Corporate Planning and Financial Services Report to Executive Committee
2022 September 29

Assessment Smoothing Scoping Report

RECOMMENDATION(S):

The Executive Committee recommends that Council should not pursue assessment smoothing.

HIGHLIGHTS

- Administration has prepared the attached scoping report in response to Financial Task Force recommendation #35 which directed Administration to investigate if assessment smoothing (also called averaging) could be used to mitigate the negative impacts of significant tax redistributions such as that experienced by the non-residential sector between 2017-2021.
- **Reason for Recommendation:** While assessment smoothing could be used as a strategy to mitigate sharp increases in assessment values by redistributing tax responsibilities to other non-residential properties, Administration is not recommending assessment smoothing because:
  - In the context of the drop in downtown assessed values and the pandemic, smoothing would have increased taxes for most non-residential property types including properties that experienced a decreased ability to pay;
  - It would make the assessment and tax system more complex, less transparent, and less equitable, which may lead to greater confusion and dissatisfaction for non-residential taxpayers; and
  - The City does not currently have the legislative authority to implement this tool and its potential for beneficial applied use in Calgary's current context is unlikely.
- **What does this mean for Calgarians?** Assessment smoothing is a blunt tool that could mitigate the impacts of market volatility but would create new inequities among taxpayers by redistributing tax responsibility to property owners and businesses with less ability to pay and would be expensive to implement.
- **Why does it matter?** The Financial Task Force recommendations seek to ensure more efficient, sustainable, long-term approaches to municipal fiscal issues.
- Strategic Alignment to Council's Citizen Priorities: A well-run city
- Background and Previous Council Direction is included as Attachment 1.

DISCUSSION

Since 2015, downtown office values have decreased and redistributed tax responsibility from downtown properties to other non-residential properties across The City. Within that time, the downtown's proportion of the total assessment base shrunk from 33% of the total non-residential tax base in 2015 to just 16% in 2021.The impact of the decrease was felt by all non-residential properties. Those that also experienced an increase in assessed value higher than the overall market change saw their tax responsibility go up as tax responsibility decreased in the downtown. The Financial Task Force was tasked with developing short and long-term measures that addressed this volatility and provide recommendations accordingly.

Pursuant to Financial Task Force recommendation #35, Administration investigated the impacts of implementing a multi-year assessment smoothing (also called averaging) strategy for non-residential properties in Calgary. Assessment smoothing is a method used by some jurisdictions to reduce volatility in tax responsibility for those experiencing significant year over year increases in their assessed property value. It aims to curb sharp increases in tax responsibility by phasing in changes in overall assessment values in multi-year assessment cycles, phasing in the difference in assessment values year over year (rolling average) or using the average of assessments over a pre-determined period to slow sharp redistributions in tax responsibility some taxpayers may experience due to sudden changes in assessed property value.

Administration explored two approaches, using an average for 2, 3, 4, and 5-year periods and applying a rolling average to curb volatility, and assessed the impacts of both class-wide (across-the-board) and targeted programs, where smoothing is applied to qualifying properties only. Based on Calgary's recent history, if Calgary were to consider assessment smoothing, a 3-year program would be the most effective time frame for smoothing as roughly 5% of non-residential properties in Calgary saw a year over increase of 10% or more in assessment value for 3 consecutive years between 2017-2021 and 4% saw the same increases over 5 years. As a 3-year program captures similar number of accounts and provides more flexibility than longer programs, a 3-year program would likely provide the best balance between decreasing volatility while remaining relatively closer to current market values.

Although smoothing could have supported those most acutely affected by the tax redistribution caused by drop in downtown values by lowering tax responsibilities for properties that experienced increases in assessment values, the overall tax responsibility redistributed from those benefitting from the program would have been directly funded by others within the non-residential class, specifically office properties that experienced a decrease in assessment values due to significant vacancy rates. Administration's analysis shows that an averaging program would require those who are experiencing assessment decreases, or loss in income potential, to directly subsidize those who are experiencing assessment increases, or often a gain in income potential. This manipulates the market-based valuation system in place today, creating a system where properties with similar values can pay different taxes and tax responsibility is redistributed to properties with decreasing assessment values, who in Calgary's context were experiencing decreased revenues and less ability to pay. In Calgary, office properties saw the most dramatic decreases between 2015 and 2021, and while their assessed values likely reflected a decrease in income potential, averaging programs would have forced these properties to bear a larger portion of tax responsibilities than what their current market values dictated. As a result, assessment smoothing would be misaligned with Council direction including the Downtown Strategy and recent property tax deferral programs for the hotels and motels.

