Use of “Bill 7” Tools - Rural Standard Industrial Park Servicing

Application of "Bill 7" Property Tax Tools

Recommendation

That the October 16, 2020, Financial and Corporate Services report CR_8021, be received for information.

Previous Council/Committee Action

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

> That Administration conduct further analysis of the use of “Bill 7” tools (and other applicable mechanisms) to introduce a non-residential tax subclass for rural standard industrial parks with a substantially lower service and/or infrastructure standard (e.g. Winterburn, Maple Ridge, Mistatim and Horse Hill) arising from their heritage of County-level servicing prior to annexation, and provide a report back to Committee.

At the May 25-27, 2020, City Council meeting, the following motion was passed:

> That the remaining $675,000 in the Building Great Neighbourhoods capital profile CM-40-4040 be used to continue work on infrastructure development in Mistatim, Southeast and Winterburn Industrial and that Administration explore options to leverage the tools in Bill 7 Property Tax Incentives, Amendment Act 2019 and return to Committee prior to the Fall 2020 Supplemental Capital Budget Adjustment.

Executive Summary

Under the *Municipal Government (Property Tax Incentives) Amendment Act* (Bill 7), the City of Edmonton can create full or partial tax exemptions to encourage the development or revitalization of non-residential properties, for the general benefit of the municipality. The City may also choose to defer tax collection. This tool can reduce taxes on lower service industrial areas, though practical and policy matters should be considered.

Report

Bill 7 Overview

On June 28, 2019, the Government of Alberta passed the *Municipal Government (Property Tax Incentives) Amendment Act*, otherwise known as Bill 7. Bill 7 allows municipalities to create full or partial tax exemptions to encourage the development or revitalization of non-residential properties, for the general benefit of the municipality. The City may also defer tax collection. The Act does not allow for the creation of separate tax subclasses, although a similar effect is possible through exemption.

Supporting Development vs. Supporting Existing Property Owners

In applying this Act to lesser serviced/unserviced industrial areas, a distinction should be made between (1) encouraging new development and (2) reducing taxes for existing property owners. The latter is the focus of this report. To address the former, the City has an Industrial Infrastructure Cost Sharing Program that supports the servicing of new industrial development. This uses the eventual tax uplift, or revenue added by the development, to pay down over-expenditures.

Considerations include:

- the assessed value of the property, and the associated property taxes, take lack of servicing into account. All other things being equal, a fully serviced industrial property would be assessed and taxed at a higher amount than an unserviced industrial property.
- some property owners in unserviced industrial areas may not require servicing upgrades. Current servicing and assessment value may have been part of their reason for buying there.
- Edmonton’s service levels are not limited to water and sewer. Property owners in Edmonton still benefit from the city’s fire, police and transit services, among others.
- not all industrial businesses are seeking fully serviced areas and may choose to move out to neighbouring rural municipalities if servicing resulted in increased assessment values and associated higher taxes.

Revitalizing Business vs. Servicing and Redevelopment

Using Bill 7 to reduce property taxes on existing property owners may be justified under at least two different approaches. First, the City could argue that “revitalization” refers to the revitalization of industrial businesses and that providing tax reductions would help grow those businesses. Upgrading servicing would not be considered under this approach, but tax exemptions could be provided to bring tax liability closer to county rates. Second, Council may establish a tax exemption to be offset by a local improvement in the relevant area. In this case, property owners would pay into a local improvement, but also receive a tax reduction. This would satisfy the Act’s intent to encourage redevelopment more directly.

For Council to reduce taxes for unserviced properties under the first approach, it would need to determine which missing services would qualify a property for the “unserviced” exemption category. The following table outlines the taxes paid by unserviced non-residential property in Edmonton, as well as what would be collected if Edmonton applied the tax rates of other rural jurisdictions (assuming the same assessment value). Paving is not considered because this factor is not tracked in the City’s assessment models. In many cases, the numbers will overlap between categories:

<u>Edmonton’s Unserviced Industrial If Collected at Neighbouring County Rates</u>

Taxes by Jurisdiction if at Edmonton’s Assessed Value	Lack of Water	Lack of Sanitary-Sewer	Lack of Water and Sanitary-Sewer	Lack of Storm-Sewer
Edmonton	$19.9M	$26.8M	$19.4M	$42.9M
Sturgeon County	$11.2M	$15.0M	$10.9M	$24.1M
Strathcona County	$10.2M	$13.8M	$9.9M	$22.0M
Parkland County	$9.0M	$12.1M	$8.7M	$19.3M
Leduc County	$7.0M	$9.4M	$6.8M	$15.0M

These tax numbers for non-residential accounts are based on existing data and reflect approximately 500 that lack water service, 600 that lack sanitary service and 800 that lack storm-water service in Edmonton. If Council sought to create a tax exemption, the assessment area would review each property in more detail to ensure accurate assessment data.

Using the above data, the budget impact of an industrial tax exemption would be between $8.5 million in the lowest scenario and $27.9 million in the highest scenario. This would mean a tax increase of between 1.1 percent and 3.5 percent across other non-residential properties.

If Council looked to reduce taxes to offset a local improvement levy, the exemption would likely be based on the local improvement cost and area being upgraded. Local improvement costs can be distributed in a variety of ways. If a local improvement were set up to allocate costs based on frontage, some property owners may end up paying more in local improvement charges than they received in Bill 7 exemptions, while others may receive more Bill 7 exemptions than they paid in local improvement charges. On the other hand, if the costs of a local improvement were distributed based on the assessed value of properties, a tax exemption would roughly offset the local improvement cost. However, a local improvement that is funded by property taxes and offset by a property tax reduction would be an unnecessary use of Bill 7.

There are additional cautions regarding an offsetting local improvement approach. First, local improvements cannot proceed if a majority of property owners (for above ground improvements) or two-thirds of property owners (for underground improvements) petition against them. This has been a difficulty for some underground improvements, because of the cost. Second, for major infrastructure upgrade projects, the annual cost of the local improvement may exceed the tax levy for property owners in some cases.

Mistatim, Southeast and Winterburn Industrial Servicing Study Update

The servicing study continues to explore servicing options, costs for service upgrades and potential upgrade prioritization in these areas, based on past Council direction and as referenced in the May 25-27 motion. The completed study is expected by the end of 2020.

Regulated Property Review Implications

The Government of Alberta is reviewing their assessment methods for wells, pipelines and associated machinery and equipment. It is expected that this review will result in significant reductions to those assessment values. The City of Edmonton will be less affected by these changes, in part because machinery and equipment is exempt under bylaw, but surrounding counties may see increases to their non-residential tax rates, which would impact the above analysis.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmonton has a diverse and prosperous economy that thrives locally and globally			
Outcome(s)	**Measure(s)**	**Result(s)**	**Target(s)**
Edmonton has a diverse and prosperous economy that thrives locally and globally	Tax assessment ratio of residential to non-residential	75/25	Maintain or increase ratio

Others Reviewing this Report

- J. Meliefste, Acting Deputy City Manager, Integrated Infrastructure Services
- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor