



FORT ST JOHN
The Energetic City

Commissioner's Final Report
March 2009

Property Tax Policy



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The staff at the City of Fort St. John provided valuable assistance to me. In particular I want to thank Ms. Dianne Hunter, City Manager, for her guidance on procedural issues and for the background information she kindly provided. I also want to thank the staff at the City for their excellent cooperation, expertise in organizing the public hearings and very kind hospitality. In particular I thank Ms. Laura Sanders, Ms. Shirley Collington, Ms. Joanne Caldecott and Ms. Johanna Haab for their assistance in providing information requested and for handling all arrangements while I was in Fort St. John. I would also like to acknowledge Krysta Franceour for her work for developing the web site for the Commission.

Finally, we wish to thank the Mayor Bruce Lantz and Council for inviting me to participate in this review of tax policy. I appreciate the confidence exhibited in my appointment. As always, any remaining errors of omission or commission remain the sole responsibility of the Commissioner.

EXECUTIVE SUMMARY

The Property Tax Distribution Commission has been established by Council in response to concerns expressed to Council by the business community about the impacts of the City's current property tax policy on the competitiveness of Fort St. John's economy. The City of Fort St. John wanted the Commissioner to engage Fort St. John's business and residential communities, as well as other key stakeholders, in order to recommend to Fort St. John City Council a long-term policy that will define and achieve a "fair tax ratio" for all property taxpayers.

The Commission was asked by the City to address one fundamental issue: what is a fair and sustainable tax ratio to be applied to each class of property. In this context the tax ratio for the residential class is set at 1.0 and the ratio for other classes is simply the mill rate for each Class divided by the mill rate for the residential class

Two associated issues arose during the investigation. These included the current application of a "parcel tax" for residential class and the implications for the City of Fort St. John from having adjacent rural areas with lower taxes competing for development.

Public Consultation

City Council wanted to ensure the Commissioner would engage the community in the process of reviewing property taxation. To this end the Commissioner provided two main opportunities for input including:

- A media advertising program and the creation of a website inviting the public to submit comments in writing.
- Two public hearings, one afternoon and one evening, held on February 3rd, 2009. The public was invited to appear and make verbal presentations, with or without accompanying written submissions.

Evaluation Principles

The Commission was asked to identify and apply a set of principles that are typically used to evaluate taxation policy. Six principles are identified:

- Fairness, based on benefits received - means that people should pay taxes according to the benefits they receive from government services.
- Fairness, based on ability to pay - implies that taxes are fair if their burden is distributed in accordance with some generally accepted measure of taxpayers' ability to pay
- Neutrality – recognizes that one form of tax is preferred over another if the negative side effects are minimized.

- **Accountability.** - means that tax systems should be designed in ways that are clear so that policymakers can be made accountable to taxpayers for the cost of government services.
- **Stability and predictability** - for government, this means that the revenues they expect to receive should be stable and predictable over time. For taxpayers, it means that the tax should not result in changes over time that cannot reasonably be anticipated (no shocks.)
- **Simplicity and ease of administration** – the two parts of this principle are related: the simpler the tax system, the easier it will be to administer.

Individually these principles are relatively easy to apply. However, it is not possible to design a tax system that simultaneously achieves all of these principles. As a consequence, policymakers generally must emphasize some more than others.

The Tax Ratio Issue

The key issue I was asked to address was the determination of fair tax ratios for each Class of properties. To address this issue, I examined the following evidence:

- How have the tax ratios changed in Fort St. John in recent years and what have been the consequences of these changes?
- How do taxes ratios for each class of property in Fort St. John compare with those in other “comparable communities” in British Columbia?
- Is there any evidence that the pace of investment and development in any particular class has been negatively affected by mill rate differentials?
- Are business property taxes high relative to the services that business receives in the City?
- Is there any evidence that businesses are leaving Fort St. John because of property taxation?

The evidence is clear: the share of property taxes paid by non-residential classes is high relative to residential taxes. This observation applies to virtually all municipalities in Canada. What is less clear is the appropriate indicator to use to determine the appropriate tax ratios. Each of the indicators used in the analysis provides a different basis for estimating the differentials and, not surprisingly, occasionally provides different conclusions.

What is clear however is the impact of the higher property tax ratios for non-residential development in Fort St. John. There is little evidence to suggest that the differential property tax ratios have had a negative impact on new property investment.

While I cannot point to conclusive evidence that a major problem currently exists because of the differential tax ratios, I am drawn to the conclusion that some

adjustments to the tax ratios for some classes should be considered in order to ensure Fort St. John remains a viable draw for non-residential business activities. My focus is to identify a reasonable range for each non-residential Class.

Several presenters at the public hearings suggested the taxes should better reflect the principle of “benefits received.” There is clearly merit to this approach, but there are also inherent weaknesses in the application of this principle for many of the types of services provided by local government. In particular, the analysis typically undertaken to support this principle generally considers only the direct benefits from municipal services and not the indirect benefits. It is often difficult, if not impossible, to measure accurately these indirect benefits. These difficulties help explain why the benefits received principle is most often best applied where one has the capacity to limit access to the service provided (for example, private golf courses.) This is similar the issue raised by several presenters at the public hearing when they observed that property owners in the rural areas were using services provided by the City of Fort St. John but not paying the full costs.

The other fairness principle, ability to pay, provides some guidance on the level of taxes that should be paid, but this principle is best applied to individual properties within a Class, not across Classes. This principle does not provide a sound foundation for the sharing of taxes across Classes.

Two concerns help provide some guidance on the differential tax ratio issue. First, do the current tax rate differentials support an environment that will encourage a competitive position for non-residential property within the region? Second, do the current tax rate differentials ensure accountability is well served if residents have the greatest influence over the type and level of services provided but do not pay a proportionate cost of the service? This point was reinforced by several presenters at the public hearing that mentioned businesses do not have vote, hence have no direct influence on budget or tax considerations.

Based on the conclusions reached with respect to fairness (both benefits received and ability to pay principles), the need to ensure the City remains competitive and accountability, the Commissioner feels that some further reduction in the non-residential share of taxes is warranted.

Recommendation #1:

The tax ratio paid by the Light Industrial Class (Class 5) should be reduced from its current level (approximately 5.8) to a ratio of 3.0 and that the cost of this reduction is to be borne by the Residential Class (Class 1). Further, this reduction in the tax ratio for the Light Industrial Class should be phased-in equally over a three year period.

Based on the 2008 assessment and tax data, this shift would cost a typical residential property owner with a property valued at \$250,000 (the average residential property value in 2008), approximately an additional \$6.00 in the first year and approximately \$18.000 in three years time. Once fully implemented this would represent a 1.45% increase in the taxes on this \$250,000 residential property. The average light industrial property in 2008 is \$550,000 and this average property would receive a tax decrease of 55% once the three year phase-in is complete.

The relative percent changes in taxes paid by the average residential and industrial property differs significantly: the residential increase is 1.45% and the light industrial decrease is 55%. This simply reflects the fact that the total taxable assessed value for the Residential Class is significantly larger than for the light industrial class. As a consequence a decrease in the tax ratio for the light industrial class from approximately 5.8 to 3.0 results in a relatively small dollar shift (approximately \$100,000) which is spread over the much larger total taxable assessed value of the residential class..

Recommendation #2:

The City should reduce the tax ratio of the Business Class to 2.7 from the current 2.968 and do so in equal steps over four years and that the cost of this change in the tax ratio is to be borne by the Residential Class (Class 1).

The impact of this change is more significant to the residential class since a small shift in the tax ratio for the business class implies a larger dollar shift than was the case for the light industrial class. In year 1 the average \$250,000 residential property would face a tax increase of \$9.00 (0.72%) and by year four the total tax increase would be \$36.00 (2.63%). In contrast the average business class property at \$550,000 would receive a \$200 decrease in taxes or 2.63% decrease over the four years.

However if this recommendation is adopted along with Recommendation #1 the impact is obviously larger. Assuming the three year phase-in for light industrial and a four year phase-in for business class, the residential taxes on an average \$250,000 increase by \$15.00 in year 1 (1.2% and by \$53.000 over four years (4.2%).

It should be recognized that two forces combine to provide these results. As taxes are shifted from the Industrial class and or the business class to achieve the desired tax ratios, the taxes shifted raise the necessary mill rate from the residential class and this is the denominator in calculating the tax ratios. .

Recommendation #3:

The City should discontinue the present \$50.00 parcel tax on Class one properties and build the equivalent aggregate tax revenue into the residential mill rate.

The rational for this proposal is that a flat tax (parcel tax) is regressive: the levy of a fixed dollar amount represents a higher effective tax rate on a lower valued property than

the same fixed dollar amount would have on more expensive properties. This proposal is tax neutral to the City and to the residential class. It would have no bearing on the other classes. However this change would not be tax neutral within the residential class as less expensive properties would pay less taxes and more expensive properties would pay more taxes. For example a \$100,000 residential property would receive a tax decrease of \$30 or 5.8% while a \$500,000 residential property would have a tax increase of \$49.90 or 2.07%.

Recommendation #4:

The City should, within the coming year, determine a new policy for the mill rate borne by Major Industrial Class.

The City of Fort St. John appears to have adopted a policy that the mill rate for the major industrial class should reflect the regulated rate applied to ports. This appears to be an understanding reached between the City and the new major facility at the time the facility was opened. Unfortunately the City and the property owner do not appear to have detailed records concerning this matter and there seems to be some misunderstanding as to the arrangement. The matter is made more complicated by the there are two port rates: maximum and minimum. The City has already been moving towards the minimum rate.

It is important that the City reach an understanding with this major industrial user, not only because of their important as a valuable contributor to the tax base, but also because misunderstandings can cause wider concerns amongst any future major industries looking at locating in the City.

There is a second problem that needs to be addressed. Agreeing to a set mill rate for the major industrial class implies that the tax ratio in the future will not be sensitive to changing local circumstances. Moreover, the tightly structured way in which the taxable assessed value of the major class of properties is calculate by the Assessment Authority would result in a declining taxable assessed value over time, hence a declining share of the overall tax burden for the City. This would not be a sustainable arrangement and this matter should be addressed sooner rather than later.

Since it is not possible to resolve this in time for the 2009 tax determination, the City may find it strategically sound to consider a tax refund if the new policy results in a decrease in taxes payable by the Major Class.

RECOMMENDATION #5:

The City develop a strategy for boundary extensions, a strategy that addresses a "fair revenue sharing" with the Province that considers the implications of having individuals just outside the City limits that use, but do not necessarily pay, for some City provided services.

Fort St. John not only faces competition from other cities and municipalities, but it also faces competition from the immediately adjacent rural areas. The tax rates in the rural area are lower than in the City and the level of services is also lower. But for some owners the lower taxes and lower services in the rural area may be appealing because they know they can consume many of the services supplied by the City without paying the higher City tax rates.

There is an additional concern that relates to the cost of servicing when boundaries extensions are not managed properly.

Other Property Classes

Throughout the analysis little attention has been devoted to the tax ratios for either the Recreational/non-profit or the Farm Class. In the case of Fort St. John these represent a very small percent of the taxable assessed values and taxes (under 1%). In each case the tax ratio is in excess of 2.0.

There is no clear and compelling justification for having a tax ratio double the residential ratio. Given these represent such a small item in the overall budget, Council might consider whether the principle of administrative efficiency may direct using a single mill rate for these two classes. I am not making a specific recommendation other than to invite Council to review the tax ratios for these two classes.

1.0 INTRODUCTION

1.1 Background and Mandate

The City of Fort St. John established the Property Tax Policy Review Commission to engage Fort St. John's business and residential communities, as well as other key stakeholders, in order to recommend to Fort St. John City Council a long-term policy that will define and achieve a "fair tax ratio" for commercial property taxpayers, addressing the perceived inequity in the share of the City of Fort St. John's property tax levy that is paid by the non-residential property classes, as compared to the share paid by the residential property class.

The Property Tax Distribution Commission has been established by Council in response to concerns expressed to Council by the business community about the impacts of the City's current property tax policy on the competitiveness of Fort St. John's economy. In 2008, the Fort St. John Chamber of Commerce told City Council that they feel annual property tax increases are exceeding local business's ability to pay and are affecting the long-term competitiveness of business in Fort St. John.

When the City appointed the Commissioner, he was directed to:

- Recommend to Council the appropriate measures to use in order to assess the impact of the City's property tax policies on taxpayers within each of the City's property classes, to determine the fairness of the City's property tax policies, and to understand the impact of Fort St. John's property taxes on commercial competitiveness. The Commissioner is asked to select measures that can be calculated using supportable, proven methodology, and to ensure that any comparisons made between Fort St. John and other communities are meaningful, taking into account the considerable differences among communities in property tax and assessment systems, methodologies, market values and property types, and
- Recommend to Council a definition of a "fair tax ratio," expressed as a set of target ratios of the mill rates for each class of property in the City, and
- Recommend a strategy that would allow Council to arrive at the recommended fair tax distribution target, with specific timelines identified, and
- Recommend to Council a long-term policy and mechanism that would allow Council to permanently maintain a fair tax ratio among the City's property classes.

The Commissioner is asked to undertake his work using the following principles and guidelines:

- **Equity** - The Commissioner should have an appreciation of the impacts of any changes to the tax distribution on all classes of taxpayers.
- **Sustainability** - The recommendations made to Council by the Commissioner should be consistent with the City's long-term objectives concerning economic, fiscal and social sustainability.
- **Independence and objectivity** -The Commissioner should serve independently, and to the best of its abilities make recommendations to Council that will result in the best possible outcome for Fort St. John as a whole, without favoring any one stakeholder group over another.
- **Simplicity** - Any recommended changes to the City's property tax policies should be simple, transparent, and readily understandable by the City's taxpayers and other stakeholders.
- **Consultation** - The Commissioner should appropriately engage the business community, residential taxpayers and other key stakeholders in the process undertaken to arrive at its recommendations.
- **Transparency** - The work done by the Commissioner should be transparent, with the Commission's public process properly recorded and summarized, and recommendations reported to Council should be available to the public.
- **Maintains Fixed-Share Approach** - The recommendations of the Commissioner should be developed within Council's current tax policy framework of a "fixed tax ratio" approach to determining the property tax distribution, in which the tax ratio among property classes is determined by Council rather than by changes to market values.

