

Calgary



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CITY CLERK'S DEPARTMENT

Downtown Tax Shift Response

Priorities and Finance Committee
PFC2019-0148
2019 March 5

C2019-0352
Attachment 3

Downtown Tax Shift Response

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

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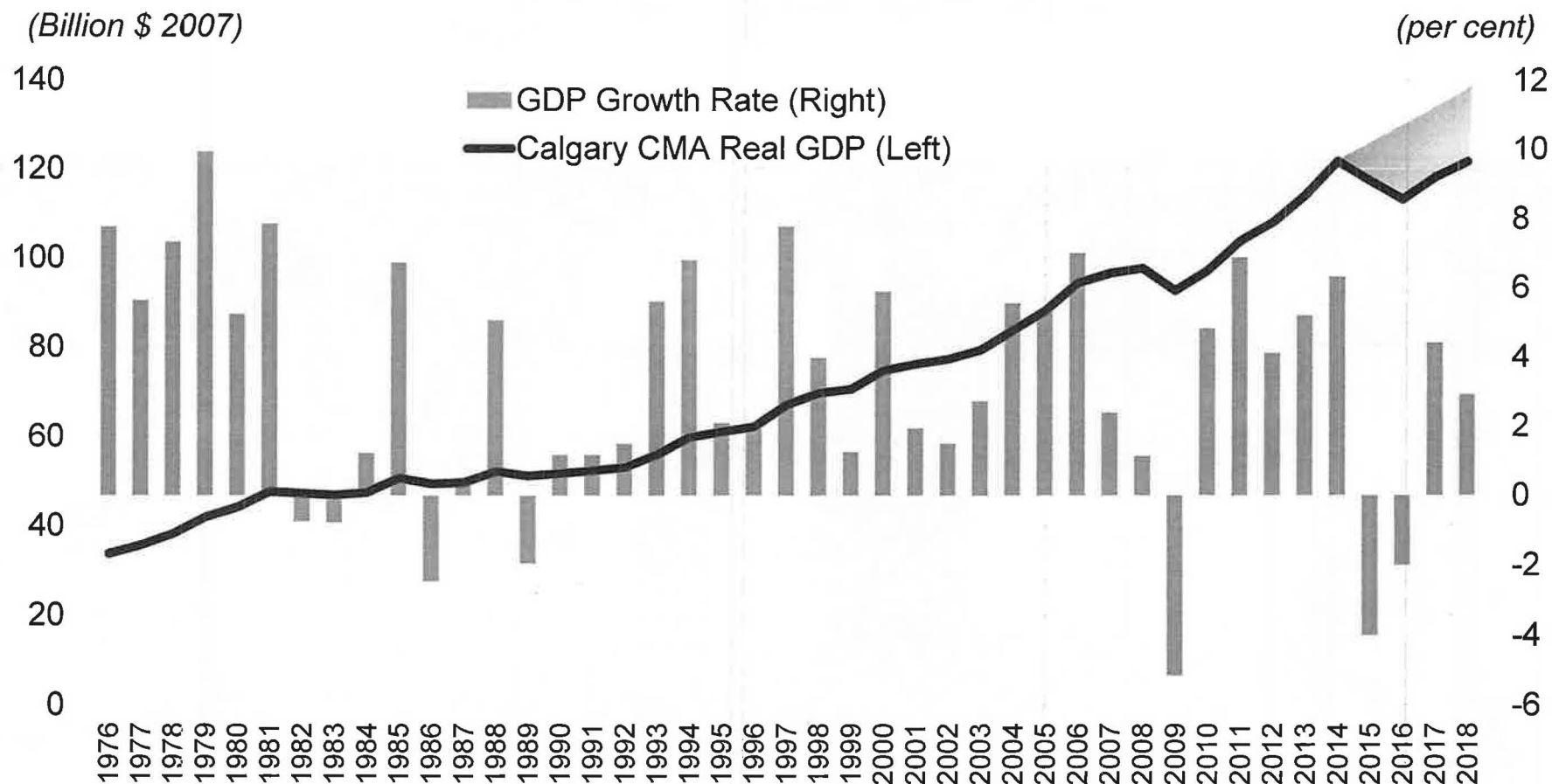


The Issue

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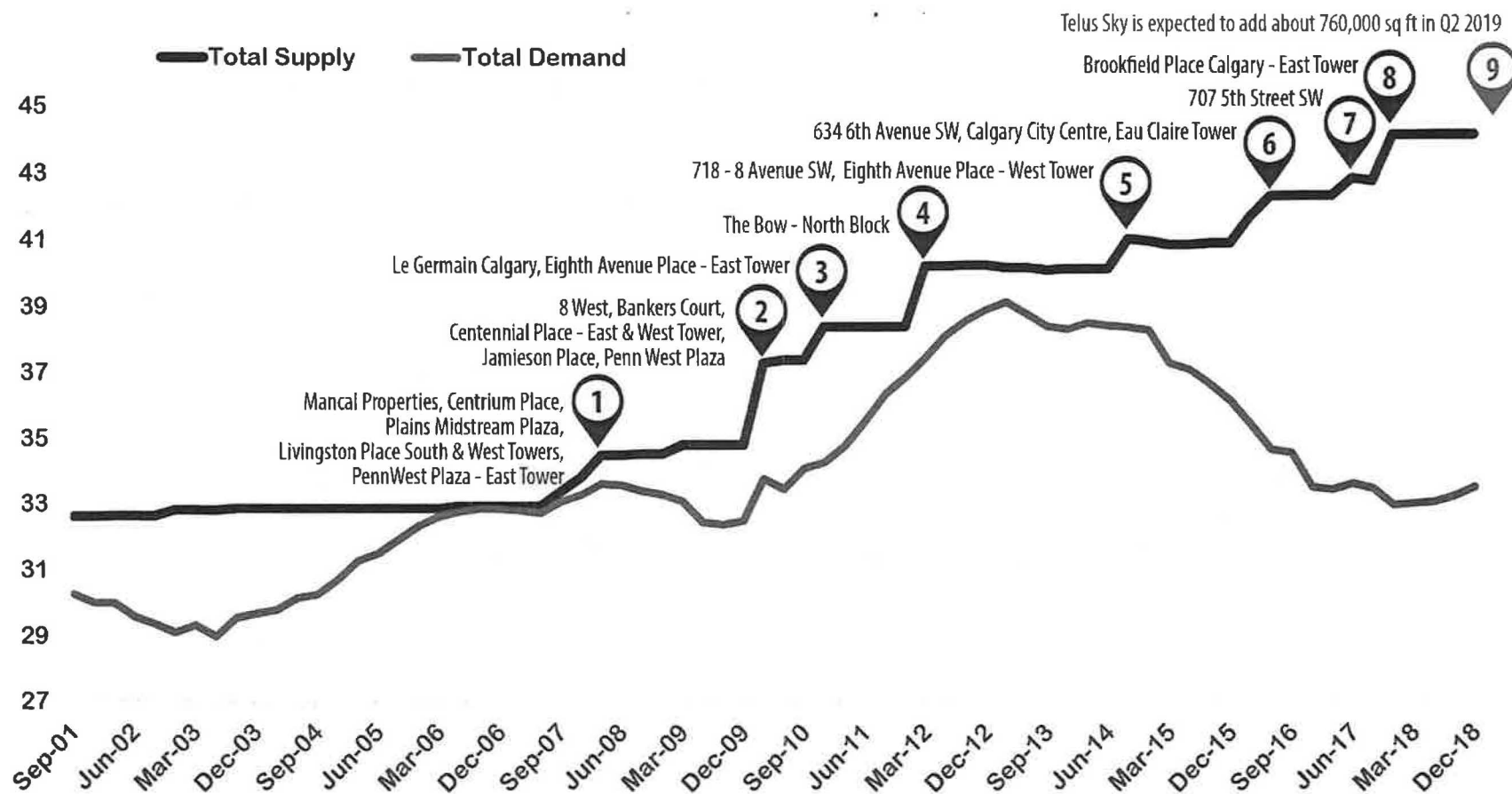
City of Calgary: GDP Growth



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



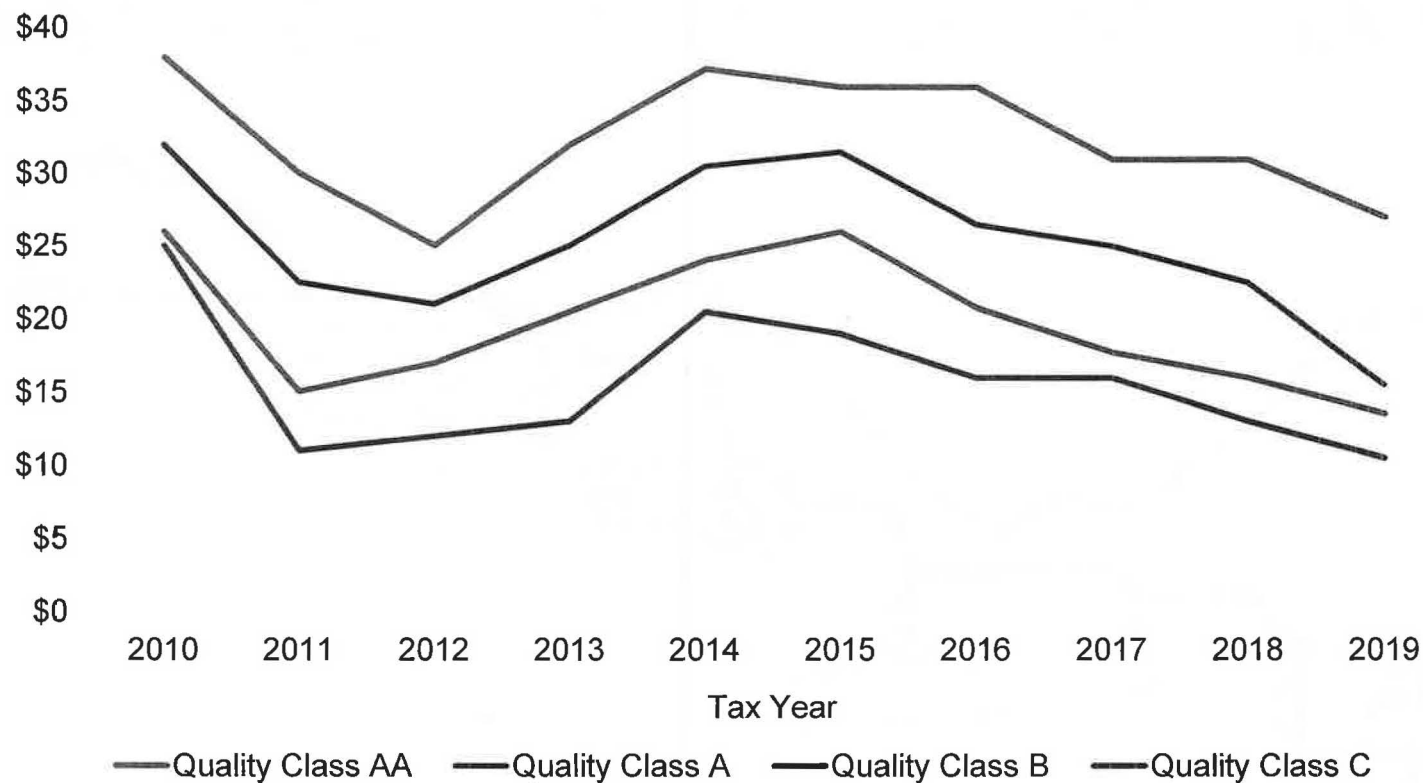
Supply & Demand for Downtown Office Space 2001 to 2018 (millions of sq. ft.)



