



THE WAY WE FINANCE

PROPERTY ASSESSMENT AND TAXATION WHITE PAPER

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INTRODUCTION

The core function of a municipality is to provide vital services that support the public good. These services inevitably involve a cost and the primary tool for addressing this cost is property tax. While the notion of paying taxes has never been popular, taxation is required to provide the infrastructure and services citizens need and expect in a city like Edmonton. If taxation is understood as a given, then the real consideration becomes the appropriate distribution of the tax. In other words, who should pay and how much? These are the basic questions that a taxation jurisdiction must answer, so as to cover costs fairly and equitably.

Property tax dates back to 6000 B.C and has taken on various forms. In contemporary times, a market value mass appraisal model distributes the tax in a fair, equitable and transparent manner. It allocates the cost of government according to ability to pay as measured by property wealth. Simply put, the greater the property wealth, the greater the contributed share in the cost of government.

With a few exceptions, properties are assessed using internationally recognized practices to determine their fair market value. 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.”¹ Once all market values are determined, a tax rate can be applied across a property class to collect taxes based on the value of the property in question. This method ensures a consistent and transparent approach.

Given a flat tax rate across a single class of property, the amount a specific property pays is determined by its assessed value. This approach is considered to be both horizontally and vertically equitable, in that properties of the same value pay the same tax and properties of a higher value pay more (and vice versa). Property assessments and the associated tax rates are made public, which means property owners can compare their respective tax burdens to their neighbour’s in a transparent fashion.

Although municipal services are funded through property tax, property value dictates the tax burden rather than the particular services one citizen may use. In this way, property tax is different from other City revenue sources such as user fees, which are levied based on use. Property tax is known as an *ad valorem* tax (according to value) and uses property value as a proxy for wealth. Even though this feature of property tax is sometimes contentious (a discussion addressed further on), the alternative—taxing citizens entirely on the services they use—would be regressive with respect to income and almost impossible to administer. And so, generally speaking, taxing based on property value has proven over time to be socially equitable, transparent, easily understood and relatively efficient to administer.

What follows in this paper is an overview of the property assessment and taxation system in Edmonton and Alberta. The paper is essentially divided into two parts: Part I focuses on a detailed understanding of the system’s workings and addresses both its strengths and weaknesses. Part II looks at five major themes of relevance to The City of Edmonton: (1) tax relief measures, (2) the difference between a market value and a regulated assessment approach, (3) an analysis of property tax policy, (4) a review of tax exemptions and their consequences, and (5) considerations in a big city context. These themes consider policy questions to be contemplated and discussed.

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

PART I: PROPERTY TAX AND THE MARKET VALUE MASS APPRAISAL ASSESSMENT APPROACH

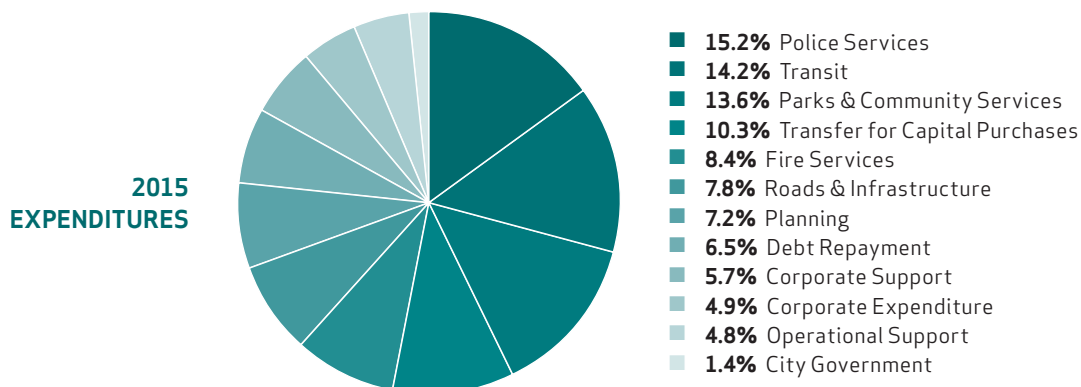
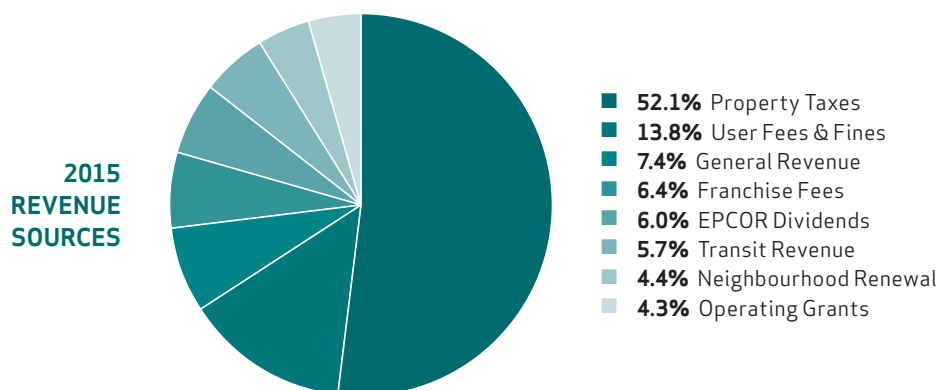
1.1 EDMONTON CONTEXT

Property tax forms the backbone of municipal finance, generating in excess of \$1.3 billion for The City of Edmonton in 2015. With all other revenue streams taken into consideration, property tax has consistently provided more than 50 per cent of the City's operating revenue. Property tax helps fund a variety of municipal services, including, but not limited to: fire and police protection, transit and road maintenance, neighbourhood renewal, recreation facilities, community services and libraries.

1.2 ROLE OF PROPERTY TAX

Property taxes are the single largest operating revenue source for the City. Other sources include user fees, fines, permits, EPCOR dividends, franchise fees and government grants. Having a variety of revenue streams helps to diversify and strengthen the City's financial position. User fees, for example, help to partially recover municipal costs by implementing the user-pay principle where varying degrees of private benefit from public services can be identified. By contrast, property tax aims to equitably and fairly distribute the cost of public services that create a clear public benefit.

The original focus of property tax was to equitably distribute the costs of basic municipal service and infrastructure needs across the property owners within the municipality, whereas social welfare or income redistribution initiatives have traditionally been addressed using the income tax base. However, that focus has changed over time as a variety of social development initiatives—once completely at the discretion of the federal and provincial governments—have been undertaken by municipalities and the municipal property tax base. While the City has access to other revenue tools (Appendix E), it has no access to the income tax or consumption taxes (for example, sales tax) that create significant revenue streams for the federal and provincial governments. This puts increased pressure on the property tax base as local governments assume more responsibility for the social programming that has traditionally been provided by other orders of government.



1.3 ASSESSMENT AND TAX 101

The relationship between assessment and taxation is complex. Property assessments are ultimately prepared to levy a tax, but the assessment profession works independently from tax collection or tax policy. The purpose of assessment is to create a fair, clear and certain set of rules with which to objectively determine the value of properties of a similar class or type within a municipality—to create a level playing field. This approach stresses consistency in order to ensure that the tax impact on assessed persons with similar properties is equitable. Tax policy, on the other hand, empowers municipalities to allocate the taxation requirement between property types for the purpose of providing municipal services, goods, programs and activities that councils deem fair and reasonable.

Assessment values strive to accurately reflect the market value of assessed properties. This ensures the consistency needed to enable elected officials to make fair and informed decisions on tax policy. When properties are incorrectly assessed or are excluded from the market value methodology, distortions emerge and the fairness and transparency of the system can be compromised. For example, an inequity would emerge if two identical properties, taxed at the same rate, were assessed differently. This assessment distortion inadvertently shifts the tax burden to the more highly assessed property without any intention to do so through tax policy.

For the reasons mentioned above, a clear and transparent assessment methodology is critical in ensuring the tax burden is distributed fairly and equitably. Mass appraisal market value assessment has three internationally accepted approaches to determine fair market value.

1. the *sales comparison approach* that analyzes sales of similar properties to determine value.
2. the *income approach* that looks at the rental income a property receives to determine value.
3. the *cost approach* that considers the cost to construct the improvement, less depreciation, and adds the land value.

In addition to the three approaches to market value, some properties are assessed using a regulated approach.² Regulated properties are assessed using methodologies prescribed by the provincial government and tend to be difficult to assess because they seldom trade on the open market, cross municipal boundaries and/or are of a unique nature. The four types of regulated property in Alberta are farmland, linear property, machinery and equipment, and railway property.

It has to be noted that there is controversy surrounding the assessment of regulated property, since market value assessments can often be substantially higher than regulated assessments. The greater the disparity, the greater the tax burden inequity. Land in the City that is farmed, for example, is subject to a regulated assessment that is less than one per cent of its market value. The difference can be stark when comparing two properties side-by-side, one which is farmed and one which is not. While both could essentially be open fields, one property owner would pay significantly more than the other based on the disparity between market value and regulated assessment. When a disparity is present, tax policy begins to creep into assessment methodology. In some cases, this disparity can be justified; in others, it cannot. More information on this topic is discussed in Policy Theme 2.

1.4 PRINCIPLES OF ASSESSMENT

A pure assessment system based in market value helps inform and guide smart tax policy. It lays the groundwork to ensure the property tax burden is shared appropriately among all applicable tax payers, which then leaves it to policy makers to adjust tax weighting based on policy decisions. Some property taxes are levied municipally while others, such as education tax, are levied provincially. To guarantee the assessment process works, Alberta's assessment system has to continue to meet the internationally accepted standards and principles of assessment and valuation policy.³

² More information on the three approaches to market value and the kinds of regulated assessment are detailed within Appendix A – Assessment Detail.

³ International standards set by the International Association of Assessing Officers and represent a consensus in the assessing profession, which have been adopted by the Executive Board of the International Association of Assessing Officers.

Implicit within an *ad valorem* system is the premise that ability to pay is determined by property wealth. Assessments are updated annually to ensure an ongoing fair distribution of the property tax burden. Alberta's current system was introduced by provincial legislation in 1995 and implemented in Edmonton for the 1999 taxation year. The market value system is regarded as the best property assessment mechanism available.⁴ Of course, periodic reviews and updates that account for changing economic, technological and social realities are necessary to make sure that it remains current. With that in mind, there are certain assessment principles that should be always be kept in focus.

PRINCIPLES OF ASSESSMENT

1) FAIRNESS, EQUITY AND ACCURACY

The valuation standard for all properties sharing the property tax burden should be the same. The international valuation standard considered to be the most appropriate for this purpose is market value. Fairness, in this context, is not based on income level, but accurate assessments.

2) OPENNESS AND TRANSPARENCY

The City should strive to provide easy access to assessment information while maintaining a consistent and clear market value approach. Furthermore, the purpose and use of the tax should be clear. This principle also recognizes that exempting particular properties does not remove the tax burden but simply shifts it to other taxable properties. In the interests of transparency, all exemptions should, whenever possible, be exemptions from taxation not assessment.

3) LEGISLATIVE CLARITY, EFFICIENCY AND STABILITY

The legislation must clearly articulate provincial government policy while maintaining an efficient and stable assessment and taxation system.

4) ADMINISTRATIVE CONSISTENCY, EFFICIENCY AND STABILITY

There must be a clear separation between the policy setting mandate of the provincial government and the administration of the assessment and taxation system. Policy is set by elected officials while administration ensures the policy is consistently and efficiently applied.

