The City of Calgary

Property Tax Policy Current State

Corporate Planning and Financial Services
22 September 2022

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1. Purpose of This Document

This document was initiated in response to several recommendations of the Financial Task Force (recommendations 6, 19, 20 and 34). The purposes of this document are to:

- Understand the most current thinking about the property tax system and articulate the principles upon which Council should base its property tax decision-making.
- Provide a comprehensive reference document of the workings of the current property tax system.

There have been many processes and decisions over the years that form the basis of a de facto tax policy, however, The City of Calgary does not currently have formal Council Policy governing property tax related decisions.

This document is meant to act as a "one-stop" reference document for Council and citizens to understand The City's property tax system.

2. Thinking about the Property Tax

The questions regarding the appropriate property tax policy framework raised by the Financial Task Force are common in municipalities across Canada and there is substantial existing literature on the subject, including two major reports from Vancouver,[1] one from Nova Scotia,[2] one from St. John, New Brunswick[3] and another from Saskatoon.[4] While the field is evolving, there are two leading academic experts in municipal finance who concentrate on property taxation in Canada: Enid Slack and Harry Kitchen. Access to their expertise is available in the reports from Vancouver (Slack), Nova Scotia (Kitchen and Slack) and St. John, New Brunswick (Kitchen and Slack).

2.1. Basis of Taxation

The property tax of a given property is calculated by multiplying the applicable property tax rate by the assessment of the property. The person liable to pay the tax in most cases is the property owner.[5]

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[1] Stanley Hamilton, Peter Adams and Enid Slack, *City of Vancouver Property Tax Policy Review Commission: Final Report* (City of Vancouver, 2007) https://vancouver.ca/taxcommission/assets/pdf/2007-commission-report.pdf and Stanley Hamilton, Peter Adams and Enid Slack, *Property Tax Policy Review Commission: 2014 Report* (City of Vancouver, 2014) https://vancouver.ca/taxcommission/assets/pdf/report-property-tax-policy-reivew-2014-colour.pdf

[2] Harry Kitchen and Enid Slack, *Municipal Property Taxation in Nova Scotia* (Association of Municipal Administrators Nova Scotia, 2014) https://www.amans.ca/other-resouces/79-municipal-property-taxation-final-report/file.html.

[3] Harry Kitchen and Enid Slack, *Municipal Property Tax Issues in the City of Saint John* (City of Saint John, 2017) https://saintjohn.ca/sites/default/files/2021-03/10.%20Kitchen%20and%20Slack%20Final%20Report%20-%20August%202017.pdf

[4] Mike Jordan, *Business Property Taxation by Cities: What We Know, What We Don't, and What We Should* (City of Saskatoon, 2017) https://www.saskatoon.ca/sites/default/files/documents/asset-financial-management/assessment-taxation/business_property_taxation_by_cities_march_2017.pdf

[5] The person is liable to pay the tax is the assessed person. Direction on the determination of the assessed person is provided in section 304 of the *Municipal Government Act*.

2.2. Principles of Taxation

In Administration's review of property tax research, it was generally accepted that the following principles form the basis of an effective framework for evaluating tax systems and tax reforms:[6]

Fairness: Ability to Pay

Fairness in the property tax system is based primarily on the ability to pay and the ability to pay is based on the concepts of horizontal and vertical equity. Horizontal equity means that people in similar circumstances pay a similar amount of tax. Vertical equity means that people in differing circumstances with different abilities to pay, pay a different amount of tax.

Fairness: Benefits

Fairness is also related to the benefits principles, that people should pay taxes according to the benefits they receive from services (where the beneficiaries can be identified and where the service is not primarily redistributive in nature).

Neutrality

Taxes should impact economic and locational decisions as little as possible. This principle covers both The City of Calgary and the broader regional context. This means that, to the extent it is possible given the different service levels offered by different municipalities, The City should offer a competitive tax/service offering.

Stability & Predictability

The tax should provide a stable and predictable revenue source for The City. Taxpayers should be able to understand, and The City should telegraph as much as possible, the impacts that arise from reassessment.

Accountability, Simplicity & Transparency

The tax system should be designed in a way that makes it clear to all stakeholders which taxpayers pay the tax. Tax systems designed in such a way encourage more accountability from City Council and City Administration in their determination of the balance between service levels and taxation levels. Tax rules should be as clear and simple to understand as the complexity of the subject of taxation allows, so that taxpayers can anticipate in advance the tax consequences of a transaction, including knowing when, where and how the tax is to be accounted.

Efficiency & Ease of Administration

The tax system should be easy to administer, resulting in minimized compliance costs for the taxpayer and minimized administrative costs for The City.

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[6]International Association of Assessing Officers, *Standard on Property Tax Policy*, (International Association of Assessing Officers, 2020), p. 16. Accessed at https://www.iaao.org/media/standards/Standard_on_Property_Tax_Policy.pdf on April 2, 2021.
Hamilton, Adams and Slack, *Vancouver Property Tax Policy Review Commission*
Hamilton, Adams and Slack, *Property Tax Policy Review Commission: 2014 Report* (City of Vancouver, 2014)
Kitchen and Slack, *Municipal Property Taxation in Nova Scotia*, p.12-13.
Jordan, *Business Property Taxation by Cities,* p.5-6. and
Association of International Certified Professional Accountants, *Guiding Principles of Good Tax Policy: A Framework for Evaluating Property Tax Proposals* p. 3. Accessed at https://us.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf on 24 June 2021.

The principles are relatively timeless and have informed the operation of tax systems around the world since they were conceived in the 18th century. Using them helps clarify the inevitable trade-offs that occur when implementing new tax policies or programs.

2.3. Tax Incidence

An ongoing question in the property tax literature is whether the tax is based upon the taxpayer's ability to pay or based on the benefits received by the taxpayer.

To better understand the issue, it is important to look at the tax incidence: to examine the person who actually incurs the cost of the tax, which can be different from the person who is liable to pay the tax.

This is most evident when thinking about commercial leases. In most cases, commercial leases in Calgary are negotiated based on the rented space only. Operating costs of the building, including property tax, are paid by the tenants of the building separately from rent. To make matters even more complicated, businesses can, in some cases, pass property tax costs on to consumers in the form of higher prices.[7]

Residential leases, on the other hand, typically include property tax and, as a result, the distribution of the tax is much less clear. It is likely that incremental tax increases are shared between tenants (in the form of higher rents) and landlord (in the form of lower returns)[8] depending on the state of the rental market. If the rental market is tight and rents can increase, then incremental tax increases can be passed on to tenants. In a softer rental market, a greater proportion of incremental taxes would be absorbed by landlords.

[7] Ben Brunnen, *Towards A Property Tax Policy Framework for the Town of Canmore*. From the author.
[8] George Zoodrow, *The Property Tax as a Capital Tax: A Room with Three Views,* 2007. Accessed at https://www.bakerinstitute.org/media/files/Research/da7522be/2007_propertytax_zodrow.pdf on August 18, 2021.

2.4. Tax Regressivity

The property tax has a reputation for being a regressive tax (i.e., those at lower incomes require a higher proportion of their income to pay the tax).

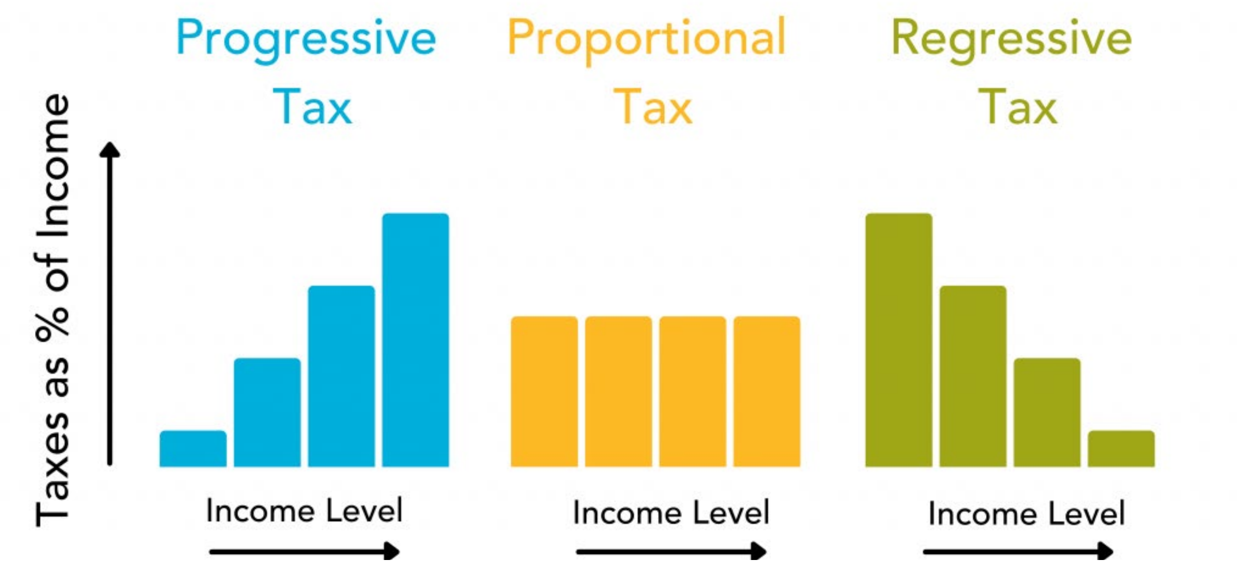

Figure 1 Progressive and regressive taxes.
The progressivity of a tax system is measured by the amount paid in tax as a percentage of income paid at different income levels. The blue chart is a progressive tax system because as income increases so does the amount of tax paid as a percentage of income. The yellow chart is a proportional tax system the percentage income paid in tax remain a constant through all income levels. The green chart represents a regressive tax system because as income increases the percentage of income paid in tax decreases.[9]

This stems largely from two factors: (1) Statistics Canada studies from the 2000s that looked at progressivity for homeowners;[10] and (2) the fact that the property tax is insensitive to annual income. The limitations of the Statistics Canada studies were that they focused solely on families that owned homes and so found some extreme regressivity at very low incomes. These situations likely arose from temporary drops in income or retired seniors remaining in properties that were increasing in value. With rental properties excluded, it is likely that these studies overestimate taxes paid as a percentage of income at the low end because a larger portion of low-income people rent[11] and underestimate taxes paid as a percentage of income at the high-end because higher income people are more likely to own rental properties and may not be able to recover all of their costs, including property tax.

