



Memo

November 20, 2020

To: Mayor Naheed Nenshi and Members of Council

From: Eddie Lee, Acting Director / City Assessor

Re: 2021 Non-Residential Property Tax Relief Options

Background

On 2019 November 29, Council directed Administration to return with options for a transitional non-residential Phased Tax Program (PTP) for 2021. PTP has been used in years past to “cap” increases to the municipal portion of non-residential property tax to provide relief to business and property owners impacted by large year over year tax shifts. Administration explored options to provide tax relief to properties facing the largest municipal tax increases, and to minimize further exacerbation of the “bow wave” effect.¹

The program was first implemented in 2017 and was adopted again in 2018, 2019 and 2020, with a total of \$247 million in approved funding. In addition, 2020 tax relief was supplemented by shifting 3% of the tax responsibility from non-residential to residential properties.² As Table 1 shows, Council placed various caps on property taxes in each year PTP was implemented.

Table 1. Previous Years’ PTP

Year	Council Approved Amount	# of Accounts Credited with PTP	Non-Residential Municipal Tax Cap
2017	\$ 45,000,000	5,082	5%
2018	\$ 41,000,000	7,050	5%
2019	\$ 130,900,000	11,748	-10%
2020	\$ 30,000,000	4,370	10%

*As of 2020 October 15.

2021 Assessment Roll

As per PFC2020-1014, Table 2 shows a summary of the non-residential preliminary 2021 assessment roll values contrasted with 2020.³ The majority of property types will see an overall decrease in the estimated assessment base for 2021, with the notable exceptions of industrial (particularly large format warehouses) and high-rise multi-residential properties.⁴ As a result, both property types are expected to see substantial increases in property taxes in 2021.

¹ The 2020 Non-Residential Property Tax Relief Options report, [PFC2020-0015](#), provides some background on the bow wave effect.

² Specifically, the tax responsibility was shifted from 49% residential and 51% non-residential, to 52% residential and 48% non-residential.

³ See the 2021 Preliminary Assessment Roll and Related Estimates Report, [PFC2020-1014](#), for further information.

⁴ *Ibid.*

Table 2. Preliminary Non-Residential Taxable Assessment Summary

Assessment Class	2020 Taxable ASMT (Millions)	2021 Est. Taxable ASMT (Millions)	% Change
Industrial	\$ 16,171	\$ 17,050	5.4%
Office	\$ 15,461	\$ 13,904	-10.1%
Retail	\$ 19,753	\$ 17,915	-9.3%
Other	\$ 8,344	\$ 7,833	-6.1%
Total Non-Residential	\$ 59,729	\$ 56,702	-5.1%

*Please note that these are preliminary values and therefore subject to change.

2021 Tax Relief Options

Based on previous discussions with stakeholders, Administration has explored several options to address the impact of non-residential property tax shifts for 2021, as well as the impact of current economic conditions on local businesses. Administration has provided three options using various caps on municipal tax increases which is calculated excluding prior year rebates such as the 2020 PTP and 1.5% rebate.

Table 3. 2021 PTP Options

	Cap on Non-Residential Municipal Tax Increases	Non-Residential Taxable Properties	Estimated Number of Qualifying Properties	Estimated Program Cost	Beneficiary Based on Number of Recipients by Property Type (%)	Beneficiary based on Value of PTP by Property Type (%)
Option 1	10.00%	14,517	2,119	\$21,000,000	Industrial 57 Office 11 Retail 26 Other 6	Industrial 47 Office 12 Retail 33 Other 8
Option 2	5.00%	14,517	4,764	\$34,800,000	Industrial 66 Office 8 Retail 19 Other 7	Industrial 50 Office 12 Retail 31 Other 7
Option 3	0.00%	14,517	8,612	\$57,200,000	Industrial 59 Office 7 Retail 20 Other 14	Industrial 50 Office 12 Retail 30 Other 8

*Please note that the 2021 Assessment Roll and budget has not yet been finalized. As such, these figures are subject to change.

