EX19-32

September 18, 2019

To: Members
Executive Committee

Re: Tax Policy - Relative Share of Taxes

RECOMMENDATION

1. That this report be received and filed.

2. That item CM18-15 be removed from the list of outstanding items.

CONCLUSION

Administration recommends maintaining the current approach to tax policy which is to:
- Maintain the relative tax share split between residential and non-residential properties; and
- Review tax policy at the time of revaluation (often referred to as reassessment).

From 1997 to present, City Council has reviewed tax policy with each reassessment and adopted the policy that mill rate factors be established such that the relative share of property taxes between residential and non-residential property classes does not change due to reassessment. This policy decision has been centered around three main themes:
1. Stability, predictability and sustainability.
2. Equity, fairness and transparency.
3. Decisions must be in the best interest of the community.

A property tax system should provide stable and predictable revenues for the municipality, be visible and transparent, fair and should not result in unanticipated changes over time. The next reassessment will occur for 2021. Tax policy for reassessment and communications with property owners is scheduled to be complete in 2020. A shift in tax burden to commercial properties at this time, may conflict with the above principles as a shift will create a significant impact for commercial property owners while providing a minimal decrease for residential property owners.

BACKGROUND

On December 10, 2018, City Council considered report CM18-15 (2019 General and Utility Operating and 2019-2023 General Utility Capital Plan) and approved the following resolution:

"That Administration return to Executive Committee in Q3 of 2019 with a report outlining the implications of revising existing tax polices related to commercial/industrial and resource property classes in the interest of offering relief for residential rate payers."

This report responds to that resolution. In order to understand the implications of any policy changes, it is important to understand the current policy and how it was established.

Ad Valorem Property Tax

The role of a municipality is to deliver services that support the public good. While vital to the community, these services come at a cost. The primary revenue source for municipalities to fund these services is typically property tax. Given the necessity of the services provided, property tax is generally understood as a given for property owners. The question then becomes, how should the property tax burden be distributed amongst property owners?

Municipalities in Canada operate on an ad valorem property tax system. Ad valorem is Latin for “according to value”. An ad valorem property tax system means that property taxes are levied based on the assessed value of the property. In this system the factors determining the amount of property tax levied are the assessed value and the tax tools adopted by City Council.

Property Assessment

While the relationship between assessment and taxation is complex, the assessment system operates independently of tax policy. The purpose of the assessment system is to provide fair and equitable property values.

In Saskatchewan, the assessment system is governed by the formulas, rules and principles established by the Saskatchewan Assessment Management Agency (SAMA) and is further regulated by the legislation set down in *The Cities Act.*

Tax Tools in Saskatchewan

The Cities Act outlines tax tools available to determine the distribution of the property tax burden. Some tools are provincial, allowing the Government of Saskatchewan to determine a provincial tax split, while others are available for use at City Council’s discretion. Percentages of value are a provincial tax tool used to adjust the amount of assessed value. The Government of Saskatchewan reviews the percentages of value every four years with each reassessment. The current percentages of value for each property class are shown in Table 2 below. These percentages were set with the 2017 reassessment.

Table 2: Current Percentages of Value

Formula for percentages of value	
Assessed Value Assessment X Provincial Percentage = Taxable Assessment	
Property Class	**Provincial Percentage**
Residential (includes Condominium)	80%
Multi-Residential	80%
Commercial and industrial	100%
Agricultural	55%
Resource	100%

The tools available to municipalities are described in Table 3 below. Currently the City of Regina utilizes a mill rate, property classes and subclass, mill rate factors and a tax phase in plan for commercial and industrial properties.

Table 3: Tax Tools Available to Municipalities

Tax Tool	Description
Mill (Tax) Rate	The rate that when applied to assessment values will raise the amount of taxes required to meet the revenue required in the City's budget.
Property Class and subclass	City Council may establish classes and sub-classes of property for the purposes of establishing tax rates. If a property class or subclass is established, the assessor shall determine to which class or sub-class any property belongs.
Mill Rate Factor	City Council may determine a mill rate factor, that when multiplied by the uniform tax rate, will determine the tax rates for each property class and subclass established. Mill rate factors are used to distribute tax burden amongst property classes.
Minimum Tax	City Council may establish a minimum tax payable for all properties or for a property class or subclass. This allows municipalities to establish a minimum amount of tax with respect to any property. Minimum tax can only be applied to municipal taxes.
Base Tax	City Council may establish a base tax payable for all properties or for a property class or subclass. The base tax is a specific amount of property tax levied regardless of the assessed value of the property. Base tax can only be applied to municipal taxes.
Tax phase-in plan	City Council may phase in a tax increase or decrease for taxable property, or a class or sub-class of taxable property, resulting from a reassessment. This only applies to the municipal portion; however, it may apply to other taxing authorities but only if agreed upon by the other taxing authority.

