

DATE OF MEETING APRIL 14, 2021

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SUBJECT FREEZING PROPERTY TAX REVENUES FOR BUSINESS CLASS PROPERTIES

OVERVIEW

Purpose of Report:

To provide the Finance and Audit Committee with possible scenarios for freezing property taxes for Business Class 6 for one year and the related impacts.

BACKGROUND

At the 2021-FEB-17 Finance and Audit Committee meeting, Mr. Kim Smythe of the Nanaimo Chamber of Commerce gave a presentation regarding the City Budget and upcoming municipal tax rates. The Committee made the following motion:

It was moved and seconded that the Finance and Audit Committee recommend that Council request a report from Staff with an analysis of the impact of freezing tax increases on commercial ratepayers for one year to assist and support the business community in Nanaimo. The motion carried.

Once a municipality has determined the total amount of property value tax to raise, it must then determine how to apportion that tax burden over the nine property classes (ie: (Class 1) Residential Class, (Class 6) Business Class, and (Class 4) Major Industrial Class). A guiding principle for determining the apportionment is the Statement of Objectives and Policies for Taxation required as part of the annual municipal budgeting process.

The Statement of Revenue Objectives & Policies in the 2021 – 2025 Financial Plan Bylaw, states that the City of Nanaimo will attempt to keep the proportional share of revenue from property taxes at a level similar to the average of comparable municipalities.

Once the tax apportionment to each property class is determined, the municipality will then set a tax rate for each class sufficient to raise the necessary tax revenue to meet its annual budgetary needs. Tax rates are expressed as a dollar figure per \$1,000 dollars of assessed property value of land and improvements.

While municipalities have broad authority to set tax rates and ratios, there are some specific restrictions on this authority. For the City of Nanaimo, the restrictions that apply are:

- **Utilities:** Under section 199 of the *Community Charter*, Cabinet may prescribe regulations limiting the tax rates and/or ratio for each property class. This regulatory authority is currently used to set a maximum tax rate and ratio on Utility (Class 2) properties. The maximum tax rate that can be levied by any municipality on a Utility (Class 2) property is the greater of \$46.32 per 1,000 or 2.5 times the Business (Class 6) property tax rate.

- **Farm:** Per the City of Nanaimo Letters Patent, the rate for Farm (Class 9) the property tax rate cannot exceed \$0.50 per \$1,000 of assessed value.

Public discussion regarding the comparison between property classes (usually residential, commercial and industrial tax rates) often tends to focus on tax ratios. A "ratio" is the tax rate relationship between two property classes. This ratio is calculated by dividing the commercial (or industrial) tax rate by the residential tax rate.

Between 2009 and 2013 a multi-year initiative was undertaken by Council to reduce the major and light industrial tax rates to be equal to the business tax rate. This shift resulted in a higher property tax increase for the residential class during the transition period to make up for the decreased property tax revenue from the major and light industry classes.

At the time, all of the properties in the Major Industry tax class in Nanaimo were related to the forest industry. This shift was done to reduce the risk to the City's tax revenue if the forestry industry declined further.

DISCUSSION

There are nine (9) property classes. These classes, and their assessments, are determined by BC Assessment.

	Class	2020 Rate	2020 Ratio
1	Residential	4.1819	1.00
2	Utility	37.1663	8.89
3	Supportive Housing	0.0000	0.00
4	Major Industry	12.3994	2.96
5	Light Industry	12.3994	2.96
6	Business/Other	12.3994	2.96
7	Managed Forest	17.5863	4.20
8	Recreation/Non-Profit	8.5474	2.04
9	Farm	0.4793	0.11

The City of Nanaimo's business class ratio and percentage of total taxes from business class are comparable to similar size and neighbouring municipalities.

The table below compares the ratio of Class 6 Business tax rates to Residential Class 1 tax rates:

Municipality	Business Class 6 Ratio				
	2016	2017	2018	2019	2020
Kelowna	2.19	2.30	2.38	2.36	2.17
Prince George	2.10	2.23	2.30	2.34	2.32
Parksville	2.50	2.43	2.61	2.76	2.57
Kamloops	2.56	2.48	2.55	2.72	2.72
Nanaimo	2.54	2.66	2.89	3.03	2.96
Ladysmith, Town	2.69	2.81	3.00	3.23	2.99
Victoria	3.05	3.40	3.53	3.48	3.33
Saanich, District	3.45	3.89	4.26	4.14	3.97
Average	2.64	2.77	2.94	3.01	2.88
Median	2.55	2.57	2.75	2.90	2.84

For 2020, the tax ratio for business properties in Nanaimo was 2.96, indicating that the business tax rate was 2.96 times the residential rate.

