

2021 Non-Residential Phased Tax Program

RECOMMENDATION(S):

That the Priorities and Finance Committee recommend that Council:

1. Direct Administration to implement a non-residential Phased Tax Program with a 10 per cent non-residential municipal property tax cap for 2021 with a revised estimated cost of \$13 million;
2. Approve \$3 million from unused funds previously allocated for prior years' Phased Tax Programs and \$10 million left over from the originally approved \$24 million property tax rebate for a total of up to \$13 million for the 2021 Phased Tax Program; and
3. That Report PFC2021-0060 be forwarded to the 2021 March 1 Combined meeting of Council.

HIGHLIGHTS

- As directed by Council on 2020 November 26, Administration is hereby reporting back to the Priorities and Finance Committee to finalize the 2021 Municipal Non-Residential Phased Tax Program.¹
- What does this mean to Calgarians? The 2021 Phased Tax Program will provide tax relief to non-residential properties that are expected to experience the highest year over year municipal property tax increases.
- Why does this matter? The 2021 Phased Tax Program will cap non-residential municipal property taxes at 10 per cent, not including prior year's rebate and prior year's Phased Tax Program credits, to provide relief to property owners impacted by large year over year tax shifts. The program is estimated to cost \$13 million.
- The initial estimated cost was \$21 million using preliminary assessments. The cost difference is, in part, due to Council deliberations during the Mid-Cycle Adjustments and adjustments based on SAVE business cases, as well as the finalization of the 2021 assessment roll.
- Calgary has endured harsh economic conditions in the recent past and uncertainty as to the future persists.² Most non-residential properties have decreased in assessed value year over year. The few properties that deviate from this trend will bear significant property tax increases.
- The 2021 Phased Tax Program will perpetuate a "bow wave" however, a 10 per cent municipal tax cap will result in a least harm approach; as it provides the intended transitional phasing effect to lessen the impact of year-over-year municipal tax increases.
- Strategic Alignment to Council's Citizen Priorities: A prosperous city and A well-run city
- Background and Previous Council Direction is included as Attachment 1.

¹ See Attachment 1 under "Previous Council Direction".

² See The City of Calgary, *Calgary and Region Economic Outlook: 2020 – 2025*, (Online: The City of Calgary, Fall 2020). <<https://www.calgary.ca/content/dam/www/cfod/finance/documents/corporate-economics/calgary-and-region-economic-outlook/calgary-and-region-economic-outlook-2020-fall.pdf>>.

2021 Non-Residential Phased Tax Program

DISCUSSION

Program Summary

The Municipal Non-Residential Phased Tax Program was initially developed to address the property tax redistribution caused by the sharp and rapid decline in the market value of downtown office properties, while the values for other non-residential property types remained relatively stable.

While the original intent was to use one-time funding to address the issue in 2017, Phased Tax Programs have been used for the past four years to phase in municipal non-residential property tax increases by capping them to provide transitional relief to property owners impacted by large year over year tax shifts. However, a 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.

While most non-residential property types will see an overall decrease in their 2021 assessments, the primary exceptions are industrial (particularly large format warehouses) properties. As a result of the revenue neutral shift, these properties are expected to see an increase in property taxes in 2021.

This issue was raised before the Priorities and Finance Committee on 2020 October 13. During a Special Meeting of Council on 2020 November 26, Council directed Administration to implement a 2021 Municipal Non-Residential Phased Tax Program with a 10 per cent non-residential municipal property tax cap, which at the time had an estimated cost of \$21 million using preliminary assessments and the budget prior to Mid-Cycle Adjustments.³ Now that the 2021 assessment roll and budget are finalized, the estimated cost of the program is \$13 million. Even though the cost is lower than anticipated, Administration continues to recommend the program cap non-residential tax increases at 10 per cent as proposed. A 10 per cent municipal tax cap will perpetuate a “bow wave” however, this option will result in the least impact.

The proposed 2021 Phased Tax Program eligibility criteria is outlined in Attachment 2.