Source: Altus Insite, Corporate Economics



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

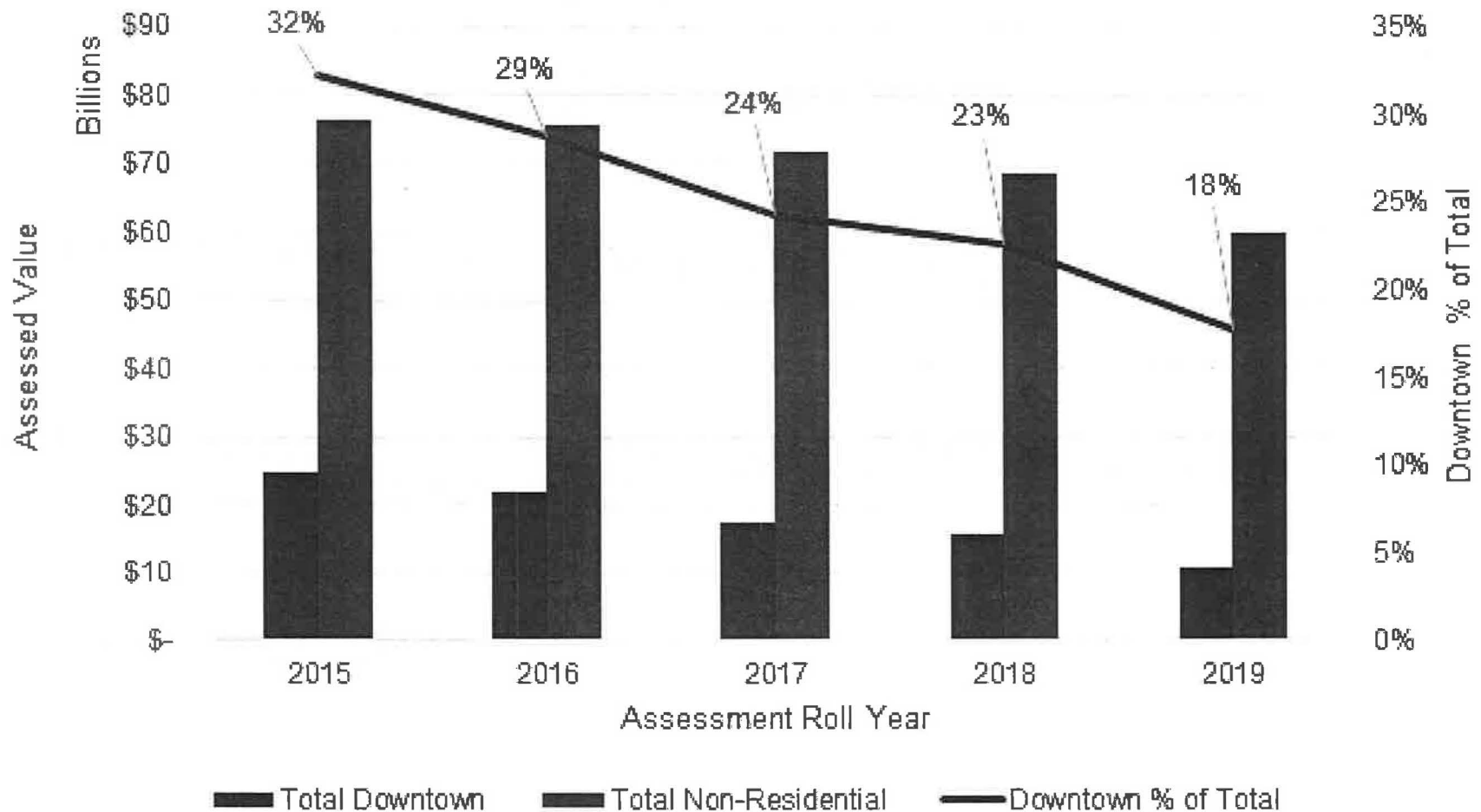


Source: The City of Calgary



Non-residential Assessment and Downtown Office Roll

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



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.



