Tax Policy and Affordability Report

Date	September 22, 2021
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Assessment & Property Revenue Services
Item No.	EX21-62

RECOMMENDATION

That Executive Committee remove item number CR20-58(2) from the list of outstanding items.

ISSUE

At the June 10, 2020 Executive Committee meeting and in subsequent discussions, Council directed Administration to prepare a report for Q3 of 2021 containing a high-level review of property tax policy including a review of property tax sub-classes and the creation of sub-classes to accomplish specific initiatives, the use of a base tax, changing the share of taxes paid by residential and non-residential properties, and potential tax affordability programs for low-income property owners. Council requested that this work involve engaging residential taxpayers on the share of taxes paid by residential and non-residential property owners.

IMPACTS

Policy/Strategic Impacts
Corporate initiatives that intersect with tax policy options are discussed in this report. Consideration should be given to these initiatives and the timing of the work already being delivered in implementing any affordability program.

There are no financial, environmental, risk/legal or other implications related to the recommendations in this report.

OTHER OPTIONS

Option 1: Provide direction to Administration to develop a municipal property tax deferral program for low-income seniors for Council's consideration by Q2 of 2022.

In this option, Administration would develop a property tax deferral program that would allow qualified low-income seniors who own a home to defer a portion of their annual municipal property taxes until a later date, usually when the homeowner sells the home or becomes deceased.

The deferral program will offer participants options for deferring either a fixed portion of annual property tax or the annual property tax increase, allowing participants to choose the program option that best suits their needs. Property tax deferral programs offer temporary relief to homeowners and can help people stay in their homes longer, but these programs do not directly address affordability as the full deferral must be repaid, possibly with interest, upon sale of the property or death of the homeowner. There are an estimated 1,900 homes owned by low-income seniors.

As the City will eventually collect the deferred property taxes, there is no direct cost related to deferred property taxes. The program would be application based and program implementation and administration will require additional resources at an approximate cost of $90,000 annually. This equates to a 0.04 per cent mill rate increase, about $1 per year for the average house. Depending on the number of applicants, deferrals may lead to short term financing considerations.

Deferrals are one of the two main programs used in 18 Canadian municipalities that offer tax affordability programs. 12 municipalities including Saskatoon, Edmonton, Calgary, Ottawa, Hamilton, Waterloo, Richmond Hill, Halton Region, Vaughn, Halifax, Mount Pearl and Corner Brook, have tax deferral programs mostly for low-income seniors. Six provinces, British Columbia, Alberta, Saskatchewan, Ontario, Prince Edward Island, and New Brunswick offer deferrals programs at the provincial level.

Deferrals received the second highest level of public support in the engagement survey with 18 per cent of the respondents supporting deferrals, should the City implement a tax affordability program.

Program design would require specific consultation with focus groups to ensure the program address the needs of the eligible participants. Implementation will require a communication strategy to inform eligible homeowners of the program.

Option 2: Provide direction to Administration to develop a rebate program for all low-income homeowners for Council's consideration by Q2 of 2022

In this option, Administration would develop a property tax rebate program for low-income property owners. A rebate program directly addresses the affordability issues for low-income homeowners as it reduces the amount of tax owed. However, as the revenue requirement for the City remains constant, rebates increase the taxes borne by non-qualifying properties.

The financial impact of a property tax rebate program will depend on the eligibility criteria, and the amount rebated. While data is not available to provide a definitive estimate, Administration estimates approximately 3,800 households occupied by the owner are low-income based on the After-Tax Low-Income Cut-Off (LICO-AT). The need to verify eligibility over time makes rebates more administratively complex. Depending on final program design, rebates are expected to cost between $1 and $2 million annually. This equates to a 0.4 to 0.7 per cent mill rate increase, between $8 and $16 per year for the average house.

