

**Municipal property tax in BC:
Principles and provincial strategies to
shape local tax distribution policy**

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EXECUTIVE SUMMARY

Property tax is the single most important revenue source for municipalities in British Columbia, accounting for approximately 48% of their total revenue (Tilley, 2008). Since the introduction of the variable tax rate system in 1983, municipalities have enjoyed discretion in setting property tax rates across the nine property classes. Over time the provincial government has realized that this level of municipal autonomy may not be appropriate as provincial interests have not been adequately reflected in the municipal tax rates and the distribution of property taxes among the property classes. This includes evidence that non-residential property tax rates have increased significantly more than residential tax rates over the last 20 years. This paper was completed for British Columbia's Ministry of Community and Rural Development to examine the principles of property tax rate setting and distribution among the property classes and the provincial-municipal relationship in that process.

The paper provides a history of the property tax system in BC since 1974. Other research methods employed include a literature review, a jurisdictional review of Canada (with specific attention on Ontario), Australia and New Zealand, and expert interviews. The paper uses this research to outline the principles of property tax rate setting municipalities currently consider when setting property tax rates. Though limited studies are found on the subject, municipalities are currently overtly taking into account a very narrow number of principles, with primary consideration given to stability, most notably for residents. The paper then examines the principles that municipalities should consider during the property tax rate setting process. These principles include equity, accountability, and the provincial interest, and should be balanced to meet the unique economic and social circumstances of individual municipalities. Finally, the paper explores strategies for the Province to exercise its authority in municipal property tax rate setting and the distribution of property tax among the property classes. These approaches include education and information, concurrent authority, the number of property classes, and tax rate limits.

The report recommends strategies for the provincial government to consider in pursuing policy on this topic. Firstly, the Province must identify its interest in municipal property tax rates. Once defined, this interest should be clearly articulated to municipalities and should guide future policy development in this topic. Secondly, the Province should engage with municipalities to create an ongoing open dialogue to encourage a greater understanding of each other's interests. Thirdly, the Province should build on the successes of current initiatives, including municipal financial disclosure requirements and information collection. The Province should continue to develop its relationship with municipalities through Union of British Columbia Municipalities. As well, the provincial government should learn from past experience in implementing property tax policy. Fourthly, information and education is an important component of property tax policy. This includes using the information the provincial government already collects through statistics and financial disclosure to its fullest extent. This information should be formatted into more accessible graphs and other formats for municipalities to use, and share with their citizens. The Ministry should also produce an updated tax rate manual for municipalities, which should include a more extensive discussion regarding tax principles. The final recommendation is the creation of a property tax rate warning system. Through this system the provincial government would identify municipalities with tax rates that were considered unsustainable due to high non-residential rates or over reliance on one taxpayer. This system would be used to work with

individual municipalities on financial planning and revenue alternatives, communicating with municipalities and residents the value of adopting different property tax policies and objectives.

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INTRODUCTION

In Canada, provincial governments have the constitutional authority to grant municipalities powers and responsibilities, including the power of taxation. Property tax is historically a central taxation power for most municipalities and a fundamental own-source revenue stream. It funds a wide range of services that benefit residents and businesses, including water, sewage, garbage and recycling, police, recreation, transportation, and others. Provincial governments have created diverse legislative structures that shape the amount of property tax revenue municipalities can collect. Still, there is a lack of understanding of the factors that influence local government decision-making in relation to finance and tax rates (Kennedy & McAllister, 2005).

In British Columbia municipalities have been granted relatively wide discretion in setting property tax rates and distributing the tax burden among property classes. The variable tax structure, introduced in 1983, gave municipalities in BC considerable more freedom in taxation matters than municipalities in most other provinces and, some would argue, North America (Kennedy, 2003; R. Bish, personal communication, April 15, 2009).

This paper will explore the property tax system in British Columbia, and specifically examine the principles of property tax rate setting and distribution of property tax among the property classes. This paper attempts to answer the following questions: ‘What are the current principles of municipal property tax rate setting and distribution of tax among the property classes?’; ‘What are the ideal principles of municipal property tax rate setting?’; and ‘If appropriate, what options should the provincial government pursue in exercising its authority to influence or intervene in municipal property tax rate setting?’.

The issue of property taxation is vast and complex, and thus this paper will focus on the particular portion of the topic of municipal property tax setting for general municipal purposes. Still, it must be recognized that in BC municipalities are not the sole organizations that charge taxes on property. The provincial government is responsible for collecting property tax in unincorporated areas. Other agencies that directly or indirectly collect property taxes on property are regional districts and regional hospital districts, BC Assessment, and the Municipal Finance Authority.¹ In 2006 the largest collector of property taxes was the provincial government through the school tax. In that year, over two-thirds of property tax was collected for school tax (Ministry of Finance in Kozak, 2007). With the recent introduction of a 50% rebate on school tax for major and light industrial properties this portion has decreased. Still, due to the substantial revenue that is collected, it has an important impact on the topic of municipal property tax. Even though a specific analysis of school tax is outside the scope of this paper, a number of instances where school tax has played a role in the reform of the municipal property tax system are identified.

The property tax system involves a series of interconnected programs. Components of the property tax system include assessment, tax rates, exemptions, and benefit and rebate programs. This paper focuses on property tax rates and the tax distribution policy that the rates reflect. Discussions regarding assessment practices and system will be included in a minimal manner. It is necessary to describe the role of property assessment as it provides the foundation upon which

¹ Regional Districts and Regional Hospital Districts do not have the power to directly levy taxes on property. They have requisitions that are provided to taxing authorities (municipalities and the Surveyor of Taxes) who then levy the taxes.

property taxes are levied. It is also essential in understanding both the history of property taxation in BC, and some of the current challenges the system is facing.

The first section of this report will provide a history of municipal property taxation in BC beginning in 1974 with the creation of the BC Assessment Authority and intention to implement full market value property assessment. The current property tax system developed from the variable tax system introduced in 1983. This system gave municipalities wide discretion in setting property tax rates for each of the nine property classes. This history will include a review of legislation, provincial reports and commissions, as well as provincial intervention in municipal property tax rates.

The methodology section will outline the research approaches that were undertaken for the remainder of the paper. This includes a review of research methods for the literature review, the jurisdictional review and the expert interviews. This research uses a range of qualitative research methods, that when taken together, through triangulation, increases the credibility of the results and presents a holistic analysis of the subject.

The subsequent section will review literature on the subject of property tax principles. This section will draw from a range of literature, including books and articles completed by academics and practitioners in the field of property tax. First it will provide an overview of principles of taxation. It will then explore current and ideal principles of property tax rate setting. Finally, the section will explore property taxation as a part of the municipal-provincial relationship, focusing on different system characteristics and strategies the provincial governments have used or may use to intervene in municipal property tax rate setting, and therefore, municipal tax distribution policy.

There are significant differences between property tax systems in different countries, and even between provinces in Canada. Still, much can be learned from examining other jurisdictions. The jurisdictional review will begin by examining the property tax systems across Canada, with particular attention to Ontario. Ontario was chosen for specific examination because of its complex property tax system, with extensive provincial involvement in tax rate limits. Then an examination of Australia and New Zealand will provide an international perspective on principles of property tax rate setting. These countries have been identified due to their similarities to Canada's federal system and significant number of government reports on their property tax systems, including discussion of principles and considerations in property tax rate setting. In each jurisdictional review the variety of principles of property tax rate setting will be explored, as well as the numerous strategies employed by provincial or state governments to exercise their authority in this area.

The following section reviews the results of the expert interviews. Dr. Enid Slack, Dr. Robert Bish, Dr. Jon Kesselman and Mr. Vander Ploeg were interviewed for this research, and all have extensive academic experience in property taxation and familiarity with the property tax system in BC. They were interviewed for their perspective on the challenges faced by the BC property tax system, principles of property tax rate setting and the appropriate role of the provincial government in municipal property tax rate setting. These interviews provided valuable perspectives on the specific and unique property tax structure in BC. The findings and analysis highlight common themes and opinion of the experts.

The analysis section reviews the central findings from the research, including current and ideal principles of property tax rate setting and distribution of property tax among the property classes. It then reviews the role of the provincial government in exercising its authority in municipal property tax rate setting. From this analysis a number of considerations are identified that should be taken into account as the provincial government creates or reforms policy or legislation on this topic.

The final section of the paper provides recommendations of strategies for the provincial government to exercise its authority in influencing or intervening in municipal property tax rate setting. These recommendations were developed to provide the provincial government with clear direction on this topic in order to avoid reactive decisions that could be ineffective and damage its relationship with municipalities.

A variety of background documents are provided in the appendixes. This includes graphs outlining how tax rates and the distribution of property tax has changed over the last 25 years, a description of the current property tax classes, a chronology of the property assessment and tax system in BC, biographies of the experts interviewed for this research, a review of municipal financial plans and fiscal disclosure requirements, a jurisdictional review of property tax systems in Canada, and a sample municipal financial statistical information sheet.

This report was completed for the Ministry of Community and Rural Development's Policy and Research Branch. This branch is responsible for local government legislation, and research and policy development to support provincial government programming and policy for local governments in BC. The final report is expected to provide the Ministry of Community and Rural Development with a better understanding of the history of the property tax system in BC, current circumstances and future legislative and non-legislative policy options in relation to municipal property tax in BC.

CONTEXT

There is a growing interest from business and industry, municipalities, and the provincial government in the property tax system and property tax rates in BC. There are two significant factors that explain the rationale behind this project.

Firstly, lobbying from the BC Business Council, Fraser Institute, and other business organizations has highlighted the increasing ratios² between residential and non-residential taxes in many municipalities in BC. The Canadian Federation of Independent Business (CFIB) produced a report on property tax rates in BC, arguing that businesses pay an average of three times the amount of property taxes than that of residential property owners (CFIB, 2008). Their research found that small business owners ranked municipal property tax as the most harmful tax they paid (CFIB, 2008). These business organizations are demanding the provincial government intervene in municipal property tax rate setting to decrease the property tax rates and therefore the amount of tax paid by business (class 6) and major industry (class 4).

The forest industry has made particular demands on this subject. The forest industry is a main owner of industrial property (class 4) with one half of the assessment base for major industrial class made up of sawmills and pulp and paper facilities (Sean Grant, personal communication, July 20, 2009). For a number of years companies in the forest industry have been facing financial challenges, which have been exacerbated by the recent world-wide recession. Industry representatives have argued that the high property tax rates are crippling the industry. In particular, Catalyst Paper Inc., which has four pulp and paper mills in communities on and near Vancouver Island, has stated that property tax rates are too high (“Catalyst Paper,” 2009). The company has proposed a new tax model based on a user-pay model of municipal services that would result in a significant decrease in the municipal property tax they pay. The company has also approached the provincial government to provide compensation to municipal governments for lost revenue that would result. Catalyst Paper Inc. and industry representatives argue that a reduction in municipal property tax rates for industrial property (class 4) is necessary for continual financial viability (“Catalyst Paper,” 2009).³

Secondly, recent provincial government initiatives and decisions have increased the attention given to municipal property tax rates and distribution. The provincial government appointed *BC Competition Council* studied the economic competitiveness of the province in 2006. They identified high major industry property tax rates as a disincentive for investment and recommended reducing the number of property classes or impose ratio limits on industry and business classes (BC Competition Council, 2006). Though the

² In calculating ratios of property tax rates, the residential tax rate is considered 1.0.

³ In June 2009, Catalyst Paper filed suits with the Supreme Court of British Columbia requesting a judicial review of property tax rates in the four communities where it operates pulp and paper mills (“Catalyst Paper,” 2009). A key element of the suit is that the municipal property tax rates are “unreasonable”. Following Catalyst’s court challenge several other industrial taxpayers have commenced similar court challenges (Leyne, 2009).

provincial government did not act directly on these recommendations, measures to increase accountability in municipal property taxation were introduced. The provincial government introduced amendments to the *Community Charter* in 2007, implementing stiffer municipal requirements on financial transparency. This initiative requires municipalities to consider and describe their revenue and tax setting process and policy decisions explicitly. This included providing policies and objectives in relation to the distribution of property tax among the property classes. As well, municipalities must communicate these policies and objectives to residents and the provincial government. These financial disclosure requirements have put a greater focus on property tax rates setting policy and principles.

Other provincial action has also led to increased attention given to municipal property taxation. In November 2008 the provincial government announced a freeze on property assessments at the lower of the 2007 or 2008 values. The media and residents quickly realized that a freeze on assessment values do not necessarily result in a lower municipal property tax bill. This announcement highlighted the issue of property taxes, and brought attention to municipalities and their tax setting policies

These factors have together contributed to increasing pressure to examine the issue of property taxation and to have the provincial government take action on property tax rates. There is an increasing recognition among provincial government elected official and staff that insufficient and inconsistent attention has been given to the municipal property tax system, including tax rates, by the provincial government. The provincial government is recognizing that municipal property tax policies and practices can have an important impact on local and provincial economic competitiveness as witnessed in recent government reports and actions. It is important for the provincial government to possess a full understanding of the incidence and impact of municipal property tax rates. The current recession and the financial effect it is having on industries in BC has intensified the situation and has put more pressure on the provincial government to provide a rapid response to this issue.

Increasing non-residential tax rates

Though industry and businesses have been lobbying the government to limit non-residential property tax rates, it is important to study the validity of their claims of increasing non-residential property tax rates. Proving the soundness of these claims can be difficult due to the complexity of the property tax system. As well, though numerical differentiations between tax rates may be demonstrated, the issue of overburdening classes of taxpayers is largely subjective.

When examining municipal property tax in relation to other taxes paid by individual and businesses it is a relatively small expense. In fact, local government taxes in Canada made up 8.9% of all taxes collected in 2007 (Vander Ploeg, 2008). This share has also been steadily declining from 16.7% of taxes collected in 1961 (Vander Ploeg, 2008). Though it may form a minor part of their overall tax bill, the small sector of non-residential taxpayers⁴ are increasingly vocal about the property taxes they are paying. They are recognizing how

⁴ In British Columbia, 87.6 per cent of all properties are classified as Residential (Class 1) (BC Assessment, 2009a).

their property tax rates differ from other property classes due to the tax distribution decisions municipal governments are making. As well, property taxes are a fixed cost that businesses would like to reduce.

An examination of municipal property tax rates over the last 20 years demonstrates that non-residential tax rates are higher than residential tax rates. Bish (2004) found that business property classes in BC often pay higher rates than residential classes. Mezynska (2005) examined major industry property tax rates and found that the weighted average tax rate had increased over the last 20 years. As well, studies of individual municipalities have found that non-residential taxpayers pay higher property tax rates than residents (KPMG and MMK Consulting in Mezynska, 2005). The *BC Competition Council* found that the ratio of major industry property tax rate to the residential rate was “extremely high” in BC, and identified municipal taxation as the “principal social rent” affecting the pulp and paper industry (BC Competition Council, 2006, p. 32).

Appendix A provides graphs and numerical data demonstrating how tax rate multiples have changed over the last 20 years. This examination includes a review of average property tax rates across the province, as well as individual municipalities. Tax rates are compared for residential (class 1), heavy industrial (class 4), light industrial (class 5) and business/other (class 6) for a number of years to give a snapshot of tax rates since the introduction of the variable property tax rate system. The review of a sample of 16 individual BC municipalities⁵ finds that those with industrial property have chosen to levy industrial property (class 4) with tax rates that are four to twelve times the rate of residential property tax rates. Still, the graphs of tax rates and tax multiples present different perspectives on this issue. While tax multiples have increased, tax rates have been decreasing, though residential rates more than non-residential rates.

An examination of tax rates and multiples does not demonstrate the whole story. The issue of higher non-residential property tax is complex for a number of reasons, including assessment, costs and benefits, and externalities. Firstly, there are different assessment procedures for different property classes. In BC, residential and non-residential properties are not all assessed in the same manner. Industrial properties (class 4) are assessed by a regulated “cost less depreciation”. This approach emphasizes stability of assessment by using a proxy for market value. Conversely, reliance on assessment methods that reflect economic factors (like obsolescence) can result in dramatic swings in assessment. Though this assessment methodology provides a relatively stable industrial assessment base, municipalities face a shrinking industrial tax base over time if there is no new investment. Some municipalities, like Vancouver, have tax distribution policies in place that outline that a percentage of their property tax revenue will come from a class, regardless of the property assessment. As a result, for industrial property (class 4) which is assessed by a cost less depreciation approach, if no new investment is made the assessment value decreases. If the municipality chooses to collect the same amount of revenue from that industrial taxpayer then it must increase the tax rate to achieve this. If this practice continues year over year,

⁵ To provide continuity this sample of municipalities is the same that was studied in the review of financial plans found in Appendix D.

the tax ratio increases and eventually the municipality has a high industrial tax rate that may discourage new investment.

Secondly, it is difficult to compare different property classes due to differing costs and benefits of property taxation. Some scholars have argued that property taxes on non-residential property should be evaluated differently because for business owners property taxes are tax-deductible (Ministry of Municipal Affairs, 1999). Furthermore, the direct and indirect benefits received by different properties vary greatly.

Finally, tax rates and the distribution of taxes may reflect policy that perceives taxation as compensation to the surrounding community for negative impacts, or externalities, that the industry can have on the host community (New Zealand Local Government, 2002). These negative impacts may include pollution, smell or noise. These differences need to be explicitly acknowledged in any discussion regarding the comparison of property tax rates. The next section will provide a history of property tax in BC since 1974, providing an in-depth review of the variable property tax system that is currently in place.

HISTORY

This section will describe the history of municipal property tax system in BC, beginning in 1974 to the present day.⁶ This history will illuminate assessment practices, provincial commissions and reports on property taxation, and provincial influence and intervention in municipal property tax rate setting.

In BC the provincial government is responsible for the legislative framework that gives municipalities the power to levy property taxes. This legislation currently provides municipalities' broad discretion in setting property tax rates among the nine property classes.⁷ The evolution of the property tax system in BC has occurred simultaneously with the changing relationship between provincial and municipal governments. This relationship has developed from one characterised by a high degree of provincial control to one of increasing municipal independence and empowerment. This municipal independence is particularly evident in the realm of property taxation.

Appendix C provides a chronology of property assessment and tax system changes in BC from 1982-2009. It provides information on major changes to the property tax system and wider historical developments, building on the work of Jennifer Whybrow (Whybrow, 1993).

Before the variable tax system

The modern property tax system in BC began over 40 years ago, with the creation of the BC Assessment Authority. Before 1974, each local government was responsible for property assessment within their jurisdiction. This system involved many different assessors providing services to local governments, and resulted in disparity in property assessment values across the province, and even within municipalities.⁸ These discrepancies were not problematic until the creation of large regional school districts that encompassed more than one municipality. At the time there was a direct relationship between school taxes levied on the assessment base and funding for school districts. Therefore, if the property assessments completed within a school district were not uniform it could result in one municipality contributing a larger share of school tax revenue to the school district. Another consequence was a lack of separation between assessment and taxation with the local governments involved in both activities, which undermined the property tax system (BC Assessment, 2004).

⁶ This history was compiled through interviews with Brian Walisser, Senior Advisor, Policy and Research, Ministry of Community and Rural Development and Dale Wall, Deputy Minister, Ministry of Community and Rural Development. The author is very grateful for their assistance.

⁷ Appendix B provides a list and description of the nine current property tax classes.

⁸ During that time, property assessment in unincorporated areas was completed by a rural surveyor of taxes. The Assessment Equalization Commission was in place to provide some continuity of assessment across the province.

The BC Assessment Authority, a crown corporation created by the provincial government in July 1974, was created to undertake standardized property assessment across BC. An all-party legislative committee recommended its creation (Continuing Legal Education Society of BC, 1990). The *Assessment Authority Act*, which created the Authority, was drafted over a weekend after the president of the Union of British Columbia Municipalities (UBCM) received a phone call from Premier Dave Barrett.⁹ The creation of the Authority was intended to bring more uniformity and fairness to the property assessment system.

Before 1974, municipalities set a single municipal tax rate on properties that were assessed at a fraction of their market value. The fractional assessment differed depending on the property classification. To prevent excessive shifts in tax burden with the introduction of provincial assessment, the BC Assessment Authority¹⁰ identified the average fractional assessment values that were being applied by municipalities before provincial assessment was introduced (Collins, 1992). These fractions were then applied to the assessment of all property. As a result, in 1978, residential properties were assessed at 15% of their actual value, business and other commercial properties at 25% and industrial properties at 30% (Ministry of Municipal Affairs, 1977).

The ‘*Commission of Inquiry on Property Assessment and Taxation*,’ commonly referred to as the McMath Commission, was appointed in 1975. The Commission was mandated to examine the revenue sources of local and regional governments in relation to their responsibilities (McMath Commission, 1976). This included studying the property assessment system and property taxation. The Commission released a preliminary report in 1976. Among other advice, the Commission recommended a move to a property assessment system at 100% of market value. Due to a change in government the work of the Commission was terminated that year and a final report was not released. Still, the Commission’s preliminary report marked the beginning of five years of consultation on the subject (Ministry of Municipal Affairs, Recreation and Culture, 1990).

