



AGENDA

PRIORITIES AND FINANCE COMMITTEE

October 30, 2018, 9:30 AM
IN THE COUNCIL CHAMBER
Members

Mayor N. Nenshi, Chair
Councillor S. Chu, Vice-Chair
Councillor D. Colley-Urquhart (CPS Chair)
Councillor J. Gondek (PUD Chair)
Councillor S. Keating (T&T Chair)
Councillor W. Sutherland (UCS Chair)

Audit Chair to be elected at the 2018 November 20 Audit Meeting

1. CALL TO ORDER
2. OPENING REMARKS
3. CONFIRMATION OF AGENDA
4. CONFIRMATION OF MINUTES
 - 4.1 Minutes of the Regular Meeting of the Priorities and Finance Committee, 2018 October 02
5. POSTPONED REPORTS
(including related/supplemental reports)
None
6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES
 - 6.1 Independent Review of Non-Residential Assessment and Appeal System, PFC2018-1222
 - 6.2 2019 Projected Tax Shift Non-Residential Properties, PFC2018-1134
 - 6.3 Material Unfunded Investment Analysis (Verbal), PFC2018-1238
 - 6.4 One Window Phase Two Update - Deferral, PFC2018-1181

7. ITEMS DIRECTLY TO COMMITTEE

7.1 REFERRED REPORTS
None

7.2 NOTICE(S) OF MOTION
None

8. URGENT BUSINESS

9. CONFIDENTIAL ITEMS

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES
None

9.2 URGENT BUSINESS

10. ADJOURNMENT



MINUTES

PRIORITIES AND FINANCE COMMITTEE

**October 2, 2018, 9:30 AM
IN THE COUNCIL CHAMBER**

PRESENT:

Mayor N. Nenshi, Chair
Councillor S. Chu, Vice-Chair
Councillor G-C. Carra (CPS Vice-Chair)
Councillor S. Keating (T&T Chair)
Councillor J. Magliocca (PUD Chair)
Councillor E. Woolley (Audit Chair)
*Councillor J. Farkas
*Councillor J. Gondek

ALSO PRESENT:

City Manager J. Fielding
Acting Chief Financial Officer C. Male
Acting City Clerk T. Rowe
Legislative Assistant J. Lord Charest

1. CALL TO ORDER

Prior to the designated start time, pursuant to Section 17(1) of the Procedure Bylaw, the Meeting was recessed through the use of electronic communication with Committee Members, to the Call of the Chair.

Mayor Nenshi called the Meeting to order at 10:16 a.m.

2. OPENING REMARKS

Mayor Nenshi noted that the City Clerk communicated with Members of Council and the public advising of the meeting being recessed to the Call of the Chair, due to a severe snowfall event.

3. CONFIRMATION OF AGENDA

Moved by Councillor Chu

That the Agenda for the 2018 October 02 Regular Meeting of the Priorities and Finance Committee be amended, by bringing forward item 9.1 Opportunity Calgary Investment Fund - Program Update (Verbal), PFC2018-1115 to be dealt with immediately following Item 4.1 Minutes of the Regular Meeting of the Priorities and Finance Committee, 2018 September 17

MOTION CARRIED

Moved by Councillor Chu

That the Agenda for today's Meeting, as amended, be further amended, by adding an item of Urgent Business entitled "Snow Emergency Update (Verbal) VR2018-0081" and further that this item be added as Item 9.1 to the Agenda to be dealt with immediately following Confirmation of the Agenda.

MOTION CARRIED

Moved by Councillor Keating

That the Agenda for the 2018 October 02 Regular Meeting of the Priorities and Finance be confirmed, **as amended**.

MOTION CARRIED

4. CONFIRMATION OF MINUTES

4.1 Minutes of the Regular Meeting of the Priorities and Finance Committee, 2018 September 17

Moved by Councillor Chu

That the Minutes of the Priorities and Finance Committee held on 2018 September 17 be confirmed.

MOTION CARRIED

5. POSTPONED REPORTS

None

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

6.1 Off-site Levy Bylaw Amendment Arising from New Community Growth Strategy 2018, PFC2018-0973

Moved by Councillor Gondek

That with respect to Report PFC2018-0973, the following be approved:

That Priorities and Finance Committee recommend:

1. That this report be directed to the November 12 Combined Meeting of Council to the Public Hearing portion of the Agenda;
2. That Council hold a public hearing on the proposed bylaw amendment set out in Attachment 1; and
3. That Council approve the proposed bylaw amendment to the Off-site Levy Bylaw 2M2016 in Attachment 1.

MOTION CARRIED

6.2 Chinatown Cultural Plan and Local Area Plan – Update on funding and external partnerships, PFC2018-1107

A letter from the Chinatown BIA, dated 2018 October 02, with respect to Reports PFC2018-1107 and PFC2018-1113 was distributed.

Moved by Councillor Chu

That with respect to Report PFC2018-1107, the following be approved:

That the Priorities and Finance Committee recommends that Council:

1. Receive for information this report in support of the Council Innovation Fund application (Report PFC2018-1133);
2. Approve the use of \$350,000 from Planning & Development's operating budget with:
 - a. \$50,000 per year in Community Planning's 2019 and 2020 base budget in consulting; and
 - b. A one-time expenditure budget increase of \$125,000 in Community Planning's 2019 and 2020 budget to be fully offset by a one-time revenue budget increase of \$125,000 in 2019 and 2020 to a net zero budget impact for the 2 years; and
3. Approve the use of the Fiscal Stability Reserve fund to serve as contingency for Chinatown's Cultural Plan and culturally-based Local Area Plan for a one-time 2019 operating budget increase of up to \$400,000 in Community Planning.

ROLL CALL VOTE

For: (3): Mayor Nenshi, Councillor Chu, and Councillor Carra

Against: (3): Councillor Magliocca, Councillor Woolley, and Councillor Gondek

MOTION DEFEATED

Pursuant to Section 143(a) of the Procedure Bylaw 35M2017, Councillor Chu requested that the lost motion be forwarded to Council for information.

- 6.3 Council Innovation Fund Application Council Sponsor: Councillor Druh Farrell and Councillor Sean Chu Internal Sponsor(s): Community Planning & Calgary Recreation Name of Project: Chinatown Cultural Plan and Area Redevelopment Plan, PFC2018-1133

Moved by Councillor Chu

That with respect to Report PFC2018-1133, the following be approved:

1. That the Priorities and Finance Committee recommends that Council approve this application for the Calgary Innovation Fund for the Chinatown Cultural Plan and Area Redevelopment Plan in the amount of \$250,000.
2. That the Priorities and Finance Committee direct Administration to report back to PFC indicating how the money was spent and outcomes of the projects no later than Q3 2019, as per the Calgary Innovation Plan Terms of Reference.

ROLL CALL VOTE

For: (3): Mayor Nenshi, Councillor Chu, and Councillor Carra

Against: (3): Councillor Magliocca, Councillor Woolley, and Councillor Gondek

MOTION DEFEATED

Pursuant to Section 143(a) of the Procedure Bylaw 35M2017, Councillor Chu requested that the lost motion be forwarded to Council for information.

6.4 Assessment and Tax Circumstances Report, PFC2018-1118

Moved by Councillor Chu

That with respect to Report PFC2018-1118, the following be approved:

That the Priorities and Finance Committee recommend that Council:

1. Cancel property and business taxes for the amounts listed in the Attachment 1;
2. Cancel 2018 municipal property taxes for the qualifying non-profit organizations for the amounts listed in Attachment 2; and
3. That Report PFC 2018-1118 be forwarded to the October 14, 2018 Meeting of Council.

MOTION CARRIED

6.5 Status of Outstanding Motions and Directions, PFC2018-0931

Moved by Councillor Chu

That the Priorities and Finance Committee receive this report for information.

MOTION CARRIED

7. ITEMS DIRECTLY TO COMMITTEE

7.1 REFERRED REPORTS

None

7.2 NOTICE(S) OF MOTION

None

8. URGENT BUSINESS

8.1 Snow Emergency Update (Verbal), VR2018-0081

Moved by Councillor Carra

That with respect to Verbal Report VR2018-0081, the following be approved:

That the Priorities and Finance Committee received this report for information

MOTION CARRIED

9. CONFIDENTIAL ITEMS

Moved by Councillor Gondek

That Committee move into Closed Meeting, at 10:20 a.m. in the Council Boardroom to consider confidential matters with respect to Item 9.1, Opportunity Calgary Investment Fund - Program Update (Verbal), PFC2018-1115, pursuant to Sections 16 and 24 of the *Freedom of Information and Protection of Privacy Act*.

MOTION CARRIED

Committee moved into public session at 11:20 a.m. with Mayor Nenshi in the Chair.

Moved by Councillor Keating

That Committee rise and report.

MOTION CARRIED

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 Opportunity Calgary Investment Fund – Program Update (Verbal), PFC2018-1115

A PowerPoint entitled "Opportunity Calgary Investment Fund (OCIF) Program Update: Report to Priorities and Finance Committee", dated 2018 October 02, with Respect to Verbal Report PFC2018-1115, was received for the Corporate Record. Slides 3, 5 and 6 held confidential pursuant to Sections 16 and 24 of *FOIP*.

Administration in attendance during the Closed Meeting discussion with respect to Verbal Report, PFC2018-1115:

Clerk: T. Rowe and J. Lord Charest. Observers: C. Male, L. Kerr, and C. Cote. External Advice: B. Munroe. External Observers: S. Allen, L. Saleen, S. Will and D. Haley

Moved by Councillor Keating

That with respect to Verbal Report PFC2018-1115, the following be approved

That the Priorities and Finance Committee direct that the Closed Meeting discussions and slides 3, 5 and 6 of the PowerPoint Presentation with respect to Verbal Report PFC2018-1115 remain confidential pursuant to Section 16 and 24 of the *Freedom of Privacy and Protection of Privacy Act*.

MOTION CARRIED

9.2 URGENT BUSINESS

None

10. ADJOURNMENT

Moved by Councillor Chu

That this meeting adjourn at 11:55 a.m.

MOTION CARRIED

THE FOLLOWING ITEMS HAVE BEEN FORWARDED TO THE 2018 NOVEMBER 12
REGULAR PUBLIC HEARING MEETING OF COUNCIL:

PLANNING MATTERS FOR PUBLIC HEARING

Off-site Levy Bylaw Amendment Arising from New Community Growth Strategy 2018,
PFC2018-0973

THE FOLLOWING ITEMS HAVE BEEN FORWARDED TO THE 2018 OCTOBER 15
REGULAR MEETING OF COUNCIL:

Chinatown Cultural Plan and Local Area Plan - Update on funding and external
partnerships, PFC2018-1107

Council Innovation Fund Application, Council Sponsor: Councillor Drun Farrell and
Councillor Sean Chu, Internal Sponsor(s): Community Planning & Calgary Recreation,
Name of Project: Chinatown Cultural Plan and Area Redevelopment Plan, PFC2018-
1133

Assessment and Tax Circumstances Report, PFC2018-1118

The next Regular Meeting of the Priorities and Finance Committee has been scheduled
for 2018 October 30

CONFIRMED BY COMMITTEE ON

CHAIR

ACTING CITY CLERK

Deputy City Manager's Office Report to
Priorities and Finance Committee
2018 October 30

ISC: UNRESTRICTED
PFC2018-1222

Independent Review of Non-Residential Assessment and Appeal System

EXECUTIVE SUMMARY

In response to the attached 2017 September 11, Notice of Motion (Attachment 1), Heuristic Consulting was engaged to conduct an independent review of the non-residential assessment and assessment complaint processes. On 2018 June 19, Heuristic presented an interim report to the Priorities and Finance Committee (PFC). These preliminary findings and accompanying materials can be found in the Report PFC2018-0798 (Attachment 2). Following their presentation, Administration was directed to have Heuristic return with a final report no later than Q4 2018. Heuristic's final report (Attachment 3), including recommendations for the improvement of the non-residential assessment and complaint system, will therefore be the subject of a presentation from Heuristic to PFC on 2018 October 30.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council direct the City Manager to assign a lead to monitor and report back on the implementation of the consultant's recommendations as well as their impact on the non-residential assessment and complaint system, no later than 2019 Q3

PREVIOUS COUNCIL DIRECTION / POLICY

In addition to directing Administration to engage an external consultant to perform an independent review of the non-residential assessment and assessment appeal system, the September 2017 Notice of Motion further specifies that this review should:

- Determine what changes can be implemented within the bounds of existing legislation to increase fairness, transparency and equity from the standpoint of all non-residential taxpayers, while taking into consideration associated financial risks to The City.
- Determine whether changes could be implemented within the bounds of existing legislation to the way non-residential taxpayers can seek review of non-residential property assessments.
- Review similar processes in Edmonton and other relevant jurisdictions to determine any changes that The City of Calgary could emulate to ensure greater fairness, transparency and equity.
- Identify related changes to the Municipal Government Act (i.e. outside the bounds of existing legislation) that Council could consider for advocacy with the Government of Alberta.

Following an interim report in 2018 June, Administration was directed to have Heuristic produce a final report no later than 2018 Q4.

Deputy City Manager's Office Report to
Priorities and Finance Committee
2018 October 30

ISC: UNRESTRICTED
PFC2018-1222

Independent Review of Non-Residential Assessment and Appeal System

BACKGROUND

Beginning in 2017, several non-residential taxpayers in Calgary expressed their concern to Members of Council about the fairness, transparency and equity of the City's annual non-residential assessment system. Concerns were also raised about both the predictability and timeliness of the process used to hear assessment complaints.

The affected taxpayers pointed specifically to a recent rise in the number of non-residential assessment complaints before the Assessment Review Board (ARB), as well as the fact that in some cases, assessments that had been reduced by the ARB one year, were increased by The City in subsequent years. Affected taxpayers' have also raised related concerns about the ability to access important information about non-residential property assessments.

These concerns led Council to adopt the Notice of Motion referred to above, directing Administration to seek independent recommendations to improve both the non-residential assessment system, as well as the system governing non-residential assessment complaints. Recognizing that The City of Calgary is, in many ways, constrained by a legislative framework controlled by the Province, the Notice of Motion sought recommendations for changes both within The City's immediate control, as well as changes that The City might consider as advocacy positions in future dealings with the Government of Alberta. In response, Administration issued a Request for Proposals, and from a short-list of highly qualified applicants, selected Heuristic Consulting based on the team's depth of experience as well as the objectivity of a British Columbia-based organization.

Project-managed by Intergovernmental & Corporate Strategy to avoid any real or perceived conflicts of interest, the Heuristic team began their work in March 2018 with an extensive series of in-person interviews with external and internal stakeholders in Calgary and elsewhere (see below for list of stakeholders). The consultants also reviewed relevant legislation, spoke with senior representatives of other comparable jurisdictions, and established criteria and methodologies to measure fairness, transparency and predictability. During and after this research the consultants also organized two half-day workshops, well-attended by all internal and external stakeholders to validate and refine their findings, and to encourage collegiality and cooperation among the various parties.

Based on this work, Heuristic produced an interim report in 2018 June that:

- Identified and prioritized changes that could be made, within the existing legislative scheme and in a fiscally responsible manner, to increase taxpayers' levels of satisfaction with the fairness, transparency and predictability throughout the system
- Identified best practices from other jurisdictions, compatible with the existing legislative scheme and considering potential financial risks, to address the need for timely and equitable resolutions of assessment complaints
- Identified and prioritized areas of concern in the appeal process respecting that The City of Calgary might want to advocate for legislative change to the Province

Deputy City Manager's Office Report to
Priorities and Finance Committee
2018 October 30

ISC: UNRESTRICTED
PFC2018-1222

Independent Review of Non-Residential Assessment and Appeal System

INVESTIGATION: ALTERNATIVES AND ANALYSIS

At the June 28 meeting of PFC, representatives of Heuristic Consulting presented their preliminary findings and recommendations organized around six key issues.

1. Capacity: Different parties, including the ARB and The City of Calgary might benefit from additional training and/or expertise.
2. Culture: All parties to the non-residential assessment and complaint system need to focus on practices and processes that foster improved collaboration.
3. Mass Appraisal: The legislative requirement to use Mass Appraisal to find assessed value should be clarified to communicate assessors' authority and flexibility to adjust values.
4. Effective Communication: Different parties to the process should improve their communication strategies to better target timely messages to critical audiences.
5. Dispute Resolution: improvements should be made to improve the probability of resolving disputes prior to a formal appeal to the ARB.
6. The role of the Province: Clarify the oversight role of the province as well as reconvening the Stakeholders Advisory Committee active during the Municipal Government Act (MGA) Review could support improved trust among the parties.

Following the discussion of these preliminary findings at the June 28 meeting of PFC, the consultants continued to refine their recommendations in consultation with Administration and stakeholders. Building on the preliminary findings above, Heuristic offers several related recommendations for consideration. In presenting these recommendations, Heuristic notes that The City currently has the fundamentals in place for a leading-non-residential assessment jurisdiction, and that the specific recommendations are meant to build on existing strengths to enhance public acceptance and cost-effectiveness, while minimizing risk to The City's finances.

Heuristic further notes as an epilogue to their report, that primary stakeholders, including key elements of Administration, not only helped develop the practical solutions contained in the report, but have already begun to implement changes to drive "Made in Calgary" success.

Nevertheless, there remains room for improvement, and to build on the existing momentum, Heuristic's primary recommendation is that The City establish a leadership team reporting to the City Manager (or delegate) to plan and lead a transformation plan consisting of the following:

- Phase 1 / Year 1: implement immediate action by The City to build cooperative relations with stakeholders
- Phase 2 / Years 1-3: City-led transformation is planned and executed cooperatively within constraints of existing legislation

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PFC2018-1222**

Independent Review of Non-Residential Assessment and Appeal System

- Phase 3 / Years 3-10: Continuation of City-led transformation, adding initiatives requiring legislative change (with the encouragement and support of the Province and other stakeholders to imbed and enable improvements).

Within the Report, key internal stakeholders, including the Assessment Business Unit, were provided with an opportunity to respond to the general and specific recommendations, indicating not only that Administration agrees with the general direction of the report, but that there have already been substantial steps taken to address some of the deficiencies identified.

Stakeholder Engagement, Research and Communication

Stakeholder engagement was essential to help identify and prioritize concerns and develop recommendations leading to “made in Calgary” solutions. Stakeholders consulted include:

- Internal City of Calgary Stakeholders, including the City Manager and other senior management as well as staff from Law, the Assessment business unit, and other parts of the Finance Department.
- The ARB, including the Board Chair, Board Members and staff from City Clerks that support the work of the ARB.
- Non-residential taxpayers and their agents, including individual taxpayers, tax agents such as Altus, and representative bodies including the Calgary Chamber of Commerce and Calgary Economic Development.
- The Mayor and Members of Council.
- Representatives from the Government of Alberta, primarily focused on senior officials within the Ministry of Municipal Affairs.
- Professional associations including the Alberta Assessors Association.
- A range of similar stakeholders from other jurisdictions, including British Columbia, Ontario, and City of Winnipeg, but with an emphasis on staff from The City of Edmonton and the Edmonton ARB.

It is worth noting, that without exception, the stakeholders that have been approached and engaged have expressed their satisfaction with the choice of Heuristic Consulting to undertake this work. This buy-in to the review process has been important to developing useful analysis and recommendations, but also helps demonstrate a willingness of parties to work collaboratively to improve the system.

In addition to the extensive local stakeholder engagement, Heuristic also drew on their networks to speak with senior representatives in other Canadian jurisdictions, and reviewed interjurisdictional studies, to analyze alternative approaches, with a focus on transparency, simplicity of understanding, procedural fairness and predictability.

Strategic Alignment

This exercise aligns with the 2019-2022 Council Directive for A Well-Run City. This directive instructs both Council and Administration to improve communication with Calgarians, improve

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Independent Review of Non-Residential Assessment and Appeal System

the value of municipal services by simplifying and streamlining processes, and seize opportunities for innovative management and service delivery.

The exercise also aligns with Council's 2019-2022 Guidelines to Administration, including the building of strategically important relationships that promote community and city building.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

In responding to the concerns raised in the Notice of Motion, many of the recommendations are focused on improving transparency, fairness and equity. But in so doing, they also recommend service level enhancements and organizational transformation that can achieve operating efficiency gains. For instance, Heuristic notes that the recent upward trend in the number of complaints and related hearings has financial and human resource stresses on both the Assessment business unit and the Assessment Review Board, supported by City Clerks. Heuristic estimates that if the recommendations are followed and the number of complaint hearings reduced, it could generate savings of approximately \$2M per year. However, the report is careful to note that the annual savings would not occur immediately. Transformation takes time and costs money – so it should be anticipated that costs would increase initially as both the current operation and transformation efforts need to be funded over the short term, with the projected annual savings being achievable within five years.

Current and Future Capital Budget:

N/A

Risk Assessment

Some changes will require the support of the Government of Alberta, particularly those around ensuring clarity of roles and responsibilities. Following the lengthy MGA Review and ongoing city charter processes, there is a very real risk that the Government of Alberta may be unwilling to entertain further changes to the assessment system in The City of Calgary, particularly in the lead-up to a provincial election. If any changes are sought in the near-term, it may therefore require a concerted advocacy campaign. One strategy may involve demonstrating the broader value of any changes to other parties, including the City of Edmonton and the Alberta Urban Municipalities Association, enlisting their support for future advocacy.

Furthermore, several of the recommendations focus on improved relationships. While all of the parties have demonstrated a willingness to improve communication and collaboration within this context of this review, there is a risk that any momentum could be lost once the review process is complete. Effective transformation and change management require coordination and leadership on the part of The City to ensure that all of the stakeholders, both internal and external, continue to build on the successes so far.

Finally, there is some risk that the recommendations coming from this report could be construed as a response to, or solution for, some of the other issues that have been raised regarding The City's assessment and taxation practices (e.g. the shifting tax burden resulting from low

Deputy City Manager's Office Report to
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2018 October 30

ISC: UNRESTRICTED
PFC2018-1222

Independent Review of Non-Residential Assessment and Appeal System

downtown occupancy). While related, it is important to ensure that the scope of this exercise is made clear in any associated communications.

REASON(S) FOR RECOMMENDATION:

As Council notes in the original Notice of Motion, taxpayers have been advocating for changes to the non-residential assessment and complaint system to address several concerns related to transparency, fairness and predictability. The recommendations contained in the consultant's final report are based on extensive consultations with, and enjoy the support of, these same stakeholders, as well as key elements of City of Calgary Administration. In fact, those same internal and external stakeholders have already begun collaboratively to implement many of the recommended changes. Requiring the City Manager to assign a lead to report back no later than 2019 Q3 will provide an opportunity to see how the implementation of these changes play out over the course of an assessment cycle, make any necessary course corrections, and ensure longer-term success.

