C2020-0742
ATTACHMENT 3

Financial Task Force

Report and Recommendations

C2020-0742 Attach 3
ISC: Unrestricted

Organization of the Report

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Summary of Key Messages

Mandate, Focus and Acknowledgement

Mandate and Responsibilities of the Task Force

The purpose of the Task Force, as directed by Council, and identified in the terms of response was to:

1. Develop a strategy or strategies related to short term mitigation measures,
2. Develop a strategy or strategies pertaining to potential long-term solutions, and
3. Explore new revenue options that can work toward improving financial resiliency for The City of Calgary (The City).

Reasons for More Focus on Funding Flows relative to Spending Discipline

While the Task Force had latitude for creative solutions to address the revenue issues facing The City, their work explicitly excluded three areas of investigation from consideration.

- Specific proposals to amend the One Calgary Service Plan Budgets and Plans
- Addressing property assessment processes or procedures
- Addressing the distribution of tax responsibility among taxpayer groups, which is the focus of the Tax Shift Assessment Working Group.

These items were out of scope. Alongside the content of the mandate, they directed focus away from initiatives targeted at addressing spending discipline.

The primary reason for the delineation was because Council had similarly directed efforts at a newly commissioned initiative – the SAVE program. The SAVE program addresses spending discipline at The City specifically, and there was no point in duplicating efforts. There was confidence that additional efficiencies would materialize from the program because The City had achieved success finding efficiencies of about $750M between 2015 and June 2020 through operating cost reductions and efficiencies, cost containment strategies, one-time operating cost savings, and utility rate reductions.

The Mayor's Office initiated the Cut Red Tape Program and Transforming Government initiative to support local businesses and make it easier for Calgarians to interact with The City. This program aimed to remove unnecessary or redundant pieces of local rules and regulations that impede local businesses and organizations from growing our economy. The City advocated for a City Charter to enable local decision-making and the flexibility needed to be responsive to innovation and technology.

In short, the Task Force's work tackled issues related to resolving fiscal challenges associated with the Downtown Tax Shift that persisted from 2015 to 2019.

External Members of the Task Force

The Chief Financial Officer ("CFO") of The City, Carla Male, was the Task Force Chair. External members were selected based on an application process and included:

External Task Force Member

Heidi Conrad, *CPA-CA*
JT Dhoot, *AACI, CBV*
Dave Dunlop, *CPA-CA, MBA, CFA*
Brian Hahn, *BSME*
Sarah Lerner, *CFA, MBA*
Annie MacInnis, *MSc (Economics)*
Dave Mewha
Lindsay Tedds, *PhD (Economics)*
Alan Tennant, *ICD.D, EMBA, FRI, CAE*
Rene Wells, *PhD, (Finance)*
Nizar Walji, *CFA*
Mike Yuzwa, *CPA-CA, CBV*

Members of City Administration that offered Subject Matter Support

In addition to the external Task Force members and the Chair, senior members of Administration provided subject matter expertise, as required:

Subject Matter Expert	Business Unit
Henry Chan	Law Department
Andrew Cornick	Assessment
Kelly Cote	Intergovernmental and Corporate Strategy
Jill Gaume	Customer Service and Communications
Chris Jacyk	Finance
Nelson Karpa	Assessment
Magan Lau	Assessment
Dawn Lundquist	CFO's Office
Sheryl McMullen	CFO's Office
Michael Perkins	Finance
Estella Scruggs	Finance
Oyinola Shyllon	CFO's Office
Kirk Thurbide	Customer Service and Communications
Ivy Zhang	Finance

The Context for Funding City Operations

Sources of Operating Dollars

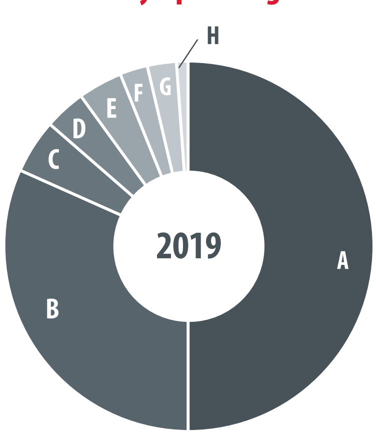
The City has limited revenue sources with which to fund its operations. Property taxes, determined by Council, comprise the most significant single component of The City's total revenue sources for the operating budget. According to the 2019 annual report, they represented 50.1 per cent of operating revenue. The most substantial non-tax contribution to revenues, at 31.7 per cent, was the sale of goods and services (user fees), of which approximately 52 per cent is from Water and Sewer Utilities, 14 per cent is from Public Transit, and 10 per cent is from waste disposal and recycling (Figure 4). Other funding sources include franchise fees, investment income, licenses, permits and fines. In 2019, The City collected $4.17 billion in total operating revenue.

Table 1:
Total Consolidated City Operating Revenue for 2019

	Revenue	$ (millions)	%
A	Property Tax	2,088.8	50.1
B	User Fees	1,323.2	31.7
C	Investment Income	198.9	4.8
D	Equity earnings in ENMAX	156.2	3.7
E	Government transfers	152.3	3.7
F	Licenses, Permits and Fees	113.1	2.7
G	Fines and Penalties	98.6	2.4
H	Miscellaneous Revenue	40.5	1.0
	Total Revenue	4,171.6	

Source: City of Calgary 2019 Annual Report

Figure 1:
Total Consolidated City Operating Revenue for 2019

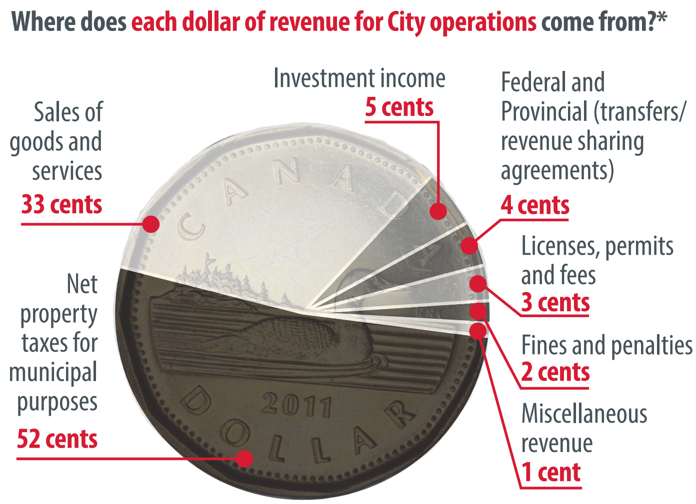


Source: City of Calgary 2019 Annual Report

Property Tax

Property taxes are the primary source of operating funding for The City of Calgary and other Canadian municipal governments. Excluding the accounting entry for equity in ENMAX earnings, property taxes accounted for 52 per cent of The City's municipal operating revenue and generated more than $2.0 billion in funding for municipal services in 2019. For 2020, municipal property taxes would cost each household $5.88 every day for public safety (including Police, Fire and 911 services) ($2.18), transportation ($1.52), enabling services ($0.90), parks, recreation and culture ($0.62) and other services ($0.66).[1]

Figure 2: 2019 Funding for City Operations



Source: City of Calgary 2019 Annual Report
*Excludes equity in ENMAX earnings

Figure 3: Link between Taxes and Services

Source: City of Calgary, 2020 Property Tax Brochure

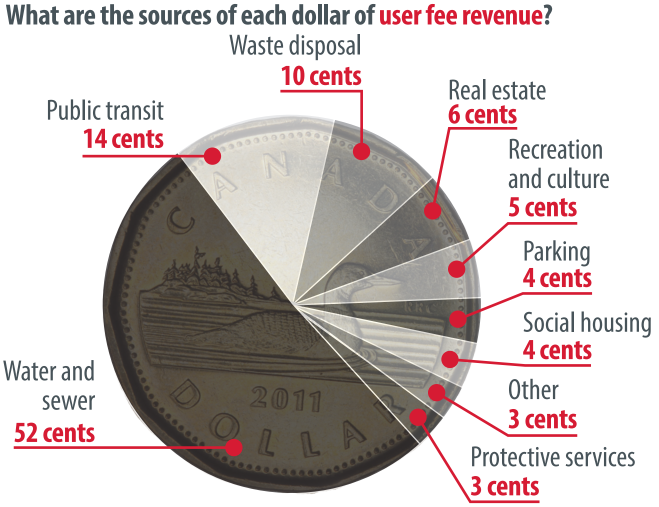
The Context for Funding City Operations

Property taxes are the municipal finance backbone and play a vital role in funding the services citizens and businesses receive from local governments. The goal is to ensure that the amount of tax paid reflects the cost of services received by the property owner and that municipal governments' service-level decisions are efficient. Ordinarily, municipal government spending to meet service level expectations determines the taxes and typically informs the budgeting process. They are the only revenue source that The City fully controls to balance the budget.

User Fees

In October 1988 Council approved the following recommendation (#78) of the Financial Planning Task Force: *"That a Task Force on User Fees be created to review all charges for City Services to ensure that, where feasible, such fees cover all costs (including capital debt retirement) associated with providing the services, and to determine the potential for using such fees to generate profit in select situations."*

Figure 4: 2019 Sources of User Fees



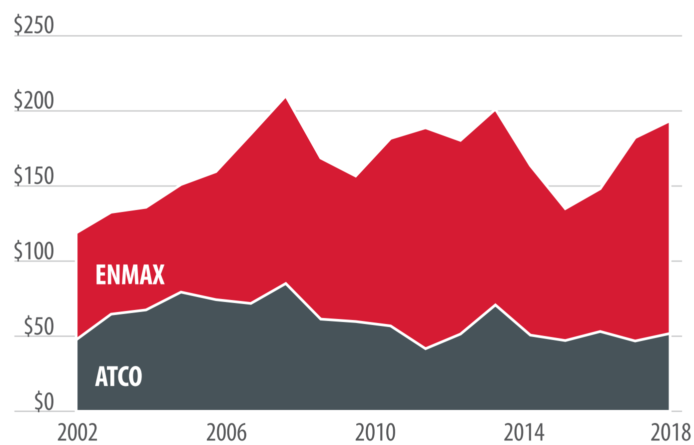
Source: City of Calgary 2019 Annual Report

Several Task Force reports were released between 1992 and 1995, resulting in report FB95-83 Revised User Fees Task Force Report. The recommendations within that report became the first corporate-wide User Fee Policy for The City.

In 2006, the Chief Financial Officer's Department (CFOD) undertook a three-year corporate-wide User Fee and Subsidy Review project based on Council direction from the 2006-2008 Business Plan and Budget. The review resulted in a new policy, the User Fees and Subsidy Policy (CFO010), which included guiding principles on user fees and individual subsidies. The policy, last updated in 2012, remains the existing policy governing user fees at The City. The policy sets out guidelines for the process, rationale and the information needed to support the user fees recommended by services. It requires that user fees accurately represent the value of the goods and services to citizens.

According to the User Fees and Subsidy Policy (CFO010), user fees are fees that The City charges in exchange for goods and services. User fee revenues represent a significant portion of The City's total operating budget. After excluding equity in ENMAX earnings, user fees represented a third of City operating revenue.

Figure 5: Trends in Franchise Fee Revenue



Source: City of Calgary 2019 Annual Report

Regulatory Charges

Regulatory charges are an important component of municipal revenues in many cities. Alberta legislation stipulates that a municipality can make a tax agreement with the operator of a public utility whereby instead of paying a property tax, or any other fees or charges payable to the municipality, the utility may make a payment to the municipality[2]. Depending on the Alberta jurisdiction, the charge is a franchise fee or local access fee. For Calgary, franchise fees are the predominant regulatory charge authorized as a municipal revenue source in Alberta.

In Calgary, franchise fees are paid by the energy distribution utilities in return for three main benefits: payment in lieu of property taxes or charges payable to the municipality, use of the City's Rights-of-Way without lease payments and for the granting of a monopoly to distribute either natural gas or electricity within Calgary.

The Context for Funding City Operations

The utilities are permitted by the Alberta Utilities Commission to recover the cost of their franchise fee payment in the rates charged to customers. Within Calgary, they are the Local Access Fee (LAF) on electricity bills and the Municipal Consent and Access Fee (MCAF) on natural gas bills.

In Alberta, there are two ways to determine franchise fees. As specified in the Municipal Government Act (MGA) as a tax agreement with the utilities:

- Total utility cost. The municipality collects franchise fees on total delivery and energy costs. It is the method employed within Calgary.
- The distribution charge method that is estimated using the customer's pipe or wires delivery charge. It is the methodology most small Alberta municipalities and Edmonton use for natural gas franchise fees.

In Calgary, the franchise fee charged to utility customers is at a rate of 11.11%. When added to the invoice, it represents 10% of the total bill. The franchise fee rate has remained unchanged since 1974.

Utility customers pay different amounts for the energy that they consume. Some customers are on fixed-rate contracts, while others prefer the Regulated Rate Option, which changes every month. For the equal treatment of customers, the franchise fee uses the Regulated Rate Option as the basis for the cost of energy for all customers when calculating the electricity franchise fee.

In 2019, the franchise fees collected on electricity amounted to $142.4 million. The revenues for natural gas franchise fees amounted to $51.6 million. Together, the franchise fees from the distribution of energy totaled $194.0 million in 2019.

Proprietary Charges and Return on Investments

Municipalities in Canada are under increasing pressure from a growing urban population to fund new infrastructure and public service. They rely on government transfers as well as their own-source revenues. As the government transfers become volatile and with constraints on the ability to increase property taxes and user fees, municipalities may need to explore the potential of monetizing city assets.

The City of Toronto is an example of a Canadian jurisdiction that has actively explored additional revenue by monetizing assets. There was an evaluation in 2010 involving three assets – Toronto Hydro Corporation, Enwave Energy Corporation and the Toronto Parking Authority[3]. Monetization, in this sense, considered the full or partial sale of these entities. At the time, The City of Toronto decided against monetizing Toronto Hydro Corporation, stating that "Toronto Hydro is a necessary instrument to achieve Toronto's environmental, economic development and financial objectives; it is not in the public interest to sell all or any part of it." Some governments in non-Canadian jurisdictions, such as Australia, have explored asset recycling programs to monetize existing public assets through sale or lease to the private sector, with all funds reinvested in new infrastructure[4].

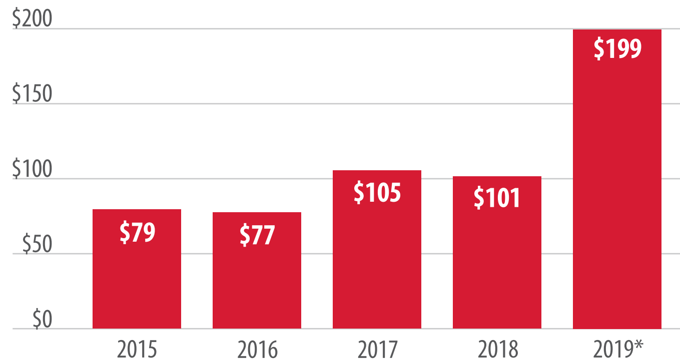
Municipal assets include land, infrastructure, buildings, billboards and signs, naming rights, and data. Recently, data is an asset that has come under consideration for monetization. The motivation is that data-driven innovation has become an essential source of growth. According to an MIT report, "There are two primary paths to data monetization. The first is internal and focuses on leveraging data to improve a company's operations, productivity, and products and services, and also enable ongoing, personalized dialogues with customers[5]. The second path is external and involves creating new revenue streams by making data available to customers and partners." [6]

Some economists have argued against monetizing data as an asset. The recommendation is that the government should collect and validate raw data for the public, acting as a data supplier in the data value chain. Instead of monetizing data, the government should let the private sector add value to the raw data and make profits from it[7]. It has led to governments around the globe increasingly adopting open data policies, from the national level to the provincial or state level and the municipal level, including Calgary[8 9 10 11].

The City has two major entities that help to generate returns, the Calgary Parking Authority (CPA) and ENMAX. ENMAX dividends amounted to between $40 million and $56 million between 2015 and 2019. Transfers to The City from CPA are in relation to Bylaw 28M2002. Through the Bylaw, CPA returns 65% of its net income after any net income from Parking Control and after distribution of net income to managed locations as per contractual agreements to The City. Between 2015 and 2018, the returns fluctuated between $12 million and $18 million.

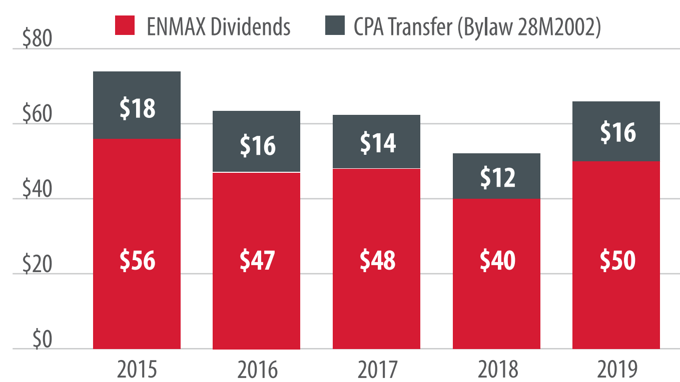
The returns from both the CPA and ENMAX assets complement investment returns from The City's investment portfolio that consist of the underlying assets that are represented by future commitments to be paid from reserves, capital deposits, funded employee benefit obligations (EBOs), general operations, and other funds from trusts and affiliated entities. Investment income has typically fluctuated between $77 million and $105 million in recent years. The significantly higher return in 2019* is attributable to a higher amount of realized gains as a result of a change in investment strategies involving the transfer of funds into a different portfolio.

Figure 6: Trends in Investment Income ($M)



Source: City of Calgary 2019 Annual Report

Figure 7: Returns from ENMAX and CPA ($M)



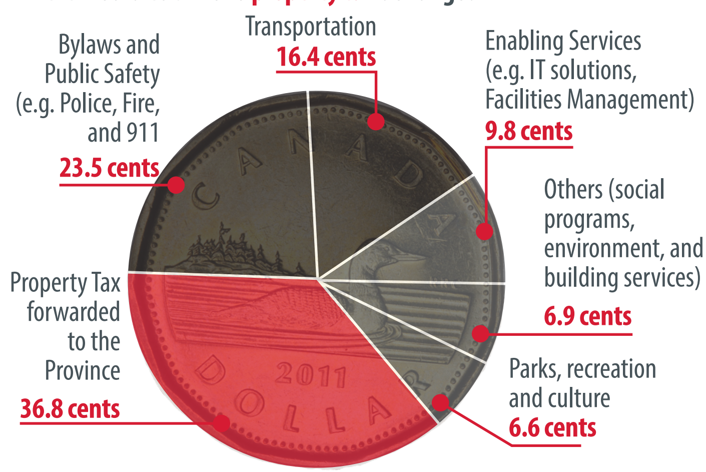
Source: City of Calgary 2019 Annual Report, Calgary Parking Authority Annual Reports[12]

Uses of Operating Dollars

The City's 2020 approved budget indicates that the two largest applications of municipal property tax dollars are for Police, bylaw, fire and other public safety (37 per cent) and transportation (26 per cent). When the share of these services is considered relative to total property tax collection, it falls to 23.5 and 16.4 per cent, respectively. Together, they represent expenditures for close to two out of every three property tax dollars received. For these and other municipal services, the three largest applications for municipal expenses are salaries, wages and benefits (61.2 per cent), contracted and general services (16.3 per cent), and materials, equipment and supplies (11.4 per cent). The remaining 11.1 per cent is for transfer payments, interest charges, and consumption of services provided by utilities. People costs are always an important part of municipal operating expenses, but as a recent City of Edmonton study has shown, Calgary's full-time employee count normalized to achieve comparability across cities is well below average relative to other big Canadian cities.

Figure 8: Composition of Municipal Expenses

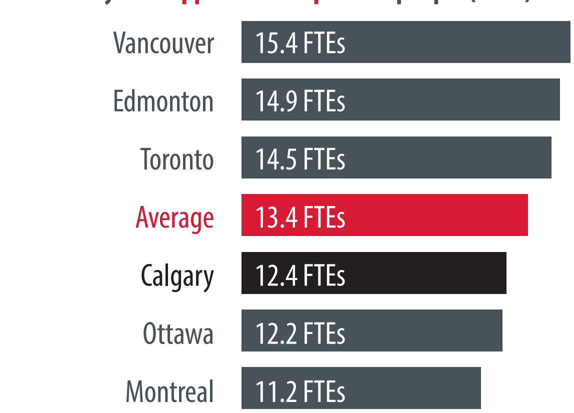
Where would each 2020 property tax dollar go?



Source: City of Calgary Approved 2020 Budget

Figure 9: Comparison of Municipal FTE Counts

How many tax-supported FTEs per '000 people (2017)?

