

2027-2030 TAX LEVY TOLERANCE

Requested Action	Information only
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals
CONNECTED This unifies our work to achieve our strategic goals.	N/A
City Plan Values	N/A
Corporate Business Plan	Managing the corporation
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> • C578A - Multi-year Budgeting • The City Plan
Related Council Discussions	<ul style="list-style-type: none"> • October 9, 2024, Financial and Corporate Services report FCS02218, Capital and Operating Funding Shortfall Analysis • January 27, 2026, Financial and Corporate Services report FCS03224, 2027-2036 Operating Investment Outlook

Executive Summary

- The *Municipal Government Act* requires Alberta municipalities to maintain a balanced operating budget. The operating budget can be balanced by raising non-tax revenues, raising property tax revenues or reducing expenditures.
- As noted in the January 27, 2026, Financial and Corporate Services report FCS03224, 2027-2036 Operating Investment Outlook (OIO), based on the scenario that current service levels are maintained throughout the 10-year forecast period, the forecasted total tax levy increase is projected to be 5.6 per cent in 2027, 4.3 per cent in 2028, 3.9 per cent in 2029 and 3.7 per cent in 2030. The approval of any service packages or debt-financed capital will increase the tax levy on top of what was projected in the OIO.
- Administration is developing a recommended 2027-2030 operating and capital budget, which will be released in November and deliberated in December 2026. This work is guided by Council priorities.

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- Understanding Council's tax levy tolerance will assist in the development of the budget. Unless directed otherwise, Administration will target tax levy increases within the parameters outlined in the OIO for the 2027-2030 budget.

REPORT

The *Municipal Government Act* requires Alberta municipalities to maintain a balanced operating budget. This ensures financial discipline, prevents the use of debt for day-to-day services and assists municipalities with being financially sustainable in the long term. The operating budget can be balanced by raising non-tax revenues, raising property tax revenues or reducing expenditures.

On January 27, 2026, Administration presented Financial and Corporate Services report FCS03224, 2027-2036 Operating Investment Outlook (OIO) a 10-year financial forecast built on the assumption that current service levels are maintained throughout the forecast period. The OIO forecast tax levy increases of 5.6 per cent in 2027, 4.3 per cent in 2028, 3.9 per cent in 2029 and 3.7 per cent in 2030. These forecasted tax increases do not include any unfunded service packages. The addition of any service packages or debt-financed capital will impact the tax levy on top of what was projected in the OIO. Structural budget variances that continue into the next budget cycle pose a risk to the forecasted increases outlined in the OIO; Administration continues to address structural budget variances, with the aim to resolve as much as possible in 2026 through implementation of action plans.

The City has a limited number of tools to raise revenue, user fees and taxes being the most significant. Tax levy tolerance refers to the amount of property tax property owners are willing to pay and find acceptable. Understanding Council's tax levy tolerance will assist in the development of the 2027-2030 budget.

Drivers of Tax Increases

There are four primary factors that contribute towards tax increases:

1. It is more expensive to deliver the same level of service today than it was previously due to inflation and a growing city.
2. Population is among the largest drivers of City expenditures. Real tax growth revenue has not fully covered the cost of population growth in recent years, in large part due to insufficient real growth of non-residential properties.
3. Slower non-tax revenue growth requires higher tax increases to balance the budget.
4. New services, service enhancements and impacts of capital.

1. Cost of Services

To continue to deliver the same level of service year over year, operating expenses generally increase to accommodate the following:

- Inflation: In general, it costs more each year to deliver services as prices increase. This includes wage increases as approved through Collective Bargaining Agreements, increases in fuel and utilities and high costs of materials and goods.
- Growing city and expanding population: When the city expands, more roads and

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infrastructure are required to accommodate a growing population accessing services. For example, more roads and neighbourhoods will require additional snow plows and operators to ensure a consistent level of snow removal year over year.

2. Real tax revenue growth rate vs. Population growth rate

The City Plan considers both residential and non-residential growth in Edmonton as the city grows to a population of two million. As the city develops and grows, newly constructed properties are added to the City's tax base, which is referred to as real growth.

Real growth is 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. Real assessment growth measures how much new construction value is incrementally added to the tax base each year. Real assessment growth generates real tax growth, as newly constructed properties are added to the tax base and taxed like most other properties.

On average, residential properties consume more services than they contribute in taxes and other revenues, whereas non-residential properties contribute more in taxes and other revenues than they consume in services. This occurs for two reasons: the first is tax policy, where non-residential properties are taxed at a higher rate than residential properties (currently non-residential properties are taxed at 3.2 times the rate of residential properties¹); the second is that the majority of services delivered by the City are targeted towards residents and the population of Edmonton more broadly. An outcome of these two factors is that the City's costs are largely driven by population growth, but on average, residential properties generate fewer revenues than they cost the City. It may appear that residential growth itself is the cause of this imbalance, but this is not the case; rather, this is largely a byproduct of current tax policy.

For approximately the past 10 years, Edmonton has seen disproportionately more residential growth than non-residential. Looking at the past five-years (2020-2024), the compound annual growth rate (CAGR) of real residential assessment growth was 2.7 per cent, where the same five-year CAGR for non-residential growth was 1.1 per cent. A consequence of this growth pattern in tandem with current tax policy, is that real growth in tax revenues has not been in line with the rate of population growth, which is among the largest drivers of City expenditures. For example, between 2020 and 2024, Edmonton's population grew at a CAGR of 3.1 per cent, while real tax revenues grew at a CAGR of only 2.2 per cent. If the City maintains service levels by keeping per-capita spending constant, then this differential in growth rates will drive additional tax increases. In contrast, balanced growth will generate real tax uplifts at rates much closer to population growth.

The City's current model for taxation expects the commercial and industrial sectors to grow fast enough to subsidize the places where people live and depends on consistent and proportionate real growth of non-residential properties to do so. When real growth of the non-residential assessment base is not in proportion to real growth of the residential base, the City accumulates

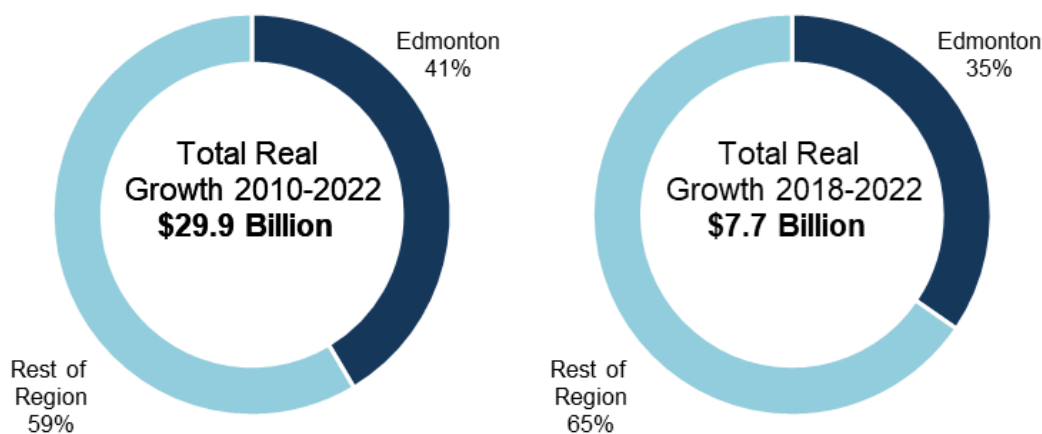
¹ Edmonton's 2025 non-residential tax rate was 0.0242229 and its residential tax rate was 0.0076254. The non-residential tax rate was 3.2 times the residential rate.

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more properties that cost more than they generate in revenues, which results in lower real tax revenue uplifts and requires higher tax increases to balance the budget.

This was explored in the October 9, 2024, Financial and Corporate Services report FCS02218, Capital and Operating Funding Shortfall Analysis. As identified in FCS02218 Attachment 1: Fiscal Gap - An Assessment of Factors Contributing to the City of Edmonton's Operating and Capital Funding Shortfalls, the primary reason for this growth pattern is that there has been insufficient real growth of non-residential properties within Edmonton's boundaries, where growth has been disproportionately occurring in municipalities surrounding Edmonton. For example, between 2010 and 2022 there was an estimated \$30 billion of non-residential real growth in metropolitan Edmonton (the Region); of that amount, Edmonton only absorbed 41 per cent, whereas surrounding municipalities absorbed 59 per cent. This is particularly significant given that Edmonton absorbed 73 per cent of the metropolitan population growth during this period, especially as population growth remains one of the primary drivers of City expenditures.

