

Calgary



C2019-0352

CITY OF CALGARY
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IN COUNCIL CHAMBER

APR 01 2019

ITEM: C2019-0352
Distribution
CITY CLERK'S DEPARTMENT

Downtown Tax Shift Response – Updated

Strategic Meeting of Council

2019 April 01



**What is the problem
we are trying to
solve?**



Outcomes for the April 1 Meeting

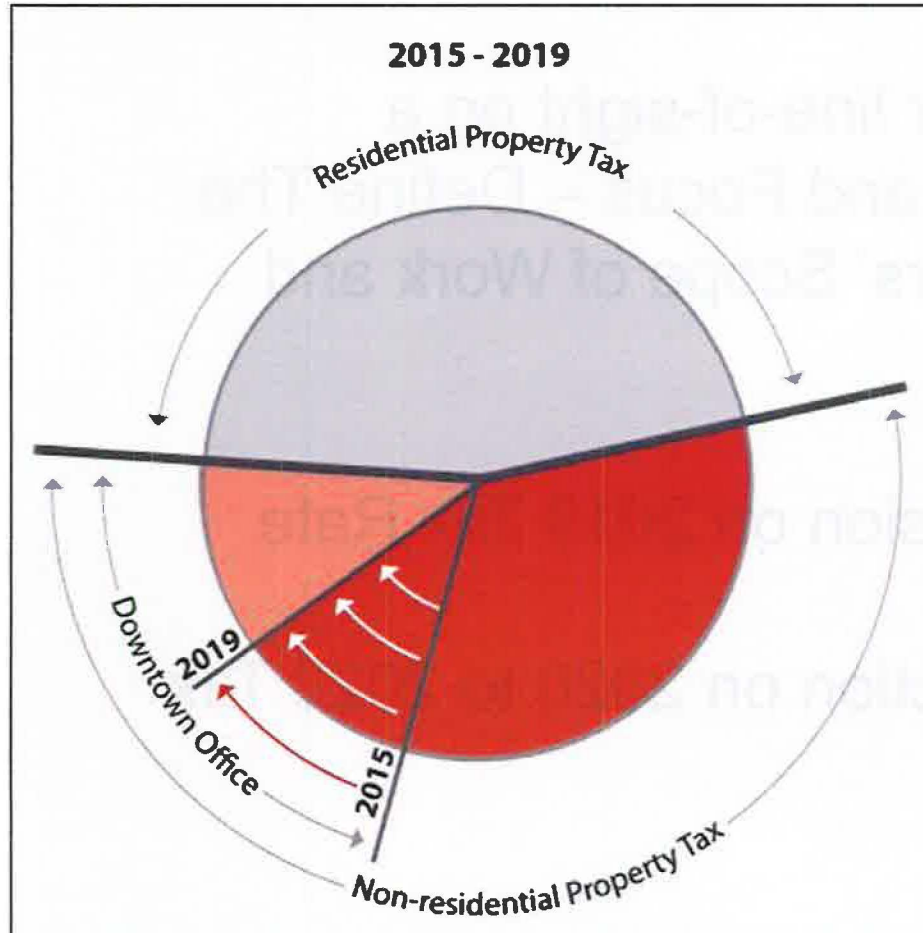
OUTCOME 1 | Clear line-of-sight on a
Downtown Strategy and Focus – Define The
City and Our Partners' Scope of Work and
Action

OUTCOME 2 | Decision on 2019 Tax Rate

OUTCOME 3 | Direction on 2020 to 2022 Tax
Shift/Rate



Distribution of taxes – 2015 - 2019



- 2015 –
 - Residential 44%
 - Res. Assessment base \$210.4B
 - Non Residential 56%
 - Non Res. Assessment base \$70.5B
 - Population – 1,230,915
- 2019 –
 - Residential 46%
 - Res. Assessment base \$215.9B
 - Non Residential 54%
 - Non Res. Assessment base \$57.3B
 - Population – 1,291,200 (est.)



