



City of Richmond

Report to Committee

To: Finance Committee **Date:** January 10, 2012
From: Andrew Nazareth **File:**
General Manager, Business and Financial
Services
Re: City Centre Area Transitional Tax Exemption Bylaw No. 8776 - Referral

Staff Recommendation

That the City Centre Area Transitional Tax Exemption report from the Revenue Manager be received for information.

Andrew Nazareth
General Manager
Business and Financial Services
(604-276-4095)

FOR ORIGINATING DEPARTMENT USE ONLY		
CONCURRENCE OF GENERAL MANAGER		
REVIEWED BY TAG	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
REVIEWED BY CAO	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>

Staff Report

Origin

At the July 25, 2011 Council Meeting following the adoption of the City Centre Area Transitional Tax Exemption Bylaw No. 8776 ("Bylaw"), Committee passed a referral motion to have staff review the existing process and report back with recommendations for improvements and the various options available for the City Centre Area Transitional Tax Exemption Bylaw.

Analysis

In September 2008, the City brought to the UBCM a discussion paper requesting the Province to make changes to the Assessment Act in order to assist commercial tenants with triple net leases who are located within the City's Brighthouse Hot Spot. When property values in the Brighthouse area soared as a result of changes in the City Centre Area Plan to include high density redevelopment, existing commercial tenants were required under contract to pay the resulting escalating property taxes even though property owners, on paper, are the ones directly benefiting from the market gain. This condition made it extremely difficult for tenants to continue operating in the area.

In response to the City and the various MLA's ongoing efforts since 2008, the Province passed Bill 15 – 2011 Municipalities Enabling and Validating Act (No. 4) giving Richmond's City Council the power to provide, through bylaw, a special tax exemption to commercial properties within the City Centre area. The intent of the Bill and the Bylaw was to provide temporary assistance to existing tenants during the transitional period until development occurs on the property or until the existing lease expires. The intention of the assistance was not to reduce taxes in order to encourage new long-term tenants.

In order to qualify for the exemption, the Bill states that the land must:

- a) Be within the Richmond City Centre area;
- b) Be classified as only class 5 or class 6 property under the Assessment Act; and
- c) Have increased in assessment value by 100% or greater between the 2005 and 2011 revised rolls.

The resulting Bylaw 8776 further stipulates that the land must:

- d) Have a total municipal tax increase between 2005 and 2011 that is greater than \$30,000;
- e) Not be a strata lot pursuant to the Strata Property Act;
- f) Contain improvements as part of the assessed value of the parcel; and
- g) Contain at least one business that holds a valid City business licence.

All properties meeting these requirements will receive a 20% exemption of their 2012 land value for municipal and school tax purposes.

Overall, Bylaw 8776 was a success and received positive comments from applicants. There were some issues with the interpretation and understanding of the Bylaw, the application process, and the tight submission deadline. Issues with the interpretation of the Bylaw and the application

process were clarified after further discussions with the applicants. Going forward, the exemption application period will begin at an earlier date in order to provide ample time for property owners to submit the necessary documentation.

Staff prepared an extensive analysis of the potential cost to the City for the various possible changes to Bylaw 8776. Before considering any changes, the following must be noted:

1. A portion of the assessment increase between 2005 and 2007 was due to data correction by BC Assessment. Typically assessment values are updated in an area after a number of property transactions occur. Prior to 2006, there were relatively few properties changing hands, which resulted in property assessments that were undervalued in the area. Had BC Assessment been able to update the values on a timely basis, the assessment values would have had a more gradual increase and the adjustment after the announcement of the City Centre Area Plan would not have been as drastic.
2. When setting a list of criteria that affects a large number of properties, the criteria must be applied on an average basis. If one looks at specific properties, the result will always be higher or lower than the average.
3. It is reasonable to conclude that a property that has a higher percentage increase in assessed value is a larger land holding with more superior attributes in comparison to other properties in the area. Often these properties are multi-tenanted and tenants entering into lease agreements will have factored some of the superior attributes into their lease decision. Providing tiered exemptions to qualifying properties will create inequitable assistance by favouring one property over another based on different factors that are beyond the City's control.
4. As mentioned in various discussions, the intent of the bylaw is to provide transitional assistance to tenants until their lease expires and they are able to source other locations for their business within the City. The municipal tax increase threshold of \$30,000 was set based on the assessment that a financial hardship exists for properties that had experienced an accumulated municipal tax increase of \$30,000 over 6 years or an average annual incremental increase of \$5,000 per year and cannot relocate due to contractual reasons.
5. Administration of this bylaw involves annual contact with all tenants and businesses occupying the qualifying properties to ensure that they are aware of the application and that they will benefit from the resulting tax exemption. Increasing the number of qualifying properties will exponentially increase the number of contact to tenants. This will result in higher administration costs and a lengthier application process to ensure the program is assisting the intended recipients.
6. Any tax exemptions provided will result in tax increases for other tax payers, regardless of whether the increase is borne by the specifically affected assessment class or by all assessment classes in general.

The analysis of the various options for change to the Bylaw was lengthy. Many of the options resulted in significant tax increases and/or significantly more properties qualifying for the exemption. The findings below address some of the issues raised by Council and the issue raised by the letter from the major property owner in Brighthouse that was received prior to the adoption of the bylaw.

