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## CAO Session

Mayors Caucus June 2009

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## Topics

- MSI
- Local Government Performance Measures Presentation
- Wage and Compensation Survey
- Assessment

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## MSI: Municipal Sustainability Initiative

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## MSI: Background

- 2007: MSI program introduced.
- The program was to provide \$600 million in 2009 and \$1.4 billion thereafter.
- 2009: Government of Alberta cut MSI transfer to municipalities by some \$200 million and by close to \$300 million in 2010.

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## The Impact of MSI Cutbacks

- Government of Canada's *Economic Action Plan* includes unprecedented infrastructure spending.
- But the program relies on a traditional tripartite funding formula.
- Alberta has not increased its funding and seems to be looking to finance its share under the Stimulus Program using the money it saved through cuts in transfers.
- As a result, Alberta municipalities' ability to fund infrastructure projects is more complex and challenging.

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## Moving Forward

Despite these complications, Alberta's Municipalities have made effective use of MSI funds.

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## Examples of Effective MSI Spending

### Village of Hill Spring

#### \$18,360 Emergency Generator

Acquisition of emergency generator for sewer lift station and main water supply to protect basements of residences in village of about 200.

### Town of Castor

#### \$28,368 Community Hall Project

This funding supplements community fund-raising efforts and ensures the necessary architectural drawings will be produced for tendering of the construction of a new Hall for the community of nearly 1,000.

### Village of Carbon

#### \$21,707 Municipal Building Renovations

Replacement of two rotten walls will enhance the building's energy efficiency and lower administrative costs for village of about 500.

## Annual MSI Application Process

Activity	Date
Submit Project Profile	April 1 of each year (contact program staff if an extension is needed). 2009 project profiles are due by July 1, 2009.
Submit Multi-Year Capital Plan (MYCP)	Initially, for all submitted Project Profiles . Thereafter, as required to include new or amended Project Profiles submitted.
Review Process	<b>Ongoing.</b>
Payment of Grant Allocation	By approximately June 30 of each year, following budget approval, and submission of Project Profile, MYCP and previous year's Statement of Funding and Expenditures
Submit year end Statement of Funding and Expenditures	By May 1 of following year.

## Qualifying Capital Costs

Projects must:

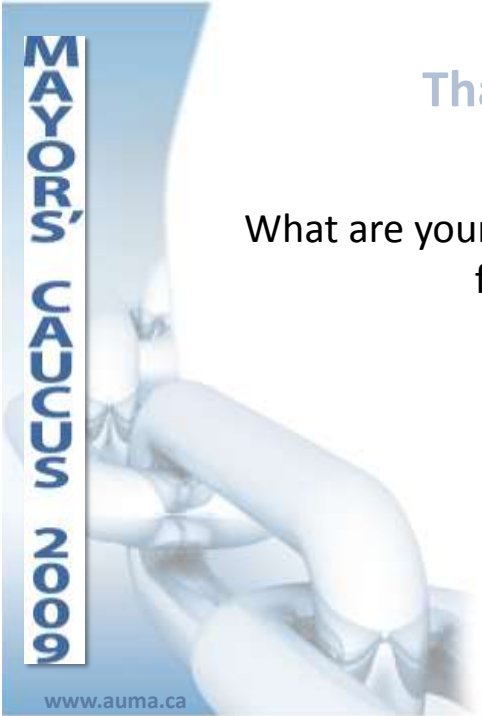
- benefit a capital asset,
- be limited to a single building, facility, or piece of equipment,
- provide good government, services, facilities, or other things necessary for developing safe and viable communities.

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## Key MSI Issues and Concerns

1. As mentioned, since Provincial cuts to money available for capital projects means that planned investments may have to be shelved or dollars re-allocated, and since the government is not contributing "new money" and thus their contribution may not be eligible under the federal instrumentality test, municipalities face increased challenges in infrastructure planning.
2. The Provincial elected officials tend to seize on "less strategic" plans rather than focus on the many success stories of MSI spending.
3. Although the Province originally said that municipalities should bank MSI money until they had something strategic, with cutbacks, those who banked money to do something more "strategic" may not have enough funds to follow through with their plans.

