APPROVAL REPORT

Municipal Tax Policy – Non-Residential to Residential Municipal Property Tax Ratio Update

ISSUE

Recent assessment changes, mainly to warehouse properties, would have a material affect on the City of Saskatoon's (City) previously approved tax ratio and mill rate structure if the ratio were left unadjusted. This report explains the proposed revision to the ratio which will result in achieving the intent of City Council's previous decision.

RECOMMENDATION

That the Governance and Priorities Committee recommend to City Council that through the required Notice of Motion process under The Procedures and Committees Bylaw, 2014 that:

1. The March 26, 2025, previous direction of City Council to set a non-residential to residential tax ratio in accordance to option 1, the proposal rate of 1.88, effective for the 2025 to 2029 period be rescinded and;
2. A 1.71 ratio be adopted to maintain the original intent of a 68% to 32% property tax revenue split between residential and non-residential properties respectively.

BACKGROUND

At the March 26, 2025 regular meeting of City Council while considering the Municipal Tax Policy – Distributing the Non-Residential to Residential Municipal Property Tax Burden, 2025 – 2029, City Council resolved:

> "That City Council set the non-residential to residential tax ratio in accordance with Option 1, the proposal ratio of 1.88, effective for the 2025 to 2029 period."

In 2024, the City collected approximately 68% of its overall property tax from residential properties, while 32% was collected from non-residential properties. The approval of a 1.88 ratio was aimed at maintaining this 68% residential and 32% non-residential collection from 2025 to 2029.

DISCUSSION/ANALYSIS

The calculation of the 1.88 non-residential-to-residential property tax ratio was based on the City's reassessment data as of January 1, 2025. As with any reassessment year, amended notices are issued following appeal decisions or corrections identified after the initial notices are sent. These amendments are typically minor and result in minimal changes to the property tax ratio, class distribution, and overall revenue.

However, on March 27, 2025, the City issued amended notices primarily affecting warehouse properties, representing a more significant adjustment than in previous reassessment cycles. These amendments were necessary because the original reassessment models for warehouses did not include time adjustments for sales data. Specifically, since the base date for the 2025 reassessment cycle is January 1, 2023, any warehouse sales occurring prior to that date should have been adjusted to reflect market value as of January 1, 2023. While this adjustment was properly applied to all other property classes, it was omitted from the warehouse subclass model.

As a result of applying the required time adjustment, there was an increase of approximately $653 million in assessed value to the commercial class, mainly impacting the warehouse property subclass.

In earlier reporting to City Council, Administration advised that the commercial property class had experienced a 2% decrease in assessed value based on the January 1, 2025, reassessment data. While that remained accurate at the time, the inclusion of the warehouse amendments has resulted in an overall 4.6% increase in commercial property assessments. This change has two significant implications:

1. **2025 Mill Rate and Mill Rate Factors**

   At the upcoming April 23, 2025, Regular Business Meeting of City Council, Administration will present the recommended 2025 mill rate and mill rate factors to support the issuance of property tax bills in May. Traditionally, mill rate calculations are based solely on January 1 assessment figures, with any amendments included later as part of the City's property tax growth revenue.

   However, given the scale of the recent amendments, Administration is recommending that the amended assessment values be included directly in the 2025 mill rate and mill rate factor calculations. This approach ensures the City does not collect more than the amount approved in the 2025 budget. If excluded, the amendments would generate approximately $7 million in additional municipal property tax revenue beyond what was approved for in the 2025 budget.

2. **Revised Property Tax Ratio**

   In light of the recent amendments, Administration recommends adopting a revised property tax ratio of 1.71, which maintains the intended distribution of 32% of total property tax revenue from non-residential properties and 68% from residential properties which was the basis of the previous 1.88 approved ratio. This revised ratio is revenue or shift neutral in that it will maintain the same commercial to residential distribution as in 2024 and does not include appeal contingencies. To implement this change, City Council will be required to rescind its March 26, 2025, decision approving the 1.88 ratio.

The Administration recognizes that a recommendation to rescind a previous City Council resolution is uncommon. However, due to the unique nature of the amendments and their material impact on assessment values and tax policy, Administration believes this recommendation is the most prudent approach to ensure City Council’s original intent is upheld.

To illustrate the results of these changes, two revised appendices are provided. Appendix 1 provides illustrative calculations for tax ratio scenarios for both assessment changes and assessment changes with budget requirements by the two major property tax classes.

Appendix 2 provides illustrative calculations for the potential municipal property implications for each property type within each property using various tax ratio scenarios provided in Appendix 1. Like Appendix 1, Appendix 2 offers the illustrative calculations by assessment change (see Table 1) and by assessment change plus budget (see Table 2) by taking the median assessed value for each property type and then applying the various tax ratio scenarios. [1]

These results have been adjusted relative to previous versions in two ways: (1) the inclusion of the warehouse amended assessments and (2) the removal of the non-residential appeal contingency from the tax revenue requirements in both 2024 and 2025. Because the contingency acts as an additional specified property tax levy on non-residential properties it overstates the effects of the assessment tax and budgetary tax changes.

The Procedures and Committees Bylaw, 2014 requires that all rescinding motions of City Council be undertaken through the Notice of Motion process. As such, should a recommendation be made that supports a change in previous direction on this topic, a Notice of Motion will be required at City Council, separate from the direction provided by Governance and Priorities Committee. While notice is not able to be given by Governance and Priorities Committee, a member of the Committee can provide the required notice to the City Clerk's Office in accordance with the direction of the Committee following the meeting.

FINANCIAL IMPLICATIONS

There are no financial implications to the City resulting from the recommendation. The recommended mill rates (to be considered on April 23, 2025), will generate the necessary revenue to meet the 2025 budget requirements.

NEXT STEPS

If approved, and following the required rescission of previous direction, the Administration will bring forward a report to the April 23, 2025, Regular Business Meeting of City Council recommending approval of the 2025 mill rates and mill rate factors. Unless otherwise directed, these will reflect the revised commercial-to-residential ratio of 1.71 and incorporate the increased assessment resulting from the warehouse amendments.

[1] The illustrative calculations in the appendices may be different from previous versions due to changes in the assessments and the distributions of tax revenues. Rounding of values to one decimal place can have differing tax implications for different property types.

At the March 5, 2025, Standing Policy Committee on Finance, Committee resolved:

> "That the Administration engage the community and stakeholders with a view to setting overall guidelines and goals for our tax policy and finding ways to make our policy more clearly understandable to stakeholders and the public."

Following this direction, Administration will consult with industry and stakeholders prior to the next revaluation cycle to more thoroughly document the City's approach to tax policy. The City typically considers many factors such as fairness, proportion, and smoothing when recommending tax policy adjustments, and this balanced approach will be a key part of future consultation and policy development to ensure predictability for both businesses and residents.

APPENDICES

1. Adjusted Tax Scenarios
2. Tax Scenario Analysis by Property Type

REPORT APPROVAL

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