REPORT

PREPARED BY HEMSON FOR THE SASKATOON CHAMBER OF COMMERCE

CITY OF SASKATOON PROPERTY TAX RATIO STUDY

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1. INTRODUCTION

Property taxes are a key issue that the Greater Saskatoon Chamber of Commerce pays close attention to on behalf of its members and the broader business community. Recently some members of City Council have suggested that consideration should be given to raising the non-residential tax ratio in order moderate the effect of property tax increases on the residential sector. Were this to be implemented, taxes on properties in the non-resident sector would increase to make up for the reduced tax amount from the residential sector. The increase would be over and above the regular annual tax increase required to pay for the City's additional operating and capital costs.

Such a change would be a reversal of a series of ratio reductions implemented over many years and aimed at gradually bringing the non-residential ratio to a neutral level compared to the residential level. Today, because of this long-term policy, Saskatoon has a favorable non-residential tax level compared to many other cities.

Considering this potential change, the Chamber decided to retain Hemson to review the implications.

The result of this review is set out in this report which is structured as follows:

- Section 2. Discusses the City's operating costs and revenues with a focus on shares attributable to the residential and non-residential sectors. More particularly the role that property taxes play in the context of the City of Saskatoon's municipal finances.

- Section 3. Describes how Saskatoon's tax policy regime has evolved over time. It also describes how the City calculates tax bills. Finally, it examines the effects that would result were the City to adopt different tax ratios.

- Section 4. Discusses the rationale for Tax Ratios and the arguments for and against various levels.

- Section 5. Provides a summary of the key conclusions and recommendations.

- Appendices. The first appendix shows the details of the City's Tax Bill calculations. Appendix 2 discusses policy considerations and implementation issues regarding a Small Business class.

2. The Cost of City Services and How they are Funded

The City of Saskatoon provides an extensive range of municipal services that it funds using several sources, notably property taxes. This section provides a short review of the City's services and their share of the budget. It also provides a high-level discussion of the relative demand that the residential and non-residential sectors place on each service. Understanding the relative demands helps understand the distribution of costs between the two sectors.

It is to be noted that this discussion is approached primarily from a financial perspective using the City's 2024/25 Operating Budget as the reference source. Operating costs for each service are allocated between the two broad sectors based on a simplified approach. Service characteristics together with population and employment shares are used as proxy measures of demand.

A. Residential and Non-Residential Sectors Both Rely on Most City Services

The City's 2024/25 Operating Budget provides for $626.2 M to fund 12 service categories. Of this amount, tax supported services account for $599.1 M. The budget also includes $436.7 M for Utility Services, which are funded by utility rates and $32.0 M for the Saskatoon Public Library, for which a service specific mill rate levy is applied.

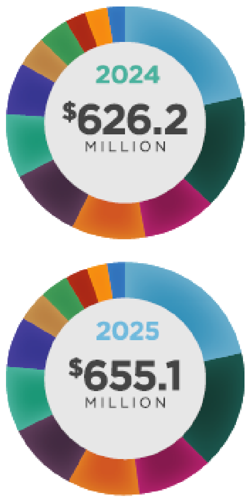
In Table 1 below shows the high-level budget breakdown by service allocated between the residential and non-residential sectors. Broadly speaking, the residential and non-residential sectors both benefit from many of the services. However, at a summary level some services, notably Recreation, Culture and Library services, are heavily oriented to the residential sector. Aside from Business Improvement Districts, no other services primarily benefit the non-residential sector.

Table 1	Budgeted Operating Expenditures (2024)				
	Allocation by Major Sector (Residential & Non-Residential)				
	$ Millions				
Service	**Population**		**Employment**		**Total**
	279,000	61.45%	175,000	38.55%	
Arts, Culture etc.	$ 9,873.1	100%	$ -	0%	$ 9,873.1
Community Support	$ 21,844.6	100%	$ -	0%	$ 21,844.6
Corporate Asset Mgmt.	$ 9,921.8	61.45%	$ 6,224.3	38.55%	$ 16,146.1
Corporate Gov't & Financing	$ 55,160.9	61.45%	$ 34,604.6	38.55%	$ 89,765.5
Environmental Health	$ 12,978.7	61.45%	$ 8,142.1	38.55%	$ 21,120.8
Fire Services	$ 38,241.4	61.45%	$ 23,990.4	38.55%	$ 62,231.8
Policing	$ 82,623.0	61.45%	$ 51,832.7	38.55%	$ 134,455.7
Recreation & Culture	$ 58,781.3	100.00%	$ -	0%	$ 58,781.3
Taxation & General Revenue	$ 3,383.6	61.45%	$ 2,122.6	38.55%	$ 5,506.2
Transit	$ 38,170.8	61.45%	$ 23,946.0	38.55%	$ 62,116.8
Transportation	$ 66,027.2	61.45%	$ 41,421.5	38.55%	$ 107,448.7
Urban Planning & Development	$ 6,138.3	62.77%	$ 3,640.3	37.23%	$ 9,778.6
Total Tax Supported Services	$ 403,144.8	67.30%	$ 195,924.4	32.70%	$ 599,069.2
Library Services	$ 32,042.0	100.00%	$ -	0.00%	$ 32,042.0
Total Levy Supported Services	$ 435,186.78	68.96%	$ 195,924.42	31.04%	$ 631,111.2

The services that jointly benefit both sectors account for approximately 90% of the operating expenditures including the library levy. Using the City's current population (279,000) as a proxy for the residential sector and employment (175,000) for the non-residential sector this share of the budget can be apportioned 61.5% to the residential sector and 38.5% to the non-residential sector. Adding on the operating expenditures for services that predominately benefit residents, results in an overall division of costs of approximately 69% to the residential sector and 31% to the non–residential sector. This contrasts with the shares of the City's combined population and employment (454,000) of 61% residential and 39% non-residential.

