

OPTIONS TO PROVIDE TAX FORGIVENESS FOR REMEDIATED DERELICT PROPERTIES

Recommendation

That Executive Committee recommend to City Council:

That Council Policy C607A - Retroactive Municipal Tax Relief be amended to authorize tax forgiveness for properties assessed in the Mature Area Derelict Residential tax subclass as outlined in Attachment 2 of the September 18, 2024, Financial and Corporate Services report FCS02566.

Requested Action	Council decision required		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	Healthy City		
City Plan Values	THRIVE.		
City Plan Big City Move(s)	Inclusive and compassionate	Relationship to Council's Strategic Priorities	Conditions for service success
Corporate Business Plan	Managing the corporation		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> • Council Policy C607A - Retroactive Municipal Tax Relief • 2023-2026 Operating Budget 		
Related Council Discussions	<ul style="list-style-type: none"> • FCS00457 - Implications of Adjustments to Residential Tax Rates and Subclasses - Further Analysis, February 16, 2022, Executive Committee • CS00896 - Problem Properties Initiative Update, April 11, 2022, Community and Public Services Committee • FCS01244 - Derelict Residential and Non-Residential Properties - Grant Program and Draft Policy, October 25, 2022, Community and Public Services Committee 		

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- FCS01565 New Program with Bylaw Adjustments - Development of a Derelict Residential Subclass, March 20, 2023, Community and Public Services Committee
- FCS01986 BYLAW 20580 Residential and Supplementary Assessment Subclass Bylaw - Amendment No. 1 to Bylaw 19519, October 4, 2024, City Council

Executive Summary

- The Mature Area Derelict Residential subclass implemented at the start of 2024 appears to have some effect in encouraging derelict property owners to remediate their properties.
- Council's tax forgiveness authorities could be used to create a greater incentive for property owners to remediate their properties earlier in the year through demolition or rehabilitation, and to address specific circumstances where the subclass may hinder redevelopment.
- The recommended amendments to Council's tax forgiveness policy would effectively charge the properties within the subclass the derelict tax rate for the time they are derelict and the applicable residential rate when they are no longer derelict.
- The estimated cost of the recommended tax forgiveness in 2024 is less than \$55,000 as of August.

REPORT

On October 4, 2023, City Council created the Mature Area Derelict Subclass (derelict subclass) to help address issues associated with residential problem properties that can be identified as derelict based on their physical condition. These properties often incur disproportionately higher costs for the City, such as for inspections and bylaw enforcement. The subclass is intended to reduce these costs by encouraging the remediation of these properties and to improve the vibrancy of mature neighbourhoods.

While results are still preliminary, there are indications that the subclass has encouraged remediation; so far in 2024, 20 of the 207 properties assessed within the derelict subclass have been demolished. Administration will provide a report to Executive Committee in early 2025 that will provide an overview of the subclass's implementation, early outcomes and financial impacts.

As an assessment and tax subclass, the derelict subclass must follow the rules for the annual assessment and tax cycle as prescribed in provincial legislation. The rules require that properties are assessed once annually, based on their condition on December 31 of the preceding year.

This means that properties within the derelict subclass are required to pay the higher derelict tax rate for the entire year, regardless of any changes made to the property throughout the year. The subclass incentivizes derelict property owners to remediate the property prior to the following December 31, but provides no incentive to remediate a property earlier in the year. There are no mechanisms within the assessment process itself to address this.

Similarly, many redeveloping properties go through a phase where the property could be considered derelict. For example, a developer may board up and fence off an old house for a short time before demolition occurs. If this phase happens to coincide with the December 31 condition date and the property is assessed as derelict, property tax costs would rise for a

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redevelopment project that is already underway. As currently implemented, it is possible the subclass could disincentivize redevelopment in some circumstances.

Tax Forgiveness

Tax forgiveness is a tool that Council could use to augment the Mature Area Derelict Residential subclass and refine its ability to incentivize remediation and redevelopment.