*Cap calculation does not account of prior year rebates such as 2020 PTP and the 2020 1.5% rebate.

The program cost and summary of beneficiaries above are estimates and will not be finalized until the final budget is set and the assessment roll is finalized on 2021 January 14. Based on these estimates, Council may provide direction on approving a program up to a determined cost amount with Administration reporting back in Q1 2021 with final details. Recommended eligibility criteria is discussed in Appendix 1.

Calculation Methodology

At present, there are two calculation methodologies to consider. The first is calculated using actual property taxes payable.⁵ The second is calculated using taxes payable without adjustment for prior years' PTP credits.⁶ Administration recommends that the 2021 PTP tax relief Option 1, 2 or 3 be implemented without adjustment for prior years' PTP credits, as was done in 2017, 2018 and 2019. This recommendation is due to The City's financial capacity to support a PTP and to reduce the likelihood of the requirement of future mitigation programs.

⁵ As was done in 2020, using the taxes payable after 2019 PTP credits were applied to ascertain year-over year property tax changes.

⁶ As was done in 2017, 2018 and 2019.

Analysis

Table 4. Pros and Cons of 2021 PTP, Non-Exhaustive

Pros of PTP	Cons of PTP
Tax relief to non-residential property owners facing the greatest municipal tax increases.	Perpetuation of the “bow wave” effect for future years.
Property owners are familiar with PTP.	Creates the different effective tax rates for each taxpayer receiving the credit.
Ease of administration (no applications, same eligibility criteria).	No guarantees that tax relief is passed along to tenants.
	Continued expectation of future tax mitigation programs.
	The funds do not reduce the tax rate ratio between non-residential and residential.
	Associated costs of the program.

Having regard for the pros and cons, option 1 would serve to provide tax relief to those properties that will experience the highest municipal non-residential property tax increases, while being relatively cost-effective and straightforward to administer. Options 2 and 3 would benefit more non-residential properties than option 1; however, the estimated program costs are much higher. Furthermore, options 2 and 3 would amplify the “bow wave” effect and would not assist in transitioning away from the need of a tax mitigation program.

Illustrative examples in Appendix 2 demonstrate the potential implications the recommended tax relief options.

Other Financial Relief Programs

According to the Government of Alberta:

“COVID-19 and the severe decline in oil prices dealt a serious blow to the provincial economy in March and April, resulting in historic job losses and a sharp drop in business activity and consumer spending. As a result, Alberta’s economy...is expected to contract by 8.8% in 2020. Government expects this decline to be followed by a partial rebound of 4.6% in 2021.”⁷

In response to the COVID-19 crisis specifically, various programs providing for financial relief and/or the protection of certain rights have been introduced by both the federal and provincial governments. Some of the programs specific to real estate include: the Canada Emergency Commercial Rent Assistance (CECRA),⁸ Canada Emergency Rent Subsidy (CERS),⁹ Commercial Tenancies Protection Act (Bill 23),¹⁰ and various forms of alleviating property tax burdens.¹¹ Any further assistance from the Federal and Provincial governments may not be known until the budgets are released.

⁷ Government of Alberta, *Economic Outlook*, (Online: Government of Alberta, 2020) <<https://www.alberta.ca/economic-outlook.aspx>>.

⁸ More information can be found here: <https://www.cmhc-schl.gc.ca/en/finance-and-investing/covid19-cecra-small-business>.

⁹ More information can be found here: <https://www.canada.ca/en/department-finance/news/2020/11/canada-emergency-rent-subsidy.html>.

¹⁰ A provincial program to protect qualifying non-residential tenants experiencing hardship due to COVID-19. More information can be found here: <https://www.alberta.ca/protecting-commercial-tenants.aspx>.

