DECISION REPORT

Municipal Tax Policy – Distributing the Non-Residential to Residential Municipal Property Tax Burden, 2025-2029

ISSUE

Property taxes are used to pay for local public services that largely provide collective benefits to households, individuals, and organizations in a city. Thus, a fundamental role of a city government is to distribute the property tax burden among various taxpayers as fairly and efficiently as possible. While this is often a value a judgement that involves assessing the tradeoffs, cities take different approaches in doing this. The City of Saskatoon (City), for example, sets an explicit tax ratio between residential and non-residential properties and adjusts it from time to time based on changes to property values following a mandated property reassessment. Assuming City Council continues to set an explicit tax ratio, what should that ratio be? What are the implications to property types resulting from various property tax distribution policy scenarios?

BACKGROUND

2.1 History

Saskatoon City Council's tax policy approach emerged in 1998, coinciding with the adoption of a new provincial property assessment framework. Saskatoon adopted a fixed ratio municipal tax that applied a higher tax rate to non-residential properties relative to residential properties.[1] More specifically, in 2001, Saskatoon City Council passed a resolution to have a targeted non-residential to residential property tax ratio of 1.75 to 1, meaning that the municipal (and library) tax rate would be set at 1.75 times higher than that for residential properties, phased in over several years. The 1.75:1 tax ratio was achieved in 2010 and remained the policy until 2017.

In 2012, a proposal from business organizations, led by the Greater Saskatoon Chamber of Commerce, recommended a reduction in the municipal tax ratio to 1.43 to 1. Their argument centered on horizontal equity considerations in that the tax policy should treat like properties in like circumstances. City Council suggested that this be addressed after the 2017 property revaluation.

In 2017, after a provincial-mandated reassessment, Saskatoon City Council revisited its municipal tax ratio policy and agreed to reduce the non-residential – residential tax ratio to 1.59 to 1. This decision was the result of a compromise between the status quo ratio of 1.75:1 and the Greater Saskatoon Chamber of Commerce's 2010 proposal of 1.43:1.

[1] The term non-residential is used to mean commercial and industrial (or business) properties. Residential is used to refer to single-family homes, condominiums, and multi-family homes.

In 2021, City Council once again considered the municipal property tax ratio and resolved to maintain the status quo by keeping it at 1.59 to 1 for the 2021 tax year and beyond.[2]

At its September 13, 2023, meeting, the Governance and Priorities Committee considered a Notice of Motion and resolved:

> "That the Administration provide a report to the 2024/25 Preliminary Corporate Business Plan and Budget deliberations in November regarding Saskatoon's business tax ratio and any other related business property tax measures, including comparisons to other jurisdictions."

The information provided in that report, concluded that "Based on several measures, Saskatoon's non-residential property taxes are among the lowest in Western Canada."[3]

2.2 Current Status

At its February 2025 meeting, the Standing Policy Committee (SPC) on Finance received an information briefing from the City Assessor regarding changes to property values, resulting from the 2025 provincially mandated property reassessment.[4] That briefing noted the value shifts among different property types relative to the 2021 reassessment cycle. It specifically indicated that residential property values rose by 13 percent relative to the last assessment while non-residential properties, in aggregate, fell by two percent. These results were reflective of market conditions as of January 1, 2023.

A note of caution is needed on using "total" or "average" changes due to substantial influences high value properties have on the valuation shifts among and within the major property classes. Appendix 1, for example, provides a table of descriptive statistics and histograms for various non-residential property classes to better illustrate the valuation shifts within the broad property classes. The statistics here show large discrepancies between average value changes and median value changes indicating that few high value properties have a large influence on the change in overall property values for different types of properties.

Although the assessed values in the overall non-residential property class fell by two percent in 2025 relative to the previous cycle, office properties fell by 16.7 percent on average. However, the median value fell by 4.6 percent. The primary difference between the two is that the highest valued property fell by 31% in 2025

[2] For details please see, item 8.2.5 at https://pub-saskatoon.escribemeetings.com/Meeting.aspx?Id=c042f0ca-8b92-450f-9f74-b26656045721&Agenda=PostMinutes&lang=English. Note that that the actual ratio is 1.63 to 1 due to changes in property assessments and contingencies.

[3] For more please see https://pub-saskatoon.escribemeetings.com/filestream.ashx?DocumentId=212365

[4] More information and details can be found at item 6.3.2, https://pub-saskatoon.escribemeetings.com/Meeting.aspx?Id=8ba97fda-2738-4587-994b-cb209c59a9d5&Agenda=Agenda&lang=English&Item=22&Tab=attachments.

relative to the close of the previous valuation cycle. Given these valuation changes, the City's tax policy may need adjustment to account for the potential tax shifts resulting from the 2025 reassessment.

2.3 City of Saskatoon's Current Approach

The City distributes the property tax burden among different property classes by using a tax ratio approach that pegs the tax rate for non-residential properties at some point higher than residential properties. At the end of 2024, this ratio was set at 1.63:1. Although 1.59:1 is the official ratio, it changes over the course of assessment due to the addition of an appeal contingency.

As explained earlier, the City first adopted this approach in 1998 and has maintained the explicit ratio approach since. The original intent of the City's property tax ratio policy was to achieve (horizontal) equity among residential and non-residential properties of similar assessed values (Saskatoon Tax Policy Review Committee, 1997). This was achieved by estimating the amount of property taxes that a business could deduct for income tax purposes. Canada's Income Tax Act allows businesses to deduct property taxes as an expense for the purposes of filing their corporate income tax returns each year. More on this is explained in the research paper at found in Appendix 2.

Importantly, the property tax burden for any property is a function of three main elements: (1) the tax base, (2) the budgetary requirements, and (3) tax policy. The tax base is simply the taxable assessed value of the jurisdiction. Cities with larger tax bases can offer lower statutory tax rates, all things equal, to generate the revenue needed to fund the city's tax supported operations. The budgetary requirements are what cities decide they need to deliver the projects, programs and services to the residents and business in their community. Finally, tax policy addresses how property taxes are distributed among the property classes (i.e., residential, and non-residential). Tax policy can be addressed by setting a relative tax ratio (like Saskatoon) or by setting budgetary tax requirements by property classes.

2.4 Approaches in Other Jurisdictions

Very few Canadian jurisdictions set an explicit tax ratio as is their core policy. Instead, they use a "revenue neutral" or "tax shares" approach where the property classes pay for a share of the budgeted tax requirements. It could be (hypothetically) that residential properties pay 50% and non-residential properties pay 50% of the total tax requirements. In such cases, the tax rates are set to reflect this revenue split and the tax ratio is simply the outcome of that tax policy choice. In other words, the tax ratio is implicit.

However, some provinces have legislated such ratios. For example,

- In Ontario, all municipalities must adopt a bylaw that sets tax ratios for each property class. All property tax rates are compared to the residential tax rate. The Government of Ontario has set "allowable ranges of fairness" for tax ratios. The City of Toronto, for instance, has committed to lower its non- residential to residential tax ratio to 2.5 to 1.[5]

- In New Brunswick, legislation prescribed that the non-residential property tax must not be greater than 1.5 times the rate on residential property.[6]
- In Alberta, the province's *Municipal Government Act* sets the non-residential to residential tax ratio at no greater than 5:1.
- In Saskatchewan, regulations adopted in 2023 sets the ratio between the highest effective tax rate and lowest effective tax rate of any property class to be no more than 7:1.[7]

With this context in mind, Appendix 3 to this report describes how various cities distribute municipal property taxes and how selected cities approach local tax policy. It also provides comparative analysis of various tax characteristics, such as the municipal tax ratio, how property taxes are distributed among property classes, and the tax to assessment gap to illustrate the degree of tax fairness.

2.5 Public Engagement

Administration consulted with officials from the Greater Saskatoon Chamber of Commerce and the North Saskatoon Business Association on the property assessment shifts and the potential tax policy changes under consideration.

OPTIONS

This section of the report offers five options for consideration. The primary assumption is that the City will continue to set an explicit non-residential to residential tax ratio to distribute the municipal property tax burden. Given this assumption, the options differ in terms of property tax implications for the various property classes. As such, the objective is to recognize the various trade-offs that may exist in distributing the municipal property tax burden to the property classes.

In addition to the primary assumption, some secondary assumptions are applied to the options as follows:

- The overall tax burden is fixed, given City Council's approved budget for 2025. As a result, there are no financial implications to the City resulting from any of the options. However, the distribution of the tax burden on residential and non-residential properties will change depending on the option adopted. The tax ratio is simply another way to distribute the tax burden. These implications are explained in each option.

[5] See https://www.toronto.ca/city-government/budget-finances/city-finance/property-tax-policy/

[6]https://www2.gnb.ca/content/gnb/en/departments/finance/taxes/real_property.html#:~:text=Effective%20January%201%2C%202023%2C%20the,%241.8560%20per%20%24100%20of%20assessment.

