EXECUTIVE SUMMARY
The current economic downturn has negatively affected the financial health of local businesses. In addition, the change in the market value of non-residential properties is expected to cause a tax shift, increasing the municipal property tax for some non-residential properties. Through the Mid-Cycle Adjustments process and as described in the document The City’s Response to the Change in the Local Economy, a total benefit of $183 million was approved by Council. In addition to these benefits, Council directed Administration to develop a program to assist Calgary businesses affected by the economic downturn using $15 million from the Fiscal Stability Reserve.

In consideration of the Council direction, Administration explored a number of possible options, but after reviewing the benefits, risks and operational concerns of each of the options, Administration is recommending a Municipal Non-Residential Phased Tax Program (PTP). The effect of the PTP is to phase in 2017 non-residential property tax increases (municipal portion only) by limiting the increase in 2017 to 5%. As a result of the PTP, non-residential property owners will experience a maximum increase in the municipal non-residential property tax of 5% (not including the effect of the Business Tax Consolidation) resulting from the preparation of the 2017 market value assessment.

The cost of this one-time program is estimated to be $45 million, funded by a transfer to the Community Economic Resiliency Fund from intentional savings in 2016 Corporate Programs. While there are some risks and operational concerns, such as the potential expectation of future costly mitigation programs, Administration believes that the PTP provides a material positive economic benefit to non-residential property owners with the benefits in turn provided to many individual businesses.

With the addition of the $45 million for PTP, the total benefits approved through the Mid-Cycle Adjustments will be $228 million. Of this total amount, approximately $113 million in benefits is directed at the non-residential property class.

ADMINISTRATION RECOMMENDATION(S)
That Council:
1. Approve the Municipal Non-Residential Phased Tax Program (PTP) as outlined in Attachment 1;
2. Approve $45 million from the estimated 2016 intentional savings in Corporate Programs be transferred to the Community Economic Resiliency Fund for the PTP;
3. Direct that the report, Attachment 1 and recommendations remain confidential pursuant to sections 23(1)(b), 24(1)(a), 24(1)(g), 25(1)(c) and 27(1)(a) of the Freedom of Information and Protection of Privacy Act until such time as the program is publicly announced;
4. Direct that Attachment 2 remain confidential pursuant to sections 23(1)(b), 24(1)(a), 24(1)(b) and 27(1)(a) of the Freedom of Information and Protection of Privacy Act; and
5. Direct that the in-camera discussion remain confidential pursuant to sections 23(1)(b) and 27(1)(a) of the Freedom of Information and Protection of Privacy Act.
MUNICIPAL NON-RESIDENTIAL PHASED TAX PROGRAM (PTP)

PREVIOUS COUNCIL DIRECTION / POLICY
On 2015 December 14, Council referred a motion from Mayor Nenshi, Green Sheet "The Community Economic Resiliency Fund", to Administration for a report to the 2016 February 02 meeting of the Priorities and Finance Committee.

On 2016 January 25, Council referred Notice of Motion NM2016-04 from Councillor Woolley regarding "Relief for Calgary Business" to Administration for further analysis, and directed Administration to include such analysis as part of the Community Economic Resiliency Fund Report being prepared by Administration and report back to the 2016 February 02 meeting of the Priorities and Finance Committee.

On 2016 February 02, The Priorities and Finance Committee received the Community Economic Resiliency Fund Report (PFC2016-0081), and in consideration of recommendation 3, the Committee approved that the Verbal Report, Response to Referred NM2016-04 "Relief for Calgary Business", be received for information.

On 2016 November 21, Council in consideration of the Action Plan Mid-Cycle Adjustments Report C2016-0863 adopted the 2017 operating and capital budgets as adjusted. Also at that meeting, through a Motion Arising, Council adopted the following:

That Council:
1. Set aside $15 million dollars from the Fiscal Stability Reserve to assist Calgary businesses affected by the economic downturn and direct Administration to return to Council with options for considerations no later than the end of 2017 January; and
2. Keep the In Camera discussions and distribution confidential pursuant to Sections 24(1)(g) and 27(1) of the Freedom of the Information of the Protection of Privacy Act

BACKGROUND
The report – Mid-Cycle Adjustments: The City’s Response to the Change in the Local Economy - included as an attachment to the Action Plan Mid-Cycle Adjustments report (C2016-0863) provided a comprehensive review of the many economic conditions that have brought about a substantial change in the local economy. These forces have impacted the well-being of citizens and have dramatically affected the financial health of some local business and community organizations. In recognition of the impact of the downturn on the local economy and the impact on businesses and citizens, the Mid-Cycle Adjustments focussed on four broad areas of relief: significant tax relief, fee relief for a number of services, investments in selected initiatives targeted at areas of greatest need and a Capital Infrastructure Investment Plan.

The total value of the benefits provided in the Mid-Cycle Adjustments which were approved by Council totalled $183 million.

Approval(s): Sawyer, Eric concurs with this report. Author: Karpa, Nelson F.
The Mid-Cycle Adjustments also included a further $42 million in capital investments. The Capital Investment Plan outlined a strategy to help spur economic growth and diversification, maximize investment to create jobs, build and maintain needed municipal infrastructure, and attract and retain people, business and investment to Calgary.

In addition to the above noted benefits, Council considered further financial support of Calgary’s business community and approved $15 million to be set aside from the Fiscal Stability Reserve.

There are two forces directly affecting the viability of some Calgary businesses:
- A material reduction in economic activity. In short, less traffic / less business equal less revenue. This drop in revenue is also coupled with increases in a variety of input costs.
- A material increase in municipal property taxes as a result of the redistributive effect of the 2017 property assessments. In short, even though total municipal property tax billing will not increase for 2017, some non-residential property owners who have not seen the assessed values of their properties decline to the same extent as other properties will see increased municipal property tax liability. Individual businesses (tenants) will see this impact either directly (in owner occupied properties) or through increased property tax allocations through the lease payments to their landlords.

In a letter dated 2015 November 16, the Calgary Chamber outlined some initial thoughts with respect to a program to provide temporary relief for business facing financial hardship. This proposal was reviewed as an attachment to the report PFC2016-0081. While there could be positive impacts of introducing support for small business, Administration’s analysis identified a number of challenges with the implementation of such a program. For example, The City did not have the information required to determine the extent of the financial impact of the downturn on any specific business. Other options discussed in the report included a one-time rebate for a portion of the business tax based on a minimum assessed value. Again, while there could be some positive impact of such a program, Administration identified a number of challenges including both operational concerns and feasibility under the Municipal Government Act.

The Municipal Government Act requires an annual assessment where each and every year, the assessments that are used as the basis for the fair and equitable distribution of property and business taxes are redone in order to reflect the most current and relevant economic circumstances. Generally, an annual assessment cycle better reflects the current economic effects on the real estate market (better at reflecting the peaks and valleys of the real estate market). In longer assessment cycles (three to four years) property owners find themselves being taxed based on an economic circumstance that may have occurred up to five years previously. An annual assessment cycle better reflects the changing real estate markets,
especially when the markets are changing rapidly. However, even in an annual assessment cycle, due to the very rapid change in the real estate market, and especially where one segment of the market is changing quite differently than other segments, the tax effects from the preparation of a new assessment can be material. Administration has observed some of these effects in the Calgary non-residential markets.

The 2017 assessments reflect the real estate market as of 2016 July 1. In summary, the general effects are:

Residential:
- The overall typical change in the market value assessment is -4%.
- 97% of residential properties’ taxes will stay within ± 10% of last year’s taxes.
- 99% of single residential/condominiums communities within Calgary will see a median tax change within ± 5% of last year’s taxes.
- Note – This does not include any property tax increase due to the provincial property tax requirement.
- Minimal tax shifts expected.

