

## **Addressing the Issues**

**A Companion Document to the Report Prepared for the Alberta Urban Municipalities Association  
on Property Assessment and Taxation Issues in May 2009**

**July 2009**

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## **1.00 Introduction**

Although the move in the late 1990's to establish annual market value assessments in the Province has been mostly successful, there have been a number of changes made to the administration of the assessment function which have inhibited an optimum environment for the operation of a leading edge assessment jurisdiction. This, together with the Province not completing the reforms required to convert the assessment process for regulated properties into the market value assessment environment, have resulted in a less than fair and equitable system for taxpayers. Further, the definitions of regulated properties, as well as the assessment and tax exemptions, have not been reviewed in some cases since the 1950's and 1960's and, as a result, do not relate to current technology or economic conditions.

Resolving these issues will be difficult and they cannot all be resolved at once. This paper is intended to outline the start of a process which could be used in looking at the issues and suggesting improvements to the assessment and taxation function in this Province. This paper will also recommend solutions to the issues wherever possible.

Generally speaking, all of the issues regarding the assessment and taxation system that were identified in the Issues Identification Paper can be placed in one or more of the following three areas:

- 1) The valuation of regulated property for assessment purposes;
- 2) Assessment and tax exemptions; and,
- 3) The administrative structure for the assessment function.

In addressing the issues, it is proposed to provide recommendations on:

- 1) Which ones should be dealt with immediately;
- 2) Which ones require some study and review that should be dealt with over the next 2 to 3 years;
- 3) Which ones require extensive study, review and consultation prior to being addressed.

Along with the recommendations, this paper will include background and reasoning to support the conclusions, and why the recommendations are important to the Alberta Urban Municipalities Association (AUMA) and its stakeholders.

The following stakeholders have been consulted in the preparation of this document and it includes their input:

- 1) The City of Calgary
- 2) The City of Edmonton
- 3) The Alberta Assessors' Association

## **2.00 The Assessment of Regulated Property**

It was intended that the assessment process for regulated property would be reviewed and updated as a result of the move to annual market value-based assessments. Although the Province conducted the regulated assessment review for both farm and industrial property and each sector also went through an extensive multiple level review (including MLA Committees with final reports and recommendations for each), very little of what was recommended was implemented.

### **2.10 The Assessment of Farm Property**

Although there are a number of areas relating to the assessment of farm property that require attention (including the definition of farming operations), this section deals with only three: namely, the currency of the farmland assessment system, the farm residence exemption policy and the assessment and taxation of farm buildings.

#### **2.11 The Assessment of Farmland**

The assessed values for farmland have not changed since 1994. This needs to be immediately addressed. While all other taxpayers are dealing with increased education tax, farmland education taxes are going down. The education tax which farmers should be paying in relation to the productive value of their property has been shifted to all other taxpayers.

Farmland assessed values could be updated by phasing in the increases over a period of years to allow farmers to adjust to the increase in education taxes. This update would be accomplished through an update to the Minister's Guidelines under Ministerial Order. Municipalities can adjust their local municipal tax rates, if required, to account for the assessment increases.

The farmland rating system is based on farming operations prevalent in the 1970's. Although the system requires updating, prior to expending the significant amount of resources required to update, consideration should be given to all of the options available to value farmland for assessment purposes. This issue is not as significant in the immediate future to AUMA as the updating of farm assessed values. In any event, the antiquated nature of the current valuation system should be addressed in the long term. This issue is principally related to the fairness of the assessment and taxation system within the agricultural sector.

## 2.12 The Assessment and Taxation of Farm Buildings

The farm building assessment exemption issue is significant, both from a revenue and political point of view. First, it is difficult to supply sound reasoning why farm buildings should be exempt from assessment in rural municipalities while they are assessable and taxable in urban municipalities.

In the long term it makes sense that, as in most other jurisdictions in North America, farm buildings in Alberta should be assessed and taxed. They should contribute, just like all other real property in the Province, to the costs of municipal services and the education system. However, how should they be assessed and taxed? In the long term, they should be assessed on the basis of their market value as farm property and exempted from property tax to a level representing their ability to produce revenue from farming operations. In comparison to other commercial operations, the return of investment in farming is some 25 to 30 percent. As a result, a reasonable tax exemption policy would be to exempt these properties from taxation to a level of 70 to 75 percent.