Even after the creation of the BC Assessment Authority and the McMath Commission report, the move towards full market value assessment was incremental. In the late 1970s the provincial government examined the viability of implementing full value assessment but decided the transition would be too difficult. Then the provincial government attempted to have municipalities voluntarily choose full value assessment by implementing, through regulation, four assessment options. Once the BC Assessment Authority gave municipalities these assessment options, only a few municipalities chose to have the property assessed at full market value.

In 1978¹¹, the first full assessment roll with nine separate property classes was completed, but was initially only used for research purposes. For taxation purposes each property class

⁹ The drafting of the *Assessment Authority Act* may have been accelerated due to an impending election. The New Democratic Party under Premier Dave Barrett was only in power from 1972 to 1975.

¹⁰ The BC Assessment Authority changed its name to BC Assessment in 1994.

¹¹ Between 1978 and 1989 the Ministers of Finance for the province all had background in local government. This unique political situation contributed to the changes in provincial legislation and policy regarding local government finance.

continued to be assessed at a ratio of its value that was determined by the provincial government (Ministry of Municipal Affairs, Recreation and Culture, 1990). In 1980, in response to the rapid expansion of the economy and increasing residential values, the provincial government reduced the assessment ratios on residential property from 15 to 14.5% (Fleming & Anderson, 1984, p. 14). As the economy continued to grow and market values rose the provincial government again reduced assessment ratios on residential properties, in 1981 (14.5 to 11%) and in 1982 (11 to 10%) (Fleming & Anderson, 1984). Then after a tremendous boom in the economy and interest rates increasing through 1981, the market crashed in 1982. The BC Assessment Authority sent out assessment on properties that had since lost value and thus 130,000 assessment appeals were made. The volatile assessment situation and corresponding property tax increases prompted the provincial government to consider property assessment and tax reforms.

School tax on property was another contributing factor to the assessment and tax policy reforms. As mentioned previously, at the time property assessments were very important in determining how much funding a school district would receive, with local school boards setting the school tax for their district. In 1981, the large increases in property assessment coupled with school budget increases of an average of 19% resulted in pronounced increases in school taxes in certain areas and exacerbated inequalities in education funding (Fleming & Anderson, 1984). In response to public concern over school property tax levels, the provincial government appointed the “Committee to examine the effect of rapid rises in homeowner real estate values on school taxation” in 1981 (Fleming & Anderson, 1984). In the Committee’s *School Taxation Report* several, mostly technical, recommendations were put forward. One recommendation was for the provincial government to take responsibility for non-residential school tax. This recommendation was ultimately accepted.¹²

In response to the economic instability of 1982, the provincial government wanted to remove itself from de facto property tax rate setting that transpired from setting assessment ratios. The government decided to stop having municipalities set uniform property tax rates on provincially determined variable property class assessments. Instead the system was reformed to have uniform full value assessments completed by the province through BC Assessment, with municipalities setting variable tax rates based on property class (Scales, 2008).

Variable tax system

In November 1982 the provincial government announced it had given approval in principle to a variable tax rate system (Collins, 1992). The variable tax system would involve all property being assessed at 100% of its actual value and would give municipalities the discretion to set tax rates for each of the nine property classes. Ken McLeod, Director of Policy at the Ministry of Municipal Affairs, and Phil Halkett, Director of Tax Policy at the Ministry of Finance were tasked with the internal process to create this new system. As well, the Ministries of Finance and Municipal Affairs held regional public meetings across the province as part of the significant consultation process (Ministry of Municipal Affairs,

¹² In 1982 the provincial government faced a deficit and moved non-residential school tax into general revenue.

Recreation and Culture, 1990 and 1990a). In 1983, the provincial government introduced the variable tax rate system formally through Bill 7 *Property Tax Reform Act (No. 1)*.

The businesses community at the time did not support the move to a variable rate system because they were concerned that businesses would face significantly higher property tax rates. The business community suggested a maximum ratio of 2:1 for business tax rates. Municipalities did not support any tax limits and in the end no limits were introduced.

Following the introduction of the variable tax rate system bill in 1983, an election was called¹³ and Bill 7 died. Nevertheless, the variable tax rate system proceeded to be implemented, initially without legislation. Through letters to municipal mayors, the Province asked municipalities to set variable tax rates based on the promise that the law would be introduced in the next session.¹⁴ When the Social Credit party was re-elected the bill was introduced again, but failed to proceed to adoption due to political upheaval over an economic restraint package initiated by the government.

Finally, in late 1983, a revised bill was passed. In the first year of the new property tax system only municipal and regional district tax rates were variable. A supplementary bill, *Bill No. 12 Property Tax Reform Act (#2)* was also passed in 1983, for implementation in 1984. This Act allowed all property tax rates, including hospital and school tax, to be included in the variable tax system.

In 1984 all property was assessed at full market value and municipalities were given the discretionary power to set property tax rates for the different property classes. The provincial government kept the right to set limits on the tax rates imposed on a specific class of property.¹⁵ Municipalities were informed that the provincial government would be monitoring tax rates, as municipalities were required to report their tax rates to the Province on an annual basis. Officially, the Ministry of Finance was tasked with the job of monitoring tax rates for the initial years. The Ministry of Municipal Affairs was responsible for communicating with municipalities and completing field visits to every municipality in the province on an annual basis.

To assist municipalities with the new system, the Province created and distributed the guide, *'Variable tax rates: A guide for implementation'* in 1983. The guide provided an explanation of the variable property tax system, and gave both analytical and practical advice regarding the calculation of property tax rates. The guide emphasized the importance of adopting tax policies and outlined two possible objectives: stability and equity.¹⁶ It also highlighted the importance of on-going monitoring and the creation of

¹³ The election was held on May 5, 1983.

¹⁴ During the election campaign both the Social Credit and New Democratic parties promised that the legislation would be introduced if elected.

¹⁵ The authority for the provincial government to limit tax rates and ratios is now found in Section 199 of the *Community Charter*.

¹⁶ An updated guide was completed in recent years by the Ministry of Community Development's Local Government Finance department. Though unpublished, it outlines the policy objectives including tax rate stability, economic stability, fairness and equity (Ministry of Community Development, n.d.).

benchmarks to compare and evaluate the tax base, effective tax rates,¹⁷ absolute tax share, and percentage tax share (British Columbia, 1983).

Between 1983 and 1988, the Province adjusted the variable tax rate system to respond to industry concerns on specific issues. These changes can be found in Appendix C, which provides a chronology of property tax. They include introducing the major industry property class in 1987 and changes to assessment of utility and industry property. In 1989, a wider examination of the property tax system in general was undertaken. In that year, the Ministry of Municipal Affairs collaborated with UBCM on two property tax projects. The first was a joint committee of provincial and UBCM representatives, who produced the report *Financing Local Government*. From this report, the provincial government introduced new tax measures to assist local governments in raising property tax revenue. In 1989/90, a flat tax and split tax¹⁸ were introduced. The flat tax and split tax were both eliminated in 1992 (Whybrow, 1993). These taxes were not widely implemented by municipalities. As well, the flat tax was recognized as inherently vertically inequitable.

In 1989 the provincial government also jointly hosted the *Property Tax Forum*. It was a collaborative effort between the Ministry of Finance and Corporate Relations, Ministry of Municipal Affairs, Recreation and Culture, BC Assessment Authority and UBCM. The committee included the Ministers of Finance and Municipal Affairs, the president of UBCM and a member of the public. It held a series of 14 public forums across the province to solicit public views on property tax issues (UBCM, 2000). No notable property tax reforms resulted from this public outreach.

Property tax limits

In 1985, there was an economic downturn in the resource industry. Industrial businesses in the province were caught holding a large amount of taxable capital with high assessment values. In response, the provincial government instituted a number of measures. The first was to remove the school tax on machinery and equipment, a move that reduced industrial tax by \$250 million per year. The provincial government also reduced the school tax rates for industrial properties (Ministry of Municipal Affairs, Recreation and Culture, 1990). These changes reduced the property tax protests from industry owners and lobbyists. Additional changes were made to industrial property assessment in 1987. In that year, industrial properties were split into two new classes (major and light industry), and the industrial property received a new assessment system with the introduction of the Major Industrial Properties (MIPS) manual.¹⁹

During the years initially following the implementation of the variable tax rate system, municipalities continued to use ratios that were very similar to those applied by the

¹⁷ The effective property tax rate is obtained by dividing the amount paid in property tax on a property by the full actual property value and multiplying the result by 100.

¹⁸ The flat tax allowed municipalities to replace general property tax levied based on value with an identical amount charged on each piece of residential property regardless of value. The split tax allowed municipalities to charge a different tax rate on residential land and improvements (Whybrow, 1993)

¹⁹ The Major Industrial Property Manual (MIPS) is the valuation manual and properties assessed under it are “subject to depreciation rates that are prescribed by regulation, as well as interest during construction and the update factor, which considers inflation (Ursala, 2005, p. 17)

provincial government for rural property taxation (Bish, 2004). Over time there was a growing perception that the ratio between residential and non-residential property tax rates were increasing. According to Bish (2004), municipalities “increased the ratios of tax rates on business, industry, and utilities relative to residential tax rates, with some ratios and rates becoming not only high, but indeed the highest in North America” (p. 9). In response to rising ratios, business and industry owners lobbied the provincial government for further changes to the property tax system, including direct provincial government intervention. Subsequently the Province intervened to limit tax rates on Utilities (Class 2) and designated port terminals (part of Class 4).

Utility tax rate limits

Property tax rates on Utilities (class 2) were capped in 1996. The impetus for this tax rate limit began a decade earlier and involved a number of changes to the assessment and taxation of railway property. Initially, land values in railway corridors were assessed based on “across the fence” values, that is, at a similar assessment value to adjacent land. In 1986, to reduce railway assessment values and stabilize the property tax paid by railway companies, the provincial government introduced a standardized per kilometre assessment procedure for railway property (Whybrow, 1993). This assessment practice involved calculating the value of a rail corridor as a whole, and then evenly dividing this value across the whole corridor. As a result, rural corridor land with low assessed value saw assessment increases, while urban corridor land with high assessed value saw assessment decreases. In response, municipalities considered their tax rates for utilities (class 2). Urban municipalities tended to increase their utility tax rate to offset the decline in assessed value, while rural municipalities tended to keep their rates in place and received a large increase in revenue. As a result railway companies paid more in property taxation in both urban and rural municipalities.

This change to railway assessment practices did not achieve the intended outcome of stabilized property taxes. The government’s attempt to rationalize the assessed value of railway property had been offset with higher municipal property tax rates. Railway companies saw the resulting taxes as excessive, hindering their ability to compete with railways in the United States, discouraging new investment in terminals and railway track, and ultimately threatening their economic viability (Kennedy, 2003). In 1995, there was greater pressure to resolve the utility property tax issue with the finalization of the new rail service between Mission and Vancouver with the West Coast Express. The government felt it was necessary to intervene by making a number of changes in assessment practice, mainly aimed at lowering railway taxable values, and also by limiting utility (class 2) rates to ensure that the earlier experience of offsetting rate increases was not repeated. Initially the Province tried, unsuccessfully, to negotiate with UBCM (Scales, 2008). Then the Province, invoking the equivalent legislation to the current section 199 of the *Community Charter*, limited municipalities to setting property tax rates on utility property to \$40 per \$1,000 of assessed value or 2.5 times the municipality’s class 6 rate, whichever rate was higher (*Taxation Rate Cap for Class 2 Property Regulation*, 1996). Unsurprisingly, the resulting regulation was very contentious among municipalities.

Ports property tax rate limits

The provincial government also limited the property tax rates for designated ports property. The *Ports Property Tax Act* was introduced in 2004 after research found that BC ports were taxed at a much higher rate than their competitors (Mezynska, 2005). The legislation limited the property tax rate on port property (part of the industrial property class 4) to \$27.50 per \$1,000 of assessed value for five years, and limited the tax rate on new investment to \$22.50 per \$1,000 of assessed value for 10 years from the initial assessment. In 2008, the limit on port property tax rates was extended to 2018, and the limit on the tax rate for new investment was extended to 2019 (*Ports Property Tax Act*).

After the strong negative municipal reaction to the tax limits on utility property (class 2) the provincial government provided monetary compensation to the municipalities affected by the ports property tax rate limits. As outlined in the legislation, each of the seven affected municipalities received between \$40,000 and \$1.3 million annually from the Province for years of 2004-2008 (*Ports Property Tax Act*). When the limits were renewed in 2008 the monetary compensation was extended to 2018, with increases based on inflation (*Ports Property Tax Act*).

Competition Council

In 2005 the provincial government established the *BC Competition Council* to review the province's competitive position and to recommend strategies for the private and public sector to improve British Columbia's economic competitiveness (BC Competition Council, 2006). Over a year the Council set up advisory committees, reviewed background papers on different sectors of the economy, and presented a final report with recommendations to the provincial government.

In its June 2006 final report, the Council expressed concerns about increase in the ratio of property tax rates between the major industry and the residential classes. The Council believed that in some municipalities the problem had reached a point where high ratios were having "a serious impact on the competitiveness of industry in those regions" (BC Competition Council, 2006a, p.12). While it recognized that the municipal property tax system was complex and difficult to change, the final recommendation in regards to industrial property tax rates was explicit, stating that:

Municipalities must reduce the tax burden on the major industry sector particularly where the ratio of industry versus residential rates is high. If this is not done, the Province needs to take the lead in consulting on and implementing required changes. (BC Competition Council, 2006a, p.12).

The Council recommended possible solutions, including reducing the number of property classes to combine industry and service businesses in one class, or impose ratio limits on industry and business classes. It recognized that these changes would require provincial government financial assistance to municipalities to be able to adjust to the changes in revenue (BC Competition Council, 2006a).

The Council's report raised awareness of a broader problem of high tax ratios between industrial/commercial and residential property tax rates, but the provincial government chose not to act directly on the recommendations. Instead, Cabinet directed the Minister of

Community Services, as it was then named, to explore eliminating the *Community Charter's* prohibition of municipal assistance to business. The examination found that the removal of the prohibition would have significant trade and other implications in light of the soon to be implemented Trade, Investment and Labour Mobility Agreement (TILMA) with Alberta. In response, alternative approaches for enhancing the tax competitiveness and accountability of municipal governments were put forward. The first component was to significantly broaden the use of revitalization tax exemptions. This led to a larger discussion regarding tax policy, and strategies to increase municipal accountability through public information and requiring municipalities to develop five- year tax plans with consultation with the community. As a result, new financial disclosure requirements for municipalities were introduced. It was also recommended that a best practice guide and education program be developed for municipalities regarding municipal taxation.²⁰

Revitalization tax exemption

In 2007, municipalities were enabled to provide tax exemptions to encourage different forms of revitalization in their communities. These exemptions broadening the type, reason, and length of time a municipality could offer reductions in property taxes for individual properties or properties of a specific type or within a specific area. For example, a municipality could use “a tax exemption to revitalize its economic base by partially exempting the pulp mill from disproportionately high industrial taxes, thereby supporting the pulp mill’s investment in the community and helping keep jobs” (Ministry of Community Development, 2007). Other examples included tax exemption for brownfield developments, affordable housing, environmentally sustainable development and downtown revitalization. Municipalities were required to justify the revitalization tax exemptions and demonstrate how the exemptions corresponded to the municipalities’ overall policies and objectives.

Fiscal disclosure

In 2007, the Ministry introduced amendments to the *Community Charter*, to require municipalities to provide more detailed municipal revenue and tax policy information. Municipalities are now required to include statements in their five-year financial plans regarding the objectives and policies in relation to each of the following:

- proportion of total revenue that is proposed to come from each of their funding sources described in Section 165(7) of the *Community Charter*,²¹
- distribution of property value taxes among the property classes, and
- use of permissive tax exemptions.

These requirements were introduced in 2007 with phased-in implementation. In 2008 municipalities were required to provide general objective statements for each of the three topics. Full requirements in 2009 entail municipalities to provide more detailed policy and objective statements. The stricter financial disclosure requirements were intended to

²⁰ The latter recommendation is the only recommendation that was not implemented.

²¹ 165(7) The proposed funding sources must set out separate amounts for each of the following as applicable: (a) revenue from property value taxes; (b) revenue from parcel taxes; (c) revenue from fees; (d) revenue from other sources; (e) proceeds from borrowing, other than borrowing under section 177 [*revenue anticipation borrowing*].

enhance municipal accountability in tax setting and support municipalities in considering their financial situation and tax setting behaviour.

Current legislation and property tax initiatives

The *Community Charter* provides the current legislative framework for municipalities and gives them the right to levy property taxes, with some specific rate restrictions. In the *Community Charter*, section 197 outlines that municipalities can introduce a property tax bylaw that may establish a different tax rate for each property class. These property taxes are levied on the full market value of the property as assessed by BC Assessment.

Though unrestricted discretion in property tax rate setting was given to municipalities in 1983, the provincial government kept the right to limit property tax rates. In the *Community Charter*, section 199 allows the Lieutenant Governor in Council to make regulations in respect to tax rates, including prescribing limits on tax rates or the relationships between tax rates.

In the 2009 throne speech the government announced a 50% rebate on school property taxes for light and heavy industrial properties, and plans to “protect provincial tax reductions” against local property tax increases. The speech specifically outlined that:

Now more than ever, we need to maintain low taxes. New tax relief gives light and heavy industry a 50 per cent rebate on school property taxes. That will help save jobs, particularly in rural communities. Yet more needs to be done to ensure that provincial tax relief is not negated by local property tax hikes. Our government will work with the Union of British Columbia Municipalities to develop new legislation over the summer, for introduction early next year, that will protect provincial tax reductions. All levels of government must be equally disciplined to ensure that tax reductions at one level of government are not negated by tax increases at another. (British Columbia, 2009, ¶ 71)

As a result, the provincial government will be working on this subject over the coming months.

This section provided a history of property tax in BC since 1974. Through this examination a better understanding of how and why the current property tax system developed can be gained. As well, this history provides examples of past strategies that were undertaken, including those that were successful and unsuccessful to different degrees. Some of the main themes that can be identified through this history are the instances of the provincial government’s radical intervention in the municipal property tax system, provincial compensation provided to municipalities for lost tax revenue, the relationship with UBCM and individual municipalities, and ongoing changes that have been made to non-residential property assessment and tax rates. Overall, the history demonstrates the complexity of the property tax system in BC. The next section reviews the methodology of the research undertaken for this paper.

METHODOLOGY

This research employs a number of research methods, including a literature review, jurisdictional review and expert interviews, to explore the topic of principles of property tax rate setting, and provincial involvement in municipal property tax rate setting. These research methods were cumulatively used to answer the following questions: ‘What are the current principles of municipal property tax rate setting and distribution of tax among the property classes?’; ‘What are the ideal principles of municipal property tax rate setting?’; and ‘If appropriate, what options should the provincial government pursue in exercising its authority to influence or intervene in municipal property tax rate setting?’. The range of research methods used in this project contributed to a more holistic understanding of the issue.

The literature review provides background material on the subject and offers grounding in the central issues. This portion of the research process began with a review of introductory texts on local government finance. Then, provincial government publications, including committee and commission report, were reviewed. Using the bibliographies from these texts and reports numerous other publications on the property tax system and process were found. Additionally, the Policy and Research branch librarian assisted in finding more obscure Ministry publications, including historical documents. The literature included academic texts, government reports from British Columbia and other provinces, as well as reports completed by think tanks and other organizations.

The jurisdictional review offers an opportunity for comparison between systems, provides considerations for different ways of designing a property tax system, and explores strategies for state or provincial influence and intervention. Though there are limitations in examining other jurisdictions due to the diversity in system components, it is also possible to learn from some of the challenges and successes of those jurisdictions. This research also involved an examination of academic literature, government commission findings and reports, legislation, opinions of local government associations, and individual jurisdictional websites.

The jurisdictional review involved work with the Intergovernmental Committee on Urban and Regional Research (ICURR).²² With the assistance of ICURR, a comprehensive review of provincial property tax systems in Canada was undertaken. Research questions were developed to solicit information regarding property assessment (method and frequency), the value that property tax was charged on (either full value or a fraction of the value), number and type of property classes, and municipal discretion in setting property tax rates. As well, the research examined provincial restrictions on property tax rates, provincial monitoring of property tax rates and tax setting behaviour, and other provincial government involvement

²² The Intergovernmental Committee on Urban and Regional Research (ICURR) was created in 1967 by Canadian First Ministers for the purpose of exchanging information on urban and regional matters between all levels of government. ICURR is funded by all the provinces and territories and the Canada Mortgage and Housing Corporation.

in property tax rate setting. The questions also explored the services that were funded with general municipal property tax revenue, and the other governments and agencies that shared the property tax base. Finally, jurisdictions were asked what tools provincial governments possessed to achieve provincially desired outcomes in the property tax system. This research was complemented by literature and Internet research to further examine particular provinces and programs.

Then a more in-depth jurisdictional review of Ontario, Australia and New Zealand was undertaken. This research included reading applicable literature by academics, examining legislation, and reviewing websites of provincial and state governments, and local governments and their membership organizations.

