

2023 Preliminary Assessment Roll, Tax Share Scenarios and Related Estimates

RECOMMENDATION(S):

The Executive Committee recommends that Council receive this report to inform November Service Plans & Budget deliberations.

HIGHLIGHTS

- The purpose of this report is to provide an update on the 2023 preliminary assessment roll, resulting tax changes based on collecting the same revenue as the prior year (revenue neutral), projected budget and scenarios on redistributing tax responsibility between residential and non-residential properties.
- The following preliminary estimates are provided for 2023 based on Administration's upcoming November recommendations to Council for the 2023-2026 Service Plans and Budget:
 - 15.4 per cent increase in residential assessed values and 6.3 per cent increase in non-residential assessed values due to strong property markets at the 2022 July 1 valuation date.
 - 8.1 per cent decrease in the residential tax rate and a 0.5 per cent decrease in the non-residential tax rate due to stronger assessed values in 2023 compared with 2022.
 - An 8.4 per cent increase in the non-residential to residential tax rate ratio from 3.81:1 to 4.13:1.
- Illustrative examples in Attachment 4 highlight tax impacts to example properties before and after projected budget changes and assumes no changes are made to tax share.
- **What does this mean to Calgarians?**
 - **Residential properties**
 - Based on market changes, the residential assessment roll is estimated to increase 13 per cent (primarily as a result of single residential properties increasing 14 per cent)
 - Based on Administration's upcoming recommendations to Council for the 2023-2026 Service Plans and Budget, the median single residential homeowner is projected to experience a municipal tax increase of about 5 per cent, which is less than the average increase in Alberta household expenditures this year at 7.4 per cent. A median residential condominium owner is projected to experience a municipal tax decrease of about 1 per cent.
 - **Non-Residential properties**
 - The non-residential assessment roll is estimated to increase 5 per cent primarily due to continued strength in retail and industrial properties.
 - Notably, in the non-residential market, office properties are expected to increase 1 per cent as a result of the resurgence in value of AA and A class downtown office and the flight to quality, while B and C class downtown offices continue to experience high vacancy. A strong and vibrant downtown will increase assessed values and help lower tax responsibility across the rest of the city. Suburban office continues to see a reduction in value based on numerous sales.

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Overall

- This means with the overall assessment increases, the tax rate for both the residential and non-residential class will decrease based on the funding guidance given for 2023.
 - These amounts may change depending on Council's deliberations in November 2022 on the total revenue required from property taxes, and the tax distribution between the residential and non-residential classes. Final assessment values will be completed by 2022 November 17.
- **Why does this matter?**
 - Every household and business in Calgary pays property tax directly or indirectly and municipal property tax accounts for around half of City operating revenues each year to fund city services Calgarians rely on. The remainder gets funded through other sources of revenue such as sales of goods and services, franchise fees, local access fees, licenses, permits, fines, grants, etc.
 - For 2023, if The City calculated tax rates in a manner used by the provincial and federal government for income and sales taxes (i.e. keeping rates relatively consistent from year to year), The City would over collect by approximately \$100 million in 2023. The benefits of the budget-based taxation method is that the tax rate will decrease for 2023 because The City only collects enough revenue to carry out service delivery and investments in the year. The affect will vary from year to year as assessed values change based on market values, which are not in the control of Council.
 - Although all property types have experienced overall increases in assessment values, an increase in property assessment does not mean that taxes will automatically go up. Conversely, a decrease in property assessment does not mean taxes will go down.

DISCUSSION

The City annually prepares market value assessments for each property in Calgary as of July 1 of the previous year for the purposes of distributing property taxes in accordance with the *Municipal Government Act* (MGA). The 2023 assessment roll will be finalized and assessment notices will be mailed to property owners in early 2023 January. Following a customer review period, the municipal tax rate will be finalized in the spring and tax bills are mailed in May. For additional information on the assessment process, see Attachment 1.

The taxable assessment roll varies on a year-to-year basis due to changes in market value and growth. Attachment 3 contains a summary of the preliminary taxable 2023 assessment roll values compared to 2022.

Based on market changes, the total assessment roll is estimated to increase year-over-year. Residential is estimated to see a 13 per cent increase and non-residential is estimated to see a 5 per cent increase.

Estimated 2023 revenue neutral tax rates, tax rates based on collecting the same tax revenues as the prior year, have been calculated using the specific changes in each assessment class.

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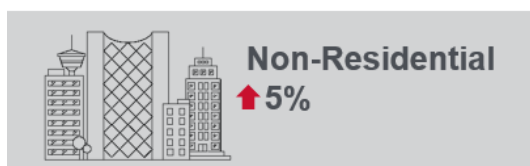
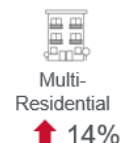
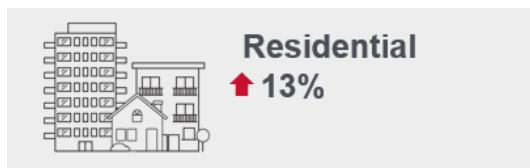
Revenue neutral means total property tax revenues do not change as a result of reassessment, but rather tax redistribution results from updated assessments. Properties that have increased in value relative to the typical change will see revenue neutral tax increases and properties that have decreased in value relative to the typical change will see revenue neutral tax decreases.

Information on the revenue neutral tax process can be found in Attachment 2. Attachment 3 contains estimated tax implications if the 2022 tax rates were applied to 2023 assessed values (rate-based approach) as well as estimated tax implications if the current budget-based approach is used to set the tax rate which is adjusted based on overall changes in assessed values and projected required tax revenues to fund City services.

	2022	2023 Preliminary	% change
Residential Assessed Values	\$225,913,600,000	\$260,814,700,000	15.4%
Residential Tax Rate (a)	0.0046950	0.0043126	-8.1%
Residential Tax Share	\$1,060,700,000	\$1,124,800,000	
Residential Tax Share as a %	52%	52%	-
Non-Residential Assessed Values	\$54,962,700,000	\$58,399,500,000	6.3%
Non-Residential Tax Rate (b)	0.0178843	0.0177976	-0.5%
Non-Residential Tax Share	\$983,000,000	\$1,038,300,000	
Non-Residential Tax Share as a %	48%	48%	-
Tax Rate Ratio (b)/(a)	3.81 : 1	4.13 : 1	8.4%

The illustrative examples found in Attachment 4, shows the actual tax changes for a select number of properties and is meant to show how changes are experienced by individual example properties. The attachment highlights the impacts of revenue neutral and projected budget tax changes to various property types.

Typical Assessment Changes



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Note: Preliminary assessment roll subject to finalization. 2023 Valuation date is July 1, 2022

While the median single residential assessment is expected to increase 14 per cent from \$485,000 to \$555,000, the municipal revenue neutral tax increase is about 1 per cent. With the projected budget change, the municipal tax will increase by about 5 per cent which will be lower than the 7.4 per cent average increase in Alberta household expenditures this year. The market change for the median single residential condominium is expected to increase 8 per cent from \$235,000 to \$253,000, meaning a revenue neutral tax decrease of about 5 per cent. With the projected budget change, the municipal tax will decrease by about 1 per cent.

For non-residential, overall office values are expected to increase for only the second time since 2015. While the overall increase is projected to be about 1 per cent lead by downtown AA offices, lower quality offices and suburban offices continue to decrease in value. Industrial and retail properties are also expected to increase with 7 and 8 per cent market changes respectively. The hotel/motel sector has begun to recover from the pandemic and overall are expected to increase about 1 per cent.

Note that tax changes for each individual property will vary based on changes in assessment.

Tax Distribution Scenarios

Attachments 5 & 6 provide additional illustrative examples to show what the tax changes would be if Council were to redistribute tax responsibility between the residential assessment class and the non-residential assessment class to support fairness and balance interests between residents and businesses. Tax distribution considerations was previously shared with Council in the Financial Task Force – Property Tax Framework report EC2022-0649. Currently, the tax share distribution between residential and non-residential properties is 52 and 48 per cent respectively.

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

IMPLICATIONS

Social

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, the Property Tax Assistance Program and the Alberta Seniors Property Tax Deferral Program will continue to assist eligible residential property owners experiencing financial hardship. Property tax exemptions are also provided to qualifying properties.

Environmental

Not Applicable

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Economic

This preliminary assessment roll update is provided to Council and the public to inform tax related decisions. Consistent with Financial Task Force recommendations #4 and #27, this report provides as much information as possible on the distribution of the tax responsibility across property types and proactively provides Council and the public with information on anticipated tax changes, recognizing that tax implications of changes in the assessment base have external economic impacts and risks. The City of Calgary is the only major municipality to finalize the assessment roll before budget deliberations. This means individual property owners will be able to estimate their next year's municipal property taxes earlier in the year than property owners in other major municipalities.

Service and Financial Implications

No anticipated financial impact

There is no direct anticipated financial impact associated with this preliminary report for information. Changes in the assessment roll can impact City finances. Each year City Council approves the budget needed to support City services. To determine the amount of revenues required from property taxes, The City takes the overall budgeted expenditure and subtracts all other sources of revenue such as license fees, permits, user fees and provincial grants. The balance is the amount to be raised through municipal property taxes. The amount to be raised from each property class is then divided by the taxable assessment to determine the municipal tax rates.

RISK

Assessment roll information and related estimates provided in this report are preliminary and subject to change.

Assessment tribunal activity (i.e. formal complaints) may increase due to financial hardship, changes to assessments and resulting tax responsibility, and new market information unknown to Assessment. This is mitigated by encouraging property owners to participate in the Pre-Roll Consultation Period and contact Assessment during the Customer Review Period after Assessment Notices are mailed in 2023 January.

If Council were to redistribute the overall share of property taxes between non-residential property taxpayers to residential property taxpayers, this decision should be considered alongside any other overall changes to the property tax portion of the overall budget (in addition to all other revenue sources of The City), to understand the combined impact on taxes for each assessment class. Increasing the tax share of residential properties would increase tax bills for many households that are also experiencing inflationary pressures.

ATTACHMENT(S)

1. Attachment 1 – Property Assessment Process
2. Attachment 2 – Revenue Neutral Tax Explanation
3. Attachment 3 – 2023 Preliminary Assessment Roll, Tax Considerations & Communications
4. Attachment 4 – 2023 Illustrative Examples

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5. Attachment 5 – 2023 Illustrative Examples – Tax Distribution Scenarios – NR to Res
6. Attachment 6 – 2023 Illustrative Examples – Tax Distribution Scenarios – Res to NR
7. Attachment 7 – Property Owner Engagement and Communications
8. Attachment 8 – Background and Previous Council Direction

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
David Duckworth	City Manager's Office	Inform
Carla Male	Chief Financial Office	Approve
Eddie Lee	Chief Financial Office	Approve