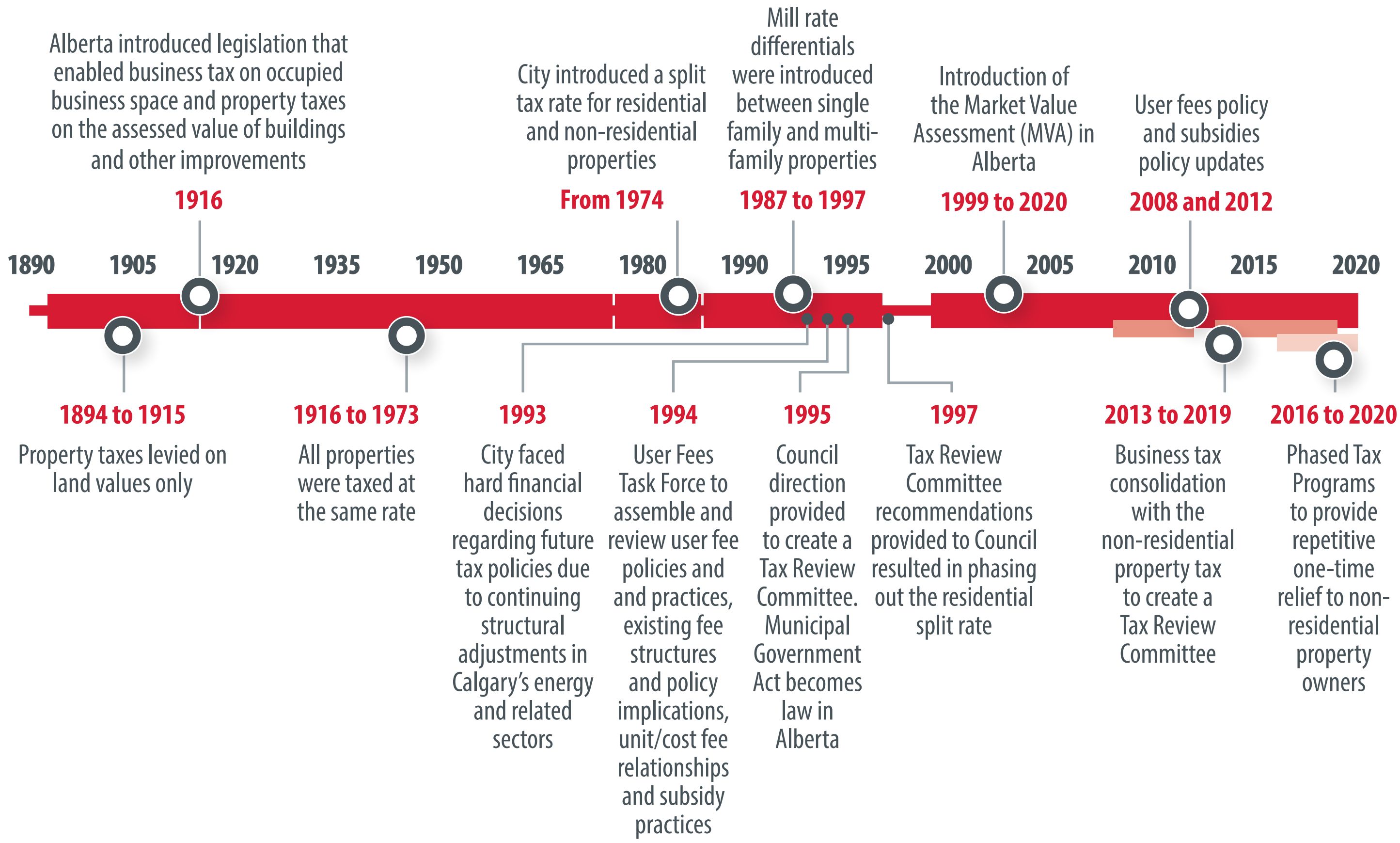


Source: City of Edmonton Comparative Analysis

The Context for Funding City Operations

Evolution of Municipal Taxation Policy in Calgary

Figure 10: Timeline and Evolution of Municipal Taxation Policy in Calgary



The Important Role of Property Taxes

Practices

Taxes on the assessed value of buildings and other improvements arose in Calgary due to the events of 1913. From incorporation in 1884 through to that time, municipal revenue relied on land value taxes. Land values began to collapse due to a financial crisis caused by an oversupply of real estate. Landowners began abandoning property as taxes sometimes exceeded the value of their land. In response, the Government of Alberta (the Province) introduced new legislation in 1916. In addition to the value of land, the legislation allowed taxation on the assessed value of buildings and other improvements.

For the present day, the prevailing legislation is the *MGA*. It places responsibility for the collection of taxes for municipal and educational purposes with municipalities. Part 10 of the *MGA* encompasses provisions that enable municipalities to collect property taxes and directs requirements associated with all aspects of this function. The legislation covers general provisions associated with the collection of tax and prescribes the types of taxation mechanisms available to Alberta municipalities.

The *MGA* prescribes the requirements necessary to bill and collect property taxes. Topics covered under the MGA include but are not limited to:

- Person liable to pay taxes
- Tax agreements
- Contents of the tax bill
- Timing of tax bills
- Use of instalments to pay taxes
- Application of the tax payment
- Penalties for unpaid taxes
- Cancellations, reductions, refunds or deferral of taxes
- Calculation of tax rates and individual property taxes

Under the *MGA*, the municipal council is responsible for setting the tax rate, calculating taxes payable, and collecting taxes. With Council direction, the functional execution of these responsibilities is delegated to Administration.

The Context for Funding City Operations

The *MGA* also authorizes a legislated process that allows a municipality to secure its interest in a property with outstanding property taxes. City staff work collaboratively with property owners to identify mutually satisfactory solutions, and provide a wide variety of supports to property owners facing financial and other challenges.

Policies

Provincial and Municipal Government Policy

The legislative changes in 1916 also allowed The City to levy a business tax on occupants of non-residential properties (unless a machinery and equipment tax is levied on the contents of the property).

The business tax was adopted in Calgary in 1916. In 2011, Council directed Administration to provide information to consider whether business tax revenues could be consolidated with non-residential property tax. In 2012, Council directed Administration to consolidate business tax revenue into the non-residential property tax through an incremental transfer of business tax revenue over a seven-year period. In addition, the total amount of business tax revenue transferred was frozen, meaning, any annual tax rate increases would not apply to the approximately $220 million in tax revenue that would remain frozen until Council makes a different decision. Consolidation of business tax into non-residential property tax was intended to improve the equity, efficiency and transparency of Calgary's assessment and taxation system. It was also consistent with most other Canadian jurisdictions that had departed from the use of a business tax. The business tax was fully consolidated into the non-residential property tax in 2019.

Until 1974, residential and non-residential properties were taxed by The City at the same rate. Differentiated tax rates for residential and non-residential properties were introduced by The City in 1974. In 1987, a differentiated rate was also introduced for single residential and multi-residential properties. As an unintended consequence, this resulted in property owners converting multi-residential buildings into condominiums to benefit from the reduced applicable tax rate. In response, The City began phasing out the split residential rate in 1998 and completed the phase-out in 2000.

Processes

Municipal Property Tax

Each year, City Council approves the budget needed to support City services. To determine the revenue required from property taxes, The City takes the overall expense of services and subtracts all other sources of revenue such as licence fees, permits, user fees and provincial grants. The balance is the amount to be raised through municipal property taxes

The formula used to determine the municipal tax rate:

$$\text{Municipal tax rate} = \frac{\text{Total revenue required by The City of Calgary from property tax}}{\text{Total assessment}}$$

In order to calculate property tax, tax rates are established. The tax rate is the percentage at which each property in the municipality is taxed based on its individual assessed value. The tax rate is established by dividing the revenue requirement by the total assessment base for each assessment class and sub-class (if applicable). The individual property tax contribution is then calculated by applying this rate to a property's assessed value.

Provincial (Education) Property Tax

Within Alberta, education is a provincial program. Each year, the Province calculates the amount that each municipality must contribute toward the education system, based on the total assessed value within each assessment class.

The formula used to determine the provincial tax rate:

$$\text{Provincial tax rate} = \frac{\text{Total revenue required by The Province from property tax}}{\text{Total assessment}}$$

The Province notifies each municipality of the amount of education taxes they are required to collect. Once this amount is known, each municipality then establishes property tax rates to bill and collect the local education amount. This tax rate is calculated by dividing the required amount of local education tax by the municipality's total taxable assessment base within each assessment class. The individual education property tax contribution is then calculated by applying this rate to a property's assessed value. Education property tax revenues collected by the municipality are remitted to the Province.

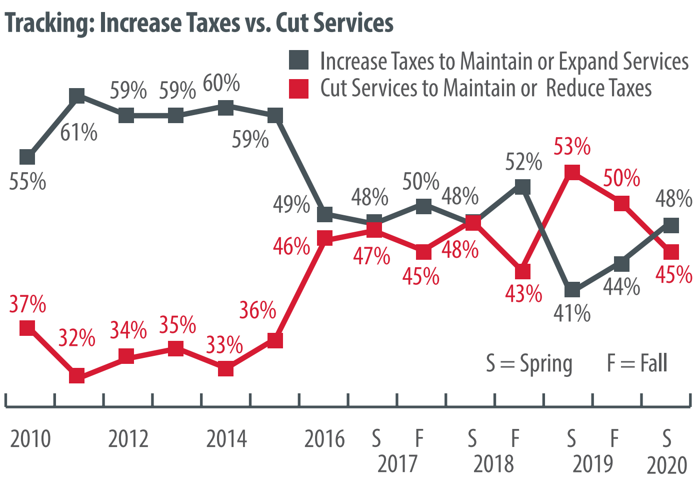
The Context for Funding City Operations

Priorities

Property Tax Relief

While the majority of Calgarians continue to give The City a "good value" rating in the value of their property tax dollars, there have been signs of increasing tax resistance in recent years. Calgarians have also been fairly evenly split over supporting tax increases to maintain or expand services versus supporting service cuts to maintain or reduce services. In recent citizen surveys, and starting in 2016, alongside the 2015-16 recession, there was a noticeable decline in the preference for tax increases to accommodate the same level of service. In acknowledgement of this growing taxpayer sentiment, in recent years, Council has directed Administration to offer various forms of temporary tax relief.

Figure 11: Citizen Feedback on Taxes and Services



Source: City of Calgary 2020 Spring Pulse Survey Final Report

Property Tax Rebates

In 2014, 2017 and 2020, Calgary City Council approved the use of one-time rebates to mitigate property tax increases for both residential and non-residential property owners. These rebates were funded using existing reserves and/or tax room, which is generated when the Province's education tax requisition is lower than The City expected. The use of rebates is enabled by the MGA and allows a council to cancel or refund all or a part of a tax with respect to a property or class of properties if the council considers it equitable to do so.

Phased Tax Program

The recent economic downturn in Alberta resulted in very sharp and very rapid declines in the market value of office properties in Calgary while the value of other non-residential properties remained stable. This resulted in the transfer of a large portion of the tax responsibility previously carried by downtown office buildings to other non-residential properties located outside the downtown.

Beginning in 2017, and continuing in 2018, 2019 and 2020, Council recognized that the tax shift negatively impacted many non-residential property owners and associated tenants outside of downtown as a large amount of non-residential tax responsibility shifted from downtown properties to non-downtown properties. Council provided direction to Administration to develop property tax relief for non-residential property owners to address the redistributive effect of decreasing assessed values in the downtown core. The response was a Phased Tax Program (PTP) that helped address tax shifts from disproportional market value changes by limiting increases to the municipal portion of the non-residential property tax. This approach is enabled by a provision in the MGA that enables a council to phase in a tax increase or decrease resulting from the preparation of any new assessment.

In 2019, Council also directed Administration to research a small business relief program rather than rely on a phased tax program (which is considered a blunt tool in providing direct and targeted relief to small businesses). However, such a program was determined not to be feasible and was not implemented.

Since 2017, Council has approved funding for PTP of $213 million, and approximately $174 million in credits have been issued to provide tax relief to non-residential property owners over the last three years. Council recently approved PTP for 2020, with another approximately $30 million identified to provide non-residential property tax relief.

Compassionate Property Tax Penalty Relief

In late 2017, Council provided direction for Administration to investigate tax forgiveness programs to provide some financial relief for those property owners unable to meet their property tax obligations due to a significant life event. In response to this direction, Administration proposed the Compassionate Property Tax Penalty Relief Program. This program provides forgiveness of a certain number of property tax penalties for those taxpayers who suffered a critical life event, such as a death or illness, and which impacted their ability to pay their property taxes by prescribed deadlines. Under this Council approved program, approximately $8,000 in penalties have been forgiven for approximately 40 taxpayers.

Textbox 1: Existing Taxation Authority Outside Property Taxes

Through their discretionary authority under the MGA, municipalities may choose to generate revenue through other forms of tax. These are described briefly below.

Business Tax – a council may pass a bylaw to impose a tax that is payable by the person who operates the business, not the property owner. This form of tax was used in Calgary from 1916 to 2019. It is an occupancy tax levied directly against the owner of a business. There are two main features. First, the basis is the expected income of a business, not the wealth of landlords. Because rents consider business location, opportunities and expected revenues, among other factors, they provide a reasonable measure of potential business incomes. Second, it allows quasi-public exemptions that reflect prevailing economic circumstances through vacancy adjustments. Winnipeg is the last large Canadian City to have a business tax.

Business Improvement Area (BIA) Tax – a council may pass a bylaw to impose a tax levied and collected by a municipality on behalf of business owners who wish to improve the area in which they do business. Calgary currently has fifteen BIAs. Studies have shown that BIA organizations can be a catalyst for recovery.

Community Revitalization (CRL) Levy – a council may pass a bylaw to impose a property tax that allows municipalities to borrow against future property tax revenues to help pay for infrastructure required to spur new development in a specific area. Calgary currently has one CRL in the Rivers District. It segregates a portion of the property tax revenue generated within the district for the direct investment in infrastructure improvements within the area.

Special Tax – a council may pass a bylaw to impose a tax to pay for a specific service or purpose such as waterworks, sewers, boulevards, dust treatment, paving, drainage ditches or recreational services. Several Calgary communities benefit from a special tax as a result of a successful community petition to The City of Calgary requesting enhanced landscape and boulevard maintenance.

Well Drilling Equipment Tax – a council may pass a bylaw to impose a tax in respect of equipment used to drill a well for which a license is required under the Oil and Gas Conservation Act.

Local Improvement Tax – a council may pass a bylaw to impose a tax on a specific area within a municipality to fund a service or improvement applied to a particular area only, such as street paving, driveway crossings, sidewalk replacement, lane paving and curb and gutter replacement. Local improvement taxes are paid by certain Calgary property owners for projects that Council considers to be of greater benefit to a specific part of a community rather than to the whole city.

Community Aggregate Payment Levy – a council may pass a bylaw to impose a tax in respect of all sand and gravel businesses operating in the municipality to raise revenue to be used toward the payment of infrastructure and other costs in the municipality.

Using Property Assessments to Inform Property Taxation

Practices

Before 1995, the valuation approach used in Alberta was fair actual value.[13] Assessments were prepared by adding the estimated market value of a property's land to a provincially regulated value for any building or structure on the property. The exception was farmland, which was assessed by applying regulated rates. Also, property assessments were prepared every eight years. One prevalent criticism of the eight-year assessment cycle was the large tax shifts that would occur in each reassessment year.[14]

Policies

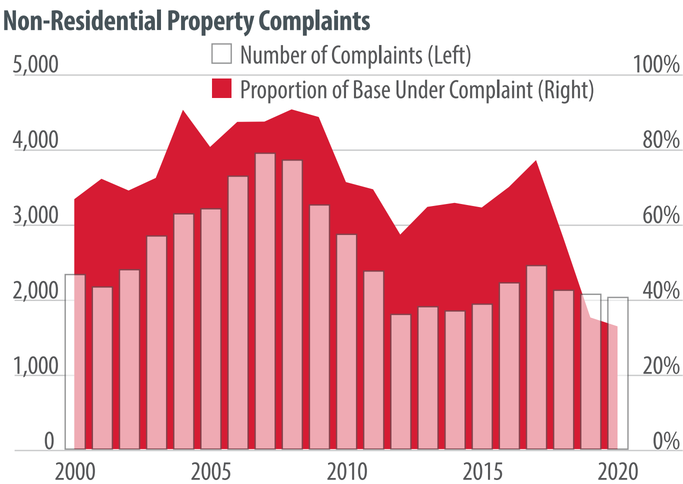
When the *MGA* was instated in 1995, the property assessment standard changed from fair actual value to market value. Market value is often regarded as "the most fair and equitable means of assessing property" and is the prevailing assessment standard throughout Canada.[15] As part of the 1995 revisions, assessments were to be prepared annually, not every eight years. The valuation date was July 1 of the year preceding the tax year, and the physical condition of the property was to be assessed as of December 31 of the year preceding the tax year.[16] The 1999 tax year was the first assessment roll prepared using market value. There is an exception to the market value standard in Alberta for "regulated property." Specifically, land based on agricultural use (i.e. farmland), machinery and equipment, and designated industrial property (as defined in the legislation, including linear property).[17 18] These property types are subject to regulated valuation standards pursuant to the Minister's Guidelines.[19]

The Context for Funding City Operations

Processes

The province plays a large role in overseeing the municipal administration of assessment to ensure that it meets minimum standards. The legislation permits the province to engage in an annual audit program as well as a detailed audit program.[20] The annual audit program analyzes ratio studies, effectively an analysis of sale prices to assessments within a region, while the detailed audit program involves a much more rigorous analysis.[21] Both annual and detailed audits are administered in accordance with the Minister's Guidelines.[22] Prior to declaring an assessment roll, each municipality within Alberta must meet the quality standards of the annual audit program. Additionally, The City undergoes a detailed annual audit for its residential properties and ad hoc detailed audits for its non-residential properties.[23] Most recently, Calgary's industrial properties underwent a detailed audit for the 2020 tax year.

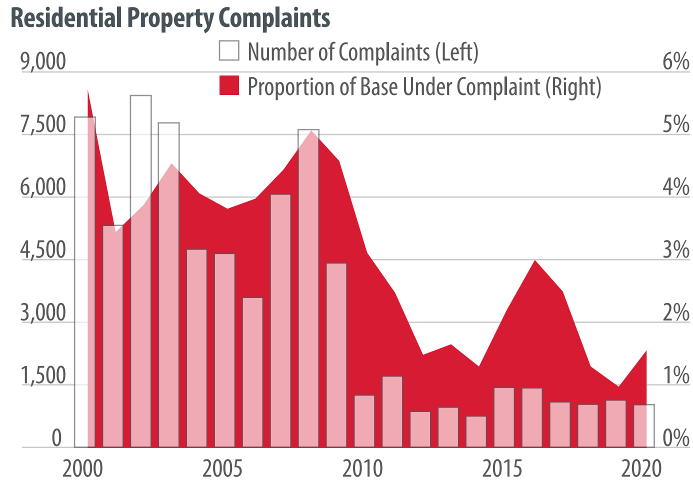
Figure 12: Non-Residential Assessment Complaints



Source: City of Calgary Assessment Business Unit

In addition to quality standards and audit, an independent quasi-judicial body called the Assessment Review Board (ARB) also plays a role in overseeing the administration of assessment.[24] The ARB complaint process allows property owners to raise an issue with their assessment.[25] The board adjudicates the issues and renders a decision pursuant to the legislation.[26] During the economic boom of 2006-2008, over 80 per cent of the taxable non-residential assessment base was under complaint. By the 2020 tax year, the volume had fallen 63 per cent. Also, the *MGA* permits the judicial review of board decisions by the Court of Queen's Bench, acting as another supervisory body over the administration of property assessment.[27] Assessment matters are highly regulated by legislation and can often be technically complex. If either party to a complaint disagrees with the decision of the ARB, they may seek review by the court.

Figure 13: Residential Assessment Complaints



Source: City of Calgary Assessment Business Unit

Priorities

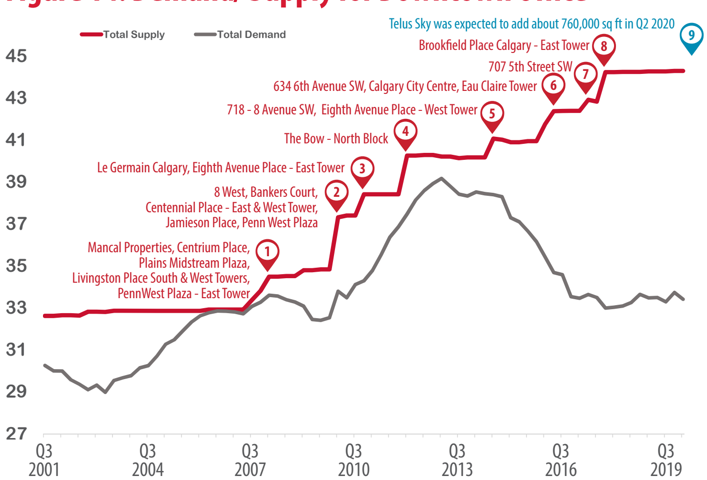
Alberta's individual municipalities are tasked with the administration of property assessment for most properties.[28] The exception to this is designated industrial property, which the Province is responsible for preparing.[29] In contrast, some Canadian provinces designate one centralized body to prepare assessments regardless of the municipality in which the property resides. For example, in Ontario, the Municipal Property Assessment Corporation (MPAC) prepares assessments; in British Columbia, BC Assessment prepares assessments. Within jurisdictions with a centralized assessment body, the cost of preparing assessments within a municipality is generally paid by the municipality. For example, in Ontario the cost to a municipality for providing assessments is based on both the number and value of assessments as a proportion of the total within the Province.