Using this procedure, as is used in some other jurisdictions (e.g. Manitoba which exempts them to a level of 74 percent), this would ensure that farm buildings are contributing to the tax base, but only to the level that they should in comparison to other income producing properties. In this way both urban and rural farmers could be treated in the same fashion, which would also alleviate the problem when these properties are annexed from rural into urban municipalities. This solution, although the preferred method, could only be implemented over an extended period due to the amount of resources required to assess all of the farm buildings in the Province.

There is a solution, however, which could be introduced in a relatively short period of time that would address the majority of the issues related to the large building intensive agricultural operations where large investments in buildings are not being assessed or taxed at all. This process would involve introducing a basic assessment exemption that would reflect the average investment per farm in buildings and only assessing any value of buildings above that exemption. This would ensure that the building-intensive agricultural sector would contribute more while the land-intensive sector would not. This process could be introduced in both urban and rural municipalities which would also alleviate the annexation issue.

Although any of the above changes can be made through a regulatory change under the authority of a Ministerial Order, the discussion will be very politically sensitive and the need for extensive consultation and communication is evident.

In addition, due to the fact that farm buildings in urban municipalities are currently subject to the non-residential tax rate, it is likely that an amendment to section 297 of the Municipal Government Act (MGA) would be appropriate to have farm buildings subject to the same tax rate as farmland.

2.13 The Rural Residence Tax Exemption Policy

The rural residence exemption should be discontinued immediately. Farm residences are just like any other residence and should be contributing to the tax burden on the same basis as all other residences. In addition there would be no difference between rural and urban farm residences, which would also alleviate the annexation issue. For AUMA, this is principally an education tax fairness issue.

Although this exemption can be removed through a change to regulation under the authority of a Ministerial Order, again the discussion would be very politically sensitive and the need for consultation and communication is evident.

**2.20 The Assessment of All Regulated Industrial Property**

There are a number of issues relating to the assessment and taxation of regulated industrial property that all need to be addressed eventually in some manner. In some cases, significant reform is required while in others only review and clarification of government policy may be necessary.

2.21 Definitions of Regulated Industrial Property

A full review and updating of the definitions of regulated industrial property is required. These definitions remain relatively unchanged since they were introduced in the 1960's. Not only have there been technological changes that were not contemplated at the time, there have been many tax policy changes regarding these properties during the last fifty years that were certainly not contemplated when the definitions were drafted. As a result of these tax policy changes, the intent of the definitions is, in some cases, unclear.

The Province should immediately implement a review process with the intent of amending the legislation in the near future (2 to 3 years). This will provide time to adequately review, consult and draft the required changes.

2.22 The Construction Cost Reporting Guide

The assessment process for regulated industrial property should remain a regulated process to ensure consistent application across the Province; however, it should be changed to reflect market value principles. The Construction Cost Reporting Guide (CCRG) should be changed immediately to include all of the construction costs that are included in determining a property's market value. There is no reason in a market value assessment regime, other than tax policy, for removal of these costs.

This is a significant issue for AUMA from both a municipal tax and education tax perspective. This tax policy alone continues to shift hundreds of millions of dollars in tax burden away from industry onto other taxpayers on an annual basis.

This change in process does not require an amendment to the MGA. It is a change to the Minister's Guidelines done under the authority of a Ministerial Order. It will, however require extensive changes to the rates and procedures within the Guidelines.

2.23 The Assessment of Incomplete Regulated Property – Progressive Assessments

All regulated industrial property should be subject to progressive assessments in the same manner as all other property. This issue is especially an issue for municipalities which experience a significant amount of industrial construction that takes many years to complete. If these properties do not start contributing during construction (in the same manner as non-regulated properties) it will have a significant effect on those municipalities' ability to provide the required services without a large contribution of Provincial funds. An example of this result was experienced in recent years in the Rural Municipality of Wood Buffalo.

This is one of the most important issues discussed in the original paper, especially to those municipalities directly affected. It is important to AUMA in regards to those regulated properties which are subject to the education tax levy. Incomplete properties would start contributing to the education tax, which would either increase the revenue for education purposes or reduce the amount of education tax paid by all other properties.

This change can be accomplished by repealing subsection 291(b) of the MGA. The progressive assessment of property that is valued using industry reported costs of construction can be based upon the amount of funds expended in the construction as of the property condition date. The issue of progressive assessments on linear property would likely require some regulated percentage levels to allow for progressive assessments. The issue of linear property like pipelines crossing multiple municipal boundaries also raises issues of which municipality (or municipalities) would receive the assessment. These matters, however, are certainly not insurmountable.

