Chief Financial Officer's Report to
Priorities and Finance Committee
2019 October 08

ISC: UNRESTRICTED
PFC2019-1147

2020 Preliminary Assessment Roll and Related Estimates

EXECUTIVE SUMMARY

The purpose of this report is to provide Council with early information, before November budget deliberations, on preliminary 2020 assessment information, particularly to understand how changes in the assessment roll could potentially impact the Tax Shift issue.

The projected 2020 taxable assessment roll for residential properties has decreased in total from 2019 to 2020 by approximately 4 per cent. The overall change city wide is projected to be relatively uniform.

The projected 2020 taxable assessment roll for non-residential properties has increased from 2019 to 2020 by approximately 3 per cent. Office properties, such as the Downtown A class buildings, are projected to increase in market value the most within the non-residential class.

Not every single property will experience a change in market value that is exactly the same as the overall class. Different types of properties in different locations throughout the city, will have market values that have changed in different ways and in varying magnitudes.

Within the non-residential class, some downtown office properties have increased in market value. As a result, the previous tax shift from downtown office properties to other non-residential properties appears to have stabilized for this year.

However, given the implementation of the Phased Tax Program (PTP) in 2019, most non-residential properties that did receive the credit in 2019, are projected to experience a municipal property tax increase in 2020 (based on current tax rate increase and tax share assumptions) in the net taxes payable. In general, their municipal tax payable may increase in an amount equivalent to the 2019 PTP rebate they received for 2019.

This report provides an <u>estimate</u> only of the 2020 assessment roll based on market information known to date and does not reflect physical growth. The 2020 assessment roll will not be finalized until 2020 January 2, at the time of mailing the assessment notices. The examples on the tax implications are illustrative and represent directional, order-of-magnitude estimates.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council receive this report for the Corporate Record to inform their discussion during the November budget deliberations.

PREVIOUS COUNCIL DIRECTION / POLICY

No previous Council direction.

BACKGROUND

Assessment is the process of assigning a dollar value to a property for taxation purposes. Council sets the municipal tax supported budget requirement for the following year in November. The taxable assessment roll is used as the basis for the fair and equitable distribution of the required municipal tax supported budget. This municipal tax supported budget is then used to pay for city services such as police, fire, roads, parks and many other services that help make life better everyday for Calgarians. The assessment process does not “make the

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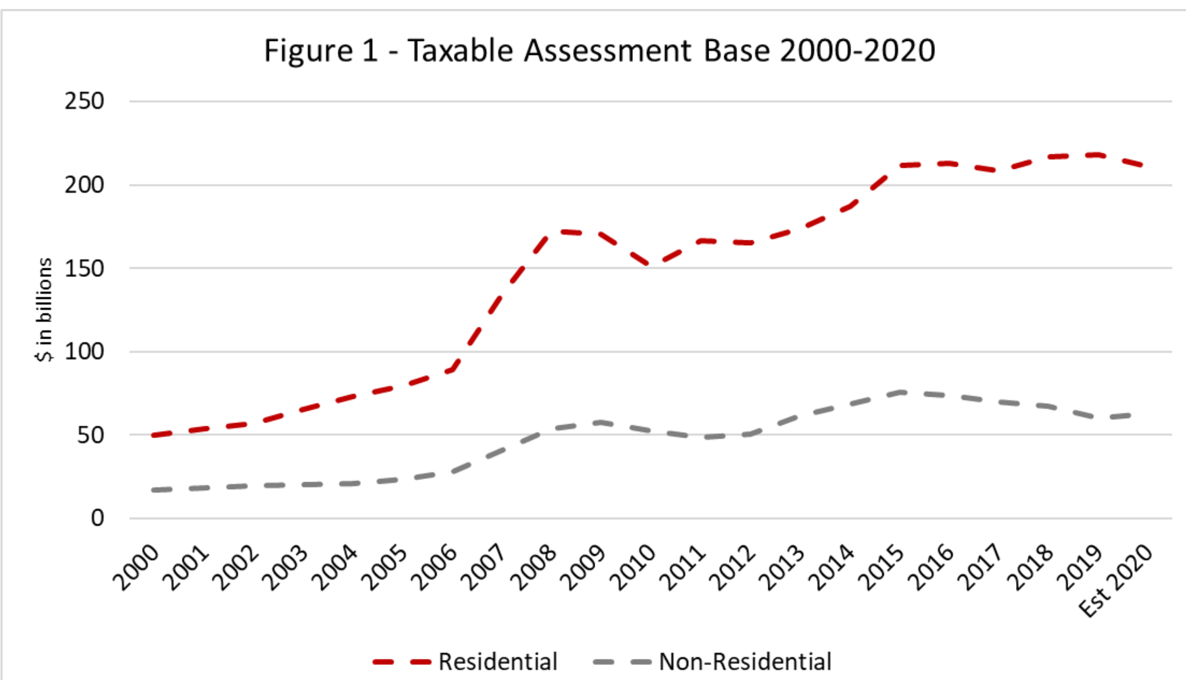
market". Instead, the assessment process simply strives to accurately reflect the real estate market within the city.