Figure 1

TOTAL OPERATING EXPENDITURES BY SERVICE
(VALUE IN THOUSANDS)



	2024		2025
21.47% Police	$134,455.70	21.59%	$141,438.40
15.82% Transportation	$99,089.70	16.25%	$106,446.70
10.11% Corporate Support	$63,355.70	10.24%	$67,135.00
9.94% Fire	$62,231.80	9.87%	$64,659.10
9.92% Transit	$62,116.80	9.82%	$64,349.00
9.06% Recreation	$56,722.90	8.96%	$58,695.80
7.04% Other	$44,052.60	6.92%	$45,305.50
4.22% Debt Servicing	$26,409.90	4.15%	$27,218.70
4.09% Parks	$25,587.00	4.09%	$26,783.80
2.99% Grants & Affordable Housing	$18,719.20	2.89%	$18,909.00
2.86% Urban Planning	$17,922.20	2.81%	$18,389.90
2.48% Garbage & Waste Reduction	$15,519.40	2.41%	$15,810.10
	$626.2M		$655.1M

(1) Other includes street lighting, animal services, cemeteries and facilities, court costs for traffic violations, Saskatoon Land, Impound Lot, and property annexation costs
(2) Parks includes urban forestry and urban biological services
(3) Debt Servicing includes provisions for current and future debt servicing
(4) Corporate Support includes the offices of the City Manager, City Clerk, City Solicitor, Legislative, Finance, Revenue, Service Saskatoon, Assessment & Taxation, Information Technology, Human Resources, and General Administration
(5) Transit includes Access Transit

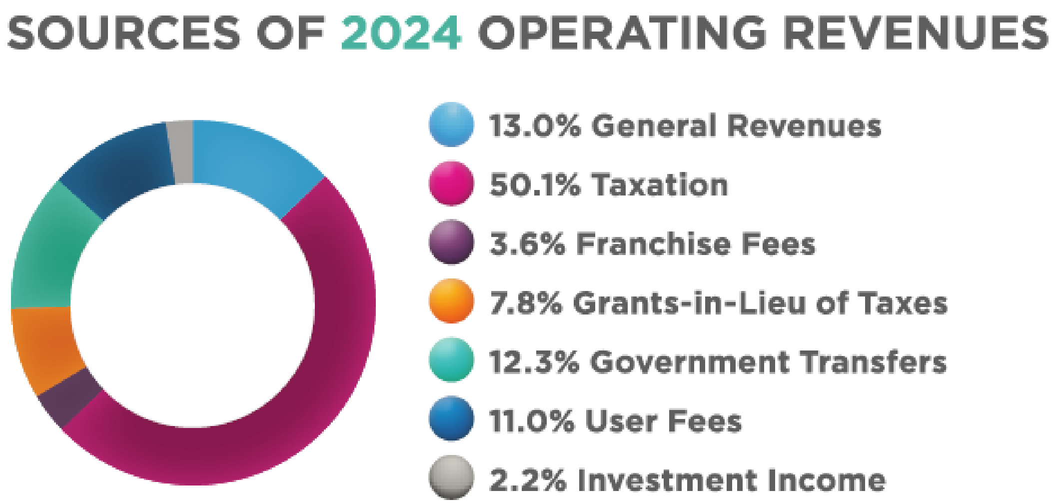
While the above analysis is at a high level relying on broad assumptions, it is clear from a "service benefit" perspective the shares of the City's expenditures are disproportionately oriented towards the residential sector. This is in keeping with experience in all major cities.

B. PROPERTY TAXES ARE THE CITY'S LARGEST REVENUE SOURCE

As shown in Figure 2 below, the City has a wide range of revenue sources, to fund its operating costs. In the 2024 budget, total revenues to fund tax-supported services are $599.1 million added to which is $27.1 million for non-tax supported services. To pay for the City's libraries, revenue are raised based on a service-specific mill rate levy. The Utility rates, which are largely consumption based, fund the cost of the City's utility services.

As Figure 2 shows, by far the largest source of revenues is taxation, which is almost entirely from property taxes. In 2024, they account for $313.6 million, which represents 50.1% of the City's operating revenues. The remaining $312.6 million (49.9%) of revenues is derived from a variety sources. Except for user fees, they are from sources such as other governments and investments.

Figure 2



With respect to the revenue from property taxes, approximately 68% will be from properties taxed at the residential rate while properties subject to the commercial rate will pay 32% of the total. Considered in terms of Fair Value (the basis of the City's property tax system), the non-residential sector accounts for 40% of the City's assessment base. However, exempt properties and those subject to grants-in-lieu represent a disproportionately high share of the non-residential component. The reason for the divergence between the shares of Fair Value and the share of taxes is also a function of the City's tax ratio policy which applies a 1.59 weighting to the assessments for non-residential properties.

There are three key observations that can be made regarding the benefit by sector of the various services that the City delivers and the source of revenues it uses to pay for the expenditures:

- In relation to the **combined population and employment**, the **residential sector** (population) accounts for **61%** of the total and the **non-residential sector** for **39%.**
- The shares of benefit by sector from **City services**, measured in terms of **total expenditures** is quite different. The **residential sector** accounts for approximately **69%** while for the **non-residential sector**, the share is **31%**
- From a property tax revenue perspective, which account for approximately 50% of the City's revenues, the **residential sector** yields approximately **68%** of the total amount while **non-residential taxed properties** contribute around **32%.** However, as a significant share of non-residential properties do not pay taxes as they are either exempt or qualify for Grants-in-Lieu, the cost of providing services to them is partly being supported by taxable non-residential properties.

This distribution reflects a long-standing City policy, the basis of which and the implication of alternatives are discussed in the sections that follow.

3. SASKATOON'S TAX POLICY REGIME

The City of Saskatoon has a long history of reviewing and amending the policies it uses to distribute the property tax burden between different classes of property. In addition to decisions made by the City, periodic changes in Provincial property tax legislation have also had an influence. This section provides a summary of how the policies have evolved over the last 26 years. It focusses on their impact on the non-residential sector.

In addition, the methodology used to calculate tax rates is described. Lastly, the section provides, in summary form, the tax impacts that would result were the current non-residential tax ratio to be changed. To assist in the evaluation of a policy change, results of four potential tax ratio scenarios are provided.

A. SASKATOON'S TAX RATIO POLICY HAS EVOLVED OVER MANY YEARS

Saskatoon's property tax system is governed by the provisions of *The Cities Act 2003* fundamental to which is the "ad valorem" approach that is the basis of Fair Value assessments. Properties are assessed on a four-year cycle which for Saskatoon was last undertaken in 2020 for the 2021 tax year.

The Province provides municipalities the authority to allocate property taxes between classes of property using tax tools. The most significant of these tools and the one that in Saskatoon has been the focus over time of policy changes is the control of tax ratios. These are weightings that are used to allocate levy shares between classes of property. At present the key tax ratio which governs the distribution between residential and non-residential properties is 1.59 which Council has maintained at this level since 2021.

For many years, but at least since 1998, the City has regularly reviewed the non-residential tax ratio.

- 1998: The City's Local tax Policy Committee recommended that the ratio be reduced to 1.75. This target ratio was judged to be the "equitable" level taking into account that for businesses, property taxes are a deductible expense for tax purposes.

- 2001: Council committed to a 10-year plan to steadily reduce the ratio from 2.41 to 1.75.

- 2010: The target 1.75 ratio was reached.

