>	<u>0.27%</u>	<u>-0.81%</u>
Totals	23,042,645.3	22,400,493.7	-0.35%	3.22%

The 2009 Assessment Roll includes a total of \$721.0 million in new construction values added and summarized as follows:

		<u>(million's)</u>
01/08/03	Residential/Rec/NP/SH	\$644.3
02	Utilities	.3
04	Major Industrial	0.0
05/06	Light Industrial/Business & Other	78.2
09/91	Farm Land/Farm Improvements	<u>-1.9</u>
	Total	\$721.0