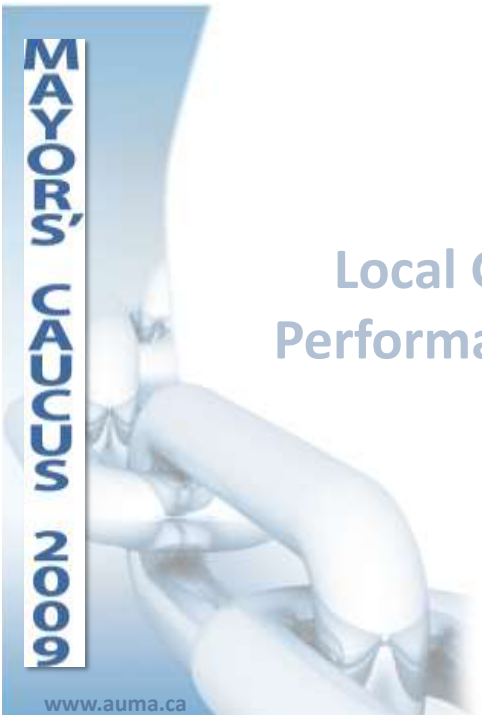
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Thank you

What are your concerns with MSI funding?

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Local Government  
Performance Measures

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## Local Government Performance Measures

- AUMA Municipal Sustainability Planning (MSP) initiative:
  - ❖ Step 5 – “Monitor and Evaluate your MSP”
  - ❖ Performance Measures should be built into the MSP process – AUMA is still working on this aspect of the planning process.

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## Local Government Performance Measures

- AUMA's Provincial/Municipal Agreement (2008):
  - ❖ New roles and responsibilities.
  - ❖ Mandated outcomes in areas of performance.
  - ❖ Long-term, sustainable municipal funding.
  - ❖ Municipal accountability for shared outcomes.

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## Local Government Performance Measures

- AUMA's Future of Local Government (FOLG) Initiative (2009-2010):
  - ❖ 09 President's Summit presenters and participants indicated strong interest in developing performance measures for municipal sustainability.
  - ❖ AUMA to set up a FOLG sub-group that will develop tools and performance measures for municipalities.

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## Local Government Performance Measures

- AUMA has reviewed or will review the following:
  - ❖ performance measures in use in Alberta municipalities
  - ❖ UK – through the IDEA Network
  - ❖ NZ and Canada – through the Frontier Centre (Larry Mitchell presented at the AUMA President's Summit)
  - ❖ STAR – a new initiative of ICLEI – creating standards similar to LEED, but for local government performance

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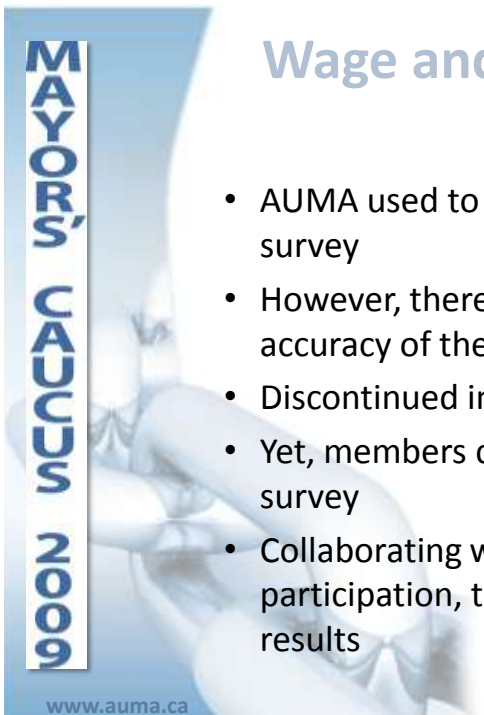


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## Wage and Compensation Survey

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## Wage and Compensation Survey

- AUMA used to provide a wage comparison survey
- However, there were challenges with accuracy of the data
- Discontinued in 2004
- Yet, members continued to request a survey
- Collaborating with AAMDC – the more participation, the more accurate the results

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## Wage Compensation Survey Continued...