ATTACHMENTS

1. Notice of Motion, PFC2018-0789
2. Interim Report, PFC2018-0798
3. Final Report, "An Independent Review: Calgary's Non-Residential Property Assessment and Complaint Systems," Heuristic Consulting Associates.

RECEIVED
NM 2017-38
2017 AUG 31 AM 9:26
THE CITY OF CALGARY
CITY CLERK'S

NOTICE OF MOTION

NM 2017, September 11
Combined Meeting of Council

RE: INDEPENDENT REVIEW OF NON-RESIDENTIAL ASSESSMENT AND COMPLAINTS

MAYOR Nenshi

WHEREAS there were 2,386 assessment complaints for non-residential properties filed in 2017, up from 2,159 in 2016 and 1,889 in 2015 and about 40% of those that proceeded to a hearing before the Composite Assessment Review Board in 2016 were successful for the complainant;

AND WHEREAS the Municipal Government Act and Regulations legislate that assessments are to be prepared each year to reflect market value and Provincial standards;

AND WHEREAS some assessments reduced by a Composite Assessment Review Board are increased by The City of Calgary in subsequent years, as "every year is a new year," resulting in further and recurring assessment complaints;

AND WHEREAS many businesses and individuals, as well as the Calgary Chamber of Commerce and Calgary Economic Development have raised significant, reasonable and persuasive concerns about the fairness, transparency and predictability of The City of Calgary's non-residential assessment process;

AND WHEREAS these concerns highlight the need to review the non-residential assessment and complaint process for potential improvements and reforms;

NOW THEREFORE BE IT RESOLVED that Council directs Administration to engage a consultant to conduct an independent review of the non-residential assessment process to determine if changes could be implemented within the bounds of the legislation to increase fairness, transparency and equity from the standpoint of all non-residential taxpayers, while taking into consideration associated financial risks to The City.

AND BE IT FURTHER RESOLVED that Council directs Administration to engage a consultant to conduct an independent review of the non-residential complaint process to determine if changes could be implemented within the bounds of the legislation to the manner in which non-residential taxpayers can seek review of non-residential property assessments.

AND BE IT FURTHER RESOLVED that the independent review include an examination of the non-residential assessment complaint processes in The City of Edmonton and other relevant jurisdictions to determine what practices, if any, The City of Calgary could emulate to ensure greater fairness, transparency and predictability.

AND BE IT FURTHER RESOLVED that the independent review examine non-residential assessment complaint best practices, associated financial risks and applicable legislation from other jurisdictions, for the timely and equitable resolution of assessment complaints.

AND BE IT FURTHER RESOLVED that the independent review identify and recommend potential changes to the assessment complaint process in the Municipal Government Act for Council to consider adopting as an advocacy position to the province.

AND BE IT FURTHER RESOLVED that a report return to the Priorities and Finance Committee no later than Q2 2018.

A handwritten signature in black ink, appearing to read "Dunlop", with a horizontal line underneath.

**Deputy City Manager's Office Report to
Priorities and Finance Committee
2018 June 28**

**ISC: UNRESTRICTED
PFC2018-0798
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Independent Review of Non-Residential Assessment and Appeal System

EXECUTIVE SUMMARY

On 11 September 2017, Council adopted a Notice of Motion (Attachment) directing Administration to engage a consultant to conduct an independent review of the non-residential assessment and assessment complaint processes, including recommendations for change, and to report back to the Priorities and Finance Committee (PFC) no later than Q2 2018.

In response to this direction, Heuristic Consulting was selected by a competitive process to perform this review, and will be presenting their interim findings to this (2018 June 28) meeting of PFC, to be followed by the submission of a final written report in the early fall, 2018.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee:

1. Receive this report and attachments for information; and
2. Direct that Administration return to PFC with the final, independent report and recommendations no later than Q4 2018.

PREVIOUS COUNCIL DIRECTION / POLICY

In addition to directing Administration to engage an external consultant to perform an independent review of the non-residential assessment and assessment appeal system, the September 2017 Notice of Motion further specifies that this review should:

- determine what changes can be implemented within the bounds of existing legislation to increase fairness, transparency and equity from the standpoint of all non-residential taxpayers, while taking into consideration associated financial risks to The City;
- determine whether changes could be implemented within the bounds of existing legislation to the way non-residential taxpayers can seek review of non-residential property assessments;
- review similar processes in Edmonton and other relevant jurisdictions to determine any changes that The City of Calgary could emulate to ensure greater fairness, transparency and equity; and
- identify related changes to the Municipal Government Act (i.e. outside the bounds of existing legislation) that Council could consider for advocacy with the Government of Alberta.

BACKGROUND

Over the past year, several non-residential taxpayers in Calgary expressed their concern to Members of Council about the fairness, transparency and equity of the City's annual non-residential assessment system. Concerns were also raised about both the predictability and timeliness of the process used to hear assessment complaints.

**Deputy City Manager's Office Report to
Priorities and Finance Committee
2018 June 28**

**ISC: UNRESTRICTED
PFC2018-0798
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Independent Review of Non-Residential Assessment and Appeal System

The affected taxpayers pointed specifically to a recent rise in the number of non-residential assessment complaints before the Assessment Review Board (ARB), as well as the fact that in some cases, assessments that had been reduced by the ARB one year, were increased by The City in subsequent years. Affected taxpayers' have also raised related concerns about the ability to access important information about non-residential property assessments.

These concerns led Council to adopt the Notice of Motion referenced above, directing Administration to seek independent recommendations to improve both the non-residential assessment system, as well as the system governing non-residential assessment complaints. Recognizing that The City of Calgary is, in many ways, constrained by a legislative framework controlled by the province, the Notice of Motion sought recommendations for changes both within The City's immediate control, as well as changes that The City might consider as advocacy positions in future dealings with the Government of Alberta. In response, Administration issued a Request for Proposals, and from a short-list of highly qualified applicants, selected Heuristic Consulting based on the team's depth of experience as well as the objectivity of a BC-based organization.

Project-managed by Intergovernmental & Corporate Strategy to avoid any real or perceived conflicts of interest, the Heuristic team began their work in March 2018 with an extensive series of in-person interviews with external and internal stakeholders in Calgary and elsewhere (see below for list of stakeholders). The consultants also reviewed relevant legislation, spoke with senior representatives of other comparable jurisdictions, and established criteria and methodologies to measure fairness, transparency and predictability. During and after this research the consultants also organized two half-day workshops, well-attended by all internal and external stakeholders to validate and refine their findings, and to encourage collegiality and cooperation among the various parties.

Based on this work, Heuristic has:

- Identified and prioritized changes that could be made, within the existing legislative scheme and in a fiscally responsible manner, to increase taxpayers' levels of satisfaction with the fairness, transparency and predictability throughout the system
- Identified best practices from other jurisdictions, compatible with the existing legislative scheme and considering potential financial risks, to address the need for timely and equitable resolutions of assessment complaints
- Identified and prioritized areas of concern in the appeal process respecting that The City of Calgary might want to advocate for legislative change to the Province

INVESTIGATION: ALTERNATIVES AND ANALYSIS

At the June 28 meeting of PFC, representatives of Heuristic Consulting will present their preliminary findings and recommendations. Following input from PFC, they will continue to refine their recommendations, and return with a final, written report in the fall of 2018. Briefly, the preliminary findings can be organized around seven key issues.

**Deputy City Manager's Office Report to
Priorities and Finance Committee
2018 June 28**

**ISC: UNRESTRICTED
PFC2018-0798
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Independent Review of Non-Residential Assessment and Appeal System

1. Capacity: Different parties, including the ARB and The City of Calgary might benefit from additional training and/or expertise.
2. Culture: All parties to the non-residential assessment and complaint system need to focus on practices and processes that foster improved collaboration.
3. Mass Appraisal: The legislative requirement to use Mass Appraisal to find assessed value should be clarified to communicate assessors' authority and flexibility to adjust values.
4. Effective Communication: Different parties to the process should improve their communication strategies to better target timely messages to critical audiences.
5. Dispute Resolution: improvements should be made to improve the probability of resolving disputes prior to a formal appeal to the ARB.
6. The role of the Province: Clarity the oversight role of the province as well as reconvening the Stakeholders Advisory Committee active during the Municipal Government Act (MGA) Review could support improved trust among the parties.

Following the discussion of these preliminary findings at the June 28 meeting of PFC, the consultants will continue to refine their recommendations for presentation of a written report to Council in the fall of 2018.

Stakeholder Engagement, Research and Communication

Since beginning their review, the independent consultants (Heuristic Consulting) have engaged repeatedly with a wide range of stakeholders and experts, both individually as well as together in two-half day workshops. These stakeholders include:

- Internal City of Calgary Stakeholders, including the City Manager and other senior management as well as staff from the Assessment Business Unit, and Law and Finance Departments.
- The ARB, including the Board Chair, Board Members and staff from City Clerks that support the work of the ARB.
- Non-residential taxpayers and their agents, including individual taxpayers, tax agents such as Altus, and representative bodies including the Calgary Chamber of Commerce and Calgary Economic Development.
- The Mayor and Members of Council.
- Representatives from the Government of Alberta, primarily focused on senior officials within the Ministry of Municipal Affairs.
- Professional associations including the Alberta Assessors Association.

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Priorities and Finance Committee
2018 June 28**

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Independent Review of Non-Residential Assessment and Appeal System

- A range of similar stakeholders from other jurisdictions, including British Columbia, Ontario, and City of Winnipeg, but with a particular emphasis on staff from The City of Edmonton and the Edmonton ARB.

It is worth noting, that without exception, all of the stakeholders that have been approached and engaged have expressed their satisfaction with the choice of Heuristic Consulting to undertake this work. This buy-in to the review process has been important to developing useful analysis and recommendations, but also helps demonstrate a willingness of parties to work collaboratively to improve the system.

Strategic Alignment

This exercise aligns with the 2019-2022 Council Directive for A Well-Run City. This directive instructs both Council and Administration to improve communication with Calgarians, improve the value of municipal services by simplifying and streamlining processes, and seizing opportunities for innovative management and service delivery.

The exercise also aligns with Council's 2019-2022 Guidelines to Administration, including the building of strategically important relationships that promote community and city building.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

In responding to the concerns raised in the Notice of Motion, many of the preliminary recommendations are concerned with improving transparency, fairness and equity. But in so doing, they also recommend service level enhancements and organizational transformation that can achieve operating efficiency gains. However, these gains may also require an initial investment, in the form, for instance, of enhanced training. Greater detail on the expected gains will come with the final report, but might be expected to achieve overall cost-savings within 3-5 years and further savings over time.

Current and Future Capital Budget:

N/A

Risk Assessment

Some of the recommendations require action from the Government of Alberta. Following the lengthy MGA Review and ongoing city charter processes, there is a very real risk that the Government of Alberta may be unwilling to entertain further changes to the assessment system in The City of Calgary, particularly in the lead-up to a provincial election. If any changes are

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2018 June 28**

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Independent Review of Non-Residential Assessment and Appeal System

sought in the near-term, it may therefore require a concerted advocacy campaign. One strategy may involve demonstrating the broader value of any changes to other parties, including the City of Edmonton and the Alberta Urban Municipalities Association, enlisting their support for future advocacy.

Furthermore, several of the preliminary recommendations focus on improved relationships. While all of the parties have demonstrated a willingness to improve communication and collaboration within this context of this review, there is a risk that any momentum could be lost once the review process is complete. Effective transformation and change management require coordination and leadership on the part of The City to ensure that all of the stakeholders, both internal and external, continue to build on the successes so far.

Finally, there is some risk that the recommendations coming from this report could be construed as a response to, or solution for, some of the other issues that have been raised regarding The City's assessment and taxation practices (e.g. the shifting tax burden resulting from low downtown occupancy). While related, it will be important to ensure that the scope of this exercise is made clear in the final report and any associated communications.

REASON(S) FOR RECOMMENDATION(S):

Receiving this report and attachments for information provides an opportunity for Members of Council to hear and provide feedback on the preliminary findings and recommendations. Directing the Administration to work with the consultants to provide a final report no later than Q3 2018 will ensure that Council's feedback can be incorporated, while still providing an opportunity to implement certain recommendations prior to the next assessment year.

ATTACHMENT

1. Notice of Motion
2. PowerPoint Presentation

RECEIVED
NM 2017-38
2017 AUG 31 AM 9:26
THE CITY OF CALGARY
CITY CLERK'S

NOTICE OF MOTION

NM 2017, September 11
Combined Meeting of Council

RE: INDEPENDENT REVIEW OF NON-RESIDENTIAL ASSESSMENT AND COMPLAINTS

MAYOR Nenshi

WHEREAS there were 2,386 assessment complaints for non-residential properties filed in 2017, up from 2,159 in 2016 and 1,889 in 2015 and about 40% of those that proceeded to a hearing before the Composite Assessment Review Board in 2016 were successful for the complainant;

AND WHEREAS the Municipal Government Act and Regulations legislate that assessments are to be prepared each year to reflect market value and Provincial standards;

AND WHEREAS some assessments reduced by a Composite Assessment Review Board are increased by The City of Calgary in subsequent years, as "every year is a new year," resulting in further and recurring assessment complaints;

AND WHEREAS many businesses and individuals, as well as the Calgary Chamber of Commerce and Calgary Economic Development have raised significant, reasonable and persuasive concerns about the fairness, transparency and predictability of The City of Calgary's non-residential assessment process;

AND WHEREAS these concerns highlight the need to review the non-residential assessment and complaint process for potential improvements and reforms;

NOW THEREFORE BE IT RESOLVED that Council directs Administration to engage a consultant to conduct an independent review of the non-residential assessment process to determine if changes could be implemented within the bounds of the legislation to increase fairness, transparency and equity from the standpoint of all non-residential taxpayers, while taking into consideration associated financial risks to The City.

AND BE IT FURTHER RESOLVED that Council directs Administration to engage a consultant to conduct an independent review of the non-residential complaint process to determine if changes could be implemented within the bounds of the legislation to the manner in which non-residential taxpayers can seek review of non-residential property assessments.

AND BE IT FURTHER RESOLVED that the independent review include an examination of the non-residential assessment complaint processes in The City of Edmonton and other relevant jurisdictions to determine what practices, if any, The City of Calgary could emulate to ensure greater fairness, transparency and predictability.

AND BE IT FURTHER RESOLVED that the independent review examine non-residential assessment complaint best practices, associated financial risks and applicable legislation from other jurisdictions, for the timely and equitable resolution of assessment complaints.

AND BE IT FURTHER RESOLVED that the independent review identify and recommend potential changes to the assessment complaint process in the Municipal Government Act for Council to consider adopting as an advocacy position to the province.

AND BE IT FURTHER RESOLVED that a report return to the Priorities and Finance Committee no later that Q2 2018.

A handwritten signature in black ink, appearing to read "Dunshi", is written over a horizontal line.

Calgary



Review of Non-Residential Assessment and Assessment Appeals System

Attachment 2 – PFC2018-0798

Priorities & Finance Committee
June 28, 2018



Calgary City Council Motion

Calgary City Council, passed a Notice of Motion on September 11, 2017, approving an independent review of the non-residential assessment and complaint system to obtain recommendations to improve stakeholder satisfaction with the non-residential property assessment and complaint system.



- Determine if changes could be implemented to increase fairness, transparency and equity
- Determine if changes could be implemented to the manner in which taxpayers can seek review of non-residential property assessments
- Review the complaint processes from other relevant jurisdictions
- Consider best practices, associated financial risks and applicable legislation from other jurisdictions
- Identify and recommend potential changes to the assessment complaint process in the MGA.



Purpose of Today's Presentation

The Consultants will be providing a full report with final recommendations for Council in the early fall, 2018. The findings to date should be considered preliminary

Today's presentation is meant to:

- To provide an overview of the process of consultation and research
- Provide an overview of preliminary findings and draft recommendations
- Offer Members of Council an opportunity for additional feedback the consultants may consider as they prepare final recommendations



Key Review Activities

- Interviews, meetings and innovation workshops – outreach to primary stakeholders themed on **redefining WIN for community well-being**. Toward practical solutions to improve transparency, predictability, fairness & equity – while recognizing financial risk.
- Reviewed the assessment legislation applicable to Calgary and Edmonton, and to other Canadian jurisdictions
- Interjurisdictional and leading practice: researched alternative approaches to assessment and complaint/appeal systems



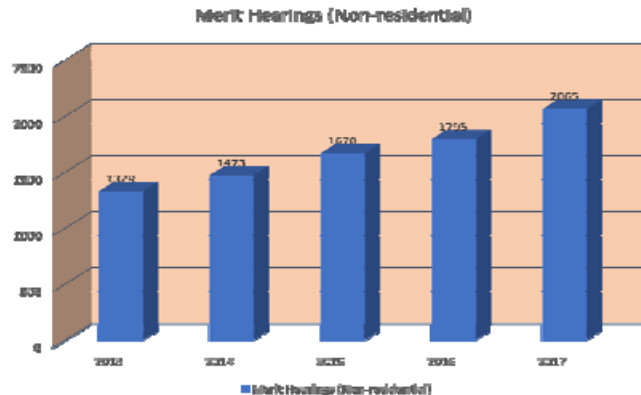


Stakeholder Engagement & Interjurisdiction Review

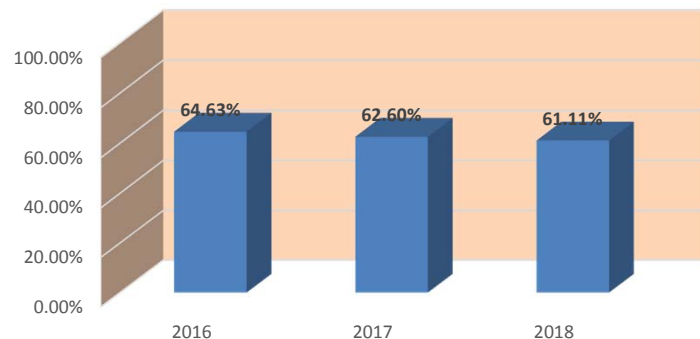
- Tax agents
- Property Owners & Industry Roundtable
- Calgary Chamber of Commerce
- Calgary Economic Development
- BOMA (Building Owners & Managers Assn)
- Calgary Assessment Business Unit
- Calgary Assessment Review Board
- Calgary City Staff
- Edmonton Assessment Business Unit
- Edmonton Assessment Review Board
- Ministry of Municipal Affairs
- Alberta Municipal Government Board
- Alberta Assessors Association
- City of Winnipeg
- Province of BC
- Province of Ontario



Non-Residential Assessment System *Findings*



Percentage of Properties With ARB Decreases that were Increased in Subsequent Years



- Current system has many **strengths**
- Challenges, but **improvements already under way** (e.g., ACP)
- System **capacity** strained – responding to appeals limits resources available for property assessment
- **Culture** of defensiveness: lack of trust; adversarial relationships focused on ‘win-lose’
- Lack of effective **communication** between the parties
- Unclear Provincial **leadership/oversight** role – from elevating standards to systemic performance management & forward-looking audit / QM



Preliminary Recommendations → Key Issues

Key Issue 1 - Capacity

- Use short-term external expertise; enhance training in valuation of complex, high value, properties
- Skills training in dispute negotiation and media/external communications
- Enhance annual performance reporting for both ABU and ARB (client-centric; capacity linked)
- Cooperatively streamline workloads and schedules associated with roll preparation and dispute resolution



Preliminary Recommendations → Key Issues

Key Issue 2 - Culture

- Clarify / describe roles of key players in Non-Res Assessment system
- Set basic ground rules for working relationships between ABU and principal tax agents through Memorandum of Understanding (MOU):
 - Roles and common goals
 - Professional conduct
 - Information sharing and communications expectations
 - Process - agreed statements of facts and/or agreed recommendations to ARB for scheduling hearings
 - Pre-Roll and post Pre-Roll negotiations



Preliminary Recommendations → Key Issues

Key Issue 2 - Culture

- ARB – support cooperative practices between the parties to provide maximum flexibility for scheduling and pre-hearing dispute resolution, while respecting principles of administrative law
- Throughout the transformation period, provide for **coordinating leadership role by the City - to monitor, advocate and sustain continuous improvement**





