

Chief Financial Officer's Report to
Combined Meeting of Council
2019 March 18

ISC: UNRESTRICTED
Amended C2019-0352

Downtown Tax Shift Response - Updated

EXECUTIVE SUMMARY

The very steep and rapid decline in the market value of a small number of very high valued non-residential properties redistributed the property tax responsibility to other non-residential properties such that some non-residential properties have suffered untenable property tax increases. It is estimated that, more than half of non-residential property owners are experiencing increases greater than 10% over last year (excluding the impact of business tax consolidation (BTC)) if no actions are taken. At the same time, with the decline in downtown non-residential property assessments, downtown property owners have been the beneficiaries of reduced property taxes since the dramatic drop in oil prices.

The City has several mechanisms that can be implemented in the short term to assist the non-residential property owners (and their tenants/businesses) who are the most severely impacted from this redistribution. Such mechanisms include:

- Overall budget reductions that can benefit both classes of taxpayer or can be directed towards one,
- Tax room, if available, to be directed to the benefit of the non-residential taxpayer
- A shift of some of the tax responsibility paid from the non-residential properties to residential properties,
- One time or short-term mitigation programs to moderate the impacts of shifting the property tax responsibility within or between property classes. Other mitigation programs may also be targeted at the non-residential properties (and/or their tenants) who are the most impacted by the redistributive effect.

This report focuses on the short term options that Council may consider with respect to the 2019 budget and the determination of the 2019 municipal property taxes. Other mid and long-term strategies and options that speak to the underlying cause of this issue which is largely economic in nature will also need to be considered and will be brought forward for Council discussion at a later date.

ADMINISTRATION RECOMMENDATIONS:

That Council:

- 1) Receive this report for information;
- 2) File the recommendations contained in PFC2019-0148;
- 3) Adopt the proposed Guiding Principles as described on page 3 of this report, **as amended**;
- 4) Direct Administration to further refine and update the proposed roles and responsibilities of the Financial Task Force and bring an updated Terms of Reference for the Financial Task Force for discussion and consideration of Council after 2019 April 1; and
- 5) Forward this report and direct Administration to return to the 2019 April 1 Strategic Session of Council for the purpose of 2019 tax rate finalization.

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. At Priorities and Finance Committee (“PFC”) on 2019 March 5, Council referred report PFC2019-0148 back to Administration to work with the Mayor and interested Members of Council on potential revisions and come back to Council on 2019 March 18.

BACKGROUND

As noted above, at PFC on 2019 March 5, Administration presented a report entitled “PFC2019-0148 Downtown Tax Shift Response” that was discussed and referred back to Administration to work with the Mayor and interested Members of Council on potential revisions. The original PFC2019-0148 report is included as Attachment 2. The presentation provided at PFC is also included as Attachment 3.

The members of PFC also requested that a drop in white boarding session be held for members of Council prior to the next Council meeting on 2019 March 18 to have a discussion on the Downtown Tax Shift issue and brainstorm potential solutions.

On 2019 March 12, a two hour long drop in white boarding session was held with attendance from Council members as well as Administration. A group discussion followed and was focused primarily on 2 objectives:

1. What is the problem that we are trying to solve?
2. What potential solutions should be considered further? These would include previous scenarios discussed or new ones identified.

This report includes preliminary results of the discussion which include:

1. Problem identification
2. Recommended guiding principles for decision making on 2019 scenarios
3. Possible scenarios for discussion

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Problem Identification

Throughout the discussion on problem identification many points were raised by Council members that addressed various aspects of the problem facing City Council. A summary of the key issues raised by Council members during the white boarding session is included as Attachment 4.

The very steep and rapid decline in the market value of a small number of very high valued non-residential properties redistributed the property tax responsibility to other non-residential properties such that some non-residential properties have suffered untenable property tax increases. It is estimated that, more than half of non-residential property owners are experiencing increases greater than 10% over last year (excluding the impact of BTC) if no actions are taken.

A key question for consideration is - what are the appropriate mechanisms to use to assist the most impacted non-residential property owners (and their tenants/business)?

Proposed guiding principles

One of the topics of discussion that was undertaken at the drop in white boarding session was that “guiding principles” should be developed to facilitate clear decision making by Council. Administration recommends that Council approves the following:

1. Transparency and accountability
2. Certainty
3. Simplicity
4. Equity and fairness
5. Minimize the use of one-time solutions **where** these one-time solutions create considerable “bow wave” effects
6. Ensuring there is a sunset clause on any program to be developed to avoid unintended long term consequences
7. **Long term benefits to all Calgarians**
8. **Use of multiple tools**
9. **Flexible and resilient end-state.**

Short / Medium / Long Term

As noted in previous reports, this is a large and complex issue that has persisted and may be expected to continue for some period of time. In consideration of the direction provided by Council and in discussions within the Assessment Tax Working Group (ATWG), there was a desire to approach this large and complex issue in stages:

- What can be done in the short term to best support the most affected non-residential properties (and their tenants/business) and the need to focus on the immediate issue related to 2019 property tax bills. The review and analysis of the various scenarios that address 2019 (and impact future years) are the focus of this report.
- What can be done in the medium and long term? The medium and long term include a larger discussion on the economy, Calgary’s economic resilience, Downtown Strategy, possible alternatives to and/or changes to the current assessment/taxation system, alternative revenue sources, and other relevant topics. These would be key areas of focus for the upcoming Strategic Session of Council as well as for the Financial Task Force.

Scenarios to consider

Administration has reviewed and analysed several scenarios proposed by various Council members. These scenarios are not the only possible avenues or alternatives that can be implemented, but the intent is to review these scenarios at the Strategic Session on 2019 April 1 and discuss them within the context of the principles to reach some conclusions regarding the 2019 budget and 2019 property tax levels.

Before reviewing each scenario in detail, it is important to understand the fundamental levers / options that are available in the short run. In summary, the levers revolve around:

- **How is the overall property tax responsibility shared between residential and non-residential taxpayers?**

In general terms, under the existing legislation, the two groups that contribute to property taxes are the residential and the non-residential property owner. If there is a desire to alter the current shares of overall property tax responsibility – how much should be moved and how quickly?

- **Should available tax room be considered as a source of funding to mitigate the tax shift?**

Available tax room is not a reliable source of funding on a year to year basis, however if the room is available it can be considered for use to mitigate the shift. A significant benefit of using tax room, if available, is that it provides a long-term/ongoing solution; ie. it is not “one-time”. Council has directed Administration to consider the use of any available tax room for use to mitigate the shift as a highest priority. If tax room is available, a decision needs to be made on the amount and timing of the tax room to be applied towards mitigation of the tax shift.

- **Should one-time funding sources be used to buffer or mitigate tax shift impacts?**

The economic issue facing Calgary has an unknown timeline for improvement and therefore the impact upon the downtown property values is also unknown. Given the uncertainty related to how many future years would continue to require “one-time funds” should these programs continue to be considered? If they are, then what level of funding is available and what type / form of mitigation program should be implemented? Should the program be aimed at non-residential or residential property owners? How long should the program last? These options must be considered with the full understanding of the bow wave effect.

- **Should further efficiencies and potential budget reductions in addition to those already identified through One Calgary be explored**

What level of efficiencies or reductions are possible to achieve the property tax supported budget and what are the corresponding service impacts? The One Calgary plans and budgets have certain revenues and expenditures assumptions. Administration has committed to find a further \$60 million in efficiencies and reductions. If Council makes different decisions as a result of the Downtown Tax Shift discussion, changes to the business plans and budgets will be need to be made identifying areas of budget reduction as well as identifying the corresponding service level reductions

Scenarios to consider

The scenarios included in this report are as follows:

Scenario 1 – 2018 November 14 Council Direction - Current One Calgary Approved Budget (Attachment 5)

- At the 2018 November 30 meeting, Council approved that Administration find salary and wage savings to achieve a property tax rate increase of 2.45% in 2019, and fix the residential tax rate increase at 3.45% to reduce by \$8 million taxes attributable to the from non-residential assessment base.
- While an additional mitigation program for non-residential property owners has been discussed (similar to either the 2017 or 2018 Phased Tax Programs), this scenario does not include any specific mitigation program funded from one-time sources.
- The tax increases for 2020 to 2022, the remaining years of this budget cycle, remain as provided to Council.

Scenario 2 – PFC2019-0148 Administration Recommendation (Attachment 6)

- Scenario 2 builds on the currently approved budget.
- Efficiencies or reductions of \$20 million per year in The City's tax supported operating budget will identified by Administration with the benefit being applied to benefit only the non-residential property tax class. This effectively will bring the non-residential tax rate increases in each of the next three years to below 1%.
- This also effectively alters the overall split of the proportion of total municipal property taxes paid, with the non-residential property tax class contributing proportionally less (transfer from non-residential to residential
- Use one-time funds of \$44 million to create a Phased Tax Program for 2019 to limit the municipal non-residential property tax increase for eligible properties to 10%.
- Should tax room become available in 2019 include an option to apply all or a portion of the tax room to reduce the overall contribution of property taxes from the non-residential property tax class.
- The indicative tax increases for the remaining years of this budget cycle remain.

Scenario 3 – NOMC2019-0358 Alleviating the Tax Burden and Businesses and Creating Tax Equity Through Budget Reductions (Attachment 7)

- The foundation for this scenario comes from the Notice of Motion C2019-0358.
- Propose to reduce the tax supported operating budget in 2019 by \$100 million.
- Transfer approximately \$80 million from non-residential to residential (effectively creating an equal share between the total tax collected from the non-residential class and the residential class).
- Reconsideration of the 2019 March 5 decision on Major projects to remove \$54.1 million from a Council directed Reserve and in addition to the \$70.9 million currently allocated, provide \$125 million in one-time funding over the budget cycle to apply as a credit on a declining basis to the residential property taxpayer to lessen the effect of the transfer of the property tax responsibility from non-residential to residential.

Scenario 4 – Transfer property tax responsibility from the non-residential property class to the residential property tax class, and use one-time funding and other sources of funding to buffer the increases to the residential property owner. (Attachment 8)

- Transfer the property tax responsibility from non-residential to residential in 2019 to effectively have a split between the non-residential to the residential of 51% non-residential and 49% residential in 2019. Then in 2020, transfer additional property tax responsibility from non-residential to residential to achieve a 50% - 50% allocation of the overall tax supported operating budget. Future years retains the 50% - 50% split.
- Use one-time funding and other sources to provide a credit program for residential property owners to provide a buffer or mitigation program to limit their municipal property tax increase to what would have been expected in the current One Calgary budget proposal for 2019 and provide a credit program to buffer residential municipal property taxes in further years.

Scenario 5 – Reduce Pay As You Go (PAYG) operating budget to the benefit of non-residential taxpayers until assessment values rebound and PAYG accretes back into the base operating budget based on the pace of assessed values rebounding. Use reserves to fund capital projects that would otherwise be paid by PAYG funds (Attachment 9)

- While there is a downturn, beginning in 2020, take \$55 million from PAYG in the base and direct all savings for non-residential
- Capital projects funded from the \$55 million in PAYG to be paid from reserve funds
- Reconsideration of the 2019 March 5 decision on Major projects to ensure reserve funds available
- Continue until there begins a recovery (to be defined, could be assessed values today compared to assessed values in 2015)
- When recovery begins, begin to increase the PAYG budget in the base proportionately by the percentage of the comeback of assessed values
- This scenario to be reviewed by Council in 5 years to minimize the risk of ongoing funding from reserves.

Scenario 6 – Apply all base budget efficiencies or reductions to Non-residential (Attachment 10)

- Start with the approved One Calgary budget
- In 2019 approve the continued use of one time funds in the amount of \$44 million for a 2019 Phased Tax Program (2019 PTP) to be funded from the Fiscal Stability Reserve. Criteria would be consistent with that used for the 2018 PTP.
- For 2020 to 2022, continue with the proposed 3.03% tax rate for residential properties and apply annual efficiencies or reductions in the amount of \$30 million annually (\$90 million total) against the non-residential properties. This effectively transfers property tax responsibility from non-residential properties to residential properties.
- In 2019, use an amount (to be determined), funded from the Opportunity Calgary Investment Fund, to create a program to assist small business.

- Develop a strategy to sell City owned land and real estate, as well as aggregate and asphalt operations to assist with additional non-residential relief programs.

Scenario 7 – An alternative mitigation option that can be used with each scenario (Attachment 11)

Many other these scenarios contain a mitigation program that either addresses / benefits the non-residential or the residential property owner as a way of buffering municipal property tax increases. The implementation of a Phased Tax Program (PTP) in 2019 that was similar to the PTPs in 2017 and 2018 has been suggested (included in scenario 2). An alternative to that mitigation program could be a very targeted credit / support program for the most impacted non-residential property taxpayer. A certain budget amount could be set (the source would be one-time funds), and a program can be developed to quickly and efficiently allocate these funds.

Further detail on how such as program could function is contained in Attachment 11.

Summary on Scenarios

These scenarios are presented for review and discussion. An outcome or conclusion may be one of these scenarios, or a mixture of them – in alignment with the established principles.

