Corporate Planning and Financial Services Report to Executive Committee
2022 September 29

ISC: UNRESTRICTED
EC2022-0649

Financial Task Force – Property Tax Policy Framework

RECOMMENDATIONS:

That Executive Committee recommend that Council:

1. Adopt this report and attachments as resources to support future decision-making on budget and property tax matters.
2. Continue to use the budget-based approach to setting budgets and property tax rates.
3. Continue to use the tax share approach in making tax distribution decisions.
4. Further consider the distribution of tax responsibility between residential and non-residential for the 2023–2026 Service Plans and Budget, and if Council wishes to make changes that the distribution change no more than one per cent per year, with the option to revisit the tax distribution as part of the adjustments and mid-cycle adjustment process if conditions warrant.
5. Direct Administration to include information regarding changing the distribution of tax responsibility between residential and non-residential taxpayers to the 2022 October 18 Executive Committee, in addition to information on preliminary assessment values.
6. Abandon the 2012 direction to continue applying a zero per cent increase to consolidated business tax revenue, effectively drawing business tax consolidation to a close, while continuing to use the tax share approach to make tax distribution decisions.
7. Direct Administration to prepare an annual briefing for Council on the context of property tax exemptions and tax relief expenditures in Calgary.
8. Direct Administration to develop additional tools and resources that reflect best practice, current Council direction, and provide further recommendations on how Council may exercise tax policy options in the future, in fulfillment of Financial Task Force Recommendations 20 and 34 and to report back to Council by Q2 2024.

RECOMMENDATIONS OF THE EXECUTIVE COMMITTEE, 2022 SEPTEMBER 29:

That Council:

1. Adopt this report and attachments as resources to support future decision-making on budget and property tax matters.
2. Continue to use the budget-based approach to setting budgets and property tax rates.
3. Continue to use the tax share approach in making tax distribution decisions.
4. If Council wishes to change the distribution of tax responsibility between residential and non-residential for the 2023–2026 Service Plans and Budget, the distribution **must be revisited each year** as part of the adjustments and mid-cycle adjustment process if conditions warrant.
5. Direct Administration to include information regarding changing the distribution of tax responsibility between residential and non-residential taxpayers to the 2022 October 18 Executive Committee, in addition to information on preliminary assessment values.
6. In continuing to use the tax share approach to make tax distribution decisions, abandon the 2012 direction to continue applying a zero per cent increase to consolidated business tax revenue, effectively drawing business tax consolidation to a close.
7. Direct Administration to prepare an annual briefing for Council on the context of property tax exemptions and tax relief expenditures in Calgary.
8. Direct Administration to develop additional tools and resources that reflect best practice, current Council direction, and provide further recommendations on how Council may

exercise tax policy options in the future, in fulfillment of Financial Task Force Recommendations 20 and 34 and to report back to Council by Q2 2024.

Excerpt from the Minutes of the Regular Meeting of the Executive Committee, dated 2022 September 29:

“**Moved by** Mayor Gondek

That with respect to Report EC2022-0649, the following amendment be approved:

That the Executive Committee delete Administration Recommendation #3 and renumber the Recommendations accordingly.

By General Consent, pursuant to Section 100(3) of the Procedure Bylaw 35M2017, this motion was withdrawn.

Moved by Mayor Gondek

That with respect to Report EC2022-0649, the following amendment be approved:

That the Executive Committee amend Recommendation #4 by deleting “change no more than one per cent per year, with the option to revisit the tax distribution“, and inserting the words **“must be revisited each year”** as follows:

4. If Council wishes to change the distribution of tax responsibility between residential and non-residential for the 2023–2026 Service Plans and Budget, the distribution **must be revisited each year** as part of the adjustments and mid-cycle adjustment process if conditions warrant.