Coordinated Leadership; Clear Roles & Collaboration

**Sound
Assessment
/ Tax System**

Policy

Leading Practice

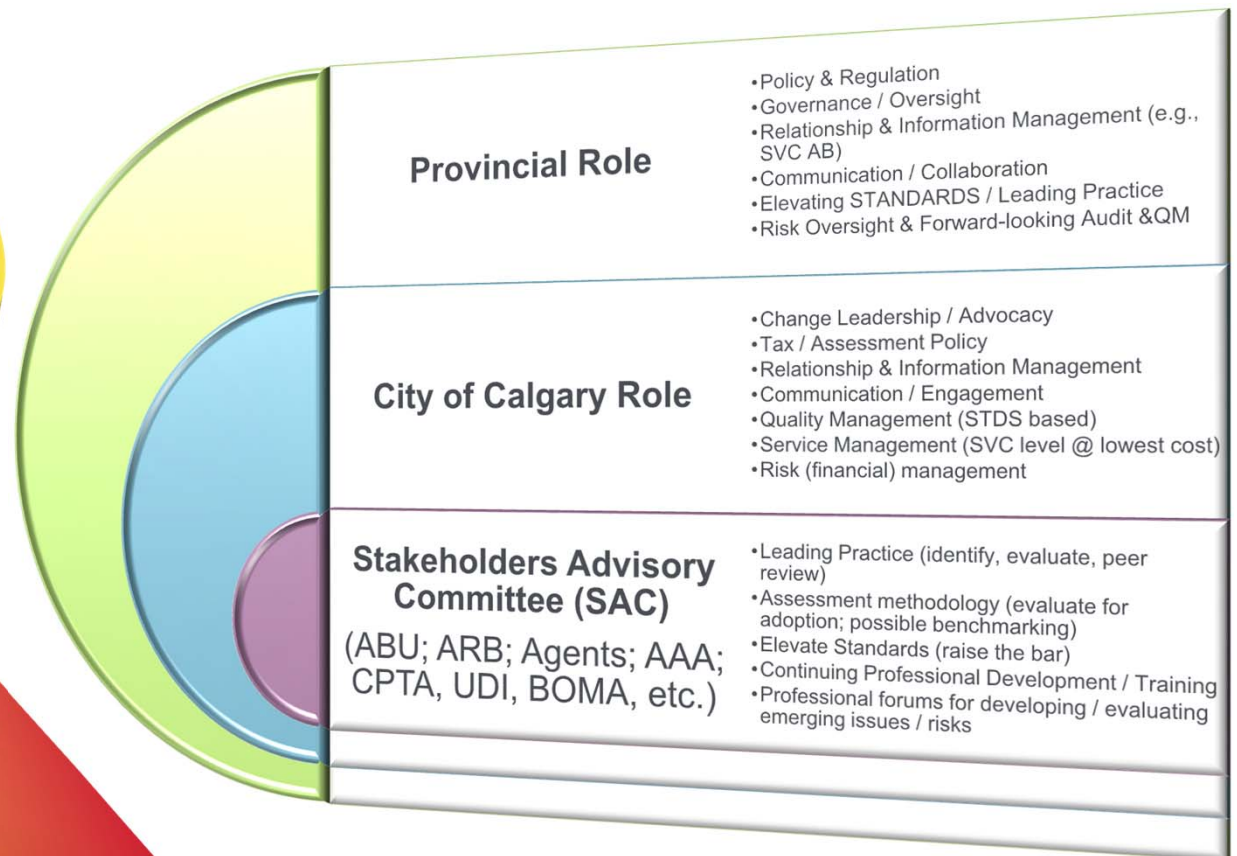
Assmt Methodology

Elevate Standards

Effective Audit Reporting

Alternative Dispute Resolution

Emerging Issues/Risks





Recommendations to Address Key Issues

Key Issue 3 – the requirement to use Mass Appraisal to find assessed value



- Clarify that market value, consistently determined, is the target
- Recognize mass appraisal as a tool; not a solution
- Assessment quality, at lowest cost: mass appraisal is necessary to cost efficiency, but requires balance with appraisal judgment for valuing thinly traded, complex properties
- Clarify & communicate assessors' authority to adjust values ; accounting for individual property / market variations
- Provincial ratio studies: develop & report metrics (beyond ASR, COD) to recognize property strata & assessment methodology distinctions

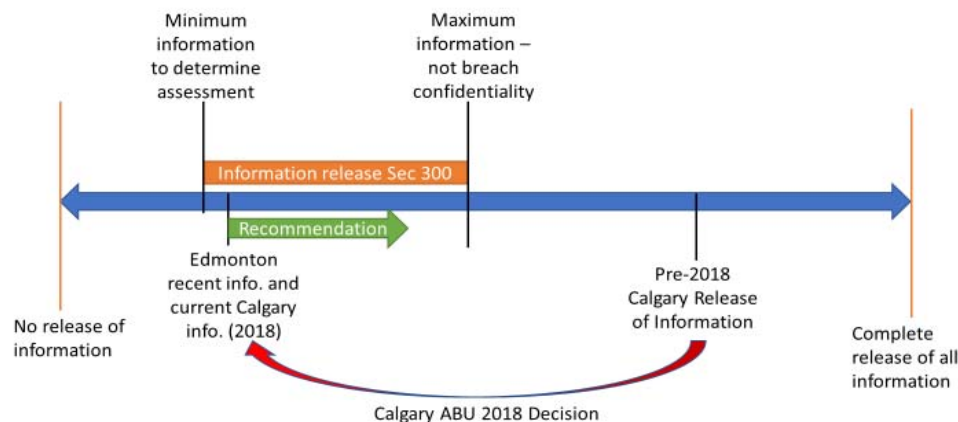


Recommendations to Address Key Issues

Key Issue 4 - Effective communications

- ABU - enhance communications strategy to better target timely messages to critical audiences
- Provide optimal (not minimal) amount of information for taxpayers' acceptance / understanding of their assessments, while protecting privacy

Information Sharing Issue



- Engage Stakeholders (e.g., re-energize an effective Stakeholders Advisory Committee) to:
- Aid identification & adaption of leading practice / continuous improvement, and
- Provide early information to inform financial risk assessment regarding tax base shifts due to complex market dynamics.



Recommendations to Address Key Issues

Key Issue 5 - Dispute resolution improvements

- Focus on improving the efficacy of the ACP (Pre-Roll), by
 - Prioritizing resolution of high value/common issue/principle setting properties
 - Supporting “without prejudice” settlement opportunities



- Expanding awareness of the ACP kickoff market analysis meeting
- Adjusting ABU resourcing to assign a single team leader/manager to administer and report out on the ACP



Recommendations to Address Key Issues

Key Issue 6 - Dispute resolution improvements

- ARB protocols to facilitate pre-hearing dispute resolution
- ABU and ARB to report on appeal costs and performance
- Improve the efficacy of the ARB system by
 - enhancing the member performance review process
 - considering resourcing board officer positions and/or transferring administrative responsibilities to the City Clerk's office
 - adopting the use of case management by Board members to narrow issues and encourage pre- hearing resolution of cases
 - publicizing the one year "cooling off" policy of the MGB and ARBs before hiring assessment staff as panel members



Recommendations to Address Key Issues

Key Issue 6 - Dispute resolution improvements

- In the mid-long term,
 - Investigate for adoption: ARB Rules of Practice & Procedure to incorporate active appeal management, alternate dispute resolution and settlement conferencing.
 - Advocate for legislative change to introduce dispute resolution alternatives (e.g., structured appeal management and mediation, single member adjudication either through hearing or written submissions) adapting experience of BC, Winnipeg and Ontario



Recommendations to Address Key Issues

Key Issue 6 - Dispute resolution improvements

- In the long term,
 - advocate for legislative change to model dispute resolution alternatives (e.g., structured appeal management and mediation, single member adjudication either through hearing or written submissions) adapting experience of BC, Winnipeg and Ontario
 - evaluate the advantages and disadvantages of a 2-3-year roll cycle.

• Key Issue 7 – the Role of the Province

- Clarify the oversight role of the Ministry of Municipal Affairs
- Re-energize and support the use of the Stakeholders Advisory Committee, that was active during the MGA revision process, (to assist with the setting of professional standards, advancement of professional and leading practices and to provide support to assessment practitioners).



Recommendations to Address Key Issues

Key Issue 7 – the Role of the Province

- Clarify the oversight role of the Ministry of Municipal Affairs
- Re-energize and support use of the Stakeholders Advisory Committee - active during the MGA revision process –
 - Setting of / elevating professional standards,
 - Advancing professional and leading practices
 - Introducing / evaluating alternate dispute resolution
- Evaluate the advantages and disadvantages of a 2-3-year roll cycle to address capacity issues and potential service improvement.



Recommended Actions

Priority 1 – ASAP

- Establish a City leadership team to oversee implementation of recommendations
- Secure commentary/responses on recommendations; develop & implement action plan.
- Engage short-term external expertise to address valuation challenges and capacity
- Develop, implement and monitor MOUs.
- Revisit 2018 appeals in progress – toward pre-hearing resolution where possible.
- ABU and City Staff, in consultation with appellants, develop recommended hearing schedule and present to ARB.
- Support ABU's Pre-Roll (nee ACP) and relationship building change initiatives

Calgary



**Sound
Assessment /
Tax System**

Questions Discussion

Policy
Leading Practice
Assmt Methodology
Elevate Standards
Effective Audit Reporting
Alternative Dispute Resolution
Emerging Issues/Risks



Positive News

As a result of the actions taken to date, and reinvigorated leadership at ABU, we are observing early successes:

- Greater collaboration between all parties
- Positive reactions to early recommendations
- Advancements in ACP initiatives
- A strong desire to address new ideas



Recommendations

That the Priorities and Finance Committee:

1. Receive this report and attachments for information; and
2. Direct that Administration return to PFC with the final, independent report and recommendations no later than Q4 2018

Heuristic Consulting Associates



An Independent Review: Calgary's Non-Residential Property Assessment & Complaint Systems

FINAL REPORT

October 30, 2018

Michael Blaschuk

Catherine MacDonald

Bruce Turner

Calgary



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Executive Summary

The City of Calgary relies on property tax to provide approximately 50% of its total revenue. Alberta's market-value standard distributes property tax burden each year reflecting changing dynamics within the City's property markets. Recent economic turmoil in some sectors is increasing financial risk due to tax base instability from dynamic changes across submarkets in the non-residential class. Such circumstances make property assessment and tax policy challenging. For public confidence, they also emphasize the need for information transparency regarding property assessment and its interaction with tax policy.

These factors place increased pressures on Calgary's non-residential property assessment and dispute resolution systems.

Non-residential taxpayers take issue with:

- fairness, transparency and equity of the City's non-residential assessment system, and
- non-predictability and timeliness of the non-residential assessment complaint process
- the amount of information now being provided to them, by the assessor under ss. 299 and 300 of the *MGA*, to enable them to determine how particular assessments were determined, and
- the high percentage of non-residential assessments that require re-complaints to the Calgary Assessment Review Board (CARB) in the year following a successful appeal, where they believe the assessor has not duly considered the previous CARB decisions about appropriate assessed values⁵

Taxpayers have been advocating to Calgary City Council for changes to the non-residential assessment and complaint system to address their concerns.

Responding to these concerns - by Notice of Motion on September 11, 2017 - the Combined Meeting of City of Calgary Council approved an independent review of the City's non-residential assessment process and complaint system to attain recommendations for potential improvements and reforms to increase taxpayer satisfaction with the system while minimizing financial risk to the City.

In undertaking that review, Heuristic Consulting Associates focused on involving stakeholders, drawing upon experience in other jurisdictions to identify systemic performance gaps, leading to recommendations for transformational changes. Meetings, surveys and interactive workshops were well attended by a good cross-section of stakeholders from within the City of Calgary and outside groups - including taxpayers; tax agents; industry representatives; Chamber of Commerce; Calgary Economic Development; and Provincial Government representatives.

Drawing upon the wealth of stakeholders' experience and participation, we were able to identify gaps and make recommendations leading to '*Made in Calgary*' workable solutions.

We emphasize that - while we identified several challenges in the non-residential property assessment and complaints system - we also found, and our recommendations are intended to leverage, the many strengths and advantages within the City's current system. One of the most critical advantages is that – without exception – stakeholders indicated strong support for and willingness to participate in making systemic improvements. Transformational success requires that continued stakeholder participation.

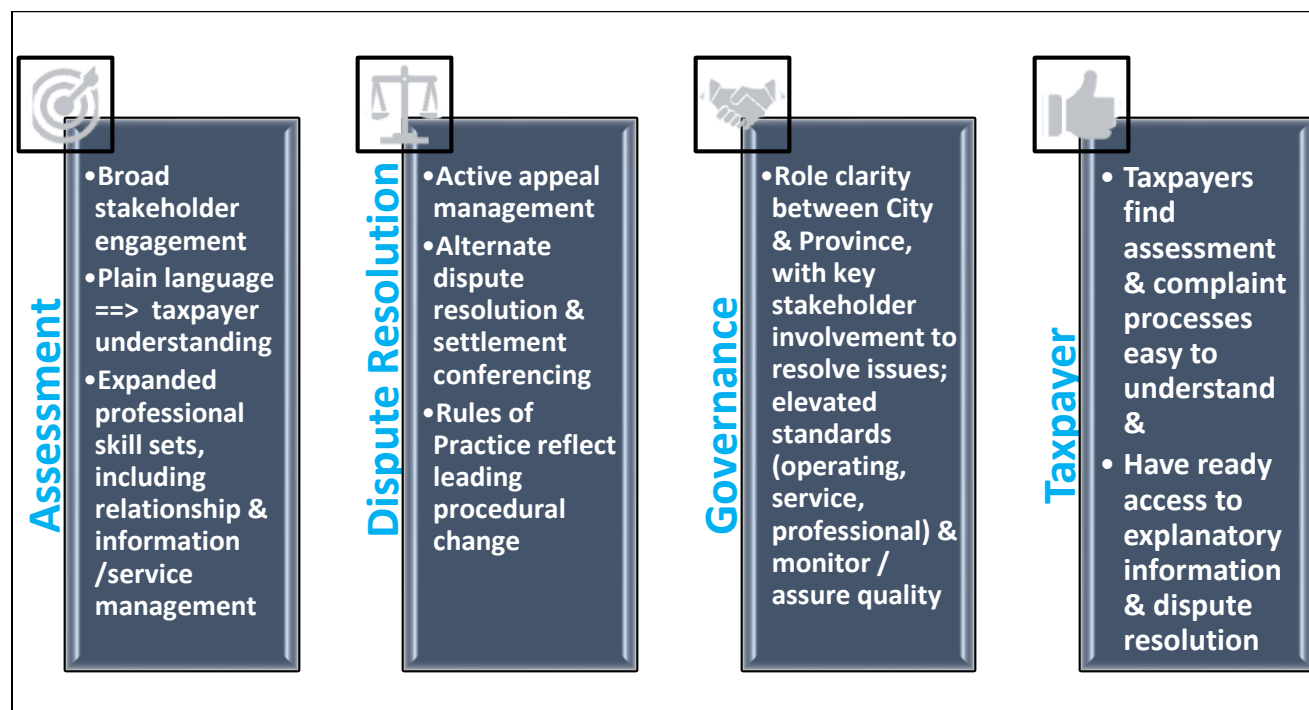
Working with stakeholders, we identified current state circumstances and then described the preferred future state.

Gaps between current and preferred future states are the basis for our recommendations across areas of concern, including:

- System capacity
- Culture
- Communication and information management
- Governance and Quality Management
- Dispute Resolution.

The figure below presents a view of the preferred future state:

Figure 1: Preferred Future State



Based on our stakeholder focused analysis, this report first presents a *General Recommendation* for systemic transformation.

Nested within that general recommendation, *Specific Recommendations* then provide for more tactical transformation to the preferred future state.

City of Calgary has the fundamental framework already in place to become a leading non-residential assessment jurisdiction. *Specific Recommendations* build on existing strengths as part of a phased transformation of the City's non-residential property assessment and complaint/appeal systems – one that will enhance public acceptance and cost effectiveness, while minimizing risk to the City's finances.

Our primary recommendation is that the City create an overall transformation plan, with phased implementation over 10 years. Our recommended first step toward transformation is for the City to establish a leadership team reporting to the City Manager (or delegate) to plan and lead execution of the phased transformation plan.

As an epilogue since we began this project in March 2018, we note that primary stakeholders helped develop and have endorsed practical solutions for the challenges ahead.

Positive results from interactive workshops and meetings with multiple stakeholders are already leading to “*Made in Calgary*” success as assessors and agents address the issues identified in this report and referenced as Phase 1 implementation. Examples include:

- Pre-hearing agreements on over 500 current year (2018) complaints
- The Assessment Business Unit’s redesign of the Advance Consultation Process. (this work was initiated *even before* the review)
- Redefining professional relationships between assessors and tax agents through Memorandums of Understanding (MOUs):

We wish to acknowledge the generous commitment of all stakeholders’ time, energy and experience, dedicated to improving the City’s non-residential property assessment and appeal systems. Without this community spirit, the remarkable progress to date would not be possible.

Introduction

Why is Calgary's non-residential assessment and complaint system being independently reviewed?

Background: Assessment and complaint system

In Alberta, the *Municipal Government Act (MGA)* requires all properties¹, whether residential or non-residential to be assessed each year by the municipal assessor responsible for the area where those properties are located². In Calgary, the assessments are done by the City of Calgary Assessment Business Unit (ABU).

Assessments must be prepared, using mass appraisal methodology, to reflect the market value of the properties as of July 1 prior to the tax year³. Assessment notices are sent to all property owners early in the tax year. Any taxpayer who feels the assessed value on their notice does not reflect the market value of their property as of the previous July 1 may file a complaint to the Assessment Review Board (ARB)⁴. In the case of non-residential assessments, complaints are heard by composite review board panels (CARBs). A CARB is presided over by a provincially appointed member and two city appointed members. All complaints must be heard by a 3-member panel and decided by the end of the tax year.

In Alberta, the *Municipal Government Act (MGA)* requires all properties⁵, whether residential or non-residential to be assessed each year by the municipal assessor responsible for the area where those properties are located⁶. In Calgary, the assessments are done by the City of Calgary Assessment Business Unit (ABU).

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¹ Other than designated industrial improvements and those deemed to be non-assessable pursuant to s. 298 of the *Municipal Government Act*

² Ss. 285 and 289 of the *MGA*

³ Ss. 5 and 6 of the Matters Relating to Assessment Regulation (MRAT)

⁴ Residential complaints are heard by Local Assessment Review Boards (LARBs) with 3 City appointed members.

⁵ Other than designated industrial improvements and those deemed to be non-assessable pursuant to s. 298 of the *Municipal Government Act*

⁶ Ss. 285 and 289 of the *MGA*

⁷ Ss. 5 and 6 of the Matters Relating to Assessment Regulation (MRAT)

⁸ Residential complaints are heard by Local Assessment Review Boards (LARBs) with 3 City appointed members.

provincially appointed member and two city appointed members. All complaints must be heard by a 3-member panel and decided by the end of the tax year.

Non-residential taxpayers take issue with:

- fairness, transparency and equity of the City's non-residential assessment system, and
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- the amount of information now being provided to them, by the assessor under ss. 299 and 300 of the *MGA*, to enable them to determine how particular assessments were determined, and
- the high percentage of non-residential assessments that require re-complaints to the CARB in the year following a successful appeal, where they believe the assessor has not duly considered the previous CARB decisions about appropriate assessed values⁵

Taxpayers have been advocating to Calgary City Council for changes to the non-residential assessment and complaint system to address their concerns.

Calgary City Council Decision

Responding to these concerns - by Notice of Motion on September 11, 2017 - the Combined Meeting of City of Calgary Council approved an independent review of the City's non-residential assessment process and complaint system to attain recommendations for potential improvements and reforms to increase taxpayer satisfaction with the system while minimizing financial risk to the City.

The *chronology of events* for the project is highlighted below:



Purpose

The purpose of this project, based on the *Notice of Motion*, was to perform an independent review of:

- the non-residential assessment process to determine if changes could be implemented within the bounds of the legislation to increase fairness, transparency and equity from the standpoint of all non-residential taxpayers, while taking into consideration associated financial risks to the City, and
- the complaint process to determine if changes could be implemented within the bounds of the legislation to the way non-residential taxpayers can seek review of non-residential property assessments
- the complaint processes in the City of Edmonton and other relevant jurisdictions that might be emulated to ensure greater fairness, transparency and predictability
- non-residential assessment complaint best practices associated financial risks and applicable legislation from other jurisdictions for timely and equitable resolution of assessment complaints

In Scope

Our review focused on:

- | |
|--|
| - recommending changes within the existing legislation (i.e. the <i>Municipal Government Act</i> , the <i>Matters Relating to Assessment Regulation</i> , the <i>Matters Relating to Assessment Complaints Regulation</i> and the <i>Calgary Charter</i>) to improve the fairness, transparency, equity and predictability throughout the non-residential assessment and complaint system |
| - comparing the assessment complaint processes used in Calgary to those of Edmonton and other Canadian jurisdictions to determine best practices for the timely and equitable resolution of complaints |
| - the need to ensure continuing financial stability for the City |

Additionally, our review identified potential amendments to the existing legislation to further address concerns raised in the review process for consideration by the City and the Province.

Property Tax Policy issues that the City should address in future

A model property tax system includes both valuation (assessment) and taxation components. To maintain the transparency necessary to public confidence in the overall system, property assessment policy is distinguished from property tax policy. That is, those who prepare the property assessments are relatively independent from those who set the tax rates.

Where property assessments are based on a market value standard, the property tax burden is distributed according to the value of the assets within each property classification and their submarkets.

In a dynamic economy such as Calgary's, property values constantly change across the property classifications. Values in one area (sub-market) or for one asset class may increase while those in another may decrease or stabilize. Given the same tax rate, relative property tax burden then shifts onto those properties that have experienced the greater increase in wealth, as measured by property value, and away from those properties which have decreased in value.

Under a current market value system such as Calgary's, the market-value standard maintains a uniform but relatively independent relationship between property values and property taxes. A primary advantage of such a current market-value standard is that it is transparent – providing taxpayers the ability to understand their assessments and to question whether they are treated equitably.

Where submarket (and therefore tax burden shifts are substantial – such as with non-residential properties in Downtown Calgary) tax authorities *may* consider tax policy alternatives to help alleviate short-term tax burden distribution issues driven by different market dynamics in various sub-markets and asset classes. An example is Calgary's Non-Residential Phased Tax Program.

As the City addresses tax share issues, it might wish to consider tax share between non-residential and other property classes. The City is moving toward budgeting with a focus on services. It may help this process if property tax policy decisions regarding tax share are further informed concerning: Who Pays? Who Benefits?

While we noted such tax policy issues in the course of this project, it was not within the scope of our current assignment to identify, research, analyse or evaluate possible tax policy responses.

Approach & Methodology

In conducting our review, we focused on and involved stakeholders to understand the issues and to develop recommendations leading to '*Made in Calgary*' solutions, within the constraints of Alberta's legislative frame.

Non-residential property tax stakeholders, internal and external to the process,⁹ helped identify and prioritize concerns with assessment and complaint processes

⁹ Tax agents (and owners), Calgary Chamber of Commerce and Calgary Economic Development, Calgary ABU and ARB, other Calgary City Staff, Edmonton ABU and ARB, Ministry of Municipal Affairs, Alberta Municipal Government Board, Alberta Assessors Association, Building Owners & Managers Association, Canadian Property Taxpayers Association, Municipal Government Board

Through our networks, we spoke to senior representatives of other selected Canadian jurisdictions and analyzed the assessment and appeals legislation applicable to those jurisdictions¹⁰ to determine options and best practices. We reviewed interjurisdictional studies analyzing alternative approaches to assessment and complaint/appeal processes, focusing on efficacy of each systems with respect to transparency, simplicity of understanding and administration, procedural fairness and predictability.

With stakeholders, we established criteria and methodologies to subsequently measure the fairness, transparency and predictability of

- non-residential property assessment systems and
- non-residential property assessment complaint/appeal systems

After evaluating Canadian jurisdictions, we selected, researched and undertook comparative analysis of the non-residential assessment complaint/appeal systems of cities and provinces to determine best practices around issues of fairness, transparency and predictability in complaint/appeal systems.

We compared City of Calgary's complaint processes against those of comparable jurisdictions to identify and prioritize areas of focus for improvement - within the current legislation and in future - with the possibility of legislative change to improve the timely and equitable resolution of complaints.

