

Chief Financial Officer's Report to
Combined Meeting of Council
2020 April 06

ISC: UNRESTRICTED
C2020-0382

2020 Property Tax Related Bylaws

EXECUTIVE SUMMARY

Council approval is required for the 2020 Property Tax Related Bylaws and the Rivers District Community Revitalization Levy Rate Bylaw. Council's approval of the related bylaws is required in order to levy and collect the property taxes used to fund the range of services across The City that Council approved and adopted in the 2020 operating budget.

The City of Calgary has declared a State of Local Emergency to support the Province of Alberta's efforts to contain the spread of COVID-19. The response to COVID-19 increases the importance of proceeding to collect taxes to maintain essential services and cashflow. Decreases in other revenue streams are occurring but demand for most City services remains – including essential services and those that will support the most vulnerable members of our community. Recognizing that some tax-payers will need more flexibility for payment, measures to offer relief to taxpayers are proposed that complement those announced by the Federal and Provincial governments.

ADMINISTRATION RECOMMENDATION:

That Council:

1. Give three readings to:
 - a) Property Tax Bylaw 12M2020 (Attachment 1);
 - b) Rivers District Community Revitalization Levy Rate Bylaw 14M2020 (Attachment 2); and
 - c) Machinery and Equipment Property Tax Exemption Bylaw 13M2020 (Attachment 3).
2. Approve the cancellation of the portion of the property tax comprised of the penalties imposed under section 2(a) of Bylaw Number 8M2002 that would have accrued between July 1, 2020 and September 30, 2020; and
3. Approve that the requirement to pay an administration fee equal to 2% of the total amount of missed instalments for those taxpayers who join TIPP after January 1, under section 7(5) of Bylaw Number 9M2002 be suspended until 2021 January 1.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2020 March 10 and 11, Administration was directed to add the issues discussed in relation to Verbal Reports PFC2020-0367 and CPS2020-0374 (around the current economic environment, the impact on citizens and businesses and The City's responses) to their reports at the 2020 April 21 Priorities and Finance Committee and the 2020 April 30 Strategic Meeting of Council.

On 2020 February 3, Council approved PFC2020-0015 which established a Municipal Non-Residential Phased Tax Program (PTP) for 2020.

On 2019 November 29 Council approved C2019-1052 2020 Adjustments to the One Calgary Service Plans and Budgets, which resulted in:

- the 2020 tax rate increase falling from 3.03% to 1.5%;
- One-time funding in 2020 and 2021 to rebate the 1.5% in those years;

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- a tax rate increase to recover the additional \$13 million “provincial budget flow through, reflecting the cuts to The City in the recent [2019 October] provincial budget, in fine revenue, biological testing, and cannabis tax”; and
- the tax proportion responsibility set as 52% residential and 48% non-residential for 2020.

On 2018 November 30, Council approved C2018-1158 One Calgary 2019-2022 Service Plans and Budgets and adopted the 2020 operating budget as amended, with the effective municipal property tax rate increase of 3.03% for 2020.

On 2013 November 18, Council approved NM2013-32, that Council rescind its motion to automatically absorb tax room offered by the Province by reconsidering their decision contained in the Minutes of the Special Meeting of Council, held on 2011 June 28, with respect to Recommendation 6, as amended, contained in Report C2011-65.

On 2007 April 16, Council passed Bylaw 27M2007 to authorize the creation of a community revitalization levy area in the Rivers District. The Bylaw was approved by the Lieutenant Governor in Council of Alberta on 2007 July 17. Legislation requires Council to pass a community revitalization levy rate bylaw annually. On 2019 Feb 15, the Lieutenant Governor in Council of Alberta approved the City's amended Rivers District Community Revitalization Levy (CRL) Bylaw 2M2019 confirming that the Rivers District CRL could be in place until 2047.

BACKGROUND

The property tax bylaw must be prepared in accordance with the Municipal Government Act.

Municipal Government Act (MGA), Chapter M-26, RSA 2000

Section 353 Property tax bylaw

- (1) Each council must pass a property tax bylaw annually.
- (2) The property tax bylaw authorizes the council to impose a tax in respect of property in the municipality to raise revenue to be used toward the payment of
 - (a) the expenditures and transfers set out in the budget of the municipality, and
 - (b) the requisitions.