Municipal councils in Alberta have broad authority to cancel, reduce, refund and defer taxes under section 347 of the *Municipal Government Act* (MGA). Edmonton's City Charter allows Council to delegate this authority to Administration, as long as the annual total amount to be cancelled, reduced, refunded or deferred is less than \$500,000. The City Assessor has been delegated to exercise this authority in alignment with Council's tax forgiveness policy as set out in Council Policy C607A - Retroactive Municipal Tax Relief.

Administration recommends that Policy C607A be amended to allow for partial cancellation of municipal taxes for derelict properties that have been demolished or rehabilitated partway through the year. A redline version of Policy C607A is included as Attachment 1 and the final, recommended policy C607B is shown in Attachment 2. The amount to be cancelled would be the difference between the taxes collected at the derelict rate and the taxes that would have been collected at the otherwise applicable residential rate, prorated by the number of months left in the year following demolition or rehabilitation. For example, if a derelict house is demolished on May 1, the tax cancellation would result in the property paying taxes at the derelict tax rate for January-April, and the general residential rate for May-December.

As with other forms of tax forgiveness, property owners would be expected to submit an application (generally by email) to receive forgiveness after demolition or rehabilitation occurred. Approved forgiveness would be based on the date assessors verify that the demolition or rehabilitation took place, and forgiveness would be denied if the property is not in compliance with safety codes legislation or if there are outstanding concerns regarding community standards.

Budget/Financial Implications

Administration has confirmed the residences at 20 of the 207 properties assessed within the derelict subclass have been demolished in 2024. Two were confirmed demolished in February 2024 based on Safety Codes inspections, and 18 were confirmed demolished on April 30, 2024 via aerial imagery. At the derelict tax rate, these properties are liable for a total \$122,480 in municipal taxes for 2024, an average of \$6,124 per property. At the general residential rate, they would have been liable for \$41,424 in municipal taxes, an average of \$2,071.

If these 20 properties were eligible for tax forgiveness as recommended, the total amount of forgiveness would be approximately \$55,000. Properties may continue to be demolished or rehabilitated in 2024, which would increase the cost for forgiveness.

Since the derelict subclass is intended to reduce the number of derelict properties in the city, and early indications suggest that it is working, there may be fewer derelict properties in the future. As the subclass becomes established over the next few years, it is hoped that property owners

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and developers will adjust their redevelopment project planning to avoid holding derelict properties taxed at the higher rate.

Legal Implications

Section 347 of the *Municipal Government Act* allows Council to cancel, reduce, refund or defer municipal taxes and arrears when it considers it equitable to do so. Policy C607A is intended to guide Council in its use of this authority, but Council can grant tax forgiveness beyond the policy if it wishes.

Community Insight

Administration and several Councillors' offices have received a number of inquiries regarding properties that were assessed as derelict where the owners indicated they were in some stage of redevelopment. Houses on several of these properties have already been demolished.

For example, one property owner purchased two neighbouring houses in summer 2023 with the intention of building an eight-plex on the double lot. A demolition permit for one house was obtained in September 2023, the other in January 2024, but both were still standing as of December 31, 2023; thus, both properties were assessed within the derelict subclass. The residences were demolished in spring 2024. In this case, the redevelopment of the derelict homes was clearly in motion prior to the application of the derelict subclass, but the assessment within the subclass added substantial costs to that redevelopment project.

GBA+

Administration does not record demographic information about residents who own derelict properties or those who request property tax relief, so it is not possible to determine whether certain groups are advantaged or disadvantaged via changes to tax forgiveness policy. The stringency of the definition of derelict properties means that properties within this subclass are unlikely to be occupied.

Attachments

1. Council Policy C607A Retroactive Municipal Tax Relief (Redline Version)
2. Council Policy C607B Retroactive Municipal Tax Relief (Final)