

Chief Financial Officer's Report to
Priorities and Finance Committee
2019 May 14

ISC: UNRESTRICTED
PFC2019-0640

Administration Response to a Motion Arising on Residential Property Tax Rebates

EXECUTIVE SUMMARY

Council directed Administration to develop criteria and process for a Residential Property Tax Rebate Program and report back to Priorities and Finance Committee on 2019 May 14.

ADMINISTRATION RECOMMENDATION:

The Priorities and Finance Committee recommends that:

1. Council receive this report for information.
2. Council direct Administration to abandon this Motion Arising due to the potential cost and risks associated with pursuing a 2019 property tax rebate outside of the regular property tax billing cycle.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2019 April 08, Council adopted Recommendation 1 of Report C2019-0382 and gave three readings to Proposed Property Tax Bylaw 13M2019. This resulted in a residential combined property tax rate increase of 3.45%, and a non-residential combined property tax rate decrease of 3.07%.

On 2019 April 01, Council directed Administration to develop criteria and process for a Residential Property Tax Rebate Program to a maximum of \$70.9 million of one-time funding for 2019 (\$44 million from the Fiscal Stability Reserve, and \$26.9 million from the 2017 and 2018 Phased Tax Program funding not required due to appeal resolutions), returning to Priorities and Finance Committee on 2019 May 14.

On 2017 April 10, Council approved that with respect to Report C2017-0288, Council rebate the 2017 tax room as a one-time return to taxpayers, in the amount of \$23.7 million.

On 2016 November 21, Council approved C2016-0863, Action Plan Mid-cycle Adjustments, which reduced the previously-approved 2017 tax rate increase from 4.7% down to 1.5%, with a 1.5% rebate for 2017, effectively bringing the 2017 tax rate increase to 0%.

On 2013 November 25, Council directed that the unallocated \$52 Million in tax room for 2014 be allocated for a tax rebate to residential and non-residential taxpayers, to be shown as a separate line item on the 2014 property tax bill as per C2013-0668.

BACKGROUND

Each year, Council approves the amount of expenditure required to support City services. From this amount, revenue sources other than property tax, such as licence fees, user fees and provincial grants are subtracted. The balance is the amount raised by property taxes. Tax rates are established to calculate property tax and reflect the amount of taxes to be paid for every dollar of assessed value.

Property tax bylaws must be prepared annually in accordance with the Municipal Government Act. The property tax bylaw authorizes Council to impose a tax in respect of a property in the municipality. This allows the municipality to generate the tax funds necessary for its operation. Tax impacts on individual properties will vary depending on the specific assessment change

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from 2018 to 2019. A property tax rebate is one method of mitigating the impact of a property tax increase for a class or classes of property on a temporary basis.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

A tax rebate is a credit applied to the taxes associated with a property and is not a rebate to a specific individual owner. A rebate can be applied to a property in one of two ways: as a factor or as a specific amount.

Typically, a rebate is applied to a property as a factor. In this situation, a factor (or rate) is calculated by dividing the total amount of funding available for the rebate by the total assessed value of all properties qualifying for the rebate. The rebate amount is calculated by multiplying the property's assessed value by the relevant total rebate factor. For properties having more than one assessment class, the assessment value per class is multiplied by the relevant class's total rebate factor. The rebate is applied to individual properties in relation to their assessed value. A higher assessed property value will result in a higher rebate and, conversely, a lower assessed property value will result in a lower rebate. This method of calculating a rebate is equitable in terms of the rebate is in proportion to the value of the property and the associated property tax levy.

The other method of applying a property tax rebate is to use a flat amount applied to all properties regardless of assessed value. For example, if the full amount of potential available rebate funding of \$70.9 million was distributed evenly to the approximately 500,000 residential property accounts in Calgary, the resulting rebate would be approximately \$142 per property tax account. This method of calculating and applying a rebate is not equitable as it does not offer relief in proportion to the to the property tax levy incurred.

Administration does not recommend that a residential property tax rebate be applied for 2019. The 2019 property tax bills have been prepared and are scheduled to be mailed to over 500,000 residential and non-residential property owners on 2019 May 24.

The property tax billing cycle is a carefully orchestrated process that occurs every year and culminates in the production of annual tax bills every May. This cycle has been in place for decades, and sophisticated technical systems and processes continue to be developed to support this process. The size, complexity and importance of this process requires that it be conducted according to carefully considered timelines which contain many dependencies. Ensuring the accuracy and integrity of financial transactions associated with each individual property tax account is fundamental to this process.