- Target: end of June with 6 weeks to complete (we recognize that it is comprehensive and time consuming)
- Reporting available in the fall
- Aggregate results – free
- Select up to 10 municipalities for a more accurate result - \$200
- Monitor and track categories over this year for amendments in 2010.

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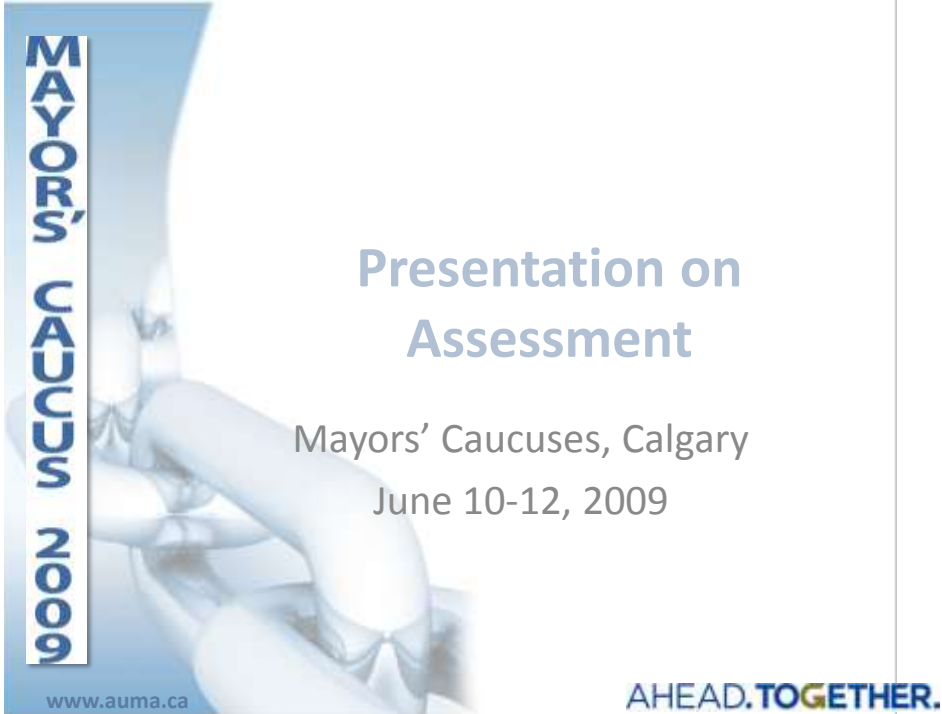


