

Report to Council



Date: April 9th, 2018
File: 0280-40
To: City Manager
From: Angie Schumacher, Revenue Supervisor
Subject: Major Industry tax category (Class 4)

Recommendation:

THAT Council receives, for information, the report from the Revenue Supervisor dated April 9th, 2018 with respect to the Major Industry tax category (Class 4);

AND THAT council direct staff to continue with the current application of the Tax Distribution Policy.

Purpose:

To respond to a request from Council from the October 16, 2017 AM meeting regarding the Major Industry tax category (Class 4) where Council directed staff to provide information and a recommendation.

Background:

Council has adopted a "Fixed Share" method for the Tax Distribution Policy annually since 1989 and it is the most common method used by municipalities within British Columbia. This method provides an equitable distribution of municipal taxes within each class by modifying tax class ratios based on market shifts within each class. As a result, each property class is provided the same effective tax increase.

BC Assessment (BCA) is a provincial Crown corporation that defines the classes and determines the property assessment values across the province each year. This assessment is the basis used by taxing authorities to determine the municipal and provincial property taxes owners will pay. For most classes of property, the assessments are completed by local area offices throughout the province however, in

2014 BCA restructured their appraisal services for Class 4 (Major Industry Property– MIP) and Class 2 (Utilities) to a specialized provincial Major Industry & Power Assessment Team. The reasons that BCA provided for this restructuring include:

- Sustain long term expertise of a highly-specialized property portfolio
- Maintain uniform assessments through consistent and coordinated application of MIP manuals, case law decisions, and exemptions and classification

Class 4 Major Industry properties are assessed under a specific legislated valuation methodology that uses regulated cost manuals (MIP) for improvements (prescribed replacement cost and depreciation up to 80%) and market value for land.

Current Situation:

Kelowna has only one taxpayer in the Class 4 Major Industry category (Tolko) so any changes in the owner's property assessment values are what sets the average change for that class. Tax class rates shift to meet the tax revenue requirements of the class and also to align with the effective tax rate. Changes in assessment value do not equate to a change in taxes because the effective tax rate is the same for all classes. This class was accorded the same effective tax increase that was passed by Council for all classes.

Recommendation:

City staff have reviewed and evaluated the current situation and support continuing with the current application of the Tax Distribution Policy for the following reasons:

- Any changes in the distribution would shift the reduction in Class 4 taxes to other classes (Appendix A)
 - Financial impact of changes = \$257,440 or 0.7%
 - Tax class ratio impact of changes = Class 5/6 ratio increase of 0.0152, Class 4 ratio decrease of 3.59
 - Because there is a single owner in Class 4 it could appear that the City is assisting business if it were to change the tax distribution methodology
- Different valuation methods for Class 4 property reduces comparability with other classes. When council modified the tax class ratios in 1993 to align Class 5 and 6, a main supporting point was that BCA uses the same valuation methodology for these classes
- The province provides a 60% school tax reduction to Class 4 properties (\$61k in 2017) which is not available to other classes except Class 9 Farm which receives a 50% credit.
- The majority of municipalities in BC use a separate rate for Class 4 – it is not a best practice to provide an equal rate to Class 5 or 6 (Appendix B)
 - 71 (44%) municipalities in BC have Class 4 properties
 - 24 (34%) municipalities with similar situation of single Class 4 property owner

- Only three (4%) align Class 4, 5 & 6 rates (Dawson Creek, Nanaimo and Victoria)
- Maintains greater alignment with Class 4's unique infrastructure costs for services (future clean up costs to make property available for other uses, large truck traffic, road clean-up of debris, noise and smoke in downtown, firefighter call outs, etc.)

At this time, the current application of the City's Tax Distribution Policy remains relevant and it is recommended to continue with the current methodology.

Internal Circulation:

Genelle Davidson, Financial Services Director

Legal/Statutory Authority:

Community Charter section 165(3.1)

Existing Policy:

Tax Distribution Policy

Financial/Budgetary Considerations:

The 2018 tax distribution policy will be presented to Council for adoption on April 16th or 23rd.

Considerations not applicable to this report:

Legal/Statutory Procedural Requirements:

Personnel Implications:

External Agency/Public Comments:

Communications Comments:

Alternate Recommendation:

Submitted by:

A. Schumacher, Revenue Supervisor

Approved for inclusion:



G. Davidson, Financial Services Director

cc: Genelle Davidson, Financial Services Director
Jackie Dueck, Controller

Attachments:

Appendix A – Impacts of Change

Appendix B – Municipalities in BC comparison

Appendix C – BCA definitions

Appendix A – Impacts of change

Staff also evaluated the impacts of changes based on three scenarios shown below. These were limited to the non-residential classes of Light Industry (Class 5 – 166 properties in 2017) and Business/Other (Class 6 – 2,997 properties in 2017) and use 2017 assessment values.