¹¹ Including the freezing of provincial property taxes at 2019 levels, deferring collection of non-residential provincial property taxes, the temporary municipal property tax deadline extension without penalty, and the temporary suspension of the TIPP filing fee.

The City has also provided financial relief for property owners as a result of COVID-19. A full list can be found on The City's COVID-19: Financial support for businesses site and include such measures as Business Improvement Area (BIA) Tax penalties cancelled, property tax deferrals till September 30 and TIPP filing fee suspended until January 2021.

Financial Capacity

From the originally approved \$24 million property tax rebate, permanent reductions were found to replace the need for the rebate. As part of the Mid-Cycle Adjustments, \$6 million is recommended to be approved for a one-time residential tax rebate so that the typical single residential home will see a 0% tax change. This leaves \$18 million plus \$3 million from prior years' unused PTP for a total of \$21 million that could be used to fund a 2021 PTP if desired.

Administration Recommendation

- 1) Direct Administration to implement Option 1, a non-residential Phased Tax Program, with an estimated cost of \$21 million and estimated 10 per cent non-residential municipal property tax cap for 2021;
- 2) Approve \$3 million from unused funds previously allocated for prior years' PTP and \$18 million left over from the originally approved \$24 million property tax rebate for a total of up to \$21 million for the 2021 PTP;
- 3) Direct Administration to report back to the Priorities and Finance Committee in Q1 2021 for finalization of the program after the 2021 property assessment roll is mailed.

Next Steps

These non-residential property tax relief options will be presented at the 2020 November 23 Special Council to help inform budget discussions. This will be an opportunity to receive more details on the recommended options and address any questions or concerns you may have. As directed by Council, Administration will return to Council in 2021 January to present the full 2021 Non-Residential Tax Relief Options report after the assessment roll has been finalized

Sincerely,



Eddie Lee, Acting Director / City Assessor

Assessment Business Unit

cc: Carla Male, Chief Financial Officer
David Duckworth, City Manager
Executive Leadership Team
Les Tochor, Director of Finance / City Treasurer

Appendices:

1. Appendix 1 - 2021 Proposed Municipal Non-Residential Phased Tax Program (PTP) Criteria
2. Appendix 2 - Illustrative Examples of the Effects of the 2021 Non-Residential Property Tax Relief Options

DETAILS OF THE PROPOSED 2021 MUNICIPAL NON-RESIDENTIAL PHASED TAX PROGRAM (PTP)

Summary

The effect of the PTP is to phase-in 2021 non-residential property tax increases (municipal portion only) by limiting the increase in property taxes in 2021 to 10%. This means that eligible non-residential property owners will experience a maximum increase in the municipal non-residential property tax of 10% (not including effects of prior year's rebate and prior year's PTP) resulting from the preparation of the 2021 market value assessment. PTP is a one-year program only.

Eligibility

1) Market Value Changes Only

This program is designed to phase-in only the non-residential property tax effects resulting from the preparation of the 2021 annual market value assessment. Thus, the focus is on market value changes only.

2) Non-Market Value Changes

Properties which had physical changes that affected the 2021 assessment relative to the 2020 assessment or had changes due to other external non-market impacts (e.g. a zoning change, servicing, remediation, a change in taxable status, factual corrections, a change in assessment class) would be excluded from the PTP.

3) Regulated Rate Properties

Any non-residential property not valued on the market value standard is excluded; such as farmland and linear properties.

4) Other Criteria

To be included in the PTP, non-residential properties:

- Must have existed in 2020.
- Must have a tax status of "taxable".
- For properties assessed with more than one assessment class, only those properties where the non-residential component is 50% or higher will be included.
- Must have 2021 municipal non-residential property taxes greater than \$50.
- The amount to be phased-in exceeds \$25.

5) Provincial Non-Residential Property Tax

PTP does not include any non-residential property tax effects from the provincial government. At this point, The City of Calgary has not been informed of the provincial requirements for property tax to be collected from the non-residential property group.

