

Incentivizing Redevelopment - Possible Tax Tools

Recommendation

That the October 16, 2020, Financial and Corporate Services report CR_8019, be received for information.

Previous Council/Committee Action

At the January 27, 2020, Executive Committee meeting, the following motion was passed:

That Administration provide a report on possible tax tools related to incentivizing the redevelopment of vacant, derelict and contaminated residential and non-residential properties.

Executive Summary

City redevelopment incentive tools can be positive (offer benefits to the owner) or negative (disincentivize the owner). The positive approach of offering grants to owners provides the most flexibility, transparency and municipal control. In specific circumstances, Council could increase tax rates as a disincentive to owners. However, this provincially-legislated approach has limited flexibility and may not spur redevelopment. Imposing a higher tax rate on derelict properties should be considered carefully to ensure fairness, equity and accuracy.

Report

The City can use positive and/or negative incentives to encourage redevelopment. Administration recommends grants as positive incentives, as the City can fully control the granting criteria, which could be used to achieve multiple outcomes. Tax tools are limited by legislation and have a built-in appeal process through the Assessment Review Board. This quasi-judicial board, or the courts, may alter the incentive tool's original intent. Grants are only given out when the municipality is satisfied that the relevant conditions are met.

Grants also have a high degree of transparency. When using tax tools, the municipality's cost can be obscured when revenue loss is offset by other property owners. In the case of a grant, a clear expenditure line within a municipal budget will

track the program's cost. This allows both policy makers and the public to transparently evaluate the efficacy of any incentive program's costs and benefits.

If Council wishes to consider negative incentives, it can increase tax rates for specific subclasses in particular instances. Council has significant flexibility to create residential tax subclasses, but is limited when it comes to non-residential subclasses. Three possible non-residential subclasses are explored below, but only one is considered workable by Administration.

Vacant Non-Residential Subclass

The vacant non-residential subclass has been considered to incentivize the development of underutilized lots — particularly in higher density neighbourhoods. Municipalities in Alberta can divide the non-residential subclass into vacant and improved subclasses.

However, in provincial legislation, the term “vacant” refers to land without any improvements. If there is gravel, asphalt, fencing or any other improvement to the land, the property is not classed as vacant. For this reason, the vacant subclass could not be used to encourage development on underutilized land.

Contaminated Non-Residential Subclass

Under province-wide legislation, subclassing for contaminated property is only available for residential properties. Under the City Charter, however, Edmonton can establish a non-residential subclass for contaminated properties, and to define the characteristics and levels that will qualify as contaminated property.

However, the City cannot require property owners to undertake an environmental assessment of their property, or to share assessment results with the City. This alone is a significant barrier to creating a subclass for contaminated properties.

In addition, the City would be limited by the new tax rate ratio cap between the residential and non-residential classes introduced in the latest *Municipal Government Act* review.

The maximum tax rate ratio between non-residential and residential is five to one. Property assessment must reflect a property's market value and known contaminated sites have very low valuations. This, in turn, brings the taxes paid down to well below what a similar non-contaminated property would pay. In order to bring the overall tax amount up, the tax rate would need to be significantly above the legislated five to one ratio, which makes the use of this subclass ineffective.

Derelict Non-Residential Properties Subclass

Under province-wide legislation, the ability to develop a unique subclass for derelict properties is only available for residential properties. Under the City Charter, however, Edmonton can establish, by bylaw, a subclass for non-residential derelict properties and define "derelict" for the purposes of the bylaw.

Creating a derelict subclass is possible, but the biggest challenge would be monitoring changes to the derelict status of properties. To apply such a rate equitably, the City would need to clearly define what falls within this category and maintain a comprehensive list. At present, the Assessment and Taxation Branch only lists eight non-residential properties as derelict with an overall municipal tax collection of approximately \$80,000. If Council chose to pursue such a tax subclass, Administration would look to review its inventory of derelict properties to ensure fairness, equity and accuracy. If a higher tax rate was applied to these property owners, they could appeal that decision through the Assessment Review Board.

The City can also create a tax subclass for derelict residential structures. There are presently 60 such properties. At the current tax rate, the City collects approximately \$101,000 from those properties.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmonton is developed to support growth and social, cultural, economic and environmental well-being.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Edmonton is developed to support growth and social, cultural, economic and environmental well-being.	# of Derelict Residential Properties	60 Derelict Residential	The City does not have any long-term derelict properties
	# of Derelict Non-Residential Properties	8 Derelict Non-Residential	

Others Reviewing this Report

- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor