HCA

Heuristic Consulting Associates

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

FINAL REPORT

October 30, 2018

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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 values[5]

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.

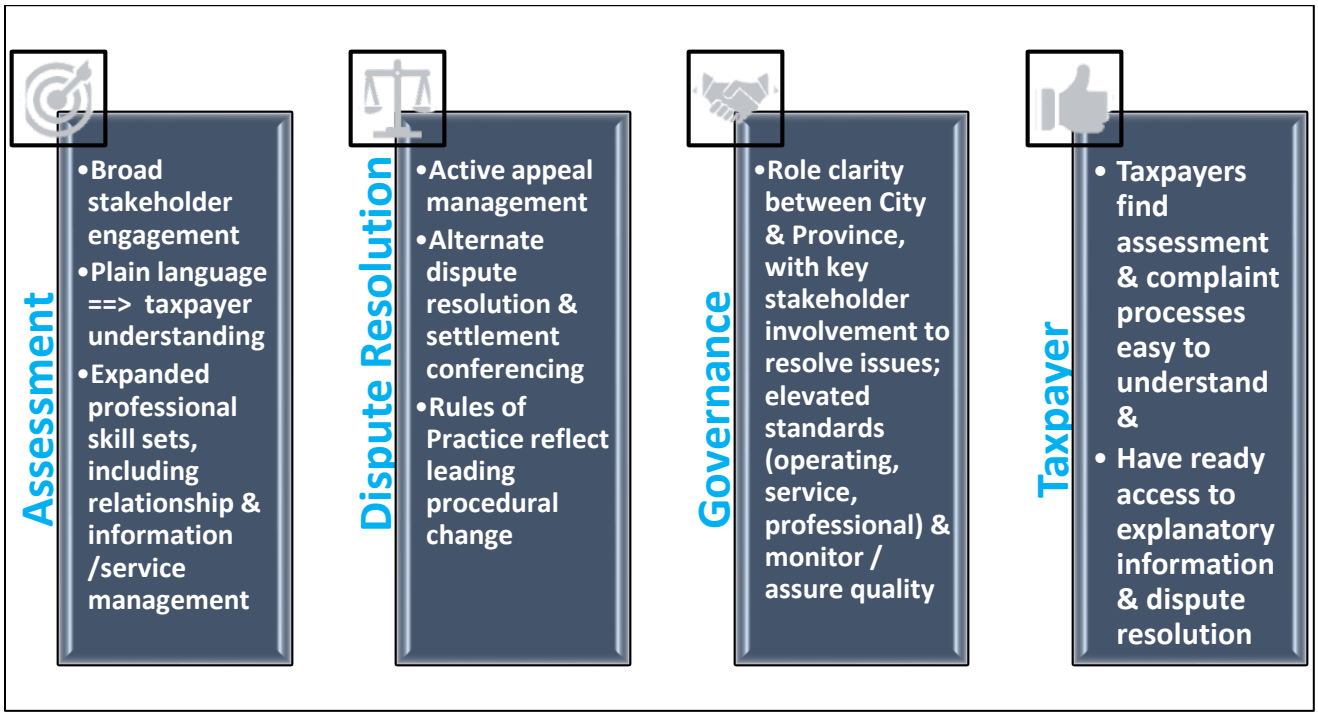
Working with stakeholders, we identified current state circumstances and then described the preferred future state.

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 properties[1], whether residential or non-residential to be assessed each year by the municipal assessor responsible for the area where those properties are located[2]. 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 year[3]. 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.

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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.
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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:

SYMPTOMS: A PROBLEM?

- Of all appeal decisions (*including those with minor changes*) in Calgary's *annual* system and *dynamic* market, about 60% of ARB reduced assessments saw increases in next roll (2016 - 2018)
- 40-50% of hearings led to reductions (2013 – 2017). Balance confirmed.
- # of merit hearings increased 55%, while # of decisions resulting in reductions went up 165% in 5 years

→

Assessment system capacity increasingly impacted by growing numbers of complaints and consequential scheduling and processing issues for hearings

→

September 2017

Council approved Notice of Motion for Independent Review of Non-Residential Property Assessment & Complaint Systems

↓

Stakeholders actively support improvements to the non-residential property assessment and complaint systems

←

Interactive workshops and meetings with all participant sectors led to stakeholder endorsed

"Made in Calgary" solutions

←

MOU offers a vehicle to change culture, setting basic ground rules for better working relationships between assessors and tax agents

↓

Review recommendations offer practical (cost saving and customer service) opportunities to leverage Calgary's assessment system strengths

→

Ongoing senior City leadership is critical to successful transformation of the non-residential property assessment & complaint systems

→

September 2018

"Made in Calgary" early solutions.

