

Leduc County Annexation Area

Taxpayer Support Options

Recommendation

That the February 1, 2021, Financial and Corporate Services report FCS00021rev, be received for information.

Previous Council/Committee Action

At the October 26, 2020, Executive Committee meeting, the following motion was passed:

That the October 26, 2020, Financial and Corporate Services report FCS00021, be referred to Administration, to examine options to support taxpayers in the annexed area, and return to Committee.

Executive Summary

On October 26, 2020, Executive Committee requested that Administration examine options to support taxpayers in the annexed area. This report provides more details regarding the tax impact to residential taxpayers in the annexed area and offers three options for Committee's consideration. They include: (1) maintaining the status quo, (2) offering a tax deferral until the end of 2021 and (3) phasing in the 2020 tax increase to affected accounts over a four year period.

Report

On October 26, 2020, Executive Committee heard from a number of Leduc County residents who expressed frustration with their tax increases. The group explained their understanding that taxes would remain at pre-annexation levels and that wording within the annexation order suggested that Edmonton should assess properties "on the same basis as if they were in Leduc County".

The original Committee report provided context, outlining that the City of Edmonton reached an annexation agreement with Leduc County. This agreement was subsequently followed by an annexation order that outlined the terms of transition. As part of that agreement, the City of Edmonton would assess parcels in the annexed area for taxation purposes starting in 2019, but the tax rate would remain the lower of the two tax rates (Edmonton or Leduc County) for the next 50 years, unless certain development conditions were met. Speaking to the argument of assessing "on the same basis" as Leduc County, assessment methodology is provincially legislated and

the same for both municipalities. Where there are slight urban/rural distinctions (e.g., the treatment of farm buildings) the rural approach was followed.

Administration confirmed that the annexation order was being followed and that the Leduc County tax rates were still applying where applicable. However, tax increases were noted on 138 of 364 tax accounts. These increases were primarily due to property assessment value changes related to either market analysis or data corrections. Annual changes to property values are a normal part of the assessment process, but the difference in value upon reassessment was more pronounced for some property owners.

There is a difference between market value changes and data adjustments. For some property owners, particularly those closest to development along 41 Avenue, market analysis suggested higher property values were warranted. However, there is a second category of assessment increases that relate to data adjustments. If, for example, a property was being assessed as farmland, but the City noted storage yards or other non-residential uses, the area being used for those purposes was assessed and taxed as non-residential property in accordance with the legislation. In these instances, Leduc County's non-residential tax rate was used, but the tax rate change along with the assessment change, from regulated farmland values to non-residential market values, impacted a property owner's tax incidence.

There were also properties that experienced assessment decreases. As noted above, while 138 of 364 properties experienced increases, 226 accounts experienced an assessment decrease or no assessment change.

Residential Tax Impact Analysis

As Council considers possible taxpayer support options, Administration has performed further analysis to review the actual tax impact to residential property owners in the annexed area. That analysis showed a subset of 204 properties that had a residential component in both 2019 and 2020. When considering only residential tax changes, 77 of those accounts experienced tax increases while the remaining 127 experienced tax decreases. Examining the total tax impact, the overall municipal tax change to residential property within the annexed area resulted in an overall tax decrease of a little more than \$9,000. The table below provides more context:

Residential Tax Impact to Leduc County Annexation Properties

	# of Accounts	Total Tax Impact
Residential Accounts Experiencing Tax Increases	77	~\$42,000
Residential Accounts Experiencing Tax Decreases	127	~(\$51,000)

Total	204	~(\$9,000)
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Taxpayer Support Options

Given the information above, Council may wish to consider one of three options. The options outlined below would only apply to residential tax accounts and residential municipal tax amounts (education tax would be excluded). Residential accounts were the focus to support impacted homeowners rather than businesses.

Option 1 - Status Quo

Acknowledging that assessment changes are a normal part of the assessment process, this approach would allow market adjustments to take place with their associated tax implications. Property owners who disagree with their market value assessment are encouraged to review their assessment data and compare their value against local property sales and then contact their assessor to discuss any concerns. If an error is noted, the assessor can make an adjustment at no cost to the property owner. If the error is factual in nature (e.g., an incorrect building size), then Council's existing Retroactive Tax Relief Policy C607 would take effect and the property owner would qualify for a prorated rebate from the previous tax year (in this case, 2020). If, after a discussion with the assessor, a dispute remains, then the property owner has the right to file a formal complaint with the Assessment Review Board (ARB).

