APPROVAL REPORT

2021 Property Tax Phase-in Plan

ISSUE

Provincial legislation in Saskatchewan requires the reassessment of all properties every four years in order to reflect a more current assessment value. Historically, the tax impact resulting from the difference in assessed values between reassessment cycles has been phased in. City Council approval is required for the tax phase-in plan due to the 2021 Reassessment for both the residential and commercial tax classes.

RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council:

1. That there not be a phase-in of changes in property tax due to reassessment for the residential property class;
2. That the tax impact of the 2021 provincial reassessment for the commercial property class be phased in equally over a two-year period, with 50% in 2021 and 50% in 2022; and
3. That the City Solicitor be requested to prepare the 2021 Property Tax Phase-in Plan Bylaw for submission to City Council for consideration at the same meeting that the Mill Rate Bylaws are presented.

BACKGROUND

Provincial legislation in Saskatchewan requires that a reassessment of all properties be completed every four years in order to determine new assessment values. This four-year cycle began in 1997, and 2021 is the seventh reassessment under this schedule. A reassessment is meant to recalculate assessment values to reflect a more current valuation date. For the 2021 Reassessment, this date is January 1, 2019.

As per *The Cities Act*, City Council may phase-in a tax change resulting from a reassessment for a taxable property, a class, or a sub-class of property. City Council has approved a phase-in of property tax for each reassessment beginning in 1997.

DISCUSSION/ANALYSIS

The tax phase-in plan is established for the purpose of phasing in the change in property tax resulting from reassessment. Phase-in is revenue neutral within each property class, meaning that increases in each tax class are offset by decreases within the same class.

Revenue Neutral

At the beginning of every reassessment cycle, the revenue-neutral tax rate is calculated for each class of property. When assessments increase, there must be a corresponding decrease in tax rates to ensure that the same amount of tax dollars is collected for each property class. Likewise, when assessments decrease, there must be a corresponding increase in tax rates. The budgetary adjustments and tax policy decisions are kept separate from this process and are applied after to the new revenue neutral tax rates.

For this reassessment cycle, the residential property class saw an average decrease of 7%, while the commercial and industrial class saw an average increase in assessment of 8%. In order to collect the same amount of property tax revenue in 2021 as in the year 2020 (revenue neutral), tax rates for the residential class must increase, while the tax rates for the commercial class must decrease.

Property Class	2020 Assessed Value	2021 Assessed Value	Aggregate Fair Value Shift (%)	Assessment Distribution 2020	Assessment Distribution 2021
Residential	$33.9B	$31.4B	-7%	79%	76%
Commercial & Industrial	$ 9.1B	$ 9.9B	8%	21%	24%

<u>Impact of Reassessment on Individual Properties</u>

For an individual property, the change due to reassessment is calculated by applying the revenue neutral tax rate to the new 2021 taxable assessed value to determine the 2021 tax base before the budget increase. The difference between the new 2021 tax base before the budget increase, and the previous 2020 tax equals the eligible amount to be phased in.

Properties with a change in assessment equal to the average change for their tax class will not have a tax phase-in. Individual properties with a change close to the average will have smaller phase-in amounts, while properties with changes larger than the average will have larger phase-in amounts. To keep the tax revenue the same (i.e. revenue neutral), the phase-in tax increases are offset by the phase-in tax decreases within the same class of property.

<u>Residential Properties</u>

The residential property class makes up 76% of the assessment distribution for the 2021 reassessment cycle and represents 96% of taxable properties in Saskatoon. The following table displays the average eligible phase-in amount for each residential property subclass by using the median assessed values for 2020 and applying the 2021 assessment shifts by subclass to get the new 2021 assessed values.

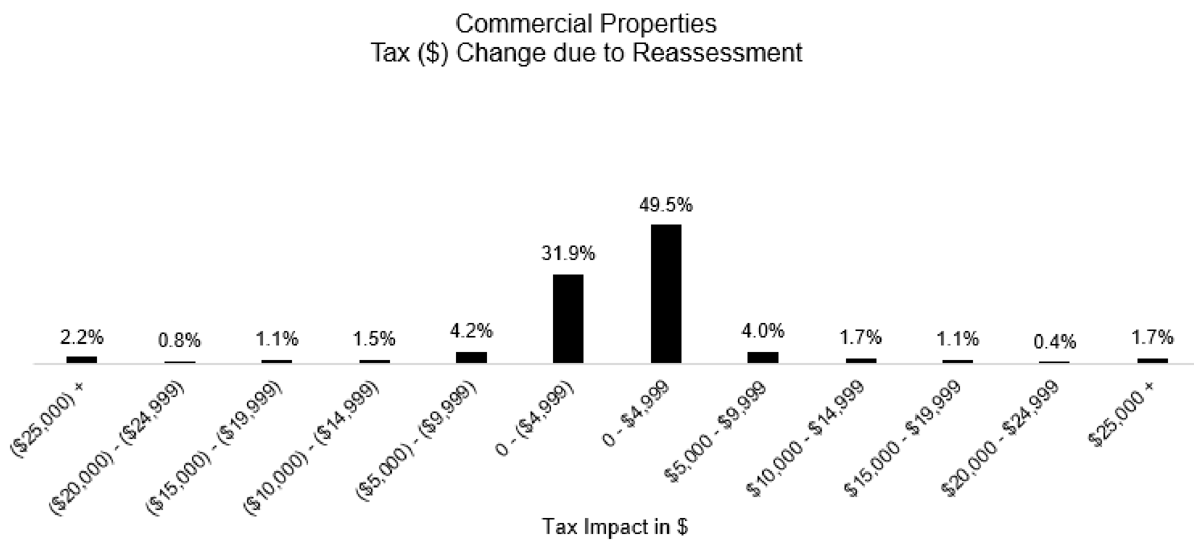
Property Class/Subclass	2020 Median Fair Value Assessment	2021 Shifted Fair Value Assessment	Tax Change Due to Reassessment* ($)	Tax Change Due to Reassessment (%)
Single-Family Residential	$ 365,200	$ 344,000	$ 53	1.59%
Residential Condominium	$ 238,000	$ 209,900	$(106)	(4.88%)
Multi-Residential	$1,584,000	$1,404,900	$(627)	(4.34%)

