

# Town of Sidney Property Tax Distribution Policy Review 2022

April 4, 2022

# Agenda

- Why are we reviewing our policy?
- General Property Taxation Concepts
  - Property Classes, Assessments, Other Governments, etc.
- Tax Multiples
- Regional Comparison
- Rate Setting Methods
- Impacts and Recommendation

# General Property Taxation Concepts

- All property owners pay a share of operating the municipality based on the value of their property
  - Think of it as a large strata corporation.
- Annual property reassessments are a redistribution of the tax burden
  - Properties worth more than previous year (supposed to) take on bigger proportion of the burden.
- Municipal taxes make up only part of the tax bill
  - But municipal multiples also impact CRD and Library taxes.

# General Property Taxation Concepts

- Non-residential properties pay taxes at higher rates than Residential
  - Commercial, Light Industrial, Recreational
  - This is a province-wide norm.
- Higher rates paid by Non-residential classes may be viewed as a subsidy to the Residential tax base
  - Allows municipalities to provide higher levels of service to residents than the residents would otherwise be willing to pay for.
- However:
  - Residents pay in “after tax” dollars
  - Non-residential pays in “before tax” dollars
    - \$1,000 in taxes = \$700 for business paying a 30% income tax rate.

# Property Assessment

- Annual property valuation by independent crown corporation:  
BC Assessment
  - Creates efficiencies and provides consistent, uniform valuations
  - “Arm’s length” valuation that eliminates possibility of conflict or manipulation.
- Annual valuation is a *redistribution* of the tax burden
  - Even with no tax increase, some properties will pay more than previous year, some will pay less
  - Depends on the change in value relative to the average.
- Supports concept of *ad valorem* tax (based on value)

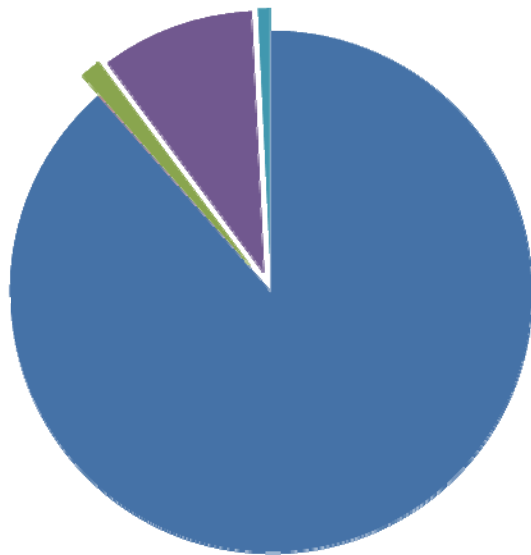
# Property Assessment

- All properties are grouped into an established *Property Class*
  - Class 1 = Residential
  - Class 5 = Light Industrial
  - Class 6 = Business/Other
  - etc.
- Different tax rates for each class of property
- BC Assessment sets values, Town sets applicable tax rates
  - Both entities have been reinforcing:
    - Increase in assessed value DOES NOT mean increase in taxes
  - Taxes based entirely on Town's revenue needs
    - Increase or decrease for any *individual* property also depends on relative change in value.

# Assessment vs Tax Distribution

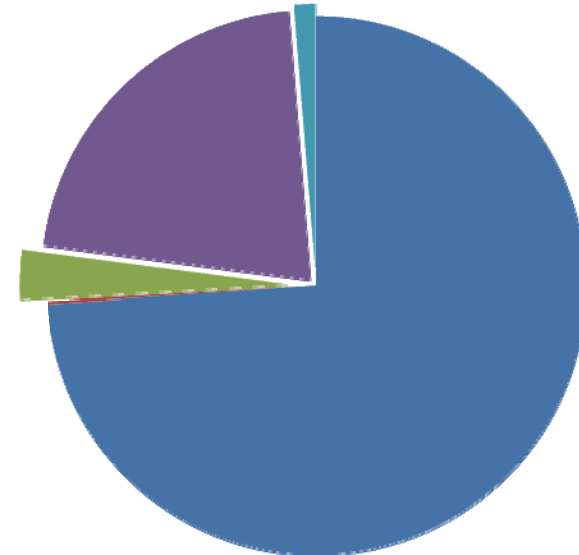
Property Class	Assessments		Taxes Collected		Multiples	
	2022	2021	2022	2021	2022	2021
1 - Residential	88.5%	87.2%	74.0%	73.2%	1.0000	1.0000
2 - Utilities	0.0%	0.0%	0.2%	0.2%	6.8748	6.3142
5 - Light Industrial	1.3%	1.4%	2.9%	3.1%	2.7499	2.5257
6 - Commercial/Other	9.4%	10.5%	21.7%	22.2%	2.7499	2.5257
8 - Recreation/Non-profit	0.8%	0.9%	1.3%	1.3%	2.0151	1.7971

% of Assessment



% of Taxes

- 1 - Residential
- 2 - Utilities
- 5 - Light Industrial
- 6 - Business/Other
- 8 - Recreation/Non-profit



# Taxes for Other Governments

- Province of BC – School Taxes
  - Not dependent on use of school system; society-wide benefit
  - Largely offset by Home Owner Grant (for Residential)
- BC Assessment
  - For annual property valuation services
- Victoria Regional Transit
  - Share of cost for Victoria Regional Transit
- Municipal Finance Authority (MFA)
  - Nominal amount that gives us access to low-cost borrowing
- Regional Hospital District
  - 30%-40% of capital costs for hospitals in region



# Taxes for Other Governments

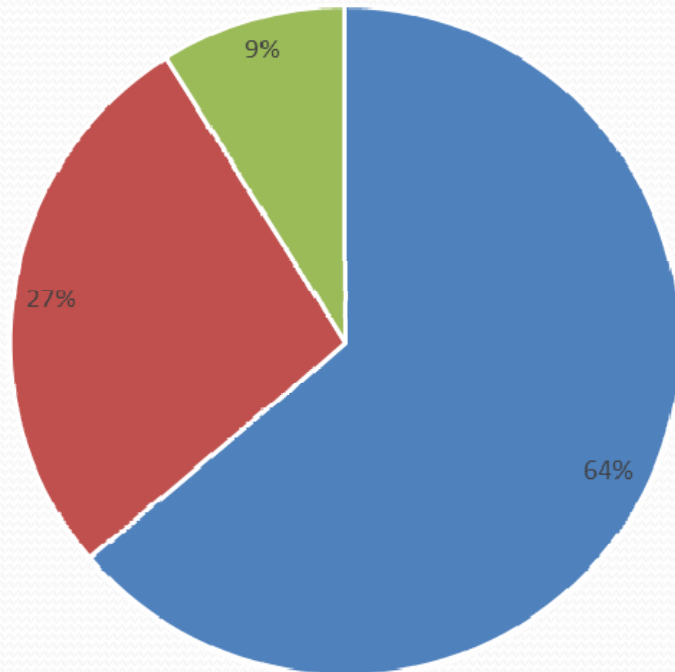
- Capital Regional District (CRD)
  - Shared regional and sub-regional; also some optional services
  - Most of Town's CRD Levy is for Panorama Recreation (53%)
  - Also Regional Parks service (19%)
- Vancouver Island Regional Library (VIRL)
  - Town share of system-wide costs, based on population & assessment
- The 2 above, plus Municipal Taxes, is what we will be focusing on
  - Calling these "*Local Service Taxes*"

# Taxes for Other Governments – Level of Town Control

Taxing Jurisdiction	Level of Town Control		
	Develop Budget?	Set Tax Rates?	Control Multiples?
Town of Sidney (Municipal)	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>
<u>Other Governments</u>			
Regional Library	No	<b>Yes</b>	<b>Yes</b>
Regional District	No	<b>Yes</b>	<b>Yes</b>
Regional Hospital	No	<b>Yes</b>	No
School Taxes	No	No	No
Regional Transit	No	No	No
B.C. Assessment	No	No	No
Municipal Finance Authority	No	No	No