Assessments are done on an annual basis and are governed by legislation - the *Municipal Government Act* (MGA), other associated regulations, along with various tribunal and court decisions. Professional appraisal and assessment theory and practice are also used to implement the annual assessment process.

The MGA requires the annual valuation of all assessable properties. Annual property assessments reflect Calgary's real estate market conditions as of July 1 of the previous year. There are three primary assessment (tax) classes used within Calgary; residential, non-residential and farm land. The MGA allows municipalities to assess and tax machinery and equipment, however, City Council has historically chosen not to tax machinery and equipment. The assessed value of the farm class is immaterial to the total assessment roll. Thus, this report will focus only on the residential and non-residential classes.

Assessment is a mechanism to fairly and equitably distribute the required property taxes and does not in and of itself create taxes. However, as a mechanism to distribute taxes, there is an intricate link between assessment and property tax distribution. Changes in market value do not automatically increase or decrease taxes, however, as different subsets of the total taxable assessment roll (different types of properties) can be affected by market forces differently, the assessed values (and the way they change from year to year) can have a material impact on how that tax supported budget is distributed among taxpayers.

As the taxable assessment roll is simply a reflection of the market, the assessment roll can vary on a year to year basis (the roll changes are a combination of market value change and physical growth). Figure 1 shows the taxable assessment roll over the past 20 years. Figure 2 shows the taxable assessment roll in more detail over the past five years.



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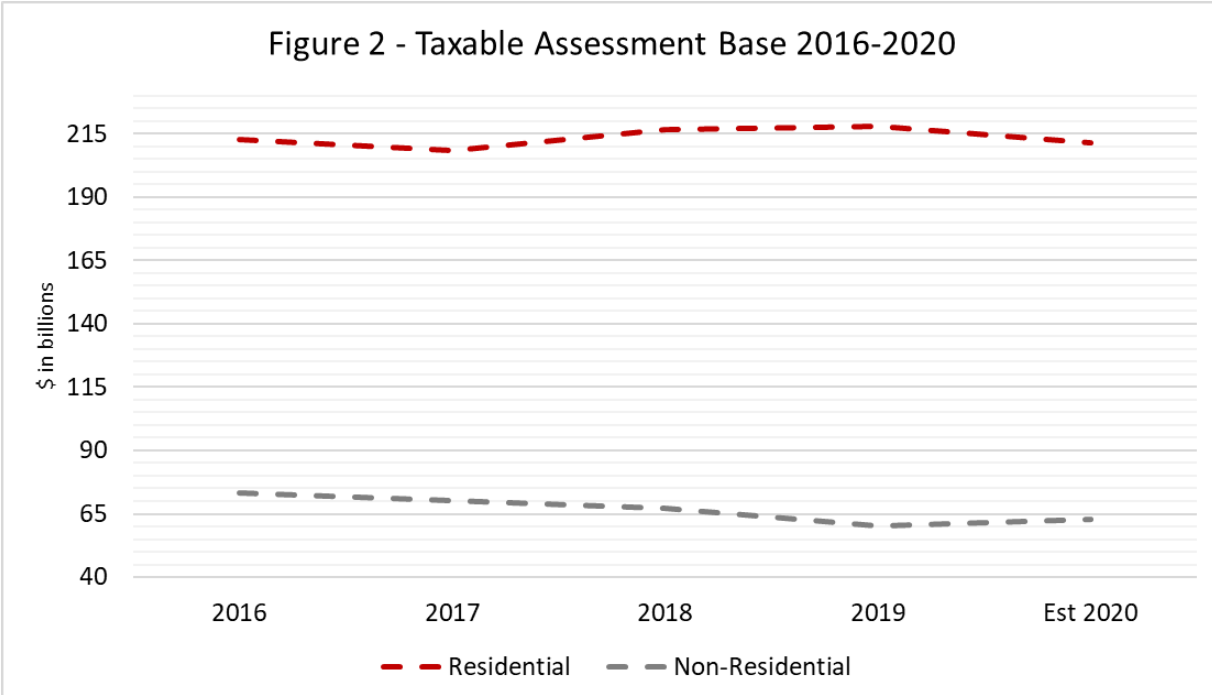