⁴ This is based on analysis by the International Association for Assessing Officers.

1.5 TAX RATES AND CLASSES

The City of Edmonton's property assessment and tax system is dictated in large part by the *Municipal Government Act* (MGA) and its associated regulations. Provincial legislation outlines the assessment method, the parameters of good assessment practice and the scope of the municipality's taxation authority. Even though the City Assessor has to follow provincial legislation when it comes to assessing property, City Council does have some flexibility in how it implements tax policy through tax rates. At the basic level, Alberta's tax rates are broken into four assessment classes:

1. Residential
2. Non-Residential
3. Farm Land
4. Machinery and Equipment

These four classes delineate how municipalities can divide the tax burden across different property types. Today, approximately 50 per cent of the tax base is collected by the residential assessment class and 50 per cent collected by the non-residential assessment class. In The City of Edmonton, farm land makes up a fraction of a percent and Machinery and Equipment is not taxed.⁵

Municipal Councils have the authority to sub-divide the residential class in any way it considers appropriate, but can only divide the non-residential class into vacant and improved parcels. In theory, a vacant non-residential class could be created to promote development. This would be accomplished by either increasing or decreasing the vacant non-residential tax rate in relation to the improved non-residential class. However, in practice, the subdivision of the non-residential class is difficult to enforce because the definition of an improvement is so broad that it could even include basic upgrades like a chain-link fence or asphalt. Tax policy is complex and sometimes contentious. It will be discussed in greater detail in Policy Theme 3.

1.6 EDUCATION TAX

In Alberta, property tax is used as a revenue source both municipally and provincially. In 2015, the provincial education tax was \$2.2 billion and was equivalent to 32 per cent of primary education funding. Assessment information is provided by all municipal jurisdictions to the Province and, based on that information, the Province requisitions each municipality a portion of the total cost.⁶

The discussion around education tax is important and relevant here for several reasons. First, education tax increases the total property tax bill for all municipal property owners. In Edmonton, this represents approximately 30 per cent of the residential tax bill and 18 per cent of the non-residential tax bill. The impact of this tax burden reduces the tolerance for municipal tax levy increases. Second, and no less important, the presence of education tax means that property exemptions or decisions regarding regulated property, which is predominantly located outside of Edmonton, affect the taxes Edmonton residents pay. Because of the way tax rates are derived, exemptions or tax reductions within regulated assessments do not make the tax burden disappear. The same revenue is still required, which means that the tax burden is simply transferred to the remaining property tax base. This makes the accurate assessment of property (including exemption status) across Alberta a matter of interest to Edmonton. Details of how this redistribution works is detailed in the budget-based approach to tax rates.

⁵ The tax status of machinery and equipment will be discussed under Policy Theme 2 – Market Value vs. Regulated Assessment.

⁶ To proportion the Provincial education tax levy equitably, the Province utilizes an equalized assessment methodology. More information on equalized assessment can be found in the Government of Alberta's Guide to Equalized Assessment:
http://www.municipalaffairs.alberta.ca/documents/as/Guide_to_Equalized_Assessment.pdf

1.7 THE BUDGET-BASED APPROACH TO TAX RATES

It is fair to say that the relationship between taxes and property assessments is often misunderstood by the public. The root of this misunderstanding lies in a belief that the City only increases the tax rate, which automatically results in tax increases when there are assessment increases. This incorrect assumption can lead to speculation that assessment authorities are intentionally over-assessing property in order to bring in additional revenue for the municipality. In practice, however, this rate-based approach is not utilized in Canada.⁷ The more typical approach is the budget-based approach, which is used in all Canadian provinces and most American jurisdictions. Under this approach, when market conditions fluctuate, revenues remain stable and predictable.

The following two formulas illustrate the budget-based approach:

1. Tax Rate Formula (Budget-Based)

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

2. Individual Property Tax Formula

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

Formula 1 is the method by which the tax rate is determined and Formula 2 indicates how that tax rate affects an individual property owner.

Formula 1: In the budget-based approach, the tax rate is the result of the City's budget divided by the total market value of all assessed property within a given property class. Using this approach, City Council is able to set the City budget based on need with the tax rate adjusting automatically. In contrast to the tax rate approach, the budget-based approach is unaffected by market forces. If the market is good, the tax rate decreases to compensate for increasing property value. If the market is poor, the tax rate increases to compensate for decreasing property value. In both cases, the municipality collects exactly what is budgeted. Municipalities can, of course, adjust budgets to acknowledge economic realities, but this is an indirect influence. The budget-based approach results in both a stable and predictable revenue source for municipalities.⁸ The takeaway is that the City's budget is what drives the tax rate, as opposed to the City creating a budget based on the revenue it expects to gather through taxation.

Formula 2: From a property tax payer perspective, the total tax paid is derived by multiplying the individual property assessment by the tax rate. How the total tax bill changes for an individual taxpayer from year-to-year is based on two factors: (1) the budget change and (2) the individual property assessment change in relation to the other property assessments within the class.

All other things being equal, a budget increase will result in a tax increase. However, a property assessment increase alone does not automatically mean a tax increase. As noted earlier, when the market is good and property values are increasing, the tax rate decreases to compensate (so long as the budget remains the same). So, while the individual's property assessment goes up, the tax rate, by which it is multiplied, can correspondingly go down. Because of this relationship between market changes and the tax rate, it is important for the individual property owner to know how their property value has changed in relation to the average assessment change within that class. If, for example, an

⁷ In a rate based approach, the per cent change to a tax rate is fixed. This removes municipal authority to set a budget for the property tax and can result in large changes to a municipality's requisition depending on the real estate market – when the market is good, both taxes and municipal budgets are high, when the market is poor, taxes are low, but so too is the municipal property tax requisition. This methodology is used in some American states, but most notably in California. A more detailed explanation of the difference between the rate-based and budget-based approach is included in Appendix B.

⁸ The introduction of Community Revitalization Levies (CRLs) adds a complicating factor to this approach. With CRLs, it is possible for market changes to reduce the City's general revenues because additional money is being reallocated to the CRL budget. Because the use of CRL funds is restricted, reallocations to that budget effectively reduce what is collected within general revenues.

individual property value goes up five per cent, but the average assessment increases seven per cent, the property owner would see a lower than average tax increase. In contrast, if an individual property value goes up five per cent, but the average assessment increases only two per cent, the property owner would see a higher than average tax increase.

Understanding the relationship between an individual property's assessment and the overall assessment class is essential to understanding tax burden distribution. While residential and non-residential property each pay approximately half of the tax burden, the distribution of tax burden within a single assessment class can shift depending on market forces. By way of illustration, consider the example of shopping centres and downtown office towers. Both of these property groups are within the non-residential assessment class, but the market shifts can be substantially different. As assessment values are updated annually, the value of downtown office towers may decrease while the value of shopping centres might increase. When averaged together, the assessment base change would be somewhere between these two major property groups, with shopping centres having a greater assessment increase and paying a greater proportion of the tax burden and office towers having a lesser assessment and paying a lesser proportion of the tax burden. It comes down to the value of your property in relation to the value of all the properties in your assessment class.

As assessed values change and the burden shifts between property types, it is important to stress that the municipality does not gain additional revenue. The total revenue collected, as mentioned earlier, is determined up-front by the budget. Assessment changes simply indicate who pays how much of the total amount of tax revenue needed to balance the budget. Assessing property fairly, therefore, is not about securing additional municipal revenue, but rather making sure that no property owner is overburdened with an unfair tax share.⁹

If a group of properties is under-assessed, the tax rate increases—causing a larger burden of tax to shift to groups of properties that are accurately assessed. The Government of Alberta has instituted an annual audit procedure across the province to ensure certain basic standards of fairness and equity are met, but it has also instituted tax policy within the assessment process that intentionally under-assesses regulated property types (a practice that will be discussed in greater detail later in this paper). This matter is relevant both between property types within a municipality and also between municipalities due to the existence of education tax.¹⁰

Alberta's model requires that assessments be updated annually. This approach results in regular tax burden shifts between property groups within a single assessment class, but it also means no one property group is over-burdened for multiple years. Not all Canadian jurisdictions update their market values annually, but updating annually is considered the fairest model.

It should be pointed out that while assessment values are updated annually, it would be cost prohibitive for the City of Edmonton assessors to visit all 370,000+ properties each year to review their condition. So, while reassessments are performed annually, property re-inspections take place less often.¹¹

⁹ Visual depictions of the difference between a rate-based approach and a budget-based approach are included within Appendix B.

¹⁰ More detail on this inequity is discussed in Policy Theme 2 – Market Value vs. Regulated Assessment.

¹¹ The City of Edmonton utilizes various techniques to re-inspect property including sales inspection, physical inspection, building permits and aerial photography.

1.8 PROPERTY TAX TOOLS – EXEMPTIONS, SUB-CLASSES, CIRCUIT BREAKERS AND DEFERRALS

The basic assessment and tax system used by the City of Edmonton is quite straightforward, but there are also a variety of tools available to municipalities that allow them to vary their property tax policy in certain situations. These tools include exemptions, tax sub-classes, circuit breakers and deferrals.

Exemptions

Properties can either be made partially or fully exempt from taxation. A general rule of property tax systems is that all property is taxable unless a specific exemption exists. When property is exempted from taxation, the taxable assessment base decreases and the tax rate increases to compensate. This results in a burden shift from the exempt property to the remaining tax base. Because of this, as well as the added costs of administering exemptions, the reason for the exemption needs to be both justified and transparent. Justifying an exemption is most often rooted in a public good argument, but exemptions are also common for government property or where the assessment of the property in question is not practical (personal property).¹² In Alberta, most exempt property is defined by the *Municipal Government Act* and associated regulations, but City Council does have the authority to exempt any non-profit organization or machinery and equipment. Exempting non-profits through this mechanism does not, however, reduce the provincial education tax requisition. Council also has the option to cancel taxes after the fact – though this latter option is less preferable than a clear policy-based exemption.

Tax sub-classes

Tax sub-classing is one of Council's most powerful tools to control tax policy. In creating tax sub-classes, the municipality is able to apply varying rates to particular property types. As discussed previously, Council has the authority to divide the residential sub-class in any way it deems appropriate, but it has limited options for non-residential property. In Edmonton, for example, the residential rate has been divided to place a slightly higher burden on properties with four or more dwelling units on an individual title. The justification for such a sub-class relates to the income-producing nature of rental properties that differentiates them from regular residential, owner-occupied properties. A variety of other policy options are available through the sub-classing of residential property. These will be discussed in Policy Theme 3 – Tax Policy.

Circuit breakers

Circuit breakers provide households with direct property tax relief that increases as household income declines. Similar to a circuit breaker that shuts off the electrical current when a system is overloaded, a tax circuit breaker is triggered when a homeowner's ability to pay tax does not match up with their property wealth. The cost of providing this relief is shifted to other taxpayers via broad-based provincial or federal taxes. In the past, both the City of Edmonton and the Province of Alberta provided a grant to low-income senior property owners, but this option was discontinued with the introduction of the Seniors Property Tax Deferral Program in 2013.