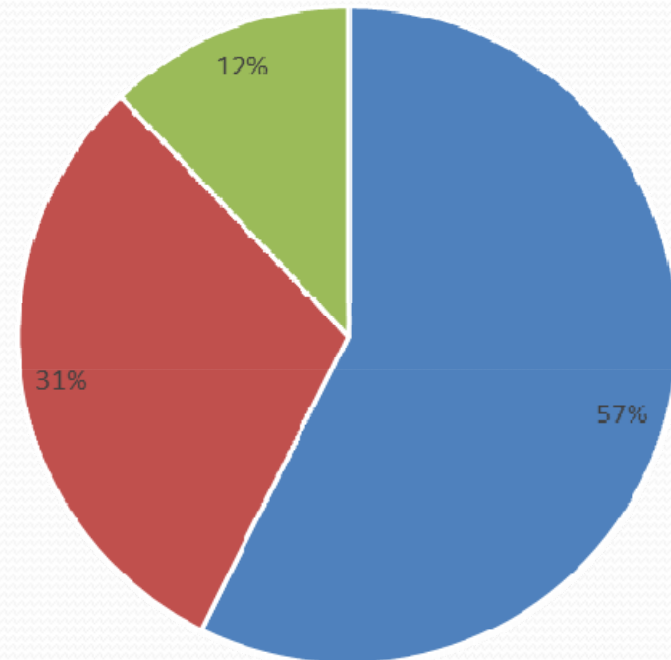
# Where do the tax dollars go?

**Residential**



■ Local Services ■ School Taxes ■ Other Taxes

**Business**



■ Local Services ■ School Taxes ■ Other Taxes

# How Tax Rates Are Set

Municipal			General Increase:		3.76%	Target:	12,845,432			
	2022 Completed	Less:	2021	New Base	Apply		2022	2022	Multiple	
	General	Non-Market	Net 2021	Tax	Tax Rate	Increase	Adjust.	Rate	Tax	(Municipal)
1	4,939,200,846	(124,805,300)	4,814,395,546	8,923,640	1.853533	1.923226	-	1.92323	9,499,219	1.0000
2	1,749,400	-	1,749,400	23,866	13.642127	14.155071	(0.93327)	13.22180	23,130	6.8748
5	71,056,900	-	71,056,900	374,200					375,800	
6	526,046,401	(2,664,200)	523,382,201	2,704,272					2,782,112	
5/6	597,103,301	(2,664,200)	594,439,101	3,078,471	5.178783	5.373506	(0.08479)	5.28872	3,157,912	2.7499
8	42,487,000	402,000	42,889,000	160,190	3.734998	3.875434	-	3.87543	164,655	2.0151
9	108,653	-	108,653	501	4.614995	4.788519	-	4.78852	520	2.4898
	5,580,649,200	(127,067,500)	5,453,581,700	12,186,669				34.38642	12,845,437	

Town also sets rates for:

- CRD – our multiples
- Regional Hospital – Provincially set multiples
- VIRL – our multiples

# Historical Town of Sidney Tax Policies

- Province stopped setting tax ratios (multiples) for municipalities in 1984
- Town continued to use Provincial Class Multiples through 1990
- Since 1991, have applied tax increase (net of new construction) equally to all classes
  - Subject to minor adjustments from time to time.
- From 2006-2008, Town manually increased residential taxes to bring back to higher % of tax burden (closer to 70%)
  - Had impact of reducing Non-residential; hence decreasing multiples.
- 1997 to 2008 – equalized Classes 5 & 6 (Light Industrial & Commercial)
  - Went out of synch for a few years, but now equalized again.

# Historical Town of Sidney Tax Policies

- Town rate setting practices typically smooth out the impact of market growth in tax base.
- Non-Market Change (NMC) represents growth in the tax base outside of market fluctuations (e.g. new construction)
  - Typically seen as “new revenue” that helps to absorb some of the tax impact.
- BC Assessment has not always been consistent in what they consider “market vs non-market”.
- Since 2009, Community Charter has required that Town tax policy statement be included in Financial Plan bylaw
  - A way to make municipalities more accountable, and encourage them to consider their policies.

# Tax Policy Review

- Existing tax policy outlined in Financial Plan bylaw:
- *Objectives and policies:*
  - *Council will strive to set tax rates and ratios to maintain stability between property classes, factoring in non-market growth.*
  - *That the multiple for classes 5 (Light Industrial) and 6 (Business & Other) not exceed 3.0.*
  - *That the multiple and tax rate for classes 5 (Light Industrial) and 6 (Business/Other) remain identical.*
  - *That the distribution of taxes across the various property classes be reviewed in the current term of Council.*
- This is where our final decision will be articulated.

# Tax Multiples

- Various Classes of property pay taxes at different rates
- Ratio between another class and Residential is *tax multiple*
  - Eg. Class 6 = 5.59961 per \$1,000 of assessed value
  - Class 1 = 2.21707 per \$1,000
  - Tax Multiple:  $5.59961 / 2.21707 = 2.5257$
- For example: property assessed at \$800,000
  - If Class 1 (Residential) pays \$1,774
  - If Class 6 (Commercial) pays \$4,480
- Residential also eligible for HOG reduction (likely)
- But, non-residential pays in pre-tax (income tax deductible) dollars.



# Tax Multiples

- Neither *Tax Multiples* nor *Tax Rates* should be considered in isolation
  - Rates are adjusted annually, to reflect assessment changes
  - If assessments for different classes change at different rates, will impact the *Multiple*, even if no change in taxes paid
  - This is not a shift in Town tax policy; just the way rate setting works
  - This must be factored into any future policy change.

# Tax Multiples Illustration

Tax Year	Class 1				Class 6				Multiple
	Assessment	% incr.	Tax Rate	Taxes	Assessment	% incr.	Tax Rate	Taxes	
2018	500,000	-	2.0000	\$ 1,000	500,000	-	4.0000	\$ 2,000	2.000
2019	550,000	10%	1.8182	\$ 1,000	525,000	5%	3.8095	\$ 2,000	2.095
2020	715,000	30%	1.3986	\$ 1,000	551,250	5%	3.6281	\$ 2,000	2.594
2021	750,750	5%	1.3320	\$ 1,000	606,375	10%	3.2983	\$ 2,000	2.476

Actual changes for Sidney – last 6 years:

Class	2017	2018	2019	2020	2021	2022
Residential	16.4%	20.3%	12.3%	-0.3%	2.1%	19.1%
Business	3.9%	7.1%	6.9%	7.5%	-2.6%	7.4%

# Tax Multiples Illustration

## Illustration of Multiple changes due to long-term trend of higher assessment growth in Residential Class.

Year	Class 1				Class 6				Tax Multiple
	Assessment	% Incr.	Tax Rate	Taxes	Assessment	% Incr.	Tax Rate	Taxes	
2011	500,000	10%	2.0000	1,000	500,000	5%	4.0000	2,000	2.0000
2012	550,000	10%	1.8182	1,000	525,000	5%	3.8095	2,000	2.0952
2013	605,000	10%	1.6529	1,000	551,250	5%	3.6281	2,000	2.1950
2014	665,500	10%	1.5026	1,000	578,813	5%	3.4554	2,000	2.2995
2015	732,050	10%	1.3660	1,000	607,753	5%	3.2908	2,000	2.4090
2016	805,255	10%	1.2418	1,000	638,141	5%	3.1341	2,000	2.5238
2017	885,781	10%	1.1289	1,000	670,048	5%	2.9849	2,000	2.6439
2018	974,359	10%	1.0263	1,000	703,550	5%	2.8427	2,000	2.7698
2019	1,071,794	10%	0.9330	1,000	738,728	5%	2.7074	2,000	2.9017
2020	1,178,974	10%	0.8482	1,000	775,664	5%	2.5784	2,000	3.0399

Year	Class 1				Class 6				Tax Multiple
	Assessment	% Incr.	Tax Rate	Taxes	Assessment	% Incr.	Tax Rate	Taxes	
2011	500,000	10%	2.0000	1,000	500,000	3%	4.0000	2,000	2.0000
2012	550,000	10%	1.8182	1,000	515,000	3%	3.8835	2,000	2.1359
2013	605,000	10%	1.6529	1,000	530,450	3%	3.7704	2,000	2.2811
2014	665,500	10%	1.5026	1,000	546,364	3%	3.6606	2,000	2.4361
2015	732,050	10%	1.3660	1,000	562,754	3%	3.5539	2,000	2.6017
2016	805,255	10%	1.2418	1,000	579,637	3%	3.4504	2,000	2.7785
2017	885,781	10%	1.1289	1,000	597,026	3%	3.3499	2,000	2.9673
2018	974,359	10%	1.0263	1,000	614,937	3%	3.2524	2,000	3.1690
2019	1,071,794	10%	0.9330	1,000	633,385	3%	3.1576	2,000	3.3843
2020	1,178,974	10%	0.8482	1,000	652,387	3%	3.0657	2,000	3.6143

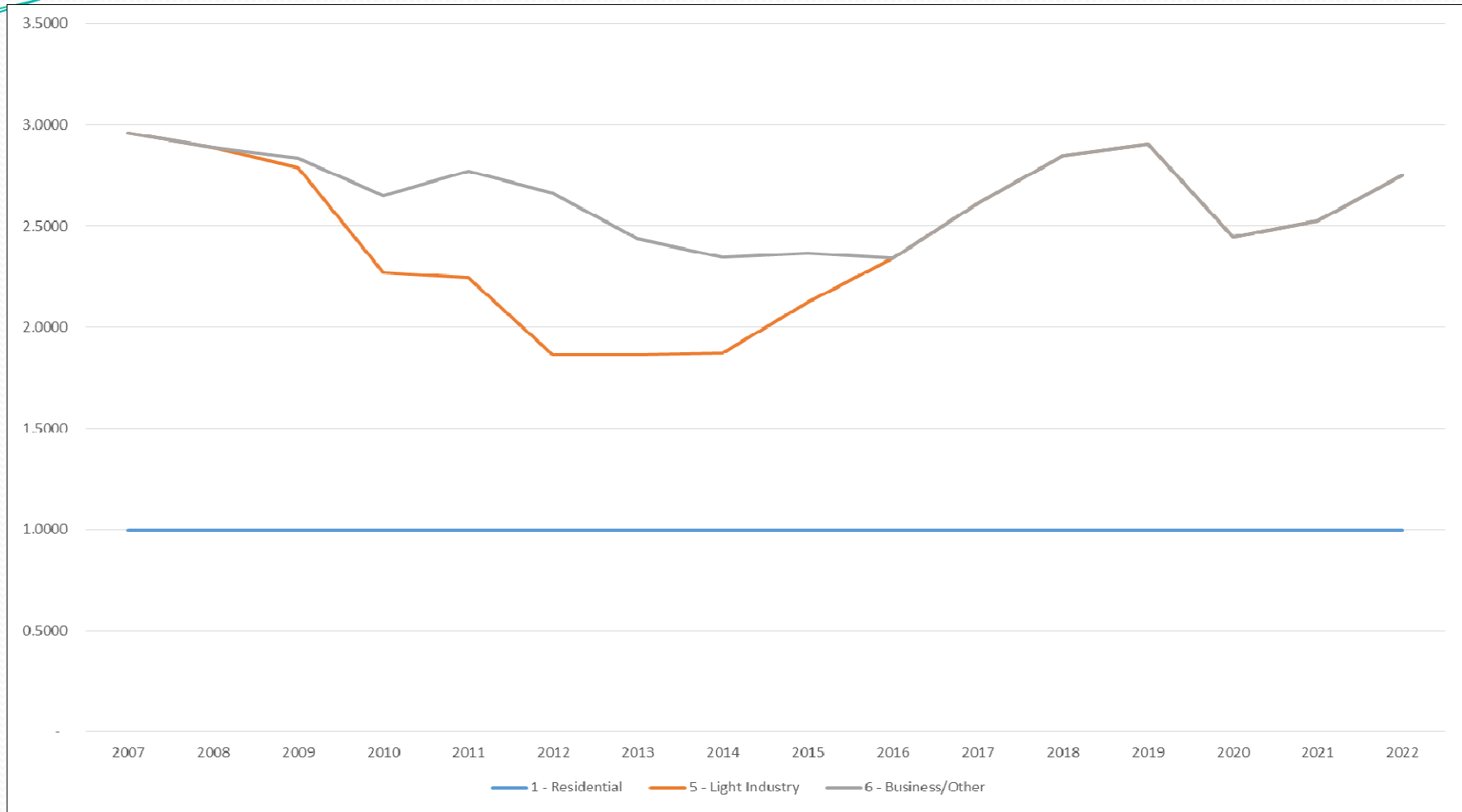
# Tax Multiples

- 6 different multiples used on tax bill:

Class	Town	CRHD	School	Transit	BC	
	(CRD, VIRL)				Assess.	MFA
1 - Residential	1.0000	1.00	1.0000	1.0000	1.0000	1.00
2 - Utilities	6.3142	3.50	10.5074	5.4002	11.5109	3.50
5 - Light Industrial	2.5257	3.40	3.1539	5.4002	2.7664	3.50
6 - Business/Other	2.5257	2.45	3.1539	5.4002	2.7664	2.50
8 - Recreation/Non-profit	1.7971	1.00	1.9038	1.0000	1.0000	1.00
9 - Farm	2.0617	1.00	5.6459	1.0000	1.0000	1.00

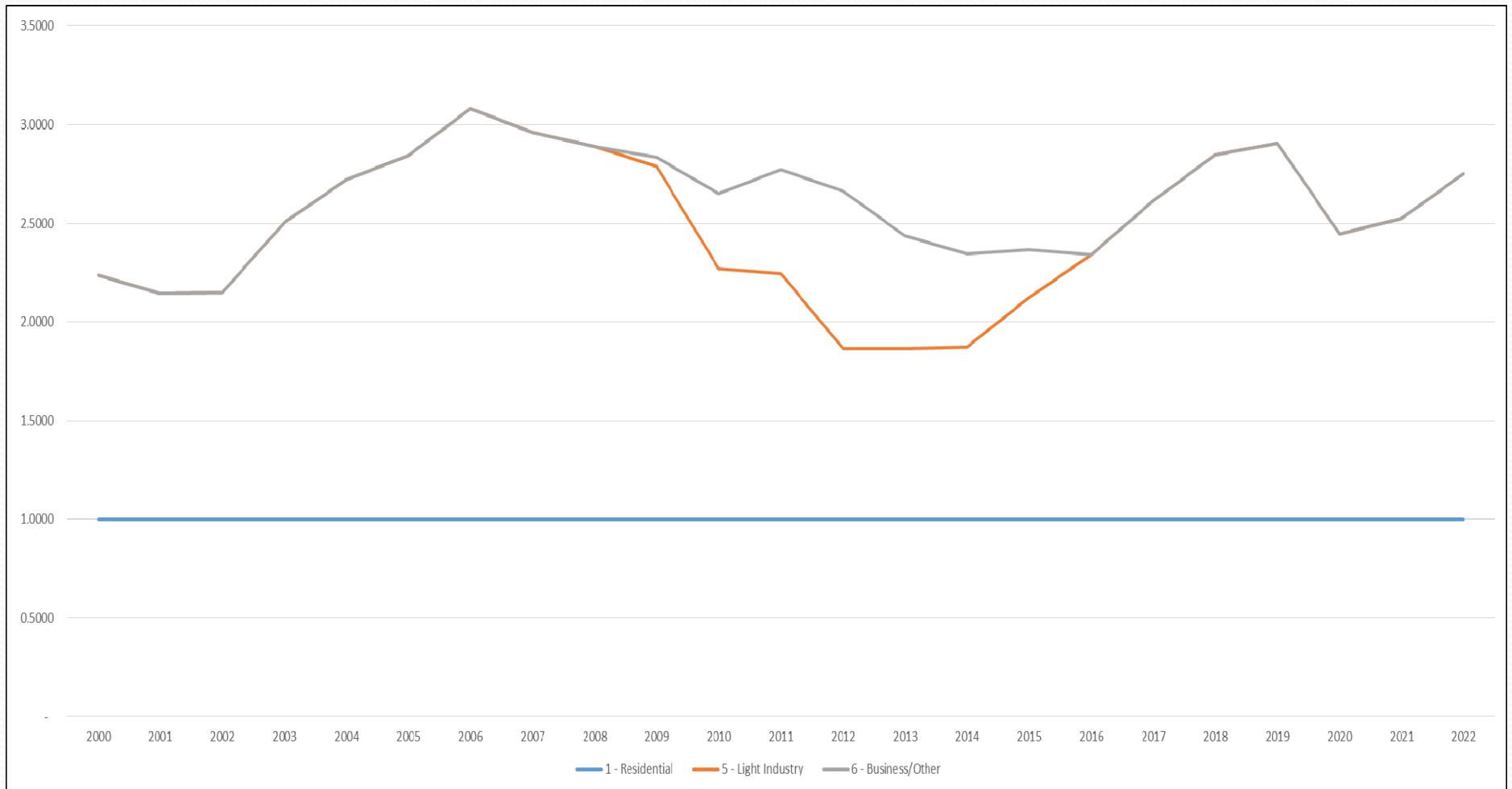
- 2 points to note from above:
  - Town multiples for Classes 5 & 6 are lower than those set by most other jurisdictions
  - The multiple for Class 5 (Light Industrial) is higher than or equal to that of Class 6 in all cases.
- 2021 multiples used above.

# Change in Multiples since 2007

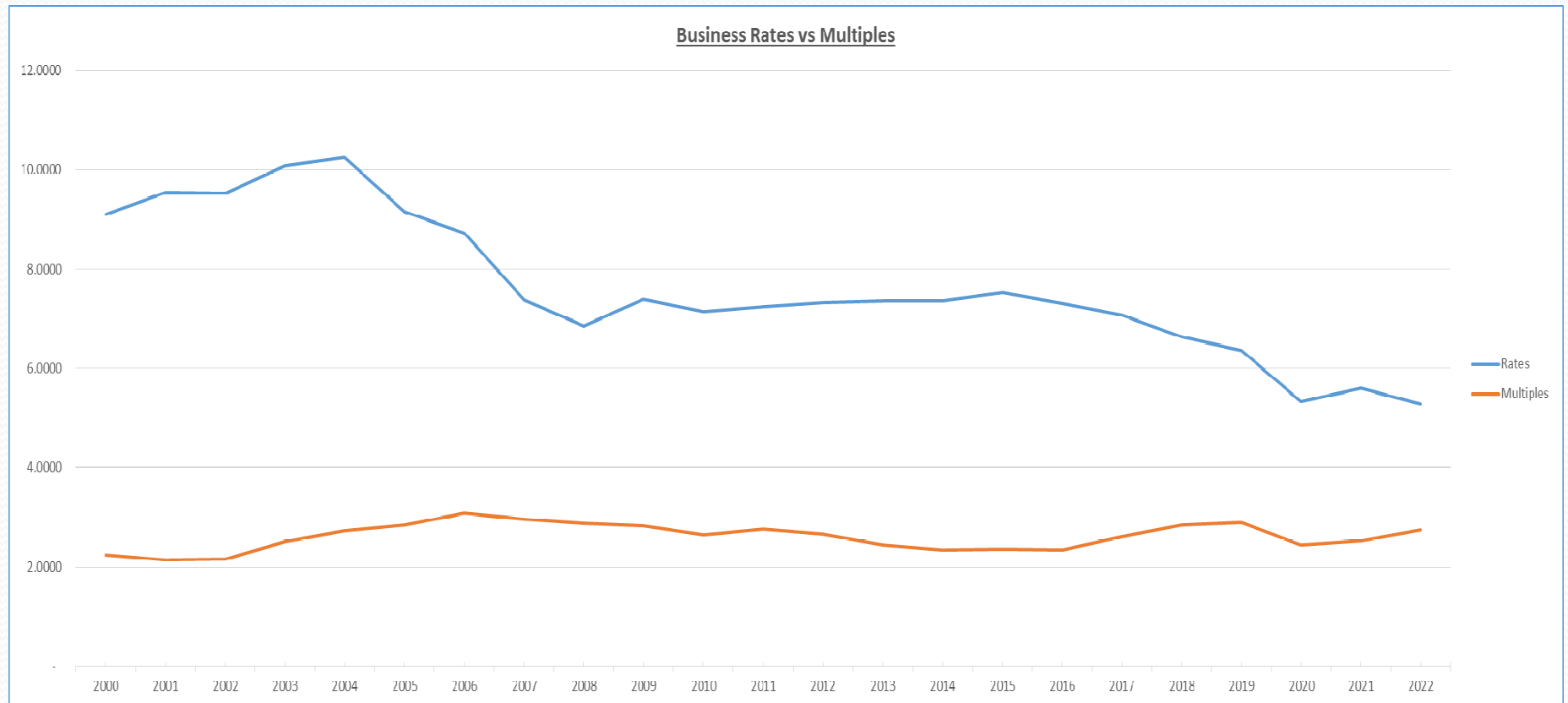


Property Class	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1 - Residential	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
5 - Light Industry	2.9607	2.8891	2.7900	2.2695	2.2433	1.8658	1.8648	1.8724	2.1243	2.3409	2.6130	2.8483	2.9050	2.4468	2.5257	2.7499
6 - Business/Other	2.9607	2.8891	2.8350	2.6492	2.7700	2.6623	2.4364	2.3437	2.3648	2.3409	2.6130	2.8483	2.9050	2.4468	2.5257	2.7499

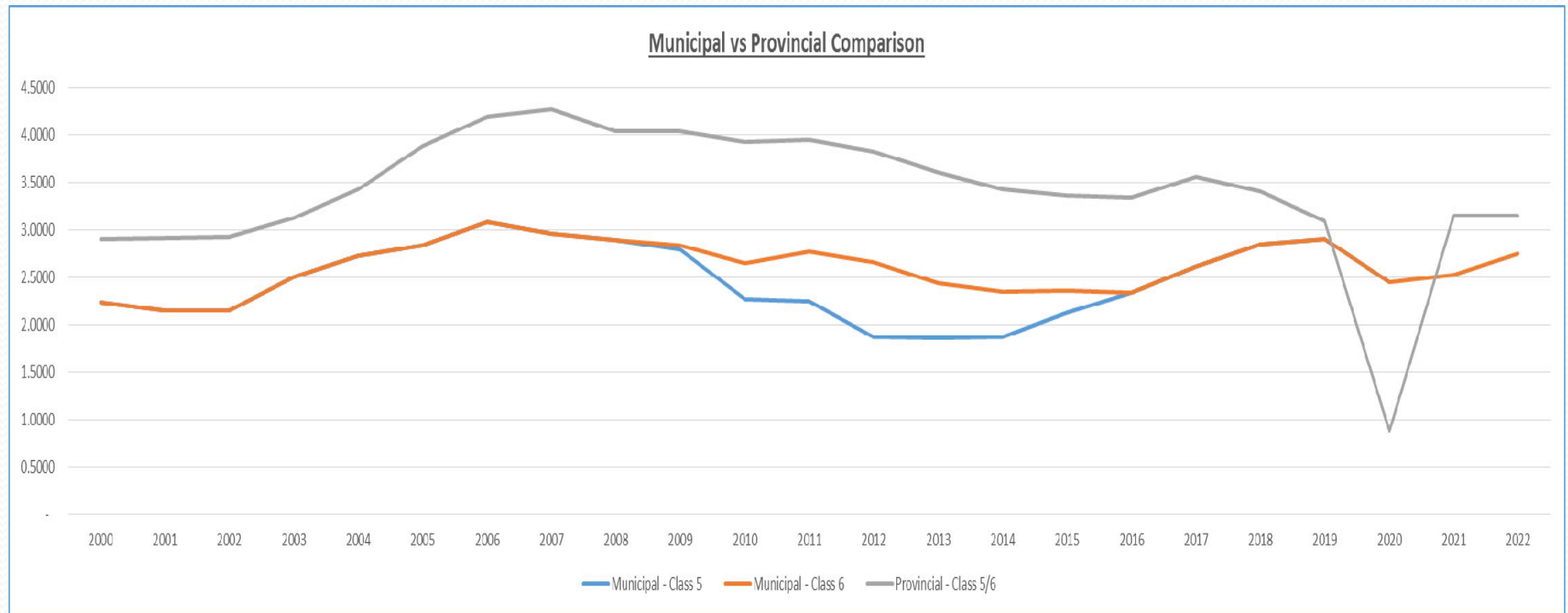
# Change in Multiples since 2000



# Business Rates vs Multiples since 2000



# Municipal vs Provincial (School Tax) Multiples - Classes 5 & 6



Reflects one-time COVID reduction in School Taxes for Business classes.



# Tax Comparisons with Other Municipalities

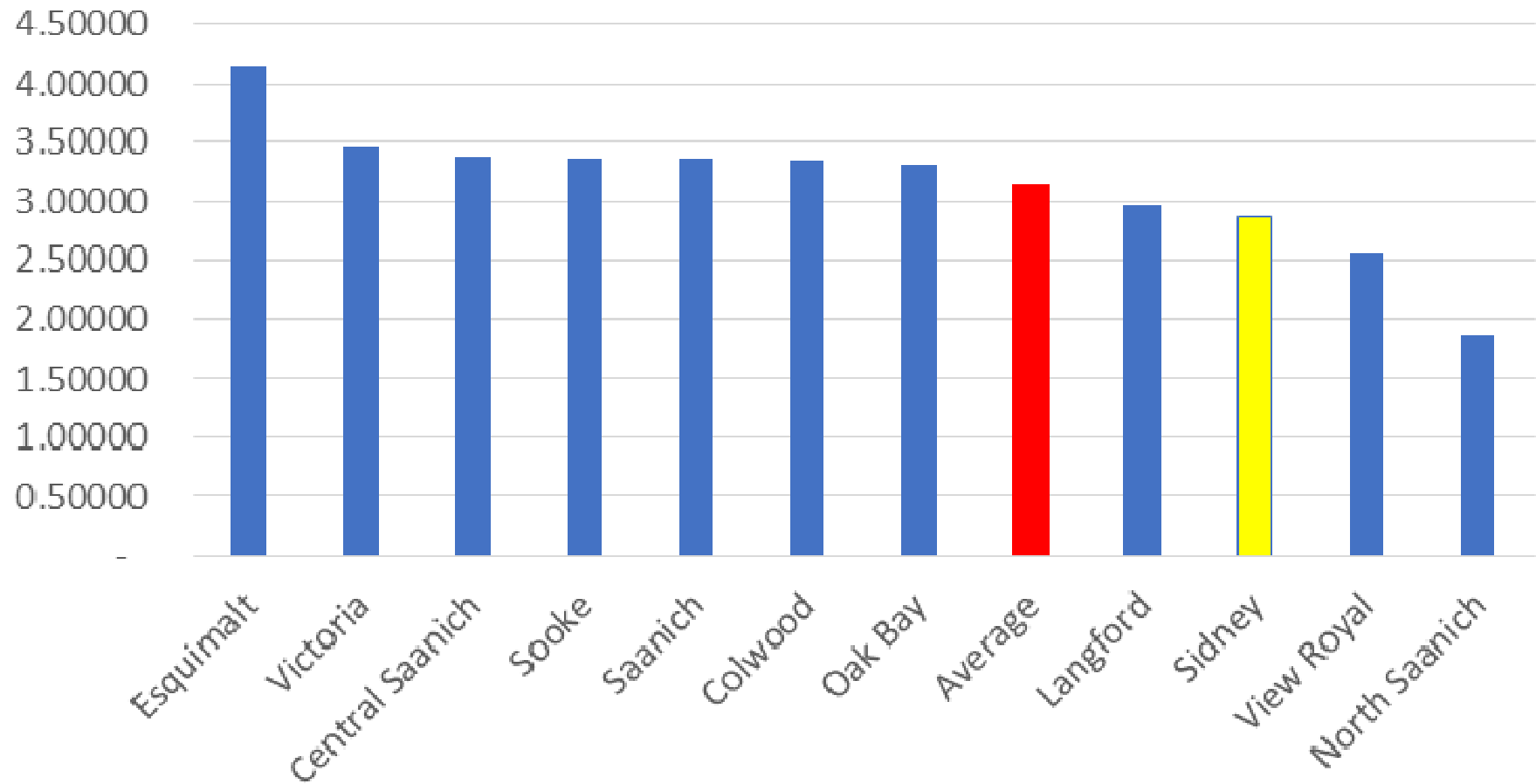
- Challenges in comparing our taxes to those of others:
  - Not everyone provides same services
    - Even if they do, maybe not at the same level or quality
  - Not everyone includes all services in Municipal rate
    - Eg. Library, Recreation, Policing
  - Primary goal of tax policy is to address your own needs
    - Making rates easy to compare is low priority.
- Method to make rates as comparable as possible:
  - Include Municipal, Regional, Library
  - Call this combination “Local Service Taxes”.

# 2021 Tax Rates within Region

2021 Tax Rates			
	Residential		Business
<b>Esquimalt</b>	4.14559	<b>Saanich</b>	14.24517
<b>Victoria</b>	3.45540	<b>Colwood</b>	13.10720
<b>Central Saanich</b>	3.38122	<b>Victoria</b>	11.48930
<b>Sooke</b>	3.37926	<b>Esquimalt</b>	10.88968
<b>Saanich</b>	3.37068	<b>Sooke</b>	10.68927
<b>Colwood</b>	3.34740	<b>North Saanich</b>	10.51120
<b>Oak Bay</b>	3.31392	<b>Average</b>	10.12124
<b>Average</b>	3.15143	<b>View Royal</b>	9.50444
<b>Langford</b>	2.97089	<b>Oak Bay</b>	8.67770
<b>Sidney</b>	2.86406	<b>Langford</b>	8.16997
<b>View Royal</b>	2.57342	<b>Sidney</b>	7.23369
<b>North Saanich</b>	1.86390	<b>Central Saanich</b>	6.81601