Stakeholder Engagement

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

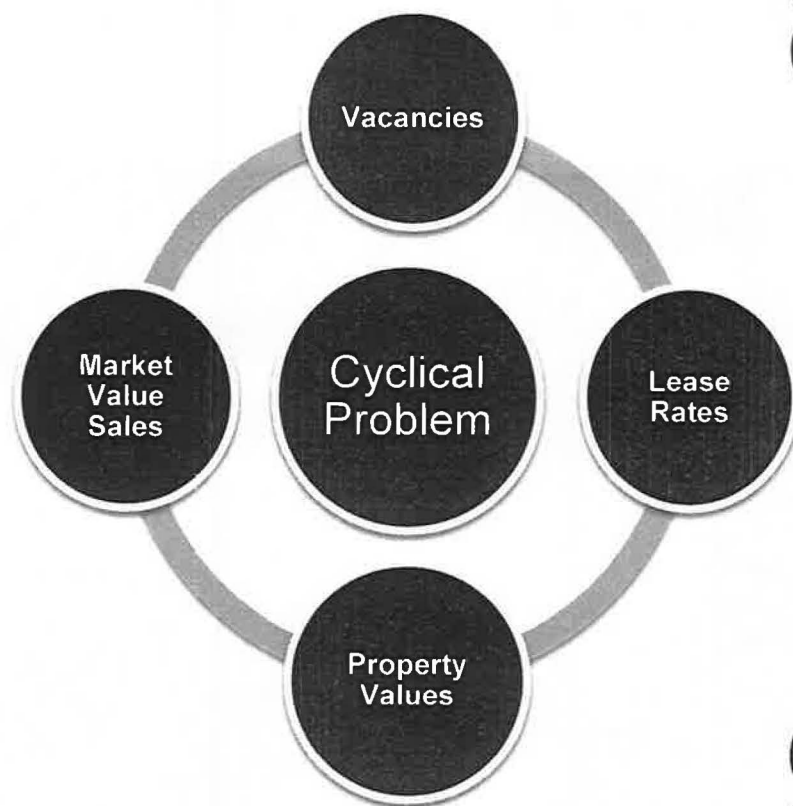


Strategies to Address the Shift

Immediate, Mid and Long Term



