

Calgary



2019 Projected Tax Shift Non-residential Properties

Priorities and Finance Committee
PFC2018-1134
2018 October 30



Projected Tax Shifts

- Office (primarily downtown office) continues to decline in market value
- Other major components of the non-residential property group continue to hold or increase in market value:
 - Retail
 - Industrial
- There will be a continued shift of the tax weight within the non-residential property group from office to other non-residential properties

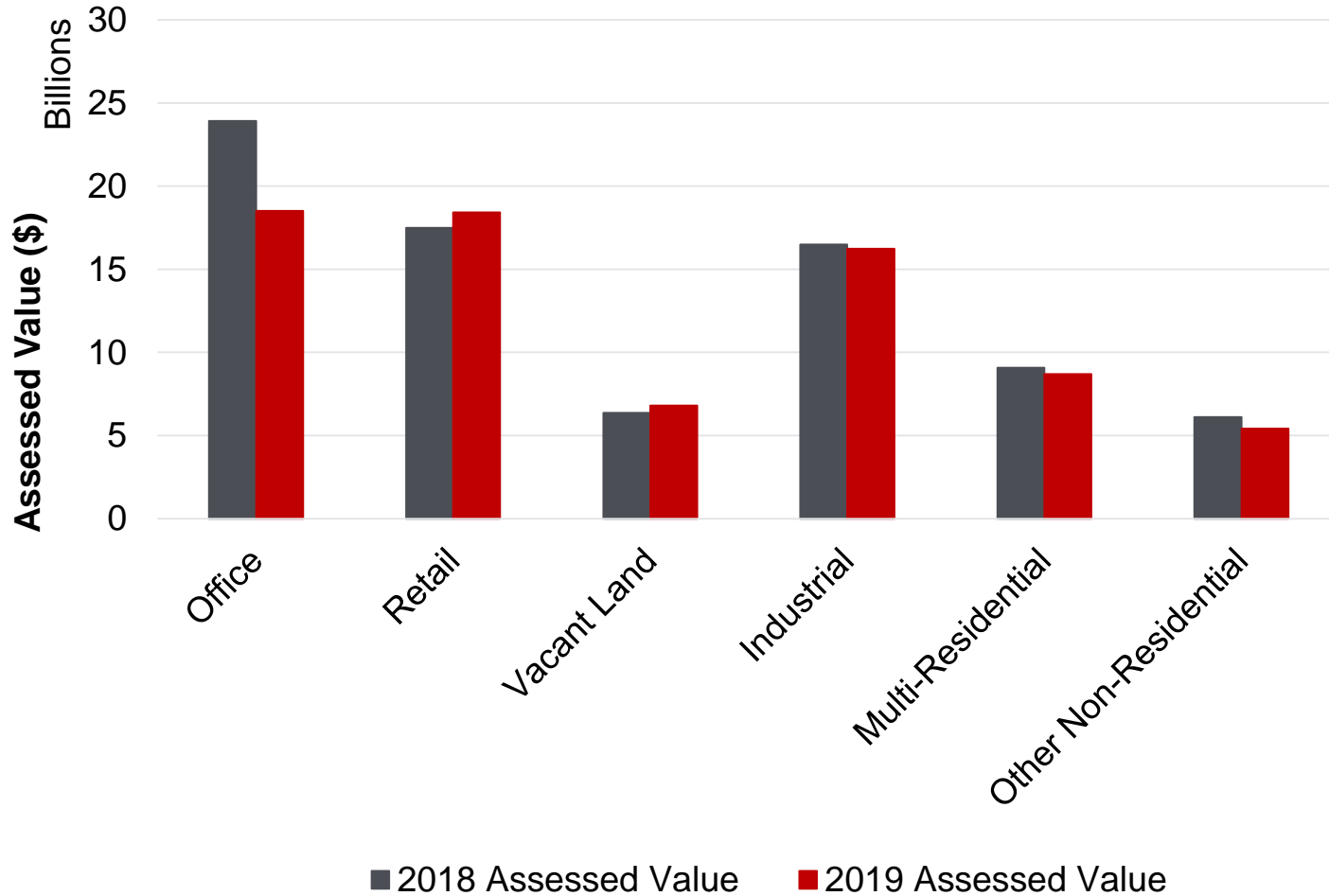


Projected Tax Shifts

- Properties that declined significantly in market value are expected to experience lower 2019 property taxes
- Properties that held in market value are expected to experience higher 2019 property taxes
- Properties that increased in market value are expected to experience material 2019 property tax increases

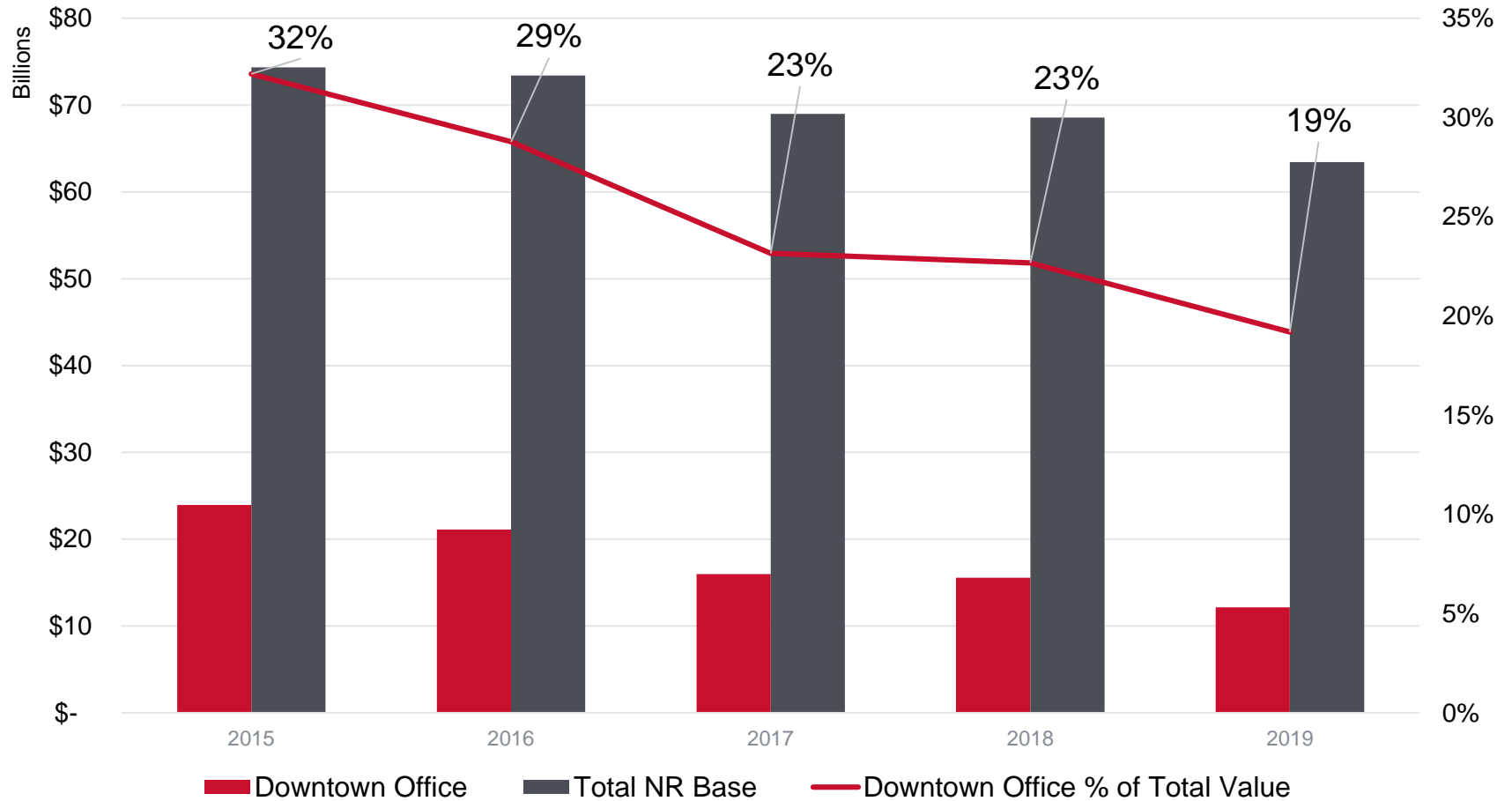


Preliminary 2019 Non-residential Assessment Roll Overview





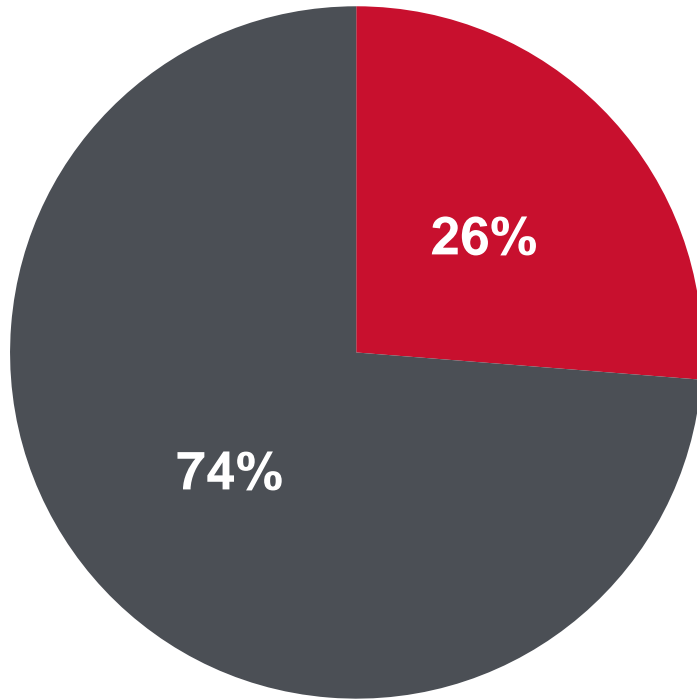
Preliminary Non-residential Assessment Roll and Downtown Office



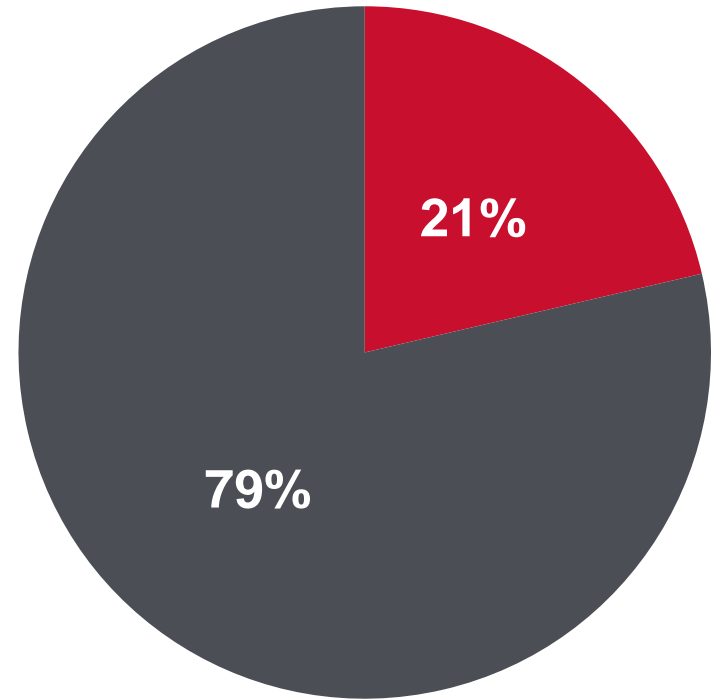


Preliminary Office Contribution to the Assessment Roll

2018 Assessment Roll Year



2019 Assessment Roll Year

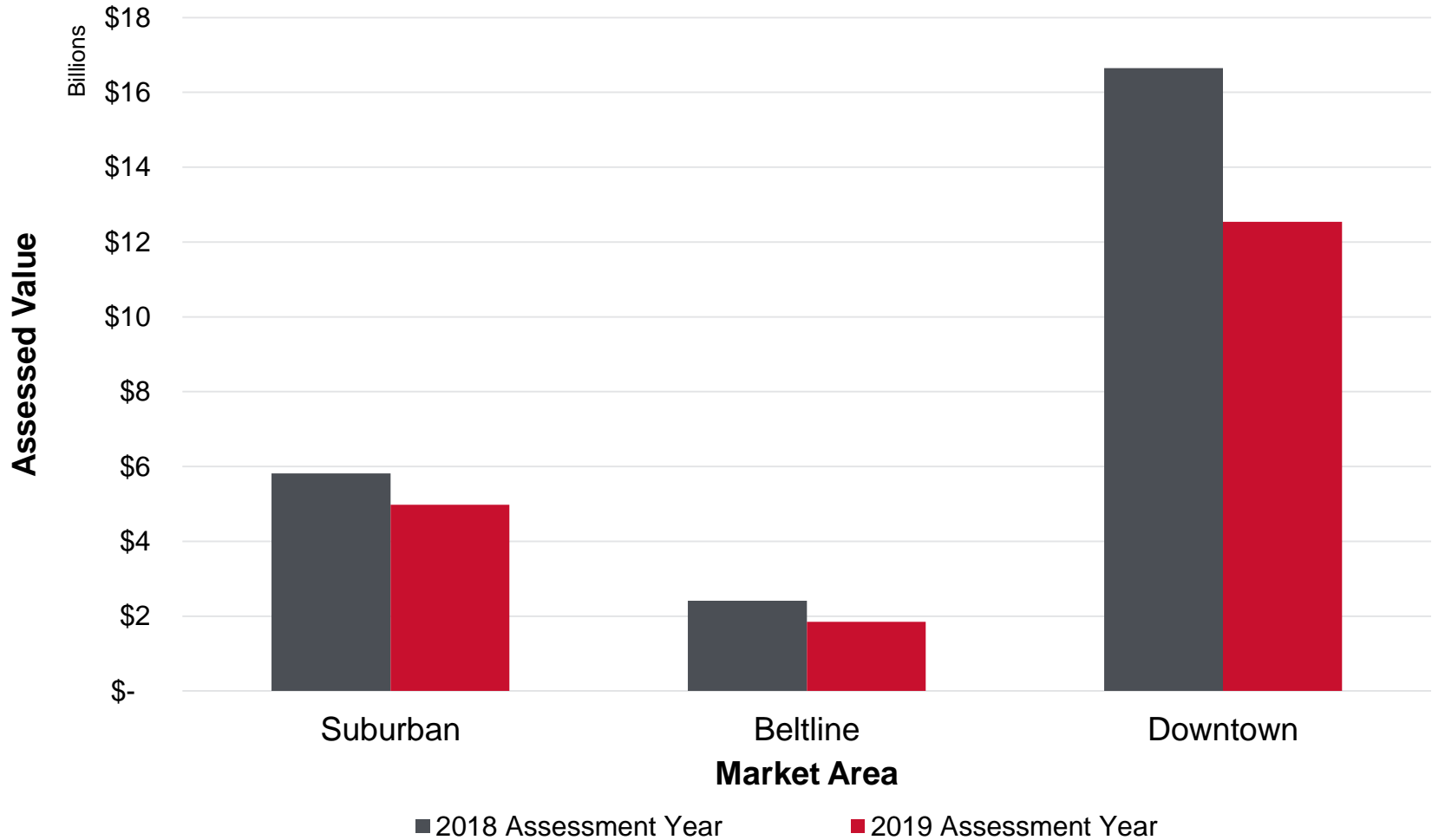


■ All Office Properties

■ All Other Non-Residential Properties



Preliminary Office Inventory: Overview





Example 1: Market Value Unchanged

	2018	2019	\$ Change	% Change
Assessment	5,000,000	5,000,000	0	0.0%
Taxes	97,132	113,685	16,553	17%

Tax shift accounts for approximately 10.0% of the projected change in taxes.

Note: Taxes are estimates based on preliminary assessments and the indicated tax increase



Example 2: Market Value Decline

	2018	2019	\$ Change	% Change
Assessment	5,000,000	4,500,000	-500,000	-10.0%
Taxes	97,132	102,317	5,185	5.3%

Tax shift accounts for approximately -1.3% of the projected change in taxes.

Note: Taxes are estimates based on preliminary assessments and the indicated tax increase



Example 3: Market Value Increase

	2018	2019	\$ Change	% Change
Assessment	5,000,000	5,500,000	500,000	10.0%
Taxes	97,132	125,054	27,922	28.7%

Tax shift accounts for approximately 21% of the projected change in taxes.

Note: Taxes are estimates based on preliminary assessments and the indicated tax increase



The Problem



The Downtown

142 accounts

\$12,572,722,700 lost property value

\$192,656,829 tax impact

Tax impact is shared by
13,815 properties

Note: Figures are cumulative from 2015.



