Designated Historical Resource Property Sub-class Analysis

Summary

A sub-class is a mechanism within the property assessment and taxation framework that allows certain properties, identified by the criteria for the sub-class, to be taxed at a different rate from properties in other classes or sub-classes. This can be used to create an incentive (i.e., a lower tax rate) or a disincentive (i.e., a higher tax rate) for different property types or uses.

Sub-classes are governed by the *Municipal Government Act*, RSA 2000, c M-26 (the "**MGA**"), as modified by the *City of Calgary Charter, 2018 Regulation*, Alta Reg 40/2018 (the "**Charter**"). While there is broad flexibility to create residential sub-classes, current legislation limits the available non-residential sub-classes, meaning a sub-class for non-residential historical resource properties is not currently possible.

Therefore, while a residential sub-class could be created to provide a lower tax rate for designated historical resource properties, the same cannot be done for non-residential properties, meaning non-residential properties would continue to require a tax cancellation or grant program to provide comparable tax relief. This would result in differential treatment for non-residential and residential designated historical resource properties, both in terms of how the tax relief is received by and communicated to property owners, and likely in the value of the tax relief received.

If there were no legislative constraints on the creation of sub-classes, there are other logistical barriers to their effective use in the context of a heritage property incentive. Tax rates are the product of complex calculations, and are subject to numerous factors, including:

- Year-over-year changes to the assessment bases of individual (sub-)classes, and to assessment bases of each (sub-)class relative to each other, including from annual assessments, properties entering or leaving sub-classes, and physical growth and redevelopment;
- Assessment and tax implications from annexed properties, where applicable;
- Changes to The City's budget and tax revenue requirements and the tax share responsibilities for each class or sub-class;

The MGA also sets a maximum ratio of the highest non-residential tax rate to the lowest residential tax rate of 5:1 (i.e., the tax rates must be set in such a way that per dollar of assessed value, a non-residential property would pay no more than five times the amount a residential property would). This means creating a lower tax rate for a residential sub-class or a higher tax rate for a non-residential sub-class is constrained by the ratio. For these reasons, sub-classing for designated historical resource properties is not currently recommended.

Below is additional detail on each of these considerations, and updates on the future of sub-classes in Calgary.

Legislation on Sub-classes

Section 297 of the MGA, as modified by the Charter, governs assessment classes and sub-classes, outlining four assessment classes: residential, non-residential, farm land, and machinery and equipment. Only the residential and non-residential classes may be divided into sub-classes.

More information on the applicable legislation is included in Attachment 1 of this report.

Residential Assessment Sub-classes

Section 297(2) permits Council to divide the residential class into sub-classes "on any basis it considers appropriate." Possible sub-classes include defining properties by dwelling type, market value, geographic area, date of construction, vacancy or dereliction, or others.

It is therefore legislatively possible to create a "Designated Historical Resource Property" residential sub-class, to tax designated Municipal Historic Resource ("MHR") properties at a differential tax rate. However, there are other challenges with doing so, discussed below.

Non-Residential Assessment Sub-classes

Sub-classes for non-residential properties are more constrained. As modified by the Charter, section 297(2.1), (2.2) and (3.1) of the MGA govern the creation of non-residential sub-classes, and permit the following non-residential sub-classes, with varying degrees of flexibility to define the criteria for inclusion:

- Derelict property
- Contaminated property
- Vacant property
- Small business property
- Other non-residential property (i.e., non-residential properties that are not in any of the other non-residential sub-classes, if any of them were to be implemented)

Under the MGA and Charter, it is not currently possible to create a "Designated Historical Resource Property" non-residential sub-class.

Tax Rate Calculations and System Complexity

The City uses a revenue-neutral, budget-based approach to setting property tax rates. This means Council approves the total amount of revenue The City must raise through property taxes through the budget (the "tax revenue requirement").

Combined with Council-approved targets for the distribution of tax responsibility between the different property assessment classes ("class tax revenue share"), and the total assessed values of taxable properties in each class, this provides the tax rate for each class or sub-class:

$$\text{Tax Rate} = \frac{\textbf{Tax Revenue Requirement (\$)} \times \textbf{Asmt. Class Tax Revenue Share (\%)}}{\textbf{Total Taxable Assessed Value of All Properties in Asmt. Class (\$)}}$$

Introducing a sub-class means an additional tax rate would need to be determined on an annual basis. This introduces an additional factor to be considered during budget and property tax deliberations, particularly to properly align a sub-class tax rate to specific objectives relative to other tax rates (e.g., setting a tax rate 15 per cent lower than the "normal" tax rate).

