2018 Tax Relief Option Report

EXECUTIVE SUMMARY

The overall decrease in the market value of non-residential properties is causing a tax shift, increasing the municipal property taxes for those non-residential properties where the year-to-year change in assessed value is greater than the typical market change. To mitigate the increase in municipal non-residential property taxes due to the redistributive effect of 2017 property assessments, Council approved the 2017 Municipal Non-Residential Phased Tax Program (PTP). Through the 2018 Budget Adjustment process, Council set aside $45 million from the Fiscal Stability Reserve and directed Administration to report on possible options for providing further tax relief.

In consideration of the Council direction, Administration reviewed the 2017 PTP and explored possible alternative options to provide tax relief. After reviewing the benefits, risks and operational concerns of many mechanisms, Administration is recommending a 2018 PTP.

The cost of this one-time program is estimated to be $41 million, funded by the Fiscal Stability Reserve through a transfer from intentional savings in 2017 Corporate Programs. While there are some risks and operational concerns, Administration believes that the 2018 PTP provides a material positive economic benefit to those non-residential property owners who have been negatively impacted by non-residential property tax shifts.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council:

1. Direct Administration to implement option 3A; the 2018 Municipal Non-Residential Phased Tax Program (PTP);
2. That Report PFC2018-0045 be forwarded to the 2018 March 19 Combined Meeting of Council; and
3. Direct that Attachment 3 remain confidential pursuant to sections 23, 24 and 27 of the *Freedom of Information and Protection of Privacy Act*.

RECOMMENDATIONS OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2018 MARCH 06:

That Council approve the Administration Recommendations contained in Report PFC2018-0045.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2017 January 23, Council approved the one-time 2017 Municipal Non-Residential Phased Tax Program (PTP).

On 2017 November 30, Council, in consideration of the 2018 Budget Adjustments, and in respect to Report C2017-1123 Recommendation 2, adopted the following Motion Arising:

BE IT RESOLVED that Council direct Administration to determine the cost of extending the Municipal Non-Residential Phased Tax Program (PTP) C2017-0057 in order to cap non-residential property tax increases based on changes to certain non-residential properties' assessed value at 5% for 2018;

BE IT FURTHER RESOLVED that Council direct Administration to fund either the PTP extension or a more efficient way to provide this tax relief to businesses of up to $45 million from the Fiscal Stability Reserve;

BE IT FURTHER RESOLVED that Council direct Administration to report back to the Priorities and Finance Committee no later than Q1 2018.

BACKGROUND

The 2017 Municipal Non-Residential Phased Tax Program (PTP) was developed to address the shift in tax burden due to the decrease in assessed value of downtown non-residential properties, by limiting the increase in 2017 municipal non-residential property taxes to 5% (not including the effect of the Business Tax Consolidation). PTP was expected to affect approximately 6,000 non-residential properties and cost $45 million. It was funded by a transfer to the Community Economic Resiliency Fund from intentional savings in 2016 Corporate Programs.

2017 PTP Update

68% of eligible accounts received PTP on their annual tax bills, these credits represented 22% of the originally budgeted $45 million. The remaining eligible accounts had no final 2016 or 2017 assessment value to calculate the PTP credit due to an outstanding complaint or appeal. As of 2018 February 26, PTP credits have been applied to 5,053 accounts with credits totaling $25.8 million.

Administration now estimates that approximately 5,300 accounts will benefit from the 2017 PTP with the program credits totaling roughly $30 million. Fewer accounts will benefit from PTP due to:

- Changes to 2017 assessed values as a result of discussions with property owners during the 2017 Customer Review Period (CRP).
- Assessment Review Board (ARB) decisions reducing assessed values and the resulting tax change below the 5% threshold.

In the 2017 Property Tax Bylaw (21M2017), it was identified that $940,713,204 of the total $1,758,526,000 municipal tax revenues would be collected from non-residential property owners. With an estimated total 2017 PTP program cost of $30 million, this represents 3.2% of the total municipal non-residential property tax revenues.