Finally, as property tax revenue is the single largest source of the City's total revenue, we identified potential impacts of property assessment and dispute resolution on the City's continued financial stability.

Transformation - Toward the Preferred Future State

We synthesized stakeholders' feedback and our knowledge of leading practice to describe the 'preferred future state' for Calgary's non-residential property assessment and dispute resolution system. That tangible vision statement- in the table below - underlies the recommendations of our report.

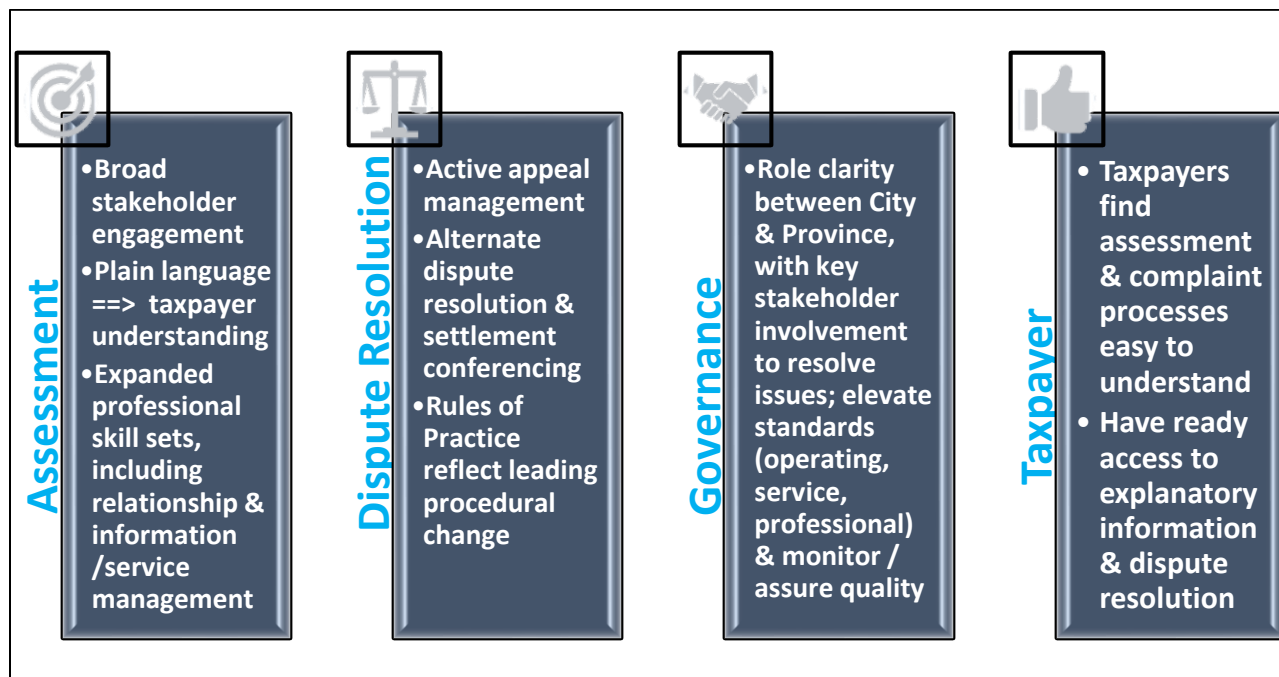
Accomplishing that preferred state necessarily involves a review of governance (provincial / municipal roles) and legislative change.

To achieve the preferred future state, we recommend that the City create a systemic transformation plan - with phased implementation over 10 years. The first step in that transformation is to create a

¹⁰ City of Winnipeg, BC and Ontario

transformation leadership team led by the City Manager (or delegate) with responsibilities outlined in our report.

Figure 2: Preferred Future State



Assessment Fundamentals and Context for the Independent Review

ASSESSMENT FUNDAMENTALS

Assessment is the first step in a system – the tax system – that provides a local government with much of the financing it requires to supply necessary and desired services to its citizens. It is critical that affected citizens have confidence in the process, understand how it affects them and other taxpayers, have the ability to test the validity of the system and generally accept the principles on which it is based.

The assessment process must provide the government with a stable, predictable source of income while being administratively simple and efficient, subject to appropriate checks and balances, and transparent to all stakeholders.

If an assessment system is established on such principles it ensures that the system, although still subject to criticism, will be accepted as a generally fair and cost-effective system.

The assessment process for the province of Alberta, including the city of Calgary, is set out in the Alberta *Municipal Government Act* (and its regulations). This legislation provides for both the determination of

The assessment system is a creature of legislation. Participants are limited by the prescribed rules. Changes to practices and procedures can only be made within that framework (unless the legislation is amended). This is particularly important to aspects of the process such as information release and dispute resolution options. The Municipal Government Act also mandates annual rolls and resolution of complaints within the calendar year - adding stress to the system when there are significant numbers of assessment complaints to be resolved each year, in addition to the necessity for completing the assessment rolls.

assessments and for a process to review those assessments through an independent complaint (appeal) process.

In accordance with the *Act*, Calgary's Assessment Business Unit (ABU) completes the assessments for each property in its jurisdiction, early each year based on applicable market values of properties in the previous year. ABU staff include assessors (appraisers), data analysts and statisticians, administrative staff, communications staff and other specialist positions, as well as managers. Staff are selected through an open, competitive process based on applicable qualifications.

Once appointed appraisal staff, in particular, are expected and encouraged to take advantage of ongoing professional development and educational improvement opportunities. Performance standards are set by ABU managers, then measured and analyzed on a regular basis with a view to continuous improvements of all staff members.

Once assessments have been established the ABU ensures that the assessed values of all properties in the jurisdiction are readily available to the public, together with information about how those assessments were developed, including sales (and other) information that was relied upon to determine the assessments and other explanatory information about assessments to facilitate taxpayer understanding of the methodologies and principles of the system. The ABU also encourages taxpayers to contact them with any assessment issues during pre-roll consultation and ensures that taxpayers are aware of the availability of the assessment complaint process to address any unresolved issues.

In that respect, the *Municipal Government Act* provides for the rigorous, independent and timely assessment appeal process found in Calgary. Under that process, any assessment issues that cannot be resolved with the ABU may be complained about to the Calgary Assessment Review Board (ARB). Although the ARB is also a function of the City of Calgary, it is governed as a completely separate branch from the ABU. It is physically, financially and administratively separate from the

assessment and taxation functions of the City.

ARB cases are heard, and decisions are rendered by publicly appointed Board members, not City staff. The ARB is responsible for establishing the qualification expectations for its members, training requirements and expectations for those members and performance management and reporting standards for panel members. In addition, the ARB maintains its own website, uses legal counsel independent of city counsel (and other than necessary administrative oversight and support of staff from the City Clerk's office) operates independently, but cooperatively, with the ABU to facilitate the finalization of the assessments used for the property taxation system.

CONTEXT FOR THE REVIEW

The *Municipal Government Act* establishes a transparent, administratively efficient, understandable, accountable and consistent assessment process throughout Alberta. It is based on the principles found in a sound and equitable assessment system. As part of this scheme, the City of Calgary has the fundamentals of a good property assessment base and the potential to develop into an excellent system notable for its equity, stability, predictability, accountability, transparency, and administrative simplicity and efficiency.

There are challenges to reaching that potential, but both the ABU and ARB are committed to and have already begun facing those challenges. To begin, determination of assessed values is one part of the overall real property taxation process. The collection of taxes is a societal necessity but is a common source of criticism and dissatisfaction. Most people do not want to pay more taxes than is absolutely necessary. They are prepared to question the total amount being raised, the system being used to raise the taxes and how that system applies to them personally, if they are not convinced that the burden is being equitably distributed between all property owners. Equity is not an objective measure and will be differently defined by individual stakeholders. Consequently, a certain degree of tension is normal between the administrative aspects of the system (ABU and ARB) and property owners (and their tax agents/managers). The level of tension is typically elevated in situations of market volatility and tax base instability, such as the last few years of Calgary's non-residential market. Effective and timely communications from the City are critical to ensure that property owners (and their agents) understand the assessment process and its application to them, in terms of determining their assessment and ability to address any issues arising from that assessment.

The assessment system is a creature of legislation. Participants are limited by the prescribed rules. Changes to practices and procedures can only be made within that

The City of Calgary has in place the fundamentals necessary to a sound assessment and dispute resolution system, based on proven principles. Notwithstanding our report's recommendations for transformation, City leadership and professional staff are already achieving positive results through collaboration with key stakeholders - all of whom are indicating strong support for participating in making system improvements.

framework (unless the legislation is amended). This is particularly important to aspects of the process such as information release and dispute resolution options. The *Municipal Government Act* also mandates annual rolls and resolution of complaints within the calendar year - adding stress to the system when there are significant numbers of assessment complaints to be resolved each year, in addition to the necessity of completing the rolls.

Other stressors include the challenges of attracting, training and retaining qualified expertise for both the ABU and ARB amid the need to maintain fiscal responsibility. The labour market for the most qualified people is highly competitive and local governments are required to operate within the financial constraints of public service operations.

Amidst all of these challenges, the ABU and the ARB are committed to addressing the concerns that have been identified about

the Calgary non-residential property assessment system. Likewise, the tax agents (and property owners) who have expressed significant concerns with the non-residential assessment process have also expressed their desire to work cooperatively with the ABU and ARB to improve and enhance the system while building on its strengths. It will be critical for all participants in the system to maintain their energy and ongoing commitment to system improvements to ensure long term success.

The table below presents our synthesis of stakeholders' descriptions for transformation of the non-residential property assessment and complaint systems. Identifying gaps between current and preferred future states provided the basis for our report recommendations.

FUNCTION	FROM: <i>CURRENT STATE</i>	TO: <i>PREFERRED FUTURE STATE</i>
<i>Assessment</i>	Assessments are determined and defended by technical experts.	Stakeholders are proactively engaged throughout the assessment process, from data collection to final resolution. Assessments are explained in plain language and supported with information to build taxpayer acceptance, if not agreement. Assessors have expanded skill sets including relationship and information / service management
<i>Dispute Resolution</i>	Focus is on administering hearings to resolve complaints in an adversarial environment	ARB is authorized to (and does) incorporate active appeal management, alternate dispute resolution and settlement conferencing (including commitment to update and administer Rules of Practice & Procedure to reflect procedural changes)
<i>Governance</i>	Roles of the City and Province are not entirely clear, leading to inconsistent interpretations of policy and regulation; ineffective quality assurance for high value, unique property types that are seldom traded in the market. Adversarial environment may see regulations used as weapons rather than tools	Role clarity encourages proactive governance, where key stakeholders are continuously engaged to identify & resolve issues / mitigate risks; elevate operating, service and professional standards, and effectively monitor quality within a sound assessment system.
<i>Taxpayer / Client Experience</i>	Owners/taxpayers find the non-residential assessment process complex and are reluctant to become involved beyond appointing a tax agent.	Taxpayers find the assessment and complaint processes and their assessments easy to understand – even where they disagree –have ready access to explanatory information and efficient means to professionally resolve disagreements.

Criteria Summary

Our review was based on an analysis of the Calgary situation considering the requirements of the City of Calgary's Notice of Motion and established principles (bracketed) of a sound assessment and taxation system¹¹:

- FAIRNESS (Equity and neutrality)
- TRANSPARENCY (Communication and simplicity)
- PREDICTABILITY (Consistency and certainty)
- TIMELINESS (Efficiency)
- FINANCIAL ACCOUNTABILITY (Effectiveness)

Approach to Gap Analysis

In conducting our review, we

- met with non-residential property taxation stakeholders, internal and external to the process,¹² to identify and prioritize concerns with assessment and complaint processes
- studied the assessment legislation applicable to Calgary and Edmonton
- spoke to senior representatives of other selected Canadian jurisdictions and analyzed the assessment and appeals legislation applicable to those jurisdictions¹³ to determine options and best practices. Relevant interjurisdictional studies analyzing alternative approaches to assessment and complaint/appeal processes were also considered, focusing on those articles and reports that measured the efficacy of the systems with respect to transparency, simplicity of understanding and administration, procedural fairness and predictability.
- established criteria and methodologies to measure the fairness, transparency and predictability of
 - non-residential property assessment systems and
 - non-residential property assessment complaint/appeal systems
- used these criteria and methodologies to
 - evaluate the City of Calgary's overall system to determine those processes that are not meeting optimal standards of fairness, transparency and predictability
 - review the legislation governing the Calgary processes to determine which of the underperforming aspects of the non-residential assessment system could be

¹¹ See Appendix A – Principles of a Sound Property Assessment and Taxation System

¹² Tax agents (and owners), Calgary Chamber of Commerce and Calgary Economic Development, Calgary ABU and ARB, other Calgary City Staff, Edmonton ABU and ARB, Ministry of Municipal Affairs, Alberta Municipal Government Board, Alberta Assessors Association, Building Owners & Managers Association, Canadian Property Taxpayers Association, Municipal Government Board

¹³ City of Winnipeg, BC and Ontario

- addressed, within that legislation and considering the financial risks to the City, to best improve the fairness, transparency and predictability of the system
- examine, in detail, the non-residential assessment complaint/appeal systems used in the cities of Edmonton and Winnipeg and in the Provinces of BC and Ontario to determine best practices to address issues of fairness, transparency and predictability in complaint/appeal systems
 - measure the City of Calgary's complaint process compared to the processes used in the comparable jurisdictions to determine areas of focus for improvement firstly within the current legislation and in future, with the possibility of legislative change to improve the timely and equitable resolution of complaints
 - maintained focus on the need to ensure the continued financial stability of the City of Calgary

Leveraging Strengths within the Current Non-Residential Property Assessment System

While we identified several challenges in the non-residential property assessment and complaint system, we also recognized that the City's system already benefits from many important strengths:

Multiple stakeholders have been actively participating in this review and are committed to continue making system improvements to advance a sound assessment system that benefits all parties

Frequency of assessment: Alberta's requirement to produce annual assessment rolls, with assessments based on 100% of market value, provides for greater understandability and a market evidence basis for testing assessment accuracy

Complaint processes that delivers results within a year (although increasing numbers of appeals have been creating system capacity challenges)

Legislation that is workable, if not ideal

A well-established system which includes Provincial oversight, contributing to greater consistency and quality in assessments (where adequate market evidence exists to support quality assurance and audit processes)

Strong technical capability and expertise for development and use of mass-valuation models

Quality online tools to help inform taxpayers (e.g., Assessment Search, market reports, assessment and review board forms and explanatory materials)

An Advanced Consultation Process (now called Pre-roll Consultation)where taxpayers gain information about assessments in advance

Taxpayers have ready access to an affordable assessment appeal process

Workshop Consultations

In addition to in-person interviews / discussions, written surveys and other research, we conducted Interactive Workshops with multiple stakeholders on May 8th and May 30th. The Workshops were well attended by a good cross-section of stakeholders from within the City of Calgary and outside groups including taxpayers; tax agents; industry representatives; Chamber of Commerce; Calgary Economic Development; and Provincial Government representatives.

Among the many benefits of the '*Made in Calgary* solutions' focused workshops were:

- Facilitated opportunities for stakeholders to work together to:
 - Collectively identify and prioritize issues and common goals
 - Describe strategies to address key issues to result in mutual advantages
 - Recognize current challenges and to collectively describe the mutually desired professional environment in a preferred future state to provide a sound, equitable and efficient property assessment system

Stakeholders were asked to characterize / describe the *Current State* and the Preferred *Future State* of the Non-Residential Property Assessment system in the City of Calgary. The contrast is remarkable, but it helps in creating a vision to inform a transformation plan:

CURRENT STATE	PREFERRED FUTURE STATE
<ul style="list-style-type: none"> • Lack of trust / lack of confidence in system • Adversarial / not collaborative / mistrustful • Assessment 'Black box' • Unpredictable decisions / grandstanding clogs system • ACP is good system / ACP is a waste of time • Confrontational; fear; combative • Access to information = problem • Relationships not ideal; shaky • Frustrating • One-sided; inability to negotiate 	<ul style="list-style-type: none"> • Trust and respect; professional relationships; mutually respectful • Transparent; collaborative; win/win focus • Willingness to share information & negotiate • Increased efficiency; effectiveness; ability to negotiate • More dialogue with owners • More ACP resolutions - pre-hearing • Increased trust in process and in ARB • Working toward same goals / market value • Stability; equity; focus on market value

Prioritizing Issues

During the Workshops participants were asked to prioritize the Key Issues according to their Urgency and Importance. They ranked the Key Issues, as follows:

High Urgency and High Importance

- ABU schedule pressures
- ACP process (lack of resolution and preliminary assessment for individual properties)
- ARB oversight /performance management
- ARB inconsistency
- ARB time schedule pressures
- Communications/information sharing

High Urgency but Less Important

- ARB training
- Adversarial v. Inquisitorial approach (win/lose vs focus on reasonable assessment supported by best evidence)

High Importance but Less Urgent

- Mass appraisal use
- Appeals to Queens Bench
- ABU expertise and capacity
- Lack of trust

Less Importance and Less Urgent



- Shifting tax burden¹⁴
- Large submissions to ARB
- Conflict of interest at ARB (perceived)
- Access to cases and principles following decisions (to facilitate learning from experience)
- Costs to participants (ABU, ARB and taxpayers/agents)
- Agents going straight to ARB
- Legislative - amendments can be made up to hearing
- Alternatives to 3-member panel process at ARB (alternate dispute resolution)

Key Issues, once prioritized based on urgency and importance, were analyzed considering the primary impacted stakeholder; and the criteria identified by the City: Fairness, Transparency, Predictability, Equity, Timeliness and Financial Risk¹⁵.

¹⁴ Focus of the assignment was on property assessment, not tax policy.

¹⁵ These criteria are similar to those identified as necessary to a *Sound Assessment System* by the Stakeholders Advisory Committee during the MGA review.

The results of this analysis are indicated in the following table:

EVALUATION CRITERIA GRID				PRIMARY IMPACTED STAKEHOLDERS			CONCERNS IDENTIFIED IN NOM:					
PRIORITY RANKING	URGENCY	IMPACT (IMPORTANCE)	PRIORITY ISSUES	Taxpayer	Assessment Business Unit	Assessment Review Board	Fairness	Transparency	Predictability	Equity	Timeliness	Financial Risk
1	38	19	ABU Appeal Schedule Impacting Assessment Role Production				X		X		X	X
1	18	15	Communications/Information Sharing				X	X				X
1	11	5	ARB - Tight Time Frames - Statutory Dates				X				X	
1	11	8	Inconsistency in ARB Decisions				X	X	X	X		X
1	10	18	ARB Oversight and Performance Management				X	X	X	X		X
1	10	12	ACP Process				X	X	X	X	X	X
2	12	3	Adversarial vs. Inquisitive Approach				X	X		X	X	X
2	10	4	ARB Training				X		X	X		X
3	9	17	Reliance on Mass Appraisal Approach				X			X		X
3	4	5	Lack of Trust				X	X			X	X
3	2	5	Appeals to Queen's Bench				X		X		X	X
3	0	5	ABU Experience/Capacity						X		X	X
Lower Priority Issues												
4	2	2	Tax Burden				X					X
4	0	4	Large Submissions at ARB								X	
4	0	4	Conflict-of-Interest at ARB				X	X				
4	0	2	Easy access to Decisions/Principles				X	X	X	X	X	
4	0	2	Costs to Participants									X
4	0	1	Agents/Owners Straight to Appeal									
4	0	1	Impact of Legislative - Amend Roll				X				X	
4	0	2	Alternatives to ARB				X	X			X	X
<div>  Primary Stakeholder  Secondary Stakeholder </div>												

Discussion of Findings and Recommendations

Early interviews with primary stakeholders helped identify primary issues contributing to perceptions of lack of fairness, transparency, equity and efficiency in the non-residential property assessment system. Issues were validated, clarified, evaluated and themed, with early findings supplemented and validated through interjurisdictional research, literature review and workshops with multiple stakeholders.

A triggering concern / complaint was that appeal decisions from one assessment year were not reflected on subsequent assessment rolls.

Several issues appeared to contribute to adversarial work cultures amongst the non-residential assessment community of tax agents, assessors and the assessment review board. Initial causal issues were identified around access to information and the negative impacts of hearing schedules on subsequent year's roll production.

As a high-level early observation regarding financial risk, we noted a need to balance taxpayers' expectations regarding predictability and equity for their individual property assessments with the City's requirements for stability in the non-residential tax base (the former important to taxpayers' budgeting/performance and the latter critical to the City's finances).

Our research and interactive workshops identified issue themes: system capacity; an adversarial culture; lack of effective communications and information management; an inflexible dispute resolution process and performance management focused more on technical aspects than customer expectations.

Findings and Recommendations

While we identified several challenges in the non-residential property assessment and complaints system, we found - and our recommendations are intended to leverage - the many strengths and advantages within the City's current system. One of the most critical advantages is that - without exception - stakeholders indicated strong support for and willingness to participate in making systemic improvements. Transformational success requires that continued stakeholder participation.

In the following discussion, we present a General Recommendation for systemic transformation.

Following the general recommendation, *Specific Recommendations* for transformation to the preferred future state follow a discussion of findings and are intended to be nested within the general recommendation for transformation.

General Recommendation - Transformation to Preferred Future State

Recommendations are also intended to be part of a phased transformation of the City's non-residential property assessment and complaint/appeal systems. We recommend that the City:

- Create a general (or systemic) transformation plan
- Implement that plan in phases (including actions to address the factors enumerated below), and
- Establish a leadership team to plan and lead execution of a phased transformation plan.

Three phases are recommended for the transformation plan.



The plan should include / provide for:

1. Creation of a transformation leadership team by the City Manager (or delegate) that includes senior members of ABU and ARB. This team would have overall responsibility to:
 - a. Work with the Province to clarify governance roles
 - b. Create and communicate a *tangible (stakeholder endorsed) picture of the desired future non-*

- residential property assessment
& dispute resolution systems /
functions in 5 and 10 years
 - c. Describe the *strategic roadmap*
to achieve that preferred future
 - d. Set out the *action plan* for phased
implementation
 - e. Describe / define metrics,
performance management and
reporting requirements to
monitor progress and
communicate continuing
relevance, achievements or
regression, and to enable
continuous learning
2. Key stakeholder engagement through an
ongoing transformation advisory group
(patterned on *MGA*¹⁶ Stakeholders'
Advisory Committee).
 3. Ongoing measurement of successes and
challenges with opportunities to
celebrate or address, as appropriate.