We know that because the wealth measured by the property assessment system is locked in real estate, the increases or decreases of the value of the asset are an imperfect reflection of the property owner's ability to pay. This is because they do not necessarily reflect the income of a person or a business in a particular year. At the same time, the literature indicates that, at

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[9] California Budget & Policy Center, *California's Tax & Revenue System Isn't Fair for All* Accessed at https://calbudgetcenter.org/resources/californias-tax-revenue-system-isnt-fair-for-all/ on June 23, 2022.
[10] Boris Palameta and Ian Macredie, *Property Taxes Relative to Income*, 2005. Accessed at https://www150.statcan.gc.ca/n1/en/pub/75-001-x/10305/7796-eng.pdf?st=bhcPF7uy on March 20, 2021. Raj Chawla and Ted Wannell, *Property Taxes*, 2003. Accessed at https://www150.statcan.gc.ca/n1/en/pub/75-001-x/00703/6578-eng.pdf?st=9SKEwU96 on June 23, 2022.
[11] Statistics Canada, *Homeownership and Shelter Costs in Canada*, 2013, p. 9. https://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-014-x/99-014-x2011002-eng.pdf

least for residential property owners, the type of real estate they occupy (e.g., the value of the space) is generally aligned with their long-term income levels.[12] This makes intuitive sense because one would expect that people choose to live in housing that they can afford; though as they age, their property wealth may appreciate much more rapidly than their cash flows. The Government of Alberta offers the Seniors Tax Deferral Program to people that find themselves in that position.

The alignment of housing value and ability to pay is true only to a certain extent because people at lower income levels tend to spend much more of their total income on housing[13] and this is reflected in property taxes. For this reason, it is likely that residential property taxes are mildly regressive. Indeed, those are the findings of a study in the United States by the Institute of Taxation & Economic Policy,[14] which accounts for many of the shortcomings of the Statistics Canada reports through modelling the distribution of property tax on rentals. In Figure 2, reproduced from that report, the property tax is shown in the yellow bars and appears regressive at the lowest incomes, roughly proportional through middle incomes and then regressive again at the highest incomes. For people with low incomes, The City of Calgary offers the Property Tax Assistance Program and provides discounted services through the Fair Entry program that help alleviate some of the regressivity of the property tax.

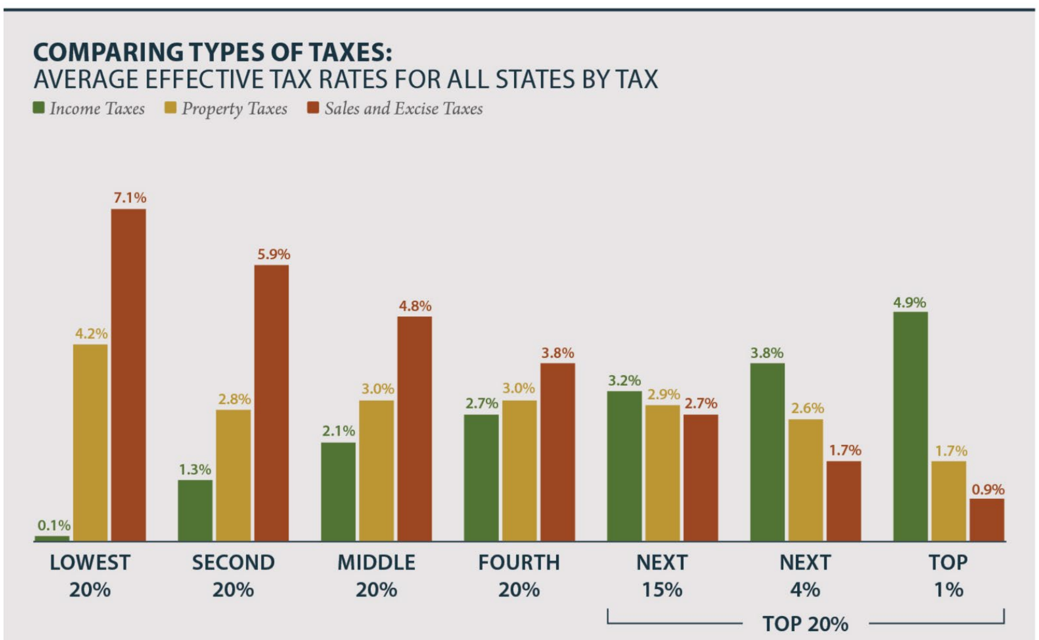


Figure 2 Comparing income, property and sales taxes in the United States.
This chart compares the effective rates for different state taxes. The sales tax in red is the most regressive tax. The property tax in yellow has regressive characteristics at both ends but is approximately proportional for 75 percent of the population. The income tax is the most progressive tax with very low taxes on people with the lowest incomes and much higher taxes on higher incomes.

[12] Harvey S. Rosen, *Public Finance*, 5th ed. (Boston: Irwin/McGraw- Hill, 1999), p. 499.
[13] The City of Calgary, *Housing in Canada's Big Cities*, 2018.
[14] Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, Accessed at https://itep.sfo2.digitaloceanspaces.com/whopays-ITEP-2018.pdf on June 20, 2022

3. The Current State of Calgary's Tax System

3.1. Setting the Tax Rate

In Alberta, budgeting, assessment and taxation are connected in the development of the tax rate. The tax rate calculation is detailed in section 355 of the *Municipal Government Act (MGA)*:

> A tax rate is calculated by dividing the amount of revenue required by the total assessment of all property on which that tax rate is to be imposed.

The equation is presented below for clarity:

$$Tax\ Rate\ = \frac{City\ Revenue\ Requirement}{Total\ Assessed\ Value\ of\ All\ Taxable\ Properties}$$

Equation 1 The calculation of the tax rate as set out in the *Municipal Government Act*.

In Calgary: (1) Council sets the amount of money required to fund The City through the service planning and budgeting process; (2) assessments are used to *distribute* that amount among property and business owners; (3) the tax rate is the method of distribution with each taxpayer paying their share according to the value of their property.

Because the City revenue requirement is determined by the budget process, and not by assessed property values, this methodology is widely called the budget-based approach to tax rate setting.[15] The City of Calgary sometimes refers to it as the revenue neutral approach, because market value changes in property assessments do not impact the total amount of tax revenue collected by The City. Using this method means that the tax rate floats according to property assessment levels. To achieve similar amounts of revenue year after year, the tax rate decreases when property assessments increase, and it increases when property assessments decrease.[16]

The relationship between the assessed value of all properties in Calgary, the municipal property tax rate and property tax revenue is shown in Figure 3. In Calgary, there was a swift rise in property assessments in 2007 and 2008 which led to a rapid decrease in the tax rate. This was followed by a rapid decline in property assessments in 2010 and 2011 which led to large increases in the tax rate.

[15] Although the budget-based approach is not required by legislation, Administration surveyed other jurisdictions across Alberta and Canada in 2021 (EC2021-1493 Attachment 2, 2021 November 09), and all respondents confirmed their use of this approach.
[16] International Association of Assessing Officers, *Standard on Property Tax Policy*, 2020. Accessed at https://www.iaao.org/media/standards/Standard_on_Property_Tax_Policy.pdf on September 3, 2020 p. 16. City of Vancouver, *Property Assessment & Taxation Framework*

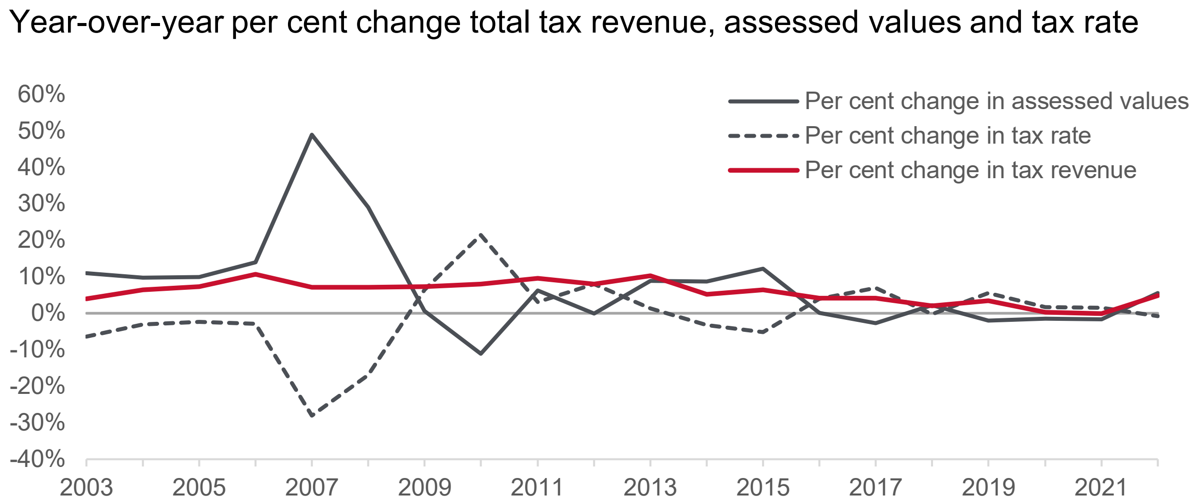


Figure 3 Year-over-year per cent change in total tax revenue, assessed values, and tax rate in Calgary.
The relatively flat red line is the per cent change in tax revenue generated from the fluctuating assessment base (solid line) and tax rate (dashed line). The relationship between assessments and the tax rate is negatively proportional and typically outweighs changes arising from Council decisions.[17]

3.2. Components of the Property Tax Budget

When City Council considers the plans and budget, it sets the overall amount of revenue required from property taxes. While this is connected to property tax rates as seen in the equation above, Council is not yet setting the actual property tax rate. It is setting what we will now call the “Property Tax Budget”. The most important components of the property tax budget are shown in Equation 2.

$$Property\ Tax\ Budget =$$

$$Budgeted\ Expenditures\ - (Estimated\ Non\text{–}Tax\ Revenue^{18} + Estimated\ Physical\ Growth)$$

Equation 2 A simplified version of the equation that shows how the property tax revenue budget is determined every year.