The final research component was expert interviews. This research approach was chosen because of the limited literature on the subject, and the specific information and opinions these experts could offer on the current and unique situation of BC's tax system. These interviews involved open-ended questions regarding property tax rate principles, and provincial involvement in municipal property tax rate setting. As this research involved human participants, approval was obtained from University of Victoria Human Research Ethics Board. Therefore, the answers provided by the research subjects were protected according to the ethical standards outlined by the University of Victoria Human Research Ethics Board.

Interviews were conducted with academics or analysts in local government property taxation. The experts were identified through the literature review and recommendations from practitioners at the Ministry of Community and Rural Development. The interview pool was made up of academics and analysts who had written on municipal property tax policy and were familiar with BC's property tax system. It was quickly realized that the pool of potential interviewees was very limited because there are a small number of people working on property tax policy, and an even smaller number who are very knowledgeable of the complex BC property tax system. From the original list of individuals who were identified there was an attempt to interview each individual. Some of the individuals contacted did not participate due to non-response or conflict with other work they were currently completing for the Ministry. Though the final number of experts interviewed was small, they did offer diverse perspectives due to their backgrounds.

Interviewees were contacted by telephone and e-mail. Contact information for participants was obtained through Internet web searches and participants were only contacted through their public contact information available through the organization in which they were affiliated. Participants were invited to participate in an interview for the research project. If they agreed, an appointment was arranged and they were sent a letter of informed consent that outlined the research purpose and process and the interview questions. The interviewees demonstrated their consent by participating in the interview. They were fully aware of the interview process and very familiar with the subject matter. Participants were informed that they were free to end the interview at any point. Also, by obtaining the questions in advance of our meeting, participants were able to select which questions they wished to discuss. The interviews took place over the phone over a three-week period in April 2009. Each interview was approximately 45 minutes long.

The participants were informed that the information they provided during the interview might be included in this report. The experts were specifically asked for their consent to having their name attributed to the comments they made during the course of the interview. It was important that their responses were attributed to them and their organizations as a way of ensuring the credibility of the report and the information they provided. Participants were granted access to information concerning the research findings of this project.

The following experts were interviewed: Dr. Enid Slack, Dr. Robert Bish, Mr. Casey Vander Ploeg, and Dr. Jonathan Kesselman. Biographies of these individuals are provided in Appendix D. Each interviewee had a unique perspective based on their past work examining property tax systems and rates. Dr. Slack was a member of the *Property Tax Policy Review Commission*, an expert panel that examined the residential and non-residential property tax burden for the City of Vancouver. Dr. Bish completed research on industrial (class 4) property tax rates in BC. Mr. Vander Ploeg examined property tax as a revenue-raising tool in western Canada. Dr. Kesselman completed a study for the City of North Vancouver on property tax rates and revenue in relation to the ports property tax rate limits.

After introducing the project and confirming consent, the interviewees were asked six open-ended questions. The questions posed to the experts were:

1. Do you think there are problems with the British Columbia property tax system?
 - 1a. If so, what do you think the primary problem with the BC property tax system is?
2. What principles do you think municipalities currently use when deciding general municipal property tax rates?
3. What principles do you think municipalities should use when deciding general municipal property tax rates?
4. Do you think a provincial government should have influence over general municipal property tax rates?
5. How do you think the BC provincial government currently influences property tax rates?
6. What tools do you think a provincial government should have to ensure “appropriate” general municipal property tax rates are achieved?

As appropriate, follow-up questions were asked to probe more deeply into ideas, clarify any responses and more fully understand the interviewees’ perspective.

This section outlined the number of research methods that were used to explore the topic of property tax in BC. The use of a variety of research methods was important in providing a holistic representation and analysis of the many different issues involved in the municipal property tax system in BC. The following section will review the literature on the subject to provide a foundation for subsequent research in the rest of the paper.

LITERATURE REVIEW

This section provides an extensive review of the current literature related to property tax systems and rate setting. It begins by examining general tax principles, and then specifically the literature on current principles evident in property tax rate setting and distribution of taxes among the property classes. Subsequently a review of the literature of ideal principles that municipalities should be considering when setting property tax rates is provided. The section concludes with a discussion of strategies that provincial governments may employ to exert their authority in influencing or intervening in municipal property tax rates.

General tax principles

Due to the limited literature on principles of property tax rate setting, it is valuable to initially examine general tax principles. These general tax principles can then be applied to property tax rates setting where appropriate.

A discussion of the broad principles of taxation can begin with an examination of Adam Smith's *Canons of Taxation*. He outlined the principles of taxation to be equality, certainty, convenience of payment, and economy of collection (Woolery, 1989). A few of these principles are very evident in the modern property tax system. Property tax is largely acknowledged with having the advantages of certainty (relatively stable source of income for local governments) and being easy to administer (low collection costs due to difficulty of evasion because of immobility of property) (Vander Ploeg, 2008).

Some of these concepts are relatively easy to define, while others remain contested. Equality is the most challenging principle to define. In economics it is usually discussed as the concepts of horizontal and vertical equity (City of Vancouver, 1989). Horizontal equity is achieved when taxpayers in similar circumstances pay a similar amount of tax. Vertical equity is achieved when taxpayers in differing circumstances pay varying amounts of tax depending on how different their circumstances actually are (Vander Ploeg, 2008). These concepts can also be applied to property assessment as "residents in homes with similar assessed values pay the same tax (horizontal equity) and residents in more valuable homes pay higher taxes (vertical equity)" (Bish & Clemens, 2008, p. 193).

The Tax Foundation, a United States policy think tank, provides a more contemporary inventory of effective tax principles. They outline that a taxation system should follow Smith's principles of economy of collection and certainty. They also identify the need for informed taxpayers in a system that is simple and understandable. The Foundation outlines that tax legislation should be based on "sound procedures and careful analysis", with open hearings to allow citizens to respond to proposals (Woolery, 1989, p. 3). They posit that a tax system should aim for "neutrality in economic decision making", and be competitive with other nations and "not impede the free and fair flow of goods, services, and capital" (Woolery, 1989, p. 4).

Current Principles

A review of literature on current principles of property tax rate setting and distribution of tax among the property classes reveals that the subject has not been widely studied and is not well understood. Still, the research that has been completed finds that municipal governments have a narrow range of considerations when making tax rate decisions. The current explicit principles and system characteristics include stability and incrementalism. There are also principles underlying tax rate decisions, but they are not readily apparent or acknowledged.

In 1976, the McMath Commission identified that even though property taxes had been levied for over a century in British Columbia, there were no known explicit government statements on the philosophy behind the tax (McMath Commission, 1976). The research on current principles of property tax rate setting continues to be negligible and the influences on behaviour are poorly understood (Kennedy & McAllister, 2005). Still, there is some discussion of the issue because differential taxation can have a significant impact on municipalities and property owners.

The central principle most often discussed in relation to tax systems is equality, both based on *ability-to-pay* and *benefits received*. The principle of *ability-to-pay* refers to a tax that is equitable if it corresponds to an individual's ability to pay or income (Vander Ploeg, 2008; Hobson, 1997). The McMath Commission (1976) conceptualized the notion of *benefits received* to have two different, yet complementary, meanings. The first concept is that properties should receive the services equal to what they were paying and secondly, that the property tax charged should be equal to the cost of providing the services to the property (McMath Commission, 1976; Vander Ploeg, 2008). The *benefits received* concept can be more precisely defined requiring that the tax paid by an individual is "equal of the marginal benefit- the benefit associated with the last unit consumed- received from public sector activities" (Hobson, 1997, p. 117). The McMath Commission identified that the property tax system and rates in BC had evolved in a manner that did not relate closely to ability to pay or benefits received, but that both concepts were still relevant to municipal councils when setting tax rates (McMath Commission, 1976). That is, municipal councils would not set tax rates that are wildly unaffordable or seen as extremely incompatible with what residents felt they should pay for services (McMath Commission, 1976).²³

Kennedy and McAllister completed the most in-depth and specific analysis on the subject of current principles of property tax rate setting in 2005. They completed a case study of three northern BC towns (Quesnel, McKenzie and Smithers) to examine policies and considerations in property tax rate setting decisions. Through interviews with municipal staff and politicians, Kennedy and McAllister (2005) found the following factors formed the basis for setting municipal tax rates:

- Local economic conditions,
- Community desires for services and facilities,
- Financial requirements of the municipality,
- Past taxation practices of the municipality,

²³ Deidre Wilson, Ministry of Community Development, referred to this practices as "goldilocks" policy making (D. Wilson, personal communication, April 23, 2009).

- Need for stability and predictability in the tax levy, and
- Taxation practices of other local governments.

In comparing tax rates to surrounding municipalities, the representatives in the case studies did not appear to change their rates for competitive reasons, but instead to stay in-line (not too high or too low) with surrounding municipalities. Furthermore, the research demonstrated that property taxes were not being used to encourage investment or development (Kennedy & McAllister, 2005). The research also found that tax rates levied by other agencies (for example, the provincial government, Municipal Finance Authority and BC Assessment) on the same tax base were not a factor in municipalities' tax rate setting decisions.

Kennedy and McAllister (2005) concluded that in contrast to previous assumptions, municipalities were not using “property tax as a policy tool to achieve certain ends” (p. 222). The researchers found that during the decision-making process municipalities did not appear to consider the principles or values that formed the foundation of their taxation policies (Kennedy & McAllister, 2005). While there may be no explicit discussions about philosophy behind property tax rate, there are competing interests and values entwined in all municipal property tax rates decisions because all taxes, but particularly property taxes, are ultimately political (McMath Commission, 1976, p. 30).

Lightbody (2005) found similar findings to Kennedy and McAllister, stating “cities (and municipalities generally) budgeting practices across the country have consistently been grounded in incrementalism” (p. 169). He outlines that this follows a larger trend of liberal democratic governments that tend to carry past commitments forward. Lightbody argued this is particularly the case in municipalities where there is rarely a significant change in ideology of government. Stability and predictability become the major determinant of tax rates due to political expediency and lack of interest from citizens or businesses (Lightbody, 2005).

The BC provincial government instituted stronger fiscal disclosure requirements for municipalities in 2007. This is a valuable tool that can be used to identify current principles of property tax rate setting. Appendix E reviews a sampling of municipal financial plan bylaws to identify principles and conditions municipalities are currently considering when setting property tax rates. The analysis focuses on the policies and objectives related to the distribution of property tax rates among the property classes. This analysis reveals common themes of current principles of property tax rate setting, including objectives to maintain stable tax rates and a proportionate tax relationship between property classes, and to reduce non-residential tax rates.

Ideal Principles

Though there is limited discussion in the literature on current tax rate setting policy, there has been larger discussions on the ideal principles municipalities should be considering. To supplement this literature there is merit in examining broader principles of an ideal property tax system that may be transferable. These principles are diverse, contentious, and may have varying levels of importance when designing and implementing a property tax system.

While all the principles may be applicable, they must be defined and operationalized in order to be useful in designing a property tax system and in setting tax rates.

The BC government report, *New Directions for Local Government Finance: Next Steps*, outlines key principles that should be followed in a property tax system. These principles are “clarity, stability, predictability, fairness, equity (both vertical and horizontal), neutrality, accountability, and ease of administration” (British Columbia, 1990, p. 39). The report specifically identifies the importance of measuring all current and proposed policy instruments against these principles.

Equity and Fairness

The most oft mentioned principle is that of equity, as it is fundamental in any discussion of tax policy (Kennedy & McAllister, 2005; British Columbia, 1990; BC Assessment, 1992b; Kitchen, 1997). Vander Ploeg (2008) outlined that there is widespread agreement that “taxes should treat everyone fairly,” but recognizes that the concept of equity is complex because of the differing perceptions of fairness and multi-faceted nature of the matter (p. 42).

Vander Ploeg (2008) conceptualizes equity as either the *benefits principle* or the *ability to pay principle*. Lightbody (2005) argues that “in ideal terms, property taxation is based on a ‘benefits principle’ that equates the tax paid to benefits received, it is not based on an ability-to-pay standard as are income taxes” (p. 413). Others argue that property tax is more reflective of ability-to-pay, particularly in the case of residential properties. Bish and Clemens (2008) posit that “the correlation between income and assessed value of a residence is fairly high within local government” though they acknowledge this may vary across BC (p. 193). In contrast, research by the ICURR (2002) found that municipal leaders believed that there is a weak relationship between property taxes and taxpayers’ ability to pay and to benefit received.

The issue of equity is often raised in relation to higher effective property tax rate on non-residential property compared to residential property. Kitchen (1997) cited a study that suggested that residential property owners benefited more from local government services than the non-residential sector, identifying an inequity in benefits received. Bish and Clemens (2008) also posited that the application of tax criteria to business is more complicated “because there is no systemic relationship between taxes paid and benefits received nor between the assessed value of business (and its taxes) and its net income, there is no relation between taxes paid and ability to pay” (p. 194). As previously mentioned vertical and horizontal equity are two common ways to characterize equity (City of Vancouver, 1989). Furthermore, Bish and Clemens (2008) stated that businesses taxes would unlikely to achieve horizontal or vertical equity because they believed an equitable tax rate could not be determined.

The National League of Cities *Guiding Principles for Public Finance*, conceptualized equity into two concepts: internal equity and external or intergovernmental equity. Internal equity refers to governments imposing equitable and fair revenue burdens on individuals, corporations, communities, sectors, income classes, and generations (National League of

Cities [NLC], 2006, p. 3). The concept of external or intergovernmental equity refers to achieving fiscal parity across jurisdictions (NLC, 2006, p. 3)

Stability

The principle of stability can refer to a number of different participants in the property tax system. Most often stability refers to residential taxpayers achieving certainty in the amount they will be paying in property taxes year over year (Kennedy & McAllister, 2005; British Columbia, 1990). It can also refer to the amount of revenue a municipality can expect to receive from property taxes or a particular property class.²⁴ This conception of stability also makes reference to the tax base that municipalities rely on, which provides stability combined with flexibility (McMath Commission, 1976). That is, it is “desirable to have a local tax base that is both stable in times of declining local economic activity, and capable of steady growth in times of expanding local economic activity” (McMath Commission, 1976, p. 100).

Neutrality

The principle of neutrality refers to a tax that does not distort behaviour in an economic sense. That is, avoiding the provision of an incentive for an undesirable allocation of resources in society (McMath Commission, 1976). The concept is also referred to by BC Assessment and in provincial publications, though it is not defined (BC Assessment 1992b; British Columbia, 1990).

Simplicity

The principle of simplicity is important as it relates to both ease of administration for government and understandability for taxpayers (BC Assessment, 1992b). As well, simplicity of a tax system supports certainty (McMath Commission, 1976). Simplicity in ease of administration has two main components, ease of administration for the government and for taxpayers. A tax system should have administrative feasibility and collect tax in an economically efficient manner (McMath Commission, 1976). For the taxpayer, ease of administration involves a system that is simple, efficient, effective and easy to understand (BC Assessment, 1992b). In the system there should be a certainty of amount to be paid and the time and manner of payment (McMath Commission, 1976).

Accountability

The issue of accountability is central to any tax system. Accountability is defined as being able to explain and be answerable for your behaviour and decisions. With property tax it relates to the direct relationship between locally raised taxes and local expenditures (BC Assessment, 1992b; British Columbia, 1990). This concept also relates to transparency and understandability (NLC, 2006). Therefore, accountability is increased if taxpayers understand the benefits they are receiving from their taxes. Kennedy and McAllister (2005) provide another perspective on accountability, arguing that appropriate taxation policies that fit local context and taxpayer’s wishes can increase support for, and legitimacy of,

²⁴ For example, if a municipal has received 30% of its property tax revenue from the Industrial property class (class 4) in the previous year, they may expect to receive a similar percentage of revenue in the current year regardless of any change in the property assessment of this class relative to other classes in the municipality.

municipal taxation and services. Conversely, inappropriate policies may “erode support and invite intervention in local affairs by the province” (Kennedy & McAllister, 2005, p. 210).

External considerations

The National League of Cities’ *Guiding Principles for Public Finance* includes principles of responsibility and responsiveness to the broader finance system. This involves governments “weigh[ing] the effects of their decisions on other jurisdictions and levels of government” (NLC, 2006, p. 3).

Provincial government authority

The provincial government has the responsibility to create the framework under which municipalities operate, including in relation to property taxation. In order to ensure municipalities follow ideal principles in property tax rate setting, there is a continuum of opportunities for the provincial government to exert its authority. The first section reviews the guiding principles of autonomy and accountability that should guide any provincial government role in that system. The second section explores strategies identified in the literature that relate to the provincial government exercising its authority in the property tax rate system.

Guiding principles

According to the literature, provincial intervention in the municipal property tax system, including property tax rate setting and the distribution between the property classes should be governed by two guiding principles: autonomy and accountability. These principles provide the strongest justification for municipalities having control of their own revenue. Local autonomy, including having control over property tax aligns with the view that local government is a distinct sphere of government (Bell, 1999). Kennedy & McAllister (2005) suggested that with local autonomy local governments should see their role in setting property tax rates as an opportunity to directly influence the shape and direction of the local economy.

The complementary principle of accountability is also important. Bell (1999) believed that “granting local governments full control of the property tax, including rates, maximizes their flexibility and places accountability for tax decisions at the local level” (p. 15). Kennedy and McAllister (2005) emphasize the need for documentation, publicizing, and discussion regarding the property tax policy. The Canadian Federation of Independent Business (CFIB) (2008) echoes this recommendation through publicizing municipal decisions, though they see it as part of a larger role for provincial government oversight. Though CFIB recognizes that the recent legislation has increased financial disclosure requirements in BC, they believe the provincial government should assist municipalities in instituting performance measures and value-for-money analysis of municipal spending (CFIB, 2008). They envision the development of municipal performance measures, similar to those in Ontario, with oversight of a value-for-money municipal auditor general (CFIB, 2008).

Provincial government authority

In BC the provincial government has the authority to reform the property tax system through property classification and property tax rate and ratio limits. The literature identified different strategies in regards to these reforms.

Number of property classes

Reducing the number of property classes is an option that uses assessment and property classification to affect tax outcomes. Bish (2003) recommends decreasing the number of non-residential property classes because he believes this will ensure tax rate setting behaviour follows principles of equity and fairness. The option would combine the four business classes: Utility (class 2), Major industry (class 4), Light industry (class 5) & Business or other (class 6) into a single property class. This arrangement is applied in all other provinces in Canada except Ontario (Bish, 2003). The current, though limited, evidence is that with broad classification of non-residential properties the tax ratios remain “reasonable” (Bish, 2003, p. 38).

The *BC Competition Council* (2006a) recommended decreasing the number of non-residential property classes. A similar proposal was put forward in the provincial *Report of the Property Tax Forum* in 1989. Mayor Marilyn Baker of the District of North Vancouver suggested, for further discussion, the merger of Class 5 (Light industry) with Class 6 (Business or other) because the classes are “assessed in a similar way and generally attract similar tax rates” (British Columbia, 1989, p. 38). She stated that this would simplify the property tax system, but may have a financial impact on municipalities, which should be examined.

Tax limits

In many jurisdictions provincial and state governments have implemented rate and ratio limits on the tax rates municipalities can set. Limits are implemented with the intention of bringing greater equity, stability and accountability to the system, though these outcomes are contested. Most provincial or state governments have enacted limits on property tax rates, and upper (and sometimes lower) limits have been a long-standing feature of property tax systems. According to the International Association of Assessing Officers (2000) these property tax rate limits are “increasingly imaginative and sophisticated” (p. 4).

The Canadian Federation of Independent Business (CFIB) recommends that the BC government implement a limit on the difference (or ratio) between property tax rates on residential and commercial properties (CFIB, 2008). Bell (1999) also outlines that “placing an upper limit on the rate that any local government could impose on its tax base would be one way to help that broad economic targets are heeded” (p. 15). He recommends a ‘cap-with-override’ approach, which would allow voters to approve tax increases that are above the cap level. Bell (1999) believes this would allow the local government to operate efficiently, facilitate monitoring by higher levels of government, and strengthen local accountability.

Ranges of Fairness are another form of property tax rate limits. The Ontario provincial government has the limits that set out the ratios between residential and non-residential

classes which local governments can set tax rates within.²⁵ Bish (2003) recommends implementing changes similar to Ontario's tax reforms, including ranges of fairness, to bring greater equity to the system. The strategy offers municipalities more flexibility than a strict rate or ratio limit. Still, it removes significant municipal autonomy in property tax rate setting.

This section reviewed literature on property tax principles and the provincial authority in the municipal property tax system. Through the literature a limited amount of research was identified that specifically examines principles of property tax rate setting. Still, the research that has been done provides valuable information for this discussion. The review of literature on government intervention provides a connection to the history of the property tax system in BC. In this section there are examples of both changes to the number of property classes (most notably, the splitting of industry classes into two classes in 1987) and the introduction of property tax limits. The following section will provide a jurisdictional review of different property tax systems. This will take the theoretical discussions provided in the literature and provide concrete examples of the application of these concepts.

²⁵ Ranges of fairness are examined in greater depth in the jurisdictional review of Ontario.