¹⁶ *Municipal Government Act*

1 Issues related to system capacity:

- ARB decisions not timely and not carried forward to subsequent roll
- Hearing schedules and decision release dates impacting roll production
- Requirement to use Mass Appraisal amid dynamic market conditions for complex properties impacting valuations
- ABU and ARB performance and capacities impacted by type and amount of training and qualifications
- Performance management and reporting need to be more client-centric (focused on service delivery, in addition to operational effectiveness) recognizing capacity needed to operations and service delivery.

Findings related to system capacity:

We concluded that system capacity is impacted by several issues – perhaps most significantly by increasing numbers of assessment appeals and related scheduling challenges that limit resources available to data collection, research & analysis, roll preparation and communication between assessors and taxpayers/agents during the process. Transforming the assessment and complaint / appeal processes offers opportunities for both cost savings and service improvement within existing system capacity.

ARB decisions and hearing schedules:

We found that – for roll years 2016 through 2018 – over 60% of ARB-decreased assessments had been increased on the assessment roll in the following year.

While this appears unusual, we also found that appeal scheduling and an increasing number of appeals each year directly impacted property assessment system capacity, resulting in:

- Reduced Assessment Business Unit (ABU) capacity to process ARB decisions in time for the new year's roll production
- Reduced time available for quality management in roll preparation and public relations through the Advanced Consulting Process (ACP)
- Limited time available for experienced assessors to review and adjust for individual property characteristics in valuation of complex non-residential properties
- Decisions released too late in the assessment calendar for them to be reflected in subsequent year roll production

Mass appraisal requirement and dynamic market conditions for complex properties

- Tax agents perceived a tension between the requirement to use mass appraisal to set roll values and assessors' willingness to adjust property values for individual

property characteristics and specific property sales

- Inconsistent interpretations of the meaning of the legislative requirement to use Mass Appraisal
- Perception that Mass Appraisal limits valuation flexibility rather than acting as a tool to assist the appraiser
- High-value, complex properties are seldom traded, creating valuation (and auditing) challenges especially where the few sales include properties that are parts of entire portfolios of properties in multiple jurisdictions
- Need to balance rigidity and flexibility in determining assessed values in a volatile market and within the legislative scheme. For example, need to focus on more middle ground hierarchy for cap rates

Training and Qualifications:

- In 2017, ABU devoted an average of 108 hours of training per valuation staff member- ranging from technical topics to communications and

customer service. Valuation of complex non-residential properties under dynamic market conditions requires additional specialized training and/or expertise

- ARB members are provided with basic training in areas such as administrative law and decision writing and more is available through the Province. More broadly communicating the required training and qualifications may improve public perceptions.

Performance management and reporting

- ABU reports semi-annually to Council on metrics in a relatively robust *Action Plan* (2015-18). Operational performance is tracked monthly, according to metrics set out in the *Assessment Business Plan*
- ARB performance management measures and reporting are currently under development and should be made public. ARB's QB reporting/tracking needs improvement

Recommendations related to capacity:

To enhance operating and service delivery capacity, we recommend:

- ABU use short-term external professional training /assistance to enhance expertise in valuation of complex, high value, properties
- ABU provide staff with skills training in dispute resolution, negotiation and media/external communications
- Both ABU and ARB enhance annual performance reporting, introducing metrics that are more client-centric and capacity linked (i.e. reflecting service standards and linking elevated service delivery to organizational capacity). ARB's QB tracking and reporting needs improvement. ARB should reinstate public annual performance reporting.
- The parties cooperatively streamline workloads and schedules (ABU, ARB, taxpayers & agents) associated with roll preparation and dispute resolution

The City work with the Province to investigate the business case for 2 or 3-year assessment rolls - investigating potential gains in system capacity, impacts on service delivery and possible impacts on financial risk/savings

2 Issues related to culture:

- Lack of trust amongst parties in the assessment and complaint processes
- Complaint process is generally characterized as defensive / combative
- Communications are often ineffective amongst parties and information sharing / discovery process focused on minimum information to be provided
- Perception of rigidity / lack of flexibility in mass appraisal process

Findings related to culture:

Working with stakeholders, we concluded that the culture within the City's non-residential assessment system is adversarial; that professional relationships are marked by lack of trust and that, in this culture, it is more common to defend valuations than to explain assessments.

Owners and agents described assessment results as from a 'Black box'; access to relevant information is seen as problematic and the complaint system as cumbersome

and often rendering unpredictable decisions.

There is a need to balance taxpayers' expectations regarding predictability of their individual property assessments and the City's tax base stability and financial risks due to shifting tax burdens. The parties need to work together to resolve this balance.

We concluded that there are significant opportunities for improvement in operating efficiency and service effectiveness through improved professional relationship management that encourages cooperation, accountability and effective communication and which emphasizes continuous improvement amongst ABU, owners/tax agents and ARB.

The regulatory requirement for assessments to "be prepared using mass appraisal" contributes to a *perception* of mass appraisal presenting inflexible assessments, rather than providing a tool giving results that reflect judgment-based adjustments – especially for unique and seldom traded property types.

Recommendations related to culture:

Culture takes time, requires sustained leadership support and considerable effort by all parties to change. To establish more effective relationships between primary parties in determining and reviewing assessments – through the Pre-Roll and complaint periods, we recommend that ABU work with principal tax agents to set basic ground rules for working relationships through Memorandums of Understanding to:

- a. Clarify / describe roles of key players and common goals in the non-residential property assessment system
- b. Set out expectations of professional behaviours and conduct
- c. Describe Information sharing and communications expectations
- d. Establish structured processes for narrowing issues, reaching agreed statements of facts and/or agreed recommendations to ARB for the scheduling of hearings
- e. Similarly, set out structured processes for Pre-Roll and post Pre-Roll negotiations

To help address capacity and culture issues, we recommend that the ARB support cooperative practices between the parties to provide maximum flexibility for scheduling and pre-hearing dispute resolution, while respecting principles of administrative law.

3 Issues related to communication and information management:

- Perception that a minimum of information is being provided, such that assessments are seen to be determined out of a 'Black box'. There is a need for transparency in information provision balanced with the requirement to protect confidential / sensitive information to build taxpayer confidence in the assessment system
- Perception of focus on defending assessed values rather than explaining those values (e.g., ABU decision to reduce the amount of information provided to owners / agents, to be consistent with other jurisdictions)
- Perception of rigidity in applying rules or of more professional co-operation? For example, consider the compliance review application— is it effective in enhancing taxpayer acceptability of assessment results?

Findings related communication & information management:

Through interviews and workshops, we heard that communication and information sharing is critically important and needs improvement.

A perceived decline in information sharing has led to misunderstanding and reduced trust in professional relationships. There is a sense that ABU focus shifted to providing the minimum necessary information and

defending assessments, rather than providing sufficient information for owners/agents to understand and accept the assessment result (as permitted in the legislation).

Accurate, equitable assessments rely on data quality management. Taxpayers need to be prepared to provide much of the necessary data.

Data quality and quantity varies with market circumstances, property type and professional relationships. Different levels of data are required to:

- determine assessments;
- explain assessments, and to
- support assessments on appeal.

Different assessment methodologies drive varying data requirements for different property types and locations. (Edmonton circumstances may drive different data requirements from those in Calgary). Recognizing these factors, ABU's data governance should provide for optimal (not minimal) information necessary to accurate and equitable assessments

Optimal might be defined within a range of data from that which is minimally required, to that which is maximally permissible but without offending privacy or confidentiality. 'Optimal' is the level of information that is cost effective but necessary to create and maintain public confidence in the assessment system. We note that

assessment agencies are increasingly relying on self-service to provide information.

There is a need for clear communication throughout the process – examples include online policies (e.g., weight and authority of Ministry's Information Disclosure Guidelines), onsite property visits; early consideration and explanation of adjustments or denial of adjustments; more public presentations by assessors to expanded audiences (e.g. owners as well as agents).

ABU's Advanced Consultation Process (ACP) is useful but in need of the improvements. These are currently underway to make it more effective. For example:

- Pre-roll values need to be more certain and less preliminary to form a useful basis for discussion

- There is need for more meaningful dialogue on individual properties rather than just for property groups and sub-markets
- Assessors need to have authority, and willingness, to change values, where justified
- Assessors are reluctant to agree to reductions during ACP, due to perception that agents may not subsequently honor agreements, seeing them instead as a "stepping stone" to further reductions at ARB

ABU has already launched an ACP improvement initiative – to make the process more interactive, more suited to customers' needs and engaging a broader group of stakeholders.

Recommendations related to communication & information management:

We recommend that:

- a. the City work with the Province to develop a standing vehicle to clarify communication strategy - advancing consistent understanding and application of new legislative/regulatory provisions, such as:
 - i. Section 300 of the Municipal Government Act (MGA), where the assessor is to produce summary information on comparable properties
 - ii. Section 1.1 & 9 of Matters Relating to Assessment Complaints (MRAC) – new disclosure periods for evidence allowed in a hearing
 - iii. Weight and authority of Ministry's Information Disclosure Guidelines
 - iv. Use of Compliance Review applications, and their effectiveness
- b. ABU and ARB enhance communications strategy to better target timely messages to critical audiences
- c. Property assessment is data intensive. The assessor relies on many sources, including taxpayers, to provide necessary data. Data quality and quantity varies with market circumstances, property type and relationships. Different levels of data are required to determine assessments; to explain assessments and to support assessments on appeal. Assessment methodologies for different property types have varying data requirements for all the above. ABU's data governance should provide for optimal (not minimal) information necessary for accurate and equitable assessments; for taxpayers' acceptance / understanding of their assessments, while protecting its privacy. There is a range of data that may be provided: from minimum legislative requirements to maximum allowable while protecting privacy & confidentiality. The optimal level of information provided may vary over time and location. Optimal is that level necessary to create and maintain public confidence in the assessment system.
- d. ABU explore data collection and data quality enhancement opportunities through the revised Pre-Roll process, and earlier resolution of those complaints critical to establishing valuation principles required to determine the next year's assessments
- e. ABU and ARB explore use of plain language (less technical and legal) to explain assessments, simplify dispute resolution and improve public understanding
- f. ABU work with stakeholders to develop, implement and monitor processes to resolve issues/complaints with respect to high value, common-issue properties
- g. Initiate "without prejudice" settlements – ACP related process as part of MOU
- h. With increased reliance on agreements through ACP, enhance process to monitor and report changes from preliminary roll through final roll
- i. Enhance content and expand awareness of ACP (kickoff) market analysis meeting for targeted audiences
- j. Establish a single manager/leader in ABU to coordinate / manage ACP process

4 Issues related to governance and quality management:

In property assessment, it is customary to establish standards of performance and then to measure actual performance on an ongoing basis to determine a base and then to measure changes in quality over time to address issues as they arise. Standards also need ongoing review as leading practices and/or legislation change. Standards typically relate to data governance, assessment accuracy, customer service and public reporting.

In Alberta's distributed property assessment system, leadership and role clarity are critical to achieving the objectives of a sound assessment / tax system. There are opportunities for improvement through adopting proactive governance that provides role clarity, engages stakeholders to elevate standards and increase professionalism, and more effectively monitor quality through forward-looking audits and all-party participation in structured processes designed to facilitate continuous improvement.

Role clarity in governance, an evolving professional body of knowledge,

professional associations and all stakeholders' involvement in and acceptance of processes are necessary to continuous improvement in a sound assessment system. In Alberta's distributed property assessment system, leadership and role clarity are critical to achieving the objectives of a sound assessment / tax system.

Findings related to Governance & Information Management:

We found that roles of the City and Province are not clear, leading to inconsistent interpretations of policy and regulation; ineffective quality management for high-value, complex property types that are seldom traded in dynamic market conditions. There are opportunities for improvement through adopting proactive governance that provides role clarity, engages stakeholders to establish standards and increase professionalism, and more effectively monitor quality through forward-looking audits and all-party participation in structured processes designed to facilitate continuous improvement.



The Province's annual ratio studies provide useful information for property groups **where assessments can be tested against market evidence**. But for markets that are comprised of properties that are seldom traded, high value, complex to value and unique in character (e.g., high-rise office buildings; regional shopping centers), ratio studies provide little information regarding assessment quality.

Such properties are an important part of the property tax base - especially during periods when markets are volatile – and require more in-depth analysis to test for assessment accuracy and uniformity.

The last Provincial audit of commercial (retail) properties in the City of Calgary was 2012; the last Provincial audit of office properties was in 2011. In high-growth jurisdictions that experience significant market swings, infrequent audits can contribute to quality management and tax burden re-distribution challenges.

ABU reports on quality assurance to the City semi-annually, aligned with the City's high-level Action Plan. Current metrics (provincial or city) and reporting may not capture - in timely fashion - risks associated with assessment accuracy or uniformity of seldom traded, high-value complex properties.

Recommendations related to governance and quality management:

We recommend that the City work with the Province to:

- a. Clarify governance roles of the City and Province respecting policy, standards elevation and quality management
- b. Develop and report annually on metrics (beyond the current ratio studies) for property strata and assessment methodology for thinly traded, high-value complex properties.
- c. Enhance and resource more frequent comprehensive audits of high-value complex properties
- d. Engage key stakeholders (e.g., Stakeholders' Advisory Group) to ensure continuing & practical adoption of leading practice and elevation of standards related to assessment methodology, information management and service delivery
- e. Provide for proactive public reporting on performance and service delivery, drawing upon the experience of other agencies like BC Assessment.

5 Issues related to dispute resolution (complaint) processes:

- Complaint processes support an adversarial, not an inquisitorial system (i.e. focus on win/lose vs finding a fair assessment based on best evidence)
- Complaint numbers (and ongoing appeals to the Court of Queen's Bench) and hearings costs have been increasing
- Hearing schedules require significant resources to administer efficiently
- Perception of procedural inconsistency between Calgary and other Alberta ARBs
- Perception of apprehension of bias in the appointment of former assessors to ARB

- Perception of need for ARB oversight by the Province
- Perception that ARB members may not be qualified or trained in administrative law, decision writing
- Increasing number of ARB decisions being appealed to QB, particularly by the City, resulting in assessment uncertainty where principles in issue
- A recent regulatory change permitting the assessor to amend the roll up to a hearing date may create hearing delays, impacting decision releases by the required date of December 31st.

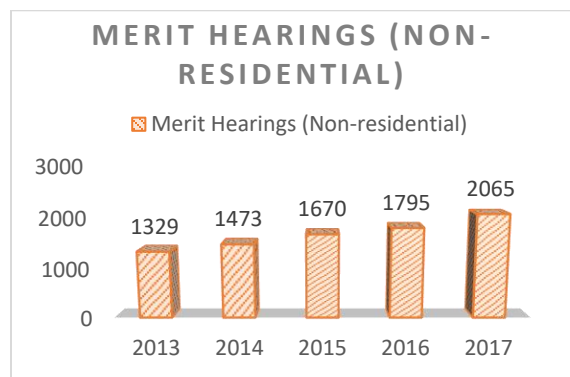
Findings related to Dispute Resolution:

We found that the focus is on administration of hearings to resolve complaints, in an adversarial environment. Although the large

number of hearings are administered very efficiently, there is significant opportunity for improvement by incorporating active appeal management, alternate dispute resolution and settlement conferencing in dispute resolution. We also found that dissatisfaction with the ARB process led to a significant number of appeals on to the Court of Queen's Bench, again resulting in delays in resolving issues and resultant ongoing uncertainty, frustration and inefficiency for roll preparation purposes.

Our initial review validated the concerns identified in the Notice of Motion. The number of merit hearings to ARB increased 55%, while the number of ARB decisions resulting in decreased assessments increased 165% over 5 years from 2013 to 2017.

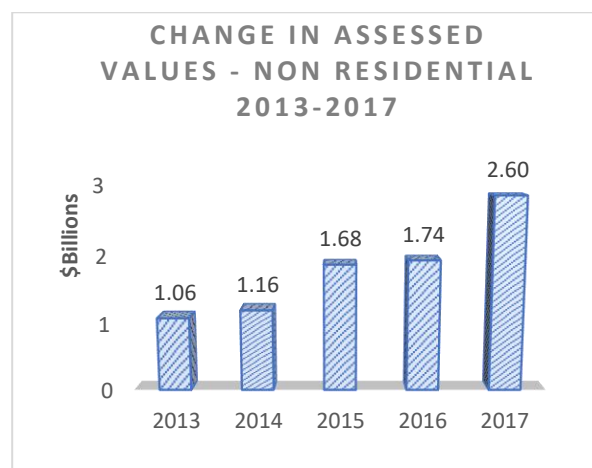
The following table illustrates the current direction of merit hearing occurrences at ARB for a five-year period.



The Accelerating Number of Appeal Cases is Eroding the Tax Base

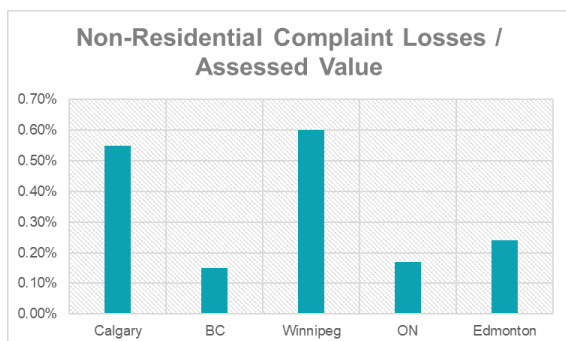
Further analysis of these merit hearings indicate that the assessed values have also been significantly reduced, and at an

accelerating pace. In 2017, the total assessed value for Non-Residential properties was reduced by approximately \$2.596 billion, through the complaint process. This is a 145 % higher amount than the \$1.058 billion reported reduction five years earlier in 2013. Without a resolution to the current issues, overall reductions in assessed values after hearings at the ARB are likely to continue. Our analysis of the trend in assessed value changes after the complaint process is illustrated in the following chart:

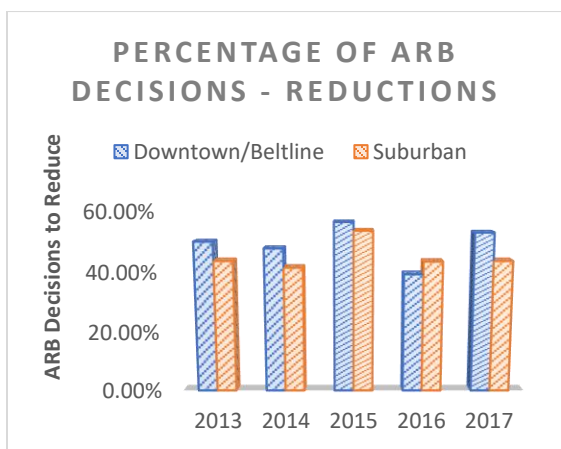


Overall Success Rates at the ARB Have Not Changed Significantly / Roll Stability

A measure of tax base stability is the non-residential complaint losses taken against non-residential roll totals. Although roll losses have averaged only about 5% (on appealed properties) over the past five years, overall roll stability is less than that for comparative jurisdictions. In the following chart, Calgary's non-residential roll stability is similar to Winnipeg's but twice that of Edmonton.



The frequency of ARB awarded reductions was also analyzed. Both Suburban and Downtown/Beltline properties were reviewed for a five-year period. Over this period property owners/agents quite consistently received reductions to their assessed values in 40-50% of the cases. These results are highlighted in the following table:

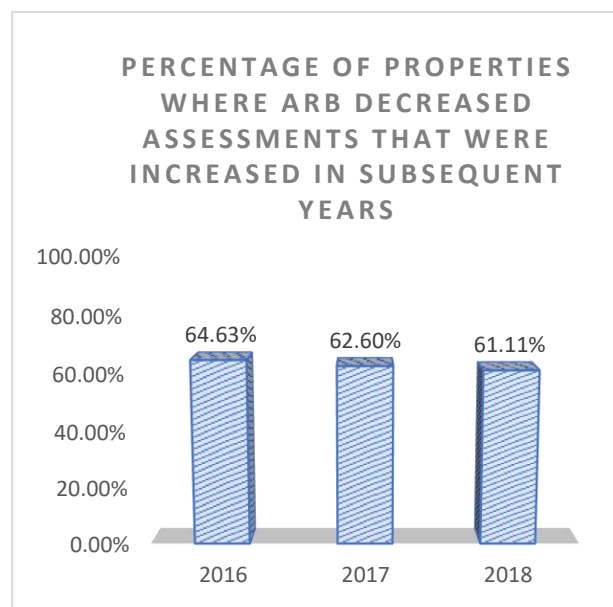


The Assessor Frequently Revises the Assessment in the Following Year

One of the key issues identified to the City was that ARB ordered reductions in assessed value were subsequently reversed by the assessor in the following assessment roll. Establishment of annual assessed values is entirely within the assessor's prerogative (as

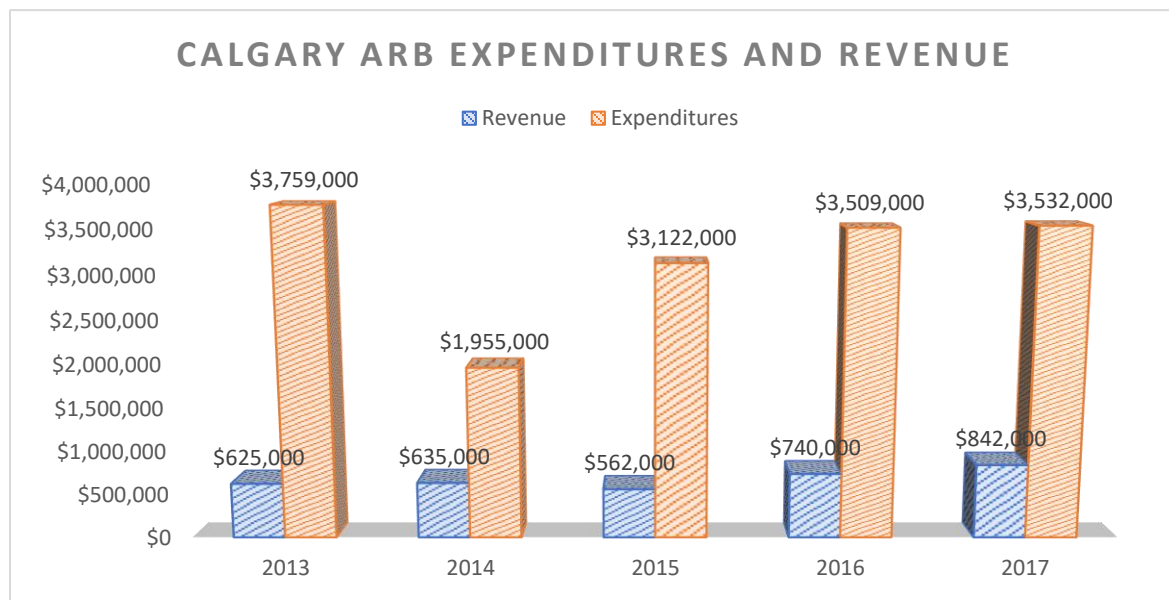
long as legislative requirements are met) as each year a new value must be determined based on current market evidence. Consequently, the decision of the previous year's ARB is not necessarily relevant to a subsequent determination of assessed value. However, this is disconcerting to taxpayers who believe that they incurred significant costs to reflect their point-of-view on the correct valuation of their property only to have it overturned in the following year and to have to repeat the cycle.

