

2014 ASSESSMENT ROLLS - FLOOD UPDATE

EXECUTIVE SUMMARY

The *Municipal Government Act* (MGA) requires annual market value property assessments that are fair and equitable. Assessed values are the basis for property tax distribution in Alberta.

The Assessment Business Unit (ABU) is reviewing and analyzing the circumstances of the 2013 June 20 flood in Calgary. This report details the work completed and / or still in progress to address the effects of the flood on 2014 assessments for properties and businesses in Calgary.

As of the writing of this report the Assessment business unit (ABU) continues to collect and review property information to identify impacts to market value that may occur. Given the information reviewed to date, the ABU has concluded that portions of some communities experienced a loss in market value as a result of the flood. To date, 2,287 properties have been identified as having experienced a market value loss. This market value loss will be reflected in 2014 property assessments; accounting for known physical changes/damage and market transactions of property since the flood in affected neighbourhoods.

The estimated property tax impact to residential property is approximately \$2.0 million. This amount will be distributed onto the portion of the residential property assessment base that was not affected by the flood.

ADMINISTRATION RECOMMENDATION(S)

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

RECOMMENDATIONS OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2013 DECEMBER 10 AND 11:

That Council:

1. Receive this report for information; and
2. **Direct Administration to use the Tax Loss Provision Reserve to minimize the impact to the tax base in 2014.**

Excerpt from the Minutes of the Regular Meeting of the Priorities and Finance Committee Dated 2013 December 10 and 11:

“AMENDMENT, Moved by Councillor Chabot, that the Administration Recommendations contained in Report PFC2013-0812 be amended by adding a Recommendation 2, as follows:

- “2. Direct Administration to use the Tax Loss Provision Reserve to minimize the impact to the tax base in 2014.”.

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Opposed: D. Farrell, B. Pincott

CARRIED”

PREVIOUS COUNCIL DIRECTION / POLICY

There was no Council direction / policy identified regarding the flood for the purposes of assessment preparation.

BACKGROUND

The Flood

Approximately 80,000 people were evacuated due to the flood in Calgary. The flood was concentrated to communities that lie adjacent to the Bow and Elbow rivers.

The City of Calgary has approximately 475,000 properties; less than one per cent (3,300) of those properties had a direct affect due to the flood.

This was the second flood in less than 10 years to occur in Calgary. The severity of the 2005 flood was less than in 2013. At that time property values were increasing and continued to do so for a couple of years after that flood. As a result, effects of the 2005 flood did not have a sustained impact on property values.

Impact of the 2013 Flood on Property Assessments

Property assessments reflect the market value of property on July 01 and a physical condition date of December 31 in the year prior to the taxation year.

2013 property taxes are based on the market value assessment of property on 2012 July 01 and the physical condition and characteristics of property on 2012 December 31. Therefore, in accordance with legislative dates, no changes to 2013 property assessments resulted due to the flood.

The effect of the flood on 2014 property assessments was measured through an analysis of market sales activity and review of physical property characteristics. There have been 67 market indicators within flood affected areas since the flood. Specifically, there have been 23 property sales and 44 property listings.

Impact of the 2013 Flood on Business Assessments

Business tax assessment is an occupancy tax based on the net annual rental value of a premise. It is not subject to the same physical condition date as property assessment. Unlike property which does not typically cease to exist, businesses are dynamic and can start anew or cease to exist at any point in the year. For this reason the business assessment roll is a “live roll” in that it changes from month to month based on the individual circumstances of each assessed business. As such, adjustments to 2013 business assessments can be made where a business was closed as a result of the flood.

If a business is no longer operational or is closed for at least 30 days due to the flood, a business owner may contact the Development Building and Approvals business unit (DBA) and

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request an adjustment to their business licence/assessment for that period of time. The City can then provide adjustments to a business' 2013 taxes for the period of business closure. Any inquiries received will continue to be processed as per the established course of actions.

Any effect of the flood on 2014 business assessment is being measured through a review of business premise lease activity.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Introduction

The ABU continually collects and analyzes various data in order to determine annual property assessment values. In 2013, the ABU collected additional data to measure the physical and market effects of the flood on property values for the 2014 assessment roll.