There are some aspects of the property taxation system that are not within the scope of the Commissioner:

- **City Budgeting:** The work of the Commissioner should be limited to a review of the distribution of property taxes levied by the City of Fort St. John, and should not include property taxes collected by the City of Fort St. John on behalf of other taxing authorities.
- **Market Value Assessments:** The assessment of the market value of property is the function of the BC Assessment Authority and the Commissioner's mandate does not include any review of the assessment system.

- **Property Taxes Levied By Other Agencies:** A substantial part of a property tax bill is made up of education, transit, and other levies that are not under the control of the City and are, therefore, not within the Commission's mandate.

1.2 Process Followed by the Commissioner

The following summarizes the main steps taken in the process:

1. The Commissioner reviewed the current City property tax system, taxation policies, and reports previously completed by City staff.
2. City staff established a website containing information about the Commission and its mandate. This website invited interested parties to submit briefs to the Commissioner and provided background information about property taxation in general and the Commissioner's work in particular.
3. The Commissioner met with City staff and some key stakeholder groups.
4. The Commissioner conducted two public hearings on February 3, 2009. These hearings were advertised in local newspapers, on radio and on the website. Interested parties were invited to make a presentation and/or provide a written submission to the Commission. The hearings were open to the public.
5. Following the public hearings the final report was prepared. It was intended to be presented in February 2009 but circumstances caused a delay this until March, 2009. The intention was to file the final report in time for Council to consider whether changes would be made for the 2009 tax year.

The City's instructions to the Commissioner included four important directives that have had an influence on the how he was to approach his work.

The first directive is independence. While I have listened to stakeholders and heard their concerns, I have made my own independent assessment of the situation and conducted my own analysis to determine the impacts of taxation policy and to test the assertions that have been advanced by the stakeholders. City Council will see the final report at the same time it is made public.

The second directive is to be simple. The City wants analysis and advice that will be readily understandable by taxpayers and stakeholders. To this end, I have included in an overview of the taxation system, with particular emphasis on the points at which Council makes policy decisions that affect the tax burden on different property classes.

The third directive is consultation. The City required that the Commissioner engage taxpayers and ensure that taxpayers had an opportunity to express their views about property taxation in their community. I have listened carefully to the concerns expressed in the hearings and in the correspondence received. I have included a brief summary of the key points Raised throughout this consultation process.

The fourth directive emphasizes the principles of equity and sustainability, but directs that other principles can be used to evaluate a taxation system be articulated.

The Council expressed a desire to have a report modeled after the *City of Vancouver Property Tax Policy review Commission Final Report (2007)*. Indeed much of the information in the terms of reference comes directly from the Vancouver study. To assist the City Council, I have followed the same format for reporting as was used in the Vancouver study to allow easy cross-reference for readers.

1.3 Outline of the Report

The report has seven sections, of which this is the first. Section 2.0 presents an overview of the current property taxation system and policies in the City of Fort St. John.

Section 3.0 summarizes the input received from stakeholders. Section 4.0 sets out the principles that used to evaluate property tax systems.

Section 5.0 presents my analysis of the differential tax borne by the residential and non-residential Classes, which is the main issue I was asked to address.

Section 6 provides my conclusions and recommendations.

Three appendices with background information are attached.

Appendix A Terms of Reference

Appendix B Resume of the Commissioner

Appendix C References

2.0 THE CURRENT PROPERTY TAX SYSTEM IN THE CITY OF FORT ST. JOHN

This section describes the current property tax system in Fort St. John including the policy decisions concerning the tax ratios, the mill rates and the implications for the distribution of the tax burden.

2.1 Overview of Property Tax Process

Local governments in British Columbia are allowed to levy property taxes to fund operating expenses and capital improvements. The BC Assessment Authority, the provincial authority responsible for determining the assessed values for each property in the province, and the City combine to follow six basic steps to determine the amount of tax levied on the owner¹ of a property in the City:

1. The BC Assessment Authority determines the taxable assessed value of each property and any exemptions from the assessed values. Separate assessed values are determined for land and for improvements.
2. The BC Assessment Authority assigns all properties to a “property class.” Currently there are nine property classes used in British Columbia, but only eight apply in Fort St. John as there are no “managed forest” lands.
3. The City Council in Fort St. John determines the annual budget and what share of the annual budget will be paid through real property taxes.
4. City Council determines the tax ratios to be applied to each class of properties.
5. City Council then calculates tax rates (actually the mill rates which are a tax rate per \$1,000 of taxable assessed value) for each class necessary to fund the annual budget².
6. Where necessary and permitted, City Council applies mitigation measures.

Each of the main steps in the determination of the City-levied property tax is examined in more detail below.

2.2 Determination of Taxable Assessed Values

The BC Assessment Authority is the provincial agency responsible for determining the assessed value of all real property in British Columbia. The Authority first determines the “gross assessed value” of land, improvements, and the total of land plus improvements. In some cases permitted exemptions are then deducted to arrive at a (net) taxable assessed value for land, improvements, and the combined total.

¹ Legally the property owner is responsible to pay the property taxes.

² Local governments in British Columbia are not allowed to operate a deficit or surplus budget.

Assessments are, with some exceptions, based on evidence of market value of properties. The Assessment Authority collects market evidence from recent sales and rental rates of “comparable” properties. The assessed values for the current year are based on estimated market values as of July 1st of the previous year.³

In determining market values, the Assessment Authority values the property as if no leases existed (the unencumbered fee simple.) As a consequence there is no separate valuation on leasehold interests. In arriving at the estimate of values, many factors are taken into consideration including, but not limited to, current use and zoning and potential uses. Consequently, a site may include small, older improvements that are occupied by a retailer, but the site may be zoned for high density commercial and/or residential use. This redevelopment potential may result in a property value that is much higher than the value supported by the current (retail) actual occupancy of the site.

Major Industrial Class properties are valued using separate methods for the land component and the improvement components. The land used for major industrial plants is valued at its market value. The plant structures (improvements) are valued using regulated manuals which establish values for each component of the plant. Normally, the values set out in those manuals are updated annually to reflect inflation and associated increases in the costs of carrying on major industrial businesses⁴.

Table 1 shows the distribution of properties by property class in Fort St. John in 2008. It shows that the majority of properties are either in Class 1 (Residential) or Class 6 (Business/Other).

Table 1 refers to “folios”. In most cases a folio is equivalent to a property. However, in some cases a single property is allocated between two classes, hence each allocation becomes a separate folio. Table 1 does not include folios that are exempt from taxation, such as schools and churches (TAV equal to 0.)

Assessed values change with changes in the market. In British Columbia, the assessments are determined annually so that market changes are captured in assessed values relatively quickly.

Having determined the “gross assessed values” and deducted the necessary exemptions, the Assessment Authority has the “taxable assessed values” (TAV.) Once property owners receive a notice indicating the assessed values for their land, improvements and total property, the owners have a prescribed period of time to appeal the assessments.

³ All property owners have the right to appeal the BC Assessment Authority’s valuations.

⁴ Special rules apply to the assessment of major industrial plants located on port authority lands and which are used to export goods and products. The land used for those plants is valued at amounts set by regulation.

Table 1: Distribution of Properties and Taxable Assessed Value by Property Class, Fort St. John, 2008

Class	Number of Folios TAV > \$0	% of Folios	Total Taxable Value (\$000)	% Total Taxable Value
1. Residential	5,771	82.1%	\$1,436,196	69.7%
2. Utilities	7	< 1%	\$2,330	< 1%
4. Major industry	2	< 1%	\$47,581	2.3%
5. Light industry	15	< 1%	\$8,189	< 1%
6. Business/other	1,103	16.9%	\$574,812	27.4%
7. Managed forest	0	0	\$0	0
8. Seasonal and Recreational	4	< 1%	\$1,343	<1%
9. Farm	2	< 1%	\$4	< 1%
Total	6,904	100%	\$2,070,456	100%

The provincial government determined that the taxable assessed values for properties used for real property tax purposes would be the lower of the 2008 taxable assessed values or the 2009 taxable assessed values for the taxation year 2009. This is an exception to the annual assessment values that have formed the property tax based in British Columbia since the late 1970s.

2.3 Determination of Property Class

The BC Assessment Authority is also responsible for determining the “class of property” for taxation purposes. This classification is governed by provincial legislation and regulations. The major determinant of property class is the actual current use of the property⁵. Different classes of properties may be (and most frequently are) taxed at different rates.

Many of the Classes are reasonably self explanatory but there are numerous subtle differences that need to be considered. The following descriptions of each Class are taken from the web site of British Columbia Assessment Authority.

Class 1, Residential — single-family residences, multi-family residences, duplexes, apartments, condominiums, nursing homes, seasonal dwellings, manufactured homes, recreational property, some vacant land, farm buildings (but not the land) and daycare facilities.

⁵ In some cases a property is divided into more than one folio and the separate folios would be assigned to different Classes. For example, the main floor may be classed as retail and the other floors as residential.

Class 2, Utilities — structures and land used by railways, pipelines, electrical generation or transmission utilities, or telecommunications transmitters. This does not include offices or sales outlets (which generally fall into the Business Class.)

Class 4, Major Industry — land and improvements (buildings) of major industrial properties, 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, 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 of food and non-alcoholic beverages, which fall into Class 6.

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

Class 7, Managed Forest Land — privately-owned, forest land property for which an acceptable forest management commitment has been made that is approved and complies with the *regulations*.

Class 8, Recreational Property, Non-profit Organization — includes two very different categories: • land used solely as an outdoor recreational facility for activities and property used for at least 150 days per year as a place of public worship or as a meeting hall by a non-profit, fraternal organization.

Class 9, Farm Land — Farm land must produce a prescribed amount of qualifying primary agricultural products for sale such as crops or livestock.

The definition for Class 6 (Business/Other) is very broad in that it includes all other uses not specified to another Class. In some sense it is a “catch-all” Class that includes a wide variety of property uses and a wide distribution of values.

Table 2 provides a brief insight into the composition of Class 6 according to types of actual use. The top six categories ranked by total taxable assessed value are reported.

Table 2 is concerned with the “actual use of the property” and should be considered suggestive rather than conclusive since some properties have more than one use. For example, many office buildings have retail space on the main floor and many retail properties have office or residential space above. The significant point to be taken from Table 2 is the diversity of use within Class 6. In contrast, in Class 1 (Residential) primary actual uses are much more homogeneous.

Table 2: Distribution of Properties in Class 6 by Primary Use of the Property

Category of Use	% of All Properties	% of Total Assessed Value
Automobile Paint Shop, Garages, etc	10.3%	19.9%
Storage & Warehousing (Closed)	11.5%	19.3%
Store(s) and Service Commercial	6.7%	12.7%
Hotel	0.9%	9.6%
Vacant IC& I	44.3%	6.8%
Office Building (Primary use)	5.3%	5.9%
Total	79.0%	74.2%

One further point should be kept in mind when comparing different Classes. There are significant differences in the relative value of properties in the Classes. For example, not only does Class 6 cover a very broad range of uses, it also covers a much broader range of values than other Classes. For the year 2008, the top 10% of the Residential Class properties represented 5.3 times the value of the bottom 10% of properties (see Table 3). In contrast, the top 10% of the properties in Business Class properties accounted for 80 times the value in the bottom 10% of the class.

The bottom 50% of the properties in the Residential Class is worth more than the bottom 50% of the Business Class properties. If taxable assessed value is taken as an indication of the level of services consumed, the bottom half the Residential Class properties would be consuming more than the bottom half of the Business Class properties.

Table 3: Percentile Breaks for Taxable Assessed Values for Residential and Business Classes

Percentile	Residential	Business	Ratio
10	\$59,400	\$15,000	0.3
20	\$140,500	\$24,480	0.2
30	\$190,620	\$50,400	0.3
40	\$222,500	\$84,980	0.4
50	\$242,900	\$160,700	0.7
60	\$263,100	\$289,400	1.1
70	\$286,300	\$459,240	1.6
80	\$317,160	\$705,600	2.2
90	\$368,560	\$1,203,800	3.3

The top 10% of the properties in the Residential Class, as measured by net taxable value, had taxable assessed values of \$368,560 or higher, while the bottom 10% of the properties had taxable assessed values of \$59,400 or less. The top 10% of the Business Class properties had taxable assessed values of \$1,203,800 or higher, while the bottom 10% had taxable assessed values of \$15,000 or less.

One final note concerning the Business Class is the incidence of vacant properties. Over 52% of all business Class properties were vacant in 2008. As noted in Table 4, the improvement-to-total value ratio is also higher for the Residential Class for all percentile rankings up to the 90th [percentile].

Table 4: Percentile Distribution of the Improvement to Total Value for Residential and Business Classes

Percentile	Residential	Business
10	0.5	0.0
20	0.6	0.0
30	0.7	0.0
40	0.7	0.0
50	0.7	0.0
60	0.7	0.4
70	0.7	0.6
80	0.8	0.7
90	0.8	0.8

2.4 Determination of the Annual Budget and Share from the Property Tax Levy

Council decides on an annual City budget. A portion of the budget is financed through a variety of sources such as user fees, earnings on investments, and other sources. The balance is raised through real property taxes. The City can influence the size of the total tax burden by changing expenditures or identifying other sources of revenue.⁶

2.5 Calculation of Tax Ratios

After setting the budget, the City Council next determines how to distribute the overall tax burden among the different classes of property. There are basically two approaches that might be taken. The first approach, and the one used by Fort St. John, involves determining tax ratios for each Class of property. This is a “fixed tax rate ratio”, and the

⁶ The mandate of the Commission excludes addressing the City’s total budget, its budgeting process, or its determination of how much property tax to collect in total.

ratio is most often quoted as the ratio of the mill rate for any Class divided by the mill rate for the Residential Class. For example, Council may decide the mill rate for Residential Class is 5.0 and the tax ratio for the Business/Other Class is 30, hence the mill rate for Business is 15.0 (5*3).