Estimated Physical Growth from Development and Redevelopment

Physical growth in the assessment base includes new buildings (e.g., newly built houses, newly built restaurant in a shopping centre or newly completed floor of an office tower) and new properties created by subdivision. The physical growth amount included in the property tax

[17]Note: Calgary collected a business tax until 2019. To isolate the relationship between the assessment base and tax rate in this chart and throughout the paper, the historical tax rates have been adjusted to reflect what the tax rate would have been if the amount collected by the business tax were raised through the non-residential property tax.
[18] Includes revenues from franchise fees, sales of goods and services, etc.

budget is calculated by multiplying an estimate of physical growth in property assessment by the previous year's property tax budget (see Equation 3 below).

$$\begin{aligned} &\mathit{Physical\ Growth\ Amount} \\ &= \mathit{Estimated\ Growth\ in\ Assessment\ from\ Development\ \&\ Redevelopment} \\ &\times \mathit{Previous\ Year's\ Property\ Tax\ Budget} \end{aligned}$$

Equation 3 The calculation of the physical growth amount.

While the growth amount is added every year to the property tax budget (i.e., all the taxes paid by all taxpayers), it does not result in any tax increases for other properties. In other words, if there were no changes to assessments or Council-directed property tax changes, there would be no change in tax for other taxpayers despite the increase in property tax budget from the physical growth amount.

This is illustrated in the table below, for a fictional municipality with a total budget of $9,500. In this instance, the property tax for existing properties remains the same but the property tax budget increases by $500. The additional $500 is the physical growth amount resulting from the addition of a new property. These amounts are included as part of the service planning and budgeting process.

		Budget	Assessment	Rate	Tax
Year 1	**Property Tax Budget**	**$9,500**			
	Property 1		$500,000	0.005	$2,500
	Property 2		$400,000	0.005	$2,000
	Property 3		$1,000,000	0.005	$5,000
	Total		$1,900,000	0.005	**$9,500**
	Physical Growth	*+$500*	*$100,000*		
Year 2	**Property Tax Budget**	**$10,000**			
	Property 1 (Existing)		$500,000	0.005	$2,500
	Property 2 (Existing)		$400,000	0.005	$2,000
	Property 3 (Existing)		$1,000,000	0.005	$5,000
	Property 4 (New!)		$100,000	0.005	$500
	Total		$2,000,000	0.005	**$10,000**

Table 1 The impact of physical growth on the property tax budget.
A simplified illustration of the effect of the physical growth amount on the property tax budget. It is important to note that the overall levy increases but the taxes on existing properties remain the same.

In the example in Table 1, the physical growth amount from Year 1 to Year 2 is about 5 per cent. In Calgary over the past fifteen years, it is typical for growth from development and redevelopment to account for a one to four per cent increase in the Property Tax Budget every year.

The final impact of growth from development and redevelopment, however, is more complicated because growth also entails more infrastructure to maintain and more households and businesses that require services.

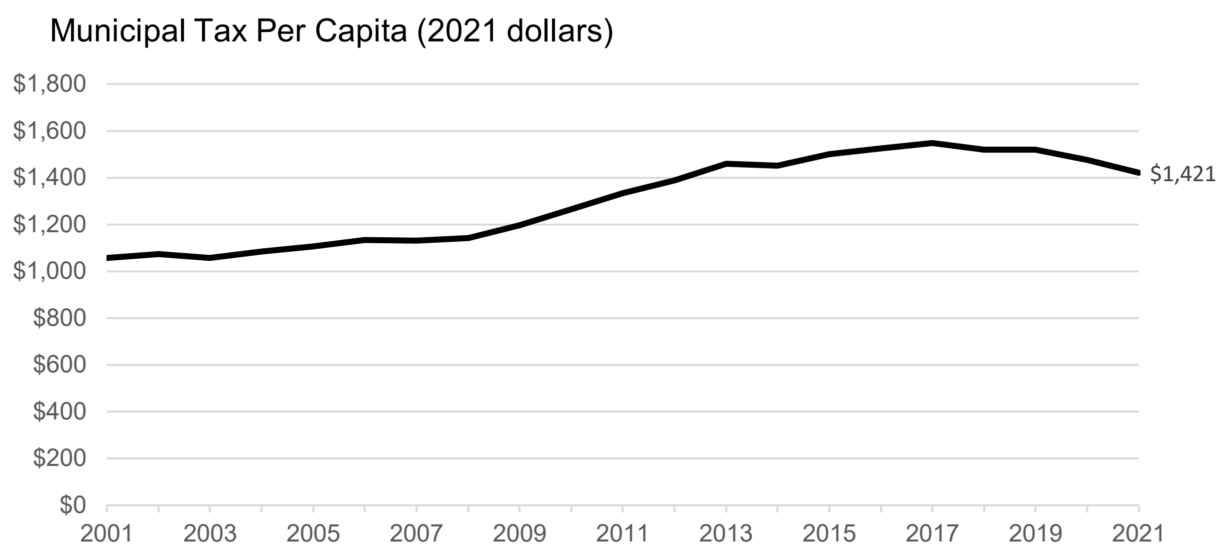
Council Directed Property Tax Budget

In alignment with the Multi-Year Business Planning and Budgeting Policy (CFO004), City Administration typically seeks Council direction to target a certain increase in the property tax budget in April/May as part of Council's budget guidelines to Administration, based on both estimated expenditures and estimated non-tax revenues, and returns to Council with a proposal for meeting that target in November. The Council directed change in the property tax budget is set every November during service plan and budget deliberations. The change directed by Council can be an increase or a decrease.

In the past, when Administration sought early budget direction in the Spring which was called the setting of "indicative rates". The terminology was an attempt to convey the relationship between the increase in the property tax budget overall and its impact on the amount of property tax paid by taxpayers. The amount of change in the actual property tax rate is much more heavily influenced by individual property assessments than by the Council directed change and so the actual change in the tax rate applied on property tax bills typically bears little resemblance to "indicative rates" set in the spring or the "property tax rate increase" set in November. To ensure more clarity, Administration will now refer to these items as "property tax budget guidance" and "property tax budget change".

Figure 4 Total municipal property and business tax levy per capita, in constant 2021 dollars.

The total amount of property and business tax levied by bylaw, adjusted for population and inflation.[19] From 2001-2008, ranging from $1,050-$1,150 per person, from 2009-2013 increasing to $1,450, and from 2013-2021 peaking at $1,550 in 2017, then declining to $1,420 in 2021 (just below 2013 levels).



[19] Compiled City of Calgary property tax bylaws and business tax bylaws. Statistics Canada. Table 18-10-0005-01 Consumer Price Index, annual average, not seasonally adjusted. Statistics Canada. Table 17-10-0142-01 Population estimates, July 1, by census subdivision, 2016 boundaries

3.3. Property Assessment and Tax Classes

The *Municipal Government Act* directs municipalities to divide properties into different property classes. The main classes are: (1) residential; (2) non-residential; (3) farm land; (4) machinery and equipment. The *Municipal Government Act* also provides the ability to divide the residential and non-residential classes into sub-classes. These assessment classes and sub-classes are the main mechanism by which it is possible to apply different tax rates to different properties.

Residential

The residential class can be divided into any sub-classes on any basis Council considers appropriate. Among the possibilities are dwelling type, market value, geographic area, date of construction, etc.

Calgary established a separate multi-residential class with a separate tax rate in 1987, on the basis that multi-residential properties are owned for business purposes and the owners pay taxes with “before income tax dollars”. The municipal tax differential between the two residential assessment classes was set at 30 per cent. In 1995, the municipal tax differential between the classes was reduced and set at 10 per cent. In 1997, on the advice of the *Tax Review Committee*, based on “the principle that individuals in like circumstances should be taxed in a like manner and whether multi-family or single family, the tax ultimately falls on residents,” Council directed that the differential between the residential classes be eliminated over three years[20], resulting in one residential tax rate beginning in 2000.

Calgary does not currently employ any residential sub-classes. Other jurisdictions in Alberta have created residential sub-classes. For example, the city of Chestermere has a separate residential sub-class for “residential vacant-bylaw” which is higher than their residential tax rate.

Non-residential

Under current provincial legislation, the creation of sub-classes within the non-residential class is limited to the following:

- Vacant non-residential property
- Small business property
- Other non-residential property
- Derelict Properties
- Contaminated Properties

Implementing the vacant non-residential property class can be a challenge because there is no strong guidance in the *Act* or regulations as to what constitutes vacant land. Some municipalities have tied the concept of vacancy to business licensing so that if there is no license tied to the parcel, the parcel is considered vacant.

Small business property is defined in provincial legislation[21] as a property that is owned or leased by businesses with less than 50 full time employees or less than 50 as defined in a municipal bylaw. While the small business property class has attracted some attention from

[20] See report C97-20 *Eliminating the Differential between the Multi-Family Residential Mill Rate and the Single-Family Residential Mill Rate* (April 21st, 1997)
[21] Currently defined in the *Matters Relating to Assessment Subclasses Regulation*, but will be consolidated into the *Municipal Government Act* upon proclamation of Bill 21, the *Red Tape Reduction Statutes Amendment, 2022*

rural municipalities and towns, no large cities have passed a small business property tax bylaw yet. This is likely because enforcing compliance in alignment with the intent of the *Act* becomes much more difficult at scale and cities, with more sophisticated business operations, could be prone to tax planning. In addition, there are many modifications to current data collection processes that would be required to use the definition of small business laid out in the regulation.[22]

The power to create sub-classes related to derelict or contaminated properties is in the *City of Calgary Charter, 2018 Regulation.* For both classes, the definition of what constitutes derelict or contaminated must be provided by Council through a bylaw.

The design of the “Other non-residential property” class is a catch all for when other sub-classes are used. Any property that does not fit in a defined sub-class falls in the other non-residential property class.

Calgary does not currently employ any non-residential sub-classes.

Farm land

Calgary raises very little revenue (0.1 per cent of total revenue in 2022) from farm land. There are no sub-classes for farm land.

Machinery & Equipment

Currently, City Council exempts the machinery and equipment class from taxation each year by passing the *Machinery and Equipment Property Tax Exemption Bylaw*. The provincial government imposes no tax on machinery and equipment property, so the requisition pertaining to machinery and equipment property (provincial property taxes) is zero. The City could impose a property tax on machinery and equipment property. The effect would be an additional tax for non-residential property owners who have machinery and equipment located on their properties. Types of installations that would attract a machinery and equipment tax include, but are not limited to, printing presses, distilleries, food processing facilities and metal fabricators. Generally, a jurisdiction will tax machinery and equipment when it makes up a significant portion of the value of an assessment roll; that is not the case in Calgary. In Calgary, there is a well-developed non-residential market value assessment system that effectively captures the value inherent in the real property and spreads the tax responsibility broadly among all non-residential properties.