Nine municipalities, Calgary, Mississauga, Brampton, Hamilton, Burlington, Richmond Hill, Oshawa, Halifax and St. John's, identified in the jurisdictional scan provide a form of rebate to eligible customers. Rebates in these municipalities range in value from $198 to $500 annually and are typically tied to property tax increases or are a set amount. Rebates were given the highest level of public support in the engagement survey with 57 per cent of the respondents choosing this option for support if the City were to implement a property tax affordability program.

COMMUNICATIONS

A survey of residents was conducted through the City's online public engagement tool *Be Heard Regina.* The purpose of the survey was to gauge the level of community support for potential high-level policy options regarding tax policy and tax and utility affordability. Participants self-selected into the survey. The full results of the survey are included in Appendix G and are posted publicly on Open Data *and Be Heard Regina*. A summary of the engagement is outlined in the following section. Should Council wish to establish specific affordability programs, it is recommended that target groups be consulted to ensure they address the needs of the community and reflect the voices of those most impacted. Should Council wish to implement a change to tax policy, those most impacted by the policy change should be engaged and informed through a communications strategy prior to any change to allow them to adjust budgets and financial plans accordingly.

Administration also sent notice of this report to the Regina Chamber of Commerce, Regina Downtown Business Improvement District, Warehouse Business Improvement District and Economic Development Regina.

DISCUSSION

There are two major parts to this request from Council:

1) Property Tax tools and how they can be used to meet objectives. Specifically:
    - Impacts of changing the property tax split between residential and non-residential properties.
    - The impacts of implementing a base tax.
    - The use of property sub-classes.

2) Options for property tax affordability programs.

In addressing this request, Administration also provides a summary of current tax policy, the results of a jurisdictional scan sharing how other municipalities use these tools and the results of a public engagement survey to gauge level of support for property tax affordability programs and changing the share of property tax for residential and non-residential properties. The discussion also explores how affordability is defined in relation to property tax and considers existing city initiatives that may intersect with tax policy.

Options and analysis in this report were conducted on municipal property taxes only. The tax tools and options here do not consider impact or participation from other taxing authorities. Where applicable, the City would need to obtain agreement from other taxing authorities for their participation.

Property Tax Tools

The Cities Act outlines tax tools available to determine the distribution of the property tax burden. Some tools are provincial, while others are available for use at City Council's discretion.

Tax tools are a mechanism for Council to distribute the cost of public service within its tax base. The tools available to municipalities include mill rates, mill rate factors, minimum tax, base tax, tax phase-in and the creation of property classes and sub-classes. These are described in Table 1: Tax Tools Available to Municipalities below.

Table 1: 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.
Mill Rate Factor	City Council may determine a mill rate factor, that when multiplied by the mill rate, will determine the tax rates for each property class and sub-class 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 sub-class. 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 sub-class. 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	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 may apply to other taxing authorities if agreed upon by the other taxing authority.
Property Class and Sub-class	City Council may establish classes and sub-classes of property for the purposes of establishing tax rates. If a property class or sub-class is established, the assessor shall determine to which class or sub-class any property belongs.

Council may choose to utilize these tools to accomplish policy objectives. Currently the City uses a mill rate, mill rate factors, and property classes and sub-classes. Council also approved a phase-in plan to reduce the impacts of revaluation. Discussion papers on how tax tools may be utilized to accomplish specific objectives are attached as the following appendices and summarized below:

- Appendix A: Share of Taxes
- Appendix B: Base Tax
- Appendix C: Property Tax Sub-classes

It is important to note that these property tax tools are not meant to increase a municipality's tax revenue. The overall tax burden to be levied is determined by the budget process. Property tax tools are meant to determine the distribution of the tax burden. This means a tax reduction for one property class results in increased taxes for another property class.

Comparing property tax tool usage across municipalities is complex, as provincial legislation varies by province, and every municipality is unique in the level of services provided and alternate revenue sources. Tax tools are typically used in accomplishing specific policy objectives so there is no best practice in terms of tax tool usage.