Once the Council sets the tax ratios, the next step is to determine the mill rate for all Classes. This flows from the tax ratios adopted by Council and the budget since the mill rates are collectively set to generate the desired budget. Table 5 summarizes the 2008 mill rates and tax ratios for the City of Fort St. John. Under this option the mill rates for each Class maintain the same relationship until Council decides to change the relationship. While the relative mill rates may remain constant, relative year-to-year changes in the taxable assessed values for each Class will cause a change in the share of total real property taxes paid by each Class⁷.

Table 5: Mill Rates and Tax Ratios, Fort St. John, 2008

Class	Mill Rates	Tax Ratios
Residential	4.722	1.00
Utilities	40.000	8.47
Major Industrial	25.000	5.29
Light Industrial	27.500	5.82
Business	14.015	2.97
Non Profit	10.380	2.20
Farm	13.558	2.87

The alternative approach is to first determine what share of taxes are to be paid by each class, then determine the necessary mill rate to raise this tax revenue from each Class. Using this approach, the mill rate for each class and the tax ratios are the residual calculations. Under this alternative approach, the allocation of the tax levy among property classes remains constant over time, subject to physical changes to properties in the classes or a Council decision to change the allocation. This approach means that changes in the taxable assessed values of properties do not necessarily affect the tax share for each property class.

Other levels of government also levy property taxes and the City of Fort St. John collects these taxes on behalf of the taxing authorities, but has no say in setting the rates or spending the funds collected. For example, the provincial government levies an education (School) tax on all properties to pay part of the costs of the public school system. Regional and hospital districts levy taxes. While these other taxes are

⁷ It should be noted that the mill rate for Utilities Class is set by the British Columbia Assessment Board.

significant, the Commission is limited to a review of the real property taxes under the jurisdiction of Fort St. John.

2.6 Determination of the Distribution of the Tax Distribution

Once the mill rates are determined for each Class, the taxes payable are determined for each property in each class by multiplying the appropriate class mill rate to the taxable assessed values for each property.

Property tax for each folio = (Mill rate * (Taxable assessed value/1000))

For example, if the mill rate for the specific property is 3.75 and the taxable assessed value is \$250,000, the taxes are:

Property tax = 3.75 * (\$250,000/1000) = \$937.50

It is necessary to divide by 1,000 since the mill rate is a rate per \$1,000 of taxable assessed value. Once the taxes are calculated for each folio, it is possible to add all taxes payable within each class of property and determine the tax burden for each Class.

Table 6 provides an overview of the distribution of assessed values and taxes by class for 2008. As is evident, the residential class accounts for over two-thirds of the total assessed value for Fort St. John but pays only 41.8% of the total taxes. This distribution of the taxes to each class reflects the tax ratio policy adopted by Council.

Table 6: Distribution of Taxable Assessed Values and Taxes by Class, Fort St. John, 2008

Class	Taxable Assessed Value	Share of Taxes
Residential	69.7%	41.8%
Utilities	0.1%	0.6%
Major Industrial	2.3%	7.3%
Light Industrial	0.4%	1.4%
Business	27.4%	48.8%
Non Profit	0.1%	0.1%
Farm	0.0%	0.0%
Totals (\$000)	\$2,057,077	\$16,198

2.7 Provincial Measures to Mitigation the Tax Burden

There are two main provincial mechanisms that can alter the tax burden on individual property owners and they both apply to the Residential Class. These include the Home Owner Grant and the Property Tax Deferral Program. The Home Owner Grant provides

grants to residential property owners who occupy their principal residence and whose home value falls within the qualifying range. These grants are applied first to offset school taxes; any remaining grant is applied to other taxes.

The Property Tax Deferral Program applies to residential properties owned and occupied by individuals who are 55 years of age or older and choose to participate in this program. Qualified owners may defer all or a portion of taxes owing after deduction of the Home Owner Grant. The deferred taxes accumulate at a prescribed low interest rate with no repayment required until the ownership of the home is transferred.

The Government also introduced a new temporary property tax deferral program on November 1st, 2008. The program will allow people with at least 15 per cent equity in their home, who attest that they are experiencing serious financial difficulties due to current economic conditions, to defer their property tax payment for each of the next two years. Homeowners will not have to pay the deferred taxes until they sell their home, but can pay the Province back earlier if they choose. The Province will charge interest at the prime rate on the balance outstanding on the tax deferral loan, while ensuring local governments receive property tax revenues. This will help homeowners who would otherwise have to try to qualify for a home equity loan during the current credit crunch.

2.8 Parcel Tax

The City of Fort St. John also uses a parcel tax in the residential class. In 2008 this was a flat charge of \$50.00 per folio for almost all properties in the residential class. A few folios are exempt this parcel tax, in particular mobile homes. In 2008 this parcel tax accounted for \$273,250.

The provincial legislation permitting the use of this parcel (or flat) tax was introduced in 1990 and repealed in 1992 but communities using the parcel tax at the time were allowed to continue to use it. Only six municipalities in British Columbia currently use this parcel tax (Dawson Creek, Kimberley, Kitimat, Powell River, Trail and Fort St. John.)

One of the concerns with the flat tax is that it is regressive: the \$50 per folio represents a much larger percentage tax on less expensive properties than on more expensive properties as is illustrated in Table 7.

The information in Table 7 relates to only single detached dwelling for the year 2008; however the parcel tax applies to almost all residential class properties. The single detached were selected to provide a more focused example of the impact of the parcel tax. In the absence of the parcel tax all properties would pay the same mill rate of 4.7220 in 2008. However as is demonstrated in Table 7, as the value of the property increases, the total tax rate (combined variable tax at a mill rate of 4.722 plus the flat parcel tax) decreases. This is generally the opposite of what one seeks in a good tax system.

Table 7: Impact of the Parcel Tax on Single Detached Properties, 2008

Percentile	Taxable Assessed Value	Variable Taxes	Parcel Tax	Total Tax	Effective Tax Rate
10	\$80,500	\$380.12	\$50.00	\$430.12	5.3431
20	\$197,620	\$933.16	\$50.00	\$983.16	4.9750
30	\$225,400	\$1,064.34	\$50.00	\$1,114.34	4.9438
40	\$243,000	\$1,147.45	\$50.00	\$1,197.45	4.9278
50	\$259,200	\$1,223.94	\$50.00	\$1,273.94	4.9149
60	\$278,600	\$1,315.55	\$50.00	\$1,365.55	4.9015
70	\$298,160	\$1,407.91	\$50.00	\$1,457.91	4.8897
80	\$325,480	\$1,536.92	\$50.00	\$1,586.92	4.8756
90	\$372,020	\$1,756.68	\$50.00	\$1,806.68	4.8564

3.0 PUBLIC INPUT TO THE COMMISSIONER

3.1 Introduction

City Council wanted to ensure the Commissioner would engage the community in the process of reviewing property taxation. To this end the Commissioner provided two main opportunities for input including:

- An extensive media advertising program and the creation of a website inviting the public to submit comments in writing.
- Two public hearings, one afternoon and one evening, held on February 3rd, 2009. The public was invited to appear and make verbal presentations, with or without accompanying written submissions.

3.2 The Participants in the Consultation Process

Attendance at the two public meetings was modest, but those that attended spoke with passion and commitment. Only three individuals and two organizations elected to make written submissions directly to the Commissioner, including the Fort St. John and Region Chamber of Commerce.

3.3 Summary of Presentations

The following is a summary of the comments received by the Commissioner, grouped under several themes that reoccurred through the public process. There is no attempt to edit, evaluate or corroborate the statements made by the presenters.

Keep It Simple

We feel that stakeholders may not understand the process or don't believe their voice will be heard or counted. We also believe there to be confusion as to taxes in general and the rules and regulations that govern the application. (FSTCC) Keep things simple – the average tax payer might not understand the information put out to the public.

Fair Taxes

“Businesses currently feel that the current taxation ratio is unfair and they do not receive adequate value for their tax dollars - in town businesses feel they are paying a disproportionate share of tax compared to their regional counterparts.”

Fairness means maintaining a balance, understanding that this does not mean an equal 50/50 split but a justifiable and quantifiable ratio. The principles on which the tax ratios for different tax classes (especially between the business classes themselves) need to be addressed.

The OSB Plant is the only major industry folio in Fort St. John and in 2008 represented 2% of the total asset value in the City while paying approximately 7% of the property tax levies. The OSB therefore believes the tax ratios are skewed.

The Commissioner was provided with an overview of the OSB Plant and operations. It was noted that this world class plant had been in operation for three years, and competed with the US and Alberta in production, therefore it was important to remain cost effective, and the tax burden forms part of this challenge.

It was suggested that there is a need to identify the primary users of key services such as the RCMP, Fire and City Infrastructure and maintenance. This suggests some application of the benefits received principle of taxation.

“Businesses generate the money and should be in a position to pay more. Residents don’t generate money from living on their properties and should therefore pay less.”

Concerns were raised about a fair share of revenues from regional districts - Is the current agreement between the City and the region fair given the level of services and taxes.

One speaker considered the tax burden on her business was unfair. The business is owned by a corporate entity and as such she is unable to affect decisions being unable to vote.

Affordable

Keep an affordable tax ratio for business so as to attract business development and to have current business remain in Fort St. John. At the same time keep an affordable tax ratio for residents so to encourage people to live and develop in town.

Best Practices

Various options should be reviewed as to the best practice to adopt - user pay, boundary realignment and/or taxation agreement with the PRRD were some suggested options.

Comparing Fort St John to other communities is fine, but only if it is used to learn from other communities. The best thing to use to benchmark Fort St John is Fort St John itself. Where were we in the past? Where are we now? Where are we going in the future? These are far more important questions for the Fort St John taxpayer than the mill rate for a gas station in Prince Rupert.

“We aren’t Vancouver. We aren’t Granisle. We aren’t Kitimat. We aren’t Prince George. We aren’t even Dawson Creek or Grande Prairie. Assessed values, industrial tax base, population, climate, services provided for taxes paid, the types of businesses that keep people employed, etc. all differ amongst these communities.”

Another area of concern is the theory that higher assessed valued correspond with a higher ability to pay. That's clearly a misconception. The OSB plant is your biggest taxpayer. The assessed value of their property will be significant. That doesn't mean that they have buckets of cash to turn over to the city. A tax policy that saw increasing levels of taxation on higher assessments would only deter high end construction and renovation. Why improve your property if it means your tax rate goes up?

Selecting comparable communities should be ones that experience the impact of the same weather, similar size and footprint of Fort St. John was important and noted that Quesnel has double the footprint and only half the population. The types of businesses were also to be factored – especially the industrial class component within the city borders as this can skew the tax comparisons if the percent of the class within the City is different than Fort St. John.

Sustainable

Several presenters mentioned the need to have a tax system that is sustainable for both the City and the taxpayers.

“When the OSB Plant opened the US housing market experienced over 2 million housing starts which made their product in great demand. However housing starts for 2008 were a little over 600,000 and at the rate the industry has been going with mill closures, the OSB Plant is determined to be one of the “last mills standing”. It is not anticipated that the US market will return to the previous unrealistic highs, however 1.6 – 1.7 million housing starts are expected when the US economy recovers.”

Boundaries

There is a need to investigate the current taxation boundaries within and around the City of Fort St. John. Concerns were raised about “an unfair advantage to businesses just outside the City boundary - yet still able to access City offered services without cost or expense.”

Businesses located on the fringe of the City attract less tax which is collected by the Regional District and paid to Victoria. The Regional District contributes only a small portion of policing costs. Infrastructure and services (water and sewer especially) are highly subsidized by the city and this affects the tax rates. A balance is required between residential and business.

One speaker indicated that she owned business property in Fort St. John but was non-resident. She noted her concern that business uses the same services as residential, but in a different manner – residential has access to services 24 x 7 whereas this is not the case being outside the City.

Avoid Sudden Shifts in Taxes

If there are to be increases implement them over time to allow business to spread out the increase.

“If businesses are under or over the current percentage – we are concerned with implementing a huge increase after the increases from last year.”

Other Comments

“I attended the tax review meetings last night. I have concerns regarding where I see this process going. ... Dr. Hamilton will be focusing on the tax ratios, which is fine as far as it goes. It just doesn't go far enough. Fundamental to this is the correct level of taxation”.

Several speakers addressed concerns with the level of spending by the City and with the rate of increase in the level of spending. While this is outside the terms of reference for the Commissioner, these comments should be kept in mind. In many cases the speakers were less concerned with the tax ratios and tax share across classes, but generally concerned with the overall level of taxes.

“For instance, let's say the city decides to spend another \$100 million. The tax ratios can be completely fair, but that doesn't mean its right. The bottom line is that tax ratios can be as fair as possible, but that is not adequate if the level of taxation is off the mark.”

To sum up, obviously fair tax rates are important, but only one piece of the puzzle. In the absence of the correct level of taxation, the utility of fair tax rates is diminished.

3.4 Conclusion

The Commissioner appreciates all of the submissions that were made. In my deliberations and analysis I have tried, as much as possible, to address the comments that were made. Some of the general comments however are beyond the mandate of the Commissioner and will not be addressed.

4.0 EVALUATION PRINCIPLES

To evaluate the City's current policies and alternative approaches, the Commissioner was asked to rely on six broad principles of taxation that are discussed in this section.

