Pending LRT Lines and City-wide Transit Routes Assessment Growth Options

Recommendation

That the March 1, 2021, Financial and Corporate Services report FCS00132, be received for information.

Previous Council/Committee Action

At the October 16, 2020, Executive Committee meeting, the following motion was passed:

> That Administration report back to Committee on options, including but not limited to linear Community Revitalization Levies for capturing a portion of assessment growth along pending LRT lines and city-wide transit routes to cover a portion of their construction and operating costs based on catalyst effects and localised benefit.

Executive Summary

Capturing assessment growth along pending LRT lines and city-wide transit routes is possible, but the growth revenue from those areas is already accounted for within the City's operating budget. Any diversion of growth revenue to pay for new projects will result in a revenue deficit requiring tax increases or spending cuts.

Formal Community Revitalization Levies (CRL), as approved by the Government of Alberta, allow a municipality to charge an additional levy to property within the CRL that is equivalent to the Provincial Education Tax, above the CRL baseline. This effectively places an offsetting municipal tax increase on a portion of the assessment base where education tax is removed. Because of this mechanism, CRLs shrink the education tax base and place greater pressure on the education tax rate. The Government of Alberta has expressed a reluctance to create additional CRL areas.

Report

Each year, new construction, property upzoning, subdivisions and exemption changes affect the value of properties. These kinds of changes in value are termed "real growth," and are distinct from market value changes. Market value change results from market forces (supply and demand) and does not affect City revenues. Real growth occurs when property changes physically (e.g., new construction, dividing one parcel into two parcels) or legally (e.g., tax exemption status, effective zoning). Real growth increases City revenues.

Growth is primarily driven by market demand. Incentivizing construction within a particular area, either by way of grant programs or infrastructure enhancements, may accelerate growth in that area, but the new construction forms part of overall demand in the city; construction demand in other areas of the city may decrease correspondingly. Incentives promote construction in certain areas but do not necessarily result in additional growth overall. Major industrial or commercial development could be an exception, where incentives might tip decisions for businesses considering where to locate nationally or regionally. However, incenting this type of growth is challenging with municipal resources alone, and the effectiveness of municipal incentives is difficult to determine.

Executive Committee's motion asks how revenue from new growth can be captured to cover construction and operating costs of the new LRT network. While Administration is able to report where growth takes place in the city, growth revenue is captured each year as part of the City's budget practices. Growth is built into the base operating budget before tax increases are contemplated. If future growth revenue is pre-allocated to specific projects, the City would have to change its current budget prioritization process, putting pressure on tax levies in future years.

Tax Increment Financing and CRLs

Tax increment financing (TIF) is a method that uses the growth in tax revenues above an established assessment baseline within a specific area to finance an economic development project or public improvement project within that same area. Infrastructure projects that enable a higher value, more intensive, or better form of land development to take place (e.g., development or redevelopment of roads, sidewalks, sewers or parks) are the most common applications of this method.

Through the use of TIFs, municipalities divert property tax growth revenues within a defined area from their general revenues, and towards projects within that same defined area. The consequence of this financing method is that the rest of the tax base makes up for the diversion, either in the form of tax increases or budget reduction strategies. Raising revenue for specific LRT projects can be done without a TIF if Council allocates a portion of its budget for these projects, and keeps the assessments within that area as part of the total assessment base that calculates the tax rates.

CRLs are a form of tax increment financing that must be approved by the Government of Alberta. Revenue generated from assessment growth over a defined baseline, including what would otherwise be collected for the Provincial Education Tax, is diverted into the CRL area. This effectively increases education taxes for all Albertans because the incremental assessment in the CRL area is no longer used to cover that portion of the province's education requisition. Since 2014, the Government of Alberta has declined to create additional CRL areas.

CRLs distort property taxation. Under normal circumstances, market value changes do not affect overall City revenue; rather, they redistribute the overall tax requisition according to the relative value of property. However, because CRL assessment above the baseline is not used to reduce the overall tax rate, market value increases effectively increase CRL revenues and vice versa. CRLs also capture any future growth revenue to be allocated to CRL revenues. This reduces the general municipal growth revenue available during the budget process and increases pressure on the non-CRL tax base. CRL financing costs begin as soon as the debenture is issued, but the tax uplift from development may not be realized for several years. During this transitional period, the City draws upon its working capital, or reserves, limiting the City's financial flexibility.

Using a CRL bypasses Council's capital budget prioritization process. Since CRL projects have a dedicated funding source that cannot be used for any other purposes, there is no ability to prioritize these projects against other tax-funded capital projects. For these reasons, Administration does not recommend using CRL approaches to capture growth that may occur because of LRT expansion in an area.

Data Analysis

Between 2016 and 2020, growth has accounted for an average revenue increase of $33 million annually, the equivalent of approximately a two percent annual tax increase. To illustrate how growth has been captured within the South East Valley Line expansion, Administration has performed a five year analysis on growth using a walkable distance (1.2km) around each newly planned LRT stop. Downtown growth has been omitted as it is already captured within the Downtown and Quarters CRLs.

Growth Around Valley Line Stations South of the River

	2020	2019	2018	2017	2016
LRT Area Growth	$0.3M	$0	$1.0M	$1.0M	$0
Citywide Growth	$32.3M	$30.7M	$27.6M	$31.3M	$43.4M
Percent of Total	1.0%	0%	3.5%	3.2%	0%

Attachment 1 visualizes overall growth patterns. The image shows that growth is dispersed across the city. There are growth accounts within the LRT area, but larger concentrations of growth are typically found downtown or in greenfield development areas.

While Administration does not recommend the use of tax increment financing, it can provide Council with detailed reporting and analysis of property growth near LRT lines and transit routes. Reporting where growth takes place would not result in additional revenue for the City, but would partially quantify the amount Council could dedicate for specific purposes, such as transit, and will help inform locations where future investments could be made. Analysis of growth along transit routes could support future budget prioritization, however if growth revenue is allocated to specific projects, overall revenue for use in the rest of the city would decrease.

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)**
The City continues to experience positive growth	Annual Growth at Tax Bylaw	\$32.3M in 2020 \$30.7M in 2019 \$27.6M in 2018 \$31.3M in 2017 \$43.4M in 2016	N/A

Attachment

1. 2020 Growth Visualization

Others Reviewing this Report

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