



NOTICE OF PUBLIC MEETING

- WHO:** City of North Vancouver
- WHAT:** 2018 Property Tax Rate
Distribution Options
- WHEN:** Monday, April 16, 2018 at 6:30 pm
- WHERE:** Council Chamber, City Hall
141 West 14th Street
North Vancouver, BC

The purpose of the Finance Committee meeting is to consider the City of North Vancouver's 2018 Property Tax Rate Distribution Options.

Members of the community may submit comments regarding the 2018 Property Tax Rate Distribution Options to **www.cnv.org.propertytaxrates** until 4:00 pm on Monday, April 16, 2018. The public may also provide comments in person at the Finance Committee Meeting.

The 2018 Property Tax Rate Distribution Options Report will be available for viewing at City Hall starting on Friday, April 13, 2018 after 4:00 pm and at **www.cnv.org/propertytaxrates**.

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2018 Property Tax Increase Distribution Options

Presented April 16, 2018
Finance

2018 Property Tax Increase Distribution Options

- Option 1 (Recommended)
 - Across the Board – apply the approved tax rate increase evenly across all classes
- Option 2
 - Shift the Tax Rate Increase – from business class to residential

2018 Property Tax Increase Distribution Options

Option 1 – Straight Across the Board Tax Rate Increase

	2017	2018	\$ Change	% Change
Residential Property Class				
Average Residential Class	1,811	1,838	27	1.5%
Average Single Dwelling Unit	2,757	2,635	(122)	-4.4%
Average Multi Dwelling Unit	1,037	1,138	101	9.7%

Business Property Class				
Average Small Business	5,342	5,422	80	1.5%
Average Medium Business	10,683	10,843	160	1.5%
Average Large Business	213,666	216,861	3,195	1.5%

2018 Property Tax Increase Distribution Options

Option 2 – Tax Shift (Residential – 2.4% & Business – 0%)

	2017	2018	\$ Change	% Change
Residential Property Class				
Average Residential Class	1,811	1,855	44	2.4%
Average Single Dwelling Unit	2,757	2,660	(97)	-3.5%
Average Multi Dwelling Unit	1,037	1,148	111	10.7%

Business Property Class				
Average Small Business	5,342	5,342	-	0.0%
Average Medium Business	10,683	10,683	-	0.0%
Average Large Business	213,666	213,666	-	0.0%

2018 Property Tax Increase Distribution Options

Option 1 vs Option 2

	Option 1 – 2018	Option 2 - 2018	\$ Change
Residential Property Class			
Average Residential Class	1,838	1,855	17
Average Single Dwelling Unit	2,635	2,660	25
Average Multi Dwelling Unit	1,138	1,148	10

Business Property Class			
Average Small Business	5,422	5,342	(80)
Average Medium Business	10,843	10,683	(160)
Average Large Business	216,861	213,666	(3,195)

Business/Residential Ratio	3.85	3.76	-0.09
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The Corporation of **THE CITY OF NORTH VANCOUVER**
FINANCE DEPARTMENT

FINANCE REPORT

To: Mayor Darrell R. Mussatto and Members of Council

From: Navin Chand, Deputy Director of Finance

SUBJECT: 2018 PROPERTY TAX INCREASE DISTRIBUTION OPTIONS

Date: April 11, 2018 File No.: 05-1610-01-0001/2018

The following is a suggested recommendation only. Please refer to Council Minutes for adopted resolution.

RECOMMENDATION:

PURSUANT to the report of the Deputy Director of Finance, dated April 11, 2018, entitled "2018 Property Tax Increase Distribution Options":

THAT 2018 Property Tax Increase Distribution Option 1 (1.5% tax rate increase across the board) be endorsed;

AND THAT staff bring forward a Tax Rate Bylaw (2018) that must be adopted before May 15, 2018, in accordance with the *Community Charter*.

ATTACHMENTS:

1. Option 1 - Across the Board Tax Impact
2. Option 2 - Tax Shift from Business to Residential Impact

PURPOSE:

The purpose of this report is to discuss the distribution of the City's 2018 taxes, including the tax rate increase, among property classes.

BACKGROUND:

The Community Charter requires the preparation and adoption of a Tax Rates Bylaw, after adoption of the financial plan but before May 15 each year. The property tax rates are set each year to enable the City to collect the tax levy that is required in the Financial Plan. During the 2018 financial planning process, Council approved an overall 1.5% tax rate increase.

DISCUSSION:

How Property Taxes Are Calculated

The City uses a standard, four-step property tax calculation methodology to calculate the property tax rate (referred to as the conventional method throughout this report).

1. The first step is to calculate the base tax rate for each class. The base tax rate is the tax rate required to collect the same tax dollars from the same pool of properties as the prior year. This process adjusts the tax rate for market fluctuations. For instance, if the assessed values rise then the tax rate to collect the same level of taxes decreases accordingly.
2. The City then applies the base tax rate to the 'growth' component of the roll to determine the taxes available from the assessed value new to the roll. This estimate then becomes a source of funds in reconciling the City's Financial Plan for the year.
3. The recommended Plan is then presented to Council, with explanations and options for any recommended tax increases. Once Council has approved any increase to the City's budget, this approved increase is then used to adjust the tax rates.
4. A final, optional step is consideration of tax shifting – the City's Long Term Property Tax Strategy is to shift taxes away from the Business Class. Options in this regard may be presented to Council, and if a shifting option is adopted, rates are adjusted to reflect this.

