



STAFF REPORT

Title: Bylaw No. 749-AN-22 - 2022 Tax Rate Bylaw

Meeting Date: May 17, 2022

Executive Summary:

In accordance with section 353 and 354 of the *Municipal Government Act*, a tax rate bylaw must be passed annually in order to generate the taxation revenue required to meet the annual operating budget.

The 2022 approved operating budget is \$52,849,468, which includes a transfer to capital of \$6,923,000. The City must generate \$21,373,561 (2021: \$20,648,074) from municipal taxation to balance the 2022 budget.

Council gave first reading of the taxation bylaw at the May 10, 2022 council meeting with the following rates.

Property Class	Proposed Tax Rates
Municipal (Residential)	8.7765
Municipal (Multi-Family Residential)	8.9312
Municipal (Non-Residential)	12.7760
Annexed Residential	2.7663
Annexed Farmland	5.000
Annexed Non-Residential	12.7760

These tax rates achieve an average municipal tax increase of 3.15% to generate sufficient tax revenue as budgeted in the 2022 budget. These rates are Municipal tax rates only and do not include the School Board or Lakeland Housing Foundation Requisitions. Inclusion of these requisitions will generate an average 1.3% increase for total property taxes paid for residential properties and an average 3.5% increase for total property taxes paid by non-residential properties. The municipality does not have control over these rates or the split between residential or non-residential.

Background:

Council passed the 2022 Operational Budget on December 12, 2021 in the amount of \$52,849,468 (which includes a transfer to capital of \$6,923,000). The City receives \$31,475,907 from a combination of sales and user charges, government transfers (including ID349 and ICF), penalties, franchise agreements, investment income, rentals,



and other. The City must generate the remaining \$21,373,561 (2021: \$20,648,074) from municipal taxation to balance the 2022 budget.

Funding from ID349

The operating budget included \$13.5M from ID349 taxation revenue. In 2021, the City received 13.6M in ID349 revenues which was 2.4M lower than budgeted due to lower assessments. The \$13.6M is the lowest amount the City has received from the ID349 since 2012 and the minimum amount the City expected as per the model approved December 2018. There are still two significant assessment appeals outstanding from 2018 and 2019 where \$1.4M of revenue was held back in 2020 until the appeals are settled. At the end of 2020 the appeals were presented in front of the Land & Property Rights Tribunal and a decision was made by the tribunal on November 15, 2021 to keep the assessment the same. There has been an application to the Court of Queen's Bench for a judicial review by the property owner. Should the appeals be unsuccessful or reduced, the amount held back will be reduced and paid to the City accordingly. When Administration receives notice of the outcome of the ID349 assessment appeals, and the value of the payout is known, the matter will be brought to Council for discussions regarding the allocation. At this point we are unaware if any appeals have been filed for the 2021 tax year.

In May 2021, the City received \$5M in funds from ID349 which included any reserve funding and surpluses related to ID349 for 2012-2017. These funds were distributed to the City as the new revenue sharing agreement had been approved by the Cabinet at the end of April 2021 as the ID349 property has been annexed into the MD of Bonnyville as of May 1, 2021. This additional revenue received made up for the \$2M shortfall from 2020 and 2.4M shortfall in 2021 with the remainder being used in the 2022 capital budget.

Payment in Lieu of Taxes (PILT)

From 2013 to 2021, the City has appealed PILT to the Dispute Advisory Board (DAP). In February/March 2022 a hearing was held before the DAP for the City's appeals of the tax years 2013-2021. As of the date of this report, the DAP has not released their decision.

The appeal is the result of a discrepancy between the City Assessor's assessment and the Federal Assessor's assessment of the 4 Wing property. The 2022 budget includes a PILT allowance of \$1.2M. The City will again apply for deferral of the portion of the school board requisition relating to PILT in 2022.



Taxable Assessment

The City's total taxable assessment increased by \$112M when compared to 2021. Total growth was \$18M due to new construction and the inflationary increase was \$94M (higher assessment values).

All tax assessment notices were mailed on March 1, 2022. As per the regulation, the tax payers have 67 days to appeal their assessments. The appeal deadline for 2021 was May 9, 2022. The City did not receive any assessment appeals for 2022.

Annexed Properties

Under the Order in Council regarding the Annexation, the City of Cold Lake must tax the annexed land at either the same tax rate as the MD or the tax rate of the City of Cold Lake, whichever is lower, up to and including 2069 unless the criteria is met as per the Annexation agreement. The 2021 MD tax rates were 2.7663 Residential, 5.0000 Farmland and 14.5000 for Non-Residential.

2022 Requisitions

The 2022 requisitions can be summarized as follows:

- Education Property Tax Requisition is \$6,273,611 (2021-\$6,390,063) which requires a tax rate of 2.5415 for residential properties and 3.8451 for non-residential properties. The requisition for 2022 is the 6th consecutive year the school board requisition has decreased. Previously, the decrease was due to the City's equalized assessment decreasing at a rate higher than the rest of the province. For 2022, the decrease is due to the City's equalized assessment increasing at a lower rate than the rest of the province.
- Lakeland Seniors Foundation's requisition is \$145,281 (2021: \$124,009) which requires a tax rate of 0.0669 to generate the funds required.
- Designated Industrial Property Requisition is \$1,941 (2021-\$1,948). A tax rate of 0.0766 will be utilized to generate \$1,941 for the Designated Industrial Property Requisition.

The City has no control over these requisitions; they are collected by the City and forwarded in full to the respective party.

Noteworthy Discussion Items

- **2022 Assessment Appeals:** The City did not receive any assessment appeals for 2022.



