Appendix B: Base Tax

Executive Summary

The City currently uses an *ad valorem* tax system meaning property taxes are calculated by applying mill rates and mill rate factors to a property's assessed value. Higher-value properties therefore pay more tax than lower-value properties. A base tax would be applied equally to all properties or a class of properties regardless of a property's value, which may enhance tax predictability.

Saskatchewan is the only province that allows municipalities to levy a base tax. A jurisdictional scan identified eight municipalities that use base taxes in the province. Base taxes are commonly used to fund community services such as fire or police, recreation centres, infrastructure maintenance, and capital projects.

There are many variations in the application of a base tax. This report discusses implementing a base tax in two different situations:

- Implementing a $500 general base tax to cover service costs; and
- Implementing a base tax to fund a new initiative.

In each scenario, the base taxes are first applied to all properties and then to residential properties only. For the purposes of this analysis the base tax is applied per unit on multi-residential properties in both scenarios.

Generally, applying the base tax leads to an increase in taxes for lower-value properties and a decrease in taxes for higher-value properties. When implementing a $500 general base tax, the mill rate is reduced to keep total tax revenues constant and this offsets some of the redistribution effects. Lower-value properties would experience municipal tax increases of less than one per cent and higher-value properties would experience significant decreases. The difference is made up by multi-residential properties which experience increases estimated at 28.8 per cent for the sample property used.

A $100 million capital project financed over 10 years would require a $97.41 base tax if applied to all properties or a $101.24 base tax if applied to residential properties only. There is no decrease in the mill rate as total revenues are intentionally increased. Lower-value residential properties experience a nearly six per cent increase in municipal taxes while higher-value residential properties experience a nearly three per cent increase. Non-residential properties experience increases of less than one per cent because of the higher taxes they already pay. Multi-residential properties experience increases over 11 per cent. Compared to if a 3.7 per cent dedicated mill rate increase is used, as it is currently, the increase for multi-residential and most residential properties is greater while the increase for non-residential properties is less.

Overall, the analysis suggests that a base tax applied equally to all properties may produce the most benefit by redistributing costs from a smaller number of higher-value properties to a greater number of lower-value properties. However, the increased costs to lower-value properties, the residents of which are likely to have lower-income, and multi-residential properties, where renters are more likely to have lower-income, conflicts with the City's social development goals. To reduce the impact on the lower-value properties base taxes could be applied progressively, with a smaller tax being applied to lower-value properties and a somewhat greater tax being applied to higher-value properties. A combination of base taxes and dedicated mill rate increases may also help mitigate the negative impacts of each when funding new capital projects.

The rest of the paper is structured as follows:

Base Taxes

Section 259 of *The Cities Act* grants Council the power to establish a base tax or method for calculating a base tax, and property tax sub-classes for the purpose of the base tax. A base tax is an amount levied on properties regardless of the assessed property value. Base taxes can be applied equally to all properties or may be applied by property class. Typically, a base tax is used to fund a specific initiative or municipal service, such as, recreation or capital facilities projects, infrastructure projects, road renewal, fire and police services. The base tax would be calculated by taking the total cost of the initiative or service and dividing it by the number of properties to fund the tax requirement. This ensures properties pay the cost of the initiative equally as opposed to ad valorem, where higher valued properties pay a higher share of the cost.

Saskatchewan is the only province that allows municipalities to levy a base tax. A jurisdictional scan identified eight municipalities that use base taxes as summarized in Table 1: Base Taxes in Saskatchewan Municipalities. A more extensive jurisdictional scan can be found in Appendix F: Tax Tools & Sub-Classes Jurisdictional Scan. Six municipalities implement a base tax for infrastructure projects, water infrastructure, or health or recreation facilities, or for services, such as fire and police. Six municipalities use a general base tax. Base taxes vary significantly between municipalities and by purpose.

Table 1: Base Taxes in Saskatchewan Municipalities

Base Tax	Municipality	Policy
General	Humboldt	$500 general base tax applied to all properties.
	North Battleford	$741.05 general base tax on residential properties (applies per unit for multi-residential).
	Swift Current	$820 general base tax on residential properties (applies per unit for multi-residential).
	Warman	$580 general base tax on agricultural, residential/multi-residential land and properties. $880 general base tax applied to commercial/industrial land and properties.
	Weyburn	$670 general base tax on residential and multi-residential properties.
	Martensville	$615 general base tax on residential properties. $915 general base tax on commercial properties.

Base Tax	Municipality	Policy
Fire and Police	Yorkton	$830/unit fire and police base tax on residential, multi-residential and condominium properties. $705.50/unit fire and police base tax on high-density multi-residential properties.
Garbage and Recycle	Martensville	$210 on all properties.
Recreation	North Battleford	$189.33 recreation capital facilities projects base tax (applies per unit for multi-residential).
	Yorkton	$100/unit recreation centre base tax on residential properties. $85/unit recreation centre base tax on high-density multi-residential properties.
	Martensville	$100 for Future Recreation Facility.
Long-term Care	Swift Current	$35 long term care facility base tax on residential properties (applies per unit for multi-residential). $58-$303 long term care facility base tax on non-residential properties (varies by assessed value).
Infrastructure	Humboldt	$135 infrastructure base tax on residential properties (applies per unit for multi-residential). $135-$3,375 infrastructure base tax on non-residential properties (varies by assessed value). $70 road rehabilitation base tax on residential properties (applies per unit for multi-residential). $70-$1,750 road rehabilitation base tax on non-residential properties.
	Moose Jaw	$65 waterworks capital fund base tax on all properties (applies per unit for multi-residential).
	Martensville	$75 for Future Wastewater Treatment Upgrades
Vacant Land	North Battleford	$370.56 base tax for vacant land.

Current State

The City currently uses an *ad valorem* tax system for property taxes. *Ad valorem* is a historical approach to taxation which involves these principles:

- Taxes owed are calculated based on the assessed value of the property.
- The taxable assessed value of a property is multiplied by the mill rate to determine the amount of taxes payable (taxable assessment x mill rate =taxes).
- Property taxes increase proportionately with the value of a property.

The City uses mill rate factors to distribute tax burden amongst property classes. Mill rate factors do not change the amount of revenue generated. Rather they redistribute taxes by:

- Varying the uniform mill rate that has been set by Council;
- Applying a ratio to increase or decrease the effective mill rate in each of the property classes; and
- Applying a specific mill rate factor to all properties within a property class or subclass

Traditionally, the City has used a dedicated mill rate increase to fund specific initiatives. For example, a 0.45% increase dedicated to Mosaic Stadium and 0.5% increase dedicated for recreation infrastructure. Using dedicated mill rate increases for these initiatives means properties with a higher assessed value pay more towards the initiative than those with lower assessed values.

Impacts of Implementing a Base Tax

This report analyzes implementing a base tax in two different situations:

- Implementing a $500 general base tax to cover service costs,
- Implementing a base tax to fund a new initiative.

$500 General Base Tax
Two scenarios are considered in which a $500 general base tax is implemented. In both cases the base tax is applied per unit for multi-residential properties. The total revenue requirement is not increased by implementing a base tax and the share of tax paid by residential and non-residential properties remains unchanged. The scenarios are:

- Where the base tax is applied to all properties;
- Where the base tax is applied to residential properties only.

Table 2: Impact of a $500 Base Tax on Mill Rate and Mill Rate Factors presents the impact on mill rates and mill rate factors of a $500 base tax. The mill rate would decrease in both scenarios, assuming total revenues and the current tax shares of residential and non-residential properties remain fixed. The residential mill rate factor also decreases because of the greater number of residential properties compared to non-residential properties and a decrease is needed to maintain residential revenue share. The non-residential mill rate factor increases because the base tax revenues do not significantly reduce the total amount of non-residential revenues and an increase is needed to compensate for the decreased mill rate.