[22] See PFC2019-0559 (June 4th, 2019) https://pub-calgary.escribemeetings.com/Meeting.aspx?Id=c5c9ab54-944f-40d8-9713-08574e81b7e8&Agenda=Merged&lang=English&Item=26&Tab=attachments)

3.4. Provincial Education Property Tax

The Government of Alberta also levies property tax through The City of Calgary. The total amount of property tax collected by The City of Calgary in 2022 was $2.8 billion. Of that, 27 per cent or $773 million was collected on behalf of the Government of Alberta (34 per cent of residential property tax dollars and 18 per cent of non-residential property tax dollars). The revenue to be raised through the education property tax in Calgary is set by the province as part of its budgeting process.[23] The provincial education property tax requisitions are calculated by the province using the previous year's equalized assessments and the current provincial budget's rates for residential and non-residential property. The provincial budget is typically released anywhere from February to April. Once the province sets the education property tax requisitions that The City must collect, the necessary property tax rates can be calculated, and The City can pass the property tax bylaw.

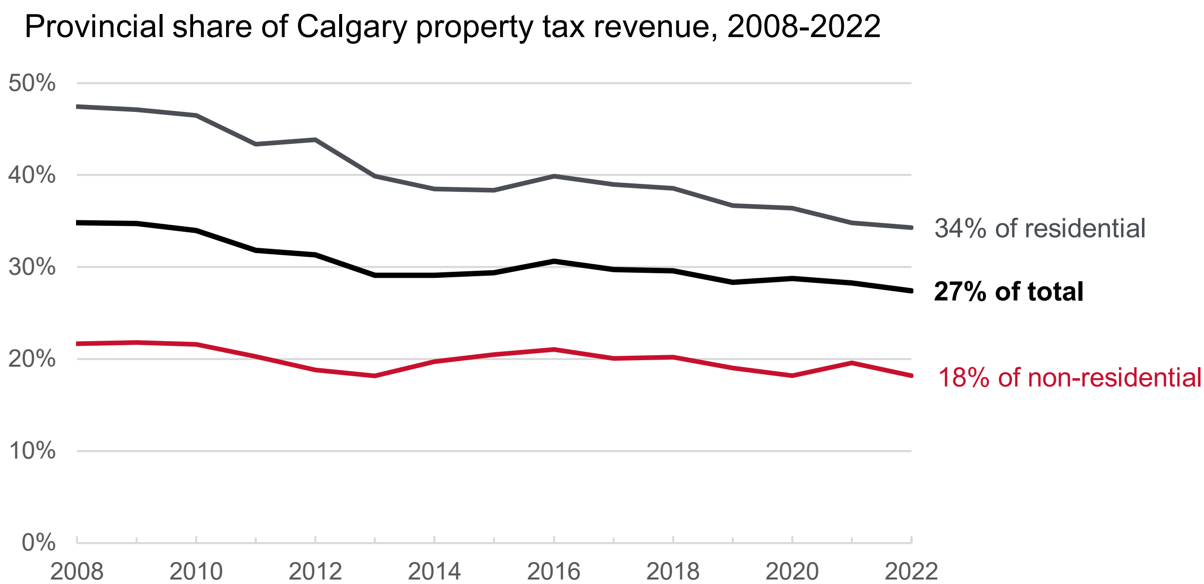


Figure 5 The provincial share of total, residential, and non-residential property taxes, 2008-2022.
The total provincial share of Calgary property tax revenues is 27%, down from 35% in 2008. This has been due to municipal increases growing at a faster rate than provincial increases. Business tax revenues are included as part of the municipal total and non-residential tax amounts, for comparability over the period of business tax consolidation.

As demonstrated in the chart above, the provincial share of property taxes in Calgary has been declining relative to the City's share, but the Government of Alberta has continued to rely on property taxes as a key source of education funding. From 2008-2022, provincial property tax revenues grew 28 per cent to $2.5 billion across the province.[24] That $2.5 billion accounts for 37

[23] Government of Alberta, https://open.alberta.ca/dataset/6f47f49d-d79e-4298-9450-08a61a6c57b2/resource/ec1d42ee-ecca-48a9-b450-6b18352b58d3/download/budget-2021-fiscal-plan-2021-24.pdf p. 77.

[24] Calculations based on *2009 and 2022 Education Property Tax Fact Sheets* and *Statistics Canada Table 18-10-0005-01 Consumer Price Index, annual average, not seasonally adjusted.* From $1.6B in 2008 to $2.5B in 2022; 56% nominal growth and 28% real growth.

per cent of total operational funding for school boards,[25] an increase from 27 per cent in 2008,[26] meaning that the province has increased its reliance on property taxes relative to other revenue sources over that timeframe.

As seen in a recent fact sheet on the education property tax, The Government of Alberta recognizes the widespread benefits of education funding,

> The education system benefits all Albertans. Alberta's education system supports the development of a skilled workforce, contributes to growth in the economy, and supports the social wellbeing of individuals and the province as a whole. These benefits reach all Albertans, regardless of their age, marital status or whether they have children.[27]

Leading experts on property taxes have questioned whether the property tax is an appropriate funding mechanism for education given its redistributional character:

> Although the property tax is appropriate for funding municipal services, it is not a good tax for funding provincial services such as education. Like most services provided at the provincial level, elementary and secondary schooling is redistributional and generates significant spillovers. Education should therefore be funded by taxes more suitable for such services, such as income taxes and the harmonized sales tax (HST). Eliminating provincial property taxes would reduce the pressure on the municipal property tax and increase transparency and accountability, because municipalities would be responsible for the entire property tax bill. Indeed, it has been suggested that, if provincial governments abandoned the property tax, municipalities would have sufficient revenues to meet expenditure needs and would not have to ask for additional tax tools.[28]

Calgary contributes 31 per cent of provincial property tax revenues[29], however, Calgary school boards account for only 26 per cent of operational funding for school jurisdictions.[30] This means that property tax revenues from Calgary are being redistributed across the province. In line with expert opinion, it has been a longstanding position of The City of Calgary and Alberta Municipalities, that the province should increasingly fund this important public service with wide public benefit using revenue sources more appropriate for that purpose.

[25] *Budget 2022 Projected operational funding for school jurisdictions* https://www.alberta.ca/assets/documents/edc-board-by-board-funding-2022-23-school-year.pdf
[26] According to a 2009 Education Property Tax Fact Sheet, $1.6B in education property taxes were collected from Alberta property owners in 2008 and Alberta's school boards received an estimated $6B in provincial funding. (C2009-31)
[27] *2022 Education Property Tax Fact Sheet* https://open.alberta.ca/dataset/6cc9f2f9-77a6-4ad5-b3d4-f735a4d714bb/resource/cea4be22-0f4c-4ea5-98e7-e0a476441dbf/download/ma-2022-education-property-tax-fact-sheet.pdf
[28] Harry Kitchen, Enid Slack and Thomas Hachard, *Property Taxes in Canada: Current Issues and Future Prospects* (Institute on Municipal Finance and Governance, 2019) Accessed at https://tspace.library.utoronto.ca/bitstream/1807/98034/1/Perspectives-27-Kitchen-Slack-Hachard-Property-Tax-Issues-Prospects.pdf on 2021 June 24.
[29] *2022 Education Property* Tax *Fact Sheet*
[30] *Budget 2022 Projected operational funding for school jurisdictions*

Education Property Tax Room

In a typical year, Council's decisions about municipal property taxes are determined and communicated to citizens at the end of November after the conclusion of Council deliberations on the budget for the upcoming year. The Government of Alberta does not set the education property tax requisition until the following February or March, when it typically releases the provincial budget.

When the Council-directed property tax increase is higher than the increase in the provincial Education Property Tax requisition, the difference has been called "tax room", because City Council can increase the municipal property tax budget and still have a combined tax increase that is reflective of what was communicated at the November budget deliberations.

Cities are responsible for collecting property taxes from the public, so they often bear the responsibility of the entire property tax bill, despite retaining only a portion of the taxes collected. They also have already debated, approved, and widely communicated the increase in property taxes a few months prior. This visibility is one of the features of the property tax that increases its accountability but makes it much more contentious relative to other taxes[31]. So, it is often an attractive proposition to use "tax room" and be able to pay for previously unfunded municipal expenditures, while keeping the combined tax rate change the same.

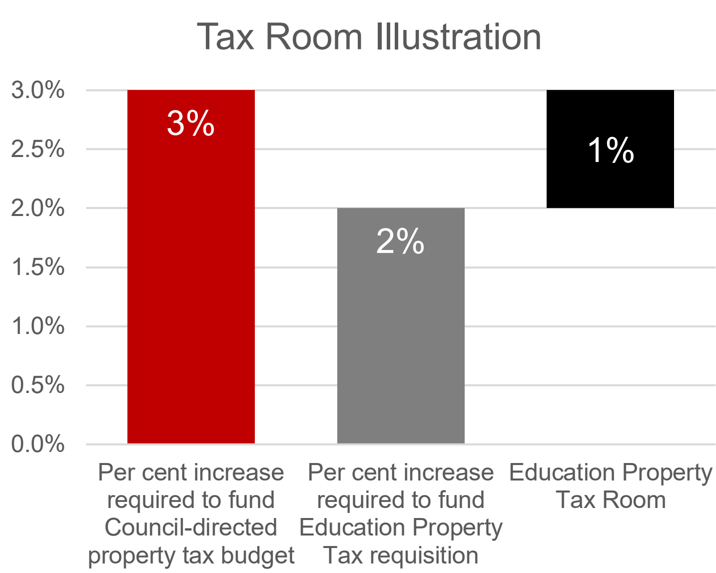


Figure 6 Illustration of tax room arising from differential changes to municipal and provincial property taxes.
This is a simplified illustration, as actual tax room calculations in any given year also depend on underlying changes in the residential and non-residential requisitions, as well as the share of the combined property taxes collected for municipal and education purposes.

