

# Memo



**Date:** April 21, 2010  
**File:** 0280-40  
**To:** City Manager  
**From:** George King, Revenue Manager  
**Subject:** 2010 Tax Distribution Policy

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## Recommendation:

THAT Council approve a Municipal Tax Distribution Policy as outlined in the Report of the Revenue Manager dated April 21, 2010, for the year 2010 that will result in a modification of the 2009 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>2010 Tax Class Ratios</u>	<u>2009 Tax Class Ratios</u>
01/08/03	Residential/Rec/NP/SH	1:0000:1	1.0000:1
02	Utilities	5.2100:1	6.1541:1
04	Major Industrial	3.5435:1	3.9580:1
05/06	Light Industrial/Business/Other	2.3750:1	2.7177:1
09	Farm Land	0.1578:1	0.1579:1
91	Farm Improvements	0.5103:1	0.5503:1

AND THAT Council approve development of 2010 tax rates to reflect the 2010 assessment changes in property market values.

## Purpose:

To establish tax class ratios that will be used in the preparation of the 2010 tax rates.

## Background:

The 2010 assessment roll is based on market values established on July 1, 2009. 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	(2.92)%
02	Utilities	8.39%
04	Major Industrial	8.46%
05/06	Light Industrial/Business/Other	11.12%
09	Farm Land	0.62%
91	Farm Improvements	4.71%

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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 2009 information, Kelowna had the fourth lowest Business Class ratio and was one of six municipalities over 50,000 population that had a Business class ratio under 3.00. As approved in 2009, to remain competitive, Kelowna should ensure that business and light industry property tax ratios remain below the average of BC municipalities with populations greater than 50,000. A maximum of 3.00 is to be considered for the Light Industrial/Business class ratio and the impacts on the other property classes from this cap (if required) will be reported to Council during the annual Tax Distribution Policy review.

The Utility Class 02 is recommended to be changed from the normal adjustment for 2010. This is due to a taxation charge in 2009 that was made on the wrong assessment base. The Utility Class was impacted most significantly due to the comparatively small number of properties and taxation revenue in that class. The impact on the other property classes is minimal.

#### 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 2010 Assessment Roll

#### Conclusion

Tax class ratios for 2010 have 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 class in comparison to the change in the other property classes.

Considerations not applicable to this report:

Internal Circulation:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Existing Policy:

Financial/Budgetary Considerations:

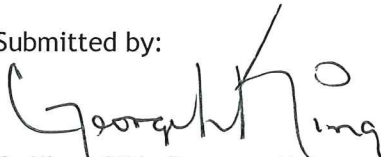
Personnel Implications:

External Agency/Public Comments:

Community & Media Relations Considerations:

Alternate Recommendation:

Submitted by:



G. King, CMA, Revenue Manager

Approved for inclusion:



Keith Grayston, CGA, 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 1<sup>st</sup> 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.

**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 2010 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>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>	<u>2010</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	3.00	3.27	3.03	3.24	3.76	4.40	5.00	6.15	6.17	6.15	5.21
Supportive Housing											1.00	1.00
Industry Major	1.74	2.49	3.27	3.20	2.68	2.93	3.39	3.97	3.60	3.97	3.96	3.54
Industry Light	1.74	2.40	2.09	2.02	1.92	2.04	2.20	2.59	2.59	2.71	2.72	2.38
Business /Other	1.74	2.06	2.09	2.02	1.92	2.04	2.20	2.59	2.59	2.71	2.72	2.38
Rec/ Non-Profit	1.00	0.94	1.00	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	0.09	0.11	0.14	0.16	0.16	0.16
Farm mprv	0.41	0.38	0.47	0.46	0.48	0.51	0.52	0.55	0.51	0.55	0.55	0.51