Responding to Calgary's Cyclical Economy using Existing Tools

Increasing focus on evidence and monitoring

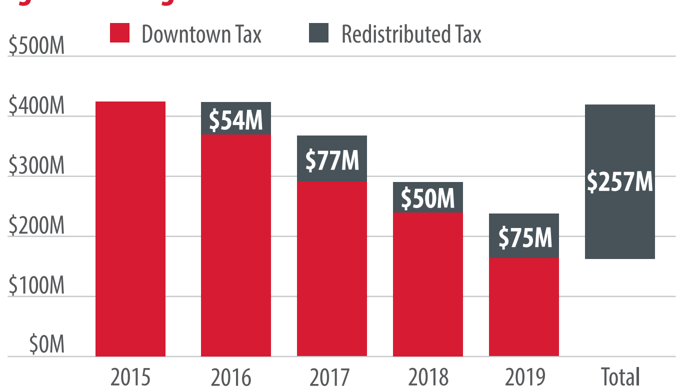
A substantial decline in oil prices, which started in Q2 2014, caused Alberta to enter a recession that has had a prolonged impact on Calgary's local economy. Amongst other things, this contributed to a 19-quarter decline in the demand for downtown office space. In 2007, Calgary had amongst the lowest vacancy rate and highest rent for office space within downtown. Strong demand led to a period of rapid supply growth. From 2007 to 2014, the supply of downtown office space increased by approximately 28 per cent.

Figure 14: Demand/ Supply for Downtown Office



Source: Altus Insite

Figure 15: Magnitude of the Downtown Tax Shift



Source: City of Calgary Assessment Business Unit

As oil prices and demand for office space in the energy-sector driven downtown began falling, in-flight construction projects completed, and supply continued to grow. By 2018, the disparity between supply and demand resulted in approximately 11 million square feet of vacant space. This resulted in downward pressure on rental rates, which sometimes resulted in free rent, as property owners attempted to alleviate the operating cost of their property. As the income production of these assets plummeted, so did their market value. The property assessment of downtown offices fell consistently from tax years 2016 to 2019, eventually resulting in a decline in municipal property tax revenue collected from these properties by a total of over $250 million.

Over the same period, the market value of other sectors of the non-residential assessment class, such as retail and industrial, performed relatively well. The isolated, stark drop in the value of downtown office values resulted in the redistribution of non-residential tax responsibility to suburban areas.

Enhancing practices and processes that use existing revenue authority

Calgary residents and businesses expect The City to support and not disrupt market forces for residential and non-residential property development activity. This desire can sometimes unintentionally contribute to the oversupply situation in certain real estate markets over certain periods. The downtown tax shift from 2015 to 2019 that led to higher taxes for non-residential properties outside the downtown core was triggered by an overbuild in the downtown non-residential office market. However, taxpayers expect relief from municipal authorities when these situations occur. A more sustainable path would suggest that The City secure some protection against these situations. Additional processes would afford The City the ability to respond to market failures and imbalances in a highly cyclical economy.

Economic shocks in the past, such as the Great Recession in 2009, have resulted in short-term re-distribution, as quick economic recovery restored a balance. Short-term relief for non-residential taxpayers experiencing significant tax responsibility increases occurred through a one-time Phased Tax Program (PTP) for the 2017 tax year.[30] As re-distribution continued to occur, additional one-time PTPs were offered in 2018, 2019 and 2020.

In 2019, Calgary City Council recognized the downtown tax shift had become a long-term issue and thus the need to provide sustainable relief for non-residential taxpayers. They created two teams with different mandates to help discover solutions. The Tax Shift Assessment Working Group was to explore greater tax parity between the residential and non-residential tax classes. As a result of that work, the distribution of tax requisition changed to 52 per cent residential and 48 per cent non-residential to help support Calgary's business community. Similarly, the Financial Task Force identified the need to enhance practices and processes using existing authorities.

Textbox 2: Independent Review of Non-Residential Assessments and Complaints

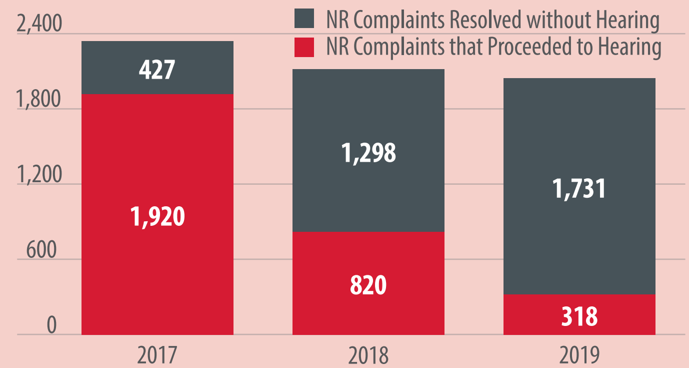
Leading up to 2017, property owners and their various representatives raised concerns with respect to the fairness, transparency and predictability of The City of Calgary's non-residential assessment process, particularly as it related to the annual preparation of assessments where "every year is a new [valuation] year."[31] As a result of these concerns, a Notice of Motion was put forward in 2017 September, calling for an independent review of non-residential assessment and complaints.[32]

Heuristic Consulting Associates (HCA) conducted an independent review. HCA engaged various stakeholders (internal and external to The City) and produced a comprehensive report reviewing multiple issues on the assessment complaint process in Calgary, including but not limited to the culture, communication, and dispute resolution. More specifically, stakeholders appeared to be frustrated with a current state they described as, among other things, unpredictable, adversarial and lacking the opportunity for valuable dialogue and negotiation.[33] The recommended "preferred future state" by HCA was trust, respect, transparency, collaboration and dialogue, and allowing for increased trust and stability in the system.

The City took immediate action towards implementing many of the recommendations of the report. Most notably, the Assessment business unit has taken a more collaborative approach with the property owner and agent community in the preparation of assessments and throughout the complaint process for the purposes of efficient dispute resolution and relationship management. For example, in 2017, only 18 per cent of complaints were resolved prior to a hearing. In 2019, 84 per cent of complaints were resolved amicably prior to a hearing – more than four times as many resolutions as 2017.

Figure 16: Assessment Complaints for Hearing

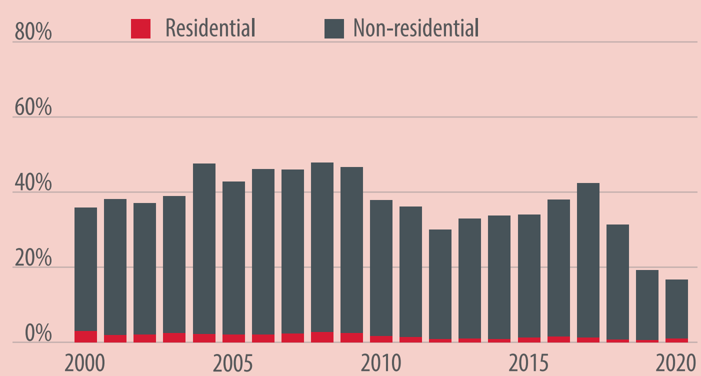
Proportion of Non-Residential (NR) Complaints that Proceeded to Hearing



Source: City of Calgary Assessment Business Unit

Figure 17: Magnitude of Tax under Complaint

Proportion of Municipal Property Tax Under Complaint



Source: City of Calgary Assessment Business Unit

Since 2017, the proportion of the non-residential taxable assessment base agreed to during Pre-Roll has increased from 2 per cent to 33 per cent and the proportion under complaint to the ARB has dropped from 64 per cent to 32 per cent.

Responding to Calgary's Cyclical Economy using Existing Tools

Measures Proposed by the Task Force

Following their review, the Task Force responded to the preliminary measures adopted by The City by delivering the following additional recommendations to better shape future property tax decisions.

To address the need for increased focus on evidence and monitoring, the Task Force recommended:

Key Message I: Adopt an evidence-based approach to decision-making

<u>Recommendation #1:</u> Apply a decision-making framework that addresses forces within the control of The City. Adding elements that are subject to the decision of the other orders of government limits execution capacity. Commit to a process based on two features:

- *Purposefully find the 'best available' evidence on*
  - *Revenues and taxes required for municipal services.*
  - *Affordability of revenues and taxes collected by residents and businesses.*
  - *Sustainability and long-term impact of revenue and tax collected on the economy.*
  - *Emerging trends having the potential to impact revenue and taxes.*
- *Critically evaluate the validity and generalization of the evidence before decisions.*

<u>Recommendation #2:</u> Develop and sustain the credibility of the decision-making process by:

- *Committing to a principles-based process for adjusting municipal property taxes with strong accountability and ownership.*
- *Delivering analysis, in everyday language, of the upcoming year's property tax challenges ahead of the tax rate decisions for adequate reflection.*
- *Communicate, using standardized terms, the evolution of drivers of change and their fiscal impact before decision-making.*

<u>Recommendation #3:</u> Improve certainty and predictability around property taxation in Calgary.

- *As economic agents, residents and businesses must be provided with certainty and predictability to make timely and well-advised decisions. They would benefit provided the plan is clear, and the commitment sustained over time, reducing business risks.*
- *Consider overall budgetary changes that adapt to the impact of inflation and population growth.*

Key Message II: Anticipate and respond to evolving economic conditions for residents and businesses

<u>Recommendation #4:</u> Establish annual reporting, including for public information, that reflects evolving economic conditions faced by Calgary residents and businesses. The goal is to generate evidence that would anchor decisions for a cyclical economy. Be responsive to economic conditions and taxpayer expectations in a meaningful manner. The elements in the periodic reporting would include:

- *Monitor – List prevailing stresses and shocks on the local economy and the transmission mechanism to property taxes to minimize the impact of sudden shocks.*
- *Anticipate – Limit uncertainty by predicting future-year changes in the taxable assessment base using correlations with economic activity.*
- *Sustain – Improve reliance on the non-property tax revenue by limiting its volatility and increasing its growth before exploring offsetting property tax measures for shifts.*
- *Segment – Measure annual changes in property tax dollars charged to residents and businesses across the distribution of taxpayers (i.e. not just mean or median).*
- *Respond – Report on the distribution of the tax responsibility across subgroups of residential and non-residential taxpayers to better support timely responses.*

To address the need to improve practices and processes that use existing revenue authority, the Task Force recommended:

Key Message III: Identify and work to leverage the untapped revenue potential from the traditional municipal revenue sources

<u>Recommendation #21:</u> Work with The City of Calgary's Economic Resilience Task Force to assess the extent to which The City of Calgary has fully explored revenue from existing authorities. Address the speculation that The City is not using revenue authorities to full effect. Undertake a comprehensive review and gap analysis on the use of traditional revenue sources. The review should consider legislative changes required to acquire authority (if applicable) and administrative practices that need changing for execution. The tools to consider include but are not limited to:

- *Return on Assets and Investments/ Proprietary Charges*
  - *Develop and implement additional revenue from a strategic review of the business activities, pro-*

prietary charges and dividend policies of municipal corporations, such as ENMAX, Calgary Parking Authority.

- *Develop and implement the generation of recurring fees from the use of City assets and the one-time sale of excess capacity or assets (e.g. land that is not used or required).*
- *Develop and implement the generation of returns from a public-private partnership for non-essential services, e.g. golf courses.*
- *Invite proposals from members of the public and firms that would generate ideas to tap the unused potential.*

- *Regulatory Charges*
  - *Explore the use of regulatory charges, like 'franchise fees' or 'local access fees' for services provided in the City of Calgary which do not otherwise pay property tax (e.g. telecommunications infrastructure).*
  - *Advertisement charges that include billboards and digital ads targeted in Calgary.*
  - *Develop and implement licensing charges for business vehicles. It provides an opportunity for targeted relief when required for businesses.*
  - *Develop and implement the extension of business licensing requirements to a wide variety of home-based businesses.*
- *User Fees*
  - *Apply total cost for municipal services complemented with Calgary resident discounts for certain services (e.g. park and ride) to achieve differential user fees.*
  - *Develop and implement the sale of memberships and long-term subscriptions for access to a wide range of services, e.g. golf courses.*
  - *Charges for the use of proprietary assets, e.g. data.*
  - *Deliver non-essential services only if the costs are fully recoverable through user fees.*
- *Taxes*
  - *Develop and implement taxes that would focus on tourists and visitors that use City services.*
  - *Seek agreement with the province to share revenue generated during "boom" years for a rainy-day fund to mirror the heritage fund.*

Key Message IV: Continue to expand the existing development and building processes to enable development activity and growth in an appropriate way by considering aggregate economic impacts

Recommendation #24:

- *Anticipate and monitor changes in the evolving residential and non-residential real estate markets while supporting private market activity.*
- *Continue to expand the existing development and building processes to:*
  - *Enable development activity and growth in an appropriate way.*
  - *Support economic development and maintain employment and business growth.*
  - *Ensure adjustments to economic conditions and the aggregate impact on the economy.*
  - *Moving forward, to the extent possible, favour the occupation of the empty office spaces in downtown Calgary.*
- *Monitor key economic indicators for the City of Calgary. As we transition to the new economy, the forecasts should support The City's approval process and track the level of reliance on different sub-groups in the tax base.*
- *Assess the cumulative impact of approval decisions rather than individual decisions, and work to share the information with individual applicants to inform their decision-making.*

Key Message V: Continue to develop processes that yield information on the extent to which City services benefit residents and local businesses to incorporate in decisions.

Recommendation #30: Incorporate the information generated from the process changes into a future review of user levies.

- *Existing processes for determining user levies already incorporate the distinction between private and societal costs. The practice of focusing on the recovery of private costs for services would continue to apply to city residents and businesses.*
- *Consider the addition of societal costs for services to non-residents without discouraging non-Calgarians from increasing economic activity through their spending in Calgary.*

Improving the Understanding of Municipal Finance Circumstances

Achieving a Better Understanding of the Property Tax Bill

Calgary residents and businesses need to understand better the relationship between the taxes paid and services received. The goal is sustaining and extending the progress achieved with the introduction of tools in recent years. There is still a lack of clarity in the minds of the public on some items. Examples are the distinction between municipal and provincial services as well as the differences in services provided by The City of Calgary vis-à-vis other big cities. As well, Calgary taxpayers desire a better understanding of the link and balance between the level of taxes and the level of services.

Over the years, The City applied two main tools to educate and inform property owners about property taxes. The first tool is a property tax brochure that accompanies the property tax bill. The Task Force acknowledged that the content and clarity afforded through the brochure has improved with time. The second tool is online content available through The City webpages that provides information on the property taxation system.

Despite these tools, the Task Force identified that understanding Calgary's property taxation system remains challenging and outlined the need for additional community education efforts. The goal would be to achieve a better relationship between the taxation authority and taxpayers. References were drawn to the use of additional tools, like videos in other jurisdictions, to supplement brochures and online tools.

Responding to an Increasing Municipal Fiscal Imbalance

Canada's three levels of government – federal, provincial or territorial, and municipal have different responsibilities and associated costs. To pay for those expenditures, they rely on various taxes and revenue sources. The Constitution of Canada assigns revenue sources and expenditure responsibilities to the federal and provincial or territorial governments. It also gives the provinces exclusive control over municipalities. Municipalities are the creatures of their provinces, so they can only access the revenue sources their provincial governments grant to them. The provinces can, take away or change any municipal power previously granted.

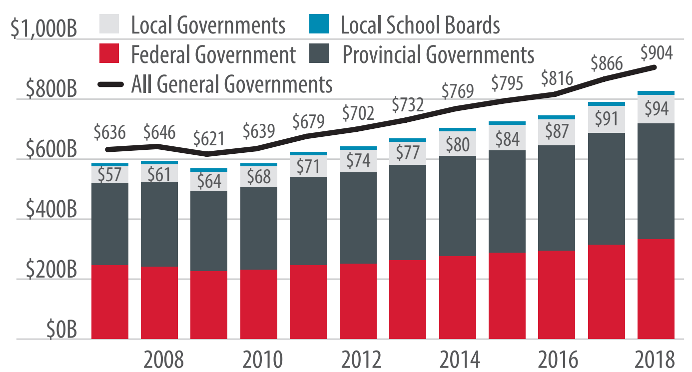
For many years, the distribution of revenues and expenditures has not been balanced among the three levels of government. There has been extensive debate between the federal government and the provincial or territorial governments about the existence of a vertical fiscal imbalance.

A federal *Subcommittee on Fiscal Imbalance* was established in 2004 to study the problem of fiscal imbalance and to propose tangible solutions for addressing it. According to the Committee, "a vertical fiscal imbalance exists when the fiscal capacity of one order of government is insufficient to sustain its spending responsibilities while the fiscal capacity of another order of government is greater than is needed to sustain its spending obligations, while both orders of government provide public services to the same taxpayer."[35]

Over the last two decades, the extent of the imbalance was unfavourable at the municipal level. Local governments in Canada, mainly municipalities, spend 91 to 92 per cent of their expenditures on goods and services and are the direct providers of most services to citizens. It compares to 23 to 25 per cent for the federal government and 61 to 62 per cent for provincial governments. Municipalities take care of parks, parking, libraries, roadways, local police, local land use, fire protection, public transportation, and community water systems to provide the quality of life their citizens enjoy.

Canadian municipalities do not have sufficient and diversified own-source revenues.[36] It makes it challenging to fund their expenditure responsibilities (or own-source expenditures), some of which were transferred from the senior governments.[37] Without government transfers from the federal and provincial governments, municipalities in Canada would run deficits (expenditures would exceed revenues) resulting in net borrowing fiscal positions which have increased in recent years.[38] Because municipalities are unable to run deficits, they typically increase property taxes or decrease expenditures as adjustments.

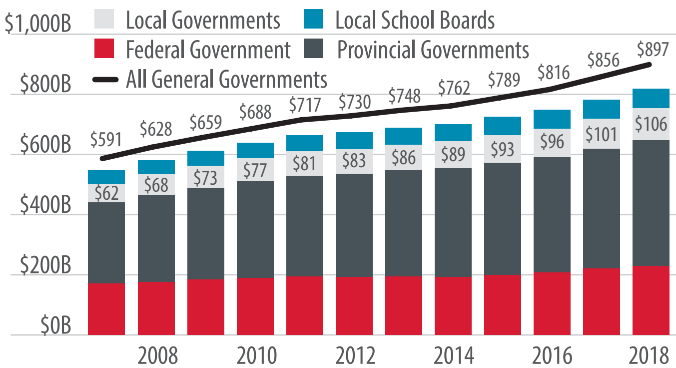
Figure 18: Own-source Government Revenue ($B)



Source: Statistics Canada

Improving the Understanding of Municipal Finance Circumstances

Figure 19: Own-Source Government Expenditures ($B)



Source: Statistics Canada

The federal and provincial governments have a variety of tax and revenue sources, including those like taxes on personal and business income that increase when there is economic growth. Unlike municipal governments that have to adjust property tax rates regularly, provincial and federal income tax rates remain unchanged but yet yield automatic tax revenue increases with increases in the nominal values of income and sales. Despite the availability of multiple sources and the ability to create new ones, like the cannabis sales tax introduced in 2016, the Alberta provincial government extended only temporary benefits from the creation of fiscal space to municipalities. The Province introduced a temporary, two-year Municipal Cannabis Transition Program and announced in 2019 that it would not continue.

To resolve fiscal imbalance, The City has explored advocacy alongside the Federation of Canadian Municipalities (FCM) to improve municipal finance in Canada. FCM is a national advocacy group founded in 1901. Its current members include over 2,000 Canadian municipalities of all sizes, representing more than 90 per cent of all Canadians.

One of its successes was to work with the federal government to create the Federal Gas Tax Fund (GTF) to fund crucial municipal infrastructure. The GTF is a permanent source of funding flowing annually through provinces and territories to their municipalities to support local infrastructure priorities, providing municipalities with over $2 billion per year for infrastructure investments. However, just like Canadian municipalities working independently, FCM has been less successful at indicating that the property tax as the primary municipal tax is not designed to fund a broad range of municipal services.