- 2011: The Saskatoon Chamber of Commerce, supported by a recommendation in a report prepared by the Canada West Foundation, proposed that the City reduce the ratio over 16 years to 1.43 to better reflect the deductibility benefit.
- 2013: A report to Council (Administration Report No.6-2013) regarding Municipal Tax Ratio Policy recommended lowering the ratio from 1.75 to 1.43 over eight years based on the income tax differential. However, Council chose not to implement the recommendation.
- 2017: Council decided to reduce the ratio from 1.75 to 1.59. This ratio is the mid-point between 1.75 and 1.43.
- 2021: Council decided to maintain the ratio at 1.59.
- 2023: Council reaffirmed retention of the 1.59 ratio.

In summary, it is evident that over the years, Council has tended to support an approach to tax ratios based on a principle of establishing "equity" between the residential and non-residential sectors, considering the benefit for non-residential property owners of being able to deduct property taxes for income tax purposes. While the reductions in the ratio have never matched the recommended levels, no alternative approach to ratio setting has been put forward.

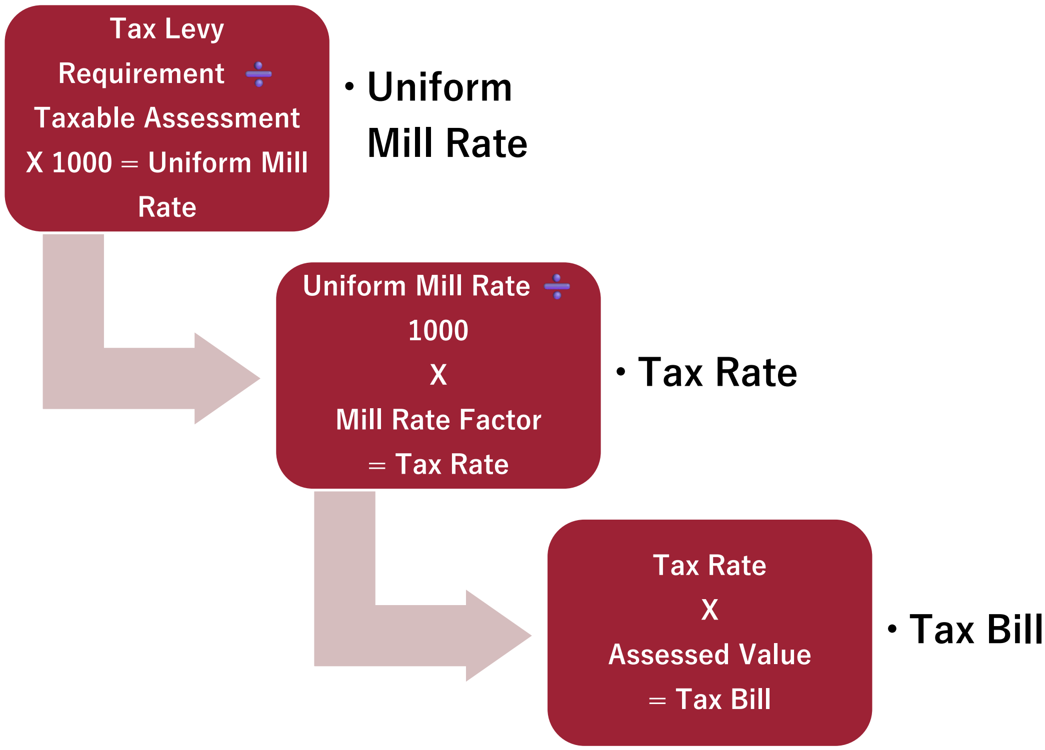
B. CITY'S TAX RATE CALCULATION METHODOLOGY IS COMPLEX

To assess the potential impact on the non-residential properties of a change to the City's tax ratio, it is necessary to develop an analysis that is consistent with the City's tax rate calculation process. The key steps in the process are shown in Figure 3.

A change in the tax ratio would result in a change to the City's mill rate factors, and consequently the tax rates, in order to maintain the City's tax revenues at the same level.

This section describes the methodology used for the tax ratio analysis to ensure consistency with the City's taxation approach. The analysis utilizes 2023 using the City's 2023 budget and assessment data as 2024 assessment and tax/mill rates were not available at the time of writing.

Figure 3. Steps in the Calculation of Tax Rates



i. Saskatoon's Assessment Base

The City's Fair Value Assessment base is the starting point for the calculation of impacts that would occur were the current tax ratio to be changed. The City of Saskatoon establishes the Fair Value of properties based on Provincial assessment legislation with oversight from the Saskatchewan Assessment Management Agency (SAMA). For 2023, the City's Fair Value assessment base was about $54.9 billion.

The first step in the process leading to the final tax bill is an adjustment to Fair Values required in accordance with Provincial legislation. The adjustment is made by applying class specific factors referred to as the "Percentages of Value" (POVs). The adjusted amounts are referred to as the Assessed Values. For 2023, the City's total Assessed Value base was about $45.0 billion.

Furthermore, the City is not able to levy property taxes directly from all properties. Some properties are exempt from taxation or have a grant in lieu applied. Of the total assessed value about $10.0 billion is considered exempt while a further $712.5 million falls under the grant in lieu regime.

Table 2 provides a summary of the City's assessment base. Of the total assessed value of $45.0 billion only about $34.2 billion is related to the amount referred to in this report as taxable assessment, being assessment that is directly taxable through the City's tax rates. Most of the taxable assessment is for properties in the residential sector, about $26.0 billion or 76% (of the $34.2 billion). It is noted, that these amounts do not account for in-year adjustments that may have occurred in 2023 such as those from assessment appeals, reassessments or internal administrative adjustments.

Table 2 Summary of Total Assessment in 2023 ($ millions)

PROPERTY TYPE	FAIR VALUE ASSESSMENT	PERCENTAGE OF VALUE	ASSESSED VALUE
Residential	$32,498.2	80%	$25,998.5
Commercial	$9,604.1	85%	$8,163.5
Agricultural	$21.5	55%	$11.8
Other (Pipelines, elevators, right of way and hangars)	$63.5	85%	$54.0
Normal Assessment	**$42,187.3**		**$34,227.8**
Exempt	*$11,896.9*	*55%-85%*	*$10,041.2*
Federal/Provincial GIL	*$857.6*	*55%-85%*	*$712.5*
Total	**$54,941.8**		**$44,981.5**

Source: Based on 2023 assessment data provided by the City of Saskatoon.

As its key tax policy intervention, the City differentiates the applicable property taxes between the residential and non-residential sector utilizing a tax ratio. In 2023, Council approved continuation of the existing non-residential class tax ratio of 1.59.

In most jurisdictions that use tax ratios to adjust the allocation of taxes between property classes, assessments are factored up or down according to the ratios with the residential class being the base ratio 1.0. The resulting amounts are termed "Weighted Taxable Assessment". In contrast to this method, the City of Saskatoon uses mill rate factors to adjust the tax rates up or down to achieve a tax ratio calculated based on the ratio of typical bills of non-residential to residential properties. This is confusing given that the City's stated non-residential property tax ratio is 1.59.

ii. Calculation of the City's Tax Rates

In 2023, the City levied approximately $292.0 million in property taxes with an additional $30.7 million from the Library levy, based on the 2023 budget. How the City levies its tax revenues is explained in the following steps.