Economic Circumstances

1. Economy
2. Business
3. Assessment
Shift

- D** Defining the Problem
- F** Forecast
- R** Response
- W** What We're Watching

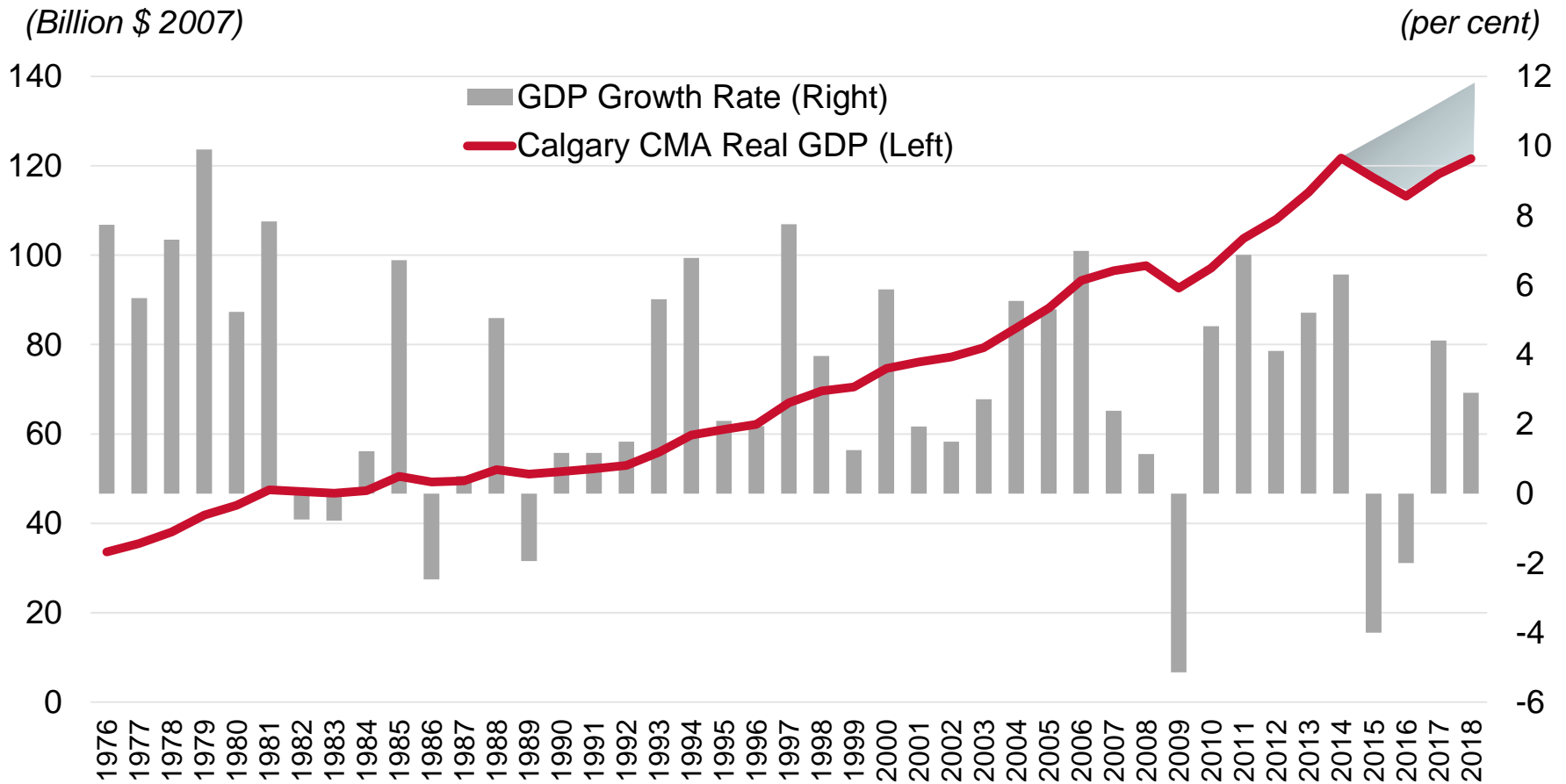


Economy

- D** Defining the Problem
- F** Forecast
- R** Response
- W** What We're Watching



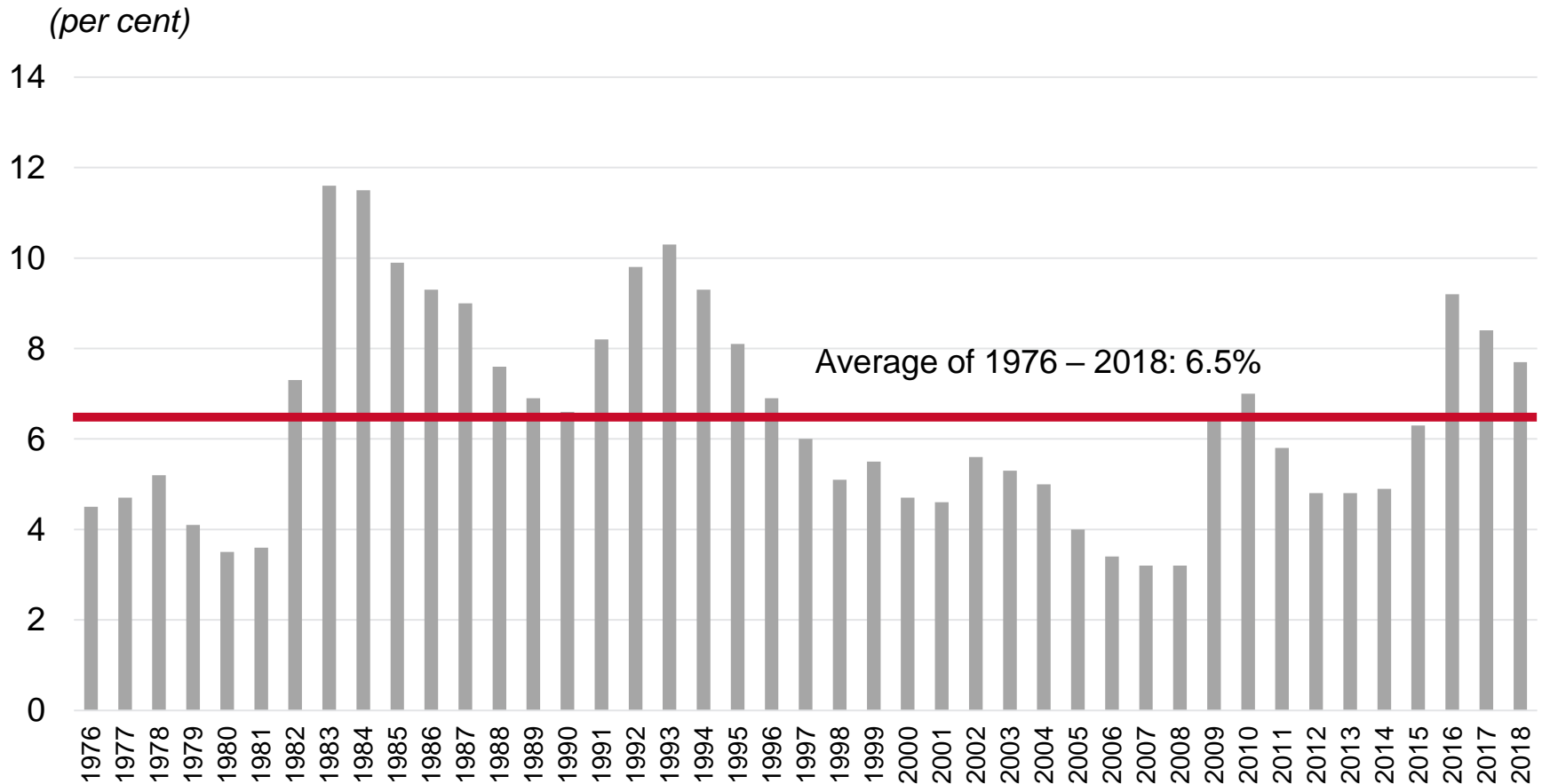
City of Calgary: GDP Growth



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



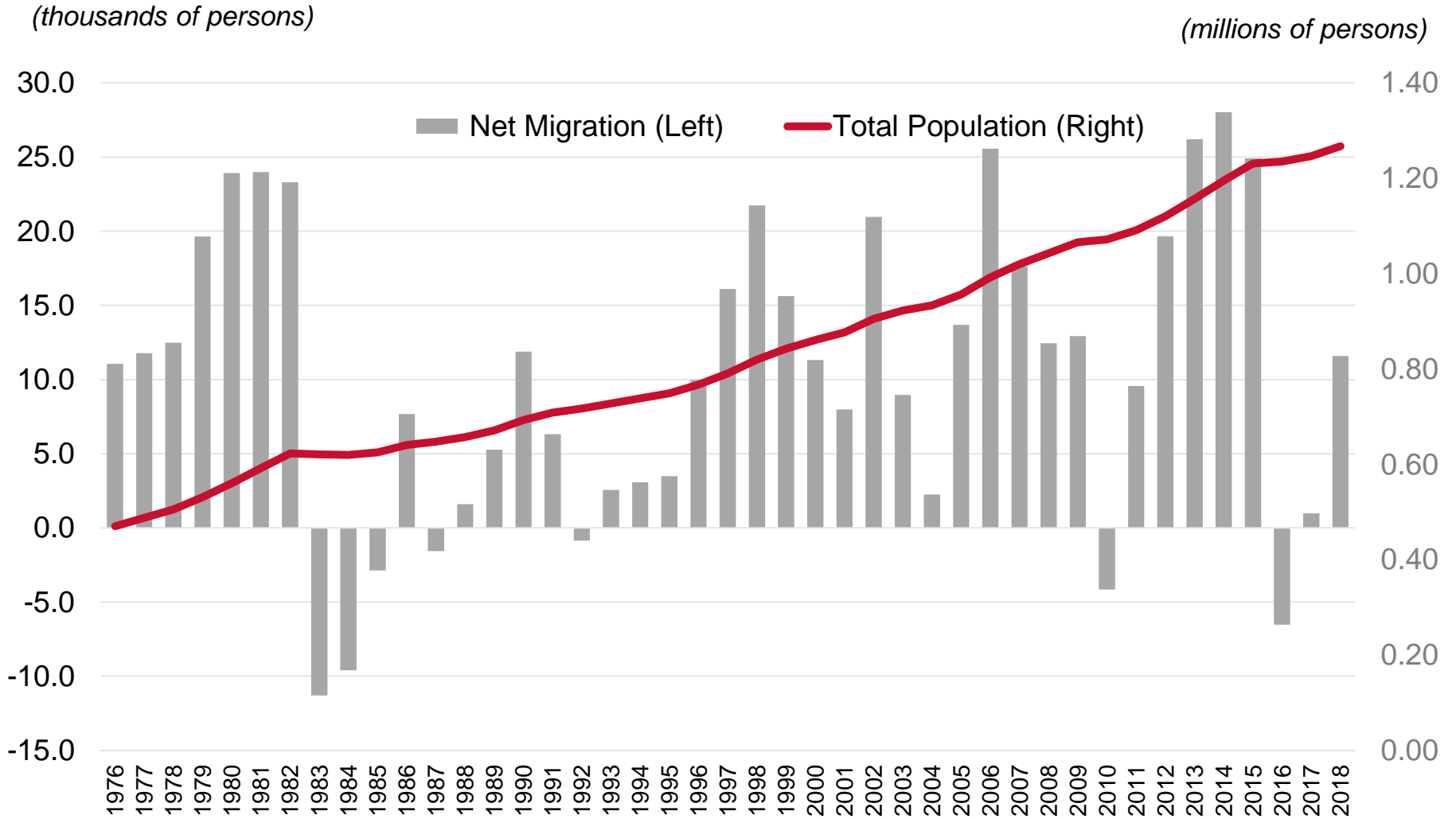
Unemployment Rate



Source: Statistics Canada, The City of Calgary



Population Growth



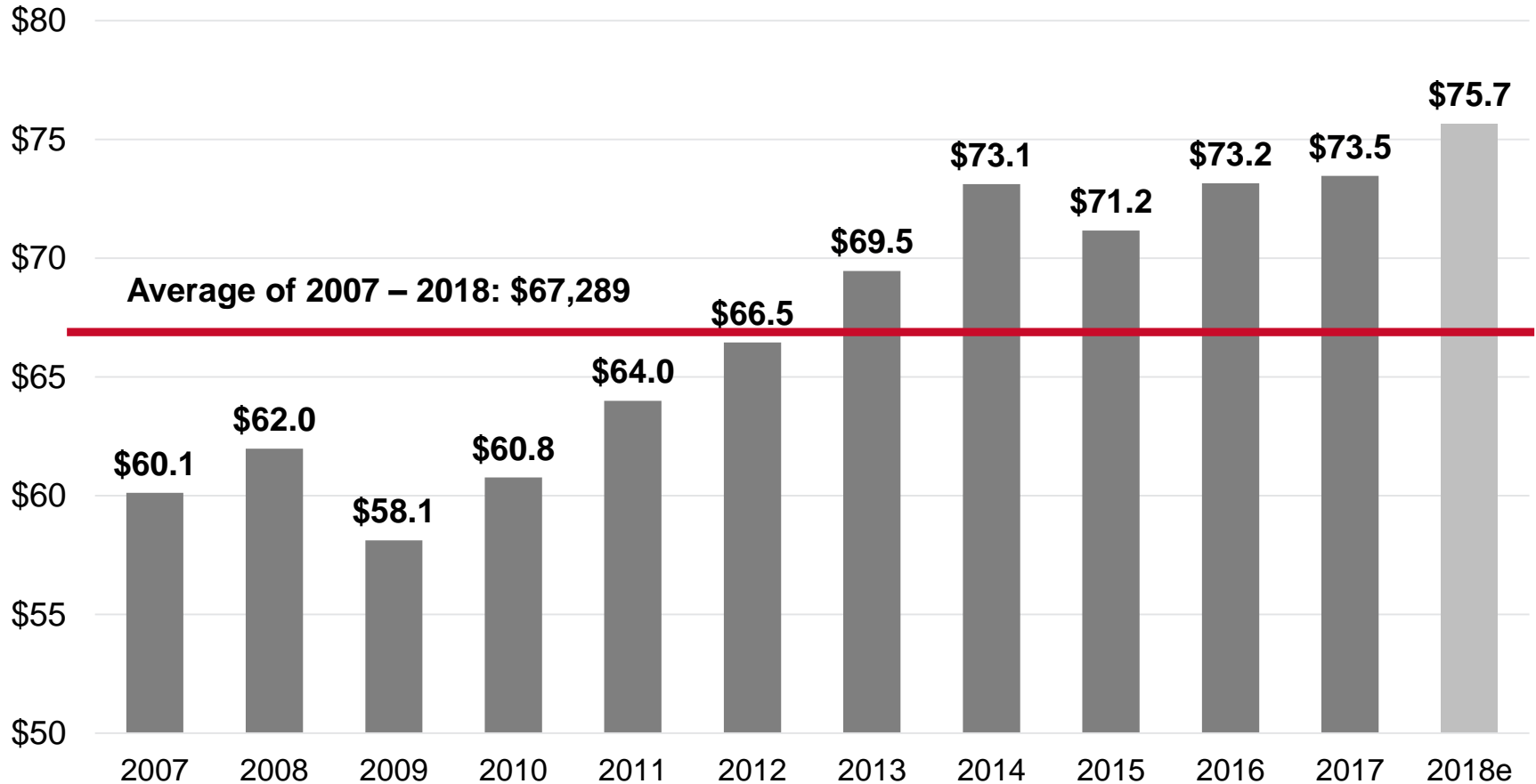
Source: Conference Board of Canada, Centre of Spatial Economics, Corporate Economics



Wages and Salaries per Employee in Calgary



(thousand dollars)