Measures Proposed by the Task Force

To address the need for a better understanding of the property tax bill, the Task Force recommended:

Key Message VI: Enhance the approach to ongoing communication with residents, businesses, and other orders of government

Recommendation #23: Make changes to the content and form of communication with members of the public and other orders of government so that there is a better understanding of efforts at:

- *Education Support*
  - *Simplify property taxation and municipal finance communication using plain language. While certain concepts and terms may be tools of the trade, they are less meaningful to taxpayers, e.g. a 3% property tax increase does not translate into 3 % increases for individual taxpayers.*
  - *Make the distinction between operating and capital budgets more transparent. Consider the use of terms that make sense to the public, e.g. using 'investments' for 'capital.'*
  - *Actively address misinformation on municipal finances. Letting them linger without correction adds to the confusion.*
- *Cost-effectiveness*
  - *Communicate initiatives underway to reduce municipal government costs, such as the Solutions for Achieving Value and Excellence (SAVE) program.*
- *Demonstrating value*
  - *Include the variety of services the municipality provides and draw a better link between the level of public consumption of municipal services and the property taxes paid.*
- *Transparency and stability*
  - *Transparency – Affirm the recommendations of the Tax Shift Assessment Working Group. Continue to improve transparency about how tax dollars are deployed, starting with clarity about the provincial and municipal split.*
  - *Stability – Work with the province to minimize volatility created by changes in provincial property requisitions that impact aggregate property tax payments.*

Improving the Understanding of Municipal Finance Circumstances

To address the need to respond to an increasing municipal fiscal imbalance, the Task Force recommended:

Key Message VII: Investigate the ability to align charging fees or recouping the cost of services with the delivery of services that arise from provincial government direction or changes

Recommendation #13: Collaborate with the province to authorize access to tools that address services that arise from provincial government direction or changes.

- *Identify services that may have been directed to The City explicitly or inadvertently.*
- *The inadvertent transfer of responsibility occurs when third parties are no longer able or willing to deliver the services, but The City steps in for continuity as the last resort government service provider.*
- *These services have value for those who access them. Ensuring continuity, as well as adequate funding for those services, is vital.*
- *Use the results from the review to engage in a dialogue with the province. Collaborate to determine and agree on the fiscal tools necessary to allow effective delivery of those services by the municipality.*

Key Message VIII: Ensure long-term, rather than short-term, fiscal arrangements are in place with other orders of government for the co-delivery or full delivery of public services

Recommendation #14: Establish long-lasting revenue and cost-sharing arrangements with other orders of government whenever new municipal services are directed by other orders of government. The introduction of new services on a permanent basis, which adds incremental costs, should be accompanied by new revenue tools. Costs for new, permanent programs, like the recent introduction of the municipal cannabis program, should be accompanied by permanent, not temporary, municipal revenue tools. Failing which Calgary should pursue exemptions from implementation to achieve fiscal sustainability.

Supporting Regional Economic Development

City-Shaping and Building in a Regional Context

The City marked a significant shift in city-shaping through the 2009 Municipal Development Plan. The City sought to balance new community growth with intensification. At the same time, as The City's policies changed, an economic boom brought further growth pressure to the region resulting in high levels of growth in other municipalities in the region and on Calgary's boundaries.

Municipalities in the Calgary region have been some of the fastest-growing in Canada. Calgary's share of the region's population has slowly declined from 91 per cent in 1986 to 85 per cent by 2018. At present, there are approximately 246,000 people who reside in municipalities outside Calgary. By 2076 that number is forecast to more than double to almost 600,000. Calgary's share of single and semi-detached housing starts has declined from 80 per cent in 2003 to 69 per cent in 2018. Employment data indicates a level of stability, with 2016 data showing that 87 per cent of regional jobs are in Calgary. Calgary has maintained a majority share of regional jobs since 2001, the specific percentage of regional jobs located in Calgary has declined slightly from 90 per cent in 2001.

Comparative data on industrial land absorption illustrates significant volatility over the past five years as Calgary absorbed a high of 76 per cent of the region's industrial development in 2015 and dropped significantly to 37 per cent in 2016 (average absorption from 2014-2018 was 68 per cent).

The Calgary Metropolitan Region Board (CMRB) came into effect on 2018 January 1. The CMRB Regulation established membership, voting structure, and the requirements that a Growth Plan and Servicing Plan be completed by 2021 January 1. Since the CMRB has been in effect, the CMRB Board has adopted an Interim Growth Plan and Interim Regional Evaluation Framework. Both received approval from the Minister of Municipal Affairs via a Ministerial Order in 2018 December.

Assessing the Impact of Activity in the Region on The City's Financial Position

As the Calgary Region continues to grow and the number of residents and businesses locating outside of Calgary's boundary continues to grow, it is becoming more important to understand the impact of these trends on The City's financial situation. Residents and businesses living outside of Calgary do not contribute tax revenues to The City nor contribute to per capita funding arrangements. However, regional residents may be using various services provided by The City, such as transit, recreation, parks, and roads. There is concern that this is resulting in an "inadvertent subsidization" of regional growth. This is particularly true of development immediately on our municipal boundary. A recent Municipal Government Board decision supported The City's position that development of the OMNI Area Structure Plan within Rocky View County could result in an estimated $60 million of transportation network upgrades necessitated within Calgary.

Measures Proposed by the Task Force

To address city-shaping and building in a regional context, the Task Force recommended:

Key Message V: Continue to develop processes that yield information on the extent to which City services benefit residents and local businesses to incorporate in decisions.

<u>Recommendation #29:</u> Use the information to better understand the level of support The City affords visitors and residents in the region. Incorporate the findings into the decision-making process for cost-sharing arrangements with regional partners.

To address the impact of activity in the region on The City's financial position, the Task Force recommended:

Key Message IX: Increase collaboration with regional neighbours in support of regional economic development while addressing cross-subsidization borne by The City of Calgary in favor of others in the region.

<u>Recommendation #15:</u> Work with intermunicipal neighbours on coordinated actions to support regional economic development. Seeking synergies in service provision and prioritizing economic development at the Calgary Metropolitan Region Board. Investigate municipal governance structures that promote the cost-effective delivery of services for regional economic benefit.

<u>Recommendation #16:</u> Investigate cross-subsidization for non-Calgary residents and businesses in the Calgary region that benefit from City services for potential cost-sharing. Investigate new revenue opportunities that address cross-subsidization borne by The City of Calgary in favour of others in the region, including:

- *Cost-Sharing Agreements – with regional partner municipalities. They can be applied to recover costs for shared services and shared use of infrastructure.*

Supporting Regional Economic Development

- *Sharing property tax revenue – with neighbouring municipalities. An example is the use of Joint Economic Development Initiatives (JEDI) type agreements.*
- *Differential User Fees – to recover subsidies to regional users of City services.*
- *Collaboration Agreements – where Calgary and regional partner municipalities work together on applications for infrastructure funding from other levels of government.*

Recommendation #17: Ensure that the investments made by The City that support regional growth do not decrease Calgary's competitiveness. Investigate measures to reduce costs borne by The City from regional growth, including:

- *Recovering the cost of growth – by working with intermunicipal neighbours to establish off-site levy/levies to be imposed on an intermunicipal basis.*
- *Cross-corporate regional servicing – where service provision by The City to the region is synchronized to minimize costs and achieve positive cross-corporate cost/benefit.*
- *Targeted annexations – by ensuring that future annexations will provide for the best possible cost/benefit outcomes for The City.*

Bringing Property Taxation into the Twenty-First Century

Reducing Reliance on a Land and Property-based Approach to Taxation

Revenue sources for Canadian municipalities are limited. The primary source of revenue includes residential and non-residential property taxes. Transitions in the economic landscape have the potential to erode the tax base on which municipalities rely for so much of their revenue. A few of these trends are briefly identified below. While not all of these trends are currently impacting The City of Calgary's financial position, it is necessary to remain cognizant of them to ensure sustainable, longer-term solutions are pursued.

- Shift from goods production to goods movement has resulted in manufacturing plants being replaced by warehouses and distribution centres. The ability to move production outside Calgary to other locations close to Calgary would impact the tax base.
- E-commerce is reducing demand for retail space.
- Service sector continues to expand with an emphasis on knowledge-based positions. Associated with this is the trend toward flexible work options such as telecommuting and desk sharing, which is resulting in shrinking workplaces.
- The growth of the digital economy with borderless, multinational platforms and fewer employees presents revenue challenges for taxation systems that rely on property and residency.

Municipal revenues remain reliant on the land and property-based approach to tax generation and collection. Economic trends, as identified above, indicate that a larger proportion of property tax revenue will need to come from residential taxpayers as the non-residential tax base shrinks. There is a risk that property taxes could become increasingly unaffordable for residential property taxpayers or service levels would drop, all other things being equal.

Growing the Size of Non-Residential Accounts

There are a relatively small number of taxable non-residential accounts – 14,216 non-residential accounts vis-à-vis 517,578 residential accounts for the 2020 tax year. When combined with the rapid rate of change in Calgary's cyclical economy, it results in a high level of volatility for non-residential property assessments.

Leading up to 2015, the demand for Calgary office space was very high, particularly within the Centre City area. At the time, Calgary had some of the highest rental rates and lowest vacancy in Canada. As a result, real estate developers responded by steadily increasing supply.[39] The sudden and sharp oil-induced economic downturn caused the demand for office space to fall drastically, leading to a large disparity between still growing supply and suddenly low demand. This disparity caused the corresponding market value of downtown office properties to fall drastically, while the value of other non-residential property types remained relatively stable. As a result, a large share of the tax responsibility previously carried by the downtown office inventory was transferred to inventory located outside of downtown.

The high volatility over a small base contributes to the high level of activity in the complaints process for non-residential accounts. Without substantial growth in taxable non-residential accounts, these shifts would continue over time.

Addressing inflexibility in Non-Residential Sub-Classes

Within Alberta, there are four property assessment (and tax) classes, specifically: residential, non-residential, farmland, and machinery and equipment. Within Calgary, all but machinery and equipment are taxed[40]. Council has historically exempted machinery and equipment from municipal property tax. The provincial education tax is not collected on machinery and equipment.

The *MGA* gives municipalities a large degree of flexibility in creating sub-classes within the residential class.[41] The City exercised this right in 1995 by splitting the residential class into single residential and multi-residential sub-classes.[42] However, the split was short-lived as The City eliminated the difference in tax rates (by phasing the elimination over three years starting in 1998) as part of the 1996 recommendations of the Calgary Tax Review Committee.[43] Though the bylaw was never repealed, The City has not elected to split the classes since the tax difference was phased out in 2000.

The *Matters Relating to Assessment Sub-Classes Regulation*, Alta Reg 202/2017 (MRAS) provides the option for a municipality to adopt three non-residential property sub-classes: (1) "vacant non-residential property" (2) "small business property"; and, (3) "other non-residential property." Vacant non-residential property is not defined in *MRAS*, nor is it defined in the *MGA*. It is often understood to mean vacant, unimproved land. Small business property is a property that is owned or leased by a business that has fewer than 50 full-time, Canada-wide employees or a lesser number if the municipality so prescribes by by-law.[44 45] Other non-residential property captures properties that do not fall into the other two sub-classes. The City has not elected to make use of these sub-classes at this time. Additionally, under the *City of Calgary Charter 2018 Regulation*, Alta Reg 40/2018 (*the Charter*), Calgary may make two additional non-residential sub-classes: (4) "derelict" and (5) "contaminated" property. Neither is defined within the legislation. The City explored the viability of creating a small business sub-class in 2019. The risk of *MRAS* definitions leading to unintended consequences led to a determination that it was unviable.[46]

While the non-residential class is afforded minimal flexibility in assessment and tax classes within Alberta, the province requires municipalities to categorize properties according to "actual use group" as part of its auditing process.[47] Within the non-residential class, there are six actual use groups "Vacant Industrial," "Industrial," "Vacant Commercial," "Commercial – Retail," "Commercial – Office," and "Special Purpose." Within municipalities, including Toronto[48], Vancouver[49], Ottawa[50] and Hamilton[51], tax rates are assigned by categories like actual use groups within Alberta. Since actual use group data is defined and required by the province, deference could be given to municipalities to create sub-classes based on these existing categories.

Changes in Market Values resulting from Gentrification

Property taxation is based on the premise of the ability to pay rather than on the proportion of consumption or use. The assumption being that a taxpayer's ability to pay is correspondingly greater if their property holdings have a higher value. While the ability to pay and property wealth is undoubtedly correlated, at least to some degree, gentrification is a common reason for an imperfect correlation.

Within some areas, long-time property owners, particularly within the residential class, may have originally paid a modest sum for their real estate. As gentrification raises the market value of their property, they find themselves with property wealth, but not the income stream, thus would require accessing the equity in the property in order to have the ability to pay growing property taxes. These situations are sometimes exacerbated by long-time property owners often being elderly with minimal or fixed income. In severe circumstances, property owners may be forced to liquidate their property.

Like residential, the increasing taxation associated with prospective re-development of a site can cause taxes to increase well beyond the income level and the ability of a non-residential property owner to pay. As an added complexity, property owners who lease their space and pass property tax liability onto their tenants may find that many businesses cannot afford to operate within the space due to the high operating cost. This situation is exacerbated when the property is underbuilt and therefore has limited tenants to share tax liability, such as a single storey building on high-density, high-demand land. The incentive created by market value assessment to develop the property to its highest and best economic use, therefore, needs to be balanced with the potential displacement of long-time owners through this impact.

The issue of market value assessments exceeding the income level and the ability to pay in areas of gentrification is not unique to Calgary. This issue is prevalent in virtually all urban centres that use market value assessments to determine tax share. It includes almost every major city in North America. In Canada, this issue is particularly severe in cities with very high demand and rapidly changing real estate markets such as Toronto and Vancouver.[52 53 54]

Assisting businesses and long-time residents in withstanding the tax increases associated with gentrification can help preserve the original fabric of affected areas. However, such measures can correspondingly slow the rate of gentrification and therefore prevent the realization of the economic opportunities associated with redevelopment, as well as the achievement of policy objectives such as densification. Depending on the preferences and aspirations of citizens and policymakers, these two competing considerations must be weighed.

Measures Proposed by the Task Force

To address over-reliance on land and property-based approach to taxation, the Task Force recommended:

Key Message X: Continuously consider guiding principles to inform execution

Recommendation #11: *Use globally accepted guiding principles that generate a well-functioning property taxation decision-making process to secure a property taxation mandate from Council that captures Council's taxation priorities initially by 2020 Q4 and on an annual basis after that.*

- *The principles should align with those for a sound property assessment and taxation system.*

- The annual mandate would provide clarity to Administration on the exp*ectations for property tax options for Council consideration.*
- *The mandate would draw the link between the range of services, service levels and generally accepted principles for an effective taxation system.*
- *In the event of future tax shifts, the mandate would form the basis for adjusting services or service delivery to accommodate* the shift as best as possible.

To address the consequences of the small size of non-residential accounts and the changes in market value due to gentrification, the Task Force recommended:

Key Message XI: Adopt an evidence-based approach to determining the distribution of tax responsibility between residential and non-residential classes and within each class, including the possibility of pegging the mill rate and using reserves for stabilization

Recommendation #19: Contract with a reputable independent expert to provide an acceptable and reasonable split of the property tax responsibility between residential and non-residential taxpayers.

- *Determine the objectives that would inform the determination of the acceptable and reasonable split.*
- *Incorporate the outcomes of recommendation #12 that targets making subclasses usable.*
- *Explore the viability of pegging mill rates and options (if any) that would work for the Calgary context.*
- *The extent to which it makes sense to determine tax rate thresholds that once breached would trigger the need for mill rate stabilization using an existing or a new reserve.*
- *The range of fiscal tools, including reserves like the fiscal stability reserve, to minimize tax volatility while also maintaining a stable fiscal position.*
- *The policy guidelines that would focus on stronger discipline for using the fiscal stability reserve and a minimum level of reserves dedicated to mill rate stabilization.*
- *Complete the exercise no later than 2021 Q2.*
- *Use the results to address the risk that one taxpayer category may be overpaying for services.*
- *Use the results to anchor future tax redistribution decisions.*

To address the inflexibility in non-residential sub-classes, the Task Force recommended:

Key Message XII: Make a case for remedies to address legislation that limits tools available in practice for non-residential tax relief.

Recommendation #12: Work with the provincial government to allow the legislator's intent on the definitions for non-residential subclasses for implementation by municipalities.

- *Make them usable for The City and expand the tools available for responses when tax circumstances that are unique to certain non-residential taxpayer groups emerge.*
- *The main goal is to support targeted, temporary relief and not to target subclasses for permanently high taxation. The change cannot materially increase tax for any group. During economic cycles, some taxpayer groups are more adversely affected.*
- *Provide capacity for relief because the current subclass definition makes for a blunt tool for property tax relief.*
- *Another goal is to support the general direction of tax policy for the long-term.*
- *Implement a review mechanism to confirm that the taxation arising from the assessment sub-classes do not target a specific sub-class for higher taxation.*

Preparing for changes that would occur as the economy evolves

The Emergence of the Rapidly Growing Digital Economy

The *digital economy*, also known in the past two decades as *the internet economy or the new economy*, refers to an economy that is based on information and communication technology (ICT).

Statistics Canada, in 2019, published its initial estimates of the size of the Canadian digital economy[55], using the same classification methodology adopted by the U.S. Bureau of Economic Analysis (BEA)[56] in 2018. Digital economy products considered were:

- *digitally-enabled infrastructure*: computer hardware, software, telecommunications equipment and services, support services, structures, and the Internet of things (IoT)
- *digitally-ordered transactions (e-commerce)*: business-to-business (B2B), business-to-consumer (B2C), and peer-to-peer (P2P)
- *digitally-delivered products*: content transmitted and consumed in digital format

The nominal GDP associated with the digital economy in Canada accounted for 5.5 per cent of the nation's total economy in 2017. Between 2010 and 2017, the nominal GDP growth for the digital economy was 40 per cent, higher than the 28 per cent growth of the entire economy in Canada.

In 2017, the Canadian digital economy produced a total value of $208 billion of goods and services, with $156 billion (or 75 per cent) in digitally-enabled infrastructure, $27 billion (or 13 per cent) in digitally-delivered products, and $25 billion (or 12 per cent) in e-commerce. There were 886,100 jobs associated with digital economic activities in Canada, with 585,700 (or 66 per cent) of them in the digitally-enabled infrastructure category, 164,500 (or 19 per cent) in e-commerce, and 135,900 (or 15 per cent) in the digitally-delivered products category. All of which demonstrates the large size of the digital economy.

Municipal Revenue Opportunities available through the Digital Economy

The revenue source that typically receives immediate consideration by government authorities is taxation. For the digital economy, taxation is beset with the *base erosion and profit shifting (BEPS)* challenge. BEPS emerges because of corporate tax planning strategies by multinational firms that shift profits from higher-tax jurisdictions to lower-tax jurisdictions. The result is tax base erosion for the higher-tax jurisdictions.

Addressing *base erosion and profit shifting (BEPS)* in the digital economy is a key priority of governments around the world. The concern is about tax planning by multinational enterprises that take advantage of different tax systems to artificially reduce taxable income or shift profits to low-tax jurisdictions in which little or no economic activity is performed. In response to this concern, the OECD and G20 countries adopted a 15-point Action Plan in 2013.[57] Initial work to address the tax challenges of the digital economy was carried out by the Task Force on the Digital Economy (TFDE), and the result was published in an OECD report in 2015.[58 59 60]

The TFDE considered direct taxes such as income tax and indirect taxes such as consumption tax. The finding on the indirect tax issue is particularly relevant to municipalities. The taxes are collected from the sellers of goods and services. However, the consumers of the purchased goods or services bear the burden of the taxes as part of the market prices they pay. The fundamental policy issue was whether the levy should be imposed by the jurisdiction of origin or destination[61]. The widespread consensus is that the destination principle is preferable. To the extent that Calgary remains a large market for digital economy goods and services, the ability to generate consumption taxes from the digital economy expands. However, the benefits of consumption taxes from the digital economy in Calgary only accrue to the federal government.

It would be desirable for Canadian municipalities to have the authority to levy direct (e.g. income) or indirect (e.g. sales taxes) on digital economy goods and services. However, Canadian municipalities are only authorized to charge registration fees and occupancy taxes through *digital matching firms*.

The use of the Internet and smart devices has enabled the creation of *digital matching firms in the sharing economy*. The *sharing economy* refers to peer-to-peer sharing or the transition of goods and services. The digital matching firms in the digital sharing economy include:

- firms that provide online classifieds such as eBay or Craigslist,
- companies that provide assets shared by consumers on an ad-hoc basis such as Lime,
- firms that offer transportation and food delivery services such as Uber or Lyft, and

- platforms for travel arrangements and reservation services such as Airbnb.