1. **Calculation of the Uniform Mill Rate**

   The uniform mill rate is a notional average mill rate derived from the combined taxable assessment of the property classes (assessment after the percentage of value (POV) adjustment is applied, net of exempt and grant-in-lieu assessment). It is calculated by dividing the total tax levy requirement by total taxable assessment multiplied by 1000. In 2023, the City rate was 8.5034 mills and the Library rate was 0.8907 mills.

2. **Calculation of the Tax Rate**

   In the second step, the tax rate is calculated by dividing the uniform mill rate by 1,000 and then multiplying the product by the Mill Rate Factors for the respective property classes (residential, commercial, industrial, etc.). **Table 3** shows the factors for 2023.

Table 3. 2023 Mill Rate Factors

PROPERTY TYPE	MILL RATE FACTORS
Residential	0.8892
Commercial	1.3502
Hangers	0.8369
Agricultural	1.2934
Other (Pipelines, elevators and right of way)	1.3502

Note: Mill Rate Factors shown in the City's 2023 tax by-law (By-law 9888).

Mill Rate Factors are the most opaque of the three elements that determine the shares by class of the total tax levy, the other two being the POV discount and the Tax Ratio. The Mill Rate Factors do not alter the City's overall tax revenue, but like the other adjustments, shift the relative shares of the tax levy between property classes.

Mill Rate Factors are a key component used in the City's annual tax rate calculation. However, the way in which the specific amounts are calculated is not explained in the City's taxpayer information.

3. **Calculation of the Tax Bill**

   The final step in the tax calculation of individual tax bills is straightforward. It involves multiplying the applicable general tax rate by each property's taxable assessment (fair assessment after POV adjustment). This is in line with the method used by most Canadian municipalities.

> In 2023, based on the taxable assessment of an average residential property with Fair Value Assessment of $334,000 the bill for general taxes is $2,020. In contrast, the tax bill for a commercial property of the same value would be $3,260.
>
> In addition, the Library Levy which is calculated in the same way as the general tax is added to the bill. Finally, the Education Tax which is set by the Province is included. In total for the average residential property with an assessed value of $344,000, the total 2023 City and Library tax bill is $2,232 and for a commercial property of the same value, the tax is $3,601. [1]

As the description to this section makes clear, the City of Saskatoon's property tax regime involves a number of steps, some of which are confusing or lack clarity.

Appendix 1, at the end of this document, provides full details of the City and Library tax bill calculations.

iii. Commercial Contingency Levy

For some years the City has maintained a contingency fund to mitigate the tax impact of losses from commercial assessment appeals. To maintain the fund, the City applies a levy to the non-residential sector but in a way that is not necessarily transparent.

According to the City's website

> *"City Council's approval of a tax ratio of 1.59 means that for every $1.00 in property tax that a residential property owner pays, a non-residential property owner will pay $1.59 on an equivalent assessment.[2]"*

However, analysis of the 2023 tax rates shows an actual difference of $1.61 for non-residential properties. This difference is not readily apparent nor is the reason for it. A footnote in a recent staff report[3] does note the difference and identifies that it is accounted for by a "contingency provision to fund commercial property tax appeal losses". The provision that the City decided to levy in 2023 from the non-residential sector was $1.5

[1] Education property taxes would add an additional $1,213 for residential and $1,948 for commercial for totals of $3,445 and $5,549 respectively.

[2] Source: https://www.saskatoon.ca/services-residents/property-tax-assessment/tax-rates-mill-rates.

[3] "Business Property Tax In Comparative Perspective": City of Saskatoon, 2023.

million[4]. This amount, which is effectively a surcharge on non-residential properties, is unusual, more so given it is not clearly identified.

A further aspect for consideration is the fact that the non-residential is also understood to be contributing to a contingency provision for residential tax appeal losses as part of the general tax levy.

C. HOW ALTERNATIVE TAX RATIOS WOULD AFFECT THE DISTRIBUTION OF TAXES

A key component of this review is the assessment of the impact on the two key sectors of alternative tax ratios. To illustrate the results for a range of ratios four, scenarios have been modelled in comparison with the current 1.59 base case.

The four scenarios are:

- 1.00: Fully unweighted levy allocation between the residential and non-residential sectors.
- 1.25: 'Neutral' weighting allowing for the current benefit of property tax deductibility for corporate tax purposes.
- 1.43: Target ratio of the City's last long-term 'neutral' tax ratio policy initiative.
- 1.75: Starting ratio of the City's last long-term tax ratio reduction initiative

As is discussed in Section 4 below, there are other potential ratio policy approaches, for example, establishing additional property classes. Nevertheless, the above four options are considered broad enough to facilitate a thorough evaluation of the impacts of an alternative ratio policy.

Taxable Assessment Based on Alternative Ratio Scenarios

The key step in the process for evaluating the impact of the four ratio scenarios is the assessment used for tax purposes. Since the City of Saskatoon does not utilize "weighted assessment" in its tax calculation the taxable assessment is utilized uniformly across all scenarios. The amount is shown in **Table 4**.

[4] "2023 Commercial Appeal Contingency": City of Saskatoon, 2023.

Table 4. Summary of Taxable Assessment in 2023 ($ millions)

CATEGORY	RESIDENTIAL	NON-RESIDENTIAL	TOTAL
Taxable Assessment	$25,998.5	$8,229.3	**$34,227.8**

Since **Mill Rate Factors** are the primary influencing factor when considering the allocation of the City's levy needs across sectors, the analysis incorporates changes to the mill rate factors for each of the four tax ratio scenarios tested. To do so, factors are adjusted proportionate to the change in the tax ratio being tested while ensuring the tax levy remains revenue neutral. By doing so, the changes to the relative tax burden under each tax ratio scenario are reflected.

Table 5 below shows the calculated Mill Rate Factors for the four scenarios. It is to be noted that the Mill Rate Factors for agricultural and hangar properties remain the same in all scenarios as changes to the tax ratio are associated to the residential and commercial tax rates.

Table 5. Summary of Calculated Residential Mill Rate Factors under each Scenario

PROPERTY TYPE	TAX RATIO AT 1.59 (CURRENT)	TAX RATIO AT 1.00	TAX RATIO AT 1.25	TAX RATIO AT 1.43	TAX RATIO AT 1.75
Residential	0.8892	1.0142	0.9591	0.9240	0.8656
Commercial	1.3502	0.9545	1.1290	1.2400	1.4250

Note: Mill Rate Factors for agricultural and hangar properties remain the same in all scenarios.