- **2021 Surplus:** The City's 2021 financial statements are completed and the City did have a surplus of \$4.8M which was attributed to employee expenses lower than budget, and a higher return on investments. Council has already allocated \$3.88M towards the 2022 Capital budget and various operating initiatives on the 2022 Matrix. There would be \$0.9M of surplus remaining from 2021.
- **Residential vs. Multi-Family Mill Rates:** Council may wish to consider the split between the residential and multi-family mill rates. By way of background information:
 - In 2007, a separate mill rate for multi-family was created in the City of Cold Lake. The multi-family mill rate was set higher than the residential mill rate based on the rationale that multi-family properties are owned for the purpose of generating income, owners are able to deduct property taxes for income tax purposes and can write off expenses like other businesses. Any increase in property taxes for a multi-residential property would generally be passed onto the renter.
 - There are 44 multi-family properties that make up 3.5% of the City's total taxable assessment.
 - Each year, mill rates have been set so all classes are experiencing the same increase to actual taxes paid. Generally multi-family properties have been holding their value so assessments have been going down at a slower rate than the residential assessments. Therefore, the split between the two has changed from 1.36 at its highest to 1.02 for the proposed 2022 rates (2021 – 1.01).
 - The 2021 assessments being used for the 2022 tax rates have multi-family assessments increasing an average of 3.3% whereas the residential assessments increased an average of 4%. This difference has cause the split to increase a small amount.
 - Of twenty (20) municipalities canvassed across Alberta, only four had a separate mill rate for multi-family residential properties.
 - Council may wish to increase the split between the residential and multi-family rates or do away with the separate rates all together.
 - The proposed rates are 8.7765 for residential and 8.9312 for multi-family.
- **Residential vs. Non-Residential Mill Rates:** Council may wish to consider the split between residential and non-residential mill rates.
 - In 2015, the non-residential rate was 2.03 times the residential rate and the proposed 2022 mill rate is only 1.46 times the residential rate (2020-1.45). This erosion of the split is due to the residential assessments decreasing at a greater rate than the non-residential properties.



- Each year, mill rates have been set so all classes experience the same actual increase in taxes paid so this has resulted in a reduction in the split. The 2022 proposed non-residential mill rate is 12.7760.

2022 Tax Rate

The 2022 budget was passed with an estimated average tax increase of 3.22%. However, the draft Bylaw No. 749-AN-22 presented shows an average increase of 3.15% to all assessment classes. Taxes are dependent on the assessed value of a property in relation to other properties in the City. The tax rate is set per \$1,000 of assessed value. All assessments are based on market values as at July 2021 and condition as of December 31, 2021. If the requisitions inclusive of the estimate requisition for Schools are included, the average increase would be approximately 1.3% for residential and 3.49% for non-residential.

Administration is providing the following options to Council for consideration:

1. Option 1 is keeping the same mill rate as 2021 which will equate to a surplus of \$132,246. This option would require an amendment to the 2022 Operational budget to balance the budget.

Property Class	Proposed Tax Rates
Residential Tax Rate	8.8555
Multi-Family Residential Tax Rate	8.9470
Non-residential Tax Rate	12.7975

2. Option 2 is calculated with an average zero percent increase to Municipal taxes which would equate to a deficit of \$645,545. This option would require a transfer of \$645,545 from accumulated surplus to balance the 2022 Operational Budget.

Property Class	Proposed Tax Rates
Residential Tax Rate	8.5125
Multi-Family Residential Tax Rate	8.6583
Non-residential Tax Rate	12.3861

3. Option 3 is calculated with an average zero percent increase to Municipal taxes with a reduction of the multi-residential rate down to the residential rate which would equate to a deficit of \$656,590. This option would require a transfer of \$656,590 from accumulated surplus to balance the 2022 Operational Budget.



Property Class	Proposed Tax Rates
Residential Tax Rate	8.5125
Multi-Family Residential Tax Rate	8.5125
Non-residential Tax Rate	12.3861

4. Option 4 is calculated with an average increase to Municipal taxes as close to zero percent and having the multi-residential rate the same as the residential rate while generating the required tax revenue.

Property Class	Proposed Tax Rates
Residential Tax Rate	8.7810
Multi-Family Residential Tax Rate	8.7810
Non-residential Tax Rate	12.7829

5. Option 5 is calculated with a 3.15% average increase to Municipal taxes while generating the required tax revenue.

Property Class	Proposed Tax Rates
Residential Tax Rate	8.7765
Multi-Family Residential Tax Rate	8.9312
Non-residential Tax Rate	12.7760

Administration has provided for informational purposes on the attached spreadsheet a projected average increase of 3.15% to municipal taxes.

Administration will bring Bylaw No. 749-AN-22, Tax Rate Bylaw to the Regular Meeting of Council on May 24, 2022 for second and third readings.

Tax Notices will be mailed by May 31, 2022 with a due date of June 30, 2022.

Alternatives:

Council to discuss and give direction on second and third reading of the tax rate bylaw.

Recommended Action:

Council to provide direction to give 2nd and 3rd reading to Bylaw No. 749-AN-22, being the 2022 Tax Rate Bylaw with the Municipal Residential Tax Rate of 8.7765, Multi-Family Residential Rate of 8.9312, Non-Residential Tax Rate of 12.7760, Annexed Residential 2.7663, Annexed Farmland 5.0000, and Annexed Non-Residential 12.7760.



City of *Cold Lake*

Education Tax Rates of 2.5415 Residential, and 3.8451 Non-Residential, a Tax Rate of .0669 for the Lakeland Lodge and Housing Requisition, and a Tax Rate of 0.0766 for the Designated Industrial Property Requisition.

Budget Implications (Yes or No):

Yes

Submitted by:

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