If multiple sub-classes are introduced, this process would become increasingly complex as various rates are balanced against each other, alongside the consideration of the assessment bases, tax share and budgetary decisions, and the legislative constraint of the Tax Rate Ratio.

Tax Rate Ratio

Section 358.1 of the MGA sets out a maximum tax ratio of the highest non-residential tax rate to the lowest residential tax rate in any given year at 5:1. The tax rate ratio is also used as an indicator of economic competitiveness, reflecting the tax responsibility for non-residential properties relative to residential ones. For example, Calgary's 2025 tax rate ratio of 4.64 means for every dollar of assessed value, a non-residential property owner pays 4.64 times the amount of municipal property tax than a residential property owner would.

The tax rate ratio only considers the municipal property tax rate and does not include the provincial property tax rate. For example:

2025 **Non-Residential** Municipal Property Tax Rate	0.0179731
2025 **Residential** Municipal Property Tax Rate	0.0038706
2025 Tax Rate Ratio	4.64

The City cannot approve a legally compliant tax rate bylaw where the tax rate ratio exceeds 5:1. If a sub-class is created to implement a differential tax rate, those tax rates are constrained by the ratio as well. A non-residential sub-class with a higher tax rate, or a residential sub-class with a lower tax rate would cause the tax rate ratio to increase. Because The City is already near the legislated maximum, there is currently very little room to use sub-classes in these ways.

For example, if a residential sub-class for MHR properties was created with a flat 15 per cent reduction in the tax rate for that sub-class relative to the 2025 residential tax rate above, and no non-residential sub-class were created (as it is not currently legislatively possible), the tax rate ratio would become:

2025 **Non-Residential** Municipal Property Tax Rate	0.0179731
Hypothetical 15% Lower Residential MHR Property Tax Rate	0.0032900
Hypothetical 2025 Tax Rate Ratio	5.46

While the above example simplifies the calculation of the tax rates to a flat 15 per cent reduction of the residential tax rate, this exemplifies how a lower residential tax rate for a sub-class results in a higher tax rate ratio, ultimately exceeding the 5:1 legislative maximum.

Even if a non-residential sub-class were possible in the legislation, the MGA requires the tax rate ratio to be calculated using the highest non-residential tax rate and the lowest residential tax rate. Because a sub-class in this context would create lower tax rates to act as an incentive, the tax rate ratio would only increase with the lower residential sub-class tax rate, while the lower non-residential sub-class tax rate would not impact the tax rate ratio.

In practice, the removal of the sub-classed properties from the residential and non-residential classes' assessment bases would impact the tax rates for those classes in addition to the sub-classes' tax rates, meaning the actual impact to the tax rate ratio would vary slightly.

Future of Sub-Classes in Calgary

Assessment & Tax Systems

Current systems used by Assessment & Tax to operate The City's property assessment and taxation services do not have the ability to implement sub-classes. As part of ongoing work to update and upgrade these systems, Administration is working toward the ability to implement sub-classes. Scoping work on requirements, costs, and timelines is underway. A more detailed update will be shared with Administration's report back to Council pursuant to direction in report EC2025-0117 (see below).

Current estimates indicate sub-classes could be implemented in Calgary no sooner than 2029.

Other Sub-classes

Administration continues to investigate the possibility of sub-classes for a variety of other purposes, pursuant to Council direction, including for:

- Short-term rental properties (see: Next Phase for Short-Term Rentals, EC2024-1305)
- Vacant residential properties; and
- Derelict residential properties (see: Accelerating Housing Development: Bill 20 and Residential Sub-Classes, Notice of Motion EC2025-0117)

Additional reports to Council are scheduled regarding these sub-classes in accordance with the direction Council has provided. An update on sub-classes for short-term rentals is planned in 2025. An update on vacant and derelict residential sub-classes is planned for Q2 2026.

The City previously evaluated a non-residential sub-class for small business properties (see: Non-Residential Assessment Sub-classes PFC2019-0559).

Advocacy for Additional Non-residential Sub-classes

Advocacy for greater flexibility in non-residential sub-classing is an established position of The City, approved by Council on October 4, 2022 in the Financial Task Force – Non-Residential Assessment Subclasses Scoping Report EC2022-0780:

> "That Council direct Administration to continue advocacy for enabling legislation that provides expanded flexibility on non-residential subclasses."