Results of the Analysis by Scenario

Table 6 shows the results of the analysis from two perspectives, from the overall change in the distribution in the levy between the residential and non-residential sectors and the change to the bill based on a property with a Fair Value of $334,000 relative to be base case.

The results show:

- A tax ratio of 1.00 would have the most significant impact, reducing the taxes for non-residential properties by about 29%. Taxes for residential properties increase by about 14%. The overall tax levy burden would shift to about 77% residential and 23% non-residential. This distribution aligns more closely with the overall makeup of the City's assessment base.
- A tax ratio of 1.25 would also result in a shift away from the non-residential sector to the residential sector. However, the magnitude of the shift is moderated.

- A tax ratio of 1.43 would result in a tax levy allocation of 70% residential and 30% non-residential. The resulting tax bill changes would be a 3.9% increase to the residential bill and a non-residential decrease of about 8.2%.
- A tax ratio of 1.75 would increase the share of the tax levy being raised from the non-residential sector to about 34%. This would provide a decrease for the residential sector of about 2.7% and an increase for the non-residential sector of 5.5%.

Table 6. Summary of Changes under each Scenario

		TAX BILL ON $334,000 OF FAIR VALUE ASSESSEMENT				
Tax Class	**Tax Levy Burden**	**City Tax Bill**	**Library Tax Bill**	**Total**	**Change from Base Case (%)**	**Tax Bill Ratio**
Tax Ratio at 1.59						
Residential	68%	$2,020	$212	$2,232		
Non-Residential	32%	$3,260	$341	$3,601		1.61
Tax Ratio at 1.00						
Residential	77%	$2,304	$241	$2,546	14.1%	
Non-Residential	23%	$2,304	$241	$2,546	-29.3%	1.00
Tax Ratio at 1.25						
Residential	73%	$2,179	$228	$2,407	7.9%	
Non-Residential	27%	$2,726	$285	$3,011	-16.4%	1.25
Tax Ratio at 1.43						
Residential	70%	$2,099	$220	$2,319	3.9%	
Non-Residential	30%	$2,993	$314	$3,307	-8.2%	1.43
Tax Ratio at 1.75						
Residential	66%	$1,967	$206	$2,173	-2.7%	
Non-Residential	34%	$3,440	$360	$3,800	5.5%	1.75

Note: Includes City and Library tax only.

The next section of the report discusses the relative merits of the four tax ratio scenarios which the above analysis has examined. It also provides a broad summary of the policy reasons used to explain various tax ratio approaches.

4. POLICY RATIONALE FOR ALTERNATIVE TAX RATIOS

Property taxes are a vital and dependable revenue source for municipalities particularly as they have relatively few other significant funding alternatives. The tax is relatively easy to administer, although the assessment base on which it relies requires regular updating and at times can be quite volatile. The major criticism of the tax, at least for residential ratepayers, is that it is regressive as property values correlate poorly with ability to pay.

It has been long-standing practice for municipalities to tax non-residential properties at a higher rate than residential properties. This is even though, as discussed previously, municipal services disproportionately benefit the residential sector.

Although higher taxes are the norm for the non-residential sector there are no accepted principle(s) to guide decisions concerning the allocation of tax levies between the two sectors. A paper[5] prepared for the City in 2021 provides a comprehensive review of this issue and how it relates to Saskatoon's tax policy approach. The paper does not make specific recommendations but instead reinforces the point that there is no one approach to follow. It quotes Kitchen and Slack (2014), well-known property tax academics who argue that:

> *"Ultimately, the task of setting tax rates and ratios requires judgement on the part of decision-makers."*

A. GENERAL CONSIDERATIONS REGARDING TAX RATIOS

By way of context for the assessment of the alternative tax ratio scenarios described previously the topics covered below that provide helpful background.

Ratios vary widely across Canada

Given that there are no accepted rules or clear principles regarding ratio setting, it is not surprising that for major cities across Canada, effective tax ratios (residential: non-residential) vary widely. A 2023 survey prepared by the Altus group[6] identified that effective commercial tax ratios range from a low of 1.5 for Regina to 4.33 in Montreal. At 1.61, Saskatoon has the second lowest. In the Prairies, Calgary has the highest ratio of major cities at 3.36 while Winnipeg's ratio is 1.93.

[5] "Business Property Taxation by Cities, What We Know, What We Don't and What We Should" Prepared by Saskatoon's Chief Policy and Government Relations Officer. March 2021

[6] Altus Group, Canadian Property Tax Rate Benchmark Report, October 2023

The rationales for these ratios are not clear. In most cases, as in Saskatoon, ratios evolve over time in response to a range of factors. In Saskatoon considerations of “equity” and economic competitiveness have played a role. In Ontario where the larger cities tend to have high ratios, the elimination of a former business tax has been a major factor together with the distorting impact of decades-long delayed reassessments.

Other reasons for high ratios that are cited include the argument that businesses can pass on taxes to clients and customers or that residential taxpayers are better able to get the attention of elected officials.

The Ontario Approach.

In the late 1990’s, Ontario implemented a comprehensive reform of its property tax system. A key element of the reform was the establishment of a very detailed tax ratio structure. The structure was underpinned by a policy objective regarding the allocation of property taxes between classes of property. To implement the policy objective the Province established ratio parameters for various property classes. The parameters, termed “Ranges of Fairness”, are set in relation to the Residential class. For commercial and industrial properties, the target range is 0.6 to 1.1.

As a rule, if an existing class ratio is outside the range, municipalities must either maintain it at the existing level or move it towards the range. However, if already within the range, ratios can be moved either up or down. Within the broad policy parameters, Municipalities have an extensive range of tax tools that can be used to control the tax burden for different classes of property. Recently, for example, a new Small Business sub-class was established to enable municipalities to lower the tax burden for small businesses. The ratio structure has two levels, broad classes and sub-classes. The advantage of having both is that it provides municipalities with considerable flexibility. This could be of use in Saskatoon if, for example, the City decided to provide targeted property tax reductions for small retail businesses that have difficulty competing with on-line retailing.

The Impact of Property Taxes and Property Values.

A factor regarding the influence of property taxes that is seldom discussed, is the interrelationship between property taxes and values. Simply put, the value of a property is affected by the amount of its property taxes. A practical illustration of this point is that in determining residential mortgage eligibility amounts, property taxes are a key input to the calculation of how much can borrowed against the value of the property. The same principle applies to non-residential properties. Although not readily evident, over time the impact on values of property tax changes that result from ratio adjustments will feed back into Fair Value assessments.

B. CONSIDERATIONS REGARDING ALTERNATIVE SCENARIOS

As was discussed in Section 3, four alternative tax ratio scenarios have been evaluated in relation to the current ratio of 1.59. It should however be noted that the actual ratio that is applied is 1.61 because of the additional appeal contingency levy. The rationale for each of the alternatives together with the advantages and disadvantages are discussed below.