The biggest complexity of PTP is the requirement for final 2016 and 2017 assessed values in order to calculate the 5% threshold. Those eligible accounts which filed a complaint against their 2017 assessment value have delayed PTP credits from being processed. There was a total of 2,445 non-residential complaints filed to the ARB in 2017, which was an increase from 2,217 in 2016. Once the ARB has rendered a decision, there is a 60-day period for either party to further appeal by filing for Judicial Review at the Court of Queen's Bench. Administration has been working with the tax agent community to identify those accounts where an appeal will not be filed, to expedite processing of PTP credits. Most of the ARB decisions for non-residential properties were received at year-end with the final date to file an appeal being 2018 February 27. After this point, PTP credits will have been processed for all accounts with final 2016 and 2017 assessed values. Only those accounts with outstanding 2016 or 2017 appeals will not have received potential PTP credits. There are currently 177 accounts under appeal that could potentially qualify for PTP when the appeal is concluded.

Eligible non-residential property owners received PTP credits through their property tax bills. When PTP was approved, the intention was that these credits would be passed along to tenants. Administration has no way of verifying if PTP credits were passed from the property owner to the tenants.

PTP has been administered through a manual process which has been time consuming and at times complex. Tax and Assessment have worked closely to ensure the correct PTP credits are processed, especially for those accounts with an ARB complaint. Tax have received bi-weekly spreadsheets with lists of accounts where the ARB complaint has been resolved and the judicial review application deadline has passed. The manual administration of PTP has the potential to last many years into the future to accommodate the lengthy process for Judicial Reviews. This process impacted Tax and diverted resources from other high-priority initiatives such as the Tax Instalment Payment Plan (TIPP) forecasting project and TIPP integration.

Legislative Authority

The *Municipal Government Act* (MGA) requires an annual assessment be prepared each and every year, with assessments used as the basis for the fair and equitable distribution of property and business taxes. An annual assessment cycle better reflects the current economic effects on the real estate market. It is also better understood by property owners as there is only six months between the valuation date and the market value assessment. In longer assessment cycles (three to four years) property owners find themselves being taxed based on an economic circumstance that may have occurred up to five years previously. However, in any assessment cycle, where there is either a substantial change to one or more segments of the market, the tax distribution effects from the new assessments can be material. Administration has observed some of these effects in the Calgary non-residential markets.

2018 Assessment Roll Summary

The 2018 assessments reflect the real estate market as of 2017 July 1. In summary, the general effects are:

Residential:
- 496,358 taxable accounts with a total assessed value of 216.7 billion.
- The overall typical change in the market value assessment is +2%.
- 94% of residential properties' taxes will stay within ± 10% of last year's taxes.
- 56% of all residential properties will see a tax decrease.
- Single family properties will generally see an increase, while most condominiums will see a decrease in 2018.
- Note – This does not include any property tax increase due to the provincial property tax requisition.
- Minimal tax shifts expected.

Non-Residential:
- 13,815 taxable non-residential accounts with a total assessed value of 67.3 billion.
- The overall typical change in the market value assessment is -5%.

- There is considerable variation in the change in market value between the major segments:
    - Retail 0%
    - Industrial +4%
    - Office - 12%
- 61% of non-residential properties' taxes will be within ± 10% of last year's taxes.
- Note – This does not include any property tax increase due to the provincial property tax requisition.
- Tax shifts expected.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Previous reports to Council have considered various forms of financial support programs. Administration has explored several possible options to address the impact of non-residential property tax shifts, as well as the impact of current economic conditions on local businesses. The following issues were given considerable weight in evaluating each of these options:

- Materiality of financial impact (would funding make a difference?)
- Administrative concerns including:
    - Complexity of the program
    - Cost of administering program for both non-residential property and business owners as well as Administration
    - Responsiveness / timeliness of program delivery
- Legal concerns
- Sustainability
- Overall total cost of the program (impact on The City of Calgary's financial capacity)

Attachment 1 provides a summary of four tax relief mechanisms and subsets, with a total of seven tax relief options. Based upon the above factors, Administration is recommending option 3A.

Option 3: Municipal Non-Residential Phased Tax Program (PTP)

The effect of PTP is to phase in 2018 non-residential property tax increases (municipal portion only) by capping the increase to 5% of the 2017 municipal taxes.

3A) PTP

This option utilizes the same eligibility parameters as the 2017 PTP (Attachment 2), however, it excludes the 2017 Council Approved Rebates as well as any PTP credits provided in 2017. It is calculated using the actual 2017 municipal non-residential property tax rate of 0.0138819 (per the 2017 Property Tax Bylaw), compared to the 2018 revenue neutral municipal tax rate, adjusted for the Council approved 0.9% tax increase. This is a separate, one-time program and not an extension of the 2017 PTP.