INVESTIGATION: ALTERNATIVES AND ANALYSIS

It is important to note that:

- This report provides an estimate only of the 2020 assessment roll based on market information known to date and does not reflect physical growth. It provides illustrative comparisons of the resulting estimated municipal taxes payable for 2020 for a typical residential property and a representative sample of different non-residential properties. The total municipal tax supported budget will not be finalized until 2019 November and the 2020 assessment roll will not be finalized until 2020 January 2.
- The Assessment Business Unit is just commencing the Pre-Roll Consultation period and further refinements to the projected 2020 assessment roll are expected as these cooperative discussions with non-residential owners and agents progress.
- There could be material changes to the projected 2020 roll by the time the roll is finalized.

Projected 2020 Taxable Assessment Roll

	2019	Projected 2020	Change
Residential	$215.9 billion	$206.9 billion	- 4.2%
Non-Residential	$58.4 billion	$60.3 billion	+ 3.3%

As previously noted, any individual property (or subset of properties) may experience a market value change that is different than the change in the overall market value of the entire class.

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Generally, there is some variation between the market value change of an individual property when compared to the market value change of the entire class. However, where there are very extreme market value changes experienced by one or more of the subsets of properties within a class, severe tax shifting can occur between those subsets.

This tax shift between downtown office and the balance of the non-residential properties is what was experienced within the non-residential class over the past five years. The market value of a small number, but high valued downtown office properties dropped in market value sharply and suddenly, whereas other subsets of the non-residential roll (retail and industrial) remained relatively unchanged in market value. This movement in relative value created a sharp tax shift within the non-residential class from the office buildings to other property types.

Overall, there is some shifting in the market values of the major subsets within the assessment roll. This is to be expected as not every single property will experience a change in market value that is exactly the same as the overall class.

It would appear that for 2020, there is considerably less tax shifting between downtown and other non-residential properties than had been experienced over the past few years. In fact, some of the market observations indicate a recovery of the market values in some property types (notably some downtown office properties and multi-residential properties).

Projected 2020 Assessment Changes

Residential Assessment

- Overall, the residential class is projected to decrease in assessment value by approximately 4 per cent.
- Typical single residential homes are projected to drop 4 per cent from a median assessed value of $475,000 in 2019, to $455,000 in 2020.
- Typical single residential condominiums, which are single titled condominium units, are projected to drop 5 per cent from a median assessed value of $255,000 in 2019, to $240,000 in 2020.
- Multi-residential properties, which are residential properties with four or more self contained units under a single land title, are projected to increase approximately 10 per cent overall. There is particular strength seen in the market value of high-rise rental apartments.
- By Community: While there are variations in the market value of residential properties across Calgary, the overall change city wide is projected to be relatively uniform.
- By Price: Generally, the 2020 projected residential roll indicates that higher valued properties declined in market value more in relation to the market value of lower priced residential properties.

Non-Residential Assessment

- Overall, the non-residential class is projected to increase in assessment value by approximately 3 per cent.
- Office properties are projected to have market value increases of approximately 5 per cent. This is a result of a renewed strength in the market value of some downtown office properties.
- Industrial properties are projected to increase by approximately 3 per cent. This increase is mainly driven by demand for warehouse distribution uses.