These *digital matching firms* build on ICT infrastructure to access and monetize under-utilized public assets (road infrastructure for Uber) as well as individual assets (vehicles for Uber and home spaces for Airbnb). They have four common characteristics[62]:

- They use information technology (IT systems), typically available via web-based platforms, such as mobile "apps" on Internet-enabled devices, to facilitate peer-to-peer transactions.
- They rely on user-based rating systems for quality control, ensuring a level of trust between consumers and service providers who have not previously met.
- They offer the workers who provide services via digital matching platforms flexibility in deciding their typical working hours.
- To the extent that tools and assets are necessary to provide a service, digital matching firms rely on the workers using their own.

There is a significant increase in the amount of economic activity in the digital economy not captured through the municipal property tax. Reliance on registration fees and occupancy taxes through *digital matching firms* are a good start, but municipalities need additional options. Table 2 highlights the revenue currently generated through registration fees from Uber in Toronto and Edmonton.

Airbnb collects and remits taxes (VAT/GST and occupancy taxes) on behalf of its listing hosts in the areas it has made agreements with the local governments. Airbnb calculates the taxes and collects them from guests at the time of booking. It then remits collected taxes to the applicable tax authority on the hosts' behalf. In Canada, Airbnb has agreements with several provinces and cities to collect and remit occupancy taxes to municipalities, on top of respective provincial sales taxes.

Table 2:
Municipal Fees for Uber in select Canadian Cities

	City of Toronto	City of Edmonton
One-Time Fees		
Initial Application/ Business License Fee	$20,400 per license	$20,706 per license
Annual Driver Fees		
Standard Fees	$15.30 per driver	$423 per vehicle
Accessibility Fund Program Fee	$7.23 per driver	$50.00 per driver
Trip Fees		
Standard Fee	$0.31 per trip	$0.30 per trip
Accessibility Fund Program Fee	$0.10 per trip	

Notes:
In 2016, City of Toronto adopted a new vehicle-for-hire bylaw that applies to all Private Transportation Companies (PTCs), including taxi companies, limousine companies, and ridesharing companies like Uber. Rates listed are as of March 2020 for PTCs[63]

On 2020 March 1, The City of Edmonton's new "Vehicle for hire bylaw 17400" took effect with listed rates. It applies to taxis and accessible taxis, limousines, shuttles, transportation network vehicles (TNV), and private transportation providers like Uber.[64]

Table 3:
Airbnb occupancy taxes in Canadian Cities

Province	Airbnb Occupancy Taxes
British Columbia	Guests who book Airbnb listings that are located in BC will pay a *Municipal and Regional District Tax* at 2 per cent to 3 per cent of the listing price, including any cleaning fees for reservations 26 nights and shorter.
Ontario	Guests who book Airbnb listings that are located in the following cities in Ontario will pay a *Municipal Accommodation Tax* at 4 per cent of the listing price, including any cleaning fees for reservations 28-30 nights and shorter. The cities include Toronto, Ottawa, Barrie, Brockville, Greater Sudbury, Waterloo Regional Tourism District (cities of Kitchener, Waterloo, Cambridge, Woolwich, Wellesley, and Wilmot only), Mississauga and Windsor

Preparing for changes that would occur as the economy evolves

Measures Proposed by the Task Force

To address the emergence of the rapidly growing digital economy, the Task Force recommended:

Key Message XIII: Anticipate, prepare and support the transition to everchanging economic realities

Recommendation #5: Prepare for the future by looking inwards and creating a good environment where businesses, small and large businesses, can thrive.

- *The economy of any city is not static – businesses open and close, leading to economic shifts.*
- *Create conditions where communities, entrepreneurship and innovation can thrive.*

Recommendation #6: Consider differentiated taxation for businesses and organizations that make significant contributions to the character and fabric of the city. It would include

- *Organizations like BIAs*
- *Non-profit organizations*
- *Owner-operated small businesses with limited financial means*

Recommendation #7: Identify future value opportunities for the City and the capacity to adjust to the rapidly growing e-commerce activity level. Our economy is everchanging, and our activities should adapt to the transformation of behaviour in society. The connection between cities and citizens would increase in the future. Adapt City operations to these changes.

Recommendation #8: Leverage Calgary's economic strategy – "Calgary in the New Economy." Align decision-making priorities with the strategy.

- *Focus activities on the four pillars of the strategy that involve making Calgary the destination for talent in Canada, the leading business-to-business (B2B) innovation ecosystem, the most livable city in Canada, and the most business-friendly city in Canada.*
- *Establish Calgary as a centre of excellence where businesses build the future.*
- *As a centre of excellence for energy, communicate specific initiatives that demonstrate long-term efforts at diversifying, including a sustainable energy sector and oil and gas industry. It should include tracking performance metrics, such as ESG scores, to demonstrate progress.*
- *As a centre of excellence for the digital economy, target initiatives addressing adaptable talent, digital governance and innovation, and corporate social responsibility.*

To address municipal revenue opportunities available through the digital economy, the Task Force recommended:

Key Message XIV: Develop and implement additional new economy revenue options because the transition to the new economy poses significant downside risk to some existing sources

Recommendation #22: Work with The City of Calgary's Economic Resilience Task Force to assess the extent to which The City of Calgary can generate revenue from new sources as we transition to the new economy. Undertake a comprehensive review and gap analysis on the utilization of new economy revenue sources. The review should include a consideration of legislative changes required to acquire authority (if applicable) and administrative practices that need to change for execution. The tools to consider include but are not limited to:

- *Return on Assets or Investments/ Proprietary Charges*
  - *Consider investing in broadband infrastructure to gain long term dividends, including through partnerships with the telecommunications industry.*
  - *Invite proposals from members of the public and firms that would generate ideas for new economy revenue sources.*
  - *Exchange value created by City, e.g. data and other assets, subject to privacy rules, for private sector services or dollars to limit cost pressures.*
- *Regulatory Charges*
  - *Develop and implement 'franchise fee' type charges that leverage value in regulated assets that reflect the transition to the new economy, e.g. Calgary's 5G infrastructure.*
- *User Fees*
  - *Develop and implement vehicle permitting charges with the transition to driverless cars.*
  - *Develop and implement licenses for new economy services, e.g. e-scooters, ride-sharing.*
- *Taxes*
  - *Develop and implement a separate property tax class to capture businesses that are not bricks*

and mortar businesses operating outside the property assessment system.

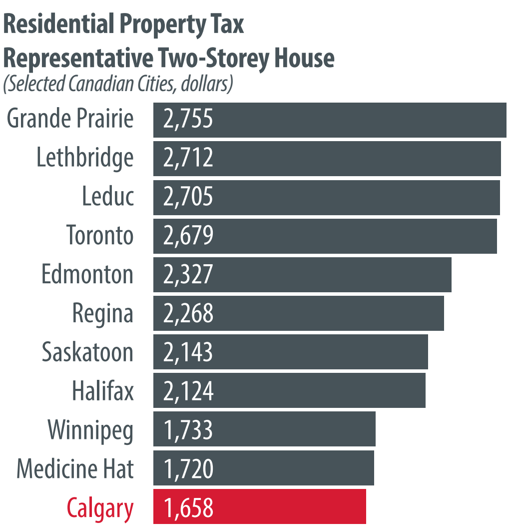
- *Develop and implement taxation for e-commerce revenue generated from local consumption of goods and services not reflected in bricks and mortar.*
- *Develop and implement a tax on home-based small businesses that would become more prevalent due to the transition to the new economy. Consider a different tax rate if a home is used as an office but address the trend toward increased home-work.*

Making Calgary More Competitive, Livable and Attractive

Tax Competitiveness and Livability

In recent years, Calgary has sustained high scores in livability as the top-rated city in the western hemisphere. The success has been achieved at the same time that taxes on households and businesses have been low. The City's municipal property tax for a representative two-storey house remains lower than many cities in the Calgary Region and across Canada. As well, the marginal effective tax rate on businesses in Calgary is well below average. These factors – livability and tax competitiveness – would play a vital role in attracting skilled labour and capital investments into Calgary going forward.

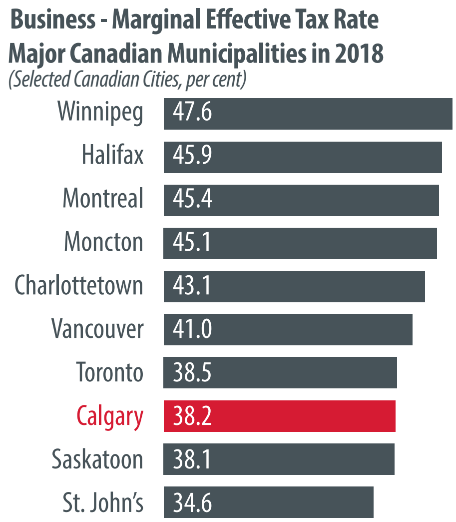
Figure 20: Benchmarkring Residential Property Taxes



Source: City of Calgary, Residential Property Taxes and Utility Charges Survey 2018

The budgeting process considers both Council priorities and directives as well as aggregate service needs and expectations relating to what Calgarians value. They inform operating and capital budget requirements. Subsequently, there is an effort to balance the level and breadth of services with revenue generation authority. The balance considers that some of the services provided by The City benefit non-city residents and businesses, so that the revenue received from them may not align perfectly with services received. There is a need to quantify benefits for the level and breadth of services for those that don't live in the city.

Figure 21: Benchmarking Business Taxes



Source: Business Tax Burdens in Canada's Major Cities: The 2018 Report Card, C.D. Howe Institute, Dec. 2018

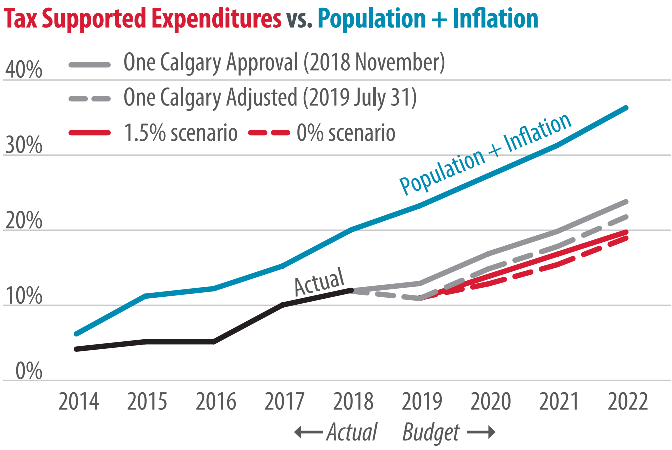
Adding stability to tax competitiveness to build credibility and trust of private capital

Recently, Calgary was the number one destination for inflows of foreign capital investment into Canadian cities. A good example is the flow of investment from the Asia Pacific region. At $41 billion through 77 deals between 2013 and 2018, Calgary outstripped other Canadian cities with Kitimat, British Columbia a distant second at $26 billion. It was almost entirely driven by investments into the oil and gas production and oil equipment, services, and distribution sectors. There is a need to expand the pool of investment opportunities in Calgary. Sustaining the increase in tax-supported expenditures below the rate of inflation and population growth would support building credibility and the trust of private capital.

Over the last few years, The City has considered multiple views about the need to differentiate tax rates between assessment classes and within classes. The practice in The City has focused on the tax share for residential vis-à-vis non-residential taxpayers. It is a practice adopted in several Canadian municipalities. Other municipalities apply policies that peg the differences in the mill rates. An independent, rigorous analysis is required to inform policy decisions going forward. The objective is to determine an acceptable and reasonable split of the tax responsibility. As well, there is scope to use tax rates as a tool for countercyclical fiscal policy.

Making Calgary More Competitive, Livable and Attractive

Figure 22: Growth of Tax-Supported Spending



Source: City of Calgary Annual Reports and Budgets, Statistics Canada

Figure 23: City-level Asia Pacific Investments in Canada (2013-18)

	Top 15 Canadian Cities (2013-18)	Value ($M)	Number of Deals
1	Calgary, Alberta	41,864	77
2	Kitimat, British Columbia	26,243	8
3	Vancouver, British Columbia	14,060	150
4	Fort McMurray, Alberta	7,557	4
5	Toronto, Ontario	7,444	137
6	Woodstock, Ontario	5,140	14
7	Montreal, Quebec	4,277	43
8	Dawson Creek, British Columbia	3,198	1
9	Cambridge, Ontario	3,017	7
10	Duvernay, Alberta	2,404	1
11	Edmonton, Alberta	2,264	12
12	St. John's, Newfoundland & Labrador	2,246	2
13	Alliston, Ontario	2,245	5
14	Aurora, Ontario	1,811	3
15	Fort Nelson, British Columbia	1,244	3

Source: Asia Pacific Foundation, 2019 Investment Monitor [65]

Building capacity to offer relief when prevailing economic conditions demand it

Many economists argue that for normal economic boom and bust cycles, stabilization should be pursued using monetary policy. The primary logic is that monetary policy would result in swift action that can be more easily reversed as conditions changes. However, monetary policy tools are the exclusive privilege of the federal government implemented through the Bank of Canada. They are also applied for the average or overall economic condition, rather than conditions specific to a province or city. The only options available to the provincial and municipal governments are fiscal policy tools.

There are nine broad categories of fiscal policy options available to give the economy a lift when downturns emerge. Currently, only four of these nine measures are available to The City of Calgary. For example, during COVID-19, The City of Calgary applied measures #1, #3, and #4 through to June 2020 (see Figure 24). There is a desire to have additional tools by fully turning on option #5 to better support the business community. It is of particular interest for Calgary, given the highly cyclical nature of the economy, as reflected in a higher number of downturns relative to other big cities in Canada (Figure 25). However, the extent of using option #5 is limited by the fact that municipalities are not allowed to use deficit financing for a long period of time and cutting municipal services during recessions is not a countercyclical choice.

Figure 24: Channels of Support for Downturns

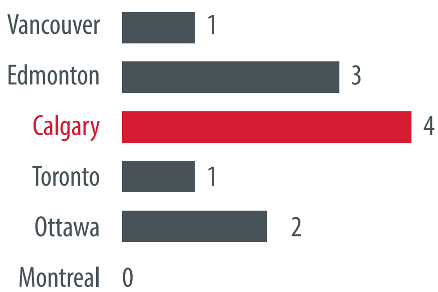
	Top 15 Canadian Cities (2013-18)	Federal	Provincial	Municipal
	Measures for Household			
1	Lump-sum rebates and incentives	Y	Y	Y
2	Temporary across-the-board rate cuts	Y	Y	N
3	Defer/ eliminating scheduled tax	Y	Y	Y
	Measures for Businesses			
4	Incentives for new investment	Y	Y	Y
5	Cut in tax rates for businesses	Y	Y	N
6	Operating loss/ carryback provision	Y	Y	N
	Government Spending Measures			
7	Direct transfers to households	Y	Y	N
8	Invest in public works project	Y	Y	Y
9	General funding to local governments	Y	Y	N

Source: U.S. Congressional Budget Office (Options for Responding to Short-Term Economic Weakness, 2008)

Making Calgary More Competitive, Livable and Attractive

Figure 25: Frequency of Downturns in Big Cities

Incidence of negative annual nominal GDP growth



Source: Oxford Economics, 2019

Measures Proposed by the Task Force

To address the need to improve tax competitiveness without sacrificing livability, the Task Force recommended:

Key Message XV: Achieve a balance between a great city in which to live and having a competitive level of taxation.

Recommendation #18: Further develop and sustain Calgary's superior livability outcomes while having competitive residential and non-residential property taxes.

- *The goal is tax competitiveness.*
- *Use the other five largest Canadian cities and the other five large regional municipalities in the Calgary region for the comparison.*
- *To be transparent and credible, adjust for differences in the range and level of service as well as extent of fiscal tools as best as possible across jurisdictions.*
- *Measure and benchmark tax competitiveness using municipal property taxes per square foot for non-residential property.*
- *At the same time, ensure a balance so that taxes are competitive per unit of representative residential dwelling.*

Key Message V: Continue to develop processes that yield information on the extent to which City services benefit residents and local businesses to incorporate in decisions.

Recommendation #28: Address the distinction between two elements. First, the value of services, privileges and The City's value proposition. Second, the cost of services that benefit residents and businesses in the city. The difference would represent City services afforded to non-residents.

- *Develop and implement processes that would generate good and acceptable information about the value of services provided by The City that do not accrue to residents and businesses in the city.*
- *Develop and implement a cost of service study, starting with those services for which the estimation process is easier and faster to complete.*

To address the need to add tax stability to tax competitiveness to build credibility and trust of private investment capital, the Task Force recommended:

Key Message XVI: Reduce tax volatility over time for individual residential and non-residential tax payers to limit the risks associated with the cost of living and doing business in Calgary

Recommendation #20: Calgary residential and non-residential taxpayers need to rely on stable property tax payments with low and predictable changes over time.

- *Change the approach from determining the level of services before finding the tax dollars because it runs the risk of creating volatility.*
- *Reduce the risk of volatility by determining maximum revenue growth and then finetuning the level of service to meet the restricted revenue growth.*
- *Recognize that some thin-tail risk events, such as the COVID-19 pandemic, that would be challenging to accommodate.*

Key Message XVII: Taxation policy and its implementation ought to balance stability in the level of taxation relative to the level of service

Recommendation #31: Adjust the taxation policy and its implementation to balance the level of service and taxation level in favour of long-term stability in taxes over stable services:

- *Build flexibility to service delivery – plan for differentiated operational flexibility of service level provision, not the elimination of services that Calgarians have come to rely on, to allow adjustments to the costs to deliver services promptly. For example, adjusting the frequency of garbage collection to accommodate financial circumstances. It would be beneficial to:*
  - *Underlie the analysis that would inform decisions with a triple bottom line review of impacts to avoid defunding vulnerable groups or generating unintended consequences.*
  - *Outline and communicate the options available for consideration and the rationale for the Council decisions.*

- *Adjust to Taxpayer Preferences – Recent survey data, following the downtown tax shift, suggested that Calgary taxpayers are more tolerant of volatility in the level and breadth of services than tax volatility. Conduct additional survey analysis to verify the findings and update taxation policy as required to adjust by leveraging the flexibility built into service delivery.*
- *Exception for New Services – Recognize better acceptance of increases in taxes whenever new services or service improvements occur that lead to the increases.*
- *Private Sector Support – Adjustment to services in constrained environments should include contracting out services wherever possible. It would consist of a business case that confirms that cost savings would materialize – prioritizing the local business community where it makes the most sense. Consider adding the cost of administering the contracts (i.e. contract administration) as an administration fee.*
- *Municipal Finance Communication – Intensify communication on the link between taxes paid and services received. Recognize that many taxpayers have a tax input-to- service output view of municipal finances.*
- *SAVE Program Review – Embrace the findings from the detailed review of the balance of spending activities relative to existing taxation authority already underway.*

To address the need to build capacity to offer relief when prevailing economic conditions demand it, the Task Force recommended:

Key Message XVIII: Extend tax rates as a potential tool for countercyclical fiscal policy

Recommendation #32: Advocate for the scope to deploy countercyclical fiscal policy at the municipal government level when the local economy is in a recession, by starting with the following tools and then expanding on them:

- *Tax rate reductions as targeted relief for businesses whenever economic conditions suggest that the relief would generate economic stimulus.*
- *Explore the benefit of the timely conversion of underutilized or vacant land into structures when required to spur economic activity*
  - *Explore the benefits before proceeding with such tools, including legislative changes that improve the ability to achieve goals.*
  - *Encourage the use only when the benefits exceed the costs, otherwise rely on existing tools available through tax rate changes and other tools.*
  - *Incorporate rules that would allow discontinuation of such practices when the evidence indicates that anticipated positive net benefits do not materialize.*

Working Better with Partners in Achieving Progress

Improving working relationships with a province that prefers few fiscal tools

Over the years, the Alberta provincial government has emphasized building Alberta tax advantages in Canada by striving to maintain the lowest or one of the lowest tax rates in the country. Some of the key measures over the last 15 years include:

- Elimination of the high-income surtax from 8 per cent in 2000.
- Elimination of the capital tax on financial institutions from 1 per cent in 2001.
- Also, in 2001, Alberta became the only Canadian province to have a flat tax rate of 10 per cent for all taxable income (until the 2015 tax year[66]).
- Since 2001, Alberta maintained the highest Basic Personal Income Tax Exemptions for single and spousal taxpayers in Canada.
- Waived health care premiums for taxpayers in all income categories in 2009.
- Elimination of the payroll tax in 1997.
- Alberta continues to be the only province in Canada without a provincial general sales tax.