Measurable improvements (services & costs) already occurring due to proactive cooperation of tax agents and assessors

(e.g., pre-hearing agreements in over 500 non-residential assessment complaints)

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 *Municipal Government Act,* the Matters Relating to Assessment Regulation, the Matters Relating to Assessment Complaints Regulation and the Calgary Charter) 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 jurisdictions[10] 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.

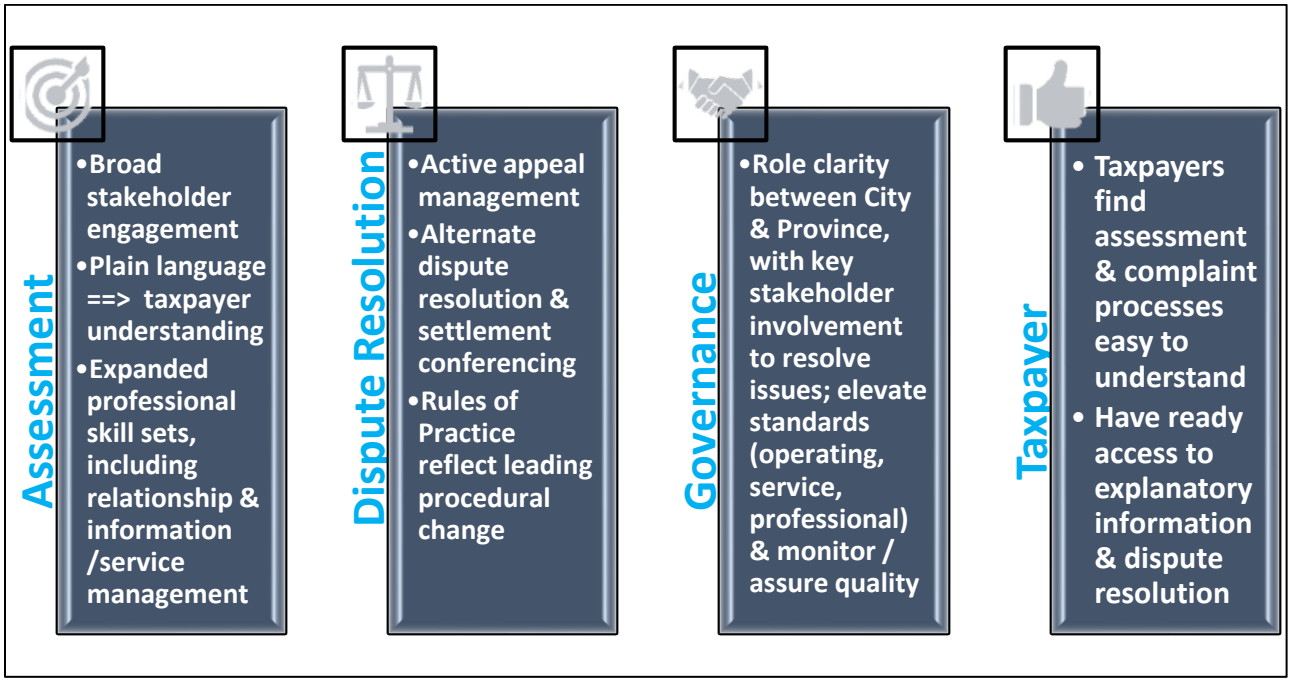
Accomplishing that preferred state necessarily involves a review of governance (provincial / municipal roles) and legislative change.

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

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.

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 it 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 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.

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 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: ***CURRENT STATE***	TO: ***PREFERRED FUTURE STATE***
Assessment	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
Dispute Resolution	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)
Governance	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.
Taxpayer / Client Experience	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 system[11]:

- 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 jurisdictions[13] 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
• 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	• 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 burden[14]
- 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 Risk[15].

[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

Primary Stakeholder

Secondary Stakeholder

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:

a. ABU use short-term external professional training /assistance to enhance expertise in valuation of complex, high value, properties
b. ABU provide staff with skills training in dispute resolution, negotiation and media/external communications
c. 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.
d. 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.