An example of this series of steps would be the calculation of the 2018 tax rate for the Residential Class

2017			2018			
A	B	C= A /1,000 x B	D	E	F=D-E	G= C/ F x 1,000
Assessed Value	Tax Rate	Tax Levy	Assessed Value	Growth	Value W/O Growth	Tax Rate
18,358,415,429	1.72454	31,659,822	20,800,538,231	596,957,702	20,203,580,529	1.56704

Assuming no tax increase, the above calculations illustrate how the 2018 Residential Class tax rate decreased from 1.725 to 1.567 to account for the market increase in assessed values. Under the conventional method and assuming all other variables constant, a rate increase of 1.5% would be applied to this new rate and the mill rate for the Residential class would be about 1.591 per \$1,000 of assessment in 2018. The approved 1.5% increase to property tax rates will increase revenue by an estimated \$2.3 million, including growth, as required in the 2018 – 2027 Financial Plan. Should tax shifting be considered, the approved increase would

be allocated differently between the residential and non-residential classes, as demonstrated in the Tax Shift from Business Class and Options sections below.

Long-Term Property Tax Strategy (LTPTS)

In 2008 after an extensive public consultation process, Council adopted a LTPTS with two objectives meant to create better taxation equity between the business and residential tax classes:

1. Equalization of light industry and business property tax rates.
2. Reduction of the business to residential property tax rate ratio to be at or below the median ratio for the region.

The first objective was achieved in 2009. The second objective, which depends on adjusting not just rates, but the ratio between two different rates, has proven to be more challenging to realize over the past few years. The City's Residential Class assessment has increased a greater % than the Business Class assessment. As mentioned earlier, when calculating the mill rates under the conventional method, increased assessments result in lower mill rates. Since, the Residential Class assessment values have increased substantially faster than the Business Class values over the past number of years, this has resulted in an increasing business to residential property tax ratio.

Using the methodology used in the LTPTS, the following table compares the ratio of Business Class to Residential Class 2017 tax rates for a representative group of lower mainland municipalities.

Average Business Taxes - 2017 Tax Ratio			
Municipality	Business Class Tax Rate (Mill Rate)	Residential Class Tax Rate (Mill Rate)	Ratio of Business to Residential Class
Coquitlam	10.94	2.17	5.05
Burnaby	7.49	1.59	4.72
Vancouver	5.80	1.26	4.60
District of North Vancouver	7.07	1.61	4.40
New Westminster	11.34	2.74	4.14
City of North Vancouver	7.04	1.72	4.08
Port Coquitlam	10.54	2.68	3.93
Delta	8.98	2.33	3.85
Richmond	5.61	1.57	3.57
Surrey	6.32	1.89	3.34
West Vancouver	3.80	1.22	3.11
Median	7.07	1.72	4.08

The ratio demonstrates the proportion of taxes paid by the Business Class versus the Residential Class per \$1,000 of assessed value and demonstrates the City's progress toward its second LTPTS objective. Because property tax is a deductible expense for businesses, but not for residential taxpayers, there is general acknowledgement that the business property tax rate can reasonably take this into account. As a result of its ongoing strategy to shift taxes

between the classes, the City was at the median in 2017, thereby achieving its second LTPTS objective.

PROPERTY TAX DISTRIBUTION OPTIONS:

Two options for the distribution of 2018 General Municipal taxes to the residential and business classes are presented below. The models have been calculated based on the BC Assessment Revised Roll received in March. The same amount of taxes is collected under each option.

OPTION 1: Across the Board Tax Increase (1.5% Tax Increase) - RECOMMENDED

This option would apply the tax increase evenly over all the available property classes, with the exception of Utilities (Class 2) and Major Industry (Class 4) which are, except for one property, capped by provincial legislation.

The municipal tax \$ impact under Option 1 on the residential and business class is the following:

Option 1- Straight Across the Board Tax Rate Increase

	2017	2018	\$Inc(Dec)	% Change
Residential Property Class				
Average Residential Class	1,811	1,838	27	1.5%
Average Single Dwelling Unit	2,757	2,635	(122)	-4.4%
Average Multi Dwelling Unit	1,037	1,138	101	9.7%
Business Property Class				
Average Small Business	5,342	5,422	80	1.5%
Average Medium Business	10,683	10,843	160	1.5%
Average Large Business	213,666	216,861	3,195	1.5%

Under Option 1, the ratio of the Business Class to Residential Class tax rates decreases from 4.08 in 2017 to 3.85 in 2018. This is an expected outcome as the assessed values for the business property class as a whole has increased more than the residential property class (16.7% vs 10.0%). As mentioned earlier in this report, the assessed value increases for residential property class has normally been greater than the business property class in previous years.