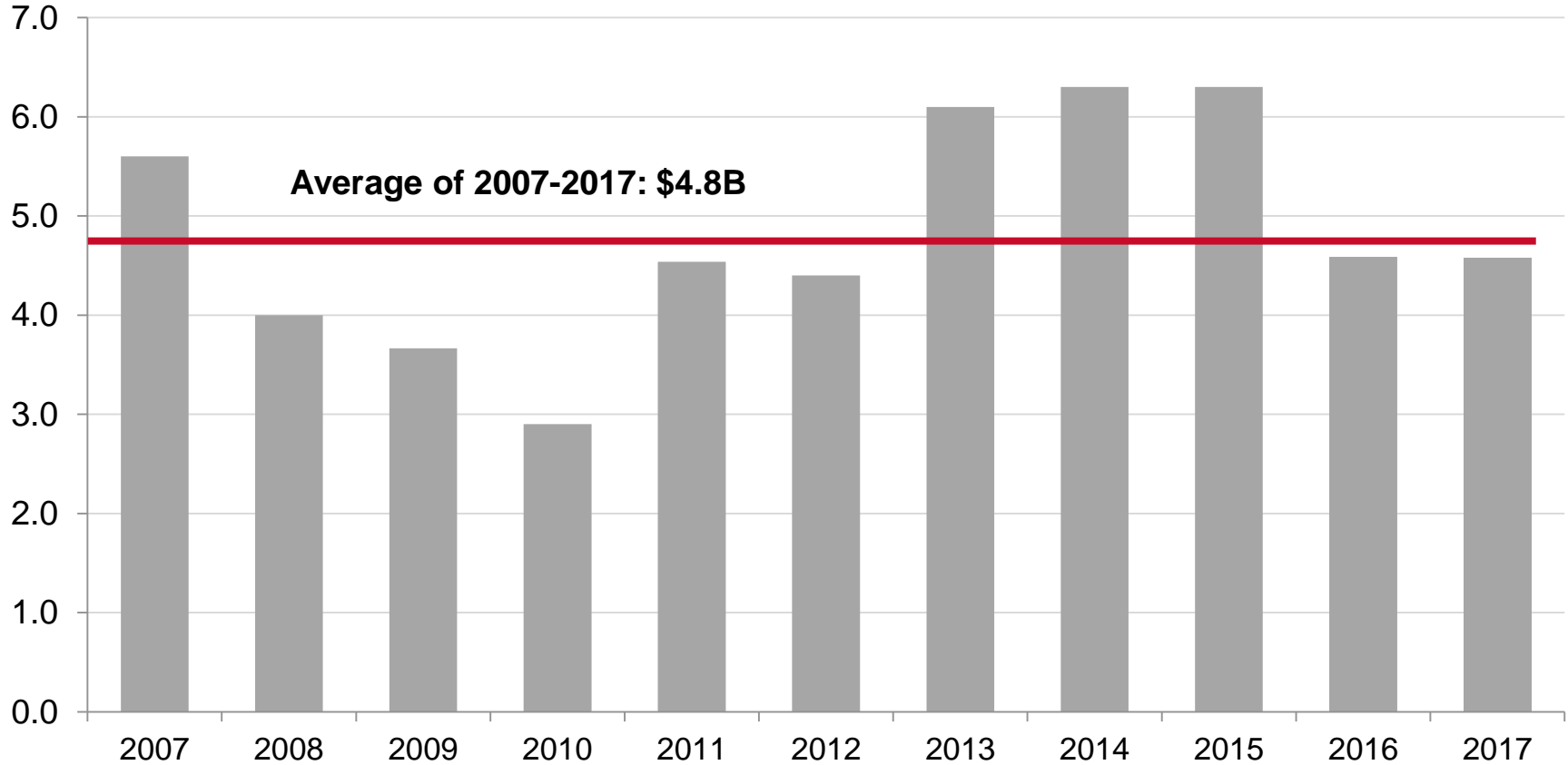
Source: Conference Board of Canada.



City of Calgary: Building Permit Values



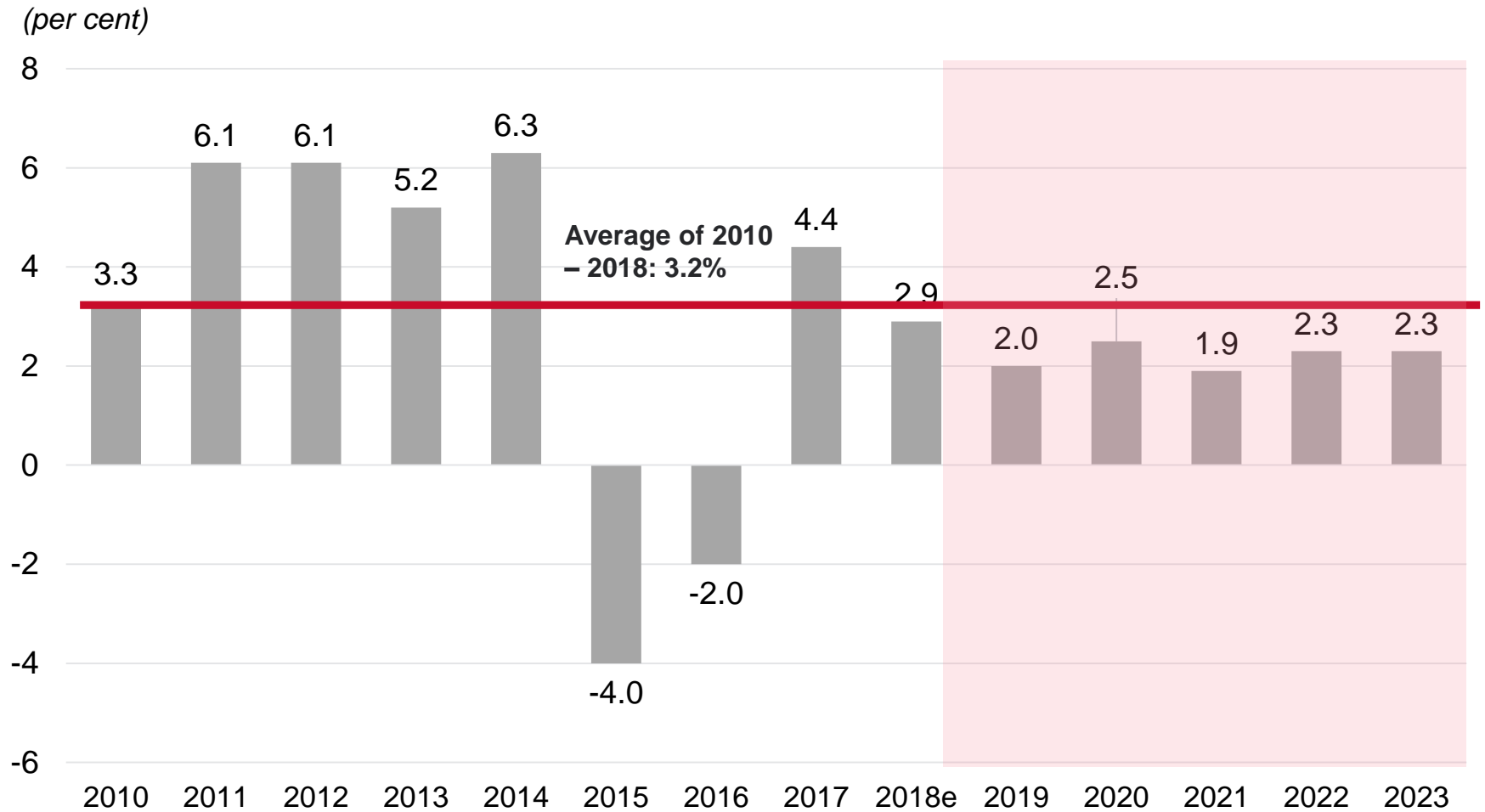
(\$ Billion)



Source: The City of Calgary



Calgary Economic Region: GDP Growth Forecast



Source: Centre for Spatial Economics, Conference Board of Canada, Statistics Canada, Corporate Economics.

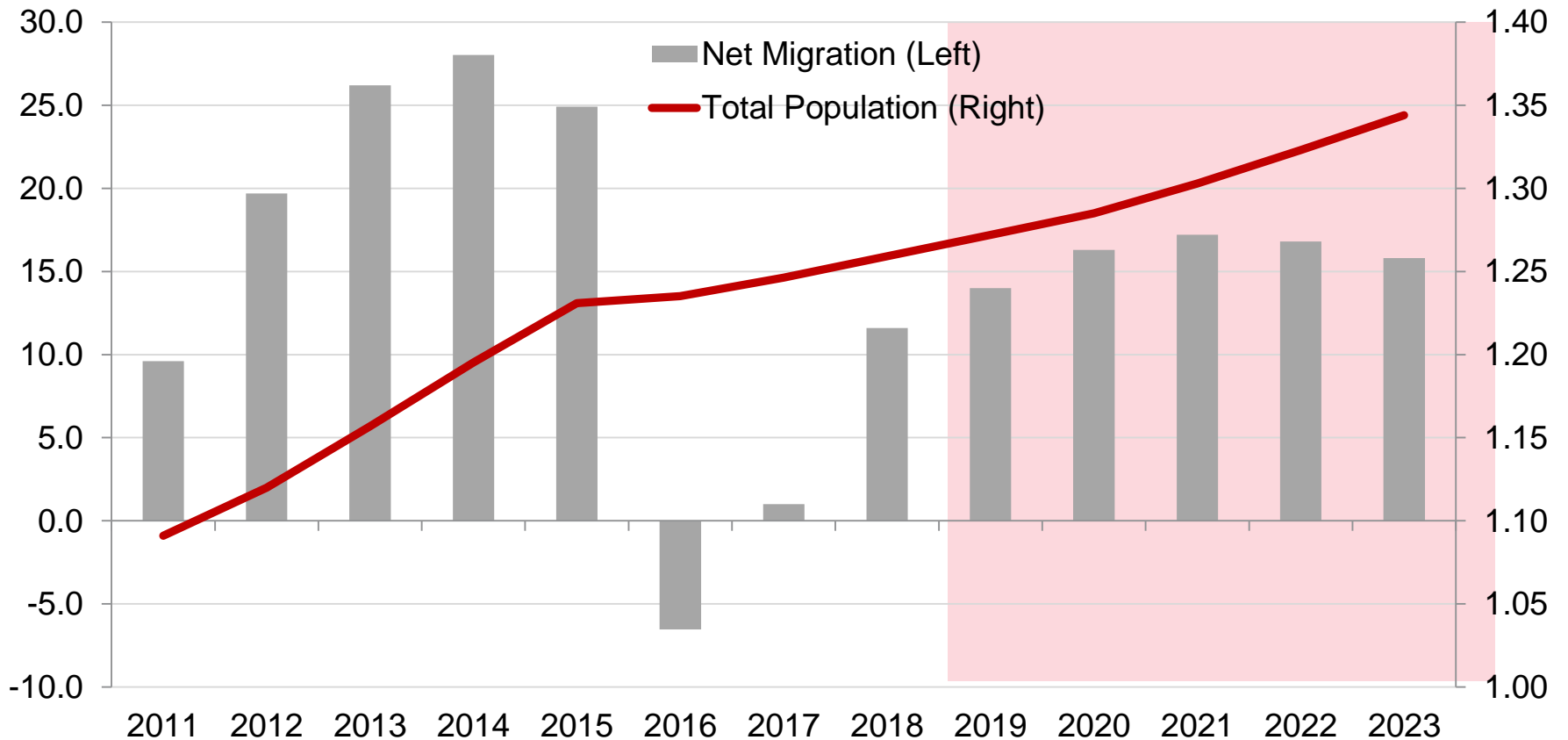


Population Growth Forecast



(thousands of persons)

(millions of persons)



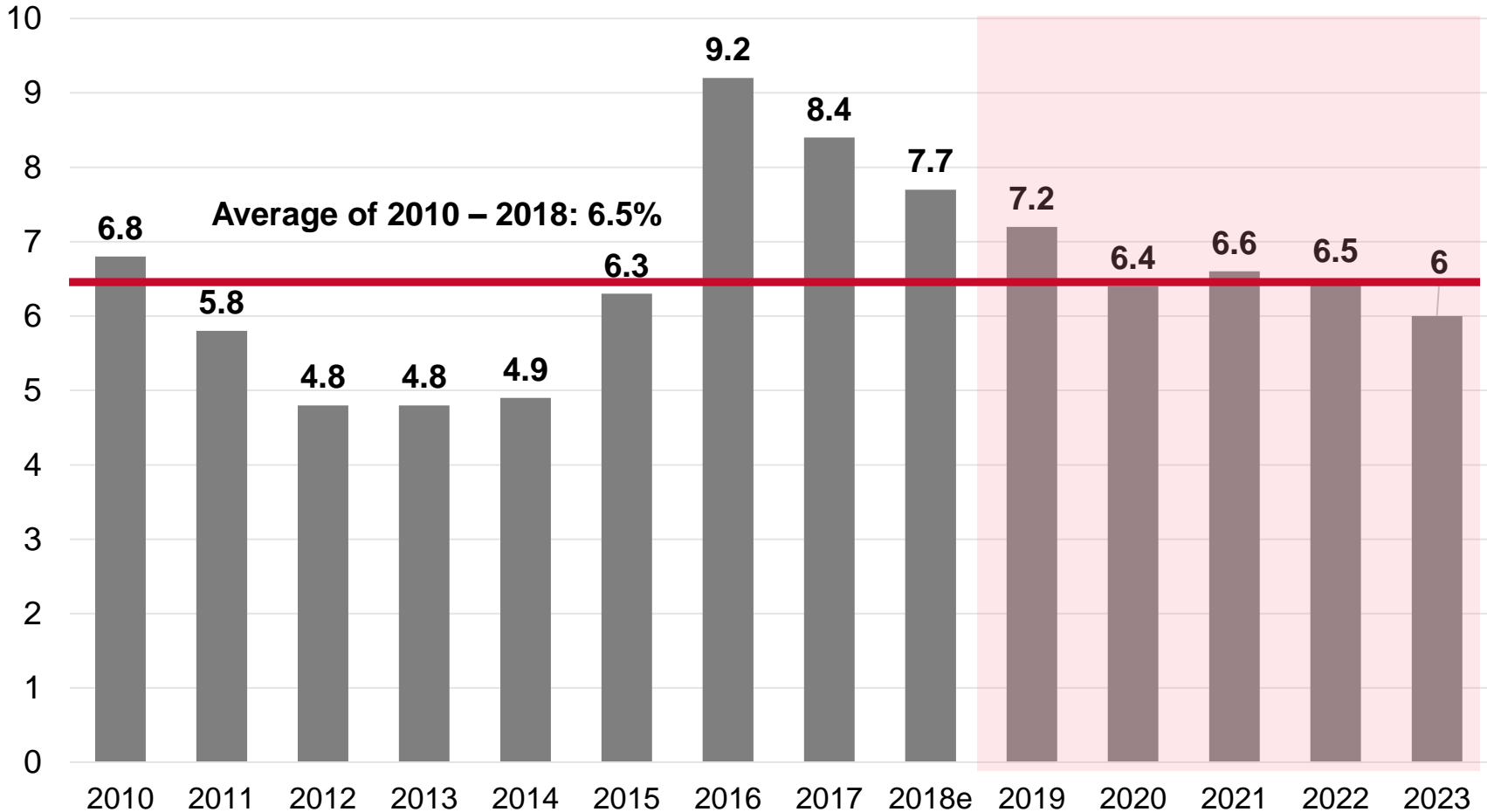
Source: Conference Board of Canada, Centre of Spatial Economics, Corporate Economics



Calgary Economic Region: Unemployment Forecast



(per cent)



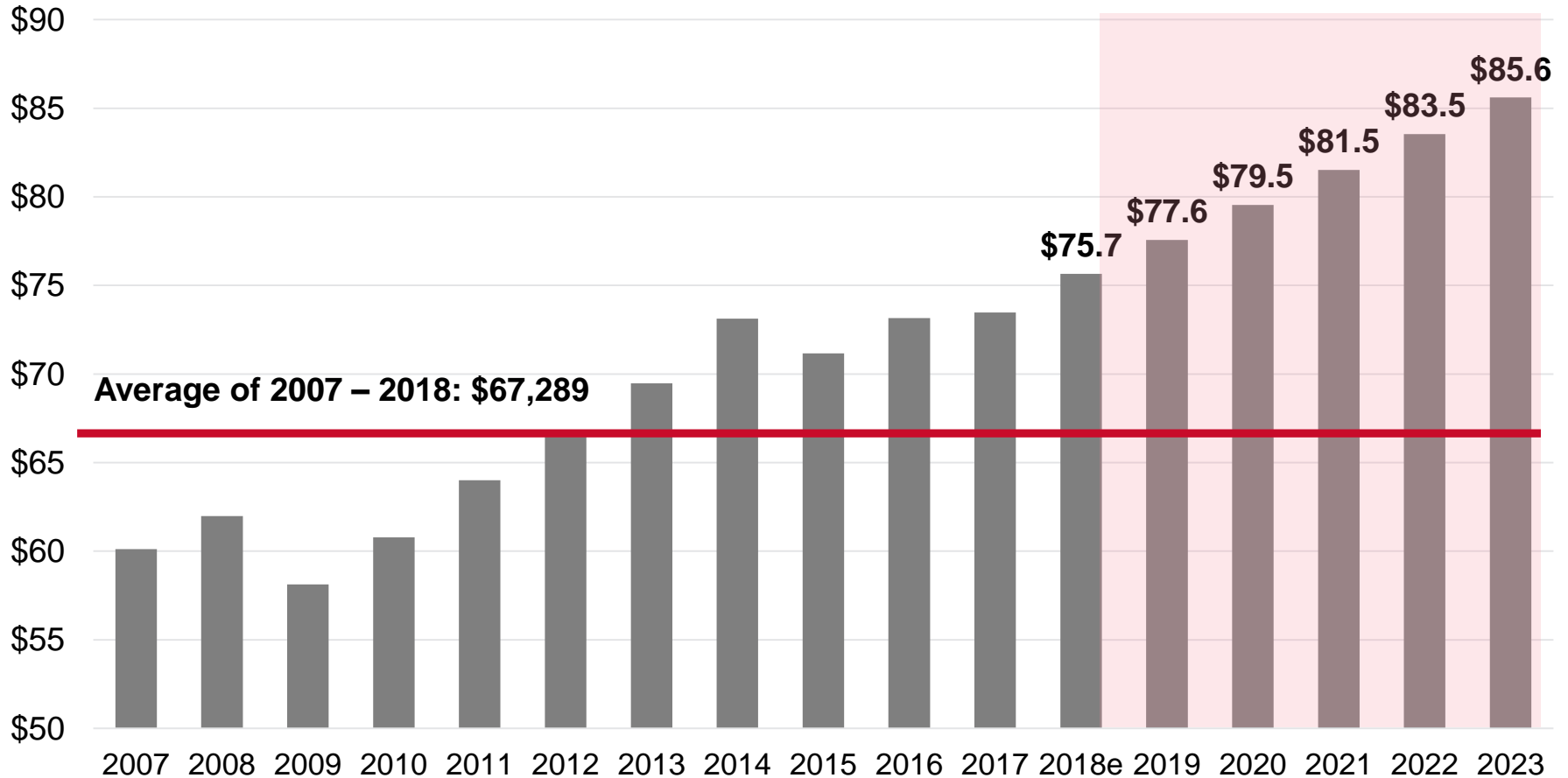
Source: Centre for Spatial Economics, Conference Board of Canada, Statistics Canada, Corporate Economics.