2.24 Business Tax Assessment

There are very few municipalities left in the Province that levy a business tax. The fact that municipalities cannot apply a business tax to premises where linear property or machinery and equipment are assessed is not as much an issue today as it may have been in the past. However, one queries why this provision is in place. Consideration should be given to removing it to allow for both business tax and the assessment of regulated property on the same premises.

**2.30 The Assessment of Linear Property**

As stated in the original paper, some of the assessment and taxation issues relating to linear property assessment affect all linear property types and some relate only to specific properties.

2.31 Supplementary Assessments on Linear Property

The fact that all types of linear property are exempt from supplementary assessments needs to be reviewed in order to ascertain whether or not it is feasible to include linear property as subject to supplementary assessment and tax. The fact that linear property is assessable by a central body and not by the local assessor needs to be taken into account regarding the provision of supplementary assessments on these properties. This issue requires extensive review and study.

2.32 Linear Property Used for Farming Operations

There is no reason why linear property used for farming operations should be exempt from assessment especially when the linear property is owned by private for-profit corporations. One questions why such property has been exempted from assessment. If indeed the reason for the exemption was related to its prohibitive cost and provincial government subsidization, the reason simply does not exist today.

Again, this issue is important to AUMA in that such property, if assessed, would be subject to the education tax levy. This means that the exemption from assessment has shifted the education property tax burden onto taxable properties. Because exemption is from assessment, there is no way to determine how much of the education tax burden is shifted to other taxpayers.

2.33 Linear Electric Power Generation Property is Exempt from Education Property Tax

Although this exemption was given as an incentive for industry to invest in electric power generation facilities, one wonders whether the policy actually produced what was intended and whether it is important enough to shift the resulting education property tax burden onto all other taxpayers. This exemption should be reviewed and studied to ascertain whether the policy continues to provide the incentive intended and whether the taxpayers are willing to continue to pay the increased education tax as a result of it.

2.34 Property Taxation of Street Lighting Systems

The street lighting tax exemption issue should be reviewed with a view to clarification of government policy once the MGA is next open for review. Is it appropriate that taxpayers should pay the education tax through their municipal taxes on privately held street lighting systems when taxpayers that have municipally owned systems are not required to pay?

2.35 Rural Gas Distribution Systems

Rural gas distribution systems should not be exempt from assessment when urban systems are assessable and taxable, especially when the urban systems are subject to the education property tax levy. To AUMA, this is a matter of the fair distribution of the education tax burden. As this exemption is from assessment, there is no way to determine how much of the education tax burden has been shifted to other taxpayers. As a result, it is impossible to know the significance of this policy. Further research and study is required. In any event, this property should become assessable in order to determine the amount of the tax burden which is being shifted to other taxpayers.

2.36 Drilling Costs in the Assessment of Oil and Gas Wells

Under the current valuation system used for the assessment of these properties, the inclusion of the drilling costs in the regulated rates would substantially increase the assessment and resulting taxes on these properties. However, without a full review and updating of the valuation system for these properties, inclusion of the drilling costs in the model would not be appropriate at this time.

The significant issue of the drilling costs not being included in the assessment of oil and gas wells needs to be addressed in conjunction with a review of the well drilling equipment tax. This review should also involve an updating of the models and rates for oil and gas wells as well as the depreciation standards for these properties. A full review of the assessment processes for these properties is required. Although this issue is significant and review and study should begin immediately, a solution to the issue should not be expected in the near future.

2.37 Depreciation Policy for Telecommunications Properties

This issue was not addressed in the original paper, but was raised by the City of Edmonton. There is a special depreciation policy supplied for telecommunications properties (including cable television) provided as extra depreciation called the “penetration rate”. It is applied in the valuation process used in the assessment of these linear properties. It has been described by international telecommunication valuation experts as inappropriate in valuing these properties. It should be discontinued in a market value assessment environment. This issue directly affects urban municipalities.

**2.40 The Assessment and Taxation of Machinery and Equipment**

The total process involving the assessment and taxation of machinery and equipment needs to be reviewed. This assessment and taxation process has historically been the vehicle for providing tax policy incentives for industry. The issues involved in this process relate to everything about the properties involved, from the definition and no progressive assessment to no education tax and the 23 percent assessment exemption. The overall average tax incidence of \$1 to \$4 in comparison to other non-residential properties is the result of these policies. It is clear that these matters need to be studied.