Options	Comments
Include Strata Properties	<ul style="list-style-type: none"> ○ No strata properties meet the \$30,000 municipal increase threshold
Reducing the \$30,000 tax increase requirement to a \$20,000 tax increase requirement	<ul style="list-style-type: none"> ○ Option increases the number of qualifying properties from 37 to 50 ○ Increases the estimated tax exemption by approximately \$151,000 from \$914,000 to \$1.065M. ○ Increases the administration costs associated with the application process
Tiered Exemptions – using current criteria but offering a 30% reduction in assessment value for tax purposes for properties with tax increases greater than 150%	<ul style="list-style-type: none"> ○ Of the 37 properties, each with accumulated tax increases of over \$30,000 between 2005 – 2011, 11 properties had tax increases greater than 150% ○ Increasing the exemption for these 11 properties to a 30% reduction in assessment value will result in an additional cost to other tax payers by approximately \$140,000 ○ Tiered rates create inequity in how policies are applied. It favours one property over another based on different factors.

Financial Impact

Appendix I provide the final list of properties qualifying for the 2012 City Centre transitional tax exemption. In total the number of businesses and/or tenants that are assisted by the tax exemption is 248 from the 37 eligible properties. Using the 2012 assessment values provided by BC Assessment, the estimated 2012 taxes that will be exempted is approximately \$914,000. Since the Province will also provide a School Tax exemption for these properties, it is estimated that the Province's exemption will be valued at approximately \$900,000. The total tax reduction for the qualifying properties is estimated to be over \$1.8M.

From the analysis, it is clear that any amendments to Bylaw 8776 will cost the City a minimum of \$140,000 plus the additional administration costs associated with the increased number of tenants to be contacted annually. Since any further exemptions to taxes must be borne by other property owners, the balance between a reasonable cost and the number of properties that would benefit from any changes to the Bylaw has to be carefully considered.

Conclusion

Based on the success of the bylaw to date, at this time, staff do not recommend any further changes to Bylaw 8776. The existing bylaw, if unchanged, will provide assistance to 248 businesses operating within the Brighthouse City Centre.



Ivy Wong
Manager, Revenue
(604-276-4046)

IW:

City of Richmond
City Centre Area Transitional Tax Exemption
List of 2012 Qualifying Properties

Civic Address	Owner
4711 GARDEN CITY RD	0737293 BC LTD
5440 HOLLYBRIDGE WAY	0815024 BC LTD
5600 CEDARBRIDGE WAY	0882892 BC LTD
5740 MINORU BLVD	0883911 BC LTD
6751 WESTMINSTER HWY	2725312 CANADA INC
6191 WESTMINSTER HWY	2725312 CANADA INC
5900 NO. 2 RD	2725312 CANADA INC
4551 NO. 3 RD	317159 BC LTD
9311 RIVER DR	684104 BC LTD
8520 CAMBIE RD	AAA SELF STORAGE DEPOT INC
7680 ALDERBRIDGE WAY	AMACON DEVELOPMENT (ALDERBRIDGE)
7960 ALDERBRIDGE WAY	ARTHUR BELL HLDGS LTD
5333 NO. 3 RD	ARTHUR BELL HLDGS LTD
7740 ALDERBRIDGE WAY	CANADA BODHI DHARMA SOCIETY
3500 NO. 3 RD	CANADIAN TIRE REAL ESTATE LTD
8777 ODLIN RD	CHINA CEREALS & OILS CORP
4800 NO. 3 RD	CONWAY RICHMOND ESTATES LTD
5640 HOLLYBRIDGE WAY	CRESSEY GILBERT HOLDINGS LTD.
7851 ALDERBRIDGE WAY	EIG ALDERBRIDGE INVESTMENTS INC
6791 ELMBRIDGE WAY	ELMBRIDGE HOLDINGS LTD
8091 PARK RD	GRAND LONG HOLDINGS CANADA LTD
4940 NO. 3 RD	H G L INVESTMENTS LTD
7811 ALDERBRIDGE WAY	HALLMARK HOLDINGS LTD
5400 MINORU BLVD	JIATAI REALTY INC
5840 MINORU BLVD	LJR HOLDINGS LTD
7680 RIVER RD	MARISCO HOLDINGS LTD
7120 NO. 3 RD	MCDONALD'S RESTAURANTS OF CANADA
5660 MINORU BLVD	MUNCH HOLDINGS CO LTD
7731 ALDERBRIDGE WAY	ONNI 7731 ALDERBRIDGE HOLDING CORP
7771 ALDERBRIDGE WAY	ONNI 7771 ALDERBRIDGE HOLDING CORP
5560 MINORU BLVD	PORTE INDUSTRIES LTD
7880 ALDERBRIDGE WAY	RICHMOND HOLDINGS LTD
7671 ALDERBRIDGE WAY	RICHMOND HOLDINGS LTD
7111 ELMBRIDGE WAY	RICHMOND HOLDINGS LTD
6871 ELMBRIDGE WAY	RICHMOND HOLDINGS LTD
6851 ELMBRIDGE WAY	RICHMOND HOLDINGS LTD
5003 MINORU BLVD	RICHMOND HOLDINGS LTD