Administration is proposing to take any output / direction received at this meeting, perform further analysis as required and subsequently present refined options, and any recommendation(s), to the Strategic Session of Council on 2019 April 1. Administration would use the guiding principles on page three, should they be approved by Council, as a basis for its work leading up to the 2019 April 01 strategic council meeting. The result of and decisions emanating from the 2019 April 01 Strategic Session of Council will be used to finalize the 2019 property tax rates, and prepare the 2019 property tax bylaws for the consideration of Council on 2019 April 8.

The assessment/tax discussion, at the 2019 April 1 Council strategic meeting, will be complementary to, and integrated with, the downtown strategy discussion which Council has also directed be brought to that meeting.

Stakeholder Engagement, Research and Communication

A significant amount of engagement has taken 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. A summary of this engagement is included in Attachment 2 – PFC2019-0148.

Strategic Alignment

This work aligns with all Council's priorities and directions as the budget is the means by which the priorities and directions as contained in the 2019 – 2022 One Calgary Business Plans and Budgets are enabled.

Social, Environmental, Economic (External)

The decline in oil prices, which started in early 2014 has structurally changed the composition of businesses and our economy. The decline also contributed to a 19-quarter decline (to date) 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.

Calgary's dynamic and cyclical economy affects property values and the property taxes paid by properties within the various property tax classes. The very steep and rapid decline in the market value of a very small number of high valued non-residential properties (mainly downtown office buildings) of approximately \$14 billion, has led to a material decrease in non-residential property taxes paid by these property owners of over \$250 million since 2015. These property taxes are then reallocated to other properties within the non-residential class, such that some non-residential properties whose market values have remained relatively stable have suffered untenable municipal property tax increases. Many of the economic cycles experienced by Calgary in the past have not had the same unusually prolonged impact on the downtown office market.

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

The assessment/tax discussion, at the 2019 April 1 Council strategic meeting, will be complementary to, and integrated with, the downtown strategy discussion which Council has also directed be brought to that meeting.

Financial Capacity

Current and Future Operating Budget:

On 2018 November 14, Council directed Administration:

- that if provincial tax room should become available for 2019, to make use of the tax room to reduce the municipal non-residential tax property tax rate Council's highest priority; and
- find salary and wage savings to achieve a property tax rate increase of 2.45% in 2019, and fix the residential tax rate increase at 3.45% to achieve a shift from non-residential assessment base to the residential base.

Any other decisions on how the tax responsibility should be shared by the residential and non-residential property accounts will inform the impact on the operating budget and how the property tax bylaws are finalized. The amount of efficiencies and reductions to be found will inform Administration's work for 2019.

Current and Future Capital Budget:

Certain capital projects are funded through the operating budget. Any changes to the capital portion of the operating budget will inform Administration's work for 2019.

Risk Assessment

Each scenario is illustrated separately in Attachments 5 through 11 and key assumptions and parameters along with the risks, pros and cons are summarized in these attachments.

A Tax Rate Bylaw must be passed by Council to enable 2019 Property Tax Bills to be mailed in 2019 May. The latest date for decisions on the bylaw contents must be made by 2019 April 1 for the all three readings of the bylaw on 2019 April 8. Taxes are due by 2019 June 28, the last business day in June.

REASON(S) FOR RECOMMENDATION(S):

The recommendations in this report focus on a variety of scenarios that can be implemented for 2019. This information is to be discussed at the 2019 April 1 Council Strategic Session.

ATTACHMENT(S)

1. Attachment 1 – Previous Council Direction
2. Attachment 2 – PFC2019-0148, recommendations to be filed
3. Attachment 3 – PFC2019-0148 Presentation
4. Attachment 4 – White Boarding Session: Problem Identification Ideas

5. Attachment 5 – Scenario 1 - 2018 November 14 Council Direction
6. Attachment 6 – Scenario 2 - Administration Recommendations PFC2019-0148
7. Attachment 7 – Scenario 3 – NOM C2019-0358
8. **Revised** Attachment 8 – Scenario 4 - Transfer from Non-Residential to Residential over two years and offer rebates over the One Calgary Budget Cycle
9. Attachment 9 – Scenario 5 - PAYG and Reserves
10. Attachment 10 – Scenario 6 - All efficiency or reduction to NR
11. Attachment 11 – Scenario 7 - Targeted business program

PREVIOUS COUNCIL DIRECTION

Date	Meeting Type	Report Number	Decision
2019 March 5	PFC	PFC2019-0148	That the Priorities and Finance Committee refer Report PFC2019-0148 back to Administration to work with the Mayor and interested Members of Council on potential revisions and come back to Council on 2019 March 18.
2018 November 19	Council	PFC2018-1134	<ol style="list-style-type: none"> 1) Direct the Assessment & Tax Working Group to present its final report to the Priorities and Finance Committee, no later than Q1 2019. 2) Direct Administration to consider the following: <ol style="list-style-type: none"> a) Budget reductions to offset tax-shift to reflect the New Norm; b) Solutions to reduce swings in redistribution; c) City-Initiated diversification of revenue sources to reduce reliance on the property tax; d) Alternatives to the Phased Tax Program to support businesses directly; e) Reducing the ratio between residential and non-residential over a period of 5 years; f) Incentivizing/reducing barriers to residential development in the Centre City; and g) Council Strategic Session outlining challenges and opportunities in the Downtown. 3) Direct Administration to consult with Calgary Economic Development to undertake a policy, process, and membership gap analysis, regarding Downtown recovery, to ensure alignment and maximize capacity-building, and return to Council with recommendations and budget implications no later than Q1 2019. (Not the subject of this report) 4) Direct Administration to convene a Financial Task Force comprised of internal and external experts to develop a strategy on the following: <ol style="list-style-type: none"> a) Short term mitigation b) Long term solutions c) Revenue options to improve financial resiliency

			<p>5) Return to Council through Priorities and Finance Committee with the recommended membership, framework, and terms of reference no later than Q1 2019.</p>
<p>2018 November 14</p>	<p>Council</p>	<p>C2018-1158</p>	<p>Direct Administration, that if provincial tax room should become available for 2019, to make use of the tax room to reduce the municipal non-residential tax property tax rate Council's highest priority.</p> <ol style="list-style-type: none"> 1. Find salary and wage savings to achieve a property tax increase of 2.45% in 2019, and fix the residential tax rate increase at 3.45% to achieve a shift from the non-residential assessment base to the residential base. (Not the subject of this report) 2. Better inform mid-cycle budget considerations and to shape the focus of anticipated Zero-based reviews, direct Administration (specifically Corporate Initiatives and Intergovernmental & Corporate Strategy) to work with Mayor Nenshi and Cllrs Colley-Urquhart and Gondek in drafting the agenda and outcomes for the January 28 2019 Strategic Meeting of Council that will accomplish the goals of: <ol style="list-style-type: none"> a. Setting Council strategic priorities for the remainder of the term; b. Discussing the major unfunded capital projects, and c. Inform the agenda and outcomes for a subsequent session to conduct a review of the 61 services lines (and subsets) before the end of Q3 2019 (Not the subject of this report) 3. Come back in Q1 with further options on shift from non-residential assessment base to the residential assessment base as previously directed by Council, including but not limited to: <ol style="list-style-type: none"> a. Creation of a small-business assessment class b. Continuing shift from non-residential to residential; c. One-time money to manage the transition; d. Advocacy with the Federal and Provincial governments; e. An examination of reserves and other funding sources which may be available.

			4. Meet with the Chamber of Commerce, Commercial Real Estate Advisory Committee of Calgary, Economic Development and other interested stakeholders by the end of April 2019, to share ideas and options generated through the tax shift work undertaken in point 3 above. Following this engagement, bring a joint Administration/business community presentation to the Priorities & Finance Committee on May 14, 2019.
2018 April 25	Council	C2018-0489	Council approved the indicative tax rates.
2018 March 19	Council	PFC2018-0045	Council recommended the implementation of the one-time 2018 Municipal Non-Residential Phased Tax Program (2018 PTP). The 2018 PTP limited the increase in 2018 municipal non-residential property taxes for eligible non-residential property owners to five per cent (not including the effect of Business Tax Consolidation (BTC)).
2017 January 23	Council	C2017-0057	Council recommended the implementation of the one-time 2017 Municipal Non-Residential Phased Tax Program (2017 PTP). The 2017 PTP limited the increase in 2017 municipal non-residential property taxes for eligible non-residential property owners to five per cent (not including the effect of Business Tax Consolidation (BTC)).
2012 April 09	Council	PFC2012-35	Council approved, the consolidation of business tax revenue into the non-residential property tax, based on the following schedule for the incremental transfer of budgeted 2013 business tax revenue, adjusted for physical growth and contingency amounts in future years: <ul style="list-style-type: none"> • zero per cent in 2013; • 10 per cent in each of the years 2014-2015; and • 20 per cent in each of the years 2016-2019, with business tax, for business tax purposes, eliminated in 2019.

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.

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

**ISC: UNRESTRICTED
PFC2019-0148**

Downtown Tax Shift Response

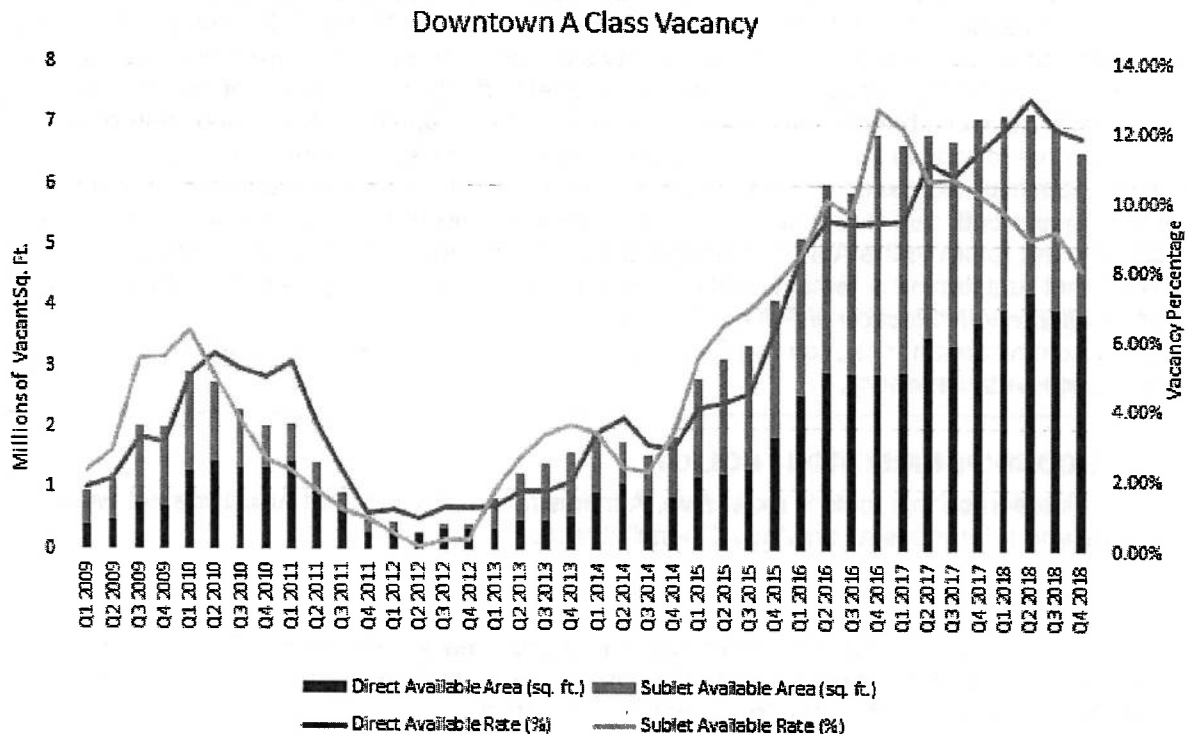
The decline in oil prices, which started in early 2014, contributed to a 19-quarter decline in the demand for downtown office space. It fell from a peak of 39.1 million square feet to a trough of 32.9 million square feet. Factors responsible for the decrease include:

- (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.



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PFC2019-0148

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

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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:

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- 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

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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

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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-

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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.

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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

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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

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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

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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

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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.

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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

PREVIOUS COUNCIL DIRECTION

Date	Meeting Type	Report Number	Decision
2018 November 19	Council	PFC2018-1134	<ol style="list-style-type: none"> 1) Direct the Assessment & Tax Working Group to present its final report to the Priorities and Finance Committee, no later than Q1 2019. 2) Direct Administration to consider the following: <ol style="list-style-type: none"> a) Budget reductions to offset tax-shift to reflect the New Norm; b) Solutions to reduce swings in redistribution; c) City-Initiated diversification of revenue sources to reduce reliance on the property tax; d) Alternatives to the Phased Tax Program to support businesses directly; e) Reducing the ratio between residential and non-residential over a period of 5 years; f) Incentivizing/reducing barriers to residential development in the Centre City; and g) Council Strategic Session outlining challenges and opportunities in the Downtown. 3) Direct Administration to consult with Calgary Economic Development to undertake a policy, process, and membership gap analysis, regarding Downtown recovery, to ensure alignment and maximize capacity-building, and return to Council with recommendations and budget implications no later than Q1 2019. (Not the subject of this report) 4) Direct Administration to convene a Financial Task Force comprised of internal and external experts to develop a strategy on the following: <ol style="list-style-type: none"> a) Short term mitigation b) Long term solutions c) Revenue options to improve financial resiliency 5) Return to Council through Priorities and Finance Committee with the recommended membership, framework, and terms of reference no later than Q1 2019.

<p>2018 November 14</p>	<p>Council</p>	<p>C2018-1158</p>	<p>Direct Administration, that if provincial tax room should become available for 2019, to make use of the tax room to reduce the municipal non-residential tax property tax rate Council's highest priority.</p> <ol style="list-style-type: none"> 1. Find salary and wage savings to achieve a property tax increase of 2.45% in 2019, and fix the residential tax rate increase at 3.45% to achieve a shift from the non-residential assessment base to the residential base. (Not the subject of this report) 2. Better inform mid-cycle budget considerations and to shape the focus of anticipated Zero-based reviews, direct Administration (specifically Corporate Initiatives and Intergovernmental & Corporate Strategy) to work with Mayor Nenshi and Cllrs Colley-Urquhart and Gondek in drafting the agenda and outcomes for the January 28 2019 Strategic Meeting of Council that will accomplish the goals of: <ol style="list-style-type: none"> a. Setting Council strategic priorities for the remainder of the term; b. Discussing the major unfunded capital projects, and c. Inform the agenda and outcomes for a subsequent session to conduct a review of the 61 services lines (and subsets) before the end of Q3 2019 (Not the subject of this report) 3. Come back in Q1 with further options on shift from non-residential assessment base to the residential assessment base as previously directed by Council, including but not limited to: <ol style="list-style-type: none"> a. Creation of a small-business assessment class b. Continuing shift from non-residential to residential; c. One-time money to manage the transition; d. Advocacy with the Federal and Provincial governments; e. An examination of reserves and other funding sources which may be available. 4. Meet with the Chamber of Commerce, Commercial Real Estate Advisory Committee of Calgary, Economic Development and other interested stakeholders by the end of April
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			2019, to share ideas and options generated through the tax shift work undertaken in point 3 above. Following this engagement, bring a joint Administration/business community presentation to the Priorities & Finance Committee on May 14, 2019.
2018 April 25	Council	C2018-0489	Council approved the indicative tax rates.
2018 March 19	Council	PFC2018-0045	Council recommended the implementation of the one-time 2018 Municipal Non-Residential Phased Tax Program (2018 PTP). The 2018 PTP limited the increase in 2018 municipal non-residential property taxes for eligible non-residential property owners to five per cent (not including the effect of Business Tax Consolidation (BTC)).
2017 January 23	Council	C2017-0057	Council recommended the implementation of the one-time 2017 Municipal Non-Residential Phased Tax Program (2017 PTP). The 2017 PTP limited the increase in 2017 municipal non-residential property taxes for eligible non-residential property owners to five per cent (not including the effect of Business Tax Consolidation (BTC)).
2012 April 09	Council	PFC2012-35	Council approved, the consolidation of business tax revenue into the non-residential property tax, based on the following schedule for the incremental transfer of budgeted 2013 business tax revenue, adjusted for physical growth and contingency amounts in future years: <ul style="list-style-type: none"> • zero per cent in 2013; • 10 per cent in each of the years 2014-2015; and • 20 per cent in each of the years 2016-2019, with business tax, for business tax purposes, eliminated in 2019.

Matters Relating to Assessment Subclass (MRAS) Legislation

The term subclass 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 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” subclass 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 subclasses.

Potential Benefits

The prescribed criteria make it difficult to identify what types of property would be eligible. “Small business” non-residential property is defined as a property or portion of a property that is owned or leased by a business that is (1) operating under a business license or is otherwise identified in a municipal bylaw and (2) has fewer than 50 full-time employees across Canada on December 31 of the year before the tax year and (3) is not sub-leased to someone else. The legislation allows Council discretion to set a smaller maximum number of employees, additional qualifying criteria and to set an alternative cut-off date.

Administrative Considerations

Qualification and reporting requirements may introduce new administrative burdens and “red tape” for both business and property owners. In terms of reducing barriers to operating a small business within Calgary, there is no simple streamlined process to capture and record the necessary information and no guarantee a reduced tax rate could be passed from the landlord/property owner to a qualifying tenant. This in turn may impact their interest in acquiring a “small business property” classification. Therefore, creating a small business subclass may not benefit those who are most in need of support.

Currently, a property may be assigned one or both residential and non-residential assessment classes and any change in classification requires a lengthy process. The relevant tax rates are then applied based on proportion, not individual premises. If the property has more than one occupant, the total tax amount is distributed amongst the tenants by the landlord, usually set out in lease terms along with other operating costs.

Any changes to subclasses and tax rates on a property would involve additional administration for the landlord and some tenants incurring disproportionately higher property taxes than others. The property owner would be required to advise The City whenever there are changes to onsite business operations as tenancy, business ownership and numbers of full-time employees may change during the tax year.

Risks

The assessment subclass and tax rates must accurately reflect the property to ensure preferential tax treatment is not unfairly provided to properties that do not qualify. Property owners can file complaints at the Assessment Review Boards on their own and others’ properties regarding the classifications and sub-classifications applied. Because other non-residential properties will be required to carry a higher tax burden, there will be a financial motive for some businesses to alter staffing and or contracting practices to meet the full-time employee maximum.

Many businesses have multiple locations, particularly retail and foodservices businesses. It is possible that different locations will be classified and taxed at different rates. The City business licensing process does not distinguish between independent, locally-owned locations and those that may be owned and operated by a company with more than 50 employees across Canada.

In addition, not all businesses are required to have a municipal license to operate because the business activities are out of scope for Bylaw purposes or they fall under other regulatory or oversight bodies.

Implementation Considerations

The procedures to allow for the effective administration of assessment subclass and tax rates must be set out by municipal bylaw. The bylaw would have to include:

- an applied definition and criteria for “small business”;
- a method for determining what businesses are or should be licensed;
- a method for determining and counting full-time employees, and verifying the accuracy of information on file;
- the “as of” date and the frequency of that count;
- in-year changes in occupancy due to businesses opening and moving.

The lead up to implementation would have to include:

- New tools to capture data in consultation with business and property owners
- Changes to Assessment and Tax IT systems to accommodate different subclasses and tax rates
- Additional licensing and business registration bylaws should Council wish to expand the types of businesses that might be included
- Changes to licensing and business registration processes to collect the necessary data based on small business property subclass definition
- Review and reclassification of all non-residential properties and businesses

Potential Systems costs

Assessment: Subclasses are not a component in the current system and were not within the scope of the system currently under development. New integration pieces would be needed, with significant expansion of approved budgets.

Tax: At a high level, developing an upgrade to the property tax system would require an estimated \$1,000,000 (2018 \$ estimate) with one year to develop and integrate Assessment and Tax systems.

Licensing: Estimated costs to license-related systems are unknown at this time; resources will need to be allocated for an evaluation and investigation of POSSE capabilities to capture required data.

Operating Budget Impacts

Should Council choose to establish the subclasses, an increase in staffing levels would be required for the administration of information collection and property reclassification, as well as additional FTEs for ongoing information management, property account maintenance and related customer service support.



**Financial Task Force
Draft Terms of Reference**

Contents

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**Draft Version v2.0
Completed February 19, 2019**



Draft Terms of Reference for the Financial Task Force

1. Purpose

- a. These Terms of Reference establish the roles and responsibilities for The Financial Task Force (the “Task Force”) as directed by recommendation #5 and #6 of PFC2018-1134 that was amended and approved by City of Calgary Council at the 2018 November 19 Regular Meeting of Council. **Exhibit 1** of the Terms of Reference outlines Council direction for this work.
- b. The setting up of the Task Force reflects the need to address fiscal challenges arising from a shift in the property tax load across groups of non-residential property owners due to persistently lower downtown office assessment values following the 2015-16 Calgary recession. Members of the Task Force are expressly directed to develop a strategy that will focus on:
 - i. “Short-term mitigation;
 - ii. Long-term solutions;
 - iii. Revenue options to improve financial resiliency.”
- c. The Task Force will engage with key stakeholders and other parties to share ideas and develop options.
- d. Members of the Task Force will need to identify options and make recommendations to Council that respond to the summary diagnosis outlined in the City Manager’s PFC2018-1134 presentation.

2. Scope

- a. The strategy developed by the Task Force should provide a platform for implementing necessary changes. The focus will be on addressing financial vulnerabilities and improving equity and fairness in funding for The City’s services to Calgarians;
- b. Following City Council’s direction, **Exhibit 2** of the Terms of Reference provides the framework for analysis and strategy development that will define the specific work of the Task Force.
- c. As highlighted in Exhibit 2, the final report of the Task Force will examine and make recommendations on options that would respond to the summary diagnosis outlined in the



City Manager's PFC2018-1134 presentation. Options to consider include, but are not limited to:

- i. Application of spending and other restraints that are non-disruptive to generate savings;
 - ii. Utilization of financial reserves;
 - iii. Distribution of the tax load across taxpayer groups;
 - iv. Expansion of the revenue base and revenue options;
 - v. Configuration of Intergovernmental transfers and revenue generating authority; and
 - vi. Identification of incentives for a burgeoning private sector.
- d. A skills matrix outlining the requirements for Task Force members is available as **Exhibit 4** of the Terms of Reference.
- e. There will be a three-step process for task force member selection. The first is an advertisement of the Terms of Reference accompanied by a call for external applicants. The second is a review of applications, using the skills matrix, by members of a selection committee. The third is a selection decision by Council at the (Strategic Session – TBD) based on the recommendations of the selection committee.

3. Objectives

- a. The Task Force will rely on the result of the engagement with the Chamber of Commerce, Commercial Real Estate Advisory Committee, Calgary Economic Development, other interested stakeholders, organizations, and other orders of government due before the 2019 May 14 Priorities and Finance Committee (PFC) discussion. The Task Force will use the outcome of stakeholder engagement for additional understanding of challenges and opportunities facing The Corporation;
- b. The Task Force will establish a standard set of principles and rules to guide member contributions to the report deliverables. The report deliverables will include one-time and mid to long-term measures that will evolve to counteract the economic reality of the day;
- c. The Task Force will identify and evaluate options and alternatives that enhance or improve financial and economic resilience, a balance of revenue sources, and The City's long-term fiscal position;
- d. The Task Force will explore and potentially propose amendments to provincial and federal legislation, including the Municipal Government Act and The Calgary Charter, that can be explored to realize meaningful change;



- e. The Task Force will consider and suggest potential processes, performance measures and metrics, as necessary to respond promptly to volatility in the local economy.
- f. The Task Force will periodically report to Council the progress of its work, and provide support to a Strategic Session(s) of Council to enable The Mayor and Councilors to identify, evaluate, and formulate The City's response to the current fiscal challenges at The City;

4. Deliverables

- a. Expectations: In general, the role of the Task Force is to recommend a strategy or series of options that responds to the summary diagnosis outlined in the City Manager's PFC2018-1134 presentation. Specific deliverables are:
 - i. A report that would include individual chapter reviews of options to reflect the outcome of the assessment conducted by members of the Task Force;
 - ii. The report recommendations should respond to the summary diagnosis outlined in the City Manager's PFC2018-1134 presentation;
 - iii. A draft strategic communications plan including the potential need for press releases and associated briefing documents or issue papers;
 - iv. The performance measures and metrics and processes for communicating progress;
 - v. The identification of changes to provincial and federal legislation and regulations;
 - vi. A supporting advocacy strategy for other orders of government to consider the proposed changes identified in "v" above;
 - vii. A proposed Strategic Session of Council with Task Force members along with designated Administration and potential external subject matter experts to support Calgary City Council's decision-making;
 - viii. Periodic reporting to Council, including a final report to Council no later than TBD.
- b. Out of Scope: The following activities are excluded from the scope of the Task Force:
 - i. Specific proposals for changes and amendments to The City's service delivery and capital budgets;
 - ii. Implementation, staging, and operation of local events to advance a new Financial Framework.

5. Operational Guidelines and Responsibility Matrix

Members of the Task Force are responsible for and agree that building and maintaining a positive and cooperative working relationship with key stakeholders, community groups, other orders of government and individual Calgarians is vital to the success of The City's transformation efforts.