### The 2010 Assessment Roll

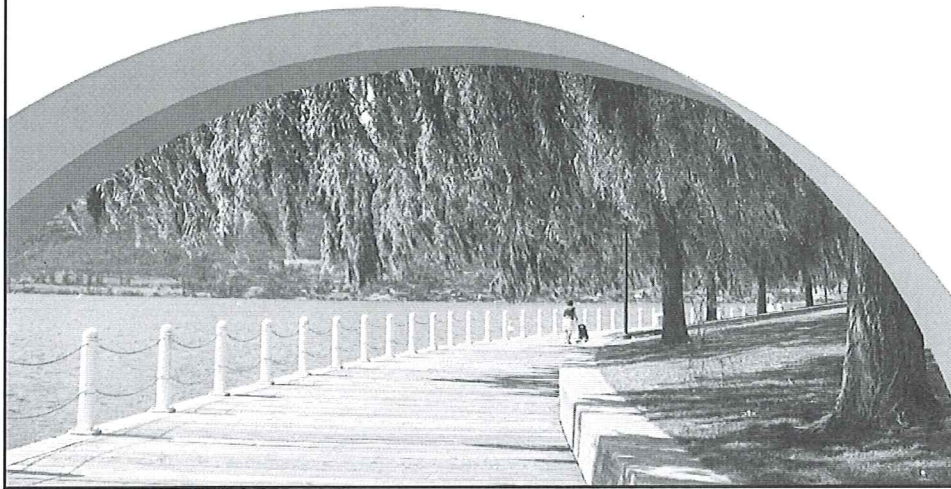
The following is the 2010 split between market value increase and new construction as provided by B.C. Assessment:

	<u>2010</u>	<u>(000's)</u>	<u>2009</u>	<u>% Age</u>	<u>New Const</u>
Res/Rec/NP/SH	19,548,234.2		19,662,532.0	-2.92%	2.34%
Utilities	24,312.4		20,801.1	8.39%	8.49%
Major Industrial	28,813.5		26,562.1	8.46%	0.00%
Light Ind/Bus/Other	3,456,726.1		3,089,610.2	11.12%	0.76%
Farm Land	21,938.2		21,736.7	0.62%	0.31%
Farm Improvements	<u>235,068.4</u>		<u>221,400.2</u>	<u>4.71%</u>	<u>1.46%</u>
Totals	23,315,092.8		23,042,645.3	-0.94%	2.12%

The 2010 Assessment Roll includes a total of \$489.5 million in new construction values added and summarized as follows:

	<u>(million's)</u>	
01/08/03	Residential/Rec/NP/SH	\$460.8
02	Utilities	1.8
04	Major Industrial	0.0
05/06	Light Industrial/Business & Other	23.6
09/91	Farm Land/Farm Improvements	<u>3.3</u>
	Total	\$489.5

# 2010 TAX DISTRIBUTION POLICY



## City of Kelowna MARKET CONDITIONS

### Average Percent Market Increase By Property Class Between 2010 & 2009

	<u>2010</u>	<u>2009</u>	<u>Market</u>	<u>New Const</u>
Res/Rec/NP/SH	19,548.2	19,662.5	-2.92%	2.34%
Utilities	24.3	20.8	8.39%	8.49%
Major Industrial	28.8	26.6	8.46%	0.00%
Lt Ind'l/Business	3,456.7	3,089.6	11.12%	0.76%
Farm Land	21.9	21.7	0.62%	0.31%
Farm Improvements	<u>235.1</u>	<u>221.4</u>	<u>4.71%</u>	<u>1.46%</u>
Totals	23,315.1	23,042.6	-0.94%	2.12%

(in millions)

## City of Kelowna

### 2010 TAX DISTRIBUTION POLICY

#### Options

1. **Modified Tax Class Ratios**
  - ▶ **Market Value Shifts Between Classes**
2. **Maintain Same Tax Class Ratios**
3. **Maintain Same Percentage Tax Share**
4. **Adopt Full Market Assessment**

## City of Kelowna

### OPTION 1 - EQUALIZE MARKET VALUE SHIFTS

	<u>% Market Change</u>	<u>% Tax Rate Change</u>	<u>% Ave Impact</u>
Res/Rec/NP/SH	-2.9	4.7	1.6
Utilities	8.4	-6.3	1.6
Major Industrial	8.5	-6.3	1.6
Light Ind/Bus/Oth	11.1	-8.6	1.6
Farm Land	0.6	0.0	0.6
Farm Improv	4.7	-3.0	1.6



**City of Kelowna**

**OPTION 1A - ADJUST  
MARKET VALUE SHIFTS**

	<b><u>% Market Change</u></b>	<b><u>% Tax Rate Change</u></b>	<b><u>% Ave Impact</u></b>
Res/Rec/NP/SH	-2.9	4.7	1.6
Utilities	8.4	-11.4	-3.9
Major Industrial	8.5	-6.3	1.6
Light Ind/Bus/Oth	11.1	-8.6	1.6
Farm Land	0.6	0.0	0.6
Farm Improv	4.7	-3.0	1.6

