

The logo for the City of Edmonton, featuring the word "Edmonton" in a white, sans-serif font on a dark blue rectangular background.

Discussion Paper

PROPERTY TAX POLICY

City of Edmonton



The Property Tax Policy Discussion Paper is a follow up to the Assessment and Taxation White Paper. It is written to expand on tax policy issues relevant to the City of Edmonton, but can also be read more generally. The paper is not meant to advocate a particular policy position, but rather to provide context and considerations for future tax policy discussions.

The purpose of property tax policy is to either incentivize particular behaviour, or adjust the basis of tax distribution. Effectively, tax policy raises the fundamental questions of who pays, how much and why. Several tools are available, but municipal governments should exercise caution when choosing to stray from the market value standard.

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INTRODUCTION

1.0

“There is only one taxpayer” is a popular refrain heard in many political circles. Despite its popularity, this statement is an oversimplification that misses the nuance of any tax regime. There are, in fact, numerous taxpayers in any given province or municipality, each wearing multiple hats (e.g. property owner, income earner, developer, entrepreneur, investor, etc.) and paying variable amounts. Depending on how tax policy is structured, each taxpayer can be subject to different tax conditions. A discussion on tax policy acknowledges this reality, as it raises the fundamental questions of who pays, how much and why.

There are many tax tools and levers available to federal and provincial orders of government, but rather few available for municipalities. The focus of this paper is property tax, which serves as the primary tool for municipalities. In Edmonton, property tax is the backbone of municipal finance, consistently collecting more than 50% of the City’s overall revenue requirement.

Property tax revenue is required in order to provide the infrastructure and services citizens need and expect, but the distribution of the tax requisition is an open question. Under a market value mass appraisal model, tax distribution is determined by an individual property’s market value, where those with higher values pay proportionately more than those with lower values. Property tax, therefore, is a tax on property wealth in accordance with its value. Beyond this basic approach to tax distribution, tax policy allows a municipality to introduce other considerations into how taxes are distributed, whether that be to redistribute taxes on criteria other than market value, or to incentivize/ disincentivize particular behaviour.

However, even when the focus is on incentivizing or disincentivizing behaviour, tax policy cannot be considered in isolation. Since the amount of revenue required to run the City in any given year is set in advance, reducing the taxes on one property owner necessarily increases the taxes on another. The question of tax distribution, therefore, is central to discussing tax policy.

What follows is a three part conversation regarding property tax policy. Part I provides background for discussing property tax policy as well as detailing the Edmonton specific context. Part II discusses important considerations whenever tax policy questions are raised. Finally, Part III discusses property tax tools and options available for Edmonton. This paper offers a starting point for future tax policy deliberations. If specific policy proposals are raised in the future, then more detailed impact analysis is advised.

PROPERTY TAX BACKGROUND AND CONTEXT

2.1

THE UNIQUE NATURE OF PROPERTY TAX: BUDGET-BASED APPROACH

Under any tax regime, there is a mechanism for determining who pays how much. Within Alberta's budget-based approach to property tax, the budget determines revenue amount the municipality collects, while assessment values determine individual property owners' share of the levy. To understand how a property tax regime achieves this result, it is important to review the budget-based approach to tax rates. The two formulas below outline the budget-based system:

1. TAX RATE FORMULA (BUDGET-BASED)

$$\frac{\text{CITY BUDGET}}{\text{ASSESSMENT BASE}} = \text{TAX RATE}$$

2. INDIVIDUAL PROPERTY TAX FORMULA

$$\text{PROPERTY ASSESSMENT} \times \text{TAX RATE} = \text{PROPERTY TAX}$$

In this system, the tax rate adjusts based on two factors: (1) the total tax revenue required by the City (total budget – other revenue) and (2) the total taxable assessment values of all properties within the City (assessment base). The change in budget from one

year to the next has a direct effect on the tax rate (i.e. increases to the budget increase the rate), but changes in the total assessment value from one year to the next has an inverse effect on the tax rate (i.e. increases to the assessment base result in decreases to the tax rate).

This approach makes property tax intrinsically different from income tax. With income tax, tax rates remain relatively constant, so increases in income levels result in higher revenues. In the case of property tax, tax rates fluctuate annually based on market conditions and budget requirements. A rate increase does not always mean a tax increase (as is the case with decreasing assessments) and market value changes to property values have no influence on municipal revenues. Assessment values only determine the distribution of the taxes, not the amount collected — the amount collected is determined by Council during budget deliberations. Due to the nature of the budget-based approach to property tax, property tax produces a stable and predictable revenue stream for municipalities.

Before delving deeper into property tax policy, it is important to understand the mechanisms involved within the system. Property tax has two fundamental elements that determine tax distribution: (1) property assessment and (2) the tax policy. While tax policy is the focus of this paper, the foundation of the property tax system is the assessment process, which will be discussed in more detail in the following section.

PROPERTY TAX BACKGROUND AND CONTEXT

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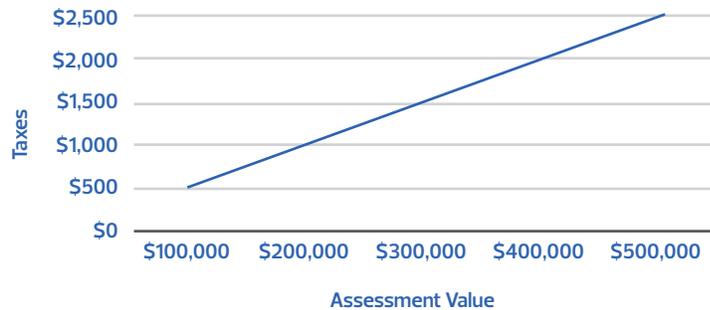
PROPERTY ASSESSMENT AND THE MARKET VALUE STANDARD

Property assessment in Alberta is governed by the Municipal Government Act (MGA) and its associated regulations. For the majority of property types, the MGA designates market value assessment as the appropriate assessment methodology¹. Market value is defined as “the amount that a property... might be expected to realize if it is sold on the open market by a willing seller to a willing buyer”². The use of market value, when left alone, ensures a proportional distribution of the tax requisition according to property wealth. In the example below, a tax rate of 0.005 results in a \$500 tax levy for every \$100,000 of assessment value.

If there were only one tax rate, all property owners would pay solely on the basis of their respective assessment value. Property owners with the same property assessment would pay exactly the same amount of tax, while those property owners with a higher assessment value would pay a proportionate amount more. This proportionate tax ensures horizontal and vertical equity.³

Put another way, a property owner’s share of the overall budget requisition is equal to their overall assessment share as compared to the assessment base within that tax class.

TAXES PER \$100,000 OF ASSESSMENT



$$\text{INDIVIDUAL PROPERTY OWNER'S TAX SHARE} = \frac{\text{INDIVIDUAL OWNER'S PROPERTY ASSESSMENT}}{\text{ASSESSMENT BASE}}$$

¹ Regulated assessment is the exception to the market value approach. While it is possible for regulated property to be held to a market value standard, that is rarely the case in Alberta. More information on regulated property is discussed in the Regulated Property Discussion Paper.

² Province of Alberta, “The Municipal Government Act”, Alberta Queen’s Printer, Section 1(1)(n)

³ Horizontal equity is the concept that those who are assessed at the same value pay the same amount in taxes. Vertical equity means that those who are assessed for more pay more and vice versa. Arguments have been made that present property tax is regressive rather than proportionate. This argument is discussed in the Assessment and Taxation White Paper under the Tax Policy section.

PROPERTY TAX BACKGROUND AND CONTEXT

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In using the market value approach, property taxes are distributed based on wealth as determined by property value. Property owners with higher property wealth pay more taxes than those with lower property wealth. Under this model, property tax is not distributed based on consumption (as is the case with user fees or sales tax) or income level (as is the case with income tax) – taxes are solely based on the value of the property.

This approach also accounts, to some extent, for service-level differentials. As an example, property owners often argue that tax policy has not accounted for their lack of access to municipal utility services (e.g. water and drainage). However, their property value already accounts for service access. Given two similar properties that only differ in their service levels, the property with higher access to services should sell for more on the open market, making its assessment value higher. As a result, the property with higher access to services will pay a proportionately higher amount in taxes than its lower-serviced counterpart.

Basing tax distribution strictly on differences in assessment value is the most straightforward and transparent form of property taxation. This approach results in each property owner paying taxes based on the same criteria and the same rate. Introducing tax policy deviates from this approach as it collects taxes on a basis other than simple market value. Therefore, when tax policy is introduced, clear reasons for doing so should be provided.

It is also worth noting that having fair market value assessments is a prerequisite to any property tax policy conversations. To ensure an equitable starting point, conversations about tax policy first require a fair and consistent market value approach.⁴ When assessments deviate from market value, the original basis for deciding on property tax policy is muddled.

⁴ *Property assessment methodology is discussed in more detail within the Assessment and Taxation White Paper. More information can also be found at www.edmonton.ca/assessment*

PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

2.3

INTRODUCTION TO PROPERTY TAX POLICY

The preceding section outlined the most basic form of property taxation: proportional taxation based entirely on property wealth. In practice, Canadian property taxation jurisdictions rarely limit themselves to such a system and typically introduce some form of tax policy. This is done either to achieve policy objectives (e.g. increasing/decreasing taxes to incentivize/disincentivize specific behaviour) or to adjust the basis of tax distribution (e.g. increasing/decreasing taxes for certain groups of property owners). Examples of the latter may consider ability to pay based on certain measures or may intend to align costs with intensity of use (i.e. higher tax rates for those who more intensively use or benefit from municipal infrastructure or services).

When tax policy is considered in isolation from budgetary decisions, a change to one group will affect another. If, for example, taxes are lowered for one group, they must be increased for another to offset the difference. This point highlights the inherent challenge for policy makers. When tax policy has remained relatively unchanged for a long period of time – as is the case in Edmonton – a change to the status quo may be perceived as unjust. For this reason, clear justification should exist when tax policy adjustments are made.

Beyond distribution questions, the other fundamental tax policy question is the amount of total property tax that should be requisitioned. To help frame this question, a municipality should use both normative analysis, which considers “what ought to be”, and positive analysis, which considers “what is”.

Normative analysis focuses on value judgements about what is desirable with respect to policy decisions and outcomes. Normative decisions about the right level of property taxation is the domain of City Council. Administration does not make normative judgments or recommendations with respect to tax policy. Positive analysis, on the other hand, concerns the objective description and explanation of policy, focusing on facts and cause-and-effect relationships within systems. Information or recommendations from Administration on tax policy are based on positive analysis.

With respect to policy questions on total tax requisition, there are certain positive criteria that should be considered. Decision-makers will want to weigh the public benefits of using additional tax-levy funding for important municipal initiatives against the broader impacts that can arise in the economy. For example, while property tax is not a direct tax on income, it is nonetheless almost always paid out of income, and as such, consideration should be given to how household and business incomes are faring against trends in property taxation.⁵ Business revenues often decline during economic downturns, which means that rising property taxes can place strain on a firm’s financial position. Similarly, prolonged periods of tax growth outpacing the growth of household income can cause adverse impacts to household consumption and savings. On the other side of the coin, a total tax requisition that is inadequate to meet a municipality’s financial obligations or maintain its inventory of capital assets may suggest levels of taxation that are too low.

⁵ To support this conversation, the overall weight of property tax in relation to household income and other taxes is shown in Appendix A.