Wages and Salaries per Employee in Calgary Forecast



(thousand dollars)



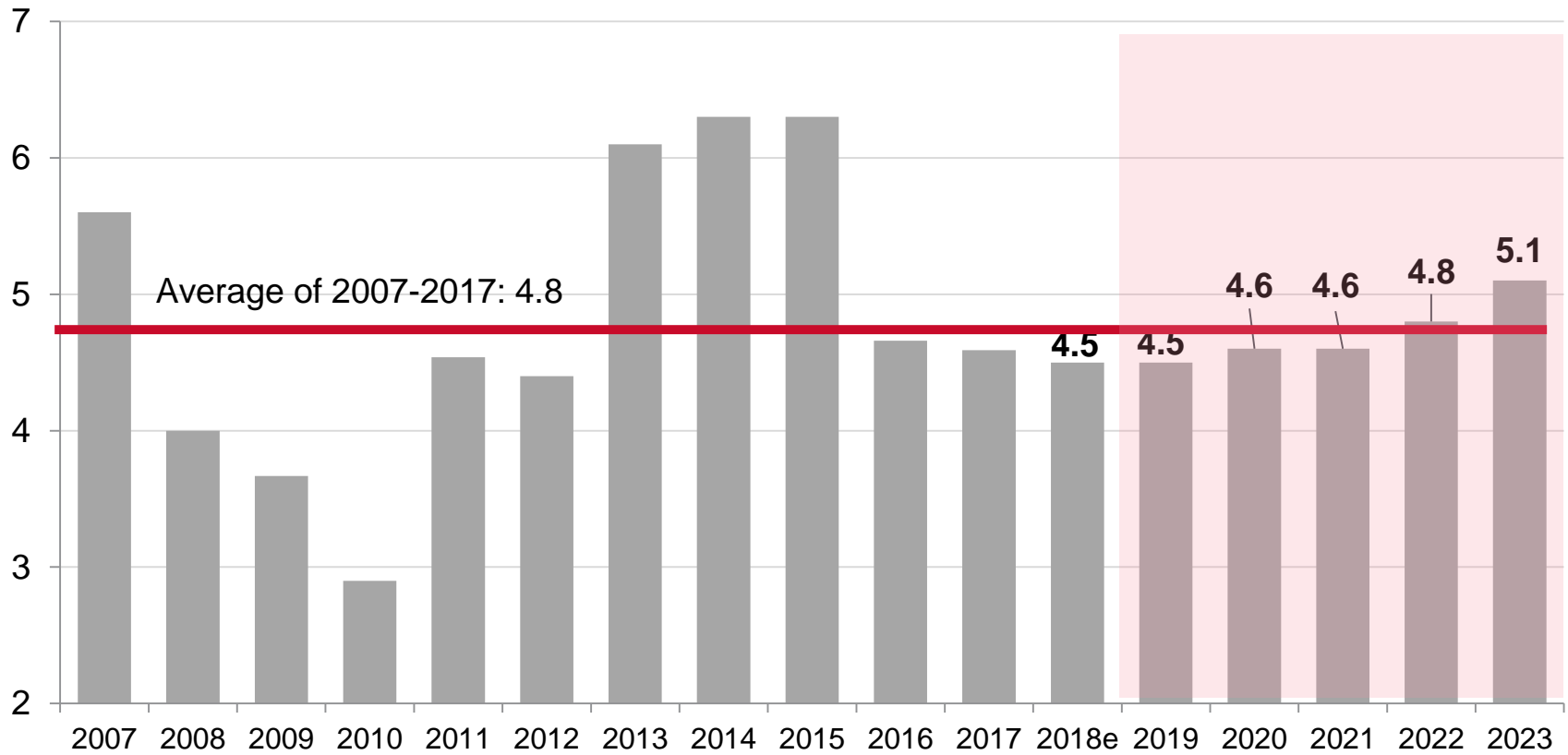
Source: Conference Board of Canada.



Building Permit Values: Forecast



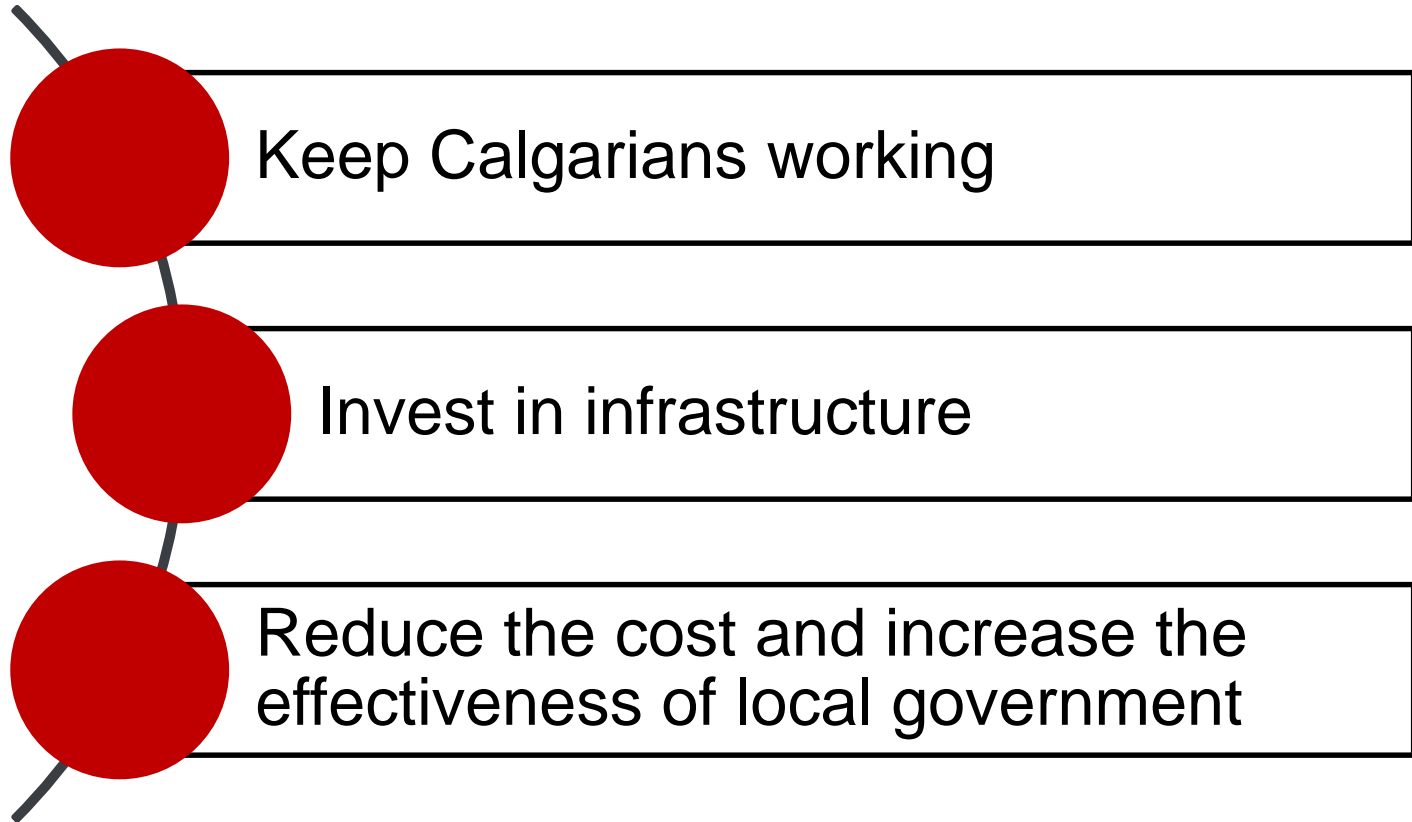
(\$ Billion)



Source: The City of Calgary



Strategies: Economy



Keep Calgarians working

Invest in infrastructure

Reduce the cost and increase the effectiveness of local government

Program Goals:

1. Stimulate the economy by increasing the quality and velocity of capital expenditures
2. Strengthen investment decision making to maximize the return for Calgarians
3. Enhance capital delivery efficiency and effectiveness
4. Improve transparency and line of sight for key stakeholders
5. Attract investment to Calgary

The City's Capital Investment (2015 - 2018)

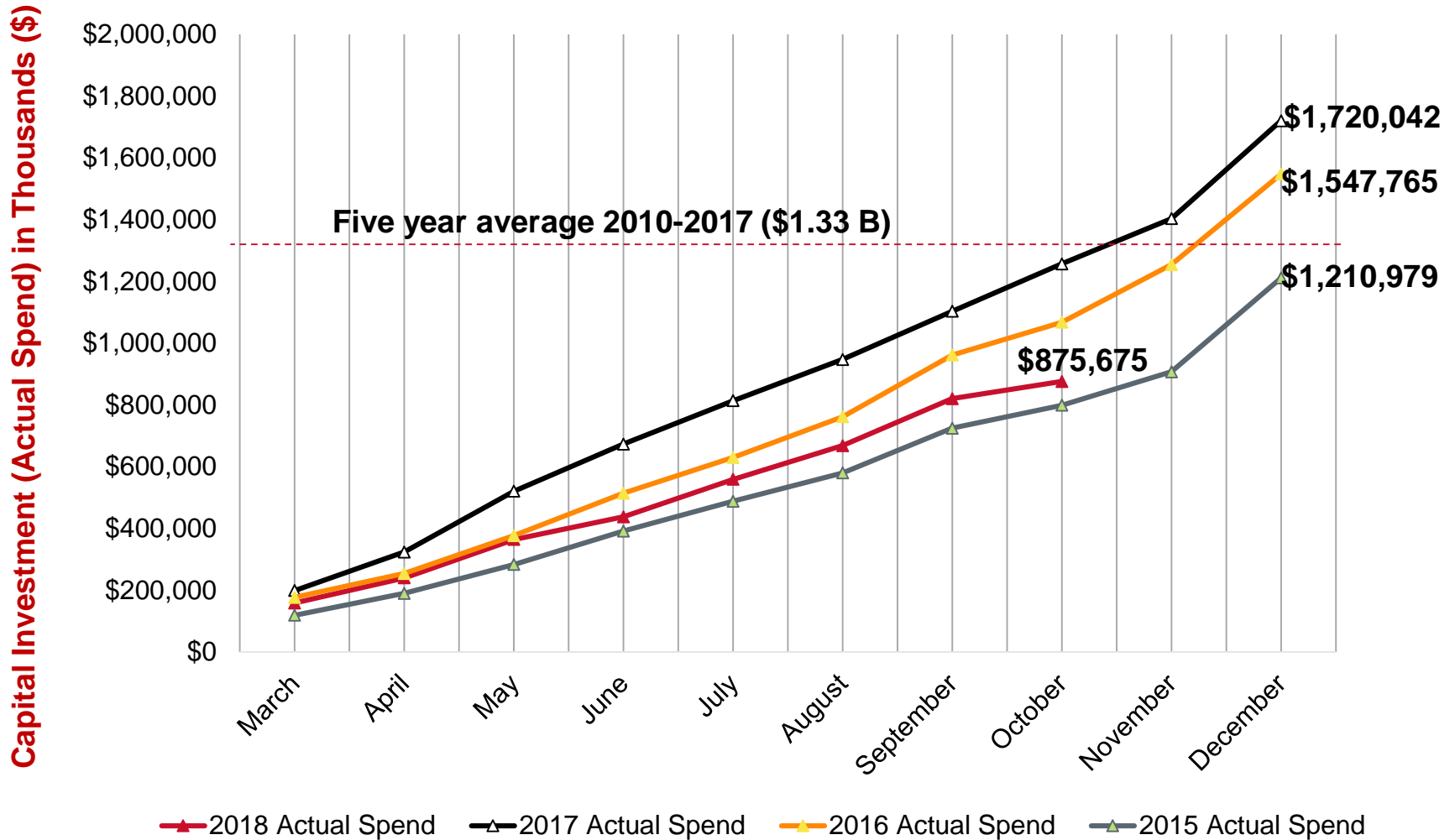


\$5,354,461,000

Source: Executive Management Report, based on actual spend up to October 2018.



The City's Capital Investment (2015 - 2018)



Source: Executive Management Report.

Operating Savings and Efficiencies 2015-2018

**\$523
million**

Categories:

- Operating cost reductions and efficiencies
- Cost containment
- One-time operating cost savings
- Intentional savings
- Utility rate reductions



Opportunity Calgary Investment Fund

**\$100
million**

Goals:

- Create a return on investment
- Increase the tax assessment base
- Create the right conditions for growth
- Diversify the local economy
- Stimulate employment
- Reduce downtown office vacancy
- Leverage private and public sector investments

New Community and Established Area Growth Strategies



One Calgary Investments (Operating and Capital)

- Actively developing communities: \$198 million
- New communities: \$340 million

Other One Calgary Budget Considerations:

- Main Streets
- Established area growth



Recommended Operating Savings and Efficiencies 2019-2022



**Savings Found
To-Date**

\$40 million

**Savings to Be
Found**

\$20 million

As of October 2018

Recommended 2019-2022 Capital Budget Investment

R

\$2,831,000,000

Note: Includes growth and actively developing communities, but does not include previously approved capital, projected carry-forward capital from 2018, and Green Line.