Ratio 1.00.

This alternative would result in the largest change of the alternative ratios considered. It would provide full equality between the two sectors with the distribution of taxes being entirely tied to Fair Values. It would distinguish Saskatoon in terms of its economic development appeal from every major city in Canada. It would also bring the funding of municipal services more in line with the benefits received by each sector. While such a tax ratio policy would be notable, it would not be without precedent, at least in principle, given the Ontario “Range of Fairness” targets discussed above.

Clearly the biggest challenge to the implementation of this target ratio would be the significant impact on the residential sector. Therefore, a policy decision to implement the ratio would undoubtedly require a multi-year phase-in program.

Ratio 1.25.

This alternative scenario most closely matches Saskatoon’s long tax ratio policy approach of setting ratio targets that reflect “equity”, considering the property tax deductibility for corporate tax purposes. Currently, the combined Provincial and Federal corporate tax rate is 27% for larger businesses and 11% for small businesses. Given that more than 50% of businesses in Saskatoon have less than five employees, it likely that many businesses in Saskatoon would be subject to the lower rate. Given this, a non-residential tax ratio of 1.25 would represent an “equitable” level considering the tax advantage that benefits the non-residential sector.

As with the 1.0 ratio, the greatest challenge would be the impact on residential ratepayers. As a practical matter, the increase to this ratio would need to be mitigated by an extended phase-in program. On the positive side, a low ratio would distinguish Saskatoon from a business attraction perspective which in turn would lead to additional growth and, over the long-term, higher property tax revenues.

Ratio 1.43

This alternative has long been proposed as an equitable ratio that accounts for the tax deductibility benefit for the non-residential sector. The ratio was first proposed in 2011 in conjunction with a 16-year phase-in. Council did not adopt the ratio but did reduce the ratio to the mid-point between the prior 1.75 ratio and 1.43. Since 2011 income tax rates have come down there by reducing the deductibility advantage.

While this ratio, being lower than the current ratio, would increase the residential tax share the effect could likely be absorbed with a multi-year phase-in. One merit of this ratio is that given the respective total assessments of the residential and the non- residential sectors the distribution of taxes between the two works out to be 50:50. Although of no technical benefit, the equality of the tax amounts does have merit in terms of a perception of fairness.

Ratio 1.75

The rationale for this tax ratio is relies on the fact that it was the end point of a 10-year program of ratio reductions that concluded in 2010. The basis for the specific ratio was identified in a 1998 report and was because it was considered to be equitable. Given that it has been 26 years since the ratio was proposed a much has changes since then, particularly regarding income tax rates, there are no clear justifications for reinstating it. If it were to be implemented, it would represent a reversal of a long-term trend of narrowing the tax differential between the two sectors.

The alternative ratios discussed above need to be considered in relation to the current ratio which has been maintained since 2021. Although there are reasons to support each of the alternatives, the key advantage of the current ratio is that its retention would be the least disruptive of all the options. The current economic environment is relatively stable compared to the last few years and there is no compelling reason to make dramatic changes. Given this, resumption of the long-term approach of Council of narrowing the gap between taxes for the two sectors could be considered. Council could also give consideration to establishing a more fine-tuned approach by providing additional differentiation within the broad non-residential sector by introducing additional property classes with their own tax ratio.

5. CONCLUSIONS AND RECOMMENDATIONS

The City of Saskatoon's current 1.59 tax ratio policy reflects a pause in a long-term series of policy decisions designed to gradually bring the non-residential ratio to a "neutral level" in relation to the residential ratio. The "neutral "level would consider the advantage for businesses of being able to deduct property taxes for corporation tax purposes. It has been suggested by some that the ratio be increased from the current 1.59 level to 1.75. Such a change would reverse the City's long-term trend of lowering the ratio and would return it to the level that was last applied in 2010.

This report provides the results of the review of the non-residential tax ratio that Hemson has been retained to undertake. The first part of this section sets out the conclusions that have been reached while the second part provides several recommendations that the Chamber may wish to encourage the City to implement.

It is important to keep in mind that how the property tax burden should be apportioned between the residential and non-residential sectors does not have a technical answer but rather, is a decision for elected officials to make.

A. KEY CONCLUSIONS

- Taking account of the current tax ratio, the non-residential sector pays 32% of the property taxes. However, a significant portion of the City's assessment base, particularly of non-residential property is exempt.
- The City has a long history of steadily reducing the non-residential tax ratio. Equity between the sectors is a consistent theme together with support for economic development growth. The Chamber of Commerce has worked assiduously to encourage changes.
- The City's tax rate calculation process is complex and opaque. The Mill Rate Factor is especially difficult to understand.
- While the City highlights its application of the 1.59 tax ratio, in fact the ratio that is actually applied is 1.61. The reason for this difference is attributable to a commercial tax appeal levy.
- The impact of four alternative tax ratios were analyzed.

- There is no agreement as to how ratios should be selected. Overall, it is best considered a matter of judgement for Councils.
- Notwithstanding this, it is of note that Ontario has established "Ranges of Fairness".
- The alternative ratios considered would have significantly different impacts.

B. RECOMMENDATIONS

- Press City Council to make the tax rate calculation more transparent with better explanatory information.
- Incorporate the Appeal Loss Contingency into the general levy.
- At a minimum, do not increase the tax ratio. Doing so would reverse a long-term City practice of narrowing the gap between the residential and non-residential sectors.
- Press Council to resume lowering the non-residential tax ratio. A target ratio of 1.25 would allow for the income tax deductibility of property taxes that corporations benefit from. It would also continue to provide Saskatoon with a positive economic development advantage.
- Consider encouraging Council to introduce additional non-residential such as a Small Business class with a low tax ratio. This would provide focused support to small businesses, especially in the food and beverage and retail sectors that are especially challenged because of structural economic changes. Appendix 2 provides a discussion regarding policy considerations and implementation issues regarding a Small Business class.