4.1 The Principles of a Reasonable Tax System

The following principles are those typically used to evaluate taxation policy⁸:

- Fairness, based on benefits received
- Fairness, based on ability to pay
- Neutrality
- Accountability
- Stability and predictability
- Simplicity and ease of administration

Each of these principles is defined and discussed below.

These principles set out in broad terms the objectives for the design of a desirable property tax system and provide guidance in designing proposals for policy changes. Taken one by one, these principles are relatively easy to apply. However, it is not possible to design a tax system that simultaneously meets all of these objectives. For example, there is a difference between the benefits-received and the ability-to-pay approach to fairness. There is also, in practice, a trade-off between fairness and simplicity, and between fairness and stability. Therefore, in evaluating a tax system one must choose among the various attributes of the principles giving appropriate weight to each, often competing, principle.

4.2 Fairness Based on Benefits Received

Fairness based on benefits received means that people should pay taxes according to the benefits they receive from government services. Where the beneficiaries of services can be identified and where the service is not primarily redistributive in nature, there is considerable merit in the notion that beneficiaries should pay for services. Under this principle, the distribution of taxes should correspond to the distribution of benefits. In some cases, this correspondence can be accomplished through user fees, for example, for the provision of water, solid waste collection, etc. The Commissioner generally

⁸ These are the same principles considered by the *City of Vancouver Property Tax Policy Review Commission*, (2007) and by most studies of the property tax. The work of the Vancouver Commission is acknowledged as the basis for comments in this section of the Report. Not surprisingly the Commissioner agrees with the comments in the Vancouver Commission Report, as the Commissioner chaired the Vancouver Commission and shared ideas with two distinguished property tax experts.

supports the benefits-received approach for these types of services because it links expenditures to taxes/fees so that the cost of services is clearly seen by the beneficiaries.

It is also recognized, however, that the benefits-received principle cannot be applied in all situations. Where individual beneficiaries cannot be clearly identified (e.g. policing) or where the purpose of a government program or service is to promote access (e.g. parks), it is necessary to look to a different criterion of fairness: one based on ability to pay. It is the inability to measure indirect benefits that causes the most concerns with the use of the benefits received principle.

4.3 Fairness Based on Ability to Pay

According to the ability-to-pay principle, taxes are fair if their burden is distributed in accordance with some measure of taxpayers' ability to pay. Frequently a distinction is made between "horizontal equity" and "vertical equity". Horizontal equity implies equal treatment of people in equal circumstances: people in the same income or wealth bracket should be taxed at the same rate. Vertical equity considers how the burden of taxation is shared across income classes. It represents a method of collecting taxes in which the taxes paid increase with the amount of income or wealth. The principle behind vertical equity is the notion that those who are more able to pay taxes should contribute more than those who are not. This may imply either proportionate taxes or progressive taxes.

Real property taxes within a class reflect the principle of ability to pay, albeit rather loosely. Within a class the taxes are a direct function of the fixed mill rate and the varying taxable assessed values. To the extent the taxable assessed values reflect the owner's wealth; this would correspond to the concept of ability to pay. However consider two investors each owning a property value at \$200,000. Both pay the same property taxes but one owner has 100% equity while the second owner has only 40% equity. If the equity in the house is the appropriate measure of wealth, then using the taxable assessed value would not appear to correspond closely to ability to pay⁹.

In determining whether the property tax meets either vertical or horizontal equity, one needs to consider who ultimately pays the tax. For residential owner-occupied taxpayers, the situation is relatively clear because the residential properties are occupied by their owners and are limited to personal use. For business properties (including residential rental properties), the issue is more complicated because the property tax may be paid by the owner or passed on to the occupier (tenant.) A business occupier may (emphasis may) also be in a position to pass on property taxes to customers in the form of higher prices, or to staff in the form of lower wages.

⁹ This line of reasoning should not be pushed too far as one could reasonably argue that the owner with only 40% equity must have other resources to support the debt. Hence the taxable assessed value would proxy this wealth.

Even where there is a contractual arrangement (e.g. as in a triple net lease) that appears to indicate who pays the tax, market negotiations may actually lead to a different result. Where tenants have stronger bargaining power (e.g. where there is a significant amount of empty space on the market), they can effectively force the taxes back to the property owner by demanding a lower rent. Similarly, where market conditions are tight a reduction in property taxes may simply be offset by an increase in rents.

The question is important because it is not known who ultimately pays the property tax it is hard to evaluate the fairness of a tax system. Indeed, considerable public (and academic) debate about the fairness of property taxation stems from differences in perspective about this very issue. Unfortunately, the literature on property taxation does not provide clear answers to the question “who pays the business tax”. We have to accept that the burden may likely be shared among the various parties: the property owner, the business operator, consumers, and workers. Moreover, the pattern of sharing depends on market conditions and the period of time over which negotiations may occur.

Generally, business and commercial property owners are thought to have a greater ability to pay property taxes than owners of residential properties. Three reasons are cited for this conclusion: they use the property to generate income; they can, in general, pass on costs to customers; and, they can deduct expenses such as the property tax from taxable income. However the perceived tax deductibility for income tax purposes is offset in part at least by the fact that there is no income tax on capital gains for principle residences in Canada. Generally these reasons are felt to provide some justification for taxing non-residential property at a higher rate than residential property. They do not, however, provide any guidance on what that appropriate tax differential ought to be.

4.4 Neutrality

Taxes are a cost to taxpayers and they respond to the taxes in the choices they make. Property taxes can influence location and investment decisions, such as where to live or work, whether to invest in home improvements, where to locate a business, or other decisions. The impact of a tax on economic behaviour is a critical factor in evaluating a tax. According to the neutrality principle, one tax is preferred to another if they both raise the same revenue but the negative behavioral side effects are lower.

It is important to note that the behavioral response to any tax is very complicated and does not always accord with the expectations of policymakers and the public. As noted earlier, for example, a tax on a commercial property owner may be passed on to tenants.

4.5 Accountability

Accountability means that taxes should be designed in ways that are clear and transparent so that policymakers can be made accountable to taxpayers for the cost of

government services. One obvious violation of this principle is the fact that unlike residents, businesses do not vote in civic elections. Because of this, they do not have a direct mechanism (voting) for influencing public spending, policy, and taxation policy decisions. That is not to say that they cannot influence these decisions in other ways such as lobbying, making political donations and supporting local candidates.

4.6 Stability and Predictability

Stability and predictability applies both to government and taxpayers. For government, it means that the revenues they expect to receive from the tax should be stable and predictable over time so that they can properly plan the ongoing costs of government. For taxpayers, it means that the tax should not result in changes over time that cannot reasonably be anticipated. This point was clearly stated at the public hearings.

4.7 Simplicity and Ease of Administration

This principle suggests that the tax system should be simple enough for taxpayers to understand how their taxes were calculated and what appeals are available. In terms of the administration, the time and resources devoted to administering the tax should be cost effective. The two parts of this principle are related – the simpler the tax system, the easier it will be to administer. Once again the call for simplicity was heard several times at the public hearings.

4.8 Conclusion

It is difficult not to support all of these principles for a reasonable tax system. However, as has been acknowledged in most studies of the property tax, it will be difficult to meet all of these principles in any one tax system. Although none of the principles are rejected, in developing my conclusions and recommendations, some principles are emphasized more than others. The choices made are discussed in subsequent sections of the Report.

5.0 ANALYSIS OF THE TAX RATIOS AND THE IMPACT ON THE TAX BURDEN

5.1 Introduction

I was asked whether the evidence supports the view that the property tax burden on non-residential properties, especially the business class properties, in the City of Fort St. John is too high. To address this issue, I focused on the following questions:

1. How have the tax ratios changed in Fort St. John in recent years and what have been the consequences of these changes?
2. How do tax ratios for each class of property in Fort St. John compare with those in other “comparable” communities in British Columbia? This includes other communities where Fort St. John might compete with for business and investment, and in particular with the three “Comparable Groups” that Fort St. John traditionally uses as comparables?
3. Is there any evidence that the pace of investment and development in any [particular class has been negatively affected by mill rate differentials?
4. Are business property taxes high relative to the services that business receives in the City?
5. Is there any evidence that businesses are leaving Fort St. John because of property taxation?

5.2 Trends in Property Taxation in Fort St. John

In this section the recent changes in taxable assessed values, mill rates and tax burden for Fort St. John are examined. The time period 2000-2008 is selected as it is sufficiently long to detect important trends while being sufficiently recent as to avoid major structural changes, both for Fort St. John and for the comparable communities. It should be noted that prior to 2004 Fort St. John had no major industrial class of properties and the opening of the new major facilities had a significant impact on the distribution of the tax burden.

Taxable Assessed Values

Table 8 summarizes the taxable assessed values by class for the period 2000-2008 for the City. Three points should be noted in Table 8. First, the total assessed value for Fort St. John has tripled since 2000, increasing from \$694,132,000 to \$2,057,077,000. Second, the residential share of taxable assessed values has declined since 2000, and the largest decline occurred since 2004 with the significant addition of the major class.

Third, the remaining classes of property have maintained a reasonably stable share of taxable assessed values.

Table 8: Share of Taxable Assessed Values by Class, Fort St. John, 2000-2008

Class	2000	2002	2004	2006	2008
Residential	75.7%	75.7%	74.6%	71.8%	69.7%
Utilities	0.1%	0.1%	0.1%	0.1%	0.1%
Major Industrial	0.0%	0.0%	0.0%	3.5%	2.3%
Light Industrial	0.5%	0.5%	0.4%	0.5%	0.4%
Business	23.5%	23.5%	24.8%	23.9%	27.4%
Recreational/Non Profit	0.1%	0.1%	0.1%	0.1%	0.1%
Farm	0.0%	0.0%	0.0%	0.0%	0.0%
TAV (\$000)	\$694,132	\$756,541	\$889,337	\$1,272,913	\$2,057,077

Table 9 summarizes the periodic rate of increase in the assessed value for each class. The rates of increase shown in Table 9 are for two years periods.

Table 9: Periodic Rates of Increase in Taxable Assessed Values, by Class, 2000-2008

Class	2000	2002	2004	2006	2008
Residential		9.1%	15.7%	37.9%	56.8%
Utilities		21.9%	10.3%	47.7%	42.8%
Major Industrial					6.4%
Light Industrial		0.4%	4.8%	58.2%	29.7%
Business		8.9%	23.7%	38.2%	85.3%
Recreational/ Non Profit		-11.3%	20.6%	127.7%	-13.6%
Farm		35.0%	-51.9%	-70.0%	-71.1%
Total TAV		9.0%	17.6%	43.1%	61.6%

The rates of increase fall within a reasonably tight range across the years. The notable exception is the dramatic increase in the assessed value for the business class from 2006 to 2008. The rates of change for the recreational/non-profit class and the farm class should be read with caution as the number and value of properties is very small in each class.

Mill Rates by Class

Table 10 summarizes the changing mill rates for each class of property in Fort St. John. Several key points should be noted. First the mill rates for residential, light industry, business, and recreational/non-profit have declined over the period, reflecting increasing

taxable assessed values. Second, the mill rate for utilities has been constant with the exception of 2006. Third, while small in value, the mill rate for the farm class has increased quite significantly.

Table 10: Mill Rates by Class, Fort St. John, 2000-2008

Class	2000	2002	2004	2006	2008
Residential	5.740	6.160	6.468	5.702	4.722
Utilities	47.632	40.000	40.000	27.500	40.000
Major Industrial	0	0	0	27.500	25.000
Light Industrial	35.260	30.936	30.936	27.500	27.500
Business	25.526	24.903	21.153	17.736	14.015
Recreation/Non-Profit	13.918	8.440	8.440	8.440	10.380
Farm	8.660	8.660	8.411	8.411	13.558

Tax Ratios

Table 11 shows the tax ratios for the period 2000-2008. Amongst the significant classes, the tax ratio for utilities has increased since 2002, back to the 2000 level. The tax ratio for the major industrial class has increased since this facility was initially built and operational in 2004. The tax ratio for light industrial class has increased while the tax ratio for business class has declined. Overall, if one adjusts for the new major class, the tax ratios have not changed dramatically over the eight years. These stable tax ratios combined with the reasonably stable taxable assessed value changes have resulted in a reasonably predictable pattern of the tax burden across classes and across time.

Table 11: Tax Ratios for Fort St. John, 2000-2008

Class	2000	2002	2004	2006	2008
Utilities ¹⁰	8.30	6.49	6.18	4.82	8.47
Major Industrial				4.82	5.29
Light Industrial	6.14	5.02	4.78	4.82	5.82
Business	4.45	4.04	3.27	3.11	2.97
Recreational/Non Profit	2.43	1.37	1.30	1.48	2.20
Farm	1.51	1.41	1.30	1.48	2.87
Residential Mill Rate	5.7395	6.1602	6.4682	5.7017	4.7220

¹⁰ The change in the tax ratio for the utilities class reflect a combination of the Residential mill rate set by Council and the provincially determined mill rate for the utility class. Council does not set the Utility tax ratio directly as they do for other classes.

Tax Burden: Share of Taxes by Class of Property

Table 12 shows the impact of the changing taxable assessed values and the policy determined tax ratios. Table 12 summarizes the tax burden by class- the percent of total property taxes paid by each class. The residential class accounts for slightly more of the tax burden in 2008 than in 2000 while the business class accounts for almost 8% less than in 2000.

Table 12: Tax Burden by Class, Fort St, John, 2000-2008

Class	2000	2002	2004	2006	2008
Residential	40.9%	43.4%	47.0%	43.2%	41.8%
Utilities	0.5%	0.5%	0.5%	0.4%	0.6%
Major Industrial	0.0%	0.0%	0.0%	10.2%	7.3%
Light Industrial	1.8%	1.5%	1.4%	1.4%	1.4%
Business	56.6%	54.6%	51.1%	44.7%	48.8%
Recreational/Non Profit	0.1%	0.1%	0.1%	0.1%	0.1%
Farm	0.0%	0.0%	0.0%	0.0%	0.0%
Total Taxes (\$000)	\$7,370	\$8,127	\$9,124	\$12,074	\$16,198

The decline in the share of the tax burden paid by the business class reflects a modest increase in the share of taxable assessed value coupled with a significant decrease in the tax ratio for the business class. The changes in the share of the tax burden paid by the major industrial class between 2006 and 2008 reflects a combination of decreased share of taxable assessed value and an increased tax ratio.

