

Chief Financial Officer's Report to
Priorities and Finance Committee
2020 January 21

ISC: UNRESTRICTED
PFC2020-0015

2020 Non-Residential Property Tax Relief Options

EXECUTIVE SUMMARY

At the onset of the economic downturn in Alberta there was a very sharp and rapid decline in the market value of downtown office properties while the values for other non-residential property types remained relatively stable. As a result, a large share of the tax burden previously carried by the downtown office inventory was transferred to other sectors of the non-residential inventory located outside the downtown.

Previous year's Phased Tax Programs (PTP) were intended to address the tax shifts resulting from the disproportional market value changes experienced by the different sectors of the non-residential inventory by limiting increases to the municipal portion of the non-residential property tax. Of the \$216 million in PTP funding approved by Council since 2017, approximately \$174 million in credits have been issued to date to provide tax relief to business and non-residential property owners over the last 3 years.

Council's decision on 2019 November 29 to shift a portion of the tax share from residential to non-residential will also serve to ease the property tax burden for non-residential property owners and businesses. Another benefit of the shift of tax responsibility from non-residential to residential properties is the reduction in the impact of the "bow wave" effect which was a result of the substantial credits issued in the \$130.9 million 2019 PTP.

Given the stabilization of the downtown office market values, with some properties showing substantial market value increases for 2020 coupled with decreased non-residential tax share, if PTP were to be implemented in 2020 based on the same criteria of previous years' PTP the primary recipients of such a program would generally be the properties that experienced the most significant tax decreases over the last four years.

Based on direction given by Council on 2019 November 29 to come back with options for a transitional non-residential PTP, Administration reviewed the 2019 program and explored possible alternative options which would not only provide tax relief to properties facing the largest municipal tax increases but would also help transition non-residential properties in order to reduce the "bow wave" effect even further.

After reviewing the benefits, risks and operational concerns of many mechanisms, Administration is recommending a modified PTP for 2020. This option proposes to phase in 2020 municipal non-residential property tax increases by capping them for eligible properties at 10 per cent of the prior year's municipal portion of the tax amount. The program is modified by using the 2019 actual municipal property tax amount (after PTP credits were applied) to ascertain the year-over-year change in taxes.

While there are some risks and operational concerns, Administration believes that the modified 2020 PTP option with a 10 per cent municipal property tax increase would be the best for providing tax relief to those non-residential property owners who have experienced the most significant municipal property tax increases over the past four years. Furthermore, this option will serve to offset the "bow wave" effect of past year's PTPs and provide the intended transitional phasing effect to lessen the impact of year-over-year municipal tax increases.

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ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council:

1. Direct Administration to implement Option 2; "*Modified PTP Calculation Using Actual After PTP Taxes (PTP Applied)*", with a 10 per cent non-residential municipal property tax cap for 2020;
2. Approve \$10,624,755 from unused funds previously allocated for PTP and \$19,402,901 from the Fiscal Stability Reserve generated from anticipated year end 2019 Corporate Program savings for the 2020 PTP;
3. Direct Administration to come back with options for a transitional non-residential Phased tax program for 2021 if required to the Priorities and Finance Committee in Q1 2021 due to uncertainties relating to future market conditions and the 2021 assessment values;
4. That Report PFC2020-0015 be forwarded to the 2020 February 3 Combined meeting of Council; and
5. Direct that Attachment 8 remain confidential pursuant to section 27(Privileged information) of the *Freedom of Information and Protection of Privacy Act* to be reviewed by 2035 January 21.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2020 JANUARY 21:

That Council adopt the Administration Recommendations contained in Report PFC2020-0015.

PREVIOUS COUNCIL DIRECTION / POLICY

At the 2019 November 29 Strategic Meeting of Council, moved by Councillor Chahal and seconded by Councillor Woolley, through a Motion Arising in respect to Report C2019-1052 2020 Adjustments to the One Calgary Service Plans and Budgets (Verbal), the following was adopted:

"That Council direct administration to come back with options for a transitional non-residential Phased Tax program for 2020 and 2021 to the Priorities and Finance Committee in Q1 2020."

A comprehensive summary of previous Council direction prior to 2019 November 29, in relation to Non-Residential Phased Tax programs and alternatives methods of providing financial relief to businesses, can be found in Attachment 1.

BACKGROUND

Changing Market Conditions:

Since 2014, the non-residential market has been volatile in Calgary. In 2015, drastically falling oil prices caused an economic downturn in Alberta. The various sectors of the non-residential market, namely retail, office, and industrial, have performed very differently over that period.

At the onset of the downturn there was a very sharp and rapid decline in the market value of downtown office properties while the values for other non-residential property types, namely retail and industrial, remained relatively stable. As a result, a large share of the tax burden

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previously carried by the downtown office inventory was transferred to other sectors of the non-residential inventory located outside the downtown.

