

Chief Financial Officer's Report to
Priorities and Finance Committee
2019 March 05

ISC: UNRESTRICTED
PFC2019-0148

Downtown Tax Shift Response

EXECUTIVE SUMMARY

Calgary's cyclical economy affects property values and the property taxes paid by various property classes. The abrupt decline in property values of downtown office buildings of approximately \$14 billion has led to a decline in non-residential property taxes paid by these property owners of over \$250 million annually. The increase in downtown office space due to new buildings coming on stream, coupled with declining demand resulting from significant shifts in the operations of many head offices located downtown may take an extensive amount of time to recover – mid and long-term solutions are needed. Budget cuts alone cannot buffer this change and therefore a shift of taxes from the downtown office buildings to other property tax classes is necessary. To assist in alleviating the impact of the shift in 2019, this report considers the immediate options that Council may consider to address the shift along with other mid and long-term options that speak to the underlying cause of this issue which is largely economic in nature.

ADMINISTRATION RECOMMENDATIONS:

- 1) Direct Administration, in accordance with Council's direction of 2018 November 19, to continue to reduce non-residential property taxes and rebalance the residential/non-residential ratio using the following tools:
 - a) continue the use of one time funds in 2019 to mitigate the impact to eligible properties through a 2019 Municipal Non-Residential Phased Tax Program (2019 PTP) or similar program in the amount of \$44 million to be funded from the Fiscal Stability Reserve ;
 - b) transfer an amount of taxes borne by non-residential property accounts to residential property accounts of \$22 million in 2020, \$21 million in 2021 and \$20 million in 2022 and apply efficiencies or reductions in the City's budget over the period from 2020 to 2022 to the non-residential property tax rate as a highest priority, with a target of \$60 million,
 - c) should tax room become available in 2019, include an option to apply all or part of the tax room to reduce the non-residential property tax rate as a highest priority;
- 2) Direct Administration to continue to work with internal and external stakeholders to identify and examine both mid-term and long-term potential solutions to the economic issue facing Calgary and return to the April 1 Strategic Session of Council for a facilitated discussion;
- 3) Direct that Attachment 3 remain confidential pursuant to section 27(1)(a) of the *Freedom of Information and Protection of Privacy Act*, and
- 4) Direct Administration to launch the Financial Task Force and finalize the draft Terms of Reference (Attachment 4).

PREVIOUS COUNCIL DIRECTION / POLICY

As Council direction on this topic is extensive, Administration has included Attachment 1 which summarizes and references all previous Council direction.

BACKGROUND

Calgary's cyclical economy has a direct impact on the local real estate market. The annual property assessment cycle reflects annual changes in the market value of properties due to economic fluctuations that affect the local real estate market.