One final point to note is the periodic changes in the tax burden. Table 13 shows the percent change for each two year period since 2000 by class of property.

Table 13: Percent Change in the Tax Burden by Class Since 2000

Class	2000	2002	2004	2006	2008
Residential		17.1%	21.5%	21.5%	29.8%
Utilities		2.4%	10.3%	1.5%	107.7%
Major Industrial					-3.3%
Light Industrial		-11.9%	4.8%	40.6%	29.7%
Business		6.3%	5.1%	15.9%	46.5%
Recreational/Non Profit		-46.2%	20.6%	127.7%	6.2%
Farm		35.0%	-53.3%	-70.0%	-53.4%
Total Taxes		10.3%	12.3%	32.3%	34.2%

The significant increase in the share of taxes paid by the business class from 2006 to 2008 reflects the very large increase in the taxable assessed values over the same period, tempered by a decrease in the tax ratio. Similarly the significant increase in the share of taxes paid by the utilities class between 2006 and 2008 reflects a large increase in the tax ratio coupled with a slightly below average increase in taxable assessed values.

To help focus attention on the business class, Table 14 shows the trend over the last eight years in the distribution of the tax burden compared to the composition of the taxable assessment base.

Table 14: Share of Taxable Assessed Values and Taxes, Residential and Business, 2000-2008

Year	Residential		Business		Other	
	TAV	Taxes	TAV	Taxes	TAV	Taxes
2000	75.7%	40.9%	23.5%	56.6%	0.8%	2.5%
2002	75.7%	43.4%	23.5%	54.6%	0.7%	2.0%
2004	74.6%	47.0%	24.8%	51.1%	0.7%	1.9%
2006	71.8%	43.2%	23.9%	44.7%	4.3%	12.1%
2008	69.7%	41.8%	27.4%	48.8%	2.9%	9.4%

Because the residential class and business class account for over 97% of the taxable assessed value (and over 90% of the tax revenue) in 2008, Table 14 only compares these two classes. Between 2000 and 2008 the residential share of taxable assessed value declined steadily, but between 2000 and 2006 the residential share of taxes increased, but then decreased in 2008 with the addition of the new major industrial class. The business class share of assessed values has remained rather constant since 2000 but the share of taxes has declined steadily, reflecting a policy towards a lower tax ratio for the Business Class.

The most significant changes within Fort St. John include:

- The overall decreases in the mill rates except for farm and utilities classes.
- The addition of the major industrial class and the resulting redistribution of the tax burden.
- The reduction in the taxes paid by the business class, a policy driven reduction that is significantly larger than the change in taxable assessed values.
- The upward drift in the tax ratios for both the recreational/non-profit and farm classes.

- The upward drift in the tax ratio for the light industrial class.
- The upward movement in the tax ratio for the utilities class as a direct result of the changing residential mill rate and significant increase in the mill rate for the utility class,

5.3 Fort St. John Compared with Other Communities in British Columbia

The business community has expressed concern that a high rate of non-residential property taxation in Fort St. John is making the City less competitive in attracting employers and investors.

The original plan was to compare non-residential properties in Fort St. John with communities in other provinces as well as within British Columbia. To some degree, Fort St. John competes with other urban centres across Canada for employers. Head offices, or major industrial facilities for example, might weigh the advantages and disadvantages of locating in Fort St. John compared to Calgary or Edmonton. The property tax would be only one factor in any location decisions. These location decisions are based on a number of factors, not just property taxes, including availability of skilled labour, access to transportation, total cost of doing business, relationships with other firms, target markets, quality of life, other provincial taxes and other factors.

In my view, the inter-provincial competition for the type of activities found in smaller centres such as Fort St. John is not likely to involve retail, service, or locally-oriented industries and businesses that serve a community, sub-region, or regional trade area. Inter-provincial competition is only likely an important issue for businesses that actually have viable location options such as a major distribution centre. But even with a major distribution centre, access and transportation costs would likely greatly outweigh property tax considerations.

Comparative studies of property taxation across jurisdictions typically look at simple indicators, such as the business property tax rate or the ratio between non-residential and residential tax rates. In my, these indicators can be misleading. Cities across Canada vary in some fundamental respects when it comes to comparing property tax:

- The quality of assessment varies significantly across the provinces. Taxable assessed values can differ greatly both in terms of accuracy and timeliness. Hence a high tax rate applied to an assessed value in another province may convey little useful information for comparison purposes.
- Provincial legislation governing local government finances varies across the provinces. In some cases local government is allowed to rely more heavily on user fees and utility taxes than in British Columbia. Some provinces allow local government to charge occupation or business taxes in addition to property taxes.
- The expenditure responsibilities of municipalities vary from province to province.

- The provincial tax sharing provisions vary from province to province.
- Finally the use and reliance on other forms of taxation vary across the provinces, all of which represent a cost of occupation.

For these reasons, no comparisons are made to property related taxes in other provinces.

At the same time, communities such as Fort St. John do face significant competition from other local governments within the province and these comparisons are more meaningful. All communities in British Columbia operate within the same general framework for local government finance and are part of a common system of taxation and revenue sharing. Additionally communities such as Fort St. John must consider the competition from the immediately surrounding rural areas that offer fewer services but much lower property taxes. Many, if not the vast majority of non-residential activities in Fort St. John are much more likely to relocate in another part of British Columbia rather than move to another province.

Within the province, there is a degree of competition among municipalities to attract commercial and industrial employers and investment. Many businesses are pre-disposed to locate in a particular municipality for such reasons as proximity to other firms, access to labour, availability of suppliers and amenities, transportation requirements, and residence of managers and employees. There are some firms, however, that have greater flexibility and freedom in their location choice. These firms will look for factors that make one location more attractive than another. Occupancy costs (including rent and property taxes, for example) will be one of these factors. A number of factors are identified to analyze whether non-residential taxes are high in Fort St. John relative to other “similar” communities in British Columbia that may offer meaningful competition for attracting businesses.

Benchmark Communities

One of the first challenges is to identify comparable communities in British Columbia. The Fort St. John Council has adopted three different comparable groupings or benchmark properties. These include:

Northern Communities (communities in excess of 5,000 population that are responsible for policing costs and located North of 100 Mile House.)

Resource Communities (communities in excess of 5,000 population that are responsible for policing with economies based on resource development, primarily pulp mills.)

Similar Population Communities (populations between 10,000 and 30,000.)

The emphasis on policing costs reflects the fact these represent such a large portion of the annual operating budget and not all communities face similar policing costs.

Table 15 provides an overview of the Northern Community benchmark. Three points stand out. First Prince George is so much larger in terms of population and as such is suspect as a good comparable. Second Fort St. John is below the average on all measures, but there are several individual communities that have lower mill rates and business tax ratios.

Table 15: Northern Community Comparables, 2008

Community	Population	Taxes per capita	Residential Mill rate	Business Mill rate	Business tax ratio
Dawson Creek	11,615	\$798	4.850	21.15	4.36
Fort St. John	18,270	\$887	4.722	14.02	2.97
Kitimat	10,510	\$1,331	0.000	13.57	
Mackenzie	5,452	\$980	6.262	14.63	2.34
Prince George	77,343	\$864	6.569	14.97	2.28
Prince Rupert	15,281	\$990	8.075	28.25	3.50
Quesnel	10,561	\$1,218	4.067	10.93	2.69
Smithers	5,575	\$744	4.698	17.17	3.66
Terrace	12,660	\$733	6.333	24.41	3.85
Williams Lake	11,961	\$764	5.218	10.23	1.96
Average	17,923	\$931	5.079	16.93	3.07

Table 16 provides the comparable information for the resource communities selected by the Fort St. John Council.

Table 16: Resource Communities Comparables, 2008

Community	Population	Taxes per capita	Residential Mill rate	Business Mill rate	Business tax ratio
Fort St. John	18,270	\$887	4.722	14.015	2.968
Kamloops	84,064	\$887	4.900	16.350	3.337
Mackenzie	5,452	\$980	6.262	14.627	2.336
Nanaimo	80,949	\$886	4.728	14.104	2.983
North Cowichan	29,118	\$580	1.840	7.743	4.208
Port Alberni	18,790	\$925	5.544	16.987	3.064
Powell River	14,035	\$775	3.157	17.964	5.690
Prince George	77,343	\$864	6.569	14.965	2.278
Prince Rupert	15,281	\$990	8.075	28.247	3.498
Average	38,145	\$864	5.089	16.111	3.374

As is the case for the Northern Community comparables, there are three communities in the sample that are significantly larger than Fort St. John and these raise concerns about the comparability. However on most measures Fort St. John appears competitive.

2008 Comparables

Table 17 summarizes the position of Fort St John relative to various peer groups in British Columbia. The measures used include the mill rates and tax ratios. Several conclusions are apparent from these facts. First, the residential and business mill rates for Fort St. John in 2008 are lower than the two main peer groups, but higher than for all of BC or for communities of comparable size. The mill rate for major industry is low except for all of British Columbia. Mill rates in Fort St. John for the light industry class are high relative to all but the Northern communities.

The tax ratios follow a similar pattern.

Table 17: Fort St. John and Comparable Communities, Mill rates and Tax Ratios, 2008

Year=2008	Residential	Major Industry	Light Industry	Business
Mill rate				
Fort St. John	4.722	25.000	27.500	14.015
All BC Municipalities	3.728	19.421	14.854	10.785
Cities with population from 10,000 to 30,000	3.439	25.028	16.201	11.622
Resource Communities	5.089	43.145	22.670	16.111
Northern Communities	5.079	49.910	28.904	16.931
Tax Ratios				
Fort St. John	1.000	5.294	5.824	2.968
All BC Municipalities	1.000	5.209	3.984	2.893
Cities with population from 10,000 to 30,000	1.000	7.277	4.710	3.379
Resource Communities	1.000	8.479	4.455	3.166
Northern Communities	1.000	9.826	5.691	3.333

It is obvious from the information in Table 17 that the mill rates and tax ratios, except for light industry, are not excessive. On the other hand there are a number of communities in British Columbia that have lower rates for the business class and Fort St. John may be feeling some pressure from these communities.

2006 Comparables

Table 18 provides the same information as contained in Table 17, but for the year 2006. These data are included to ensure the 2008 information is not an anomaly. The conclusions do not change based on the 2006 information. Fort St. John still has lower residential and business class mill rates than the main two peer groups, but higher than for British Columbia and the similar size communities.

As was the case for 2008, the light industrial class appears to be higher than all peer groups except the Northern communities.

The tax ratio for the business class in 2006 is high relative to the two main peer groups and high relative to British Columbia and similar size communities. However between 2006 and 2008 Fort St. John lowered the tax ratio for the business class.

Table 18: Fort St. John and Comparable Communities, Mill Rates and Tax Ratios. 2006

Year=2006	Residential	Major Industry	Light Industry	Business
Mill rate				
Fort St. John	5.702	27.500	27.500	17.736
All BC Municipalities	4.867	20.931	17.852	13.551
Cities with population from 10,000 to 30,000	4.377	27.790	19.283	14.470
Resource Communities	6.707	46.198	27.878	20.215
Northern Communities	6.697	49.589	31.399	20.283
Tax Ratios				
Fort St. John	1.000	4.823	4.823	3.111
All BC Municipalities	1.000	4.301	3.668	2.784
Cities with population from 10,000 to 30,000	1.000	6.348	4.405	3.306
Resource Communities	1.000	6.888	4.157	3.014
Northern Communities	1.000	7.404	4.688	3.028

One further indicator considered is the share of total property taxes collected from the business class. Table 19 compares the peer groups in terms of the allocation of total tax among the residential, business, and other property classes.

Fort St. John collects a much larger share of taxes from the business class than any of the peer groups. This reflects, in part, a policy decision on the part of the City, but it also reflects the high percent of taxable assessed value (27.4%) represented by this class.

The residential class tax share is less than all peer groups except the Northern communities. The “other” Classes represent a much lower percent of total taxes than any of the peer groups, by a significant margin.

Table 19: 2008 Tax Shares for Residential, Business and Other Classes

Year=2008	Residential	Business	Other
Fort St. John	41.8%	48.8%	9.4%
All BC Municipalities	60.0%	21.4%	18.6%
Cities with population from 10,000 to 30,000	59.0%	22.9%	18.1%
Resource Communities	43.5%	22.4%	34.0%
Northern Communities	33.1%	29.1%	37.8%

Comparison of Taxes and Taxable Assessed Value Per Capita

The final indicator considered is total tax revenue collected relative to population or taxes per capita and the taxable assessed value of the business class per capita. Table 20 compares the peer grouping in terms of total property taxes (from all classes) per capita. And total taxable assessed value for business class per capita.

The residential taxes per capita for Fort St. John are higher than for all British Columbia municipalities and for the Northern communities, but lower than the other peer groups. These differences are only partially explained by the variations in the taxable assessed values per capita.

The business taxes per capita for Fort St. John are significantly higher than any of the peer groups reflecting in large part the much higher taxable assessed value per capita. The taxes per capita from all other classes is significantly lower than any peer group, once again reflecting the lower taxable assessed value per capita.

Table 20 suggests that Fort St. John has a heavy reliance on the business class and should take steps to ensure this sector remains viable. At the same time, while not shown in Table 20, the reliance on major industry in Fort St. John is significantly lower than any of the peer groups. Hence while the major class is significant in terms of taxes, and represents the largest taxpayer in the City, it would not compensate for a significant decline in business activities. .