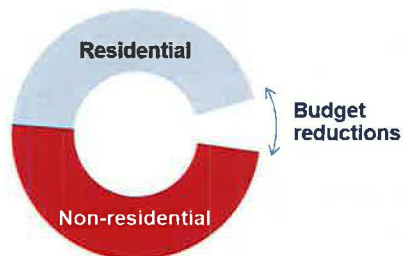
Scenarios

Short term solutions

Potential Levers

1

Reduce the overall tax revenue required (through efficiencies and/or reductions)



2

Transfer tax share from non-residential to residential



3

Draw on reserves and/or one-time funding sources



Transfer tax distribution within non-residential class*

Longer-term option



*Would require fundamental change to taxation model and provincial legislation



Scenario 1: 2018 November 14 Council Direction

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Tax transfer – 2019 Projected Impact

	Residential		Non-residential*		Ratio
	Rate (%)	Tax impact (\$)	Rate (%)	Tax impact (\$)	
Approved One Calgary Budget	3.45%	\$65	1.01%	\$10,970	4.47 :1

* Sample calculated based upon a \$5 million non-residential property value and \$475,000 residential property value



Scenario 2: PFC2019-0148 Administration Recommendation

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Typical Residential property tax increase \$65 in 2020, 2021 and 2022 after \$20 million efficiency per year and shift of Non-Residential to Residential

	Residential			Non-residential			Ratio	Shift to Res from Non- Res	Efficiency or Reductions	Cost to fund PTP at 10%
	Rate (%)	Tax bill (\$)	Tax impact (\$)	Rate (%)	Tax bill (\$)	Tax impact (\$)				
Approved (2018 Dec. 17) 2019 – Residential increases \$65 per year	3.45%	\$1,940	\$65	1.01%	\$87,587	\$10,970	4.47 : 1	\$8 million		\$44 million*
2020-2022 Projected										
2020 – Residential increases \$109 per year	5.62%	\$2,049	\$109	0.31%	\$87,861	\$274	4.25 : 1	\$22 million		
Contribute from Efficiency			(44)						\$20 million	
Residential increases \$65 per year	3.35%	\$2,005	\$65				4.34 : 1			
2021 – Residential increases \$109 per year	5.32%	\$2,158	\$109	0.55%	\$88,342	\$481	4.05 : 1	\$21 million		
Contribute from Efficiency			(44)						\$20 million	
Residential increases \$65 per year	3.24%	\$2,070	\$65				4.23 : 1			
2022 – Residential increases \$109 per year	5.05%	\$2,267	\$109	0.80%	\$89,050	\$708	3.89 : 1	\$20 million		
Contribute from Efficiency			(44)						\$20 million	
Residential increases \$65 per year	3.14%	\$2,135	\$65				4.13 : 1			

- Approximate funding required to limit increases in non-residential municipal property taxes to 10% for the qualified properties.
- Assumption is that there is no change to residential and non-residential assessment values – actual results will vary.



Scenario 3: Budget Reduction of \$100 million and overall tax is equally shared between Residential and Non-residential.

	Residential			Non-residential			Ratio	Shift to Res from NR	Efficiency or Reduction	Cost of the Rebates
	Rate	Tax bill (\$)	Tax impact (\$)	Rate	Tax bill (\$)	Tax impact (\$)				
2019 One Calgary Approved	3.45%	\$1,940	\$65	1.01%	\$87,587	\$10,970	4.47 : 1	\$8 million		
Additional Budget Reduction to Residential and Non-res	-6.00%		-\$112	-4.95%		-\$4,299			\$100 million	
Additional Non-residential transfer to Residential	9.61%		\$179	-8.27%		-\$7,169		\$80 million		
2019 Projected Rebate	7.06%	\$2,007	\$132	-12.21%	\$76,119	-\$498	3.78 : 1	(Approx)		\$50 million
			-\$100							
			\$32							
% of Revenue before Rebate	50%			50%						
2020: 3.03% Rebate	3.03%	\$2,068	\$61							\$38 million
			-\$75							
			-\$14							
% of Revenue before Rebate	50%			50%						
2021: 3.03% Rebate	3.03%	\$2,131	\$63							\$25 million
			-\$50							
			\$13							
% of Revenue before Rebate	50%			50%						
2022: 3.03% Rebate	3.03%	\$2,196	\$65							\$12 million
			-\$25							
			\$40							
% of Revenue before Rebate	50%			50%						

- approximate funding required to limit increases in non-residential municipal property taxes to 10% for the qualified properties.
- Assumption is that there is no change to residential and non-residential assessment values - actual results will vary.