Deferrals and Cancellations

The final tool available is property tax deferral or cancellation. Deferrals delay, but do not excuse, taxes which accrue until a defined trigger point—usually occurring when the property is sold or the estate settled. Depending on the system in place, deferred taxes can be subject to interest charges, but not penalties, and the property is not subject to forfeiture proceedings. The Province of Alberta currently utilizes the Seniors Property Tax Deferral Program to address the concerns of seniors on fixed incomes. Once on the program, property taxes are paid for by the Province and applied as a property lien using the government's low interest rate. This method allows property owners to unlock their property wealth to pay for the property tax. Addressing tax relief measures for low-income households is discussed under Policy Theme 1. Property tax cancellations are also under Council's authority and can be applied at its discretion to specific properties or classes of properties in either a full or partial manner. Council should always exercise caution when using either of these tools so as to not set untenable precedents.

¹² Exempt government buildings typically pay a grant-in-lieu of taxes to municipalities.

1.9 PROPERTY TAXES AND MUNICIPAL SERVICES

As mentioned earlier, property assessment and tax utilizes a market value mass appraisal system to tax property according to its value. This approach has certainly been challenged in the past, primarily in that some would argue it is inequitable in terms of service consumption. Put simply, someone might argue that they should not pay for a certain service, such as schools or roads, if they do not use it. However, this argument represents an essential misinterpretation of an *ad valorem* (according to value) system of taxation, which creates equity through the ability to pay as represented by property wealth. By using the *ad valorem* system, a municipality is able to collect taxes in a socially equitable fashion – those that have greater property value pay a proportionately higher amount of the tax burden. This is very similar to the way income tax operates. Income tax is not collected on the services an individual tax payer uses, but is collected progressively based on income. Because there is only one tax rate per assessment class or sub-class, the property tax system is generally regarded as a proportionate tax that increases at a flat rate as property value increases.

The case for the equity argument can be made further by imagining what the community would look like if each taxpayer received services directly in proportion to their tax bills—the services in higher valued neighbourhoods would be superior to others, a state of affairs that would go against the principle of supporting the public good equitably for all citizens.

A second argument in favour of the *ad valorem* methodology is its simplicity and transparency. Property assessments and the associated tax rates are publicly available so that any individual property owner can compare his or her tax burden to that of his or her neighbour. The methodology for assessing property remains the same, so property owners are assured an equitable approach. To levy taxes based on services used would not only be difficult to administer, but would be impossible to assess fairly. How, for example, would a property be taxed that never used fire or police services compared to a house that did? Would a house one block from a transit stop be taxed more than a house two blocks from a transit stop? What if the home owner did not use transit service? Not only would it be difficult to administer fairly, but the variation of tax rates based on service use would quickly multiply to the point where no one would know how much another citizen was contributing.

1.10 RELATIONSHIP BETWEEN RESIDENTIAL AND NON-RESIDENTIAL ASSESSMENTS AND TAX

In the literature that analyzes municipal approaches to property tax, there is a great deal of interest in the relative contribution between residential and non-residential property types. This ratio is certainly relevant, but too narrow a focus on this factor can cause misunderstandings amongst policy analysts since it presents an incomplete picture. Analysis typically focuses on two major indicators that demonstrate the varying contributions of the residential and non-residential base: the tax rate ratio and the relative contribution of each class to the overall budget. Beyond these indicators, however, are several other relevant data-points that help create a more rounded analysis.

In Edmonton, the residential class and non-residential class each contribute approximately 50 per cent to the overall property tax requisition. Despite similar overall contributions, the tax rate ratio differs because the residential assessment base is approximately three times larger than its non-residential counterpart. This results in a non-residential to residential tax rate ratio of approximately 3:1 (non-residential property owners pay approximately three times as much in taxes per dollar of assessed value).

The City of Edmonton has no set policy on the tax rate ratio or the relative contribution of the two major assessment classes, but three factors affect how the burden is distributed: real growth, market value changes and tax policy decisions. A detailed analysis of how these factors interact with the tax rate ratio and contribution ratio is included in Appendix C, but an overview of the factors and their influence is presented on the next page.

Real Growth

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. 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 result in both the tax rate ratio and the relative contribution of the assessment classes changing. For example, if more growth occurred in the residential class, the relative tax burden would shift to the residential class. For Edmonton, this would mean the tax rate ratio gap would tighten (growing closer to 1:1 instead of 3:1) and the contribution of the residential class would increase beyond the 50 per cent.

Market Value Changes

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. As a necessary side-effect, however, the tax rate ratio does change. By way of an example, if the market value of the residential class increased more than that of the non-residential class, the tax rate ratio would tighten (growing closer to 1:1 in the Edmonton context, instead of the current 3:1 ratio).

Tax Policy

The final factor that can influence the tax rate ratio and the relative contribution of assessment classes is tax policy. While Edmonton has no formal or established tax policy with regard to the tax rate ratio and relative contributions, decisions on “education tax room” do affect distribution.¹³ When a decision is made to adjust the revenue from one class to collect additional revenue, but this adjustment is not done proportionately for each of the two classes, the City is essentially increasing the burden on a single property tax class. Such a change will affect both the tax rate ratio and the relative contribution of each class. So if, for instance, the City collected additional revenue on the non-residential side without a proportionate increase to the residential side, the tax rate ratio would widen (growing greater than 3:1) and the contribution of the non-residential class would increase beyond 50 per cent.

FACTOR	DOES IT HAVE AN EFFECT ON:	
	Tax Rate Ratio	Relative Contribution
Real Growth	✓	✓
Market Value Change	✓	✗
Tax Policy	✓	✓

Recognizing how these three factors influence the tax rate ratio and the relative tax contribution is critical in performing any comprehensive analysis. A more detailed discussion of residential and non-residential tax burdens can be found in Policy Theme 3.

¹³ “Education tax room” is a term used to describe the percent increase to the province’s education tax in proportion to the percent increase to the municipal property tax. When the province’s percent increase is lower than the municipality’s, the municipality can choose to increase its rate to achieve a combined tax increase equal in percentage to the one the municipality had originally approved. This is, in all effects, a municipal tax increase, but is termed “moving into education tax room” whenever the municipality chooses to exercise this option. As a simple example, if the municipal tax increase to non-residential was five per cent, but the provincial tax increase was only two per cent, the combined rate would be lower than five per cent. A municipality can subsequently choose to increase its tax to greater than five per cent to achieve a combined increase of five per cent. See Appendix D - Historical Use.

1.11 STRENGTHS AND WEAKNESSES OF THE PROPERTY TAX

In Edmonton, a budget-based property tax using annually updated market value assessments provides the City with a stable, reliable and predictable revenue source. Regardless of market shifts, this budget-based approach can adjust tax rates to make sure the projected revenue requisition is always collected. This does not disqualify the need or value of diversified municipal revenue streams, but it does emphasize that property tax is a reliable backbone for municipal finance.

There are various other characteristics of property tax that can be seen as both strengths and weaknesses. Property tax, for example, is an extremely transparent form of taxation. Assessment information indicates the value of property according to a market value standard and any property owner can compare his or her assessment his or her neighbour's. Tax notices also provide a transparent detailing of the requisition levied upon a single property owner. This is in stark contrast to other forms of taxation collected over time in small amounts as part of the purchase cost (sales tax) or which are withheld from pay throughout the year along with other items (income tax). This level of transparency is a clear benefit of property tax, as is the improved government accountability that comes with that transparency.

But, ironically, this transparency also makes property tax one of the least popular forms of taxation. Lump-sum payments (the payment form most property owners choose) make the magnitude of the tax more apparent despite only representing a small fraction of the overall tax burden a citizen pays.¹⁴ Also, the assessment process itself is often misunderstood, in that an assessment using mass appraisal is not the same thing as an individual property appraisal or a sale price.

Another benefit to the property tax system is that it is easily enforceable, simply because the taxable asset is real property and cannot easily be moved to another jurisdiction. It would be difficult to move one's house to off-shore account. Taxes are secured by way of the property, and a lien or, in the extreme case, sale can take place on a property with outstanding taxes to ensure recovery. Assessing only real assets of land and improvements allows the assessment base to be easily identified, and makes taxes difficult to avoid. This results in reasonable tax compliance and excellent collection rates, both of which help make the City more efficient and cost-effective at an administrative level.

Of course, the fact that property taxes are difficult to avoid also makes them disliked as there are few "tax loopholes". The relative ease of collecting property tax is also somewhat off-set by the upfront administrative cost of preparing quality assessments for all properties on an annual basis. This differs from income and sales tax where front-end administrative costs are low, but compliance costs are high.¹⁵

In some cases, market value can be extremely difficult to apply to particular property types. Properties that do not sell become more challenging and for some properties, such as farmland, a disconnection occurs between their market value (what they would sell for) and their productive value (what they can produce). These cases are rare, but worth keeping in mind.

It should also be added that municipal councils in Alberta actually have quite restricted authority over the property tax system. The flexibility of creating split tax rates is limited to residential property; as tax rates for non-residential property are limited to two by the provincial government. Sometimes this can be offset by legislative reform, but it requires big cities to make the case for their maturity and financial responsibility.

¹⁴ Property tax per household accounts for approximately six per cent of the total tax burden across Canada. In Edmonton, the average household municipal tax bill is a little over \$2,000. Income tax alone is closer to \$15,000 per average household (Statistics Canada, 2013).

¹⁵ The City of Edmonton's Assessment and Taxation Branch 2015 budget was \$21.45 million. That same year, the branch collected over \$1.75 billion in property tax (including education tax).

Another challenge of the property tax system is that while it can grow with the economy, its ability to adapt is much slower than income tax. When the economy is booming, income tax will immediately increase. Property tax does not recognize growth until new construction integrates new homes and non-residential properties into the tax base. On the other hand, this weakness of property tax can also be a strength during economic downturns. In these cases, property taxes remain a stable revenue source.

Property tax is also sometimes criticized for taxing a fixed asset repeatedly whether or not that asset produces income. Many arguments can be made to counter this view. First, infrastructure maintenance is an ongoing expense of any property and just as private infrastructure maintenance comes with a cost, so too does public infrastructure maintenance. Second, services provided by the City, such as fire and police protection, are in many ways not unlike paying for an insurance policy – the service is good to have, but it is hopefully never needed. Finally, property taxes are in the end actually very inexpensive considering the incredible range of benefits received. In 2015, the average household paid approximately six dollars a day to receive the full range of municipal service covered by property tax. When considering property tax through these lenses, providing these services publically is considerably more cost effective than having each citizen pay for private service (or not having them at all, which would change the nature of the community altogether).

The final argument against property tax criticizes the premise that property value is an appropriate reflection of a property owner's ability to pay. This argument is often why property taxes are labelled 'regressive'. Understanding this aspect of the discussion is important and it forms the first section of Part II: Policy Themes.

Having reviewed the current state of Assessment and Taxation in Edmonton, it is valuable to consider some important policy themes. This conversation has an eye to creating an informed platform for future discussions. The Policy Themes section addresses some of the most significant and controversial elements of assessment and taxation and acts as a valuable starting point for policy discussions.

PART II: POLICY THEMES

2.1 POLICY THEME 1 – TAX RELIEF MEASURES FOR LOW INCOME HOUSEHOLDS

One of the primary criticisms of the property tax system is that it is regressive in respect to household income, because it does not take into account a property owner's ability to pay. This disconnect usually occurs when a property owner has high asset wealth but low income (such as when a senior owns a valuable house but is on a fixed income). The basis for equity in a property tax system is the market value of a property, but the criticism is that this equity is thrown into question when a citizen claims an inability to pay based on income level. It is a complicated issue, and understanding the full scope of the problem is central to creating good tax policy.