City of Regina Tax Policy – 1997 to Present

The assessment system determines stable and reliable values upon which tax policy can be developed. For an ad valorem system to be effective, property assessments are updated regularly so assessed values are reflective of general property values. In Saskatchewan, provincial legislation dictates that assessment values be updated every four years. This process is commonly referred to as reassessment. Historically, the City of Regina has reviewed tax policy with each reassessment.

1997 Reassessment

The City of Regina experienced a major reassessment in 1997. Prior to 1997, the same tax rate applied to both residential and non-residential properties. Non-residential properties were also subject to business tax.

The City of Regina sought substantial public input and consultation with various groups throughout the city. The removal of business tax and the tax distribution between residential and non-residential property classes was part of these discussions.

The following recommendation was approved by City Council in 1996:

> "City Council use mill rate factors to control the total taxes paid by the residential and non-residential (commercial/industrial) property classes, with the mill rate factors applied to shift the current distribution of taxes (58 per cent residential and 42 per cent commercial/industrial) to a distribution of approximately 63 per cent residential/37 per cent non-residential by 1999. The shift for 1997 would be to approximately 60 per cent residential and 40 per cent non-residential."

A factor in this recommendation was City Council's decision to phase out business tax by 1999. To lessen the impacts of the reassessment, a complex tax phase in policy was established to phase in tax increases and decreases for all properties.

2001 – 2017 Reassessments

For the 2001 reassessment, mill rate factors were established such that there was no shift in taxes to or from the commercial and industrial group of properties.

The Reassessment 2005 Tax Policy Report noted that "[t]here is no City Council policy with respect to the percentage of total property taxes that are to be collected from commercial and industrial properties". For 2005, City Council adopted the principle that the share of taxes between classes of properties will remain the same after reassessment, meaning that there would be no shifting of taxes from one class to another due to reassessment results.

For the 2009, 2013 and 2017 reassessments, City Council continued the trend of establishing mill rate factors such that the relative share of property taxes between classes did not change due to reassessment.

While the relative share of taxes between residential and commercial properties was not changed with each reassessment, there has been a significant variance within the commercial property class. As such, a tax phase in policy was approved for commercial properties for each reassessment.

Relative Tax Share Distribution – 2005 to 2018

The charts in Appendix A: City of Regina Relative Share of Tax Distribution show the changes in the distribution of residential and non-residential tax share since 2005. Chart 1 shows the percentage split between residential and non-residential classes. Graph A is a graphical depiction of these percentages. Graph A illustrates that both residential and non-residential taxes have remained relatively stable since 2005 with the residential tax share increasing slightly over this timeframe.

Graph B shows three trends in the dollar amount collected from 2005 to 2018:

1. The total dollar amount of taxes levied over the same timeframe has increased;
2. The residential share of taxes is higher than the non-residential share (64.5 per cent vs. 35.5 per cent in 2018); and
3. The residential share of taxes has slightly increased relative to the non-residential share from 2005 to 2018.

DISCUSSION

City of Regina Approach to Tax policy

City Council initiated a change in relative tax share between residential and non-residential property groups for the 1997 reassessment to reduce the relative tax share to approximately 63 per cent residential and 37 per cent non-residential by 2000. From 1997 to present, City Council has adopted the following tax policy:

1. Tax policy is reviewed with each reassessment.
2. Mill rate factors be established such that the relative share of property taxes between residential and non-residential property classes does not change due to reassessment.

Various reports that have accompanied the reassessments from 1997 through 2017, provide common themes and principles adopted by City Council. Past policy decisions have been centered around three main themes:

1. **Stability, predictability and sustainability**. Stable property taxes are sustainable and provide a viable economic environment. This stability is ensured through the City creating and employing a predictable tax policy framework
2. **Equity, fairness and transparency.** Tax policy principles and decisions must reflect the concepts of equity and fairness. These principles strongly align with the applications of a mass appraisal assessment system and an ad valorem tax system.
3. **Decisions must be in the best interest of the community.** Tax policy principles must be in the best interest of the community, not the best interest of a specific property group or class. A breach of this principle can jeopardize both the first theme of stability and predictability and the second theme of equity and fairness.

Based on these three guiding principles, the long-standing policy of the relative share of taxes remaining stable after a reassessment has been adopted by City Council with each reassessment.

Comparison to Other Major Prairie Cities.

The table below provides a summary of the current state (as of 2018) of property taxation results and approaches for the five major Prairie cities. The City of Saskatoon is the only major Prairie city that has an established tax policy concerning the tax share split between residential and non-residential property groups. Saskatoon's tax policy goal is to achieve a targeted non-residential to residential property tax ratio of 1.75.

Table 4: Tax Share and Assessment Split for Major Prairie Cities

City	Tax Share		Assessment Base		Tax Policy Approach
	Residential	Commercial	Residential	Commercial	
Calgary	46%	54%	75%	25%	No interference with ratio. Currently under review.
Edmonton	52%	48%	75%	25%	Maintain Relative Share of Tax Burden prior to growth.
Saskatoon	70%	30%	74%	26%	Targeted Ratio of 1.75 – non-residential to residential tax rate.