Scenario 4:

Transfer from Non-Residential to Residential over two years and offer rebates over the One Calgary budget cycle

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	Proportion	Proportional Value	Tax rate	Shift	% change	Rebate
2019 Before tax rate increase						
Residential	0.45	\$850.2M	0.0039476			
Non-Residential	0.55	\$1,030.2M	0.0181013			
	1	\$1,880.4M	4.58			
2019 49% RES and 51% NR						
Residential	0.49	\$942.6M	0.0043765	\$92,375,995	10.86%	\$61M
Non-Residential	0.51	\$981.1M	0.0172196	\$(50,231,323)	-4.87%	
	1	\$1,923.7M	3.93			
2020 50% RES and 50% NR*						
Residential	0.50	\$989.3M	0.0045935	\$139,112,490	4.96%	\$83M
Non-Residential	0.50	\$987.4M	0.0173303	\$(43,926,720)	0.64%	
	1	\$1,976.7M	3.77			

*Assumes growth revenue is evenly distributed between residential and non-residential
Residential rebates for 2021 (\$43M) and 2022 (\$44M) would bridge half of the increase from the One Calgary approval.

Scenario 5: Non-residential shift scenarios (use of PAYG and Reserves)

	Residential			Non-Residential				Transfer to Res from NR	Efficiency or budget reduction	Reserve withdrawals
	Rate	Tax bill	Tax impact	Rate	Tax bill	Tax impact				
Approved One Calgary 2019 Budget	3.45%	\$ 1,940	\$65	1.01%	\$ 87,587	\$10,970		\$8M		
2020 One Calgary	3.03%	\$ 1,999	\$59	3.03%	\$ 90,241	\$2,654		\$22M	\$20M	\$55M withdrawal
Transfer impact	2.59%	\$ 2,049	\$50	-2.72%	\$ 87,861	-\$2,380				
Efficiency	-2.27%	\$ 2,005	-\$44							
PAYG				-5.51%	\$ 83,035	-\$4,826	BASE			
	3.35%		\$65	-5.20%		-\$4,552				
2021 One Calgary	3.03%	\$ 2,065	\$60	3.03%	\$ 85,551	\$2,516		\$21M	\$20M	\$55M withdrawal
Transfer impact	2.29%	\$ 2,114	\$49	-2.48%	\$ 83,492	-\$2,059				
Efficiency	-2.08%	\$ 2,070	-\$44							
	3.24%		\$65	0.55%		\$457				
20XX One Calgary	3.03%	\$ 2,132	\$62	3.03%	\$ 86,022	\$2,530		\$20M	\$20M	*assume DT recovers 20% of pre-decline value and reserves repaid \$44M withdrawal
Transfer impact	2.02%	\$ 2,179	\$47	-2.23%	\$ 84,160	-\$1,862				
Efficiency	-1.91%	\$ 2,135	-\$44							
PAYG				1.12%	\$ 85,095	\$935	BASE			
	3.14%		\$65	1.92%		\$1,603				
20XY One Calgary	3.03%	\$ 2,199	\$64	3.03%	\$ 87,673	\$2,578		\$19M	\$20M	*assume DT recovers another 20% of pre-decline value and reserves repaid \$33M withdrawal
Transfer impact	1.77%	\$ 2,244	\$45	-1.97%	\$ 85,997	-\$1,676				
Efficiency	-1.76%	\$ 2,200	-\$44							
PAYG				2.24%	\$ 87,903	\$1,906				
	3.04%		\$65	3.30%		\$2,808				

Assumption is that there is no change in residential or non-residential values other than the explicit assumptions of recovery;
Actual results may vary.



Scenario 6:

Apply base budget reduction or efficiencies of \$90 million to non-residential over 2020-2022

	Residential			Non-residential			Ratio	Shift to Res from NR	Efficiency or Reduction
	Rate	Tax bill (\$)	Tax impact (\$)	Rate	Tax bill (\$)	Tax impact (\$)			
2019: Approved One Calgary Budget	3.45%	\$1,940	\$65	1.01%	\$87,587	\$10,970	4.47 : 1	\$8 million	
2020 - 2022 Projected									
2020: 3.03% and \$30 million contribution to Non-residential	3.03%	\$1,999	\$59	-0.41%	\$87,228	-\$359	4.32 : 1		\$30 million
2021: 3.03% and \$30 million contribution to Non-residential	3.03%	\$2,059	\$60	-0.26%	\$87,004	-\$224	4.18 : 1		\$30 million
2022: 3.03% and \$30 million contribution to Non-residential	3.03%	\$2,121	\$62	-0.08%	\$86,932	-\$72	4.06 : 1		\$30 million

- In 2019, use up to \$XX M, funded from the Opportunity Calgary Investment Fund, to create a program to assist small business.
 - Develop a strategy to sell City owned land and real estate, as well as aggregate and asphalt operations to assist with additional non-residential relief programs.
- * approximate funding required to limit increases in non-residential municipal property taxes to 10% for the qualified properties.



