Subject: NON-RESIDENTIAL PROPERTY TAX OPTIONS

Recommendation(s)

That the report entitled “Non-Residential Property Tax Options”, provided as Attachment 1 to the September 14, 2015 agenda report entitled “Non-Residential Property Tax Options”, be received for information.

Purpose of Report

The purpose of this report is to bring to Council’s awareness, a variety of plausible non-residential tax-related options that may assist in accelerating the change in property tax split away from the residential class of property. This will result in less reliance placed on residential property taxes in future tax years.

Council (and/or Committee) Direction

None

Background and Discussion

At present, change to the municipal tax split is based on a “passive” strategy and is dependent on the weighting (residential versus non-residential) and dollar value of new taxable assessment growth occurring within the City on an annual basis. This strategy allows for the gradual migration of the tax split towards the non-residential class of property, while maintaining similar municipal tax increases to non-residential versus residential property classes within the tax year in question. In the past five tax years, the tax split has migrated on average 0.3% per year, which is favourable, but still has St. Albert far behind the tax split reality of all other municipal comparators.

Reliance on future property assessment growth alone may not achieve the municipal tax split that the City desires in the medium to long-term.

As noted in the attached report, it will take 40 years at the current rate of tax split movement to achieve the identified goal of at least 30% of municipal tax levies coming from the non-residential property class.
However, in an attempt to strengthen and accelerate this tax split movement, it is identified that there are a mix of both direct and indirect tax strategies that the City can contemplate.

In combination, these strategies may provide insight to Council and Administration as to future direction the City may wish to explore in terms of its approach to municipal taxation strategy and policy, with the over-arching goal of reducing reliance on residential taxes.

**Implications of Recommendation(s)**

a) **Financial:**
   - Enactment of changes to existing tax policy may require text amendments within Policy C-FS-05 – Budget and Taxation Guiding Principles.
   - Enactment of changes to existing tax policy (tax split and tax increase philosophy) may result in changes to the 2016 forecasted tax increases by property class (residential versus non-residential).

b) **Legal / Risk:**
   - Any future contemplation of the implementation of a BIA (Business Improvement Area) would require opinion and expertise from the City’s Legal Department, as it requires significant adherence to legislation within the Municipal Government Act.

c) **Program or Service:**
   - None at this time.

d) **Organizational:**
   - None at this time.

**Alternatives and Implications Considered**

If Committee does not wish to support the recommendation, an alternative would be to take no further action at this time.

**Attachment(s)**

1. Non-Residential Property Tax Options
NON-RESIDENTIAL PROPERTY TAX OPTIONS

Purpose of Report

The purpose of this report is to bring to Council’s awareness a variety of plausible non-residential tax-related strategies that may assist in accelerating the change in property tax split away from the residential class of property. This will result in less reliance placed on residential property taxes in future tax years.

Background

At present, change to the municipal tax split is based on a “passive” strategy and is dependant on the weighting (residential versus non-residential) and dollar value of new taxable assessment growth occurring within the City on an annual basis. This strategy allows for the gradual migration of the tax split towards the non-residential class of property, while maintaining similar municipal tax increases to non-residential versus residential property classes within the tax year in question. In the past five tax years, the tax split has migrated on average 0.3% per year, which is favourable, but still has St. Albert far behind the tax split reality of all other municipal comparators.

Reliance on future property assessment growth alone may not achieve the municipal tax split that the City desires in the medium to long-term.

Additionally, there is sometimes confusion around the difference between “assessment split” and “tax split”, and which measure is more important in terms of alleviating future pressure on residential municipal tax increases. Historically, almost all emphasis and examination was placed on the taxable assessment split, and a goal of “80/20” is well known as the historic desired benchmark. Less emphasis was historically placed on the tax split. In fact, it is the tax split which is the more important measure. Both are described in more detail below.

Assessment Split

As is commonly known, St. Albert sits in an unenviable position in terms of its assessment base split as compared to its municipal comparators. Only 13.8% of St. Albert’s assessment base is non-residential. By comparison, Alberta-mid sized cities have on average a 25% non-residential assessment base.

