

Chief Financial Officer's Report to
Executive Committee
2022 April 19

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EC2022-0504
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Tax Relief Options for Residential Properties Impacted by Annexation Order 333/2007

RECOMMENDATION(S):

That the Executive Committee recommend that Council receive this report for information and discussion.

HIGHLIGHTS

- The purpose of this report is to provide Council with tax relief options in response to a Notice of Motion about properties impacted by Annexation Order 333/2007.
- **Why does this matter?** This report explores tax relief options for 201 annexed residential properties that have continued to pay the Rocky View County (RVC) tax rate since annexation in 2007 and will transition to The City tax rate for 2022 but have not been connected to City of Calgary water or sewer services and are designated as Special Purpose – Future Urban Development (S-FUD).
- **What does this mean to Calgarians?** Tax cancellations or deferrals for annexed properties would have implications for equity, fairness, and municipal finances.
- Strategic Alignment to Council's Citizen Priorities: A well-run city

DISCUSSION

Approximately 680 properties were annexed from RVC into The City of Calgary in 2007. Under the terms of Order in Council 333/2007 (the "Annexation Order" – Attachment 1), these properties continued to be taxed at the RVC rates for 15 years as a transitional measure unless an action specified in the Annexation Order (e.g. subdivision, change in land use, connection to City water/sewer) triggered a property's earlier transition to The City of Calgary's tax rates. In 2022, 466 taxable properties are transitioning to The City of Calgary's tax rates. The abovementioned Notice of Motion (Attachment 3) directs Administration to provide recommendations on "tax relief measures" for impacted properties that meet specific criteria.

In accordance with sections 112.1 to 128.1 of the *Municipal Government Act* (the "MGA") the Lieutenant Governor in Council may by order annex land from one municipal authority to another municipal authority. This typically occurs following good faith negotiations of the affected municipalities and upon consideration of the findings and recommendations of the Land and Property Rights Tribunal (formerly the Municipal Government Board (MGB)). The City does not have the authority to modify the terms of an annexation order so the tax rate must transition in accordance with the provincial order.

Tax Relief Options

Based on Council's direction, Administration identified 201 residential properties that meet the criteria detailed in the Notice of Motion (Attachment 4) and explored two options for providing potential "tax relief" for these properties (Attachment 5).

Tax cancellations and deferrals

Pursuant to section 347(1) of the MGA, Council, *if it considers it equitable to do so*, may generally or with respect to a particular taxable property or business or a class of taxable property or business, cancel or reduce tax arrears, cancel or refund all or part of a tax, and/or defer the collection of a tax, with or without conditions. Tax cancellations or deferrals must be

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applied annually. Council may not approve multi-year tax cancellations or deferrals; however, it may provide policy direction for cancellations or deferrals to be considered by Council in future years. Details of how impacted residential properties could receive deferrals or partial cancellations on a one-time or multi-year basis are detailed in Attachment 5.

General considerations regarding municipal property assessment and tax

- Water and wastewater services are not tax-supported services. For services like these, which primarily benefit the individual using the service, the full costs of providing the service are recovered through a user fee or rate. Properties that do not benefit from these services do not incur charges for these through user fees or taxes.
- RVC tax rates are determined by a third-party and not correlated with The City's budget, land use planning, utility servicing, or any other services that annexed property owners may benefit from relative to other Calgary property owners.
- Property tax responsibility is distributed based on property value (as a proxy for ability to pay) rather than on consumption. Property owners with higher property values pay more taxes than those with lower property values.
- The serviced nature of parcels is considered in a property's assessment value and associated tax responsibility.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

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

The City took steps to ensure that impacted property owners are aware of the tax rate change, impacts on their property tax bill and monthly payment options. A webpage was created and letters were sent to impacted property owners in fall 2021. Property owners with questions about City services or programs were encouraged to contact 311 for assistance.

For the annexation in 2007, The City negotiated with RVC regarding the lands to be annexed in accordance with MGA requirements and MGB procedures. This included consulting with landowners on the future assessment and taxation of annexed lands. The City and Rocky View County explored various options with landowners to mitigate the financial impact of annexation. This included maintaining the RVC tax rate for 15 years, which was included as a condition of the annexation ordered by the Lieutenant Governor in Council in 2007 (Attachment 1).

