

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.

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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

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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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- 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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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

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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.