For: (6): Mayor Gondek, Councillor Spencer, Councillor Penner, Councillor Pootmans, Councillor Walcott, and Councillor Mian

Against: (4): Councillor Chabot, Councillor McLean, Councillor Sharp, and Councillor Wyness

MOTION CARRIED

Moved by Councillor Sharp

That with respect to Report EC2022-0649, the following amendment be approved:

That the Executive Committee forward this item to the 2022 October 4 Combined Meeting of Council as an Item of Urgent Business.

For: (9): Mayor Gondek, Councillor Spencer, Councillor Penner, Councillor Pootmans, Councillor Walcott, Councillor Chabot, Councillor Mian, Councillor Sharp, and Councillor Wyness

Against: (2): Councillor Chu, and Councillor McLean

MOTION CARRIED

Moved by Councillor Penner

That with respect to Report EC2022-0649, the following be approved, **as amended**:

That Executive Committee **forward this item to the 2022 October 4 Combined Meeting of Council as an Item of Urgent Business and** recommend that Council:

4. If Council wishes to change the distribution of tax responsibility between residential and non-residential for the 2023–2026 Service Plans and Budget, the distribution **must be revisited each year** as part of the adjustments and mid-cycle adjustment process if conditions warrant.

For: (6): Mayor Gondek, Councillor Spencer, Councillor Penner, Councillor Pootmans, Councillor Walcott, and Councillor Mian

Against: (5): Councillor Chabot, Councillor Chu, Councillor McLean, Councillor Sharp, and Councillor Wyness

MOTION CARRIED"

HIGHLIGHTS

- In response to Financial Task Force Recommendations #2, 6, 19, 20, and 34 (contained in C2020-0742), Administration has undertaken significant work to analyze and make recommendations relating to Calgary's property tax system. Work is ongoing to develop systems and frameworks to support Council decision-making that both provides stability and predictability while being responsive to Calgary's local context.
- **What does this mean to Calgarians?**
  - A review of tax policy options and making decisions on policy options is a part of good governance, strong financial management, transparency and accountability to Calgarians.
  - Budget-based approach to tax rate setting, used in most municipalities in Canada, including Calgary, remains the best and fairest method to ensure transparency and tax stability in Calgary.
  - Council's ability to adjust the distribution of property tax between assessment classes provides the most effective and efficient means to create tax stability and does not require any legislative changes or costly resource investments.
  - Additional information and analysis about the distribution of property tax between assessment classes will be brought forward for discussion at the 2022 October 18 Executive Committee.

- **Why does it 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. A robust and clear framework for how The City of Calgary will approach the property tax supports financial stability and predictability for all Calgarians.

- **Reasons for recommendation:**
  Following substantial research and analysis, Administration has determined that the current approach to budget-based decision making and tax share decision making allows Council to make phased and incremental changes in the tax share between assessment classes over time to ensure it remains equitable among classes and mitigate risks associated with the property tax so that it continues to be a stable and reliable source of revenue for The City. In addition, additional consolidated reporting on tax implication and expenditures for exemptions and other relief measures will improve transparency and accountability.
- Strategic Alignment to Council's Citizen Priorities: A well-run city
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

Following significant research and analysis on the circumstances of the significant decrease of assessed values of properties in downtown Calgary in 2015-2021, Calgary's current state (see Attachment 2), property tax policy options (see Attachment 3), benchmarking with other jurisdictions (see Attachment 4), and engagement with residential and non-residential stakeholders (see Attachment 5), Administration is recommending direction that Council can make now to better support financial resiliency for The City, mitigate risk of market volatility and support a more fair and equitable distribution of tax responsibilities. Maintaining a simple property assessment and tax system creates an environment where it is easier for Council to provide targeted tax relief or incentives through tools such as grants, cancellations, and deferrals while minimizing risk of unintended consequences or unnecessary costs to The City.

This report does not consider options that are not currently feasible in the current legislative environment. Council will receive two additional reports that explore assessment smoothing and non-residential subclasses at the 2022 September 29 meeting of Executive Committee.

Budget-based approach to determine overall taxes to be collected (Attachment 3, page 2)

Following analysis of both the budget-based and rate-based approaches to setting property tax rates, Administration recommends continuing the budget-based approach because this approach:

- Maximizes stability of tax bills for property owners.
- Maximizes stability and predictability of City revenues.
- Keeps assessment systems independent, with no new revenue collected solely due to market changes.
- Keeps accountability for tax budget changes with Council, rather than the real estate market.

Using tax shares to distribute tax responsibility between residential and non-residential properties (Attachment 3, page 6)

In 2020, Calgary adopted the tax share approach to redistribute tax responsibility in response to significant changes in the assessment base. In the interests of mitigating volatility, Administration recommends continuing to use tax shares to make tax distribution decisions, because this approach:

- Sets an easy-to-understand framework for how taxes are distributed between residential and non-residential assessment classes.
- Allows Council to set and change the share of taxes paid by each class in a deliberate and transparent manner.
- Aligns Council control and accountability for tax distribution decisions.

Council direction from 2012 April 09 to continue applying a zero per cent increase to consolidated business tax revenue was rendered ineffective by the 2019 November 29 decision to control the tax share paid by each assessment class, but the direction remains and needs to be abandoned.

Tax distribution between residential and non-residential properties (Attachment 3, page 14)

The appropriate distribution of total taxes between residential and non-residential properties is a values-based Council decision. Should Council choose to make a more equitable distribution and make changes to the tax share between residential and non-residential tax payers, Administration recommends that any change in distribution between residential and non-residential tax classes be phased in at one per cent of the share per year to ease the impacts of any change. There is support from research on tax policy (Attachment 3) and from comparative analysis (Attachment 4) to lower the current share of taxes paid by non-residential taxpayers. Given that feedback on the appropriate tax distribution from residential and non-residential stakeholders is understandably mixed (see Attachment 5) and all households and businesses are experiencing increased costs due to inflation, Administration is recommending a balanced approach to adjust the distribution over time if changes need to be made.

Should Council choose to make changes to the current tax share, adjusting the tax share by up to one per cent per year for the next 4 years would support greater fairness, accountability, and neutrality in Calgary's tax system and the phased approach would balance the interests of non-residential and residential taxpayers.

Tools to support decision-making

In addition to the resources in Attachments 2-4, Administration has developed the following resources for information to support Council decision-making on property tax policy matters:

- *Tax Policy Principles* (Attachment 6) were previously shared with Council in EC2021-1597 Attachment 4, and are in the *Property Tax Policy Current State* (Attachment 2), providing a framework for Council to evaluate potential tax policy reforms.
- *Summary of Existing Tools for Property Tax Relief* (Attachment 7) describes how Council may use subclasses, exemptions, cancellations, deferrals and grants as tax policy tools to provide targeted tax relief and advance Council objectives to support particular groups of organizations and businesses. This resource addresses Financial Task Force recommendation #6.

Best practice suggests that The City should also track and report on tax implications and expenditures for property tax exemptions and other tax relief measures to understand costs, promote transparency, better analyze benefits, and support informed decision-making.

Next Steps

The Organizational Realignment and integration of the Property Assessment and Tax service lines provide an opportunity for improved research, analysis and communication to Council and the public about property tax policy issues. Over the coming year, the Assessment & Tax Business Unit will undertake additional work related to Financial Task Force recommendations #20 and #34 to develop additional resources and identify further recommendations for Council about strategies to mitigate risk, support greater fiscal stability, and provide guidance about when tax relief measures should be considered.

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

A *Stakeholder Engagement Summary* is included in Attachment 5, detailing the results of Administration’s efforts to better understand the views of residents and businesses we spoke with pertaining to residential and non-residential tax responsibility.

Administration consulted with members of the business community about tax distribution approaches and targets, where most preferred the tax rate ratio approach with a target ratio of 2.8:1. Under the tax share approach, the preferred target share would be 40 per cent for the non-residential property class and 60 per cent for the residential property class. The business community emphasized that decisions on tax distribution should be considered annually so that Council can take immediate action, when needed.