There have been efforts in the past to formalize Council's approach to tax room, most recently from 2011 to 2013. In June 2011, Council resolved that, "Should tax room be offered by the Province, in the absence of structural tax reform, Council will take the tax room, and with the proceeds, will prioritize: (a) debt reduction; and (b) capital funding, including lifecycle maintenance."[32] In November 2012, Council directed Administration to develop a new process for determining tax room allocation,[33] and in April 2013 approved guidelines for the use of tax room funds.[34] Those guidelines included further detail on criteria for allocating capital funding,

[31] Kitchen, Slack and Hachard (2019), p. 10.
[32] C2011-65
[33] C2012-0717
[34] PFC2013-0259

the timing of decisions, and the process relating to approval of specific projects. In November 2013, Council rescinded its motion to automatically absorb tax room offered by the province by reconsidering its decision of 2011 June 28.[35]

Over the period of automatic tax room absorption, Council passed two property tax bylaws (in March 2012 and April 2013), which help illustrate the effect of tax room. When adjusting the 2013 budget in November 2012, Council approved a 5.5 per cent combined property tax budget increase. In March 2013, the provincial requisition for Calgary was -0.7 per cent lower than the previous year. As per Council direction at the time (C2011-65), that meant that when passing the property tax bylaw in April 2013 (C2013-0330), Council approved a combined property tax rate increase of 5.5 per cent for residential (13.0 per cent for municipal purposes and -4.1 per cent for provincial purposes) and 5.5 per cent for non-residential properties (7.1 per cent for municipal purposes and 0.5 per cent for provincial purposes). This resulted in $52.1 million additional annual property tax revenue, which was transferred to reserves for Council's future direction as to the allocation of the funds. Council subsequently directed these annual funds toward flood-related costs in 2013, a one-time tax rebate in 2014, and the municipal portion of funding for the Green Line from 2015-2024.

Table 2 Summary of Council's tax room decisions since 2005

Each year, independent decisions about municipal and provincial property taxes determine whether tax room is available. Council decisions determine whether the municipality will absorb the annual room. The resultant room (in millions) is then committed to a specific purpose, often for a specific period.[36]

Year	Available	Absorbed	Amount ($ million)
2005	Yes	Yes	11.8
2006	Yes	Yes	25.7
2007	Yes	*No*	
2008	*No*		
2009	Yes	*No*	*6.0*
2010	*No*		
2011	Yes	Yes	42.0
2012	Yes	Yes	10.2
2013	Yes	Yes	52.1
2014	Yes	*No*	*9.8*
2015	Yes	*No*	*3.0*
2016	*No*		
2017	Yes	Yes	23.7
2018	Yes	*No*	*9.0*
2019	Yes	Yes	27.3
2020	Yes	*No*	*14.7*
2021	Yes	*No*	*2.6*
2022	Yes	*No*	*32.8*

Since November 2013, Council has been without explicit direction to absorb or not absorb tax room, or how to direct those funds when absorbed. In 2019, residential tax room was used to fund a non-residential tax rate decrease.[37] Since 2020, there has been less emphasis on the

[35] NM2013-32
[36] Information from 2005-2012 is from PFC2013-0259.
[37] C2019-0382

combined rate, more effort to differentiate municipal and provincial property taxes in communications, and a focus on keeping municipal tax rate increases as low as possible in the face of current economic conditions. The 2022 property tax bylaw[38] resulted in a 3.5 per cent municipal increase and a 1.7 per cent provincial increase, but the resultant tax room was not absorbed.

3.5. Distributing the Property Tax Budget

The City of Calgary collects property tax on three classes of property: residential, non-residential and farm land. Council has the discretion to distribute the Property Tax Budget among the different property classes in whatever way it deems appropriate. In the past, there was no explicit policy to determine the distribution of tax between classes. In 2019, Council directed that the distribution of tax for 2020 be based on the share of the property tax budget and that the residential class should pay 52 per cent of the property tax budget while the non-residential class should pay 48 per cent.

In 2022 the total property tax required by the City was $2.03 billion. As illustrated below, for 2022 Council did not alter its previous direction that the share paid by each class should be 52 per cent for residential and 48 per cent for non-residential.

Table 3 Distributing the property tax budget
The distribution of the general property tax budget into the different assessment and tax classes.

2022	Total	Residential	Non-Residential	Farm land
Estimated expenditures	$3.58B			
Estimated non-tax revenues	-$1.53B			
Property tax budget	$2.03B	⤵	⤵	⤵
Assigned to classes based on share		**52%**	**48%**	0.1%
Property tax budget by class		**$1.05B**	**$0.97B**	$0.001B

[38] C2022-0317

3.6. The Property Tax Bylaw and Collecting Property Tax

The Property Tax Bylaw

Every year, to collect the taxes approved during the planning and budgeting process, Council must pass a Property Tax Bylaw. In preparing the Property Tax Bylaw, additional adjustments are made to the Property Tax Budget to reflect the amount required to be raised through the property tax bylaw, which we will call the "property tax bylaw amount". This includes a provision to mitigate the risk of tax losses arising from successful appeals at the Assessment Review Board, which increases the property tax bylaw amount. There are also reductions in the required amount, which include accounting for grants in lieu of taxes, taxes coming from annexed properties and supplementary taxes. These adjustments are consistent with other municipalities in the province.

Table 4 Adjustments to the property tax budget

After the property tax budget is distributed to the different property classes, adjustments are made to ensure the proper amount is collected through the bylaw.

2022[39]	Total	Residential	Non-Residential	Farm land
Property tax budget by class	$2.03B	**$1.05B**	**$0.97B**	$0.001B
Revenue requirement adjusted up	$0.04B	e.g. tax loss provision for reductions in assessments[40]		
Revenue requirement adjusted down	-$0.02B	e.g., grants in lieu of taxes, taxes from annexed properties, supplementary tax[41]		
Property tax bylaw amount	$2.05B	**$1.06B**	**$0.98B**	$0.001B

Once the property tax budget has been set and divided into the different property classes, and the provincial property tax rates have been set through provincial budget, The City can finalize the property tax rates for the year. The property tax rates are set for each class by dividing the amount of property tax required by the taxable assessment. The equation is present in each year's property tax bylaw as shown in Figure 7.

	Tax Amount	Taxable Assessment	Tax Rate
MUNICIPAL			
General Municipal:			
Residential	$1,060,664,160	225,913,559,016	0.0046950
Farm Land	1,437,642	63,920,777	0.0224910
Non-Residential	982,969,644	54,962,712,797	0.0178843
Machinery & Equipment	0	0	0.0178843
Sub-Total Municipal Portion	$2,045,071,446	280,940,192,590	
EDUCATION			
Alberta School Foundation Fund and Calgary Catholic Board of Education:			
Residential	$553,597,951	225,516,519,016	0.0024548
Farm Land	156,913	63,920,777	0.0024548
Non-Residential	219,008,071	54,072,061,587	0.0040503
Machinery & Equipment	0	374,700,000	0.0000000
Sub-Total Education Portion	$772,762,935	280,027,201,380	
TOTAL TAX AMOUNT	$2,817,834,381		

Figure 7 Property tax bylaw example

The equations that produce the various tax rates as shown in the *2022 Property Tax Bylaw (10M2022)*. The "Tax Amount" is divided by the "Taxable Assessment" to arrive at the "Tax Rate".

[39] These reconciliations are detailed in an attachment that accompanies the annual Property Tax Related Bylaws report. In 2022, this was C2022-0317 Attachment 5 – 2022 Municipal Property Tax Summary.

[40] The revenue requirement is increased to mitigate reduced tax revenues caused by appeals of assessed values. The distribution of these amounts between residential and non-residential properties are based on factors outside the Council-directed tax share.

[41] The revenue requirement is decreased to account for property tax revenues that are collected through other means. The distribution of these amounts between residential and non-residential properties are based on factors not set by the Council-directed tax share.

Tax Bills

Once the property tax bylaw has passed, The City can issue property tax bills by applying the rate applicable to each class to the properties in those classes. Using the calculation below, tax bills are typically sent in mid-May with a deadline for payment at the end of June, unless the property is registered with the Tax Installment Payment Plan.

$$Property\ Tax\ Rate \times Property\ Assessment = Property\ Tax$$

Equation 4 The calculation of an individual property tax bill.

Tax Installment Payment Plan

By default, taxpayers are required to pay tax bills in a lump sum payment, but the *Municipal Government Act* permits Council to pass a bylaw providing for the payment of taxes by instalments. Property owners may enroll in the Tax Installment Payment Plan (TIPP) to make monthly payments rather than paying in one lump sum.

Tax Penalties and Arrears

In accordance with sections 344-346 of the *Municipal Government Act*, City of Calgary Bylaw 8M2002 authorizes penalties for non-payment of taxes. Penalties are a percentage of the unpaid amount. Current taxes are taxes levied in the current calendar year. Tax arrears are taxes levied in prior calendar years.

- Any unpaid current year account balance is penalized 7 per cent on July 1.
- The penalty is a fixed percentage, not a daily interest charge. For example, if unpaid taxes are $2,000 as of July 1, the penalty will be $140.
- Any unpaid current year account balance as of October 1 receives an additional penalty of 7 per cent.
- Any unpaid taxes and penalties that have accrued from the previous year(s) is deemed arrears. Any arrears balance is charged a penalty of 1 per cent on the first day of every month, until the taxes are paid.
- Payments are applied in the following order: arrears penalties, arrears, current penalties, and current arrears.

Pursuant to Part 10, Division 8 of the *Municipal Government Act*, any property with tax arrears of more than one year receives a warning notice that provinces important information on minimum amounts that must be paid to prevent escalated tax recovery action. Any property with tax arrears of more than one year has a Tax Recovery Notification registered on the certificate of title and incur a $60 charge. Payment of full tax arrears will prevent a property from being sold at a public auction. Each year properties with more than 3 years outstanding tax arrears are offered for sale at public auction by The City.

3.7. Supplementary Assessments and Taxes

A supplementary assessment notice is sent to property and business owners due to new construction or improvements that have been completed or occupied during the current tax year, and that was not included on the annual Assessment Roll. The notice is prorated to reflect the number of months the new construction or improvement is complete or occupied during the current tax year. The supplementary assessment notice includes both the supplementary months and the date the supplementary is based on. This information is used to calculate the supplementary property tax bill, which is sent separately.

The supplementary tax bill reflects the number of months used in the calculation of the property tax bill. A supplementary tax bill is calculated by multiplying the assessed value of the property by the applicable property tax rate, divided by 12 months in the year, multiplied by the supplementary months on the supplementary tax bill.

$$Supplementary\ Tax\ Bill = \frac{Supplementary\ Assessment\ \times Property\ Tax\ Rate}{12} \times Number\ of\ Months$$

Equation 5 The calculation of a supplementary tax bill.