Table 20: Per Capita Taxes and Taxable assessed Values for Comparable Communities, 2008

Taxes per capita	Residential	Business	other
Fort St. John	\$370	\$433	\$83
All BC Municipalities	\$379	\$147	\$171
Cities with population from 10,000 to 30,000	\$347	\$145	\$146
Resource Communities	\$378	\$204	\$282
Northern Communities	\$282	\$247	\$402
Taxable assessed value per capita			
Fort St. John	\$78,460	\$30,880	\$3,254
All BC Municipalities	\$128,739	\$14,661	\$6,164
Cities with population from 10,000 to 30,000	\$93,929	\$10,234	\$3,877
Resource Communities	\$82,497	\$12,923	\$7,596
Northern Communities	\$55,075	\$14,936	\$8,981

5.4 Has the pace of commercial investment and development been negatively affected by property taxes?

One of the concerns the business community articulated is that Fort St. John's tax levels will erode the City's attractiveness for business, which will make it harder to attract and retain employers and harder to encourage commercial and industrial investment.

We have investigated indicators of the health of the commercial and industrial real estate market, the pace of investment in the City, and the extent to which the economic base of Fort St. John might have declined.

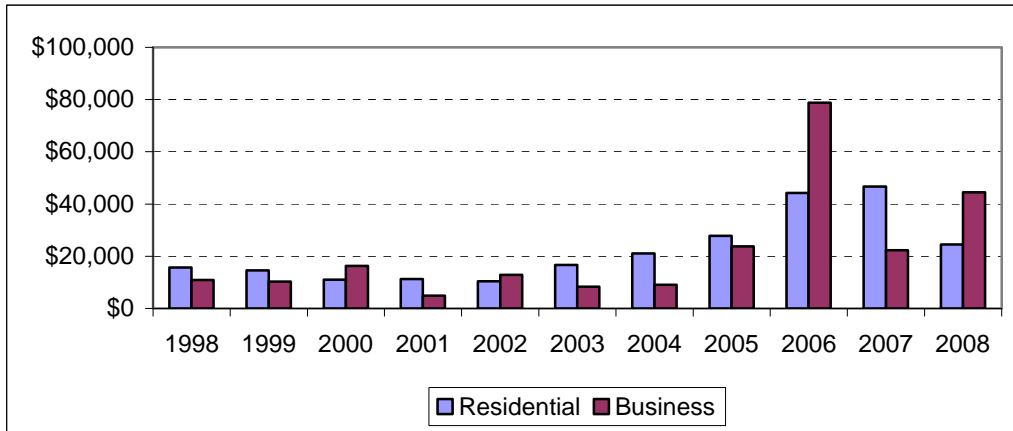
The first indicator is the pattern of investment in construction over the past 10 years, as evidenced by municipal building permit data. Building permit data captures renovations and additions, as well as new stand-alone construction. It does not include land value. Building permit values may understate actual building costs.

The value of building permits over time in Fort St. John is compared with other benchmark communities.

Figure 1 shows the value of building permits issued by Fort St. John from 1998 to 2008. Between 1998 and 2006, investment in residential property has increased faster than business— but commercial has picked up the pace in recent years. Aside from a slight decline in 2008, residential building permits have risen steadily over the period. Similarly

the business permits have shown steady increases, with an exceptional increase in 2006. There is certainly nothing to suggest a downward trend in activities.

Figure 1: Value of Building Permit, Fort St. John, 1998-2008



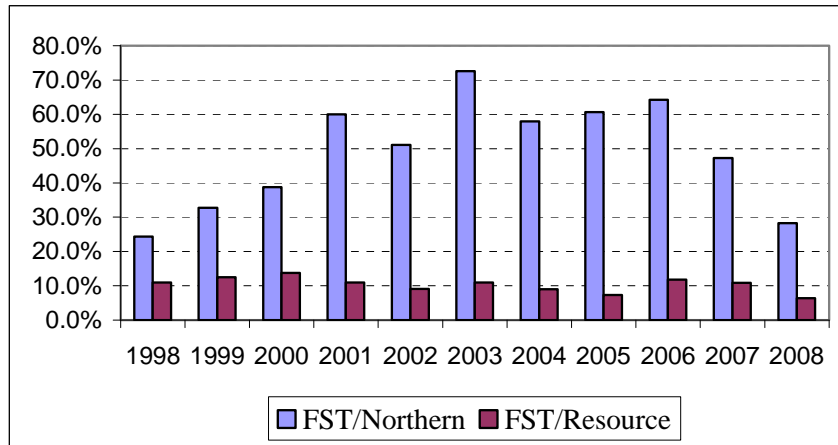
It could be argued that the level of residential and commercial investment is lower than it would have been had property taxes been lower, but it is difficult to argue that there has been an actual decline. Indeed, the pace of residential and business development has increased rather steadily.

The following three figures examine the building permit trends for the two benchmark groupings: Northern Communities and Resource Communities. Three figures are shown, one for residential, business and industrial.

It is clear from Figure 2 that the level of residential construction, relative to the Northern communities, has remained strong for most of the past decade. There is some decline since 2006 but in general the level for Fort St. John has remained strong. The level of residential permits relative to the Resource communities remained relatively stable throughout the entire period up to 2008, and then declined in 2008.

Overall the evidence in Figure 2 does not suggest any significant decline in residential building permits relative to the two peer groups.

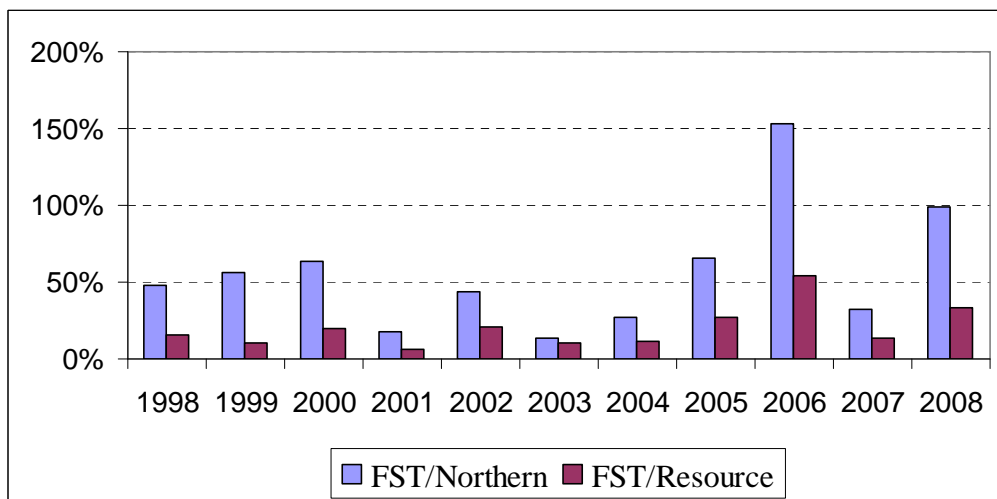
Figure 2: Fort St. John as a Percent of Residential Building Permits for Northern and Resource Communities



The evidence for the business construction is similar to the residential (Figure 3). With somewhat greater year-to-year fluctuations than in the residential sector, the business building permits appear strong relative to both the Northern and Resource peer groups. The level of building permits for Fort St. John is higher, on average, in the post 2004 period than in the pre-2004 period.

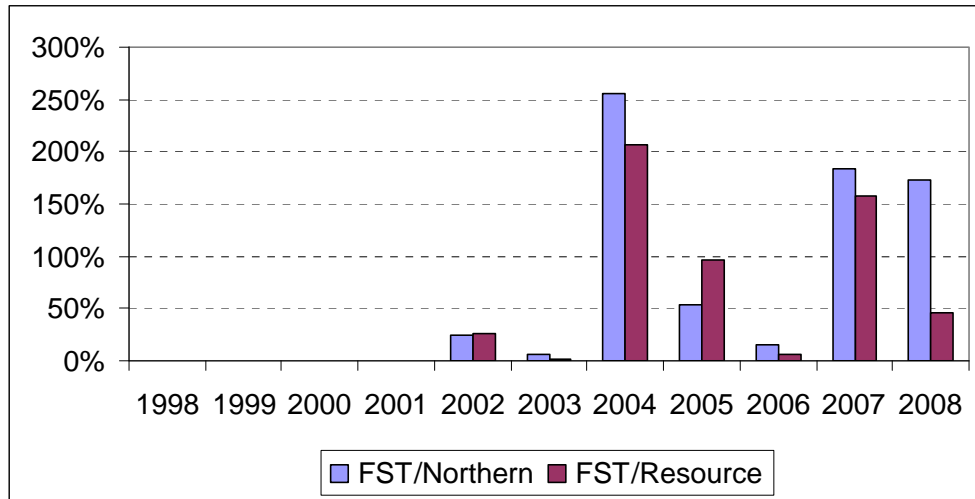
What is clear from Figure 3 that there is no evidence that building permits in Fort St. John have declined relative to the two peer groups.

Figure 3: Fort St. John as a Percent of Business Permits in the Northern and Resource Communities



Finally consider the building permits for the Industrial lands. Figure 4 summarizes the rate of industrial building permits in Fort St. John relative to the two peer groups. The series begins in 2002 as the level of industrial activity in Fort St. John was too small prior to 2004. Once again relative to both the Northern and Resource communities the performance for Fort St, John has been positive. It is difficult to conclude construction activity in Fort St. John relative to these two peer groups has declined.

Figure 4: Fort St. John as a Percent of Industrial Permits in the Northern and Resource Communities



The concern presented by some participants in the public hearings that investment performance in Fort St. John was being eroded is not borne out by the evidence. It is true that there has been a decline in commercial investment relative to residential investment in the City for some of the period, but this seems to have stabilized. It is also true that there has been strong commercial investment in other communities in the peer groups. Nevertheless, the level of commercial investment in the City remains significant.

As one final point, I considered the value of the building permits as a percent of the taxable assessed values in Fort St. John. There is no strong trend suggesting the building permits have declined relative to the taxable assessed value.

5.5 Are businesses leaving Fort St. John because of property taxation?

One of the concerns raised relates to whether businesses were leaving Fort St. John because of property taxes. Unfortunately short of exit surveys it is next to impossible to answer this question. In the first instance there is little systematic evidence available for Fort St. John or the peer communities to measure turnover in businesses. One can look at turnover in ownership, but this does not necessarily relate to the actual occupants of

the space. Data concerning the turnover of non-residential properties in Fort St. John and the peer communities were examined and there is no evidence to suggest that significant differences in the ownership turnover rates exist across these communities. I was not able to identify any reliable evidence concerning turnover of tenants.

5.6 Are business property taxes high relative to the services that business receives in the City?

Advocates of the “benefits received” principle would argue that in order to look at the appropriate share of business taxation it is first necessary to compare taxes to the share of services that business receives. Unfortunately this requires a local consumption study indicating what share of each local service is attributable to each class of property and no such study exists for Fort St. John (or for any similar size community in British Columbia.)

The City of Vancouver commissioned such a study by the consulting firm MMK in 2006 to examine the share-of-service issue; this study was an update of a similar study published in 1995. There is no suggestion that the study done for the City of Vancouver would have any applicability to Fort St. John, but a few comments will serve to illustrate the challenges of this approach.

The MMK Report is comprehensive and examines all City expenditures (except those incurred by the City’s self-funded utilities). The study aimed to identify the direct beneficiaries of City expenditures by allocating direct costs to groups of consumers, including residents, non-resident employees working in the City, and visitors. The study assumes that most services are consumed by (and benefit) people, rather than benefiting property. The study also included offsetting revenues in order to arrive at the net distribution of City costs among consumers of services.

Table 21 summarizes the study’s conclusions concerning the share of services consumed by residential and non-residential properties.

MMK compares consumption of services to taxes paid by the residential and non-residential Classes and concludes that the non-residential Classes pays \$2.42 in taxes for each \$1 of benefit received, while the residential sector pays \$0.56 for each \$1 of benefit. This conclusion is consistent with the viewpoint which has suggested that businesses subsidize the provision of services to residents because businesses pay for more than they consume and residents pay for less than they consume.

There are some inherent weaknesses in consumption studies in general. Like most consumption studies the MMK Report only looks at the direct consumption of services or the direct benefit from services. However there are significant indirect costs and benefits that must to be considered.

Table 21: Share of Services Consumed by Property Class, City of Vancouver

Service	2006 Residential share	2006 Non-residential share
Fire protection	66%	34%
Parks/recreation	88%	12%
Engineering	80%	20%
Library	87%	13%
Debt/contingencies	67%	33%
Total	76%	24%

Business depends on the community’s ability to attract labour, and the quality of life is a key consideration in worker’s decisions about where to live or work. This important indirect benefit to business is not captured in a direct measure of consumption.

There are significant indirect benefits to the business community, and the combined direct and indirect benefit to the business community is most certainly greater than the share of direct benefit estimated by MMK. This does not imply that business is currently paying the “right” share, but the right share is certainly more than the amount implied by the MMK Report findings.

The principle of benefits received, as evidenced by consumption studies in general, provide one measure of an appropriate share of taxation or tax ratio. There should be a relationship between tax paid and benefits received. However, there are other factors and principles to be considered, so consumption cannot be the only determinant of tax. As well, because it does not measure indirect benefit, the consumption approach should be considered as setting a lower estimate of the business share of taxation. What is less certain is the correct share.

5.7 Overall Conclusions on the Tax Share Issue

The evidence is clear: although the share of property taxes paid by business has been declining over the past decade, the indicators in this section suggest that business taxes in Fort St. John are high relative to residential taxes and relative to business taxes in comparable communities. What is less clear is the appropriate indicator to use to determine the appropriate tax ratio. Each of the indicators uses a different basis for estimating the differential and, not surprisingly, provides different estimates of its extent.