APPENDIX 1

DETAILED TAX BILL CALCULATION

TABLE A1

CITY OF SASKATOON PROPERTY TAX RATIO STUDY

CALCULATION OF CITY TAX BILL

City Mill Rate: 8.5034

2023 Assessment Property Class	Fair Assessment Value (100% Value)	Percentage of Value (PoV)	Assessed Value (PoV Applied)	Mill Rate Factors (From 2023 Tax By-Law)	City Tax Rate (From 2023 Tax By-Law)	Estimated Tax Revenue by Property Class	Share of Tax Revenue from Each Property	$334,000 of Fair Value	PoV Applied	City Tax Bill
Residential										
Residential	$ 24,679,798,740	80%	$ 19,743,838,992	0.8892	0.0075612	$ 149,287,115	51.3%	$ 334,000	$ 267,200	$ 2,020
Condominium	$ 5,363,844,800	80%	$ 4,291,075,840	0.8892	0.0075612	$ 32,445,683	11.1%	$ 334,000	$ 267,200	$ 2,020
Multi-Residential	$ 2,454,518,950	80%	$ 1,963,615,160	0.8892	0.0075612	$ 14,847,287	5.1%	$ 334,000	$ 267,200	$ 2,020
Commercial										
Commercial	$ 9,604,100,510	85%	$ 8,163,485,453	1.3502	0.0114813	$ 93,727,426	32.2%	$ 334,000	$ 283,900	$ 3,260
Other										
Elevator	$ 42,483,500	85%	$ 36,110,975	1.3502	0.0114813	$ 414,601	0.1%	$ 334,000	$ 283,900	$ 3,260
Right-of-way	$ 18,761,900	85%	$ 15,947,615	1.3502	0.0114813	$ 183,099	0.1%	$ 334,000	$ 283,900	$ 3,260
Agricultural	$ 21,459,900	55%	$ 11,802,945	1.2934	0.0109983	$ 129,812	0.0%	$ 334,000	$ 183,700	$ 2,020
Hangar	$ 2,081,300	85%	$ 1,769,105	0.8369	0.0071165	$ 12,590	0.0%	$ 334,000	$ 283,900	$ 2,020
Pipeline	$ 188,200	85%	$ 159,970	1.3502	0.0114813	$ 1,837	0.0%	$ 334,000	$ 283,900	$ 3,260
Total	**$ 42,187,237,800**		**$ 34,227,806,055**			**$ 291,049,450**	**100.0%**			

TABLE A2
CITY OF SASKATOON PROPERTY TAX RATIO STUDY
CALCULATION OF LIBRARY TAX BILL

2023 Assessment				Library Mill Rate	0.8907					
Property Class	Fair Assessment Value (100% Value)	Percentage of Value (PoV)	Assessed Value (PoV Applied)	Mill Rate Factors (From 2023 Tax By-Law)	Library Tax Rate (From 2023 Tax By-Law)	Estimated Tax Revenue by Property Class	Share of Tax Revenue from Each Property	$334,000 of Fair Value	PoV Applied	Library Tax Bill
Residential										
Residential	$ 24,679,798,740	80%	$ 19,743,838,992	0.8892	0.000792	$ 15,637,120	51.3%	$ 334,000	$ 267,200	$ 212
Condominium	$ 5,363,844,800	80%	$ 4,291,075,840	0.8892	0.000792	$ 3,398,532	11.1%	$ 334,000	$ 267,200	$ 212
Multi-Residential	$ 2,454,518,950	80%	$ 1,963,615,160	0.8892	0.000792	$ 1,555,183	5.1%	$ 334,000	$ 267,200	$ 212
Commercial										
Commercial	$ 9,604,100,510	85%	$ 8,163,485,453	1.3502	0.0012026	$ 9,817,408	32.2%	$ 334,000	$ 283,900	$ 341
Other										
Elevator	$ 42,483,500	85%	$ 36,110,975	1.3502	0.0012026	$ 43,427	0.1%	$ 334,000	$ 283,900	$ 341
Right-of-way	$ 18,761,900	85%	$ 15,947,615	1.3502	0.0012026	$ 19,179	0.1%	$ 334,000	$ 283,900	$ 341
Agricultural	$ 21,459,900	55%	$ 11,802,945	1.2934	0.001152	$ 13,597	0.0%	$ 334,000	$ 183,700	$ 212
Hangar	$ 2,081,300	85%	$ 1,769,105	0.8369	0.0007454	$ 1,319	0.0%	$ 334,000	$ 283,900	$ 212
Pipeline	$ 188,200	85%	$ 159,970	1.3502	0.0012026	$ 192	0.0%	$ 334,000	$ 283,900	$ 341
Total	**$ 42,187,237,800**		**$ 34,227,806,055**			**$ 30,485,957**	**100.0%**			

Appendix 2

Small Business Class

Small Business Class: Policy Considerations and Implementation Issues

The City of Saskatoon's property tax policy structure is relatively simple. It has two major property classes, residential and non-residential which, combined, account for almost the entire assessment base. The remainder includes agricultural properties, elevators, pipelines, right-of-way, and private hangers. The non-residential sector encompasses a broad range of property types from large industrial facilities to small retail stores. Just as these properties differ physically, so do the organizations that occupy them. They cover the full spectrum of the City's economy from national and international corporations to small businesses. While the largest group of the City's small businesses have less than 10 employees, collectively they account for about 47% of the City's business establishments.

The last few years have been extremely difficult for small local businesses of which retailers and food and beverage establishments account for a substantial proportion. In the last few years, and facilitated in part by the internet, the local retail sector has experienced a substantial disruption, losing sales to on-line retailers, the most notable being Amazon. This shift dramatically accelerated during the Covid pandemic and resulted in many independent stores being severely challenged or in some cases going out of business. The hospitality sector was also badly affected by the pandemic, and it continues to be affected by cost pressures, labor shortages and changes in consumer habits.

Given the changed business environment for the small business sector, the Saskatoon Chamber of Commerce is interested in exploring the possible introduction of a Small Business property tax class that would pay a lower rate than other non-residential properties. Before implementing such an initiative, key factors need to be considered. Firstly, a clear understanding of the size and types of businesses that warrant support. Secondly, the assessment parameters of properties occupied by those small businesses must be defined. Finally, the level of support and the way it will be funded must be determined to identify the impact.

It is important to recognize that assessment-based support for small businesses is an indirect approach and does not necessarily reach every eligible business. As well, because it is a property focused program, it benefits other businesses that occupy qualifying properties.

The following sections discuss the key issues that need to be addressed in developing a Small Business Class to provide preferential property tax treatment for small businesses.

A. ESTABLISHING THE POLICY FRAMEWORK

The first issue that should considered is the objective(s) that a small business focused program should be designed to achieve. Why is a program warranted and how will it benefit the city.

There are many factors that could be explored in addressing these fundamental questions. They include:

- What is the economic state of the small business sector?
- How re changes in the structure of economy affecting the health of the City's commercial and industrial areas (especially main streets)?
- Are the financial challenges currently being faced tied to the business cycle or more systemic?
- How focused on specific segments of the small business sector are the challenges?
- How can the costs of providing tax relief be funded?

The attention being given to lowering property taxes for the small business sector has risen in the past few years. The pandemic has been a catalyst but broader changes in the structure of the economy and consumer patterns are indicative of a long-term impact. If it is concluded that business conditions have permanently shifted, the case for a small business class is compelling.