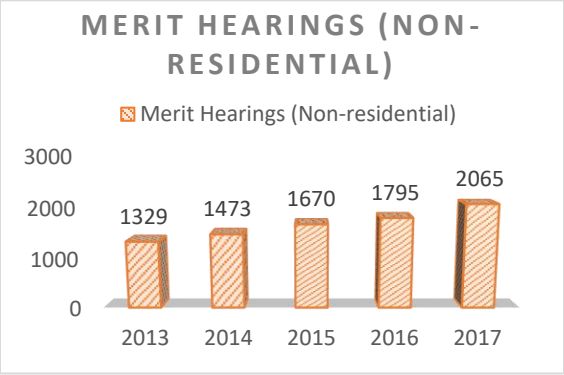
Findings related to Dispute Resolution:

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.

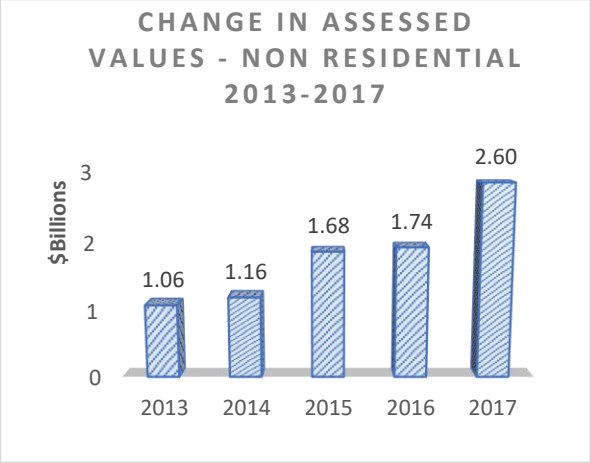
Our initial review validated the concerns identified in the Notice of Motion. The number of merit hearings to ARB increased 55%, while the number of ARB decisions resulting in decreased assessments increased 165% over 5 years from 2013 to 2017.

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



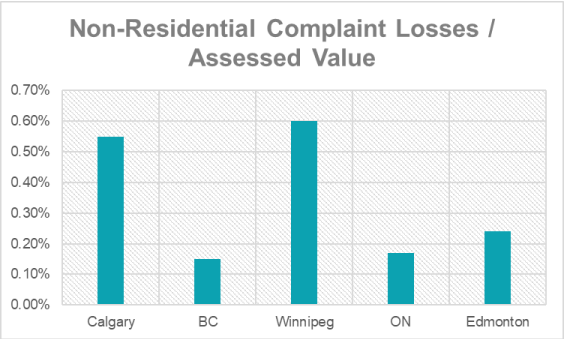
The Accelerating Number of Appeal Cases is Eroding the Tax Base

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:

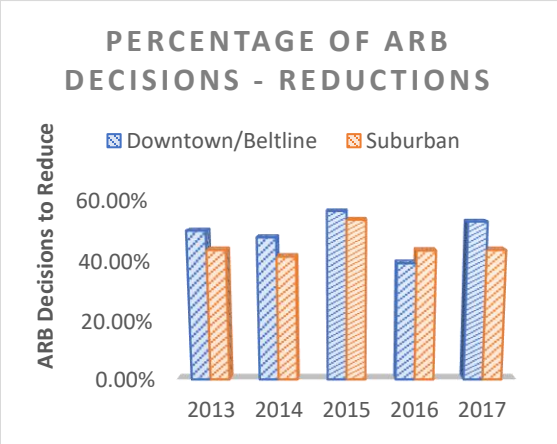


Overall Success Rates at the ARB Have Not Changed Significantly / Roll Stability

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.