Non-Residential:
- The overall typical change in the market value assessment is -6%.
- There is considerable variation in the change in market value between the major segments:
  - Retail + 2%
  - Industrial 0%
  - Office - 16%
- 64% of non-residential properties’ taxes will be within ± 10% of last year’s taxes.
- Note – This does not include any property tax increase due to the provincial property tax requirement.
- Tax shifts expected.

INVESTIGATION: ALTERNATIVES AND ANALYSIS
As noted above, previous reports to Council have considered various forms of financial support programs directed at businesses. In discussion with a number of stakeholders including Calgary Economic Development and the Calgary Chamber, Administration explored a number of possible options. Issues such as the impact on local business due to the economic conditions and the impact from anticipated non-residential property tax shifts were evaluated.

1) Municipal Non-Residential Phased Tax Program (PTP) – Recommended Option

The effect of the PTP is to phase in 2017 non-residential property tax increases (municipal portion only) by limiting the increase in 2017 to 5%. As a result of the PTP, non-residential property owners will experience a maximum increase in the municipal non-residential property tax of 5% (not including the effect of the Business Tax Consolidation) resulting from the preparation of the 2017 market value assessment.

Approval(s): Sawyer, Eric concurs with this report. Author: Karpa, Nelson F.
MUNICIPAL NON-RESIDENTIAL PHASED TAX PROGRAM (PTP)

The cost of this one-time program is estimated to be $45 million, to be funded by a transfer to the Community Economic Resiliency Fund from intentional savings in 2016 Corporate Programs.

This would be a one-year phase-in program only. Any potential non-residential property tax impacts resulting from the preparation of the 2018 assessment are not addressed by this program.

This does not include any property tax increase due to the provincial non-residential property tax requirement.

Attachment 1 provides the additional details of the Municipal Non-Residential PTP.

Administration has identified several potential benefits to this option, including:
- Relatively straightforward to administer.
- Low cost to administer.
- Addresses the circumstance where non-residential properties have experienced the highest increase in municipal non-residential property taxes resulting from the preparation of the 2017 market value assessment, while allowing most other tax impacts (non-residential property tax declines) to continue.
- Provides a material positive economic benefit to non-residential property owners. It is expected that in turn, a positive economic benefit will be realized by tenants (businesses contained within the non-residential properties).

This program has the following risks and operational concerns:
- There may be an expectation that non-residential property tax effects resulting from future assessments will also be addressed with similar programs. Each phase in or mitigation program will have either cost implications (to fund the phase-in / mitigation) or can lead to distortions to the principles of an ad valorem tax system, potentially leading to circumstances where properties being assessed similarly (similar market values) are being taxed differently. There may be a growing expectation to moderate all tax effects (increases and decreases) resulting from the preparation of any new assessment, which can be very costly and imprecise, leading to an inequitable distribution of taxes.
- An analysis of legal risks to be considered is included in Attachment 2.
- The total program cost is $45 million, requiring an additional contribution of $30 million over previous approved allocation.

Administration is recommending this option.

Calgary Economic Development and the Calgary Chamber are in support of this option.

Approval(s): Sawyer, Eric concurs with this report. Author: Karpa, Nelson F.
MUNICIPAL NON-RESIDENTIAL PHASED TAX PROGRAM (PTP)

2) Other Options / Alternatives – Not Recommended

Administration explored other options and alternatives as noted in the following table.