Option 3A would benefit 7,429 taxable non-residential accounts and is estimated to cost $41 million. This represents 54% of all taxable non-residential property accounts and an estimated average PTP credit value of $5,500.

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This option provides tax relief to those non-residential properties which have experienced the highest increase in municipal non-residential property taxes resulting from the 2018 market value assessments.

Eligible properties which do not file a complaint to the ARB will receive PTP credits when the property tax bills are mailed in May. After the property tax bills are mailed, Administration will prepare bi-weekly reports on the status of those eligible properties which have filed a complaint. Once the complaint and any associated appeals have been concluded, the PTP credit amount will be confirmed and then processed. Administration has investigated ways to mitigate the impact of the complaint process on PTP. Starting in Q4 2017, as the ARB decisions were rendered, Administration engaged with the property owners or tax agents to identify those decisions where an appeal would not be filed. This initiative was utilized to expedite processing of PTP credits (instead of waiting another 60 days for the appeal deadline to pass). To ensure the timeliness of tax relief, this process would be initiated at the start of the 2018 PTP program. Each year, Administration requests that the ARB schedule non-residential complaints as early as possible. In addition, this includes the request to schedule the largest valued properties earlier in the schedule. Administration will continue to make these requests to the ARB for 2018 complaint scheduling.

Administration is improving communication tools to provide greater PTP awareness and program clarity for non-residential property owners. For the 2017 PTP, the online tax calculator displayed an estimate of the PTP credit value and information on the eligibility criteria. For the 2018 PTP, enhancements will be made to the online tax calculator to provide greater program clarity for non-residential property owners. The overall communication strategy will be enhanced, including the information available on calgary.ca, information provided with the property tax bills, communication to tax agents, as well as ways to increase PTP awareness.

Stakeholder Engagement, Research and Communication

Administration worked with both Calgary Economic Development and the Calgary Chamber when reviewing options for 2017 tax relief and in preparation of C2017-0057. This information and feedback have been utilized in the preparation of this report. Several industry roundtables were held in 2017, feedback from non-residential property owners on the 2017 PTP, as well as customer feedback have been taken into consideration in the preparation of this report.

Strategic Alignment

The proposed options for tax relief align with two fundamental Council Priorities:

- A Prosperous City
- A Well Run City

This proposal supports strategies within the 10 Year Economic Strategy for Calgary and the Community Economic Resilience Program; in particular “Review the economic situation for financial impacts while mitigating and responding to impacts on Action Plan”, “Focus on value for money in service delivery”, “Continue to provide services to Calgarians”, “Proceed with strategic infrastructure investment”, and “Work with partners to identify and respond to what is required”.

Social, Environmental, Economic (External)

Many parts of the business community in Calgary has been negatively impacted by the current economic downturn. Many of the negative impacts on citizens, business and community organizations have been identified and discussed in the Economic Development Investment Fund report.

Financial Capacity

Current and Future Operating Budget:

There are sufficient one-time funds available from year-end favourable results due to intentional savings in 2017.

Current and Future Capital Budget:

There are no capital budget impacts identified in this report.

Risk Assessment

Administration has reviewed options for 2018 non-residential tax relief and the proposed recommendation provides the highest level of benefit to those impacted by the largest tax increases due to the reassessment process, while minimizing risks, operational concerns and administrative costs to non-residential property owners.

A further analysis of legal risks to be considered is included in Attachment 3.

REASON(S) FOR RECOMMENDATION(S):

On 2017 November 30, in conjunction with the approval of the 2018 Budget Adjustments (approval of the 2018 operating and capital budgets), Council set aside $45 million from the Fiscal Stability Reserve to assist Calgary business affected by the economic downturn and directed Administration to return to Council with options for consideration no later than Q1 2018.

Administration has reviewed several tax relief mechanisms and the proposed 2018 Municipal Non-Residential Phased Tax Program (PTP) provides the highest level of benefit to affected non-residential property owners while minimizing the risks and operational concerns.

ATTACHMENT(S)

1. 2018 Tax Relief Option Summary
2. Option 3: Details of the Municipal Non-Residential Phased Tax Program (PTP)
3. Legal Risk Analysis for various Tax Relief Options (confidential)