The mandate and deliverables of the Financial Task Force and the different groups in the accountability structure supporting the work of the Task Force is outlined in the responsibility matrix below:

Responsibility	Mandate	Deliverable
Financial Task Force	Directed by Council and led by the Chief Financial Officer – to develop a coherent set of actions that will make up the strategy for a response to uncertainty and volatility in the local economy.	4a (i to ii)
Project Management Office	Support the work of subject matter experts on the Task Force by monitoring risks, quality and project timelines and assist with communications.	4a (iii) 4a (viii)
Steering Committee	To develop targets and performance measures that will inform the adjustments to evolving local conditions by following the strategy. To pursue engagement with other orders of government as needed to realize the strategy.	4a (iv to vi)
Project Sponsor	To provide the oversight function for the work of the Task Force and to identify, evaluate and recommend The City's response to the current fiscal challenges from the Financial Task Force findings and recommendations.	4a (vii)



6. Governance and Accountability

- a. Governance and Collective Accountability: To deliver on Council's direction and achieve effective governance and decision-making support for the work of the Task Force, **Exhibit 3** provides a visual summary of the proposed governance and accountability structure.
- b. Individual Accountability: Roles and responsibilities for groups in the governance and accountability structure are summarized below.
 - i. Calgary's City Council will remain accountable for the work of the Task Force throughout its lifespan.
 - ii. The rules contained in the current edition of *Robert's Rules of Order Newly Revised* will govern the meetings of the Financial Task Force.
 - iii. The Chair of the Financial Task Force will be the Chief Financial Officer (CFO) of The City of Calgary.
 - iv. The Financial Task Force will appoint a co-chair who will act as chair in the absence of the CFO. A member may decline the position of Co-Chair without cause or consequence.
 - v. The Chair will lead the work of the Steering committee. The Chair will select members of the steering committee from the Administration of The City of Calgary.
 - vi. The Project Management Office (PMO) will coordinate dialogue and engagement with members or between members throughout the lifespan of the Task Force.
 - vii. The Chair of the Task Force will appoint a Project Manager that will drive the execution of deliverables.



Exhibit 1: City of Calgary Council Direction on Financial Task Force

Item 9.3.2 at the Regular Meeting of Council held on 2018 November 19

2019 Projected Tax Shift Non-Residential Properties, PFC2018-1134

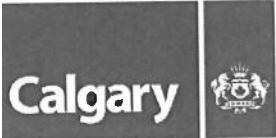
MOTION CARRIED:

1. Direct the A&T Workgroup to present a final report to PFC no later than Q1 2019. In this, Administration should consider the following:
 - a. Budget reductions to offset tax-shift to reflect the New Norm;
 - b. Solutions to reduce swings in redistribution;
 - c. City-Initiated diversification of revenue sources to reduce reliance on the property tax;
 - d. Alternatives to the Phased Tax Program to support businesses directly;
 - e. Reducing the ratio between residential and non-residential over a period of 5 years;
 - f. Incentivizing/reducing barriers to residential development in the Centre City; and
 - g. Council Strategic Session Outlining Challenges and Opportunities in the Downtown.
2. Direct Administration to consult with Calgary Economic Development to undertake a policy, process, and membership gap analysis, regarding Downtown recovery, to ensure alignment and maximize capacity-building and return to Council with recommendations and budget implications no later than Q1 2019.
3. Direct Administration to convene a Financial Task Force comprised of internal and external experts to develop a strategy on the following:
 - a. Short term mitigation
 - b. Long term solutions
 - c. Revenue options to improve financial resiliency.
4. Return to Council through Priorities and Finance Committee with the recommended membership, framework, and terms of reference no later than Q1 2019.

**Regular Meeting of Council held on 2018 November 26 – 30****One Calgary Budget for 2019 to 2022****CURRENT DIRECTION:**

3. Direct Administration to come back in Q1 2019 with further options on the shift from non-residential assessment base to the residential assessment base as previously directed by Council, including but not limited to:
 - a. creation of a small-business assessment class;
 - b. continuing shift from non-residential to residential;
 - c. one-time money to manage the transition; and
 - d. advocacy with Federal and Provincial Governments.

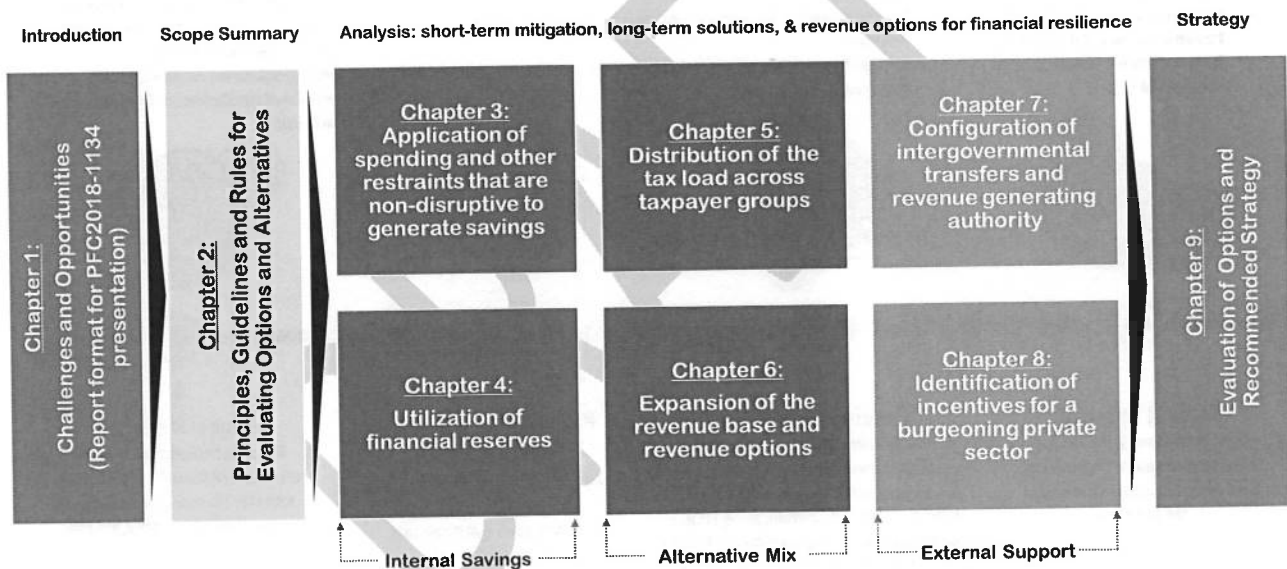
4. Meet with the Chamber of Commerce, Commercial Real Estate Advisory Committee of Calgary, Economic Development and other interested stakeholders by the end of April 2019 to share ideas and options generated through the tax shift work undertaken in point 3 above. Following this engagement, bring a joint Administration/business community presentation to Priorities & Finance Committee on May 14, 2019.



PFC2019-0148
ATTACHMENT 4

Exhibit 2: Framework for Task Force Deliverable

A high-level description of the framework for the primary task force deliverable, which is a report outlining “a strategy on (a) short term mitigation; (b) long term solutions; and (c) revenue options to improve financial resiliency” is summarized below:



PFC2019-0148
ISC: Unrestricted



PFC2019-0148
ATTACHMENT 4

Exhibit 3: Summary of the Governance and Accountability Structure

STRATEGIC DIRECTION

City Council would:

- Ensure prioritization of the project within the organization.
- Approve Task Force Terms of Reference before commencement of work.
- Remain accountable throughout the lifespan of the work of the Task Force.
- Serve as champion of the work of the Financial Task Force.

OPERATIONAL DIRECTION/SUPPORT

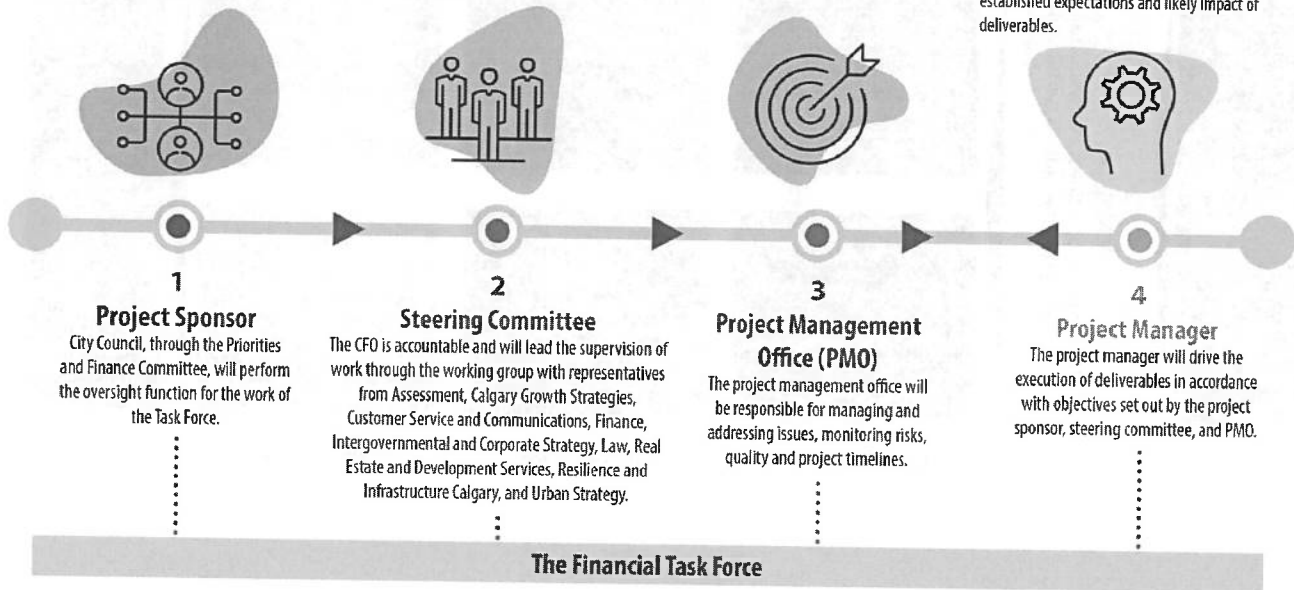
Steering Committee and Project Management Office would:

- Determine how the goals and objectives are measured and foster confidence in work to be done.
- Manage interdependencies and ensure alignment with ongoing work elsewhere in The Corporation.
- Ensure best practices by monitoring and controlling alignment with Terms of Reference.
- Manage risks and issues effectively and serve as the escalation point for any project deviations.

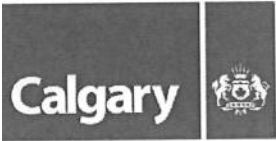
TACTICAL DIRECTION/SUPPORT

Project Manager would:

- Lead the execution of work by the Task Force in accordance with the Terms of Reference
- Manage the progress and performance of the deliverables outlined in the Terms of Reference
- Execute communication plan to deliver concise, efficient and timely information
- Manage stakeholder relationships using established expectations and likely impact of deliverables.



PFC2019-0148
ISC: Unrestricted



PFC2019-0148
ATTACHMENT 4

Exhibit 4: Skills Matrix for Potential Task Force Members

ELIGIBILITIES:		TERMS OF REFERENCE DEFINITION OF ELIGIBILITIES													QUALIFICATIONS:		DESIRED SKILLS AND EXPERIENCE		
LAST NAME	FIRST NAME	Economic Expert: Diagnostic Overview of Challenges and Opportunities	Policy Expert: Coherent Principles and Rules for Evaluating Alternatives	Accounting Expert: Applying spending & other restraints that are non-disruptive	Finance Expert: Utilizing financial reserves	Tax/ Fiscal Policy Expert: Distributing the tax load across taxpayer groups	Economic Expert: Expanding the revenue base and revenue options	Intergovernmental Expert: Configuring revenue generating authority	Private Sector Incentives Expert: Incentives for burgeoning private sector	Strategy/Policy Expert: Evaluating options and recommending a strategy	Academic experience or Doctor of Philosophy degree	Policy and public administration knowledge	3 to 5 years previous board experience (any kind)	Experience and training for media / public relations engagements	Good verbal and written communication skills	Budget planning and financial management experience	Finance designation (e.g. CA)	COMMENTS	RECOMMEND Yes / No
Male	Carla		Xx	Xx	Xx					Xx		Xx	Xx	Xx	Xx	Xx	Xx		
City Staff	Name A																		
City Staff	Name C																		
City Staff	Name D																		
Applicant	Number 1																		
Applicant	Number 2																		
Applicant	Number 3																		
Applicant	Number 4																		
Applicant	Number 5																		
Applicant	Number 6																		
Applicant	Number 7																		
Applicant	Number 8																		
Applicant	Number 9																		
Applicant	Number 10																		
Applicant	Number 11																		
Applicant	Number 12																		
Applicant	Number 13																		

PFC2019-0148
ISC: Unrestricted

ASSESSMENT TEAM WORKING GROUP MEMBERS

- Chris Arthurs, Director - Resilience & Infrastructure
- Jason Cameron, Program Lead – Resilience & Infrastructure
- Doug Cassidy, Director - Real Estate and Development Services
- Henry Chan, Lawyer - Law
- Jeremy Clarke, Sr. Strategist - Intergovernmental & Corporate Strategy
- Andrea Cole, Lawyer - Law
- Andrew Cornick, Manager Industrial and Land Valuation - Assessment
- Jill Gaume, Client Liaison - Customer Service & Communications
- Nelson Karpa, Director - Assessment
- Stephanie Knight, Strategy and Business Lead - City Manager's Office
- Thom Mahler, Manager Urban Strategy - Planning and Development
- Carla Male, A/Chief Financial Officer- CFOD
- Spencer McClurg, Manager Sales & Acquisitions – Real Estate and Development Services
- Sheryl McMullen, Departmental Strategic Advisor - CFOD
- Jennifer McMurtry, Director – Customer Service & Communications
- Kathy Davies Murphy, Manager Growth & Strategic Services – Planning and Development
- Katelynn Paton, Issue & Communication Strategist – Office of the Mayor
- Krista Ring, Manager Customer Experience – Customer Service & Communications
- Oyinola Shyllon, City Economist & Regulatory Leader - Finance
- Kirk Thurbide, Leader Client Liaison – Customer Service & Communications