Program Intent:

The Municipal Non-Residential Phased Tax Program (PTP) was initially developed to address the redistributive effect of the decreasing assessed values in the downtown office inventory. Council recognized that the resulting tax shift negatively impacted many non-residential property owners and the associated tenant base outside of the downtown core. Even though the market value assessments for these properties remained relatively stable, due to the tax shift, they experienced significant property tax increases.

PTP assisted in addressing the tax shifts resulting from the disproportional market value changes experienced by the different sectors of the non-residential inventory by limiting increases to the municipal portion of the non-residential property tax. However, a significant consequence of the program was that it facilitated the onset of the “bow wave” effect and the ongoing need to implement transitional non-residential municipal tax relief measures in subsequent years.

Council’s intent was to use one-time funding to buffer and mitigate the most extreme municipal property tax increases resulting from the tax shift. The program was first implemented in 2017 and was adopted again in both 2018 and 2019. The 2019 PTP eligibility requirements have been included in Attachment 2. While PTP imposed limits on municipal non-residential property tax increases, the authorized limits varied between 2017, 2018 and 2019. However, the intention to provide financial aid in the form of tax relief for business owners negatively impacted by the tax shift has always been the main goal of the program.

Previous Year’s PTP Updates

PTP Funding Update

Year	Council Approved Amount	Number of Accounts Credited with PTP	PTP Credit Processed	Number of Accounts with Potential PTP Outstanding	Amount of Potential PTP Outstanding	Funds Redirected to 2019 PTP	Unused PTP Amount
2017	\$ 45,000,000	5,060	\$ 27,153,202	40	\$ 1,615,568	\$ 15,500,000	\$ 731,230
2018	\$ 41,000,000	7,033	\$ 30,556,039	45	\$ 2,442,341	\$ 7,400,000	\$ 601,620
2019	\$ 130,900,000	11,655	\$ 116,648,306	121	\$ 4,959,789	N/A	\$ 9,291,905
						Total	\$ 10,624,755

* As of 2020 January 7

The remaining eligible accounts for 2017, 2018 and 2019 had no final previous years’ assessment value to calculate the PTP credit due to an outstanding Assessment Review Board complaint or appeal to the Court of Queen’s Bench. For this reason, there is a need to hold a portion of the original funding until the matters are resolved and the previous years values for the remaining eligible accounts are finalized.

Existing 2020 Non-Residential Property Tax Relief Measures

Reallocation of the Tax Responsibility

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Year	Council Approval Date	Residential Property Tax Share	Non-Residential Property Tax Share
2018*	2018 April 5	46%	54%
2019	2019 April 8	47%	53%
2020	2019 July 10	49%	51%
2020	2019 November 29	52%	48%

**2018 included the last year of Business Tax Consolidation*

Council's decision 2019 November 29 served to ease the property tax burden for non-residential property owners and businesses. The shift of tax responsibility from non-residential to residential properties will also help buffer the impact of the substantial credits issued in 2019 and resulting "bow wave" effect from the \$130.9 million 2019 PTP.

2020 Assessment Roll Summary

The 2020 assessments reflect the real estate market as of 2019 July 1. In summary, the general effects are:

Residential:

- 517,578 taxable residential accounts with a total assessed value of \$212.5 billion.
- The overall typical change in the market value assessment is -4 per cent.
- Market value changes between single residential properties and condominiums were generally the same.
- Note – This does not include any property tax change due to the provincial property tax requisition.
- Minimal tax shifts are expected due to the reassessment process (excluding the approved 7.5 per cent residential municipal property tax rate increase).

Overall, the year-over-year market value changes for the single residential and condominium inventory was relatively consistent and no extreme tax shifts expected due to the annual reassessment. However, due to the decision of Council to increase the tax responsibility for the residential base to 52 per cent, a residential property that's assessment reflects the typical market value decline for 2020 would still be subject to a municipal property tax increase of approximately 7.5 per cent.

Non-Residential:

- 14,216 taxable non-residential accounts with a total assessed value of \$61.2 billion.
- The overall typical change in the market value assessment is +2 per cent.
- There is a slight variation in the market value changes between the major segments:
 - Retail +3 per cent
 - Industrial +2 per cent
 - Office +1 per cent
- Note – This does not include any property tax change due to the provincial property tax requisition.
- Minimal tax shifts are expected due to reassessment with the exception of the downtown A class office inventory.