IMPLICATIONS

Social

Although the tax rate change was long planned and proactively communicated to property owners in 2021, this may be surprising and represent a significant cost increase for some taxpayers.

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Market value assessment is used because it is a fair, equitable, and transparent process based on the real estate market; however, The City recognizes that a fair and equitable distribution of tax responsibility does not always align with individuals' ability to pay. Regardless of any change in assessed value or tax rate, eligible residential property owners experiencing financial hardship can apply through Fair Entry to access the Property Tax Assistance Program and other subsidized programs and services. Eligible seniors can also defer their residential property taxes through the Province's Seniors Property Tax Deferral Program.

Environmental

Not applicable.

Economic

Property tax revenues contribute to The City's long term economic prospects by funding of service delivery to citizens. Providing quality services helps attract and retain a talented workforce, thus advancing The City's goal to make Calgary a great place to live and work.

Service and Financial Implications

Existing operating funding - base

Tax cancellations and deferrals involve forgone property tax revenue and operational costs to administer. This staff time is already accounted for in existing operating budgets. Work to support a tax deferral or cancellation would be accomplished through the reprioritization of other existing work and improvement initiatives. Other costs such as foregone investment income or foregone penalty revenue would have negligible impacts on The City's operating budget.

As detailed in Attachment 5:

Summary of Costs for Tax Relief Options			
Options (Based on Calgary 2022 tax rates compared to 2021 RVC tax rates with a 4% increase)	Total Value of Estimated Municipal Tax Differential	Total Cost/Opportunity Cost to City	Total Estimated Cost to City
1: Tax deferrals	N/A	\$25,000	\$25,000
2a: One-time cancellation of 50% of the municipal tax differential	\$200,000	\$25,000	\$225,000
2b: Multi-year approach to support transition	\$600,000	\$50,000	\$650,000

RISK

Legal – Tax cancellations, refunds or deferrals for particular properties based on criteria established by Council may be subject to legal challenges, including challenges on the basis of perceived inequitable treatment in relation to other properties.

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Intergovernmental – The terms of annexation orders are negotiated in good faith between municipalities, recommended by the provincial Land and Property Rights Tribunal to the Minister, and ultimately ordered by the Lieutenant Governor in Council. Providing tax relief to annexed properties beyond the timeframe for preferential tax treatment set out in an annexation order could set a precedent that is considered in future annexations. The delivery of services to annexed lands has not previously been a consideration in annexation discussions. The City is about to enter negotiations on two annexations with adjacent municipalities this year. Preferential tax treatment for properties affected by the Annexation Order beyond the timeframe set out in the Annexation Order may create expectations for affected landowners and/or a mediation advantage to one side or the other.

Equity – Tax provisions in Annexation Order 487/1995 will cease to have any effect after Dec. 31, 2025, impacting approximately 140 properties. Tax relief provided for properties impacted by the Annexation Order may set a precedent and create expectations that tax relief will be provided for these other annexed properties in 2026. Additionally, there are an estimated 80 residential properties in Calgary that are not impacted by the Annexation Order but are similarly not connected to City water or wastewater services and are designated as S-FUD.

Unintended consequences – Although the RVC tax rate is anticipated to be lower than the Calgary rate, The City does not have control over this, and the Rocky View rate could be higher than Calgary's in future years. Additionally, providing tax relief could unintentionally incentivize property owners against making otherwise advantageous changes to their properties or to oppose future development so that they may continue to be eligible for such tax relief.

ATTACHMENT(S)

1. Order in Council 333/2007
2. MGB Order 079/07
3. Notice of Motion - Tax Relief Measures for Properties Annexed Under Municipal Government Board Order 079/07 and Order in Council 333/2007, EC2022-0367
4. List of Eligible Properties Based on Notice of Motion Criteria
5. Tax Relief Options

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Carla Male	Chief Financial Office	Approve
Eddie Lee	Chief Financial Office	Approve