Downtown Tax Shift Response

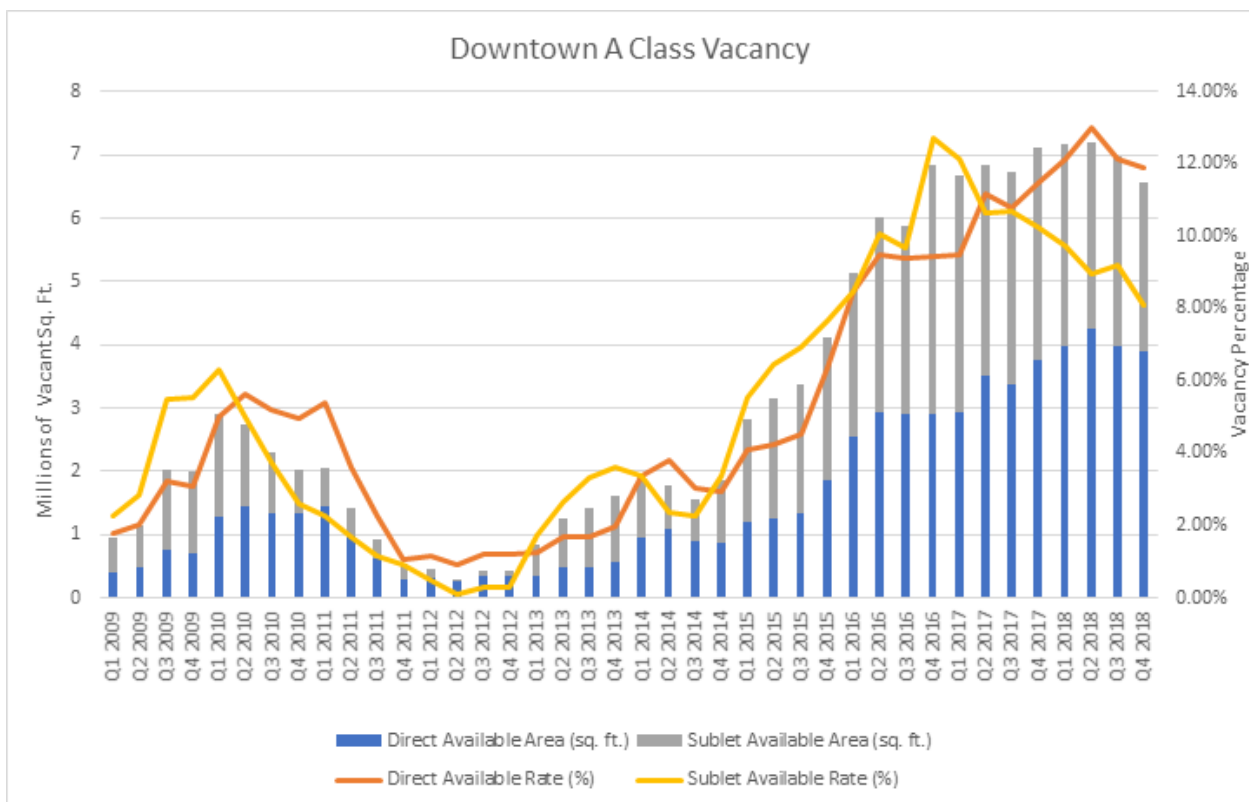
The decline in oil prices, which started in early 2014, contributed to a 19-quarter decline in the demand for downtown office space. It fell from a peak of 39.1 million square feet to a trough of 32.9 million square feet. Factors responsible for the decrease include:

- (a) the 2015-16 recession and the resulting loss of jobs through cyclical unemployment;
- (b) job losses for those occupational categories typically associated with office work;
- (c) shifts in the geography of jobs away from the downtown core to the Beltline and suburbs; and
- (d) a continued shift to more efficient space utilization through a transition from offices to cubicles.

In addition to lower downtown office demand, a significant increase in quantity and improvement in the quality of downtown office supply has put further downward pressure on resale prices and lease rates. For the period from 2001 Q3 to 2018 Q2, the downtown office market experienced:

- (a) additional supply with a 14 per cent increase in the number of downtown office buildings;
- (b) more supply per building with an 18 per cent increase in square footage per building; and
- (c) a shift to better quality space with a 53 per cent increase in Class A space, a 4 per cent increase in Class B space, and a 13 per cent decrease in Class C space.

The chart below shows the magnitude of the increase in vacant Downtown Class A from 2009 to the end of 2018. It includes both direct and sublease space and does not include the new buildings which will be completed in 2019.



Downtown Tax Shift Response

The business needs of companies have changed due to changes in the economy, lowering demand for downtown office space and creating a high downtown office vacancy rate. An excess of newly built inventory combined with high vacancy has resulted in a large decrease in associated property values.

Many of the economic cycles experienced by Calgary in the past have not had the same unusually prolonged impact on the downtown office market. It is useful to compare with the experience during the 2008-09 global financial crisis. For that period, the demand for downtown office space fell for six quarters before rebounding. This time around, it has taken three times as long for the rebound to start.

There is a loss of \$250 million in municipal tax revenue previously generated from robust non-residential property assessment values in the downtown core. The source of the revenue was several large class A office buildings that were headquarters to some of the large oil and gas companies, along with all the professional services firms.

The substantial decline in downtown non-residential property market values between 2017 and 2019 has resulted in a redistribution of property tax that is of concern to both property and business owners – who may or may not be the same parties. The share of property taxes previously paid by the owners of class A downtown office buildings has shifted to other non-residential properties, which have not had their values impacted as significantly, in particular industrial, office and retail properties primarily located outside the downtown core.

Since downtown vacancies are high, office buildings in the core will have to reduce their rental rates to remain competitive in the market. With lower rents, the overall market value of these properties will remain lower than the 2017 and 2018 values, which will also be evident when these properties sell in the real estate market. As a result, the tax base that these properties previously carried will need to be redistributed to other properties.