PROPERTY TAX BACKGROUND AND CONTEXT

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2.4

DISTINGUISHING MARKET VALUE FROM GROWTH

There are two concepts that will be used regularly throughout this paper: "market value" and "real growth". These concepts were discussed in the Assessment and Taxation White Paper in the context of tax shifting and tax rate ratios between different property classes. It is relevant to repeat some of that conversation here, alongside some new additional information.

Market value changes are shifts in the value of pre-existing properties due to market forces (i.e. the real estate market). When the market value of a single class changes disproportionately to another, the relative tax contribution of each class remains unchanged. This is because, although the assessment base of each class changes at a different rate, the amount collected from each class remains unchanged. On the flip side of this equation, market value changes within a tax class, does affect the tax distribution within the class. If, for example, office buildings experienced a market value decrease while retail experienced a market value increase, then property taxes within the non-residential class would be redistributed from the office to the retail grouping. In a budget-based system, market value changes do not, however, change the total amount of tax collected.

Real growth, or "growth" for short, is generally defined as new construction that adds value to a property. This can take the form of a new building (such as a newly built house) or an improvement to a pre-existing property (such as a finished basement or garage). When property is rezoned, sub-divided or changed from farmland to development land, the City also recognizes this as real growth. When real growth occurs, the City's assessment base and total tax levy increases because the City applies a tax rate to newly constructed properties or improvements as if they existed in the previous year. In doing so, the City's tax revenues grow independently of Council-approved tax increases. Real growth can affect tax distribution between tax classes, but does not affect how much an individual property owner pays within the tax class.

PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

2.5

ADDRESSING THE MYTHS OF PROPERTY TAX

It is important to address several myths that pervade public perception around property taxes. These myths confuse the nature of property tax systems and often create mistrust of municipal and assessment authorities. Misunderstanding property tax methodology can also lead to bad policy decisions. Three major myths are addressed below:

Tax Rate Increase = Tax Increase: It is a common practice of many commentators, whether from the public, media or advocacy groups, to equate the property tax rate with property taxes. This manifests in two forms: (1) a misplaced focus on tax rate increases and (2) erroneous cross-jurisdictional comparisons.

The misplaced focus on tax rate increases is a regular challenge whenever City Council approves a new budget. Tax rates, as discussed previously, are affected by two factors: Council's budget increase and the overall change to the assessment base (the total assessment within the municipality). Because of this second factor, tax rates can change at a different rate than Council's actual tax increase. If, for example, Council passed a 3% tax increase, but the assessment base decreased by 10%, the tax rate would increase significantly beyond 3%. Equally, a 3% tax increase could be accompanied by a decrease in the tax rate if the assessment base increased by 10%. Considering the tax rate alone says nothing about a municipality's tax change until assessment change information is also known. Edmonton, for example, had a higher tax rate in 2004 than it did in 2018. This does not mean Edmonton collected less tax in 2018, but rather that the assessment base has more than doubled in that time.

Just as a tax rate cannot be interpreted without relating it to the assessment base, cross-jurisdictional comparisons cannot be made without a reference to the unique markets within those municipalities. In 2018, Edmonton's municipal residential tax rate was roughly 6.2 mills.⁶ Vancouver's municipal tax rate, in comparison, was roughly 1.5 mills.⁷ On first blush, a casual observer may believe that Vancouver's taxes are significantly lower than those in Edmonton. However, a tax rate is determined based on the overall assessment base and Vancouver's residential assessment base is significantly larger than Edmonton's. As an example, the median single-family residential home in Edmonton was assessed at \$399,500 in 2018, whereas Vancouver's median single-family residential home was assessed at \$2,800,000 in the same year. Using local rates, this results in a typical Edmonton bill of \$2,476, while Vancouver's median residential home results in a bill of \$4,331.⁸

Assessment Increases = Tax Increases: A second common myth is that assessment increases automatically mean tax increases. This misconception can lead to speculation that assessment authorities are intentionally over-assessing properties in order to bring in additional revenue for the municipality. Such an understanding mischaracterizes the assessment authority's purpose and generally erodes public trust in government.

Under a budget-based approach to property taxation, assessment values only determine the distribution of Council's budget requirement, not the amount of taxes collected. Under a budget-based property tax regime, the City only collects what it budgets – no more and

⁶ A tax rate measured in mills equals how much is paid per \$1,000 of assessment value. A mill rate of 6.2 means a property owner pays \$6.20 per \$1,000 of assessment value. The pure rate would be 0.0061982, or 0.6 cents per \$1 of assessment value.

⁷ Both Edmonton and Vancouver's numbers exclude provincial education tax. Vancouver's actual 2018 rate was 0.0015468.

⁸ Every residential tax bill is unique based on that property owner's assessment value. This example simply uses the two median residential assessments as reported under Edmonton and Vancouver's 2018 tax bylaws in order to illustrate how a focus on tax rates can confuse subsequent analysis.

PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

no less.⁹ Functionally, this principle is built into the tax rate formula: the total assessment value has an inverse relationship with the tax rate, so an increase in the total assessment only serves to decrease the tax rate, and vice versa. In acknowledging this fact, it becomes clear that the assessment authority has no incentive to over-assess properties because doing so results in no revenue gain for the City. If one property owner is over-assessed, that individual will pay more than their fair share of taxes, while other owners will pay less. Equally, if a property owner is under-assessed, other property owners will pay more than their fair share of taxes. The purpose of an assessment authority, therefore, is to ensure the fair and equitable distribution of the tax base.

This particular myth is accompanied by a second challenge: there is a popular misconception that market value uplifts due to service enhancements will result in additional tax revenue. If, for example, a light-rail transit system was installed in a particular area, that area may well see property values increase. This increase in value could mean those property owners pay higher property taxes, but it would not mean that the municipality collected any additional revenue. Property value changes simply change the distribution of the tax base and not the amount of the tax base. The one exception is new construction that creates "real growth" in the assessment base.¹⁰ Ironically, the effects of growth on municipal revenues is the source of the third and final myth.

Growth revenue = tax increases: In an attempt to track long-term budget trends within a municipality, analysts look toward historical municipal budget data. That data shows a change in the total tax revenue collected and it may easily – and falsely – be concluded that the

increase in total municipal revenues is equal to the overall tax increase the municipality has experienced. Property tax revenue is, however, affected by two unique factors: (1) the annual approved budget/levy increase and (2) the 'real growth' a municipality experiences. This second factor results in additional revenue for a municipality without a tax increase to existing property owners.

Take the following simple example as a case study:

In Year 1, a municipality is made up of four houses, each with the same assessment value. The municipality's tax levy is \$1,000, which means that each house pays \$250 in taxes.

In Year 2, that same municipality chooses not to raise taxes, but it does experience 'real growth' in the form of one newly built home. That home is assessed at the same value as the existing four houses, so it also pays \$250 in taxes. This results in the municipal tax levy increasing to \$1,250 (a 25% increase), but this revenue increase was not the result of a tax increase for the original property owners – they each still paid \$250.

Conflating budget or levy increases with tax increases is inaccurate and only serves to confuse the debate over municipal spending. While it is true that 'real growth' revenue could be used to reduce the overall tax bill of existing residences, new properties also bring with them additional servicing costs that offset the revenue increase. Ensuring new construction appropriately offsets future servicing costs is a focus within a financially responsible planning regime.

⁹ The budget-based approach to taxation is distinguished from a rate-based approach and is discussed in more detail under section 1.7 of the Assessment and Taxation White Paper.

¹⁰ 'Real growth' primarily refers to new construction that adds new assessed value. However, 'real growth' can also include assessment uplift due to rezoning, subdivision or physical changes to an existing structure if it is assessed on a direct comparison or cost approach. For more information on 'real growth', consult section 1.10 of the Assessment and Taxation White Paper or the discussion distinguishing market value from growth in section 1.4 of this paper.

PROPERTY TAX BACKGROUND AND CONTEXT

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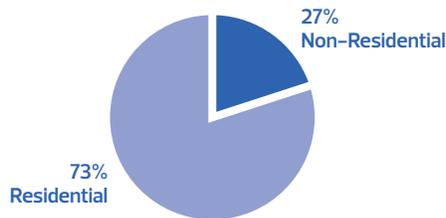
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EDMONTON ASSESSMENT AND TAXATION CONTEXT

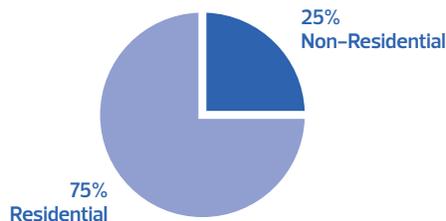
Before discussing specific policy options or considerations, it is worth providing an overview of the City of Edmonton assessment and taxation context. At a high level, Edmonton’s total 2019 taxable assessment was 75% residential and 25% non-residential.¹¹ Over the past ten years, this represents a shift of 2% towards a greater residential share.

FIGURE 1.1 – EDMONTON RESIDENTIAL TO NON-RESIDENTIAL ASSESSMENT BREAKDOWN (2010 & 2009)

2010 RES/NON-RES ASSESSMENT BREAKDOWN



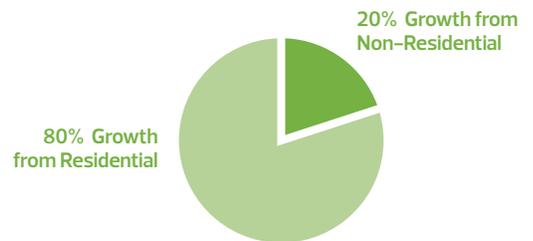
2019 RES/NON-RES ASSESSMENT BREAKDOWN



The reason for this shift can be partially attributed to market changes, but the primary cause was Edmonton’s growth patterns over that time period.¹² Over the past ten years, Edmonton’s total real growth has been 80% residential and 20% non-residential.

FIGURE 1.2 – EDMONTON RESIDENTIAL TO NON-RESIDENTIAL GROWTH BREAKDOWN (2010 TO 2009)

SOURCES OF ASSESSMENT GROWTH



These growth patterns are partially related to the market (change in demand due to economic and technological factors) and partially related to regional considerations. As was discussed in the Assessment and Taxation White Paper, there has been a significant amount of industrial development outside the City of Edmonton’s borders and in its surrounding municipalities. Despite Edmonton remaining as the central hub that draws industry to the region, the associated tax revenue accrues to the municipality in which the property is physically located. Unlike Edmonton, the overall regional breakdown of residential to non-residential assessment has stayed steady at the 70/30 ratio. This means that some municipalities are seeing higher growth in their non-residential assessment bases to make up for Edmonton’s decrease. Below is the regional total taxable assessment for the 2013 tax year.¹³

¹¹ Other assessment classes include farmland and Machinery and Equipment, which are discussed in Part III.

¹² Real growth is generally defined as new construction that adds value to a property. This can take the form of a new building (such as a newly built house) or an improvement to a pre-existing property (such as a finished basement or garage). When property is rezoned, sub-divided or changed from farmland to development land, the City also recognizes it as real growth.

¹³ 2013 and 2018 data shown based on availability.

PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

TABLE 1.1 – EDMONTON REGIONAL RESIDENTIAL TO NON-RESIDENTIAL ASSESSMENT BREAKDOWN (2013)

Municipality	Total	Residential	Non-Residential	Res	Non-Res
Edmonton	\$143,137,563,725	\$105,738,329,505	\$37,399,234,220	74%	26%
Fort Saskatchewan	\$4,889,571,310	\$2,694,085,700	\$2,195,485,610	55%	45%
Leduc	\$4,466,925,630	\$3,205,053,130	\$1,261,872,500	72%	28%
Leduc County	\$6,565,500,000	\$2,332,600,000	\$4,232,900,000	36%	64%
Parkland County	\$8,392,268,680	\$5,255,602,430	\$3,136,666,250	63%	37%
St. Albert	\$9,992,846,630	\$8,738,110,130	\$1,254,736,500	87%	13%
Spruce Grove	\$4,179,221,450	\$3,509,822,500	\$669,398,950	84%	16%
Stony Plain	\$2,208,852,560	\$1,906,515,970	\$302,336,590	86%	14%
Stathcona County	\$28,741,029,000	\$15,039,600,753	\$13,701,428,247	52%	48%
Sturgeon County	\$5,172,111,260	\$3,272,357,220	\$1,899,754,040	63%	37%
Total	\$217,745,890,245	\$151,692,077,338	\$66,053,812,907	70%	30%

Contrasting the 2013 data above is the corresponding data in 2018, shown below. This table also indicates the change in non-residential assessment between 2013 and 2018. Within this 5-year time period, Edmonton was the only municipality to see a drop in share of non-residential assessment¹⁴

¹⁴ The residential category includes farmland and multi-family property, while the non-residential category includes linear and taxable Machinery and Equipment where applicable (now designated industrial property).

PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

TABLE 1.2 – EDMONTON REGIONAL RESIDENTIAL TO NON-RESIDENTIAL ASSESSMENT BREAKDOWN (2018)

Municipality	Total	Residential	Non-Residential	Res	Non Res	▲
Edmonton	\$173,933,549,317	\$130,403,721,645	\$43,529,827,67	75%	25%	-1%
Fort Saskatchewan	\$6,357,103,680	\$3,511,716,95	\$2,845,386,730	55%	45%	-
Leduc	\$5,975,599,690	\$3,918,943,100	\$2,056,656,590	66%	34%	6%
Leduc County	\$8,303,564,090	\$2,844,207,37	\$5,459,356,720	34%	66%	2%
Parkland County	\$10,467,175,920	\$6,267,249,360	\$4,199,926,560	60%	40%	3%
St. Albert	\$12,152,029,160	\$10,318,070,110	\$1,833,959,050	85%	15%	2%
Spruce Grove	\$5,774,412,010	\$4,740,096,600	\$1,034,315,410	82%	18%	2%
Stony Plain	\$2,646,540,190	\$2,228,163,420	\$418,376,770	84%	16%	2%
Stathcona County	\$33,596,143,000	\$17,200,239,709	\$16,395,903,291	51%	49%	1%
Sturgeon County	\$7,201,028,180	\$3,870,545,050	\$3,330,483,130	54%	46%	9%
Total	\$266,407,145,237	\$185,302,953,314	\$81,104,191,923	70%	30%	-

While Edmonton's proportionate non-residential base may be smaller than some of its regional counterparts, the non-residential assessment is not necessarily out of line with other cities. Table 1.3 shows a share breakdown in the largest cities in Alberta while Table 1.4 shows a share breakdown across Canada. Average non-residential assessment shares hover in the 23% to 24% range.

PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

**TABLE 1.3 – ALBERTA RESIDENTIAL TO NON-RESIDENTIAL ASSESSMENT BREAKDOWN
(2018 EQUALIZED DATA)**

Municipality	Total	Residential	Non-Residential	Res	Non-Res
Airdrie	\$10,670,591,528	\$8,995,427,150	\$1,675,164,378	84%	16%
Calgary	\$282,690,291,976	\$215,595,615,473	\$67,094,676,503	76%	24%
Edmonton	\$168,850,621,593	\$126,639,731,152	\$42,210,890,441	75%	25%
Grande Prairie	\$9,865,882,438	\$6,706,508,250	\$3,159,374,188	68%	32%
Lethbridge	\$12,878,023,291	\$10,090,738,775	\$2,787,284,516	78%	22%
Medicine Hat	\$8,844,541,634	\$6,818,012,582	\$2,026,529,052	77%	23%
Red Deer	\$15,860,281,803	\$11,939,276,352	\$3,921,005,451	75%	25%
St. Albert	\$11,903,476,763	\$10,237,773,468	\$1,665,703,295	86%	14%
Alberta Cities	\$562,142,330,534	\$426,338,491,978	\$135,803,838,556	76%	24%
Alberta Overall	\$949,023,874,117	\$608,836,288,603	\$340,187,585,514	64%	36%

PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

TABLE 1.4 – CANADA-WIDE RESIDENTIAL TO NON-RESIDENTIAL ASSESSMENT BREAKDOWN (2019)

Municipality	Total	Residential	Non-Residential	Res	Non-Res
Brampton Δ	\$103,916,533,717	\$83,089,089,268	\$20,827,444,449	80%	20%
Calgary	\$274,282,296,870	\$215,902,056,077	\$58,380,240,793	79%	21%
Edmonton	\$175,936,226,611	\$131,837,204,524	\$44,099,022,087	75%	25%
Halifax*	\$48,353,680,800	\$37,948,477,900	\$10,405,202,900	78%	22%
Hamilton Δ	\$79,313,230,261	\$62,080,603,553	\$17,232,626,708	78%	22%
London Δ	\$46,058,295,637	\$35,603,085,173	\$10,455,210,464	77%	23%
Mississauga Δ	\$168,666,579,426	\$121,410,361,168	\$47,256,218,258	72%	28%
Ottawa Δ	\$165,872,568,703	\$121,811,589,336	\$44,060,979,367	73%	27%
Toronto Δ	\$738,731,887,411	\$532,066,997,677	\$206,664,889,734	72%	28%
Vancouver*	\$412,064,682,028	\$339,880,080,731	\$72,184,601,297	82%	18%
Winnipeg	\$89,761,241,333	\$70,797,485,274	\$18,963,756,059	79%	21%
Total	\$2,302,957,222,797	\$1,752,427,030,681	\$550,530,192,116	77%	23%

* Uses 2018 data

Δ Ontario data shows an inflated non-residential assessment value as multi-family rental accommodations are included in this category. Many Ontario jurisdictions maintain tax rates closer to the non-residential rate for these property types.

2.7

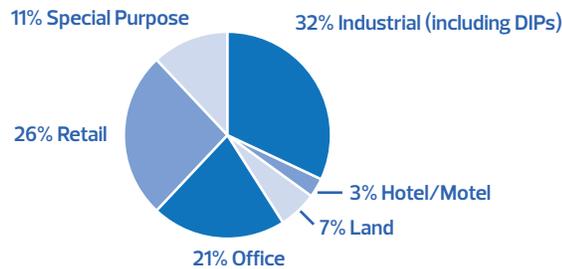
EDMONTON NON-RESIDENTIAL CONTEXT

Returning focus to Edmonton, a separate consideration is the change within the non-residential assessment category. Similar shifts of taxable assessment can be observed within the non-residential inventories. Comparing data from 2010 to 2019 shows that retail and industrial properties have taken on a greater share of the property tax levy, while other inventories – primarily offices – have experienced a decrease in its share. In addition, since all non-residential properties are taxed at the same rate, its assessment breakdown also indicates each inventory’s share of the total tax levy for non-residential properties.

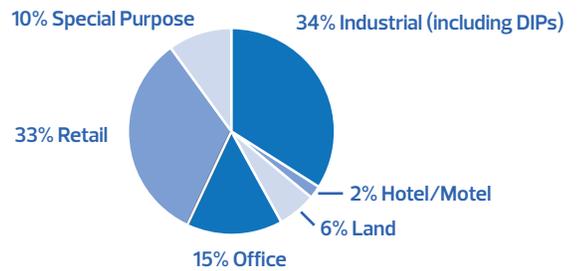
For reference, special purpose properties include such properties as auto dealerships, stadiums, coliseums, golf courses, casinos, some railway properties and various industrial or research facilities. Industrial includes provincially assessed designated industrial properties (DIPs), which includes linear property such as pipelines and transmission lines.

FIGURE 1.3 – EDMONTON NON-RESIDENTIAL ASSESSMENT BREAKDOWN (2010 & 2019)

2010 NON-RESIDENTIAL ASSESSMENT BREAKDOWN



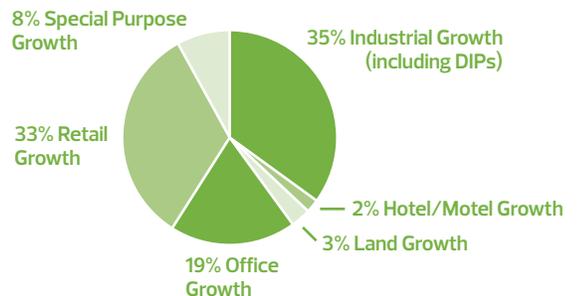
2019 NON-RESIDENTIAL ASSESSMENT BREAKDOWN



When analysing shifts within the non-residential tax class, the two factors to consider are market value changes and growth. However, it is important to underline that while growth can affect the overall distribution of taxes as shown, it does not impact individual property owner’s share. That is because new properties simultaneously increase the size of the pie while also contributing towards it.¹⁵ The sources of growth are shown below.

FIGURE 1.4 – EDMONTON NON-RESIDENTIAL GROWTH BREAKDOWN (2010 – 2019)

NON-RESIDENTIAL SOURCES OF GROWTH (2010 – 2019)



¹⁵ See more detailed conversations about growth in section 1.3

PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

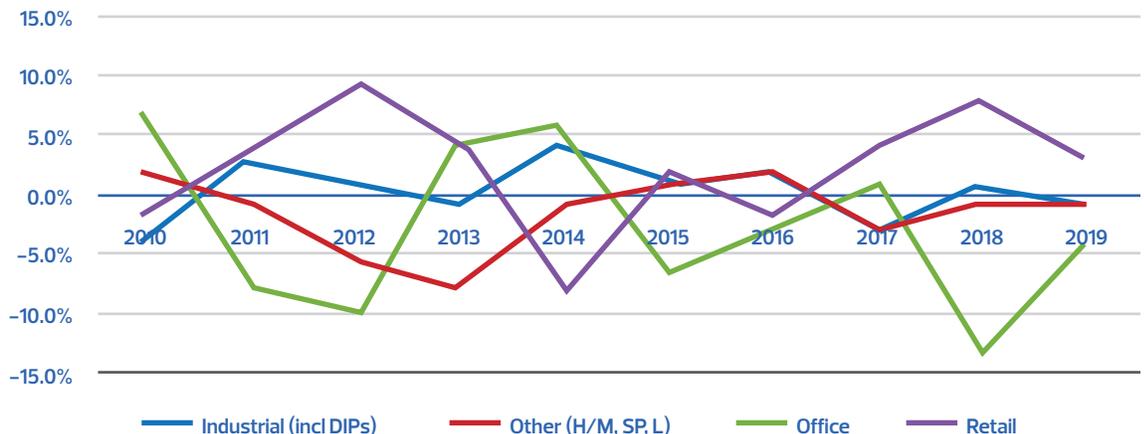
As compared to the 2010 assessment base, retail and industrial properties have experienced stronger growth than the office inventory. The Non-Residential Sources of Growth chart indicates in which sectors the City of Edmonton has seen its largest sources of revenue growth, but it does not speak to how individual property owner’s share of the tax amount has changed over time.