After several years of rapid decline, the office market appears to be stabilizing based on marginal year-over-year changes in the assessed values. For 2020 the overall typical market

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value change attributed to the office inventory is a slight increase of 1 per cent which is a substantial improvement from the -32 per cent decrease from previous years. The most significant contributor to this change is the downtown A class office inventory with a typical market value increase of 22 per cent. Attachment 3 has been provided to illustrate the stabilizing proportion of the non-residential taxable value attributed to the downtown office inventory.

Illustrative examples in Attachment 4 reconcile the 2020 non-residential inventory roll values with the decisions of Council made in 2019 November regarding the indicative 2020 tax rate and tax share reallocation of 52 per cent residential and 48 per cent non-residential to demonstrate how 2019 PTP impacted non-residential municipal tax changes for 2020.

It is evident that given the stabilization of the downtown office market values, with some properties showing substantial market value increases for 2020 coupled with decreased non-residential tax share, if PTP were to be implemented in 2020 based on the same criteria of previous years' PTP the primary recipients of such a program would generally be the properties that experienced the most significant tax decreases over the last four years.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Previous reports to Council have considered various forms of financial support programs directed at providing financial relief to non-residential properties affected by the tax shift. Based on previous discussion with a number of stakeholders, Administration has explored several possible options to address the impact of non-residential property tax shifts again for 2020, as well as the impact of current economic conditions on local businesses.

2020 Tax Relief Options

Administration analyzed and reviewed a total of 6 potential options in order to provide municipal tax relief to non-residential properties. The following table is a summary of these options and a more in-depth discussion of each can be found in Attachment 5.

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Option 1: Original PTP Criteria (With 0%, 5% or 10% tax increase caps)	
Description: Uses the same criteria and process as the 2017, 2018 and 2019 PTP with a cap on the municipal tax increase by 0%, 5% or 10%	Estimated Cost: a) 0% tax increase cap - \$13M b) 5% tax increase cap - \$8.6M c) 10% tax increase cap - \$5.8M
Option 2: Modified PTP Calculation Using Actual After PTP Taxes (PTP Applied)	
Description: Applies a cap to the municipal property tax increase at 5% or 10% using the prior years <i>actual</i> tax value (PTP applied) in the calculation	Estimated Cost: a) 5% tax increase cap - \$46M b) 10% tax increase cap - \$30M
Option 3: Grant Program – Credit a % of the Amount of PTP Paid in 2019	
Description: A program that recipients of the 2019 PTP would receive a % of their 2019 PTP credit	Estimated Cost: At Council's discretion
Option 4: Business Tax Revival in Order to Provide a Business Tax Credit	
Description: Reinstate business tax in order to apply a "reverse tax" or credit directly to businesses	Estimated Cost: *Capital: Approx. \$1.3M to \$1.7M *Operating: Approx. \$1.1M to \$8.4M Credit value: At Council's discretion
<i>*High level preliminary estimate from PFC2019-0559 Non-Residential Assessment Sub-Classes Report Attachment 8</i>	
Option 5: Non-Residential Municipal Property Tax Rebate	
Description: Use one-time funds to provide a rebate to all non-residential properties through a municipal property tax rebate based on their assessment value	Estimated Cost: At Council's discretion
Option 6: Compassionate Business Grant by Way of Application	
Description: Create a program that businesses would apply for in order to receive a grant	Estimated Cost: *Capital: Approx. \$500,000 *Operating: Approx. \$1M Grant value: At Council's discretion
<i>*High level preliminary estimate from PFC2019-0590 Small Business Resiliency Grant Program Attachment 6</i>	

Evaluation Criteria

The following issues were given considerable weight in evaluating each of these options:

- Materiality of financial impact (would funding make a difference for the recipients?)
- 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 and transitional effects
- Overall total cost of the program (impact on The City of Calgary's financial capacity)

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There are many administrative considerations involved in the establishment and management of the tax relief program. Attachment 6 provides a summary of some of the major administrative considerations.

Recommendation

From the 6 proposed options Administration has made a recommendation of Option 2b: *Modified PTP Calculation Using Actual After PTP Taxes (PTP Applied)*. This option proposes to phase in 2020 municipal non-residential property tax increases by capping them for eligible properties at 10 per cent of the prior year's municipal portion of the tax amount. However, the program is modified by using the 2019 after PTP taxes applied amount to ascertain the year-over-year change in taxes. By modifying PTP in this fashion, the program will not only assist in providing tax relief for properties which have faced the largest tax increases over the last 4 years but will also help offset the "bow wave" effect of past year's PTP. This option will also provide the intended transitional phasing effect to lessen the impact of year-over-year municipal tax increases.