The physical condition of property as a result of the flood is constantly changing. Buildings and property continue to be demolished, renovated or remediated subsequent to the event. The ABU has worked extensively through stakeholder engagement, research, analysis and communication to capture data to monitor these changes since the flood event and will continue to do so. The work completed and still in progress is outlined below and was designed to best reflect the market for and physical condition of flood affected properties and businesses for the 2014 assessment rolls.

2014 Assessment Notices will be mailed on 2014 January 03 at which time a 60-day Customer Review Period (CRP) will commence. During this period, property owners are encouraged to review their assessment details, visit the ABU website and, if they have questions, contact us in person or through the ABU's Customer Service phone line at 403.268.2888.

The CRP will allow customers, including those who have flood affected property, to provide additional information to the ABU. If a change to an assessment is necessary due to new information provided, an amended assessment notice will be issued to the property owner.

The ABU's approach to determine 2014 property assessments for flood property consisted of three main components: (A) Information Gathering, (B) Analysis and (C) Communication. A summary of the activities within each of these components is provided below and detailed in Attachment 1.

A. Information Gathering

1. City sources
2. Provincial sources
3. Market sources
4. Customer feedback
5. Site inspections
6. Case studies

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B. Analysis

1. Mapping
2. Data analysis

C. Communication

1. Assessment Flood Information brochure
2. Flood Recovery Community Information Sessions
3. Online Assessment Flood Q & A web page
4. Assessment surveys
5. In person and phone meetings with owners of flood affected properties
6. Discussions with Province other affected municipalities

A. Information Gathering

The ABU utilized data and information from a number of business units within The City of Calgary, held meetings with the Province and other jurisdictions, communicated with and collected information from property owners and collected available market data pertaining to valuing flood affected property. The information gathering activities are summarized below and in Attachment 1.

1. City Sources

To date, 106 commercial / multi-residential permits, 91 residential improvement permits, one new residential construction permit, and 32 demolition permits have been issued to property located in the overland flood area. Development & Building Approvals provided information on property inspections of flooded property. Information & Infrastructure Services (IIS) provided maps used to identify flooded parcels (Attachment 2) and properties with land erosion using pre and post flood orthography (Attachment 3). Permit information continues to be collected and reviewed.

2. Provincial Sources

Meetings were held with Alberta Municipal Affairs, Airdrie, Canmore, Medicine Hat, Foothills County, Rockyview County, Okotoks, and Mountainview County to discuss strategies on valuing flood affected property for the 2014 assessment roll. A provincial map that outlines the boundaries of the floodway and flood fringe areas in Calgary was obtained and reviewed (Attachment 4). Alberta Municipal Affairs provided information for some properties collected by the provincial inspectors.

3. Sales

Property sale transactions completed under both the Multiple Listings Service and private listings were collected.

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4. Customer Feedback

The ABU mailed 3,290 assessment surveys to residential property owners identified as having a high likelihood of sustained physical damage from overland flooding (Attachment 5). The surveys asked for details pertaining to changes in physical condition of property due to the flood. This group of property owners was determined using aerial imagery obtained from IIS mapping (i.e. Attachment 2). As of November 15, 1,507 (46 per cent) of flood impact assessment surveys have been returned to the ABU.

The ABU mailed 62 assessment surveys to condominium boards and managers with property affected by the flood (Attachment 6). The surveys asked for details pertaining to changes in physical condition to common property. As of November 15, 26 per cent of condominium common property surveys have been returned to the ABU.

The ABU also offered information exchange appointments with flood-affected property and business owners. The information exchange appointments were communicated via letter. There were 193 customer inquiries, 14 in-person meetings, and 22 phone appointments related to the flood.

5. Site Inspections

Assessment employees visited the streets in each community with overland flooding on multiple occasions to identify the extent of damage. Communities were visited both on foot and by vehicle. The exterior of each property was viewed and specific properties were identified for further inspection.

6. Case Study – Natural Disaster / Floods

Case studies from other jurisdictions related to the valuation of property impacted by flood and natural disasters were collected and reviewed.

B. Analysis

The MGA requires annual market value property assessments. For 2014 property assessments, the valuation date is 2013 July 01. Since the flood occurred days before the end of the market analysis timeframe for 2014 assessments, an insufficient amount of market activity occurred to examine the effects of the flood on market value at 2013 July 01 (there were 10 days from the date of the flood to the valuation date).

The resulting strategy was to establish a base ('no flood') assessment value using market information from 2011 July 01 – 2013 June 20, and then use market information subsequent to the flood (i.e. sales, rent rates, listings) in order to obtain sufficient data to measure the effects of the flood on market value as of the legislated valuation date.

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Mapping, visual, and other sources of information were analyzed in order to reflect the market for and physical condition of property in 2014 assessments. This work is outlined below and detailed in Attachment 1.

1. Mapping / Visuals

Evacuation zones were identified, marked, and analyzed for market indicators (i.e. sales and leasing) to determine whether there was a decrease in market value due to the association with an evacuated area. The same was done for actual flooded areas as well as the floodway and flood fringe areas mapped by the Province.

2. Data Analysis

A review of property building permits related to the flood was undertaken to identify the remediation scope and assessment value consideration for 2014 assessments.

Assessment surveys were reviewed and analyzed. Properties deemed to have greater remediation needs were identified for site inspection. Adjustments to the physical data of these properties were made based on the information gathered.

Assessment surveys for affected condominium common property were reviewed to determine the extent of damage to the common property and to review financial implications (i.e. reserve funds, special assessments, insurance coverage etc.). It was observed from responses that the damages reported were, for the most part, covered by insurance, did not require special assessments to owners, and thus, should not result in a loss of market value to individual condominium units.

Information from community inspections was analysed to identify neighbourhood themes and gauge impact. DBA inspection notes were reconciled in to the ABU's records.

Inspections of underground parkades were completed for condominium projects to determine whether the parkades were operational. By year end, it is expected that all residential condominiums in the areas of flooding will have operational underground parkades.

Market sales were analyzed to establish a base ('no flood') market value assessment using market sale information from 2012 July 01 – 2013 June 20. The base ('no flood') market value assessments indicated that market values in the flood affected areas had increased from 2012 July 01 to 2013 June 20. That market value increase occurred in all other parts of the city as well.

Once base values were determined, market information subsequent to the flood was analyzed (i.e. sales, rent rates, listings) to measure the effects of the flood on market value for affected areas as of 2013 July 01.

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C. Communication

The ABU conducted a widespread engagement and communication process. Some of the information gathering tasks involved stakeholder input and meetings. Communication activities were specifically designed to solicit and encourage input from property owners and build upon assessment process transparency to those owners. The activities are summarized below and detailed further in Attachment 1.

1. Assessment Flood Information brochure

An assessment flood information brochure was developed for property owners to advise of the general process the ABU was undertaking to consider flood ramifications to property for the assessments rolls (Attachment 7).

2. Flood Recovery Community Information Sessions

Employees of the ABU attended Flood Recovery Community Information Sessions in areas that were affected by the flood in order to answer questions and distribute an assessment flood brochure. The sessions provided an opportunity to inform affected taxpayers that the ABU would be considering flood affects to property when preparing 2014 assessments.

3. Online Assessment Flood Q & A Web Page

A web page was created to answer frequently asked questions related to assessment and the flood. The web page is located at www.calgary.ca/floodrecovery.

4. Assessment surveys

The ABU mailed out a letter with 3,290 assessment surveys to residential property owners. This letter invited affected property and business owners to utilize the ABU's Information Exchange appointments and meet with area assessors. A follow-up reminder letter was sent out on 2013 October 1 to customers who had not responded to the initial survey (Attachment 8).

The ABU mailed out a letter covering 62 assessment surveys to condominium boards and managers and provided details on the ABU's Information Exchange appointments.

5. In person and phone meetings with owners of flood affected properties and businesses

In total, the ABU had 193 flood inquiries from customers, resulting in 14 in-person meetings, and 22 phone appointments.

6. Discussions with the Province and Other Affected Municipalities

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Meetings were held with the Province and other affected municipalities to discuss strategies on how to approach 2014 assessment rolls related to the flood. The dates of these meetings are outlined in Attachment 1.

Conclusion

The methodology used to determine market value assessments for flood affected property conforms to legislative requirements and industry practices.