JURISDICTIONAL REVIEW

This section provides a jurisdictional review for property tax systems in Canada, Australia and New Zealand.²⁶ A short introduction to the property tax system will be provided for each jurisdiction. Then an examination will be undertaken of the structures and resources that provincial or state governments have introduced to encourage or required certain policy directions in setting property tax rates. From this, lessons learned will be identified, both in terms of principles of property tax rate setting, and provincial/state influence and involvement in municipal property tax rates.

It is important to recognize many of the difficulties in comparing property tax rates and systems, both across Canada and around the world. These challenges include difference in:

- Assessment cycles,
- Property classification systems (particularly the number of non-residential/business classes),
- Policies for larger or smaller municipalities, and
- Range and level of services delivered by the local governments.

As well, in some jurisdictions, municipalities have the option to levy a business occupancy tax in addition to the property tax. Furthermore, some systems are in flux with reform of the assessment or local government system (Bish, 2004, pp. 13-14; Mezynska, 2005).

The differences in assessment systems include different assessment practices in subject and method of assessment. For instance, when a government chooses to change the assessment system to obtain a certain tax outcome the changes are more difficult to identify immediately. There may also be very different property exemptions (full or partial) and grants and other rebate programs.

The initial section of this analysis reviews the different property tax systems in place across Canada (excluding Prince Edward Island).²⁷ These jurisdictions were chosen because of their similarities within the federal system, and to provide illustrations of the diversity in property tax systems and provincial-municipal relationships across the country. An overview of all the provinces identifies similarities and differences, and possible strategies that British Columbia could explore.

Ontario was identified for in-depth analysis because of its comparability to BC's system and the extensive provincial government interventions into the municipal property tax system. Australia and New Zealand were both chosen for review because they share commonalities with the Canadian system with a Westminster parliamentary system and the

²⁶ This analysis does not involve a jurisdictional review of U.S. municipal tax rates because of the significant differences in property tax structures and rate limitations. For example, municipalities in many U.S. states have the ability to levy retail sales and income taxes, which has reduced their reliance on property tax revenues (Bish, 2004). As well, many U.S. states have implemented Tax and Expenditure Limits. As of 1995, 46 of 50 states had some version of these limits (Bish, 2002).

²⁷ Representatives from Prince Edward Island did not provide information on the province's municipal property tax system to ICURR.

high level of reliance municipalities have on property tax revenue. Within these countries, individual states are identified that have demonstrated particular interest and action on the issue of property tax rates.

Canada

A review of the property tax systems in Canadian provinces reveals many similarities and differences that can be seen in a more detailed examination of property tax principles and provincial and municipal relationships. In March 2009 the researcher formulated the research questions. The Intergovernmental Committee on Urban and Regional Research (ICURR) then completed the interviews of provincial representatives. A table in Appendix F provides the full text of the questions and responses. The table provides a simple introduction to the provincial systems, but does not explore all of the exceptions and complexities that exist in each system. Still, some general observations can be gleaned from this jurisdictional review.

The initial examination concerns the assessment system used in provinces across Canada. A general understanding of the assessment system is necessary for a greater examination of property tax rates. Currently there are diverse approaches to the assessment of real property. Concepts that are mentioned by provinces, but are undefined, include assessing property at market, fair, current, or 'real and true' value. As well, half of the provinces assess property on an annual basis, while half assesses property every three to four years. This discrepancy in the frequency of assessments can affect tax rates and ratios between the property classes.

A component of property assessment is the number of property classes. In provinces across the country there is wide divergence in the number of property classes, from three to twelve. Most provinces have a single residential property class, a general non-residential property class, and classes for farmland and utilities. Only BC and Ontario have divided the non-residential classes into many smaller delineations and differentiate types of commercial operations.

For most provinces, except Saskatchewan and Manitoba, property taxes are charged on full market value. In Manitoba residential property is taxed at 45% of the assessed value and non-residential property at 65% of the assessed value. In Saskatchewan the 'percentage of value' policy refers to the assessment of residential and non-residential property at a percentage of market value. Therefore, though property tax rates may be uniform for residential and non-residential properties, the effective tax rate could differ substantially.

Many of the provinces in the jurisdictional review outline that full discretion is given to municipalities to set property tax rates. Still, there are examples of provincial intervention in municipal property tax rate setting, including:

- limits on assessment of property,
- property tax rate and ratio limits, and
- allowing for property tax deferrals.

Other exceptions to full discretion on setting property tax rates include:

- BC, with tax rate limits on Utilities (Class 2) and Port property (Class 4),
- Ontario, with ranges of fairness, and

- Quebec, where non-residential revenues may not exceed a provincially set ratio of residential revenues.

These interventions follow Bish's finding that most provincial governments set ratios between residential and non-residential property classes, either directly through ratios or indirectly by setting the percentage of assessment that is to be taxed (2004).

Most provincial governments require municipalities to submit financial bylaws or financial plans to them on an annual basis for monitoring purposes. For instance, Manitoba monitors property tax increases in municipalities and publishes a report of municipal financial and statistical information each year. This publication includes statement regarding the number of municipalities with property tax increases and the level of those increases.

Through the jurisdictional review of Canadian provinces it appears very little has been implemented to assist municipalities with the property tax rate setting process. For example, only BC and Alberta have produced guides to assist municipalities in this process.

Ontario

This section specifically reviews Ontario's property tax system. Ontario was selected for further examination because of both the similarities and differences it holds to BC's system. The similarities include a large number of classes, a market value assessment system, and the existence of tax rate limits. The most significant difference between the two systems is the timing of assessment and property tax reforms. Ontario only recently moved to a market value assessment system and with subsequent tax policy changes. The provincial government has undertaken far-reaching and diverse strategies to improve the property tax system, in an attempt to make it more equitable. This process has received extensive academic attention and has been the subject of numerous government commissions.

History

The most recent phase of Ontario's property tax system began in 1967 with the *Ontario Committee on Taxation* recommending that real property be assessed at 'actual' value (Bossons, Denny & Slack, 1981). In 1970, the provincial government took over responsibility for property assessment from municipalities and first made the commitment to adopt full market value assessment (Slack, 2000). In 1976, a provincial budget was introduced that set out reforms to the tax system that needed to be adopted before market value assessment could be implemented. These reforms were later dismissed. A decade later, in 1985, the provincial government again looked at property assessment and decided not to implement full market value (Slack, 2000).

In the mid-1990s, the city of Toronto was facing challenges in raising sufficient property tax revenue. The city's tax base was eroding due to successful assessment appeals, and there was a belief that businesses were leaving the jurisdiction due to high property taxes (Slack, 2000). The *Greater Toronto Area Task Force*, created by the provincial government, examined these concerns and recommended that actual value property assessment be implemented in the city.

In 1998 the provincial government introduced uniform property assessment based on "current value" (or market value) province-wide (Slack, 2000). It was recognized that the

implementation of current value assessment would result in large shifts in tax burden within and between classes of property. To ease the shift of burden, transition ratios were calculated on each property class to reflect the relative distribution of burden by tax class prior to the reform. The transition ratios were then used in conjunction with phase-in mechanisms and tax deferrals to address potential shifts in the tax burden (Slack, 2000).

Coinciding with the new assessment approach, tax policy changes were introduced. Prior to the reform, municipalities were required to charge residential properties a rate of 85% of the non-residential rate (Slack, 2000). After the reform municipalities were allowed to levy variable tax rates for different classes, within ranges of fairness.²⁸ Ranges of fairness set out the ratios between residential and other property classes within which local governments could set taxes. Depending on the property class, ranges vary from 0.6 to 1.1 of the residential rate. If a municipality has tax rates that are higher than the ratios they may continue to charge those rates, but cannot increase them further away from the range of fairness. The primary reason the ranges of fairness were introduced was to “allow municipalities to maintain the existing tax burdens between classes and reduce the impact of a reassessment” (Slack, 2000, ¶ 21).

The current property tax system in Ontario has only recently been introduced, and phase-in mechanisms for both assessment values and rates are still in place for many property classes. Therefore, it is too soon to evaluate fully how the new system will ultimately affect property tax rates and the success of the reforms. With the introduction of ranges of fairness, ratios of property taxes between the property classes cannot become any higher if they were already above the ratio range.

What can we learn from Ontario?

There are a number of important lessons the BC provincial government can learn from the Ontario experience. These relate to the provincial role in municipal finance, municipal support, satisfying all taxpayers, and balancing principles. The provincial government plays a huge role in the municipal property tax system in Ontario. This has left municipalities with very little authority in setting property tax rates that can raise revenue to meet the needs of the community. Slack, Tassoli and Bird (2007) observed that property tax policy in Ontario is “pre-eminently a provincial rather than a municipal matter not just by law but more importantly by repeated provincial assertions of its controlling role down to all but the very finest detail” (p. 34).

Municipal co-operation and support is a very important factor when the provincial government is introducing new measures in relation to property tax assessment and rate setting. The provincial government did not obtain local government support for the tax reforms (Anstett, 2002). Municipal governments in the province criticized the new property tax system because it largely removes municipal autonomy and accountability in property tax revenue raising. In this case municipal politicians dismissed the ranges of fairness, because they believed that “since municipal politician are accountable to the electorate, they should be responsible for setting tax rates without provincial constraints” (Slack, 2000, ¶ 21). As well, the provincial government did not effectively anticipate the municipal

²⁸ Ranges of fairness are now referred to as ‘target ratios’ (E. Slack, personal communication, April 20, 2009).

response to mitigation options (Anstett, 2002). Initially, municipalities did not want to participate in the optional mitigation strategies that would lessen the shifts in burden between property classes that came from the new assessment system. Municipalities did not want to appear involved in the reforms, and instead hoped the provincial government would incur the blame for the tax shifts (Anstett, 2002).

With these extensive reforms, the provincial government attempted to satisfy all taxpayers. The introduction of market value assessment implied tax shifts between property classes, and thus “those on the losing side are most likely to be unhappy” (Slack, 2000, ¶ 7). When the provincial government realized that the assessment reforms would lead to huge tax shifts between classes, they instituted mitigation measures. These measures included relief programs, phase-in schedules, assessment and rate caps and thresholds.²⁹ There was “incomplete or imperfect analysis and understanding of the impacts of the reform, resulting in flawed design of initial optional mitigation measures” (Anstett, 2002, p. 40). As well, all these programs led to increased complexity of the property tax system (Slack, 2000). Anstett (2002) argues that these mitigation measures compromised the purpose and outcome of the original reforms. There was a political desire to address all negative taxpayer reaction to the initial reform tax bills, to the detriment of the original purpose of the property tax system reforms (Anstett, 2002).

There are a number of lessons that can be learned from Ontario’s experience, including the importance of achieving strong political commitment from the outset of the reform initiative, the importance of not losing sight of the central goals of the initiative, being prepared for stakeholder reaction, and fully thinking through any mitigation strategies that may be necessary for the reforms to continue. Finally, another important lesson that can be learned from the Ontario experience is the importance of balancing principles when designing a property tax system and setting property tax rates. In Ontario’s case there was a focus on one principle, stability, at the detriment of all other principles (Slack, 2000). Due to the “focus on tax stability for each tax class, the initial goal of the reform - to achieve equity based on ability to pay- was lost completely” (Slack, 2002, p. 583).

Australia

Australia is a federal government system with six states and two territories. Similar to the Canadian system, local governments were not part of the federation process and are not mentioned in the country’s constitution. States have jurisdiction over local governments, and are able to create, suspend and dismiss local governments, and dictate activities they can undertake, including functions and revenue-raising (Dollery, Crase, & Johnson, 2006). Therefore local governments in each state have different property tax systems, with corresponding levels of taxation limits and support. In Australia, local governments are very dependent on property taxation, referred to as rates, as it is the only form of local government taxation power they possess. This is unique among federated Organization for

²⁹ Thresholds were provincial averages for each class that require municipalities, if they are going to increase their budget, to levy the increase onto residential properties. The provincial government recognized that this requirement would result in large shifts of tax burden onto residential property and subsequently required that at least half of all budgetary increases be borne by the residential property classes.

Economic Co-operation and Development (OECD) countries, though Dollery, Crase and Johnson (2006) identify Canada's local government as the most comparable with 90% of local tax revenue acquired from property taxation.

The *Productivity Commission*, an independent body of the Australia government, undertook a research study of local government revenue in 2008. The study examined the fiscal capacity of local governments, the impact of various taxes on groups and individuals, and the outcomes of state regulatory limits (Productivity Commission, 2008). The report includes a chapter on the 'Principles of revenue raising' to assist local governments in making revenue-raising decisions. The initial discussion outlined the effectiveness of applying economic principles in guiding revenue-raising decisions for local governments because these principles are "consistent with, and indeed help support, the effective operation of the democratic and decision-making process of local governments" (Productivity Commission, 2008, p. 166). Still, the committee recognized the inherent political nature of local government, and that many social, political, institutional and governance consideration were relevant. Furthermore, they recognized the trade-offs that must take place between economic and other objectives, including equity and administrative simplicity (Productivity Commission, 2008).

The *Productivity Commission* outlined criteria for setting property tax rates, including economic efficiency, equity, administrative simplicity, and transparency and accountability (Abelson in Productivity Commission, 2008). The Commission further defined equity as "an appropriate balance between the benefit and ability to pay principles" (Productivity Commission, 2008, p. 177). They demonstrated that both parts of the principle could be achieved by setting a minimum charge on each property (to reflect benefit received) and an additional charge based on the value of the property (ad valorem component) to reflect property owners' ability to pay.

The state of New South Wales has undertaken extensive work in property tax rate setting. In the state, local governments have the authority to set 'ordinary rates' (property taxes) on four property classes: residential, farmland, mining and business (New South Wales, 2005).³⁰ Additionally, they may set 'special rates' for specific work or services provided by council to a certain part of the jurisdiction.³¹ Councils are able to set a rate on the assessed value of the land (ad valorem). Alternatively, they may levy a base charge on each property, with an additional percentage rate based on assessed value.

In New South Wales, the state government has restricted the revenue-raising ability of local governments through a policy of *rate pegging*. Though there is limited information on this history of rate pegging, some form of the limit has existed in the state since it was founded. The latest iteration of rate pegging was introduced in 1977, with the state government

³⁰ It appears that property is not a shared tax base in New South Wales, allowing municipalities exclusive access to this revenue source.

³¹ Municipalities in British Columbia are also able to levy property taxes on certain areas through 'Local Service Areas.' These taxes can be levied based on property value or as a parcel tax based on a flat or frontage rate. In the past these property taxes have not been included in any of the property tax rate limits because they required a higher level of assent from the residents (50% of taxpayers who represent at least 50% of the property assessment in the area must approve the services and tax).

setting an annual limit on the percentage increases local governments can receive from property rates from all classes (Dollery, Crase & Johnson, 2006). It is usually set at a level similar to the increase in the consumer price index. For instance, in the 2009/10 fiscal year, local council are allowed to increase their rate revenue by a maximum of 3.5% (Local Government and Shires Association of New South Wales, 2009). Within this limit, local governments are able to vary the increase on each property class. Rate pegging can be particularly challenging for local governments when property assessment increase because the council may have to reduce or adjust their rates to ensure the total income does not increase more than the rate pegging limit (Wollongong City Council, n.d.).

If a council would like to increase the rates above the allowed percentage increase they may apply for Ministerial approval. These increases may be approved if the council is participating in a project of regional significance, or funding of major service or infrastructure enhancements (New South Wales, 2001). The Minister, when reviewing an application for special rate increases, considers how the rates meet the long term strategic objectives of the council, the level of consultation undertaken by council and the community's response, as well as the financial position of the council (New South Wales, 2008).

Rate pegging has been criticized for a number of reasons, including for limiting local government fiscal capacity and autonomy. The *Local Government and Shires Association of New South Wales* (2009) argues that the rate pegging limits local governments' ability to provide for the service and infrastructure needs of the local residents. It also contributes to a loss of autonomy and accountability in local government decision-making. Conversely, Abelson (2006) questions the criteria behind setting the rate limits and posits that "rate pegging tends to legitimize and encourage rate increases at the officially sanctioned maximum rate increases" (p. 7). He also identifies that there is inadequate research and analysis on rate pegging (Abelson, 2006).

The New South Wales Department of Local Government produced a '*Council Rating and Revenue Raising Manual*' to assist local governments. This manual provides in-depth information regarding the history, legislation and court decisions on sources of income for local governments. It also discusses property classes, charges for specific services, exemptions, and policy, decision and implementation processes for rates (New South Wales, 2005). The document begins by outlining the basic principles of taxation, including ability-to-pay and benefits received. These principles can also be applied to setting rates, and, like the Productivity Council, the Department recommends that rates should achieve the "best possible balance" between these two principles (New South Wales, 2005, p. 36). As well, equity and efficiency, though not defined, are identified as important principles.

The '*Council Rating and Revenue Raising Manual*' recognizes that rate levels depend on the individual community. Thus, each council has to decide for itself the combination of rates, charges and fees (and pricing policies) that is "appropriate" for its area and its community. The state government suggests that the annual statement of revenue policy that local governments are required to produce ensures that the community has access to sufficient information to enable it to judge the "appropriateness of council's proposals (i.e. is the service actually required) and to determine whether it is receiving 'value for money'

(i.e. would a less costly service produce acceptable results)” (New South Wales, 2005, p. 15).

What can we learn from Australia and New South Wales?

Through an examination of Australia, and the jurisdiction of New South Wales, principles of property tax rate setting are identified. These principles include equity, including benefit received and ability to pay, and efficiency and accountability. The strategy to achieve a balance of benefit received and ability to pay is to combine a set rate on each property with an additional charge based on the assessed value of the property. The New South Wales ‘*Council Rating and Revenue Raising Manual*’ clearly recognizes the importance of setting tax rates that are appropriate for the community. Still, in the state the freedom to set tax rates is limited as the state government has chosen to exert its authority in municipal rate setting by implementing rate pegging. Rate pegging is criticized for limiting responsiveness, autonomy, and accountability of municipalities.

New Zealand

New Zealand is a parliamentary democracy with a centralized government. The country does not have subnational entities such as provinces or states. In 1989, the government implemented a two-tiered local government structure with regional councils and territorial authorities. Property tax³² revenue is used to fund both levels of local government. The central government introduced the *Local Government (Rating) Act* in 2002, which was intended to modernize the property tax system and ensure local government possessed the tools to fully comply with their financial requirements (Local Government New Zealand, 2002).

Local governments can institute general rates, which are charged on all properties in the jurisdiction, or targeted rates, which are charged on particular properties in the jurisdiction to fund a specific function. Local governments have the ability to charge general rates as a percentage rate on the property value or as a uniform annual general charge, which is a fixed dollar amount on the property (Local Government New Zealand, 2002).

A guide, ‘*Local Government KnowHow Guide to Rating*’, was created to assist local governments in applying the new legislation. This guide outlined how local governments could meet their financial management requirements using the new legislation. It provides numerous examples of different funding strategies, including setting property tax rates. The guide outlines that when making funding decisions, including property tax rates, local governments are required, through the Part VIIA of the *Local Government Act*, to complete a three-step process. These three steps are outlined in Figure 1.

³² Property tax is referred to as rates in New Zealand.

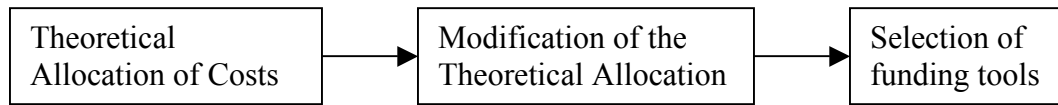


Figure 1.
The three-step process when making funding decisions
Source: Local Government New Zealand, 2002, p. 25.

The first step, *Theoretical Allocation of Costs*, involves the council allocating the “cost of particular functions to direct users, ratepayers, categories of ratepayers, and the community generally” (Local Government New Zealand, 2002, p. 25). During this step the council must recognize the following principles:

- The public good principle,
- The user/beneficiary pays principle (allocating costs among people who use the service or benefit from it),
- The inter-generational equity principle (allocating costs between current and future beneficiaries), and
- The exacerbator pays principle (if someone’s actions or inaction creates a need for an expenditure that person should contribute to the cost) (Local Government New Zealand, 2002).

The second step, *Modification of the Theoretical Allocation*, involves the council refining the decisions made in step one based on a set of considerations. These considerations include ‘fairness and equity’, transitional impact, and any other policies of the local authority (Local Government New Zealand, 2002). Finally, the third step involves the council considering implementation and other practical issues when selecting the funding tools (Local Government New Zealand, 2002).

The guide to rating also provides principles and considerations related to the remission of rates. Remission of rates refers to reducing the tax amount owing or waiving the rates completely (Local Government New Zealand, 2002). Several of these principles may be useful to consider when setting property tax rates. When developing a remissions policy, the guide outlines that remissions should be:

- Linked to objectives of the local government as outlined in the strategic plan, long term financial strategy or annual plan,
- Complementary to the other programs provided by the local government,
- Made in an open and transparent manner at a public session of Council,
- Frequently reviewed, and
- Clear (New Zealand Local Government, 2002, p. 56).³³

³³ These requirements are similar to the new fiscal disclosure requirements British Columbia municipalities are now required to complete on an annual basis.