The change in individual property owner’s tax share has been a topic of particular interest over the last several years as both Edmonton and Calgary’s downtown offices have experienced assessment value drops. This phenomenon has resulted in a tax share shift from the office inventory towards retail properties. Retail property owners have expressed frustration over these tax shifts, blaming City Council’s spending decisions. However, while Edmonton City Council has increased taxes each year, the 5-year average tax increase for non-residential properties as a whole is 3.6% – far below what many retail property owners are experiencing. The more significant cause of tax increases within the retail sector has not been the average tax increase to all non-residential properties, but instead, the tax share shifting towards the retail sector as a result of market value changes.

The Normalized Market Changes by Inventory Relative to Overall Non-Residential Change chart displays the movement of market values by non-residential inventory over the past 10 years. These changes have been normalized to the overall non-residential market change. When inventories moved above 0%, they experienced an above average assessment change for that year, and therefore, higher tax increases. When inventories moved below 0%, they experienced a below average assessment change for that year and either experienced a smaller tax increase or an actual tax decrease. Of particular note, the retail inventory has been above average 7 of the last 10 years.

In the chart, the hotel/motel, special purpose and land inventories are combined for visual simplicity, but their movement was off-setting to each other. Shown in another way in Table 1.5, the overall changes to each inventory over the last 10 years have resulted in positive market value index change for some and negative market value index change for the others. Those that have seen positive market value change have effectively experienced positive tax shifting whereas those in the negative have experienced a tax shift away from their inventory.

NORMALIZED MARKET CHANGES BY INVENTORY RELATIVE TO OVERALL NON-RESIDENTIAL CHANGE



PROPERTY TAX BACKGROUND AND CONTEXT

(CONT.)

**TABLE 1.5 – EDMONTON OVERALL
MARKET CHANGE FOR NON-RESIDENTIAL
INVENTORIES (2010 – 2019)**

Inventory	Percent Market Change
Industrial (Incl DIPs)	6%
Hotel/Motel	-33%
Land	-4%
Office	-22%
Retail	30%
Special Purpose	2%

It is important to note here that these are general trends and do not account for further differences within the inventory. The conditions for a AA downtown office tower, for example, are not the same as for a B downtown office tower.¹⁶ Similarly, every property has its own unique characteristics that could affect its value in different ways.

¹⁶ AA and B reference classification of property that distinguish desirability and overall marketability. For more information on classifications within Edmonton, reference the City's Assessment Methodology Guides on edmonton.ca/assessment

2.8

TAX SHIFTING IMPACT OF COMMUNITY REVITALIZATION LEVIES (CRL)

As a final note, it is worth discussing the impact of Edmonton's three Community Revitalization Levies areas (CRLs) on the property tax picture. CRLs are a form of tax increment financing that must be approved by the Government of Alberta. When CRLs are put into place, the taxable assessment of each property within the area is identified and a baseline is created. Any assessment changes above the baseline, whether due to growth or market value change, are not considered for tax levy or tax rate calculation purposes. In an economy with increasing property values, this effectively means that while properties within the CRL still pay taxes at the same rate as their non-CRL counterparts, these properties pay a decreasing share towards the tax levy and an increasing share into the CRL. This puts additional pressure on the remaining tax base as they are required to cover the cost of tax levy

increases without the support of properties within the CRL. At present, the CRLs collect approximately \$30M of municipal tax revenue annually to fund their exclusive operations.

From another perspective, CRLs also have the potential to dampen the effects of shifting market values. If, for example, assessments within the CRL are above the baseline during an economic downturn that disproportionately hits CRL areas, that downturn simply reduces CRL revenues, rather than shift the tax levy to properties outside the CRL. For many of Edmonton's CRL properties, the economic downturn came soon after the relevant CRLs were put in place, so most properties now find themselves below the baseline assessment, with only newly constructed properties contributing to CRL revenues.

PROPERTY TAX POLICY CONSIDERATIONS

3.1

PROS AND CONS OF TAX POLICY

At a high level, introducing property tax policy has its advantages and disadvantages. On the positive side, variable tax rates provide a municipality with flexibility on how it collects its revenue requirement. Where one segment of property owners is felt to be overburdened, that burden can be reduced using variable rates.

Similarly, variable tax rates provide Councils with options to achieve policy objectives and incentivize or disincentivize particular behaviours. Council may consider, for example, decreasing rates for property owners who use proportionally less municipal services or infrastructure than others. Alternatively, Council may consider increasing rates for property owners who maintain derelict properties as an incentive to remedy the situation.

In considering the disadvantages, introducing multiple tax rates come with the administrative costs associated with calculating those rates and tracking the corresponding property inventories. Taxing all properties at the same rate is the simplest form of taxation, and while the regular categorization and maintenance of

different tax classes can be straightforward for particular stratifications (e.g. residential and non-residential), they can quickly become more complicated. Using the previous example of derelict properties, tracking when a property is in a derelict condition and when it is not is an annual task. Similar challenges would come with contaminated properties. This particular difficulty is made more acute by the assessment complaint process, which allows property owners to challenge their classification on an annual basis to the Assessment Review Board, an independent quasi-judicial body. This introduces some additional risk and requires further administrative resources to defend classifications when the municipality believes they are appropriate.

Venturing into variable tax rates also reduces the transparency of the process. Two or three tax rates are easy enough to understand, but the higher the number, the more opaque the system becomes. Ottawa, for example, has 13 unique tax classes with 25 additional subclasses. Each of these 38 tax classes is comprised of 7 components, making a tax grid of 266 rates.¹⁷

¹⁷ This number does not include additional rates for rural areas or specific urban areas. See Appendix B for rate comparisons.

PROPERTY TAX POLICY CONSIDERATIONS

(CONT.)

3.2

TAX POLICY CHALLENGES

Beyond the advantages and disadvantages of variable tax rates, there are several challenges to consider, which are enumerated below. Many of these challenges should be considered in light of any tax policy decisions made by Council, not just property tax policy.

Unintended Consequences: Determining the appropriate tax rate differential can be challenging. If there is too little difference, a tax rate may not achieve its policy intent; too much difference, on the other hand, may have unintended consequences. To illustrate the point, variable rates have been proposed to provide lower rates for core neighbourhoods, while taxing suburban neighbourhoods at higher rates. The policy intent, in this case, is to encourage densification and reduce municipal costs of infrastructure and service delivery. However, in creating a tax rate differential substantial enough to affect purchasing behaviour, a municipality may unintentionally influence the market value of properties and exacerbate the very behaviour they are trying to discourage. A significant enough tax decrease to core neighbourhood properties may simply increase property values in those areas, making them even more unaffordable than they may already be. As a result, the municipality may unintentionally encourage/reinforce property owners to live on the periphery where housing prices are cheaper.

Identifying Who Benefits: When a municipality chooses to change tax distribution or incentivize/disincentivize particular behaviour, there will naturally be those who benefit from such a decision and those who are negatively impacted. Such impacts may very well be justified, but identifying the impacted parties is important.

Drawing Lines: Defining what falls within a subclass can also be challenging. In the core/periphery example, the question of where appropriate lines can be drawn must be asked. In this case, the dividing lines may seem clear, but are still essentially arbitrary. Wherever that line

is drawn, there will inevitably be two property owners within very close proximity of each other who pay at different rates, despite very little discernible difference between their properties. In another example, that of creating a subclass for contaminated properties, defining what belongs within the subclass may be difficult. In this scenario, the policy maker will need to determine what level of contamination is required to fall within the subclass.

Measuring and Tracking: In creating differential tax rates, municipalities will need to regularly measure and track properties to ensure they fall within the appropriate category. Municipalities will also have to determine whose responsibility it will be to carry out these measurements. Determining levels of contamination, for example, is a highly technical task that requires expertise. Doing this on an ongoing basis comes with its own cost that must be accounted for. Measuring the success of policies can also take several years.

Definitions and Appeal Mechanisms: Property owners are not without recourse if they think a tax subclass inappropriately applies to their property. Drawing appropriate lines, measuring correctly and having clear definitions all become even more important when recognizing that property owners have the annual opportunity to challenge their classification at the Assessment Review Board. If the City classifies a property in one tax class and budgets to collect a certain revenue amount from that property, the City takes a loss if that property owner successfully appeals their classification. Court appeals at higher levels also bring with them the danger of the entire subclass being eliminated.

Justifying Policy and Data Challenges: Determining what is fair and appropriate tax policy is difficult, and this is made even more challenging without appropriate data. Municipalities do not want to be seen as picking winners, particularly if the approach appears arbitrary.

PROPERTY TAX POLICY CONSIDERATIONS

(CONT.)

Municipalities may also want to consider the financial capacity and impact tax policy decisions may have on their tax base. Tax policy is clearly at the discretion of municipal leaders, but such decisions are ultimately more credible when backed by measurable data. Collecting accurate and relevant data is, however, a challenge in itself. Cross-jurisdictional analysis can be difficult when legislation and existing tax policy is disparate. Municipalities also do not have good access to income data for residential or non-residential property owners.

Tax Burden Shift: The nature of property taxes requires that the total bill for municipal services be paid. If certain properties are granted tax concessions, it is not simply that they contribute less toward the total tax burden. It also means the remainder of property owners pay more to make up for the concession. Similarly, grant programs require a funding source that ultimately puts pressure on the municipal budgeting process.

Slippery Slope: Offering one financial incentive to any property owner may set precedent and invite additional requests. Without a defined and principled decision-making approach, the municipal position to deny subsequent requests is weakened once one is approved.

Financial Effectiveness: Tax policy is often considered to incentivize the construction of new development. However, encouraging development in one area does not guarantee additional growth revenue for the municipality. Higher growth in one area may simply be offset by lower growth in other areas that did not receive financial incentives. In these circumstances,

the municipality may actually be worse off financially than had it not provided the incentive. Consider also that given a fixed amount of development in the metro Edmonton area, creating financial incentives in one area reduces the likelihood of development in others. Incentivizing development in one area does not guarantee more development; it may simply relocate where development would have otherwise taken place. Incentivizing development may still be justified based on City-building objectives and Council goals, but the true financial cost should be acknowledged.

Market Driven Decisions: When considering property tax reductions as a mechanism for financial incentive, it should be understood that property taxes are rarely a business' highest priority when contemplating location or redevelopment. Property taxes are a relatively low operating cost and are not typically considered as a capital cost. Rather, land costs, proximity to market, proximity to similar services, and availability of serviced land, services and labour pools are typically more relevant factors that determine location. If the business case is unfavourable without property tax concessions and the property owner's margins are too small, a tax concession is unlikely to alter this equation.

Administrative Challenges: Creating and maintaining financial incentive programs or developing unique tax rates may require staff resources and programming changes. Such changes typically also require ongoing communication and legal support. In addition to the aforementioned measuring and tracking costs, it is important to consider other administrative costs when considering the benefits of a tax policy change.

PROPERTY TAX POLICY CONSIDERATIONS

(CONT.)

3.3

TAX POLICY THEMES AND QUESTIONS

When any form of tax policy is being considered, a municipality should ask the following questions, grouped around major themes:

Fairness and Equity

- + Is the policy fair and equitable?
 - + Is the City benefiting one property owner over others? If so, can this be justified?
 - + Is the arrangement available to all property owners for future requests?
 - + Would the City apply the same criteria for all requests?
 - + Is the current tax structure fair and equitable?

Transparency and Public Engagement

- + Has the City developed clear guidelines around a policy decision of this nature?
 - + To avoid ad hoc decision making, can the City utilize a similar set of principles or criteria when determining tax policy?
- + Is the process transparent and has there been stakeholder input?
 - + Are policy decisions being made in an open and public manner? Have all relevant internal staff, stakeholders and the public been consulted?