Downtown Tax Shift Response

Priorities and Finance Committee
PFC2019-0148
2019 March 5



Downtown Tax Shift Response

- I. The Issue
- II. Stakeholder engagement
- III. Strategies for immediate, mid and long term
- IV. Strategic Session
- V. Recommendations

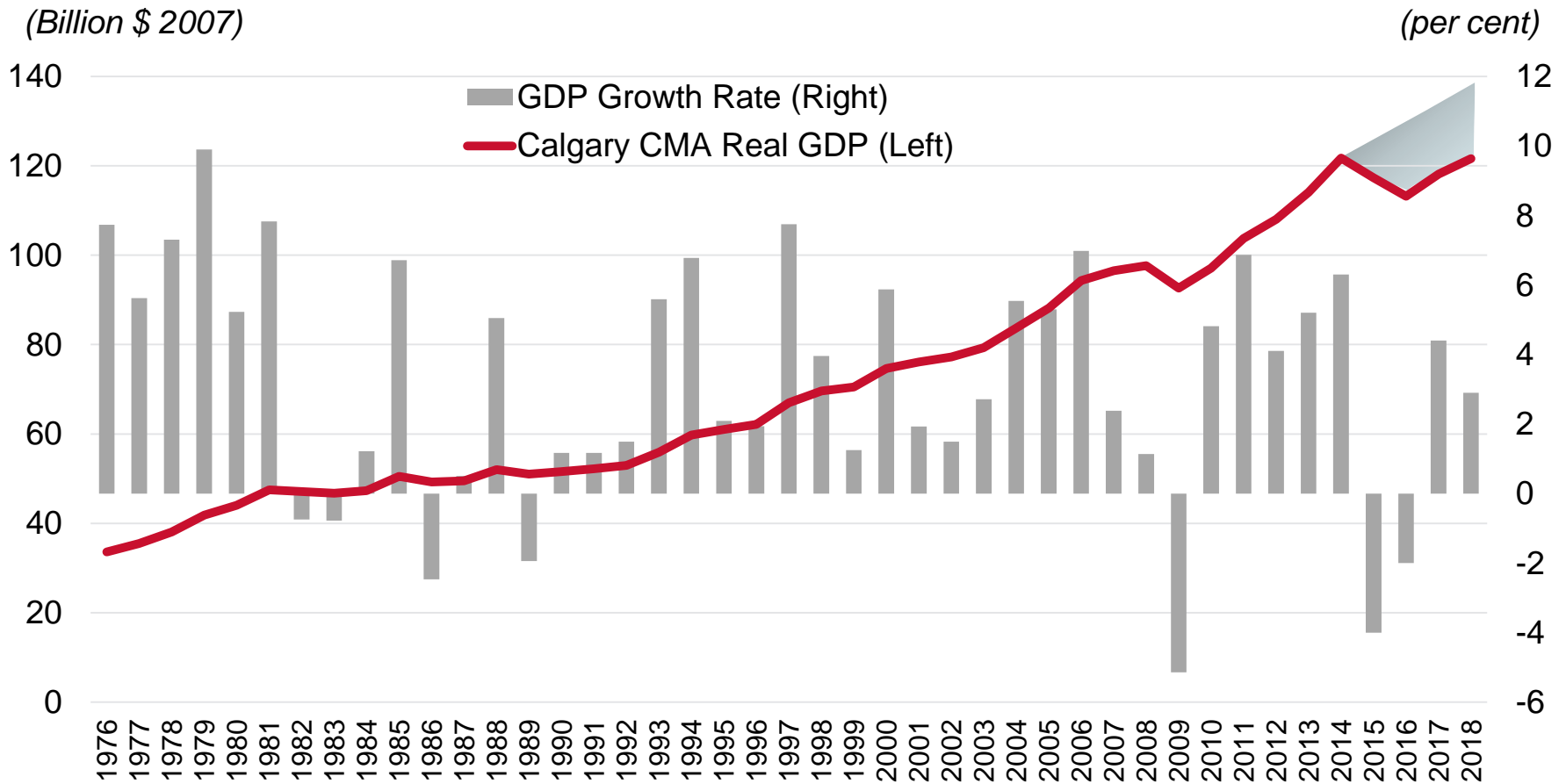


The Issue

C2019-0352
Attachment 3



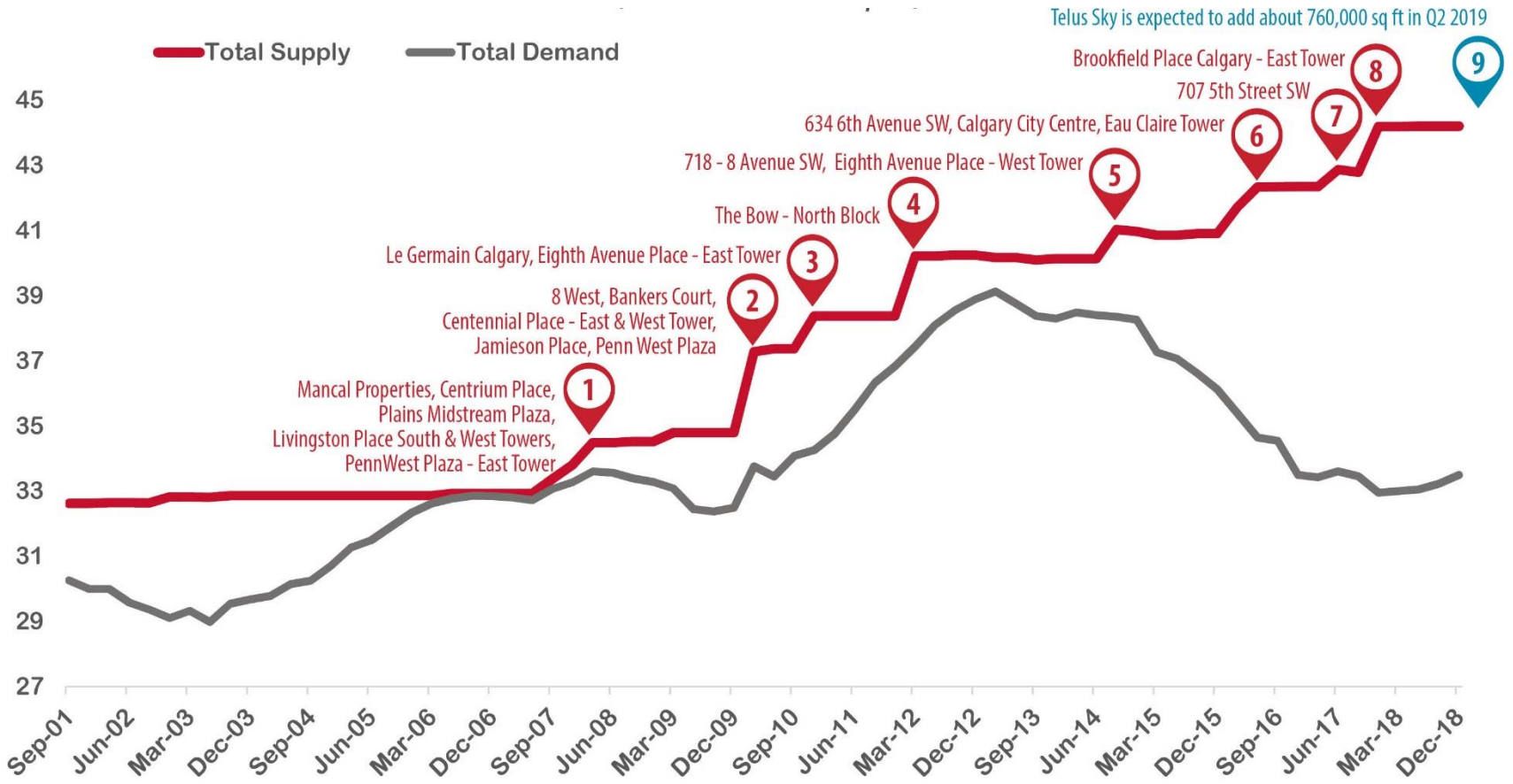
City of Calgary: GDP Growth



Source: Conference Board of Canada, The City of Calgary Corporate Economics
51 of 97



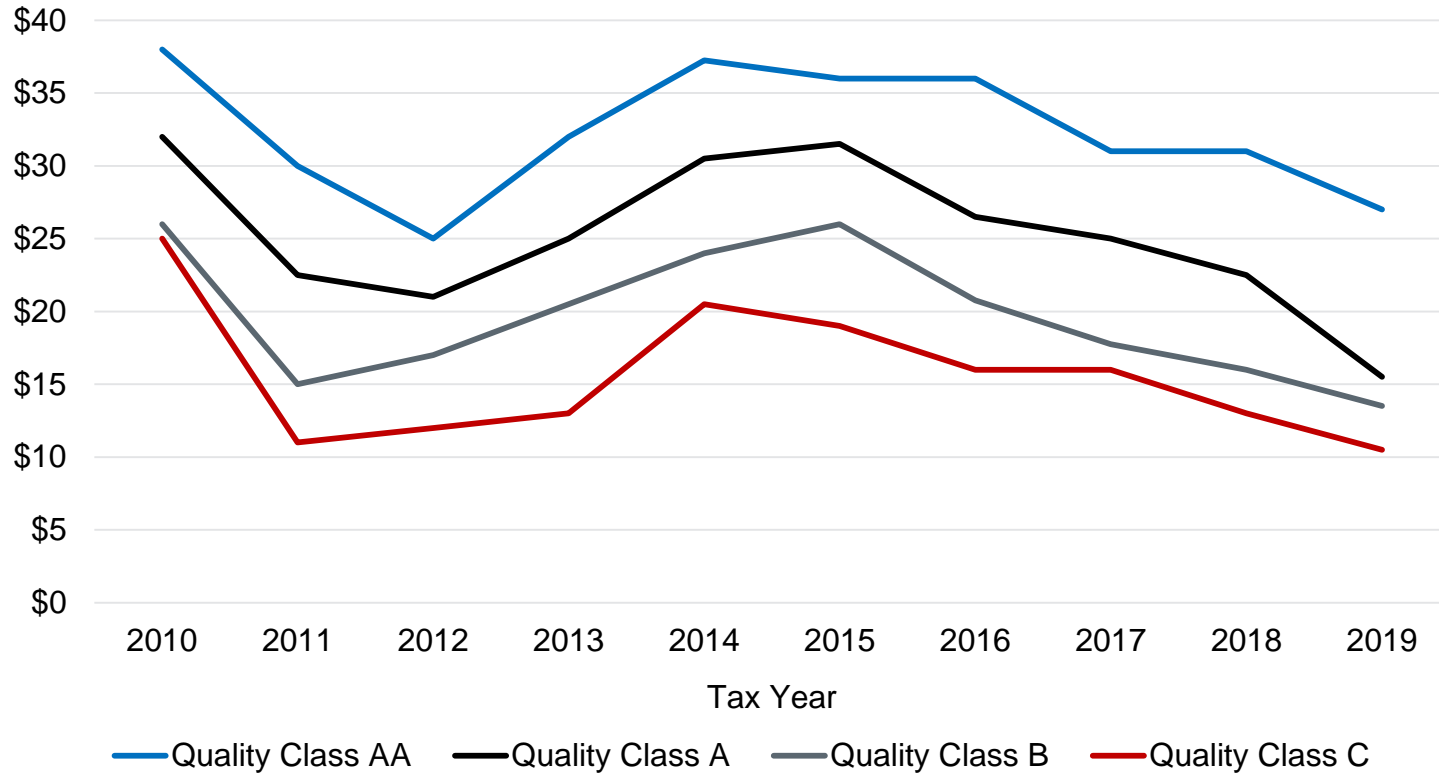
Supply & Demand for Downtown Office Space 2001 to 2018 (millions of sq. ft.)