Optimistic forecasts that reduce the current high downtown office vacancy rate and project assessment values to return to their previous values rely on four assumptions that may or may not materialize:

- (a) No new investments in office buildings in the medium term;
- (b) Sustained recovery of crude oil prices to above \$50 per barrel;
- (c) Renewed investments in the energy sector; and
- (d) Job growth for office workers that keeps pace with overall job growth in the Calgary region.

While this report will focus on the short term, this is not only a short-term issue that will be solved with immediate solutions. The analysis in this report will highlight subsequent required work that will address both medium term (within the four year budget cycle) and longer term strategies for The City of Calgary and its many partner organizations that have a vested interest in developing a resilient economy for Calgary.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

How the Assessment Tax Working Group approached the task

As Council has recognized, this is a very complex problem and involves a large number of organizations and interested parties who are all looking for ways to address the economic issue that has both short term, medium term and long term implications on The City and its

Downtown Tax Shift Response

businesses and residents. The Assessment Tax Working Group membership is outlined in Attachment 5. The ATWG approached the tasks as directed by Council incorporating the following tools and tactics:

1. Stakeholder engagement
2. Research
3. Mapping of the initiatives currently underway (both internal and external)
4. Clarifying the timelines that need to be considered
5. What remains unknown

The sections below provide a status update of the work that has been completed to date and highlights of the work that is still in progress.

1) Stakeholder engagement

Administration has engaged Heuristic Consulting Associates (“Heuristic”) to engage with various stakeholders representing the real estate industry, economic development, small business and other groups to understand issues and potential solutions that would be meaningful for them. The ATWG has asked them to identify and engage key external stakeholders in both one-on-one meetings and through an interactive workshop to better understand the community’s comprehension of the issues as well as to identify a range of possible solutions for further consideration.

As a result of that stakeholder engagement, Heuristic found five key themes that emerged from the stakeholder input held to date as follows:

- Adjust residential and non-residential tax rates such that a larger proportion of tax is borne by the residential assessment base;
- Reduce the overall size of The City of Calgary’s budget by reducing costs and gaining efficiencies;
- Review alternate revenue sources, including selling City Assets;
- Review measures to reduce property tax volatility;
- Grow the tax base and invest in the future.

Further stakeholder engagement will continue, based on the results of learnings from this report to ensure that Administration have connected with a representative sample of parties who are impacted by this issue. Administration also wants to dig further into these mid and long-term options so that they are better understood and a focused approach can be developed to address them. Administration proposes that a facilitated discussion take place at the forthcoming Strategic Meeting of Council on 2019 April 1.

2) Research

Another aspect of the work Heuristic was engaged to do was to better understand how other jurisdictions in Canada and elsewhere have responded to drastic changes in property values resulting from economic instability or measures they may have in place to avoid significant annual property tax fluctuations.

Work is still underway to connect with jurisdictions that may be able to provide insightful input, but preliminary measures that have been identified for additional exploration include:

Downtown Tax Shift Response

- Market value increase changes phased in over a period of years or capped in a single year;
- Averaging of assessed market values over a period of years (smoothing); and
- Caps to tax increases or decreases.

The results of this research can be further discussed at the 2019 April 1 Strategic Session of Council and will be fully investigated by the Financial Task Force to further explore how these potential measures can mitigate the impact of significant economic swings and their ability to fit within the legislative framework of Alberta. The end goal of this work is to identify potential options that are possible within our current legislative framework or, if some are not viable, to develop an advocacy position for legislative change with the provincial government.

3) Mapping of the initiatives currently underway (both internal and external)

As both Council and Administration have noted, there are many initiatives underway both internally and externally through various interested parties.

The first step the ATWG has taken has been to identify the parties who currently are meeting to discuss and strategize around the Downtown Tax Shift and related issues. Administration's next steps will be to inform the various groups of the work within the scope of the ATWG and to continue to understand the work underway by external groups and the role The City may or may not have within it.

Some of the key internal teams who have an interest in this issue include Resilience Calgary and the Centre City Plan and Urban Strategy teams. Calgary Economic Development ("CED") is one of the key parties who is very active in working through the four pillars of their "Economic Strategy for Calgary" and much of this work is complimentary to work underway at The City. In addition to CED, the Chamber of Commerce is also engaging with and leading work groups looking to address the economic issue and the impact upon businesses and property owners in Calgary.

As part of Council's approved advocacy strategy, Intergovernmental & Corporate Strategy (ICS) continues to develop content and tactics to advocate for short-term support for Calgary's economic recovery, from other orders of government.

Calgary is developing a resilience strategy to place a lens, lift awareness and leverage action on the major stresses and shocks facing our community including economic resilience. Following the work of flood recovery in 2013, The City realized more than ever how important a resilient community is when experiencing and adapting to the stresses and shocks that can impact us. A resilience team has been undertaking the work to understand and assess our community's resilience, to spend some time deliberately investigating key areas of concern, and to identify outcomes, initiatives and actions to build our resilience.

Through a series of engagement sessions, community residents and stakeholders have shared perceptions on Calgary's top stresses (economic uncertainty, climate change, and inequality), top shocks (economic crisis, extreme weather events, cyber-attacks, and drought) and how well Calgary is performing related to city resilience. This work led to Calgary's Preliminary Resilience Assessment (PRA) shared with Council in 2017, the presentation of four discovery areas to Council in 2018, and use of this information and the

Downtown Tax Shift Response

resilience lens to support the One Calgary service plans and budgets. The four pillars of the strategy under development include Economic, Inclusive Leadership and Decision Making, Natural Infrastructure and Infrastructure resilience. The resilience strategy will be shared with Council by mid-year, 2019, with an update on implementation intended to occur in 2021.

The Centre City Plan Refresh Project is revisiting the City's long term vision and goals for the Centre City area with a view to repositioning the area to be vibrant and successful in the new economy. This will include developing an action-oriented implementation strategy for capital investment, programs and initiatives. The project is working to ensure alignment with Resilience Calgary.

Overall, in recognition of Council's strategic priority to improve the economy and encourage economic prosperity, ALT will review related activities in order to strategically manage the overall economic issue and consider the option of a coordinating body to oversee this multifaceted work and provide guidance where necessary.

4) Clarifying the timelines that need to be considered

As work currently underway is reviewed and gaps are identified in either the representation on the various working groups and committees we have had an eye to the timelines involved. Much of the work related to near term options to be discussed in the next section has been completed within The City as these are items that will respond to business and property owner concerns and are something The City can take responsibility for directly.

As we move to consider mid-term (within a 4-year cycle) and long term opportunities these initiatives will involve both internal and external stakeholders and requires additional planning and engagement to shape this work.

What can be done now regarding the Tax Shift?

There have been 5 different options explored at the request of Council for immediate measures that can be considered for implementation in the near term to address the economic situation and resulting impact on assessment and tax revenue for The City. The 5 options that will be discussed in the following sections are:

1. Transfer of the relative share of taxes paid from the Non-Residential to Residential property class
2. Intentional management of The City's budget
3. Use of one-time funds to mitigate the impact of extraordinary tax increases to eligible non-residential properties
4. Creation of a Small Business Sub-Class
5. Implementing an annual cap to the decrease in taxes to 10%

The following sections provide a brief description of each option, a summary of the analysis, a recommendation and a planned course or action or next steps. The final section of the report as well as the attached legal opinion provides a risk assessment of these options.

1) Transfer of the Relative share of taxes paid from Non-Residential to Residential

Historically, Calgary has benefited from the highly concentrated premium office space located in the downtown which has paid a substantial portion of the non-residential property taxes. As assessment values of downtown office buildings has dropped significantly and

Downtown Tax Shift Response

while these values may recover, it is unlikely they will return to 2014 levels. One solution is to transfer the amount of tax revenues generated by the non-residential property class to other property tax classes.

The *Municipal Government Act* (MGA) specifies that a municipalities non-residential to residential property tax ratio cannot be greater than 5:1. Council's direction during budget deliberations to fix the residential tax rate increase at 3.45% means that the ratio of non-residential tax rate to the residential tax rate is 4.47:1.

Administration has examined several scenarios related to a shift of taxes from non-residential to residential. The first scenario relates specifically to tax room, if available, in 2019. In the event the provincial requisition for 2019 remained at 2018 levels, residential tax room could become available and Council could choose to use the room to shift the tax burden from non-residential. The provincial requisition and resulting tax room available will not be known until the provincial budget is released or the Province otherwise informs The City.

In addition, over the next three years of the One Calgary budget cycle in 2020-2022, Administration recommends:

- (a) A transfer in an amount of taxes borne by non-residential property accounts to residential property accounts of \$22 million in 2020, \$21 million in 2021 and \$20 million in 2022, and;
- (b) The transfer in the amount of taxes is primarily offset by \$20 million in savings, efficiencies or service reductions to be found in each of the next three years,

Assuming no other changes to the assessment roll or tax room, it is estimated that by 2022, the ratio of non-residential to residential tax rate ratio would decrease to 4.13:1 (excluding the impact of tax room in 2019). This combination of a transfer in taxes borne by the non-residential property accounts to residential property accounts offset by savings, efficiencies and service reductions, such that the typical residential property owner's tax increase in each of 2020, 2021 and 2022 would essentially be the same value as the 2019 tax increase (or \$65 per year in 2020, 2021 and 2022, assuming no other changes to the residential property's assessment);

If Council so directed that an additional \$25 million in savings, efficiencies and reductions were found in each of the next three years (rather than \$20 million per year as noted above), assuming no other changes to property assessment values or tax room, it is estimated that by 2022, the ratio of non-residential to residential tax rate ratio would decrease to 4.07: 1 (excluding the impact of tax room in 2019).

2) Intentional management of The City's budget

The intentional management of The City's budget has been a priority for Council and Administration over the previous Actions Plan cycle and will continue as committed during the One Calgary budget deliberations. While \$40 million in efficiencies were included the approved One Calgary plans and budgets, Administration is committed to finding an additional \$60 million of efficiencies and budget reductions within the 2019-2022 cycle to be used to shift from the non-residential base to the residential base. However, the loss of approximately \$250 million in municipal tax revenue previously generated from robust non-

Downtown Tax Shift Response

residential property assessment values in the downtown cannot be solved by budget reductions alone without impacting service delivery.

3) Use of one-time funds to mitigate the impact to eligible properties

The Municipal Non-residential Phased Tax Program (PTP) was developed to mitigate, on a one-time basis, the impacts caused by the decline in market value of downtown offices and the resulting redistribution of tax load within the non-residential tax class. PTPs were approved by City Council for tax year 2017 and tax year 2018; both operated independently and capped tax increases from the previous year at five per cent (5%) for qualifying properties effectively phasing-in market-based increases in the share of taxes paid.

To date the 2017 PTP has reimbursed approximately \$26.5 million and over 5,000 non-residential property owners have received a tax credit for market related increases in taxes above five per cent over the 2016 tax year. The program was funded by a transfer of \$45 million to the Community Economic Resiliency Fund from intentional savings in 2016 Corporate Programs. Approximately \$3 million in 2017 PTP credits are currently set aside for accounts with outstanding proceedings before the Assessment Review Board or Alberta Court of Queen's Bench.

For the 2018 PTP, to date, approximately \$29.3 million in 2018 PTP credits have been distributed to over 6,900 accounts. The program was funded by a transfer of \$41 million to the Community Economic Resiliency Fund through a transfer from intentional savings in 2017 Corporate Programs. Approximately \$4.2 million in 2018 PTP credits is set aside for accounts currently before the Assessment Review Board or Alberta Court of Queen's Bench.

Fewer accounts have benefited from the PTP programs as the original amounts approved by Council were based on estimates of the number of possible recipients and the estimated amounts of credits to be applied. These estimates were made prior to the finalization of tax rates and prior to the tribunal process. Eligible accounts which filed a complaint against their 2017 and/or 2018 assessment values have delayed PTP credits from being [processed. In addition, decision of the ARB reduced the assessed values and the resulting tax changes to either a lower percentage year-over-year increase, or below the 5% threshold. These accounts will still have paid less taxes, just not through the PTP programs.

Potential 2019 PTP

If Council chooses to provide a tax relief program, a 2019 PTP would be a separate one-time program, not an extension of the 2018 or 2017 programs, and is recommended to limit the increase in municipal non-residential property taxes to ten per cent (10%). Like previous one-time PTPs, the 2019 PTP would be calculated using the actual 2018 municipal non-residential property tax rate, compared to the 2019 revenue neutral municipal tax rate. The calculation would not include the effect of Business Tax Consolidation, provincial requisition, 2017 Council Approved Rebates, 2018 PTP credits or 2017 PTP credits. The cost of this one-time program is estimated to be \$44 million, funded from the Fiscal Stability Reserve. Administration will also explore the potential for rebates in future years to residential homeowners.

Downtown Tax Shift Response

4) Creation of a Small Business Sub-Class

The term sub-class refers to the dividing up of a property assessment class to intentionally shift the distribution of shared taxes within that class. Overall, the division does not increase or reduce municipal tax revenues.