3.8. Grants and Payments in Lieu of Taxes

Properties owned by governments generally do not pay property taxes, but often provide grants or payments to mitigate the impacts on the tax base and the resulting lowered property tax revenues because of these exemptions.

In Alberta, in accordance with section 366 of the *Municipal Government Act*, the province can provide *grants in place of taxes* to municipalities not exceeding the amount that would be recoverable by the municipality if the property were not exempt from taxation. The federal government also provides *payments in lieu of taxes* for property exempt from taxation, through the *Payments in Lieu of Taxes Act*.[42]

Both the provincial and federal governments retain discretion over their respective programs. For example, in 2019-2020 the province reduced grants in place of taxes for most eligible properties by 25 per cent. In the subsequent year, and continuing through at least 2022-2023, these payments have been reduced to 50 per cent of the eligible amount. These reductions were deemed necessary by the Government of Alberta to help reduce provincial operating spending, further underlining the discretionary nature of this grant program.

The City of Calgary shows these amounts (both grants and payments) as a reduction in the required property tax revenue to be raised through bylaw. In 2022, “Grants in Lieu of Taxes” amounted to $14.3M.[43] Some municipalities show grants in place of taxes in their annual property tax bylaw (e.g., Edmonton[44]), as the grants are calculated by multiplying the assessed values of the exempt properties by the tax rates approved in the bylaw.

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[42] Further details can be found at *Understanding payments in lieu of taxes*. Government of Canada. https://www.tpsgc-pwgsc.gc.ca/biens-property/peri-pilt/comprendre-understand-eng.html
[43] This includes provincial grants in place of taxes, federal payments in lieu of taxes, and revenues in lieu of taxes from CP Rail.
[44] http://www.municipalaffairs.alberta.ca/cfml/FinancialTaxRateSearch/pdf/tr_bylaws/2021_Bylaw_Edmonton_0098.pdf

3.9. The Effect of Annexations on Taxes

In accordance with sections 112.1 to 128.1 of the *Municipal Government Act*, the Lieutenant Governor in Council may by order annex land from one municipal authority to another municipal authority. 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. It is common for annexation orders to include provisions covering the transition with respect to taxes.

Typically, annexation orders detail a transition point based on actions taken by property owners (such as land use change, subdivision or connecting their property to water services) or a transition date in the future when properties cease to be taxed in a manner with the old municipality and start being taxed by the new municipality.

- Annexed properties reduce the taxable assessment base while they are taxed based on their previous municipalities' rates.
- Some municipalities show these amounts and rates in their annual property tax bylaw (e.g., Airdrie[45])
- The City of Calgary shows these amounts as a reduction in the required property tax revenue to be raised through bylaw. In 2022, "Annexed Rocky View and Foothills Taxes" amounted to $900,000.

3.10. Property Tax Exemptions

Rules governing property tax exemptions are established in the *Municipal Government Act* (MGA) and regulations including *Community Organization Property Tax Exemption Regulation* (COPTER) and *Social Housing Accommodation Regulation* (SHAR). Many public, non-profit and charitable organizations qualify for an exemption through their use or control of property, if they meet criteria and conditions. Exempt property uses include, but are not limited to community associations, youth sport organizations, universities, places of worship, hospitals, ethno-cultural organizations, and museums. Properties exempt under provincial legislation are exempt from both municipal and provincial property tax.

City Council also has the ability to create a bylaw to exempt property held by a non-profit organization in accordance with section 364 of the *Municipal Government Act*. In Calgary, residents' associations are exempt from municipal property tax by bylaw.

In the literature on property tax, it is generally accepted that property tax exemptions for non-profit organizations are an indirect operating subsidy provided to those who relieve the burdens of government.

Exemptions are thought of as an indirect subsidy because when a property tax exemption is applied, the remaining property taxpayers must pay the taxes that would have otherwise been paid by the exempt property (i.e., The City does not pay the subsidy directly to the organization). This is due to the way in which the property tax rates are calculated.

Any previously taxable property that is rendered exempt by virtue of ownership or use is removed from the taxable assessment base. As shown in Equation 5, this results in an increase

[45] http://www.municipalaffairs.alberta.ca/cfml/FinancialTaxRateSearch/pdf/tr_bylaws/2021_Bylaw_Airdrie_0003.pdf

to the tax rate. This effect is small on an individual basis, but it is substantial when all exempt properties are considered.

$$\frac{Property\ Tax\ Budget \leftrightarrow}{Taxable\ Assessment\ Base \downarrow} = Tax\ Rate \uparrow$$

Equation 6 The effect of property tax exemptions is to lower the taxable assessment base. A lower assessment base results in a higher tax rate for all remaining taxpayers.

Therefore, the overall effect of a property tax exemption is that the remaining taxpayers provide an indirect subsidy to organizations that are exempt from taxation. This benefit, however, is not budgeted and is received as a matter of course once the exemption has been approved. In order to understand costs associated with providing property tax exemptions, promote transparency, and aid in analyzing exemption benefits, experts suggest tracking tax expenditures related to exemptions through a tax expenditure budget that "displays the estimated revenue losses from special exclusions, exemptions, deductions, credits, deferrals, and preferential tax rates."[46]

In 2021, over 11,300 accounts were exempt from municipal property taxes, representing nearly $28 billion in assessed value and 9 per cent of the total assessment base (one per cent of the residential class and 28 per cent of the non-residential class). Municipal property makes up over one third (36 per cent) of all exempt assessed values.[47] A further 48 per cent of exempt values are provincially owned or related to areas of provincial jurisdiction.[48] Non-profit and community organizations account for another 9 per cent of total exempt values.[49]

If these properties were included in the taxable assessment base, they would account for roughly $357 million in municipal property tax responsibility.

3.11. Tax Relief

Property Tax Cancellations, Refunds, Deferrals, and Phase-Ins

Section 347 of the *Municipal Government Act* provides Council with several tools to provide tax relief.

Under section 347(1), Council may cancel, reduce, refund or defer all or part of a tax, generally or with respect to a particular taxable property or class of taxable property, if it considers it equitable to do so. Council uses this authority from time to time in a variety of circumstances. As examples:

- Twice annually, Administration recommends cancellations to correct errors identified in previous years' assessment and tax rolls.

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[46] International Association of Assessing Officers, *Standard on Property Tax Policy*, p. 24. https://www.iaao.org/media/standards/Standard_on_Property_Tax_Policy.pdf

[47] Including municipal property under 362(1)(b), libraries under 362(1)(j) and municipal and environmental reserve under 361(c).

[48] Including provincial properties under 362(1), as well as hospitals, institutional nursing homes, seniors lodges, post-secondary institutions, school property and school reserve.

[49] Including properties exempt under 362(1)(n) and COPTER.

- Council also cancels an average of approximately $200,000 per year for properties under construction held by non-profit organizations that are used for exempt uses once construction is complete, in accordance with the Non-Profit Tax Mitigation Policy.
- Since 2017, Council has approved Notices of Motion to cancel taxes for taxable properties held by Calgary Housing Company (CHC) and Silvera for Seniors, to address unique circumstances impacting their taxable status.
- In 2021, Council approved a Notice of Motion to cancel property taxes for affordable housing held by the Metis Capital Housing Corporation (MCHC) and Metis Urban Housing Corporation (MUHC) to advance the Truth and Reconciliation Calls to Action and address an inequity arising from provincial regulations.
- In 2021 and 2022, Council deferred taxes for hotel and motel properties experiencing financial challenges due to the continued effects of the pandemic.

Under section 347(2), Council may phase in a tax increase or decrease resulting from the preparation of any new assessment. This enables Council to effectively “cap” the increased tax responsibility property owners may experience as the result of market changes. Council used this power to implement a Phased Tax Program (PTP) to mitigate the negative impacts of the downtown tax shift from 2017-2021.

In contrast to exemptions, which have the effect of redistributing tax responsibility before tax bills are mailed, the value of tax cancellations, deferrals, refunds, and reductions are incurred as expenditures from The City’s budget. Council must consider how these tools may be applied annually on a case-by-case basis and has limited authority under the *City of Calgary Charter Regulation* to delegate these powers to Administration.

Property Tax Assistance Program

The City of Calgary offers residential property owners experiencing financial hardship, regardless of age, a credit/grant for the year-over-year increase on their property tax account.

To be eligible for this program the property owner must:

- Meet the residency and income guidelines of the Fair Entry Program.
- Own their own home and reside in their home.
- Own the property for a minimum of one year from date of purchase.
- Own no other City of Calgary residential property.
- Have experienced an increase in property tax from the previous year.