Over the last five (5) years, Class 6 business class property tax revenues have been approximately 28% of the total taxes collected for the City of Nanaimo. This percentage has ranged from 14% – 47% for the Cities listed in the table above.

The Average and Median percentages for the Municipalities above are:

Municipality	% of Total Taxes Collected				
	2016	2017	2018	2019	2020
Average	28%	27%	28%	27%	27%
Median	27%	27%	27%	27%	26%

The Provisional 2021-2025 Financial Plan property tax increases are:

	Pandemic 2021	Recovery - New Normal 2022	2023	2024	2025
General Asset Management Reserve	1.0%	1.0%	1.0%	1.0%	1.0%
General Property Tax Increase	2.0%	2.4%	2.2%	2.2%	1.6%
Total Municipal Taxes	3.0%	3.4%	3.2%	3.2%	2.6%

The Provisional budget includes:

- Funding of \$1,408,806 from the General Financial Stability Reserve to reduce taxes for all property tax classes in 2021. This funding is used to offset some of the impacts related to the COVID-19 Pandemic.
- Funding of \$1.4 million from the Special Initiatives Reserve to reduce taxes for all property tax classes over the next three (3) years.

Any further relief to one or all of the classes would be over and above the relief already given.

Outlined below are scenarios that are available to minimize the tax impact to Business class properties.

Per the motion, property tax revenue from Class 6 business properties would be capped at \$32,115,302, plus associated for growth in 2021.

At the time of drafting this report, the final growth figures have not been released so the impact examples outlined below only include the budgeted \$1.2 million in growth for a total of \$32,290,828 for business class properties.

Scenario 1 – Shift to Residential Class 1 in 2021 and back to Business Class 6 in 2022

This scenario would see the amount of business class taxes collected remain at \$32,290,828 for 2021. This would shift \$968,725 to the residential class properties for 2021 and then shift that amount back to business class properties in 2022 based on the tax increase in the Provisional 2021 – 2025 Financial Plan.

The projected impact on Residential and Business Classes are:

	Based on Approved Provisional 2021-2025 Financial Plan			
	Without Shift		With Shift	
	2021	2022	2021	2022
Property Tax Increase*				
Residential	3.0%	3.4%	4.3%	2.2%
Business/Other	3.0%	3.4%	0.0%	6.4%
All Other Classes	3.0%	3.4%	3.0%	3.4%

*Includes both Asset Management Reserve and General Taxation increases

Advantages: This would provide the requested relief for the business class properties in 2021.

Disadvantages: This would increase the tax burden on the residential class, many of whom are also affected by the ongoing economic impact of the pandemic. As the shift is only a one year relief measure the business class will see their property taxes go up by more than the average in 2022.

Scenario 2 – Shift to Residential Class 1 Permanently

This scenario would see the amount of business class taxes collected remain at \$32,290,828 for 2021. This would shift \$968,725 to the residential class properties for 2021 with no shift back to business class properties in 2022 based on the tax increase in the Provisional 2021 – 2025 Financial Plan. The 2022 business class taxation will resume including an increase in 2022 and beyond.

The projected impact on Residential and Business Classes are:

	Based on Approved Provisional 2021-2025 Financial Plan			
	Without Shift		With Shift	
	2021	2022	2021	2022
Property Tax Increase*				
Residential	3.0%	3.4%	4.3%	3.4%
Business/Other	3.0%	3.4%	0.0%	3.4%
All Other Classes	3.0%	3.4%	3.0%	3.4%

*Includes both Asset Management Reserve and General Taxation increases

Advantages: This would provide the requested relief for the business class properties in 2021 and not see any large impacts in 2022.

Disadvantages: This would increase the tax burden on the residential class, many of whom are also affected by the ongoing economic impact of the pandemic. Residential properties will not see any relief from the increase from 2021.

Scenario 3 – Use Reserves to Reduce Taxes for Business Class Properties

This scenario would see the amount of business class taxes collected remain at \$32,290,828 for 2021. The overall tax amount collected would be reduced by \$968,725 and be funded from the Special Initiatives Reserve. This would result in no impact from the freeze to Residential taxes in 2021.

