

How development and redevelopment impacts property tax revenue and revenue neutral calculation

Motion

That with respect to Report C2021-1436, the following Motion Arising be adopted: That Council direct Administration to analyze the tax revenue generation through redevelopment and how it gets carried forward through the revenue neutral calculation and report back to a 2022 Executive Committee Meeting.

Key Message

The annual reassessment process captures changes in assessed value from development and redevelopment.

Incremental property tax revenues from development and redevelopment are factored into service plans and budgets. As noted to Council on 2022 July 5 ([C2022-0798](#)), the current projection for 2023-2026 is an increase in property tax revenue of between 1.2% and 1.5%, or \$28 million to \$30 million. This revenue is budgeted to be used to offset part of the increased costs of providing City services to a growing population. This reduces the overall amount of incremental taxes paid by existing property owners, whose properties do not change from one year to the next, resulting from changes to the costs of services.

Revenue Neutral Rate Calculation and Redevelopment

The City of Calgary follows the Municipal Government Act and [Alberta Municipal Affairs guidance](#) for assessment and property taxation. The total assessed value of properties within Calgary will change each year for two reasons: overall market conditions impacting property values and physical changes. The City of Calgary uses the revenue neutral approach so that the budgetary process is separate from the assessment process. Per [attachment 2 of EC2021-1493](#), the revenue neutral approach ensures that:

- Total tax revenues do not change automatically with assessment changes year over year, which creates less volatility; and
- Any tax revenue change brought forward by The City is communicated separately through the budgetary process.

Once assessments are finalized in November, final municipal revenue neutral rates are calculated using the following formula:

$$\text{Revenue Neutral Tax Rate} = \frac{\text{Prior Year's Tax Revenue Budget}}{\text{Current Year's Assessment} - \text{Physical Change}}$$

The revenue neutral calculation is intended to ensure that changes in assessed value due strictly to overall market conditions do not generate additional tax revenue, although individual properties may see taxes redistributed. Additional revenue is captured through development and

redevelopment. That is, changes in assessed value due to changes in the physical characteristics of a property will be reflected as changes in tax revenues.

The change in assessed value due to development and redevelopment flows through physical changes that increase assessed value by virtue of physical changes, rather than market value changes. Redevelopment can occur in in any area where there is existing development but is predominantly found in established communities. Redevelopment occurs in both residential and non-residential properties and can result in properties changing assessment class. Examples of redevelopment include demolishing a bungalow to build infill multi-residential units in an established community or the addition of new floors to an existing office building in downtown.

Assessment becomes aware of physical changes through many data sources including registered plans, permits, inspections, surveys and information from property owners. Assessment then assesses the change in value of the property resulting from the physical changes from development and redevelopment and provides that information to Finance. When calculating the revenue neutral rate, Finance removes the incremental assessments resulting from physical changes or development and redevelopment from the total assessment. The incremental assessments are then added back to the total assessment base to calculate the new tax revenue including physical changes.

Redevelopment Example

Example: Existing house demolished and redeveloped in the same year

Item	Amount
Assessment Value in Prior Year	\$550,000
Assessment Value in Current Year – After Redevelopment	\$1,000,000
Physical Change Assessment Value ¹	\$450,000

1. Physical change in the Revenue Neutral Calculation

Conclusion

The revenue neutral calculation process insulates property tax revenues from changes in market value due to market conditions but does not include changes in assessed value due to physical changes.

Physical changes, including development and redevelopment, is excluded from the revenue neutral calculation on an annual basis, and is budgeted as additional tax revenue that is used to reduce the impact of budget increases to existing taxpayers while providing the basis for a clearer picture of the average impact to taxpayers. The projected incremental property tax revenues from development and redevelopment is captured as part of the overall physical change assumptions underlying Council's approved service plans and budgets.

On an annual basis, any incremental changes in assessment value due to development and redevelopment is captured through the annual reassessment process and removed from the revenue neutral rate calculation.

Terms

Redevelopment

The creation of new units, uses or lots on previously developed land in existing communities. Redevelopment is considered physical changes and in general results in increased property tax revenue.

Property Tax Revenue

The property tax revenue budget, which includes an estimate of the revenue arising from physical changes, is approved by Council to meet the City's operating and capital financial commitment to fund services that benefit all Calgarians. It is calculated as:

$$\text{Property Tax Revenue} = \text{Budgeted Expenditures} - \text{Estimated Non-Tax Revenue}$$

Estimated non-tax revenue includes franchise fees, sales of goods and services, etc.

Physical Change

Physical change is new assessment value that is attributed to new construction. Physical change also includes new properties created by subdivision. This results in incremental tax revenue for The City and is forecasted and included within service plans and budgets.

Supplementary Revenue

Additional property tax revenue resulting from supplementary assessments of new improvements (i.e. structures) that are completed, occupied or have moved into the city in the tax year. Supplementary assessments are prorated reflecting the number of months the new improvements were completed, occupied or have moved into the city. This results in incremental tax revenue for The City and is forecasted and included within service plans and budgets.