2.41 Education Property Tax Rate of 0 on Machinery and Equipment

This policy was introduced in the mid-1990’s as an incentive for industry to invest in machinery and equipment in Alberta. Although the investment expected did occur, it is difficult to determine if the property tax incentive really was the catalyst for the investment. This policy shifts in excess of \$200 million in annual education property tax away from industry to other taxpayers. One wonders whether the

policy actually produced what was intended and whether the incentive is important enough to shift the resulting education property tax burden onto all other taxpayers.

Although this tax policy is appropriately provided for as a transparent policy in the taxation process, the Province should immediately initiate a review to ensure that it is achieving its intent. This review should include a consultation with taxpayers to determine if this policy is still appropriate.

This issue is very important to AUMA not just in relation to the education property tax burden shift on the existing assessment process. All of the other tax policies that are included in the assessment process affect the level of tax payable and, if machinery and equipment were subject to an education levy, it would affect the education tax payable as well.

2.42 Valuation of Machinery and Equipment for Property Assessment Purposes

All of the procedures used in the valuation of machinery and equipment for assessment purposes require review and updating in view of the move to market value-based assessments. During the regulated rate and depreciation review of the late 1990's and early 2000's it was recommended that the valuation process be changed to reflect a regulated process that would be an appropriate proxy for market value assessment. This included changes to the depreciation standards and age lives of machinery and equipment. Due to the introduction of the CCRG, which does not conform to market value principles, and the inability of the Province to complete a comprehensive impact study, no change has been made.

The Province needs to gather the necessary data to complete the study to determine the impact of the changes in order to determine if phase-in policies are required. The system must conform to market value principles in order to ensure a fair and equitable distribution of the tax burden.

2.43 The Immediate and Maximum Depreciation Allowance Policies

The immediate allowance of 25 percent and maximum of 60 percent have no relationship to market value. They were policies implemented in 1984 as an incentive for investment and to provide tax relief for industry and also as a method to stabilize the assessment and tax base for industry and municipalities. They have no place in the assessment system for machinery and equipment under a market value assessment system. This policy should be reviewed in conjunction with the review of the valuation system for the assessment of machinery and equipment and taken into account in the impact study.

2.44 The Assessment Exemption Policy of 23 Percent

This policy was also introduced in 1984 and part of the package of incentives to promote investment and provide tax relief for industry. It was implemented at a time when the economy in Alberta was declining and industry was suffering with extremely low oil prices and high inflation. The economic climate is not the same today. This policy along with the depreciation policies should be reviewed in light of today's economic realities.

2.45 The Assessment and Taxation of Oil sands Trucks and Shovels

The government needs to clarify its policy on the assessment and taxation of excavation and transportation machinery and equipment in coal or oil sands. It was made clear by the Minister of Municipal Affairs in 1984 that this property was assessable and taxable. Since then, there has been no documented policy change that has occurred. This issue could easily be addressed by the Minister issuing a clarification of the policy and intent of the legislation.

2.46 Summary of Assessment and Taxation Policies for Machinery and Equipment

All of the tax policies in the assessment and tax process for machinery and equipment, except for the maximum depreciation policy of 60 percent, have the effect of lowering the property taxes. If, after a full review has been completed, it is found that the tax burden placed on industry is too difficult to deal with, the Province can apply a tax policy reduction in the taxation process. It will then be open and transparent for taxpayers to decide for themselves whether the resulting tax shift from industry to other taxpayers is appropriate in today's economy.

All of the assessment incentives given in the assessment process for machinery and equipment are significant to AUMA only if a review of the 0 education tax rate policy indicates that machinery and equipment should contribute to the costs of education through the property tax. As a result, AUMA should request that the Province review the 0 tax rate policy as soon as possible. A reintroduction of education tax on machinery and equipment coupled with an alignment of the assessment process with market value would have a dramatic effect on the distribution of the education tax burden. The effect would be in the hundreds of millions of dollars in annual education property tax.

### **3.00 Assessment and Property Taxation Exemptions**

Although most of the property tax exemptions provided for in the legislation are clear and supported by very prescriptive direction, there are a few of them which are still unclear or are provided as exemptions from assessment where the impact cannot be determined.