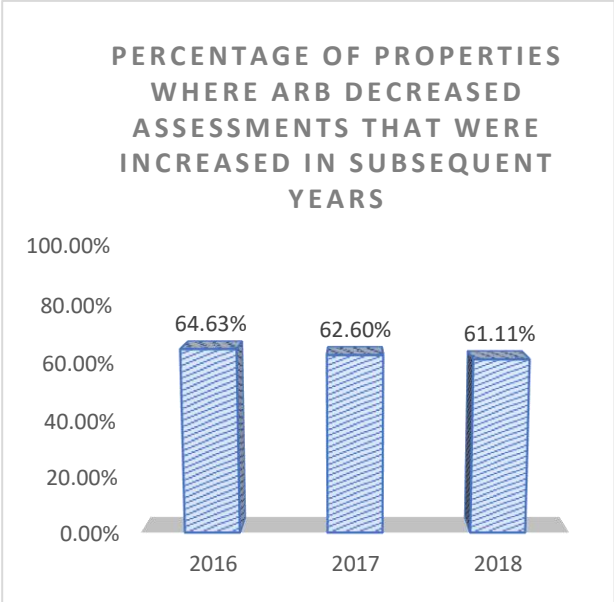
The frequency of ARB awarded reductions was also analyzed. Both Suburban and Downtown/Beltline properties were reviewed for a five-year period. Over this period property owners/agents quite consistently received reductions to their assessed values in 40-50% of the cases. These results are highlighted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



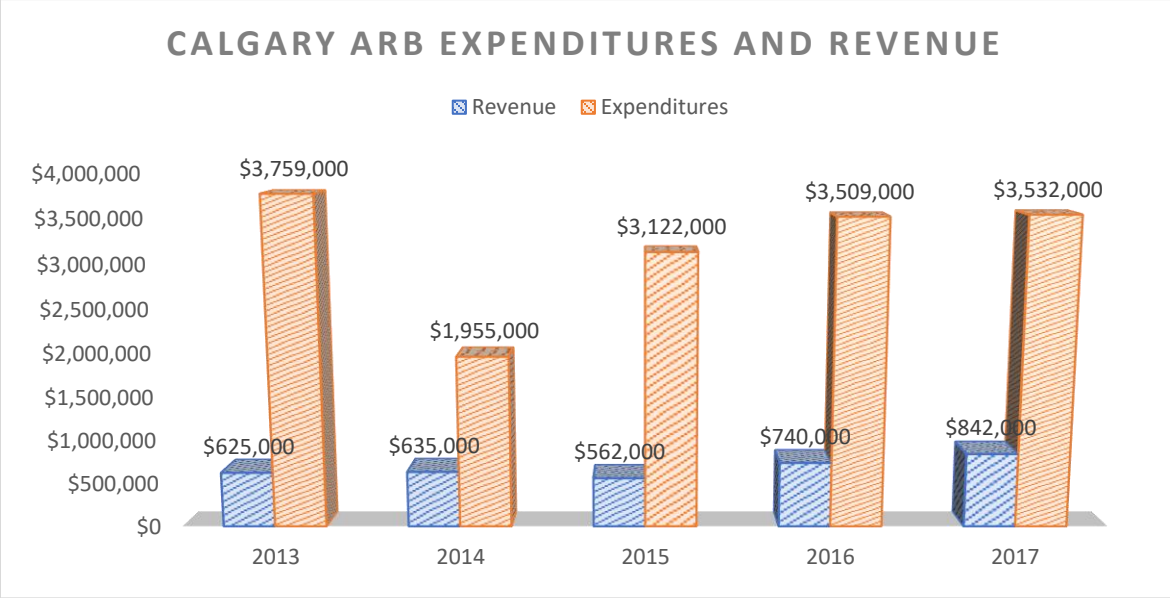
The Assessor Frequently Revises the Assessment in the Following Year

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.



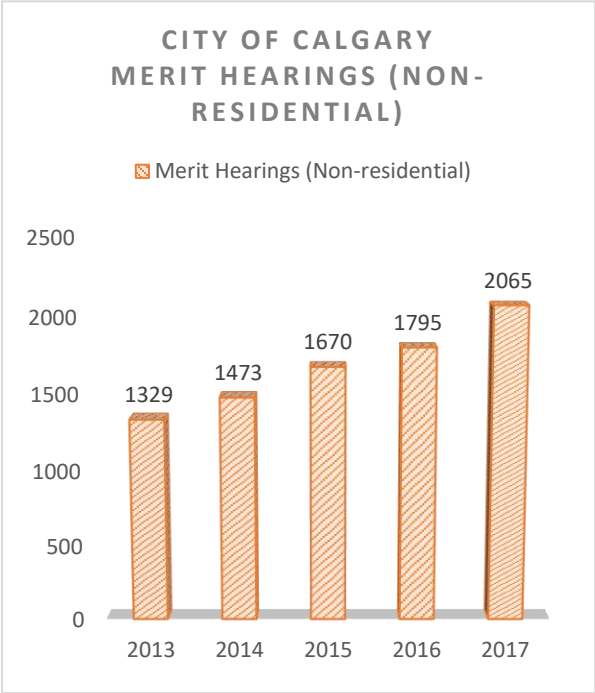
Once appeals are filed, resolution typically involves an in-person hearing before a full 3-member panel. Active appeal management and alternate dispute resolution are not presently available to resolve complaints.