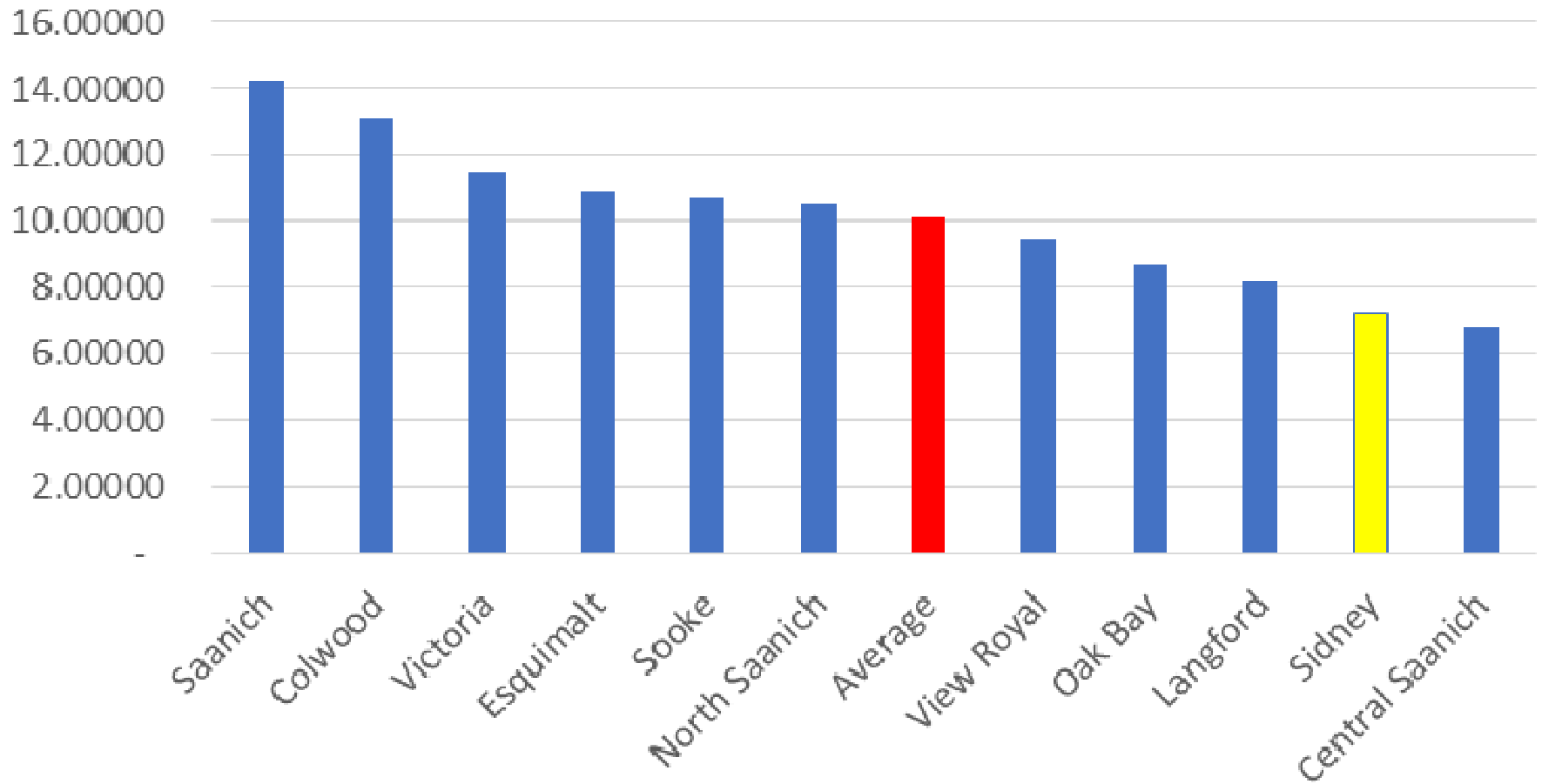
# 2021 Tax Rates within Region

## Residential



# 2021 Tax Rates within Region

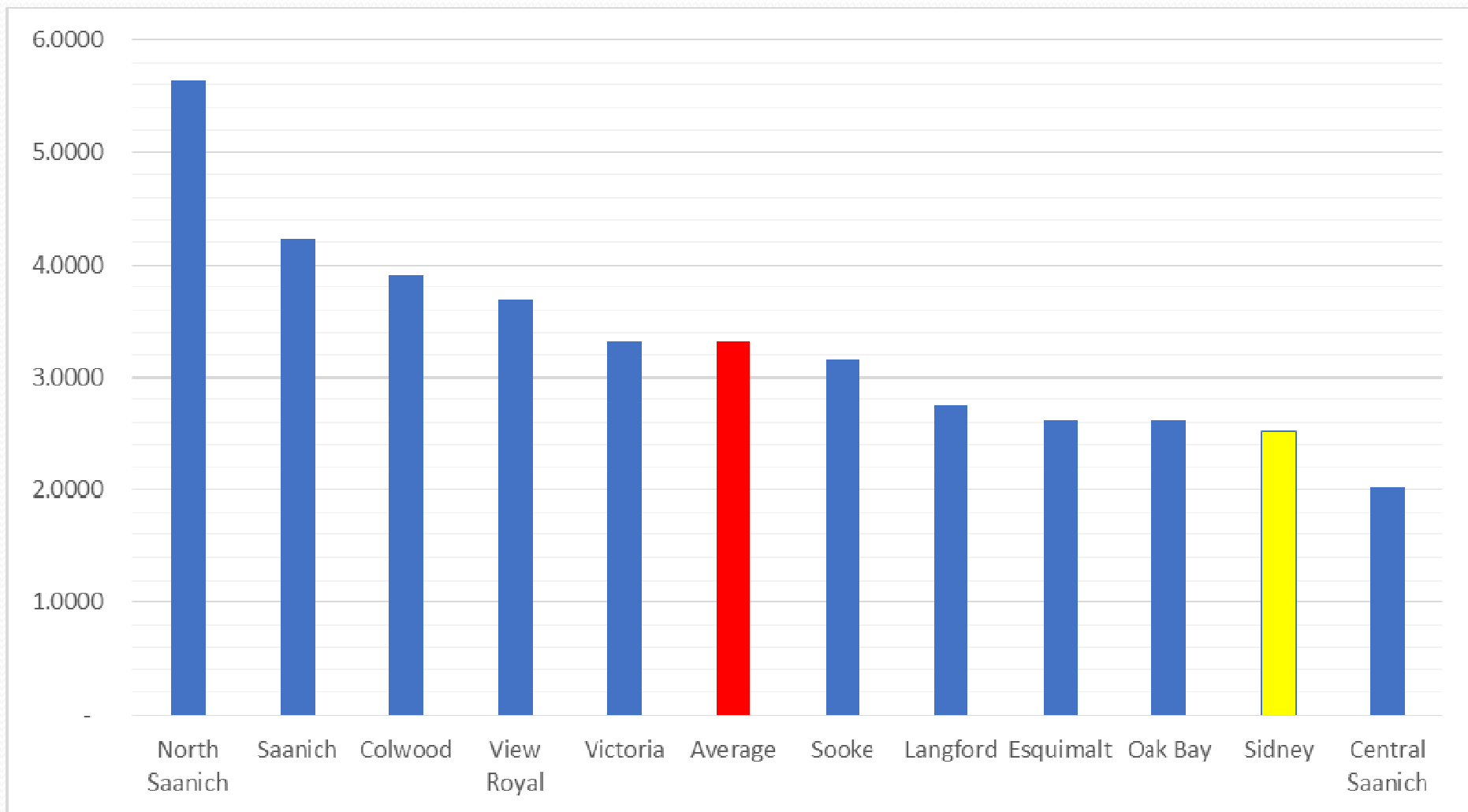
## Business



## 2021 Business Multiples within Region

<b>Business : Residential</b>	
<b>North Saanich</b>	5.6394
<b>Saanich</b>	4.2262
<b>Colwood</b>	3.9156
<b>View Royal</b>	3.6933
<b>Victoria</b>	3.3250
<b>Average</b>	3.3181
<b>Sooke</b>	3.1632
<b>Langford</b>	2.7500
<b>Esquimalt</b>	2.6268
<b>Oak Bay</b>	2.6186
<b>Sidney</b>	2.5257
<b>Central Saanich</b>	2.0158

# 2021 Business Multiples within Region



# Tax Policy Review – Questions

- Are we satisfied with where we stand regionally in terms of Commercial taxation?
  - If so, consider policy wording to keep us there;
  - If not, how much lower do we want to go?
- If we wish to reduce the gap between Business and Residential tax rates, how quickly do we want to do it?
  - Suggested phase in of at least 5 years;
  - Update policy to keep us on track.

# Tax Rate Setting Methods

Two common rate setting methods:

1. Set and maintain a stable % of taxes from each class of property (most common)
2. Set and maintain a constant tax multiple.
  - Town uses a variation of #1
  - Tax increase applied equally to all classes
  - Non-market changes (tax base growth) are the only thing that shifts percentages between classes (very gradually).



