



City of Port Moody

Report to Finance Committee

Date: February 3, 2020
Submitted by: Finance and Technology Department – Financial Services Division
Subject: Revenue Policy Disclosure – Policies and Objectives

Purpose

To provide an opportunity to review the Revenue Policy Disclosure – Policies and Objectives, as required by the *Community Charter* as a component of the Five-Year Financial Plan Bylaw and ensure congruency with Council's strategic plan and vision.

Recommended Resolution(s)

THAT the report dated February 3, 2020 from the Finance and Technology Department regarding Revenue Policy Disclosure – Policies and Objectives be received for information.

Background

Each year before May 15, Council must pass a Five-Year Financial Plan by Bylaw before the annual Property Tax Bylaw is adopted (section 165 of the *Community Charter* – **Attachment 1**).

The Financial Plan must set out the objectives and policies of the City for the planning period in relation to:

- each of the funding sources and the proportion of total revenue that is proposed to come from each funding source;
- the distribution of property value taxes among the property classes that may be subject to the taxes; and
- the use of permissive tax exemptions.

Discussion

Section 165 of the *Community Charter* requires municipal five-year financial plans to include the proportion of total revenue that comes from each of the funding sources; the distribution of property taxes among the property classes; and the use of tax exemptions.

Funding Sources

Section 165(7) of the *Community Charter* requires the City to identify the proposed funding sources for the annual financial plan. The City receives revenue from various funding sources. The greatest proportion of revenue generated by the City is property taxes. Property taxes are a stable and consistent revenue source for many services, including protective, community, and transportation services that would be complicated to fund on a user-pay basis. For this reason, property taxation will continue to be the City's major source of revenue.

The second largest revenue source is user fees and charges. User fees are applied to City services such as water, sewer, garbage, and recycling as a means of fairly apportioning the value of that service to those who use the service.

Council has been committed to developing a sustainable infrastructure replacement plan by moving towards a pay-as-you-go strategy for infrastructure replacement. This is put into practice through the process of transferring a portion of tax revenues to the Asset Reserve. These funds are then set aside for use as capital funding in recognition that other more historical capital revenue sources, such as land sales, are finite capital funding sources and are not as available in the future.

The 2019 Financial Plan had the following distribution of revenues. 2020 is expected to follow a similar distribution:

Revenue Source	% Total Revenue
Municipal Taxation	57%
Fees and Charges	26%
Government Contributions	11%
Investment Revenue	1%
Payment in Lieu	1%
Other	4%

Policy:

Council is committed to reducing taxation in favour of the following practices:

- fees and charges are reviewed annually to maximize the revenues from services and also to ensure that they are in line with the market rates for similar services or programs;
- costs for services can be recovered from general taxation or charged specifically to the users of the services. Council recognizes that costs of some services could be more fairly recovered from user fees than property taxes. Council has considered, where feasible, to shift the cost burden of municipal services from property taxes to user fees. However, with respect to user fees, Council has concerns that the overall interests of the community are not always best served. Savings transferred from taxpayers by shifting costs to users also shift a financial burden to some service users that cannot absorb the shifts reducing equal access to services;
- senior government and other agency grant opportunities are applied for and leveraged wherever possible as an external source of revenue to supplement scarce capital and operating property taxation revenues. However, Council will pursue federal and provincial funds and other grant opportunities only after assessing their full-cost

implications. The City's Long Term Strategic Financial Framework, a document designed to steer the City towards financial sustainability, states that the City will not rely on grant funding and will only pursue grants that align with established community priorities;

- when certain and applicable City land parcels have been identified for development, leasing opportunities rather than straight land sales are a consideration as ownership of City land inventories can be retained while still generating ongoing and sustainable lease, tax, and utility revenue streams, thereby reducing property taxation. Alternatively, the City could maintain those City land inventories through land swaps or land sales and repurchase of other strategic land parcels, when contemplating land development opportunities of City lands; and
- wherever possible, the City maximizes development opportunities to provide community amenities. Generally, new developments should fund the increased infrastructure requirements.

Distribution of Property Taxes – Tax (Mill) Rates and Ratios

Section 197 of the *Community Charter* (**Attachment 2**) provides municipalities with the legislative ability to levy property taxes through a Property Tax Bylaw, and gives municipalities the discretion to establish different tax rates for each property class.

The flexibility to determine the ratio of tax rates allows Council to match revenue sources to Council's strategic goals. For example, if a Community Plan included an emphasis on encouraging growth in a particular class, Council could shift the tax burden to other classes in order to promote growth by keeping rates low comparative to other municipalities.

Municipalities have the option to use one of two methods to determine tax rates: fixed ratio or fixed rate.

In the fixed ratio approach, the rate for each class of property is calculated as a fixed multiple of the residential rate. Once this ratio is established, the actual rate is calculated to generate the needed revenues based on the pre-set multiples. Because changes in assessed values differ between the property classes year after year, the fixed ratio approach forces major tax shifts between residential and non-residential classes. Due to these major tax shifts, the majority of municipalities choose not to follow the fixed ratio approach because it puts the control of allocating the tax burden across classes in the hands of the tax multiple process rather than Council. The calculation of taxes is already complex with all the exemptions, capping, swings in assessed values year over year, etc.; adding tax multiples to the process just adds another layer of unnecessary complexity.

The City of Port Moody has traditionally used the fixed rate approach, where the portion collected from each class remains constant, but is adjusted according to non-market assessment changes (such as new development). This method does not generate higher tax revenue due to increased assessments or development; the tax rate (mill rate) is lowered to reflect assessment increases and achieve the revenue required. This approach ensures that the tax share is in line with Council policy, and not driven by market value changes.

Tax rates by Year and Class (Total Municipal portion, including drainage)

Class	2015	2016	2017	2018	2019
1	3.4682	3.2136	2.5774	2.4729	2.3986
2	38.5675	36.7230	34.0394	34.2865	34.2846
4	71.3002	72.6980	78.0150	70.6531	48.5610
5	18.5073	16.5666	15.4020	14.1856	12.7401
6	9.9577	8.6951	8.0874	6.9254	5.7003
8	2.9166	2.3426	2.3022	2.1159	1.9049

Tax Rates Ratios by Year

Class	2015	2016	2017	2018	2019
1	1.0	1.0	1.0	1.0	1.10
2	11.1	11.4	13.2	13.9	14.3
4	20.6	22.6	30.3	28.6	20.3
5	5.3	5.2	6.0	5.7	5.3
6	2.9	2.7	3.1	2.8	2.4
8	0.8	0.7	0.9	0.9	0.8

Distribution of property tax revenue among the property classes (2019)

Class	% Property Tax
Residential (1)	63.85%
Utility (2)	0.29%
Major Industry (4)	15.54%
Major Industry – Ports (4)	2.87%
Major Industry – Ports (New Investment) (4)	1.67%
Light Industry (5)	1.61%
Business/Other (6)	14.02%
Recreation/Non-Profit (8)	0.14%

Policy:

Taxation versus Services Consumed

Property taxation is an *ad valorem* tax system, which means that taxes are based on the assessed value of real property (land and improvements). Therefore, the City does not relate the amount of the tax levied on each individual property with the amount of service the City provides each property. Similarly, the City does not levy its taxes based on the number of occupants in a household using services as taxes are not user fees. Further to this, Council commits to ongoing reviews with the objective of establishing a tax policy that best distributes property taxes among the property classes.

Tax Class Capping

Council is concerned with the distribution of property taxes for classes where provincial capping has been legislated. Provincial tax rate capping can affect the equity of the allocation due to the capping being only applied to certain properties within the class:

- the *Ports Property Tax Act* – 2004 restricts the municipal tax rates to \$27.50 per \$1,000 of assessment value. Eligible new construction relating to port properties is taxed at

\$22.50 per \$1,000 of assessment value. The Province provides an annual grant to the City to assist in offsetting the cap, but since the grant is indexed to inflation and the tax increase may be higher, other taxpayers within the class are allocated the variance; and

- Class 2 Utilities with respect to the *Local Government Act 329/96* is capped at the greater of \$40 or 3.28 times Class 6 Business/Other.

Allocating the Tax Burden

After the provincial restrictions or capping of tax rates are met, the tax rates for the remaining classes are established by adding the Council approved tax increase to distribute the tax burden as equitably as possible across all tax classes, using a fixed share approach. Port Moody reviews its tax rates and the revenue derived from the different property tax classes periodically, and strives to keep the tax rates comparable to neighbouring jurisdictions. As mentioned, Council's policy is to allocate the tax increase equitably to each of the different tax classes recognizing that all tax classes have their own financial challenges.

The impact to tax rates can appear inequitable in some classes even though the tax dollars paid rise more equitably. The reason some tax rates rise more while other tax rates remain more constant is due to the fact that the assessed values, on which the tax rates are based to generate the required revenues, can move in different directions by class as well. When assessed values move in opposite directions for certain classes, the tax rates also need to move in step to keep the tax dollars paid equitable. Over time, tax rates moving in opposite directions to adjust for assessed values moving in opposite directions create significant variances in the tax rates between the classes. The only equity Council can achieve, without purposely directing tax shifts, is to try and keep the percentage increases to the tax dollars paid as equitable as possible.