#### **3.10 Non-Profit Property Tax Exemptions**

This is an important issue to all municipalities. As pointed out in the Issues Identification Paper, the concerns expressed by municipalities are in two areas; those related to the vagueness of some of the provisions in the Regulation and those related to those properties held by non-profit organizations and used for seniors' accommodation and low-cost housing.

In relation to the vagueness issue, the Province has recently replied to concerns expressed by stating that these provisions are intended to be vague to allow municipalities the flexibility to make decisions at the local level to reflect local policies. On the face of it, this appears positive; however, in reality, this causes inconsistency in the application of exemptions between municipalities. Not only does this cause non-profit organizations to be confused regarding the inconsistency from one municipality to the next, this policy causes concern relative to the fair distribution of the education tax burden. Since the Province exempts the property from education property tax to the same level as the municipality exempts it for municipal purposes, the inconsistency between municipalities also extends to education property taxes. The inconsistency caused by this vagueness should be addressed as soon as possible.

In relation to non-profit seniors' accommodation and low-cost housing, the issue is serious and will only become more serious in the future if no action is taken. Most of these facilities are located in urban municipalities. It is unfair for owners of taxable urban properties to bear an ever-increasing burden of taxes to compensate for the exemptions given to these properties by municipalities that continue to be pressured to exempt these properties from taxation. To say that this is only an urban issue is misleading. Many of the individuals who locate in these properties have come from rural areas to live out their retirement years.

The solution to this issue is an expansion of the grant system to provide qualifying organizations with the funds to pay the local municipal taxes. If the property qualifies for the grant it could also be exempted by the Province from the education property tax levy. This issue requires a comprehensive solution involving consultation with municipalities.

#### **3.20 Property Used for Dams**

Why are dams, including those that are privately owned, exempt from assessment? Is it because most of them are owned by the Province, irrigation districts, drainage districts or other public bodies? Is it appropriate that other taxpayers continue to share a larger burden of the tax burden for those dams that are owned by private individuals or corporations and used for income generating purposes (as in the case of the tailing ponds in the oil sands)? Further study and analysis of this exemption is required. In any event, for the long term these properties should be assessed in order to determine the impact of this exemption on other taxpayers.

### **3.30 Property Held by Rural Electrification Associations**

Are these properties exempt from assessment or not? The legislation is silent as it relates to these properties and one would assume that, as a result they are assessable and taxable. However, the legislation does not provide for a reasonable approach to assessment and taxation. Clarification of provincial policy is required. In any event, for the long term, these properties should be assessed in order to determine the impact of this exemption on other taxpayers.

### **3.40 Water and Sewage Conveyance and Treatment Systems –Manufacturing**

Should these properties pay taxes? Is the reason they were exempted in the first place sound in relation to the current market value assessment-based system? This exemption should be reviewed in light of the current system. In any event, for the long term, these properties should be assessed in order to determine the impact of this exemption on other taxpayers.

### **3.50 Interest in Land Held Under Timber Dispositions**

Is there are good reason for this exemption? If there is, it is not transparent. Do the stumpage fees charged by the Province include a component to account for this exemption? If so, should this component be given to the municipality where the disposition is located? The local municipality is responsible for providing services to the property. In addition, if it were taxable, it would likely be subject to the education tax levy. Why is this property exempt when other dispositions of public land are assessable and taxable? The Province should be asked for a clarification of this policy. In any event, for the long term, these properties should be assessed in order to determine the impact of this exemption on other taxpayers.

## **4.00 The Administration of the Assessment Function**

Prior to the coming into force of the MGA, Alberta had a good system for the administration of the assessment function across the Province and an antiquated, overly costly and problematic assessment process.

There was a clear separation between policy setting of the elected officials and the administration of the system which ensured province-wide consistency in application of those policies. Training and succession planning for assessors was a priority under the system. The assessment complaint and appeal system had its issues but there was overall credibility and reliance upon the outcomes.

With the reforms that were introduced in the mid-1990's, it appears that the government made the right choice as far as the move to annual market value being the basis for assessment, but it dismantled the part of the system that worked well.

It is also apparent that assessors have managed to succeed in an annual market value assessment environment in spite of the decisions.

### **4.10 Separation of Policy from Administration**

This is one of the most serious issues brought forward in the Issues Identification Paper. The assessment function requires Provincial leadership.