# Tax Rate Setting Methods

A third method being proposed: Hybrid of #1 and #2

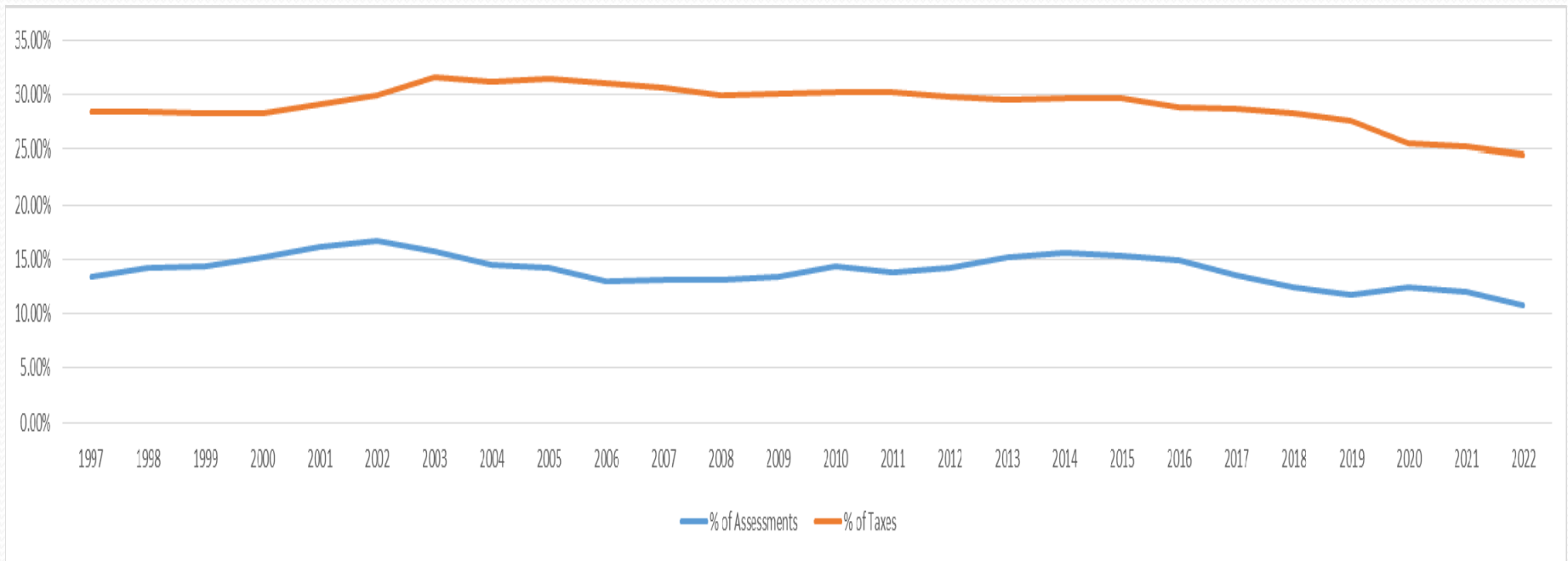
## 3. Set and maintain a stable *Tax to Assessment Ratio*

- e.g. Percentage of taxes collected from Business properties is twice the percentage of its share of total assessments
  - Ratio of 2:1
  - e.g. if Business assessments make up 10% of the total tax base, collect 20% of taxes from that class of property.
- Less arbitrary to tie in the % collected to the % of assessment, rather than more random 2.0 Rate Multiple.
- Annual tax increase would no longer be applied equally.

## Residential % of Total Assessments

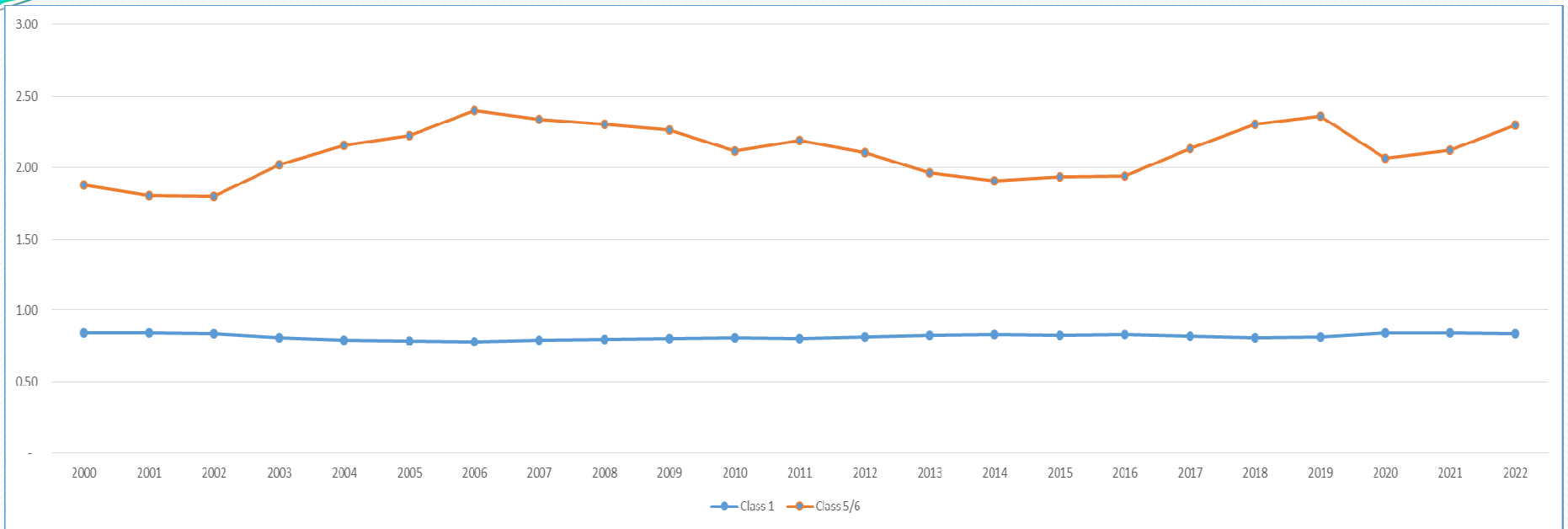
- Despite what we know intuitively about Residential assessments rising higher than Commercial over the past 25 years:
  - Only 2.25% growth in Residential percentage of overall assessment base since 1997: 86.26% to 88.51%
  - Class 6 decreased from 13.38% to 10.7% over same time.
- As a percentage of tax revenues paid, Class 1 went from 70.71% in 1997 to 73.95% in 2022
  - Class 6: 28.47% to 24.58%.

# % of Assessment Base vs % of Taxes- Class 5/6



- % of Assessment has ranged from low of 10.7% (this year) to high of 16.74% (2002).
- % of Taxes has ranged from low of 24.58% (this year) to high of 31.7% (2003).

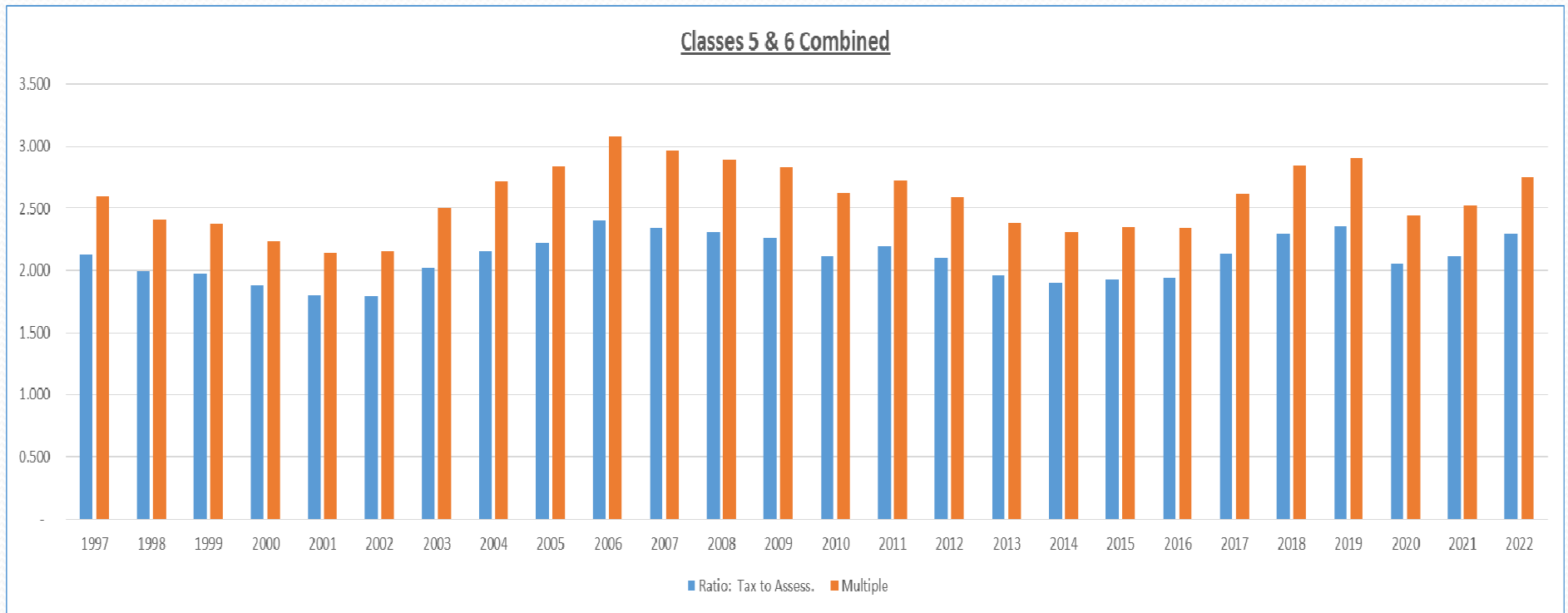
# Ratio: % of Taxes to % of Assessment Base