What can we learn from New Zealand?

The government of New Zealand requires local governments to consider many of the same principles when setting property tax rates that are identified in the literature and in the other jurisdictions. These principles include benefit received, fairness, equity, and accountability. The jurisdictional review of New Zealand also offers some new principles. The first is the consideration for the inter-generational equity principle. This principle refers to allocating costs between current and future beneficiaries, and reflects a dimension of long-term thinking and planning. The exacerbator pays principle is more commonly described as paying for externalities. That is, property tax should or should not be paid by an individual if their actions or inaction creates a need for an expenditure. Considering both these principles when setting property tax rates can contribute to more holistic property tax system. The New Zealand property tax system also offers a thoughtful approach to how property tax rates should be set within the state-municipal relationship. The intervention by the central government is to obtain a shared understanding of the property tax issues, and provide education and opportunity for dialogue about the principles of property tax rate setting.

Conclusion

This section provided a jurisdictional review of Canadian provinces, particularly Ontario, as well as Australia and New Zealand. Though there are challenges in comparing different systems, the analysis demonstrates similar challenges in terms of differential tax rates and principles of stability and equity, as well as different strategies that have been undertaken by provincial, state or central governments to influence or intervene in municipal property tax system.

The jurisdictional review echoes some of the principles identified in the literature review. These include principles of equity (particularly benefits received), efficiency and accountability. In Australia and New Zealand there is also a recognition that tax rates should be appropriate for the individual municipality.

The jurisdictional review provides examples of provincial/state influence or intervention that follows considerations and strategies outlined in the literature review. In Ontario and New South Wales the autonomy and accountability of municipalities is limited through property tax rate limits. Still, these limits are more complex than hard caps, with ranges of fairness and rate pegging. The disparate relationships between provincial and state governments with their municipal counterparts in these jurisdictions demonstrate the need for co-operation in this area. In New Zealand a more subtle strategy of influencing municipalities is undertaken, with the use of a shared understanding towards property tax issues, along with education and dialogue. The following section will provide findings and analysis of expert interviews and highlight some of the themes evident in the literature and jurisdictional review.

INTERVIEWS

This section provides key findings from the expert interviews that were undertaken with academics and practitioners of property tax policy. The experts, Dr. Enid Slack, Dr. Robert Bish, Mr. Casey Vander Ploeg, and Dr. Jonathan Kesselman, provided insight into general consideration in regards to property tax rate setting, and specific comments on the BC property tax system.³⁴ An analysis of their responses is then undertaken to identify agreement and disagreement in perspectives and recommendations.

Findings

There was a general consensus among the interviewees that BC has a strong property tax system with a good reputation, especially in relation to property assessment. Still, the interviewees also identified problems with the BC property tax system. Dr. Bish, Dr. Kesselman and Dr. Slack identified the different tax rates between the property classes as one of the main problems with the system. They elaborated that business and other non-residential property classes were being taxed at a higher rate than residential properties, while those properties consumed fewer municipal services. Mr. Vander Ploeg identified the central problem with property tax in general was that it was an inelastic tax that did not respond to economic growth in a community.

The interviewees were then asked about the principles they thought municipalities currently considered when setting property tax rates. Dr. Bish thought that municipalities were not considering any principles. Dr. Slack posited that municipalities seemed more concerned about stability and predictability and less concerned with equity when setting property tax rates. Dr. Kesselman felt that municipalities were placing the heaviest burden of taxes on the least mobile property, that is, industrial properties with large capital investments. Mr. Vander Ploeg identified the role of politics in setting tax rates, expanding that municipal councils propose a property tax increase that they think will be politically acceptable. Dr. Slack and Dr. Kesselman echoed the importance of the role of voters in setting property tax rates, emphasizing that residential property owners were able to vote, while businesses were not.

When exploring ideal principles that municipalities should consider when setting property tax rates, Dr. Kesselman focused on economic principles. Dr. Slack put forward that municipalities should consider equity (which she defined as benefit received), neutrality (a tax that would not distort decision making), accountability (ensuring people know what they are getting and why they are paying that amount), as well as stability and predictability. Mr. Vander Ploeg focused on the connection between tax revenue and the local economy, stating that local governments should not divorce the tax rate from some measure of the size and strength of the local economy.

The experts interviewed had differing views on the appropriate role of the provincial government in influencing or intervening in municipal property tax rates. Dr. Bish felt

³⁴ Expert interviews took place on the following dates: R. Bish, April 15, 2009; E. Slack, April 22, 2009; J. Kesselman, April 28, 2009; C. Vander Ploeg, May 1, 2009.

strongly that the provincial government should directly intervene with non-residential property tax rates in order to forward provincial priorities and interests. Dr. Kesselman agreed that the provincial government should intervene, though he identified the challenge of pursuing policy in this area even though the provincial government has the legal power to do so. One option he identified was for rate or ratio limits to be phased in gradually (similar to the phasing in of the plan recommended by Vancouver's *Property Tax Policy Review Commission*³⁵) or that the provincial government could provide alternative funding to make up for any shortfall (though he recognized the challenges of the current financial circumstances faced by the provincial government).

Dr. Slack did not think the provincial government should have a direct role in municipal property tax rate setting. Though she indicated she could appreciate the arguments, Dr. Slack argued that local governments were democratically elected and therefore they should have full control in setting the property tax rates. Mr. Vander Ploeg also argued that the provincial government should not influence or intervene in property tax rates, noting that municipalities already have sufficient challenges achieving local autonomy in decision-making. He acknowledged the provincial government interest in property taxes, but thought that it could be involved in other aspects of the system, such as property assessment.

The question on how the provincial government currently influences property tax rates, solicited limited responses. Dr. Bish, Dr. Kesselman and Dr. Slack mentioned the role of property tax rate limits for both the utility class and port properties. Dr. Bish also mentioned the role of the provincial government in giving the municipal governments tax room by lowering school tax rates. He felt that this was one of the reasons why overall property tax rates were so low in BC, while giving municipalities more access to increased revenue.

The final question asked experts for their opinion on what tools the provincial government should have to ensure "appropriate" property tax rates.³⁶ This question resulted in a diversity of responses. Dr. Bish identified the role of legislation and recommended reducing the number of property classes. He supported this suggestion by noting that Alberta did not have the excessive non-residential tax rates, a circumstance he credits with the fewer number of property classes. Dr. Bish felt that if that strategy was not successful the province should require municipalities to justify their tax rates when non-residential rates differed from residential rates. He felt that any higher rates levied on non-residential properties should be related to benefits received through municipal services. Still, he acknowledged the difficulty of the calculation in this analysis, as studies of benefits received are expensive and would be especially onerous for smaller municipalities.

Dr. Kesselman suggested a limit on rates or ratios. Dr. Slack emphasized her opinion that property tax rates were a local government responsibility. She stated that she was nervous

³⁵ In 2008 the City of Vancouver accepted the recommendation of the *Property Tax Policy Review Commission* to shift the tax burden to achieve a tax levy distribution of 48% non-residential and 52% residential. This shift took place in incremental steps of 1% per year (City of Vancouver, 2008).

³⁶ The "appropriate" property tax rates were purposely not defined because the provincial government has not overtly identified what rates it believes is appropriate. Still, in limited circumstances the province has identified, through tax limits, what rates it thinks it too high.

about provincial intervention because it is usually uniform across the jurisdiction. Nevertheless, Dr. Slack believed that the Province could set upper limits on tax ratios for the non-residential property classes. Mr. Vander Ploeg didn't anticipate a change to property tax rates being achieved through top-down policy from the provincial government. Instead, he stated that any change in property tax rates would have to come from the municipalities themselves. With this, Mr. Vander Ploeg identified an important role for citizen education. He believed that citizens currently do not understand what percentages of their taxes are paid to different governments and agencies. He also encouraged a larger discussion beyond tax rates, to encompass expenditures and different tax strategies, such as sales and income tax.

Analysis

The interviewees offered a variety of perspectives on principles of property tax rate setting and the provincial-municipal relation in property tax in BC. This section provides an analysis for the agreements and disagreements between the interviewees, and the themes and assumptions that are evident in the responses.

The response to the first question saw agreement among three of the four interviewees that the differential rate between residential and non-residential property classes was an issue in the BC property classes. They held the perspective that property taxes should reflect benefits received. The agreement in this perspective may be, in part, from the similar work all three interviewees have completed for municipalities and businesses on differential tax rates. Still, opinions differed on the extent of the problem and strategies to deal with it. The assumptions that property tax rates should be the same for all classes or based on benefits received reflect the literature on the subject. This perspective is problematic, and discussed at greater length in the following chapter.

The interviewees identified a limited number principles they thought municipalities currently considered when setting property tax rates. When exploring ideal principles that municipalities should consider, Dr. Kesselman and Dr. Slack both identified economic principles, including equity, neutrality and stability. These principles reflect was mentioned in the literature, particularly the work of Kennedy and McAllister.

Dr. Bish and Dr. Kesselman supported provincial government intervention in non-residential tax rates. Dr. Slack and Dr. Vander Ploeg did not believe the provincial government should be involved or limit municipal decision-making in this area. Dr. Bish and Dr. Kesselman agreed that there may be a role of tax rate or ratio limits. These responses reflect the themes of municipal autonomy and provincial interest that must be balanced in an effective property tax system. Dr. Slack's perspective may reflect both her theoretical study of property tax and observations of the challenges seen in the Ontario property tax reforms.

The differing opinions on provincial intervention reflect the literature on this topic. Many argued for full municipal autonomy in setting property tax rates, while other felt provincial intervention was necessary in order to achieve equity between the property classes. The jurisdictional review demonstrated that there were more methods of provincial influence or intervention, with Ontario and New South Wales demonstrating that they felt direct

intervention was necessary, while New Zealand has chosen to pursue a strategy of influence in property tax rate setting.

When asked about how the provincial government currently influences property tax rates, the interviewees identified tax limits. The response demonstrates that the provincial government's visible influence has been strong intervention. This follows the findings in the history of property tax in BC that the provincial government has not developed strategies to influence tax rates or distribution among the property classes in an effective, yet less antagonizing approach than property tax limits.

The exploration of tools the provincial government should use to ensure "appropriate" tax rates reflected the literature and jurisdictional review. The most interesting response was Mr. Vander Ploeg who identified the need for greater citizen education. This reflects BC's strategy with the introduction of greater fiscal disclosure requirements that are shared with citizens.

Overall, the interviewees reflected three different perspectives. Dr. Bish and Dr. Kesselman agreed that higher non-residential tax rates were a problem in BC and that the province should intervene with property tax rate limits. Dr. Slack also identified different tax rates as a problem but opposed provincial intervention. Mr. Vander Ploeg spoke at length about the disadvantages of property tax as a municipal revenue source as a whole.

These perspectives developed through the work the interviewees have undertaken. Dr. Kesselman and Dr. Slack have completed work for municipalities that have struggled with high non-residential property tax rates. Dr. Bish completed research on industrial tax rates for a large company. Mr. Vander Ploeg's most recent publication was 'Problematic Property Tax,' which examined the advantages and disadvantages of the tax.

The use of expert interviews as a central research method of the paper was an attempt to obtain an external perspective of the BC property tax system and the role of the provincial government in municipal property tax. With a small pool of experts the research findings are limited, especially because of the common perspective they most held in relation to non-residential property tax rates. The interviewees did offer some interesting and useful perspectives that built on the other research and crystallized themes. Still, a more holistic and deep analysis could have been achieved by expanding the pool of potential interviews. A more fruitful strategy may have been to interview a larger number of individuals, both academics, including those from different fields, and practitioners currently working for the provincial government.

This section reviewed the responses of the experts to a number of interview questions and provided some analysis and evaluated the contribution of this research method. The next section will combine the finding from this and previous sections to provide an analysis of the central questions of the research.

ANALYSIS

This section reviews common themes and findings from the preceding research to identify considerations and strategies for the Ministry to take into account as they craft policy and legislation on this topic. This paper provides the beginning of a more purposeful focus for the Ministry on this issue of property taxes. Though one of the central impetuses for this research was businesses and industry lobbying in relation to non-residential property tax rates and the distribution of property tax among the property classes, this research provides an opportunity for the provincial government to examine the provincial-municipal relationship in the property tax system in general.

The research for the paper examined three central questions: ‘What are the current principles of municipal property tax rate setting and distribution of tax among the property classes?’; ‘What are the ideal principles of municipal property tax rate setting?’; and ‘If appropriate, what options should the provincial government pursue in exercising its authority to influence or intervene in municipal property tax rate setting?’.

This section begins with a brief review of the research findings. It then provides a more detailed review of central principles and strategies found in the research. Following this it provides considerations that should be taken into account as the provincial government develops policies and programs on this topic.

In response to the initial research questions, it was found that only limited examinations of property tax rate setting have been undertaken. This is understandable, in part because it is difficult to identify principles from the diverse and complex process of decision-making that involves numerous players. The research that had been completed found that during the decision-making process, municipalities were not considering many principles overtly. The central principles that were identified were stability, equity (based on ability to pay or benefits received), and principles related to tolerance and political considerations. The principles that municipalities should ideally be considering when setting tax rates included equity, autonomy, and accountability. Some of these principles, such as autonomy and accountability, are inherently built in to the current property tax system in BC. The research found that municipalities should also be considering the provincial interest in its property tax decision-making process. Finally, the research found a continuum of options for the provincial government to exercise its authority in municipal property tax rate setting and presented different opinions on its appropriate role.

Principles

Equity

One of the central principles of property tax rate setting, and taxation in general, is equity, though there are complex and differing perspectives on its definition (Vander Ploeg, 2008). Lighbody (2005), Bish (2003) and Dr. Slack (personal communication, April 22, 2009) agreed that property tax equity should be based on benefit received, while others, including the Productivity Commission (2008) and New South Wales Department of Local Government (2005) conceptualized equity as an appropriate balance between benefit received and ability to pay.

Identifying property tax based on benefits received differs from the traditional view of property tax. Property tax has historically been perceived as an excise tax on land and structure, while the modern view is that it is a wealth or capital tax (L. Tedds, personal communication, July 9, 2009). Conceptualizing equity in property taxes based on benefits received is problematic for a number of reasons. First, there is a loose linkage between benefits received and taxes paid (Tassonyi in Kitchen, 1997). If property tax is conceptualized based entirely on benefits received it would be a user fee and not a tax. Property tax as a user fee based on the services consumed has been discussed for some time, developed by Tiebout and public choice theory (Tiebout, 1956). This theory posits that individuals “buy” the amount of municipal goods and services they desire by selecting the community they choose to live in based on the bundle of public services and cost for these services through property tax. This perspective has gained increased traction as Catalyst Paper Inc. and other industrial businesses have lobbied for changes to municipal property tax setting and distribution. If property tax is perceived as a user fee it is argued that it should not be related to the assessed value of the property because there is generally no relationship between the assessed value and amount of services consumed (L. Tedds, personal communication, July 9, 2009).

Stability

Stability was an important theme identified throughout the research. When discussing this concept it is important to identify what component of the property tax system is or should be stable, and who is benefiting from that stability. This stability can include tax rates, tax amount and the distribution of property tax among the property classes.³⁷ Beneficiaries could be the local government, residents or non-residential property owners.

In the literature, stability for municipalities and residents is discussed as a central benefit of the property tax system as a whole. As well, stability is an important principle that municipalities use to currently set property tax rates (Kennedy and McAllister, 2005). Lightbody (2005) expanded on this concept, stating that stability and predictability become the major determinant of tax rates due to political expediency and lack of interest from citizens or businesses. The examination of a sample of municipal financial plans found stability was one of the common objectives in the distribution of property tax among the property classes, and thus the property tax rates charged on each class. Of the 16 sample municipalities, six identified the importance of stability in setting property tax rates.

Dr. Bish argued that the stability in property taxes did not extend to non-residential property owners, though this stability is needed. He felt stability would allow business owners to make decisions regarding locating or expanding businesses in a municipality. He saw certainty and predictability in property tax for businesses as being equally important to

³⁷ The City of Vancouver calculates property taxes based on a “Fixed Share” Approach –

Distribution of tax levies among property classes is fixed, subject to non-market changes within the classes (e.g. property transfers between classes, new construction) and/or Council decisions to adjust the share for each class. This means changes in the assessed values have no impact on the tax share for each class. This approach has been in effect since 1983, and reaffirmed by Council in April 2005. (City of Vancouver, 2009, p. 3)

the tax rate. Dr. Bish cautioned that if these factors were not in place local governments would not garner new investment from industry because the companies could not trust the local governments over the long life of the investment.

Autonomy

A central theme that emerged throughout the research was the importance of municipal autonomy, of which property tax plays an important role. Autonomy in this context is the concept of a local government having unfettered control over decision-making without the interference of other governments. Kennedy and McAllister (2005) described local autonomy in relation to an opportunity for local governments to see their role in setting property tax rates as an opportunity to influence directly the shape and direction of the local economy. As well, they concluded that with the amount of discretion local governments in BC are given it is possible that a decentralized system may be more responsive to local economic circumstances and surrounding municipalities than a centralized system when establishing major industrial tax rates and tax distribution policies (Kennedy & McAllister, 2005).

Provincial legislation in BC supports the autonomy of local governments. The *Community Charter* recognizes local government as its own level of government. As well, in relations to tax rates, the provincial government has given municipalities wide discretion in setting property tax rates, thus increasing autonomy.

The experts interviewed for this research argued for different levels of local government autonomy in setting tax rates. Dr. Bish and Dr. Kesselman argued for less autonomy with the recommendation of tax rate limits. Mr. Vander Ploeg saw the need for expanded autonomy by giving local governments more tax opportunities, including sales and income tax. Dr. Slack recognized local governments as democratically elected and autonomous, and thus questioned whether the provincial government should have any influence over general municipal property tax rates.

Accountability

Closely related to autonomy is the role of accountability in property tax rate setting. One way accountability can be achieved is by keeping the property tax rate decision-making process at a local level and facilitating taxpayers engagement in the rate setting process. The provincial government has institutionalized a process that promotes accountability through 5-year financial plans with required public consultation and strengthened fiscal disclosure requirements for municipalities. Still, the level of accountability in property tax rate setting is not uniform for all property classes. Residents enjoy a higher level of accountability through opportunities for influence such as public consultation and voting. Businesses and industry, on the other hand, may not achieve this level of accountability, as some of their interests are not always reflected in the property tax system.

This theme was found in the literature. Many authors discussed that an accountable local government was one that was responsible for raising its own revenue, including setting its own tax rates (Bird, 2001 in Kitchen, 2003). This accountability comes from the close connection between decisions regarding revenue generations and expenditure decisions (Kitchen, 2003). Bell (1999) found there was wide support for local autonomy in setting

rates, which results in greater accountability at the local level. This idea is echoed in the jurisdictional review of Ontario. There, municipal politicians dismissed the ranges of fairness, because they believed that because “municipal politician are accountable to the electorate, they should be responsible for setting tax rates without provincial constraints” (Slack, 2000, ¶ 21).

Dr. Slack outlines that municipalities should consider accountability measures when setting taxes. She outlined that this includes communicating with residents about what municipal services were being provided to residents and a justification of the level of tax that is being levied. Mr. Vander Ploeg echoed this sentiment by encouraging greater transparency in the entire local government budget process, including property tax rates and expenditures.

Tolerance

Throughout the research the roles of politics and public acceptance of rates were identified. This principle can be conceptualized as a principle of tolerance. That is, property tax rates and the distribution of property taxes among the property classes are set in a political system where local elected officials are responsive, to varying extents, to citizens and voters, as well as businesses and industry. For individual taxpayers this principle relates to accountability, equity and fairness. With more accountability in the property tax system, legitimacy and tolerance for the tax rates can increase. Equity and fairness relate to a perception that other taxpayers are paying a similar share of taxes. A taxpayer may be more accepting of rates if they feel others are bearing a similar burden.

The role of political acceptance was mentioned by Mr. Vander Ploeg, Dr. Slack and Dr. Kesselman during the interviews. As well, Kennedy and McAllister (2005) found the primary concerns in setting property taxes were the local economic conditions and community desires for services and facilities. The McMath Commission (1976) found similar decision-making process with municipal council setting rates that were not too high, either because they were unaffordable or more than residents felt they should pay for the service.

Location of principles

These principles of property taxation can be identified as property tax system attributes or as considerations during the property tax rate setting process. Currently, most principles, including autonomy and accountability, are found in system attributes. Autonomy of municipalities is part of the basic structure of the variable tax rate system, while accountability has been integrated into the system through requirements such as property tax bylaws, public consultation, and fiscal disclosure requirements. Stability is also inherent in the system as property tax is not exceedingly cyclical or subject to individual discretion, and property is not movable (Mezynska, 2005). Therefore, it is important to recognize that though municipalities may not appear to be considering some principles during tax rate setting, these principles are implicit in the structure and process.

Though principles may be evident in system attributes, this research was initiated because there was a concern that these principles are not balanced. Currently, the system is skewed towards the principle of municipal autonomy. Therefore, the provincial government should

consider strategies to ensure other principles, including the provincial interest, are considered, either through system attributes or in the tax setting process.