Table 2: Impact of a $500 Base Tax on Mill Rate and Mill Rate Factors

	Current	Base Tax: All Properties	Base Tax: Residential Properties Only
Mill Rate	9.4513	7.7323	7.8006
Residential Mill Rate Factor	0.9103	0.7964	0.7894
Non-Residential Mill Rate Factor	1.2495	1.4969	1.5139
Golf Mill Rate Factor	0.8120	0.9728	0.9838

Table 3: Total Impacts of $500 Base Tax Applied to All Properties presents the change in the distribution of taxes paid by each property class. Though the share of taxes paid by residential and non-residential properties remain unchanged there is a shift in the share paid by property sub-classes within those groups. A $500 base tax would reduce municipal taxes paid by residential (single family) properties by 4.9 per cent and increase the amount paid by condominiums and multi-residential properties by 4.9 and 33.8 per cent, respectively. Municipal taxes paid by commercial/industrial properties and resource properties will decline by 0.2 and 1.1 per cent, respectively. Municipal taxes paid by

rail/pipeline properties and agricultural properties will increase by 2.3 and 46.9 per cent, respectively. The change in taxes paid by agricultural properties occurs because the $500 base tax is relatively high compared to the current *ad valorem* taxes paid.

The results in Table 3 are for the scenario where the base tax is applied to all properties. If it is only applied to residential properties, there will be minimal change in taxes for non-residential properties (due to variation in the mill rate and mill rate factors) and the changes for residential properties will be the same as for the all-properties scenario.

Table 3: Total Impacts of $500 Base Tax Applied to All Properties

Property Class	Current Total Municipal Tax	Base Tax	Ad Valorem Tax	Total Municipal Tax	Total Change	Total % Change
Residential						
Single Family	$136,741,749	$32,146,500	$97,866,332	$130,012,832	-$6,728,917	-4.9%
Condo	$19,941,819	$6,648,000	$14,272,398	$20,920,398	$978,579	4.9%
Multi-residential[1]	$17,024,142	$10,592,000	$12,184,211	$22,776,211	$5,752,069	33.8%
Non-Residential						
Commercial/ Industrial	$96,221,153	$1,710,500	$94,304,809	$96,015,309	-$205,843	-0.2%
Rail/Pipeline	$127,358	$5,500	$124,822	$130,322	$2,964	2.3%
Resource	$913,986	$8,500	$895,783	$904,283	-$9,703	-1.1%
Agricultural	$449,613	$220,000	$440,659	$660,659	$211,045	46.9%
Golf	$37,361	$1,000	$36,619	$37,619	$258	0.7%

Table 4: Number of Properties with Tax Increase or Decrease with Base Tax shows the number of properties that experience an increase or decrease in taxes paid and the average per cent increase or decrease when a $500 base tax is implemented. Again, there is some change for non-residential properties when the base tax is only applied to residential properties due to variation in the mill rate and mill rate factors.

[1] For multi-residential, the base tax is applied per unit.

Table 4: Number of Properties with Tax Increase or Decrease with Base Tax

Property Class	Base Tax: All Properties				Base Tax: Residential Only			
	No. with Decrease	Average % Decrease	No. with Increase	Average % Increase	No. with Decrease	Average % Decrease	No. with Increase	Average % Increase
Residential								
Single Family	42,438	-7.7%	21,855	25.4%	42,438	-7.7%	21,855	25.4%
Condo	3,932	-5.7%	9,364	75.4%	3,932	-5.7%	9,364	75.4%
Multi-residential[2]	64	-17.4%	21,120	55.1%	49	-17.4%	790	55.1%
Non-Residential								
Commercial/ Industrial	733	-1.0%	2,688	52.3%	3,173	0.0%	248	0.0%
Rail/Pipeline	1	-1.4%	10	19.2%	10	0.0%	1	0.0%
Resource	5	-1.1%	12	14.1%	17	0.0%	0	-
Agricultural	1	-0.1%	439	275.4%	102	0.0%	338	0.0%
Golf	1	-134.3%	1	7.2%	0	-	2	0.0%

Table 5: Impact of $500 Base Tax on Sample Properties presents the expected change in annual taxes for several sample properties with the implementation of a $500 base tax. A base tax will increase taxes for lower-value properties but decrease taxes for high-value properties. The tipping point (i.e., the assessed value where a property will experience no net change) is $255,511 for residential properties and $2,501,054 for non-residential properties. The decrease in the mill rate offsets much of the base tax resulting in only a less than one per cent increase for lower-value properties. Higher value residential properties will experience significant tax decreases. Multi-residential properties will experience significant tax increases as the base tax is applied per unit. If the base tax is only applied to residential properties, non-residential taxes will be unchanged and residential taxes will change the same amount as when the tax is applied to residential properties only.

