

Report to Council



Date: May 6, 2024
To: Council
From: City Manager
Subject: 2024 Tax Distribution Policy
Department: Financial Services - Controller

Recommendation:

THAT Council approve a Municipal Tax Distribution Policy as outlined in the Report dated May 6, 2024, for the year 2024 that will result in a modification of the 2023 Tax Class Ratios to reflect the uneven market value changes which have been experienced between property classes, as follows:

<u>Property Class</u>	<u>2023 Tax Class Ratios</u>	<u>2024 Tax Class Ratios</u>
Residential/Rec/NP/SH	1.0000:1	1.0000:1
Utilities	5.7720:1	4.5169:1
Major Industrial	8.5581:1	8.3358:1
Light Industrial/Business/Other	2.4594:1	2.0696:1
Farm Land	0.2307:1	0.2291:1
Farm Improvements	0.5149:1	0.5122:1

AND THAT Council approve development of 2024 tax rates to reflect the 2024 assessment changes in property market values.

Purpose:

To establish tax class ratios that will be used in the preparation of the 2024 tax rates.

Background:

The 2024 assessment roll is based on market values established on July 1, 2023. The market value change to assessments is outlined in the following table:

<u>Property Class</u>	<u>Market Increase/(Decrease)</u>
Residential/Rec/NP/SH	-2.60%
Utilities	24.47%
Major Industrial	0.00%
Light Industrial/Business/Other	15.75%
Farm Land	2.08%
Farm Improvements	-2.09%

Additional background information is attached to this report on the following:

- The B.C. Assessment Authority and the Assessment System
- The Taxation System
- Historical Council Policy - Tax Class Ratios
- The 2024 Revised Assessment Roll

Discussion:

Under Provincial legislation, Community Charter section 165(3.1)(b), 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. Over time, this can lead to changes in the tax ratios of one, or several, property classes if their market change is different from the residential class, which is used as the base.

From 2023 information on municipalities with a population of over 75,000, Kelowna has the fifth lowest Business Class ratio and was one of ten municipalities that had a Business class ratio under 3.00. To remain competitive, Kelowna ensures that business and light industry property tax ratios remain below the average of BC municipalities with populations greater than 75,000. A maximum of 3.00 is to be considered for these classes and any impacts from this cap will be reported to council.

There is a Provincial regulation capping the Utility class multiple at 2.5 times the Business property class ratio; this equates to a maximum of 5.1739 for the current year. The Utility Class ratio remains close to the maximum ratio that can be used and could impact the tax sharing in future years, however the impact would be minimal due to the smaller assessment in that property class. Farm Land tax rates are set by statute and for 2024 are \$0.57/1,000 of assessed value; 2023 rate was \$0.55/1,000 of assessed value.

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 does 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 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.

Conclusion:

Tax class ratios for 2024 have decreased in relation to the residential class. This reflects the market value changes experienced in those classes in comparison to the residential class. The Farm Land tax rate will be at fifty-seven cents per thousand of assessed value, as set by statute.

Internal Circulation:

Divisional Director, Financial Services

Considerations applicable to this report:

Legal/Statutory Authority:

Community Charter section 165(3.1)(b)

Taxation (Rural Area) Act Regulation B.C. Reg 387/82(5)

Existing Policy:

As included in the Five Year Financial Plan Bylaw:

- Council will annually review and modify tax class ratios to provide an effective tax change that is the same for all classes.
- The impacts on other property classes from administering a ratio cap on the Light Industrial/Business classes will be reported to Council.
- Regularly review and compare the City's relative position in terms of distribution of taxes to other similarly sized municipalities in British Columbia.

Financial/Budgetary Considerations:

The approved tax class ratios will be used to establish the 2024 property tax rates.

Considerations not applicable to this report:

Legal/Statutory Procedural Requirements:

Consultation and Engagement:

Communications Comments:

Submitted by:

Patrick Gramiak, Revenue Supervisor

Approved for inclusion: Joe Sass, Divisional Director, Financial Services

BACKGROUND INFORMATION

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 of the previous year 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 airport 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 1991 through to 2023 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>1997</u>	<u>2003</u>	<u>2009</u>	<u>2015</u>	<u>2018</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Residential/ Supportive Housing	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	3.03	3.76	6.15	5.13	5.55	4.92	4.92	6.08	5.77
Major Industry	1.74	2.49	3.20	2.93	3.96	3.48	6.62	6.04	5.85	7.53	8.56
Light Industry/ Business	1.74	2.40	2.02	2.04	2.72	2.13	2.38	2.17	2.26	2.55	2.46

The 2024 Assessment Roll

The following is the 2024 split between market and non-market changes as provided by B.C. Assessment:

	<u>(000's)</u>		Market	Non-Market
	2024	2023		
Res/Rec/NP/SH	52,591,916	52,559,581	-2.60%	2.66%
Utilities	69,825	58,060	24.47%	-4.21%
Major Industrial	1,322	-	0.00%	100.00%
Light Ind/Bus/Other	10,864,905	8,927,670	15.75%	5.95%
Farm Land	22,066	22,049	2.08%	-2.00%
Farm Improvements	546,743	572,004	-2.09%	-2.33%
Totals	64,096,777	62,139,364	6.27%	16.68%

The 2024 Assessment Roll includes a total of \$1,914.05 million in non-market change values added and summarized as follows:

	<u>(million's)</u>
Res/Rec/NP/SH	1,397.69
Utilities	(2.44)
Major Industrial	1.32
Light Ind/Bus/Other	531.24
Farm Land	(0.44)
Farm Improvements	(13.32)
Totals	1,914.05