As of October 2018



What We're Watching

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- Migration
- Housing prices
- Housing inventory
- Market sales
- Mortgage stress test



Business

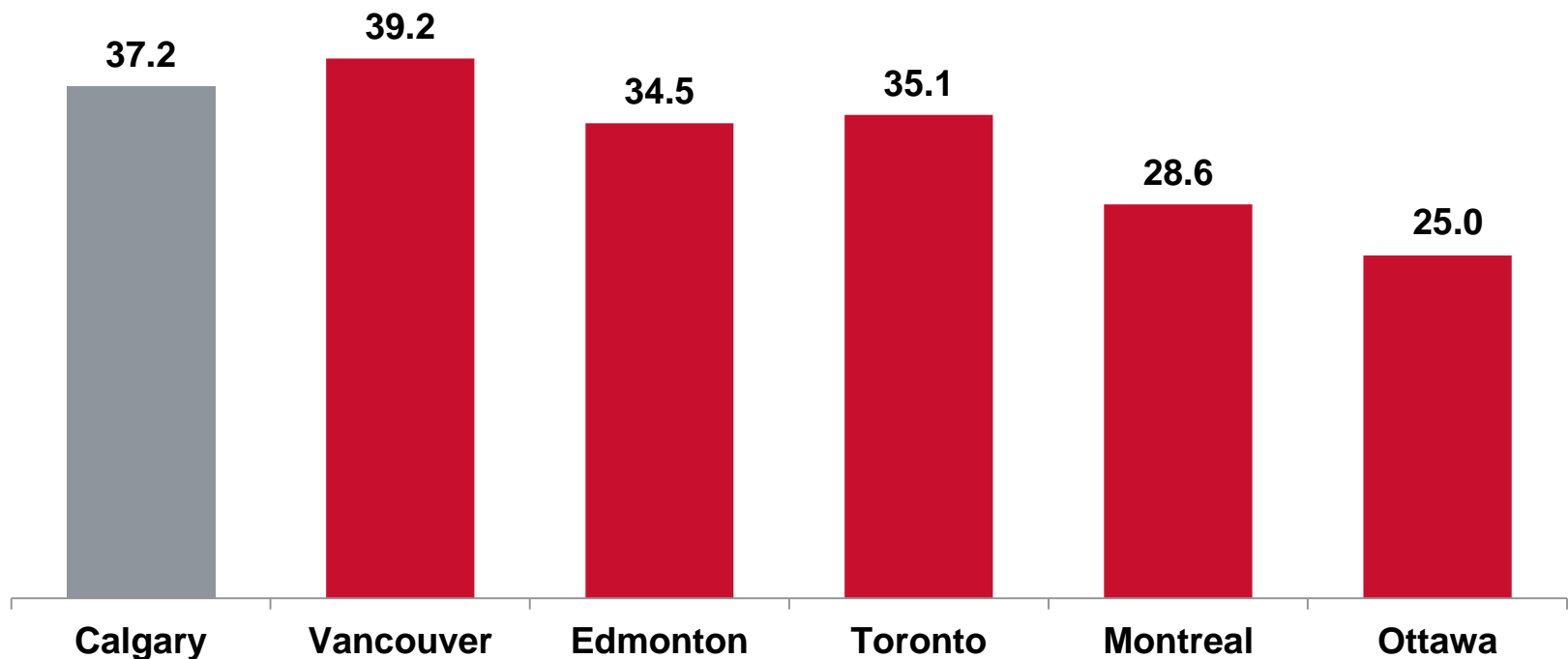
- D** Defining the Problem
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Small Business Per Capita

D

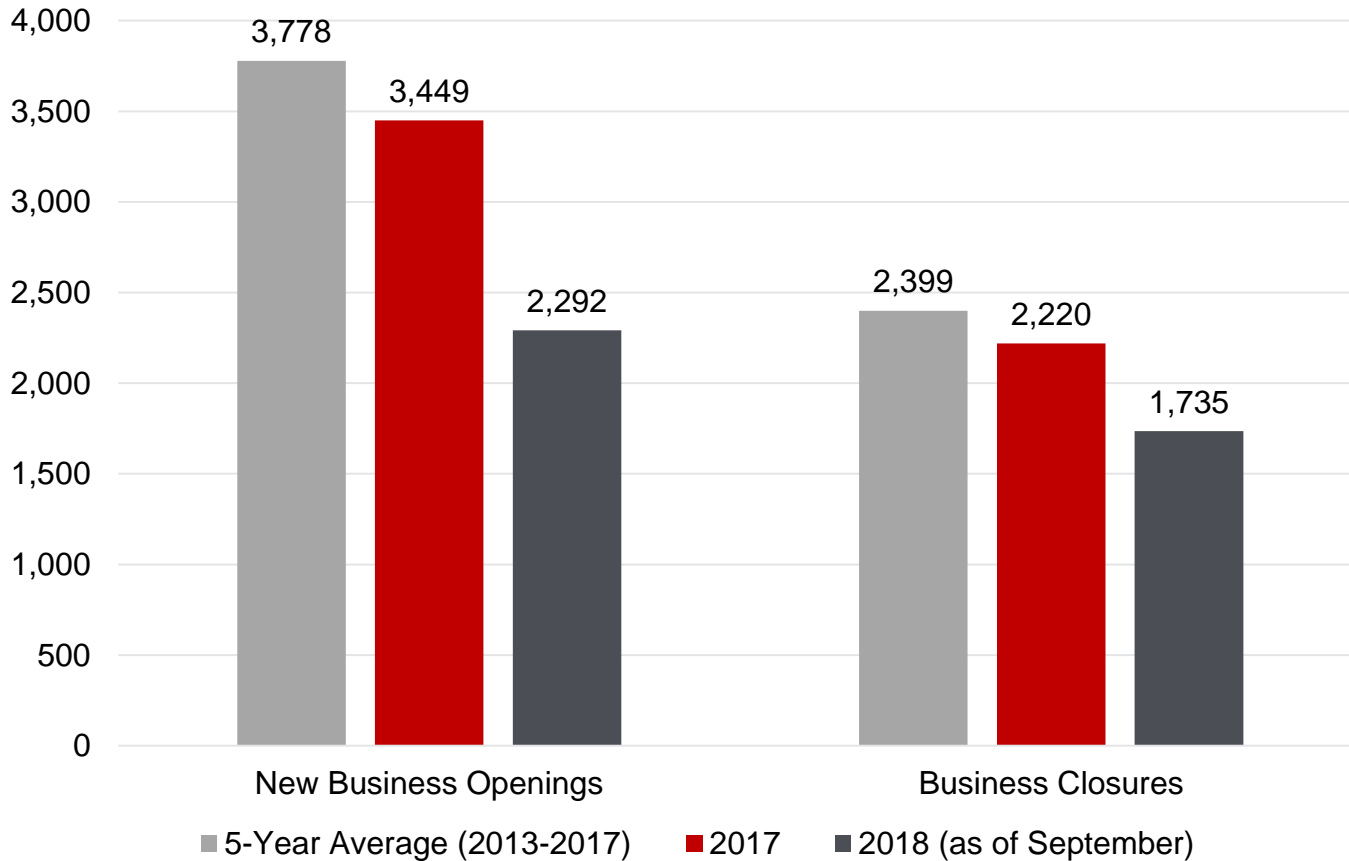
Small business per capita (per 1,000 population) in 2017



Source: Calgary Economic Development, Statistics Canada, Canadian Business Counts, December 2017.
(Less Than 50 Employees)



City of Calgary Business Openings and Closures



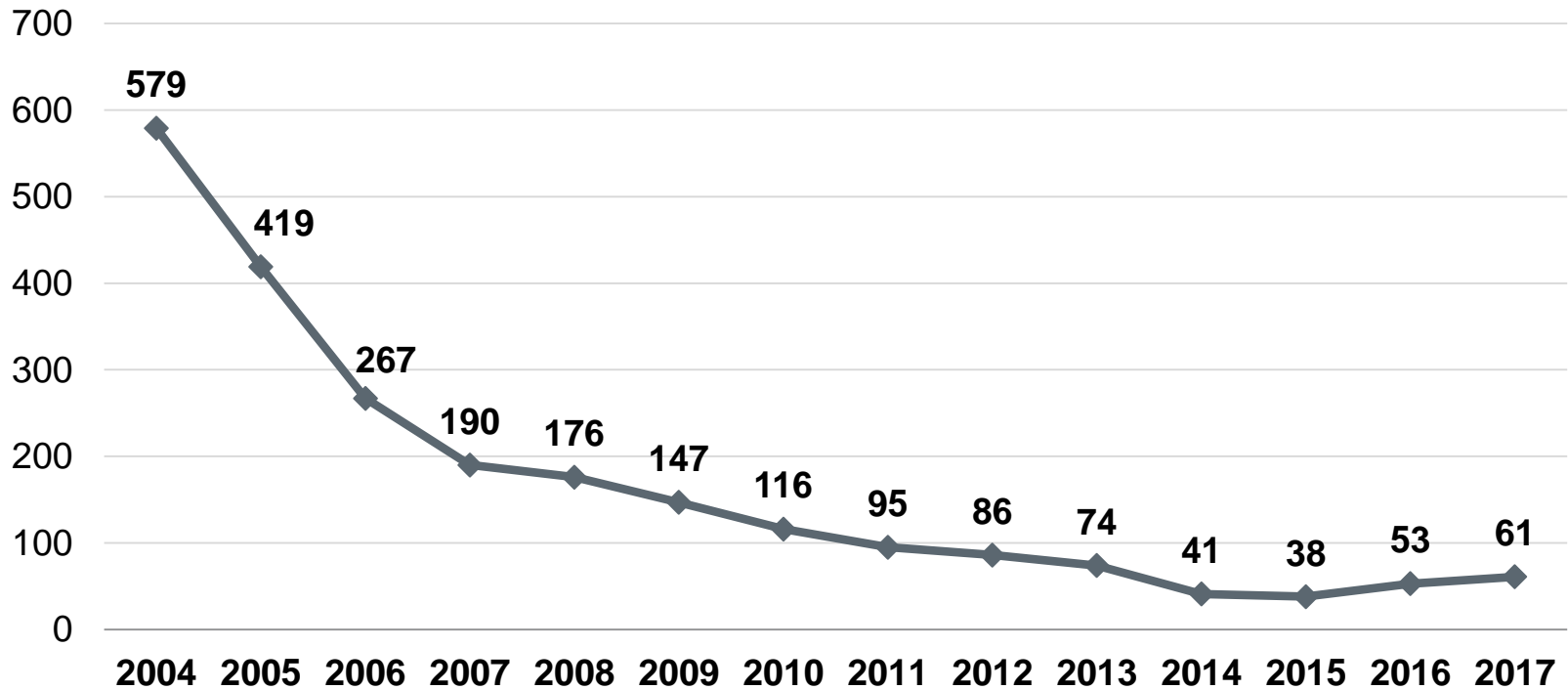
There are **55,333** small businesses in Calgary

Source: Statistics Canada, December 2017.

Source: The City of Calgary



Calgary CMA Business Bankruptcies



Source: Office of the Superintendent of Bankruptcy Canada, Industry Canada

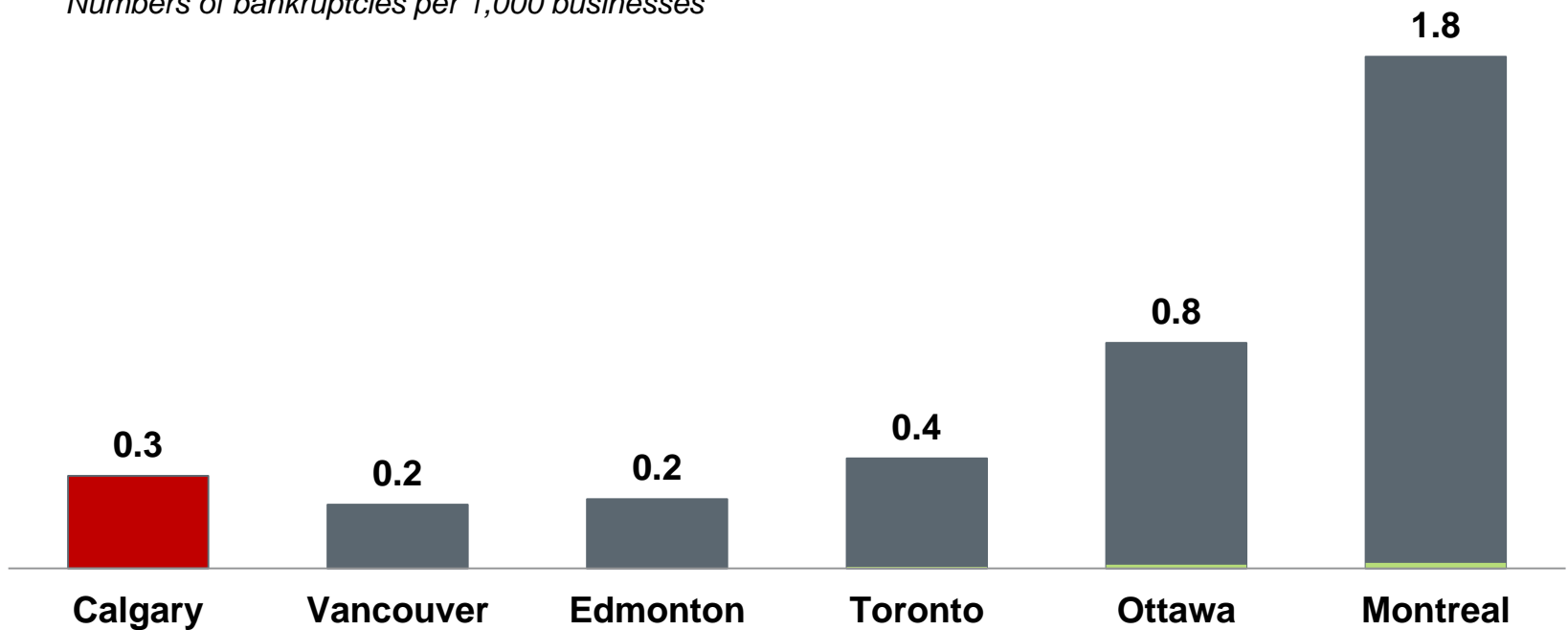


Business bankruptcy rates (per 1,000 businesses)

D

2017 Canadian CMAs

Numbers of bankruptcies per 1,000 businesses

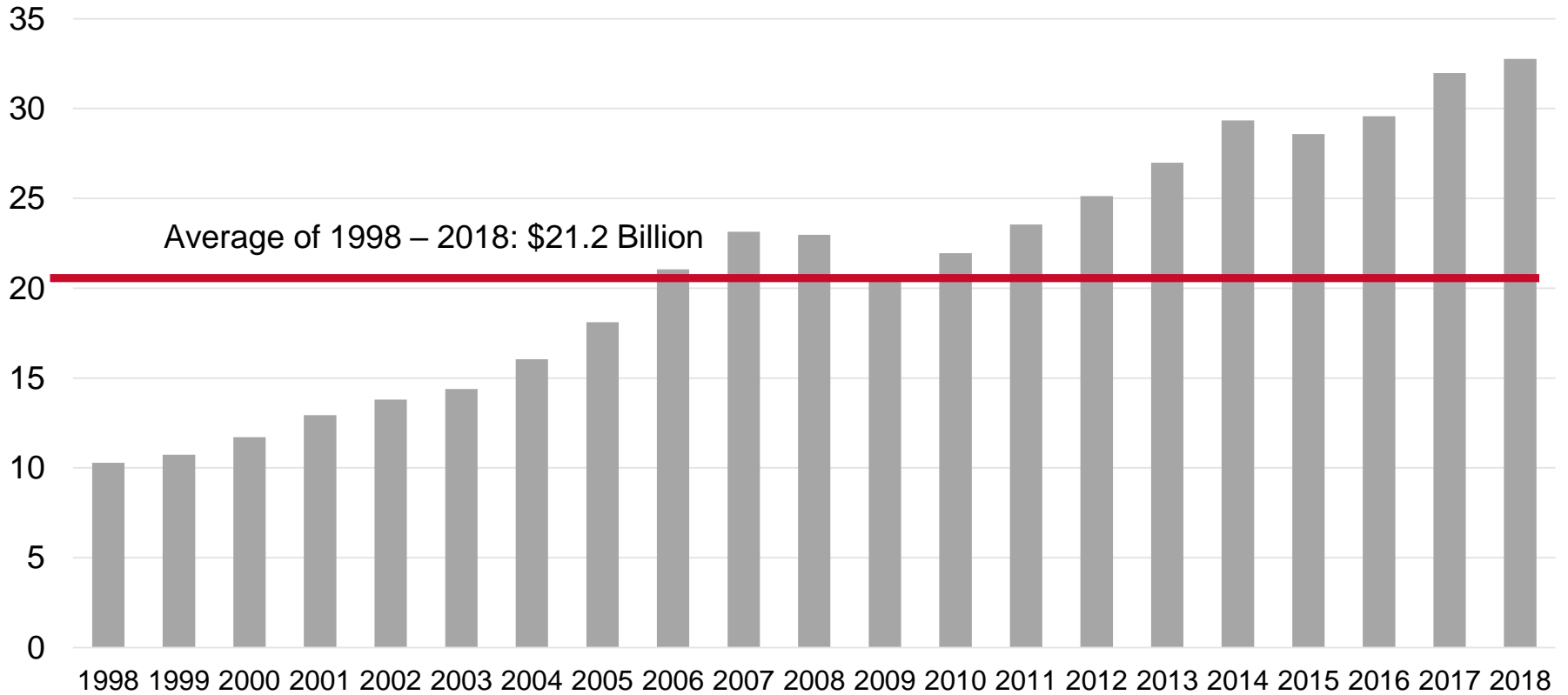


Source: Office of the Superintendent of Bankruptcy Canada, Industry Canada



Calgary Total Retail Sales: 1998 - 2018

(\$ Billion)