Provincial government authority

Since giving municipalities full discretion in setting property tax rates in 1984, the Province has largely removed itself from municipal decision-making respecting property tax rate setting. When the provincial government has asserted its authority in municipal property taxation it has been through the introduction of tax rate limits in reaction to specific rates. Therefore, the provincial involvement has been inconsistent between an absence of involvement and strong intervention. As well, tax limits have concerned certain classes or parts of classes, and have not given municipalities a clear explanation of the overall provincial interest in general municipal property tax rate setting. Learning from this history, and the other research, there are a number of strategies the provincial government should consider in influencing or intervening in property tax rates.

Information and Education

Information and education regarding property tax rates and their impacts is an important strategy. Through greater visibility and understanding of the property tax rate setting decision-making process, transparency and accountability could be increased. From the research a need for greater property tax policy capacity in the provincial government was identified. This involves bringing together both financial and policy perspectives in monitoring property tax rates in an on-going and systematic manner. This action would indicate to municipalities that this topic is a priority for the provincial government. As well, it demonstrates that the provincial government is interested in the long-term financial health of municipalities.

The provincial government currently collects a large amount of tax information that it publishes on the Ministry of Community and Rural Development's website for municipalities and other interested parties to use. Still, there is an opportunity for this information to be more widely employed by putting it into more user-friendly formats, such as graphs and used to demonstrate trends over time. The information collected should be published in an accessible format that can be used by municipalities for financial and policy planning, and to communicate with residents and businesses in their communities. Other jurisdictions that provide information and education include Manitoba's annual publication of tax rates and increases, New South Wales and New Zealand's guides to revenue raising and tax setting.

Concurrent authority

Concurrent authority refers to responsibilities that require the involvement and decision-making authority of more than one agency, in this case both the municipal and provincial governments. Currently, the property tax system in BC, is designed with a form of concurrent authority because, though municipalities have great discretion in setting tax rates, the provincial government has kept the right to limit rates and ratios through section 199 of the *Community Charter*.

Section 9 of the *Community Charter* provides a different approach to concurrent authority, outlining a number of spheres of responsibilities that have a shared municipal and

provincial interest.³⁸ This instrument of concurrent authority does not require the involvement of either party, but gives the opportunity for participation. The provincial government can choose to introduce regulations, and for the most part these are very targeted interventions. It presents a process and discussion approach to decision making, and provides a proactive approach for the provincial interest to be articulated in those spheres. Therefore, the provincial government is able to present its interest at the beginning of the policy process.

One strategy is to incorporate property tax into section 9 concurrent authority, which would allow the provincial government to work with municipalities in a shared decision making process. Still, if this option was considered the provincial government should only interfere as modestly as possible. This is particularly the case because the Ministry of Community and Rural Development is currently attempting to remove itself from the position of approving municipal bylaws as much as possible.

Number of property classes

Though this paper focuses on municipalities setting tax rates, changes to the assessment system may also have an effect on tax rates and the distribution of property tax among the property classes. One strategy to encourage a change in tax rate setting behaviour and lower tax ratios between residential and non-residential properties is to decrease the number of non-residential property classes. This strategy could lead to greater equity between the property classes. According to Bish (2004), “it appears that when property tax classification place all business properties in the same class, as does Alberta, all businesses are taxed with reasonable ratios compared to residential” (p. 26).

Reducing the number of property classes can occur in a number of different combinations. In the report *Financing Local Government*, Mayor Marilyn Baker of the District of North Vancouver suggested merging light industrial and business properties (class 5 and 6, respectively) to simplify that property tax system (British Columbia, 1989). Another strategy is to eliminate the light industrial class (class 5) and combining it with the major industrial property class.³⁹ These arrangements would put more pressure on the differential between industry and other businesses. The BC Competition Council (2006a) also recommended combining industry and service businesses into one class. Still, more research is needed on this strategy to study the effects of decreasing the number of property classes, including on tax rates.

The recommendation of decreasing the number of property classes in a variety of schemes has been suggested by a number of different people and organizations. There is no evidence that this would change decision-making behaviour because there are other jurisdictions in comparable situations. Therefore, more research of municipal tax rates and decision-making processes is needed to provide confirmation of the relationship between the number and type of property classes and tax rates.

³⁸ Currently, these spheres are public health, protection of the natural environment; wildlife; building standards; and prohibition of soil deposit or removal.

³⁹ When the variable property tax system was created there was originally one industrial class. In 1987, a new property class, major industry, was created (Whybrow, 1993).

Property tax limits

One of the most extreme approaches the provincial government can take in intervening in property tax rates and the tax distribution among the property classes is to implement property tax rate and ratio limits. In BC the provincial government has the right to implement these limits under section 199 of the *Community Charter*. Throughout the research there were strong arguments and evidence for and against property tax limits. This strategy could increase equity by limiting the ratios between the property classes and increase stability for businesses because they would be assured of a certain tax level.

Kitchen (2003) states that the “analytical arguments supporting property tax limits for local governments are generally weak” (p.28). He believes that locally elected councils are in the best position to determine what citizens want and need and to set comparable tax rates. Furthermore, property tax limits “curtail the decision-making power of municipal government if they reduce the municipal sector’s flexibility and capacity to raise its own revenue” (Kitchen, 2003, p. 28). Research demonstrates that the “most responsible and accountable government hold the autonomy to establish their own tax rates and provide “local” services funded primarily from local revenues” (Hobson and St-Hilaire in Mezynska, 2005, p. 26). As well, Mezynska (2005) found that limiting Major Industry class tax rates would have a particularly negative impact on smaller municipalities with a non-diverse assessment base. Conversely, Bell (1999) argues that upper rate limits on property tax rates assists in ensuring broad economic targets are considered.

Businesses have requested tax limits on non-residential tax rates from the introduction of the variable tax rate system in 1983. More recently, the Canadian Federation of Independent Business (CFIB) recommends that the BC government implement a tax on the ratios between property tax rates on residential and commercial properties (CFIB, 2008). Still, where tax limits have been introduced they have been criticized. In Ontario property tax rate limits have been introduced through ranges of fairness. In New South Wales, a policy of tax limits that offers some limited flexibility to municipalities is provided through rate pegging. This approach was strongly criticized by the *Local Government and Shires Association of New South Wales* (2009), which argues that it contributes to a loss of autonomy and accountability in local government decision-making.

The experts interviewed for this research held differing views on the strategy of limiting property tax rates. Dr. Slack and Mr. Vander Ploeg argued against property tax limits, citing the importance of accountability and autonomy in decision making for local governments. Conversely, Dr. Bish and Dr. Kesselman both considered the opinion of property tax limits, but with different mitigation strategies. Dr. Bish suggested municipalities could set tax rates above the limits if they could justify the benefits received by the properties. Dr. Kesselman contemplated phased-in limits, possibly with provincial financial assistance.

Considerations

This research found a number of considerations that should be given attention as the Ministry proceeds in implementing system reforms or influencing the rate setting process. These considerations include balancing principles and municipal-provincial relations.

Within municipal-provincial relations the autonomy of municipalities (in part relating to the diversity of municipalities) must be balanced with provincial interests.

Balancing principles

An important theme that came out of the research was that of balancing principles. Many academics identified that “there are tradeoffs between the achievement of equity and other economic and social goals” (Bosson, Denny, & Slack, 1981, p. 5). The McMath Commission (1976) also stated that “no tax system for any level of government is or should be based solely on considerations of equity” (p. 98). Similarly, Layfield (1979) outlined that a financial system of local government must be accountable, fair, efficient, stable, flexible and comprehensive, but conceded that “these requirements cannot all be equally satisfied, and can be contradictory in effect” (p. 62).

The importance of balancing principles was evident in Ontario’s property tax reforms. It was quickly recognized that the assessment reforms would bring large shifts in property taxes burdens. Mitigation strategies were implemented, but these policies lost focus of the need to balance principles. The focus on stability for each property class resulted in detrimental results in terms of principles of simplicity and understandability in the tax system (Slack, 2002). In Australia, there is a recognition of the importance of balancing principles, including social, political, institutional, governance and economic considerations (Productivity Commission, 2008). The Productivity Commission report acknowledges “there are invariably trade-offs between economic and other objectives, such as equity and administrative simplicity” (Productivity Commission, 2008, p. 166).

Provincial-Municipal Relations

A central theme of property tax rate setting is the relationship between provincial and municipal governments. Any influence or intervention into the municipal property tax realm by the provincial government must strongly consider the relationship that has been built between provincial and municipal governments in BC over the last 25 years.

In BC the *Community Charter* outlines principles of municipal-provincial relations, including mutual respect, harmonization of provincial and municipal enactments, policies and programs, and “foster cooperative approaches to matters of mutual interest” (*Community Charter*). Section 276 of the *Community Charter* also creates a provincial obligation to consult with local governments regarding specific legislative changes, including amendments to regulations on property tax rates.

The importance of effective provincial-municipal relations is highlighted in Ontario’s experience with property tax reforms. The provincial government did not attain local government support for the recent tax reforms nor anticipate the municipal response to mitigation options (Anstett, 2002). As a result, the lack of municipal support and involvement was one of the challenges to successful implementation of the new assessment and tax policies.

Provincial and Municipal Concerns

This section examines the provincial and municipal interests in the property tax system, and specifically property tax rates and distribution of property taxes among the property classes.

This involves balancing municipal autonomy, highlighted with the diversity of municipalities, with provincial interest.

Diversity of municipalities

It is important to consider the diversity of municipalities that exists across the province when creating and implementing property tax policies and programs. This includes considering size, geography, fiscal and policy capacity, and property tax situation of the municipality. For example, there are municipalities where the high ratio of residential to non-residential tax rates has been identified, where others do not have any considerable difference between tax rates. As well, many municipalities do not possess a significant non-residential tax base. These diverse financial circumstances must be considered in making effective property tax policy.

This diversity is recognized in local government legislation in BC. In the *Community Charter* the provincial government is tasked with respecting the “various needs and conditions of different municipalities in different areas of British Columbia” (*Community Charter*).

In the jurisdictional review, New South Wales’ *‘Council Rating and Revenue Raising Manual’* recognizes that rate levels depend on the individual community. It identified that each council must decide for itself what combination of rates, charges and fees (and pricing policies) are “appropriate” for its area and its community (New South Wales, 2005).

Provincial Interest

Though municipalities have been given wide discretion in setting property tax rates, it is recognized through legislation and interviews that there is a provincial interest in municipal property tax rates. In the research there is relatively little discussion on the provincial interest and even fewer examples where the Province has articulated its interests clearly. This provincial interest relates to provincial economic sustainability and development, and a shared tax base.

The *Community Charter* recognizes the role of a provincial or wider community interest in some local government decision-making. It outlines the principle that “the authority of municipalities is balanced by the responsibility of the Provincial government to consider the interests of the citizens of British Columbia” (*Community Charter*). This principle allows the province to identify larger regional and provincial interests that may not be considered by individual municipalities.

The provincial interest in economic sustainability and development relates to equity and stability for both residential and non-residential taxpayers. Dr. Bish strongly argues that “where there is a provincial interest the Province needs to be involved in the decisions and that this applies to several of the variable tax rate classes” (personal communication, April 6, 2009). He focused on the provincial interest in economic development, noting that the scale of economic development for individual municipalities is often much smaller than that of the province.

Another unique feature of the BC property tax system is that the tax base is shared between a number of governments and agencies. Therefore a property owner as a single taxpayer who pays property tax to a number of different governments and agencies, and may face a theoretical saturation point in the amount of tax they are able or willing to pay. Provincial school tax on property makes up a large share of this shared tax base, and to collect this tax the provincial government has instituted ratios between the property classes.⁴⁰ In 2006, more than two-thirds of the amount BC municipalities collected from property taxes was for provincial school tax (Ministry of Finance in Kozak, 2007). Over time the provincial government has been reducing the rate of school tax charge on property, which has allowed municipal governments to raise more revenue from that source (Bish, personal communication, April 6, 2009). Through interviews with municipal officials, Kozak (2007) found that there was a continuing interest in the BC government reducing its school portion of the property tax to allow municipalities to draw more revenue from property tax.

The provincial interest in sharing the tax base was most recently demonstrated in the 2009 throne speech announcement. In the speech the government indicated that new legislation would be introduced to ensure that provincial tax relief that was provided through a 50% rebate on school property taxes to industrial properties was not negated by local property tax increases (British Columbia, 2009). The government stated that “all levels of government must be equally disciplined to ensure that tax reductions at one level of government are not negated by tax increases at another” (British Columbia, 2009).

This section combined the analysis from the history, literature, jurisdictional review and expert interviews. It identified common themes, including principles, strategies for provincial influence and intervention, and considerations. The following section will take this information and provide key recommendations that can be used by the provincial government in developing and implementing policy on this subject.

⁴⁰ The provincial government has implemented tax ratios for the collection of school tax across the province. Though initially the researcher considered using these ratios as a model for municipal tax rates, they are not a useful ideal. This is because the provincial government does not provide any relationship between the revenue and expenditure of the tax, as the revenue collected becomes part of provincial general revenue and does not relate to the amount of funding a school district obtains. Therefore there is no accountability for taxpayers. It is not possible for the provincial government to show leadership with reducing school tax rates (as they have recently done with class 4 and 5) because there is no connection between the revenue and expenditure.

RECOMMENDATIONS

This section provides five key recommendations to the Ministry of Community and Rural Development and provincial government as a whole in developing and implementing policy on this subject. These recommendations came from the holistic and in-depth analysis that was achieved through the number of research methods and became evident through the research and conversations with Ministry staff.

The research raised a number of considerations in relation to the provincial role in municipal property tax rate setting. These relate to the provincial government's interest, engaging with municipalities, building on success and learning from past experience, research and education, and property tax rate warnings. These recommendations relate to capacity building in both the provincial and municipal governments. As well, it is recommended that the provincial government develop strategies that mediate between past behaviour of absence from municipal property tax decision-making and the intervention of municipal property tax limits.

1. Define and communicate provincial interests

One of the most important findings from this research is the lack of defined provincial interest in municipal property taxation. It is vital that the provincial government define this interest clearly and communicate it strongly to municipalities. As the provincial government completes more research on this topic, the interests will become more evident. As well, the role of school tax and the recent throne speech announcement will contribute to defining the provincial interest in this topic. Still, the provincial interest must be put forward while respecting local government expenditure decisions.

As mentioned previously, the provincial interest includes the economic sustainability and development of municipalities and the province, and sharing the tax base. As well, there may be a provincial interest in intergovernmental equity with "achieving fiscal parity across jurisdictions" (NLC, 2006, p. 3). The mayor of Victoria, Dean Fortin, stated that he would support the provincial government making the ratio of business to residential taxes three-to-one to "even the playing field between municipalities" (Watts, 2009, p. A03). Furthermore, it is in the provincial government's interest to have municipalities consider the effect their tax rate setting decisions are having on other jurisdictions and levels of government (NLC, 2006).

Once this interest is defined, it may be integrated into the property tax system through concurrent authority or a new notification system that communicates to municipalities that the provincial government feels their tax rates are unsustainable or ill-advised. Any intervention by the Province in this manner must recognize the diversity of municipalities and their economic circumstances. This system would introduce much needed interaction between the provincial and municipal governments based on on-going discussions, rather than the current extremes of a lack of provincial involvement or strict rate limits.

2. Engage with municipalities

The Ministry should continue to engage with local governments. The provincial government currently enjoys a relatively successful relationship with local governments, both individually and through the UBCM. It is important that this relationship continues when dealing with the politically sensitive topic of property taxation.

The dialogue on property taxation must begin early in the policy process and be ongoing as each party must have ample opportunity to express mutual and differing interests. Through this discussion the Province should not concentrate on tax rates, but instead on the large financial picture of revenue sources. This discussion should focus on the unique circumstances of individual communities, and the role the provincial government could have in encouraging equitable property tax decisions.

This relationship should centre on mutual trust. In the past this trust was not always evident, in particular when the provincial government introduced tax limits on railway property. To build trust the provincial government must provide comprehensible explanations for its decisions in this realm.

3. Build on successes and learn from past experience

The Ministry can build on past work it has completed in regards to property tax rates and provincial-municipal relationship building. This includes taking full advantage of the information and programs that are at the Ministry's disposal.

The new municipal fiscal disclosure requirements provides the Ministry with an important tool and process that it can use to work with municipalities and learn about current financial policies and objectives. These requirements should be fully supported by the Ministry by providing on-going assistance to municipalities. Past work done by the Ministry developed options for more supported implementation of these requirements, including an expert panel or UBCM-provincial joint committee to explore property tax rate setting issues, policies and opinions. It is strongly encouraged that greater attention is given to these requirements to ensure they are meaningful and assist municipalities in their financial planning.

The provincial government must also learn from past experience it and other jurisdictions have had in the realm of property tax rate setting. With the history of railway assessment and taxation it was demonstrated that limiting assessment was not sufficient in stabilizing taxes. As well, after the railway limits and the resulting outrage from the municipal government, the provincial government decided to provide compensation to municipalities when implementing port property tax rates limits. The Province can also learn from the experience of the Ontario government. In Ontario the provincial government implemented changes to the property tax system without the support of municipalities. As a result, full implementation of the changes was made more difficult and mitigation strategies were found to be unacceptable to local governments.

4. Research and education

This paper highlights the need for a strong role for the provincial government in both monitoring municipal property tax rates and using statistics and information it collects to educate both provincial and municipal governments. This research can be developed in an accessible manner that can be used by many provincial ministries and municipal governments. The Ministry's statistics on "representative residential property" for each municipality is a useful example of how information can be presented to demonstrate the practical application of tax rates. Appendix G provides a further example of simple research presented in an informative manner using current statistics collected by the Ministry.

This research will enable the provincial government to respond to questions and criticisms from industry and business owners and lobby groups, and identify municipalities that may face potential challenges in revenue generation based on current tax rates and burdens among the property classes. This research could also achieve some of the outcomes of implementing a municipal auditor general. This work could contribute to citizen education, following Mr. Vander Ploeg's identification of the important role for citizen education in property tax rate setting.

The fiscal disclosure requirements that are now fully implemented provide the provincial government with a wealth of information that can be used both for research and education purposes. The Ministry should fully utilize these documents to identify best practices, as well as challenges faced by municipalities. This review would also demonstrate to municipalities the importance the Ministry is giving to the new requirements.

New Guide to Tax Rating

As part of the research and information, the Ministry should release a new guide to tax rating to provide information to municipalities on the history of the variable tax rate system, tax calculation methods, and the policy process that should occur when setting property tax rates. This manual could follow some of the content found in New South Wales' *Council rating and revenue raising manual*, and discuss a similar policy process to that undertaken by New Zealand local governments when making funding decisions. This document should identify principles that could be considered when setting property tax rates. It should also clearly articulate that the provincial government has an interest in property tax rate setting, articulating its interest in municipal and provincial economic sustainability and a shared tax base. This guide would be especially valuable to smaller municipalities.

5. Tax rate warning system

All of the previous recommendations relate to communication and cooperation between provincial and municipal governments. Though every effort may be made to work with municipalities to set reasonable tax rates and distribute taxes among the property classes in an equitable manner, there may still be municipalities that are unable or unwilling to change their tax rate setting behaviour. Some municipalities may be overly reliant on one non-residential tax payer, but see no alternative to the tax rates that have increased incrementally over many decades. In these cases, the provincial government may identify the property tax system as unsustainable.

A property tax rate warning system should be developed to work with municipalities that have unsustainable property tax rates and distributions. This notification system would communicate that the provincial government feels the rates or distribution is inappropriate, or may be detrimental to the economic sustainability of the municipalities. This system would communicate to municipalities, and particularly to residents (who would probably be burdened with a higher tax bill as a result of tax shifts), that different property tax policies and objectives should be adopted.

In the past the provincial government has chosen to intervene in situations with high property tax rates on non-residential property with strict property tax limits. This intervention has led to distrust from municipalities, and limits their autonomy in controlling their financial circumstance. As well, this strategy has not given municipalities any prior indication that their behaviour is not supported by the provincial government.

As the provincial government continues to have the right to limit property tax rates and ratios, its use should be avoided if possible. Still, the right to limit tax rates or ratios recognizes that in very specific situations the provincial interest may override the municipal interest. If tax limits are considered, alternatives to hard caps should be explored. For instance, limits could be implemented that require municipalities to tax residential properties a bulk of any tax increase. As well, the Province should learn from its mistakes mentioned earlier in relation to limits and compensation, and clearly articulate its interest, so to minimize the antagonism between the parties that may be unavoidable in this situation.

There are different forms of tax limits that could be introduced. This includes different tax limits depending on the tax base,⁴¹ limits that require justification to the provincial government and taxpayers if rates are above the limits. Bell (1999) recommended a ‘cap-with-override’ approach, which would allow voters to approve a tax increase that is above the cap level through a vote. This is similar to the cap with override by Minister approval system that has been implemented in New South Wales (New South Wales, 2001). If a limit is introduced it should follow the principles and priorities of the current property tax system.