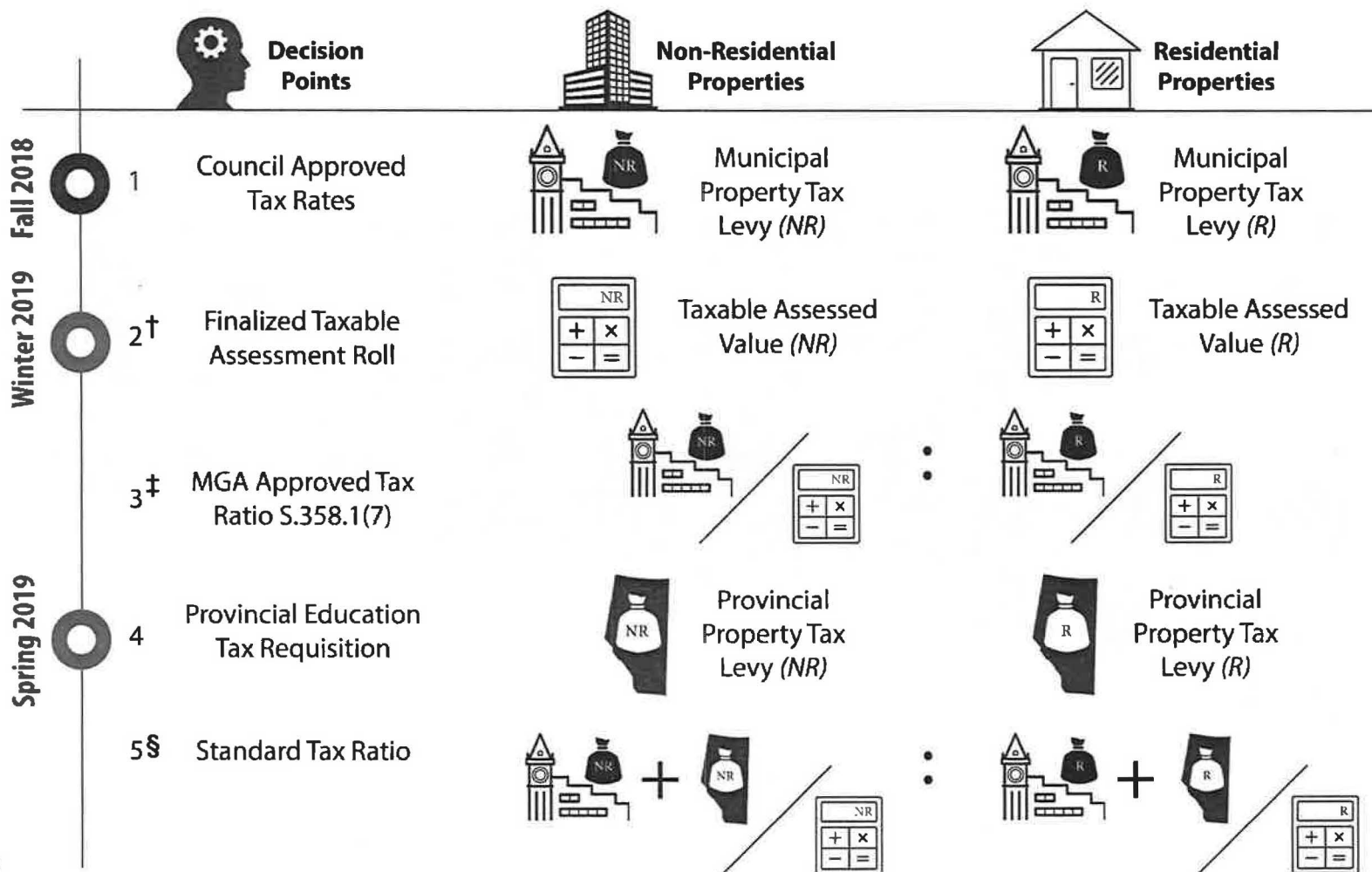
Strategies: Assessment Shift



- **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



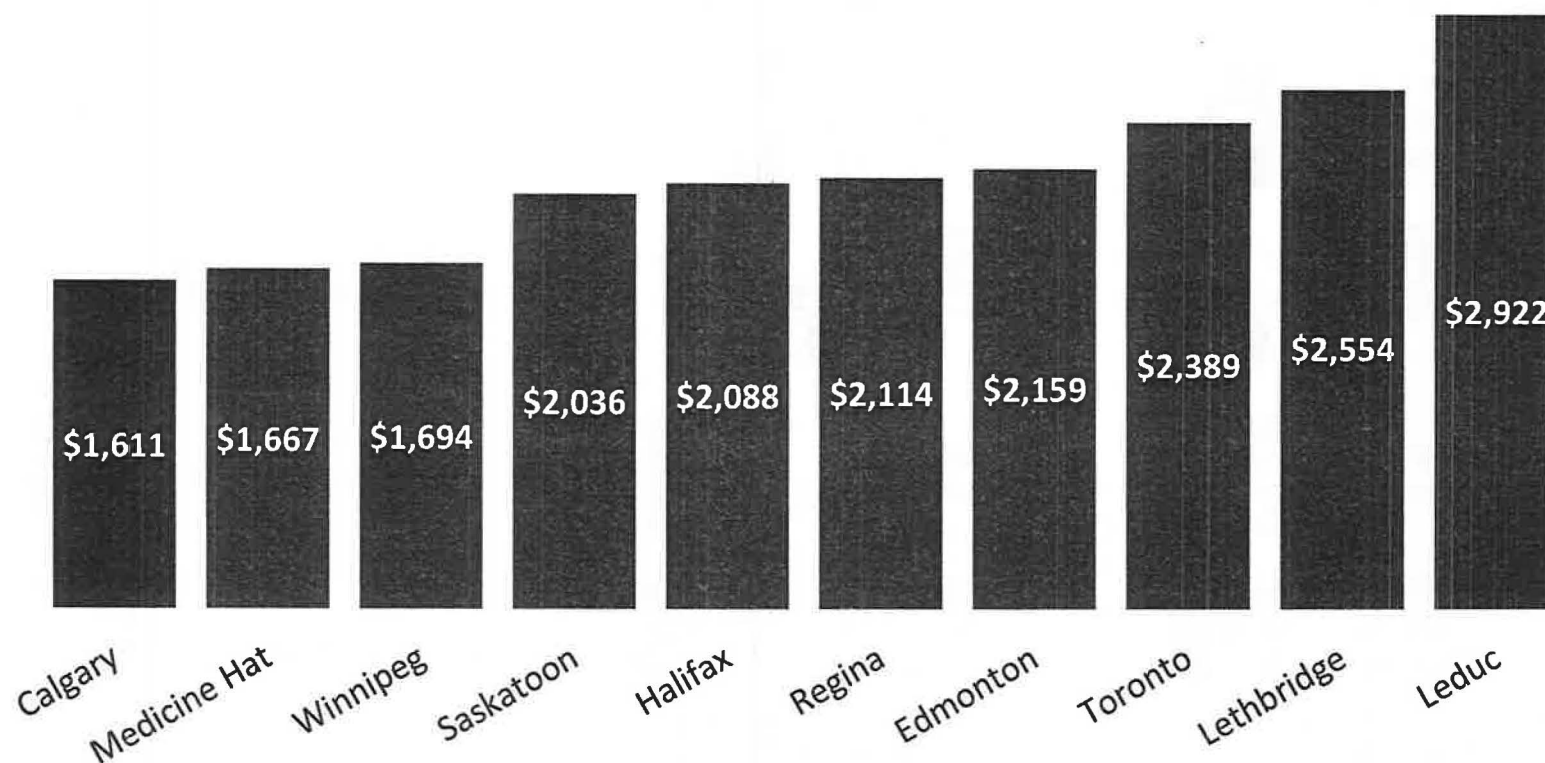
Notes:

[†] 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



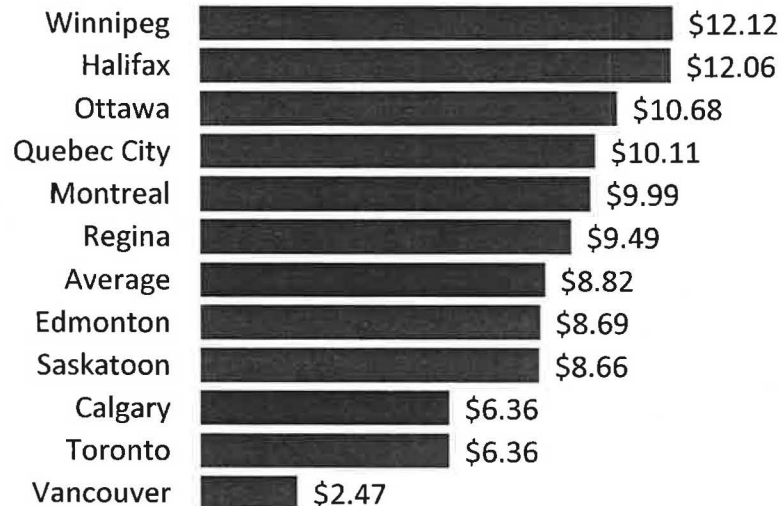
Note that a “representative” house as applied in the survey is:

- 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.

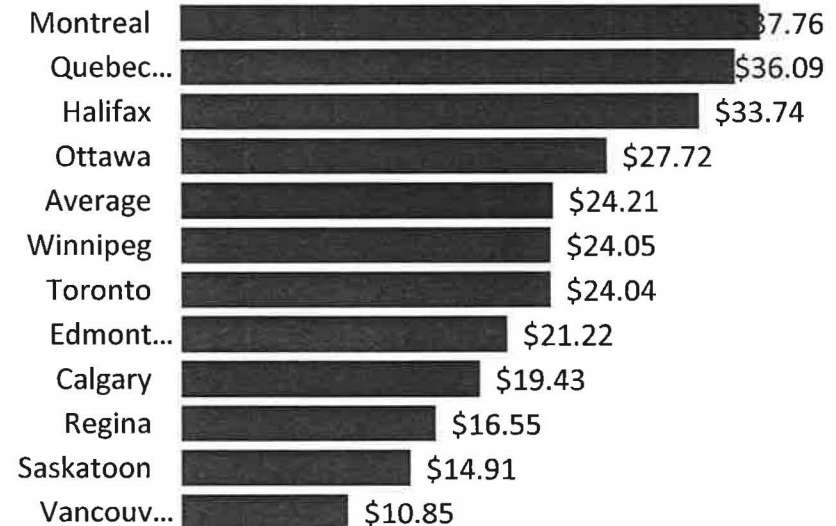
Source: 2017 Residential Property Taxes and Utility Charges Survey (City of Calgary)

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% 3.35%	\$2,049 \$2,005	\$109 (44) <u>\$65</u>	0.31%	\$87,861	\$274	4.25 : 1 4.34 : 1	\$22 million	\$20 million
2021 – Residential increases \$109 per year Contribute from Efficiency Res. Increases \$65 per year	5.32% 3.24%	\$2,158 \$2,070	\$109 (44) <u>\$65</u>	0.55%	\$88,342	\$481	4.05 : 1 4.23 : 1	\$21 million	\$20 million
2022 – Residential increases \$109 per year Contribute from Efficiency Res. Increases \$65 per year	5.05% 3.14%	\$2,267 \$2,135	\$109 (44) <u>\$65</u>	0.80%	\$89,050	\$708	3.89 : 1 4.13 : 1	\$20 million	\$20 million