<table>
<thead>
<tr>
<th>Title</th>
<th>Brief Description of the Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Grant Program</td>
<td>Calgary Economic Development would take the lead role in the administration of the grant program. Individual business would complete an application form and provide specific information including such items as the impact of changes in property tax and the impact of the economic conditions upon that business. Other information such as the size of the business and other related financial information may be required.</td>
</tr>
<tr>
<td>Reduction in the Non-Residential Tax Rate</td>
<td>Further reduce the municipal non-residential property tax rate by approximately 5% by a one-time withdraw of $45 million from the Fiscal Stability Reserve.</td>
</tr>
<tr>
<td>Grant program for Non-Residential Properties Based on Property Value</td>
<td>A grant program that provides property tax relief to non-residential properties below a certain assessment threshold and to properties that experienced a material non-residential property tax increase in 2017. The cost of the program was expected to be $15 million.</td>
</tr>
<tr>
<td>Non-Residential Property Tax Deferment Program</td>
<td>Creation of a non-residential property tax deferment program, administered by The City of Calgary, to provide temporary relief for businesses facing financial hardship. Originally proposed by the Calgary Chamber.</td>
</tr>
<tr>
<td>Selective Reduction of the Business Tax</td>
<td>Reduce the business tax for small businesses through a one-time rebate of a portion of the business tax payable based on a maximum net annual rental value threshold. The cost of the program depended on the annual rental value threshold used.</td>
</tr>
<tr>
<td>Business Recovery Task Force</td>
<td>The formation of a Business Recovery Task Force that would be established and administered through the Business Improvement Areas. $15 million would be required from the FSR.</td>
</tr>
</tbody>
</table>

Attachment 2 provides a legal risk analysis and an outline of the options.

Administration is not recommending any of these options.

Evaluation and conclusion:

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

- Materiality of financial impact (would funding make a difference?)
- Administrative concerns including:
  - Complexity of the program
  - Cost of administering program
  - Responsiveness / Timeliness of program delivery
  - Leverage of ideas / skills / knowledge / abilities of various organizations
- Legal concerns

Approval(s): Sawyer, Eric concurs with this report. Author: Karpa, Nelson F.
MUNICIPAL NON-RESIDENTIAL PHASED TAX PROGRAM (PTP)

- Sustainability
- Overall total cost of the program (impact on The City of Calgary’s financial capacity)

In conclusion, Administration recommends the implementation of the Municipal Non-Residential Phased Tax (PTP), requiring funding of $45 million.

Stakeholder Engagement, Research and Communication
Administration has worked with both Calgary Economic Development and the Calgary Chamber to review these options.

Strategic Alignment
The proposed PTP aligns with two fundamental Council Priorities:
- A Prosperous City
- A Well Run City

Along with the other benefits provided in the Mid-Cycle Adjustments, 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”.

Social, Environmental, Economic (External)
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 Mid-Cycle Adjustments report. In approving the Mid-Cycle adjustments (approval of the 2017 operating and capital budgets), Council has provided benefits totalling $183 million in order to address the issues of the downturn on the local economy. These benefits, together with this specific PTP, are expected to address many of the identified economic and financial impacts.

Financial Capacity
Current and Future Operating Budget:
There are sufficient one-time funds available from year-end favourable results due to intentional savings in 2016.

The proposed Municipal Non-Residential PTP would require an increase to the original estimate of $15 million. This amount can be funded from year-end favourable results in 2016. The use of one-time funding does diminish the overall financial capacity of The City of Calgary. The City of Calgary would be in a reduced financial position should there be a requirement to respond to other unanticipated natural or economic impacts.
MUNICIPAL NON-RESIDENTIAL PHASED TAX PROGRAM (PTP)

The total one-time funding will approach $123 million (previous approved draws through the Mid Cycle Adjustments process and the addition of this recommended PTP).

Current and Future Capital Budget:
There are no capital budget impacts identified in this report.

Risk Assessment
Administration has reviewed a number of options and the proposed PTP provides the highest level of benefit while minimizing risks and operational concerns. See Attachment 2.

REASON(S) FOR RECOMMENDATION(S):
On 2016 November 21, in conjunction with the approval of the Mid-Cycle Adjustments (approval of the 2017 operating and capital budgets), Council set aside $15 million from the Fiscal Stability Reserve to assist Calgary business affected by the economic downturn and directed administration to return to Council with options for consideration no later than the end of 2017 January.

Administration has reviewed a number of options and the proposed PTP provides the highest level of benefit while minimizing the risks and operational concerns.

ATTACHMENT(S)

1. Details of the Municipal Non-Residential Phased Tax Program (PTP).
2. Legal Risk Analysis and Outline of Other Program Options Not Recommended by Administration.