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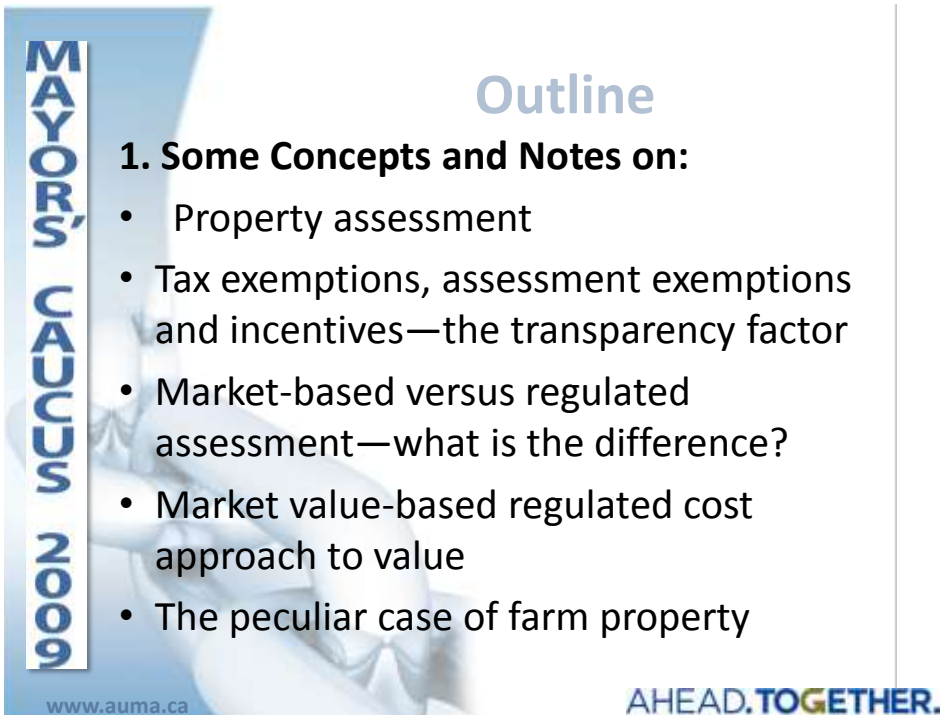
**MAYOR'S CAUCUSES 2009**

**Presentation on  
Assessment**

Mayors' Caucuses, Calgary  
June 10-12, 2009

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**Outline**

**1. Some Concepts and Notes on:**

- Property assessment
- Tax exemptions, assessment exemptions and incentives—the transparency factor
- Market-based versus regulated assessment—what is the difference?
- Market value-based regulated cost approach to value
- The peculiar case of farm property

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## Outline (continued)

- The non-profit tax exemption
- That dam property
- Rural Electrification Systems
- Water and sewer conveyance systems
- Timber Dispositions
- The number of assessment classes

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## Outline (continued)

- Education Property Tax and Equalized Assessment
  - Privatization of the assessment function
  - The disappearing of trained assessors
- 2. The Issues**
- 3. Next Steps**

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## Concepts and Notes

- **Property assessment:** a valuation system on land to provide a fair and equitable distribution of property tax among all property owners in the jurisdiction
- **Tax exemptions and assessment exemptions and incentives:** Tax exemptions (for churches, cemeteries, schools etc.) are generally accepted.

## Concepts and Notes (continued)

Everyone can see tax exemptions, whereas assessment exemptions (where the calculation assessment is manipulated to create a subsequent tax “break”), and “buried” incentives are not transparent.

- **Market-based assessment:** generally, what a prudent buyer would pay a prudent seller for the property. The general Alberta system.

## Concepts and Notes (continued)

- **Regulated assessment:** determining value by applying a formula set by the Province for “regulated industrial property”, where it would be difficult to value the property otherwise because it is not generally sold like regular property. Such property is: linear property, machinery and equipment, and railways.

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## Concepts and Notes (continued)

- **Market value based cost approach:** In some other jurisdictions, the regulated rates for regulated industrial property are created from what it would cost to replace it, and this helps keep it closer to market value assessment. But, in Alberta, a cost approach is used which is NOT related to market value.

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## Concepts and Notes (continued)

- **Farmland:** With usual market demand for this scarce land, this would always have a very high assessment. So, have to mitigate the assessment for farmers. Usually use land's productive value, or what it could generate under normal management practices to determine a value. But, have to keep such a system current for it to be fair.

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## Concepts and Notes (continued)

- **Non-profit tax exemption:** Section 362(1)(n) of MGA provides exemptions for certain properties held by non-profits which meet the rules of the COPTER Regulation. However, the Regulation is, to some, in need of clarity, and it does not deal with municipal concerns of seniors and low cost social housing.

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## Concepts and Notes (continued)

- **Dams:** All dams and the land they are on are exempt from assessment, except for the portions used to generate power. This includes all embankments surrounding tailing ponds in the oil sands.