Source: Altus Insite, Corporate Economics



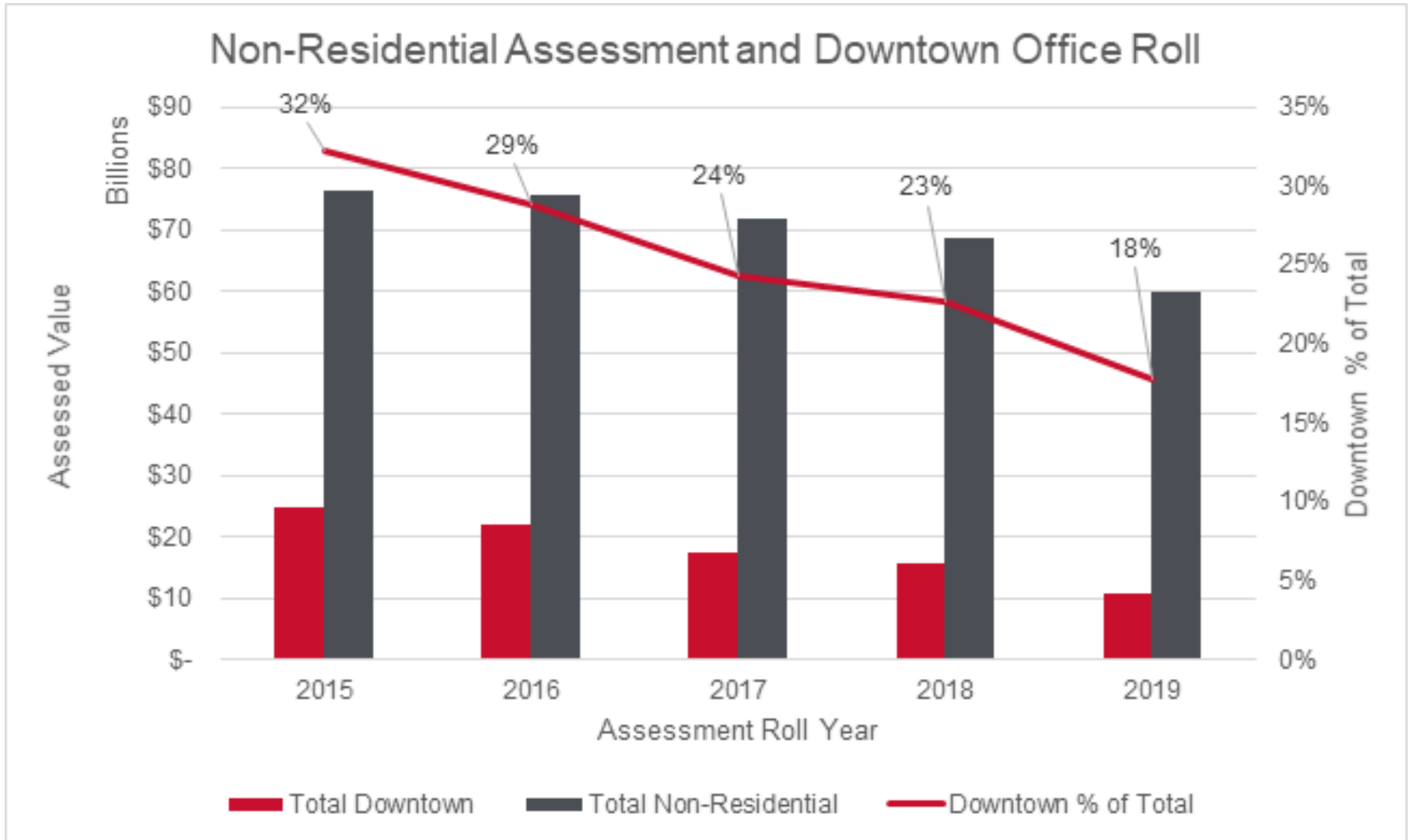
Downtown Office Assessed Net Rents (\$ p.s.f.)



Source: The City of Calgary



Non-residential Assessment and Downtown Office Roll





The Downtown

141 accounts

\$14,109,911,200 lost property value

\$257,624,403 tax impact

**Tax impact is shared by
13,844 properties**

Note: Figures are cumulative from 2015.



Stakeholder Engagement



Sample of engagement undertaken to date:

- Heuristic Consulting Group
 - Business Owners
 - Real Estate industry
 - BIA/BRZ
- Calgary Economic Development
- Chamber of Commerce
- Resilience Calgary
- Others

Findings from Heuristics sessions

- The 2017 and 2018 PTP programs were not considered a success by small business. Funds may not have been passed through from the landlords to the tenants.
- Stakeholders have many perspectives. When informed, acknowledge that there isn't a magic bullet.
- Preference to tax visitors rather than residents.
- Desire to be informed and engaged in the decision process.

3 key preferences from Heuristics sessions

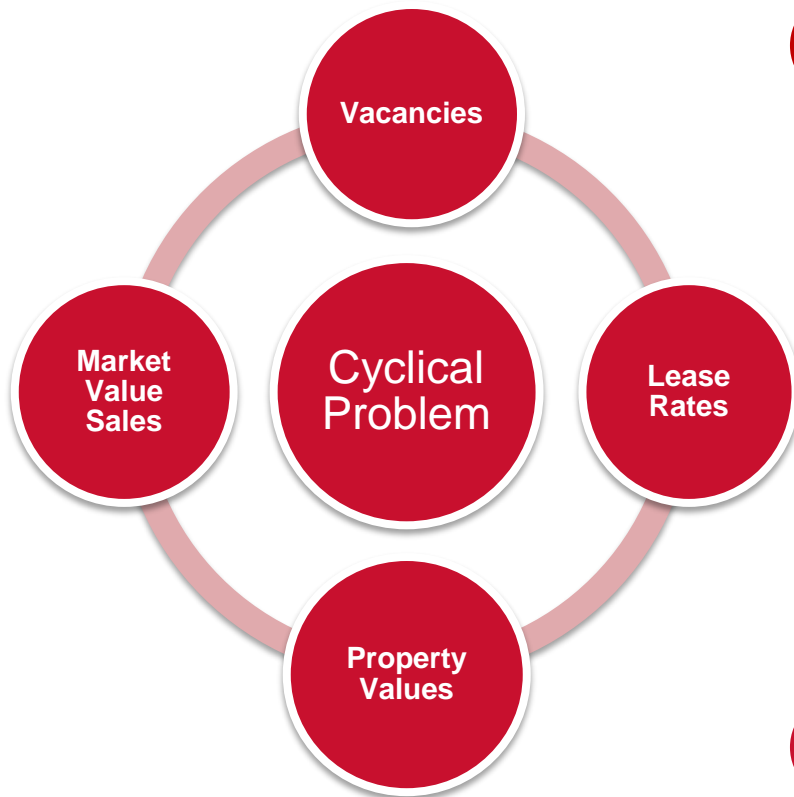
- Transfer of tax levies from Non-residential to Residential
- Cost cutting at The City
- Opportunity for disposition of City assets that compete with the private sector, or non-core City services that could be delivered by private sector.
- Desire to have the following in the tax system
 - Transparency and accountability
 - Certainty and simplicity
 - Equity and fairness



Strategies to Address the Shift Immediate, Mid and Long Term



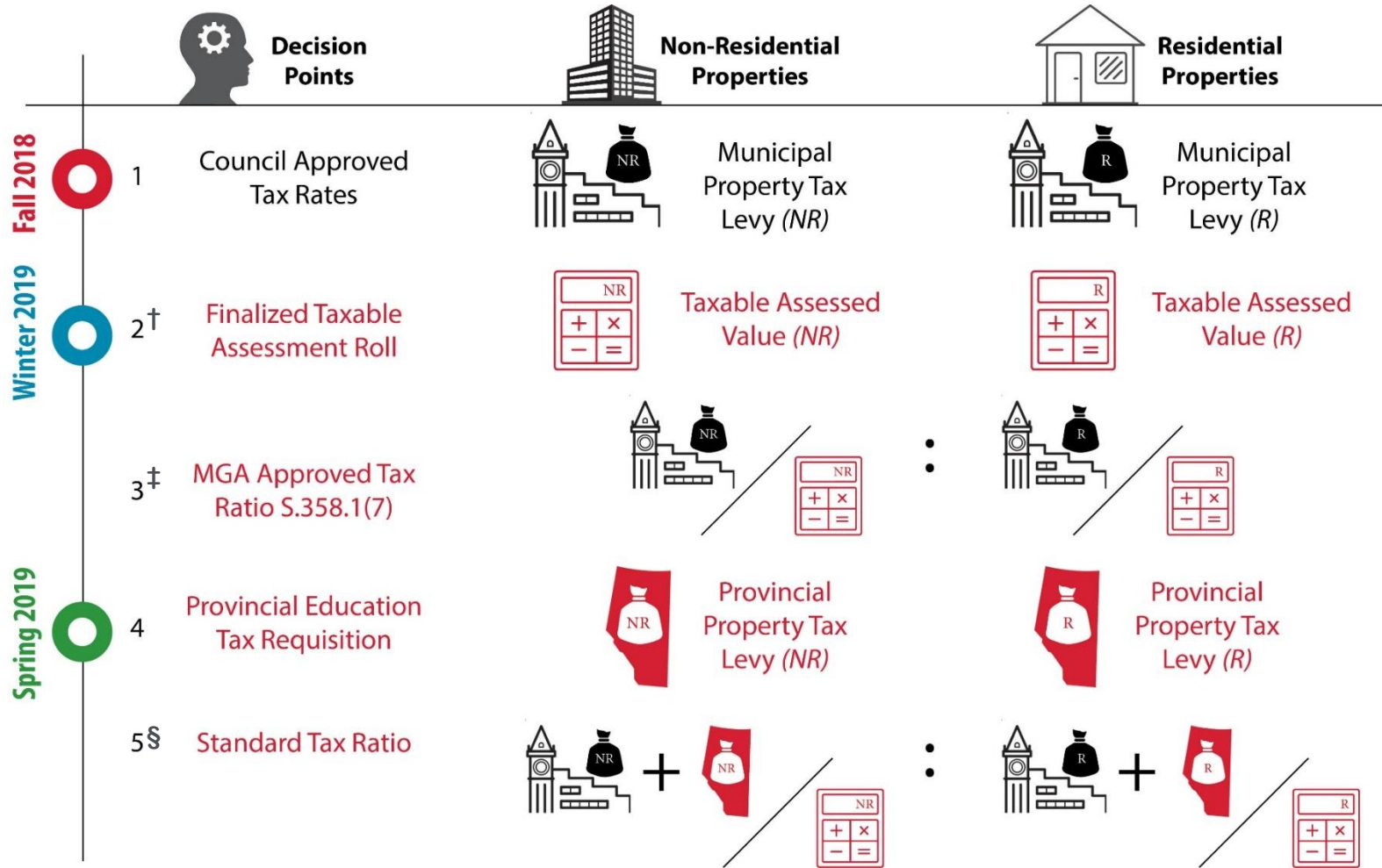
Strategies: Assessment Shift



- **Transfer– Non-residential to Residential**
- **Reduce the cost and increase the effectiveness of local government**
- **Buffer tax increases for non-residential property owners**
- **Explore Non-residential subclasses**
- **Explore tax decrease ‘floor’**
- **Invest in the downtown**
- **Divestment of City Assets**



Limited control over tax ratios

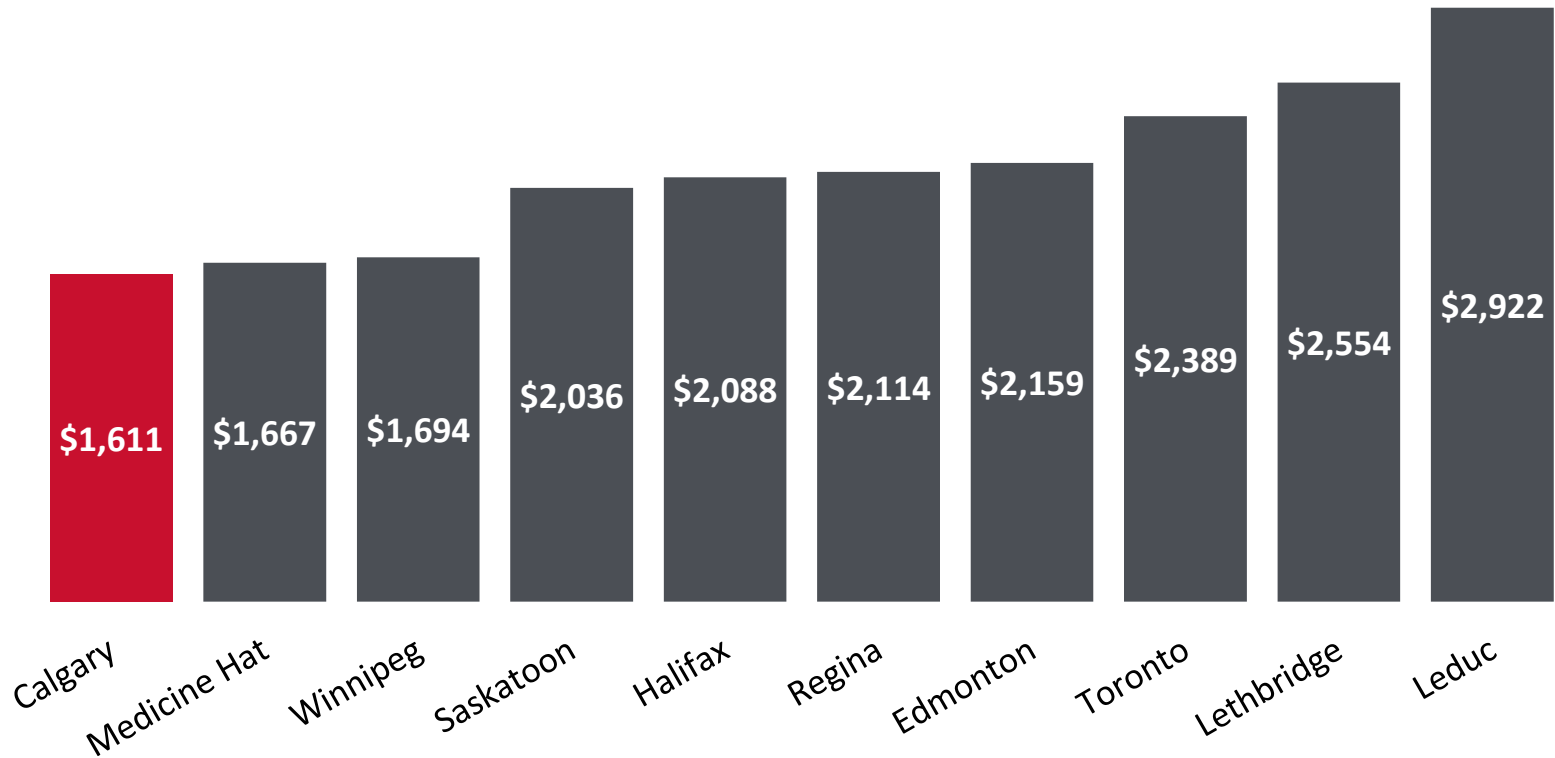


Notes:

- † The items in red are not under the control of the municipality
- ‡ The MGA approved tax ratio is not known until the beginning of each fiscal year
- § Some studies that compare ratios across jurisdictions focus on #5



Municipal Property Tax for a Representative Two-Storey House in 2017 - Selected Canadian Cities



Note that a “representative” house as applied in the survey is:

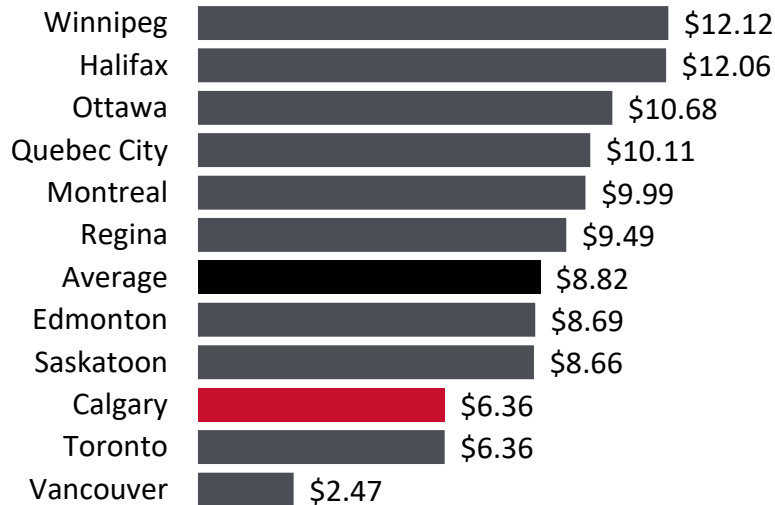
- A two-storey house with three bedrooms and two bathrooms,
- A single-family house with double attached garage or car port,
- 1,500 square feet of above grade living space
- Located in an average neighbourhood.

Source: 2017 Residential Property Taxes and Utility Charges Survey (City of Calgary)

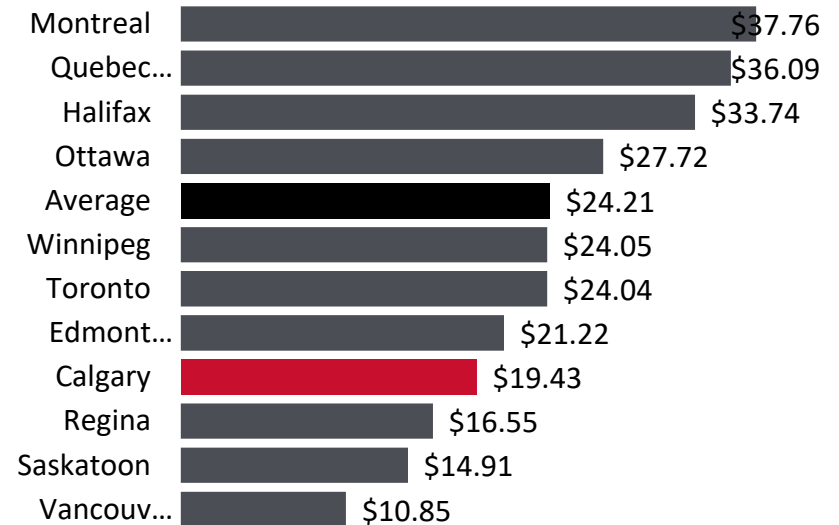


Estimated taxes per \$1,000 of Assessment (Source: Altus Group)

2018 Estimated Residential Property Taxes per \$1,000 of Assessment



2018 Commercial Property Taxes per \$1,000 of Assessment



Source: 2018 Canadian Property Tax Rate Benchmark Report (2007)
Authors: Altus Group



1. Transfer the Tax Load from Non-Residential to Residential

Tax transfer - 2019 impact

	Residential		Non-residential *		Ratio
	Rate	Tax impact (\$)	Rate	Tax impact (\$)	
2019 Projected Impact					
Approved One Calgary Budget	3.45%	\$65	1.01%	\$10,970	4.47 :1

* Sample calculated based upon a \$5 million non-residential property value and \$475,000 residential property value



1. Transfer the Tax Load from Non-Residential to Residential

Tax transfer - 2020 impact

	Residential		Non-residential *		Ratio
	Rate	Tax impact (\$)	Rate	Tax impact (\$)	
2020 Projected Impact					
Proposed One Calgary Budget	3.03%	\$59	3.03%	\$2,654	4.47 : 1
Transfer from Non-Res to Res	<u>2.59%</u>	<u>\$50</u>	<u>(2.72%)</u>	<u>(\$2,380)</u>	
Total	5.62%	\$109	0.31%	\$274	4.25 : 1
Budget contribution from Efficiencies or reductions	<u>(2.27%)</u>	<u>(\$44)</u>			
Net Residential increase in 2020	3.35%	<u>\$65</u>			4.34 : 1

* Sample calculated based upon a \$5 million non-residential property value and \$475,000 residential property value



1. Transfer the Tax Load from Non-Residential to Residential

Tax transfer - 2021 impact

	Residential		Non-residential *		Ratio
	Rate	Tax impact (\$)	Rate	Tax impact (\$)	
2021 Projected Impact					
Proposed One Calgary Budget	3.03%	\$60	3.03%	\$2,734	4.46 : 1
Transfer from Non-Res to Res	<u>2.29%</u>	<u>\$49</u>	<u>(2.48%)</u>	<u>(\$2,253)</u>	
Total	5.32%	\$109	0.55%	\$481	4.05 : 1
Budget contribution from Efficiencies or reductions	<u>(2.08%)</u>	<u>(\$44)</u>			
Net Residential increase in 2021	3.24%	<u>\$65</u>			4.23 : 1

* Sample calculated based upon a \$5 million non-residential property value and \$475,000 residential property value



1. Transfer the Tax Load from Non-Residential to Residential

Tax transfer - 2022 impact

	Residential		Non-residential *		Ratio
	Rate	Tax impact (\$)	Rate	Tax impact (\$)	
2022 Projected Impact					
Proposed One Calgary Budget	3.03%	\$62	3.03%	\$2,817	4.46 : 1
Transfer from Non-Res to Res	<u>2.02%</u>	<u>\$47</u>	<u>(2.23%)</u>	<u>(\$2,109)</u>	
Total	5.05%	\$109	0.80%	\$708	3.89 : 1
Budget contribution from Efficiencies or reductions	<u>(1.91%)</u>	<u>(\$44)</u>			
Net Residential increase in 2022	3.14%	<u>\$65</u>			4.13 : 1

* Sample calculated based upon a \$5 million non-residential property value and \$475,000 residential property value



1. Transfer the Tax Load from Non-Residential to Residential

Summary - Typical Residential property tax increase \$65 in 2020, 2021 and 2022 after \$20 million efficiency per year

	Residential			Non-residential *			Ratio	Shift to Res from NR	Efficiency
	Rate	Tax bill (\$)	Tax impact (\$)	Rate	Tax bill (\$)	Tax impact (\$)			
Approved (2018 Dec. 17) 2019 – Residential increases \$65 per year	3.45%	\$1,940	\$65	1.01%	\$87,587	\$10,970	4.47 : 1	\$8 million	
2020-2022 Projected									
2020 – Residential increases Contribute from Efficiency Res. Increases \$65 per year	5.62%	\$2,049	\$109	0.31%	\$87,861	\$274	4.25 : 1	\$22 million	\$20 million
	3.35%	\$2,005	<u>(44)</u> \$65				4.34 : 1		
2021 – Residential increases \$109 per year Contribute from Efficiency Res. Increases \$65 per year	5.32%	\$2,158	\$109	0.55%	\$88,342	\$481	4.05 : 1	\$21 million	\$20 million
	3.24%	\$2,070	<u>(44)</u> \$65				4.23 : 1		
2022 – Residential increases \$109 per year Contribute from Efficiency Res. Increases \$65 per year	5.05%	\$2,267	\$109	0.80%	\$89,050	\$708	3.89 : 1	\$20 million	\$20 million
	3.14%	\$2,135	<u>(44)</u> \$65				4.13 : 1		

* Sample calculated based upon a \$5 million non-residential property value and \$475,000 residential property value



2. Intentional Management of The City's budget

- \$40 million in efficiencies were included in the approved One Calgary plans and budgets,
- Administration is committed to finding an additional \$60 million in the next three years to be used to shift from the non-residential base to the residential base.
- The size and scale of the Downtown shift cannot be solved by budget reductions alone.



Operating Savings and Efficiencies Achieved from 2015-2018

**\$607
million**

Specific examples of reductions:

- Base salary and wage savings of \$115M
- Business unit efficiencies and reductions \$135M
- One time savings of \$316M transferred to Budget Savings Account and Fiscal Stability Reserve used for:
 - OCIF and
 - PTP 1 and 2



3. Use of one time funds to mitigate the impact of extraordinary increases to eligible non-residential properties

- 2017 PTP has distributed approximately \$26.5 million and over 5,000 non-residential property owners have received a tax credit.
- For the 2018 PTP, to date, approximately \$29.3 million in 2018 PTP credits have been distributed to over 6,900 accounts.



3. Use of one time funds to mitigate the impact of extraordinary increases to eligible non-residential properties

- A 2019 PTP would be a separate one-time program, not an extension of the 2018 or 2017 programs, and would limit the increase in municipal non-residential property taxes to ten per cent (10%).
- The cost of this one-time program is estimated to be \$44 million, funded from the Fiscal Stability Reserve.



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.
- The new Provincial legislation, “Matters Relating to Assessment Subclasses” – (MRAS) 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.



5. Implementing an annual cap to the downside in tax decreases to 10%

- The amount of the reduction property owners would experience would depend on the degree to which decreases are “capped” each year.
- Administration is currently exploring the feasibility of this within our annual assessment regime.
- Typically in other jurisdictions, the phasing in of tax decreases is done within a multi-year assessment cycle.



Medium Term Options

- Creation and implementation of a Financial Task Force
- Encouraging ongoing dialog with the Calgary Economic Development and the larger Downtown Business Community
- Encourage capital dollars into the downtown to support renovation or repurposing of existing non-residential buildings
- Advocacy with the Province of Alberta
- Resiliency Calgary and 100 Resilient Cities work
- Focus and reprioritization of Industrial Land Strategy



Long Term Options

- Support “Calgary in the New Economy” economic strategy
- Advocacy – Provincial and Federal
- Collaborations between Government, Civic Partners and Community based groups
- Maintain the status quo



Potential Strategic Session



Strategic Session April 1

Morning session:

Addressing the Tax Shift: Evaluating medium and long-term possibilities

Afternoon session:

Long-term economic resiliency: Taking stock of existing work and next steps



Recommendations



Recommendations for PFC

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,



Recommendations for PFC

- 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).



C2019-0352
Attachment 3

White Boarding Session: Problem identification ideas

During the drop in white boarding session with Council members and Administration, a great deal of discussion was focused upon articulating the question of “what is the problem we are trying to solve?” The following comments represent much of the discussion around identification of the problem statement from the white boarding session. Further discussion will be held during Council on March 18th to define and refine the problem statement along with discussion and a decision on guiding principles to guide the discussion going forward.

- What can we do for 2019?
- Are the current year efforts aimed to target smaller businesses with a reduced ability to pay and/or to incent businesses
- With the drop in assessment values from large Downtown office buildings, the responsibility for tax dollars has moved from the downtown to non-downtown properties. The following key questions arise:
 - How should tax responsibilities be shared?
 - What is the share of the total budget represented by residential and non-residential property taxes?
 - Can we reduce the City of Calgary’s budget to assist with mitigation?
- How do we maintain a competitive business tax environment?
- How do we find the right balance to shift?
- How do we protect residential property owners from the shift?
- How do we reduce volatility/lack of way to predict non-residential tax bill?
- How do we make the change to the residential and non-residential shares quickly?
- How do we minimize one-time solutions?
- How do we keep businesses going to keep people employed?
- Overall size of the City’s budget – we have two options to control
 - How do we increase revenues?
 - How do we reduce expenses?
- How do we find a solution to the reduced downtown assessment values until the valuation of the downtown properties comes back?



