

## Estimate Context and Considerations

### Overview

Before discussing the three proposed requisition estimates, there is value in articulating how both property taxes and provincial education taxes are calculated. The two property tax formulas are:

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| <p><b>1. Tax Rate Formula (Budget-Based)</b></p> $\frac{\text{CITY BUDGET}}{\text{ASSESSMENT BASE}} = \text{TAX RATE}$ | <p><b>2. Individual Property Tax Formula</b></p> $\frac{\text{PROPERTY ASSESSMENT}}{\text{TAX RATE}} = \text{PROPERTY TAX}$ |
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Similar to the City of Edmonton, the Government of Alberta sets a budget that reflects the total amount of revenue it wishes to collect for education tax. Municipal Affairs collects assessment information from every municipality and develops its own assessment base known as the “equalized assessment”. Whereas Edmonton’s assessment information reflects the market value of property in the previous year, the Government of Alberta’s equalized assessments reflect property values from two years ago -- for example, the Government of Alberta will use a municipality’s 2018 tax year’s information to calculate their 2019 equalized assessment.

Once a Provincial budget and the assessment base are set, the Government of Alberta is able to set appropriate education tax rates for the residential and non-residential class. Rather than applying the same budget increase to both classifications, the Government of Alberta applies a tax rate ratio of 1:1.47 residential to non-residential. This can result in the education tax burden shifting between residential and non-residential based on market fluctuations.

Once the education tax rates are set, then the Government of Alberta applies those rates to the equalized assessment bases of each municipality and issues them two requisitions - one for residential and another for non-residential. Each municipality must then take those education requisition amounts and create new education tax rates that reflect their current assessment roll. No matter which option is chosen, the City will ultimately pay.

### Estimating a Requisition Increase

In estimating Edmonton’s 2019 requisition, two primary questions must be addressed: (1) what does the City expect the 2019 Government of Alberta education requisition to

be and (2) how has the City's assessment base changed compared to the overall province-wide assessment base? The first question addresses the overall amount the Government of Alberta will be looking to collect, while the second question addresses what Edmonton's share of that amount is expected to be.

### **1(a) Best Estimate (Recommended)**

The first estimate is based off using Administration's best available information. This would result in a total requisition of \$506,011,172. This is Administration's recommended approach as it is likely to be relatively accurate.

In addressing the expected 2019 Government of Alberta education requisition, Administration examined the Government of Alberta's 2018-2021 Fiscal Plan. That Fiscal Plan targets an education requisition increase of 6.1% in 2019 (from \$2,446M to \$2,596M). The reason for this larger than typical increase is a result of the Government of Alberta freezing its education requisition increase in 2018 at the 2017 levels, effectively deferring a 4.7% increase in 2018. The 2019 increase, therefore, represents a two-year catchup to the Government of Alberta's budget needs. As part of estimating the requisition increase amount, Administration also notes that the Government of Alberta has a stated policy to target that education property tax cover 32% of the total education operating budget. In 2017, that share was 31.2%. The 2019 target had the number continue to climb to 31.6%, reaching 32% in 2020.

In addressing how Edmonton's assessment base has changed compared to the overall province-wide assessment base, Administration has reviewed the Government of Alberta's 2019 Equalized Assessment Report. Equalized assessment information is used by the Government of Alberta to determine each municipality's share of the total requisition. Edmonton's average share of the overall requisition is approximately 20% and moves slightly above or below this number depending on the year. Using the 2019 equalized assessment, Administration has determined that Edmonton's share in 2019 will be approximately 19.49%. This is slightly lower than Edmonton's average as well as Edmonton's 2018 share. This means Edmonton should expect a lower proportionate share of the education requisition in 2019 than it had in 2018.

Edmonton also needs to consider how that distribution breaks down between its residential and non-residential property classes. To do this, province-wide 2019 equalized tax rates were calculated using the 2019 target budget and the 2019 equalized assessment data.

**1(b) Using the 2018 Education Tax Requisition**

Alternatively, Edmonton can set an education tax rate using the same education requisition amount as was requisitioned last year. This was one option suggested by members of Provincial administration and would result in a total requisition of \$480,478,898 (the same as last year).

Such an approach would not take into consideration any 2019 education budget increase nor would it reflect a possible greater share of the education tax requisition that Edmonton is expecting in its review of the equalized assessment data. Given the Government of Alberta's decision to cap the requisition in 2018, it is unlikely that it will decide to maintain the same requisition again.

This approach would result in the smallest impact to Edmonton property owners in 2019 (who would actually see an education tax decrease), but is also likely to result in a significant education tax increase in 2020. Based on the Government of Alberta targets as outlined in its 2018-2021 Fiscal Plan, the education requisition increase is targeted to be 10.8% higher than 2018 levels.

Under this approach, it should also be noted that the City of Edmonton will still be required to pay the Government of Alberta its total education requisition once their 2019 budget is set. If Edmonton only collects an education requisition based on 2018 levels, there may be a projected shortfall of \$25.5M that Edmonton would need to finance internally.

**1(c) Using 2018 Equalized Tax Rates with 2019 Equalized Assessments**

In correspondence with the Government of Alberta, members of their administration have suggested another possible approach would be to estimate the education requisition by using the 2018 equalized tax rates and applying those rates to the 2019 equalized assessments. This would result in a total requisition of \$490,232,671.

Such an approach does not target a specific education requisition increase, but does result in a 2% increase for the City of Edmonton (impacts on each class will vary).

The education requisition increase under this approach that falls between the other two approaches, but not by design. In maintaining the 2018 education tax rates in the face of increasing assessment values, the City of Edmonton would essentially be collecting additional education revenue from any upward property value changes. This is not how

tax rates should work in practice, but this approach has been adopted on a few occasions by the Government of Alberta in previous years.

As with the previous scenario, the City of Edmonton will still be required to pay the Government of Alberta its total education requisition once it is set. Under this scenario, that education revenue shortfall is projected to be \$15.8M, which would need to be financed internally by the City of Edmonton.

### **Additional Considerations**

Regardless of which option is chosen, there are three additional factors that are built into each scenario (1) education requisition allowance levy, (2) annual over-under calculations and (3) the additional education requisition from annexed parcels. The education requisition allowance is established each year to accommodate for current year tax losses due to assessment changes (typically Assessment Review Board driven). Over-under levies adjust for the difference between the actual changes in the education tax base during the previous year and the requisition allowance established for that year. Additional education requisition from annexed parcels is based off the most recent Leduc County annexation arrangement and results in approximately ~\$500,000 to each requisition estimate.

Once the final education requisition in each scenario is appropriately calculated, the impact to the typical property owner will be less than the education requisition increase because real growth in the City's assessment base helps to finance some of the education requisition increase. See the impact document (provided as Attachment 2) for the full breakdown.