Scenario 7:

Targeted program to assist businesses

Program to be designed, to include:

- Application program based on criteria specific to needs of businesses
- Criteria to be determined
- Will be administratively efficient to administer
- Will be up to a maximum of \$70.9M available for 2019



Scenario 8: Tax room

Apply Residential tax room of \$27 million to Non-residential in 2019; 0% Non-residential tax rate increase from 2020-2022 by increasing the residential tax rate. Also apply efficiencies of \$20 million per year in 2020-2022 for the benefit of the residential.

	Residential			Blended increase	Non-residential			Ratio	Res / NR Share	Shift to Res from NR	Efficiencies	Non-res Grant program
	Rate	Tax bill (\$)	Tax impact (\$)		Rate	Tax bill (\$)	Tax impact (\$)					
2019: Approved One Calgary Budget Tax room	3.45%	\$1,940	\$65		1.01%	\$87,587	\$10,970	4.47 :1	46 / 54	\$8 million		
	3.22%		\$60		-2.78%		-\$2,417			\$27 million		
2019: Projected	6.67%	\$2,000	\$125	3.45%	-1.77%	\$85,170	\$8,553	4.22 :1	47 / 53	\$35 million		\$35.5 million
2020 - 2022 Projected												
2020: 0% increase in Non-res by increasing the Residential. Also efficiencies to Residential	3.59%	\$2,072	\$72	TBD	0.00%	\$85,170	\$0	4.08 : 1	48 / 52	\$25 million	\$20 million	\$35.4 million
2021: 0% increase in Non-res by increasing the Residential. Also efficiencies to Residential	3.72%	\$2,149	\$77	TBD	0.00%	\$85,170	\$0	3.93 :1	49 / 51	\$27 million	\$20 million	
2022: 0% increase in Non-res by increasing the Residential. Also efficiencies to Residential	3.83%	\$2,231	\$82	TBD	0.00%	\$85,170	\$0	3.78 :1	50 / 50	\$28 million	\$20 million	

The timing and amount of the education requisition is unknown due to the absence of a provincial budget. This scenario is based on the 2018 provincial requisition amount of \$780 million which would result in tax room of \$27 million. If the final 2019 provincial requisition is greater than this estimate there may be no tax room. Shortfalls in this scenario would be taken out of our reserves and recovered in 2020 through the provincial tax rate that year. Other options for estimating a requisition would result in a higher estimate but with lower tax room and potentially less financial risk in 2020.

Summary of scenarios for immediate solutions

	1	2	3
	Reduce overall tax requirement	Transfer tax share between res and non-res	Draw on reserves
Scenario 1	●	●	
Scenario 2	●	●	●
Scenario 3	●●●	●●●	●●
Scenario 4	●●	●●●	●●
Scenario 5			●
Scenario 6	●●	●	●●
Scenario 7			●●
Scenario 8		●●	●●