Administration also surveyed the Citizen’s View Panel, a research panel of Calgarians. The survey results are of limited statistical validity as respondents were not representative of the city as a whole, skewing towards respondents that are older. 43 per cent of respondents agreed with the statement “Residential property taxes should decrease, even if that means non-residential property tax (businesses) in Calgary would go up”, while only 18 per cent of respondents agreed that “Residential property taxes should increase so that non-residential property tax (businesses) in Calgary can go down.”

IMPLICATIONS

Social

Any decision to redistribute taxes towards residential property tax will result in increased costs for households, and likewise, any redistribution of taxes towards non-residential property tax will result in increased costs for businesses. Therefore, Administration is recommending a long-term target and phased approach for tax distribution decisions. The Property Tax Assistance Program and the Alberta Seniors Property Tax Deferral Program will continue to assist qualifying residential property owners experiencing financial hardship.

Environmental

Not applicable.

Economic

Business Friendly Initiative - If Council were to redistribute property taxes away from the non-residential property assessment class it would result in lower costs for non-residential property taxpayers. This would lead to a more business-friendly environment, but the benefits would be broad and diffuse and may not be evident in the short-term. The changes that occur will benefit Calgary's attractiveness within the region and relative to other big cities. This would support a lower cost of doing business and support existing business resiliency, which in turn could provide the capacity for more business, jobs and economic growth.

Economic Resilience – Redistributing property tax responsibility away from the non-residential property assessment class would support a more stable fiscal position for The City and reduce risk that The City would need to draw on reserves to provide tax relief to non-residential property owners in the event of a future extraordinary changes in assessment.

Service and Financial Implications

No anticipated financial impact

Decisions related to the tax distribution between assessment classes and maintaining a budget-based approach to setting the tax rate would not change the amount of revenue The City collects from property taxes.

A decision to use budget-based approach recommended by Administration provides greater stability in property tax bills and mitigates volatility for The City.

RISK

The recommendations in this report are designed to mitigate risks associated with property tax so that it continues to be a stable and reliable source of revenue for The City. In Administration's view, the alternative approaches put property tax revenue at greater risk because they increase either the volatility of the revenue stream or the distribution of tax responsibility among different classes of property taxpayers.

If Council were to redistribute the overall share of property taxes from 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.

These risks can be mitigated by adjusting a small percentage of responsibility in a phased approach, choosing a long-term target that can be phased over several years. The tax share should be considered by Council annually as part of the budget process to actively mitigate potential adverse impacts to households. Residential property owners experiencing financial hardship and an increase in property tax from the previous year may be eligible for the Property Tax Assistance Program through Fair Entry to receive a credit/grant for the increase on their property tax account. Additional mitigation measures may be required by Council to support non-profit affordable housing providers that are not eligible for property tax exemptions under current legislation.

If Council chooses to redistribute property taxes from residential taxpayers to non-residential taxpayers, this could increase risk of needing to provide one-time tax relief measures for non-residential properties as businesses have also felt impacts of inflation. Although the market has somewhat stabilized and a shift in tax responsibility within the non-residential class (for example, from hotel and motel properties to retail and industrial properties) to the same degree is unlikely in the near future, the current context may be perceived as inequitable and carry significant uncertainty for local businesses.

Regardless of measures to mitigate and minimize risks associated with market volatility, high-impact, low probability events, like the COVID-19 pandemic, could still arise and may warrant one-time tax relief measures to mitigate adverse impacts to affected businesses and households (see Attachment 7 for available tools).

ATTACHMENTS

1. Previous Council Direction, Background
2. Property Tax Policy Current State
3. Property Tax Policy Options
4. Tax Responsibility Benchmarking
5. Stakeholder Engagement Summary
6. Tax Policy Principles
7. Summary of Existing Tools for Property Tax Relief
8. Presentation

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
David Duckworth	City Manager’s Office	Inform
Carla Male	Corporate Planning & Financial Services	Approve
Eddie Lee	Assessment & Tax	Approve
Les Tochor	Finance	Approve
Chris Stewart	Corporate Planning and Performance	Inform