Implementing a $500 general base tax can be used to shift tax burden from higher value properties to lower-value properties but this does not significantly increase the tax burden for lower-value properties because of the greater number of lower-value properties overall and because the reduction in ad valorem taxes offsets the increase from the base tax.

[2] For multi-residential, the base tax is applied per unit.

Table 5: Impact of $500 Base Tax on Sample Properties

Sample Property	Assessed Value	Current Annual Property Tax	Change (Base Tax: All Properties)	Change (Base Tax: Residential Properties Only)
Standalone Retail	$1,839,800	$18,468	$132 (0.7%)	$0 (0.0%)
Restaurant	$1,859,400	$18,664	$128 (0.7%)	$0 (0.0%)
Strip Mall	$4,629,100	$46,466	-$425 (-0.9%)	$0 (0.0%)
Hotel	$13,627,500	$136,792	-$2,224 (-1.6%)	-$1 (0.0%)
Shopping Mall	$55,928,400	$561,408	-$10,681 (-1.9%)	-$3 (0.0%)
Residential	$250,000	$1,721	$11 (0.6%)	$11 (0.6%)
Residential (Average)	$315,000	$2,168	-$116 (-5.4%)	-$116 (-5.4%)
Residential	$500,000	$3,442	-$478 (-13.9%)	-$478 (-13.9%)
Multi-residential[1] (170 Units)	$21,578,600	$148,527	$42,774 (28.8%)	$42,774 (28.8%)

Base Tax to Fund a New Initiative
The following analysis estimates the base tax required to finance a $100 million capital project over ten years and the subsequent impacts on property taxes. This revenue is additional to current municipal taxes and so there is no effect on the mill rate. If the base tax is applied to all properties, base tax amount will be $97.41 per year. If applied to residential properties only, it will be $101.24 per year.

Table 6: Impact of Base Tax for $100 Million Capital Project presents the overall impacts on each property class. If the base tax is applied to all properties, the amount of municipal tax paid by residential (single family) properties will increase by 4.6 per cent, the amount paid by condominium properties will increase by 6.5 per cent and the amount paid by multi-residential properties will increase by 12.1 per cent. The increase is only slightly greater when the base tax is applied to residential properties only. Overall, the increase in the municipal taxes paid by residential properties is greater with a base tax than with a dedicated mill rate increase. The amount of municipal tax paid by most non-residential properties will increase by less than one per cent with the exception of resource and agricultural properties. The total amount paid by these properties will increase by 1.3 and 4.7 per cent, respectively. The increase in municipal taxes paid by non-residential properties, with the exception of agricultural properties, is less than what would occur if a dedicated mill rate increase were used.

Table 6: Impact of Base Tax for $100 Million Capital Project

Property Class	All Properties: Current Total Municipal Tax	All Properties: Base Tax ($97.41)	All Properties: Total Municipal Tax	All Properties: Total % Change	Residential Properties Only: Base Tax ($101.24)	Residential Properties Only: Total Municipal Tax	Residential Properties Only: Total % Change	Dedicated Mill Rate Increase: Total Municipal Tax	Dedicated Mill Rate Increase: Total Change	Dedicated Mill Rate Increase: Total % Change
Residential										
Single Family	$136,741,749	$6,263,017	$143,004,766	4.6%	$6,509,167	$143,250,916	4.8%	$141,779,072	$5,037,323	3.7%
Condo	$19,941,819	$1,295,212	$21,237,031	6.5%	$1,346,117	$21,287,935	6.8%	$20,676,440	$734,621	3.7%
Multi-residential[1]	$17,024,142	$2,063,611	$19,087,753	12.1%	$2,144,716	$19,168,858	12.6%	$17,651,281	$627,139	3.7%
Non-Residential										
Commercial/ Industrial	$96,221,153	$332,375	$96,553,528	0.3%	-	-	-	$99,765,769	$3,544,616	3.7%
Rail/Pipeline	$127,358	$1,072	$450,685	0.2%	-	-	-	$466,176	$16,563	3.7%
Resource	$913,986	$1,656	$129,014	1.3%	-	-	-	$132,050	$4,692	3.7%
Agricultural	$449,613	$42,862	$956,848	4.7%	-	-	-	$947,656	$33,670	3.7%
Golf	$37,361	$195	$37,556	0.5%	-	-	-	$38,737	$1,376	3.7%

Table 7: Impact of Base Tax for $100 Million Capital Project on Sample Properties presents the impacts of the base tax on several sample properties. The increases are felt more acutely for lower-value residential properties and multi-residential properties than for higher-value residential properties and commercial properties. The tax increase is lower for most non-residential properties and higher-value residential properties compared to when a dedicated mill rate increase is used but lower- and average-value residential properties and multi-residential properties experience a greater increase.