Option 2 - Tax Deferral

Under the first approach, property owners who believe their assessment is incorrect are encouraged to contact the ARB to dispute their property's assessment value. However, the hearing of assessment disputes often takes place after taxes are due (June 30) thereby requiring tax payers to pay their taxes before their complaint is heard.

Under option 2, the City could defer the payment of taxes until the end of 2021 (effectively removing the five percent monthly penalties applied in July, September and November and eliminating tax arrears penalties). This would provide annexed property owners additional time to confirm the correct value of their property with the ARB without the need to pay in advance. Any changes by the ARB would subsequently reduce the property owner's overall tax amount.

Furthermore, option 2 proposes to provide a prorated tax rebate for the 2020 tax year for any property owner that successfully reduces their assessment at the ARB in 2021. This option provides taxpayers with additional time to pay and encourages them to direct any concerns regarding their property value to the ARB.

If Committee directs Administration to proceed with option 2, then residential tax accounts in the annexation area will not accumulate any penalties in 2021 and effectively have their 2021 tax deadline moved to December 31, 2021.

Administration would bring back a report recommending that Council approve a 2020 tax rebate on the condition that the ARB reduces the 2021 assessment. The amount of the 2020 rebate will be equal to the difference between the 2021 revised assessment and the 2020 assessment. The rebate will not exceed the 2020 residential municipal tax increase.

Option 3 - Property Tax Phase-In

As a final option, Committee may wish to direct Administration to use a property tax phase-in approach. Under this approach, residential property owners that experienced 2020 tax increases would have their 2020 tax increases reduced to 25 percent of their original level, 50 percent of their level in 2021 and 75 percent of their level in 2022, with a return to normal taxing levels in 2023. These tax reductions would take the form of annual Council rebates, meaning that the reduced amounts would not be owed by the taxpayer in subsequent years. To help illustrate this option, an example is provided below:

	2019	2020	2021*	2022*	2023*
Without Phase-In	\$2,289	\$2,804	\$2,804	\$2,860	\$2,917
With Phase-In	\$2,289	\$2,418	\$2,547	\$2,717	\$2,917
Difference	\$0	(\$386)	(\$257)	(\$143)**	\$0

**Assumes a 0% increase in 2021 and a 2% increase in 2022 and 2023 - for illustrative purposes only (does not consider Leduc County tax rate changes)*

*** An example, the calculation would be: (\$2,860 - \$2,289) x 25%*

This approach acknowledges that some property owners in the annexation area experienced larger than expected tax increases in 2020 and eases the transition to the new tax amount. Under this approach, property owners still have the right to file a formal complaint with the ARB in 2021. The ARB may still decide to reduce their 2021 tax amount. In this case, the tax phase-in would still apply, but to the new tax amount (assuming it is an increase from 2019 levels). If physical changes take place on the property (e.g. new construction), the property meets a term of the annexation order that transitions the property to the City of Edmonton tax rate, or the property transfers ownership before Council approves the forgiveness, the phase-in program would cease to apply.

While option 3 provides the greatest benefit to property owners, a four-year phase-in would require significant administrative effort to manually maintain and

would require a report and motion by Council in 2021 and 2022. As an alternative, Council could provide the entire benefit of a phase in program - effectively a rebate of 1.5 times the 2020 tax increase - immediately. This would simplify the process, but would mean that some of the 77 accounts ultimately pay less in 2020 tax than do some of the 127 accounts that experienced a tax decrease.

Budget/Financial Implications

If Council opts to provide a tax phase-in as described in option 3, the overall cost over the four-year period is projected to be approximately \$75,000. This cost can be absorbed by the City's existing budget for annual tax losses with no further impact to the tax levy.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Property taxes are fairly distributed in accordance with provincial standards and market value principles	Average Assessment to Sales Ratio across four quartiles (Single-family Res)	1.002 in 2020	0.95 - 1.05
	Average Coefficient of Dispersion across four quartiles (Single Family-Res)	6.8% in 2020	<= 15%

Others Reviewing this Report

- B. Andriachuk, City Solicitor