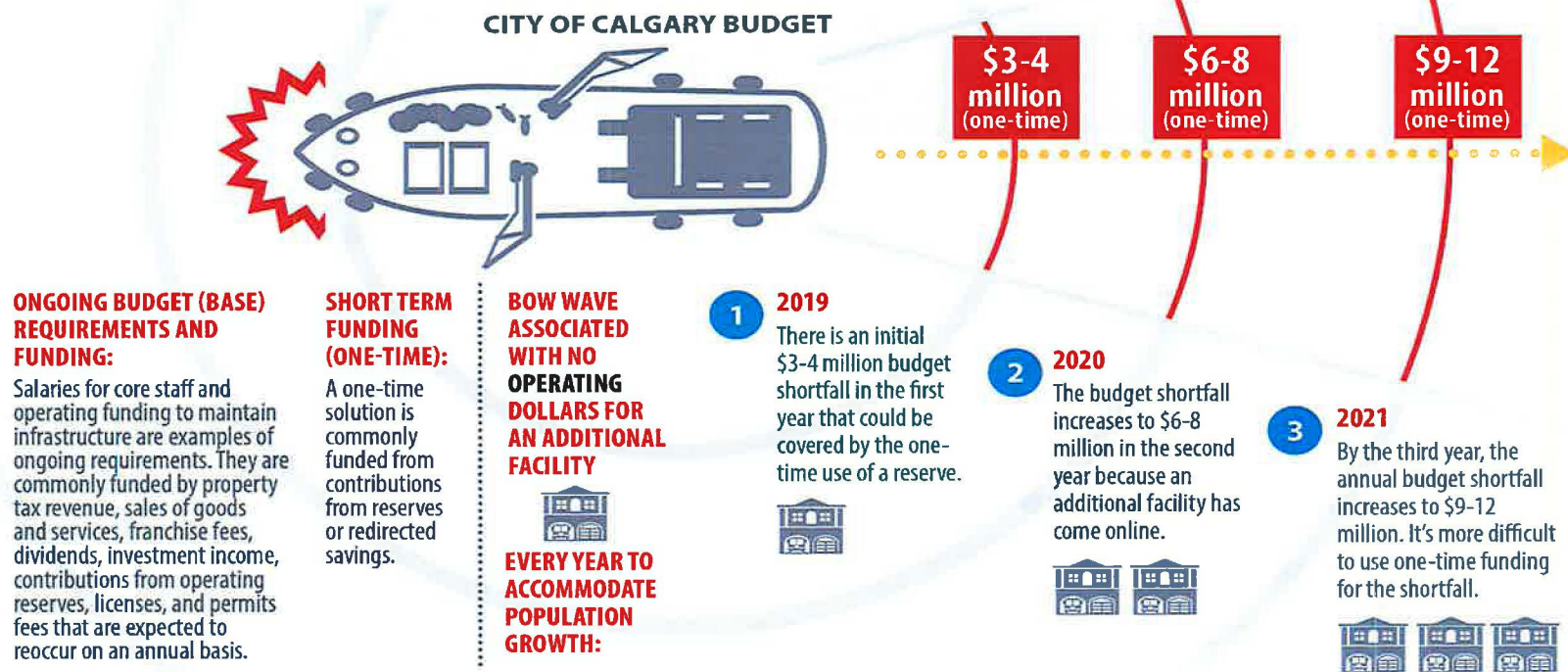
●●● Strong adoption ●● Moderate adoption ● Slight adoption



Bow Wave

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A “bow wave” is a common term used at The City of Calgary to describe the situation when a short-term funding source (one-time) is used to resolve a budget requirement that is expected to continue on an ongoing basis. The one-time solution only addresses the budget requirement for a defined period. For services to continue and avoid the recurring budget shortfall, a permanent solution must be found.





Guiding Principles

- I. Transparency and accountability
- II. Certainty
- III. Simplicity
- IV. Equity and fairness
- V. Minimize the use of one-time solutions where these one-time solutions create considerable “bow wave” effects
- VI. Ensure there is a sunset clause on any program to be developed
- VII. Long Term Benefit to Calgarians
- VIII. Use of Multiple Tools
- IX. Flexible and Resilient end-state

As directed by Council, Guiding Principles by Scenario

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	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8
Transparency & Accountability								
Certainty								
Simplicity								
Equity & Fairness								
Minimize the use of one-time								
Ensure sunset clause								
Long term benefit to all Calgarians								
Use of multiple tools								
Flexible and resilient in end								

As directed by Council, Guiding Principles by Scenario

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Recommendations

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That Council:

1. Direct Administration to prepare 2019 Tax Rate Bylaws for Council's consideration at its 2019 April 08 Combined Council meeting with a confirmed tax increase set at 3.45% for residential and 1.01% for non-residential;
2. Direct Administration to further refine and update the proposed roles and responsibilities of the Financial Task Force and bring an updated Terms of Reference for the Financial Task Force for discussion and consideration of Strategic Council in October 2019; and
3. Direct Administration report back to Special Council (One Calgary Adjustments) on 2019 November 12 with an update on the status of the Downtown Tax Redistribution in consideration of the 2020 Property Assessment Roll.



Recommendations

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If Council wishes to use \$44 million as one time funds for the Downtown Tax Shift Response:

5. Approve \$44 million from the estimated 2018 intentional savings from Corporate Programs to be transferred to the Community Economic Resiliency Fund to be used as part of the response to the Downtown Tax Shift Response

If Council wishes to use \$26.9 million as one time funds not distributed for the PTP1 and PTP2 programs for the Downtown Tax Shift Response:

6. Approve \$26.9 million from the undistributed funds in the Community Economic Resiliency Fund set aside for PTP1 and PTP2 to be used as part of the response to the Downtown Tax Shift Response.

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Questions