To be clear, using assessment split as the primary measure to gauge or affect reduced reliance on residential taxes, is not recommended as assessment split is influenced primarily by inflationary/deflationary forces in the external real estate market, as assessments are market-value based. Only secondarily, is it influenced by the new growth composition coming from annual developmental activity within the City. Thus, the City cannot control the assessment split despite best efforts in growth attraction and realization. As an example, despite a good growth year, our assessment
split receded unfavourably by 2 full percentage points in 2007, following the significant escalation in residential house prices in 2007.

Assessment split should be viewed primarily as a “barometer” with change in the favoured (non-residential) direction deemed positive and healthy.

The graph below illustrates that St. Albert has the lowest percentage of non-residential assessment as part of its taxable assessment base, as compared to the selected city and neighbouring county comparators.

### 2013 Taxable Assessment Base Comparison - Alberta Cities

Source: 2014 Municipal Tax Rate Bylaw Information

<table>
<thead>
<tr>
<th>City</th>
<th>M&amp;E Base</th>
<th>Non-Res Base</th>
<th>Res Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>St Albert</td>
<td>87%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Spruce Grove</td>
<td>84%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Airdrie</td>
<td>84%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Wetaskiwin</td>
<td>81%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Lethbridge</td>
<td>79%</td>
<td>20%</td>
<td>1%</td>
</tr>
<tr>
<td>Camrose</td>
<td>76%</td>
<td>22%</td>
<td>3%</td>
</tr>
<tr>
<td>Medicine Hat</td>
<td>76%</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>Edmonton</td>
<td>74%</td>
<td>25%</td>
<td>1%</td>
</tr>
<tr>
<td>Red Deer</td>
<td>74%</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>Leduc</td>
<td>72%</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Calgary</td>
<td>70%</td>
<td>30%</td>
<td>1%</td>
</tr>
<tr>
<td>Grande Prairie</td>
<td>63%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Fort Sask</td>
<td>55%</td>
<td>24%</td>
<td>33%</td>
</tr>
<tr>
<td>Strathcona County</td>
<td>53%</td>
<td>14%</td>
<td></td>
</tr>
</tbody>
</table>

### Tax Split

Tax split is fundamentally the more important measure. Whereas, the assessment split is largely out of the control of Council and Administration, tax split can be controlled and guided via taxation policy or other direct means.

St. Albert’s tax split is also considered adverse at present, and ranks similarly to the assessment split graph above. At present, only approximately 18% of total municipal property taxes are levied against the non-residential tax base. 82% remain levied.
against the residential tax base. The tax split goal for St. Albert is not “80/20” (20%), but rather in the comparative range of 30-40% of annual municipal taxes coming from non-residential. The graph below shows comparator municipalities averaging approximately 40% from their non-residential property base.

The rate of change in the tax split has been steady but slow in the past 5 years. The tax split has “migrated” about 0.3% per year due to favourable non-residential growth percentages coupled a current policy of budgeting for approximate parity in tax rate increases between the residential and non-residential property classes. St. Albert has not had a history of imposing larger annual municipal tax increases on one class of property versus the other.

### Identified Strategies for Accelerating the Non-Residential Tax Split

Below are four identified direct and indirect strategies that collectively could be considered in being effectual in moving the current tax split in the direction desired.

1. **Municipal Property Tax Policy**
Changes in municipal property tax policy are the most direct and effective means of effecting desired movement in the municipal tax split. Change can be immediate, and is not effected by economic slowdown, low growth or other external market forces.

As noted earlier in this report, the current tax split policy of “migrate and lock” has resulted in the past five years, in the tax split moving 0.3% per year on average away from the residential class. Extrapolating this rate of movement, it would still take 40 years for St. Albert to reach a tax split of the desired goal “start point” of 30% coming from non-residential. (0.3% x 40 yrs = 12% movement, added to current 18% = 30%).

**Tax Split Movement History 2011-2015**

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>83.0%</td>
<td>82.7%</td>
<td>82.6%</td>
<td>82.2%</td>
<td>81.9%</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>17.0%</td>
<td>17.3%</td>
<td>17.4%</td>
<td>17.8%</td>
<td>18.1%</td>
</tr>
<tr>
<td>Change</td>
<td>0.4%</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

To accelerate the rate of change in the municipal tax split, there are certain tax policy strategies that could be employed. They are summarized below:

**Annual Budgeted Tax Increases:** The City can consider the use of unequal municipal tax rate increases. Historically, the City via the budget process has used relative parity in terms of what annual municipal tax increases would be applied to the residential and non-residential property classes. Tax split movement was still achieved due to growth composition, albeit at a slower or “passive” rate.

Successive years of this approach would move the tax split more quickly, and help to decrease the tax rate gaps as identified above in the Edmonton versus St. Albert illustration.

Example: Instead of articulating a uniform tax increase to both residential and non-residential in a given budget year, the City could depart from the past practice of tax increase parity, and impose acceptable levels of unequal tax increases, thereby increasing the rate of movement in the tax split.

However, tax split shifting is gradual, and changes to tax policy alone may not result in the desired outcomes. To that end, more strategies are listed below which would help compliment tax policy strategies.

2. **Chosen Build-Out Scenario for the Employment Lands**
Assessment and tax yields from the Employment Lands would be significantly impacted by the density build-out scenario. Medium to high density uses yield significantly more annual tax revenue than does the low density scenario. The tax split will move more rapidly under a medium to high density development option.

- **“Low” Density Build-out** is based on the premise that the Employment Lands are developed en masse with very low density industrial development such as “lay-down” (pipe) yards, storage yards, and large lot tracts where a user may have a warehouse and requirements for a large amount of yard space for open machinery and/or equipment storage. Based on comparative examples, an *assessment yield* for low-density build-out is concluded to be $800,000 per acre on average. This would equate to a build-out taxable assessment of $346 million. This translates to an estimated $2.5 million in annual municipal tax revenue upon build-out.

- **“Medium” Density Build-out** is based on the premise that the Employment Lands are developed en masse with medium density industrial development such as owner-occupied warehouses, where a user has requirement for a warehouse, parking lot, and typical site area for ancillary storage and equipment. Based on comparative examples, an *assessment yield* for average-density build-out is concluded to be $2,600,000 per acre on average. This would equate to a build-out taxable assessment of $1.12 billion. This translates to an estimated $8.2 million in annual municipal tax revenue upon build-out.
• "High" Density Build-out: This scenario is based on the premise that the Employment Lands are developed en masse with high density industrial development such as multi-tenant warehouses, industrial condominium complexes, and multi-storey industrial office buildings where a user has minimal requirement for additional storage or yard areas. Based on comparative examples, an assessment yield for high-density build-out is concluded to be $3,500,000 per acre on average. This would equate to a build-out taxable assessment of $1.51 billion. This translates to an estimated $11.1 million in annual municipal tax revenue upon build-out.

3. MGA Review & Ability to Assign Differing Tax Rates within the Non-Residential Property Class

The MGA review is in progress at the Provincial level, and legislative changes are expected in 2016-2017. One area of review specific to this report topic, is possible amendments to MGA section 297:

297(1) When preparing an assessment of property, the assessor must assign one or more of the following assessment classes to the property:

(a) Class 1 – residential;
(b) Class 2 – non-residential;
(c) Class 3 – farm land;
(d) Class 4 – machinery & equipment.

Municipalities have expressed the interest and desire to allow for “splitting” of the non-residential class into sub-classes as so desired, as to facilitate the use of differing tax rates for sub-classes of non-residential property. Example: heavy industrial tax rate versus a light industrial tax rate.

If desired change to Section 297 does occur via the conclusion of the MGA review, it would open up the opportunity for St. Albert to re-examine what municipal tax weighting it wishes to assign to sub-classes of non-residential property. If more weighting is placed on a particular non-residential sub-class than was available given the existing Section 297 legislation, it could afford the ability to lessen/reduce the municipal tax weighting placed on the residential class.

4. Business Improvement Areas (Formerly called Business Revitalization Zones)

A future BIA within for example, the Riel Industrial Park area, may help spur renewal and/or re-development of some of the older properties within the industrial park.

A BIA is a special assessment district where business owners officially join and work together to promote and improve the economic vitality of a business area. The
establishment of a BRZ provides a unique opportunity for businesses to promote their mutual goals of creating safe, attractive and interesting commercial places aimed at stimulating business.

Upon receipt of a formal request signed by at least 25 percent of the business taxpayers within the boundaries of a proposed BIA, and if no petition is filed by more than 50 percent of the business owners in the proposed area opposing this request, Council may pass a bylaw establishing the BIA Board of Directors as a not-for-profit corporation. Council also sets the zone boundaries and approves an annual budget, as submitted by the BIA, for the proposed BIA operation.