**City of Kelowna**

**OPTION 2 - MAINTAIN  
SAME TAX CLASS RATIOS**

	<b><u>% Market Change</u></b>	<b><u>% Tax Rate Change</u></b>	<b><u>% Ave Impact</u></b>
Res/Rec/NP/SH	-2.9	0.3	-2.6
Utilities	8.4	0.3	8.7
Major Industrial	8.5	0.3	8.8
Light Ind/Bus/Oth	11.1	0.3	11.4
Farm Land	0.6	0.0	0.6
Farm Improv	4.7	0.3	5.0

**City of Kelowna**  
**OPTION 3 - MAINTAIN**  
**SAME PERCENTAGE TAX**  
**SHARE**

	<b>% Market <u>Change</u></b>	<b>% Tax Rate <u>Change</u></b>	<b>% Ave <u>Impact</u></b>
Res/Rec/NP/SH	-2.9	4.1	1.1
Utilities	8.4	-11.4	-4.0
Major Industrial	8.5	-4.5	3.5
Light Ind/Bus/Oth	11.1	-7.5	2.8
Farm Land	0.6	2.6	3.2
Farm Improv	4.7	-2.5	2.1

**City of Kelowna**  
**OPTION 4 - FULL**  
**MARKET ASSESSMENT**

	<b>% Market <u>Change</u></b>	<b>% Tax Rate <u>Change</u></b>	<b>% Ave <u>Impact</u></b>
Res/Rec/NP/SH	-2.9	26.3	22.6
Utilities	8.4	-79.5	-77.8
Major Industrial	8.5	-68.1	-65.4
Light Ind/Bus/Oth	11.1	-53.5	-48.4
Farm Land	0.6	0.0	0.6
Farm Improv	4.7	129.5	140.3

**City of Kelowna**  
**2010 TAX DISTRIBUTION**  
**POLICY**  
**COMPARISON WITH 2009**

	<u>2010 Tax Class Ratio</u>	<u>2009 Tax Class Ratio</u>
Res/Rec/NP/SH	1.0000:1	1.0000:1
Utilities	5.2100:1	6.1541:1
Major Industrial	3.5435:1	3.9580:1
Light Ind/Bus/Oth	2.3750:1	2.7177:1
Farm Land	.1578:1	.1579:1
Farm Improv	.5103:1	.5503:1

**City of Kelowna**

**2010 TAX DISTRIBUTION  
POLICY**

POLICY:

Eliminate Shifts Between Property Classes  
(except adjustment)

Remain Below Prov. Average for Business Class

Business Class Cap of 3.00 :1

DOES NOT:

Eliminate Shifts Within Individual Property Classes

**City of Kelowna**  
**ALL TAXING AUTHORITIES**

**Tax Class Ratios**

	<u>Municipal</u>	<u>School</u>	<u>BC Assessment</u>	<u>CORD &amp; Hospital</u>
Residential	1.00	1.00	1.00	1.00
Utilities	6.15	7.44	7.72	3.50
Supportive Housing	1.00	0.05	1.00	1.00
Major Industrial	3.96	3.59	7.72	3.40
Light Industrial	2.72	3.59	3.16	3.40
Business/Other	2.72	3.59	3.16	2.45
Recreation/Non-Profit	1.00	1.90	1.00	1.00
Farm Land	0.16	3.54	1.00	1.00

**City of Kelowna**  
**2009 RATIOS >50,000**

<u>MUNICIPALITY</u>	<u>UTILITIES</u>	<u>MAJOR INDUSTRY</u>	<u>LIGHT INDUSTRY</u>	<u>BUSINESS</u>
COQUITLAM	13.65	19.77	4.94	4.98
VANCOUVER	18.44	14.17	4.84	4.84
NORTH VCR.	16.73	11.51	4.23	4.09
BURNABY	13.07	17.88	4.00	4.00
PORT COQUITLAM	11.56	-	4.74	3.96
NEW WESTMINSTER	9.32	7.67	7.34	3.83
SAANICH	7.74	3.82	3.82	3.82
VICTORIA	9.29	3.66	3.66	3.66
RICHMOND	14.05	4.28	4.12	3.48
DELTA	12.46	9.00	3.32	3.32
KAMLOOPS	8.26	13.44	5.16	3.30
MAPLE RIDGE	11.20	10.14	3.29	3.29
SURREY	13.71	5.23	3.11	3.23
NANAIMO	8.10	6.33	3.12	2.95
ABBOTSFORD	9.05	-	2.79	2.90
KELOWNA	6.15	3.96	2.72	2.72
CHILLIWACK	10.13	-	2.38	2.46
LANGLEY	11.02	-	2.35	2.35
PRINCE GEORGE	5.70	6.98	2.96	2.15