The ABU is confident that communication strategies utilized for this activity engaged affected property owners sufficiently to enable them opportunity to provide information about their circumstances and to have discussion with the ABU. As with any taxpayer, those communication opportunities with the ABU remain open to flood affected property owners.

The market analysis of flood affected property concluded that adjustments are warranted for some flood affected properties in the following communities:

- Beltline
- Bowness
- Bridgeland
- Cliff Bungalow
- Discovery Ridge
- Elbow Park
- Erlton
- Elboya
- Hillhurst
- Inglewood
- Mission
- Rideau Park
- Roxboro
- Sunnyside

To date, 2,287 properties have been identified as requiring an adjustment due to the flood. The estimated total adjustment to residential assessed values in flood affected areas is approximately minus 316,000,000.

Stakeholder Engagement, Research and Communication

The stakeholder engagement, research and communication undertaken as part of the ABU's efforts to address the effects of the flood are discussed above in the *Investigation Alternatives and Analysis* section of this report. Attachments 5, 6, 7 and 8 also pertain to this process.

Strategic Alignment

The work completed to account for any effect of the flood on market value assessments for 2014 aligns with The City of Calgary's practices, policies and legislative framework.

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The statistical measurement of the flood's effect on market value using sales and listings around the 2013 July 01 valuation date aligns with the requirement to have property values assessed at market value.

The review of permits, inspection notes, external and internal site inspections, mapping and customer feedback to update property details is compliant with the legislative requirement to reflect the characteristics and physical condition of property as of 2013 December 31.

Social, Environmental, Economic (External)

Social

No social impacts have been identified.

Environmental

No environmental impacts have been identified.

Economic

While 2014 values are still being finalized, a small shift in the share of property taxes has been identified. This tax shift is based on the estimated total adjustment to residential assessed values in flood affected areas of approximately minus 316,000,000 and amounts to roughly \$2.0 million.

Assessments do not by themselves determine what each property will pay in tax. Property tax rates are an association of Council's budget requirements against the total property tax roll.

Property taxes can increase or decrease for various reasons, including but not limited to:

- Changes in market value greater or less than the typical change for an assessment class.
- Changes in tax rates.
- Disproportionate changes to part of The City's assessment base – for example, if a disproportionate reduction to part of the base occurs, there will be a shift in tax burden to the remainder of the base as per the revenue neutral nature of property assessment in Calgary.

The property assessment process is annual. The ABU will monitor flood affected properties for both physical remediation and market value changes so that flood affected property assessments in future years continue to be fair and equitable with the market and other property in Calgary.

Financial Capacity

Current and Future Operating Budget:

There is no direct impact on The City's operating budget.

Current and Future Capital Budget:

No current or future capital budget impacts were identified.

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Risk Assessment

The financial risk to property tax revenue generation as it relates to the flood is minimal. Any value reduction sustained from the flood will be offset by the tax rate according to Council's budgetary requirements. Once Council determines the total required budget, the necessary tax rate can be derived using the assessment base.

As with every annual assessment roll, there is financial risk for property assessments that are subject to review by the Assessment Review Board (ARB). If the ARB reduces an assessed value, that corresponding tax amount is lost.

There is added risk of property assessment complaints / reductions related to property values that may have been affected outside of the actual overland flood regions as of 2013 July 01.

There is also risk of a heightened interest in property values due to the flood, which could result in an increased number of assessment complaints for 2014. This risk will be lessened through communication to property owners during the CRP as owners will be encouraged to contact the ABU to discuss their assessments prior to filing a complaint.

REASON(S) FOR RECOMMENDATION(S):

The Assessment Business Unit's response to the 2013 June 20 flood in Calgary is proceeding as planned and therefore no new actions or directions are necessary at this time.

ATTACHMENT(S)

1. Activities Summary
2. 2013 June 22 Orthophoto with Parcels
3. Pre and Post Flood Orthophotography 20120923 & 20130811
4. Provincial Floodway / Flood Fringe Map
5. Assessment Survey to Residential Property Owners
6. Assessment Survey to Condominium Boards and Managers
7. Assessment Flood Information Brochure
8. Reminder Letter for Assessment Survey to Residential Property Owners