

**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.

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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.

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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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- 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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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



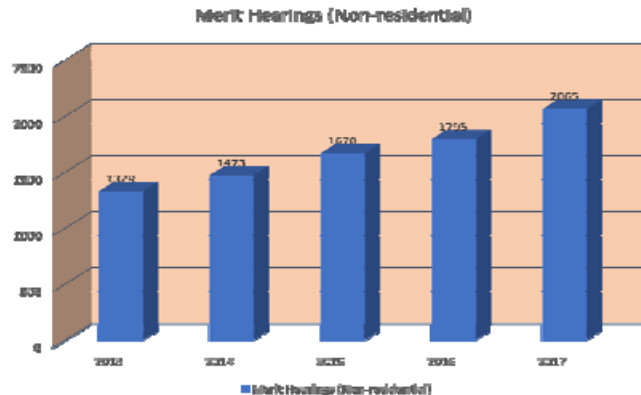


Stakeholder Engagement & Interjurisdiction Review

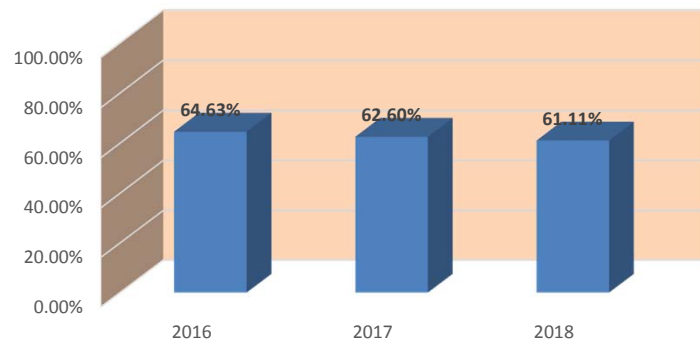
- Tax agents
- Property Owners & Industry Roundtable
- Calgary Chamber of Commerce
- Calgary Economic Development
- BOMA (Building Owners & Managers Assn)
- Calgary Assessment Business Unit
- Calgary Assessment Review Board
- Calgary City Staff
- Edmonton Assessment Business Unit
- Edmonton Assessment 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