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## Concepts and Notes (continued)

- **Rural Electrification Association Systems:** REA electric power distribution systems are not included in the definition of “linear property”. Their rates are not regulated and as such the property would fall under the definition of machinery and equipment that is integral to the operation of an electric power system (thus, no assessment and no tax).

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## Concepts and Notes (continued)

- **Water and sewer conveyance and treatment systems:** Water and sewer conveyance systems operated in association with rural manufacturing and processing plants are exempt from assessment. Privately owned systems located in rural areas are **not** exempt. If they add market value to the property they are included in the assessment of the property.

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## Concepts and Notes (continued)

- **Timber Dispositions:** Lands held from a timber disposition under the Forests Act are exempt from assessment. These properties are usually located in remote areas and usually involve large tracts of land. Due to the fact that industry's interest in the land is exempt from assessment, there is no valuation placed on the property.

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## Concepts and Notes (continued)

- **Limited Number of Assessment Classes:** There are four assessment classes provided for in the MGA. There is very limited ability for a municipality to separate these classes into subclasses for the purposes of applying different tax rates to subclasses. The classes are: Residential, Non-residential Farmland, and Machinery and Equipment

## Concepts and Notes (continued)

- **Education Property Tax and Equalized Assessment:** In 1996, Province took over this process. By applying one tax rate relative to the assessment class on all taxable properties across the province (equalized assessment) and “levelling the field”, it would mean (in theory) that similar properties with similar values, regardless of location, would pay similar education property tax.

## Concepts and Notes (continued)

- **Privatization:** Quebec is the only province in Canada with a “privatized system” similar to Alberta’s for the delivery of assessment services. For the most part the other provinces have either the provincial government as the employer of all assessors or a separate Crown corporation with the overall responsibility of supplying assessment services to municipalities.

## Concepts and Notes (continued)

- **Assessor Training:** Prior to the privatization of the assessment delivery structure in Alberta, part of the then Assessment Commissioner’s mandate was to ensure the supply of fully trained assessors was available to complete assessments across the province. Commissioner position no longer exists.

## Concepts and Notes (continued)

- There is a significant amount of knowledge and expertise that will be leaving the profession in Alberta over the next few years. The issue of succession planning has not been addressed in most of the assessment delivery offices in the province.

## THE ISSUES-Transparency

Where there is a lack of transparency (e.g. assessment formulas which build in a “break” when taxes are calculated), it is not possible to assess the fairness of who is really bearing the true cost of property taxes. When a “break” is given, either transparently through a tax exemption or indirectly through assessment, someone still has to pay the bills, and the burden does not “disappear”.

## THE ISSUES-Farmland

No adjustment has been made to the assessed values of farmland across the province since 1994, and their assessment based on farm productivity are based on farming practices from the 1970's.

Farmland by legislation must have the same education tax rate as residential tax rate. While other Alberta properties have increased, farmland has decreased.

## THE ISSUES-Farmland (continued)

In **urban** municipalities, and urban service areas of specialized municipalities, farm buildings are assessed and pay some tax, while if they are in rural municipalities, and rural service areas of specialized municipalities, they are fully exempt from assessment. As a result, more education taxes have been shifted away from farm property onto other taxpayers.

## THE ISSUES-Farmland (continued)

Residences in rural municipalities can qualify for a property tax exemption if the owner of the residence has land assessed at productive value in his unit. This tax exemption is also an exemption from education property tax. This tax exemption only applies in rural municipalities. Owners of farm residences in **urban** municipalities are required to pay on full market value of their residence.

## THE ISSUES-Linear Property

*Linear property*, generally speaking, is property that is not located on specific land locations and crosses multiple municipal boundaries (e.g. electric power systems, streetlighting systems, pipelines, telecommunications systems, oil and gas wells) .It makes up about 25% of all Alberta assessable property.

## THE ISSUES-Linear Property (continued)

Many of the regulated procedures and rate development processes related to all regulated industrial property (including linear) are not consistent with using a cost approach to value in determining market value so assessments are lower than market.