* 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

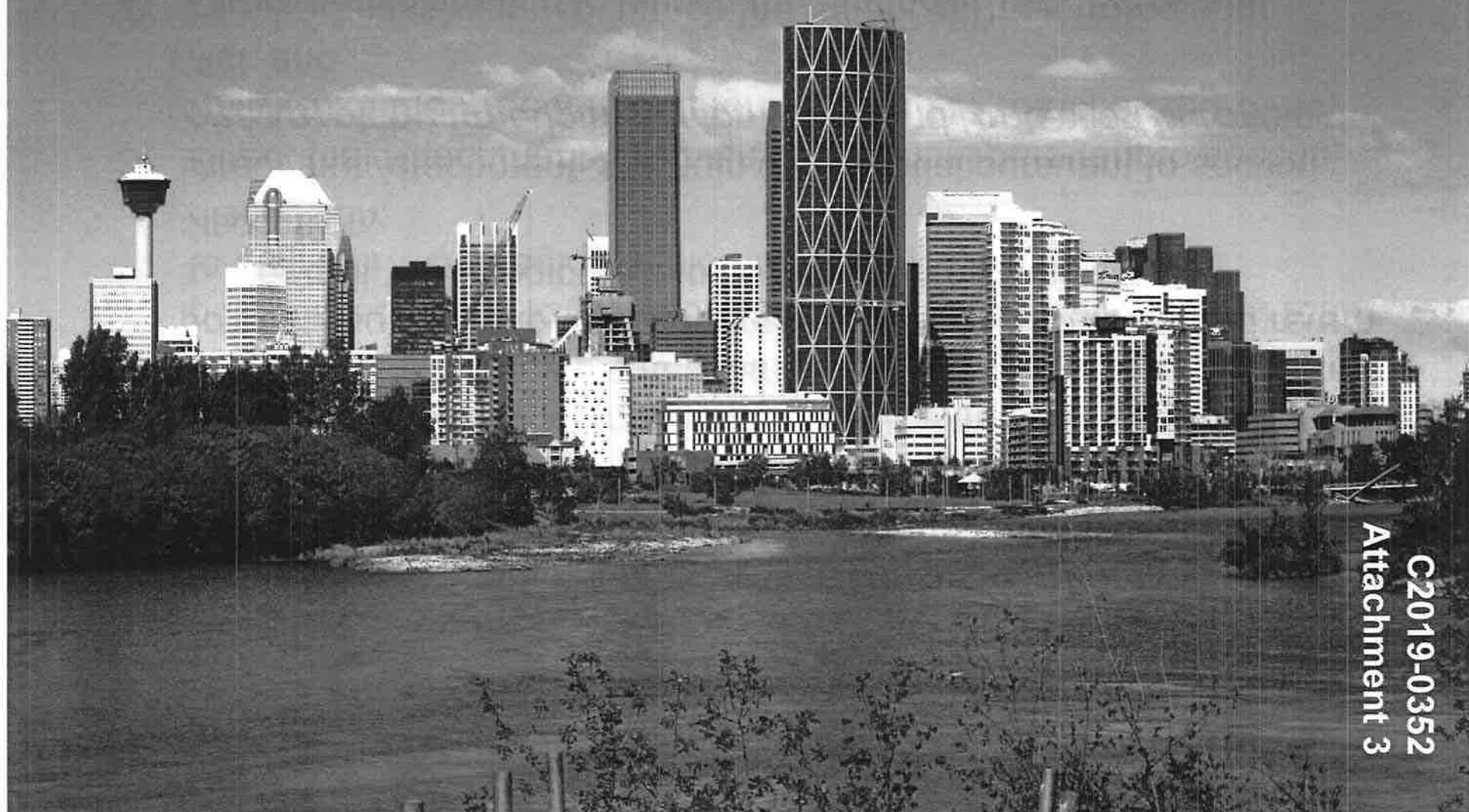
ADMINISTRATION RECOMMENDATIONS:

- 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).

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