An analysis of ARB decisions over the last three years indicates that, when a property was reduced at the ARB, the assessor increased the property's value in the next assessment year over 60% of the time. This may present an opportunity for public relations, where the assessor can collaborate with experts and communicate dynamic market conditions to stakeholders. The percentage of changed assessment on appeal is illustrated in the following chart:



There is a growing trend for owners/developers to simply turn their assessments and related appeals to tax agents as they find the assessment process complex and frustrating. Tax agents, in turn, file appeals rather than seeking resolution through the Advanced Consulting Process.

QB appeals have added consequences in that they complicate application of the City's



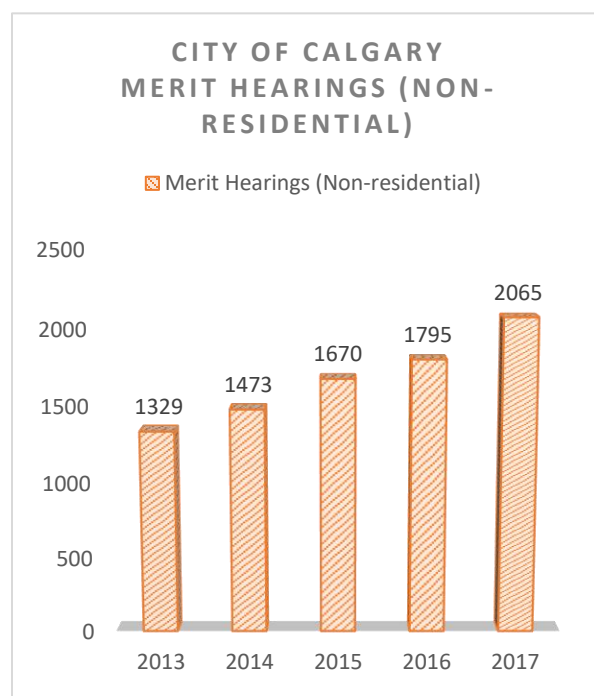
Once appeals are filed, resolution typically involves an in-person hearing before a full 3-member panel. Active appeal management and alternate dispute resolution are not presently available to resolve complaints.

The present discovery process and limited requirement to clearly define appeal issues can result in the parties presenting 1,500 – 2,000 pages of evidence.

Beyond ARB, appeals to Queens Bench (QB) are expensive and offer a slow resolution process. Many appeals might be characterized as 'protective appeals', that are adjourned *sine die*, further slowing the resolution process.

property tax rebate program.

And, unlike the Edmonton ARB where decision writing is shared amongst panel members, the Calgary ARB chair writes each decision - which may not gain best benefit from resources and available expertise.



Costs, Benefits & Savings

Cost Savings

Over the past five years, the number of non-residential merit hearings has continued to increase. From 2013 to 2017 the number of merit hearings has increased by approximately 55%. This trend is not sustainable as it results in additional expenditures from both ARB and ABU and continued erosion of public confidence in City of Calgary's assessment program.

To address this issue, we analyzed City of Calgary hearings and costs compared with experience in the City of Edmonton.

The increase in the number of hearings puts increasing financial and human resource stress on both ARB and ABU. Although the ARB budget dropped in 2014, the current challenges have caused continuing increases. Although the ARB does receive some revenues because of appeal fees, revenue represents only about 22% of cost on average over the past 5 years.

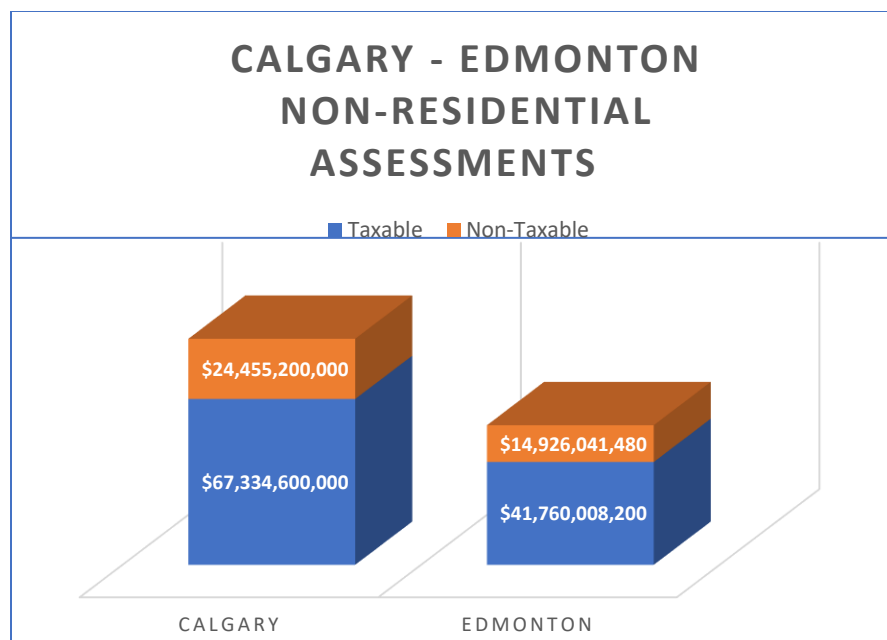
Comparative analysis with City of Edmonton shows potential for cost savings and service improvement in Calgary.

The population of Calgary and Edmonton were, respectively, 1,239,000 and 932,500, in 2016. The population of the City of Edmonton is approximately 75% of the City of Calgary.

Comparative analysis, profiling non-residential properties in each City shows notably different pictures.

As Edmonton is the provincial capital, there are a significant number of Provincial and Federal Government assets located there. The number of non-taxable properties in Edmonton (6,233 vs 9,662 for Calgary) is smaller (64% of Calgary), the assessed value for these same properties (\$14,926,041,480 vs. \$24,455,200,000) similarly proportionally (61% of Calgary).

The number of taxable non-residential properties for Calgary and Edmonton are similar, 13,815 and 13,512, respectively. But, as City of Calgary is a major corporate headquarters in Canada, the non-residential properties tend to be more substantial and higher-valued. The assessed values for Calgary and Edmonton are, \$67,334,600,000 and \$41,760,008,200 (62% of Calgary), respectively.



Based on Edmonton's smaller population, similar number of taxable non-residential properties, and lower valued assessments one would anticipate the number of appeals for Edmonton to be approximately 55-65% of the number for Calgary. However, analysis of the number of merit hearings between the two jurisdictions tells another story. Appeal levels remain largely steady in Edmonton whereas Calgary continues to escalate. We found that in Edmonton, a relatively higher percentage of complaints tend to be resolved in pre-roll consultation and in negotiations prior to hearings.

Edmonton shows a remarkably lower level of merit hearings – 338– only 16% of Calgary's 2,065 hearings for 2017.

We note that many variables make direct comparison of taxing jurisdictions difficult – even where they are subject to similar provincial legislation.

But, based on Edmonton observations, this data suggests the number of merit hearings for Calgary could be reduced to approximately 500 hearings annually in the next few years assuming the recommendations in this report are accepted and implemented.

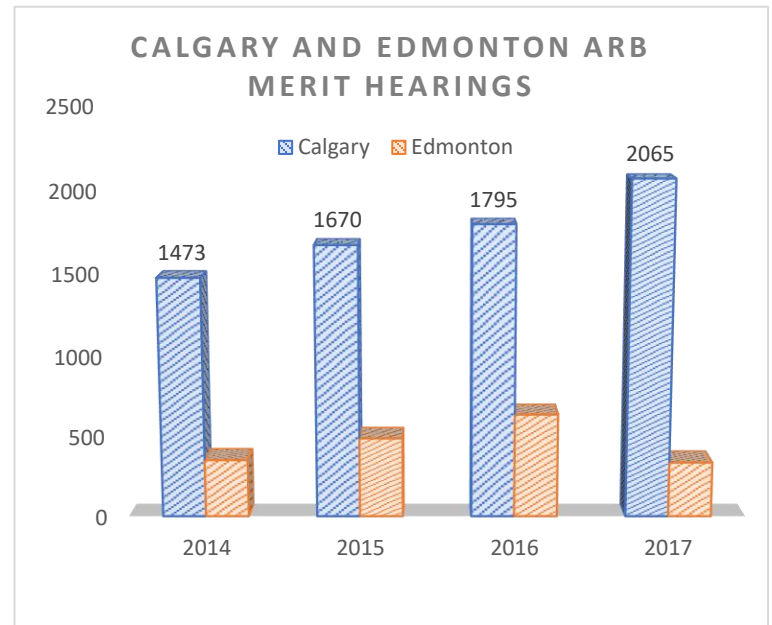
Over time, this equates to savings in direct and indirect costs in ARB budget (including imputed rent for ARB space, legal fees, etc.) of approximately \$2,000,000 per annum – in the longer term.

Note that these annual savings would not occur immediately. Transformation takes time and costs money – so it should be anticipated that costs would **increase** initially as both the current operation and transformation efforts need to be funded over the short term.

The projected annual savings should be achievable within five years.

Benefits

Reducing the number of merit hearings by approximately 1,500 cases annually would also benefit ABU - allowing them to reallocate resources from preparing cases to providing more public information, roll preparation (research & analysis and quality assurance) and pre-roll negotiation and complaints resolution. Assuming 5 to 10 days for preparation and presentation of cases suggests projected 7,500 to 15,000 person-days per year could be redeployed to assessment roll improvement.



Recommendations related to dispute resolution

We recommend that:

- a. ARB investigate for adoption Rules of Practice & Procedure to incorporate active appeal management, dispute resolution and settlement conferencing
- b. ABU and ARB include cost reporting on complaint and appeal processes in performance management
- c. The City improve the ARB system by:
 - a. Investigating the business case for board officer positions (like the Edmonton model)
 - b. Enhancing the ARB member performance review process (Edmonton model)
 - c. Developing a process for ABU and tax agents to recommend scheduling to ARB (Edmonton model)
 - d. Adopting the use of case management by Board members to narrow issues and encourage pre-hearing resolutions
 - e. Publicizing its practices regarding training and qualifications of members; requirements for 'cooling off' periods for candidate members between employment as assessors and appointment as ARB panel members
 - f. Clarify ARB on adjudication role; streamline / simplify and transfer administrative functions to City Clerk's office
- d. In 2019¹, the City review Queens Bench appeals status, statistics and strategy to determine whether changes to the appeal system are satisfying intended outcomes
- e. The City (legal department supported by other branches, e.g., ABU and ARB) improve and utilize processes for tracking, analyzing and evaluating the use of the Queen's Bench for resolution of assessment issues
- f. The City advocate for legislative change to introduce dispute resolution alternatives (e.g., structured appeal management and mediation, single member adjudication (by hearing or written submissions) drawing from and adapting experience of jurisdictions like British Columbia, Manitoba (City of Winnipeg) and Ontario.
- g. Establish standard annual performance report for ARB and publish on website (metrics and KPIs)
- h. Develop / implement communication strategy to inform stakeholders / public
- i. Provide for authority in ABU and improved process to resolve issues any time between roll completion and ARB hearing.

Responses to Recommendations

Assessment Business Unit (ABU)

Formal ABU response: *An Independent Review: Calgary's Non-Residential Property Assessments and Complaints System*

Administration supports the overarching direction and recommendations as put forth by Heuristic Consulting Associates in *An Independent Review: Calgary's Non-Residential Property Assessments and Complaints System* (The "Report"). The guidance provided in The Report aligns with Administration's desire to work with all stakeholders towards the betterment of the non-residential assessment and complaints system.

As an active participant throughout the consultation process, Administration has been afforded the opportunity to undertake substantial work in advance of today's presentation to integrate the recommendations within The Report into our current business practices. Administration has, and will continue to, take a leadership role in the proposed changes which will improve the collaborative opportunities and customer service for all customers.

The recommendations within The Report do more than simply outline an alternative framework for the assessment industry, but also the underlying culture itself. Many of the future-state goals will involve active participation and 'buy-in' from all participants of this non-residential assessment industry. We are encouraged by the collaborative efforts undertaken to this point and are hopeful that it will continue in the future.

To emphasize the importance and impact of this proposed shift in business practices Assessment is currently undertaking a formal review of our internal mandate/vision/mission statement to ensure that the fundamental principles of transparency, collaboration, continuous improvement and professionalism are given proper emphasis within our guiding principles.

Administration has already experienced some acceptance from industry representatives both to the recommendations put forth in the report, and to ongoing work undertaken in integrating the suggestions. We look forward to working collaboratively with stakeholders as we continue to reshape the assessment industry in Calgary for the benefit of all involved. Below is a list of some of the major initiatives completed or currently in development by Administration that directly address the recommendations found in The Report:

- **Change in Customer Service Structure.** Administration has created a structured committee to address customer concerns and interactions as recommended in The Report. This committee organized the Pre-Roll Symposium which was held on October 2nd, 2018, and will oversee all information exchange and customer outreach during the Pre-Roll period from October 2nd to November 2nd.
- **Pre-Roll Consultation.** The vision of Pre-Roll is to benefit customers by providing clarity in assessment values prior to the assessments being finalized, so that non-residential property owners can ensure the accuracy of the values as well as to estimate and budget for taxes. The main goal will be to reduce / eliminate the need to file complaints and provide better and more inclusive conversation regarding assessments. This is a new program meant to replace the

previous Advance Consultation Period which The Report suggested did not go far enough in addressing the former.

- The Pre-Roll Symposium in advance of the 2019 assessments was held on October 2, 2018 and the initial feedback from attendees is positive.
- **A Memorandum of Understanding.** This will be an informal agreement between tax agent groups and Administration with the express intent to stabilize relationships and set expectations for all those within the assessment and complaint system. We have been working alongside tax agents for a number of months to develop this document and anticipate completion in late 2018.
- **2018 Assessment Complaint Resolution.** Administration worked collaboratively with the owner / agent community on 2018 non-residential property complaints to achieve settlements acceptable to all parties. This has resulted in the successful resolution of nearly 600 assessment appeals outside of the formal appeal process.
- **Other owner / agent engagement.** Administration has been reaching out to non-residential owners / agents to engage in meaningful dialogue in preparation of the 2019 Annual Assessments. These conversations serve as opportunities to improve relationships and assessments through open communication and transparency.
- **External valuation expertise.** We will be engaging outside appraisal services to provide us with additional valuation perspectives on unique properties.
- **Change in Information Disclosure.** Administration has identified additional information that will be provided to property owners to help them better understand their 2019 assessments. We are also working to identify additional opportunities to communicate assessment information in more timely and transparent means.
- **Change in Valuation Methodologies.** The increased collaboration with industry experts throughout 2018 has provided opportunities to integrate their ideas and suggestions into Assessment's practices.
- **Scheduling of Hearings.** A key recommendation of The Report was to improve the current scheduling process amongst all stakeholders. Administration is committed to working closely with non-residential property owners and their representatives to develop a mutually beneficial schedule to be recommended to the Assessment Review Board.

In conclusion, not only does Administration agree with the general direction of The Report, but there has already been substantial steps taken to address some of the deficiencies identified.

Assessment Review Board (ARB)

The Assessment Review Board (ARB) and Clerk of the ARB welcome the review of Calgary's assessment and complaint systems and are supportive of the recommendation that mediation processes such as settlement conferencing and other forms of dispute resolution be incorporated into the ARB's practices and procedures.

Such measures have the potential to support early resolution of disputes and certainty around outcomes; however, legislative change is likely required in order to provide authority for this expanded role. Further, in implementing such measures, care will have to be taken to coordinate the administration of dispute resolution processes in a way which will not delay the hearing and deciding of complaints. There is also an opportunity to improve understanding about the ARB's appeal management practices by formalizing and documenting them in the Board's Procedures.

The ARB and Clerk also support the establishment of a new hearing scheduling process in which tax agents and the Assessment Business Unit recommend hearing scheduling to the Clerk, subject to consultation with the General Chair of the ARB.

Finally, the ARB and Clerk of the Board support the Report's recommendations for improving communication with the public and stakeholders, as well as enhancing public reporting and performance management systems.

Early Success - “Made in Calgary” Practical Solutions

Interactive workshops and meetings with multiple stakeholders are leading to “Made in Calgary” solutions where assessors and agents are already beginning to address the issues identified in this report and referenced as Phase 1 implementation.

Notable early progress includes:

1. Pre-hearing agreements on current year (2018) complaints:

ABU and tax agents working together have already reached agreement on over 500 current year commercial/industrial property assessment complaints, without the need for hearings. In addition, agreements have been reached on over 100 multi-residential complaints. Such agreements between professionals, achieved according to the principles of a sound assessment system, provide multiple benefits:

- They enhance tax base stability related to the City’s primary source of revenue (property tax). Direct benefits include facilitating more effective implementation of tax policy (e.g., application of the City’s property tax rebate program) while indirect benefits can include encouraging investor confidence for continued economic development, etc.
- Each appeal that does not proceed to hearing also represents substantial cost savings for the City and other parties. Early estimates suggest that preparation for and appearance at each hearing will typically cost the City somewhere between \$2,000 to \$5,000. Pre-hearing agreements on the more than 600 appeals even at this early stage already represent significant cost savings to the City. And, as taxpayers also incur significant costs in preparing for and attending hearings, they benefit from a greater understanding of their assessments and substantial cost savings.
- In a transformed assessment system, these are not one-time savings. Property assessment is an annual event so that transforming the assessment and dispute resolution processes offers a rare opportunity – annually - for not only improved service levels but also substantial cost savings to all the parties involved.

2. ABU’s redesign of the Advance Consultation Process:

The City of Calgary was an early adopter of an Advance Consultation Process whereby non-residential property owners and their agents are provided with opportunities to review and discuss their preliminary assessed values. That process is generally seen as helpful. ABU recognizes that the process needs improvement and so has already launched an ACP improvement project redefining and repurposing the process to better meet customers’ needs.

Changes include:

- New ways to encourage property owners/agents and developers to become involved and informed

- More interactive and expanded participant / audience to include other industry stakeholders (including Calgary Economic Development and Chamber of Commerce)
- Rebranding of ACP as Pre-Roll Consultation to improve communication, clarify roles and accountabilities, and signal cultural change that better responds to stakeholders' expectations

3. Redefining professional relationships between assessors and tax agents through Memorandums of Understanding (MOUs):

Changing culture takes time, requires sustained leadership/support and considerable effort by all parties. As part of the '*Made in Calgary*' solutions, this report recommends redefinition of professional working relationships between ABU and property tax agents through MOUs.

ABU and prominent tax agents have taken the initiative and have already begun meetings to explore how their professional relationships should be defined and honoured by all parties to build trust and help imbed working relationships that contribute to fairness, transparency, tax base stability and predictability in non-residential property assessments.

Conclusion

Property tax is the single most important source of the City's total revenue. Alberta's market-value standard distributes property tax burden each year according to dynamics in property markets. Recent economic turmoil in some sectors introduces financial risk with the changing dynamics across non-residential submarkets. Shifts in and redistribution of the tax burden increases potential for tax base instability.

Information transparency regarding property assessment is particularly important to maintain public confidence in the tax system. For success, taxpayers must have confidence in the process, understand how it affects them and other taxpayers, have the ability to test the validity of the system and generally accept the principles on which it is based.

In September 2017, Council approved a notice of motion to undertake an independent review of the non-residential property assessment and appeal systems. In undertaking that review for the City, we sought to find improvements to increase fairness, transparency and equity from the standpoint of all non-residential taxpayers whilst considering financial risks to the City.

In this work, we reached out to and continually worked with stakeholders to identify and find workable solutions to the most urgent and important issues, while leveraging the considerable strengths within Calgary's current property assessment and tax systems.

The recommendations presented in our report reflect practical solutions developed with and endorsed by Calgary stakeholders throughout numerous meetings and interactive workshops.

We wish to acknowledge the generous commitment of all stakeholders' time and energy dedicated to improving the non-residential property assessment and appeal systems. Without this community spirit, the remarkable progress to date would not have been possible.

The critical next step will require nurturing leadership by the City in:

- Creating a transformation plan to achieve the preferred future state
- Implementing that plan in phases, and
- That begins by establishing a leadership team to plan and lead execution of a phased transformation plan.

And, while there is considerable strength in the current system, there is also potential risk to tax base stability. As an example of financial risk, market dynamics that may result in continuing reductions in assessed values - particularly in the downtown core - could have a major influence

on the City's budget and represents a top risk for the City to manage¹⁷. Key mitigation strategies for the non-residential property assessment system will be to:

- Transform the non-residential property assessment and complaint process and
- Engage key stakeholders in the process – including improvements in professional working relationships with owners and tax agents.
- Investigate tax policy alternatives in line with the City's long-term financial plan, principles and objectives (not in scope of this report).

¹⁷ Implementation of the recommendations within this report will assist in mitigating this current risk related to property assessments and appeals. Our team noted two major office sales suggesting further potential tax base volatility. However, it was not within project scope to examine potential tax policy implications/risks and options due to continuing possible disruption in distribution of the City's non-residential tax burden.