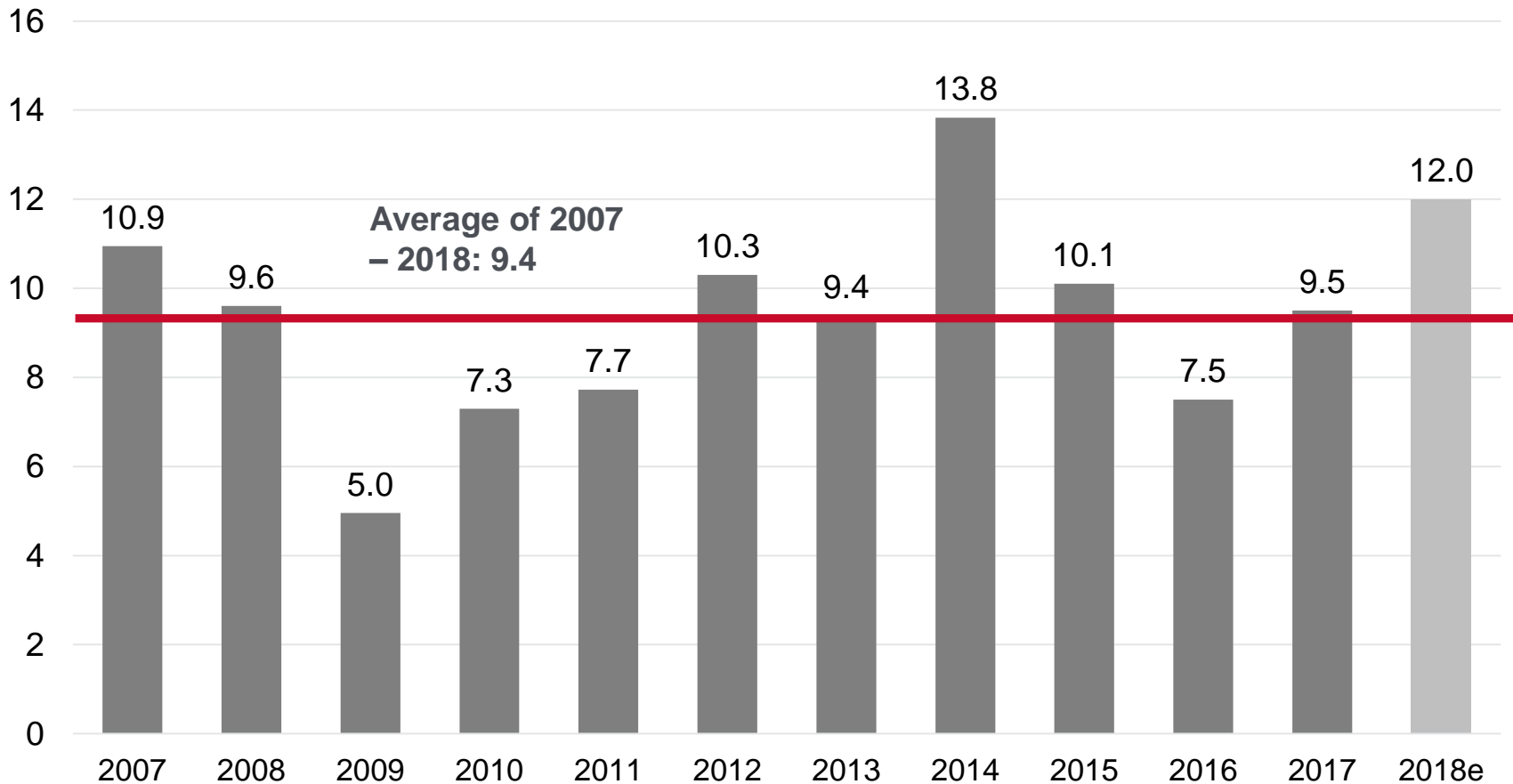
Source: Conference Board of Canada.



Construction Activity: Residential Housing Starts



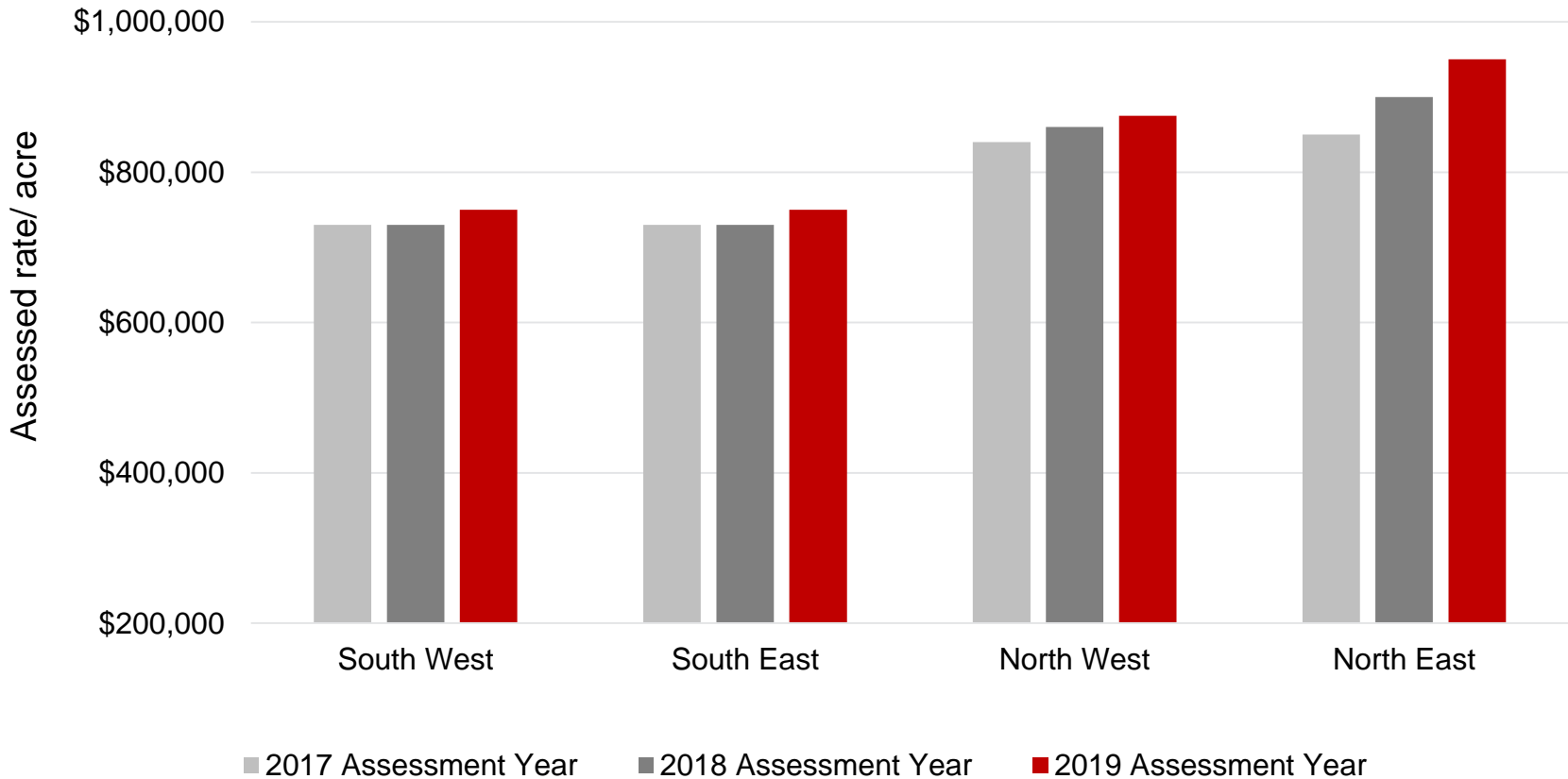
('000 units)



Source: Canada Mortgage and Housing Corporation, Statistics Canada, Corporate Economics.



Industrial Land

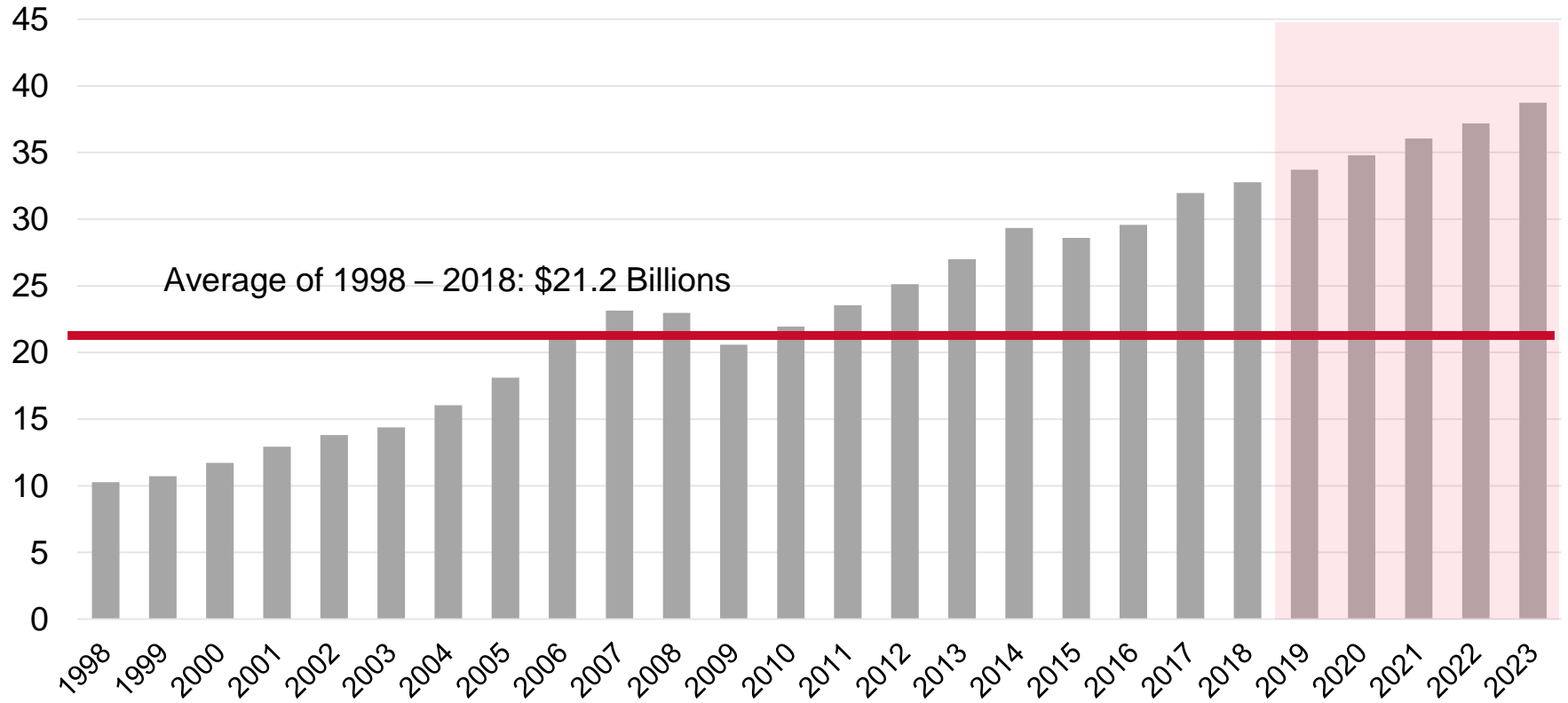


Source: City of Calgary



Calgary Total Retail Sales

(\$ Billion)



Source: Conference Board of Canada.

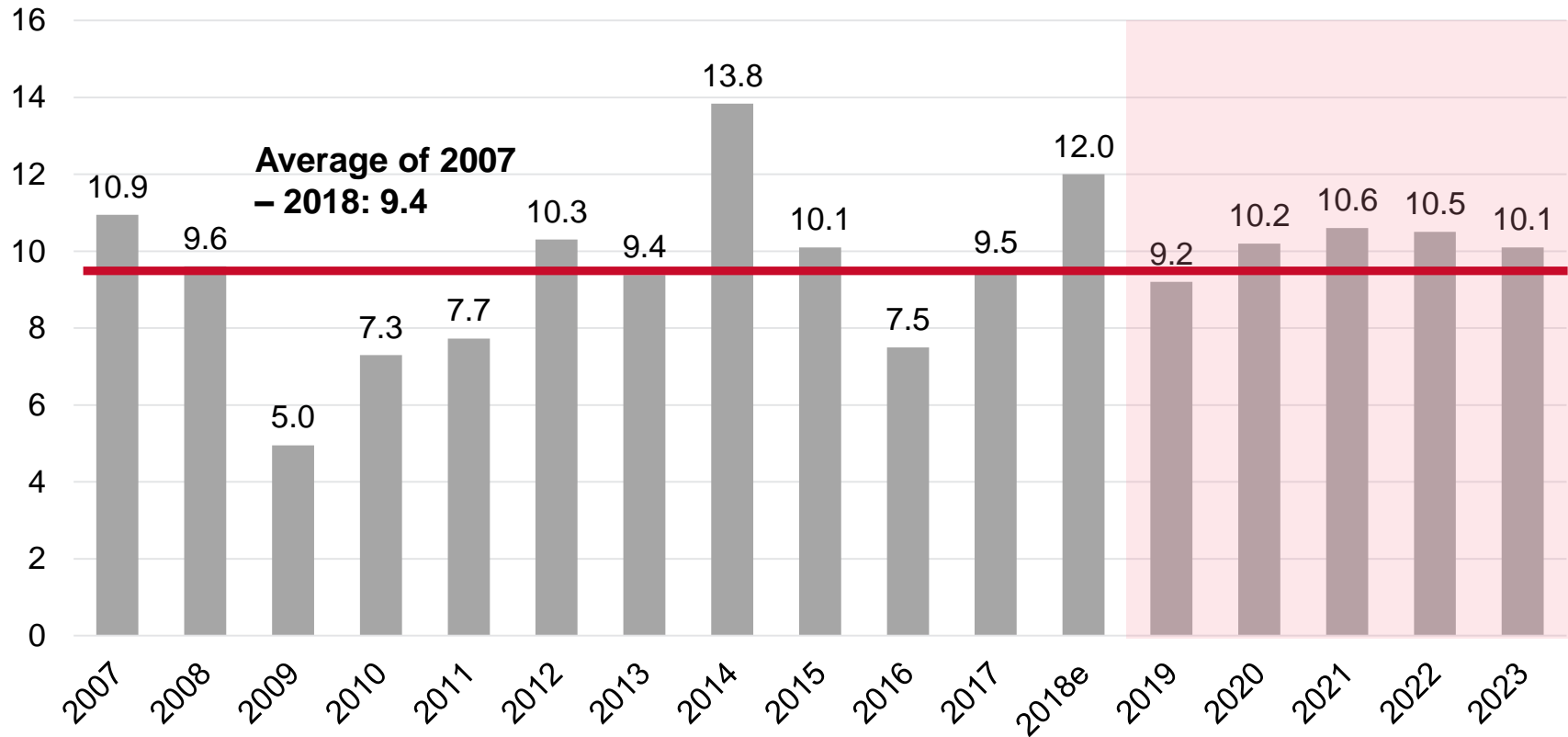


Construction Activity: Housing Starts Forecast



Total Housing Starts in the City of Calgary

('000 units)



Source: Canada Mortgage and Housing Corporation, Statistics Canada, Corporate Economics.



Keep Calgarians working

Simplify the municipal tax structure

Reduce the cost and increase the effectiveness of local government



Year	Business tax change
2013	0%
2014	-10%
2015	-10%
2016	-20%
2017	-20%
2018	-20%
2019	-20%
Total	100%

Reasons for BTC:

- Improve business environment
- Enhance Calgary's economic competitiveness and attractiveness
- Improve effectiveness, efficiency and transparency of the tax system

Note: The business tax, for business tax revenue purposes, will be eliminated in 2019.



Business friendly initiatives

- Centre City Enterprise Area
- 2017 and 2018 Municipal Non-residential Phased Tax Programs
- Customer Coordinator, Small Business position
- myBusiness online hub and live chat functionality
- Invest in Calgary web pages
- Online business licensing
- Business friendly strategy development
- Business Perspectives Research Panel
- Business and industry roundtable discussions
- Living lab initiative and Point Trotter test site launch
- Council approval of a new Business Advisory Committee
- Cannabis Retail Program

Note: This list is not exhaustive.



What We're Watching

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- Interest rates
- Retail sales
- Industrial land sales



Assessment Shift

- D** Defining the Problem
- F** Forecast
- R** Response
- W** What We're Watching



142 accounts

\$12,572,722,700 lost property value

\$192,656,829 tax impact

**Tax impact is shared by
13,815 properties**

Note: Figures are cumulative from 2015.