Table 7: Impact of Base Tax for $100 Million Capital Project on Sample Properties

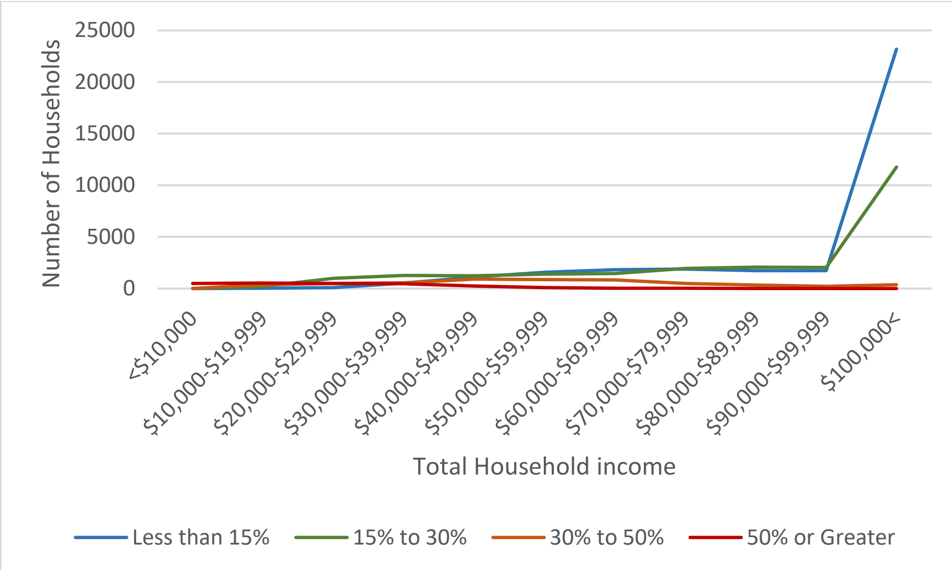
Sample Property	Assessed Value	Current Tax	Tax Change		
			Base Tax All Properties	Base Tax Residential Properties Only	Dedicated Mill Rate Increase
Standalone Retail	$1,839,800	$18,468	$97 (0.5%)	-	$680 (3.7%)
Restaurant	$1,859,400	$18,664	$97 (0.5%)	-	$688 (3.7%)
Strip Mall	$4,629,100	$46,466	$97 (0.2%)	-	$1,712 (3.7%)
Hotel	$13,627,500	$136,792	$97 (0.1%)	-	$5,039 (3.7%)
Shopping Mall	$55,928,400	$561,408	$97 (0.0%)	-	$20,681 (3.7%)
Residential	$250,000	$1,721	$97 (5.7%)	$101 (5.9%)	$63 (3.7%)
Residential (Average)	$315,000	$2,168	$97 (4.5%)	$101 (4.7%)	$80 (3.7%)
Residential	$500,000	$3,442	$97 (2.8%)	$101 (2.9%)	$127 (3.7%)
Multi-residential[1] (170 units)	$21,578,600	$148,527	$16,559 (11.1%)	$17,211 (11.6%)	$5,471 (3.7%)

Base Tax and Affordability

Implementing a base tax has implications for affordability. In general, base taxes shift the tax burden from higher value properties to lower-value properties which may be expected to have lower household incomes. This may reduce shelter affordability for lower-income households. Shelter costs include rent, mortgage payments, property taxes, condominium fees, household maintenance, the costs of electricity, heat and water and other municipal services.[3] Shelter is generally considered to be unaffordable if shelter costs exceed 30 per cent of annual household income. Figure 1: Shelter-Cost-to-Income Ratio (Owners) and Figure 2: Shelter-Cost-to-Income Ratio (Renters) show that more renters tend to experience a greater degree of shelter unaffordability than owners. Base taxes may not always have a significant impact on owned properties (e.g., when a general base tax is used) but are anticipated to significantly increase taxes for multi-residential properties in most cases and may further reduce affordability for renters.

