

# Report to Council



**Date:** April 14, 2025  
**To:** Council  
**From:** City Manager  
**Subject:** Tax Distribution Policy  
**Department:** Financial Services - Controller

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## Recommendation:

THAT Council approves a Municipal Tax Distribution Policy as outlined in the Report dated April 14, 2025, for the year 2025 that will result in a modification of the 2024 Tax Class Ratios to reflect the uneven market value changes which have been experienced between property classes, as follows:

<u>Property Class</u>	<u>2024 Tax Class Ratios</u>	<u>2025 Tax Class Ratios</u>
Residential/Rec/NP/SH	1.0000:1	1.0000:1
Utilities	4.5169:1	3.6021:1
Major Industrial	8.3358:1	8.2256:1
Light Industrial/Business/Other	2.0696:1	2.0265:1
Farm Improvements	0.5122:1	0.5136:1

AND THAT Council approves development of 2025 tax rates to reflect 2025 assessment changes in property market values.

## Purpose:

To establish tax class ratios that will be used in the preparation of the 2025 tax rates.

## Background:

The 2025 assessment roll is based on market values established on July 1, 2024. 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	-1.32%
Utilities	23.74%
Major Industrial	0.00%
Light Industrial/Business/Other	0.77%
Farm Improvements	-1.59%

### **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 use the Fixed Share tax distribution methodology to modify tax class ratios in order to provide an effective tax increase that is the same for all classes. Market value changes are uneven between the property classes from year to year. Leaving the tax ratios unchanged would result in greater tax burden shifts to the property classes experiencing greater market value increases. Modifying the tax ratios, using this Fixed Share methodology, accounts for these uneven market shifts to ensure an equal distribution of the tax burden between the classes.

2024 information on municipalities with a population of over 75,000, shows Kelowna with the third lowest Business Class ratio and was one of eleven 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 5.07 for the current year. The Utility Class proposed ratio for 2025 of 3.602 meets this constraint.

Farm Land tax rates are set by provincial statute and cannot be modified using this Fixed Shared distribution methodology. For 2025, the tax rate is set at \$0.57 per \$1,000 of assessed value which was the same in 2024.

The recommended ratios for 2025 have decreased for all the classes except for Farm Improvements when compared to 2024. This is because the market changes for these property classes were larger compared to the base residential property class. Farm Improvements had a larger decrease compared to the residential class and therefore the ratio for this class increased slightly.

### Impact on Properties Within Each Property Class

It is important to be aware that the tax rates established because 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:**

The recommended tax class ratios calculated using the Fixed Share tax distribution methodology, adjusts for the uneven market value changes which have been experienced between property classes to ensure an equal effective tax increase across all property classes. This methodology provides stability and predictability for the City of Kelowna, Council, and its citizens, and provides a basis for an equitable distribution of municipal taxes between property classes.

**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 2025 property tax rates.

**Considerations not applicable to this report:**

Legal/Statutory Procedural Requirements

Consultation and Engagement

Communications Comments

**Submitted by:** M Friesen, Controller, Financial Services

**Approved for inclusion:** M. Warrender, Deputy Chief Financial Officer, Financial Services

## **ADDITIONAL 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 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> 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 1997 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 to 2024 based on market value shifts that occurred during that period (some years are omitted to condense the information):

<b><u>Property Class</u></b>	<b><u>1985</u></b>	<b><u>1997</u></b>	<b><u>2010</u></b>	<b><u>2015</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>
Residential	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	3.03	5.21	5.13	5.55	5.47	4.92	4.92	6.08	5.77	4.52
Supportive Housing			1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Major Industry	1.74	3.20	3.54	3.48	6.62	6.42	6.04	5.85	7.53	8.56	8.34
Light Industry/ Business	1.74	2.02	2.38	2.13	2.38	2.36	2.17	2.26	2.55	2.46	2.07

**The 2025 Assessment Roll**

The following is the 2025 split between market and non-market changes as provided by B.C. Assessment:

	<u>(ooo's)</u>			
	<b>2025</b>	<b>2024</b>	<b>Market</b>	<b>Non-Market</b>
Res/Rec/NP/SH	53,154,475	52,591,916	-1.32%	2.39%
Utilities	86,892	69,825	23.74%	0.70%
Major Industrial	5,289	1,322	0.00%	300.08%
Light Ind/Bus/Other	11,184,156	10,864,905	0.77%	2.16%
Farm Land	22,560	22,066	1.90%	0.34%
Farm Improvements	556,098	546,743	-1.59%	3.30%
<b>Totals</b>	<b>65,009,470</b>	<b>64,096,777</b>	<b>-0.94%</b>	<b>2.36%</b>

The 2025 Assessment Roll includes a total of \$1,514.44 million in non-market change values added and summarized as follows:

	<u>(millions)</u>
Res/Rec/NP/SH	1,257.77
Utilities	0.49
Major Industrial	3.97
Light Ind/Bus/Other	235.08
Farm Land	0.07
Farm Improvements	18.05
<b>Totals</b>	<b>1,515.44</b>