Table 1: 2021 Phased Tax Program Cost and Beneficiary Summary

	Cap on Non-Residential Municipal Tax Increases	Non-Residential Taxable Properties	Estimated Number of Qualifying Properties	Estimated Program Cost	Beneficiary %, Number of Recipients		Beneficiary %, Value of the Phased Tax Program	
2021 Phased Tax Program	10.00%	14,646	1,984	\$13,000,000	Industrial	66	Industrial	66
					Office	8	Office	12
					Retail	22	Retail	19
					Other	4	Other	4

³ See Attachment 1 under “Previous Council Direction”.

A multi-residential Phased Tax Program was also explored by Council in early 2020, however it was ultimately defeated for a variety of reasons. See the “2020 Information on Phased Tax Program for Multi-Residential Tax Payers Report,” [C2020-0486](#), for further information.

2021 Non-Residential Phased Tax Program

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder or customer dialogue/relations were undertaken

The City released the 2021 Assessment Roll Briefing to the public on 2021 January 14, which discussed both the changes in non-residential assessed values and the Council approved 2021 Phased Tax Program. Feedback from public written submissions and registered public speakers during Council's Mid-Cycle Adjustments in 2020 November was taken into consideration in the preparation of this report. Administration also worked with Calgary Economic Development and the Calgary Chamber of Commerce when reviewing tax relief options for 2017 and 2018. Feedback from non-residential property owners on the 2017 and 2018 Phased Tax Program has also been taken into consideration in the preparation of this report.

IMPLICATIONS

Social

There are no social implications anticipated in association with implementing these recommendations.

Environmental

There are no environmental implications anticipated in association with implementing these recommendations.

Economic

Per the Government of Alberta:

"The COVID-19 crisis is the latest in a series of challenges that Alberta's economy has faced in recent years, dating back to the 2014 oil price crash and 2015-16 recession. The result has been a prolonged period of weakness in the economy."⁴

The local economy in Calgary is no exception and faces a great deal of uncertainty as to the future.⁵ As a result, both Administration and City Council have expressed concern with the significant amount by which some non-residential properties' taxes are expected to increase year over year. A 2021 Municipal Non-Residential Phased Tax Program will aid in providing tax relief to eligible properties, as well as a degree of tax predictability for property owners.⁶ By providing property tax relief to property owners, the program will indirectly assist businesses impacted by the COVID-19 pandemic. Furthermore, Council's willingness to provide non-residential municipal property tax relief may also serve to increase the attractiveness of Calgary as a destination for investment and job creation.

⁴ Alberta, Government of Alberta Treasury Board and Finance, *2020-21 Mid-year Fiscal Update and Economic Statement*, (Online: Government of Alberta, November 2020) at 13 <<https://www.alberta.ca/economic-outlook.aspx>>.

⁵ *Supra* note 3.

⁶ And their tenants, who are often directly responsible for paying property taxes in the case of a net lease.

2021 Non-Residential Phased Tax Program

Service and Financial Implications

Existing operating funding - One-time
\$13,000,000

The 2021 non-residential Phased Tax Program will cost approximately \$13 million. Council previously approved \$3 million from unused funds previously allocated for prior years' Phased Tax Programs and \$18 million left over from the originally approved \$24 million property tax rebate for a total of up to \$21 million.

RISK

Administration has reviewed options for 2021 non-residential tax relief and the proposed Phased Tax Program 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.

Providing tax relief by "phasing in" tax increases is authorized by section 347(2) of the *Municipal Government Act*. However, the proposed 10 per cent non-residential municipal tax cap will still perpetuate a "bow wave" for future years. As such, the program is inconsistent with recommendations of the Financial Task Force, particularly number 34.⁷ Furthermore, tax responsibility will not be tied exclusively to assessed value, reducing transparency.

ATTACHMENT(S)

1. Attachment 1 - Background and Past Council Direction
2. Attachment 2 - Proposed 2021 Municipal Non-Residential Phased Tax Program Criteria
3. Attachment 3 - Illustrative Examples

Department Circulation

General Manager	Department	Approve/Consult/Inform
CFO Carla Male	CFOD	Approve
City Solicitor Jill Floen	Law	Inform

⁷ The City of Calgary Financial Task Force, *Report and Recommendations*, (Online: City of Calgary, 2020) at 41.