However, as surplus is used to reduce the overall taxes collected and is a one time funding source, the tax increase in 2022 for all properties classes would be greater. As the City will now need this funding from property taxation, a larger tax increase in 2022 is needed to collect the total revenues needed to fund operations.

The projected impact on Residential and Business Classes are:

	Based on Approved Provisional 2021-2025 Financial Plan			
	Without Shift		With Shift	
	2021	2022	2021	2022
Property Tax Increase*				
Residential	3.0%	3.4%	3.0%	4.3%
Business/Other	3.0%	3.4%	0.0%	4.3%
All Other Classes	3.0%	3.4%	3.0%	4.3%

*Includes both Asset Management Reserve and General Taxation increases

Advantages: This would provide the requested relief for the business class properties in 2021.

Disadvantages: As the relief is only a one year, all classes would see a larger tax increase in 2022 as surplus would no longer be a funding source for a reduction. The surplus funds would not be available to fund other Council initiatives.

Scenario 4 – Use Reserves to Reduce Taxes for All Property Classes

This scenario would give all property tax classes some tax relief. One million dollars from the Special Initiatives Reserve could be allocated over four (4) years at \$250,000 per year, resulting in modest tax relief for all property classes and not just the Business Class.

The amount of business class taxes collected increases by \$897,364 to \$33,188,192 for 2021 however, in years 2022 to 2024 they see rates consistent with the 2021-2025 Provisional Financial Plan.

As reserves are used to reduce the overall taxes collected and is a one time funding source, the tax increase in 2025 for all properties classes would be greater. As the City will now need this funding from property taxation, a larger tax increase in 2025 is needed to collect the total revenues needed to fund operations.

The projected impact on Residential and Business Classes are:

	Based on Approved Provisional 2021-2025 Financial Plan			
	Without Shift		With Shift	
	2021	2022	2021	2022
Property Tax Increase*				
Residential	3.0%	3.4%	2.8%	3.4%
Business/Other	3.0%	3.4%	2.8%	3.4%
All Other Classes	3.0%	3.4%	2.8%	3.4%

*Includes both Asset Management Reserve and General Taxation increases

Advantages: This would provide the relief for all property classes for 2021.

Disadvantages: This tax reduction would not result in a complete freeze for Business Class properties. As the relief is for four (4) years, all property classes would see a larger tax increase in 2025 as surplus would no longer be a funding source for a reduction. The surplus funds would not be available to fund other Council initiatives.]

CONCLUSION

There are advantages and disadvantages to each scenario listed. The City requires a set amount of money to fund all City operations. This means that as relief is given in one area another must make up the difference. Only a permanent change to a non-tax revenue source will result in no impacts to future year tax increases.

Summary of the property tax impact of the three scenarios:

Residential Class Properties

	Provisional	Senario 1	Senario 2	Senario 3	Senario 4
2021	3.0%	4.3%	4.3%	3.0%	2.8%
2022	3.4%	2.2%	3.4%	4.3%	3.4%
2023	3.2%	3.2%	3.2%	3.2%	3.2%
2024	3.2%	3.2%	3.2%	3.2%	3.2%
2025	2.6%	2.6%	2.6%	2.6%	2.8%

*Includes both Asset Management Reserve and General Taxation increases

Business Class Properties

	Provisional	Senario 1	Senario 2	Senario 3	Senario 4
2021	3.0%	0.0%	0.0%	0.0%	2.8%
2022	3.4%	6.4%	3.4%	4.3%	3.4%
2023	3.2%	3.2%	3.2%	3.2%	3.2%
2024	3.2%	3.2%	3.2%	3.2%	3.2%
2025	2.6%	2.6%	2.6%	2.6%	2.8%

*Includes both Asset Management Reserve and General Taxation increases

SUMMARY POINTS

- The Chamber of Commerce requested a report from Staff with an analysis of the impact of freezing tax increases on commercial ratepayers for one year to assist and support the business community in Nanaimo.
- The tax ratio for business properties in Nanaimo was 2.96 in 2020.
- Business class property tax revenues have been approximately 28% of the total taxes collected for the City of Nanaimo over the last 5 years.
- The City of Nanaimo attempts to keep the proportional share of revenue from property taxes at a level similar to the average of comparable municipalities.
- \$2,808,806 in property tax reductions for all property classes has already been approved by Council and is included in the Provisional 2021 – 2025 Financial Plan.

ATTACHMENTS

Attachment A: 2021-FEB-17 Nanaimo Chamber of Commerce Letter to Mayor and Council |

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