The first step in addressing this criticism is recognizing that for the vast majority of homeowners there is a clear link between their homes' value and their ability to pay property tax. Most homeowners purchase their homes with a mortgage that takes account of annual household income and expenses (including property tax). Someone purchasing a property should be (and usually are) in a position to afford the ongoing costs associated with that property. Property tax tends to represent a small portion of the total tax burden a household pays, and subsequent increases to tax levels are at the discretion of City Council.¹⁶ This matters because during the budgeting process Council is acutely sensitive to calls for reasonable tax increases. While many citizens believe that market value increases in their home are also to blame for tax increases, market value shifts actually have no impact on the assessment class or total requisition.^{17, 18}

In stating that the issue is not widespread, it is still absolutely true that examples can be found where ability to pay does not match with property wealth, such as in the typical example mentioned earlier of a senior on fixed income trying to remain in his or her home. In these cases, the property tax system is not without remedies. A circuit breaker, or income-based tax relief, is a mechanism widely used across the United States to address the income gap.¹⁹ This mechanism provides a grant to select property owners to off-set the tax burden.

Given these options, how tax relief is provided should be carefully reviewed. While seniors are often the primary target of such tax-relief measures, obviously not every senior is in a low-income position. Furthermore, seniors on fixed incomes are not the only social group who may be in need of assistance. Providing a special tax rate geared just toward home-owning seniors would not acknowledge the struggles of other property owners on low income, not to mention those groups who are not even sufficiently well-off to own their own home (low-income renters). Ability to pay rather than age is likely a more accurate measure of where relief should be provided. Applying a broad-based seniors' discount, therefore, is not a particularly fine tool for addressing questions of income in relation to property ownership.

If circuit breakers are considered, a few challenges should be kept in mind. First, distributing a grant based on income requires access to personal income information—something a municipal taxing authority generally cannot access; which is why this kind of income redistribution requires support from the provincial or federal level of government. A second challenge is that providing a grant to low-income homeowners does nothing to address the lowest income-bracket of citizens who do not even own property. Third, grants of this nature are often ineffective both administratively and in impact—they can cost millions of dollars to operate, but might only provide minimal benefit to tax-payers. This was the case for the City of Edmonton's former Seniors Homeowner Grant Program.

¹⁶ Property tax per household accounts for approximately six to eight per cent of the total tax burden across Canada. In Edmonton, the average household municipal tax bill is a little over \$2,000. Income tax alone is closer to \$15,000 per average household (Statistics Canada, 2013).

¹⁷ This is discussed in detail in The Budget-Based Approach to Tax Rates section.

¹⁸ Market value shifts can have an effect on an individual's tax burden – particularly when their market value change is greater than the average. This, however, does not change the amount the City collects.

¹⁹ These grants are typically state-driven. More information on circuit breakers is discussed in the Lincoln Institute of Land Policy's paper entitled "Property Tax Circuit Breakers", published in 2009.

In 2013, the grant was just \$89 per household. At times in its history, it was as low as \$16. If a municipality were to consider meaningful assistance for all relevant low-income citizens, the costs of such a program would be significant. Considering these challenges tells us a lot about how difficult it is for a municipal government to address income redistribution. In general, meaningful income redistribution is best accomplished through the provincial and federal levels of government, simply because they possess information municipalities do not have.

As alluded to earlier, the challenges municipal policy-makers face in negotiating the gap between property wealth and the inability of some to pay property tax can create anxiety around the system, which can then lead to the occasional argument against using property tax altogether as a revenue tool. On top of some of the justifications noted earlier, the International Association of Assessing Officers has argued quite succinctly and logically in favour of property tax:

Historically, ownership of property has been highly correlated with, and at times was the only measure of, wealth. In modern society, however, income is considered the closest measure of ability to pay, and the link between property and wealth has become less obvious. However, one has only to note the availability of loans that use property or equity in property as collateral to recognize that the link to wealth and ultimately to income still exists. Businesses may be unprofitable and not currently generating income. Underdeveloped land may be idle and have no income stream. Few would deny that either of these assets has value. However, property is owned in anticipation of future benefits, and courts have generally ruled in favor of zero or minimal value only when no future use can reasonably be anticipated. It is not unrealistic, therefore, to suggest that property still is a form of wealth and that only the property tax enable this wealth component to be used to pay for costs of government... without a property tax, some sectors of society with wealth would be exempt from participation in the costs of government. A balanced tax structure demands a property tax component.²⁰

In other words, property tax is a reasonable and valuable component of the overall taxation landscape. There is no doubt that, despite its imperfections, property tax is a mechanism that offers access to a significant portion of wealth within society. From an economic standpoint, owners with higher property values have greater wealth in the form of unrealized capital gains, which may be convertible to income in various ways, some of which do not require loss of property.²¹ The Government of Alberta currently addresses the issue of high asset wealth relative to low income through the Seniors Property Tax Deferral Program, which allows eligible senior homeowners to defer all or part of their property taxes through a low-interest home equity loan with the Alberta government. Certainly, municipal policy-makers can and should consider alternatives to address this asset wealth/low income issue, but any such discussions should take place within the context of other government-led assistance and income redistribution programs.

RELEVANT POLICY QUESTIONS

1. Should municipalities be involved in addressing the property wealth to income gap?
2. If so, what policy option should be pursued and what should the basis of such programs be (age/income)?
3. What amount of benefit is sufficient to address the property wealth to income gap?

²⁰ International Association of Assessing Officers, "Standard on Property Tax Policy", International Association of Assessing Officers, January 2010, p. 7.

²¹ "Standard on Property Tax Policy", p. 12.

2.2 THEME 2 - MARKET VALUE VS. REGULATED ASSESSMENT

Despite the fact that a vast majority of properties are assessed through a market value approach, some are assessed utilizing a regulated approach. The assessment practice around regulated property is dictated by the Government of Alberta and is used when the market value approach is considered inappropriate or when property types require a high uniformity across municipal boundaries.

Regulated assessment has also been used by the Government of Alberta as a form of tax policy, a practice that actually runs counter to the principles of assessment. Regulating the assessment of particular property classes can distort the fairness of a property tax system. When market value is a common denominator across all property classes, a government can distribute the tax burden fairly. But once a property is assessed using a regulated approach, that common denominator is lost and equity can be compromised. The regulated assessment of farmland in Alberta is on such example. Since 1994, the assessment per acre of farm property has remained unchanged. With market values continuing to increase, a clear burden shift has taken place away from farmland property owners onto all other property owners. Tax rates can be adjusted, of course, but without a clear assessed market value, the basis of tax rate increases is lost.

Regulated properties can also be updated to account for market value changes, but this has not happened with farmland in Alberta. Why? Simply because the Government of Alberta has made it a clear policy position to keep taxes low for farmers. While it is not inherently the responsibility of an assessment profession to recommend policy direction, it has repeatedly been argued that tax policy should take place through tax rates rather than assessment adjustments.²² Providing tax incentives or implementing tax policy within the assessment system makes that system less transparent and therefore less effective. If all property were assessed at market value and tax rates differed between property types, property owners could clearly see how their tax rate differed from other property owners. In other words, it would bring tax policy into the light, rather than hiding it within assessment valuation processes.

Within a big city context, regulated farmland rates also have a second major consequence: the distortion of development costs and the promotion of outward, low density, urban growth or “sprawl” (the kind of growth that runs counter to many of the City’s goals and objectives, and which has various unwelcome fiscal, social and environmental consequences). In Edmonton, a single acre of land in downtown would sell for millions of dollars. That same acre of land in Edmonton’s growth areas, often called “green fields”, sells for between \$35,000 - \$375,000. Although there are clear market indicators of the land’s value, developers purposely maintain farming activity on development land to claim the regulated assessment value maximum of \$350 an acre. This effectively reduces property tax holding costs for prospective developers in suburban areas to near zero. With low holding costs of suburban green fields, there is less incentive to purchase land in the inner core for redevelopment because the annual tax rates before development and resale are substantial. In other words, developers are using the regulated approach in ways it was not meant to be used.

The second major regulated assessment type with tax policy complications relates to industrial property. This includes linear property (such as oil and transmission lines) that runs through municipalities, as well as the machinery and equipment often found in major heavy industrial developments. The current regulated rates for these property types have a variety of tax policies embedded within the assessment process. These provincial policies have reduced the assessment of these property types to as little as 40 per cent of their actual market value. In addition, the annual rate modifications to this approach have only resulted in a 30-40 per cent increase to their value over the past 10 years. This compares to a 150 per cent market value increase in most other non-residential property types assessed at their full market value. This results in a significant shift of tax burden away from regulated property owners to the remaining tax base.

²² See Principles of Assessment section.

In Edmonton, a further advantage is provided to owners of machinery and equipment as they are exempt from both municipal and education tax. Education tax remains at the Province's discretion, but the taxable status of machinery and equipment from a municipal perspective is clearly a policy question for City Council to consider. Until 2008, Edmonton levied a business tax on businesses within the city. This tax affected commercial as well as industrial businesses (regardless of property ownership). While Edmonton's business tax was in place, provincial legislation prevented a parallel tax-rate for machinery and equipment – effectively making it exempt from property tax. Edmonton's business tax was phased out between 2008 and 2011. Without an existing business tax, Edmonton City Council has the option to place a tax-rate on machinery and equipment equal to that of the non-residential base. The Assessment and Taxation Branch estimates that taxing machinery and equipment would generate \$15-\$20 million that could either be considered new revenue or which could be used to reduce the burden on other non-residential tax payers. Having said that, Edmonton has used the absence of a machinery and equipment tax to promote industrial development within city limits. Regardless of the direction, a conversation regarding the future taxable status of machinery and equipment is worth having, especially in light of the fact that all four counties around Edmonton tax machinery and equipment.

RELEVANT POLICY QUESTIONS

1. Are regulated rates justified for farmland, linear property, machinery and equipment or railroads?
2. Should farmland be assessed and/or taxed differently in urban areas?
3. What is an appropriate methodology for addressing significant variations between regulated rates and market rates?
4. How often should regulated rates be updated to reflect current market conditions?
5. Should the City of Edmonton consider taxing machinery and equipment?

2.3 THEME 3 – TAX POLICY

Property tax is fundamentally a revenue generating mechanism, but property tax can also be manipulated as an economic development tool to stimulate, redirect and/or guide investment. It can also be used to guide development outcomes such as locational choice, housing type, density and built form.

Tax-Rate Sub-Classes

The primary tool available to a municipality is its ability to apply differing tax rates to different property types. The appropriate distribution of tax burden between assessment classes can become more nuanced when split tax rates are put into play. Alberta municipalities currently have the ability to split the residential assessment class into any number of sub-classes. Sub-classes can increase or decrease the tax rate in relation to other property classes based on a desired policy outcome. A good example of a possible policy option would be to tier residential property taxes based on their proximity to the downtown core, with properties closer to the core having more favourable rates. This policy option, expressed through tax policy, would promote density and infill development while also highlighting the increased cost to the City to service suburban properties. Another potential policy option might consider the cost intensity of different development types, with those that cost less to service and maintain receiving a more favourable rate. Yet another policy option could be to consider a lower rate on higher-density properties, no matter where they are located in the city. In any or all of these cases, the greatest challenge is finding appropriate metrics to justify what would be a significant policy shift. Using property tax tools to support policy (as well as other broader City goals) is not inherently bad or good, but the process has to be transparent and equitable.

With regard to the non-residential assessment class, it can only be subdivided into vacant and improved property types. This legislative restriction effectively binds the hands of municipalities and prevents nuanced tax policy. If legislation were to change, a wider array of sub-classing powers could be considered. Some suggested options include the possibility of developing a separate class for brownfields and parking lots. Brownfield tax rates could be increased or decreased based on efforts related to remediation and redevelopment, while vacant parking lots in the downtown core could have higher rates. This would likely reduce speculative land banking and enhance the development potential of underutilized land.

If greater non-residential tax sub-classing were possible, the City could also consider introducing tax policy to ease the burden shifting during major market fluctuations. As discussed in “The Budget-Based Approach to Tax Rates” section, the City’s tax levy is unaffected by changing market conditions. Different property types within a single assessment class, however, can experience significant burden shifts. If shopping centre values increase within a given year while office tower values decrease, the shopping centres would see a significant tax increase while towers might experience a small increase or perhaps even a decrease in tax burden. Creating tax policy around this issue would provide greater certainty to non-residential property owners regarding their upcoming tax burden. On the other hand, this tax policy effectively benefits those doing well in the market and hinders those with lagging market values. Tax policy of this nature would also require a significant investment of staff time and resources.

Full authority in tax sub-classing would allow the use of tax incentives for particular development types. At present, the City of Edmonton utilizes a grant structure to support certain private initiatives. The Revolving Industrial Fund and the Façade Improvement program are examples. If Council had the authority to split rates as it deemed appropriate, tax incentives could be provided without affecting the City’s bottom line. This, of course, requires the Government of Alberta to provide cities with greater taxing authority.

Finally, full authority in tax sub-classing would permit the City to utilize graduated tax rates. This would be similar to graduated income tax rates. In the case of property tax, higher rates would be levied as a property’s assessment value increases. For example, the first \$100,000 of residential assessment would be taxed at a lower rate than any assessment above \$100,000. A similar approach could be taken for non-residential, but at a different scale. Examples of this form of tax policy exist in the City of Toronto where the first million dollars of commercial assessment are taxed at a discounted rate relative to the remaining assessment. Using this option would mean that the otherwise proportional nature of property tax would become more progressive in nature.

Of course, any decisions about tax policy have to be weighed carefully both in terms of the projected outcomes and unintended consequences. Creating tax sub-classes requires substantial administrative effort to maintain an up-to-date inventory, to continuously communicate subclass rationales and to defend decisions at assessment review board hearings. Property owners will undoubtedly file additional complaints with the assessment review board when significant tax changes take place. In addition to devoting City resources to defending the classification, the City also runs the risk of losing additional cases at the board. Much of this risk can be mitigated with clear assessment class definitions, but unintended consequences should always be taken into consideration.

Residential/Non-Residential Tax Ratio

Beyond the decision to create tax sub-classes, another major tax policy question is what the proper ratio should be between residential tax payers and non-residential tax payers. In Edmonton, non-residential tax payers tend to pay 2.5 to 3 times more per assessment dollar than residential tax payers.

It can be argued that lowering rates on non-residential property (at the cost of increasing residential rates) stimulates business development, although the extent to which lower property taxes influence business decisions is unknown. Smaller independent, startup or small businesses may be more sensitive than larger firms. 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 and (4) social equity.

- 1) **TAX DEDUCTION POTENTIAL:** This factor relates to whether property taxes apply to before or after-tax income. In the case of business, property tax is considered a business expense and can be deducted as a cost on 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 ability of businesses to pass on their costs. Businesses either produce a good or service, with various costs (including property tax) built into the product's price, or they rent space and recover property tax costs through triple-net lease agreements. In the case of a residential home owner, the tax burden remains with the home owner and cannot be transferred.²³
- 3) **INCOME PRODUCING:** This factor acknowledges that businesses are income producing properties. Because income potential is present, property tax costs are off-set by the building's 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. A major exception is apartment-style properties where four or more units exist on an individual title. In these instances, the City applies a 15 per cent 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, so as to allow for upward mobility of lower-income individuals (which is traditionally one of the hallmarks of a progressive society). As the ratio between residential and non-residential nears even, additional pressure is put on all residential properties to pay a greater share of the tax burden. While it is appropriate for all property owners to contribute to the tax burden, the question ultimately becomes what the appropriate balance is between the residential and non-residential class.

The pursuit of balance could also speak in favour of increasing the contribution of the residential class, or subclasses of it, in relation to the non-residential class. Here, balance is understood as the creation of a closer relationship between the costs and revenues generated by a particular property type. If too large a share of the tax burden is borne by the non-residential class, the real cost of residential housing choices is not reflected in the taxes residential tax payers pay. By increasing the contribution of residential housing types that have a high public cost (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.

Adjusting the balance between residential and non-residential contributions may also address where new City growth revenue is allocated. At present, much of the revenue the City receives from real growth is used to address the high costs of new residential neighbourhoods. If these costs were already addressed through a clear tax structure, real growth revenue may instead be devoted

²³ This does not account for home owners that rent out properties for income.

to address new public priorities and emergent issues (such as climate change, policing issues, LRT expansion and poverty reduction). This, in effect, allows the City to concentrate its financial resources on a clear and future-focused vision.

At present, there is no set policy on how the residential and non-residential tax rates should relate to one another. The particular distribution of residential to non-residential tax burden is a floating rate that is based on last year's tax burden and the real growth in each assessment class. As discussed in the "Relationship Between Residential and Non-Residential Assessments and Tax" section, the two factors that influence distribution are real growth and tax policy. While no definitive tax policy has been developed, decisions on education tax room and differing levels of growth have had an effect on the distribution between the classes. Council's use of education tax room is annually a subject of discussion and has, until now, been discretionary in nature. Council does have the ability to set a policy on use of future education tax room.²⁴

Based on all these factors, the trend in Edmonton has been an increasing burden shifting towards residential tax payers as the residential class takes on a greater and greater proportion of the total assessment base. Table 2.1 outlines how the tax burden has shifted over the last 20 years.

TABLE 2.1

<i>Property Category</i>	<i>Share of Property Assessments</i>				<i>Share of Combined Property and Business Taxes</i>			
	1996	2005	2010	2015	1996	2005	2010	2015
Residential	69.6%	76.5%	72.5%	74.1%	43.6%	48.7%	49.2%	50.8%
Non-Res/Business	30.4%	23.5%	27.5%	25.9%	56.4%	51.3%	50.8%	49.2%
Total	100	100	100	100	100	100	100	100

RELEVANT POLICY QUESTIONS

1. Should municipalities utilize tax-rate sub-classes? In what context?
2. Should the general costs of service delivery and infrastructure maintenance be a factor in determining a property's tax burden?
3. Should tax policy be deployed as a means to encourage certain city building objectives?
4. Should Council have a standing policy on Education Tax Room?
5. What is the appropriate ratio between residential and non-residential properties?
6. What, if any, limitations or regulation should exist around tax rate splitting?

2.4 THEME 4 – TAX EXEMPTIONS

Two basic exemptions exist—an exemption from taxation and an exemption from assessment. Exemptions from taxation are the most common and can be full or partial depending on use. When properties are exempted from taxation, they are still assessed so that the value of the exemption is clear to the public. While this introduces transparency into the process, there is still a cost to doing the assessment. Exemptions from assessment are much less common, but exist for such properties as Crown-owned unpatented wilderness, as well as municipal water and sewer lines, and roads and streets. Whenever a property is exempted from assessment altogether, it is, of course, difficult to ascribe

²⁴ A detailed history of the use of Education Tax Room is included in Appendix D.

the value of the exemption. Because this approach lacks transparency, the use of it should be restricted to property that would never be taxed. Generally speaking, both exemptions are instituted for contributing to the public good. Many non-profits, for example, are deemed to be in the interest of the general public.²⁵

Having said that, an exemption from assessment or taxation does not mean that the taxes disappear—it simply means that property's tax burden gets shifted to the properties that are assessed and taxed. In Edmonton alone, there are over 3,500 exempt properties which translates into approximately \$135 million of tax burden that must be shifted every year. Viewed in this way, it is clear why providing tax exemption for certain properties at the expense of others needs to be carefully considered.

Tax exemptions tend to disproportionately affect larger municipalities in that they inevitably become home of many organizations seeking exemption status. Many of these organizations clearly benefit society as a whole, yet the cost of paying their property tax is nevertheless borne wholly by Edmonton taxpayers. Good examples of this disproportionality include post-secondary institutions and hospitals. Both heavily rely on City services, yet both property types are entirely exempt from taxation (other jurisdictions, such as Ontario, have implemented provincial grants to acknowledge this reality.) Still, both the province and municipalities view property tax exemptions as an effective tool to promote economic development and environmental sustainability, so long as they are implemented in an open, transparent and controlled manner. Many exemptions are dated and may no longer be appropriate. A full review is warranted. Furthermore, any exemptions from assessment, rather than tax, are not transparent to the citizens of Alberta and should be removed.

City Council also has some flexibility in how it administers tax exemptions. Under section 364 of the Municipal Government Act, it can exempt non-profit organizations by bylaw (for those cases where they are not otherwise already exempt under provincial legislation). Council can also cancel, reduce, refund or defer taxes to any property or property class to the extent it considers it equitable to do so under section 347 of the Municipal Government Act. City Council has set some policy in this regard. At present, Council considers a refund to non-profits for the period in which they are constructing their facility and are technically taxable. This policy is known as policy C-543. Additional requests outside this policy have recently pushed the bounds of Council's original intent. This requires special review of each scenario, which costs time and risks an ad-hoc and inequitable approach. A thorough review of Council's own tax exemption policies may, therefore, be in order.

RELEVANT POLICY QUESTIONS

1. Given existing provincial legislation, what are the relevant and appropriate municipal criteria for making a property tax exempt?
2. What outcomes should property tax exemptions promote?
3. What process should be in place to ensure periodic reviews of existing exempt properties?
4. How can transparency best be achieved to ensure citizens know what they are subsidizing?
5. What kind of tax cancellation policy should Council hold given their powers under section 347 and 364?

²⁵ It is not the intention of this paper to articulate a clear vision of what the "interest of the general public" entails. This is an important policy question that should be discussed amongst decision makers.

2.5 THEME 5 – BIG CITY CHALLENGES

The greater Edmonton Region is comprised of five cities, one specialized municipality, four municipal districts, eleven towns and three villages. Many of these surrounding municipalities rely on the services, infrastructure and financial hub of the City of Edmonton. Even though the City provides benefit to the region, no additional City tax revenue is generated from properties outside Edmonton's border. For a city like Edmonton, it is imperative that a cooperative relationship exist with its municipal neighbours to ensure costs are shared equitably and benefits continue to flow to all parties. It is not just an issue of fairness, but of long-term sustainability.

Part of this equation relates to the relative property tax levels across the region and the varying supply of non-residential property. Since non-residential property tends to pay at a higher rate than residential property, the proportion of residential to non-residential assessment is crucial to a municipality's wellbeing. Keeping in mind the previous conversation regarding having residential property carry more of the tax burden, the current reality is that the greater the proportion of residential property a municipality holds, the less sustainable it becomes (particularly when that property is low density).