Triple Bottom Line

- + What are the objectives/outcomes of this decision?
 - + How does the proposed tax policy align with the City's vision and objectives?

- + Is it in the City's financial interest?
 - + What are the associated costs and benefits for the City? Does the overall economic gain make up for the cost?
 - + Is it cost efficient to achieve the expected results?
 - + Will it contribute or detract from the City's financial sustainability?
 - + Is it a net financial gain or net loss?
 - + Is it in the public interest?
 - + How does the proposed policy further the public interest?
 - + What is its ancillary value (e.g. image and reputation, culture, community building, employment, environment, social value or city-building)?
- ##### *Measurability (Targets + Metrics)*
- + Are there clear metrics to determine success?
 - + Is the policy tied to performance metrics?
 - + How will it be clear that the policy has impacted change?
 - + How long before the desired impact can be measured?

PROPERTY TAX POLICY CONSIDERATIONS

(CONT.)

3.4

RESIDENTIAL/NON-RESIDENTIAL TAX SPLIT

The two most significant classes of property in Edmonton are residential and non-residential.¹⁸ These make up almost the entirety of the assessment base and tax requisition. How much each class pays is a foundational question within property tax policy.

Recall that in the explanation of how tax rates are calculated, the following formula was shown:

$$\frac{\text{CITY BUDGET}}{\text{ASSESSMENT BASE}} = \text{TAX RATE}$$

Until now, this presentation of the tax rate calculation system was sufficient for understanding the fundamentals of a property tax system. However, once requisitions are apportioned to specific assessment classes, the system grows more nuanced in order to develop unique property tax rates.

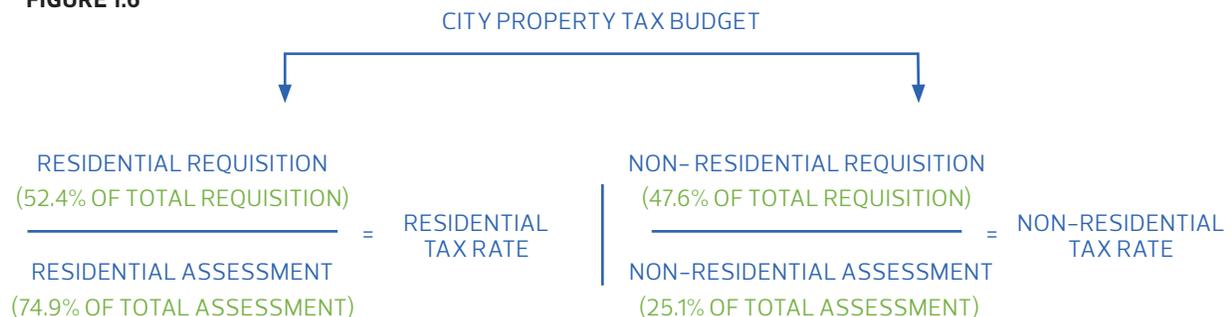
In Edmonton, as in most Canadian jurisdictions, there is a split between the residential and non-residential property groupings. How the requisition is split between the two classifications contributes to determining the tax rate differential. In practice, this appears in Figure 1.5.

The second factor that determines the rate is the size of the assessment base. In Edmonton, the tax requisition splits roughly evenly between residential and non-residential property types with residential making up 52.4% of the total requisition in 2019. However, while the requisition is split relatively evenly, the size of the residential assessment class is approximately three times as large as the non-residential assessment class. The 2019 split is shown in Figure 1.6:

FIGURE 1.5



FIGURE 1.6



¹⁸ The other two property classes are Farmland and Machinery and Equipment.

PROPERTY TAX POLICY CONSIDERATIONS

(CONT.)

The existing requisition split relative to the associated tax bases result in non-residential property owners paying approximately three times more per dollar of assessment than their residential counterparts.¹⁹ It is a matter of debate as to the appropriate distribution of residential to non-residential tax amount.

It can be argued that reducing the non-residential property tax requisition (at the cost of increasing the residential requisition) will stimulate business development, although how much influence this will have on business decisions is not clear. Smaller, independent startup or small businesses may be more sensitive to fluctuations in property tax. Generally speaking, however, property tax is a minor cost in the overall operations of most large businesses.

The justification for the higher non-residential rate is based on four key factors: (1) tax deduction potential, (2) transferability, (3) income-producing potential, and (4) social equity.

1. **Tax Deduction Potential:** This factor relates to whether property taxes apply to before or after-tax income. For businesses, property tax is considered an expense and can be deducted from the business' before-tax income. A residential home owner, on the other hand, cannot deduct the cost of property taxes from his or her personal income and has to pay the property tax with after-tax income.
2. **Transferability:** This refers to the business' ability to pass on their costs. Businesses either produce a good or service, with various costs (including property tax) built into the product or service's price. In the case of leased space, the landlord can incorporate the cost of property taxes into a gross rental rate or they can

recover property taxes separately through a triple-net lease agreement. The ability for businesses to transfer costs to their customers is dependent on market forces and this principle can hold more or less true based on context and circumstances. In the case of a residential home owner, however, the tax remains with the home owner and cannot be transferred.

3. **Income-Producing Potential:** This factor acknowledges that businesses are income-producing properties. Because income potential is present, property tax costs are off-set by the business' positive revenue streams. Although situations can arise where home owners rent out their properties for income, the vast majority of cases see the home owner receiving no property income, yet they remain wholly responsible for paying property tax. Another major exception to this is apartment-style properties where four or more units exist on an individual title. In these instances, the City applies a 15% residential tax rate differential to acknowledge this distinction.
4. **Social Equity:** The final factor combines the previous three to help create a social equity justification. As with income-tax, it is a commonly-held principle that those who can afford to pay more should pay more to allow the upward mobility of lower-income individuals. As the ratio between residential and non-residential nears even, additional pressure is put on all residential property owners to pay a greater share of the requisition. While it is appropriate for all property owners to contribute, the question ultimately becomes, "What is the appropriate balance between the residential and non-residential class?".

¹⁹ In 2019, the municipal ratio was 2.8:1 non-residential to residential.

PROPERTY TAX POLICY CONSIDERATIONS

(CONT.)

The pursuit of balance can also speak in favour of increasing the contribution of the residential class, and/or its subclasses. Here, balance represents a closer relationship between the costs and revenues generated by a particular property type. If too large a share of the requisition is borne by the non-residential class, the real cost of residential housing choices is not reflected in the taxes residential property owners pay. By increasing the tax contribution of residential housing types that have a high public cost (e.g. lower density, less compact, more infrastructure-dependent, etc.), citizens might better understand the true cost of their housing and commuting choices, which may then encourage an urban built form that places less financial burden on the City as a whole.

At present, there is no set policy on how the residential and non-residential tax rates should relate to one another. Policies have been approved in the past, but rarely last more than a few years.²⁰ The distribution of

residential to non-residential tax is a floating rate that is based on last year's tax requisition and the real growth in each assessment class.²¹ Because residential growth has outpaced non-residential growth, the overall share of property tax has generally moved towards residential property owners. However, to be clear, while the relative contribution of the residential class has grown, this does not mean that individual residential property owners have taken on a greater share of the overall requisition. Rather, there are simply that many more residential property owners who are sharing in the cost of local government.

If Council were to consider adjusting the distribution of its overall property tax requisition, additional analysis should be performed. This analysis should consider, among other things, how affordable the current distribution is relative to income levels and how competitive Edmonton is to other municipalities of comparable size.

Property Category	Share of Property Assessment			Share of Combined Property and Business Tax		
	1996	2010	2019	1996	2010	2019
Residential	69.6%	72.5%	74.9%	43.6%	49.2%	52.4%
Non-residential	30.4%	27.5%	25.1%	56.4%	50.8%	47.6%

²⁰ In 1998, City Council approved that the tax rate ratio between non-residential and residential should sit between 1.5 and 2.2 to 1, but this was before the elimination of business tax, which accounted for 18% of tax revenue. In 2003, value increases in the residential inventory made the ratio cap unsustainable and Council eliminated the requirement. In 2004, Council approved keeping the requisition levels constant while only accounting for growth. However, Council increased the residential requisition more than the non-residential requisition the following year when taking disproportional education tax room on the residential side.

²¹ Between 2004 and 2014, Council made use of lower education tax increases to increase the municipal taxes in both residential and non-residential. Overall, this resulted in a further shifting of the burden towards residential.

PROPERTY TAX POLICY CONSIDERATIONS

(CONT.)

3.5

TAX RATE RATIOS

During the last legislative review and update, the Government of Alberta restricted municipal flexibility by setting a maximum tax rate ratio between its highest non-residential rate and lowest residential rate. That ratio was set to ensure that the non-residential rate cannot be greater than five times the lowest residential rate (5:1). This ratio cap does not have an immediate impact on the City of Edmonton as its tax rate ratio hovers around the 3:1 range, but it does limit future tax rate subclassing decisions.

For example, if Council wishes to consider lowering the residential tax rate for particular property types, the amount such a rate could be lowered from the current residential rate would be limited by the ratio. Similarly, and likely more importantly, the new maximum tax rate ratio may make creating tax rate subclasses for the newly provided non-residential subclasses more difficult.

This challenge is most apparent with the subclass for contaminated properties. The assessment values of contaminated properties can be significantly impacted by their contaminated status, reducing them down to a negligible value. This reduction can also significantly reduce the tax burden on contaminated property holders. Low taxes on contaminated property results in little incentive to remediate the site. Edmonton's City Charter allows the City to have a separate non-residential rate for contaminated properties. This theoretically allows Council to increase the tax rate on contaminated properties to incentivize remediation. Unfortunately, because the assessment value of contaminated properties is so low, a significant increase to the tax rate is required to effect behavioural change. But, as indicated earlier, the ratio between residential and non-residential has been capped and prevents a contaminated property tax subclass from achieving its intent.

TAX TOOLS AND OPTIONS

4.1

BACKGROUND

The tax tools available to a municipality like Edmonton are limited and regulated by the Government of Alberta. Some of these tools are granted through the Municipal Government Act and associated regulations, while others have been unlocked through the City Charter. Property tax is a municipality's primary tool for collecting revenue, but municipalities may also consider user fees, off-site levies, franchise fees, local improvement levies, special taxes or business tax.²² When property owners believe the tax distribution is unfair, municipalities can

choose to cut costs or redistribute costs differently. When determining whether to use property tax or another tool, the typical consideration distinguishes between public versus private benefit. Where private benefit can be clearly identified and measured, a tax tool other than property tax is often better able to isolate the cost and distribute it to benefiting individuals. Where the benefits clearly accrue to the public at large, then property tax is a preferable option.

4.2

ASSESSMENT CLASSES AND SUBCLASSES

Assessment classes form the basis of calculating unique property tax rates. The Municipal Government Act provides four major assessment class categories:

1. Residential
2. Non-Residential
3. Machinery and Equipment
4. Farmland

Under this legislation, the residential class can be divided "on any basis [Council] considers appropriate". The non-residential class, on the other hand, was originally

limited to two possible rates: vacant and improved. Machinery and Equipment was required to be equal to the improved non-residential rate. Farmland was an independent rate that could be adjusted as high or as low as Council believed appropriate.

In 2017, the Government of Alberta passed several amendments to the MGA and associated regulations. At the end of that same year, the City Charters for Edmonton and Calgary were also approved. As a result of these changes, Edmonton gained the ability to create tax subclasses for (1) small businesses, (2) derelict non-residential properties, and (3) contaminated non-residential properties. More on each of these new subclasses will follow.