What is also less clear is the impact of the higher property taxes on commercial development in Fort St. John. There is little evidence to suggest that property taxes have had a negative impact on property development or investment.

6.0 CONCLUSIONS AND RECOMMENDATIONS – TAX RATIO ISSUE

The Commissioner was asked to recommend a long term policy to Fort St. John Council that will define a “fair tax” for each property class. I was asked to address the perceived inequity in the tax ratios for properties in Fort St. John. In this section I present my conclusions and recommendations on the tax ratio issue.

6.1 Are the current tax ratios fair?

My review of tax principles and the property tax literature did not allow me to come up with one single, clear indicator of what is a fair tax ratio. There are different views on what is considered fair and many other indicators that need to be considered in designing a suitable tax system.

One possible measure compares the municipal property taxes paid to the benefits received from municipal government services for each type of property. Although the Commissioner agrees that there is merit to this approach, there are also some inherent weaknesses in that the benefits received principle must rely upon some form of consumption study to generate the costs and benefits. In general, consumption studies tend to focus on only the direct benefits and not on the indirect benefits (and costs.) As a result, the estimates of tax share (hence the tax ratios) tend to be lower, potentially significantly lower, than the level of benefit actually received by business.

The other traditional principle of fairness, the ability to pay, provides some guidance on the level of taxes that should be paid by individual properties **within** a class but, unfortunately, does not provide us with a guide to the sharing of taxes across classes. However the reliance on the taxable assessed values as a measure of ability to pay seems to be a very reasonable basis for distribution of the tax liability within a class. In British Columbia the quality of the assessments, and the frequency of re-assessment (annual), are positive points, particularly relative to most other jurisdictions in North America.

I accept that the benefits received principle is a reasonable basis for determining the share of taxes to be paid by the non-residential sectors but cannot endorse the specific findings of any consumption study based on solely or primarily on **direct** benefits alone. In the absence of reliable measures of indirect benefits, Commissioner has relied on other criteria to inform his recommendations.

The first point to note is that the taxes on the non-residential classes tend to be higher than for the residential classes in almost every community in North America. This is not a Fort St. John issue nor is it a British Columbia issue. The residential sector is generally favored. That said, one expects the differential to be both reasonable and justifiable. The typical starting point is to ask if the burden of taxes on the non-residential classes has change significantly over time. In addition one typically

compares local tax ratios or tax shares with other “comparable communities” recognizing that there are many other differences between communities, not just property tax differentials. Finally one is left to ask whether the tax differentials, both locally and for the peer groups, have become so significant as to alter behaviour of the non-residential classes.

6.2 Changes in the tax ratios in Fort St. John over time

The evidence within Fort St. John indicates that the tax ratios have changed in a reasonably orderly manner over the period 2000-2008. With the one exception of the sharp increase in the taxable assessed value for the business class the annual changes have no provided significant shocks to the taxpayers.

The most significant changes within Fort St. John include:

- The overall decreases in the mill rates except for farm and utilities classes.
- The addition of the major industrial class and the resulting redistribution of the tax burden.
- The reduction in the taxes paid by the business class, a policy driven reduction that is significantly larger than the change in taxable assessed values would otherwise suggest.
- The upward drift in the tax ratios for both the recreational/non-profit and farm classes.
- The upward drift in the tax ratio for the light industrial class.
- The upward movement in the tax ratio for the utilities class as a direct result of the changing residential mill rate and significant increase in the mill rate for the utility class,

One matter that requires attention is the tax status for the major industrial class. The evidence does not indicate that the tax ratio is currently too high (relative to key peer groups within the province) but there are two significant reasons to justify attention to this Class. First there appears to be some misunderstanding as to commitments made at the time the facility was opened. In part the confusion may stem from the fact there are more than one mill rate for Ports, the standard that appears to have been adopted. This misunderstanding must be addressed.

There is a further reason relates to the fixed mill rate used for the major industrial class. The determination of the taxable assessed value for this class is a formula driven assessment approach. This formula driven valuation is insensitive to the changes local

circumstances, hence the taxes based on a fixed mill rate will not reflect the changing tax ratios for other Classes. .

It should be noted that a comparison with other peer communities in British Columbia indicates the mill rate for the major industrial class is not out of line. However this assumes the mill rate for the peer groups is appropriate and there is no evidence to suggest this is the case. However the primary concern centres on the apparent misunderstanding and the longer term implications of using a fixed mill rate for this class of property.

6.3 Comparison with peer groups in British Columbia

The Commissioner believes that the analysis clearly shows that current property tax levels in Fort St. John, excluding the light industry class, do not put it at a significant competitive disadvantage with the two primary peer groups in British Columbia. The literature suggests that tax differentials in the immediate region, are important determinants of location decisions. After examining various peer group indicators I have found no strong evidence to suggest that the tax levels in general in Fort St. John are unduly high, compared with peer communities. Moreover, aside from the light industrial class, the evidence does not suggest any immediate problems with the tax ratios.

The tax ratio for the light industrial class is high relative to most of the peer groups. While this is a small portion of the overall tax base in Fort St. John, it is an important part of the community and the matter should be addressed by moving to a more competitive level of taxes for this class.

The evidence from the peer communities indicates the tax burden for the business class is not out of line, especially compared with the two primary peer groups. However there are a number of communities in British Columbia, some comparable to Fort St. John in population, that have lower business class tax ratios and mill rates. Given the importance of the business class to Fort St. John, the 2000-2008 trends to decreasing the tax on the business class should be continued,

6.4 Do the current tax ratios compromise Fort St. John's competitive position?

The Commissioner believes that the analysis clearly shows that current property tax levels in Fort St. John do not presently put it at a significant competitive disadvantage with the two primary peer groups in British Columbia. The literature suggests that tax differentials in the immediate region, are important determinants of location decisions. After examining various peer group indicators I have found no strong evidence to suggest that the tax levels in general in Fort St. John are unduly high, compared with peer communities. Moreover, aside from the light industrial class, the evidence does not suggest any immediate problems with the tax ratios.

The tax ratio for the light industrial class is high relative to most of the peer groups. While this is a small portion of the overall tax base in Fort St. John, it is an important part of the community and the matter should be addressed.

6.5 Is the tax share having a negative impact on commercial development?

The Commissioner was asked to address the concern that property taxes may have a negative impact on new development in Fort St. John. The evidence indicates that building permit data show a robust level of commercial investment in the City of Fort St. John over the last 10 years, particularly in comparison to the peer groups.

During the public hearings, the Commissioner did hear a few concerns expressed about the status of smaller local businesses that may be forced out of business and out of their existing locations in part because of high taxes. However, to the extent this may be happening, it is more of an issue of competition among commercial tenants for limited space.

On balance I find that the level of new development over the past 10 years has been strong compared to the peer groups and I certainly find no evidence that property taxes have played a role in dampening development activities more than in any other community.

6.6 Does the current share paid by business enhance accountability?

One of the principles recognized in this report is accountability. In general terms the non-residential property tax is inherently less appropriate for financing local government expenditures than the residential property tax, mainly because business owners do not vote. Moreover, taxes on business properties may be partially exported to residents of other jurisdictions who are consumers of the products or services produced or who are owners of other business. Tax exporting reduces accountability because the payers bearing the burden of the tax may not be the same as those payers enjoying the benefits. In addition, accountability is not well served if residents have the greatest influence over the type and level of services provided but do not pay a proportionate cost of the service.

A reduction in the share of property taxes paid by the non-residential classes and an increase in the share paid by residential taxpayers would improve the accountability of the tax system. Alternatively allowing all property owners to vote in local elections would improve accountability but this is a provincial matter beyond the control of Fort St. John.

6.7 Other Considerations

Parcel Tax

Two other issues arose during my work. The first relates to the \$50 parcel tax levied on the majority of properties in the residential class. Fort St. John is one of only six communities levying such a tax. This parcel tax is regressive in nature, representing a higher (lower) percent tax on lower (higher) valued properties and should be changed. Shifting the taxes (approximately \$273, 250 in 2008) to the mill rate would be tax neutral to the City and have no impact on other property classes. There would be an impact on properties within the residential class as the flat \$50 is redistributed according to taxable assessed values.

Moving the parcel tax to the residential mill rate would also provide greater transparency and offer some administrative efficiency.

Adjacent Rural Community

The second issue relates to the competition facing Fort St. John from the adjacent rural community. The rural areas in British Columbia charge lower taxes and provide lower services. But individuals and businesses can locate in adjacent rural areas and still enjoy many of the benefits provide by the City of Fort St. John, but not pay for them.

This is a common example of enjoying positive externalities without bearing the costs.

There is a second dimension to this rural issue. The boundary extensions appear to lack strategic planning. As a consequence the City of Fort St. John faces higher servicing costs than might be the case with more strategic expansion of the City boundaries.

This matter cannot be addressed without the support of the provincial government, but given the issue is likely to become more troublesome rather than less, the Council should prepare an action plan.

6.8 Recommendations

Based on the conclusions reached with respect to fairness, competitiveness and accountability, I feel that some changes to the tax ratios and tax structure are warranted.

I have not been able to identify a simple indicator of an appropriate tax share and this does not surprise me. Other tax studies quickly reach the same conclusion. Consequently, the choice of appropriate tax ratios is a judgment call – one that needs to weigh the strength of concern with the current tax ratios against the likely consequences of potential of change. In arriving at my recommendation on the tax ratios,

I am mindful of the concerns raised by both the residential and the non-residential classes, the potential for enhanced competition from other peer communities and the

challenging financial times facing all property owners, both residential as well as non-residential. I am also mindful of the expressed concerns that any changes be made gradually rather than instantly, particularly when the current structure is not too far out of line.

Recommendation #1:

The tax ratio paid by the Light Industrial Class (Class 5) should be reduced from its current level (approximately 5.8) to a ratio of 3.0 and that the cost of this reduction is to be borne by the Residential Class (Class 1). Further, this reduction in the tax ratio for the Light Industrial Class should be phased-in equally over a three year period.

I have concluded that the current tax ratio for light industrial properties is too high compared with the peer communities. As a consequence Fort St. John is less competitive with respect to this class of activities. Moreover I find that the actual property uses and values in the industrial class are very similar to those in the business class. As a consequence I see little evident to suggest the tax ratio for light industrial should differ so significantly from the tax ratio for the business class.

I do not recommend that the City move immediately to the 3.0 tax ratio. I do not want to see the implementation of this objective compromised by a backlash from residential taxpayers. Therefore, I recommend a phased implementation over a maximum of three years.

Based on the 2008 assessment and tax data, this shift would cost a typical residential property owner with a property valued at \$250,000 (the average residential property value in 2008), approximately an additional \$6.00 in the first year and approximately \$18.000 in three years time. Once fully implemented this would represent a 1.45% increase in the taxes on this \$250,000 residential property. The average light industrial property in 2008 is \$550,000 and this average property would receive a tax decrease of 55% once the three year phase-in is complete.

The relative percent changes in taxes paid by the average residential and industrial property differs significantly: the residential increase is 1.45% and the light industrial decrease is 55%. This simply reflects the fact that the total taxable assessed value for the residential class is significantly larger than for the light industrial class. As a consequence a decrease in the tax ratio for the light industrial class from approximately 5.8 to 3.0 results in a relatively small dollar shift (approximately \$100,000) which is spread over the much larger total taxable assessed value of the residential class.

It should be noted that since the recommendation calls for the shift from the light industrial class to go to the residential class only, there will be subsequent changes in the tax ratio for the other classes resulting from this recommendation. These were considered when making the recommendations.

Recommendation #2:

The City should reduce the tax ratio of the Business Class to 2.7 from the current 2.968 and do so in equal steps over four years and that the cost of this change in the tax ratio is to be borne by the Residential Class (Class 1)..

As stated previously, the current tax ratio for the business class is within the range of the peer communities. However there are a number of communities in British Columbia that have lower tax ratios, including some of comparable population. While there is no need for Fort St. John to compete on taxes with the lowest in the province, given the importance of the business class to the City, some further reduction in the tax ratio for the business class seems like a pro-active step to maintain a competitive edge and send a positive signal to the local business community.

While the justification for this change is perhaps not as urgent as the recommendation for the light industrial class, it should proceed sooner rather than later.

The impact of this change is more significant to the residential class than the change in the light industrial class since a small shift in the tax ratio for the business class implies a larger dollar shift than was the case for the Light Industrial Class. Considering only this recommendation in isolation, in year 1 the average \$250,000 residential property would face a tax increase of \$9.00 (0.72%) and by year four the total tax increase would be \$36.00 (2.63%). In contrast the average business class property at \$550,000 would receive a \$200 decrease in taxes or 2.63% decrease over the four years.

However if this recommendation is adopted along with recommendation #1, the impact is obviously larger. Assuming the three year phase-in for the light industrial and a four year phase-in for the business class, the residential taxes on an average \$250,000 would increase by \$15.00 in year 1 (1.2%) and by \$53.000 over four years (4.2%).

It should be recognized that two forces combine to provide these results. As taxes are shifted from the light industrial class and /or the business class to achieve the desired tax ratios, the taxes shifted raise the necessary mill rate from the residential class and this higher residential mill rate is the denominator in calculating the tax ratios.

Recommendation #3:

The City should discontinue the present \$50.00 parcel tax on Class one properties and build the equivalent aggregate tax revenue into the residential mill rate.

The rationale for this proposal is that a flat tax (parcel tax) is regressive: the levy of a fixed dollar amount represents a higher effective tax rate on a lower valued property than the same fixed dollar amount would have on more expensive properties. This proposal is tax neutral to the City and to the residential class. It would have no bearing on the other classes. However this change would not be tax neutral within the residential class as less expensive properties would pay less taxes and more expensive properties would pay more taxes. For example a \$100,000 residential property would receive a tax

decrease of \$30 or 5.8% while a \$500,000 residential property would have a tax increase of \$49.90 or 2.07%.