*Eligible amount to be phased in by calculating the difference between the revenue neutral tax and the 2020 tax bases.

Based on the above, the median residential property would see an increase due to reassessment of approximately $53 for the year ($4.40 per month), while the median condominium and multi-residential properties will see decreases of approximately $106 and $627 respectively. Furthermore, 81% of residential properties saw an assessment shift of plus or minus 10% for this reassessment cycle, therefore, the majority of properties will not see a significant property tax change due to reassessment.

Commercial Properties

The commercial and industrial property tax class makes up 24% of the assessment distribution for the 2021 reassessment cycle, however, this class represents only 4% of taxable properties in Saskatoon (total of 4,003 properties). As shown in the graph below, 58% of commercial properties will see a property tax increase due to reassessment; however, the majority of properties will see a change of less than $5,000.



Phase-in Principles and Considerations

Stability in property tax is important to ensure that the City has a sustainable, fair, competitive and viable economic environment. Phase-in should only be considered if there are many properties with exceptional increases, and the plan must be structured so that it is completed within the current reassessment cycle.

Not all property owners benefit from phase-in, as the increases in tax due to reassessment are offset by the decreases. Property owners with larger increases are in favour of phase-in, however, property owners with larger decreases do not favour phase-in and want to see the impact of the decrease immediately.

Property owners with smaller phase-in amounts do not see the benefit and do not want the confusion phase-in adds to their property tax calculation. Phase-in adds another level of complexity for property owners and administrative cost to the tax calculation, and it must be adjusted in future years if there are any changes in assessment from appeal decisions or changes to property characteristics. In addition, property owners often do not realize that the budget, tax policy and contingency amounts are not eligible for phase-in.

Recommendations

For the residential property class, the Administration is recommending no phase-in for this reassessment cycle since the majority of residential property owners will see either a small increase or decrease due to reassessment. This will simplify the tax calculation and allow residential property owners to realize their decrease due to reassessment immediately in 2021.

For the commercial property class, the Administration is recommending continuation of past practice of phasing in tax shifts up and down due to reassessment. However, given that the majority of commercial properties will see a change in property tax of $5,000 or less, the Administration is recommending a two-year phase-in, which will spread the change due to reassessment out so that 50% is realized in 2021 with the remainder in 2022. This will help alleviate significant tax increases for those property owners that had higher than average assessment increases, while also allowing property owners who will see a decrease to realize it sooner than if a four-year phase-in plan was recommended.

FINANCIAL IMPLICATIONS

There are no financial implications to the various taxing authorities. The financial impact of this report is with individual property owners.

OTHER IMPLICATIONS

There are no privacy, legal, social, or environmental implications identified.

NEXT STEPS

Once a decision has been made regarding these recommendations, the Property Tax Phase-in Plan bylaw for the 2021 tax year can be prepared and will be presented at the April meeting of City Council.

A strategic Communication Plan has been developed to support 2021 Property Tax mail-out to residents. Communication activities will include but may not be limited to the following:

- Along with other information found on the 2021 Property Tax Notice, a helpful guide explaining how the concept of phase-in works will accompany the mailing and will also be made available on the City’s website.
- The City’s website will be updated with 2021 Property Tax and Phase-in information and important dates.
- Corporate Revenue Customer Service team, Service Saskatoon Customer Care and City Councillors will be provided with information explaining the commercial phase-in process.
- Dedicated social media to support the 2021 Property Tax process, including the promotion of six new video series which answer frequently asked assessment and property tax-related questions, and where to find additional information or assistance if a property owner wishes to contact the City.

- Social media will also promote two easy-to-use online tools that allow residents to find additional assessment and tax-related information:
  - Revenue Neutral Property Tax Estimator (does not include 2021 budget changes)
  - Property Assessment & Tax Tool

City Page insertion(s) will be placed before the delivery of Property Tax Notices.

REPORT APPROVAL

Written by:	Stephanie Green, Property Tax and Accounting Control Manager
Reviewed by:	Mike Voth, Director of Corporate Revenue
Approved by:	Kerry Tarasoff, Chief Financial Officer

Admin Report - 2021 Property Tax Phase-in Plan.docx