APPENDIX 1

6) Impact of Filing an Assessment Complaint

In accordance with the *Municipal Government Act* property owners who disagree with their assessment have the right to file a complaint with the Assessment Review Board (ARB). PTP requires known and final assessment values to determine if the tax change is above or below the phase-in threshold (10%). Any non-residential property that has filed a 2021 complaint will not be included in the PTP until the decision of the ARB has been rendered and any further appeals or reviews have been concluded. Any non-residential property that has an outstanding prior years' appeal or review will not be included in the PTP until the appeal or review is concluded. Once a final determination of the assessed value has been received, any resulting tax effect will be taken into consideration in accordance with the PTP.

7) Processing the Phase-in

There will be no application process required, and the tax effect of the PTP will be applied on the annual non-residential property tax bill. Property tax accounts using the Tax Instalment Payment Plan (TIPP) will have the TIPP amounts accordingly adjusted.

APPENDIX 2:
Illustrative Examples of the Effects of the 2021 Non-Residential Property Tax Relief Options

	52% Residential : 48% Non-Residential			Non-Residential Tax Mitigation Options		
	2020	2021	Year-over-Year Change	Option 1 10%	Option 2 5%	Option 3 0%
Non-Residential \$5M Property						
Assessment	\$5,000,000	\$5,000,000	0.00%	\$5,000,000	\$5,000,000	\$5,000,000
Municipal Taxes	\$79,139	\$82,117	3.76%	\$82,117	\$82,117	\$82,117
One-time Rebate	-\$1,042					
Less PTP				\$0	\$0	-\$2,977
Municipal Taxes After PTP	\$78,097	\$82,117	5.15%	\$82,117	\$82,117	\$79,139
Muni Tax Change After PTP Excl 2020 Rebates				3.76%	3.76%	0.00%
Muni Tax Change After PTP Inc 2020 Rebates				5.15%	5.15%	1.33%
Retail - Strip Mall						
Assessment	\$3,440,000	\$3,160,000	-8.14%	\$3,160,000	\$3,160,000	\$3,160,000
Municipal Taxes	\$54,448	\$51,898	-4.68%	\$51,898	\$51,898	\$51,898
One-time Rebate	-\$717					
Less PTP	-\$3,166			\$0	\$0	\$0
Municipal Taxes After PTP	\$50,565	\$51,898	2.64%	\$51,898	\$51,898	\$51,898
Muni Tax Change After PTP Excl 2020 Rebates				-4.68%	-4.68%	-4.68%
Muni Tax Change After PTP Inc 2020 Rebates				2.64%	2.64%	2.64%
Retail - 17th Avenue SW						
Assessment	\$2,170,000	\$1,910,000	-11.98%	\$1,910,000	\$1,910,000	\$1,910,000
Municipal Taxes	\$34,346	\$31,369	-8.67%	\$31,369	\$31,369	\$31,369
One-time Rebate	-\$452					
Less PTP	-\$7,165			\$0	\$0	-\$2,977
Municipal Taxes After PTP	\$26,729	\$31,369	17.36%	\$31,369	\$31,369	\$28,391
Muni Tax Change After PTP Excl 2020 Rebates				-8.67%	-8.67%	-17.34%
Muni Tax Change After PTP Inc 2020 Rebates				17.36%	17.36%	6.22%
Retail - Neighbourhood Shopping Centre						
Assessment	\$44,470,000	\$45,420,000	2.14%	\$45,420,000	\$45,420,000	\$45,420,000
Municipal Taxes	\$703,862	\$745,946	5.98%	\$745,946	\$745,946	\$745,946
One-time Rebate	-\$9,268					
Less PTP	-\$57,469			\$0	-\$6,891	-\$42,084
Municipal Taxes After PTP	\$637,125	\$745,946	17.08%	\$745,946	\$739,055	\$703,862
Muni Tax Change After PTP Excl 2020 Rebates				5.98%	5.00%	0.00%
Muni Tax Change After PTP Inc 2020 Rebates				17.08%	16.00%	10.47%
Industrial - Typical Warehouse						
Assessment	\$2,770,000	\$2,830,000	2.17%	\$2,830,000	\$2,830,000	\$2,830,000
Municipal Taxes	\$43,843	\$46,478	6.01%	\$46,478	\$46,478	\$46,478
One-time Rebate	-\$577					
Less PTP				\$0	-\$443	-\$2,635
Municipal Taxes After PTP	\$43,266	\$46,478	7.42%	\$46,478	\$46,035	\$43,843
Muni Tax Change After PTP Excl 2020 Rebates				6.01%	5.00%	0.00%
Muni Tax Change After PTP Inc 2020 Rebates				7.42%	6.40%	1.33%
Industrial - Large Format Warehouse						
Assessment	\$48,990,000	\$55,970,000	14.25%	\$55,970,000	\$55,970,000	\$55,970,000
Municipal Taxes	\$775,404	\$919,212	18.55%	\$919,212	\$919,212	\$919,212
One-time Rebate	-\$10,210					
Less PTP	-\$29,704			-\$66,268	-\$105,038	-\$143,808
Municipal Taxes After PTP	\$735,490	\$919,212	24.98%	\$852,944	\$814,174	\$775,404
Muni Tax Change After PTP Excl 2020 Rebates				10.00%	5.00%	0.00%
Muni Tax Change After PTP Inc 2020 Rebates				15.97%	10.70%	5.43%
Suburban Office						
Assessment	\$13,100,000	\$12,430,000	-5.11%	\$12,430,000	\$12,430,000	\$12,430,000
Municipal Taxes	\$207,344	\$204,142	-1.54%	\$204,142	\$204,142	\$204,142
One-time Rebate	-\$2,730					
Less PTP				\$0	\$0	\$0
Municipal Taxes After PTP	\$204,614	\$204,142	-0.23%	\$204,142	\$204,142	\$204,142
Muni Tax Change After PTP Excl 2020 Rebates				-1.54%	-1.54%	-1.54%
Muni Tax Change After PTP Inc 2020 Rebates				-0.23%	-0.23%	-0.23%