Linear property's condition date is October 31 in the year prior to taxation. If a linear property is not 100% complete or capable of being used it cannot be assessed at all.

## THE ISSUES-Linear Property (continued)

A municipality cannot apply a business tax on premises where linear property or machinery and equipment is being assessed.

A municipality cannot authorize supplementary assessments on linear property.

Linear property used exclusively for farming operations is exempt from assessment, including those owned by TELUS, ATCO etc.

## THE ISSUES-Linear Property (continued)

There is no education property tax on electric power generation property.

Municipally owned street lighting systems are not taxable, but taxpayers in municipalities where corporately owned systems are operated do pay education property taxes through their municipality.

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## THE ISSUES-Linear Property (continued)

Generally, natural gas distribution systems in urban municipalities are assessable and taxable regardless of ownership. However, rural gas distribution systems, other than a very few exceptions, are exempt from assessment regardless of ownership.

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## THE ISSUES-Linear Property (continued)

Drilling costs are removed from the assessment of oil and gas wells. These types of construction costs are included in all other property assessments (for example, pipeline trenching, site preparation, digging basements and preparation for building foundations). This provision amounts to a significant tax break.

## THE ISSUES-Linear Property (continued)

Although the assessment rates in the Minister's Guidelines for oil and gas wells have been adjusted on an annual basis to reflect the increase in costs of construction, there has been no change in the actual rates or models for oil and gas wells since the late 1970's or 1980's.

## THE ISSUES-Machinery and Equipment

*Machinery and Equipment* includes a wide range of properties that are used or intended to be used as an integral part of an operational unit involved in the following areas: manufacturing, processing, associated with pipelines and oil or gas wells, excavation of transportation of coal or oil sands, telecommunications systems, or electric power systems.

## THE ISSUES-Machinery and Equipment (continued)

The some \$40 Billion in machinery and equipment assessment in Alberta includes not only transparent incentives and/or “breaks” (generally accepted) but also a myriad of further property tax abatements and incentives which are not transparent, and therefore difficult to review and judge for fairness and effectiveness.

## THE ISSUES-Machinery and Equipment (continued)

Since the 1950's, the Province has introduced a myriad of tax abatement and tax incentive policies in order to promote investment in manufacturing and processing facilities in the province. Most of these abatement or incentive policies are imbedded in the assessment system. The Province has never completed a review open to the public to investigate whether these policies were or continue to be effective.

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## THE ISSUES-Machinery and Equipment (continued)

The definition of machinery and equipment for property tax purposes, for the most part, has remained relatively unchanged since the 1960's.

All of the tax abatements and incentives applied to property fitting Alberta's definition of machinery and equipment result in an average overall property tax of \$1 for every \$4 paid on non-residential properties assessed on the basis of market value.

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## THE ISSUES-Machinery and Equipment (continued)

If machinery and equipment is not complete or in operation on or before December 31 in the year previous to the taxation year, it is not assessable at all for that next taxation year. This exemption from assessment and subsequent taxation also applies to the buildings and structures associated with the manufacturing and processing operation.

## THE ISSUES-Machinery and Equipment (continued)

New machinery and equipment is given an immediate 25 percent deduction described as depreciation in the cost approach to value. At the same time the Province also implemented a “floor” for depreciation. Depreciation, regardless of the plant’s age, cannot exceed 60 percent (40 percent good). These policies do not conform to the principles of market value.

## THE ISSUES-Machinery and Equipment (continued)

The valuation process used in the cost approach to value has not been updated for machinery and equipment since at least the 1970's.

In 1984, a further incentive was granted in the form of an assessment exemption of 23 percent (77 percent good) for machinery and equipment.

It was for tax relief in those tough times and never revisited.

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## THE ISSUES-Machinery and Equipment (continued)

Machinery and equipment is not technically exempt from education taxation; however, ever since the late 1990's the Province has set the equalized education tax rate for machinery and equipment at 0 by Order-in-Council.