Based on the provincial Budget 2020, Alberta has the fewest tax tools and lowest tax rates in its provincial tax system, compared to other Canadian provinces. By an estimate, Alberta's tax advantage in 2019 ranges from $13.4 billion when compared to Ontario, to $23.5 billion if compared to Newfoundland and Labrador.[67 68]

As a result, the Alberta provincial government has been unwilling to extend authority for additional fiscal tools to Alberta municipalities and cities. The recent revision to the Municipal Government Act had limited changes, such as adjustments to expanding the use of off-site levies for capital infrastructure in new developments to include community recreation facilities, fire hall facilities, police station facilities and libraries.

The City of Calgary Charter came into force in 2018. In other Canadian jurisdictions, the introduction of City Charters afforded new revenue authority (see table 4). The preference of the Alberta provincial government was to disallow new revenue authority while supporting enhancements to existing tools including:

1. New infrastructure funding formula based on provincial revenues that provide greater predictability for cities and the province.
2. Improve administrative efficiencies by introducing changes to the length and duration of Local Improvement Taxes and reviewing eligible uses for special taxes for modern infrastructure projects.
3. Improve the administration of the destination marketing fee to be directed towards tourism activities.

Improving working relationships with local businesses

In the aftermath of the challenges associated with the 2015 and 2016 economic recession, Calgary's business community needs support. The Opportunity Calgary Investment Fund (OCIF) was created by The City of Calgary in 2018 as a catalyst to attract investment, drive innovation, and spur transformative economic development in the city. Additional efforts are needed to leverage the Fund.

The introduction of business-friendly initiatives that seek to remove barriers to businesses and actively support their growth and development is welcome. An important first step is status as the first municipality in Canada to allow small business customers to start a new business completely online. These are important steps, but more is needed to make Calgary even more attractive for businesses. An ongoing partnership with businesses to understand and overcome barriers and promote growth is

Table 4: New Revenue Authority arising from City Charters in Other Canadian Jurisdictions

	Jurisdiction	City Charter Legislation	New Revenue Authority	Description	Revenue Benefits
1	Toronto	City of Toronto Act (2006)	Municipal Land Transfer Tax (MLTT)[69]	It is applied to purchases on all properties in the city in addition to the Provincial Land Transfer Tax. Currently, the MLTT rate structure is based on the types and consideration values of purchased properties with five levels of MLTT rates.	Total MLTT revenue between 2014 and 2018 increased by an average annual rate of 13.8 per cent, from $450 million in 2014 to $730 million in 2018[70].
			Personal Vehicle Tax (PVT)[71]	A tax on passenger vehicles, light commercial vehicles, motorcycles or moped registered for personal use. Registrants with a Toronto address were expected to pay the PVT at the time of licence plate validation renewal. If the PVT was not paid, plate validation would not be renewed.	Used by City of Toronto from 2008 to 2010. It was disliked by tax payers. On January 1, 2011, the newly elected Toronto City Council voted 39-6 to repeal the PVT, a decision that was expected to cost the city about $64 million annually[72].
			Third-Party Sign Tax (TPST)[73]	The tax applies to the owners of all third-party signs in the city with a sign face greater than one square metre. It is an annual tax based on the size and location of the sign, as well as the type of copy displayed. Signs fall into one of six categories.	From 2010-2016, the TPST has generated total net revenue of approximately $69.6 million for the City of Toronto[74].
			Municipal Accommodation Tax (MAT).[75]	Hotels and individuals offering short-term rentals must pay a four per cent MAT. The City of Toronto authorized the Greater Toronto Hotel Association as the City's collection agent for the MAT – Hotel, and the licensed short-term rental companies as the City's collection agents for the MAT – Short-term Rental.	The MAT revenue provides funding for Tourism Toronto, as well as programs and services that visitors use (such as roads, transit, culture, parks, natural areas and recreation).
2	Vancouver	Vancouver Charter (1953)	Empty Home Tax (EHT)	It is a tax on empty and under-utilized class 1 residential properties within the City of Vancouver[76 77]. The goal of the EHT is to return empty or under-utilized properties to use as long-term rental homes for people who live and work in Vancouver. Net revenues raised are used for initiatives respecting affordable housing.	EHT revenue increased from $38 million in 2017 to $39.4 million in 2018 and empty homes declined from 2,538 units in 2017 to 1,989 units in 2018.[78]

Table 4: New Revenue Authority arising from City Charters in Other Canadian Jurisdictions (continued)

	Jurisdiction	City Charter Legislation	New Revenue Authority	Description	Revenue Benefits
3	Winnipeg	City of Winnipeg Charter (2002)	The Entertainment Funding Tax[79 80]	It is applied to any venue hosting performance with a ticket price of $5.00 or more for the entertainment facilities with a fixed seating capacity of 5,000 seats or larger and for-profit cinemas of all sizes. The tax rate is 10 per cent of the admission price.	It is a source of funding for the arts and culture in the City of Winnipeg.
			Advertising Signs Business Tax	Imposed on advertising signs (primarily billboards) and paid by the owner of the sign. The tax is assessed based on the size of the sign. Identification and mobile signs are among the signs excluded from this tax.	Imposed on advertising signs (primarily billboards) and paid by the owner of the sign. The tax is assessed based on the size of the sign. Identification and mobile signs are among the signs excluded from this tax.
			Accommodation Tax	It is a five percent accommodation tax collected by the providers for all accommodations (hotels, motels, etc.) and remitted to the City of Winnipeg monthly.	It generates revenue to support Destination Winnipeg, the Winnipeg Convention Centre, and special events including other organizations, projects and events that will encourage tourism to Winnipeg.
			The Mobile Homes Licenses Fee	A fee collected instead of Municipal and School Taxes. It is the mobile homeowner's contribution to city services which parallels the property taxes collected on other homes.	
			Gas & Electricity Tax.	A tax on the consumption of electricity and natural gas for non-heating purposes within the city limits. The tax is to be calculated, collected and remitted by the seller. The tax collected is treated as general revenue and, along with Property Taxes, is used to pay for the various services provided by the City of Winnipeg to the residents.	

essential.

Measures Proposed by the Task Force

To address the need to improve working relationships with the province that prefers few fiscal tools, the Task Force recommended:

Key Message XIX: Advocate for timely legislative changes by the other orders of government

Recommendation #9: Develop research and analysis that document the extent of the decline in bricks and mortar and the transition to new models of delivering goods and services. Use it to demonstrate that municipalities' traditional real estate tax revenues cannot capture the transition to e-commerce transactions. Use the findings to advocate for the reform of municipal finances and the revenue-generating tools available to municipalities.

To address the need to improve working relationships with local businesses, the Task Force recommended:

Key Message XX: Investigate the reasons for the crisis level vacancy rate in the downtown office market and respond with actions and policy changes to the regulatory environment that enhance attractiveness

Recommendation #33:

- *Implement targeted engagement and surveys to learn the motivations of businesses that leave downtown Calgary for other parts of the city and new businesses that choose to locate outside downtown Calgary despite low-cost, abundant office space in downtown Calgary.*
- *Use the findings to inform policy changes to the regulatory environment that would make downtown Calgary, and other parts of Calgary, more attractive.*
- *In addition to policy changes, determine the actions and activities that The City and community can do to alleviate that crisis.*
- *Some of the activities would include*
    - *Promoting the benefits of the business environment in Calgary to retain and attract businesses.*
    - *Demonstrating that Calgary is a modern city that is the centre of activity beyond oil and gas activity.*
    - *Emphasizing the high quality of life in the city and the quality of governance and policymaking in the city to encourage growth right across the city.*

Improving Tax Efficiency for Long-Term Fiscal Sustainability

Opportunity to enhance management of City financial resources

There are four performance criteria for assessing quality implementation and administration of revenues and taxes. They include minimizing the tax gap (the difference between revenues expected and received), effective tax administration, information security, and convenience of payment. For the fourth criterion, only 60 per cent of taxpayers participate in the TIPP program designed to support payment convenience. That level of performance is like or better than comparable municipalities across Canada, but improvements would be beneficial. They would limit the strain on resources during tax season and smooth City cashflows over time (Figure 26).

Figure 26: Tax-related Cash Flow Volatility

2020 Cash Forecast (Assuming Funds Not Invested)

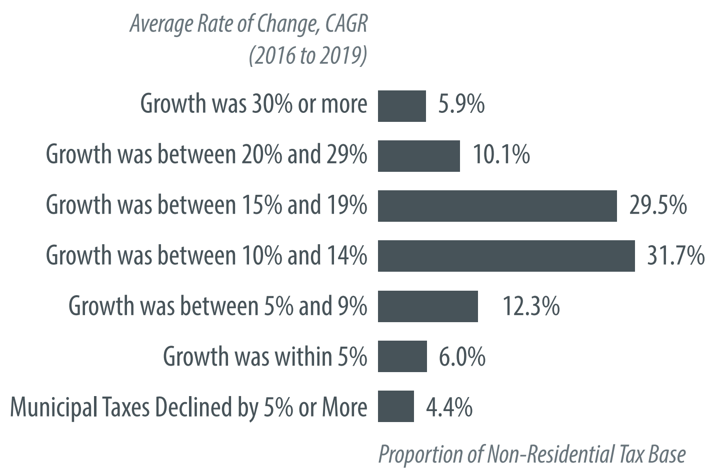
Source: City of Calgary

Identifying early signals of the urgency for tax reform

There are differences in the frequency of property assessments for municipalities across Canada. They are due to differences in legislation that reflect underlying preferences and value judgements in the trade-off between certainty (less frequent assessments) and equity (more frequent assessments). For example, the province of Ontario undertakes property assessments every four years. Ordinarily, that process for property valuation would provide some assurance for four years. However, it elevates the risk of a substantial tax adjustment every four years. It is because property taxes, after four years, often reflected economic conditions for an earlier and different economic cycle. It led to incremental adjustments midway through each cycle to reflect changes in economic circumstances. Still, residents have found explanations about the incremental adjustments unnecessarily confusing. Negative feedback for both short and long assessment cycles would suggest that the challenge is not the frequency of assessment.

Figure 27: Pre-Mitigation Non-Residential Property Tax Volatility (2016-2019)

Non-Residential Municipal Property Tax Volatility without Mitigation Measures



Source: The City of Calgary

For the past four years, The City has applied one-time mitigation measures repeatedly. It includes four consecutive phased tax programs often combined with one-time rebates. The approach is diminishing the credibility and predictability of taxation policy. While Council has benefitted from the additional degrees of freedom for decision-making, it provides less clarity to the general public about future taxation expectations. It does not support long-term planning for taxpayers, particularly for investment decisions. Fiscal sustainability at The City is also affected because the programs create 'bow waves' that last long after the decisions. Taxpayers find it difficult keeping up with changes and would benefit from simplicity.

Adequate consideration for the volatility impacts on taxpayers

Currently, the tax rate decision occurs before finalizing the assessment roll. First, Council's tax rate decision for a given tax year occurs annually in late November of the previous year. Then, the annual property assessment roll completion occurs in late December. Completing the assessment roll aligns with the legislative requirement to inform property owners and afford them enough time to review their assessments and bring forward any complaints. Having the tax rate decision before finalizing the tax roll limits the understanding of the implications to taxpayer groups. The consideration of the impacts at property tax bylaw finalization in March or April of the tax year is late. The Tax Shift Assessment Working Group's recommendation was to provide Council with illustrative information in November of the anticipated tax changes for a representative number of properties, including a single residential dwelling and a variety of non-residential properties. This assists Council in understanding the potential amount of individual taxpayer volatility for those illustrative examples.

There is a rapid rate of change in Calgary's cyclical economy. It results in a high level of volatility for non-residential property assessments. There are a relatively small number of taxable non-residential accounts – 14,216 non-residential accounts vis-à-vis 517,578 residential accounts for the 2020 tax year. The high volatility over a small base contributes to the high level of activity in the complaints process for non-residential accounts. Reforms using smoothed assessments rather than annual assessment, for annual taxation policy could be beneficial. Also, policy efforts that provide better certainty for the non-residential class stand a good chance of reducing the magnitude of complaints from non-residential accounts.

Measures Proposed by the Task Force

To address the need to enhance management of City financial resources, the Task Force recommended:

Key Message XXI: Focus on long-term fiscal sustainability

<u>Recommendation #10:</u> *The goal is long-term fiscal sustainability.*

- *Establish and commit to the principle that long-term growth in revenue from property taxes shall reflect anticipated long-term population and real economic growth.*
- *Complement with ongoing work on prudent budgeting and spending.*
- *Although the mandate of the Financial Task Force did not include a consideration of initiatives targeted at spending discipline, Task Force members emphasize the vital role of spending discipline for achieving long-term fiscal sustainability.*

Key Message XXII: Strive for a higher uptake of the tax installment payment plan to improve cash flow smoothing by changes to the customer experience including nudging

<u>Recommendation #25:</u> *Increase the uptake on The City's Tax Installment Payment Plan (TIPP) program by developing and implementing processes for pursuing intrinsic motivation in addition to extrinsic motivation.*

- *Expand extrinsic motivational cues, such as financial rewards, to encourage uptake on the TIPP program. Examples are considerations for adjustments to the sign-up fee and potential financial incentives like one-time discounts.*
- *Expand the methods applied to increase TIPP program uptake to include nudging. Nudging focuses on intrinsic motivation using subtle hints, and evidence from behavioural economics suggests that it is more effective than extrinsic motivational cues.*

To address the need to identify early signals of the urgency for tax reform, the Task Force recommended:

Key Message XXIII: Maintain processes that allow the annual practice of property assessments and valuation because it provides evidence that enables The City to anticipate changes

<u>Recommendation #26:</u> *Do not sacrifice high-quality information available through annual property assessments that improve the ability to monitor and respond to underlying changes in the economy and real estate markets.*

- *Maintain the practice of undertaking annual property assessments to generate baseline information about the underlying shifts in the property tax base. Without frequent updates, it would be challenging to anticipate changes in the distribution of the tax responsibility across groups.*
- *Review the best way to use that information to position The City to respond to the changes.*
- *Recognize evidence of the limited cost savings from a transition to undertaking assessments less frequently, such as biennially or every three years.*
- *Conducting assessments every year should not necessarily lead to or translate to direct and immediate*

changes in the distribution of the tax responsibility.

Key Message XXIV: Avoid ad-hoc decision-making and resist the urge to apply one-time mitigation measures

Recommendation #34: Make property taxation policy more predictable by limiting one-time mitigation tools, such as phased tax programs and rebates, to address imbalances across taxpayer groups.

- *Build Credibility – Support municipal property taxation policy credibility by limiting the use of one-time mitigation tools to exceptional circumstances. The pressure to re-use a one-time mitigation tool in consecutive years should be resisted and interpreted as the need for immediate implementation of tax policy reform.*
- *Improve Targeting – Avoid using one-time mitigation tools that are determined to be blunt tools during the investigation and analysis process. Seek legislative change, as required, for long-term tools that would improve targeting in Calgary's ever-evolving economy.*
- *Educational Support – Provide information directly to residents and businesses. Disclose taxation policy in plain language. Explain the long-lasting effects of one-time mitigation programs ahead of time, so taxpayers can better understand and anticipate changes to their tax bills.*
- *Make exceptions for low probability, but high-impact (thin-tailed) events – The emergence of the COVID-19 pandemic in 2020 confirms that thin-tailed risks attributable to once-in-a-lifetime events could arise. Incorporate flexibility to accommodate such thin-tailed risks. Such thin-tailed risk events could require continuous use of one-time mitigation.*

To address the need for adequate consideration for the impacts on taxpayers, the Task Force recommended:

Key Message XXV: Revise steps in the process to ensure that the assessment roll is completed before indicative tax rates to deliver timely information to decision-makers

Recommendation #27: Address the misalignment where the approved tax rate decisions occur before information on the distribution of annual property assessments through the property assessment roll is available.

- *Develop and implement changes to processes for the assessment roll that would allow earlier information on the results of annual property assessment exercises.*
- *Adjust the timing of the approved tax rate decision or the timing of assessment roll completion or both*
- *When determining tax rates for budget approval, provide as much information as possible on the distribution of the tax responsibility across classes (and sub-classes if applicable).*
- *The information should include impacts of a range of tax rate decisions on different classes and sub-classes and non-residential taxpayer groups, such as retail, office and warehouses.*
- *Affirm recommendations from City Council's Tax Shift Assessment Working Group requiring the same type of information for the indicative tax rate decision before the approved tax rate decision.*
- *Seek legislative and regulatory changes from the provincial government where necessary, including a date change for finalizing each property's condition. December 31 is currently the day to finalize the property condition.*

Key Message XXVI: Investigate a multi-year assessment smoothing for tax policy update emphasizing evidence from the 2015 to 2019 downtown tax shift for a long-term policy response

Recommendation #35: Given recommendation #26 to maintain the annual market value assessment process, investigate a multi-year assessment smoothing for taxation policy update. If warranted, establish revisions to the policy guidance for transmitting the results of annual market value assessment into taxation. The goal is to minimize the changes in property taxes over time for individual taxpayers. To the extent that averaging does not help with reducing volatility, retain the current policy. To the extent that averaging does help reduce volatility, seek legislative or regulatory approvals as required to implement the change.

- *Volatility Challenge – The rapid rate of change in Calgary's cyclical economy results in a high level of volatility for non-residential property assessments and taxes over a limited number of accounts (14,216 for the 2020 tax year). High volatility over a small base contributes to the high level of activity in the complaints process for non-residential accounts. Explore the extent to which reforms using smoothed assessments rather than annual assessment would be beneficial for the policy on yearly tax changes.*
- *Compile Evidence –Gather evidence on assessment smoothing impacts relative to counterfactual two-*

year, three-year, and four-year rolling averages of annual assessments. The analysis should emphasize data for the 2015 to 2019 period. The analysis should consider a variety of averaging methods beyond the arithmetic mean.

- *Generate Options – Assess the ability of the two-year, three-year, and four-year rolling average options to minimize assessment fluctuations and, by extension, limit tax volatility.*
- *Taxpayer Support – Explore taxpayer support for changes by starting with the extent to which it provides certainty. Then, extend to tolerance to sustain the practice not just when property assessment values are increasing, but also when they are decreasing.*
- *Political Support – Deliver the results of the analysis to Council with recommendations for the period average to apply for smoothing property assessments over the long-term if averaging makes sense.*
- *Legislative Change – If averaging is beneficial for reducing volatility, and the decision is to proceed, seek legislative or regulatory approvals. Use the evidence gathered to inform a business case alongside Council recommendations for provincial government consideration.*
- *Policy Review – Should the policy review get through the legislative change phase, complete a multi-year assessment and mill rate smoothing review for taxation policy. It should inform practices for long-term financial sustainability.*
- *Phased Implementation – If there is evidence of the ability to minimize volatility, apply a phased-in approach to implementation to manage taxpayer expectations over time. Including an assessment of impact through the transition.*

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief

	Proposed Measures	Support[81]	Brief Description	Summary Rationale for Anticipated Efficacy
I. Tax Relief Measures				
01	Municipal Property Tax Deferral Program • Delay Collection • Delay effective date for penalties	Universal	Apply to households and businesses For fairness, if the deadline gets extended for lump-sum taxpayers, you would need to provide an optional TIPP deferral too. <u>Option 1 (no explicit opt-in provision):</u> Delay property tax collection (e.g. from June 30 to August 31) with the 7% penalty also delayed (e.g. starting September 1). For a transfer of title, due to property sale, taxes would need to be paid as part of the transaction. <u>Option 2 (explicit opt-in provision, apply to TIPP):</u> Opt-in deferral for 2 or 3 months without interest or penalty. It should apply to TIPP payments for April-June. An extension of the June 30 tax deadline by 2-3 months.	• Prolonged Disruption: Health restrictions may disrupt our lives for an extended period. The regular tax deadline at the end of June would be daunting for many residents and most businesses. • Cashflow: It would help alleviate cash flow problems. • Household/ Business Planning: An early statement of a later deadline provides a planning window for everyone. • Pan-Canadian: Municipalities across Canada have adopted various Property Tax Deferral models[82]. They typically last between 60-150 days (mostly 60-90 days). • Opt-in/out program: Allows many that can pay to do so. It provides an offset for those who need to defer.
02	Provincial Property Tax Deferral (opt-in)	Unique	Create an opt. in/out for the Provincial deferral	• Cashflow: could help with temporary management of cash flow for the municipal deferral program
03	Provincial backstop for Municipal Property Tax Deferrals	Some	• Municipal portions of property tax bills are more substantial than the Provincial, and it is likely more challenging for Municipalities to take on debt for this kind of event. • It would be great to have the Economic Resilience Task Force at the City level engage with the Economic Recovery Board that the Province has put together.	• Limited provincial fiscal capacity: Province has already announced a rollback of previous increase in taxes and is in a difficult position due to commodity prices as well. • Opportunity to demonstrate to the Province City's limited ability and tools to adapt during changing/ challenging times. It is an opportunity for the City to work with the Province and Federal government through these challenges and align ourselves better with the other levels of government.
04	Property Tax Payment Schedule	Unique	Create a realistic payback schedule for deferrals as quickly as feasible.	Certainty as to when these obligations will come due is critical to all parties.