Conclusion

The development and implementation of any of the strategies and recommendation should be designed in light of the considerations outlined in the previous section. This will ensure that the issues, including property tax rate setting principles, are integrated into future property tax policy. Overall, changes to the property tax system should be minor in nature at this point. This gives the Ministry ample time to fully articulate the provincial interest in property tax rates, and a period to engage in authentic in-depth discussions with UBCM and municipalities across the province.

⁴¹ Within its regulations the provincial government has the ability to establish classes of municipalities and set rates or ratio limits for those classes.

This section provided recommendations for the provincial government to develop policy on this topic. The following section will provide a conclusion, reviewing the findings of the research and the need for future research.

CONCLUSION

This section provides an overview of the main findings of this paper and identifies areas for further research. This paper provides an introduction to the property tax system in BC, a discussion of principles of property tax rate setting and distribution, and considerations and strategies for the provincial government to reflect on in creating policy and legislation on this topic. Through a review of the history of the property tax in BC, literature review, jurisdictional review and expert interviews, the paper provides a holistic examination of the topic for the Ministry of Community and Rural Development.

The initial research question related to principles of property tax rate setting and the distribution of tax among the property classes. Though there was significant research on property tax principles, there was limited study of the practical application of these principles. An exploration quickly revealed limited research and understanding of municipal decision-making in the areas of public finance. Building on the work of Kennedy and McAllister, more research should be undertaken to gain a greater understanding of the complex process of decision-making at the municipal level. This is a research opportunity for both academics and the provincial government.

This paper demonstrates the need for greater provincial focus on the issue of municipal property taxation. In the past the variable tax rate system in BC has emphasized the role of municipal autonomy. The current system is unbalanced and gives weight to local autonomy at the detriment to provincial interest. This is evident in some of the high non-residential tax ratios. There is a significant provincial interest in the shared tax base and provincial economic sustainability and development.

Throughout BC's history the provincial government has introduced changes to the property tax system on an ad-hoc or reactive basis. To ensure more deliberate and calculated decisions are made in the future, there is a need for the Ministry to undertake more ongoing monitoring and policy development. It is important that in the future the Province makes more holistic and deliberate decisions in relation to the property tax system. In doing so the Province and the Ministry must identify explicit outcomes it would like to see in a property tax system. Once these outcomes are identified, strategies to obtain these outcomes can be conceived and evaluated.

Property tax plays an important role in municipal finance, and the success of local governments in BC. Still, there is evidence that high non-residential property tax rates can have a detrimental effect on economic sustainability and development. The provincial government has an opportunity to use its authority appropriately to work with municipalities to ensure their continued economic success. There is also a very important municipal and provincial shared interest in the economic and social sustainability of our communities across the province. This shared interest should be emphasized in any changes to the property tax system, with a focus on building trust and increasing dialogue between provincial and municipal governments.

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APPENDIXES

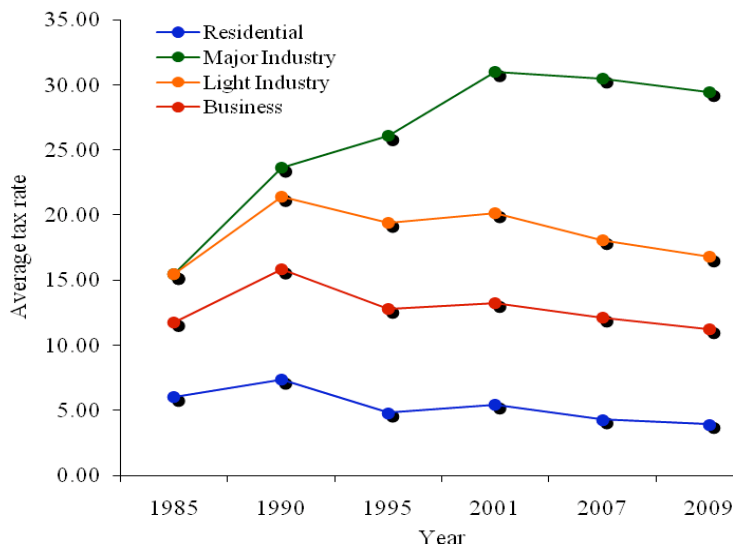
Appendix A: BC Tax Rates and Multiples

This appendix provides the following graphs of provincial average property tax rates and multiples and individual municipalities' multiples.

Average provincial property tax rates and multiples

The following graph provides average provincial tax rates for residential (class 1), Major industry (class 4), Light industry (class 5) and Business and other (class 6). Rates were obtained from Ministry of Community and Rural Development statistics. Due to the introduction of the Major Industry class in 1987, the tax rates provided for that class in 1984 reflect the Light Industrial rate, which they shared a class with at that point.

Tax rates: Provincial averages

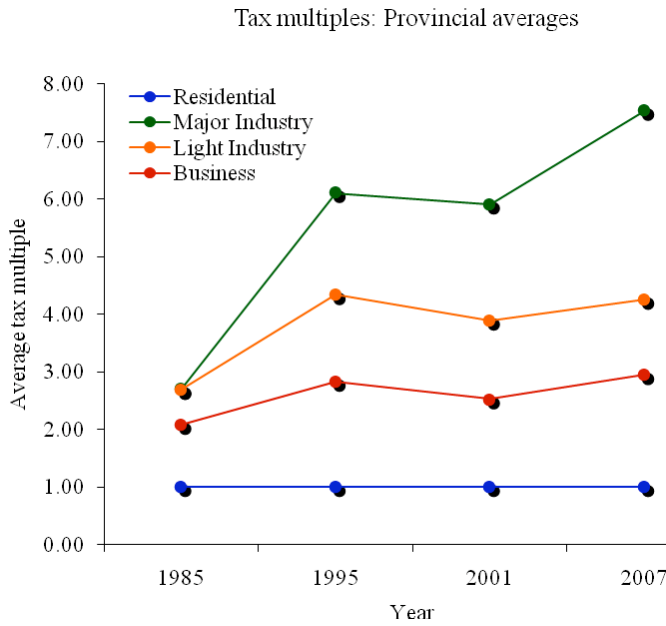


Source: Ministry of Community and Rural Development, 2009

Tax rates: Provincial averages						
Property Class	1985	1990	1995	2001	2007	2009
Residential	6.04	7.38	4.82	5.45	4.29	3.93
Major Industry	15.43	23.64	26.06	30.96	30.47	29.44
Light Industry	15.43	21.39	19.41	20.15	18.10	16.77
Business	11.76	15.80	12.77	13.23	12.10	11.21

Source: Ministry of Community and Rural Development, 2009

The following graph provides average provincial tax rate multiples for residential (class 1), Major industry (class 4), Light industry (class 5) and Business and other (class 6). Rates were obtained from Ministry of Community and Rural Development statistics. Due to the introduction of the Major Industry class in 1987, the tax rate multiples provided for that class in 1984 reflect the Light Industrial rate, which they shared a class with at that point.



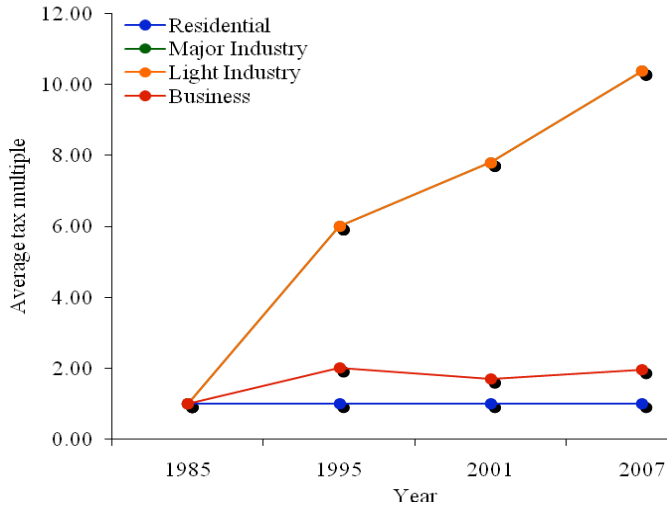
Source: Ministry of Community and Rural Development, 2009

Municipalities' property tax multiples

The following graphs provide unweighted tax rate multiples for residential (class 1), Major industry (class 4), Light industry (class 5) and Business and other (class 6) for a sample of 16 BC municipalities. These municipalities were identified through the analysis of financial plans that is provided in Appendix E. Rates were obtained from Ministry of Community and Rural Development statistics.

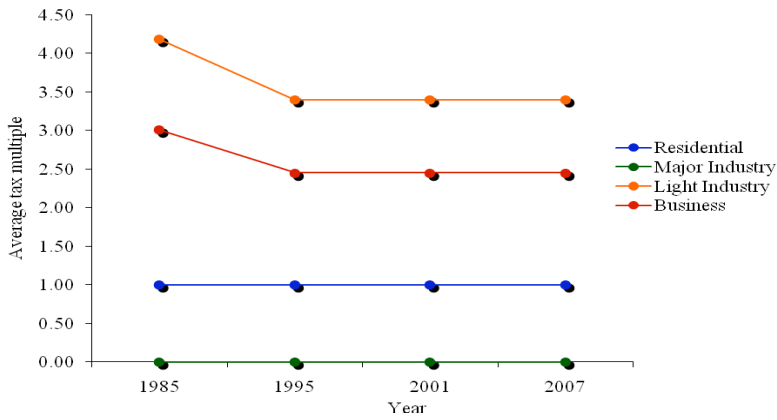
Due to the introduction of the Major Industry class in 1987, the tax rates provided for that class in 1984 reflect the Light Industrial rate, which they shared a class with at that point. As well, some municipalities do not have any property classified for industrial and have not set rates for that type of property, which thus appears as a rate of 'zero'. Furthermore, a couple of municipalities had industrial property for only a portion of the 20-year period and the rates reflect this.

Tax multiples: Cache Creek



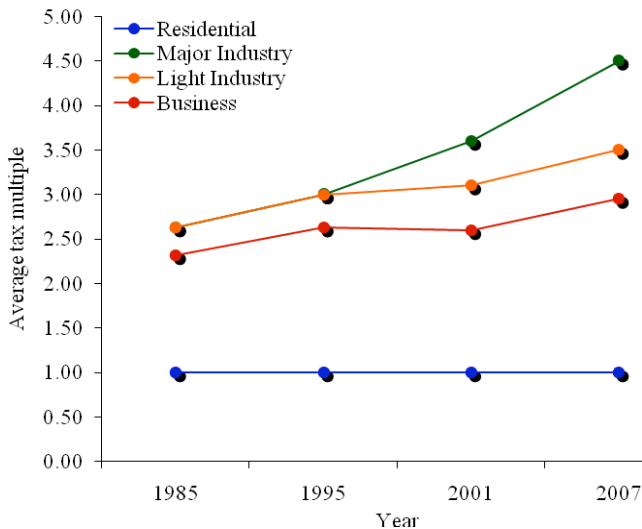
Note: Major and Light industrial tax rates are identical.
 Source: Ministry of Community and Rural Development, 2009

Tax multiples: Fort Nelson



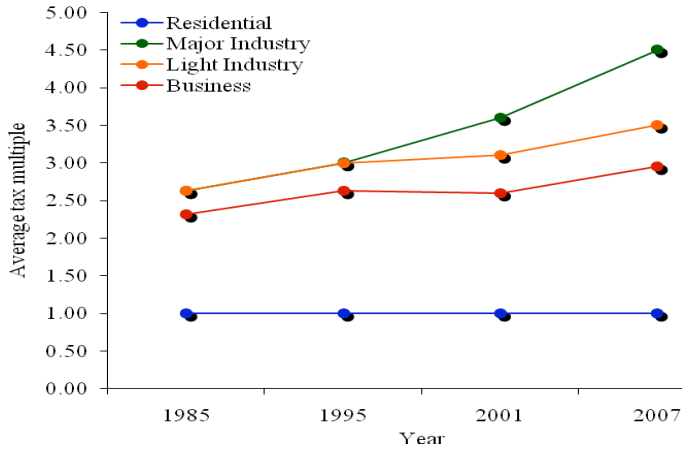
Source: Ministry of Community and Rural Development, 2009

Tax multiples: Golden



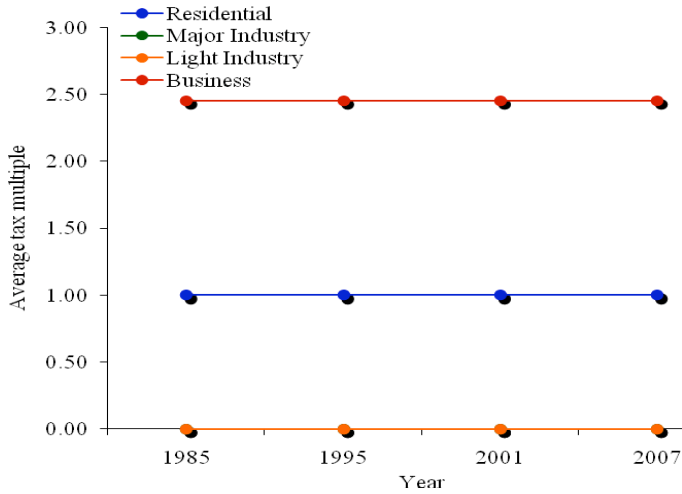
Source: Ministry of Community and Rural Development, 2009

Tax multiples: Gold River



Source: Ministry of Community and Rural Development, 2009

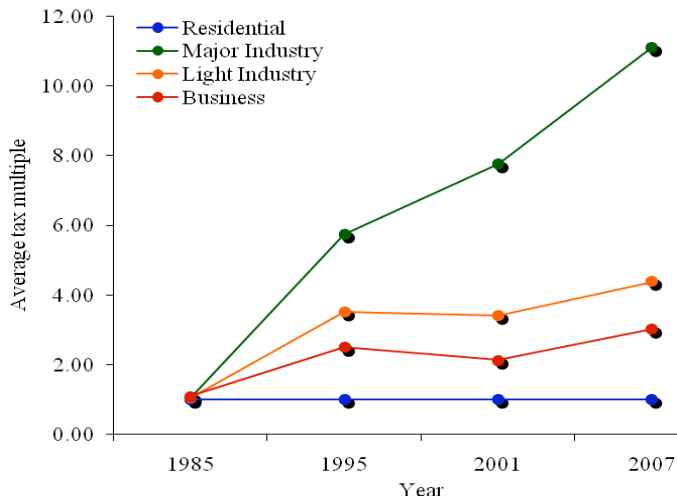
Tax multiples: Hazelton



Note: Major and light industry rates are identical.

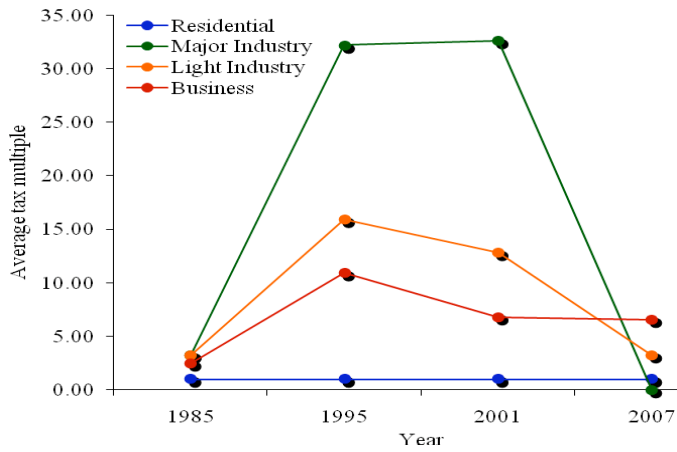
Source: Ministry of Community and Rural Development, 2009

Tax multiples: Kamloops



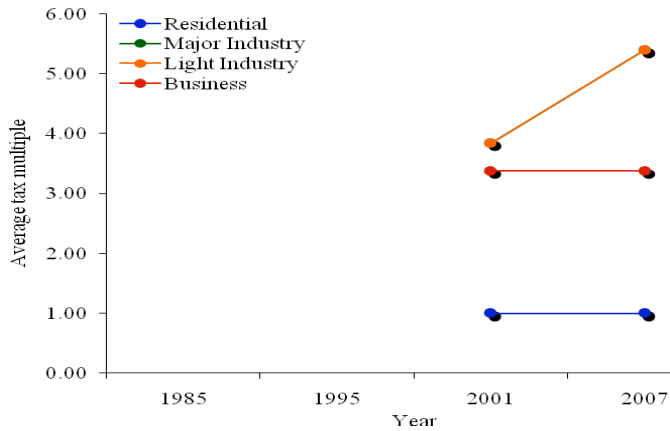
Source: Ministry of Community and Rural Development, 2009

Tax multiples: Kimberly



Source: Ministry of Community and Rural Development, 2009

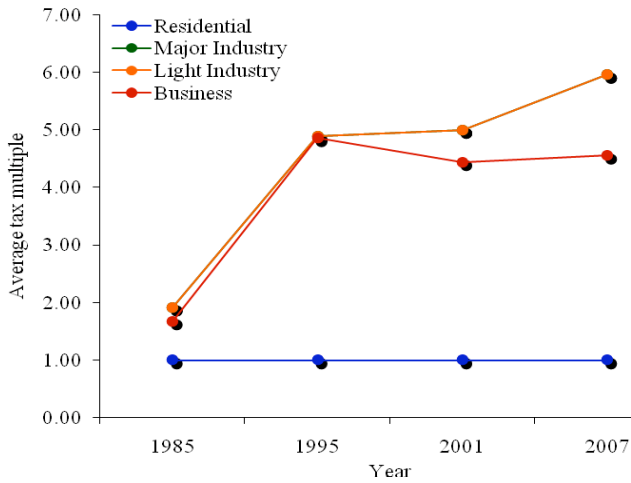
Tax multiples: Lake Country



Note: Lake Country incorporated in 1995. Major and light industrial rates are identical.

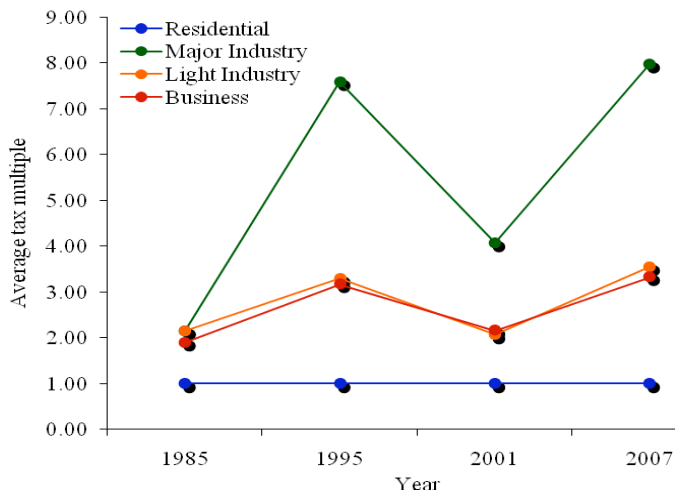
Source: Ministry of Community and Rural Development, 2009

Tax multiples: Golden



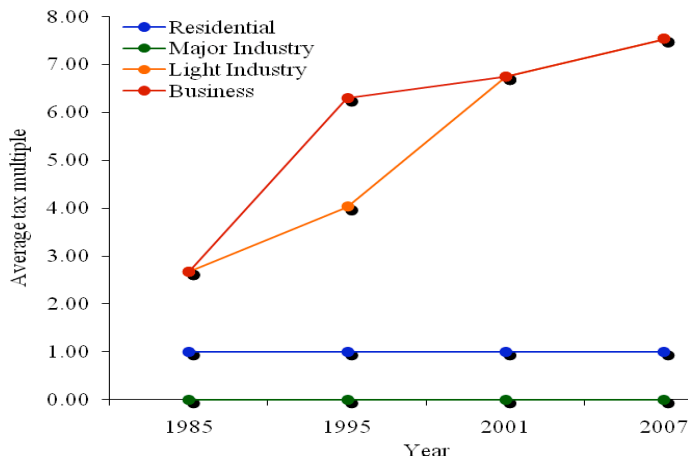
Note: Major and Light industrial tax rates are identical.
 Source: Ministry of Community and Rural Development, 2009

Tax multiples: Nanaimo



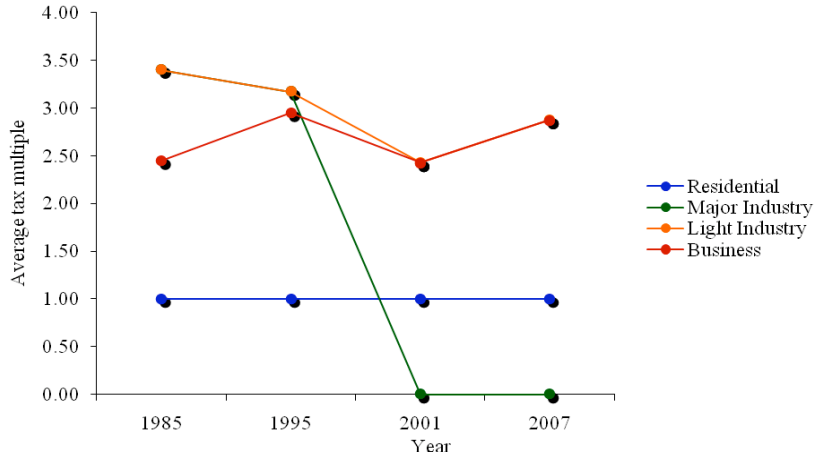
Source: Ministry of Community and Rural Development, 2009

