Attachment #1

Considerations for Demolition Rebates

Introduction

Under the *Municipal Government Act (MGA)*, a property's tax amount is based on its assessment value for the associated taxation year. That assessment value is based on the condition of the property on December 31 of the previous year and the market value of the property on July 1 of the previous year. Under these basic provisions alone, properties constructed or destroyed within the current taxation year are not subject to tax adjustments (increases or decreases). The questions are simply: "what was the state of the property at the end of last year?" and "what would that property have sold for on the open market on July 1 of last year?"

The MGA also includes provisions to allow a municipality to capture property value uplift when construction completes midway through the year. This process, known as the supplementary assessment process, allows the municipality to apply the current year's tax rate on the value increase for the prorated portion of the year that the property is fully complete. The supplementary assessment process is an optional provision within the MGA and must be enacted by bylaw. Edmonton enacts such a bylaw annually. In 2018, the supplementary assessment process raised approximately $4.8 million in additional revenues.

The MGA does not discuss reducing property taxes when buildings are demolished midway through the year, but Council's 1998 tax adjustments and rebate policy provided a similar prorated rebate when buildings were voluntarily demolished. As part of the rebate provision, the policy specified that the site had to be cleared before the end of the year and that the building could not be in the process of being renovated in order to qualify. The 1998 provision read:

> <u>BUILDINGS VOLUNTARILY DEMOLISHED</u>
>
> 1. A building voluntarily demolished and the site cleared, Council will authorize a building tax abatement for that portion of the year from the date of demolition to December 31 of that year.
> 2. A building or part of a building which is voluntarily demolished but the building is in the process of being renovated will not be considered for rebate by Council.

During the 2018 policy review, Administration considered several factors related to this rebate provision. Among them was consideration of the original intent as well as the associated costs of leaving it within the updated policy. In review of the original intent, Administration interpreted the provision as addressing residential requests, and that non-residential demolitions were excluded with the addition of the second provision. From an equity perspective, however, excluding a group of properties based on their classification seemed inappropriate. Rather than explicitly excluding non-residential properties from the updated policy, Administration recommended a maximum rebate of $10,000. This would effectively provide a full rebate to most demolition requests and limit the City's liability and risk with much larger demolition projects.

Council removed this proposed update in favour of a complete elimination of the voluntary demolition provision. Since C607 was passed in January 2019, Executive Committee requested a review of this provision and associated options. Three options are provided below along with additional considerations, but Council is not limited by the options outlined.

Options

1. <u>Maintain the Current Policy (Recommended)</u>
   This approach would affirm Council direction in October 2018 and associated decision in January 2019, resulting in no rebate provision in the case of voluntary property demolition. Such an approach would have no further associated financial costs.

2. <u>Return to the Original Policy Direction</u>
   This approach would return to the original policy that provided for rebates in the case of voluntary property demolition. Compared to Options 1 and 3, this approach would have the highest financial cost that could range from a few thousand dollars per year to several hundred thousand dollars per year, depending on the requests received.

3. <u>Provide a Rebate and include a Capping Provision</u>
   This approach grants a rebate in the case of voluntary property demolition, but caps the total rebate available per request. The 2018 proposal capped rebates at $10,000, but Council could choose any cap amount. The higher the cap, the higher the potential cost and associated liability.

Additional Considerations

If Council chooses to reinstate a rebate provision for voluntary property demolition, a few additional considerations should be reviewed.

First, Council should consider whether the new provision will be restricted to residential requests. If so, the associated costs of such a provision would be substantially lower, but the equity of the approach may be questioned.

Second, Council should consider the meaning of “site cleared”. Under both the prior policy and the proposed updates in 2018, the rebate was only to be considered if the site was cleared. The rebate, therefore, acted as an incentive for property owners to clear their site of debris and remove unsightly building materials. In 2018, Council considered the BMO Bank site to be cleared. This raised policy questions regarding Council's intent. Leaving this section vague provides Council with additional flexibility, but introduces inequity in the approach as different Councils may choose to interpret the meaning of "site cleared" differently.

Finally, Council should consider the meaning of "under renovation" or "under reconstruction". The original policy disqualified projects that were demolished but subsequently "under renovation". From a policy perspective, the concept was that the property owner made a conscious choice to demolish their building with the intent to renovate or rebuild. Such a project would be a normal activity that did not warrant a tax rebate. The proposed updated policy changed the language from "under renovation" to "under reconstruction" to clearly disqualify sites that were being fully reconstructed - even if that reconstruction took several years. From a policy perspective, such a provision would negate the possibility of unintended market interactions, like incentivizing the delay of redevelopment in order to receive a tax rebate. In essence, should property owners in the midst of redevelopment also qualify for a rebate?

Policy C607 has been delegated to the City Assessor to administer. Clear Council direction would support the policy's consistent application going forward.