Residential/Non-Residential Assessment Ratio - Analysis

Recommendation

That the April 12, 2021, Urban Form and Corporate Strategic Development report CR_8017, be received for information.

Previous Council/Committee Action

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

> That Administration provide an analysis on what would be required to shift our residential/non-residential assessment ratio from 75% / 25% to 70% / 30%, to return at the same time as the Industrial Action Plan.

Executive Summary

A strong non-residential tax base is economically beneficial to the City's overall fiscal stability. Given the complexities and magnitude of the existing residential and non residential tax bases, achieving a 70/30 residential/non-residential assessment ratio within a 10 or 20 year time frame presents significant challenges due to the high value of industrial and other non residential growth needed to shift the ratio. The non residential tax assessment base is composed of several property market values including industrial, hotel/motel, land, office, retail, and special purpose. These components can often shift up or down independently. Shifting the residential/non-residential assessment ratio through industrial growth would require the City of Edmonton to induce a 6.1 percent year-over-year increase in industrial assessment over the next 10 years or a 3 percent year-over-year increase over the next 20 years to reach a 70/30 assessment ratio.

Report

As the single largest revenue source for the City of Edmonton, property tax is a vital component of City finance. Assessment classes form the basis of calculating property tax rates. The *Municipal Government Act* provides four major assessment class categories: Residential, Non-Residential, Machinery and Equipment and Farmland. The tax base for each class is the total assessed (market) value of all the properties in that class. In Edmonton, the two largest assessment classes are residential and non-residential as Machinery and Equipment is not taxed and farm land makes up only a fraction of a percent of the overall base.

As currently approved by Council, non-residential properties pay a higher tax rate on their assessed value. By growing the non-residential tax base relative to the residential base, non-residential revenues grow at a higher rate, which can offset the tax required from the residential tax base.

Recognizing the importance of the non-residential tax base, Administration brought forward the June 21, 2016, Sustainable Development report CR_3019, Industrial Transformation Road Map Implementation Plan to Executive Committee. The report provided an analysis of the fiscal impacts of industrial growth including a brief discussion on the City's residential to non-residential assessment ratio. The report explored the current assessment ratio and what it would take to shift the ratio to 70 percent residential and 30 percent non-residential. The report concluded that in 2016 it was not realistic for the City of Edmonton to achieve a 70/30 ratio within a 10 or even 20 year horizon. The Industrial Investment Action Plan was developed at this time and contained a series of actions to support industrial non-residential growth. Additional detail on previous analysis can be found in Attachment 1.

Since 2016 there have been significant changes to Alberta's and Edmonton's regional economies, even before the recent effects of the COVID-19 pandemic. Overall growth has slowed significantly in both residential and non-residential sectors; however, the ratio between residential and non-residential tax assessments continues to shift in favor of the residential tax base.

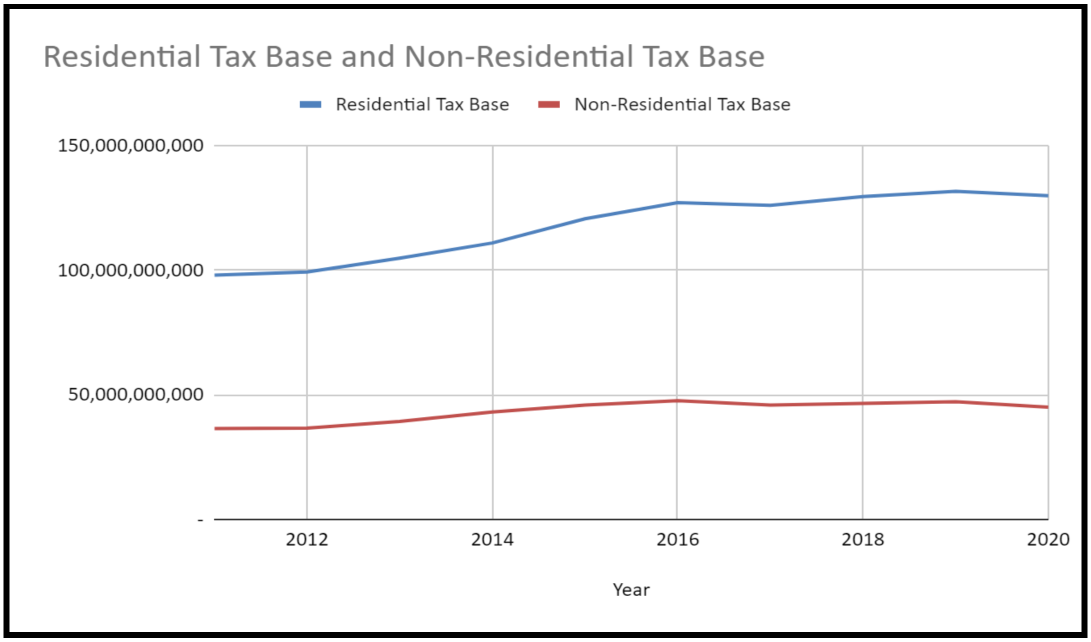

Figure 1

Figure 1 shows that residential growth outpaced industrial growth from 2012 to 2016, then both remained relatively flat to 2020.

The updated 2020 analysis shows that it would require an additional $10.6 billion in non-residential property assessment to be added to the existing tax base to shift the Assessment ratio to 70 percent residential and 30 percent non-residential. Spreading that out over 10 years, it would take an additional $1.06 billion per year of non-residential growth assuming no additional residential growth. Over 20 years it would require an additional $530 million in annual non-residential growth.

It is difficult to compare the additional required assessment growth to current growth rates because, over the past five years, the value of the non-residential tax base has decreased by $2.6 billion. There has been construction and new developments in the past five years; however, at the same time, the overall assessed value of non-residential properties has dropped more in value than it has gained in new construction. Given the negative growth status of the non-residential tax base, it is unlikely that the City could generate an additional $1.06 billion of non-residential growth each year for 10 years (or $530 million per year in 20 years) to reach a target of a 30 percent non-residential tax base.

Next Steps

Despite the challenges associated with shifting the tax ratio, Administration continues to advance economic development in support of non-residential growth. The non-residential base's net-positive contribution to the City's finances makes growing the non-residential tax base an imperative to support Council's goals of a prosperous region and a healthy livable city with amenities and services for the citizens. There is no one solution to growing the non residential tax base. Instead it will require a wide range of actions to attract investment, maintain competitiveness and support existing businesses to thrive and grow.

There are a number of actions Administration is taking to support this work:

- April 12, 2021, Urban Form and Corporate Strategic Development report UFCSD00208, Economic Action Plan, also at the April 12, 2021, Executive Committee, outlines a range of economic development activities that will support industrial growth. A detailed summary of the actions supporting industrial growth and alignment with the Industrial Action Plan actions are found in Attachment 2.
- Administration continues to support the investment attraction work of Edmonton Global, which will be an important part of supporting economic diversification and growing the non-residential tax base. Working with the City's economic development partners in the region is an important part of making Edmonton an attractive place to invest.
- The Client Liaison Unit continues to support efficient processes to reduce red tape and provide enhanced customer service in support of development, including non-residential development.
- Improving the City's permit and licensing services and reducing regulatory requirements (e.g., Zoning Bylaw Renewal) is critical to support, attract and grow businesses in Edmonton.
- The City Plan sets a course that supports a focus on urban redevelopment and densification in nodes and corridors. City Plan is expected to further support higher rates of growth in urban commercial employment uses such as office and retail. It is anticipated that over the longer term this will result in a higher corresponding impact on forecasted assessment growth, which will ultimately support the City's fiscal stability.

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)**

Edmonton Region is a catalyst for industry and business growth	Positive year over year increase in the percentage of the non-residential tax base in relation to the residential tax base	25.9 percent Non-residential tax assessment base relative to the total tax assessment base for the City (2020)	Targets would be positive year over year non-residential growth results relative to residential growth and relative to other municipalities in the region

Attachments

1. Summary of Previous and Current Assessment Ratio Analysis
2. Summary of Industrial Actions within Economic Action Plan

Other Reviewing this Report

- M. Persson, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- K. Fallis-Howell, Acting City Solicitor