In addition, the market volatility that Calgary experienced between 2015-2021 has mostly stabilized. While both class-wide and targeted smoothing programs could potentially address market volatility, Calgary's market is very different than other jurisdictions where assessment smoothing is currently used. Implementing a smoothing strategy now would likely add costs with little benefits and could have the unintended consequence of introducing new inequities to the property tax system. Assessment smoothing would require Council to make value-based decisions on the trade-offs between addressing volatility and ensuring equity while making a commitment to investing time and capital into developing and implementing a smoothing system.

Importantly, assessment smoothing is not possible under current legislation in Alberta. Enabling legislation would be required before assessment smoothing could be implemented in Calgary if Council wanted to use this tool. Assessment smoothing is also extremely complex and would make it significantly more challenging for property owners to understand their property assessment and tax responsibility.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

☐ Public Engagement was undertaken

☒ Public Communication or Engagement was not required

☒ Public/Stakeholders were informed

☒ Stakeholder dialogue/relations were undertaken

Public communication or engagement was not required for the drafting of this report; however, both the Financial Task Force Technical Committee, comprised of experts internal to The City and The Financial Task Force Implementation Steering Committee, comprised of experts internal and external to The City, have been informed of the findings of this report and were consulted in the drafting of this report.

Administration has also had high level conversations with external groups including the Building Owners and Managers' Association (BOMA) Calgary, NAIOP Calgary, the Calgary Chamber, and representatives from some local tax agencies on the concept of assessment smoothing. While interested parties understand the intent of assessment smoothing, many raised concerns around the complexities this adds to Calgary's current tax system, which is generally considered to be simple and transparent for taxpayers relative to other jurisdictions.

IMPLICATIONS

Social

Property taxes have a direct impact on services provided by The City to all Calgarians. The findings of this report highlight alternative approaches to a property assessment system that could mitigate sharp changes in property tax responsibilities for some taxpayers at the cost of other taxpayers.

Environmental

Not applicable

Economic

This report explores the costs and benefits of utilizing multi-year assessment smoothing to mitigate negative impacts of market volatility in Calgary's economy. Assessment smoothing would redistribute tax responsibility to non-residential properties that may have less ability to pay.

Service and Financial Implications

Other: No anticipated financial impact unless implemented

Advocacy for enabling legislation would require resources to be redirected from other assessment and tax policy and advocacy priorities. If assessment smoothing was to be implemented, the additional resources would be required, including an estimated four FTEs to

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administer the program, capital investment for system upgrades, plus added costs associated with communications to explain the new system and increased customer inquiries.

RISK

Implementing any multi-year assessment smoothing system in Calgary may pose significant risk for The City. Although the strategy may have mitigated the year-over-year volatility that occurred when downtown assessed values decreased, implementing a similar strategy under the current market conditions would increase risks under four categories.

Municipal Finances – Smoothing would redistribute tax responsibilities among Calgary's non-residential tax base to varying extent depending on the design of the program. While revenues required from property tax would remain unchanged on a revenue neutral basis, The City would expect to incur increased costs associated with implementing a smoothing system as it would require capital and operating investments increasing operating costs in the short and long-term.

Complexity and Fairness of the Tax System – Smoothing would increase complexity, redistribute property tax responsibility to those that may have less ability to pay to subsidize the program, and result in a tax system that is less responsive to the current local economic situation.

Reputation – Smoothing may lead to increased dissatisfaction with the property assessment and tax system for taxpayers who are directly and indirectly impacted by smoothing methodology and may lead to an increase in assessment complaints. Any smoothing system is complex and would require a wide-reaching education and communication strategy to explain the impacts of the program to citizens.

Legislative Uncertainty – Currently, provincial legislation does not allow for the implementation of a municipal assessment smoothing system. To implement smoothing, The City would have to advocate for and obtain enabling legislation.

ATTACHMENT(S)

1. Attachment 1 - Previous Council Direction
2. Attachment 2 - Assessment Smoothing Scoping Report
3. Attachment 3 - Illustrative Examples: Smoothing
4. Attachment 4 - Illustrative Examples: Rolling Average
5. Attachment 5 – Presentation: Assessment Smoothing Scoping Report

Department Circulation

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Carla Male	Corporate Planning & Financial Services	Approve
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