Corporate Planning and Financial Services Report to Regular Meeting of Council
2023 February 14

ISC: UNRESTRICTED
C2023-0109

2023 Residential and Non-Residential Tax Share Options

RECOMMENDATION(S):

That Council:

1. Provide Administration with direction regarding the residential/non-residential property tax shares by selecting one of the property tax options as outlined in Attachment 2:
   A. Option A — Maintain Status Quo tax share of 52 residential : 48 non-residential.
   B. Option B — Change tax responsibility from non-residential to residential taxpayers to achieve a 53 residential : 47 non-residential tax share.
   C. Option C — Change tax responsibility from non-residential to residential taxpayers to achieve a 54 residential : 46 non-residential tax share.
2. If Option B or C is selected, and the 2023 provincial requisition is less than $782 million from 2022, the difference up to the amount required to provide a one-time inflationary relief rebate to residential property owners to off set the impacts of the change in tax responsibility, will be added to the municipal tax amount. The additional municipal tax amount will not be considered in the calculation of tax share.
3. Direct Administration to continue federal and provincial advocacy for long-term, sustainable, operational funding and/or funding tools and return to Council with recommended Budget Adjustments if a new or greatly expanded revenue streams to support operational expenses for The City is advanced in the next federal or provincial budgets.

HIGHLIGHTS

- The distribution of tax responsibility between residential and non-residential taxpayers is a values-based decision that must be made by Council to proceed with the production of tax bills, which are scheduled to be mailed on 2023 May 25 & 26.
- While the question of distributing the property tax among property classes is common, there has been no consensus among municipalities, or in the literature, about what the appropriate distribution is or what methodology should be used to determine the distribution.
- Setting the tax share enables Administration to finalize the municipal tax rates for taxable properties and to begin drafting the property tax bylaws.
- If the 2023 provincial property tax requisition is less than the $782 million from 2022, there may be an opportunity to provide a one-time inflationary relief rebate to residential property owners impacted by the change in tax responsibility.
- Following the finalization of the property tax revenue requirement in Report C2022-1051, Council is required to set tax rates for the different assessment classes of taxable properties to finalize the budget in accordance with the Multi-Year Business Planning and Budgeting Policy for The City of Calgary (CFO004).
- **What does this mean to Calgarians?**
  Council is tasked with making a values-based decision in fairly balancing the tax responsibility between households and businesses which could result in higher tax responsibility for households and lower tax responsibility for business in 2023.
- **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 to fund services Calgarians rely on. Tax competitiveness within the region and with other

Approval: **Carla Male** concurs with this report. Author: **Kyle Olsen**

major metro areas is a contributing factor to investment decisions by individuals and companies which grow our city.

- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

Determining the tax share

How to generate the revenue required to provide the services necessary to ensure Calgarians' world leading quality of life is one of the hardest questions citizens elected Council to answer. After setting the tax revenue requirement needed to balance The City's budget, Council is then asked to set the distribution of responsibility between tax classes, in Calgary's case, between residential and non-residential properties.

Tax Distribution between Residential and Non-Residential Properties

The distribution of tax share between residential and non-residential properties is a values-based decision. There is no right or wrong decision for Council to make regarding tax share. Tax share, as it results in changes to tax rates, may affect the behaviour of both residential and non-residential investors in making investment decisions which grow our city and effect its build form and composition over time. There is no consensus among municipalities, or in literature, about what the appropriate tax share is or what methodology should be used to determine the tax share. Reducing the tax share paid by non-residential taxpayers would move Calgary closer to the trend of national and regional averages found in comparative analysis (Figure 7 National and regional averages, 2022 | page 7 | Attachment 3).

Council is left with a values-based decision, weighing beliefs about citizens' preferences, attitudes towards taxation and business taxation in general, and knowledge of tax competitiveness with neighbouring jurisdictions and competing major metro areas.

Administration has provided five (5) options for setting The City of Calgary's tax share for the 2023 tax year (Attachment 2), and provided considerations (i.e. paying for recurring expenses from our savings account, below) which Council may wish to consider when adopting a tax-share scenario. Administration recommends that Council chooses Options A, B or C as they do not defer tax impacts into the future. A 1% change in tax share responsibility (transferring approximately $21.7 million in tax responsibility) from non-residential to residential taxpayers results in an increase in tax owing for a typical single residential home of $47 per year or $4 a month.

Paying for Recurring Expenses from our Savings Account

When The City pays for recurring expenses out of our savings account, the results on the long-term financial health of The City is like when a household pays for monthly bills from savings or an inheritance: deterioration. Paying a bill from savings instead of income in one year means when the same bill is due next year, savings is needed again unless income rises or expenses are reduced.

Taxes are one of The City's primary sources of revenue. When Council opts to not raise the revenues needed to cover expenses Council must authorize another source of cash to fill the gap. Reserve funds are one ready source of cash Council may use for this purpose.