1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
0.82	0.83	0.83	0.84	0.84	0.84	0.81	0.79	0.78	0.78	0.79	0.80	0.80	0.81	0.80	0.81	0.82	0.83	0.82	0.83	0.82	0.81	0.81	0.84	0.84	0.84
2.13	2.00	1.98	1.88	1.80	1.80	2.02	2.15	2.22	2.40	2.33	2.30	2.26	2.12	2.19	2.10	1.96	1.90	1.93	1.94	2.13	2.30	2.36	2.06	2.12	2.30

- Ratio for Classes 5 & 6 (combined) have generally centered around 2.0 (low of 1.80 (2001/02), high of 2.4 (2006)).
  - Average = 2.10
- Consider this ratio as a better alternative to tax rate multiple?

# Tax to Assessment Ratio vs Multiple – Class 5/6



- Multiple has consistently exceeded ratio of Tax to Assessment
- Ratio of 2.0 in 2022 would produce multiple of 2.2975.

# Impacts of Lowering Business Multiple

- Lowering Class 6 Multiple to 2x Residential
  - = \$694,000 more burden on Residential
    - Equivalent to tax increase of 7.6%
    - Total impact would be about \$155/year (\$13/month)
      - Includes CRD and VIRL.
- Impact clearly too big to implement all at once
  - may phase in over a few years, if desired.
- BUT, focus on Multiple may not be the answer.

# Impacts of Lowering Business Ratio to 2:1

- Lowering Class 6 taxes collected to 2x assessments
  - = \$404,000 more burden on Residential
    - Equivalent to tax increase of 4.41%
  - Total impact would be about \$89/year (\$8/month)
    - Includes CRD and VIRL.
- Year 1 impact of spreading reduction over 5 years:
  - Additional 1.87% tax increase (5.22% total)
    - Based on 2022 numbers.

# One Assessment Class for all Businesses

- Class 6 includes both large businesses, like banks and grocery stores, as well as small retail or service establishments
  - Both sizes of business must be taxed at the same rate (at least for property taxes)
- Impacts of reducing Class 6 rates may not be passed on to local consumers
  - National or regional pricing may be in effect
  - So our residents pay more in taxes, without getting the benefit
    - Benefit *may be* a healthier local business community?

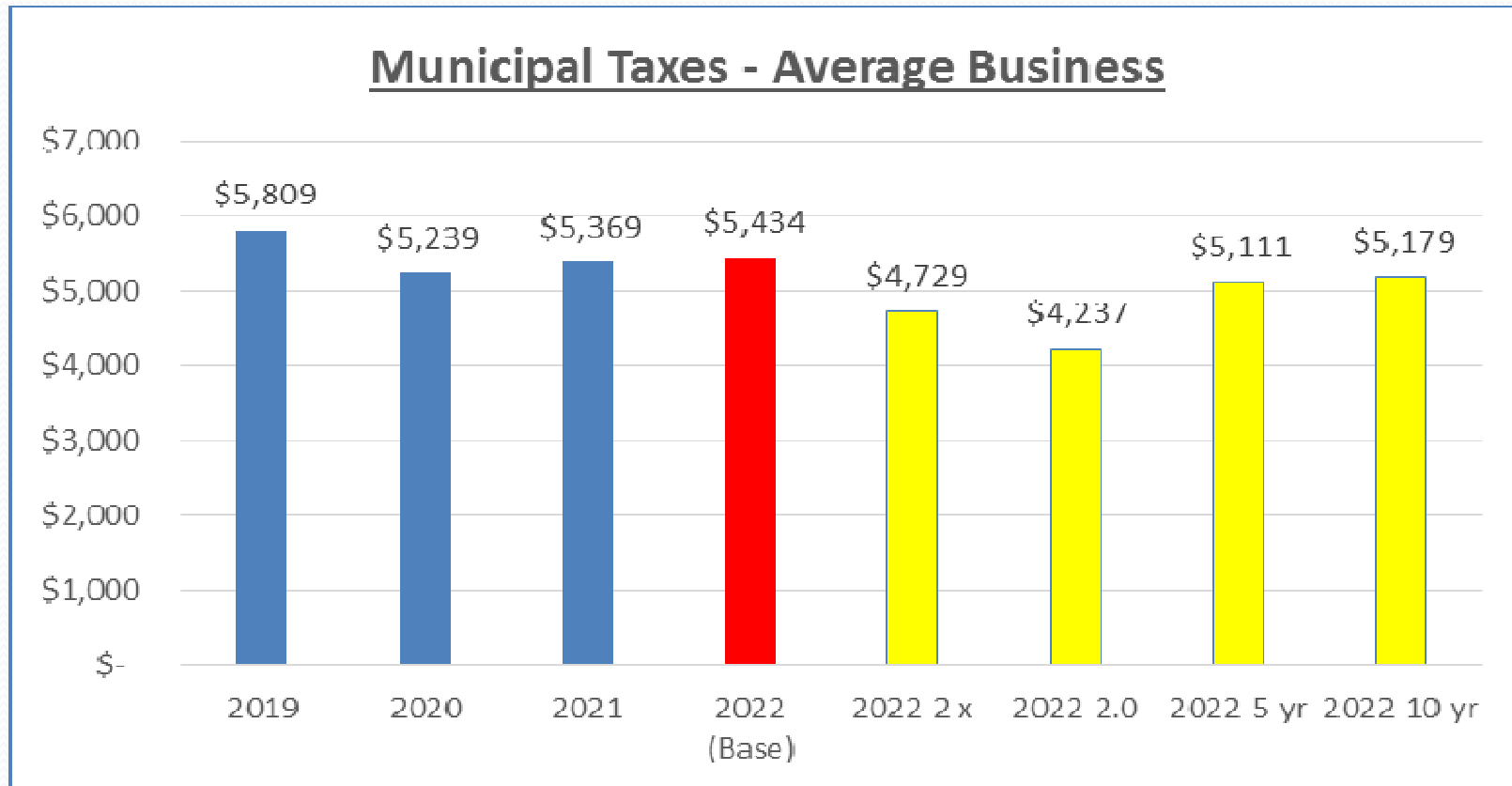


# Impacts on Average Residence

Impacts on Average Residence					
	Basic	2 x	2.0	2 x Assess	2 x Assess
	Increase	Assess.	Multiple	Yr 1 of 5	Yr 1 of 10
Municipal Tax	1,625	1,694	1,746	1,656	1,649
Regional District	358	374	385	365	364
Library	106	111	114	108	108
	\$ 2,090	\$ 2,179	\$ 2,245	\$ 2,129	\$ 2,120
Increase over 2021	\$ 66	\$ 155	\$ 222	\$ 106	\$ 97
Increase over Basic	-	\$ 89	\$ 155	\$ 39	\$ 30

- Moving to 2.0 Multiple has bigger impact than moving to 2.0 Ratio
- Year 1 of 5-year phase-in for 2.0 Ratio would lead to 5.7% tax increase (as opposed to 3.76%).
  - Would lead to *decrease* of 4.3% for average business.

# Impacts on Average Business



- With 10% reduction in 2020, average Business property paying less *municipal* taxes than in 2019.
- Yellow bars at right illustrate potential reduction based on 4 scenarios:
  - 2x Ratio; 2.0 Multiple; 5-year phase-in of 2x Ratio; 10-year phase-in.

# Questions?

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