Appendices

- Appendix A Principles of a Sound Property Assessment and Taxation System, Heuristic Consulting Associates (HCA), 2018. Spreadsheet of principles and factors, based on Stakeholders' Advisory Committee's *Principles of a Sound Property Assessment and Taxation System*. Based on IAAO policies & standards and MGA Stakeholder Advisory Committee's work. Finalized December 2016.
- Appendix B Guide for the Exchange of Assessment Information: Market Value Properties, Alberta Municipal Affairs, 2018
- Appendix C Stakeholder Discussion/Interview Guide, HCA, March 15, 2018
- Appendix D Survey of External Stakeholders, HCA, 2018
- Appendix E Stakeholder workshop presentation, HCA, May 8, 2018
- Appendix F Stakeholder workshop presentation, HCA, May 28, 2018
- Appendix G Report to Priorities and Finance Committee, Deputy City Manager's Office, June 28, 2018
- Appendix H Presentation to Priorities & Finance Committee, HCA, June 28, 2018

References

1. Table listing Alberta governing legislation for assessment and complaint process, HCA, 2018
2. Table listing interpretive documents and guidelines for Alberta assessments and complaints, HCA, 2018
3. Table of assessment and complaint appeal processes in comparable jurisdictions, HCA, 2018
4. Inter-jurisdictional assessment reference materials, HCA, 2018
5. Assessment complaint/appeal tribunals training materials, HCA, 2018
6. Legislative Authority for Information Disclosure, HCA, 2018
7. Assessment General Reference – with hyperlinks, HCA, 2018

Assessment General Reference – with hyperlinks, HCA, 2018

IAAO Standards		
Measure	Date	Link
Guide to Assessment Standards	Posted June 2016	IAAO Guide to Assessment Standards
Standard on Assessment Appeals	July 2016	IAAO assessment appeal standards
Standards on Mass Appraisal of Real Property	July 2017	IAAO Mass Appraisal Standards
Standards on Professional Development	January 2013	IAAO professional development standards
Standards on Property Tax Policy	January 2010	Standards on Property Tax Policy
Guide to Assessment Standards	July 2016	Guide to Assessment Standards, IAAO

Assessment process reviews and inter-jurisdictional comparison studies		
Author	Date	Link
ALBERTA		
Property Assessment and Taxation White Paper, Edmonton	2016	Edmonton assessment and taxation white paper
Assessment and Taxation Branch Audit, Edmonton	2007	Edmonton Assessment Branch Audit
Andy Anstett	2003	Alberta's Assessment Review and Tribunal System (hard copy only)
Assessment Review, Edmonton	2002	Edmonton City Auditor Assessment Review
Principles of a Sound Property Assessment and Taxation System	2016	Not available on line (from 2016 Strategic Advisory Committee on Alberta MGA review)
BC		
Province of BC	2016	Government review of BC Assessment Authority
Perrin, Thorau & Associates	2016	Improving BC's Property Tax Competitiveness
Harry Kitchen and Enid Slack	2012	Property tax competitiveness in BC
Professor Bob Bish	2003	Property Taxes on Business and Industrial Property in BC
ONTARIO		
Province of Ontario	2017	Ont. Auditor's report on assessment appeal boards
Province of Ontario	2013	Special Purpose Business Property Assessment Review and Recommendations
CITY OF WINNIPEG		
City of Winnipeg Audit Dept.	2001	Winnipeg assessment audit 2001
CANADA		
CPTA Cross Canada Tax Practices Manual	2017	Hard copy only

C.D. Howe Institute	2017	2017 Report Card, Business Tax Burden in Canada's Major Cities
C.D. Howe Institute	2016	2016 Report Card, Business Tax Burdens in Canada's Major Cities
Province of BC	2012	Inter-jurisdictional comparison of assessment systems
Enid Slack, Almos Tassonui & Richard Bird	2007	Reforming Ontario's Property Tax System: A Never Ending Story
INTERNATIONAL		
IPTI and COST	2014	International property tax system comparison
IPTI and COST	2014	International Property Tax System Comparison Addendum
American Institute of CPAs	2017	Guiding Principles of Good Tax Policy

PLANS		
Name	Date	Link
BC Assessment 2018-2020 Service Plan	2018	BC Assessment service plan 2018 to 2020
MPAC 2017 to 2020 Strategic Plan	2017	Link is to general description of plan only - MPAC 2017 to 2020 plan summary
MPAC 2013 to 2016 Strategic Plan	2016	Link is to a Summary of the Plan - MPAC 2013 to 2016 strategic plan summary
City of Winnipeg Economic Development Strategy	2012, updated 2015	Winnipeg Strategic Development Plan 2013-2016

ANNUAL REPORTS		
Name	Date	Link
City of Calgary Annual Report	2017	City of Calgary 2016 annual report
Calgary Quasi-judicial Boards 2011-2013 Report (includes the ARB)	2014	Calgary Quasi Judicial Boards Report 2011-2013
2014 Calgary Assessment Annual Report	2015	2014 Calgary Assessment annual report
2013 Calgary Assessment Annual Report	2014	2013 Calgary Assessment annual report
City of Edmonton Annual Reports	2017	City of Edmonton 2016 financial annual report City of Edmonton 2016 Financial Report to Citizens
BC Assessment Annual Service Plan Report	2017	BC Assessment 2016 service plan report
BC Property Assessment Appeal Board (PAAB) Annual Report 2017	2018	BC PAAB 2017 Annual Report
BC PAAB Annual Report 2016	2017	BC PAAB 2016 annual report
Ontario MPAC Annual Report 2017	2017	MPAC Annual Report 2017
Ontario MPAC Annual Report 2016	2016	MPAC Annual Report 2016

Ontario Environment and Land Tribunals Office Annual Report (responsible for ARB)	2016	Ontario ELTO annual report 2015-2016
City of Winnipeg Annual Report	2017	City of Winnipeg Annual Report 2016
Manitoba Municipal Board Annual Report 2012	2013	Latest available annual report online - MBA annual report 2012

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PFC2018-1134

2019 Projected Tax Shift Non-Residential Properties

EXECUTIVE SUMMARY

Changes in market value due to fluctuations in the real estate market are a regular part of the annual property assessment cycle in Alberta. As a result, a property's assessed value can either increase or decrease from one year to the next. In addition to individual properties, entire property types can also experience changes to market values based on economic conditions, which can lead to a redistribution of property taxes amongst the other property types.

In 2017-2018, a redistribution of property taxes occurred after market changes led to both a substantial decrease in the office property type, specifically downtown offices, and increases in the industrial and retail property types primarily located outside of the downtown core. The portion of property taxes that was previously paid by downtown offices shifted to other property types within the non-residential property class, in particular industrial and retail properties primarily located outside the downtown core.

In response, two separate one-time programs, the 2017 Municipal Non-Residential Phased Tax Program, and subsequently, the 2018 Municipal Non-Residential Phased Tax Program, were developed to mitigate the impacts caused by the tax distribution. These programs limited the increase in 2017 and 2018 municipal non-residential property taxes for eligible non-residential property owners to 5 per cent (not including the effect of Business Tax Consolidation).

An additional redistribution is expected in 2019 due to the continued decrease in values of downtown office properties; specifically, from 32 per cent of the total non-residential assessment base in 2015 to an expected 19 per cent in 2019.

A cross-corporate working group was formed in 2018 to address this issue. The Assessment and Tax Working Group (Working Group) intends to provide a report to the Priorities and Finance Committee (PFC) in Q1 2019 which will investigate short, medium and long-term options to address the potential financial and economic impact of the expected redistribution of 2019 property taxes.

This interim report is being provided to PFC to share information on the 2019 preliminary Assessment Roll and the expected 2019 property tax redistribution. In addition, the Working Group is seeking PFC's direction to prepare its final report, which would be presented in Q1 2019.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee:

1. Receive this report for information; and
2. Direct the Assessment & Tax Working Group to present its final report to the Priorities and Finance Committee, no later than Q1 2019.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2012 April 09, Council approved PFC2012-35, the consolidation of business tax revenue into the non-residential property tax, based on the following schedule for the incremental transfer of budgeted 2013 business tax revenue, adjusted for physical growth and contingency amounts in future years:

- zero per cent in 2013;

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- 10 per cent in each of the years 2014-2015; and
- 20 per cent in each of the years 2016-2019,

with business tax, for business tax purposes, eliminated in 2019.

On 2017 January 23, Council approved C2017-0057, which recommended the implementation of the one-time 2017 Municipal Non-Residential Phased Tax Program (2017 PTP). The 2017 PTP limited the increase in 2017 municipal non-residential property taxes for eligible non-residential property owners to five per cent (not including the effect of Business Tax Consolidation (BTC)).

On 2018 March 19, Council approved PFC2018-0045, which recommended the implementation of the one-time 2018 Municipal Non-Residential Phased Tax Program (2018 PTP). The 2018 PTP limited the increase in 2018 municipal non-residential property taxes for eligible non-residential property owners to five per cent (not including the effect of BTC).

On 2018 April 25 Council approved the indicative tax rates set out in C2018-0489.

BACKGROUND

The Real Estate Market in Downtown Calgary

The recession impacted many aspects of the downtown including the real estate market. Some market transactions (sales) have been observed over the past year that have indicated a further decline of the market value of properties in the downtown. However, the full view of the impact on not only the downtown real estate market, but the entire non-residential assessment and tax base has not been evident until the recent completion of the preliminary 2019 property assessment roll. The preparation of the 2019 preliminary assessment roll confirmed that the market value of downtown office properties will continue to decrease in 2019. This will lead to a redistribution of property taxes from non-residential property owners in the downtown to non-residential property owners with properties in other areas of the city. To investigate this issue, a cross-corporate working group was formed.

Administration is currently compiling information on the forecasted real estate market environment in Calgary to provide context around the future challenges of the vacancy rates in downtown Calgary. The Calgary office real estate market has also seen many market transactions over the past two years where properties have sold for substantially less than they did in sales just a few years prior.

Administration's initial research, using third-party data from the Altus Insite, has found that the office vacancy rate in downtown Calgary has increased since 2013, peaking in 2018 at 23 per cent. The downtown office vacancy rate is expected to decline slowly in the next three to seven years, from 22 per cent in 2019 to 13.3 per cent in 2025.

The demand side shock from the 2015-2016 economic recession triggered the high office vacancy rate in downtown Calgary. At the same time construction of new downtown office buildings was completed in 2017, which added to the inventory.

Due to the excess inventory in downtown offices, developers are not expected to start new major downtown office construction for some time. Most of the additions to downtown office space is expected to be due to completion of projects that are already underway. Alternative office space is also available through the recent buildup of good quality office space outside

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downtown. As a result, the absorption of the downtown office buildings will depend on the demand side activities, principally employment growth for office workers.

Economic and employment growth in the Calgary Economic Region is expected to improve compared to 2015-2018 and will help to absorb excess capacity pushing down the vacancy rate. The primary forecast risk relates to uncertainty with market access for Alberta crude. This factor will have an impact on the level of investment relative to the pre-recession levels, the pace of downtown office space absorption and by extension the pace of vacancy rate decline.

Other components of Calgary's economy have weathered the recent economic stressors better and in different ways. This corresponds to the relative stability and even slight increase in the market value of properties in other segments of the non-residential assessment and tax base. Calgary's support of the retail market has translated into market values holding and Calgary's leadership in the area of logistics and distribution also translated into stable market values within the industrial and warehouse sections.

The Property Assessment System in Alberta

In order to assess the issue of decreasing market value in downtown office properties and the impact on the overall assessment and tax base, it is important to consider Alberta's property overarching assessment and taxation system. Property in Alberta is taxed on the principle of *ad valorem*, or "according to value" using property assessments as the basis for the fair and equitable distribution of property tax. In this system, a property's assessed value is an indicator of a property owner's ability to pay. Property assessment is a method of determining the distribution of property tax and does not determine the amount of property tax that must be collected by a municipality. A property value-based distribution system for municipal and provincial (mainly school) funding is widely used across Canada, the United States and is used in some form across most developed countries.

In accordance with the *Municipal Government Act* (MGA) and the *Matters Relating to Assessment and Taxation Regulation, 2018*, (MRAT) annual property assessments are prepared on the basis of market value. A property's assessment must be an estimate of the value of the property as of July 01 and reflect the physical condition of the property on December 31, in the year prior to the tax year.

The MGA categorizes properties into different property classes. The property classes used in Calgary are: "residential", "non-residential", "farm land", and "machinery and equipment". Sub-classes can also be established for residential properties through bylaw and non-residential properties through the *Matters Relating to Assessment Sub-classes Regulation*, which came into effect on 2018 January 01.

To ensure property assessments are prepared fairly and equitably, Administration follows the quality methods and standards outlined in the MGA and MRAT when preparing annual property assessments. The Government of Alberta also completes an audit of market value-based assessments in each Alberta municipality to confirm the property assessments meet the legislated provincial quality standards before assessment notices are mailed to property owners. Assessors must also ensure they meet professional appraisal standards, guidelines and principles when preparing property assessments including the qualifications outlined in the *Qualifications of Assessor Regulation*.

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There has been recognition of the benefits of a market value property assessment and taxation system. As noted by Enid Slack and Richard M. Bird in *The Political Economy of Property Tax Reform* “[t]he conventional consensus is that capital (or market) value taxation is best, for several reasons.” One reason being that other assessment systems which do not take into account value changes over time can result in inequities compared to the market assessment system which reflects value changes.

The use of market value assessments for the distribution of taxes was reviewed by Council’s Property Tax Mitigation Special Advisory Group (SAG) in FCS2007-05, *Review of Market Value Assessment and Tax Policy*. It was noted in Attachment 6 that there were a number of alignment points between a market value assessment and property tax system and the Fair Calgary (Social) Policy. One reason being that a market value assessment system and property tax system treats all individuals with “respect, and without discrimination (equality)”. To the extent that individuals who own similarly valued homes are considered to be in similar circumstances, market value assessment ensures they pay similar taxes. Attachment 1 to that report contained a report prepared for the SAG by Enid Slack and Steve Pomeroy. This report, *An Evaluation of Tax Policy and Market Value Assessment Using Calgary’s Triple Bottom Line Framework*, outlined that “...most studies of property taxation over the last 30 years have recommended that market value assessment be used as the base for property tax on the grounds that it is superior to any of the alternatives in terms of fairness.”

Property Taxes in The City of Calgary

The annual property assessment cycle does not influence the amount of property tax revenue generated. Property taxes are collected to fund municipal services as well as the provincial property tax requisitions. Specifically, the municipal property tax rates are based on the total municipal property tax requirement set out in The City’s annual budget. The provincial property tax rate is determined by the annual provincial property tax requisitions provided by the Government of Alberta.

Each property class is assigned its own tax rate through the annual Property Tax Bylaw. Effective 2016 May 31, the MGA requires that the ratio of the highest municipal non-residential tax rate when compared to the lowest municipal residential tax rate not exceed 5:1. The 2018 property tax rates are outlined in Attachment 1. The amount of property tax a property owner is required to pay is calculated by multiplying the applicable provincial and municipal tax rates by the property’s assessed value.

Changes in Market Value and Related Tax Shifts

Increases and decreases in market value are a regular part of the annual assessment cycle. Since a property’s annual assessment must reflect the value of the property on July 01 of the previous year, a property’s assessed value is influenced by fluctuations in the real estate market. From one year to the next the assessed value could stay the same, increase or decrease, based on market conditions.

This type of market value change, and corresponding property tax shift, is a natural occurrence in market value assessment system and the real estate environment in general. Since property assessments are a proxy for ability to pay property tax, as a property decreases in value, the

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system adjusts, and the owner's share of property taxes decreases. On the other hand, as the value of property increases, the system adjusts, and the owner's share of property taxes increases.

In addition to the regular shifts experienced by individual properties, entire property types can also experience changes to assessed values based on market conditions. These shifts can lead to a redistribution of property taxes amongst the other property types. Usually these changes occur slowly over time; however, in some circumstances a specific property type or industry sector can experience a substantial change. If the assessed values of one property type decrease significantly so does the amount of property tax paid by that property type. Since The City must still gather the property taxes required in the municipal budget and the provincial requisitions, the amount of property taxes paid by other property types will increase to close the gap in property taxes collected. In certain cases this can lead to a material increase in property taxes paid by the other property types, especially when the real estate market for one property type is changing differently than others.

In 2017-2018, a redistribution of property taxes occurred after market changes led to both a substantial decrease in value for the office property type, in particular downtown offices, and an increase in values for the industrial and retail property types primarily located outside of the downtown core. As outlined in Attachment 2, in 2015, 32 per cent of all non-residential assessment value resided in downtown offices. This means that the non-residential property assessment base (and tax base) was heavily dependent on downtown office properties. By 2018, the non-residential assessment base was more balanced throughout the various property types with 23 per cent of all non-residential assessment value residing in downtown offices, despite the addition of new office properties in 2018.

During 2017-2018, the portion of property taxes that was previously paid by downtown offices was shifted to other property types within the non-residential property class, in particular industrial and retail properties primarily located outside of the downtown core that experienced either:

- an increase to their assessed value;
- no change to their assessed value; or
- a smaller decrease to their assessed value than the downtown office property class.

The 2017 PTP and, subsequently, the 2018 PTP were developed to mitigate the impacts caused by the tax redistribution. Both the 2017 PTP and 2018 PTP were separate, one-time programs which limited the increase in 2017 and 2018 municipal non-residential property taxes for eligible non-residential property owners to 5 per cent (not including the effect of BTC).

The 2017 PTP was funded by a transfer of \$45 million to the Community Economic Resiliency Fund from intentional savings in 2016 Corporate Programs. As of 2018 September 20 approximately \$26.4 million in 2017 PTP credits have been distributed to over 5,000 accounts. 2017 PTP credits of approximately \$4 million are currently set aside for accounts with outstanding proceedings before the Assessment Review Board or Alberta Court of Queen's Bench.

The cost of the 2018 PTP is estimated to be \$41 million, which was funded by the Fiscal Stability Reserve through a transfer from intentional savings in 2017 Corporate Programs. As of 2018 September 24 approximately \$20.4 million in 2018 PTP credits have been distributed to

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over 6,500 accounts. Approximately \$18.9 million in 2018 PTP credits is set aside for accounts currently before the Assessment Review Board or Alberta Court of Queen's Bench.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Working Group was established in 2018 to investigate the impacts of the redistribution of property taxes from non-residential property owners of downtown office properties to non-residential property owners of properties located outside the downtown core.

Based on the 2019 preliminary assessment roll, Administration forecasts there will be a further redistribution of property taxes in the 2019 tax year due to a continual decrease in market value of the office property type, mainly downtown offices. As outlined in Attachment 2 the percentage of the preliminary non-residential assessment roll allocated to downtown offices is anticipated to be 19 per cent in 2019. This is a decrease from 23 per cent in 2018. It is expected that this will contribute to a tax increase for non-residential property owners located outside of the downtown core, where market values have remained more stable. The preliminary 2019 non-residential assessment roll demonstrated the proportion of assessed value born by all office properties will decrease from 26 per cent in 2018 to the expected level of 21 per cent in 2019 (Attachment 3).

Further analysis of the preliminary 2019 assessment roll indicates:

- The assessed value of office properties is expected to drop whereas other components of the non-residential assessment roll are expected to maintain market value (Attachment 4).
- While all sub-components within the office property group are expected to experience a decline in market value, the decline in the downtown office is expected to be largest (Attachment 5).

Based on preliminary 2019 assessed values and the preliminary 2019 estimated tax rates, 2019 non-residential property taxes will increase where there has been no market value change, a market value decrease or a market value increase for a specific property's assessment as between 2018 and 2019. Further details are outlined in Attachment 6.

Based on a preliminary analysis of the 2019 assessment roll, if there were to be a Phased Tax Program similar to the previous programs, it is expected that the one-time cost of such a program would be approximately \$89 million.

If directed, the Working Group will investigate and identify short, medium and long-term options to address the potential financial and economic impacts of the expected redistribution of property taxes amongst property owners and provide a report to PFC in Q1 2019.

Stakeholder Engagement, Research and Communication

If directed, the Working Group intends to engage an external consulting group to complete the necessary research required for preparation of the property tax redistribution part of the report. The Working Group also intends to work with multiple stakeholders to identify and evaluate potential options to address the tax redistribution. This engagement will be completed using a variety of mechanisms including facilitated workshops and individual interviews.

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2019 Projected Tax Shift Non-Residential Properties

Strategic Alignment

The proposed options for tax policy reform and/or tax relief are intended to align with two fundamental Council Priorities:

- A Well Run City; and
- A Prosperous City.

This proposal will also support Key Result Areas within the Economic Resilience Strategy; in particular:

- Continue to provide service delivery to Calgarians;
- Focus on ensuring value for money in the services we offer;
- Review economic situation and respond to impacts to *Action* Plan with an eye towards the One Calgary timeline;
- Identify and respond to what is required to retain productive people, businesses, incomes, jobs and investment projects; and
- Contribute to the creation of a vibrant and prosperous downtown Calgary.

Social, Environmental, Economic (External)

The 2015-2016 economic recession impacted many parts of the business community in Calgary. Many of the negative impacts on citizens, business and community organizations have been identified and discussed in the Economic Development Investment Fund report, PFC2017-1081. Recent economic growth has not been as robust as required to address these challenges.

Financial Capacity

Current and Future Operating Budget:

The cost of retaining an external consultant will be funded by the current operating budget. There are no significant future operating impacts associated with this report.

Current and Future Capital Budget:

There are no capital budget impacts associated with the preparation and distribution of this report.

Risk Assessment

The Working Group will analyze the risks associated with the options presented in the final report.

REASON(S) FOR RECOMMENDATION(S):

The Working Group intends to provide a report to PFC regarding the continued redistributive tax effect of the rapidly declining market value of certain non-residential properties in the city.

The Working Group, with the assistance of a consulting group, other business units and stakeholders will investigate several options to address the current and future effects of the property tax redistribution and present its recommendations to PFC in Q1 2019.