Drawing down reserves to pay recurring expenses means that reserve fund balances decrease from what they would otherwise be. If reserves are drawn down more than contributions, eventually the reserve will no longer be able to fund the recurring expense. When that occurs Council will be faced with the decision that has been deferred for the length of time recurring expenses were funded from reserves: to raise revenues or cut expenses.

Provincial Requisition Considerations

Each year, The City is required to collect property tax on behalf of the Provincial Government and pay the requisition quarterly. In 2022, the requisition was about $782 million. The province is anticipated to release their budget 2023 February 28 which will include this year's requisition. If the 2023 requisition is lower than 2022, there may be an opportunity to provide residential property owners a one-time inflationary relief rebate to off set the impacts of a change in tax responsibility through increasing the municipal tax amount to be collected that is vacated by the province.

Other considerations

Engagement with other levels of government to secure operating funds and new tools to raise operating funds is ongoing. While engagement regarding the fiscal capacity of municipalities is not new, and over the past quarter century significant progress has been made, it is exceedingly unlikely new resources will be secured in time to inform the processes necessary to set property tax rates according to statutory and process requirements for 2023. In addition, providing citizens with more certainty about the direction of City services, finances, and tax levels remains core to The City's budgeting approach according to the *Multi-Year Business Planning and Budgeting Policy*. Should an external factor such as a provincial or federal budgets in 2023 introducing a new revenue stream to support operational expenses for The City, adjustments can then be considered to account for that new revenue stream. A more fulsome update is provided in Attachment 4.

EXTERNAL ENGAGEMENT AND COMMUNICATION

☒ Public engagement was undertaken

☐ Public/interested parties were informed

☐ Dialogue with interested parties was undertaken

☐ Public communication or engagement was not required

In preparing for setting property tax rates in the 2023-2026 Service Plans and Budget, the Financial Task Force conducted extensive public engagement as part of its Property Tax Policy Framework EC2022-0649.

The Engagement Summary detailed 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. A 2.8:1 tax rate ratio would result in an additional $219 million in tax responsibility for residential taxpayers, an increase in tax owing for the median single residential home of $547 or $46 a month. Under the tax share approach, the tax rate ratio would result in a tax share of 38 per cent for the non-residential property class and 62 per cent for the residential property class.

2023 Residential and Non-Residential Tax Share Options

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 (Options B & C per attachment 2), and likewise, any redistribution of taxes away from non-residential property tax (Options B, D & E per attachment 2) will result in decreased costs for businesses. Any decision to utilise reserves to fund ongoing operations (Options D & E per attachment 2) will create uncertainty over future rates and/or service levels for households and businesses. Residential property tax increases' (Options B & C per attachment 2) social impact are partially mitigated for homeowners by the Government of Alberta's Seniors Property Tax Deferral Program and The City's Property Tax Assistance Program.

Environmental

Not applicable.

Economic

Reduction of non-residential property tax share (Options B, C, D, E per attachment 2) will reduce the tax responsibility of Calgary businesses, and may encourage business investment and support economic growth over the long term.

Options D and E per attachment 2, utilising reserves to fund ongoing operations (Options D & E per attachment 2), will create uncertainty over future tax rates for households and businesses. Residential property tax increases (Options B & C per attachment 2) social impact are partially mitigated for homeowners by the Government of Alberta's Seniors Property Tax Deferral Program and The City's Property Tax Assistance Program.

Service and Financial Implications

Other:

–Up to $81 million in one-time reserve funds

Depending on the option selected by Council, different outcomes could result.

Reserve Fund Balances: Option D per attachment 2, Fiscal Stability and Operating Budget Savings Account Merged drawn down by $41 million; Option E per attachment 2, Fiscal Stability and Operating Budget Savings Account Merged drawn down by $81 million

2023 Residential and Non-Residential Tax Share Options

RISK

Delaying a tax share decision further will decrease the ability for Calgary households and businesses to plan their budgets and make investment decisions and may delay the ultimate property tax bill mailing currently planned for 2023 May 25 & 26.

Utilizing the Fiscal Stability Reserve component of the Fiscal Stability and Operating Budget Savings Account Merged (Options D & E per attachment 2) to fund ongoing operating expenditures is not consistent with Fiscal Stability Reserve Policy CFO02.

ATTACHMENTS

1. Previous Council Direction, Background
2. Placemat – Options for Decision
3. Updated 2023 – 2026 Service Plans and Budgets | Tax Distribution Research, Benchmarking and Scenarios
4. Intergovernmental Affairs Update
5. Presentation

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
David Duckworth	City Manager's Office	Approve
Carla Male	Corporate Planning and Financial Services	Approve
Eddie Lee	Corporate Planning and Financial Services	Approve
Chris Arthurs	People, Innovation and Collaborative Services	Inform
Les Tochor	Corporate Planning and Financial Services	Inform