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief (continued)

	Proposed Measures	Support	Brief Description	Summary Rationale for Anticipated Efficacy
05	Approach Property Tax Rebates and Abatements with extreme caution	Strong	• Some will need relief beyond deferrals. • Explore the potential for administering a program: (a) without significant administrative burden by application, and (b) meeting specific criteria. It would reduce the number of applicants and provide necessary relief to those in greatest need.	• Some taxpayer subgroups would be affected to a higher degree than others. However, like the "small business sub-class" discussion, the property tax system is not well suited for targeted relief. • Consider avoiding another bow wave (e.g. PTP), or a program offering preferential treatment or at risk of exploitation by some.
06	Municipal property tax rebate would work if coordinated with Federal government	Unique	• It would require coordination with the Federal government post-crisis for assessments. • For individuals – it could be linked to COVID-related layoffs and tied to EI eligibility. • For businesses – it could work if eligibility gets linked to those that apply and are found eligible to receive the wage subsidy.	• For businesses, The City should be able to deny or claw back any amounts that businesses took advantage of and had to pay back the subsidy. • For individuals, it should benefit those in need, not the entire population.
07	2021 Phased Tax Program for Non-residential	Unique	A Phased Tax Program could be necessary for those businesses that survive beyond the COVID-19 outbreak because many businesses are at risk of failure in the next few months.	• A significant anticipated property tax increase in 2021 may spell failure for more businesses when they are weighing the odds about whether to re-open. • If a lot of businesses fail to re-open, then a significantly smaller number of businesses city-wide will have to split the non-residential tax portion, and non-residential taxes would increase considerably in 2021.
08	2021 BIA Tax Relief	Unique	The forgiveness of the shortfall in The City's 2020 levy collection that would ordinarily get billed to the BIAs in 2021 as a relief. Levy collection could affect the viability of businesses.	Fifteen (15) BIAs represent about 3,000 businesses and 55,000 employees in Calgary. Evidence from previous physical and economic disasters in North America suggest that BIAs would be the first business districts to emerge from this and will likely have a better recovery rate than non-BIA areas. So, if recovery begins or stalls in the BIAs, that may affect city-wide small business confidence in whether to follow suit re-opening or closing.

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief (continued)

	Proposed Measures	Support	Brief Description	Summary Rationale for Anticipated Efficacy
09	Program to prepare for unusually high property tax default rate following the deferral	Unique	The ability of some individuals and businesses to be able to withstand the ongoing economic shocks and be able to pay their deferred property taxes in the fall of 2020 is very low.	There is a risk that the default rate would be much higher than expected.
II. Advocacy Measures				
10	General Advocacy with the Province on behalf of City	Unique	Examine the ability of the Province to consider delivering essential services when cash-strapped municipalities can no longer, e.g. police, fire, water.	• Exhaust economic relief measures for the municipality
11	Engage Province for provincial education property tax reduction	Some	Province likely has dollar savings from layoffs earmarked for provincial COVID relief programs	• Lower provincial education funding requirements due to laid-off/ furloughed workers (i.e. educators, administrators)
12	Work with Provincial Authorities on Designated Essential Business Activity	Unique	• Promote normal, appropriately distanced essential business interaction (including for real estate). • Keep the outdoors open and continue to conduct business, ensuring that the Calgary business community accommodates personal safety. • Innovate through online and no-contact delivery to demonstrate that Calgary businesses are open to serve Calgarians' needs.	• Sustain economic activity: In a free market economy, innovation and where possible 'business as unusual' needs to be celebrated and honoured. • Less reliance on government: The dependence on government support can be pivoted to the business community doing what it usually does to drive the economy. • Municipal leadership: Affirmation that Calgary is a shining example of free enterprise and a can-do spirit.

Annex 1: Recommendations for COVID-19 Relief Measures

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief (continued)

	Proposed Measures	Support	Brief Description	Summary Rationale for Anticipated Efficacy
13	Explore Federal Backstop for Liquidity Support to Individuals and Businesses	Some	• Many businesses were under vulnerable financial circumstances even before COVID-19. • The sudden and drastic revenue for all companies means nearly every company is facing a liquidity crisis. In other words, companies need cash. • The City cannot give cash, pursue measures that would limit some money leaving the hands of residents/ businesses and get federal backstop: • Free public transportation already in place in some jurisdictions • Free parking at AHS, What about The City?	• Federal relief is limited: The Federal Government has announced various forms of cash relief, including the Canada Emergency Response Benefit (CERB) and a 75% wage subsidy for employers. These benefits will help, but they do not offset the massive decline in revenue most companies have faced. • Double-whammy for Calgary: Plummeting oil prices and COVID-19 makes this extremely difficult for residents, businesses, and non-profits in Calgary. • Advocacy Opportunity: Cities are at the front and centre of the crisis. Do not lump big cities with others. • Municipal property tax deferral alone would be insufficient.
14	Work with Province and Federal governments on a Financial incentive/ interest-free loan program	Some	• Consider both provincial debt and municipal debt, if possible. • Focus on only those enterprises that align with the Calgary long-term vision as presented by CED (i.e. Calgary in the new economy), allocated via OCIF or some other means. • Focus on the future. Ensure we come out of this with as much momentum as possible once the COVID situation passes. • Many small businesses are just not in a position to take on more debt with their homes already leveraged and with lines of credit/credit cards already gasping. Although provincial and federal coffers have limits, debt forgiveness needs consideration.	• Use for getting businesses kick-started following the crisis. • Help enterprises to get back on their feet • Support new enterprises to start. • We will have a bunch of people potentially out of work, so providing financial support to start new businesses and bringing back old ones will be critical.
15	Leverage City resources to link citizens/ businesses with help from the various Federal and Provincial resources available	Some	• The federal and provincial governments are continually rolling out new programs to boost economic activity. The City should consider setting up a helpline where people can call to get more information and get directed to the right resources. • Opportunity to leverage City staff and their skill sets to help citizens and businesses access other levels of government support and non-profit help.	• Citizens and small businesses are often left scrambling to find this information on the website that is causing some confusion and panic. • Consider providing webinars and support for businesses that are struggling and help them pivot or move online to maintain operations and employment (include a role for civic partners).

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief (continued)

	Proposed Measures	Support	Brief Description	Summary Rationale for Anticipated Efficacy
16	Work with the Provincial and Federal governments on the Mandated rent relief programs	Some	• Advocate for a requirement that landlords who seek mortgage deferrals to provide a consistent type of relief to tenants (e.g. period, a proportionate amount of interest/ rent relief). • Advocate for rent subsidies for a long-term crisis/ deferral for a short-term emergency. • Support getting landlords to the table to negotiate some forgiveness of rent.	• Other orders of government are rolling out mortgage deferral programs, but cities are on the front lines. • Rent deferrals are helpful for the short-term. Over an extended period, a rent subsidy would work better for low-income earners and young renters.
17	Emergency grant transfer program supported by the Provincial and Federal governments	Unique	There is a very real need for The City of Calgary alongside other Alberta municipalities to appeal to both the federal and provincial governments for help. Grant programs would work better than the ability to run deficits.	Some might argue that city's need to be allowed to run operating deficits. However, the governments with the best ability to incur deficits are the federal and provincial governments.
III. City Services and Resources				
18	City Communication Services: Increase supply to meet higher demand	Unique	• Need clarity on the following for City initiatives. How much do I pay The City? When do I pay? Under what terms? Deferral or Grant?	• Communication is often not clear—more questions than answers in some cases. • The example where City tax collectors supported deficient account holders with other sources of support was compelling.
19	City Resource Use: Need for General Cost Control	Some	The City needs to implement and seen to implement/ review both relief and cost control measures. It means providing relief and stimulus while also looking to reduce costs.	Without cost control, the reputation of The City as taking a balanced approach is in jeopardy. It may not be the case at the outset where the COVID-19 concern outweighs other considerations; however, as the situation ebbs, it would be evaluated in retrospect.
20	City Resource Use: Vendor/ Contractual Obligations Review	Unique	• For vendors, consider services that can or should get reduced/ scaled back during this period of distancing. • For contractors, identify those with deliverables that have force majeure or "act of god" provisions that may relieve The City from having to deliver.	• Without cost control, the reputation of The City as taking a balanced approach is in jeopardy. It may not be the case at the outset where the COVID-19 concern outweighs other considerations; however, as the situation ebbs, it would be evaluated in retrospect.

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief (continued)

	Proposed Measures	Support	Brief Description	Summary Rationale for Anticipated Efficacy
21	City Resource Use: Review Level of Service for City Services	Unique	• Identify City services that could be considered non-essential and those that can be scaled back • Examples could include: transit reducing hours, garbage collection less frequent, park picnic bookings not available, regular maintenance road repairs, recreation centres	• Scaling back would allow the furlough or lay off employees, which may be a difficult decision to make. • Scaling back eases the strain on City cash flows. It re-directs the issue of lack of funding to the Federal level as individuals would then be eligible to receive EI. Unfortunately, it creates uncertainty and reduced or no income for individuals).
22	City Resource Reallocation: applied to Existing City Funds	Some	• Free up committed reserve funds and other available dollars from obligations • It could happen through either a deferral or cancellation of obligations where contractually possible • There are some well know major capital projects. E.g. Green Line, Event Centre, BMO, Arts Commons. There could be others.	Calgarians would understand the need for the delay of such projects. As well, they would appreciate alternative uses of funds regardless of whether they are supportive of the projects or not.
23	City Resource Reallocation: applied to Existing City Staff and Facilities	Unique	• Support increased need/ demand for social supports that run the risk of overwhelming the system because of insufficient dollars or people (volunteers) to address needs promptly. • Partner with community organizations to publicize community efforts through City channels. Examples are: (a) Calgary Foundation advertising organizations in need and accepting donations; and (b) ATB Cares matching donations	• Redeploy city workers to assist temporarily. • Communications staff could get the word out • Facilities staff for closed locations could work at newly set up shelter locations to organize or supervise individuals staying there, clean, etc.
24	City Pitch: Explore positioning Calgary's available office space	Unique	Businesses would have to revisit office arrangements in a post COVID world, including spacing workers out more to maintain some level of social distancing.	If we assume a fundamental shift in the future, it is worth exploring Calgary's ability to point out the availability of lots of office space to accommodate greater distancing at work.

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief (continued)

	Proposed Measures	Support	Brief Description	Summary Rationale for Anticipated Efficacy
IV. Business Income Support				
25	Business Income Support: Designated Essential Services for The City	Strong	Identify discretionary/ non-critical services. Limit costs to essential services. Apply savings as follows: Option 1: Seek to realize all potential savings from shuttered operations to offset the deferral program Option 2: Pass through any cost savings through temporary layoffs to residents and businesses (not prescriptive).	• Not business as usual: Calgarians expect layoffs from The City, so do not operate under "business as usual" conditions. • Minimize harm: Caution against additional people related cost savings. The City should support its citizens by providing meaningful employment opportunities through these challenging times. • Explore program offsets: Potential savings from shuttered operations could finance temporary deferral.
26	Business Income Support: for all (not some) Businesses	Unique	Retail and hospitality sectors were adversely affected in the immediate aftermath. Commercial property owners and homeowners in Calgary are also affected by the crisis.	Be careful not to pick winners and losers in a crisis.
27	Business Income Support: to enhance their digital capabilities	Unique	Offer grants to small to medium-sized businesses and non-profit organizations to boost their digital, online, and e-commerce capabilities. These can come from several different ways, such as: • Investing in online and e-commerce activities • Training and professional development • Supporting digital transformation projects • Receiving expert advice from professional services firms (Accenture, McKinsey, Deloitte, SAP, etc.) to develop suitable digital solutions for the business for quick implementation.	• There would be a limit on the funding available for each category and a cap on the total funding a particular business can access from this program. • Suggest to re-direct funds set aside for OCIF into this program. • These professional services companies have the extra capacity as many of their clients have either cancelled or put on hold their projects.
28	Business Income Support: accommodation/ hospitality industry	Some	• During times of economic hardships, there is generally an increased number of people that turn towards city facilities for housing and securing meals. These are also some of the most vulnerable people, in addition to seniors, children, and those facing mental health challenges. • Consider the expansion of locations for homeless and victim's of abuse shelters (happy to see the TELUS convention centre used for a temporary drop-in centre site)	• There are many hotels and restaurant owners that are struggling to make ends meet and, as a result, are closing down. • Secure additional rooms and meals from local hotel and restaurant owners during this time. It would ensure that we take care of all citizens who are unable to afford basic living expenses.

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief (continued)

	Proposed Measures	Support	Brief Description	Summary Rationale for Anticipated Efficacy
29	Business Income Support: for food and agri-business industry	Unique	• Subsidize fees charged to customers from food ordering apps such as SkipTheDishes and DoorDash • The City should consider working with payment system technology companies (e.g. Moneris). Support would be subsidies to restaurant owners and the customer for using services. The goal would be to promote our local restaurants who are struggling in this market.	• Many food delivery apps are already providing $0 delivery fees with minimum orders. However, they still charge a system fee to the customer. They also take a 20-30% cut from the restaurant owner. • It will help promote small businesses that are still open, in particular the local food and agri-businesses who are offering safe, no-contact delivery and pick-up services
30	Business Income Support: Rollback Utility Rates	Unique	Implement a decrease in the utility rates (water, wastewater, recycling) for businesses to 2019 levels for the remainder of the year.	There was a ~3-4% increase in water rates for businesses in 2020 compared to 2019
V. Household Income Support				
31	Household Income Support: Delay in payment for fines and penalties:	Unique	In addition to delaying payment for property taxes, The City should consider deferring payments related to traffic violations and transit fare penalties.	It should contribute ~$1MM into the community.
32	Household Income Support: Utility rebates	Unique	It could require individual provide a statement of receiving the CERB or other support	• Relief for those unemployed as a result of COVID • The rebate value could then be applied to reduce bills and any late payment charges forgiven
33	Household Income Support: Utility payment deferrals	Unique	The target would be for those significantly impacted but challenging to implement.	• Extending to all residents is likely easiest to implement, but most detrimental to utility cash flows
34	Household Income Support: Food Security	Unique	Partner with groups to distribute food to insecure individuals. • Those unemployed first will primarily be lower-income earners • Support access to food banks and other food sources for low, or no income individuals	• Non-profits, such as the LeftOvers Foundation and the Calgary Food Bank, could make use of idle city buses, keeping drivers employed as well as programs running on an expanded basis • Support the re-opening of some restaurants that can provide the food.

Annex 1: Recommendations for COVID-19 Relief Measures

Table 5: Overview of Financial Task Force Recommendations for COVID-19 Relief (continued)

	Proposed Measures	Support	Brief Description	Summary Rationale for Anticipated Efficacy
35	Household Income Support: for the vulnerable	Unique	In Alberta, given the paucity of social supports and the combined oil price collapse. Many households and many businesses do not have the financial resiliency to withstand the months without income or with a significantly reduced income that we now expect.	The only real program to support Alberta families is the federal CERB, which will only replace $2000 of income, which will be taxable at year-end since there is no withholding on the benefit. Nearly all of the business measures are deferrals or loans, at a time when our businesses already had a high debt load.
VI. Non-Income Support				
36	Short-Term Non-Income Support (Household and Business)	Unique	Support community engagement and business groups in their aims, including promoting their activities and letting individuals know what is out there. Utilize the services of Calgary Economic Development, Rainforest, Business Council of Alberta, etc.	Community engagement and connection between individuals is essential. Community and business ecosystems can be self-stimulating, building on ideas, models, and distribution of products and services.
37	Medium- to Long-Term Non-Income Support (Household and Business)	Unique	Support local businesses through: • Staycation programs – coordinated discounts for residents • Shop local initiatives • Online focus to highlight local businesses, what they do and sell in the community, who their owners and managers are. • City-sponsored promotions, contests, and events • Events could be similar to the YYC hot chocolate festival. Without congregated large crowds, you incentivize individuals to visit many restaurants and try new things. Possibly similar to a burger week or pizza week with voting for the best.	• Identify programs with a stimulative effect for the medium- to long-term. • Identify City Sponsored Events. • Utilize capacity of Civic partners (e.g. Tourism Calgary)
VII. Coordination				
38	Coordinated Municipal Programs	Unique	Explore country-wide collaboration with other municipalities • Get on conference calls with other city administrations and learn about their ideas. Consider how they have their provincial leaders for assistance and what requests got enacted expeditiously.	• Reduce uncertainty relative to business elsewhere and associated stress and fear for the business community • Identify options that take longer to enact but have a more significant effect. • Keep up with operating requirements for regional businesses with locations in multiple Canadian municipalities. Pursue a more consistent experience across the organization and ease in implementing.

Revenue Sources in Other North American Cities

The matter of alternative revenue sources for North American municipalities has received active and thorough consideration. City Administration shared the list of tools identified in two comprehensive studies to facilitate the discussion with the Financial Task Force. The first is a 2006 discussion paper commissioned by the Government of Alberta.[83] The outcome was a suggested mix of 13 fiscal new tools for cities that "would give municipalities more autonomy to meet the demands for services and infrastructure, offset distortions in local tax systems, as well as the flexibility to respond to local needs and changing conditions." The second is the outcome of a 2016 study by KPMG commissioned by the City of Toronto[84] The second study reexamined the initial eight tools in the first paper and added three new ones into the mix for a total of sixteen tools. The table below provides a description of the tools and the North American jurisdictions where they are applied.

Table 6: Overview of Some Alternate Revenue Sources considered or applied in North American jurisdictions

	Revenue source	Description	Sample jurisdictions using the fiscal tools
1	Alcoholic Beverage Tax	Alcoholic beverage taxes generate revenue by placing a product-specific tax on the sale of alcohol and can take a variety of forms, such as a sales tax at the final point of sale, a volume-based tax embedded in the price consumers pay or as a direct mark-up.	• Philadelphia's Liquor Tax is a 10 per cent sales tax on every retail sale of liquor or malt and brewed beverage with few exceptions. Established in 1995, it raised USD 60.5 million in 2015. • Washington, D.C.'s Alcoholic Beverage Tax is levied as a fixed amount per unit volume. Different tax rates apply to different types of alcoholic beverages. • Chicago's Liquor Tax applies to businesses that sell alcoholic beverages. The tax is applied to the end purchaser and collected through the supply chain.
2	Entertainment and Amusement Tax	Entertainment and amusement tax is a sales tax applied to consumption and measured by the price paid for goods or services. It has also been used to amusement admission prices	• The City of Regina has had the authority for more than 80 years. Currently, it is a 10% tax on commercial movie theatres with 1% retained by the theatre as an administrative fee. Actual revenue was $709,000 in 2018. • The City of Saskatoon currently levies the tax on the Prairieland Exhibition. Actual revenue was $68,200 in 2017. • The City of Winnipeg levies a 10 per cent Entertainment Funding Tax on cinema ticket prices of $5.00 or more. The tax revenues are refundable to the Winnipeg Goldeyes, True North, and Winnipeg Football club, based on their long-term agreements with The City. • The City of Philadelphia charges a 5 per cent amusement tax on the admission fee for attending any amusement in Philadelphia. The amusement tax generated $19 million in revenues in 2015. • The City of Pittsburgh charges 4.76 per cent amusement tax on admissions at amusement venues, and 10 per cent on the price paid for refreshments, service or merchandise when "entertainment or amusement is conducted at any roof garden, night club, cabaret or other places where the charge is wholly or in part included in the price paid for refreshments, service or merchandise." Amusement tax revenue was USD 17.8 million in 2019 (or 3 per cent of the City's general fund tax revenues). • The City of Phoenix charges municipal amusement tax at a rate of 2.3 per cent effective January 1, 2016. • The City of Chicago levies 9 per cent amusement tax on charges paid for a wide range of amusement activities, including: exhibitions, performances, presentations or shows, entertainment or recreational activities. The City's amusement tax revenue was USD $195.5 million in 2018.