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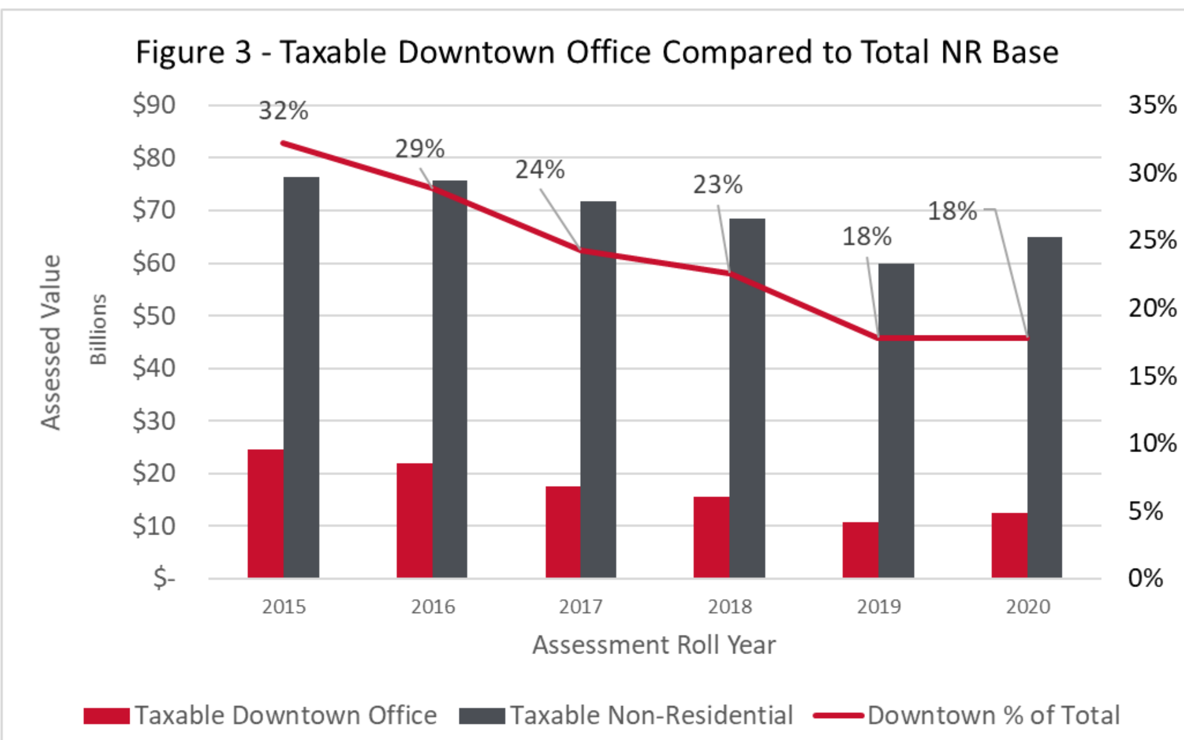
- Retail properties are projected to increase by approximately 5 per cent. Freestanding retail, strip malls, neighbourhood shopping centres and power centres are projected to increase above the overall rate, whereas downtown, beltline and enclosed malls will be relatively stable.

Assessment Roll Summary

Property Type	Estimated Change from 2019
Residential	- 4%
Single Residential	- 4%
Condominium	- 5%
Multi-Residential	+ 10%
Vacant Land	+ 2%
Non-Residential	+ 3%
Office	+ 5%
Retail	+ 5%
Industrial	+ 3 %
Other	+ 4%
Vacant Land	+ 3 %

Note that these are preliminary values and are subject to change.

With the observed increase in the market value of some downtown office properties, it is projected that the proportion of the overall taxable non-residential assessment roll shouldered by the downtown office properties has stabilized for this year (Figure 3).



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Projected 2020 Municipal Property Tax Implications

While the 2020 budget will not be set until 2019 November, it is important to provide illustrative examples of the potential 2020 municipal property tax implications given the projected 2020 assessment roll. It is also important to highlight the potential municipal property tax implications in consideration of the 2019 PTP.