To better articulate and address this issue, some regional analysis is provided below. The following table provides a quick snapshot of the region and its relative proportion of residential to non-residential property. Calgary has also been included in this analysis for additional context as it is the closest comparator to Edmonton. It is difficult to compare other major urban centres across Canada since there are naturally many other factors that would have to be taken into consideration, such as legislated responsibilities, grants, other revenue sources, service requirements and property values. For this reason, other major municipalities have been excluded.

TABLE 3.1 – 2014 TAX YEAR TOTAL ASSESSMENT BASE (\$)

MUNICIPALITY	TOTAL ASSESSMENT	RESIDENTIAL	NON-RESIDENTIAL	LINEAR	M&E	RES	NON-RES
Calgary	250,916,075,912	185,072,453,106	63,651,930,616	1,877,447,890	314,244,300	74%	26%
Edmonton	153,611,187,604	111,661,916,784	39,250,791,760	1,779,572,460	918,906,600	73%	27%
Fort Saskatchewan	5,238,958,070	2,929,957,400	975,789,660	103,784,380	1,229,426,630	56%	44%
Leduc	4,946,810,330	3,433,663,970	1,462,534,600	48,160,760	2,451,000	69%	31%
Leduc County	7,129,000,000	2,473,500,000	3,243,424,070	1,274,049,300	138,026,630	35%	65%
Parkland County	8,859,287,830	5,489,999,520	1,419,808,890	1,719,606,360	229,873,060	62%	38%
St. Albert	10,520,103,020	9,102,366,730	1,310,634,280	77,470,310	29,631,700	87%	13%
Spruce Grove	4,614,732,760	3,835,771,500	743,219,910	33,636,350	2,105,000	83%	17%
Stony Plain	2,359,234,800	2,025,556,230	309,913,120	23,141,180	624,270	86%	14%
Strathcona County	30,172,706,000	16,144,146,906	3,791,804,744	740,619,350	9,496,135,000	54%	46%
Sturgeon County	5,615,153,840	3,437,227,730	786,713,520	456,224,690	934,987,900	61%	39%
Overall	483,983,250,166	345,606,559,876	116,946,565,170	8,133,713,030	13,296,412,090	70%	30%

Table 3.1 shows how Edmonton's current non-residential assessment base makes up 27 per cent of its total assessment. Due to significant residential growth, often in the form of single-family housing, Edmonton's proportion of non-residential assessment has actually decreased by six per cent over the past twenty years. Municipalities in the Edmonton Region with a high non-residential proportion of assessment tend to be in a beneficial financial position. Outside of Edmonton, much of this non-residential assessment comes from linear property (pipeline and transmission lines) and machinery and equipment (industrial processing). Of particular interest are the four counties that surround Edmonton: Leduc County, Parkland County, Strathcona County and Sturgeon County. These municipalities benefit from extremely high non-residential bases with a relatively small population to service.

Distribution of assessment types is another key component in the larger picture. Table 3.2 shows how the tax burden is distributed in these same municipalities. While Edmonton tends to hover around an even split between residential and non-residential, many of the municipalities with high non-residential tax bases also collected a significantly higher percentage of their total tax base from it as well.

TABLE 3.2 – 2014 TAX YEAR RESIDENTIAL TO NON-RESIDENTIAL TAX SPLIT (\$)

MUNICIPALITY	TOTAL REVENUE	RESIDENTIAL	NON-RESIDENTIAL	LINEAR	M&E	RES	NON-RES
Calgary	1,584,724,550	693,466,482	871,181,016	20,077,052	0	44%	56%
Edmonton	1,221,600,475	618,417,194	577,021,965	26,161,317	0	51%	49%
Fort Saskatchewan	35,152,101	14,247,524	8,834,328	939,614	11,130,635	41%	59%
Leduc	34,441,157	21,800,333	12,218,014	402,335	20,476	63%	37%
Leduc County	41,356,265	8,162,550	23,125,614	9,083,972	984,130	20%	80%
Parkland County	44,395,754	20,362,957	10,127,355	12,265,780	1,639,662	46%	54%
St. Albert	86,072,720	70,768,171	14,447,384	853,971	3,195	82%	18%
Spruce Grove	28,167,100	21,401,304	6,472,851	292,946	0	76%	24%
Stony Plain	13,517,773	10,883,314	2,451,413	183,047	0	81%	19%
Strathcona County	198,102,278	73,551,119	33,665,159	6,575,515	84,310,485	37%	63%
Sturgeon County	33,645,387	12,279,496	7,717,817	4,475,655	9,172,418	36%	64%
Overall	3,321,175,560	1,565,340,442	1,567,262,915	81,311,203	107,261,000	50%	50%

Table 3.3 provides some analytics around these figures and shows where Edmonton places in relation to the region as a whole. It outlines how much tax a property owner pays per \$100,000 of assessment. Again, it is worth noting that those municipalities that have large non-residential bases are able to provide significantly lower taxes for their residential property owners.

TABLE 3.3 – 2014 TAXES PER \$100,000 OF ASSESSMENT (RESIDENTIAL AND NON-RESIDENTIAL)

RESIDENTIAL			NON-RESIDENTIAL		
Rank (low - high)	Municipality	Taxes per \$100,000 of Assessment	Rank (low - high)	Municipality	Taxes per \$100,000 of Assessment
1	Leduc County	\$330	1	Leduc County	\$713
2	Sturgeon County	\$357	2	Parkland County	\$713
3	Parkland County	\$371	3	Stony Plain	\$791
4	Calgary	\$375	4	Leduc	\$835
5	Strathcona County	\$456	5	Spruce Grove	\$871
6	Fort Saskatchewan	\$486	6	Strathcona County	\$888
7	Stony Plain	\$537	7	Fort Saskatchewan	\$905
8	Edmonton	\$554	8	Sturgeon County	\$981
9	Spruce Grove	\$558	9	St. Albert	\$1,102
10	Leduc	\$635	10	Calgary	\$1,396
11	St. Albert	\$777	11	Edmonton	\$1,470

Taxes are determined by multiplying the assessment value by the tax rate. The method for assessing property in Alberta is uniform, but the amount of assessment in a particular category can vary greatly. Those jurisdictions with larger non-residential assessment bases are better able to maintain low residential tax rates. In addition, Edmonton does not tax Machinery and Equipment. Those jurisdictions that tax it have the assessment amount included in their non-residential assessment below.

TABLE 3.4 – NON-RESIDENTIAL TO RESIDENTIAL ASSESSMENT RATIOS (2014)

Rank	Municipality	Residential Taxable Assessment	Non-Residential Taxable Assessment	Ratio of Non-Residential to Residential
1	Leduc County*	\$2,473,500,000	\$4,655,500,000	1.88
2	Strathcona County*	\$16,144,146,906	\$14,028,559,094	0.87
3	Fort Saskatchewan*	\$2,929,957,400	\$2,309,000,670	0.79
4	Sturgeon County*	\$3,437,227,730	\$2,177,926,110	0.63
5	Parkland County*	\$5,489,999,520	\$3,369,288,310	0.61
6	Leduc*	\$3,433,663,970	\$1,513,146,360	0.44
7	Edmonton	\$111,661,916,784	\$41,030,364,220	0.37
8	Calgary	\$185,072,453,106	\$65,529,378,506	0.35
9	Spruce Grove	\$3,835,771,500	\$766,566,060	0.20
10	Stony Plain*	\$2,025,556,230	\$324,176,720	0.16
11	St. Albert	\$9,102,366,730	\$1,388,433,290	0.15

* Taxes Machinery and Equipment Assessment

As non-residential tax rates are typically higher than residential tax rates, those municipalities with higher ratios of non-residential to residential assessment are more easily able to maintain lower tax rates. This becomes more apparent when comparing non-residential assessment to population.

TABLE 3.5 – NON-RESIDENTIAL ASSESSMENT BY POPULATION (2014 ASSESSMENT)

Rank (low - high)	Municipality	Non-Residential Taxable Assessment	Population (2011 Federal Census)	Non-Residential Assessment per Person
1	Stony Plain	\$324,176,720	15,051	\$21,539
2	St. Albert	\$1,388,433,290	61,466	\$22,589
3	Spruce Grove	\$766,566,060	26,171	\$29,291
4	Edmonton	\$41,030,364,220	812,201	\$50,518
5	Calgary	\$58,507,068,394	1,096,833	\$53,342
6	Leduc	\$1,513,146,360	24,279	\$62,323
7	Parkland County	\$3,369,288,310	30,568	\$110,223
8	Sturgeon County	\$2,177,926,110	19,051	\$114,321
9	Fort Saskatchewan	\$2,309,000,670	19,051	\$121,201
10	Strathcona County	\$14,028,559,094	92,490	\$151,676
11	Leduc County	\$4,655,500,000	13,541	\$343,808

And so what do all these numbers mean? Overall, this analysis demonstrates a significant challenge facing the City of Edmonton. The City acts a service hub (e.g. fire rescue support, universities and hospitals) and provides care to a variety of at-risk populations (affordable/seniors housing, among many others). Regional municipalities derive a clear and major benefit from their proximity to the City of Edmonton, while also having access to provincially funded highway systems and police forces. When factored together with small serviceable populations, surrounding municipalities are in a highly

advantageous position since their costs of doing business are significantly lower than the City of Edmonton. Regional municipalities also have a revenue advantage given their large land mass and high non-residential ratios (industrial development in the regions is not surprising since major industrial property is usually located away from residential development).

To address this challenge—which, if summed up, might be that the city of Edmonton overpays in the collective activities of the greater metro region—one option may be to expand Edmonton's non-residential tax base. This is no small task as much of the commercial base is tied to population and grows in proportion to residential growth. Furthermore, to reach an assessment split goal of 30 per cent non-residential, the City would need to grow its non-residential assessment base by \$10.5B – an increase of 25.5 per cent over the City's current base. This number also assumes no future residential growth, which seems unrealistic given current trends.

Adjusting the split, then, becomes about encouraging new and innovative businesses to locate in Edmonton or encouraging greater industrial development. Tax policy could have an impact on this, but it is still uncertain to what extent property tax factors into location choice. A union of British Columbia municipalities, along with the BC Ministry of Community, Sport and Cultural Development, commissioned a report on the impacts of taxation on major industrial property in 2011. This report found that all indirect taxes combined—including sales, property and excise taxes, along with custom duties—account for a very small portion of total costs (averaging 0.5 per cent of total costs).²⁶

Pursuing tax policy options could also send competitive signals to the region, which is counter-productive. Competing with the region through tax incentive programs might result in a race to the bottom as each municipality enacts policies to out-incentivize the other. This weakens the region's tax base as a whole.

Given this analysis, a far better approach would be to promote cooperation across the region. If the region were able to cooperate as a single entity, a unified position could be presented to future non-residential development, both in terms of tax structure and promotion. Cooperation would also allow for regional service delivery as well as cost and revenue sharing. This would remove the self-defeating temptation to compete and would promote a stronger region as a whole. A successful regional vision and plan would go a long way towards securing the financial sustainability of Edmonton and its region.

RELEVANT POLICY QUESTIONS

1. Is there an optimum or attainable mix of residential to non-residential assessment? If so, to what extent can this be influenced by policy?
2. What policies should the City of Edmonton pursue to ensure a stronger non-residential base?
3. Should revenue pooling between municipalities be considered in order to avoid competition?