Recommendation #4:

The City should, within the coming year, determine a new policy for the mill rate borne by Major Industrial Class.

The City of Fort St. John appears to have adopted a policy that the mill rate for the Major Industrial Class should reflect the regulated rate applied to ports. This appears to be an understanding reached between the City and the new major facility at the time the facility was opened. Unfortunately the City and the property owner do not appear to have careful records and there seems to be some misunderstanding as to the arrangement. The matter is made more complicated by the fact that there are two port rates: a maximum and a minimum rate. The City has already been moving towards the minimum rate.

It is important that the City reach an understanding with this major industrial user, not only because of their important as a valuable contributor to the tax base, but also because misunderstandings can cause wider concerns amongst any future major industries looking at locating in the City.

There is a second problem that needs to be addressed. Agreeing to a set mill rate for the Major Class implies that the tax ratio in the future will not be sensitive to changing local circumstances. Moreover, the tightly structured way in which the taxable assessed value of the major Class of properties is calculate by the Assessment Authority would result in a declining taxable assessed value over time, hence a declining share of the overall tax burden for the City. This would not be a sustainable arrangement and this matter should be addressed sooner rather than later.

Since it is not possible to resolve this in time for the 2009 tax determination, the City may find it strategically sound to consider a tax refund if the new policy results in a decrease in taxes payable by the Major Class.

RECOMMENDATION #5:

The City develop a strategy for boundary extensions, a strategy that addresses a “fair revenue sharing” with the Province that considers the implications of having individuals just outside the City limits that use, but do not necessarily pay, for some City provided services.

Fort St. John not only faces competition from other cities and municipalities, but it also faces competition from the immediately adjacent rural areas. The tax rates in the rural areas are much lower than in the City and the level of services is lower.

APPENDIX A: TERMS OF REFERENCE

TERMS OF REFERENCE FOR THE CITY OF Fort St. John PROPERTY TAX POLICY REVIEW COMMISSION

APPROVED BY Fort St. John CITY COUNCIL November 24, 2008

1. OBJECTIVE

The Property Tax Policy Review Commissioner has been established to engage Fort St. John's business and residential communities, as well as other key stakeholders, in order to recommend to Fort St. John City Council a long-term policy that will define and achieve a "fair tax ratio" for commercial property taxpayers, addressing the perceived inequity in the share of the City of Fort St. John's property tax levy that is paid by the non-residential property classes, as compared to the share paid by the residential property class.

2. BACKGROUND

2.1 Purpose of the review – The Property Tax Distribution Commission has been established by Council in response to concerns expressed to Council by the business community about the impacts of the City's current property tax policy on the competitiveness of Fort St. John's economy. In 2008, the Fort St. John Chamber of Commerce told City Council that they feel annual property tax increases are exceeding local business's ability to pay and are affecting the long-term competitiveness of business in Fort St. John.

In response, on November 24, 2008, Council recommended:

THAT Council obtain the services of Dr. Stanley Hamilton to undertake and independent review of the City of Fort St. John Tax Ratios and provide recommendations to the City by March 1, 2009;

AND FURTHER THAT, the review be supported by the 2008/09 funds received from the Northern Development Initiative to undertake economic development initiatives.

2.2 The Current Tax Distribution – This table shows the share of the City of Fort St. John's property tax levy paid by each of the seven property classes in 2008.

Class	2008 Tax Levy (\$000s)	% Share
Class 1 -Residential	\$7,042,042	42.75
Class 2 - Utilities	\$93,210	.57
Class 4 - Major Ind.	\$1,189,525	7.22
Class 5 - Light Ind.	\$225,206	1.37
Class 6 - Business	\$7,906,859	48.01
Class 8 - Seasonal	\$13,939	.08
Class 9 - Farm	\$62	.00
Total	\$16,470,842	100.00

3. DELIVERABLES

The Property Tax Distribution Commissioner is asked to report to Council on the following items.

3.1 Assessment of Current Policies - Review the City of Fort St. John's current property tax policies, and analyze the impact of these policies on Fort St. John's business, industrial and residential taxpayers, highlighting key issues and identifying any inequities. Include as part of this work the following.

a. **Evaluation Criteria** - Recommend to Council the appropriate criteria to use to assess the fairness of the City's property tax policies. Evaluation criteria may include benefits received, ability to pay, equal treatment of equals, accountability, stability and predictability of taxes for an individual property from year to year, cost of administering and collecting the tax, socioeconomic impacts of the tax and/or impact of the tax on the competitiveness of Fort St. John businesses.

b. **Appropriate Measures** - Recommend to Council the appropriate measures to use in order to assess the impact of the City's property tax policies on taxpayers within each of the City's property classes, to determine the fairness of the City's property tax policies,

and to understand the impact of Fort St. John's property taxes on commercial competitiveness. The Commissioner is asked to select measures that can be calculated using supportable, proven methodology, and to ensure that any comparisons made between Fort St. John and other cities are meaningful, taking into account the considerable differences among municipalities in property tax and assessment systems, methodologies, market values and property types.

3.2 Fair Tax Target Distribution Target - Recommend to Council a definition of a "fair tax ratio," expressed as a set of target ratios of the mill rates for each class of property in the City.

3.3 Implementation Strategy - Recommend a strategy that would allow Council to arrive at the recommended fair tax distribution target, with specific timelines identified.

3.4 Long-Term Policy and Mechanism - Recommend to Council a long-term policy and mechanism that would allow Council to permanently maintain a fair tax ratio among the City's property classes.

4. PRINCIPLES AND GUIDELINES

The Commissioner is asked to undertake their work using the following principles and guidelines.

4.1 Equity - The Commissioner should have an appreciation of the impacts of any changes to the tax distribution on all classes of taxpayers.

4.2 Sustainability - The recommendations made to Council by the Commission should be consistent with the City's long-term objectives concerning economic, fiscal and social sustainability.

4.3 Independence and objectivity -The Commission should serve independently, and to the best of its abilities make recommendations to Council that will result in the best possible outcome for Fort St. John as a whole, without favoring any one stakeholder group over another.

4.4 Simplicity - Any recommended changes to the City's property tax policies should be simple, transparent, and readily understandable by the City's taxpayers and other stakeholders.

4.5 Consultation - The Commission should appropriately engage the business community, residential taxpayers and other key stakeholders in the process undertaken

to arrive at its recommendations.

4.6 Transparency - The work done by the Commissioner should be transparent, with the Commission's public process properly recorded and summarized, and recommendations reported to Council should be available to the public.

4.7 Maintain Fixed-Share Approach - The recommendations of the Commission should be developed within Council's current tax policy framework of a "fixed tax ratio" approach to determining the property tax distribution, in which the tax ratio among property classes is determined by Council rather than by changes to market values.

4.8 Municipal Taxes Only - The work of the Commissioner should be limited to a review of the distribution of property taxes levied by the City of Fort St. John, and should not include property taxes collected by the City of Fort St. John on behalf of other taxing authorities.

5. SCHEDULE

5.1. The Commissioner is expected to deliver recommendations to City Council by March 9, 2009, in time for implementation for the City of Fort St. John's 2009 taxation year.

5.2. The number of public meetings and the schedule for these meetings will be determined by the Commissioner in consultation with the City Manager.

5.3. The stakeholder consultation process will include opportunities for public input; the specific details of and the schedule for this process will be determined by the Commissioner.

5.4. Public meetings have been scheduled for February 3, 2009 at 1:00 p.m. and at 7:00 p.m. at the Quality Inn Northern Grand

5.5. The deadline for all written submissions is February 13, 2009. Comments may be mailed or emailed to the following:

Professor Stanley Hamilton
Sauder School of Business
2053 Main Mall
University of British Columbia
Vancouver, BC V6T 1Z2

Stanley.hamilton@sauder.ubc.ca

6. HONORARIA AND BUDGET

6.1. The Commissioner will be allocated a preliminary budget of \$45,000.

6.2. \$20,000 of the budget will be allocated to honoraria for the Commissioner.

6.3. The Commissioner, in consultation with the Director of Finance, will report back to Council

with any further financial requirements of the Commissioner.

City of Fort St. John Tax Policy Review Commissioner, Preliminary Budget

Honorarium	\$20,000
Advertising & Promotion	\$5000
Research Budget	\$5000
Meetings	\$5000
Travel & Expenses	\$10,000
Total Budget	\$45,000

Project funding will be supported through the 2008 grant received by the City of Fort St. John from Northern Development Initiative Trust for economic development.

APPENDIX B: BACKGROUND MATERIALS

The following is a list of relevant background documents and information for the Commissioner. City staff provided the Commissioner with other documentation and data as requested.

DOCUMENT / REFERENCE
<i>Assessment Act, as amended</i>
<i>Variable Tax Rates: A Guide to Implementation, Province of British Columbia Ministry of Municipal Affairs</i>
Local Government Act, Tax Rate Limits Regulation
<i>Report of the Municipal Taxation Review Commission, March 1989</i>
<i>City of Vancouver Task Force on Property Taxation Report to Council, April 1994</i>
<i>Enhancing Toronto's Business Climate – It's Everybody's Business, Attachment 2, 2004 Public Consultation – Synopsis of Tax Policy Workshop Comments</i> (www.toronto.ca/finance/tax_policies.htm)
Local Government Act, Improvement District Tax Regulation
<i>City of Vancouver Property Tax Policy Review Commission, Final Report, 2007</i>
<i>City of Fort St. John's Annual Financial Report, 2008</i>
<i>Property Tax Fairness in BC, Canadian Federation of Independent Business, November 2008</i>
<i>Problematic property Tax: Why the Property Tax Fails to Measure Up and What to do About it., Casey G. Vander Ploeg, Canada West Foundation, November, 2008</i>

APPENDIX C: ABOUT THE COMMISSIONER

Dr. Stanley W. Hamilton

Dr. Stanley W. Hamilton is the Philip H. White Emeritus Professor of Real Estate, Sauder School of Business, University of British Columbia and a member of the Finance Division. He has extensive teaching and research experience in the areas of real estate investments, real property assessment and taxation and pensions. Stan is the Past Chair of the Board of Trustees of the UBC Faculty Pension Plan and Past Director of the Bureau of Asset Management (UBC Commerce).

Stan served as a member with the BC Commission of Inquiry on Property Taxation and Assessment for the province of British Columbia and as a Director for the B.C. Assessment Authority. He was a trustee of CREIT, a major real estate investment trust, and member and past chair of the Vancouver City Planning Commission. Stan also served as a Public Governor of the Vancouver Stock Exchange.

Stan is actively engaged in a number of community organizations including the Investment Advisory Committee for the Public Guardian and Trustee of British Columbia, Financial Service Tribunal, UBC Development Permit Board and the Arts Club Theatre Company.

Stan had recently chaired the City of Vancouver Property Tax Policy Review.

ALTERNATIVE TAX POLICY OPTIONS

I have been asked to comment on alternative policies to address the tax ratio concerns expressed by the business community. The most straightforward method of reducing the tax burden on non-residential properties is to lower the tax ratios on these classes. This approach, which is currently used by the City, benefits all properties within these classes in proportion to their assessed value.

Other approaches that have been considered elsewhere – creating a small business class and giving a basic tax credit -- address only a subset of properties in the business and light industry classes. I will briefly discuss these two methods of targeting tax relief, but also state in advance that I am not recommending them. Because these options are outside the legislative authority of the City, they would need the support of the Province and City Council to implement them.

Creating a Small Business Class

In many communities we hear that the level of taxes small businesses must pay is too high and had more significant consequences for small businesses than for large businesses.

Some participants proposed the creation of a small business class with a lower tax rate than the other business classes. If the tax rate for small businesses alone was reduced, the increase in taxes on the residential class could be smaller than if the rate for all business properties was reduced. Although the underlying objectives of this proposal are easy to appreciate, there are a number of difficulties with the concept of creating a small business class.

The definition of a small business

A major problem with introducing a small business class is how to define a small business. Is it measured in terms of total space occupied, gross sales, net assets, profits, number of employees or other factors? A large property may contain one large business or many small businesses. A small property may be one of many small properties owned by a large business (for example, banks or chain stores).

Even having agreed upon a definition of a small business, there may not be a close relationship between small business and the total space they occupy. Consider two otherwise identical office buildings. One building may be occupied by a single company while the other is occupied by numerous small businesses, each renting a share of a large property. Should one property enjoy lower taxes simply because there are many small tenants rather than one large tenant in the building? If a small business class were to be created, would a retailer that had five small stores still be considered a “small business”?

Unless the landlord or tenants were to file supplemental information, the BC Assessment Authority could not create a “small business” class except by reference to the actual use, physical size, or assessed value of the properties on record.

Equity among small businesses and other businesses

Using square footage or assessed value as a criterion for defining a “small business” would by itself create significant inequities. Not all small businesses have the same capacity to pay property taxes because some are more successful than others. Moreover, many large businesses also have difficulty paying property taxes.

Implementing a Basic Business Tax Credit

Another way of directing assistance to small business is to provide a basic tax credit on all business (and possibly light industrial) properties. The credit would be calculated as a percentage of municipal taxes payable up to a prescribed dollar limit. Because the dollar value of the credit is limited, it would provide greater proportional tax relief to smaller properties than larger properties.

The impact of the exemption is complicated by the possibility that one small business may have several sites and receive the exemption on each site, whereas another business may be concentrated in one site and only get one exemption.

There are many small businesses that are very successful. Some may occupy quite expensive space while others occupy less expensive space. Yet the basic exemption would have a differential impact on the two businesses.

Finally, this proposal suffers from the same problems of definition and equity as the small business class proposal described above. The basic business tax credit, however, has the advantage that it can be implemented by the City without requiring an amendment to the provincial property class system.

Conclusion

While appreciating the concerns expressed about the impact of property taxes on some small businesses, I cannot support either of the proposals discussed in this section.