To determine the impacts of using property tax tools, application of tools should be explored in relation to specific objectives and initiatives. Specific engagement and research should be conducted to ensure the use of tax tools will accomplish the goals identified or whether other tools would be better suited.

Current Tax Policy
The City has adopted the following tax principles with every revaluation since 1997:

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 tax system based on property values.

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.

These main themes are imbedded in *Design Regina: The Official Community Plan Bylaw No. 2013-48* (OCP), which includes three economic goals: economic vitality and competitiveness, economic growth and economic generators. The priorities outlined for these goals include the establishment of tax rates that consider the sustainability of services and the use of mechanisms to expand and diversify the economy, promote Regina as an attractive place to live, invest and do business and encourage entrepreneurship.

Changing the Share of Taxes
Pursuant to section 255 of *The Cities Act*, Council can redistribute the share of municipal taxes through the use of mill rate factors for different classes and subclasses or properties. Based on the three guiding principles above, the long-standing policy of keeping the share of taxes stable has been adopted by City Council with each revaluation. The City’s current tax split is approximately 64.1 per cent residential and 35.9 per cent non-residential. This is comparable to the average of other prairie cities.

Analysis shows that for a one per cent reduction in the residential share of municipal taxes:

- residential municipal property taxes are reduced by approximately 1.6 per cent, and
- non-residential property taxes rise by approximately 2.8 per cent.

The impacts of a one per cent shift are more significant for non-residential properties because there are fewer non-residential properties, and non-residential properties have a higher effective tax rate.

Property taxpayers were engaged in June 2021 with a survey on water utility and property tax affordability options. A full report on the engagement is included as Appendix G. The survey asked respondents if they agreed with non-residential properties paying a higher share of tax than residential properties and what, if any, per cent of increase from residential to non-residential they support. Though respondents have expressed moderate support for an increase in the non-residential share of tax (62 per cent), specific consideration should be given to the current economic situation prior to making any change to the share of tax. Should Council wish to implement a shift in the share of tax paid by each class, those most impacted by the shift should be engaged and informed through a communications strategy prior to any shift to allow them to adjust budgets and financial plans accordingly.

A discussion on the share of tax, including an impact analysis of making a change is included as Appendix A: Share of Taxes.

Base Tax

Pursuant to section 259 of *The Cities Act* Council can levy a base tax on all properties or groups of properties. The base tax involves levying a specific amount against each property in addition to the levy that is calculated using the assessed value and the mill rates and mill rate factors.

The City currently uses an ad valorem tax system for property taxes. Ad valorem is the tax system used throughout North American. It is a historical approach to taxation which includes the following principles:

- Taxes owed are calculated based on the assessed value of the property.
- The taxable assessed value of 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.

Traditionally, the City has used a dedicated mill rate increase to fund specific initiatives. For example, a 0.45 per cent increase dedicated to Mosaic Stadium and 0.5 per cent increase dedicated for recreation infrastructure.

Analysis shows that applying the base tax leads to an increase in taxes for lower-value properties and a decrease in taxes for higher-value properties. For example, if implementing a $500 general base tax, the mill rate is reduced to keep total tax revenues constant, and lower-value properties would experience tax increases of less than one per cent and higher-value properties would experience significant decreases.

Appendix B: Base Tax, looks at the impacts of moving away from ad valorem system to implement a base tax to fund existing services or new initiatives.

Property Tax Sub-classes
Pursuant to section 254 and 255 of *The Cities Act*, Council can establish classes and sub-classes and set different mill rate factors for these classes and sub-classes for the purpose of redistributing taxes. The City currently defines five property classes: residential, multi-residential, commercial/industrial, railway, and agriculture. In 2001, Council established the golf course sub-class for tax relief purposes to offset the direct competition with municipal golf courses that are exempt from property taxes. For 2021, the mill rate factor for the golf course sub-class is set to 65 per cent of that of the commercial sub-class, making the golf course sub-class tax rate equivalent to that of vacant land. There are currently two privately owned golf courses in this class, one of which is partially in the City with the majority of the course, including clubhouse, in the RM of Sherwood.