CONCLUSION

Acting as the single largest revenue source for the City of Edmonton, property tax is a vital component of City finance. Property tax is a stable, reliable and predictable revenue source that distributes tax burden proportionately based on property value. Having said that, overreliance on property tax to fund City operations can create challenges, which is why the City is stronger for having a variety of revenue streams to help diversify and stabilize its financial position. This includes appropriate support from other levels of government for relevant roles and responsibilities.

Over the long-term, planning must account for the increasing burden property tax places on local property owners and how policy decisions will affect the City's future financial capacity. Review of the residential and non-residential assessment trends helps bring much of reality into focus. On a cost-to-service basis, single family residential is the least efficient form of development, which places the highest increased burden on the remaining tax base. Non-residential assessment provides greater tax contribution, though a big city should always strike a balance between different property types.

A variety of tax tools exist that allow City Council to vary its tax policy. Further flexibility is being sought through the *Municipal Government Act* Review and the Big City Charter discussions. When considering tax policy, it is important to be mindful of assessment principles. Maintaining a clear market-value assessment system helps ensure a socially equitable, transparent and easily understood tax system.

Edmonton's specific situation must also be considered from a regional context. The Capital Region Board consists of 24 member municipalities—each with their own property tax and planning policies. A taxation competition will hurt all parties, and the greater the alignment with a single vision, the more successful and sustainable the region's future growth will be.

This white paper was created to give Council and interested citizens an overview of the property assessment and taxation system in Alberta, and to lay out in clear terms the challenges the City faces in continuously working towards the fairest and most equitable system possible. This paper was also written to stimulate open dialogue around current and new tax policy. This dialogue is welcome and encouraged.

APPENDICES

APPENDIX A – ASSESSMENT DETAIL

Three Approaches to Market Value

Mass appraisal market value assessment has three different internationally accepted approaches to determine fair market value. The first one is the sales comparison approach that analyses sales of similar properties to determine value. The second one is the income approach that looks at the rental income a property receives to determine value. The final one is the cost approach. It considers the cost to construct the improvement, less depreciation and adds the land value.

The sales comparison approach is ideal as it directly correlates to property sales. It is based on the theory that the market value of a property directly relates to the sale price of similar properties. This approach works best when enough sales take place within the property type to develop a strong model. The sales comparison approach is typically used with residential property where thousands of sales occur on an annual basis that can be reviewed and analyzed.

The income approach applies when property sales are less frequent, but rental fees are charged. The theory behind it is that income-producing properties are bought and sold based on their income-earning potential. This is typically the case for commercial properties such as shopping centres and office towers. While sales are still a factor, rental income is also used to help determine market value. The analysis starts from a gross rental income and deductions are then applied to account for various costs and the level of vacancy. The final net income is subsequently translated into an assessed value using a capitalization rate determined, in part, from sales of similar property types.

The cost approach for mass appraisal market value assessment often supports other methodologies, but is rarely the primary methodology. It assesses the value of the land plus the cost to replace an improvement on a given site. This approach is used for unique properties that have few comparables or rarely sell on the open market. The properties are also often owner occupied, so rental rates cannot be extracted. The cost approach is based on the assumption that a purchaser would not pay any more to purchase a property than it would cost to buy the land and then rebuild the same improvements. Properties of this type tend to include institutional properties and major industrial processing properties.

TABLE 1.1²⁷

	How Market Value is Determined
Sales Comparison Approach	Compare sales prices of similar properties to the property being assessed
Income Approach	Estimate of what a potential purchaser would pay for a property given its expected rate of return (i.e. income-producing potential)
Cost Approach	Cost of improvements – depreciation + market value of land = value of property

²⁷ This table and other relevant information on assessment approaches can be found in the Guide to Property Assessment and Taxation in Alberta published by the Government of Alberta: http://www.municipalaffairs.alberta.ca/documents/as/AB_GuidePtyAssmt_finrev.pdf

Regulated Assessment

In addition to the three approaches to market value, some properties are also assessed on a regulated approach. Regulated properties are assessed using methodologies prescribed by the province and tend to be difficult to assess because they seldom trade on the open market, cross municipal boundaries, and/or are of a unique nature. There are four types of regulated property in Alberta: (1) Farmland, (2) Linear property, (3) Machinery and Equipment and (4) Railway property.

Details of regulated assessment are presented in the Government of Alberta's Guide to Property Assessment and Taxation in Alberta. It states:

- 1) **FARMLAND:** Farmland is assessed on the basis of its productive value; that is, the ability of the land to produce income from the growing of crops and/or the raising of livestock. The productive value of farmland is determined using a process that sets a value for the best soils, and then makes adjustments for less-than optimum conditions such as stones, the presence of sloughs, or topography. Farmland is assessed by the local assessor.
- 2) **LINEAR PROPERTY:** These properties have distribution lines or other facilities, and may cross municipal boundaries. Linear property includes:
 - Oil and gas wells
 - Pipelines to transport petroleum products
 - Electric power systems (generation, transmission, and distribution facilities)
 - Telecommunication systems (including cellular telephone systems)
 - Cable television systems

Linear property is assessed by the assessor designated by the Minister of Municipal Affairs. This is currently a provincial responsibility.

- 3) **MACHINERY AND EQUIPMENT:** Machinery and equipment includes such things as petroleum processing tanks, separators, fuel gas scrubbers, compressors, chemical injectors, and metering and analysis equipment. Machinery and equipment is used in conjunction with properties such as refineries, chemical plants, pulp and paper mills, and oil sands plants. Most machinery and equipment is assessed by the local assessor, while machinery and equipment forming part of linear property is assessed by the assessor designated by the Minister of Municipal Affairs.
- 4) **RAILWAY PROPERTY:** The assessed value of railway property is a fixed dollar amount per kilometre, based on the annual tonnage transported on the railway right-of-way. Each rail company must annually report the type and length of line in each municipality to the local assessor. The railway property is then assessed by the local assessors.²⁸ Railway lines outside of railway right-of-way areas (on provide land) are valued based on their market value.

APPENDIX B – RATE-BASED VS. BUDGET-BASED APPROACH

Rate-Based Approach

In a rate based approach, the per cent change to a tax rate is fixed. This removes City Council's authority to set a budget for the property tax requisition and can result in large changes to a municipality's requisition depending on the real estate market – when the market is good, both taxes and municipal budgets are high, when the market is poor, taxes are low, but so too is the municipal property tax requisition.

REVENUE CHANGE (2% BUDGET INCREASE)

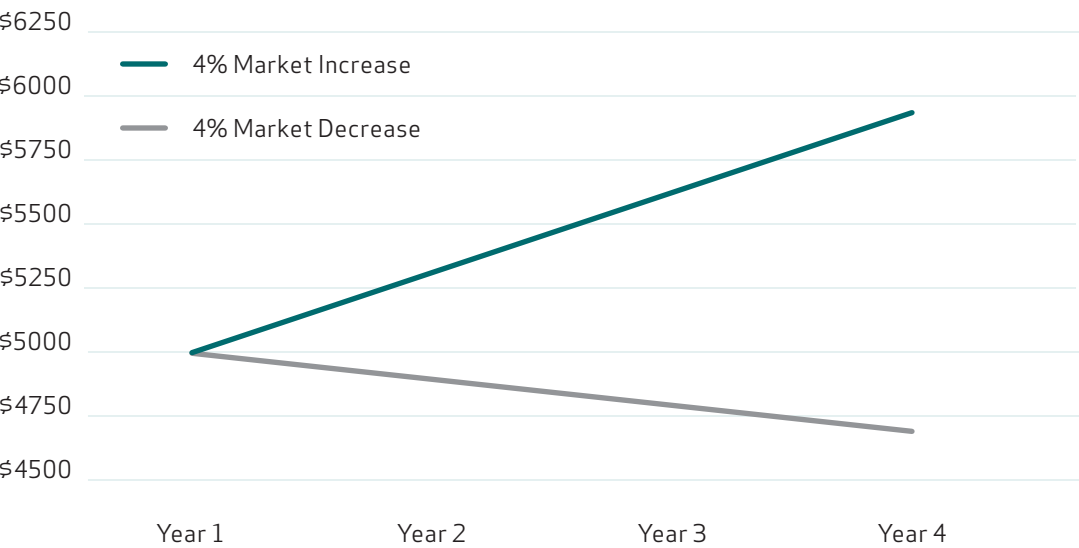


TABLE 1.1 – REVENUE CHANGE GIVEN 2% TAX RATE INCREASE

MARKET INCREASE (4% PER YEAR)				MARKET DECREASE (4% PER YEAR)			
Year	Assessment	Tax Rate	Revenue	Year	Assessment	Tax Rate	Revenue
1	\$1,000,000	0.005	\$5,000	1	1,000,000	0.005	\$5,000
2	\$1,040,000	0.0051	\$5,304	2	960,000	0.0051	\$4,896
3	\$1,081,600	0.005202	\$5,626	3	921,600	0.005202	\$4,794
4	\$1,124,864	0.005306	\$5,969	4	884,736	0.005306	\$4,694

Budget-Based Approach

Under a budget-based approach, revenues are determined by City Council through a budget process. Because City Council sets the total revenue to be collected, changes to the real-estate market have no effect on the revenue generated. Regardless of whether market values increase or decrease, the tax rate will adjust to ensure the exact amount of revenue that is budgeted is also collected. This creates a great deal of stability, but also makes property tax less adaptive to significant upswings in the local economy.

REVENUE CHANGE (2% BUDGET INCREASE)

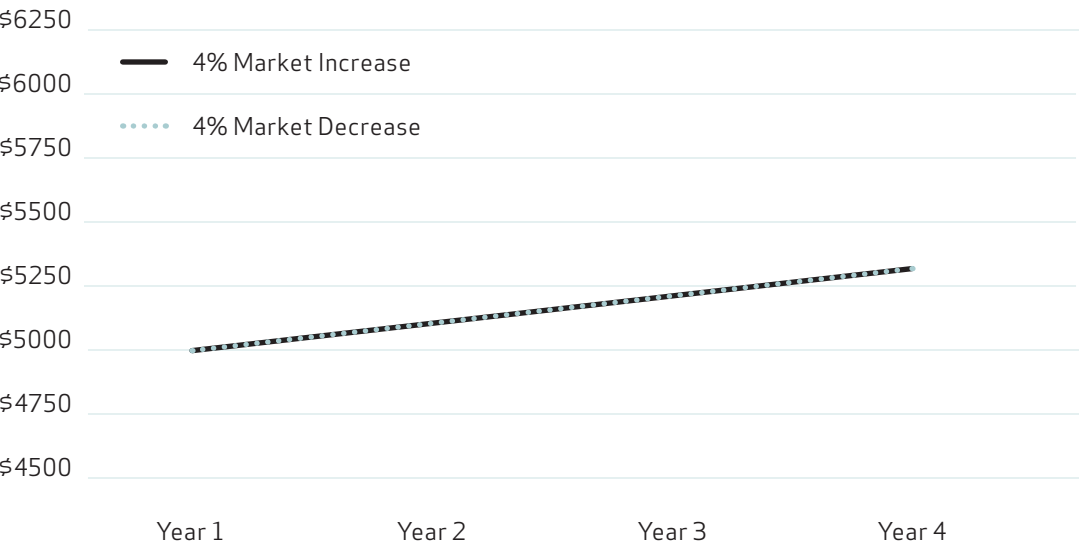


TABLE 1.2 – REVENUE CHANGE GIVEN A 2% BUDGET INCREASE

MARKET INCREASE (4% PER YEAR)				MARKET DECREASE (4% PER YEAR)			
Year	Assessment	Tax Rate	Revenue	Year	Assessment	Tax Rate	Revenue
1	\$1,000,000	0.005	\$5,000	1	1,000,000	0.005	\$5,000
2	\$1,040,000	0.004903	\$5,100	2	960,000	0.005312	\$5,100
3	\$1,081,600	0.004809	\$5,202	3	921,600	0.005644	\$5,202
4	\$1,124,864	0.004717	\$5,306	4	884,736	0.005997	\$5,306

APPENDIX C – FACTORS AFFECTING TAX CLASS CONTRIBUTIONS AND RATIOS

Real Growth

Real growth is defined as new construction that adds value to a property. This can take the form of a new building, as is the case with a newly built house, or an improvement to a pre-existing property, such as a finished basement or garage. When property is rezoned or changed from farmland to development land, the City also recognizes real growth. When real growth occurs, the City's assessment base and total revenues increase. This is because the City applies a tax rate to new construction as if it existed in the previous year. In doing so, the City's starting budget increases before the budget is even reviewed.