Table 6: Overview of Some Alternate Revenue Sources considered or applied in North American jurisdictions (continued)

	Revenue source	Description	Sample jurisdictions using the fiscal tools
3	Motor Vehicle Ownership Registration Tax	The motor vehicle ownership registration tax is an annual tax that would be charged to owners of cars, motorcycles, and mopeds if their registration addresses are in a municipality	• In Quebec, owners of passenger vehicles registered within most large cities are required to pay an additional annual contribution to public transit. It is collected centrally by the province and distributed to municipalities. • Before 2020, the Union of BC Municipalities (UBCM) administered a Commercial Vehicle Licensing program on behalf of the BC provincial government and local governments. The program ended on December 31, 2019. The cities of Vancouver and Victoria, have introduced their own replacement programs effective January 1, 2020. Starting January 1, 2020, to access commercial loading zones and lanes in the City of Vancouver, commercial vehicles will require a City-issued decal. • The tax is also levied in cities in 27 U.S. States either centrally through the state or locally through their counties. In cities such as Nashville and New York City, the states collect the vehicle taxes on behalf of the city, whereas in cities such as Chicago and Dallas, the city or county receives only their portion of the fees directly at municipal offices.
4	Parking Tax and Parking Sales Tax	A parking tax is typically implemented in one of two ways: either as a parking sales tax or as a parking space levy.	• In 2010, the City of Montreal introduced a new parking tax for paid off-street parking facilities with graduated rates based on the location of the parking facility in the city and whether it is indoor or outdoor. • In the city of Pittsburgh, parking sales tax today is the fourth-highest source of revenues after property tax, earned income tax, and payroll preparation tax. Revenues from parking sales taxes were estimated at USD 56 million in 2019 (or 9.5 per cent of Pittsburgh's total revenue)[85]. • The parking sales tax in Los Angeles was introduced in 1990. It has remained stable at 10 per cent and is based on all parking lot revenues. Revenues generated are approximately USD 85.4 million[86]. • The city of Seattle levies a commercial parking tax that is added to the fee drivers pay to park in Seattle's commercial parking lots.
5	Tobacco tax	Tobacco taxes are levied through the purchase of stamps that are affixed to individual packages of cigarettes or small cigars. They are paid by licensed agents (e.g., wholesalers, distributors) before the distribution of the tobacco products to retail locations.	The tax can be collected either at the state level or by municipalities. In Canada there are currently no tobacco taxes at the local level. However, as tobacco is roundly considered a harmful product, many local governments in the United States tax it heavily to fund public services. These cities include Washington, D.C., Philadelphia, New York City, and Chicago.

Annex 2: Overview of Municipal Revenue Tools in Other Jurisdictions

Table 6: Overview of Some Alternate Revenue Sources considered or applied in North American jurisdictions

	Revenue source	Description	Sample jurisdictions using the fiscal tools
6	Hotel Tax	• A hotel tax is a tax imposed on any staying in commercial accommodation, such as a hotel, motel, and Airbnb. It is collected as a percentage of the cost of a room night sold.	• The City of Vancouver applies a 3 per cent Municipal and Regional District Tax ("MRDT") to sales of short-term accommodations in the City. The MRDT program was initially introduced in 1987 and raised revenue for local tourism marketing, programs and projects. The MRDT is a provincial sales tax on behalf of municipalities, administrated by the BC government. • The City of Halifax charges a 2 per cent municipal marketing levy on hotel accommodations. Hotel operators collect the levy from customers and remit the amount to the municipality (i.e., Halifax Regional Municipality). • New York City applies a Hotel Room Occupancy Tax of 5.875 per cent to hotel room occupants. The tax is collected by hotel operators and then collected by the New York City Department of Finance. Revenues from the city's hotel tax are estimated to be USD 628 million in the fiscal year 2020. • San Francisco imposes a 14 per cent transient occupancy tax on the rental of accommodations for stays of less than 30 days. The transient occupancy tax is also known as the hotel tax. The tax is collected by hotel operators (such as Airbnb) and short-term rental hosts or sites and remitted to the City[87].
7	Municipal Income Tax	Municipal income tax includes personal income tax and corporate income tax[88 89]. A practical way to levy municipal income tax in Canada is to piggyback on the federal income tax system with a municipal tax management agreement with the CRA.	• Some Canadian municipalities levied income taxes before World War II, but they have not been allowed to do so since 1941.[90] • There are two broad options for applying a municipal personal income tax: a tax on residents' total taxable income, or a tax on residents' employment income only. Limiting a municipal personal income tax to employment income is desirable, if the tax revenue is to compensate the municipal costs associated with the economic environment that a city helps to build. • Currently in the U.S., only New York City and Philadelphia levy a local income tax on both individuals and businesses[91]. • In 2019, personal income taxes were imposed by 4,964 local taxing jurisdictions across 17 states in the U.S., with a heavy concentration in Rust Belt states[92].
8	Property Taxes	Full access to property taxes, whereby the province to exit the educational portion of property tax and leave it to municipalities.	

Table 6: Overview of Some Alternate Revenue Sources considered or applied in North American jurisdictions (continued)

	Revenue source	Description	Sample jurisdictions using the fiscal tools
9	Fuel Tax	Fuel tax is a sales tax imposed on the sale of fuel. Frequently, the funds are dedicated to transportation or roads, so many people consider the fuel tax a user fee.	Many U.S. municipalities levy fuel taxes, while Canadian municipalities do not levy municipal fuel taxes. A few Canadian municipalities and regions share with their provinces in the provincial fuel tax revenues. In these tax-sharing programs, the provincial government sets the tax rate, collects the revenue, and remits it to municipalities or regions. For example, Calgary and Edmonton currently receive provincial grants from the provincial fuel tax revenue collected in the two cities. While the revenue sharing program is an excellent first step toward municipal self-reliance, a further benefit would be for the province to provide municipalities with the legislative authority to levy such a tax while still piggybacking on provincial fuel tax systems.
10	Gaming Revenue	Gaming revenue can be considered a tax on gaming activities. Similar to alcohol and tobacco taxes, it is fair if such revenues are used to fund the increased demand for police and social services related to gaming activities.	In BC, the Province shares gambling revenue with local governments that host casinos and community gambling centres in B.C. In 2016/2017, the Province distributed $96.8 million to host local governments.
11	Insurance Premium Taxes	Insurance premium taxes are collected by the provincial governments in Canada. They were originally levied to fund the costs related to the regulation of the insurance industry and public safety programs. Most of the public safety programs are now the responsibility of the municipalities, returning the portion of these taxes that were originally levied to fund safety programs could be considered a realignment of responsibilities and funding.	Currently, there are no municipal insurance premium taxes in Canada. In the U.S., some municipalities may impose a premium tax, which would be added to the state tax.
12	Resource revenues	The Province of Alberta derives a significant proportion of its revenues from resource royalties. The royalties are based on the total value of the resources extracted during the year.	Currently, the Ontario Government has agreements to share mining and forestry revenues with Indigenous communities.

Table 6: Overview of Some Alternate Revenue Sources considered or applied in North American jurisdictions (continued)

	Revenue source	Description	Sample jurisdictions using the fiscal tools
13	Road pricing	Road pricing includes road-related taxes and charges such as road tolls, cordon charges (sometimes referred to as congestion charges) and vehicle user fees.	This tax has not been levied at the municipal level in North American cities. It is currently levied in London (U.K), Stockholm (Sweden), Milan (Italy), and Singapore
14	Development Levy	• A development levy is to capture a portion of gains in land value, at the time of development. It is different from the development charge (off-site levies[93] in Calgary) that a means of pooling fund from many developers to pay for off-site capital projects which benefit them all[94].	It can be applied based on one of the following rate structures: • a percentage rate on land value at the time of development; • a variable rate on land value at the time of development based on location; • or a rate on land value at the time of development based on the expected land value appreciation. A development levy could be seen as overlapping with development charges or MLTTs. As of today, the use of development levy was not observed in North American cities.
15	Municipal Land Transfer Tax (MLTT)	• A municipal land transfer tax (MLTT) is a revenue option that is levied at the time of purchase or sale of a residential home.	• The City of Toronto applies a municipal land transfer tax (MLTT). • The City of New York has a Real Property Transfer Tax (RPTT) on sales, grants, assignments, transfers or surrenders of real property in the city. Taxpayers must also pay RPTT for the sale or transfer of at least 50 per cent of ownership in a corporation, partnership, trust, or other entity that owns/leases property and transfers of cooperative housing stock shares[95]. It was budgeted at USD 1.456 billion in 2020 (or 2.3 per cent of The City's total budgeted revenue). • The City of Chicago imposes a Real Property Transfer Tax (RPTT) at the rate of $3.75 per $500.00 of the transfer price, or fraction thereof, of the real property or the beneficial interest in real property. Also, a supplemental tax at the rate of $1.50 per $500.00 of the transfer price, or fraction thereof, was imposed on transfers taking place on or after April 1, 2008 to provide financial assistance to the Chicago Transit Authority ("CTA")[96].
16	Municipal Sales Tax	• A municipal general sales tax applies to residents and non-residents who shop in the city. It permits cities to tax non-residents who use local services.[97]	• Currently no municipality in Canada can implement a municipal sales tax. The City of Vancouver attempted to do so in 2015 by holding a referendum for a 0.5 per cent sales tax to fund the local transit infrastructure projects. However, it failed with 62 per cent of residents voting against the tax. Currently in the U.S., local sales taxes are collected in 38 states. In some cases, they can rival or even exceed state rates[98].

End Notes

1. Examples of enabling services include managing city facilities, information techncology and human resources. Other services include social programs and services, the environment, building and planning services, information and communication, and tax and property ssessment.
2. S. 360 of the *MGA*
3. City of Toronto (June 2, 2010) "Potential Monetization of City Assets"
4. Australian Government Treasury (January 2019) "Review of the national partnership agreement on asset recycling"
5. Recently governments use Smart City initiatives to harnessdigital revolution innovations to better servce citizens.
6. S. Gandhi, B. Thota, R. Kuchembuck, and J. Swartz (Nov 2018) "Demystifying data monetization" MIT Sloan Management Review
7. Joseph E. Stiglitz, Peter R. Orszag, and Jonathan M. Orszag (Oct 2000) "The role of government in a digital age"
8. European Data Portal website: https://www.europeandataportal.eu/en/about/european-data-portal
9. National Economic Council and Office of Science and Technology Policy (October 2015) "A strategy for American Innovation"
10. Open Data Exchange (ODX)
11. Open Calgary https://data.calgary.ca/
12. The 2019 Annual Report for Calgary Parking Authority was not available by the time this report was finalized.
13. Alberta Municipal Affairs. *Guide to Property Assessments and Taxation in Alberta*. Edmonton, AB, 2002. Page 4.
14. Alberta Municipal Affairs. *Guide to Property Assessments and Taxation in Alberta*. Edmonton, AB, 2002. Page 5.
15. Alberta Municipal Affairs. *Guide to Property Assessments and Taxation in Alberta*. Edmonton, AB, 2002. Page 5.
16. See s. 289(2)(a) and s. 292(2.1) of the MGA.
17. S. 1(k) MRAT.
18. Regarding farm land, see ss. 7(1) and 7(2) of MRAT. Regarding designated industrial property, see s. 284(1)(f.01) of the MGA and ss. 10-13 of MRAT.
19. Guidelines are accessible here: https://www.alberta.ca/municipal-property-assessment-legislation.aspx#toc-3
20. S. 22 MRAT, permitted by s. 322(1)(h.1) of the MGA.
21. Alberta Municipal Affairs. *Detailed Assessment Audit Manual*. Edmonton, AB, 2016. Page 1.
22. Specifically, the Alberta Assessment Quality Minister's Guidelines.
23. In 2019, the Industrial property roll underwent a detailed and thorough provincial audit.
24. Alberta Municipal Affairs. "Guide to Property Assessment and Taxation in Alberta," 2018. https://open.alberta.ca/dataset/bda2413d-1f6b-41a2-ae2d-6af8cbda1bc9/resource/f6c0b75b-8fc6-4e81-aad1-73ef2f1e7731/download/guide-to-property-assessment-and-taxation-in-alberta.pdf. Page 16.
25. See s. 460 of the MGA.
26. See s. 468 of the MGA and MRAC.
27. See s. 470 of the MGA.
28. As per s. 289(1) of the MGA. Some small municipalities in Alberta contract assessment duties out to third parties.
29. See ss. 284(1)(f.01) and 292(1) of the MGA.
30. Discussed further in *Property Taxation in Calgary*.
31. NM 2017, September 11, Combined Meeting of Council
32. Copy of Notice of Motion found here: https://pub-calgary.escribemeetings.com/filestream.ashx?DocumentId=70246.
33. Page 22 Heuristic Report.
34. Page 22 Heuristic Report.
35. Report of the Subcommittee on Fiscal Imbalance (June 2005) "The Existence, Extent and Elimination of Canada's Fiscal Imbalance"
36. Own-source revenue = total revenue – current transfers from general governments – capital transfers from general governments; For municipalities, their own-source revenues mainly include property tax and user fees.
37. Own-source expenditure = total expenditure – current transfers from general governments – capital transfers from general governments
38. Net lending (or net borrowing) = Surplus (or deficit) + Consumption of fixed capital – Non-financial capital acquisition. If the calculation is positive, the

government has a net lending fiscal position. If the calculation is negative, the government has a net borrowing fiscal position.

39. Brookfield Place, Telus Sky, Eighth Avenue Place II, etc.
40. Machinery and equipment refer to the mechanics necessary for industrial processing. A tax on machinery and equipment is effectively a tax on industrial properties used for processing that is applied in addition to non-residential property taxes. Since machinery and equipment are not subject to provincial education tax, the decision to tax it primarily exists at the municipal level. Like Calgary, Edmonton does not tax it, the surrounding counties of Rocky View and Foothills do. Given the re-distribution of non-residential property tax responsibility away from downtown, the industrial sector has experienced a substantial increase in tax in recent years. Machinery and equipment as an additional tax could greatly impact affected businesses.
41. S. 297(1)(a) of the MGA.
42. City of Calgary, Bylaw Number 24M95.
43. As per Report FB2003-15, the Committee found that the split tax rate was inequitable and counterproductive for the following reasons: 1) the taxes paid on multi-residential properties are borne by the tenants, rather than landlord; and 2) landlords moved to avoid the higher tax rate by condominiumizing their apartment buildings.
44. "Operating under a business licence or that is otherwise identified in a municipal bylaw" as per s. 2(3) of MRAS.
45. S. 2(3)(b) of MRAS.
46. See City of Calgary Report PFC2019-0559 for more information on MRAS.
47. Ministerial Order No. MAG: 017/192019 Recording and Reporting Information for Assessment Audit and Equalized Assessment Manual
48. https://www.toronto.ca/services-payments/property-taxes-utilities/property-tax/property-tax-rates-and-fees/?=property-tax-rates
49. https://vancouver.ca/home-property-development/tax-rates.aspx
50. https://ottawa.ca/en/property-tax-information
51. https://www.hamilton.ca/sites/default/files/media/browser/2019-06-10/2019-final-tax-rates-v4.pdf
52. Additional Property Tax and Legislative Change Options to Support Businesses
53. A 2018 City of Toronto report outlined options to alleviate tax distortions arising from the application of "highest and best use." One option was taxing non-residential properties according to their current actual use, rather than the market value of the fee simple interest (like what exists in Alberta). The commitment of The City of Toronto was to approach the provincial assessment authority (MPAC) to discuss the proposed idea.
54. In 2019, The City of Vancouver proposed changes that would lower the tax responsibility for low-density commercial operations in high-density locations by taxing unused "air space" (allowable density beyond the existing building) at residential rates rather than commercial. This aligns with the common development in Vancouver where high-density residential buildings have main floor retail or office use.
55. Amanda Sinclair (May 3, 2019) "Measuring digital economic activities in Canada: Initial estimates", the National Economic Accounts Division, Statistics Canada
56. BEA (Mar 15, 2018) "Defining and measuring the digital economy"
57. BEPS Actions https://www.oecd.org/tax/beps/beps-actions/
58. The *Task Force on the Digital Economy (TFDE)* is a subsidiary body of the *Committee on Fiscal Affairs (CFA)* in which non-OECD G20 countries participate as Associates on an equal footing with OECD member countries.
59. OECD (2015) "Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final report", OECD/G20 Base erosion and Profit Shifting Project, OECD Publishing
60. At the Ottawa Ministerial Conference on Electronic Commerce, leaders from governments (29 member countries and 11 non-member countries), heads of major international organizations, industry leaders, and representatives of consumer, labour and social interests discussed plans to promote the development of global electronic commerce. Ministers welcomed the 1998 CFA Report "Electronic Commerce: Taxation Framework Conditions" (OECD, 2001a), and endorsed a set of taxation principles, known as *Ottawa Taxation Framework Condition*, which should apply to electronic commerce.

End Notes

61. Under the *destination principle*, tax is ultimately levied only on the final consumption that occurs within the taxing jurisdiction. Under the origin principle, the tax is levied in the various jurisdictions where the value was added.
62. Rudy Telles Jr. (June 2, 2016) "Digital matching firms: a new definition in the 'Sharing Economy' space", Economics & Statistics Administration, U.S. Department of Commerce.
63. Toronto PTC
64. The City of Edmonton: Vehicle for hire bylaw 17400
65. Asia Pacific Foundation, 2019 Investment Monitor (see page 52).
66. https://www.macleans.ca/economy/economicanalysis/the-winners-and-losers-if-alberta-returns-to-a-flat-tax-system/
67. https://open.alberta.ca/dataset/05bd4008-c8e3-4c84-949e-cc18170bc7f7/resource/79caa22e-e417-44bd-8cac-64d7bb045509/download/budget-2020-fiscal-plan-2020-23.pdf
68. Alberta tax advantage = the total additional provincial tax and carbon charge that individuals and businesses would pay if Alberta had the same tax system and carbon charges as other provinces.
69. https://www.toronto.ca/services-payments/property-taxes-utilities/municipal-land-transfer-tax-mltt/
70. https://www.toronto.ca/wp-content/uploads/2019/09/9655-SO-DS19-0220_2018FAR_Final_Web.pdf
71. https://wx.toronto.ca/inter/it/newsrel.nsf/d7b6a6e7139d8f7785257aa700636487/170a89b271e68d4f852574b8004f498d?OpenDocument
72. https://www.cbc.ca/news/canada/toronto/toronto-councillors-kill-car-tax-cut-budgets-1.883783
73. https://www.toronto.ca/services-payments/building-construction/sign-permits-information/third-party-sign-tax/
74. City of Toronto staff report for action on Third Party Sign Tax Review (May 16, 2017) "Status Update: Third Party Sign Tax"
75. https://www.toronto.ca/services-payments/property-taxes-utilities/municipal-accommodation-tax/
76. single-family residences, multi-family residences, duplexes, apartments, condominiums, nursing homes, seasonal dwellings, manufactured homes, some vacant land, farm buildings and daycare facilities.
77. https://vancouver.ca/home-property-development/why-an-empty-homes-tax.aspx
78. The City of Vancouver, "Empty Homes Tax Annual Report"
79. https://winnipeg.ca/History/CityGovernment.stm
80. http://winnipegassessment.com/AsmtTax/English/Other_Taxes/TocOtherTax.stm
81. The assessment of the level of support occurred before discussing the consolidated input with the Financial Task Force. There are four levels of support. (1.) **Unique** – proposed by one Task Force Member; (2.) **Some** – proposed by about a third (1/3); s(3.) **Strong** – proposed by between half and two-thirds; (4.) **Universal** – proposed by all Task Force Members.
82. https://www.equitablevalue.com/?p=1276
83. Alberta Minister's Council on Municipal Sustainability (May 2006) "Alberta's Competitive Advantage: Empowering municipalities with new municipal revenue sources"
84. KPMG (June 2016) "City of Toronto Revenue Options Study"
85. https://pittsburghpa.gov/omb/budgets-reports
86. https://www.scpr.org/blogs/news/2012/08/09/9349/audit-los-angeles-officials-dont-know-how-many-par/
87. https://sftreasurer.org/business/taxes-fees/transient-occupancy-tax-tot
88. In 2018, the total revenue of corporate income taxes collected in Alberta was $4.1 billion for the provincial government. With a 35.2 per cent employment income share, a 10 per cent share of municipal corporate income revenue would have generated $144 million for The City of Calgary.
89. In 2018, the total personal income taxes from Alberta to the provincial government were $11.6 billion. With a 38.1 per cent share and assuming a 1 per cent municipal personal income tax for Calgary's benefit would have generated $442 million for the municipal government.
90. Enid Slack (2004) "Revenue Sharing Options for Canada's Hub Cities", prepared for the Meeting of the Hub City Mayors
91. KPMG (June 2016) "City of Toronto Revenue Options Study"
92. Jared Walczak (July 2019) "Local Income Taxes in 2019", the Tax Foundation

End Notes

93. https://www.calgary.ca/PDA/pd/Pages/Commercial-development/Off-Site-Levy-bylaw.aspx
94. https://www.cip-icu.ca/Files/Resilience-2017-Presentations/WOR-03-Development-Charges-Someone-Has-To-Pay-But.aspx
95. https://www1.nyc.gov/nycbusiness/description/real-property-transfer-tax
96. https://www.chicago.gov/city/en/depts/obm/supp_info/budgetdocuments.html
97. In 2018, the share of the city of Calgary's consumer expenditure in Alberta was 34.1 per cent. A 1 per cent municipal sales tax wouldhave generated about $378.5 million
98. Janelle Cammenga (January 2020) "State and Local Sales Tax Rates, 2020", the Tax Foundation