New provincial legislation, Matters Relating to Assessment Subclasses (MRAS) Regulation gives Council the discretion to divide the non-residential property into three subclasses: "small business", "vacant" land and "other" non-residential property. This division would allow Council to set the municipal "small business" sub-class tax rate at seventy-five per cent to one hundred per cent of the rate that would be applied to the other two non-residential property sub-classes. The Provincial legislation defines small business as less than 50 employees.

Administration will require time to review the legislation and how this may be implemented at The City. Further background information and preliminary analysis is found in Appendix 2.

5) Capping decreases in taxes to 10%

Another possibility raised by businesses would be a phase in or cap of large year over year tax decreases. By capping tax decreases, property owners who experience a decrease in the assessed value of their property (in comparison to other properties in the municipality) would not see an immediate and corresponding reduction in their property taxes. Instead, the property owner would effectively pay taxes in addition to the amount levied according to the assessed value of their property.

Administration has been exploring the feasibility of this within our legislated assessment regime.

What is being considered for the mid-term (the 4 year cycle)?

As Administration move from the options currently being considered for implementation towards additional options under review for the mid-term, our review has confirmed that there are many parties currently exploring alternatives from many different perspectives to address the economic issue facing Calgary.

Some of the primary work underway is currently centered on these focused areas noted below. Administration cautions that this is not an exhaustive list and further stakeholder engagement is being planned to ensure that a broad representation of perspectives is brought to the table to consider Calgary's collective economic future.

1) Encouraging ongoing dialog with the Calgary Economic Development and the larger Downtown Business Community

Since the direction from Council to "consult with Calgary Economic Development to undertake a policy, process, and membership gap analysis, regarding Downtown recovery, to ensure alignment and maximize capacity-build" The City has continued to work alongside Calgary Economic Development (CED) as they develop out the implementation strategy for the "Place" Focus Area (or pillar) of The Economic Strategy for Calgary. While the "Place" Focus Area is city-wide in scope, it is targeting the downtown as its major short-term focus. This CED-led process has continued to expand the stakeholders to better represent the various interests and organizations that have an economic stake in the downtown. The

Downtown Tax Shift Response

Place sub-committee includes several key City Business Units as well as the Councillors from Wards 7 and 8 and representatives from The Mayor's Office.

At the same time, The City's Centre City Refresh project has continued with public engagement events reaching out to a broad range of stakeholder interests that include many of the same participants in the Place sub-committee, but also includes a broader range of interests that encompass resilience, environmental and social dimensions. The City and CED will continue to align these two major initiatives as they progress to ensure they are aware of and inclusive of other initiatives that impact the downtown. The Centre City Plan process includes the involvement of many City Business Units that have interests in the downtown and will continue to play a corporate coordinating role to ensure various City initiatives and strategies are aligned to implementing a common vision with shared goals and objectives.

By continuing to work together and sharing information and results, CED and The City are confident that the two initiatives will form an aligned and integrated approach to delivering on actions and strategies to address the short, mid and long term needs of the downtown as it transforms to adapt to the new economic realities of Calgary. On-going reporting from both CED and The City will include summaries of stakeholder engagement and will identify any areas where further engagement efforts may be required to bolster the effectiveness of the two projects.

2) Encourage capital dollars into the downtown to support renovation or repurposing of existing non-residential buildings

The work with CED and other related downtown committees as noted in the previous section is working towards supporting this objective.

3) Implementation of a Financial Task Force

As directed, Administration has considered the membership and terms of reference for a financial task force. The purpose of the Financial Task Force as directed by Council is to form a group comprised of both internal and external experts to develop a strategy or strategies related to short term mitigation measures, potential long term solutions and new revenue options that can work toward improving financial resiliency for The City.

A draft framework has been prepared for the work to be done by the task force and is available in Attachment 4 - Financial Task Force Terms of Reference. Included in the draft terms of reference are a number of steps for task force member selection which includes:

1. An external advertisement of the establishment of the Financial Task Force including the Terms of Reference accompanied by a call for external applicants with specific skill sets.
2. After the closing date for applications, there will be a review of submissions against a Council approved skills matrix, by members of a pre-established selection committee.
3. A final selection decision will be made by Council tentatively scheduled to be at the 2019 May 13 Strategic Meeting of Council based on the recommendations of the selection committee.

Once the above steps are complete, it is anticipated that the Financial Task Force will commence its work shortly thereafter. Planning for objectives, tasks and related timelines

Downtown Tax Shift Response

will be established by the group with a preliminary first report due back to Council no later than Q4 2019.