Regardless of what the Province decides to do with the assessment delivery structure, it should remove the duties related to the administration of the assessment function from the responsibilities of the Minister of Municipal Affairs. Prior to the coming into force of the Municipal Government Act in 1995, the legislated office of the Assessment Commissioner provided the leadership, continuity and consistency required in the assessment function.

Under the current administration this is clearly not happening. The Minister, in consultation with his legislative colleagues, is responsible for setting assessment and taxation policy through legislation and regulations. Under the current legislation, he is also responsible for the auditing of assessments, the delivery of linear property assessments, determination of equalized assessments, determination of the education property tax requisitions as well as providing advice and interpretation of legislation.

Since 1995 the Ministry has had some seven different Ministers. This continual change in administration has had an effect on the consistency and effectiveness of the assessment function in performing its role in the fair collection of the annual revenue of some \$4.4 billion for municipalities and provincial education property tax.

A position similar to the previous Assessment Commissioner needs to be established through legislation. This position needs to be given the authority in legislation to provide ongoing administration of the functions referred to and also providing clear interpretation and clarification of government assessment and taxation policy. Having a senior civil servant with an extensive background in the assessment function in this position will provide the continuity and consistency required.

Along with the establishment of a legislated position of Assessment Commissioner, the Province should include a structure at the provincial level to clearly separate the functions of politics and the administration of assessment. The direct responsibility for assessment audit, assessment equalization, linear assessment and advisory services should be removed from the duties of the Minister and given under the authority of the legislation to the Assessment Commissioner. This will also provide the needed appearance of the separation of the assessment and taxation functions at the provincial level.

This issue must be dealt with as soon as possible to provide the leadership, continuity and consistency required to ensure a fair and equitable distribution of the property tax burden across the Province.

#### **4.20 Delivery of Assessment Services**

A comprehensive review and analysis of the assessment delivery mechanisms across Canada should be undertaken. This review should be undertaken with a view to ascertain if changes to the system in Alberta are warranted and, if so, to determine which system would be appropriate in the Alberta context. This review should take into account what has worked and what has not under the different systems employed across the country. In reviewing these systems, regard needs to be had to the assessment rules and procedures that are in place in the jurisdictions. These rules and procedures undoubtedly have an effect on the challenges faced by their assessment delivery mechanisms. For example, Alberta's system is based upon annual market value assessments, while other jurisdictions only complete assessments on two, three or even four year cycles. This is likely to have an effect on the delivery of assessment services.

Involving the assessment profession in this review and any further review regarding the implications of change to the current assessment delivery mechanism in Alberta is essential in improving the assessment delivery system in Alberta.

No discussion regarding a change to the assessment delivery structure should occur until this study and analysis has been completed.

#### **4.30 Succession Planning and Assessor Training**

This issue has been a concern of the assessment profession for some time. It is also a concern being expressed by municipalities. Since the privatization of the assessment function in Alberta in the early 1990's, the Province has not been directly involved with the training of assessors. It is realized that the formal technical school instruction is not adequate in providing assessor trainees with the knowledge and experience required to deal with the day-to-day duties of assessors. This formal training must be complemented with on-the-job training for a period of at least 3 to 4 years to produce assessors with the knowledge and experience to take on the duties of an appointed assessor in a small or medium-sized municipality.

Currently only the large municipalities with adequate resources available have the capacity to provide the training required. The Province used to be where municipalities could recruit trained assessors. It is now the major municipalities who are providing the pool of trained and experienced assessors from which other municipalities can recruit. To some degree the Province is also recruiting trained assessors from the major cities to fill assessment advisory and auditing positions.

Under our current assessment delivery mechanism, it appears that the only manner in which the Province could assist in the training of assessors would be to establish a comprehensive assessor internship program that provides municipalities and private assessment firms with the financial resources to take on assessor trainees and provide them with the needed on the job training and experience. This may have the effect of expanding the number of assessors working in the Province, especially in municipalities where resources are currently limited.

Succession planning to share specialized assessment knowledge and experience is a more complicated issue. This not only involves the training of assessors in specialized assessment policies and procedures, but due to the largely subjective nature of these valuations, it also requires the sharing of knowledge in context. What this means, is that it is not adequate enough to explain what to do and how to do it, you also need to know why you do it a certain way. This is especially the case regarding the assessment of major industrial plants and also, to some degree, farmland assessment (soils and landscape characteristics and analysis).