The Problem: City-wide

4,518 accounts

\$5,647,828,394 lost property value

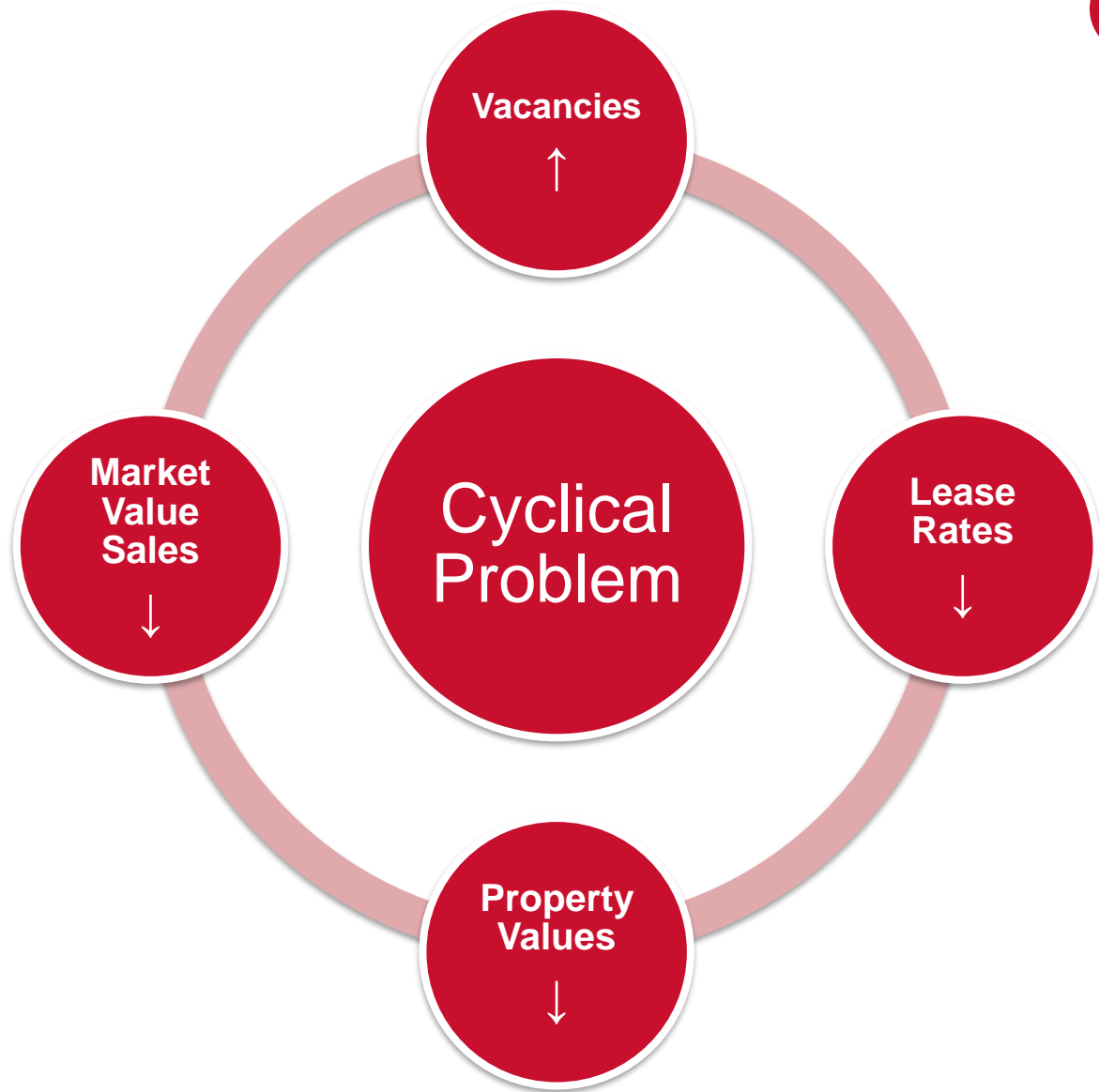
\$86,543,933 tax impact

Tax impact is shared by
13,815 properties

Note: Figures are cumulative from 2015.



Market Value Assessment

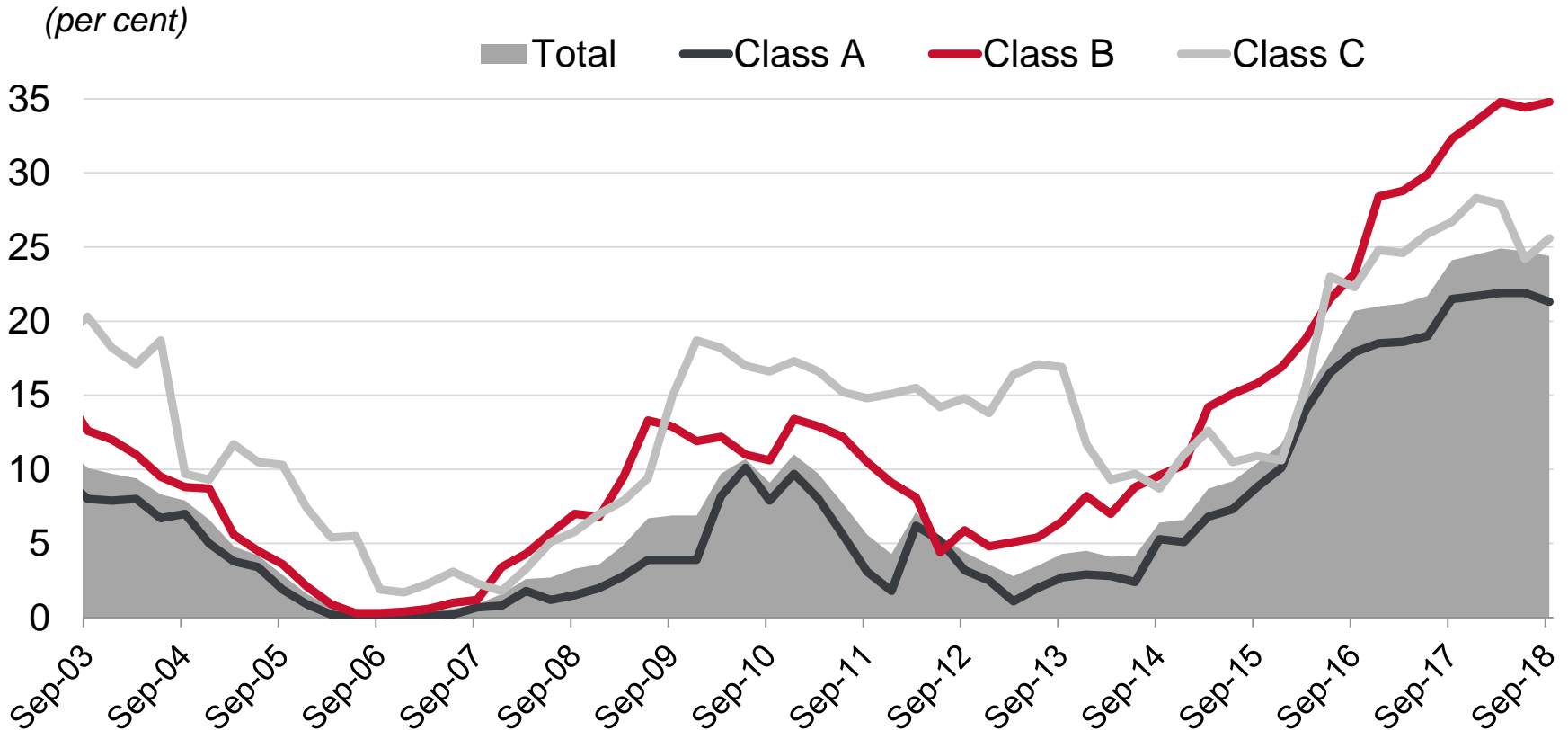




Downtown Calgary Office Vacancy Rates



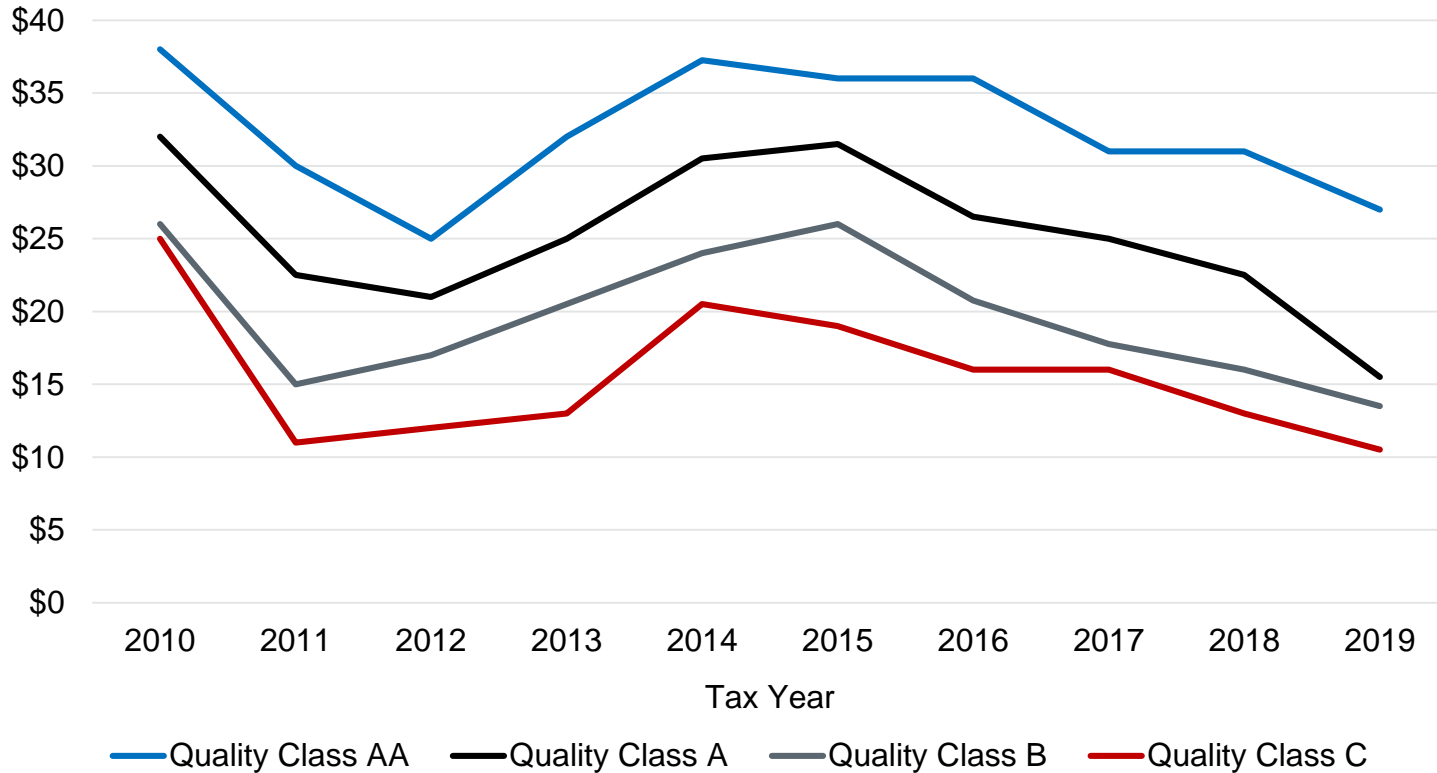
Q3 2003 – Q3 2018



Source: Altus InSite



Downtown Office Assessed Net Rents

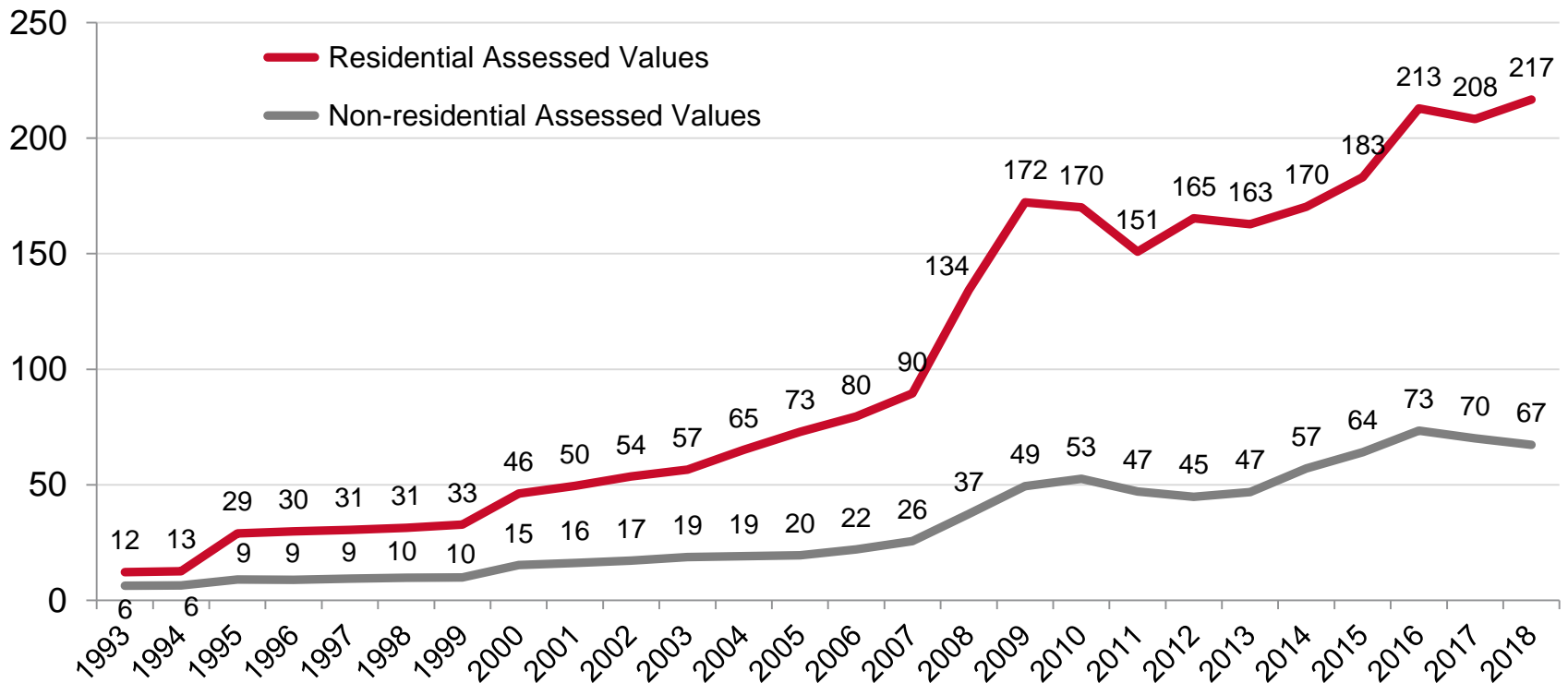


Source: The City of Calgary



Total Taxable Residential and Non-residential 1993 - 2018

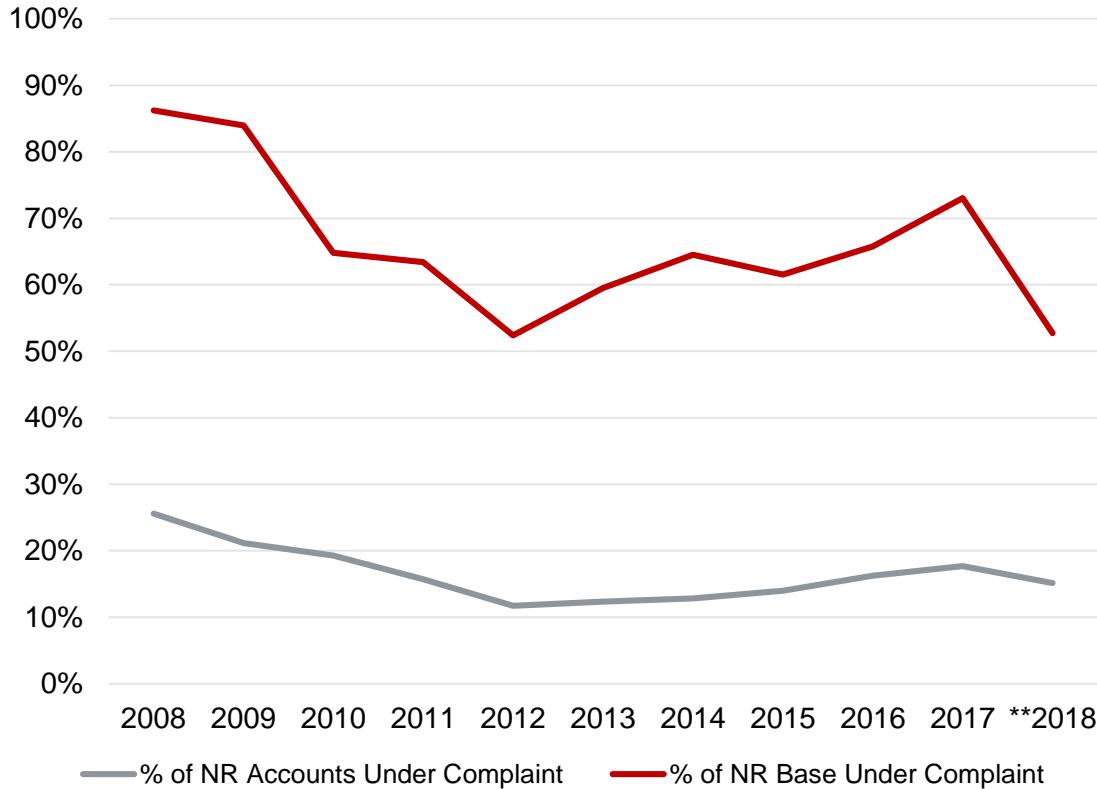
(\$Billion)



