

2024 Commercial Appeal Contingency

ISSUE

It has been a longstanding practice for the City of Saskatoon (City) to collect a commercial contingency levy to fund the effects of commercial appeal losses. This report provides additional background on the commercial contingency as well as the recommended 2024 commercial contingency levy.

RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council that a \$3,000,000 appeal contingency be added to the property tax levy for the Commercial/Industrial property class for 2024.

BACKGROUND

Once the annual City Budget is approved, the City utilizes assessment values and the approved business tax ratio of 1.59 to determine the amount of property taxation each sector and specific property within the City is required to pay to fund the property tax requirement included in the approved budget. The business tax ratio has historically been set at each reassessment cycle and sets the ratio of property taxes a commercial property owner will pay as compared to a residential property owner. For example, under the current policy a commercial property owner will pay 1.59 times more property taxes than a residential property with a similarly assessed value. This approach sets the amount each sector (residential and commercial) will contribute to the City's property tax requirements in the approved operating budget. However, when a property assessment is appealed this can create a shortfall in the City's budget requirements and its ability to deliver the approved service levels which can be significant as appeals can take years to be fully resolved. As such, the City has had a long-standing practice of implementing a commercial and residential appeal contingency to provide a mechanism whereby each sector funds the impact of their appeals.

Once an appeal decision is made, the City must adjust the assessment for those properties under appeal from the date the original appeal was made. With appeals sometimes taking five+ years to resolve when escalated to the Court of Appeal and including as many as 80 properties within a single appeal, there may be a significant financial impact when applied retroactively. To be clear only those properties under appeal receive the benefit of the appeal and the retroactive application which utilizes the commercial contingency to fund. However, if appeal decisions require changes to the entire model, many properties' assessed values may be impacted on a go forward basis.

In terms of the City's assessment modeling and approach, the Administration utilizes Saskatchewan Assessment Management Agency guidelines and standard appraisal methods to build assessment models designed to meet the requirements of *The Cities Act* (the "Act"). The Act requires significantly more professional judgment than the

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previous legislation and is still relatively new as it was only implemented in 2009. As such, the appeal process throughout the province has continued to refine the interpretation and provide more certainty to future model development decisions. While these appeal decisions provide more certainty moving forward in model development, it has also resulted in decisions impacting multiple properties and in some cases losses over multiple years.

Since 2011, Administration has meet with the Greater Saskatoon Chamber of Commerce (Chamber) and the North Saskatoon Business Association (NSBA) annually prior to the presentation of this report to Committee regarding the background on the commercial contingency, annual update on the impact of appeals and recommended annual contingency amount to be levied. The annual appeal contingency levy has ranged from \$500,000 to \$1,500,000 in the past as an effort to offset the impact of appeal losses.

DISCUSSION/ANALYSIS

Several significant commercial assessment appeals, including one that was initially filed in 2017, was resolved in 2021 but continued to have a significant impact on commercial appeals in 2022 and 2023 resulting in further appeals. These decisions had implications for the models used in assessing many commercial properties, which resulted in commercial appeal losses of \$3,274,345 in 2023. This amount has resulted in the contingency fund now having a deficit balance of \$5,268,235.

There is a need to ensure that progress is made in 2024 towards reducing the commercial contingency deficit balance. While new appeals have significantly reduced in 2024 there are also 10 appeals which have been escalated to the Court of Appeal. While the City was largely successful with respect to these appeals at the Saskatchewan Municipal Board, if overturned at the Court of Appeal level, they could have further impacts on the commercial contingency account.

Considering these factors, in addition to 2025 being a reassessment year, the Administration is recommending increasing the commercial contingency from \$1,500,000 to \$3,000,000 in 2024. As the commercial contingency is applied on top of the business tax ratio, it is forecasted this would increase the applied ratio from 1.59 to 1.63, which is still significantly below many other municipal comparisons.

The following chart shows the actual 2023 balance and the estimated 2024 balance for the commercial appeal contingency:

Commercial Appeal Contingency	2023	2024 Projection
Opening Balance	\$ (3,493,890.00)	\$ (5,268,235.00)
Contingency Levy	\$ 1,500,000.00	\$ 3,000,000.00
Appeal Decisions	\$ (3,274,345.00)	\$ (1,000,000.00)
Closing Balance	\$ (5,268,235.00)	\$ (3,268,235.00)

As previously outlined in this report, the Administration has met with the Chamber and the NSBA and provided the background on recent appeal processes/decisions as well as the recommended contingency amount. This additional levy amount will still result in a deficit balance at the end of 2024 but will allow Administration to work towards the goal of eliminating the deficit within the next few years.

FINANCIAL IMPLICATIONS

The financial implications are outlined within this report.

OTHER IMPLICATIONS

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

NEXT STEPS

The contingency amount will be added to the commercial/industrial property class tax rates and included in the 2024 Property Tax Levy Bylaw for City Council approval before the end of April 2024.

REPORT APPROVAL

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