Compassionate Property Tax Penalty Relief Program

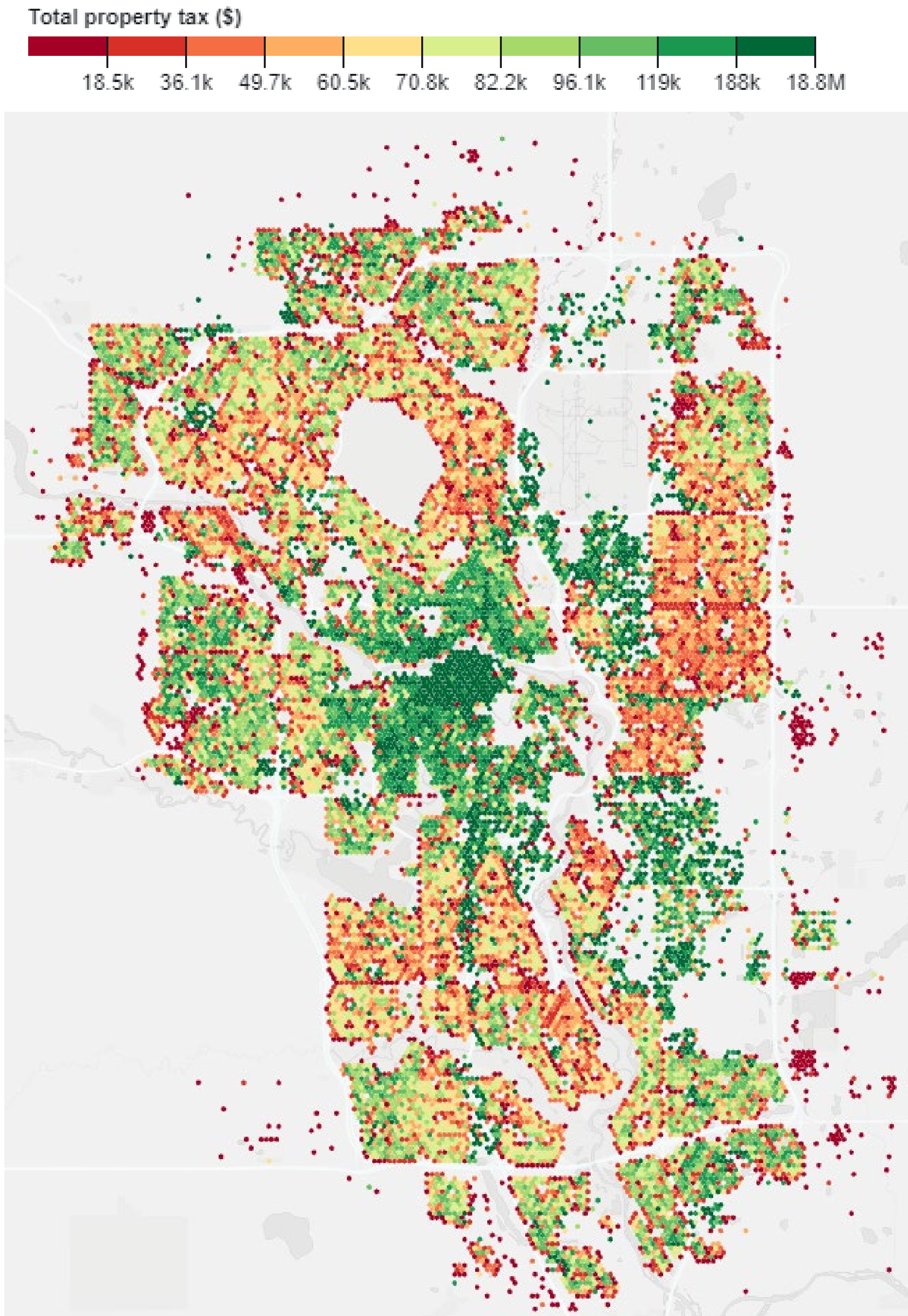
Using its ability under the *City of Calgary Charter Regulation*, Council passed bylaw 1H2018 delegate authority to Administration to provide property tax penalty relief for residential property owners who experience significant life issues that impact their ability to pay taxes by the June 30 deadline. Under this program, Administration can cancel tax penalties for properties where there has been a death or critical illness impacting the property owner or an immediate family member.

3.12. Tax Productivity by Area

Council has expressed interest in seeing the tax productivity in different areas of the city. The map below shows tax productivity (dollars of tax generated by a given area) from red (lowest decile) to green (highest decile).

Figure 8 Tax productivity by area in 2021

Mapping the relative tax productivity (both residential and non-residential) of areas across the city in 2021. Each residential and non-residential account was assigned a representative point based on its location, and the taxes were calculated based on 2021 assessed values and tax rates. Each point on the map aggregates the total taxes for a .1km radius hexagon (about .026 km2 or 26,000 m2 or 2.6 hectares or 6.4 acres). The darkest red areas produced tax revenue up to $18,500, and the darkest green produced tax revenue over $188,000 (up to $18.8M). The median hexagon in this analysis produced $71,000 in property taxes, or about $11,000 per acre or $27,000 per hectare.



The general trends observed in this map are:

- Non-residential properties (e.g., downtown, industrial northeast and southeast) contribute the most per acre because the value of the land and buildings is much higher, and the non-residential tax rate is higher than the residential tax rate.
- More intense uses (i.e., multi-story buildings with large site coverage) are much more productive than less intense uses (vacant land).
- The value of buildings on the periphery helps with tax productivity, meaning that newer communities with more valuable buildings tend to contribute more than the average community.
- The least productive areas are those areas where land values are lower and buildings have depreciated in value. Typically speaking, these are communities that are 30 – 70 years old.
- Roads, parks and post-secondary institutions are exempt from tax and they are clearly visible on the map.

This should only be interpreted as a high-level view of the distribution of tax revenues throughout the city, using readily available public data. Further work on this topic should be appropriately scoped and resourced before being relied on for decision-making.

3.13. Sources of Volatility in Individual Tax Bills

Having discussed the variables at play in the property tax system and, eventually, the final property tax bill, we can now look at the sources of volatility, meaning year over year changes in tax bills.

(1) Council directed changes to the property tax budget. Council directed changes to the property tax budget rarely result in extraordinary volatility. The impact on property tax bills due solely to Council directed changes typically ranges from -3 per cent to 8 per cent.

(2) Tax shifts due to differential market changes within an assessment class. This type of change is exemplified in the downtown tax shift that occurred in Calgary from 2016 until present. It was caused by dramatic decreases in the market value of downtown office properties, accompanied by relatively stable market values for other types of property. The range of impact in any particular year due to this type of change is -15 per cent to 15 per cent. It is important to note that these shifts can result in substantial changes in property taxes even when assessments remain unchanged and have the potential to impact many properties. It is more likely that shifts will occur where there are several types of properties within a class and values are highly concentrated in one of those classes. This means that significant tax shifts are more likely in the non-residential class which has a highly diverse inventory when compared to the residential class.

Figure 9 shows declines in the value of office space, especially downtown office space, resulting in a change in the composition of the assessment base. These changes caused a redistribution of property tax to other sectors, most notably industrial and retail.

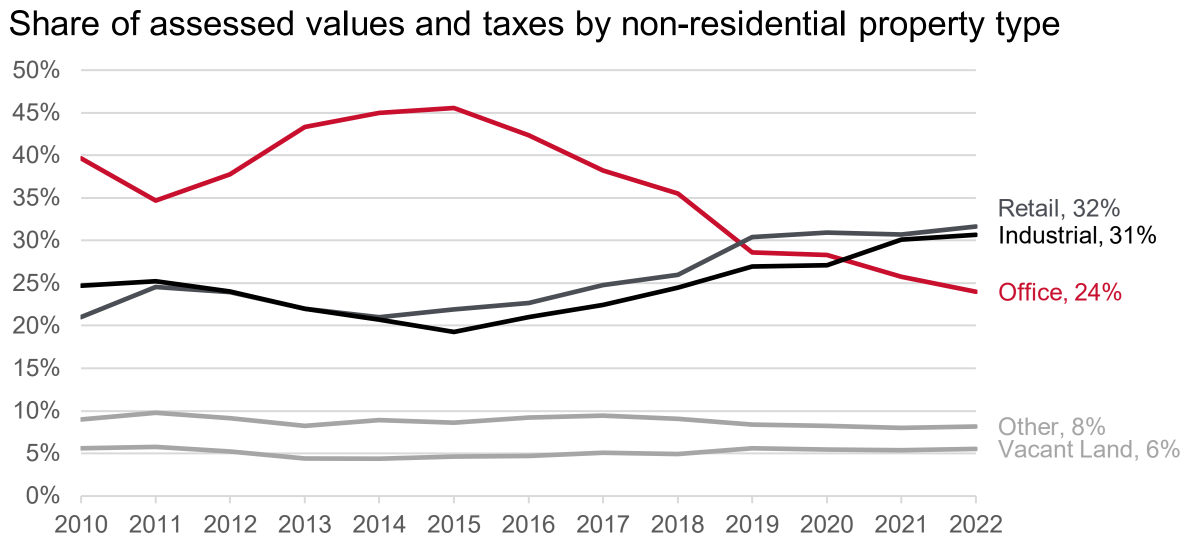


Figure 9 Share of assessed values and taxes by non-residential property type.
The chart shows the peak of office assessment driven by downtown offices in 2015, and the subsequent decline. This decline increased the share of tax borne by the retail and industrial property types.

Also, because the downtown office sector was such a high value component of the non-residential assessment base, the non-residential property tax rate had to be increased to raise a similar amount of revenue.

(3) Market value assessment volatility.
This type of volatility arises from the changes in property markets which are then reflected in market value assessments. This can result in very large property tax changes in a short period of time, but typically affect fewer properties than the other types of volatility. Changes in market value can mean tax changes ranging from -30 per cent to more than 100 per cent.

When two or more of these sources of volatility are combined, there can be significant tax implications. Individual properties can see very large (i.e., greater than 20 per cent) increases in one year with no significant changes to the property.

Increasing Land Values and Their Effect on Assessments

The most acute type of change in a non-residential assessment can occur when the value of the property at the highest and best use of the land begins significantly exceeding the value as it is currently being used. This methodology results in the most accurate market value assessment, as it reflects the value of the land as viewed by investors, but it also breaks the tie between the current income that a property generates, and the taxes paid.

The residential property market is relatively homogeneous and far less concentrated than the non-residential sector and so tax shifts that occur within this market are generally smaller. With that said, a shift occurred in 2022 as values for downtown condos decreased and there was a shift toward single family residential.

3.14. Other taxes

Community Revitalization Levy (CRL)

Calgary has one Community Revitalization Levy to support the strategic development and redevelopment of the Rivers District. A Community Revitalization Levy (CRL) is a tax tool that allows a municipality to focus spending on a particular area by taking a loan, and then paying back the loan using the increased taxes that arise from public investment in the area. Establishing a CRL requires provincial approval through the creation of a new regulation.

The total property tax amount paid by a property that is within the boundaries of a community revitalization levy area is the same as if it were outside the area, but the taxes are calculated differently and require Council to pass a separate Community Revitalization Rate Bylaw.

The properties within a CRL district then pay taxes on two components of their total assessed value:

- The *baseline assessment* for each property is the property assessment as it was in the baseline year; for the Rivers District in Calgary the baseline year is 2007.
- The *incremental assessment* includes all growth (i.e., both real growth and market growth) above the baseline assessment.

The community revitalization levy rate applied to the incremental assessment is equal to the sum of the applicable municipal and provincial property tax rates for that class in that year.

Each property pays the Municipal Property Tax and Provincial Education Property Tax on its baseline assessment, and the Community Revitalization Levy on its incremental assessment. The revenue from each of these have different destinations:

- The Municipal Property Tax goes to The City;
- The Education Property Tax goes to the Province; and
- The Community Revitalization Levy is used toward the payment of infrastructure and other costs associated with the redevelopment of property in the Community Revitalization Levy Area.

It is important to note that the province does not collect education property tax as part of the Community Revitalization Levy.

$$\begin{aligned} &\mathit{Total\ Community\ Revitalization\ Levy\ Revenue} \\ &\qquad = \mathit{Total\ Incremental\ Taxable\ Assessment} \\ &\qquad \times \mathit{Community\ Revitalization\ Levy\ Rate} \end{aligned}$$

Equation 7 The equation for the community revitalization levy revenue.