²² For more information on each of these tools, see Appendix C.

TAX TOOLS AND OPTIONS

(CONT.)

4.3

RESIDENTIAL TAX RATES

Alberta municipalities have always had flexibility when developing residential subclasses. Residential tax rates can be divided “on any basis [Council] considers appropriate”, but the classification is still subject to complaint at the Assessment Review Board. Therefore, it is paramount that any added subclass is well defined and has considered the tax policy challenges outlined in section 2.2 of this paper. In order to support a clear definition, Council would want to build subclasses around defined and inarguable attributes such as geographic location, presence of specific improvements (e.g. secondary suites), or proximity to specific amenities. While considering subclassing options, Council should also be cognizant of the tax policy’s effect on the transparency of the overall system.

Existing Subclass – Other Residential: Under City Council’s authority to divide the residential class into subclasses, Edmonton has long held a differential rate for properties with four or more dwelling units on a single title and parcel. This rate is referred to as “Other Residential”. It includes rental accommodations like fourplexes and high-rise apartment complexes, but excludes condominium buildings with multiple, independently titled units in a single building.

The rationale for implementing the Other Residential rate was that the owners of large-scale rental complexes are their own form of business. Before 2005, the rate differential for Other Residential was 20% higher than the conventional residential rate. Then in 2005, City Council proposed eliminating the rate differential, phasing it out over four years, based on the argument that the higher tax rate was being passed down to renters who, presumably, were the least able to pay. Council approved this direction and the tax rate differential was lowered from 20% to 15% above the conventional residential rate in 2006. That same year, however, a strong rental market allowed owners of apartment complexes to increase their rents despite

the tax reduction. These rental increases were met with indignation by City Council and the phase-out program was swiftly halted. The experiment proved, however, that rental rates were impacted more by market conditions than by tax policy. Today, the tax rate differential remains at 15% above the conventional residential rate.

Further Residential Subclass Options: At present, Council has not adopted additional residential subclasses. However, there has been interest in exploring rates that may encourage densification and transform Edmonton’s urban form. This approach provides lower rates for neighbourhoods or areas that have higher density residential developments, while increasing rates for neighborhoods with lower density residential developments. Another possible approach is to develop varying rates based on proximity to Edmonton’s downtown core, with neighbourhoods closest to the core paying at a lower rate and those in suburban areas paying at a higher rate.

Either of these tax policy adjustments must consider and weigh the previously outlined tax policy challenges. If rate differentials are too high, the net effect may be to increase residential property values that have lower tax rates, which may drive more home owners to suburban, lower-cost homes. Suburban, low density property is already significantly less expensive than properties in the urban core. A tax rate differential may only further exacerbate the tax difference between urban and suburban residential properties. Secondly, where and when rates will change will be difficult to determine. As is the nature of any such policy decision, a line will need to be drawn and there will always be property owners just on the other side of that line who see minimal differences between themselves and a neighbouring properties that receive a lower rate. Finally, it is vitally important to keep the distributive nature of property tax in mind.

TAX TOOLS AND OPTIONS

(CONT.)

Offering lower rates to one group creates a budget deficit that would be recovered through a tax increase on the remaining tax base.

As another example, residential subclasses can also be used to set higher rates for derelict residential properties. However, defining what constitutes a

derelict property and having clear criteria to defend that classification at the Assessment Review Board is paramount.

The above is not an exhaustive list, but provides a sense of how subclassing may be used.

4.4

NON-RESIDENTIAL TAX RATES

As mentioned at the beginning of this section, recent legislative changes to the Municipal Government Act, related regulations and the City of Edmonton Charter give Edmonton the ability to divide the non-residential tax class into four additional subclasses. While this may seemingly provide Edmonton Council with additional policies options, the effectiveness of these tools are severely limited. Each subclass is explored in more detail below.

Vacant Non-Residential: Under existing legislation, municipalities in Alberta have the authority to divide the non-residential subclass into vacant and improved subclasses. On first blush, this may seem to allow increasing tax rates on underutilized vacant lots in the downtown core; a typical example is surface-level parking lots. However, because the term "vacant" is undefined within the legislation, it can also be read in opposition to "improved". In other words, only those lots without any improvements can be considered vacant. Therefore, it is important to consider the question of what constitutes an "improvement". For example, if gravel, asphalt, fencing or even a booth can meet the definition of an "improvement" the property can no longer be classed as vacant. While the

municipality can attempt to put forward a definition for the vacant subclass, it will always be subject to review by the Assessment Review Board and can be overturned based on their reading of the legislation. For this reason, the vacant subclass has largely been considered impossible to implement.

Derelict Non-Residential Properties Subclass:

Under province-wide legislation, subclassing for derelict property is only available for residential properties. Under their respective City Charters, however, Edmonton and Calgary have been given the authority to establish, by bylaw, a subclass for derelict properties within the non-residential class and to define "derelict" for the purposes of the bylaw. The biggest challenge with using this rate is the need to monitor changes to the derelict status of properties. This challenge is not insurmountable, but involves additional municipal cost for regular monitoring. The benefits and costs of pursuing this subclass require further analysis before any decisions can be made.

Contaminated Non-Residential Subclass: Similar to derelict property, developing a unique subclass for contaminated sites is only available for residential properties under province-wide legislation. Under

TAX TOOLS AND OPTIONS

(CONT.)

their City Charters, however, Edmonton and Calgary have been given the authority to establish a subclass for contaminated properties within the non-residential class, and to define the characteristics and levels that will qualify as contaminated property. However, there are no provisions requiring property owners to undertake an environmental assessment of their property, nor to share those results with the City. This would put the cost of performing environmental assessments in the hands of the City.

Under an approach that incentivizes property owners to remediate contaminated sites, the City may have considered imposing tax rate increases on property owners who hold contaminated sites and granting tax rebates for those pursuing remediation efforts. However, the maximum tax rate ratio discussed earlier makes the use of this subclass as an incentive ineffective because the value of a contaminated property is often so low that the amount Council is able to increase the tax rate and still remain within the ratio is likely insubstantial.

Small Business Subclass: The small business subclass was introduced as the only new subclass available to all municipalities in Alberta through the MGA review. On first blush, a small business tax subclass may appear straightforward. However, defining what constitutes a

small business is more challenging. Under the Matters Relating to Assessment subclasses Regulation, small businesses are defined as having fewer than 50 full-time employees across Canada (or a lesser number set out in a municipal bylaw). This is the only criteria set out within the regulation that would determine inclusion within the small business subclass – immediately, tax policy challenges emerge.

Municipalities must determine how to confirm the number of employees working within a business at any given point in time and how often that number would be reviewed. If the incentive to be classified as a small business is sufficiently high, the City may unintentionally engage in market distortions. For example, business owners may move full-time staff to part-time contract work in order to meet the target threshold. In other cases, a global franchise or firm employing thousands may qualify as a small business if the individual franchise or firm only has 20 employees in Canada. Given its definition, as set by the Government of Alberta, this subclass is more likely to benefit a small law-firm grossing millions than an industrial business struggling to support its more than 50 staff. Without further ability to prescribe criteria, the functionality of this tool is thrown into question.

TAX TOOLS AND OPTIONS

(CONT.)

4.5

MACHINERY AND EQUIPMENT TAX RATE

Machinery and Equipment is defined as property used for manufacturing and processing. Examples range from small equipment such as bakery ovens to massive oil field refineries. Machinery and Equipment has its own provincially legislated tax class, but that same legislation also requires the tax rate for Machinery and Equipment to be equal to the tax rate set for the non-residential tax class.

Machinery and Equipment has a long and complicated history in Alberta, which is discussed in more detail within the Regulated Assessment Discussion Paper. Most municipal jurisdictions across Alberta tax this category of property, but it is currently exempt in Edmonton by Council authority under section 364 of the Municipal Government Act. The origins of this tax exemption are less the result of clear municipal policy decisions and more the result of historical circumstances.

Before 2008, Edmonton collected approximately 15% of its tax revenue from business tax. Provincial legislation stipulated that Machinery and Equipment that paid business tax could not simultaneously be charged property tax.²³ Accordingly, Machinery and Equipment was exempted from property taxation. In 2008, Edmonton began phasing out business tax. This phase out took place over four years and was revenue neutral – the revenue collected from business tax was gradually shifted over to the non-residential property tax base. However, after the phase out was completed, Edmonton did not implement a property tax for Machinery and Equipment. As a result, while the phase out was revenue neutral for the City as a whole, it did have an impact on non-residential property owners. Those non-residential properties with Machinery and Equipment had their tax

burdens reduced, while the remaining non-residential properties had their tax burdens commensurately increased.

If Council chooses to reconsider the taxable status of Machinery and Equipment, the following points should be considered:

1. **Fairness and Equity:** There should be a clear and justifiable reason why one property type is exempt from taxation while others are not. If this justification does not exist, it is only fair that all property owners contribute to the costs of government. Exempting one property type simply shifts the tax burden to the remaining taxable base. The current Machinery and Equipment exemption is estimated to shift at least \$15 million in tax burden to other non-residential property owners.
2. **Competitive Advantage:** Most jurisdictions in the Edmonton region tax Machinery and Equipment, so the City of Edmonton often uses the lack of Machinery and Equipment tax to promote industrial location within Edmonton proper. This competitive advantage is offset by Edmonton's higher non-residential tax rate, and as a result, property owners with Machinery and Equipment components must often do tax calculations to estimate whether Edmonton's tax environment is favourable. Still, property taxes are generally deemed a minor consideration in industrial property location, with far greater influencing factors including the cost of land and the location's access to services, labour and consumers.²⁴

²³ This same stipulation did not exist for other non-residential property types.

²⁴ More information on this point is articulated in *Union of British Columbia Municipalities and BC Ministry of Community, Sport and Cultural Development, "Major Industrial property Taxation Impacts", Davies Transportation Consulting Inc., January, 2011.*

TAX TOOLS AND OPTIONS

(CONT.)

3. **Regional Negotiations:** As the Edmonton region matures, increasing consideration is given to regional costs and revenue-sharing. Edmonton can argue that it is a service centre that provides benefits to the region and that the cost of these benefits should be shared. However, because Machinery and Equipment is not taxed in Edmonton, the region can counter Edmonton's argument that tax parity goes both ways – it would be unfair for them to contribute to regional costs if some Edmonton properties, themselves, do not contribute.
4. **Workload Considerations:** A decision to tax Machinery and Equipment would require time for Administration to review the valuation of its existing Machinery and Equipment inventory. Resources would need to be allocated to update these properties' assessment values, and would likely require a minimum of two years to complete.
5. **Scale:** Relative to some other municipalities in Alberta, Edmonton has a small proportion of Machinery and Equipment as compared to its overall base. Taxing it does become more relevant as the size of its heavy industrial base increases.

²⁵ This point will be further discussed in the Big City Challenges Discussion Paper.

TAX TOOLS AND OPTIONS

(CONT.)

4.6

FARMLAND

Farmland is its own unique tax class within provincial legislation and is not subject to the rate ratio imposed by the Government of Alberta. At present, in Edmonton, the tax rate for farmland is equal to the residential tax rate; however, farmland has historically been chronically underassessed.²⁶ From 1994 to present, the assessment value of farmland has not changed, while the typical residential property has seen close to a four-fold increase. The net effect of these assessment changes has resulted in an overall reduction in farmland taxes, as shown in the table below.