4) Advocacy with the Province of Alberta

In the short term, as part of a Council approved advocacy plan Intergovernmental & Corporate Strategy (ICS) has been developing content and tactics calling on other orders of government to “Promote Economic Recovery for Calgary,” including support for a downtown strategy. Among other things, this includes calls for tools to support and grow Calgary business including contributions to the Opportunity Calgary Investment Fund and some form of provincial property tax relief. ICS will continue to work through the IGA Committee to ensure all Members of Council are apprised of these efforts and in possession of whatever materials they require to support their own advocacy.

5) Resiliency Calgary and 100 Resilient Cities work

The resiliency of a city improves when all are encouraged and able to participate in a diverse and strong economy. With our community and 100 Resilient City partners, #ResilientYYC, under the Economic Resilience pillar, look to accelerate economic development initiatives that enhance the quality of life for Calgarians. Building on Inclusive Leadership, Natural Infrastructure and Infrastructure outcomes, #ResilientYYC economic actions focus on talent development, addressing digital disparity, business continuity and business growth and attraction.

6) Focus and reprioritization of Industrial Land Strategy

Real Estate & Development Services (RE&DS) is keenly aware of the how City owned real estate, coupled with the expertise of RE&DS staff, can be leveraged to maximize strategic outcomes and benefits for Calgary and Calgarians. Currently, there are three specific strategies being implemented by RE&DS that will deliver and align specifically to generating additional tax revenue for The City: Industrial Land Strategy 2013-2022, Industrial Land Marketing Strategy, and Enhanced Rationalization. RE&DS has committed to report regularly to the SPC on Utilities and Corporate Services on the status of the strategies and the real estate market generally.

In this regard, RE&DS has an Industrial land strategy. The incentive for The City being in the business of developing industrial land is that we're in it for the long-term benefit of all Calgarians. We work to attract diverse and quality employers, make infrastructure investments that are good for all nearby land owners, provide purchasing opportunities for local, national and international businesses of all sizes, and engineer quality parks with build commitments, which protects the value of the purchaser's investment. Through these efforts, we maximize the long-term generation of tax revenue and also contribute to affordable housing.

Industrial Land Marketing Strategy

Realizing the importance of how a key result of the Industrial land strategy is the generation of new non-residential tax base, RE&DS is underway with an Industrial Land Marketing strategy for implementation, in an effort to increase the velocity of sales of City-owned industrial parcels. RE&DS marketing strategy and execution will provide the following benefits to Calgary and Calgarians: increase awareness of our available industrial land, highlight the strategic benefits of locating in Calgary, promote our city's status as an

Downtown Tax Shift Response

established Transportation and Logistics hub, promote and support the economic diversification of Calgary, and to generate leads from North American businesses looking to expand their operations to Calgary.

Additionally, RE&DS is dovetailing its marketing efforts with Calgary Economic Development to attract companies in the Transportation & Logistics sector that need Calgary's unparalleled transportation infrastructure, skilled workforce and strategically located industrial parks.

Enhanced Rationalization

In addition to our Industrial land strategy, RE&DS understands that other City-owned land can also be leveraged for similar outcomes. As a corporation, we are continuously improving our land asset management process to leverage The City's real property assets for the benefit of all Calgarians, with this work being led by the Corporate Land Administration team within RE&DS. In recent years we have successfully implemented best-in-class governance standards and processes, and a state-of-the-art land inventory data tool, to support wise land management decision making. The process for improving inventory management was known as Rationalization. Rationalization required all business units that steward land in the corporation to rationalize their current or future need for every City owned parcel. This entailed a review of 8,140 individual City owned parcels by the end of 2018. Follow up work is underway on this strategy.

In the mid-term, building on this foundation and with the 2019-2022 One Calgary Service Plans and Budget approval, we can now vastly improve inventory management (known as Enhanced Rationalization) to further uncover land no longer needed for future municipal purposes. The intended result of the Enhanced Rationalization project will be an increase in the velocity of sales of surplus City-owned real estate, and the associated increases to the tax base as that real estate becomes a privately held taxable asset.

What are currently being examined as long term initiatives?

The recognition that there is a need for economic transformation in Calgary has risen to the surface as a result of the evolution of the oil and gas industry and challenges facing that industry. This transformation is something that will take place over an extended period of time and involves many stakeholders.

1) Support "Calgary in the New Economy" the Economic Strategy

In 2018, CED brought forward an Economic Strategy "Calgary in the New Economy" that is focused on four pillars – Talent, Innovation, Place and Business Environment. CED is expected to report back to Council in May 2019 with an update on the implementation of the strategy. Council has further supported CED's work on the economic strategy with additional resources approved in the current budget cycle.

2) Advocacy – Provincial and Federal

Over the medium- to longer-term, a broader advocacy strategy may need to be considered. The immediate-term options intended to cushion the effects of the tax-shift contained in this report lie within The City's existing authorities. Many of the medium- and long-term changes, however, lay outside of The City's jurisdiction and will require either legislative change from, or at least the support of, other orders of government. When anticipating the

Downtown Tax Shift Response

receptivity of the Government of Alberta in particular, two considerations should be borne in mind.

- The Government of Alberta recently completed a comprehensive review of the Municipal Government Act and may be reluctant to explore further changes. As the challenges we are facing are specific to the Calgary context, however, necessary changes could be pursued through the City Charter process.
- Here too, however, the province may display some reluctance for a new round of charter negotiations, following the recent amendments to the City Charter Regulation and passage of the *City Charters Fiscal Framework Act*. This “Charter fatigue” may be compounded if a new government is elected in the spring election and must first be brought up to speed on the existing changes. There may be a particular reluctance on the part of the Government of Alberta to consider proposed solutions involving changes to the fiscal framework or the revenue sources available to The City of Calgary, given the recent conclusion of a two-year long process to establish the latest changes to the fiscal framework.

Nevertheless, with Council direction on a preferred list of medium and longer-term solutions, ICS will work with affected departments to identify which changes are required from other orders of government and develop an appropriate advocacy and engagement strategy to pursue those changes.

3) Collaborations between Government, Civic Partners and Community based groups

As many parties are currently meeting and discussing various opportunities to contribute towards potential positive movement in an economic recovery and downtown revitalization, we need to work together to determine the role of The City and other orders of government in a potential coordinating body for all of this work. The City will work to identify the potential groups to be involved and what a potential coordinating body and resulting structure may entail.

Stakeholder Engagement, Research and Communication

A significant amount of engagement has taking place around the tax shift discussion as well as the broader topic of economic diversification, downtown rejuvenation and resilience of the community. Many groups and committees have been or will be engaged with including Calgary Economic Development, the Chamber of Commerce, Business Improvement Areas and many others. In addition to these groups, there have been discussions with the real estate advisory committee and other small business community members.

Strategic Alignment

This work aligns with all Council's priorities and direction.

Downtown Tax Shift Response

Financial Capacity

Current and Future Operating Budget:

Administration is committed to efficiencies and savings in the One Calgary 2019-2022 business plan and budget cycle. The various strategies, tactics and initiatives underway are currently afforded within the One Calgary 2019-2022 business plan and budget cycle. Administration will carefully review resource requirements for the mid and longer term solutions to ensure proper resources are assigned.

Current and Future Capital Budget:

None at this time.

Risk Assessment

The impact of the economic downturn on property assessment values and resulting reduction in property tax income impacts all parts of The City. The primary corporate risks related to the Downtown Shift are:

Capacity for change risk – Calgary is in a time of significant change, the energy industry is undergoing major structural changes and as a result, businesses, real estate and residents are impacted. Ability to adapt to change is a significant risk for businesses, individual residents, property owners and governments, including our own staff in this changing economic environment.

Financial risk – the lower property tax revenues generated from the downtown office towers and related shift of those taxes onto other non-residential property taxes. The magnitude of this problem cannot be addressed through budget reductions at The City alone and therefore part of the lost property tax revenues must be shifted to other properties.

Legal & Compliance Risk – some of the proposed changes require further detailed review of existing legislation and the ability to enact some of the proposed solutions within that legislation.

Political risk - The economic downturn has impacted investment, businesses and jobs in Calgary. For The City, taking no action may result in further job losses across the small business sector.

REASON(S) FOR RECOMMENDATION(S):

The recommendations in this report focus upon the immediate solutions that can be implemented through the tax rate finalization process this spring.

ATTACHMENT(S)

1. Attachment 1 – Previous Council Direction
2. Attachment 2 - Creation of a Small Business Subclass
3. Attachment 3 – Legal advice, confidential
4. Attachment 4 – Draft Financial Task Force Terms of Reference
5. Attachment 5 – Assessment Tax Working Group Membership