Pros:

- Will benefit a large number and range of properties
- Will assist in offsetting the "bow wave" effect of past years' PTPs and provide the intended transitional phasing effect to lessen the impact of year-over-year municipal tax increases
- Provides tax relief to non-residential property owners facing the greatest municipal tax increases
- Provides the intended transitional phasing effect to lessen the impact of year-over-year municipal tax increases
- Same eligibility criteria as previous PTP
- Customers are familiar with this program
- No application required

Cons:

- Will still perpetuate a "bow wave" effect for future years
- Unlike previous PTP's, also requires the finalization of previous years PTP credits as opposed to just the finalization of previous years assessments to calculate the 2020 credit, both of which could be delayed due to outstanding court appeals
- The PTP creates the effect of different tax rates for each tax payer who receives the credit. The funds do not reduce the tax rate ratio between non-residential and residential
- No guarantees that tax relief is passed along to tenants
- Continued expectation of future tax mitigation programs
- Potential legal risks are addressed in confidential Attachment 8

The below table summarizes the number of eligible accounts and the total estimated cost of the program.

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% Cap on 2020 Non-Residential Municipal Property Tax Increase (Based on 2019 Tax Amount after PTP Credits Applied)	2020 Non-Residential Taxable Population*	Estimated Number of Qualified PTP Properties	Estimated Program Cost
10.00%	14,176	5,071	\$30,027,656

*As of 2019 December 20

Administration has found that the other subset of the modified PTP option which proposed to cap municipal property tax increases at 5 per cent (option 2a) would simply perpetuate the “bow wave” effect and would not assist in transitioning away from the need of a tax mitigation program. Though benefitting more non-residential properties, option 2a would provide less relief for the properties facing the largest municipal tax increases.

Relative to the other options considered, option 2b would reconcile the intended goal of providing tax relief to those properties that will experience the highest municipal non-residential property tax increases for 2020 with a program that is relatively cost-effective and straightforward to administer. Furthermore, option 2b best captures the intended phasing effect of PTP in that the municipal property taxes would be effectively lowered for 2020 while ultimately reducing potential property tax increases in future years.

Illustrative examples in Attachment 7 demonstrate the impact and potential implications of the seven tax relief options.

Conclusion

In conclusion, Administration recommends the implementation of Option 2b: Modified PTP Calculation Using Actual After PTP Taxes (PTP Applied), requiring funding of approximately \$30,027,656.

Stakeholder Engagement, Research and Communication

Administration worked with both Calgary Economic Development and the Calgary Chamber of Commerce when reviewing options for 2017 and 2018 tax relief and in preparation of C2017-0057 and PF2018-0045. Also, feedback from non-residential property owners on the 2017 and 2018 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”.

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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:

The proposed 2020 Municipal Non-Residential PTP would require funding in the amount of \$30,027,656. As per Administration's recommendation, this amount could be funded using \$10,624,755 from unused funds previously allocated for PTP and \$19,402,901 from the Fiscal Stability Reserve generated from anticipated year end 2019 Corporate Program savings for the 2020 PTP.

Current and Future Capital Budget:

There are no capital budget impacts identified in this report.

Risk Assessment

Administration has reviewed options for 2020 tax relief and option 2b 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 confidential Attachment 8.

REASON(S) FOR RECOMMENDATION(S):

On 2020 November 29, in conjunction with the approval of the 2020 Budget Adjustments, Council directed Administration to come back with options for a transitional non-residential Phased Tax program for 2020 and 2021 to the Priority and Finance Committee in Q1 2020.

Administration has reviewed several tax relief mechanisms and the proposed 2020 "Modified" Municipal Non-Residential Phased Tax Program (PTP) would reconcile the intended goal of providing tax relief to those properties that will experience the highest municipal non-residential property tax increases for 2020 with a program that is relatively cost-effective and straightforward to administer. Furthermore, option 2b best captures the intended phasing effect of PTP in that the municipal property taxes would be effectively lowered for 2020 while ultimately reducing potential property tax increases in future years.

Due to uncertainties relating to future market conditions and the 2021 assessment values, Administration has recommended that the Priorities and Finance Committee direct Administration to come back with options for a transitional non-residential Phased tax program for 2021 if required in Q1 2021.

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ATTACHMENT(S)

1. Attachment 1 - Previous Council Direction
2. Attachment 2 - 2019 Municipal Non-Residential Phased Tax Program (PTP) Criteria
3. Attachment 3 - Downtown Office Market Value Trend
4. Attachment 4 - Impact of 2019 PTP on 2020 Municipal Non-Residential Property Tax Changes
5. Attachment 5 - Detailed 2020 Non-Residential Property Tax Relief Options
6. Attachment 6 - Administrative Considerations
7. Attachment 7 - Illustrative Examples of the Effects of the 2020 Non-Residential Property Tax Relief Options
8. Attachment 8 - Legal Risk Analysis for various Tax Relief Options (confidential)
9. **Attachment 9 – Public Submissions**