There are very few assessors still practicing in the Province who have this specialized knowledge, expertise and experience to deal with major plant assessment. The majority of these professionals are nearing retirement age. This issue needs to be addressed in the near future.

How does this issue get addressed? Further study and consultation is required to determine the most appropriate course of action.

#### **4.40 Assessment Complaint and Appeal System**

The Province has recently passed amendments to the Municipal Government Act to address the issues surrounding the assessment complaint and appeal system. After reviewing the amendments it appears that the changes will address many of the issues raised by municipalities (especially the two major cities) over the past few years. However, these municipalities have voiced concerns regarding some of the added requirements of municipalities which have been included in the amendments. It appears that there will be extra workload added to the assessment complaint process in the form of written decisions in all cases and the requirement of municipalities to supply a large amount of information to complainants. There has been some concern expressed from the assessment community that some of the information required to be disclosed to taxpayers may, in fact, create more confusion and frustration for taxpayers and the Boards.

The Province has adopted a one level complaint process to replace the current two levels of Assessment Review Board and Municipal Government Review Board. The Assessment Review Board level will be separated into two types of Boards depending upon the type of property under complaint. One Board will be comprised of municipally appointed members who will be responsible for decisions relating to

residential and farmland assessment disputes. Another Board, called a Composite Assessment Review Board, will be comprised of municipally appointed members and will be chaired by a provincially appointed member. This Board will be responsible for decisions relating to commercial, industrial and large multi-family residential properties. The Municipal Government Board will only hear complaints relating to linear property and equalized assessments.

The legislative amendments refer many of issues raised to Regulation and these Regulations will not be made available until late summer of this year. As such, it is premature to address any of the preliminary concerns that have been raised regarding the procedural changes required from the assessment community and the Assessment Review Boards.

#### **4.50 Condition Date for Assessment of Property**

The cities of Edmonton and Calgary have serious concern with the current property condition date of December 31. The current condition date, coupled with the assessment complaint and appeal process (which could be even more of an issue with the recent amendments to the legislation) create a significant risk of revenue loss for these municipalities and also puts in some jeopardy the actual annual market value assessment cycle. If assessors are left with less and less time to complete the annual valuation there is a danger of decay in the overall quality of the assessments. This in turn could cause an increase in assessment complaints which will in turn allow for less and less time for preparing the annual assessment. If this was allowed to continue it is not hard to imagine unintended results.

The effect of the December 31 condition date is only a significant issue for the major cities. A change to a condition date of July 1<sup>st</sup> (the same date as the valuation date) would allow for more time for the complaint and appeal process, would significantly lower the risk of revenue loss, allow more time to prepare the annual assessment and would not affect the process significantly for all other municipalities.

This issue needs to be addressed in the near future before any serious problems arise for the major cities.

#### **4.60 Limited Number of Non-Residential Assessment Subclasses**

Although the ability of municipalities to split the non-residential assessment base into subclasses has long been requested, the Province has been hesitant to allow it. The ability to split the non-residential assessment base into subclasses is a double-edged sword. Other jurisdictions have experienced issues as a result of the ability to apply different tax rates to different types of non-residential property. Due to large differences in tax rates between these subclasses, the complaints filed have less to do with the assessment than they do to the subclass in which the property is placed. In addition, the assessment of property becomes less and less important because the municipality can change the tax rate to account for losses in assessment. This is sign of decay in the system because of its lack of fairness and equity between sectors of the non-residential assessment/tax class.

No changes should be made to the current system until a full review of other jurisdictions and their experience with multiple assessment/tax classes has been completed.

#### **4.70 Education Property Tax and Equalized Assessment**

The principles which were adopted regarding the fair distribution of the education property tax burden and the equal funding per student were sound principles when they were first introduced. However, you cannot have a fair distribution of the education tax burden when the rules for assessment are not the same for everyone, or at minimum, if there are rules that vary it, they are open and transparent for everyone to see.

That is not the case in Alberta.

#### **4.71 Equalized Assessment**

The process used to equalize assessments is a relatively simple process in theory. Each municipal assessment base is adjusted for any variation in the level of assessments from one municipality to another. While market value-based assessments are adjusted to reflect minor variations in market value assessment levels between municipalities, assessments for regulated properties are equalized at 1.00. This means that whatever regulated property assessment is on the assessment roll of the municipality becomes the equalized assessment for that property. As a result, all of the property tax incentives provided for regulated properties by the Province in the assessment process follow through into the equalized assessment and affect the sharing of the education tax burden.