Analysis on using property sub-classes to accomplish specific objectives shows that, if the sub-class is relatively small compared to the class that offsets the changes, sub-classing can create significant impacts on the targeted properties with minor changes on the remaining properties in the class. Meaning the creation of a sub-class may be a useful tool in accomplishing specific objectives for the subset of properties.

A challenge in implementing a sub-class is how it is defined. If a sub-class is created for a property characteristic not used for assessment purposes, it may require an application process. An application process is only effective where the class is seeing a reduction in taxes as a property owner is unlikely to apply for a property class that would increase their taxes

An analysis of the use of sub-classes, including the current golf course sub-class, is included in Appendix C: Property Tax Sub-classes.

It is important to note that using sub-classes to shift tax burden between property classes has larger tax policy implications. These implications are outlined in Appendix A: Share of Taxes.

Community Engagement
Community engagement was conducted through Be Heard Regina from May 28 to June 30, 2021. Residents were invited to participate via an insert notice included with tax and utility notices, a news release with media coverage, and through social media advertising. Special interest committees and community groups were also informed of the survey and asked to encourage participation.

The purpose of the engagement was to gauge the level of public support for potential high-level policy options regarding tax policy and tax affordability. Participants were asked to indicate their overall support for affordability programs, prioritize who should be eligible for potential programs, what type of program they felt would be the most beneficial and how potential programs should be funded. The online questionnaire posted to the beheard.regina.ca website was designed to provide Regina residents with a public engagement opportunity to share opinions with the City. A full report with the engagement results is attached as Appendix G.

A total, of 2,924 residents completed the survey, the majority of which pay residential property taxes and have a utility account in their name. Forty-two percent of respondents support and 28 per cent somewhat support the implementation of affordability programs. Three out of ten (29 per cent) do not support low-income water utility and taxpayer affordability programs. Support was highest among households with annual incomes of less than $20,000 (93 per cent) and declined as incomes increased though support still remained significant among households with incomes greater than $150,000 per year (65 per cent).

When asked how property tax affordability programs could be targeted, six out of ten (57 per cent) respondents say any low-income household should be eligible, while 31 per cent say programs should be tailored to specific demographic groups.

The large majority (82 per cent) of respondents agree that non-residential properties should pay more property tax than residential properties. Commercial property taxpayer respondents are much less likely to agree, at 33 per cent.

In addition to the public engagement survey, Administration received feedback in the form of emails and service requests from 37 residents. A summary of this feedback is attached as Appendix H. 11 of these residents expressed support for affordability programs and 14 expressed opposition to affordability programs. The most common reasons for opposition to affordability programs were that existing tax and utility rates make them reluctant to pay more and that the City should focus on managing operational inefficiencies as a means or option to address the affordability issue. 12 respondents did not provide any level of support for affordability programs. These respondents provided comments on the program administration or the survey design. Opinions and ideas on City policy, programs, and related services were also expressed.

Tax Affordability Programs

Implementing a property tax affordability program is a way for Council to address affordability for a specific set of property owners. For this report property tax affordability is considered a part of broader shelter affordability. In addition to property taxes, shelter costs include rent, mortgage payments, condominium fees, household maintenance, the costs of electricity, heat and water and other municipal services. Approximately 12 per cent of residential property owners in Regina experienced shelter unaffordability. The average rate across other prairie cities is 14 per cent.

Analysis shows there is little difference in the number of households that experience unaffordability at income ranges below the median. This indicates there is a weak relationship between household income and unaffordability. Unaffordability is more closely tied to household structure, with single-person households being much more likely to experience shelter unaffordability. While affordability programs can reduce shelter costs, the overall impact is low as property taxes make up a small portion of shelter costs for low-income households.