While City Council has chosen to keep farmland tax rates low, it is also within its authority to increase this rate. Many jurisdictions in Alberta have farmland tax rates that are higher than residential rates. As farmland assessment is regulated in most provinces across Canada, it is not uncommon for municipalities to alter their tax rates upward to offset the regulated assessment, which is typically less than market value.

In some recently noted examples, the City of Oak Bay, British Columbia has adopted a farmland tax rate that is approximately 978 times greater than their residential rate.²⁷

A second option is to levy back-taxes on farmland after farming ends and development begins. Winnipeg, for example, assesses and taxes property at farmland rates until it is developed. When development commences, a levy goes to the property owner that equates to the difference in taxes between farmland and market values for the previous five years. New Brunswick, on the other hand, has a similar policy that extends back 15 years. This policy serves two purposes. First, it reduces the public subsidy for developers holding farmland and second, it can help ensure the original purpose of farmland rates, which is to protect farmland from development and support bonafide farming activity. A back-tax levy, however, will require Government of Alberta support.

	Assessed Value for 1994 Taxation	1994 Municipal Taxes	Assessed Value for 2017 Taxation	2017 Municipal Taxes	Difference in Municipal Taxes 1994 vs 2017
Per 1 Acre of Farmland	Max of \$350	\$2.37	Max of \$350	\$2.10	(\$0.27)
Typical Residence	~\$110,000	\$746	\$397,000	\$2,385	\$1,639

²⁶ See the Regulated Assessment Discussion Paper for more information.

²⁷ Edmonton would not be able to enact this policy on annexed areas of Leduc County as their tax agreement provides farmland is taxed at the lower of the two rates for 50 years. Ironically, Leduc County's tax rate on farmland was higher than Edmonton's.

TAX TOOLS AND OPTIONS

(CONT.)

4.7

MANUFACTURED HOMES

At present, manufactured home communities are assessed and taxed in a unique way. The land value of the manufactured home community is assessed to the owner of the land, while the value of the individual manufactured home is assessed to the owner of that home. The tax collection process can be simplified

using section 304(1)(j) of the MGA, which allows Council to pass a bylaw making the entire value of the community assessable and taxable to the owner of the manufactured home community. Community owners would then roll the property tax cost into their rent similar to the way rental accommodations pay taxes.

4.8

OTHER PROPERTY TAX TOOLS

Beyond tax subclassing, Council has a few additional property tax tools. These include the use of tax exemptions, cancellations, deferrals and rebates under section 364 and 347 of the MGA. Each of these tools were discussed in detail in the Property Tax Exemption and Relief Discussion Paper.²⁸

However, one additional concept worth exploring in relation to these tools is the notion of tax capping. While Council may approve a particular tax increase within any given year, the impact on property owners can vary depending on assessment changes. In those years where assessment changes are significantly different between property groupings – office and retail, for example – then certain property groupings may see significant tax increases, while others see decreases.

In setting a tax cap, Council has the option to limit the possible tax increase experienced by some, at the cost of increasing taxes for others. As market values shift, the total tax incidence is redistributed across the base. Market value changes are, in themselves, a measure of

equitable distribution, but Council may feel the impact on some property owners may be excessive. If Council intervenes in the normal market value redistribution mechanism, then the incremental tax above the cap must be redistributed in another way. Fundamentally, this either means the incremental tax is redistributed within the tax class (meaning higher tax increases for those with poorer market indicators), or the incremental tax is redistributed to another tax class. The impact of the tax shift will depend on the total requisition, the size of the cap and the nature of market changes in a given year.

Alternatively, section 347 of the MGA allows Council to phase in tax increases. This is similar to a cap in that Council can limit the tax increase a property owner experiences within a given year, but is different than a cap in that the property owner is still responsible to pay the tax increase in a subsequent year. Administering this program on an on-going basis would be administratively challenging, and the municipality would need to account for delayed revenue in its budgeting process.

²⁸ *Examples of how tax rebates and exemptions function are included in Appendix D.*

TAX TOOLS AND OPTIONS

(CONT.)

4.9

BILL 7 – PROPERTY TAX INCENTIVES

Bill 7 was passed by the Government of Alberta in 2019 and significantly expanded a municipality's tax exemption and deferral powers. Before Bill 7, Council only had the authority to exempt non-profit organizations, and tax deferrals could only be granted on a one-off annual basis. Bill 7 now allows municipalities to partially or fully exempt for-profit non-residential properties or create ongoing tax deferrals for up to 15 consecutive years so long as it is "for the general benefit of the municipality".

Municipalities must carefully weigh the benefits of using this tool against the possibility of eroding their tax base. A tax decrease for one group of properties requires a tax increase for others. For this reason, clear and transparent justification should be presented to the public if any property type is considered eligible. A further caution: use of this tool to compete with other regional municipalities could trigger a race-to-the-bottom, where each municipality competes to under-tax the other. Alternatively, the region may consider developing a region-wide model, but the existing differential in rates makes finding an appropriate balance challenging.

In a similar fashion to other tax tools, developing appropriate definitions and clear tracking mechanisms, such as an application process, will be integral to successful implementation. In addition, any cost-benefit analysis that considers the use of this tool, no matter how it is used, must account for the added administrative costs to administer and maintain the program.

Finally, when considering the use of this tool, it should be asked to what extent will providing a property tax deferral or exemption influence business decisions. Non-residential property owners will always welcome a property tax reduction, but whether that reduction affects locational choice is a more difficult question. Economic and market factors are typically more significant drivers of business growth than a property tax reduction. In order to properly consider any use of Bill 7, Council should first know who is competing for the business, how does the competition's tax environment compare to its own when all things are considered, and what will be the impact of any proposed tax change on business decisions.

TAX TOOLS AND OPTIONS

(CONT.)

4.10

TAX INCREMENT FINANCING / COMMUNITY REVITALIZATION LEVY

Tax increment financing (TIF) is a financing method that uses the growth of tax revenues above an established baseline within a specified geographic area to cover the financing costs of an economic development project or public improvement project within that same area. The types of projects most often undertaken are infrastructure projects that enable a higher value, more intensive, or better form of land development to take place: for example, the development or redevelopment of roads, sidewalks, sewers or parks. Through the use of TIFs, municipalities effectively divert property tax growth revenues within a defined area away from their general revenues, and direct it towards projects within that same defined area. The consequence of this financing method is that the rest of the tax base must shoulder this tax revenue diversion, either in the form of tax increases or service cuts.

This is generally the principle that was applied when the City established its three Community Revitalization Levy areas (CRL). Under this approach, a baseline assessment was set for each parcel within the levy area's boundary. Any assessment at or below that baseline is used to calculate the general City-wide tax rates, and contributes to the tax levy. Any assessment above the baseline is effectively set aside and does not reduce the City-wide tax rates.²⁹ Once the City-wide rates are calculated, the set-aside assessment is then multiplied by the relevant rates to create revenue for projects within the boundary. It is worth noting that this same effect can also be created, without the establishment of a CRL, if Council simply budgets for the relevant projects and keeps the assessments within that area as part of the total assessment base that calculates the tax rates.

CRLs are a unique kind of tax increment financing approved by the Government of Alberta. The distinction

is that the incremental revenue uplift from education tax rates also contributes to CRL revenues. This effectively increases education taxes for Albertans because the incremental assessment in the CRL area is no longer used to cover a portion of the education requisition. At present, the Government of Alberta has expressed it has no further appetite to create additional CRL areas. If new CRLs are created in the future, there is no guarantee that the education tax revenue would still form part of the CRL fund.

CRLs are also unique because they distort the basic functioning of the property tax system. Under normal circumstances, market value changes do not affect overall City revenue; rather, they simply redistribute the overall requisition. However, because CRL assessment above the baseline is not used to reduce the overall tax rate, market value increases effectively increase CRL revenues and vice versa. On the growth front, CRLs tap future growth revenue and allocate it to CRL revenues. This reduces growth revenue during the budget process, putting more pressure on the tax base. It is also important to note that CRL financing costs begin as soon as the debenture is issued, but the tax uplift from development may not be realized for several years. During this transitional period, the City's draws upon its working capital, or reserves, which can further limit the City's financial flexibility.

Finally, it is important to note that using a CRL effectively bypasses Council's capital budget prioritization process. Since CRL projects have a dedicated funding source that cannot be used for any other purposes, there is no ability to prioritize these projects against other tax-funded capital projects.

In cases where growth and construction may not have occurred without an initial infrastructure investment,

²⁹ Under normal circumstances, higher assessments lead to lower tax rates, and lower assessments lead to higher tax rates

TAX TOOLS AND OPTIONS

(CONT.)

tax increment financing can be a powerful tool. However, despite its sound theory, tax increment financing is always challenged to prove that growth would not have otherwise occurred had it not been for the initial investment. For instance, if a project would have proceeded regardless of the City's investment (even if somewhere else in the City or a few years later), then the tax increment tool will ultimately increase property taxes across the entire tax base without any financial benefit to the City.

The intent behind TIFs is to incentivize and enable economic development activities by means of land development that would otherwise not occur. In reviewing the success of TIFs across North America, its

results have often fallen short of its intent. More often than not, TIFs merely relocate development within municipalities, rather than create any net increase in development. In practice, the development that most often occurs within TIFs would have occurred anyway, though likely within a different area of the municipality or at a different time.

With that said, targeted investment that achieves City building objectives may justify a capital expenditure even when there is no financial return on investment. City building objectives can be considered as part of any investment analysis, whether or not a tax increment financing tool is used.

TAX TOOLS AND OPTIONS

(CONT.)

4.11

TAX TOOLS VERSUS GRANTS

The use of tax tools within a municipal context is limited by provincial legislation and many of those limitations have been discussed above. With that said, it is worth highlighting that municipalities also have the ability to develop grant programs to achieve their policy goals. Rather than, for example, providing a tax reduction for a particular group of properties, Council could instead enact a grant program that achieved the same objective.

Using grants rather than tax tools to achieve policy objectives still requires careful consideration of their justification and consequences. However, they are less prone to challenge because the municipality can control the granting criteria fully, unlike tax tools, which are often hampered by their legislative drafting. Furthermore, tax mechanisms have a built-in appeal process through the Assessment Review Board. This creates additional

challenges as quasi-judicial board members and courts have the ability to alter the original intent of the tool. Under a grant approach, money is only given out when the municipality is satisfied that the relevant conditions are met and the intent is satisfied.

Of course, using a grant approach means there is a clear expenditure line within a municipal budget, but this is also, in part, its advantage. Whether taxes are collected up front and a grant is paid, or taxes are never collected at all, it is still an expense. The former shows transparently on an expenditure line, whereas the latter is less obvious. By using a grant, municipalities show a higher level of transparency, allowing taxpayers to both see and judge the value of the policy decision.

CONCLUSION

Tax policy aims to address the fundamental question of who pays how much and why. Under the most basic property tax system, equity is determined purely through the assessment of a property's market value, with those worth more paying proportionately more taxes and those worth less paying proportionately less taxes. The market value of a property is inherently a measure of property wealth, and property tax aims to distribute taxes based on that metric. Introducing tax policy into this system provides policy makers with the flexibility to either incentivize/disincentivize behaviour or adjust tax distribution according to other metrics.