Estimated Non-Residential Real Growth in Metropolitan Edmonton: 2010-2022 (left), and 2018-2022 (right) [\$2022]

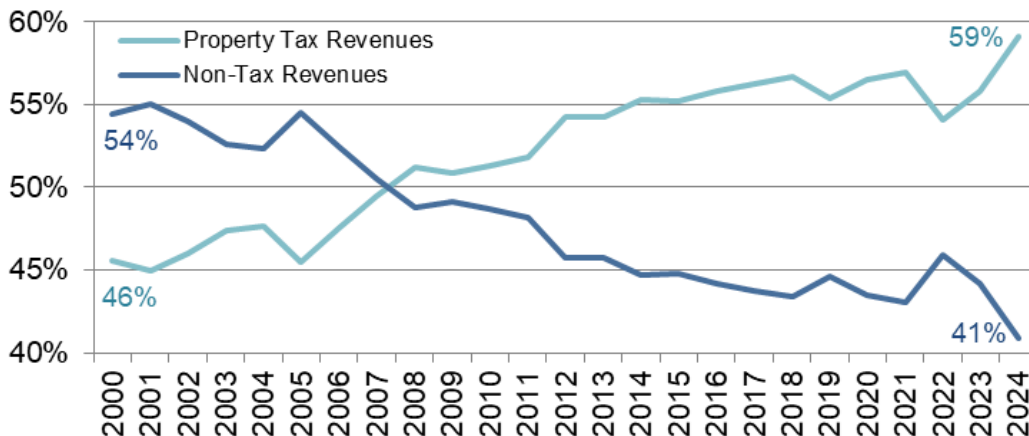


3. Growth Rate of Tax Revenue vs. Non-Tax Revenue

There are two broad categories of operating revenues: tax revenues and non-tax revenues. Over the previous 25 years, the growth of non-tax revenues has occurred at relatively lower rates compared to tax revenues. A major component of non-tax revenues are user fees, which have not kept pace with operating costs. Because the City is required to balance its operating budget each year, when non-tax revenues fail to grow as fast as operating expenses, this places an additional burden on tax revenues in order to prevent service erosion. As a consequence, tax increases have been higher than the growth in expenditures, as this revenue category has been compensating for slower growth of non-tax revenues.

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Property Tax & Non-tax Revenues as a % of Operating Revenues 2000-2024



As part of the Fiscal Gap Workplan, a corporate User Fee Policy will be presented to Council later this year. This policy is critical, as there is a need to grow all own-source revenue streams.

4. New Services, Service Enhancements and Impacts of Capital

Budget growth can also be attributed to the expansion of the City's capital program as well as increasing expectations of Edmontonians for new or expanding services:

- The City's capital program can produce operating budget impacts in the form of debt servicing charges, costs to operate new facilities/assets or pay-as-you-go funding increases when current operating revenues are transferred to capital to fund capital projects.
- Demand for higher service levels, service enhancements and/or new services, including new facilities, roads and bridges, affordable housing and enhancements to the transit system, such as LRT.

Jurisdictional Tax Rate Comparisons

Each province sets out its own rules and standards for property assessment and taxation. There are differences between each province which make comparisons of tax rates and assessment difficult. Even within a province, each municipality will have unique funding needs that affect tax rates such as population served, services provided, geography and infrastructure. Attachment 1 includes comparisons of Edmonton's residential property assessment and taxation with cities across Alberta and non-residential taxes with cities across Canada.

While Edmonton's residential tax rate is close to the average among cities in Alberta, its property values are relatively high compared to smaller communities so municipal taxes on the median single detached house in Edmonton are above average among Alberta cities. However, Edmonton's residential taxes are lower than St. Albert and Beaumont, neighbouring cities that are primarily residential.