A BIA association receives funding for their budget through a special levy that is applied to each business within the BIA. The City assesses and collects this levy and the full amount is returned to the BIA association in quarterly payments for their use in achieving the goals of the BIA. As such, BIA levies are not for general municipal use.

BIA’s are governed under sections 50-53 of the Municipal Government Act (MGA), and regulated as per Alberta Regulation 377/94, Business Revitalization Zone Regulation.

The “levy” potential is limited to the approved budget amount as requested by the BIA group. On an annual basis, the budget amount must be defined and approved. The BIA group would establish and submit a budget, as to articulate the funds required to support the defined BIA activity, for Council’s review and approval. Selection of an assessment methodology is required by regulation, as to implement the levy. The assessment methodology and levy rate are thus simply the distribution mechanism of the approved budgeted levy amount to the properties within the BIA zone.

A BIA group would have to quantify their desired activities and associated budget, and this would form the basis of the revenue available, as collected via the BIA levy.

Summary

The above mentioned non-residential tax strategy items are summarized below in a “pro’s” and “con’s” format for quick reference.

<table>
<thead>
<tr>
<th>Non-Residential Tax Strategy</th>
<th>Pro’s</th>
<th>Con’s</th>
</tr>
</thead>
</table>
| 1. Tax Policy. Use of differing annual municipal tax increase percentages. | • Immediate effect on the municipal tax split.  
• Allows tax split to move more rapidly away from the residential base. | • Moves away from past practice of relative parity in annual municipal tax increases between property classes. |
## Non-Residential Tax Options

### Pro’s

- Most direct and “hands-on” influence over the tax split.
- Not affected by economic slowdown, low growth or other external market forces.
- Direct effect on helping to bridge the gaps between Edmonton versus St. Albert tax rates.

### Con’s

- Opposition from non-residential property owners.
- Tax increase experienced by non-res property owners would be higher than that experienced by residential property owners for successive years.

## 2. Selected build-out option for the Employment Lands emphasizes medium to high density development.

- Maximizes the assessment growth potential, and thus also the tax revenue derived from the Employment Lands.
- Contributes to a faster moving tax split due to the higher cumulative value of non-residential assessment growth.

### Con’s

- Low-density uses (such as large storage yards) have no place to situate and/or are deemed undesirable development types.
- Dependant on absorption rates and rate of growth within the Employment Lands, change in the tax split, could be more gradual than desired.

## 3. Provincial MGA Review allows for assigning of differing tax rates within the non-residential property class.

- Allows the ability to tax a sub-class of non-residential property at a higher of lower rate.
- Allows the ability to tax shift away from residential.
- Allows for a form of tax (rate) incentive within the non-residential class if desired.
- Use of this option may be available as early as 2017.

### Con’s

- If the MGA review does not include change to section 297, than this option will not be realized.
- Splitting of tax rates within the non-residential class could face opposition from business groups.

## 4. Promotion of a Business Improvement Area (formerly BRZ) within Riel Industrial Park or other identified non-

- Helps to encourage and stimulate re-vitalization in a specific business area or zone.
- May increase property values if significant re-development occurs.

### Con’s

- BIA’s are not initiated by the City. BIA’s are initiated by petition by business owners.
- BIA levies are not for general municipal use. The City acts only as
Non-Residential Property Tax Options

<table>
<thead>
<tr>
<th>Non-Residential Tax Strategy</th>
<th>Pro’s</th>
<th>Con’s</th>
</tr>
</thead>
</table>
| residential area. | • Over time, may contribute to movement in the assessment base split, which would in turn allow for movement in the tax split. | administrator to levy, collect, and remit the BIA funds.  
• Length of time required for property value appreciation to occur as a direct result of a BIA, could be longer than City desires to see effects in the tax split.  
• BIA’s not wanted by all business owners within the zone. Example: Last BIA attempt in downtown St. Albert was quashed by petition. |

Conclusions

As noted in the report, it will take 40 years at the current rate of tax split movement to achieve the identified goal of at least 30% of municipal tax levies coming from the non-residential property class.

However, in an attempt to strengthen and accelerate this tax split movement, it is identified that there are a mix of both direct and indirect tax strategy options that the City can contemplate.

In combination, these strategies may provide insight to Council and Administration as to future direction the City may wish to explore in terms of its approach to municipal taxation strategy and policy, with the over-arching goal of reducing reliance on residential taxes.