SCENARIO 1: 2018 November 14 Council Direction

Tax transfer - 2019 impact

	Residential		Non-residential *		Ratio
	Rate	Tax impact (\$)	Rate	Tax impact (\$)	
2019 Projected Impact					
Approved One Calgary Budget	3.45%	\$65	1.01%	\$10,970	4.47 :1

* Sample calculated based upon a \$5 million non-residential property value and \$475,000 residential property value

SCENARIO 1: 2018 November 14 Council Direction

Tax transfer - 2019 impact

Risks	Pros	Cons
Non-residential to residential tax ratio is close to legislated maximum – increasing the risk that relative assessment shifts next year may push it over	Approved by Council - Maintains the current service levels and capital projects within the One Calgary approved budget	One year solution – lack of certainty into the future
Some non-residential taxpayers may see increases that challenge their profitability	Communicated with Public - Maintains expectations for residential taxpayers	Some non-residential taxpayers will continue to face high increases
	No reconsideration needed	
	Liquidity is preserved for major unfunded projects	



SCENARIO 2: PFC 2019-0148 Administration Recommendation

Summary - Typical Residential property tax increase \$65 in 2020, 2021 and 2022 after \$20 million efficiency per year and shift of Non-Res to Res

	Residential			Non-residential			Ratio	Shift to Res from NR	Efficiency or Reductions	Cost to fund PTP at 10%
	Rate	Tax bill (\$)	Tax impact (\$)	Rate	Tax bill (\$)	Tax impact (\$)				
Approved (2018 Dec. 17) 2019 – Residential increases \$65 per year	3.45%	\$1,940	\$65	1.01%	\$87,587	\$10,970	4.47 : 1	\$8 million		\$44 million *
2020-2022 Projected										
2020 – Residential increases \$109 per year	5.62%	\$2,049	\$109	0.31%	\$87,861	\$274	4.25 : 1	\$22 million		
Contribute from Efficiency			(44)						\$20 million	
Res. Increases \$65 per year	3.35%	\$2,005	\$65				4.34 : 1			
2021 – Residential increases \$109 per year	5.32%	\$2,158	\$109	0.55%	\$88,342	\$481	4.05 : 1	\$21 million		
Contribute from Efficiency			(44)						\$20 million	
Res. Increases \$65 per year	3.24%	\$2,070	\$65				4.23 : 1			
2022 – Residential increases \$109 per year	5.05%	\$2,267	\$109	0.80%	\$89,050	\$708	3.89 : 1	\$20 million		
Contribute from Efficiency			(44)						\$20 million	
Res. Increases \$65 per year	3.14%	\$2,135	\$65				4.13 : 1			

- approximate funding required to limit increases in non-residential municipal property taxes to 10% for the qualified properties.
- Assumption is that there is no change to residential and non-residential assessment values – actual results will vary.



SCENARIO 2: PFC 2019-0148 Administration Recommendation

Summary - Typical Residential property tax increase \$65 in 2020, 2021 and 2022 after \$20 million efficiency per year and shift of Non-Res to Res

Risks	Pros	Cons
Expectation for permanent solution is not met - this scenario continues a temporary solution if PTP implemented	2019 Approved by Council - Maintains the current service levels and capital projects	May be difficult to understand
Non-residential to residential tax ratio is close to legislated maximum – increasing the risk that relative assessment shifts next year may push it over	Balanced approach between shifting some to residential and City continuing to find efficiencies and reductions	Efficiencies and reductions are not guaranteed, therefore potential for higher residential property tax increases
Some non-residential taxpayers may see increases that challenge their profitability	Liquidity is preserved for major unfunded projects	PTP only for 2019
	Tax ratio is reduced well below legislated level	
	Meets the equity/fairness principle	



Scenario 4: Non-residential shift scenarios



Risks	Pros	Cons
Reconsideration for 2019 required	Increases perceived equity/fairness for non-residential taxpayers	Length of how long rebate program is intended to continue
Details to follow for the strategy for identification of funding sources for one time funds	Maintains the current service levels and capital projects within the One Calgary approved budget	Source of funding for the rebate program to be identified
Wholesale change in the taxation system may create significant resistance from residential taxpayers		The impact of growth in the base and how this will be managed is uncertain
Residential impact once rebates expire will be significantly higher than communicated property tax increases		Does not address the tax ratio over the longer term

C2019-0352
Attachment 8
REVISED



Scenario 4:

Transfer from Non-Residential to Residential over two years and offer rebates over the One Calgary budget cycle

	Proportion	Proportional Value	Tax rate	Shift	% change	Rebate
2019 Before tax rate increase						
Residential	0.45	\$850.2M	0.0039476			
Non-Residential	0.55	\$1,030.2M	0.0181013			
	1	\$1,880.4M	4.58			
2019 49% RES and 51% NR						
Residential	0.49	\$942.6M	0.0043765	\$92,375,995	10.86%	\$61M
Non-Residential	0.51	\$981.1M	0.0172196	\$(50,231,323)	-4.87%	
	1	\$1,923.7M	3.93			
2020 50% RES and 50% NR*						
Residential	0.50	\$989.3M	0.0045935	\$139,112,490	4.96%	\$83M
Non-Residential	0.50	\$987.4M	0.0173303	\$(43,926,720)	0.64%	
	1	\$1,976.7M	3.77			

*Assumes growth revenue is evenly distributed between residential and non-residential

Residential rebates for 2021 (\$43M) and 2022 (\$44M) would bridge half of the increase from the One Calgary approval.

C2019-0352
Attachment 8
REVISED



Scenario 3:

Budget Reduction of \$100 million and overall tax is equally shared between Residential and Non-residential.

	Residential			Non-residential			Ratio	Shift to Res from NR	Efficiency or Reduction	Cost to fund PTP at 10%
	Rate	Tax bill (\$)	Tax impact (\$)	Rate	Tax bill (\$)	Tax impact (\$)				
2019 One Calgary Approved	3.45%	\$1,940	\$65	1.01%	\$87,587	\$10,970	4.47 : 1	\$8 million		\$44 million*
Additional Budget Reduction to Residential and Non-residential	-6.00%		-\$112	-4.95%		-\$4,299			\$100 million	
Additional Non-residential transfer to Residential	9.61%		\$179	-8.27%		-\$7,169		\$80 million		
2019 Projected Rebate	7.06%	\$2,007	\$132	-12.21%	\$76,119	-\$498	3.78 : 1	(Approx)		\$9 million*
			-\$100							
			\$32							
2020: 3.03% Rebate	3.03%	\$2,068	\$61							
			-\$75							
			-\$14							
2021: 3.03% Rebate	3.03%	\$2,131	\$63							
			-\$50							
			\$13							
2022: 3.03% Rebate	3.03%	\$2,196	\$65							
			-\$25							
			\$40							

* approximate funding required to limit increases in non-residential municipal property taxes to 10% for the qualified properties. Assumption is that there is no change to residential and non-residential assessment values - actual results will vary.



Scenario 3:

Budget Reduction of \$100 million and overall tax is equally shared between Residential and Non-residential.

Risks	Pros	Cons
Reconsideration for 2019 required	Mitigation for both residential and non-residential property owners	Does not necessarily address the tax ratio or potential tax shifts over the longer term
Reconsideration of financial strategy for four material unfunded projects required as source for \$125 million in one-time funding	Addresses the equity/fairness principle in terms of overall budget responsibility equally shared	Service levels will be impacted, likely significantly given a large portion of the budget is excluded from the reductions
Taxpayers may dislike/some may be supportive of any budget reductions that may lead to service level cuts	Reduces the impact of the downtown shift over the short term	Does not directly cap non-residential property tax increases – individual increases may still be significant (no mitigation)



Scenario 5: Non-residential shift scenarios

Use of PAYG and Reserves

	Residential			Non-Residential			Transfer to Res from NR	Efficiency or budget reduction	Reserve withdrawals
	Rate	Tax bill	Tax impact	Rate	Tax bill	Tax impact			
Approved One 2019 Calgary Budget	3.45%	\$ 1,940	\$65	1.01%	\$ 87,587	\$10,970	\$8M		
2020 One Calgary	3.03%	\$ 1,999	\$59	3.03%	\$ 90,241	\$2,654	BASE	\$20M	\$55M withdrawal
Transfer impact	2.59%	\$ 2,049	\$50	-2.72%	\$ 87,861	-\$2,380			
Efficiency	<u>-2.27%</u>	\$ 2,005	<u>-\$44</u>	<u>-5.51%</u>	\$ 83,035	<u>-\$4,826</u>			
PAYG	3.35%		\$65	-5.20%		<u>-\$4,552</u>			
2021 One Calgary	3.03%	\$ 2,065	\$60	3.03%	\$ 85,551	\$2,516	BASE	\$20M	\$55M withdrawal
Transfer impact	2.29%	\$ 2,114	\$49	<u>-2.48%</u>	\$ 83,492	<u>-\$2,059</u>			
Efficiency	<u>-2.08%</u>	\$ 2,070	<u>-\$44</u>						
PAYG	3.24%		\$65	0.55%		\$457			
20XX One Calgary	3.03%	\$ 2,132	\$62	3.03%	\$ 86,022	\$2,530	BASE	\$20M	*assume DT recovers 20% of pre-decline value and reserves repaid \$44M withdrawal
Transfer impact	2.02%	\$ 2,179	\$47	-2.23%	\$ 84,160	-\$1,862			
Efficiency	<u>-1.91%</u>	\$ 2,135	<u>-\$44</u>	<u>1.12%</u>	\$ 85,095	<u>\$935</u>			
PAYG	3.14%		\$65	1.92%		\$1,603			
20XY One Calgary	3.03%	\$ 2,199	\$64	3.03%	\$ 87,673	\$2,578	BASE	\$20M	*assume DT recovers another 20% of pre-decline value and reserves repaid \$33M withdrawal
Transfer impact	1.77%	\$ 2,244	\$45	-1.97%	\$ 85,997	-\$1,676			
Efficiency	<u>-1.76%</u>	\$ 2,200	<u>-\$44</u>	<u>2.24%</u>	\$ 87,903	<u>\$1,906</u>			
PAYG	3.04%		\$65	3.30%		\$2,808			

Assumption is that there is no change in residential or non-residential values other than the explicit assumptions of recovery;
Actual results may vary.

Scenario 5: Non-residential shift scenarios

Use of PAYG and Reserves

Risks	Pros	Cons
Reconsideration for 2019 required	Addresses the tax ratio issue	Requires administration costs for monitoring assessment values & estimating the amount of return to reserves
Reconsideration of financial strategy for four material unfunded projects	Includes a sunset clause	Does not directly address the tax ratio or shift issue over the longer term
Uncertainty of when the downtown non-residential properties returns creates a potential bow wave		



Scenario 6:

Apply base budget reduction or efficiencies of \$90 million to the Non-residential over 2020 - 2022

	Residential			Non-residential			Ratio	Shift to Res from NR	Efficiency or Reduction	Cost to fund PTP at 10%
	Rate	Tax bill (\$)	Tax impact (\$)	Rate	Tax bill (\$)	Tax impact (\$)				
2019: Approved One Calgary Budget	3.45%	\$1,940	\$65	1.01%	\$87,587	\$10,970	4.47 : 1	\$8 million		\$44 million*
2020 - 2022 Projected										
2020: 3.03% and \$30 million contribution to Non-residential	3.03%	\$1,999	\$59	-0.41%	\$87,228	-\$359	4.32 :1		\$30 million	
2021: 3.03% and \$30 million contribution to Non-residential	3.03%	\$2,059	\$60	-0.26%	\$87,004	-\$224	4.18 :1		\$30 million	
2022: 3.03% and \$30 million contribution to Non-residential	3.03%	\$2,121	\$62	-0.08%	\$86,932	-\$72	4.06 :1		\$30 million	

- In 2019, use up to \$XX M, funded from the Opportunity Calgary Investment Fund, to create a program to assist small business.
- Develop a strategy to sell City owned land and real estate, as well as aggregate and asphalt operations to assist with additoinal non-residential relief programs.

* approximate funding required to limit increases in non-residential municipal property taxes to 10% for the qualified properties.

Scenario 6:

Apply base budget reduction or efficiencies of \$90 million to the Non-residential over 2020 - 2022

Risks	Pros	Cons
Reconsideration for 2019 required	Maintains the current service levels and capital projects for 2019	Share of taxes is not addressed
Strategy required to raise one time funds	Residential property taxes are maintained as previously communicated	Does not directly address the tax ratio or shift issue over the longer term
Expectation for permanent solution is not met given this just continues the same temporary solution	Non-residential property taxes are capped for 2019	Efficiencies are not guaranteed therefore service levels may be impacted for 2020-2022

Scenario 7:

Targeted program to assist businesses

Program to be designed, to include:

- Application program based on criteria specific to need of business
- Criteria to be determined
- Will be administratively efficient to administer
- Will be up to a maximum of \$70.9M available for 2019

Risks	Pros	Cons
Depends on how program is structured	Specifically targets relief where Council chooses	Will need time to establish and approve criteria and process