Designated Industrial Property

MGA sections 326(1)(a)(vi) and 359.3(1) requires that the designated industrial property requisition (set by the Minister), which is the recovery of costs incurred for the preparation of Designated Industrial Property assessments, be included as part of the provincial requisition.

Community Revitalization Levy Rate Bylaw

The City of Calgary Rivers District Community Revitalization Levy Regulation (AR 232/2006) established a community revitalization levy area known as the Rivers District. The MGA authorizes a council to pass a bylaw to impose a levy in respect of the incremental assessed value of property in a community revitalization levy area. The levy will raise revenue to be used

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toward the payment of infrastructure and other costs associated with the redevelopment of property in the community revitalization levy area.

Provincial Requisition

On 2020 March 24, in order to provide financial relief to individuals and businesses, the Provincial Government announced that the Provincial requisition will be frozen at the 2019 level. As well, the Province is deferring 50% of the Provincial property taxes for non-residential properties until 2020 September 30, with the remaining due in future years. The payment plan for the remaining tax will be announced at a later date. The changes are expected to be outlined in a ministerial order. The province is encouraging those with the capacity to pay the full amount to continue to do so.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Bylaws

The attached Property Tax Bylaw (12M2020 in Attachment 1) and Rivers District Community Revitalization Levy Rate Bylaw (14M2020 in Attachment 2) reflect Council's direction in C2019-1052 as approved on 2019 November 29 and the Provincial property tax requisition contained in the 2019 and 2020 Provincial budgets.

The City of Calgary has elected to exempt the machinery and equipment tax. To exempt machinery and equipment property from the municipal portion of property taxes, The City annually passes an exemption bylaw (13M2020 in Attachment 3). The provincial requisition pertaining to machinery and equipment property is zero.

Administration recommends the Council give three readings to each bylaw.

Municipal Tax

The result of the approved bylaw will be an increase of 9.01% to the residential tax rate and a decrease of 10.08% to the non-residential tax rate. This reflects Council's decisions to:

- Approve a 1.5% increase;
- Recover the \$13 million flow-through from the 2019 Provincial budget impacts to Police; and
- Set the property tax revenue shares to 52% residential and 48% non-residential.

Council also approved a rebate in 2020 to offset the 1.5% budget tax rate increase. This will be applied to the property tax bills to effectively reduce the property tax rate increase to 7.51% for residential and the tax rate decrease to 11.27% for non-residential.

With the municipal increases the typical homeowner with a 2020 assessment of \$455,000 who experienced the same change as the overall single residential market will see a municipal increase of:

- \$180 per year (\$15 per month) before the Council rebate; and
- \$150 per year (\$13 per month) after the Council rebate.

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Excluding the impact of assessment changes and PTP rebates, non-residential taxpayers will see a municipal decrease of:

- \$1,790 per \$1 million of assessed value annually (\$150 per month) before the Council rebate; and
- \$2,000 per \$1 million of assessed value annually (\$167 per month) after the Council rebate.

A summary of the required municipal tax revenue is shown in Attachment 4.

Provincial Property Tax Requisition

Table 1: Provincial Property Tax Changes from 2019 to 2020			
	Total City	Residential	Non-Residential
2019 Estimated Requisition (2019 Bylaw Calculation) (a)	\$780.5	\$527.5	\$253.0
2019 Actual (Oct. 2019) (b)	\$795.9	\$551.7	\$244.2
Difference (2019 Catch-up included in 2020 Bylaw) (c) = (b)-(a)	\$15.4	\$24.2	-\$8.8
2020 Requisition (d)	\$772.0	\$552.3	\$219.6
2020 Adjusted amount for Bylaw Calculation (e) = (d) + (c)	\$787.4	\$576.6	\$210.8
Requisition Change from 2019 Bylaw (e) – (a)	\$6.9	\$49.1	-\$42.2

The 2020 Provincial budget initially announced a 3.4% increase in the education requisition. The Province subsequently announced on 2020 March 24 that to provide some measure of property tax relief, the requisition would be revised down to the 2019 level.

Despite the Province wide freeze at the 2019 level, The City's overall equalized assessment fell, which means that The City's share of the 2020 provincial property tax requisition is \$772 million, a decrease of \$23.9 million (3.0%) from the October 2019 provincial budget. However, the 2019 requisition was announced after property taxes were billed and collected, meaning that The City under-collected from taxpayers last year by \$15.4 million, although The City still remitted it to the Province.