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.

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

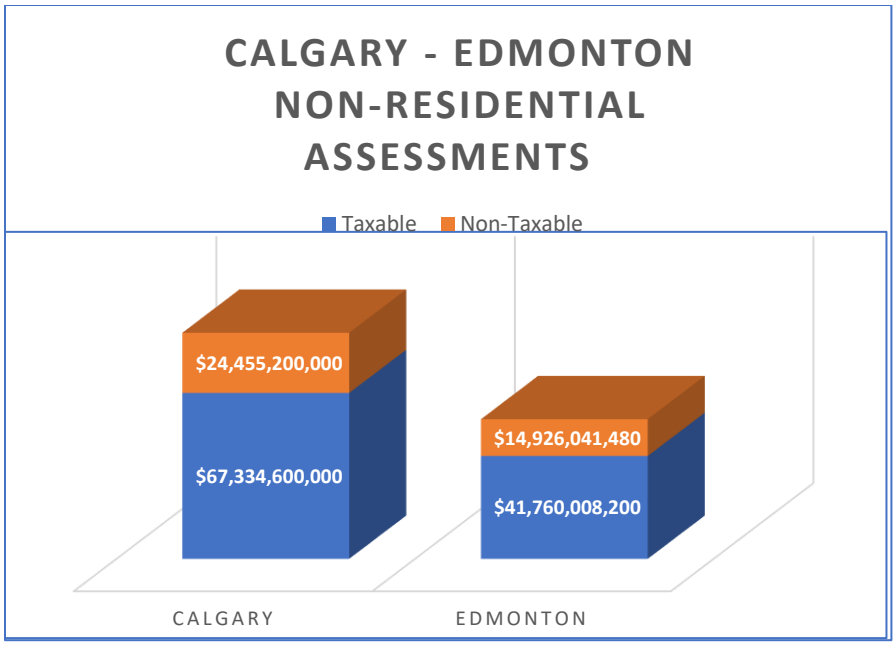
Comparative analysis with City of Edmonton shows potential for cost savings and service improvement in Calgary.

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.

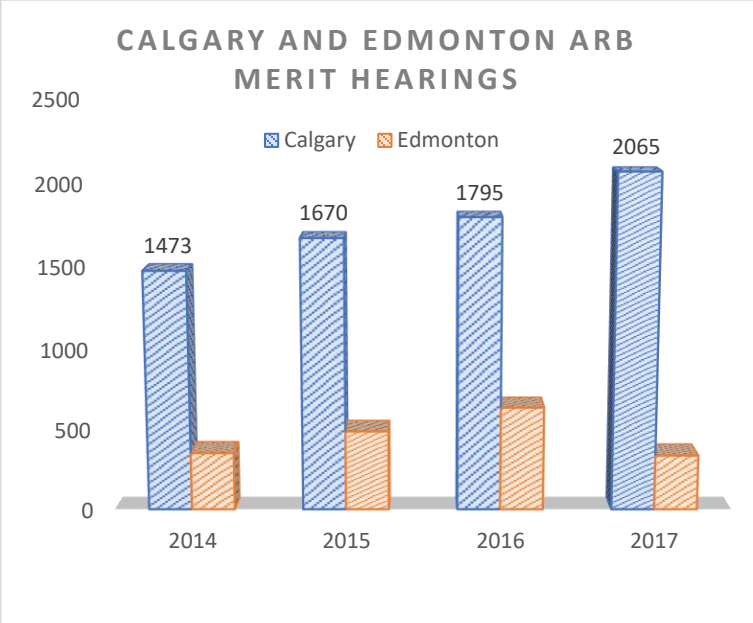
Over time, this equates to savings in direct and indirect costs in ARB budget (including imputed rent for ARB space, legal fees, etc.) of approximately $2,000,000 per annum – in the longer term.

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 2019[1], 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 2rd, 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 manage[17]. 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