Winnipeg	70%	30%	74%	26%	Maintain relative share of tax burden.
Regina	65%	35%	75%	25%	Maintain relative share of tax burden - Revenue neutral in reassessment years.
Average	60%	40%	75%	25%	

Calgary has the highest share of tax for non-residential properties at 54 per cent, followed by Edmonton with 48 per cent. At the low end of the order are both Winnipeg and Saskatoon at non-residential shares of 30 per cent. Regina falls in the middle of the order at a non-residential share of 35 per cent.

While the relative share of taxes varies amongst the municipalities shown, what is consistent across all municipalities is the tax principle of maintaining the split with each reassessment.

In the City of Calgary, a steep and rapid decline in the market value of a small number of high valued non-residential properties redistributed the property tax responsibility to other non-residential properties resulting in untenable property tax increases for some properties. As a result, the City of Calgary approved some interim options for short term support for the most impacted properties and is undergoing a review of the relative share of tax between classes.

Concerned Stakeholders

The Regina Chamber of Commerce and Economic Development Regina have identified several impacts of changes to the relative share of taxes. The main concerns raised in the discussion were:

- The impacts on business will be significant and affect financial viability.
- Shifting taxes to commercial properties will result in instability and unfairness, a perception of picking winners and losers.
- Commercial properties pay more due to higher assessed values, higher provincial percentages and higher mill rate factors but do not receive more services.
- In addition to paying property taxes, commercial properties contribute to the community in a wide variety of areas including community development, social needs, the arts, and sport.

Formal stakeholder engagement with Regina Chamber of Commerce, Economic Development Regina and other major stakeholders should take place if there are any changes to the current tax policy.

Impact on Taxes Payable if Shifts in Tax Policy

A shift to a higher relative tax share for non-residential properties will increase taxes on individual non-residential properties and decrease taxes on individual residential properties.

Table 5 illustrates three impact scenarios – a one per cent increase, three per cent increase and five per cent increase in the relative share of taxes payable by the non-residential property group.

These three scenarios are applied to typical non-residential properties in the non-residential group. The opposite downward adjustments are applied to several typical residential properties.

Table 5: Impacts of a Shift in Tax Share

Property	Assessed	Impact on Annual Taxes ($)		
Type	**Value**	**1%**	**3%**	**5%**
Local Retail	789,500	213	640	1,067
Local Restaurant	1,057,800	286	858	1,429
Local Motel	2,309,100	599	1,797	2,994
Local Shopping Centre	135,226,200	36,544	109,632	182,720
Residential	250,000	- 23	- 70	- 116
Residential (Average)	350,000	- 32	- 97	- 162
Residential	500,000	- 46	- 139	- 232

The table above illustrates that any change in the relative tax share between residential and non-residential properties results in a small change to the annual taxes of a residential property, but a significant change to the annual taxes of a commercial property. Using the motel property and a $500,000 residential property as examples, a one per cent change only reduces the residential property’s annual taxes by $46 but increases the motel property’s annual taxes by $599. A five per cent shift towards the non-residential property group again results in a relatively modest decrease to the residential property’s annual tax of $232 but a significant $2,994 increase to the motel property’s annual tax.

RECOMMENDATION IMPLICATIONS

Financial Implications

The discussions in this report are about shifting tax burden amongst property classes. There is no impact on the total levy.

Environmental Implications

None with respect to this report.

Policy and/or Strategic Implications

The City of Regina’s approach has been to make tax policy decisions that are in the best interest of the community while ensuring tax policy is equitable, transparent, stable, predictable and sustainable. These themes are aligned with *Design Regina*: *The Official Community Plan Bylaw*

No. 2013-48 (OCP). The *Economic Development* section of the OCP contains three goals: Economic Vitality and Competitiveness, Economic Growth and Economic Generators**.** Priorities outlined for these goals are to establish tax rates that consider the sustainability of services, to implement mechanisms to expand and diversify the economy, promote the attractiveness of Regina as a place to live, invest and do business and to encourage entrepreneurship.

A change in the relative share of taxes at this time is in contradiction with these priorities. Non-residential properties are taxed at higher rates than residential properties, which creates equity concerns in that business properties are subsidising the costs of government services used by residential properties. Increasing property tax for non-residential will affect competitiveness and can discourage investment.

Property taxes can influence a firm's location decision in the same way as any other cost of production. A disruption to the current tax policy could reduce Regina's competitiveness within the region for the placement of business.

Other Implications

None with respect to this report.

Accessibility Implications

None with respect to this report.

COMMUNICATIONS

The Regina Chamber of Commerce and Economic Development Regina provided comments on the impacts of tax shift from residential to commercial. Both will be provided a copy of this report.

DELEGATED AUTHORITY

The recommendation contained within this report is within the delegated authority of the Executive Committee.

Respectfully Submitted,

Deborah Bryden, Director, Assessment & Taxation 9/10/2019

Respectfully Submitted,

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