In identifying potential affordability programs, a scan of programs in other Canadian municipalities was conducted. A full copy of the scan is included as Appendix E: Tax Affordability Programs Scan. The scan showed that 18 of the 35 municipalities surveyed and nine provinces have some form of property tax affordability program including rebates and deferrals. One-time assistance payments were added as this was a common approach with utilities.

An analysis of property tax affordability programs is included as Appendix D: Property Tax Affordability Programs.

Tax Affordability Program Options

An evaluation of property tax affordability program options was conducted (Appendix D). The analysis of potential options evaluated how well programs could improve affordability, property tax equity and considered community support through engagement and administrative level of effort.

Table 2: Summary of Property Tax Affordability Programs summarizes the results of the analysis. Options are graded positively (green) if they improve the current state, negatively (red) if they will make the current state worse, and neutral (yellow) if there will be no significant change. Hash marks indicate complexity in the analysis.

Table 2: Summary of Property Tax Affordability Programs

Option	Afford.	Equity	Comm. Support	Admin. Cost	Overall
Property Tax Rebates					
One-time Assistance Payments					
Property Tax Deferrals					

All evaluated options pertaining to property tax affordability may assist in making homeownership more accessible for low-income residents in Regina by offering solutions for improving tax affordability. Providing tax rebates offer the most effective solution at addressing affordability among low-income households as it directly reduces tax costs for customers. However, this option entails the highest cost to implement. Also, as rebates are funded through the tax base, the cost of the rebate will be borne by other residential and non-residential taxpayers. One-time assistance payments can offer relief to households or individuals experiencing temporary income insecurity but its impact is short-term. Tax deferrals on the other hand help improve affordability by shifting tax payments to a time when customers are better able to pay. However, deferrals do not directly address affordability as the full deferral must be repaid, usually with interest.

Should Council wish to implement an affordability program, policy objectives would drive program design and identify target groups for further engagement. Any affordability program would be for municipal property taxes only. The Province offers a property tax deferral program allowing seniors with a total annual household income below $70,000 and a minimum 25 percent equity in their home, to defer their education property taxes at a simple interest rate.

Other City Initiatives

Energy & Sustainability Framework

The City is developing a strategy to become a 100 per cent renewable city with net-zero carbon emissions by 2050. This will be achieved by reducing energy consumption, improving energy efficiency, and switching to renewable or low-carbon energy sources. Work will be completed as part of this framework to determine if tax tools will be effective in accomplishing sustainability objectives.

Community Safety & Well-Being Plan

The City is developing a comprehensive plan to address poverty, inequality, mental illness, substance abuse and homelessness. The high-level, holistic approach taken by this initiative makes it well-suited for discussing the interaction not only between water and tax affordability but the interaction between these two policy spheres and the wider well-being policy system.

Underutilized Land Study

The Underutilized Land Study, approved in 2018, looks at potential regulatory, environmental, social and economic barriers to private sector redevelopment of various types of underutilized sites throughout the City and recommends specific actions the City can undertake to improve the viability of redeveloping these lands. This study considered the use of property sub-classes as a punitive measure for vacant land.

DECISION HISTORY

On March 31, 2021, Council approved CR21-51 which contained the approval of mill rate factors, and adopting the below principles:

- That the relative share of property taxes between the residential and non-residential properties does not change due to revaluation.
- That long-term stability be considered in establishing tax policies for mill rate factors

Respectfully Submitted,

Deborah Bryden, Director, Assessment & Property Revenue Services 9/15/2021

Respectfully Submitted,

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ATTACHMENTS

Appendix A - Share of Taxes
Appendix B - Base Tax
Appendix C - Property Tax Sub-Classes
Appendix D - Property Tax Affordability Programs
Appendix E - Tax Affordability Programs Jurisdictional Scan
Appendix F - Tax Tools & Sub-Classes Jurisdictional Scan
Appendix G - CoR Water Util-Property Tax Affordability Survey (2021)
Appendix H - Survey Written Feedback Summary