To apply a residential property tax rebate outside of the existing cycle would introduce significant risk, expense and customer disruption to the property tax billing process, including:

- Approximately 500,000 property tax payers will be receiving their property tax bills through late May and early June. Applying a rebate after the annual billing would require subsequent customer notification which would create customer confusion, and double the printing and mailing costs associated with the annual billing;
- The time and effort associated with the annual property tax billing process that occurs between February and May of each year would essentially have to be duplicated to ensure the successful application of an off-cycle property tax rebate. As this has never

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been done before, extensive testing would need to be conducted. It is currently unknown if this capability exists within our property tax billing system;

- Approximately 270,000 property tax payers who are on the Tax Instalment Payment Plan (TIPP) would see their TIPP installment payment recalculated several times. Once on July 1st in accordance with timelines established as part of the current annual billing process, and then again after the rebate had been applied to their accounts. It would be necessary to notify TIPP customers of their revised monthly instalment amounts which would result in double the printing and mailing costs for these accounts.
- Rebates being applied outside of the annual billing process have not been contemplated as part of existing system and process design, and any changes would need to be thoroughly tested to ensure that system integrity and accuracy is maintained. There is a strong possibility that system programming changes would be required for which capital funding has not been identified;
- The application of rebates after the 2019 June 28 property tax payment deadline would result in credit balances on a significant number of property tax accounts. Processing and preparing refund cheques would be extremely costly and the volume would overwhelm The City's property tax system and Accounts Payable system. For example, in 2018, The City's Accounts Payable group issued approximately 30,000 cheques for the entire year. A rebate applied after the property tax payment deadline could potentially result in approximately 500,000 cheques having to be issued in a much shorter timeframe. The City's Accounts Payable section does not have the capacity nor resources to accommodate a cheque run of this magnitude.

Property tax rebates have been considered, and can be accommodated, through the standard annual billing job stream. This has been done successfully twice within the last several years, once in 2014 and again in 2017. However, the application of a rebate outside of the billing stream has not previously been considered and a significant investment of time and resources would be required to evaluate whether or not this was feasible.

Stakeholder Engagement, Research and Communication

All property owners in Calgary have received their 2019 Property Assessment Notices which gave them their 2019 property assessed values. The 2019 property tax bills have been prepared and are scheduled to be mailed 2019 May 24.

Strategic Alignment

The recommendations are in alignment with the direction in Council's approval of One Calgary 2019-2022 Service Plans and Budgets (C2018-1158), as amended.

Social, Environmental, Economic (External)

The property tax bylaw and associated annual property tax billing cycle allows the municipality to generate the tax funds necessary for its operation. This allows The City to deliver the full range of municipal services approved in One Calgary 2019-2022 Service Plans and Budgets, as amended.

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Financial Capacity

Current and Future Operating Budget:

As this would be a significant change from established practice, a thorough review of existing system capability and resource capacity would need to be undertaken to establish the viability of preparing an off-cycle rebate. However, preliminary estimates of certain operating costs required to support this work in 2019 are approximately \$2 million, including the costs of: printing and mailing statements of account to all impacted property owners; costs associated with potentially outsourcing the preparation and mailing of refund cheques; and additional staff resources required to address the anticipated increase in volume of calls from taxpayers. This list is not exhaustive but does highlight some significant likely anticipated costs. In addition, there would be opportunity costs associated with pursuing an off-cycle rebate since existing and planned work within Taxation and Information Technology would need to be reprioritized to provide resources to support the preparation of an off-cycle rebate. This work has not been contemplated as part of Taxation's current 2019 operating budget.

Current and Future Capital Budget:

There would be capital costs incurred to accommodate this initiative, however, they cannot be adequately quantified without extensive system testing once the potential scope of an off-cycle rebate program has been established. In addition, an off-cycle rebate would require a reprioritization of the Taxation work plan and the associated redirection of resources. This work has not been contemplated as part of Taxation's current 2019 capital budget.

Risk Assessment

The property tax billing cycle and associated systems and processes have been developed over many years, and property taxpayers, our customers, are accustomed to this cycle. Preparing a rebate outside of this cycle has not been contemplated and would introduce technical, financial and reputational risk to The City. Significant evaluation and testing would need to be conducted to determine if this is even possible and to fully understand the risks, and identify mitigation strategies, associated with pursuing an off-cycle rebate.

REASON(S) FOR RECOMMENDATION(S):

Conducting the annual property tax billing according to a carefully considered schedule ensures that it is conducted with accuracy and integrity, and that taxpayers' expectation of timely and accurate property tax bills are met.

ATTACHMENT(S)

None