B. WHICH TYPES OF SMALL BUSINESSES SHOULD BE TARGETTED?

Once the decision is made to establish a Small Business class, the qualifying business parameters must be matched to appropriate property characteristics to establish which properties should be included in the new class. These characteristics broadly fall under three main headings: type of property, their size and where they are located. Decisions regarding these factors will largely be guided by the policy framework. Specific parameter such as square footage limits and location boundaries require judgement and ideally, consensus.

1. **Property Type.** This issue is best dealt with through a "decision tree" approach with the first decision being whether to include all types of non-residential properties or to limit it to commercial properties. The process can then consider

whether to exclude, for example, shopping centres, vacant land and parking lots. Decisions about property types to include or exclude can be made in relation to the type(s) of occupants they attract and whether they match the "Small Business" profile.

2. **Size.** The establishment of size parameters for both lot and building size will also be strongly influenced by the assessment of the space requirements of typical small businesses. Inevitably, not all small businesses will occupy properties that fall within the cut-off amounts. However, to cover more businesses the cut off would have to be raised which would increase the likelihood of providing tax relief to other businesses that happen to occupy smaller spaces.

3. **Location.** For this factor, existing planning categories can be used. "Main Streets" and "Core Areas" are the types of location that the program might focus on given the prevalence of small businesses in these types of areas.

4. **Other Characteristics.** The City may wish to exclude certain types of businesses, gas stations and fast-food chains are examples, that occupy small buildings or sites that would meet the program's property parameters. In such situations, it would be necessary to identify property characteristics that are unique to the types of businesses to be excluded from the program.

Once property parameters have been defined, appropriate matching market value limits will need to be established. As with property parameters, careful judgement will be needed since there will not be clear-cut amounts. A logical approach is to identify a number of properties that match the parameters and then, based their collective assessments, select maximum amount(s). This might vary by location. Having a value limit will assist in establishing the potential impacts of having a Small Business class and ultimately, calculating tax rates.

C. IMPLEMENTING A SMALL BUSINESS CLASS TAX REDUCTION

Once the property parameters for the Small Business class have been defined, the level of property tax support to be provided must be established together with the way in which the tax reduction is to be funded.

1. **Level of Support.** There is no formula for establishing what is the correct or necessary level of support. On the other hand, at a minimum it is reasonable to

suggest that it should be more than a token amount. Accordingly, 10% would seem the minimum level necessary to provide a material tax saving.

At the upper end, it would be difficult to justify a differential between the tax rate for properties occupied by "small businesses" and the rate for other non-residential properties of more than 30-35%. Above that level, the taxes for properties (and the businesses that occupy them), that do not receive support might well be seen as unreasonably high, particularly if the funding of the support provided solely by those properties.

2. **Funding.** There are several ways in which the Small Business class property tax reduction could be funded. They vary in the impact that the reduction in taxes for the Small Business class would have on properties in the other classes.

    - **Reduced Tax Levy.** Under this approach the City's levy supported budget would be reduced by the projected amount of the tax reduction to be provided to properties in the Small Business class. By approaching the funding reduction in this way, taxes for residential properties and other non-residential properties would not be affected. However, the City would either have to find other sources of revenue to make up for the reduced levy or make service changes.

      To implement the reduction, the tax ratio for the Small Business Class would be set below the ratio for other non-residential properties. The ratio would be determined in relation to the percentage level of support.

    - **Non-residential Sector Funded.** A second approach would be to avoid requiring residential properties to fund a portion of the reduction. This would require a two-step process, the first being to allocate the levy between the residential and the non-residential classes their proportionate share of the levy without considering the Small Business class reduction.

      In the second step, the tax ratio for properties in the Small Business class is first lowered by the agreed-upon percentage reduction. Then tax rates that will yield the previously determined share of the total levy are calculated. By proceeding in this way, the total levy requirement for the non-residential class will be met. Small Business class properties will pay proportionately lower taxes than other non-residential properties. Collectively, those properties will fund the Small Business class reduction.

- **Fully shared Funding**. Under this approach, the Small Business tax reduction would be shared between both residential and other non-residential properties. The tax ratio for properties in the Small Business class would be set below the ratio for other non-residential properties based on the agreed upon percentage level of support. By proceeding in this way, while residential properties would pay a portion of the overall reduction, overall, the percentage increase for all properties would likely be small.

Given the relative complexity of introducing a new Property Class, establishing the property and tax reduction parameter and then deciding which funding approach to use, it is evident that there will be a need to undertake impact analyses before deciding to implement the change.

D. THE USE OF THE SMALL BUSINESS CLASS IN OTHER JURISDICTIONS

The explicit provision of property tax relief for Small Businesses is not common in Canada. However, within assessment systems, many jurisdictions do provide within their assessment and taxation legislation for differentiation between types of properties. Ontario has made extensive us of its legislative authority to establish separate classes and sub-classes of property to enable municipalities to tax certain types of properties at lower levels than other properties. Office buildings, industrial properties, shopping centres and parking structures are among the types of properties for which sub-classes exist. Niche types of properties that often receive special treatment house cultural activities such theatres and arts facilities.

Recently, in part in response to the negative impact of the Pandemic, there has been increased interest in reducing property taxes on small businesses. Below are links to reports regarding property tax support for small businesses in four Provinces.

- **Ontario**. The Province of Ontario has established a Small Business sub-class which municipalities can implement on a voluntary basis. Toronto and Ottawa have adopted the option, providing a 15% property tax reduction for qualifying properties. Hamilton has also been considering doing so. The report that can be found using the link provides extensive information regarding the option.

https://www.mpac.ca/sites/default/files/docs/pdf/OntarioSmallBusinessSublassReport.pdf

- **British Columbia.** The Province of British Columbia recently granted municipalities the option of providing tax relief to properties that are assessed for amounts that are above their current use value because of their redevelopment potential. In these situations, many small businesses that occupy the existing buildings (frequently store-front retail space) cannot afford the resulting high taxes. The City of Vancouver has made use of the tax relief option. The link below explains how the tax relief is calculated

  https://vancouver.ca/files/cov/dprp-information.pdf

- **Alberta.** The Province of Alberta permits municipalities to reduce the property taxes for small businesses through the provision of a Small Business sub-class. Taxes on eligible properties cannot be less than 75% of the full rate, The link below explains the eligibility provisions of the relief for Clearwater County, a rural county. Of note, eligibility is based in part to numbers of employees.

  https://www.clearwatercounty.ca/p/small-business-property-tax-sub-class

- **Nova Scotia.** For several years, Halifax Regional Council gave consideration to supporting “small businesses” through lower property taxes. The links below are to reports to Council that were the basis for the decision of Council to introduce on a trial basis a tiered tax structure that also incorporates a locational differentiation.

  https://cdn.halifax.ca/sites/default/files/documents/city-hall/regional-council/220215cow05.pdf

  https://cdn.halifax.ca/sites/default/files/documents/city-hall/regional-council/220215cow05pres.pdf