The Tax Shift Assessment Working Group (TSAWG), led by Councillor Gondek has been working on a much larger set of illustrative examples that include three different tax rate increase scenarios (3.03 per cent, 1.5 per cent, and 0 per cent). These are coupled with three tax share scenarios for discussion (51 per cent Non-Residential (NR)/49 per cent Residential (Res); 50 per cent NR/50 per cent Res; 48 percent NR/52 per cent Res). These examples provide a more complete set of the potential municipal property tax impacts on a variety of both residential and non-residential properties under these various scenarios. This report will include only three of these illustrative examples in order to provide a general indication of the possible tax impacts.

The following illustrative examples use the projected 2020 taxable assessment roll and the forecasted 2020 tax rate increase as contemplated in the One Calgary budget of 3.03 per cent that includes the $60 million reduction that Council approved in 2019 July as applied to the non-residential property tax rate, and maintaining the resulting 51 per cent NR/49 per cent Res relative tax share (amount of total taxes paid by the residential class versus the non-residential class). These examples are illustrative only and represent directional, order-of-magnitude estimates.

Typical Single Residential House	2019	2020 Estimate	Change
Assessment	475,000	455,000	(20,000)
Municipal Taxes	2,000	2,061	61
Monthly Payment	167	172	5

Non-Residential $5 million property	2019	2020 Estimate	Change
Assessment	5,000,000	5,000,000	
Municipal Taxes	88,875	82,264	(6,611)
Less PTP	(16,214)		
Actual Municipal Taxes	72,661	82,264	9,603

Office - Downtown A Class	2019	2020 Estimate	Change
Assessment	92,930,000	114,560,000	21,630,000
Municipal Taxes	1,651,831	1,884,821	232,990
Less PTP			
Actual Municipal Taxes	1,651,831	1,884,821	232,990

In 2019 Council approved a Phased Tax Program (PTP) to mitigate the significant tax shift. This was the third version of a PTP with additional programs occurring in 2017 and 2018. The second example above shows the potential municipal property tax impact for a property that received PTP credits in 2019. At this time there is no direction from Council to utilize another PTP or other one-time mitigation measures for 2020.

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Stakeholder Engagement, Research and Communication

Administration launched the 2019 Pre-Roll Consultation Period (Pre-Roll) on 2019 October 3 and invited non-residential property owners and agents to inquire and collaborate on their 2020 assessment values. As a result, owners and agents may have an impact on their final 2020 property assessment values before they are finalized. Pre-Roll will run from 2019 October 3 to 2019 November 8.

Strategic Alignment

A quality assessment roll aligns with the Council Priority of A Well Run City.

Social, Environmental, Economic (External)

The production of an assessment roll for the purposes of taxation allows The City to distribute and collect taxes which then pay for services and amenities which benefit the citizens of Calgary.

Financial Capacity

Current and Future Operating Budget:

There are no impacts on the operating budget. Changes in the assessment base resulting from market changes do not impact tax revenues.

Current and Future Capital Budget: None

Risk Assessment

As previously stated, the assessment roll in itself does not create property taxes – it is simply a reflection of what actually happened in the real estate market. It is important to note that market value changes of individual properties and subsets of properties that are materially different than the market value changes of the entire class, can bring about significant tax shifts that directly affect property taxpayers.

This report provides an estimate only of the 2020 assessment roll based on market information known to date and does not reflect physical growth. The 2020 assessment roll will not be finalized until 2020 January 2. There are many assumptions and estimates being used to project the 2020 assessment roll at this very early stage. The Assessment Business Unit is just commencing the Pre-Roll Consultation period and further refinements to the projected 2020 assessment roll are expected as these cooperative discussions with non-residential owners and agents progress. Therefore, there could be material changes to the 2020 roll by the time that it is finalized.

REASON(S) FOR RECOMMENDATION(S):

To provide Council relevant information to help inform their discussion during the November budget deliberations.

ATTACHMENT(S)

None

Approval(s): Carla Male concurs with this report. Author: Assessment and Finance