Tax Exemptions – Permissive

Section 224 of the *Community Charter* (**Attachment 3**) provides Council with the authority to grant permissive property tax exemptions for:

- land or improvements owned or held by a charitable, philanthropic, or other not for profit corporation;
- land or improvements owned or held by a municipality, regional district, or other local authority; and
- improvements that the council considers would otherwise qualify for exemption under section 220 [*general statutory exemptions*].

The annual Permissive Tax Exemption Bylaw (Bylaw No 3209 for 2020) must be adopted before October 31st of any given year for the subject properties to be exempt for the following tax year. Staff utilize the City's Permissive Tax Exemption Guidelines (**Attachment 4**) to evaluate eligibility for a permissive tax exemption. A table of the 2020 permissive tax exemptions is attached (**Attachment 5**).

Tax Exemptions – Heritage

The Province provides opportunities under section 225 the *Community Charter* (**Attachment 6**) for municipalities to exempt, by bylaw, eligible heritage properties. The City has currently entered into one Heritage Revitalization agreement for the taxation years 2016-2020. The

agreement results in a reduction, not the elimination of taxes, by essentially freezing the assessed value of the improvements at pre-renovation levels. The exemption only applies to the municipal portion of taxes.

Tax Exemptions – Revitalization

The Province provides opportunities under section 226 of the *Community Charter* (**Attachment 7**) for municipalities to exempt, by bylaw, specific properties (including improvements) from municipal property value taxes for up to 10 years in order to encourage economic, social, or environmental revitalization within a community. The revitalization could be for a targeted or specific area, or encompass the entire municipality. Examples include: environmental revitalization (encouraging green building or environmental sustainability), economic revitalization (encouraging investment or employment), social revitalization (encouraging affordable or rental housing), etc. The exemption legislation could be implemented for a variety of reasons with regard to businesses (i.e. attract businesses; retain businesses to protect jobs).

The revitalization exemptions are for the municipal portion of taxes only; they do not trigger exemptions from school and other provincial property taxes (i.e. the exemption only applies to municipal taxes). The revitalization is not barred by section 25 of the *Community Charter* which prohibits assistance to business. The revitalization policy can also dictate the level of exemption; it does not have to be an “all or nothing” exemption of property taxes. The exemption process requires that Council establish by bylaw a revitalization program that outlines:

- a description of the reasons for and the objectives of the program;
- a description of how the program is intended to accomplish the objectives;
- a description of the kinds of property, or related activities or circumstances, that will be eligible for tax exemptions under the program;
- the extent of the tax exemptions available;
- the amounts of tax exemptions that may be provided under the Bylaw, by specifying amounts or by establishing formulas by which the amounts are to be determined, or both; and
- the maximum term of a tax exemption that may be provided under the Bylaw, which may not be longer than 10 years.

Other Options

Council may choose to continue with the fixed rate approach as is, continue with the fixed rate approach but adjust the tax burden to promote growth in particular classes, or shift to a fixed ratio approach.

Financial Implications

The Revenue Policy Disclosure does not impact the total tax revenue collected as part of a balanced budget; it only sets out the allocation of the tax burden amongst the tax classes.

Communications / Civic Engagement

The policy will be available to the public as it is a schedule to the Tax Rate Bylaw.

Council Strategic Plan Objectives

Exceptional Service – Provide the public with transparent and open government, and opportunities to provide input on City issues.

Attachments:

1. Section 165 of the *Community Charter*.
2. Section 197 of the *Community Charter*.
3. Section 224 of the *Community Charter*.
4. City's Permissive Tax Exemption Guidelines.
5. Section 225 of the *Community Charter*.
6. Section 226 of the *Community Charter*.

Report Author

Tyson Ganske

Manager of Financial Planning

Report Approval Details

Document Title:	Revenue Policy Disclosure – Policies and Objectives.docx
Attachments:	<ul style="list-style-type: none">- Attachment 1 - Section 165 of the Community Charter.docx- Attachment 2 - Section 197 of the Community Charter.docx- Attachment 3 - Section 224 of the Community Charter.docx- Attachment 4 - Permissive Guidelines.docx- Attachment 5 - 2020 Permissive Exemption Table.docx- Attachment 6 - Section 225 of the Community Charter.docx- Attachment 7 - Section 226 of the Community Charter.docx
Final Approval Date:	Feb 11, 2020

This report and all of its attachments were approved and signed as outlined below:

Dorothy Shermer, Corporate Officer - Feb 7, 2020 - 1:09 PM

Rosemary Lodge, Manager of Communications and Engagement - Feb 7, 2020 - 2:23 PM

Paul Rockwood, General Manager of Finance and Technology - Feb 9, 2020 - 10:00 PM

Tim Savoie, City Manager - Feb 11, 2020 - 2:06 PM