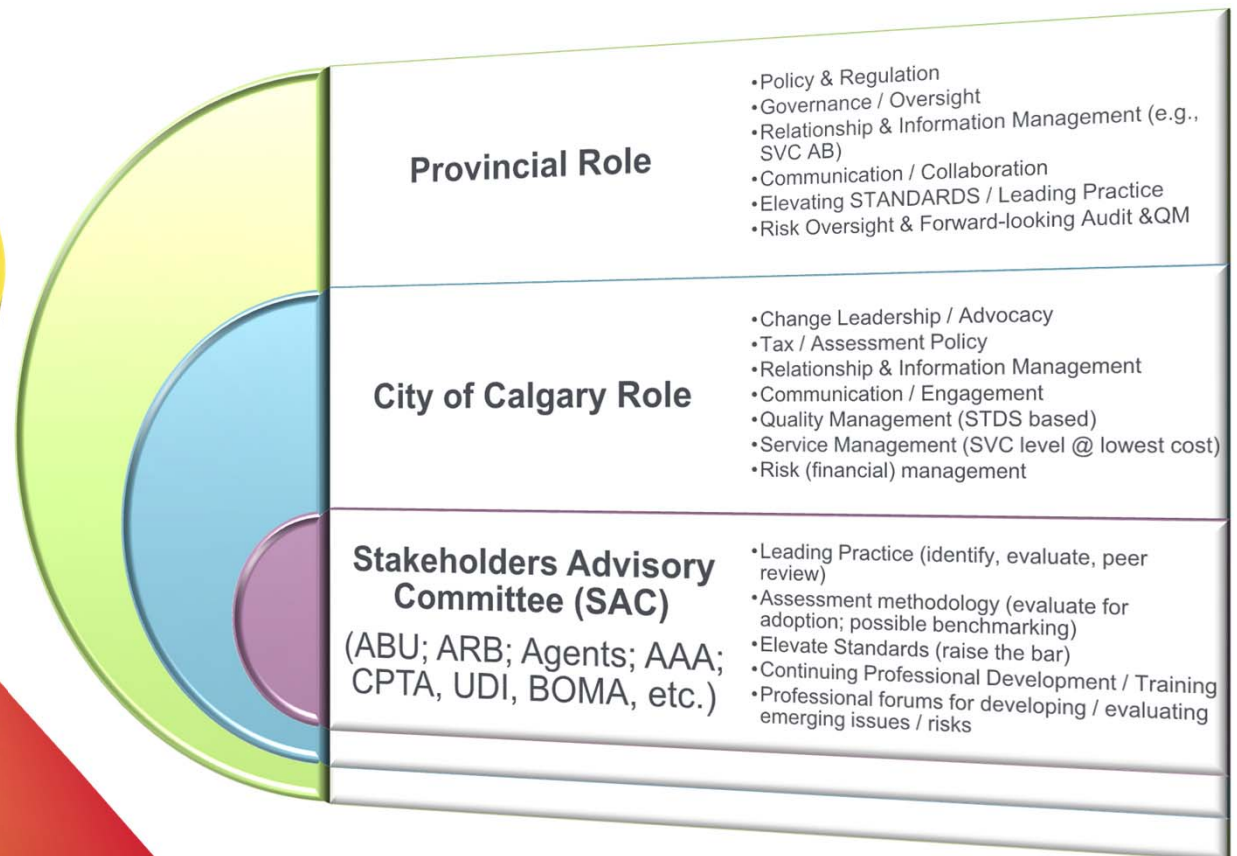
Assmt Methodology

Elevate Standards

Effective Audit Reporting

Alternative Dispute Resolution

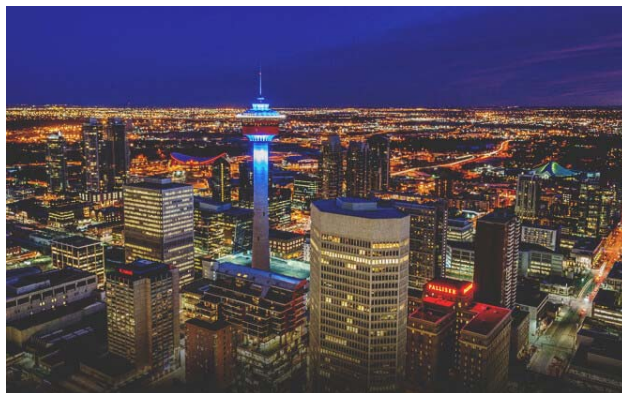
Emerging Issues/Risks





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

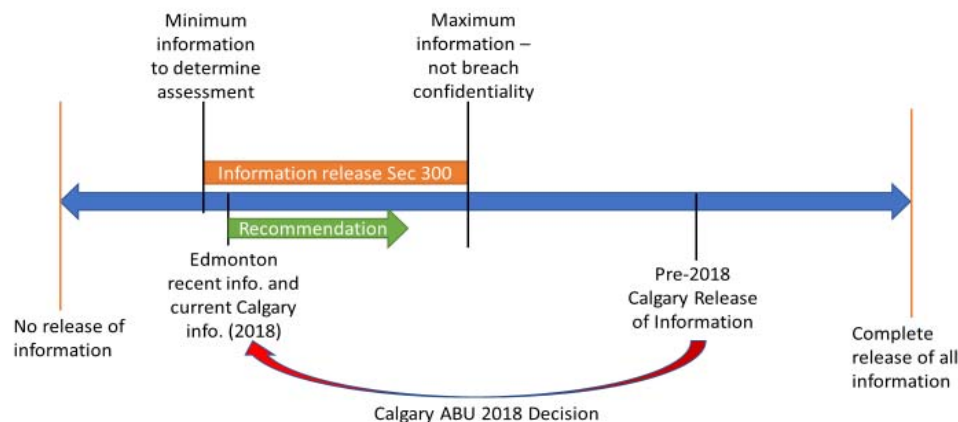


Recommendations to Address Key Issues

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