[7] For more, please see https://www.saskatchewan.ca/government/municipal-administration/taxation-and-service-fees/municipal-property-tax-tools

- The advantages and disadvantages of the tax ratio approach are largely similar regardless of what the ratio is. However, the distribution of the tax burden over (and within) the two primary property classes may slightly alter this analysis. That said, this section does not evaluate the advantages and disadvantages for each option, but rather, illustrates the differing tax implications for each property class. The pros and cons of the tax ratio approach are explained in Appendix 2.
- Implementation of any one option requires the passage of the Property Tax Bylaw, which typically occurs at the end of April.

This section offers a comparative analysis for each option in two ways: (1) from the changes in assessment only; and (2) from the changes in assessment and the 2025 budgetary tax increase. These are shown in the tables in Appendix 4.

To explain the differences between the two tables, Saskatoon City Council approved an overall property tax increase of 4.96% for 2025. The second table applies this overall tax increase to the analysis of the various tax policy options.

- The tax implications are expressed in terms of the change in effective tax rates (ETR). This means that adjustments for percentages of value and mill rate factors have been made to generate an ETR, expressed as the rate per $1,000 of taxable assessment. The calculations exclude the library and education property taxes. It is important to note that a lower or higher ETR does not necessarily mean a lower or higher overall property tax for a class or property. The ETR needs to consider the assessment or impact of reassessment it is being applied to, to understand the actual tax impact.
- Potential illustrative tax calculations for the various property types within each property class are provided in Appendix 5. The analysis here uses median values (rather than averages or overall values) to illustrate the potential municipal property tax implications for each tax ratio scenario.[8]
- The options analysis starts with the revenue neutral ratio, which is set at 1.88 to 1 in 2025. This means that due to the overall valuation changes, the City would collect the same amount of property tax revenue (68% from residential properties and 32% from non-residential properties) from each class prior to reassessment as it does post-reassessment. Because the tax scenario analysis in Appendix 5 uses the change in median assessed values for individual property types it will show different results from using overall values.

Option 1: The Revenue Neutral Proposal, Ratio of 1.88

This option proposes that the City adjust the tax ratio to the revenue neutral ratio of 1.88 to 1. That is, the non-residential property tax rate would be set at 1.88 times higher than the residential property tax rate. The tax implications to the overall property

[8] The median represents the midpoint of a dataset, where 50% of the values fall below and 50% fall above. It is a measure of central tendency that is less sensitive to extreme values, making it a more stable indicator of typical values compared to the mean, especially in datasets with outliers or skewed distributions. It is ideal for measuring tax changes from one period to another because it is a more representative measure, reflects a typical property, and reduces distortions in the results.

classes are shown in Appendix 4. For individual property types (based on median values) they are shown in Appendix 5.

Using the results from Appendix 4, the combined assessment and budgetary changes results in a $0.40 reduction in the residential ETR relative to 2024. On the other hand, the ETR for non-residential properties increases by $0.81 from $10.35 in 2024 to $11.16 in 2025.

Using sample results from Appendix 5, the effects of this ratio in 2025 show that the median single family residential property in 2025 would see its taxes rise by $171 annually (+7.8 percent) relative to 2024. On the other hand, a typical retail property would see its tax burden rise by $885 annually (+5.6 percent) relative to 2024. These results are reflective of both a change in median assessed values and distributing the budgetary tax burden in the same ratio as used in 2024.

Option 2: The Prairie Median Ratio of 2.13

This option proposes that the City adjust the tax ratio to the revenue neutral ratio of 2.13 to 1. This would set the City's tax ratio at the midpoint relative that of seven other prairie cities (see Appendix 3). The potential tax implications to the overall property classes are shown in Appendix 4. For individual property types (based on median values) they are shown in Appendix 5.

Using the results from Appendix 4, the combined assessment and budgetary changes results in a $0.64 reduction in the residential ETR relative to 2024.[9] On the other hand, the ETR for non-residential properties increases by $1.77 from $10.35 in 2024 to $12.12 in 2025.

Using sample results from Appendix 5, the effects of this ratio in 2025 show that the median single family residential property in 2025 would see its municipal property taxes rise by $75 annually (+3.4 percent) relative to 2024. On the other hand, a typical retail property would see its municipal tax burden rise by just above $2,300 annually, (+14.6 percent) relative to 2024. These results are reflective of both a change in median assessed values and distributing the budgetary tax burden in accordance with the proposed ratio.

Option 3: The Previous Policy Ratio of 1.75

This option proposes that the City adjust the tax ratio to 1.75 to 1. This ratio reflects previous policy set after the 2017 property revaluation cycle. Like the other options, the tax implications to the overall property classes are shown in Appendix 4. For individual property types (based on median values) they are shown in Appendix 5.

Using the results from Appendix 4, the combined assessment and budgetary changes results in a $0.26 reduction in the residential ETR relative to 2024, falling from $6.35 to

[9] Note: results in the appendix may differ slightly due to rounding to decimal places.

$6.08. On the other hand, the ETR for non-residential properties increases by $0.28 from $10.35 in 2024 to $10.63 in 2025.

Using sample results from Appendix 5, the effects of this ratio in 2025 show that the median single family residential property in 2025 would see its municipal property tax rise by $225 annually (+10.2 percent) relative to 2024. On the other hand, a typical retail property would see its municipal property tax burden rise by $89 annually (-0.6 percent) relative to 2024. In contrast, a hotel property would see its municipal tax burden fall by just over $5,000 annually (-5.3 percent). Again, these results are reflective of both a change in median assessed values and distributing the budgetary tax burden in accordance with the proposed ratio.

Option 4: The Current Policy Ratio of 1.63
This option proposes that the City maintain its current tax policy ratio at 1.63 to 1. As explained earlier, although this ratio is slightly higher the 1.59 to 1 ratio set in 2021, it is reflective of within cycle property valuation changes. Like the other options, the tax implications to the overall property classes are shown in Appendix 4. For individual property types (based on median values) they are shown in Appendix 5.

Using the results from Appendix 4, the combined assessment and budgetary changes results in a $0.14 reduction in the residential ETR relative to 2024, falling from $6.35 to $6.20. On the other hand, the ETR for non-residential properties decreases by $0.21 from $10.35 in 2024 to $10.14 in 2025.

Using sample results from Appendix 5, the effects of this ratio in 2025 show that the median single family residential property in 2025 would see its municipal property tax rise by $275 annually (+12.5 percent) relative to 2024. On the other hand, a typical retail property would see its municipal property tax burden fall by $646 annually (-4.1 percent relative to 2024). In contrast, a hotel property would see its municipal tax burden fall by just over $9,260 annually (-9.7 percent). Again, these results are reflective of both a change in median assessed values and distributing the budgetary tax in accordance with the proposed ratio.

Option 5: The Chamber Legacy Policy Ratio of 1.43
This option proposes that the City adopt the Greater Saskatoon Chamber of Commerce legacy proposed ratio of 1.43 to 1. Like the other options, the tax implications to the overall property classes are shown in Appendix 4. For individual property types (based on median values) they are shown in Appendix 5.

Using the results from Appendix 4, the combined assessment and budgetary changes results in a $0.10 increase in the residential ETR relative to 2024, rising from $6.35 to $6.44. By contrast, the ETR for non-residential properties decreases by $1.14 from $10.35 in 2024 to $9.21 in 2025.

Using sample results from Appendix 5, the effects of this ratio in 2025 show that the median single family residential property in 2025 would see its municipal property tax rise by $369 annually (+16.7 percent) relative to 2024. On the other hand, a typical retail property would see its municipal property tax burden fall by $2,032 annually (-12.9 percent relative to 2024). In contrast, a hotel property would see its municipal tax burden fall by almost $17,200 annually (-17.9 percent). Again, these results are reflective of both a change in median assessed values and distributing the budgetary tax in accordance with the proposed ratio.

RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council that it set the non-residential to residential tax ratio in accordance with Option 3, the previous policy ratio of 1.75 to 1, effective for the 2025 to 2029 period.

RATIONALE

The tax policy options provided in the previous section attempt to illustrate the trade-offs involved by distributed the municipal property burden. The analysis aims to show the incremental tax changes that may result from selecting one of the five proposed options. The supporting data and supplementary analysis contained in the appendices show that business property taxes, especially at the levels proposed in this report, have minimal effects on business investment. In other words, the literature is inconclusive in terms of the impact that a tax ratio policy has on business decisions and whether there is an optimum tax ratio.

Ultimately, the choice of the option comes down to how well they support public policy principles. Appendix 2 explains such principles and indicates that there are trade-offs that emerge in the decision-making process. For example, a fundamental principle in Saskatoon's tax policy approach is tax fairness or equity. Here, it implies that the burden of a tax should be shared fairly among individuals so that there is an equitable distribution of the cost of government to society.

In 1997, Saskatoon's Local Tax Review Committee was concerned by the tax rate differential and believed that there was no basis for charging businesses higher tax rates when in fact the residential properties received more services for the taxes than paid. This, combined with the ability for business property owners or non-residential property owners to deduct property taxes from their corporate income tax requirements, formed the basis for the adoption of a targeted non-residential to residential tax ratio of 1.75 to 1, which has since fallen to 1.63 to 1, reflecting the changes in property values due to a provincially mandated reassessment every four years.

In 2021, City Council elected to maintain the tax ratio (at 1:59 to 1) even though non-residential properties values rose by eight percent in aggregate, while residential fell by seven percent. This decision was made during a global pandemic so other factors may have influenced the decision to hold the ratio.

Despite the 2021 decision, the implied approach by City Council was to mitigate the impacts of a faster rising assessment environment for non-residential properties during this time relative to residential properties. Given that the results have switched in that residential property values have risen by 13 percent in 2025 and non-residential values have fallen by two percent, it makes sense to consider a ratio adjustment.

During the 2017 tax policy decision, where policy stood at 1.75 to 1 and the revenue neutral ratio was at 1.47 to 1, City Council decided to "split the difference" and adopt a ratio of 1.59. This compromise balanced the results from a substantial change in property values non residential property values relative to the previous cycle and ensuring that the resulting tax burden was distributed reasonably fairly among the two main property classes.

Although an increase of the municipal tax ratio from 1.63 to 1.75 can be seen as an unfriendly business decision on the surface, the ratio should not be viewed in a vacuum and needs to consider the reassessment environment it is being applied to. Moreover, while a pegged ratio may be a symbolic gesture it does not necessarily mean that the effective tax rates or burdens are lower. Comparative data provided in Appendix 3 reflect this.

In addition, the 2025 reassessment is the first time since the introduction of the market value approach (2005) to assessment where the value of residential properties has risen faster than the value of commercial properties. This means that historically the revenue neutral ratio since this time has been lower than the existing ratio, due to the fast-growing non-residential values, assisting in the lowering of the ratio from 2.41 in 1998 to the current 1.59 ratio. As the 2025 reassessment experienced faster growing residential assessments, there is an opposite and upward pressure on the ratio with a revenue neutral value of 1.88. The proposed 1.75 ratio is consistent with historical City Council's decisions in that ratios were established in the direction of the revenue neutral ratio to smooth out large shifts between residential and commercial properties while at the same time respecting the outcome and implications of a reassessment cycle.

A 1.75 to 1 tax ratio is among the lowest in Western Canada, and the effective tax rate on non-residential will also be one of the lowest in Canada. Despite the proposed ratio shift, many businesses in Saskatoon will see a decrease in their actual taxes paid comparable to 2024 due to reassessment despite the increase's ratio. As 1.88 is the revenue neutral ratio, anything below this amount will still see a shift from commercial properties to residential resulting in less overall commercial property taxes in 2025 as compared to 2024.

ADDITIONAL IMPLICATIONS/CONSIDERATIONS

The tax scenario analysis in this report excludes education property taxes and library property taxes, which account for 35 percent and 6 percent respectively of the total property tax bill. The Government of Saskatchewan will set education property tax rates in the 2025/26 provincial budget which is set to be released March 19, 2025. Any changes emerging from this process may generate additional tax implications.

It should also be noted that the analysis or recommendations in this report in no way attempts to generate a cleavage between residential and non-residential property owners. But as the analysis shows, there are substantial differences in value changes within each major property class. As a result, tax policy decisions need to understand and contemplate these uneven effects.

The 2025 results are reflective of the economic distortions created by the COVID-19 pandemic. Some property types have seen substantial values drops especially some of the highest valued properties (in retail and office). It is hard to predict whether these lower declines will turn quickly or slowly, given the imminent threat of US tariffs on Canadian exports and any retaliation efforts provided by the Canadian government. If these are large and prolonged, they could also have negative long-run effects on non-residential property values. The point is tax policy should consider the macro environment.

APPENDICES

1. Descriptive Statistics for Non-Residential Properties
2. Discussion Paper – Business Property Taxation by Cities: What We Know, What We Don't, and What We Should
3. Comparative Tax Policy Analysis
4. Aggregate Property Tax Scenario Analysis
5. Median Property Tax Implications by scenario and property type.

REPORT APPROVAL

Written by: Mike Jordan, Chief Public Policy and Government Relations Officer
Reviewed and
Approved by: Clae Hack, Chief Financial Officer.

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