Unlike other components of the property tax system, the amount of revenue collected is not based on Council direction. Instead, the amount of revenue raised through the Community Revitalization Levy is dependent on the taxable incremental assessment and the Community Revitalization Levy Rates, which are the same rates applied in the rest of the city in that year.

Table 5 Example of property tax rates with Community Revitalization Levy.
An example of municipal and education property tax rates and community revitalization levy rates applied to a fictional property within and outside a CRL district. Both properties pay the same tax amount for the same assessed value, but those tax dollars go to different places depending on whether the property is in the CRL district.

			2022 Property Tax			
			Municipal	Provincial	CRL	Total
Assessment Values		Rates:	0.0178843	0.0040503	0.0219346	
Property within CRL district						
Value from 2007	$501,500		$8,969	$2,031		$11,000
Incremental value	+$501,500				$11,000	$11,000
Value in 2022	$1,003,000					$22,000
Property outside CRL district						
Value in 2022	$1,003,000		$17,938	$4,062		$22,000

Special Taxes

Under sections 382-387 of the *Municipal Government Act*, Council may pass a special tax bylaw to raise revenue to pay for a specific service or purpose. Special taxes are levied on a sub-group of properties for a defined purpose that specifically benefits those properties. The estimated cost of the specific service or purpose for which the tax is imposed must be included in the budget of the municipality as an estimated expenditure and the revenue raised by a special tax must be applied to the specific service or purpose stated in the bylaw. A special tax bylaw must be passed annually.

In Calgary, a special tax funds the enhanced landscape maintenance program in the following communities: Christie Park, Citadel, Diamond Cove, Douglas Glen, Douglasdale, Edgemont, Hawkwood, McKenzie Lake, Patterson Hills, Royal Oak Estates, Valley Ridge and Scenic Acres.

The tax can be levied on individual properties based on:

- the property assessment,
- parcel of land,
- unit of frontage, or
- unit of area

They can be levied for the following reasons:

- a waterworks tax
- a sewer tax
- a boulevard tax
- a dust treatment tax
- a paving tax

- a tax to cover the cost of repair and maintenance of roads, boulevards, sewer facilities and water facilities
- a tax to enable the municipality to provide incentives to health professionals to reside and practice their professions in the municipality
- a fire protection area tax
- a drainage ditch tax
- a tax to provide a supply of water for the residents of a hamlet
- a recreational services tax

While the special tax must be paid by properties in the area of the municipality that will benefit from the specific service or purpose, the distribution of benefits between individual properties within the benefiting area can be less clear. Equity suggests that the special tax for each individual property be levied based on assessed values, unless there is supporting analysis that clearly indicates the benefits to each property are closely approximated by one of the other factors.

Local Improvement Taxes

Pursuant to sections 391-409 of the *Municipal Government Act*, local improvement taxes are paid by a small sub-group of properties for a defined local improvement that is a greater benefit to those properties rather than the whole municipality. It is generally a multi-year levy designed to pay the cost of the project in whole or in part. The levy is imposed by bylaw for a set number of years, after which the levy is no longer collected. The tax can be levied on individual properties based on:

- the property assessment,
- parcel of land,
- unit of frontage, or
- unit of area.

They can be the result of a Council-led initiative, or a petition brought forward by the community or an individual property owner.

The City typically uses local improvement taxes on small projects like driveway crossings for individual property owners, lane paving, sidewalk replacement, or curb maintenance. Local improvement tax bylaws are also passed annually for the enhanced maintenance of Stephen Avenue Mall and Barclay Mall.

As with special taxes, absent supporting analysis that clearly indicates the benefits to each property are closely approximated by one of the other factors, equity suggests that the local improvement tax for each individual property be levied based on assessed values.

Business Tax

While business occupancy taxes were once common in Canada, municipalities across the country decided that having two parallel taxes on the same properties was not the most effective use of resources. Calgary City Council decided to stop levying business taxes in 2012 by gradually consolidating business tax revenues into the non-residential property tax, culminating in the elimination of the business tax in 2019. The business tax is still a property-based tax authorized by the *Municipal Government Act*, but it is levied directly on businesses rather than on property owners and is based on the premises occupied by the business.

Calgary consolidated business tax revenues into the non-residential property tax to: (1) streamline the property tax system while making it more equitable, efficient and transparent; (2) align with best practices across Canada; and (3) reduce legal issues arising from differing interpretations of the business tax bylaw.

Effect of Business Tax Consolidation on Non-Residential Taxes

In 2012, Council decided to consolidate business tax revenues with the non-residential property tax to streamline The City's taxation system.[50] Phased over 7 years, The City stopped collecting business tax in 2019. The effect of the consolidation was to collect ~$220 million that had been levied via the business tax and instead collect that same amount of revenue through the non-residential property tax.

$$\begin{aligned} &Non\text{–}\,Residential\ Property\ Tax\ Revenue \\ &\quad = Non\text{–}\,Residential\ Property\ Tax\ Revenue \\ &\quad + Consolidated\ Business\ Tax\ Revenue \end{aligned}$$

Equation 8 The consolidated non-residential property tax is equal to the sum of non-residential property tax revenue and business tax revenue.

In making this change, both the non-residential property tax levy and the non-residential property tax rate were increased, but Council also directed Administration to maintain a 0 per cent increase on the consolidated business tax revenues. As such, when Council decides to increase non-residential property tax revenues by a given per cent, that percentage increase does not apply to the consolidated business tax revenues.

[50] PFC2012-35 Business Tax Consolidation Framework and Associated Plans approved at 2012 April 09 Combined Meeting of Council.

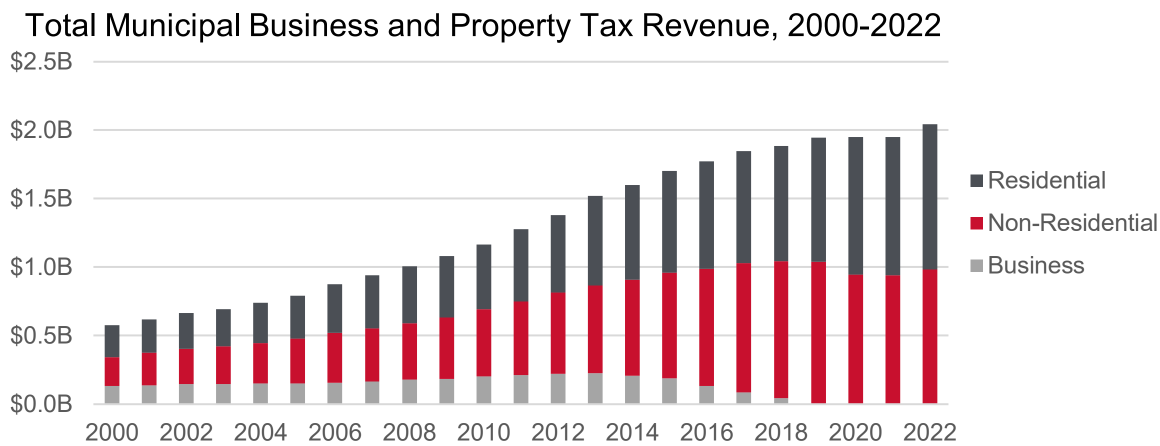


Figure 10 Total municipal business and property tax revenue, 2000-2022.
The decline in business tax revenue resulting from Council's decision to consolidate business tax revenues into the non-residential property tax culminating in the elimination of the business tax in 2019.

Council's decision in 2019 to make tax distribution decisions based on tax share have rendered the freeze on the business tax portion of the non-residential tax ineffective, because the tax rate changes for residential and non-residential properties are adjusted to meet the tax share. The decision to reduce the non-residential tax share for 2020 resulted in decreasing non-residential property taxes, which served the same intent as the business tax freeze policy.

At the time that the consolidation was put forward it was determined that, based on the total taxes levied from a property (i.e., both business and non-residential property tax combined), most properties that were occupied by businesses would see a small tax change and that many would see an overall tax decrease.

Taxpayers that would see a substantial increase included those with: (1) properties owned/occupied by non-profit organizations providing limited public benefits (usually with limited membership); (2) linear properties (e.g., pipelines); (3) properties owned by organizations that pay grants in lieu of taxes, usually governments; and (4) other properties that were not paying business taxes, usually vacant properties.

Business Improvement Area Taxes

A Business Improvement Area (BIA) is established in accordance with the provincial *Business Improvement Area Regulation* by business owners in a defined area to jointly raise and administer funds for various projects and promotional activities within the area throughout the year. Only businesses operating within a BIA boundary receive a BIA tax bill. BIA tax bills and property tax bills are unrelated.

The BIA tax levy is collected by The City of Calgary on behalf of the BIA at no cost to the BIA. The City does not benefit from the collection of BIA tax. All funds are transferred to the BIA, which works with business members within the respective BIA, to set priorities and budget.

Each BIA's Board of Directors establishes a proposed annual budget which is submitted to City Council for approval. Once approved, a BIA tax rate is established for each BIA to raise the required revenue to meet their budget requirements. City Council approves the establishment of the BIA, its annual budget, and BIA tax rate.

Other taxes and levies not based on property assessments

In addition to the taxes discussed above – which are based on property or business assessments, or on the characteristics of an individual property – the *Municipal Government Act* allows Alberta municipalities to collect a few other specific taxes and levies:

- In accordance with section 409 of the *Municipal Government Act*, Council has the authority to pass a bylaw (50M2007 in Calgary) to impose a community aggregate payment (CAP) levy in respect of all sand and gravel businesses operating in the municipality. Calgary currently charges the legislated maximum rate of $0.40 per tonne of sand and gravel mined within the city, generating $2.25 million in revenue in 2021.
- The clean energy improvement tax may be levied in accordance with section 390 of the *Municipal Government Act* on eligible private properties to recover the cost of clean energy improvements that increase the energy efficiency or the use of renewable energy on that property. Calgary's City Council passed a Clean Energy Improvement Bylaw in 2021 that enables The City to offer a Clean Energy Improvement Program in Calgary.
- Alberta municipalities are permitted to collect a well drilling equipment tax in respect of equipment used to drill a well for which a licence is required under the *Oil and Gas Conservation Act*. The City of Calgary does not impose a well drilling equipment tax.