1. If Class 4 Major Industry rates were aligned with Class 5/6 rates:
 - Looking only at financial impacts over \$1,000 there would be 23 Class 6 (Business & Other) properties receiving an average increase of 0.35% (\$1,045 - \$3,954) with the largest Class 6 property increase being 0.37% (\$15,000)
 - The first table below shows the total financial impact resulting in a shift of \$257,440 or 0.7%

Class	2017 Assessed values	2017 Rate	2017 Taxes	Revised 2017 rate	2017 Taxes at Revised rate	Difference
Major Industry	\$21,233,300	20.1571	\$428,003	8.0328	\$170,563	-\$257,440
Light Ind/Bus./Other	\$4,637,964,343	7.9792	<u>\$37,007,196</u>	8.0328	<u>\$37,264,636</u>	\$257,440
Total Tax revenue			<u>\$37,435,199</u>		<u>\$37,435,199</u>	\$0
Tax burden passed to other properties in Light Ind/Business/Other						-\$257,440

- The second table shows the tax class ratio impact:

Property Class	2016 Tax Class Ratios	2017 Tax Class Ratios	Aligned Tax Class Ratios	Change in Tax Class Ratios
Res/Rec/NP/SH	1.0000	1.0000	1.0000	0.0000
Utilities	5.0458	5.3182	5.3182	0.0000
Major Industry	3.7328	5.8019	2.3119	-3.4900
Lgt Ind/Business/Other	2.1934	2.2967	2.3119	0.0152
Farm Land	0.1275	0.1357	0.1357	0.0000
Farm Improvements	0.4801	0.4810	0.4810	0.0000

2. If Class 4 Major Industry rates were set at a multiplier of the Class 5/6 rate (using 1.5 as example)
 - Using 1.5 multiplier of Class 5/6 rate as an example and looking only at financial impacts over \$1,000 there would be 13 Class 6 (Business/Other) properties receiving an average increase of 0.23% (\$1,076 - \$2,659) with the largest Class 6 property increase being 0.25% (\$10,000)
 - Council has set a Class 6 multiplier cap of 3 times the residential rate which would in turn cap the Class 4 rate to 4.5 times the residential rate
3. If a multi-year approach using decreasing multipliers was used to align the Class 4, 5 and 6 tax rates the impact would be the same concept as the two scenarios above – an increase to Class 5 and 6 with a corresponding decrease to Class 4.

Appendix B – Municipalities in BC comparison

Information obtained from Local Government Statistics, BC Assessment, and other research is provided here to depict the current state of Kelowna's Class 4 properties in comparison to other municipalities in the province.

1. How many municipalities in BC align Class 4, 5 and 6 tax rates?
 - Three (4%) of the 71 (44% of the total 162) municipalities in BC with Class 4 values (Dawson Creek, Nanaimo and Victoria)
 - Nanaimo: Chamber of Commerce petitioned for change, 3-year transition to alignment completed in 2013 – shift absorbed mostly by class 1
 - Kamloops has a cap
 - Committee created, recommendation to cap - considerations were % of each class of revenue, % of class in total assessment, shift absorbed mostly by Class 1
2. How many municipalities in BC have a single Class 4 property owner and of those, how many align their tax rates across Class 4, 5 and 6?
 - 24 (34%) municipalities with single class 4 owner and 3 align class 4, 5 & 6
 - Table below from Local Government 2017 stats (last 4 columns filled if Class 4 >\$10M)

Jurisdiction	Total Rolls	Total Owners	Class 4 Assessment	% of total assessment	Class 4 Rate	% of total tax rev
City of Victoria	2	1	11,222,000	0.1%	12.4577	0.1%
Nanaimo Rural	4	1	103,630,700	0.7%	13.5403	1.4%
Town of Lake Cowichan	3	1				
Campbell River Rural	1	1				
Village of Port Alice	3	1	28,900,900	37.2%	23.3302	70.0%
Town of Golden	3	1				
Village of Radium Hot Springs	2	1				
District of Barriere	3	1				
Merritt Rural	3	1	17,889,400	2.2%	67.6412	4.5%
Village of Chase	2	1	23,110,600	7.3%	6.0000	8.5%
Village of Clinton	6	1				
Village of Lytton	1	1				
City of Kelowna	4	1	21,233,300	0.1%	21.0991	0.3%
City of West Kelowna	1	1	15,802,000	0.2%	10.6735	0.6%
District of West Vancouver	1	1				
City of Terrace	3	1				
District of Kitimat	6	1	653,009,700	36.6%	25.4453	67.3%
Prince Rupert Rural	1	1	112,064,000	7.9%	52.7273	38.6%
Smithers Rural	2	1	11,188,100	1.6%	59.1396	11.1%
Village of Midway	2	1				
City of Revelstoke	9	1				
City of Salmon Arm	7	1				
District of Coldstream	3	1				
Township of Spallumcheen	1	1	19,593,000	2.3%	32.8034	11.8%

Appendix C – BCA definitions

Class 4, 5 and 6 Descriptions:

Class 4-Major Industry — land and improvements (buildings and structures) of prescribed types of industrial plants, including lumber and pulp mills, mines, smelters, large manufacturers of specified products, ship building and loading terminals for sea-going ships.

Class 5-Light Industry — property used or held for extracting, processing, manufacturing or transporting products, including ancillary storage. Scrap metal yards, wineries and boat-building operations fall within this category. Exceptions include properties used for the production or storage of food and non-alcoholic beverages and retail sales outlets, which fall into Class 6.

Class 6-Business Other — property used for offices, retail, warehousing, hotels and motels all fall within this category. This class includes properties that do not fall into other classes.