Source: The City of Calgary



Assessment Review Board Non-residential Complaints

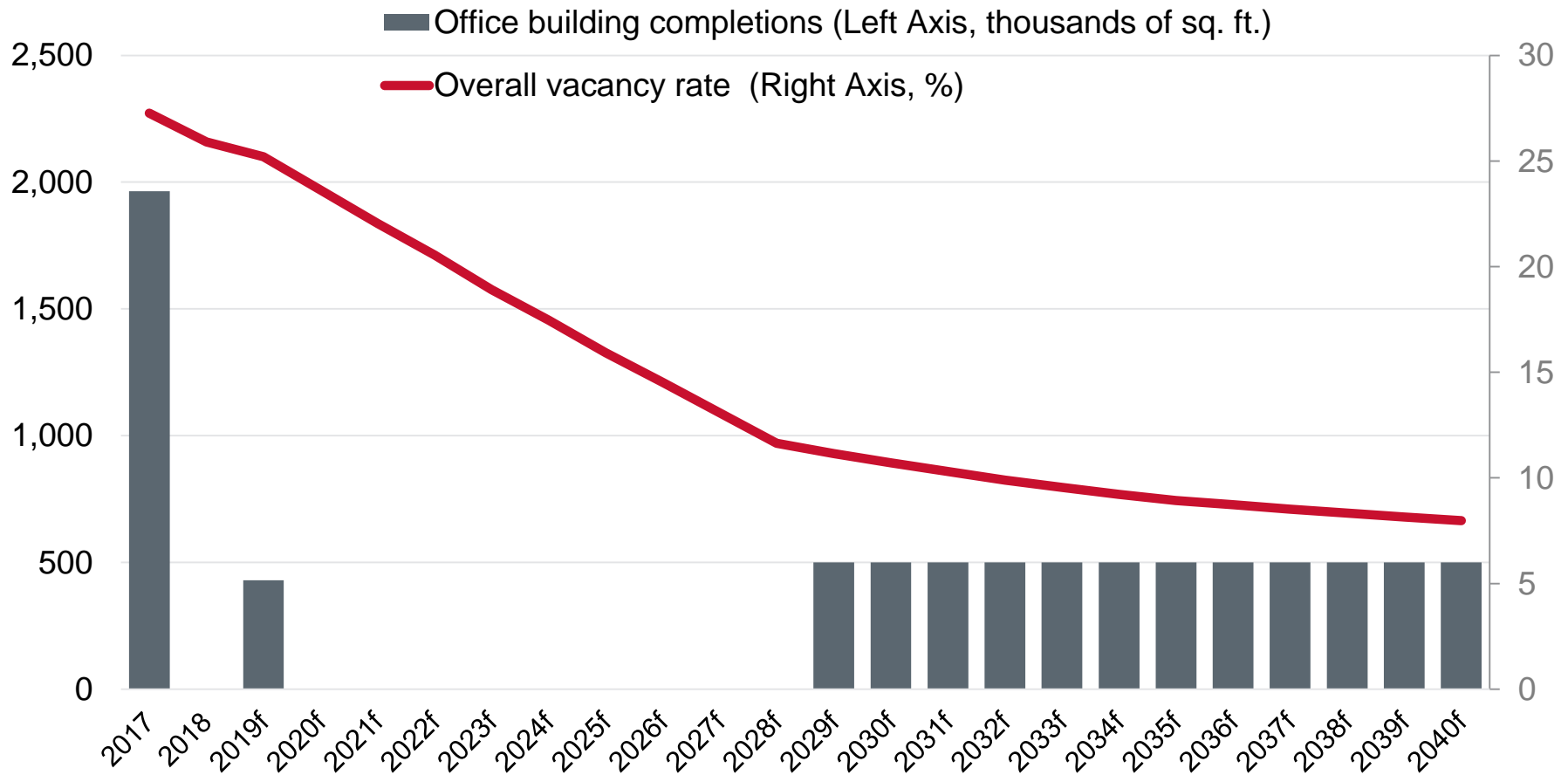


Assessment Review Board decisions have resulted in an average **-2%** per year impact, to the non-residential assessment base for the last 10 years.

Source: The City of Calgary, 2018 statistics as of October 2018.



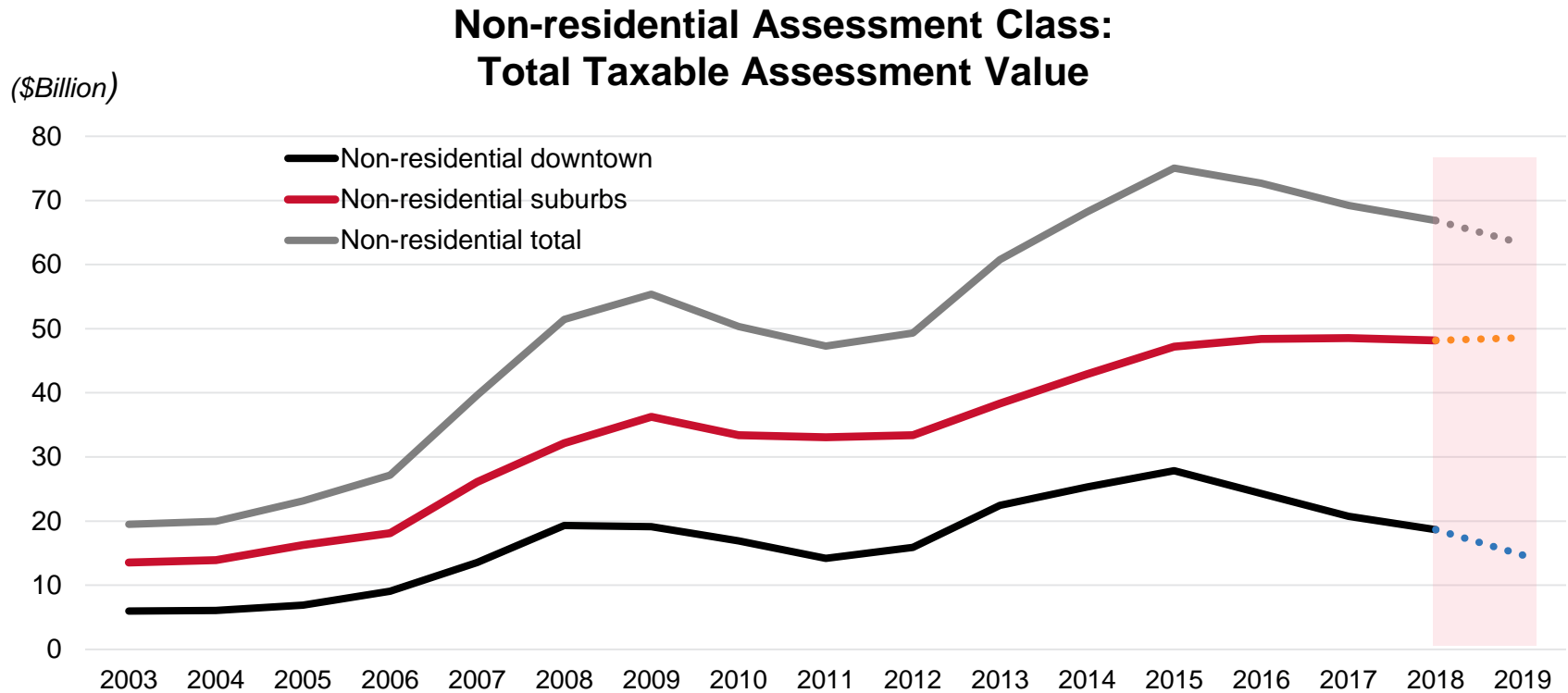
Office Building Completions and Overall Downtown Vacancy Rate



Source: Conference Board of Canada



Non-residential Assessment Class: Total Taxable Assessment Value

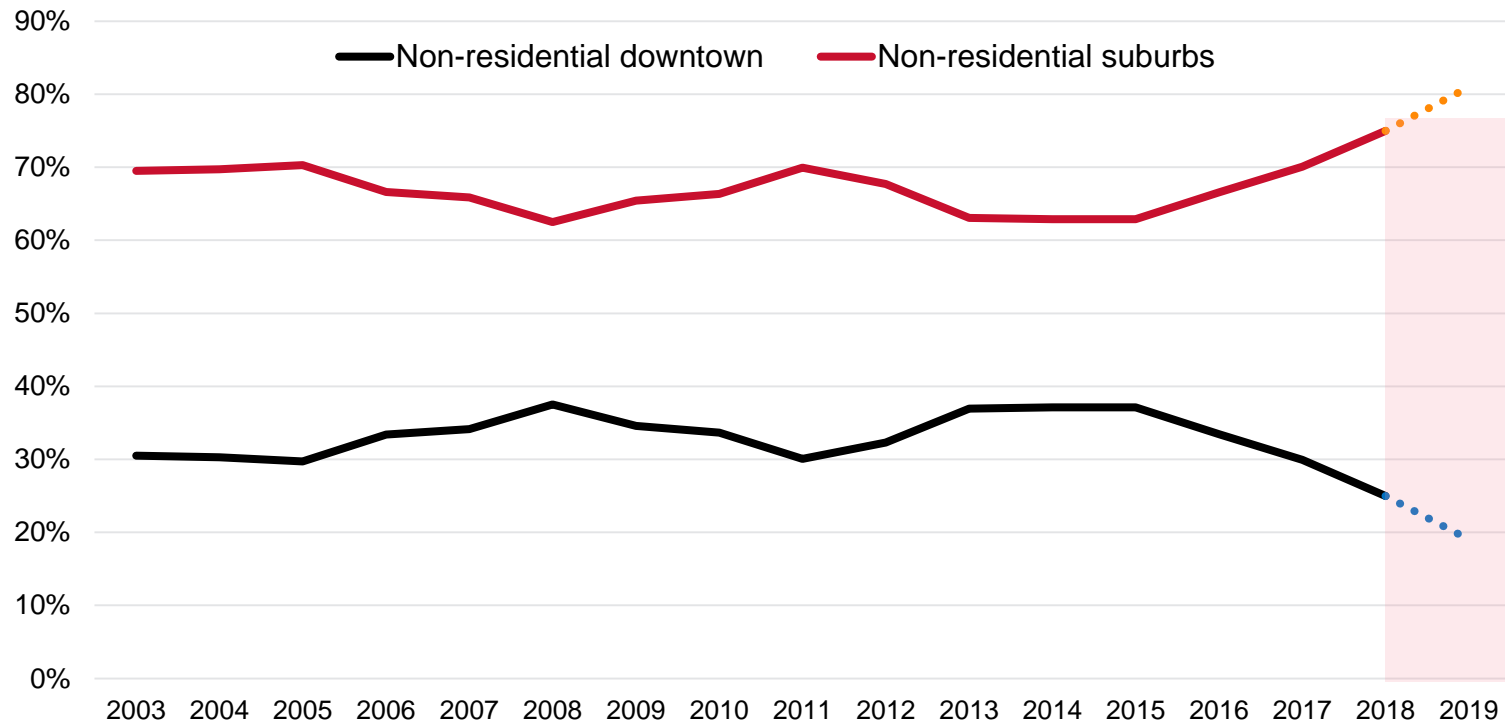


Source: The City of Calgary

Note: 2019 assessment is estimated.



Non-residential Assessment Class Downtown vs. Suburbs Value Distribution

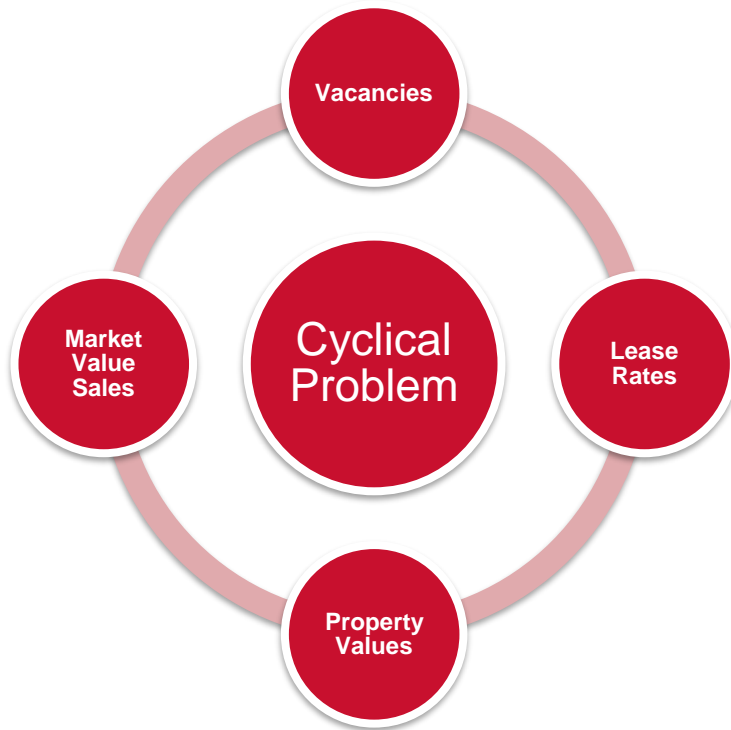


Source: The City of Calgary

Note: 2019 assessment is estimated.



Strategies: Assessment Shift



- Reduce vacancies
- Invest in the downtown
- Reduce the cost and increase the effectiveness of local government
- Buffer tax increases for non-residential property owners (>5%)



Economic Strategy: Calgary in the New Economy



Talent

Canada's destination for talent



Place

Canada's most livable city



Innovation

Canada's leading B2B innovation ecosystem



Business Environment

Canada's most business-friendly city

2017 Municipal Non-residential Phased Tax Program

- \$45M investment 6,000 beneficiaries

2018 Municipal Non-residential Phased Tax Program

- \$41M investment 7,400 beneficiaries

Independent Review of the Non-residential Assessment and Complaints



- Implement a 2019 non-residential tax relief program
- Review the tax classes
- Office to residential conversion
- Develop an advocacy position for tax reform
- Allow the market to settle into its new norm



Estimated 2019 Preliminary Tax Impacts



2019 Preliminary Municipal Tax Change	Number of Accounts	2019 PTP Program Potential Investment
Decrease <50%	15	N/A
Decrease >40% to <50%	43	N/A
Decrease >35% to <40%	17	N/A
Decrease >30% to <35%	25	N/A
Decrease >25% to <30%	65	N/A
Decrease >20% to <25%	88	N/A
Decrease >15% to <20%	148	N/A
Decrease >10% to <15%	154	N/A
Decrease >5% to <10%	285	N/A
Decrease <5%	681	N/A
Increase 0-5%	1,271	N/A
Increase >5%	10,047	\$83,119,127
Increase >10%	8,870	\$81,359,895
Increase >15%	5,554	\$70,269,479
Increase >20%	3,148	\$53,273,597
Increase >25%	2,252	\$43,279,680
Increase >30%	1,702	\$33,037,050
Increase >50%	521	\$12,879,398
Increase >75%	30	\$913,114



Example: Office Building Conversion and Estimate Tax Impacts



2019 Assessment Value:
11,527,000

2019 Municipal Taxes:
\$176,633



2019 Assessment Value:
14,204,000

2019 Municipal Taxes:
\$76,506

Assessment and Tax Working Group

Representatives:

- City Manager's Office (lead)
- Assessment
- Communications
- Law
- Finance and Economics
- Office of the Mayor
- Intergovernmental and Corporate Strategy

2019 Property Tax Redistribution Report (if directed)

- Investigate short, medium and long-term options to address potential financial and economic impact of expected 2019 property tax redistribution
- Considerations will include legislative compliance, cost, efficiency, effectiveness, sustainability, complexity, and long-term impact with overarching focus on impact to Calgarians
- Work with external consultant to deliver report



What We're Watching

A red circular icon containing a white capital letter 'W'.

- Vacancy rates
- Market sales
- Assessment complaints



Recommendations

That the Priorities & Finance Committee:

1. Receive this report for information; and
2. Direct the Assessment & Tax Working Group to present its final report to the Priorities and Finance Committee, no later than Q1 2019.