Comparisons of non-residential taxes are more difficult due to greater variety among non-residential property types and values. Calgary recently conducted an analysis comparing property taxes for some common non-residential property types in cities across Canada. Edmonton's non-residential municipal property taxes per square foot were slightly above the national average for fast food

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restaurants and big box retail stores, but below the national average for large industrial and AA (high quality) office buildings. Edmonton's property taxes were lower per square foot than Calgary's for each property type other than big box retail stores. See Attachment 1 for details.

When comparing Edmonton's non-residential mill rates with the Region's, Edmonton's rates are significantly higher than surrounding municipalities: Edmonton's mill rate was 24.2 in 2025, whereas the average rate of all surrounding municipalities (excluding Edmonton) was 10.3, with Edmonton's rate at 2.4 times the Region's average. This differential has the potential to influence whether a company chooses to settle or remain in a specific jurisdiction, and can act as a deterrent that stifles both the attraction of new business investment and the expansion of existing operations.

Potential Tax Tolerance Benchmarks

The OIO outlined potential benchmarks for determining the tolerance for residential property tax increases, noting that there is no universally accepted method for determining the optimal level of municipal property tax increase. Also note that tax tolerance considerations are also important for non-residential taxpayers, but due to data limitations, no benchmark analysis was conducted for non-residential property owners.

Three potential residential property tax tolerance benchmarks as outlined in the OIO are:

1. Median household income growth rate
2. Consumer inflation or municipal inflation rate
3. Nominal GDP growth rate

Median Household Income Growth Rate

This benchmark is set at the rate of forecast nominal median household income growth. While property tax is an indirect tax that is not directly based on income, for most households it is typically paid out of income. This approach ensures that the growth in property tax burden for a typical household will not crowd out other household spending, savings or investments.

The chart below shows the OIO forecast tax increases against this tax tolerance benchmark. Median family income is forecast to grow by 2.0 per cent in 2027, 2.1 per cent in 2028, 2.6 per cent in 2029 and 2.8 per cent in 2030. The forecast tax increases from 2027 to 2030 are well above the median family income growth rate, indicating that for the median household this could mean that their property taxes grow at a higher rate than their incomes every year of the four-year budget cycle.

	2027	2028	2029	2030
Projected Tax Increase (%) (OIO)	5.6	4.3	3.9	3.7
Median Family Income Growth (%)	2.0	2.1	2.6	2.8

Source: City of Edmonton and Stokes Economics Summer 2025 Outlook (Forecasts).

Consumer Inflation or Municipal Inflation Rate

The combined rate of consumer inflation plus population growth is often referenced as a benchmark for tax increases. While this approach intends to address spending pressures that come with a growing population and consumer inflationary pressures, this benchmark can be perceived as double-counting population growth. For example, when new residential properties

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are constructed, they are taxed on completion just like all other pre-existing residential properties; these “real growth” tax revenues are already built into the proposed budget prior to any tax increase. For this reason, consumer inflation plus population growth would be more appropriate for benchmarking the growth of total expenditures, rather than for benchmarking tax tolerance.

A more appropriate benchmark for tax increases then becomes inflation, measured by Municipal Price Index (MPI) or Consumer Price Index (CPI): MPI measures inflation experienced by the City of Edmonton, where CPI measures inflation experienced by the average Edmonton residential taxpayer. Both MPI and CPI are projected to be significantly below the tax increase forecast in the OIO. If the goal is to increase tax revenues limited to a measure such as inflation, it will only be achievable if other revenues (e.g. user fees) adjust for inflation as well, or reductions to service levels are made.

	2027	2028	2029	2030
Projected Tax Increase (%) (OIO)	5.6	4.3	3.9	3.7
MPI inflation (%)	2.2	2.0	2.2	2.1
CMA CPI inflation (%)	1.8	1.9	2.0	2.0

Source: City of Edmonton and Stokes Economics Summer 2025 Outlook (Forecasts).

Nominal Gross Domestic Product Growth Rate

Under this approach, the benchmark for tax tolerance is set at the forecast rate of nominal gross domestic product (GDP) growth. Nominal GDP growth reflects the growth in the size of the economy from one year to the next without adjusting for inflation; in contrast, real GDP growth adjusts for inflation. Because the forecast tax increases provide funding for budgetary growth, which includes inflationary adjustments, nominal GDP growth is used under this approach to ensure consistency.