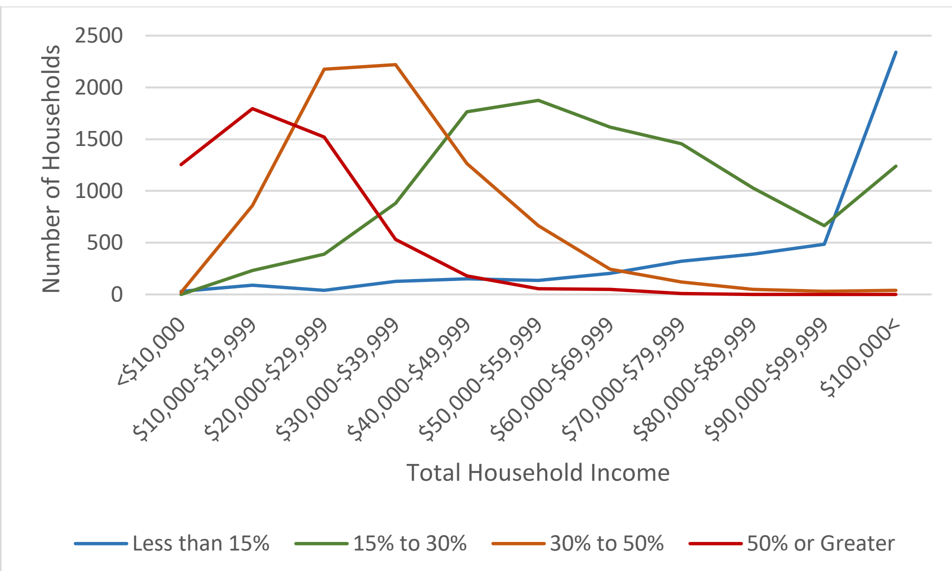
[3] Statistics Canada (2019b)

Figure 2: Shelter-Cost-to-Income Ratio (Owners)



Source: Statistics Canada (2019a)

Figure 1: Shelter-Cost-to-Income Ratio (Renters)



Source: Statistics Canada (2019a)

Table 8: Tax Increase per Unit for 170 Unit Multi-Residential Property presents the tax increases per unit for a 170-unit multi-residential property for each of the previous scenarios. Assuming property owners pass the increased property taxes on to renters through increased rents, base taxes will increase rent between $97 and $225 per year ($8 to $19 per month). This is equivalent to between a 0.2 to 1.2 per cent increase in shelter-cost-to income ratio for a single-person household with annual income at the After-Tax Low

Income Cut-Off (LICO-AT)[4] or a 0.1 to 1.0 per cent increase for a four-person household with annual income at the LICO-AT. This is not consistent with social development goal 13.19 in *Design Regina: The Official Community Plan Bylaw No. 2013-48 (OCP)* which states the City aims to establish programs and a fee structure to ensure that City programs, services and facilities are affordable, accessible, and welcoming to all residents in Regina.

Table 8: Tax Increase per Unit for 170 Unit Multi-Residential Property

	$500 Base Tax		$100 Million Capital Project		
	All Properties	Residential Properties Only	All Properties	Residential Properties Only	Dedicated Mill Rate Increase
Annual Increase per unit	$225	$225	$97	$101	$36
Monthly Increase per Unit	$19	$19	$8	$8	$3
1-Person Household at LICO-AT	1.2%	1.2%	0.5%	0.5%	0.2%
2-Person Household at LICO-AT	1.0%	1.0%	0.4%	0.4%	0.2%
4-Person Household at LICO-AT	1.0%	1.0%	0.3%	0.3%	0.1%

[4] The LICO-AT is the annual after-tax income below which a family will likely spend 20 per cent more than the average family on food, shelter and clothing (Statistics Canada 2012). The value varies based on household and community size. The LICO-AT for a community of Regina's size (100,000 to 499,999) in 2019 for a single-person household was $18,520 and $35,017 for a four-person household (Statistics Canada 2021).

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