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## THE ISSUES-Machinery and Equipment (continued)

In 1984, the then Minister of Municipal Affairs stated in the Legislature that the large heavy haul trucks and shovels used in the oil sands for excavation and transportation were assessed as machinery and equipment for property tax purposes. Despite that, no assessment has been made on them. Argument that there is a conflict provision in MGA, but no amendment ever been made to fix it.

## THE ISSUES-Railway

The amount of depreciation that is applied in the cost approach to value used in the assessment of railway is only tax policy and does not relate to market value or market value principles. Railway receives an immediate reduction of 60 percent (40 percent remaining), with no reason offered as to why that amount.

## THE ISSUES-Railway (continued)

Further depreciation for railway is allowed to reflect the economic value of the property as a result of limited average annual traffic on a particular branch line or segment. No information on how these depreciation factors were developed.

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## THE ISSUES-Non-Profits

Properties that are subsidized by the Province are exempted from taxation under the COPTER Regulation and the MGA; however, properties which are subsidized by the non-profit organizations that hold the property are not exempt under the legislation.

Municipalities can exempt these properties from property tax, but the education tax must still be paid to the Province.

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## THE ISSUES-Non-Profits (continued)

If the municipality decides to exempt the property from the municipal tax levy only, it is still responsible for providing municipal services to that property and as a result the costs associated with that responsibility are shifted to the other taxpayers in the municipality.

## THE ISSUES-Education Tax Process

The Province requisitions municipalities for some \$1.6 billion annually in education property tax revenue from municipally financed assessment and tax operations. The Province does not contribute to the costs of these operations. The education property tax makes up some \$1.6 billion of some \$4.4 billion in annual property tax levied in the province, yet the province does not contribute to municipal collection costs.

## THE ISSUES-Education Tax Process (continued)

Instead of keeping an Assessment Equalization Board in place in 1995 when the Province privatized assessment, into which Board municipalities had direct input and membership, the Minister of Municipal Affairs was given the responsibility for determining equalized assessments and adjusting them on any basis that he felt was appropriate, which meant loss of any direct municipal input into the process.

## THE ISSUES-Dams

Dams are not assessed. Oil and gas embankments fall under the definition of “structure and improvement” in the MGA and would be assessable and taxable if not for this exemption of them as “dams” (some over 70 ft. and many kilometers in length). There is no valuation placed on these properties for assessment purposes and therefore there is no way of measuring the effect of this exemption.

## THE ISSUES-REAs

REA electric power distribution systems are not included in the definition of “linear property”. Currently, there is no provision which is included in the legislation that would allow a municipality to assess these properties in a reasonable fashion.

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## THE ISSUES- Water and sewer conveyance and treatment systems

Water and sewer conveyance systems operated in association with rural manufacturing and processing plants are exempt from assessment. Privately owned systems located in rural areas are **not** exempt.

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## THE ISSUES-Timber dispositions

Lands held from a timber disposition under the Forests Act are exempt from assessment. These properties are usually located in remote areas and usually involve large tracts of land.

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## THE ISSUES-Number of assessment classes

There is very limited ability for a municipality to separate these classes into subclasses for the purposes of applying different tax rates to subclasses.

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## THE ISSUES-Assessment delivery models

Given the use of various approaches across Canada, and given the number of pending retirements of assessors and the difficulties in providing training and experience, other assessment delivery models should be investigated, in conjunction with the assessor community.

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## Next Steps

Feedback is being sought from the Mayors' Caucuses on the Issues Identification paper

The paper is being reviewed by the Municipal Governance Standing Committee and the AUMA Board

It is anticipated that a companion paper will be developed for the AUMA Board and Convention.

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## Next Steps (continued)

It is anticipated that this companion paper will recommend which issues should be pursued immediately, which issues should not be pursued at this time, and which issues require further study and consultation before next steps can be recommended.

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THE END

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QUESTIONS OR COMMENTS?

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