Tax increases at the rate of nominal GDP growth would enable total City taxation to maintain its share of local economy GDP over the forecast period. This would ensure that the City's capacity for taxation and expenditure growth is able to keep pace with economic growth. A limitation of this approach is that it may outpace the growth in incomes for some businesses and households.

Nominal GDP is forecast to grow by 5.5 per cent in 2027, 5.3 per cent in 2028, 4.5 per cent in 2029 and 4.2 per cent in 2030. The forecast tax increase for 2027 is 0.1 per cent above the benchmark. For 2028 through 2030, nominal GDP growth is forecast to be higher than the forecast tax increases, providing between 0.5 to 1.0 per cent of additional tax room in those years.

	2027	2028	2029	2030
Projected Tax Increase (%) (OIO)	5.6	4.3	3.9	3.7
Nominal GDP Growth Rate (%)	5.5	5.3	4.5	4.2

Source: City of Edmonton and Stokes Economics Summer 2025 Outlook (Forecasts).

These benchmarks provide guideposts for determining what taxpayers may be able to tolerate for tax increases in the years ahead and are not intended to be prescriptive, nor act as formulas

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for City budget growth. Council must determine how much the tax levy should increase or decrease.

Budget/Financial Implications

Guided by the Council priorities of economic development, growth management, safety and quality services², Administration is developing a recommended 2027-2030 operating and capital budget which will be released in November and deliberated in December 2026. Understanding Council's tax levy tolerance will assist in the development of the budget. Unless directed otherwise, Administration will target tax levy increases within the parameters outlined in the OIO for the 2027-2030 budget.

Next Steps

Administration will also look for direction from Council on budget development if there are either enhancements or reductions to service levels. The upcoming discussions include:

- April 28 (City Council) OCM03495 Council Priorities: Key Indicators, Performance Measurement and Evaluation Criteria will outline key indicators, performance measures and evaluation criteria for the Council Priorities.
- May 13 (Executive Committee) FCS03020 Corporate User Fee Policy: A corporate policy to direct the financially sustainable use of user fee revenue tools, towards the sustainable growth of the City's non-tax revenues.
- May 29 (City Council) Preliminary Budget 2027-2030 Strategic Discussion will include preliminary strategic discussions on service levels.
- June 24 (Infrastructure Committee) FCS03270 Capital Asset Investment Policy: A policy to guide the long-term sustainable funding of the City's Renewal Program, as well as some guidance on the financially sustainable way to grow the City's capital asset base.

Community Insight

Input for the next four-year budget has been designed to ensure all Edmontonians are able to share their perspectives through in-person and online conversations at focus groups, drop-in engagement sessions, pop-ups and interviews. Input will also be collected using digital tools on Engaged Edmonton. The results of engagement will help guide budget development and be shared with Council to support decision-making in fall 2026. Additionally, Edmontonians will have the opportunity to share feedback about the proposed budget directly, through a public hearing that will take place prior to Council's final budget deliberations.

GBA+

Property taxes are paid directly by property owners and revenues are used to help fund City infrastructure and services for all residents. Setting the tax levy requires balance between funding necessary services, while limiting financial impacts to taxpayers.

It is difficult to estimate the impacts of tax levy changes on specific individuals and groups, as property taxation is based solely on the property's value and use; demographic factors such as

² February 20, 2026 Office of the City Manager report OCM3446, 2027-2030 Priorities: Performance Measures - Verbal Report, Addendum Attachment

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gender, race, ethnicity, religion, age or disability are not considered or collected. Increases to the tax levy can disproportionately impact those for whom the taxation amount is likely to be a higher proportion of their household income, such as low- and fixed-income taxpayers, seniors and single-income households. The tax levy is applied consistently, but the change in tax distribution is determined based on how an individual owner's property value changes relative to the overall market.

Environment and Climate Review

This report was reviewed for environment and climate risks. Based on the review completed no significant interactions with the City's environmental and climate goals were identified within the scope of this report.

ATTACHMENTS

1. Tax Rate Comparisons (2025)