Attachment #1 provides impact of Option 1 to the residential and business properties. It is important to note that the average single dwelling assessment increased to \$1.66 million from \$1.60 million or 3.6%. In contrast, the multi dwelling average assessment increased by \$114K or 18.9% from \$601K to \$715K. Even if there is no tax increase, the amount of taxes paid by each property may change as a result of the change in the assessed value of a property. This factor explains the shift in taxes from single dwelling unit to multi-unit dwelling.

OPTION 2: Tax Shift from Business to Residential (2.4% Residential & 0% Business)

Option 2 is based on reducing the share of taxes paid by the Business Class (Class 6). In the City, this also includes all properties classified as Light Industrial (Class 5), as the rates for the two classes are kept equal under the first LTPTS objective. This option shifts taxes from Business & Light Industrial classes to the Residential Class. The 2018 tax rate increase for Residential Class under this option would increase from 1.5% to 2.4%. The Business and Light Industry 2018 tax rate increase would decrease from 1.5% to 0%.

The municipal tax \$ impact under Option 2 is the following:

Option 2- Tax Shift (Residential - 2.4% & Business - 0%)

	2017	2018	\$Inc(Dec)	% Change
Residential Property Class				
Average Residential Class	1,811	1,855	44	2.4%
Average Single Dwelling Unit	2,757	2,660	(97)	-3.5%
Average Multi Dwelling Unit	1,037	1,148	111	10.7%
Business Property Class				
Average Small Business	5,342	5,342	-	0.0%
Average Medium Business	10,683	10,683	-	0.0%
Average Large Business	213,666	213,666	-	0.0%

Under Option 2, the ratio of Business Class to Residential Class tax rates decreases from 4.08 in 2017 to 3.76 in 2018. **Attachment #2** provides impact of Option 2 to the residential and business properties.

Option 1 vs Option 2

The 2018 incremental \$ difference from Option 1 to Option 2 for 2018 Municipal Taxes is the following:

	Option 1 2018	Option 2 2018	\$Inc(Dec)
Residential Property Class			
Average Residential Class	1,838	1,855	17
Average Single Dwelling Unit	2,635	2,660	25
Average Multi Dwelling Unit	1,138	1,148	10
Business Property Class			
Average Small Business	5,422	5,342	(80)
Average Medium Business	10,843	10,683	(160)
Average Large Business	216,861	213,666	(3,195)
Business/Residential Ratio	3.85	3.76	-0.09

Staff Recommendation

Staff is recommending **Option 1** (Straight Across the Board – 1.5% rate increase) for Council consideration.

The following has been considered when recommending this option:

1. **Business/Residential Ratio** – In 2017, the City's ratio 4.08 was at the median of this ratio which fulfills the LTPTS. The ratio decreases to 3.85 for 2018 under Option 1. This ratio would continue to fulfill the LTPTS.

2. **Multi Dwelling Units** – This year multi-units see a higher than normal tax rate increase compared to previous years. As mentioned earlier in the report, the assessed values of multi-units have increased significantly more than single dwelling units. This has resulted in a reallocation of existing tax burden toward multi-unit dwelling properties even without a tax increase. It is important to note that the average multi-unit 2018 tax increase of \$101 under Option 1 is in line with the increase for a small business (\$80) and a medium business (\$160). Option 2 would result in a further increase to the multi dwelling unit and therefore is not recommended.

3. **Single Dwelling Units** – Staff is cognizant on how much the average City of North Vancouver single dwelling unit pays in combined taxes and utilities in comparison to others in the region. Option 1 would keep the City competitive within the region. Below is a summary of the 2017 combined tax and utility charges for an Average Single Detached Residence in the region:

COMPARISON OF 2017 TAX AND UTILITY CHARGES

Average Single Detached Residence

<u>Municipality</u>	<u>Municipal Taxes</u>	<u>Municipal Utilities</u>	<u>TOTAL</u>
	\$	\$	\$
Surrey	2,053	1,233	3,286
Port Coquitlam	2,368	937	3,305
Richmond	2,621	1,061	3,682
Coquitlam	2,587	1,194	3,781
Burnaby	2,617	1,195	3,812
North Vancouver City	2,757	1,166	3,923
Vancouver	2,993	1,167	4,160
Port Moody	3,268	1,072	4,340
North Vancouver District	2,801	1,557	4,358
New Westminster	3,066	1,386	4,452
West Vancouver	4,561	1,811	6,372

Based on the above information, the City is currently in the median in the region.

Next Steps

Staff will be bringing forward the 2018 Tax Rate Bylaw at the Regular Council Meeting of April 23, 2018, which will implement the adopted property tax distribution scenario.

FINANCIAL IMPLICATIONS:

Financial implications are discussed throughout the report.

INTER-DEPARTMENTAL IMPLICATIONS:

This report was reviewed and endorsed by MPC on April 10, 2018.

CORPORATE PLAN AND/OR POLICY IMPLICATIONS:

The tax distribution recommended by staff in this report is based on the objectives of the City's LTPTS, which, as part of the City's Economic Development Strategy, was developed in consultation with the community to support the City's economic objectives.

RESPECTFULLY SUBMITTED:



Navin Chand
Deputy Director of Finance