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The net result is that the requisition collected through property taxes in 2020 will be \$8.5 million (1.1%) lower than collected through 2019 property taxes. As well, MGA section 359(3) requires The City to collect the undercharged amount (the catch-up) from 2019 through the 2020 property tax billing, leaving the net impact at \$6.9 million (0.9%) above the amount billed last year.

The impacts of the change to the provincial requisition are not balanced between residential and non-residential properties. The requisition for residential taxpayers will increase in 2020 by \$24.9 million. The amount to recover from residential properties for the 2019 "catch-up" is \$24.2 million, which combines with the 2020 increase to a total residential provincial property tax increase of \$49.1 million. The typical homeowner will see an increase of about \$90 per year, or \$7.50 per month, a 7.6% increase.

In contrast, the non-residential requisition dropped by a total of \$33.4 million in 2020, which combines with the \$8.8 million rebate for the 2019 "catch-up" so that non-residential taxpayers will see a total reduction of \$42.2 million or 15.2%. This translates into a drop of approximately \$640 per year (\$53 per month) for every \$1 million of assessed value. As also announced on 2020 March 24, only 50% of the total provincial property tax for non-residential taxpayers will be due in 2020. The remaining amount will be due in future years, as determined at a future date.

A summary of the requisitions and the resulting levy to be raised from the 2020 Property Tax Bylaw is provided in Attachment 5.

Total Combined Increase

For the typical homeowner with a 2020 assessment of \$455,000 who experience the same change as the overall single residential market, the combination of the municipal and provincial increases results in a combined increase of:

- 8.50% or \$270 per year (\$22 per month) before the Council rebate; and
- 7.55% or \$240 per year (\$20 per month) after the Council rebate.

Excluding the impact of assessment changes and PTP rebates, non-residential taxpayers will see a combined decrease of:

- 11.12% or \$2,430 per \$1 million of assessed value annually (\$202 per month) before the Council rebate; and
- 12.07% or \$2,640 per \$1 million of assessed value annually (\$220 per month) after the Council rebate.

Tax Room

As a result of the 2020 Provincial property tax requisition, the 2019 Provincial property tax requisition and the 2019 requisition catch-up, the change in the provincial property tax rate is higher than the municipal rate increase. Therefore, no tax room is available.

Tax Relief approved to date

Council has directed Administration to implement another phased tax program (PTP) for non-residential taxpayers in 2020. The program approved in PFC2020-0015 will differ from past

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iterations in that the municipal property tax cap of 10% will be applied to non-residential property tax bills after the application of the 2019 PTP rebates. In the previous versions of the PTP, the cap was applied excluding any PTP applied in the previous year. This is in addition to the transfer of revenue responsibility from non-residential taxpayers to residential taxpayers, as well as the reduction of the overall tax rate increase from 3.03% to 1.5% and a rebate of the 1.5% increase in 2020 and 2021.

Additional Tax Relief measures recommended

In these exceptional circumstances, the relief measures put in place to date may not be sufficient for many taxpayers. Administration is therefore recommending a delay in the date for the late penalties for residential property taxes and municipal non-residential property taxes and the waiver of the Tax Installment Payment Program (TIPP) administration fee.

Payment Date & Late Penalties

To complement the provincial relief measures, Administration is recommending maintaining the municipal non-residential property tax payment due date as 2020 June 30, but cancelling the late penalties that would normally accrue between 2020 July 1 and September 30, meaning that no late penalties will accrue to non-residential taxpayers until 2020 October 1. Administration also recommends that the late penalties for residential property taxes that would normally accrue between 2020 July 1 and September 30 be cancelled, while maintaining the payment due date of 2020 June 30 for residential property taxes. This will allow some temporary cash flow relief for property taxpayers by allowing them additional time to pay their taxes and allow those taxpayers in the most need to be able to adjust to the Federal and Provincial supports that are being announced.

TIPP Administration Fee

Administration is also recommending that the administration fee for joining the (TIPP) after January 1 be suspended this year. The purpose of the suspension is to allow property taxpayers who cancel TIPP participation as part of their cashflow management strategy to rejoin later in the year without cost.

Current economic environment and the impact of COVID-19

This report begins to address the issues raised in verbal reports PFC2020-0367 and CPS2020-0374 by considering how the ability of taxpayers to pay will be impacted in the short term and proposing initial measures to offer immediate relief for taxpayers affected. A further update to Council on 2020 April 27 will provide a more holistic view on the short- medium- and long-term view on all the issues raised (to the extent possible based on available data).