52% Residential : 48% Non-Residential		
2020	2021	Year-over-Year Change

Non-Residential Tax Mitigation Options		
Option 1 10%	Option 2 5%	Option 3 0%

Office - Downtown AA Class

Assessment	\$315,370,000	\$287,180,000	-8.94%
Municipal Taxes	\$4,991,613	\$4,716,443	-5.51%
One-time Rebate	-\$65,723		
Less PTP			
Municipal Taxes After PTP	\$4,925,890	\$4,716,443	-4.25%
Muni Tax Change After PTP Excl 2020 Rebates			
Muni Tax Change After PTP Inc 2020 Rebates			

\$287,180,000	\$287,180,000	\$287,180,000
\$4,716,443	\$4,716,443	\$4,716,443
\$0	\$0	\$0
\$4,716,443	\$4,716,443	\$4,716,443
-5.51%	-5.51%	-5.51%
-4.25%	-4.25%	-4.25%

Accommodation - Hotel

Assessment	\$111,170,000	\$76,480,000	-31.20%
Municipal Taxes	\$1,759,577	\$1,256,054	-28.62%
One-time Rebate	-\$23,168		
Less PTP			
Municipal Taxes After PTP	\$1,736,409	\$1,256,054	-27.66%
Muni Tax Change After PTP Excl 2020 Rebates			
Muni Tax Change After PTP Inc 2020 Rebates			

\$76,480,000	\$76,480,000	\$76,480,000
\$1,256,054	\$1,256,054	\$1,256,054
\$0	\$0	\$0
\$1,256,054	\$1,256,054	\$1,256,054
-28.62%	-28.62%	-28.62%
-27.66%	-27.66%	-27.66%