Real growth can result in both the tax rate ratio and the relative contribution of the assessment classes changing.

EXAMPLE 1 - REAL GROWTH, NO BUDGET INCREASE, NO MARKET VALUE CHANGE

<i>Assessment Class</i>	<i>Year 1 Assessment</i>	<i>Percent of Base</i>	<i>Year 1 Tax Rate</i>	<i>Year 1 Taxes</i>
Residential	\$75,000,000	75%	0.0050	375,000
Non-Residential	\$25,000,000	25%	0.0150	375,000
Total	\$100,000,000			750,000

	<i>Real Growth</i>	<i>Revenue Neutral Increase</i>	<i>Market Value Increase</i>	<i>Budget Increase</i>
Residential	\$12,000,000	\$51,724	\$0	0%
Non-Residential	\$1,000,000	\$14,423	\$0	0%

	<i>Year 2 Assessment</i>	<i>Percent of Base</i>	<i>Year 2 Revenue Neutral Tax Rates</i>	<i>Year 2 Revenue Neutral Budget</i>
Residential	\$87,000,000	77%	0.00490	426,724
Non-Residential	\$26,000,000	23%	0.01498	389,423
Total	\$113,000,000			816,147

<i>Metrics</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Notes</i>
Tax Rate Ratio	0.333	0.327	Small change to the tax rate ratio
Res Contribution	50%	52%	Change to relative contribution of the res and non-res classes.
Non-Res Contribution	50%	48%	

Market Value

Market value shifts are changes in the value of pre-existing properties. These changes are based on market forces and can shift up or down depending on the year. When the market value of a single class changes disproportionately to that of 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 requisition collected from each class remains unchanged. As a necessary side-effect, however, the tax rate ratio does change.

EXAMPLE 2 - MARKET VALUE CHANGE, NO REAL GROWTH, NO BUDGET INCREASE

<i>Assessment Class</i>	<i>Year 1 Assessment</i>	<i>Percent of Base</i>	<i>Year 1 Tax Rate</i>	<i>Year 1 Taxes</i>
Residential	\$75,000,000	75%	0.005	375,000
Non-Residential	\$25,000,000	25%	0.015	375,000
Total	\$100,000,000		0.33333	750,000

	<i>Real Growth</i>	<i>Revenue Neutral Increase</i>	<i>Market Value Increase</i>	<i>Budget Increase</i>
Residential	\$0	\$0	\$12,000,000	0%
Non-Residential	\$0	\$0	\$1,000,000	0%

	<i>Year 2 Assessment</i>	<i>Percent of Base</i>	<i>Year 2 Revenue Neutral Tax Rates</i>	<i>Year 2 Budget (unchanged)</i>
Residential	\$87,000,000	77%	0.00431	375,000
Non-Residential	\$26,000,000	23%	0.01442	375,000
Total	\$113,000,000			750,000

<i>Metrics</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Notes</i>
Tax Rate Ratio	0.333	0.299	Larger change to the tax rate ratio
Res Contribution	50%	50%	No change to relative contribution of the res and non-res classes.
Non-Res Contribution	50%	50%	

Budget/Tax Policy

The final factor that can influence the tax rate ratio and the relative contribution of assessment classes is actual tax policy. Edmonton has no established tax policy in this regard; however, decisions on “education tax room” do affect distribution. When a decision is made to adjust the revenue from one class to collect additional revenue but this adjustment is not done proportionately between the two tax classes, the City is essentially increasing the burden on a single property tax class. Such a change will affect both the tax rate ratio and the relative contribution of each class.

In Example 3, a budget increase is applied equally across both tax classes. This results in no change to the tax rate ratio or relative contributions.

EXAMPLE 3 - BUDGET INCREASE, NO MARKET VALUE CHANGE, NO REAL GROWTH

<i>Assessment Class</i>	<i>Year 1 Assessment</i>	<i>Percent of Base</i>	<i>Year 1 Tax Rate</i>	<i>Year 1 Taxes</i>
Residential	\$75,000,000	75%	0.005	375,000
Non-Residential	\$25,000,000	25%	0.015	375,000
Total	\$100,000,000			750,000

	<i>Real Growth</i>	<i>Revenue Neutral Increase</i>	<i>Market Value Increase</i>	<i>Budget Increase</i>
Residential	\$0	\$0	\$0	5%
Non-Residential	\$0	\$0	\$0	5%

	<i>Year 2 Assessment</i>	<i>Percent of Base</i>	<i>Year 2 Tax Rates</i>	<i>Year 2 Budget</i>
Residential	\$75,000,000	75%	0.00525	393,750
Non-Residential	\$25,000,000	25%	0.01575	393,750
Total	\$100,000,000			787,500

<i>Metrics</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Notes</i>
Tax Rate Ratio	0.333	0.333	No impact to tax rate ratio
Res Contribution	50%	50%	No change to relative contribution of the res and non-res classes.
Non-Res Contribution	50%	50%	

In Example 4, a higher increase is applied to the residential class. This results in a closer tax rate ratio and a greater contribution by the residential class.

EXAMPLE 4 – UNEQUAL BUDGET INCREASE, NO MARKET VALUE CHANGE, NO REAL GROWTH

<i>Assessment Class</i>	<i>Year 1 Assessment</i>	<i>Percent of Base</i>	<i>Year 1 Tax Rate</i>	<i>Year 1 Taxes</i>
Residential	\$75,000,000	75%	0.005	375,000
Non-Residential	\$25,000,000	25%	0.015	375,000
Total	\$100,000,000			750,000

	<i>Real Growth</i>	<i>Revenue Neutral Increase</i>	<i>Market Value Increase</i>	<i>Budget Increase</i>
Residential	\$0	\$0	\$0	5%
Non-Residential	\$0	\$0	\$0	2%

	<i>Year 2 Assessment</i>	<i>Percent of Base</i>	<i>Year 2 Tax Rates</i>	<i>Year 2 Budget</i>
Residential	\$75,000,000	75%	0.00525	393,750
Non-Residential	\$25,000,000	25%	0.0153	382,500
Total	\$100,000,000			776,250

<i>Metrics</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Notes</i>
Tax Rate Ratio	0.333	0.343	Tightening of the tax rate ratio
Res Contribution	50%	51%	Change to relative contribution of res and non-res classes.
Non-Res Contribution	50%	49%	

In order to demonstrate the full complexity of the assessment and tax system, example 5 shows how the metrics change when all factors are at play. The example combines the scenarios from examples 1, 2 and 3. Based on the changes below, the tax rate ratio widens and residential property owners pay relatively more of the total requisition.

EXAMPLE 5 - COMPLEX CHANGE (ALL FACTORS)

<i>Assessment Class</i>	<i>Year 1 Assessment</i>	<i>Percent of Base</i>	<i>Year 1 Tax Rate</i>	<i>Year 1 Taxes</i>
Residential	\$75,000,000	75%	0.005	375,000
Non-Residential	\$25,000,000	25%	0.015	375,000
Total	\$100,000,000			750,000

	<i>Real Growth</i>	<i>Revenue Neutral Increase</i>	<i>Market Value Increase</i>	<i>Budget Increase</i>
Residential	\$12,000,000	\$45,455	\$12,000,000	5%
Non-Residential	\$1,000,000	\$13,889	\$1,000,000	5%

	<i>Year 2 Assessment</i>	<i>Percent of Base</i>	<i>Year 2 Tax Rates</i>	<i>Year 2 Budget</i>
Residential	\$99,000,000	79%	0.00446	441,477
Non-Residential	\$27,000,000	21%	0.01512	408,333
Total	\$126,000,000			849,811

<i>Metrics</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Notes</i>
Tax Rate Ratio	0.333	0.295	Growth and Market Value impact ratio
Res Contribution	50%	52%	
Non-Res Contribution	50%	48%	Growth impacts relative contribution of the res and non-res classes.

APPENDIX D – HISTORICAL USE OF EDUCATION TAX ROOM

Education tax room is the gap between the percent increase to the provincial education tax and the percent increase to the municipal property tax. When the percent increase to the provincial education tax is lower than the percent increase to the municipal property tax, the City has the option to increase the municipal tax rate to reach a blended increase equal to the municipal increase. When the percent increase to the education tax is equal or higher than the percent increase to the municipal property tax, the City does not have the option to increase its rate without also increasing the overall tax rate.

TABLE 1.3 – EDUCATION TAX ROOM

EDUCATION TAX ROOM AVAILABLE				EDUCATION TAX ROOM USED		
Year	Res	Non-Res	Total	Res	Non-Res	Total
2003	-	\$0.3	\$0.3	-	-	\$0.0
2004	\$14.4	\$6.4	\$20.8	-	-	\$0.0
2005	\$6.1	\$5.7	\$11.8	-	-	\$0.0
2006	\$5.8	\$6.1	\$11.9	-	-	\$0.0
2007	\$6.8	\$3.9	\$10.7	\$5.9	\$3.4	\$9.3
2008	\$14.1	\$10.8	\$24.9	\$14.1	\$10.8	\$24.9
2009	-	\$5.1	\$5.1	-	-	\$0.0
2010	\$10.9	-	\$10.9	\$3.5	-	\$3.5
2011	\$9.0	-	\$9.0	\$9.0	-	\$9.0
2012	-	-	\$0.0	-	-	\$0.0
2013	\$19.3	-	\$19.3	\$19.3	-	\$19.3
2014	\$13.9	\$13.2	\$27.1	\$13.9	\$13.2	\$27.1
2015	\$32.6	-	\$32.6	\$2.1	-	\$2.1
TOTAL	\$132.9	\$51.5	\$184.4	\$67.8	\$27.4	\$95.2

APPENDIX E – OTHER TAX TOOLS

In addition to property tax, the City has a variety of other taxing tools available. While this is not necessarily the theme of the paper, they are listed here for information. They include:

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.

Business Revitalization Zone Tax (BRZ)

The responsible Minister may make regulations respecting a business revitalization zone tax and Council may pass a bylaw establishing a business revitalization zone 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 thirteen Business Revitalization Zones in Edmonton. City Council approves each BRZ budget, but the local BRZ 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.

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 2015, 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 notion of a special tax has been discussed in relation to a frontage tax that would charge homeowners 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.

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 Revitalization 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.