The impact of COVID-19 will not be understood or predictable until the situation stabilizes. In the short term:

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- Many services have not seen a significant change in demand. Demand for some services (e.g. Transit) has dropped substantially, however, while it is expected that others (e.g. social supports) will increase.
- The reduction in Transit demand and the closure of City Recreation facilities will reduce The City's user fee income
- Changes to revenues and cash flows, use of reserves and financial market volatility is expected to impact investment income.
- These impacts increase the importance of collecting taxes (The City's single largest source of revenue) to maintain cashflow and ensure the services Calgarians require at this time can continue to be provided.
- However, the overall reduction of business activity that has taken place in Calgary:
 - Will reduce the capacity of some non-residential tax payers to pay.
 - Will result in a high number of layoffs, which are expected to be temporary but are impacting incomes significantly and reducing the ability of some residential tax-payers to pay.
- The measures recommended above are intended to provide some relief in conjunction with Federal and Provincial assistance.
- To offer further assistance, The City has already announced a deferral program for Utility bills.

These questions will continue to be studied throughout the year, and additional updates will be provided. The City continues to track the impacts of COVID-19 locally, nationally and internationally. An updated economic outlook will be published in Q2 2020 that provides more insight into the impacts.

Stakeholder Engagement, Research and Communication

All property owners in Calgary have received their 2020 Property Assessment Notices which gave them their 2020 property assessed values and notification that tax billing will occur in May.

Strategic Alignment

The recommendations are in alignment with the direction in Council's approval of One Calgary 2019-2022 Service Plans and Budgets (C2018-1158), as amended and adjusted (C2019-1052).

Social, Environmental, Economic (External)

The Property Tax Bylaw allows the municipality to generate the tax funds necessary for its operation. This allows The City to deliver the full range of municipal services approved in One Calgary 2019-2022 Service Plans and Budgets, as amended and adjusted.

Financial Capacity

Current and Future Operating Budget:

The estimated funding of \$1.9 billion generated through the Property Tax Bylaw will meet the 2020 operating budget requirements that align with the approved 2020 adjustments to the One Calgary 2019-2022 Service Plans and Budgets (C2019-1052), as amended.

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Current and Future Capital Budget:

Property tax revenues are part of the source of capital funding.

Risk Assessment

Any delay in passing the 2020 Property Tax Bylaw may affect the mailing date of property tax bills, which in turn would change the customary property tax payment cycle with which the public and business communities have become accustomed.

Until the 2020 Property Tax Bylaw is passed, The City of Calgary cannot meet its 2020 municipal financing obligations.

The current situation has greatly increased the risk of non-payment of property taxes. The mitigation strategies contained within this report are designed to offer some temporary cashflow relief for property Taxpayers, while balancing the ability to manage The City's cashflow in order to continue providing services. The Province's reduction in the provincial property taxes and deferment for non-residential taxpayers also provides some mitigation.

REASON(S) FOR RECOMMENDATION(S):

The 2020 Property Tax and Related Bylaws are needed for The City to collect property taxes in 2020. The Property Tax and Related Bylaws are in alignment with the One Calgary 2019-2022 Service Plans and Budgets, as amended and adjusted. The 2020 Budget relies on the property tax as a municipal revenue source, particularly as other revenues are declining due to the measures implemented to contain the spread of COVID-19. The City is also legally required to collect Provincial Property Tax on behalf of the Provincial Government and is required to pay the Provincial Requisition quarterly.

The second recommendation allows taxpayers on monthly and lump sum payment plans to delay their tax payments if they are experiencing financial hardship, from June 30 2020 to September 30, 2020, penalty free.

The third recommendation enables taxpayers who are on The City's monthly payment plan, TIPP, to cancel their monthly payments within 2020 and rejoin by the end of the year without incurring an administration fee. This may also encourage lump sum taxpayers to join TIPP in order to spread tax payments throughout the year.

ATTACHMENT(S)

1. Attachment 1 –Proposed 2020 Property Tax Bylaw 12M2020
2. Attachment 2 – Proposed 2020 Rivers District Community Revitalization Levy Rate Bylaw 14M2020
3. Attachment 3 - Proposed 2020 Machinery and Equipment Property Tax Exemption Bylaw 13M2020
4. Attachment 4 – 2020 Municipal Property Tax Summary
5. Attachment 5 – 2020 Provincial Property Tax Summary