Tax multiples: North Saanich



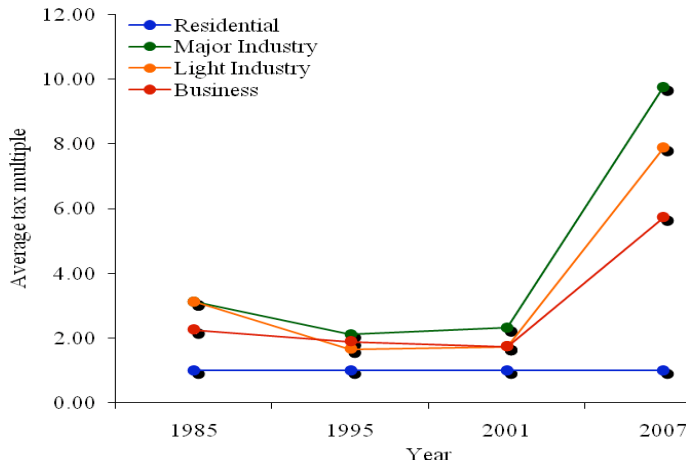
Source: Ministry of Community and Rural Development, 2009

Tax multiples: Oliver



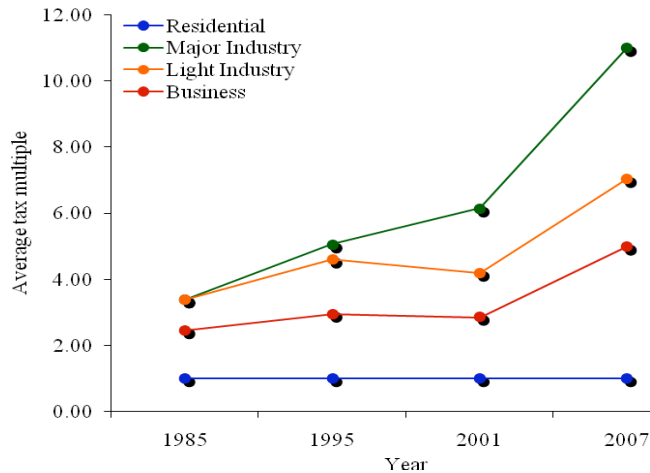
Source: Ministry of Community and Rural Development, 2009

Tax multiples: Tumbler Ridge



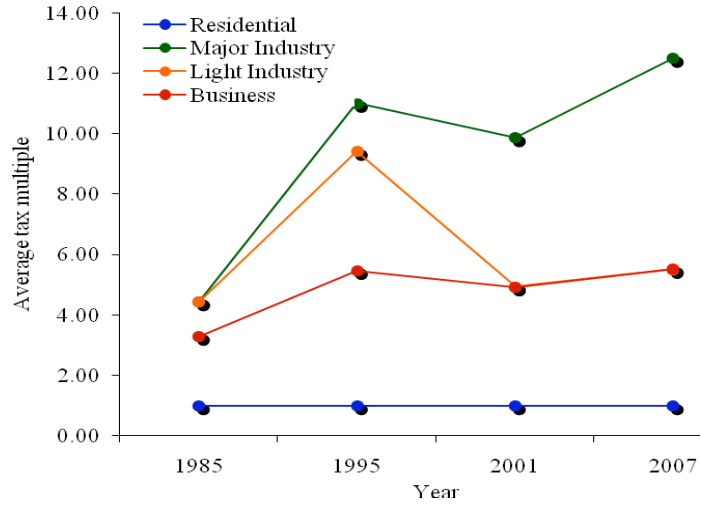
Source: Ministry of Community and Rural Development, 2009

Tax multiples: Revelstoke



Source: Ministry of Community and Rural Development, 2009

Tax multiples: Vancouver



Source: Ministry of Community and Rural Development, 2009

Appendix B: BC Property Classes

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 and daycare facilities.

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.

Class 3, Supportive Housing —funded and identified by the provincial government, a property which combines on-site support services with housing for persons who were previously homeless, at risk of homelessness, have mental or physical disabilities, or who are recovering from drug or alcohol addictions

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 *Private Managed Forest Land Act*.

Class 8, Recreational Property, Non-profit Organization — includes two very different categories:

- Land used solely as an outdoor recreational facility for activities such as golf, skiing, tennis, public swimming pools, waterslides, amusement parks, marinas and hang gliding. Improvements on the land (such as a clubhouse) fall into Class 6.
- 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 — Farmland must produce a prescribed amount of qualifying primary agricultural products for sale such as crops or livestock.

(BC Assessment, 2009)

Appendix C: A Chronology of Major Property Tax and Assessment Changes in British Columbia, 1982-2009

This table presents a chronology of the major property tax and assessment changes from 1982 to the present, and identifies some of the contemporary developments. Omitted from the 1982-1993 analysis are specific detailed changes to property tax policies (e.g. changes to exemptions), and to the assessment legislation (e.g. definition of industrial improvements).

Year	Tax Changes	Assessment Changes	Developments and Activities
1982	<ul style="list-style-type: none"> School boards lose non-residential tax powers and <i>de facto</i> lose residential through budget controls 		<ul style="list-style-type: none"> General fiscal restraints introduced Provincial limits on municipal and school budgets
1983	<ul style="list-style-type: none"> Legislation introduces variable tax rate system for municipalities to begin in 1983 	<ul style="list-style-type: none"> As a restraint measure, annual roll eliminated in favour of biennial roll 	
1984	<ul style="list-style-type: none"> All property taxes switched to variable tax rates on full market value assessments 		<ul style="list-style-type: none"> Report, <i>Taxation and Economic Development</i>; public meetings held on high level of fixed taxes on industry and financial impact of taxes on business during the recession
1985	<ul style="list-style-type: none"> School tax rates on non-residential property reduced across the board 	<ul style="list-style-type: none"> Machinery and equipment to be removed from assessment in 86-87 reducing property taxes on business by approx. \$200 million 	<ul style="list-style-type: none"> In 1985 provincial budget substantial reductions to fixed taxes on business were introduced
1986	<ul style="list-style-type: none"> School boards get residential tax returned 	<ul style="list-style-type: none"> Utility property assessment revised; review of industrial methodology 	<ul style="list-style-type: none"> Municipalities concerned about industrial assessment appeals
1987		<ul style="list-style-type: none"> <i>Assessment Amendment Act, 1987</i> establishes Class 4- Major Industry to provide more stable industrial tax base Major Industrial Properties (MIPS) Manual introduced to guide the assessment of Class 4 properties 	
1988			<ul style="list-style-type: none"> Union of British Columbia Municipalities (UBCM) asks government to undertake joint review of municipal finance; known as <i>Financial Local Government Study</i> The 1989 roll (values based on July 1, 1988) shows 17% increase in response to economic revival In Vancouver, average roll increase is 35%; City establishes a property tax review committee (<i>Leckie Commission</i>)

Year	Tax Changes	Assessment Changes	Developments and Activities
1989	<ul style="list-style-type: none"> • Bill 17, the <i>Residential Property Tax Increase Limitation Act</i>, allows municipalities to cap assessments of residential land; used only by the City of Vancouver; later the government approved a City of Vancouver bylaw that capped commercial property taxes 	<ul style="list-style-type: none"> • In November, responsibility for the British Columbia Assessment Authority is transferred from the Ministry of Finance to the Ministry of Municipal Affairs Housing 	<ul style="list-style-type: none"> • <i>Leckie Commission</i> reports in March that market value was the appropriate base for assessment, but "equity" had been violated by the extreme increases on some properties; recommends tax capping and return to annual roll • <i>Financing Local Government</i> report recommends assessment averaging or phasing, an annual roll and municipal flat tax • Ministers of Municipal Affairs and Finance announce the <i>Property Tax Forum</i>; a panel tours the province in August and September to hear taxpayer concerns; many demand that school taxes be removed from property tax base; some call for a Thatcher-type toll tax
1990	<ul style="list-style-type: none"> • Vancouver is given the power to cap commercial taxes for 1990 • <i>Assessment and Property Tax Reform Act, 1990</i> allows municipalities to levy a flat tax on residential property (5 use this) and to use a split tax to levy different tax rates on residential land and improvements (only 1 municipality applies it) • <i>School Act</i> amendments remove residential taxing powers from local boards except by referendum • A new Supplemental Home Owners Grant increases tax relief for higher valued homes 		<ul style="list-style-type: none"> • In September, Ministry of Municipal Affairs publishes 3 white papers on local finance, <i>New Directions for Local Government Finance</i> • UBCM and municipalities continue to press for assessment averaging and phasing
1991	<ul style="list-style-type: none"> • Vancouver is given the power to cap residential and commercial taxes for 1991 	<ul style="list-style-type: none"> • Working group begins study of property tax stabilization measures including assessment averaging and phasing 	<ul style="list-style-type: none"> • In October, the Social Credit government is defeated by the New Democratic party in the provincial election
1992	<ul style="list-style-type: none"> • Vancouver is given the power to cap residential and commercial taxes for 1992 • The <i>Assessment and Property Tax Reform Act, 1992</i> repeals the flat tax/split rates options • Supplemental Home Owner Grant is eliminated as being regressive 	<ul style="list-style-type: none"> • <i>Assessment and Property Tax Reform Act, 1992</i> allows municipalities to average or phase in assessed values of land; annual roll returns 	

Year	Tax Changes	Assessment Changes	Developments and Activities
1993	<ul style="list-style-type: none"> • 13 municipalities express early interest in averaging or phasing but only Vancouver chooses this option • The 1993 budget announces a phase-out of Home Owner Grants beginning at homes valued at \$400,000; a school surtax is to be applied to homes over \$500,000 but public outcry results in withdrawal of this measure 	<ul style="list-style-type: none"> • A committee is struck to evaluate municipal decisions to use/not use assessment averaging or phasing 	<ul style="list-style-type: none"> • In early summer, commercial taxpayers in Vancouver protest against large increases in property taxes as the cap is eliminated
1994		<ul style="list-style-type: none"> • Name change to "BC Assessment" 	
1995	<ul style="list-style-type: none"> • Increase Home Ownership Grant threshold to \$475,000 before grant may be reduced 		<ul style="list-style-type: none"> • Peace River agreement that sets rural rates at a different level for class 2, 4, and 5 to capture revenue from oil and gas operations. The Province gives \$12 million in revenue to the municipalities and regional districts
1996	<ul style="list-style-type: none"> • BC Regulation 329/96 imposes limits on the tax rate which applies to Class 2 (Utilities) property for general municipal purposes. The limit (in most circumstances) is the greater of \$40 per \$1000 of taxable assessment, or 2.5 times the municipality's Class 6 (Business) rate for that same taxation year. As well, for municipal purposes utilities are exempt. Instead municipalities receive 1% of revenue earned within the boundaries of the municipality from the last 2 years. • Freeze on the average residential gross taxes payable to the provincial government under the <i>School Act</i> and <i>Taxation (Rural Area) Act</i> from 1996-2000 (Tax and Consumer Rate Freeze Act) 		

Year	Tax Changes	Assessment Changes	Developments and Activities
1997	<ul style="list-style-type: none"> • Permissive property tax exemptions for eligible riparian property • Amendment to the <i>Municipal Act</i> to authorize regional districts to establish variable tax rate systems for local services, but only in relation to property classes 2, 4, and 5 and only for the result of ratios between tax rates for those properties and the tax rate for property class 1 that are lower than the applicable ratio established the provincial government (s. 842) 		
1998			<ul style="list-style-type: none"> • Changes to the appeal structure
1999		<ul style="list-style-type: none"> • s. 20.1 to the <i>Assessment Act</i> requiring dams, power plants and substations to be valued according to legislated cost manuals and depreciation schedules 	
2000			
2001			<ul style="list-style-type: none"> • NDP defeated; Liberal government takes power
2002			
2003			<ul style="list-style-type: none"> • <i>Community Charter</i> introduced; Part 7 sets out the ways in which a municipality might financially support its activities: property value tax; parcel tax; local service tax; and fees. This Part sets out a new simplified process to tax in relation to local area services, and clarifies the process for updating the parcel tax roll. In addition, this Part establishes statutory and permissive tax exemptions, including broadened authority for municipalities to provide tax exemptions in relation to property owned by non-profit organizations.

Year	Tax Changes	Assessment Changes	Developments and Activities
2004	<ul style="list-style-type: none"> • <i>Ports Property Tax Act</i> established property tax limits for the principal port terminals in BC. Tax limit set at \$27.50 per \$1000 of assessed value for 5 years and \$22.50 per \$1000 assessed value on new investment for 10 years from the date of the initial investment • Increase Home Owner Grant threshold increased to \$585,000 before grant may be reduced 		
2005		<ul style="list-style-type: none"> • Class 3 (unmanaged forest) is eliminated and properties are moved to other classes 	<ul style="list-style-type: none"> • Provincial election; Liberals re-elected • Municipal election
2006			<ul style="list-style-type: none"> • <i>Taskforce on Community Opportunities</i> reports that "local governments may not always consider business and economic interests and the impact of their taxation and programming decisions" • Rapidly rising housing prices, particularly in Vancouver, Victoria and the Okanagan
2007	<ul style="list-style-type: none"> • Police tax is introduced. For towns under 5,000 people or rural area residents are charged to cover 50% of the policing costs • Home Owners Grant threshold has increased, with those who may be eligible to receive the full grant will be \$950,000 in assessed property value, up from \$780,000; low income tax grant supplement introduced • <i>Hotel Room Tax Act</i> introduced to provide revenue sharing with designated resort municipalities. • Broader revitalization tax exemption authority introduced • The British Columbia Property Tax Deferment Program is lowered to include people who are 55 years or older • Reduction of school taxes for class 4 to a level equal to class 6 (therefore in 2009, Class 4, 5, and 6 will be equal) 	<ul style="list-style-type: none"> • Changes to how strata hotel units, major ski hills and ports are assessed • Strata accommodation can be classed as either: Class 1 (residential) or Class 6 (business). Under the new model individual strata units will be assessed based on a split of actual use • Changes the way in which designated ski hills are assessed is in s. 20.2 of the <i>Assessment Act</i> • The <i>Assessment Act</i>, s. 20.3 introduces special valuation rules for eligible designated port land 	<ul style="list-style-type: none"> • Stiffer financial disclosure requirements introduced for municipal financial plans • Rapidly rising housing prices, particularly in Vancouver, Victoria and the Okanagan

Year	Tax Changes	Assessment Changes	Developments and Activities
2008	<ul style="list-style-type: none"> • 50% rebate of school tax for industrial property (class 4 & 5) • Port tax limit renewed • Home Owners Grant threshold is increased, with the basic grant is eliminated on homes assessed at \$1,164,000 or more, and the additional grant is eliminated on homes of \$1,219,000 or more 	<ul style="list-style-type: none"> • Property assessment freeze (2007 or 2008 value, whichever is lower). • Class 3.1 (Supportive Housing) is introduced. All properties in the class are assessed at \$1 for land and \$1 for improvements. 	<ul style="list-style-type: none"> • Economic downturn • Municipal election
2009	<ul style="list-style-type: none"> • In light of recent global economic events, the Land Tax Deferment Act is amended to create a new temporary program which will allow eligible homeowners facing financial hardship, and who have at least 15 per cent equity in their homes, to defer their 2009 and 2010 property taxes 		<ul style="list-style-type: none"> • BC Assessment moves from Ministry for Small Business and Revenue to Ministry of Community Development • Economic downturn • Provincial election

(This chronology builds on Jennifer Whybrow 1982-1993 timeline of events; Whybrow, 1993, p. 12)

Appendix D: Expert Interviewees

Dr. Enid Slack has been working in the field of municipal finance for over 25 years and is respected nationally and internationally for her research on property taxes and other aspects of municipal finance. Dr. Slack is an Adjunct Professor at the University of Toronto teaching a graduate course in urban public finance to planning students and is affiliated faculty at the School of Public Policy and Governance. She is also a Senior Research Associate at the University of Toronto Cities Centre. In 2006-07, she was a Commissioner on *the Property Tax Policy Review Commission* for the City of Vancouver.

Dr. Robert L. Bish is Professor Emeritus, University of Victoria, where he was Professor of Public Administration and Economics from 1981 through 1998. He was also Co-director of the Local Government Institute from its establishment in 1995 through 2002.

Dr. Jonathan Kesselman joined Simon Fraser University's Public Policy Program in 2004, where he is a professor and holds the Canada Research Chair in Public Finance. From 1972 to 2003 he was a professor of economics at the University of British Columbia, and from 1992 to 2003 he served as director of the UBC Centre for Research on Economic and Social Policy. He was director and principal investigator of the SSHRC/MCRI project on "Equality/Security/Community." He has a B.A. (Hon.) from Oberlin College and a Ph.D. from M.I.T.

Mr. Casey Vander Ploeg is a senior policy analyst with the Canada West Foundation. He has a BA in Political Science from the University of Lethbridge. Prior to joining the Foundation, Casey worked as a journalist. Casey has been with the Canada West Foundation since 1991 and has authored or co-authored over 50 research reports. His most recent publication is 'Problematic Property Tax: Why the Property Tax fails to measure up and what to do about it' was published in November 2008. His work on urban finance and infrastructure has established him as one of Canada's foremost experts in the area.

Appendix E: Review of Municipal Financial Plans

This section reviews a sampling of municipal financial plan bylaws to identify principles and other factors municipalities are currently considering when setting property tax rates. This analysis is possible due to the stiffer provincial revenue and tax policy disclosure requirements introduced in 2007. The analysis focuses on the requirement for policies and objectives related to the distribution of property tax rates among the property classes. This analysis reveals common themes, including objectives to maintain stable tax rates and a proportionate tax relationship between property classes, and to reduce non-residential tax rates. Overall, the analysis reveals a moderate level of compliance and sophistication in financial planning.

In 2007, the Ministry introduced amendments to the Community Charter, which were intended to enhance municipal accountability with the addition of more detailed municipal revenue and tax policy disclosure in municipalities' 5-year financial plans. Municipalities are now required to include statements in their 5-year financial plans regarding the objectives and policies in relation to each of the following:

- proportion of total revenue that is proposed to come from each of their funding sources described in Section 165(7) of the Community Charter,⁴²
- distribution of property value taxes among the property classes, and
- use of permissive tax exemptions.

The long-term objectives of these new requirements are to:

- increase municipal financial accountability,
- support municipalities in considering their financial situation and tax setting behaviour, and
- encourage municipalities to decrease industrial and business property tax rates.

These requirements were introduced in 2007 with phased-in implementation. In 2008 municipalities were required to provide a general objective statements for each of the three topics. Full requirements in 2009 entail more detailed policy and objective statements to be provided in the financial plans.

Methodology:

The financial plans for a selected group of municipalities were chosen for content analysis. Municipalities for this subsample were chosen from the financial plans that included statements in relation to the distribution of property taxes among the property classes. From that group, 16 municipalities were then selected based on a diversity of population size and geographic location.

The municipalities' financial plans that were examined were:

- Cities of Vancouver, Kamloops, Kimberly, Revelstoke, and Nanaimo;
- Towns of Fort Nelson, Golden, and Oliver;
- Villages of Cache Creek, Lions Bay, Hazelton, and Gold River; and
- Districts of North Saanich, Tumbler Ridge, and Lake Country.

⁴² *Community Charter*, Section 165(7) The proposed funding sources must set out separate amounts for each of the following as applicable: (a) revenue from property value taxes; (b) revenue from parcel taxes; (c) revenue from fees; (d) revenue from other sources; (e) proceeds from borrowing, other than borrowing under section 177 [*revenue anticipation borrowing*].

The municipalities' financial plans were analyzed to identify common principles or considerations made in relation to the distribution of property tax among the property classes, and thus the property tax rates charged to each class. Therefore, summaries of statements made in the financial plans are identified under the themes of economic competitiveness, stability, comparison, equity, benefit received, ability to pay, and other.

The table below presents the findings of this analysis. It is recognized that 2008 was a transitional year and obligations in relation to financial disclosure were for broader, more general statements on financial decisions.

Conclusions:

Common policies and considerations include stability (focusing on tax rate stability for residents), economic development, comparison to other municipalities (both neighbours and others in BC), and equity, particularly benefits received. A content analysis of the 16 municipalities found these recurring themes:

- Stability (7)
- Proportionate relationship between property classes (7)
- Reduce non-residential tax (7)
- Comparison of tax rates to neighbouring/BC/similar municipalities (6)
- Relationship between pay and use (3)
- Other themes: encourage investment, affordable, competitive, equity, responsiveness to economic goals, and role of non-tax revenue.

Of the 152 financial plans received, 26 (or 17.1%) specified an objective to decrease industrial and/or business property taxes and shift responsibility to residential properties.

Overall, it is difficult to identify accurately the policies and objectives of the municipalities because a number of plans included language that directly repeated the financial plan example posted on CivicInfo. Of the 16 financial plans, six appear to have copied language from the City of Armstrong's financial plan.