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2019 Projected Tax Shift Non-Residential Properties

ATTACHMENT(S)

1. City of Calgary 2018 Property Tax Rates
2. Preliminary Non-Residential Assessment Roll and Downtown Offices
3. Preliminary Office Contribution to the Assessment Roll
4. Preliminary 2019 Non-Residential Assessment Roll Overview
5. Preliminary Office Inventory Overview
6. Estimated 2019 Property Taxes for No Market Value Change, Market Value Decline and Market Value Increase

City of Calgary 2018 Property Tax Rates

The following tax rates were established by the Property Tax Bylaw 17M2018, for the 2018 tax year:

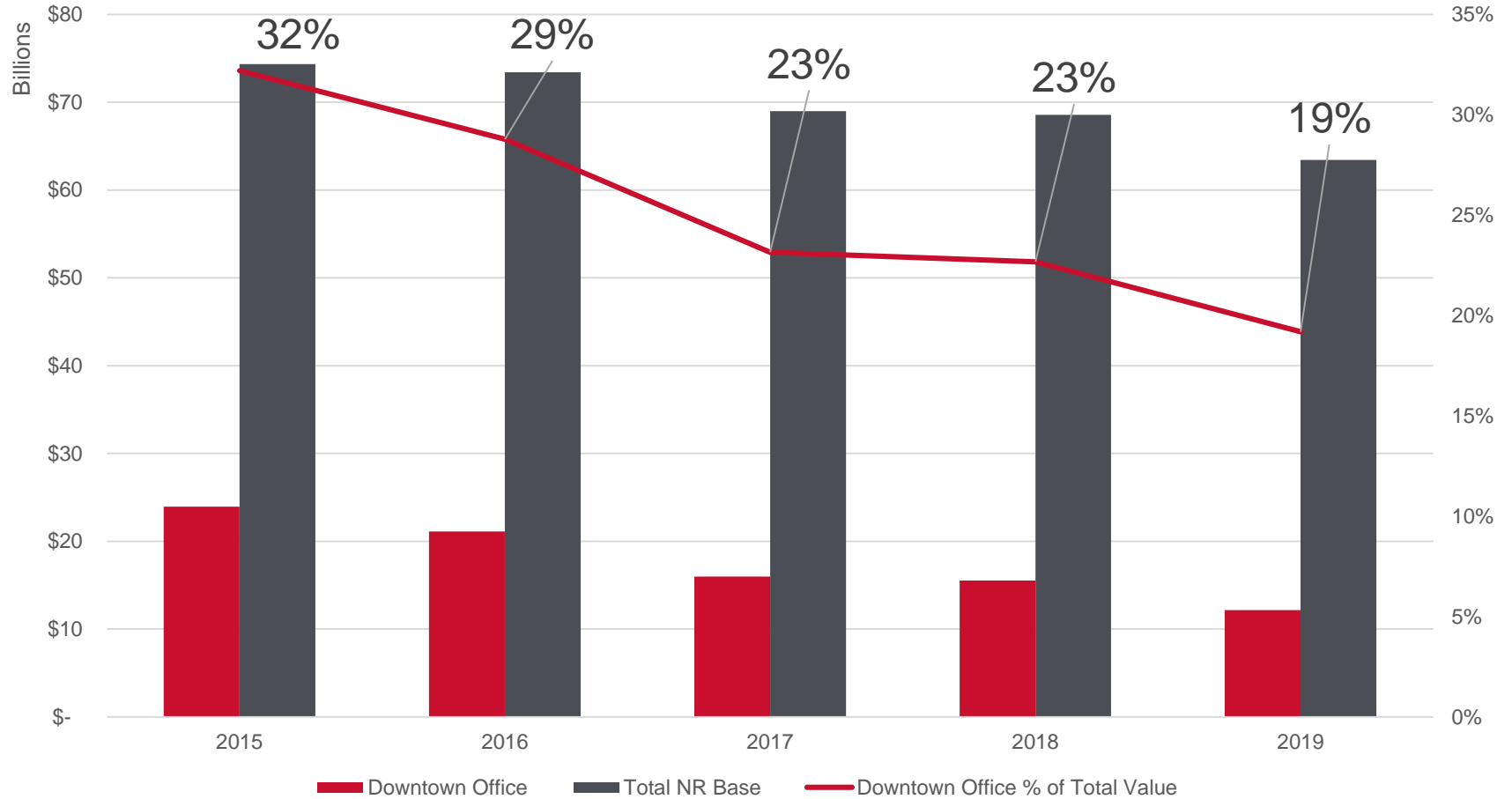
Property Class	Municipal Tax Rate	Provincial Tax Rate	Total Tax Rate
Residential	0.0039014	0.0024599	0.0063573
Non-residential	0.0153234	0.0041030	0.0194264
Farm land	0.0177552	0.0024559	0.0202111

The current ratio between the municipal non-residential tax rate and municipal residential tax rate is approximately 3.9:1.



Preliminary Non-Residential Assessment Roll and Downtown Office

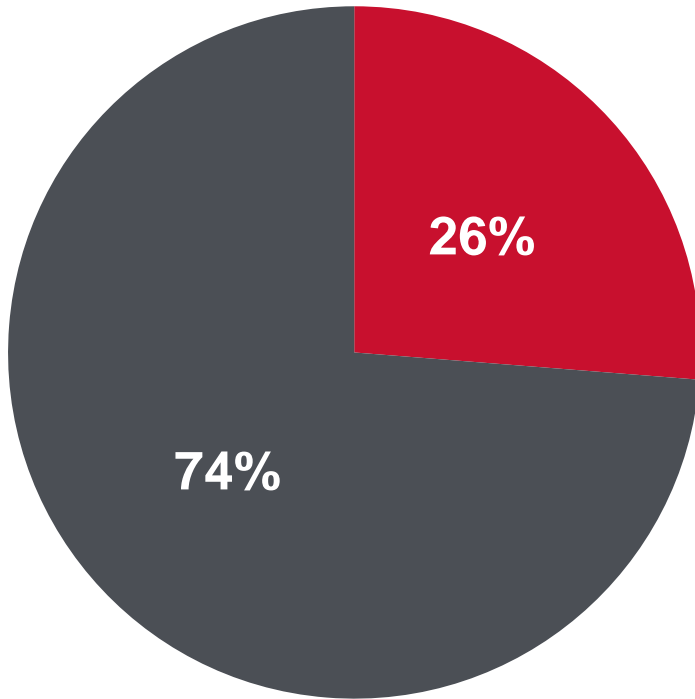
PFC2018-1134 2019 Projected Tax Shift Non-Residential Properties – Att 2
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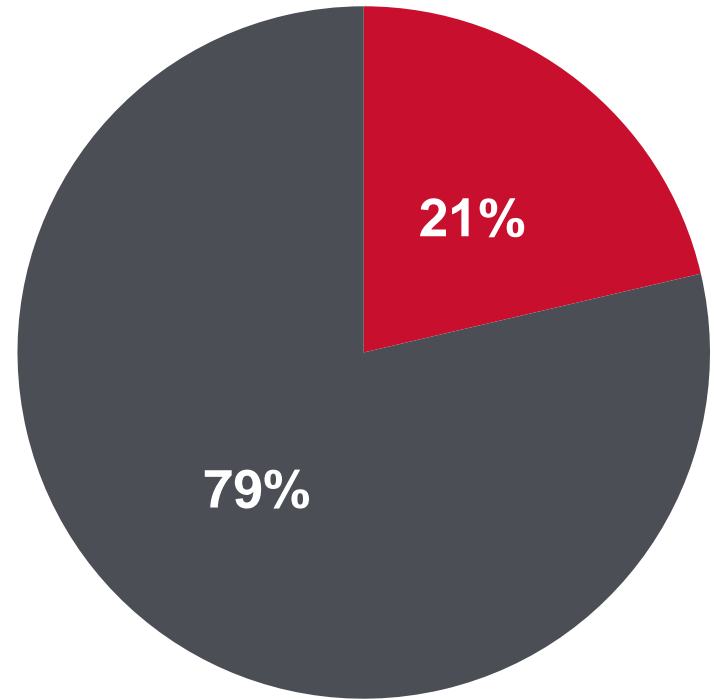


Preliminary Office Contribution to the Assessment Roll

2018 Assessment Roll Year



2019 Assessment Roll Year

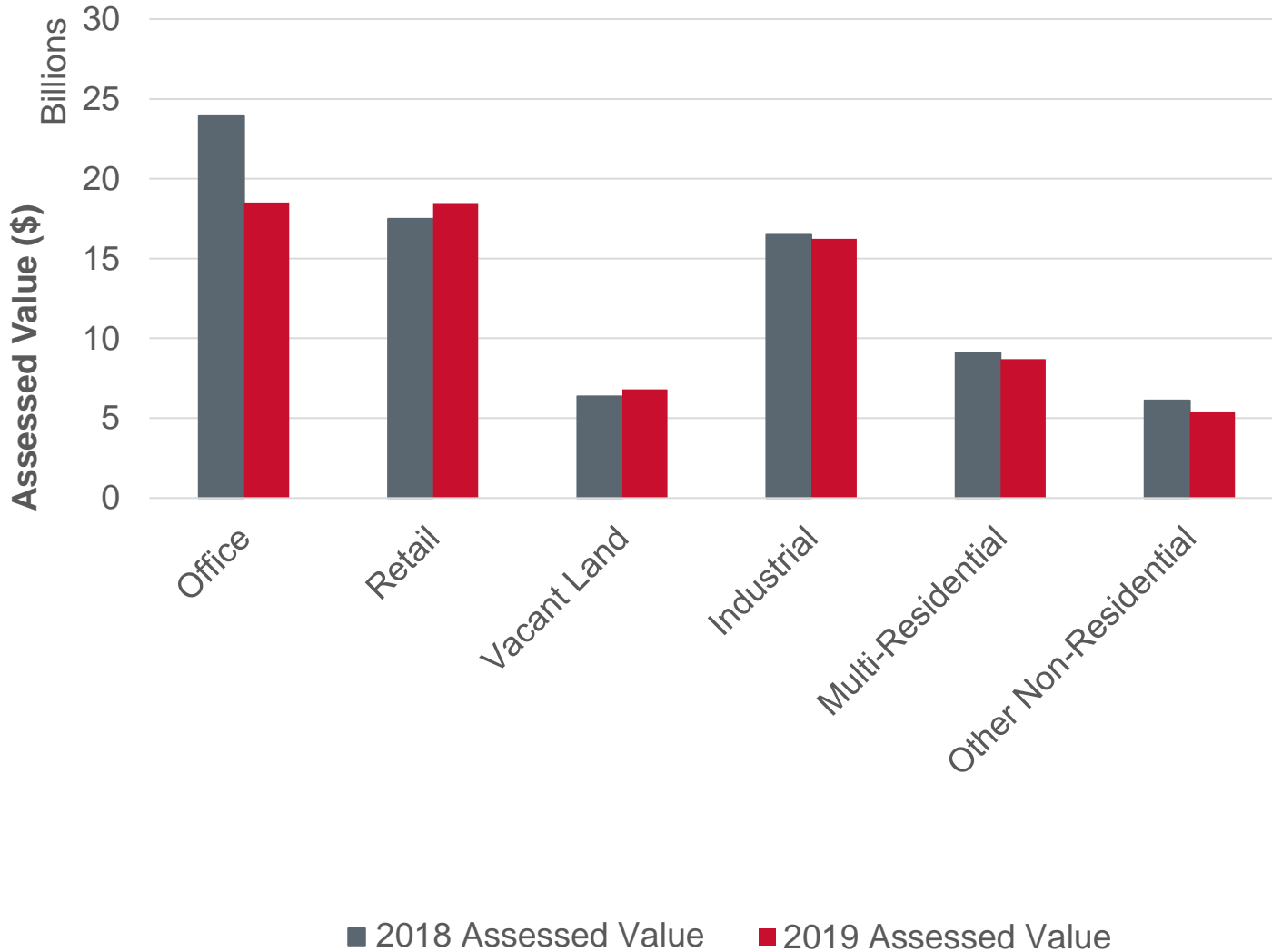


■ All Office Properties

■ All Other Non-Residential Properties

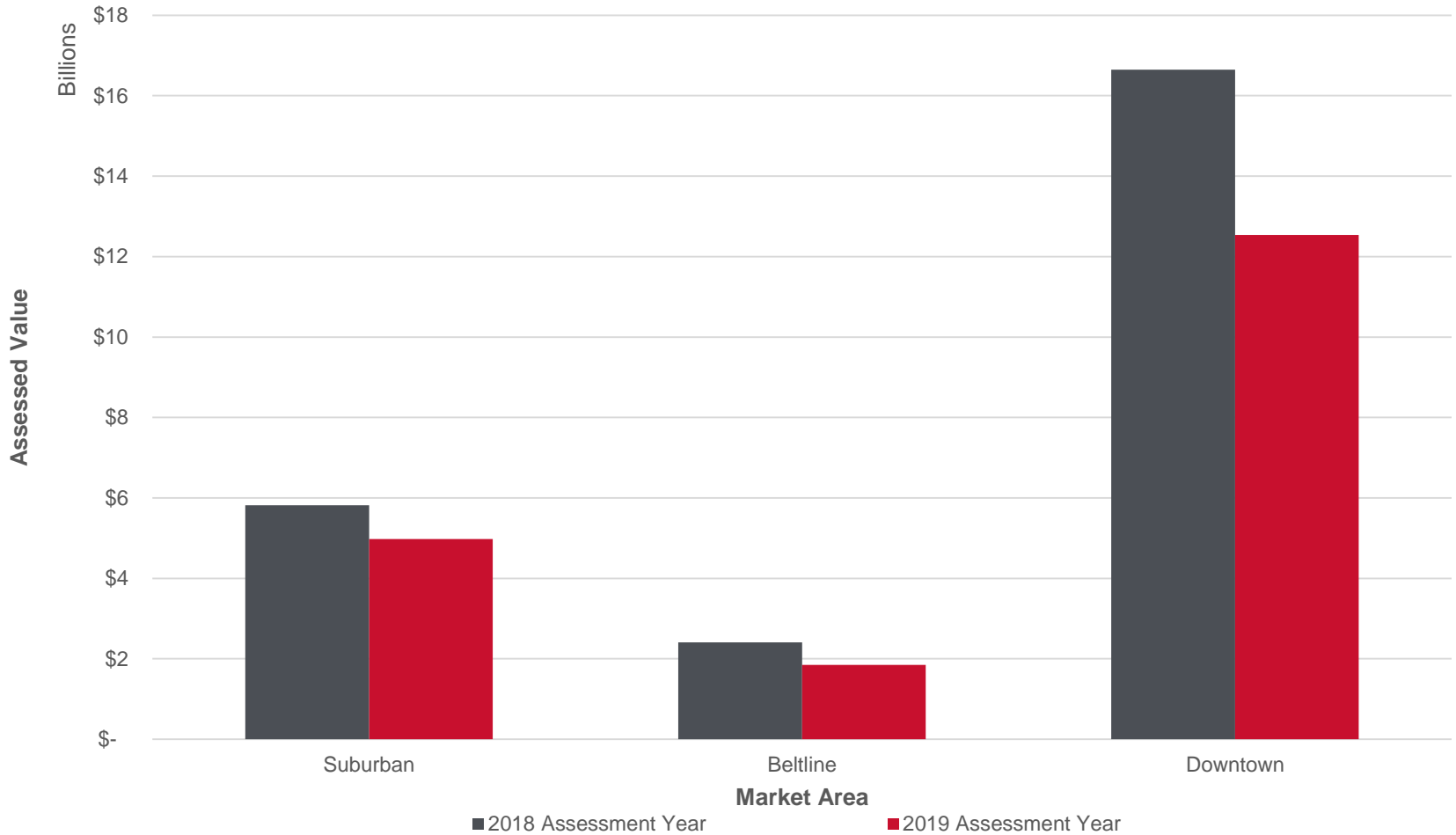


Preliminary 2019 Non-Residential Assessment Roll Overview





Preliminary Office Inventory Overview





Estimated 2019 Property Taxes for No Market Value Change

	2018	2019	\$ Change	% Change
Assessment	5,000,000	5,000,000	0	0.0%
Taxes	97,132	113,685	16,553	17%

Tax shift accounts for approximately 10.0% of the projected change in taxes.

Note: Taxes are estimates based on preliminary assessments and the indicated tax increase

Estimated 2019 Property Taxes for Market Value Decline

	2018	2019	\$ Change	% Change
Assessment	5,000,000	4,500,000	-500,000	-10.0%
Taxes	97,132	102,317	5,185	5.3%

Tax shift accounts for approximately -1.3% of the projected change in taxes.

Note: Taxes are estimates based on preliminary assessments and the indicated tax increase



Estimated 2019 Property Taxes for Market Value Increase

	2018	2019	\$ Change	% Change
Assessment	5,000,000	5,500,000	500,000	10.0%
Taxes	97,132	125,054	27,922	28.7%

Tax shift accounts for approximately 21% of the projected change in taxes.

Note: Taxes are estimates based on preliminary assessments and the indicated tax increase

**Community Services Report to
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PFC2018-1181**

One Window Phase Two Update - Deferral

EXECUTIVE SUMMARY

In 2017 June, Council directed Administration to proceed with Phase Two of the One Window initiative to create a coordinated intake process across over 60 non-market housing providers in Calgary. Phase Two is a design phase with the overall objective of advancing the project to be ready for implementation. Council directed Administration to report back through the Priorities and Finance Committee no later than Q4 2018. This report requests a deferral of the Phase Two report until Q2 2019.

Throughout Phase Two, Administration has been collaborating very closely with executive leaders and staff of over 15 non-profit housing providers and social service agencies. To ensure that there is sufficient support in the community to implement a One Window system, Administration requests additional time to circulate the Phase Two recommendations to housing providers' Boards of Directors at their scheduled meetings in Q1 2019. This will enable Administration to better understand which partners are prepared to offer organizational support and potentially participate in a future One Window system. This information constitutes a critical success factor for the project and will be included as part of the report to Council in Q2 2019.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council defer Administration's One Window Phase Two Update report to no later than Q2 2019.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2017 June 26, Council directed Administration to proceed with the next phase of implementation for a One Window coordinated intake process and report back to Council through PFC by Q4 2018. Council also authorized an extension of any remaining funds from the previously approved commitment of \$500,000 for the One Window initiative within operating budget program 494 – Calgary Housing, to support the next phase of work (PFC2017-0221).

On 2016 February 22, Council approved a one-time increase to operating budget program 494 – Calgary Housing, by \$7.4M from the Community Economic Resiliency Fund and directed Administration to report back to Council through PFC by Q3 2017. Of this budget increase, \$6.9m funded the Housing Incentive Program, a fee rebate program for qualifying non-profit affordable housing providers, and \$500,000 was committed for scoping and planning to “coordinate housing applications across all housing providers” (PFC2016-0081).

BACKGROUND

From 2016 to mid-2017, The City conducted Phase One (scoping and planning) of the One Window project. As part of this first phase of work, Administration completed an in-depth current state analysis and confirmed that the current siloed non-market housing intake processes are difficult, time intensive, and traumatic for Calgarians to navigate. Administration identified and analyzed options for a future coordinated process, and recommended a long-term vision that would centralize all aspects of the housing application, from the initial client screening through to matching that person with a home.

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One Window Phase Two Update - Deferral

In 2017 June, Council directed Administration to proceed with Phase Two (design). This current phase of work is funded in part by a \$450,000 grant from the Government of Alberta, supplemented by \$66,360 remaining from the Community Economic Resiliency Fund commitment from Council for Phase One, as well as \$420,000 of one-time operating funding that was previously approved by Council through the 2016 mid-cycle adjustment process for implementation of action items in the Corporate Affordable Housing Strategy. The overall objective of Phase Two is to advance the One Window project to be ready for implementation.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

At Council's direction, Administration is proceeding with activities to design a future One Window coordinated intake process. An integrated project team was formed to include City staff from Calgary Housing and Information Technology, as well as an external consultant. The project team is working collaboratively with a Steering Committee comprised of 12 non-profit housing providers and the Government of Alberta, as well as with an advisory panel of affordable housing tenants and applicants, to design the future state system. Activities completed to date include a business process review, which defined the end-to-end future processes under One Window as well as how these processes will integrate into housing providers' and agencies' existing processes. Through the business process review, the project team captured the technical, business and functional requirements for a One Window IT system. These requirements formed the basis of a Request for Information (RFI) to investigate potential technology solutions available in the marketplace. In addition to these activities, work with the Steering Committee is ongoing to develop a future operating, funding and governance model that will best satisfy the needs of clients and housing providers.

Administration has collaborated very closely with executive leaders and staff of over 15 non-profit housing providers and social service agencies throughout this phase of work. Some of the partner organizations have indicated that they would require approval from their Boards to adopt the future coordinated system. Because of this, Administration believes that input from Boards of Directors is critical at this stage to accurately gauge whether there is sufficient support from partner organizations to proceed with future implementation phases of this project.

The recommendation to return to Committee in Q2 2019 will provide the additional time required to engage Boards of Directors. This time is needed to accommodate the Board meeting schedules of various partner organizations, including Calgary Housing Company.

Stakeholder Engagement, Research and Communication

A meaningful centralized housing intake system will require voluntary participation by a critical mass of housing providers representing most of Calgary's non-market rental housing stock. Administration continues to engage and collaborate closely with housing providers, tenants and applicants of affordable housing, and social service agencies that assist Calgarians in finding affordable housing. The goal is to design a One Window system that will meet the needs of all stakeholders. Administration is also engaging with Government of Alberta representatives to understand how a One Window system can align with and advance the Province's objectives with respect to affordable housing delivery.

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One Window Phase Two Update - Deferral

Strategic Alignment

The One Window initiative is aligned with The City's Corporate Affordable Housing Strategy under Strategic Objective 6: "Improve the Housing System." In the Implementation Plan, it is Strategic Objective 6, Initiative B, Action 1: "Investigate feasibility of a coordinated intake process to be implemented across all non-market housing providers."

The One Window initiative is also identified as a recommendation in many external strategies and plans, including *Alberta's Provincial Affordable Housing Strategy* (2017), the Community Housing Affordability Collective's *Prioritized Action Plan* (2016), *Calgary's Updated Plan to End Homelessness* (2015) and *Enough for All: the Calgary Poverty Reduction Initiative* (2013).

Social, Environmental, Economic (External)

There are no significant social, environmental or economic impacts associated with this deferral request.

Financial Capacity

Current and Future Operating Budget:

Current and future operating budgets are not impacted by the deferral request. The remaining funding required to complete Phase 2 of this project was previously approved by Council (PFC2017-0221). The Provincial grant has also been extended to 2019 March to support completion of this phase of work.

Current and Future Capital Budget:

Current and future capital budgets are not impacted by the deferral request.

Risk Assessment

There are no significant risks associated with approving the deferral request. If the recommendation is not approved, there is a risk that non-profit housing providers will be unable to engage their Boards of Directors within the existing Phase Two project timeline. A lack of information about whether Boards of Directors are prepared to support the One Window recommendation could compromise successful implementation of a coordinated housing intake process in future phases of this project.

REASON(S) FOR RECOMMENDATION:

The deferral request will allow time for non-profit affordable housing providers to engage their Boards of Directors. This will enable Administration to understand whether there is sufficient support in the non-market housing community to proceed with future implementation phases of the One Window initiative. This information constitutes a critical success factor for the project and will impact Administration's recommendation to Council in the report now proposed for Q2 2019.

ATTACHMENT(S)

None