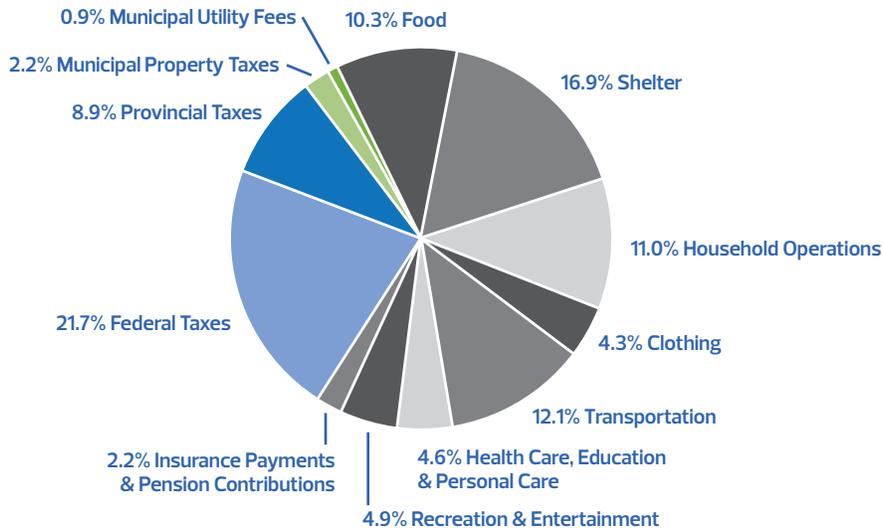
The key to any tax policy decision is to remember that, without corresponding budget adjustments, changes to

taxes for one group has the inverse effect for others. As a result, tax policy needs to be clearly and transparently justified.

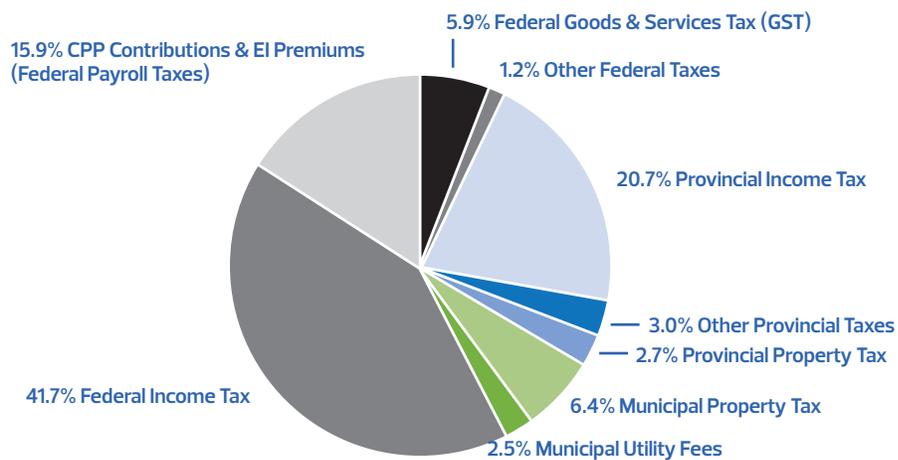
To support future tax policy discussions, this discussion paper has framed the current state in Edmonton, provided high level considerations for future tax policy decisions, and outlined the available tax tools. As Council moves forward with policy ideas, it is important to underline that more work must be done. The best policies are those that have been thoroughly researched, considered and vetted.

APPENDIX A – PROPERTY TAX RELATIVE TO INCOME AND OTHER TAXES

AVERAGE ANNUAL HOUSEHOLD SPENDING IN 2016 FOR A TYPICAL TWO-INCOME, OWNER-OCCUPIED EDMONTON HOUSEHOLD (WITH GROSS INCOME OF \$106,754)



SHARE OF EACH DOLLAR PAID TO THE GOVERNMENT SECTOR IN 2016 FOR A TYPICAL TWO-INCOME, OWNER OCCUPIED EDMONTON HOUSEHOLD (WITH GROSS INCOME OF \$106,754)



APPENDIX C – TAX TOOLS

Business Tax

Council may impose a tax in respect of all businesses operating in the municipality except businesses that are exempt in accordance with that bylaw. Businesses operated by the Crown are exempt from this tax as well. The tax was based on the square footage a business occupied. Business tax was phased out of use in Edmonton from 2008 to 2011. The City of Edmonton no longer utilizes this form of taxation because tracking businesses is a labour-intensive process and collection proves more challenging as businesses dissolve or go bankrupt. In transitioning to property tax, Edmonton's Assessment and Taxation Branch was able to reduce staff and increase collection rates.

Business Improvement Area Tax (BIA)

The responsible Minister may make regulations respecting a Business Improvement Area (BIA) tax and Council may pass a bylaw establishing a Business Improvement Area for one or more of the following purposes: (a) improving, beautifying and maintaining property in the zone; (b) developing, improving and maintaining public parking; (c) promoting the zone as a business or shopping area. There are a total of 13 Business Improvement Areas in Edmonton. City Council approves each BIA budget, but the local BIA Council controls the expenditures.

Although this tax is currently levied on the business owner, an alternative option would be to move the levy onto the non-residential property owner. The property owner would still be able to pass the cost to the tenants. Such a change would require legislative amendments, but this would greatly reduce the administrative costs to the municipality and increase the BIA's taxable base to include vacant lots and derelict buildings. During previous legislative review, this change was supported both by municipalities and the business community.

Community Revitalization Levy (CRL)

A community revitalization levy bylaw imposes a levy on the incremental assessed value of property in a

community revitalization levy area. Revenue raised is put toward the payment of infrastructure and other costs specified in the community revitalization plan. As of 2019, there were three active Community Revitalization Levy areas in Edmonton – Downtown, Quarters and Belvedere. Community revitalization levies hive off future revenue growth in general property tax revenues to address specific area projects. They are successful when development in an area is stimulated in a way it would not otherwise have been had investment not taken place. There is a risk of over-reliance on CRLs, however, as market value increases are also captured within CRL revenues. This can have the effect of shifting property tax burden onto the remaining tax base. CRLs also require provincial approval, as incremental education tax revenue is also absorbed. This reduces the Province's taxable assessment base.

Special Tax

Council can pass a special tax bylaw to raise revenue to pay for a specific service or purpose by imposing taxes in respect of several matters, including a fire protection area tax and a recreational services tax. Specific restrictions do apply, including the restriction that any revenue raised by the special tax bylaw must be applied to the specific service or purpose stated in the bylaw. To impose a special tax, a bylaw must be passed annually and an estimate of the cost of the specific service or purpose for which the tax is imposed must be included. The money raised by the special tax must also be used within the budget year. The notion of a special tax has been discussed in relation to a frontage tax that would charge property owners a tax rate based on each unit of frontage. The application of such a tax might relate to neighbourhood renewal or major road-way repair/maintenance. With that said, risks are associated with this form of tax. If the tax cannot strongly link itself to a specific service or purpose that will benefit the individual paying, a court challenge may emerge to the bylaw with the danger of losing the entire funding stream after the initiation of the work.

APPENDIX C – TAX TOOLS

(CONT.)

Well Drilling Equipment Tax

The well drilling equipment tax authorizes Council the ability to impose a one-time tax in respect of equipment used to drill a well for which a license is required under the Oil and Gas Conservation Act. The responsible Minister makes regulations prescribing the well drilling equipment tax rate. This tax is not utilized in Edmonton as there are relatively few wells within the City boundary.

Local Improvement Tax

Local improvement means a project that Council considers to be of greater benefit to an area of the municipality than to the whole municipality. When a local improvement has been authorized, but either not started or not complete, Council may impose the local improvement tax for one year, after which the tax must not be imposed until the local improvement has been completed or is operational. The City utilizes local improvement taxes for a variety of local infrastructure projects. The biggest of these projects is the ongoing Neighbourhood Renewal initiative.

Community Aggregate Payment Levy

Council is authorized to impose a levy in respect of all sand and gravel businesses operating in the municipality to raise revenue to be used towards the payment of infrastructure and other costs in the municipality. This levy is not utilized by the City of Edmonton and the total revenue would be insignificant.

Off-Site Levy

An off-site levy is a charge imposed at the time of subdivision and/or at the time of development permit to pay for a specific type of infrastructure or facility. The amount of the payment must be proportional to the degree of benefit derived from the infrastructure or facility for which it is being collected. Under the City Charter, what may be included within an off-site levy has expanded.

One common method of establishing an off-site levy is to create a rate by dividing the total cost of a facility by the benefiting area (dollars per hectare, for example). Every development within the benefiting area would pay its share based on the land area being developed multiplied by the established off-site levy rate. This is a straightforward method of allocating costs based on land area. However, the legislation is flexible enough to allow density and intensity of use to also be accounted for in establishing off-site levy rates, but there must be a link between the amount paid and the benefit.

Off-site levies can only be collected to pay for the capital costs of infrastructure and facilities, and cannot include operation and maintenance costs. Capital costs can include land and "appurtenances", which is not defined in the MGA, but might be interpreted to include such things as utility servicing, a parking lot, furniture, fixtures and equipment.

APPENDIX D – RATES, REBATES AND EXEMPTIONS

Beyond the use of tax rates, tax rebates and exemptions can serve similar purposes. The charts below illustrate how the same tax differential can be achieved using different tools.

The first table illustrates a simple property tax model

with one tax rate for both class A and B property. The total budget of this municipality is \$20,000 and the total assessment is \$2,000,000. Given this basic system, the tax rate is calculated by dividing budget requirement by the total assessment to come to a tax rate of 0.01. This results in an even tax distribution split.

TABLE 1.1 – SIMPLE PROPERTY TAX SYSTEM

Property Class	Assessment	Tax Rate	Total Taxes
Class A	\$1,000,000	0.01	\$10,000
Class B	\$1,000,000	0.01	\$10,000

The most common form of tax policy is a split tax rate (such as in the case between residential and non-residential property). The table below maintains the same budget and assessment total, but shifts tax rates to give class A properties a lower rate. However, in so

doing, the class B rate must increase in order to meet the \$20,000 budget requirement. This results in a tax burden shift to class B properties.

TABLE 1.2 – PROPERTY TAX RATE SPLIT

Property Class	Assessment	Tax Rate	Total Taxes
Class A	\$1,000,000	0.005	\$5,000
Class B	\$1,000,000	0.015	\$15,000

The next example displays the effect of a property tax rebate. The table below returns to a simple property tax system with only one rate for all properties types. However, the municipality budgets to provide a tax rebate of \$10,000 to its class A property owners. Still

needing \$20,000 to operate, the municipality must now collect \$30,000 in order to achieve the same budget. The result is a higher tax rate for all property owners, but with the burden ultimately falling to class B property owners.

APPENDIX D – RATES, REBATES AND EXEMPTIONS

TABLE 1.3 – PROPERTY TAX TAX REBATE

Property Class	Assessment	Tax Rate	Total Taxes	Rebate	Actual Tax
Class A	\$1,000,000	0.015	\$15,000	\$10,000	\$5,000
Class B	\$1,000,000	0.015	\$15,000	–	\$15,000

In the final example of a property tax exemption, the municipality effectively eliminates a portion of its assessment base. When the assessment base decreases, the taxable base shrinks and there is a need to increase the tax rate on remaining properties in order

to ensure the same budgeted revenue. In the example below, the total taxes collected remains the same, but the rate has increased. This means those that are still paying taxes must pay more to make up for those who are no longer paying.

TABLE 1.4 – PROPERTY TAX EXEMPTION

Property Class	Taxable Assessment	Exempt Assessment	Tax Rate	Total Taxes
Class A	\$333,000	\$667,000	0.015	\$5,000
Class B	\$1,000,000	\$0	0.015	\$15,000