As significant market value increases year-over-year do have a significant effect on the equalized assessment, the Province introduced a policy to vary the equalized assessment to allow for a phasing in of the changes in the equalized assessment year-over-year. This process is quite complicated and allows for a varied equalized assessment for a municipality which is the lowest of a number of calculation options. The actual equalized assessment that results from the process really has no meaning other than the fact it is used to distribute the education tax burden across the Province. In fact, because some municipalities are allowed a phase-in approach, other municipalities that have no market value increases are paying a larger share of the burden.

The above, coupled with the fact that municipalities no longer have direct input into the assessment equalization process (as they did prior to 1995) have led to loss of confidence in the system. A full review of the system and a return to having direct municipal input into the process would appear to be appropriate.

#### 4.72 Education Property Tax

The education property tax burden of some \$1.6 billion can only be shared fairly and equitably if the assessment equalization process is fair and equitable, and the assessment equalization process can only be fair and equitable if the local municipal assessment and taxation process is fair and equitable. As indicated in this paper there appears to be some question as to the fairness and equity of the total system.

The Province has given the responsibility of the assessment and taxation function to municipalities. Added to that responsibility is the fair and equitable distribution of the annual provincial education property tax requisition, which is the municipality's share of the total burden of \$1.6 Billion. The taxpayers of that municipality are further required to pay all of the added costs associated with collecting the revenue required to pay the requisition. This not only involves the costs associated with the collection of the education property tax for the Province, it also involves the political issues of collecting the tax without realizing the revenue from it.

The Province needs to become a full partner with municipalities and contribute a fair share of the costs associated with the collection of provincial revenue for the education of Alberta's future taxpayers.

## **5.00 Feedback of Mayors at June 10 – 12, 2009 AUMA Mayors' Caucuses**

There were a total of 6 questions (posed as a result of the Issues Identification Paper) asked of the mayors of each of the three groups; namely, those municipalities with a population less than 2,500, those with populations between 2,500 and 10,000 and those with populations greater than 10,000.

There were two questions posed regarding assessment and tax exemptions (or incentives). These questions dealt with whether all the exemptions currently in place should be reviewed to determine if they are appropriate and, if they continue to be appropriate, whether they should be made transparent in order for the citizens of Alberta can judge for themselves if they continue to be appropriate over time. The overwhelming majority of mayors attending these meetings agreed that a full review of all assessment and tax exemptions should be conducted to determine their appropriateness in light of current realities and, in the future, all property tax exemptions should be open and transparent in order that Albertans can judge for themselves the appropriateness of these concessions over time.

There were two questions posed on the need to ensure that the assessment of regulated property is based on current procedures, definitions and processes. Again the mayors indicated overwhelmingly that the processes for regulated farm and industrial property need to reflect current definitions and assessment formulas and practices.

The last two questions posed to the mayors dealt with the administration of the assessment and taxation function. One of these questions dealt with the delivery of assessment services in municipalities across the Province and the other question dealt with the limited ability of municipal councils to deal with tax policy at the local level.

Again the vast majority of mayors indicated that AUMA should investigate alternative assessment service delivery mechanisms.

Although the majority of municipal mayors agreed that municipal councils should have more flexibility to create subclasses of property for split tax rate purposes, the percentage of the mayors agreeing was lower in relation to the other questions posed.

Individual comments expressed the need to clarify the rules and procedures for regulated properties, including definitions. The concerns expressed included machinery and equipment, linear property, farmland and railway property. While there was expressed support for the assessment profession in the Province, there was substantial concern expressed regarding the number of qualified assessors. There was also some concern expressed about the shift in education tax away from regulated property onto those assessed on market value. Some mayors expressed the concern about raising assessments and taxes on regulated properties, the need for consultation with the Alberta Association of Municipal Districts and Counties, and the need for other revenue sources, including consumption tax revenue for municipalities.

## **6.00 Feedback from the AUMA Survey**

The reaction to the AUMA survey was minimal. Within these respondents, the views were very different. While some were very confident in the current system and expressed no significant concerns, others were very concerned with such things as the lack of transparency in the assessment system, the lack of fairness of regulated assessment, non-profit tax exemptions and the assessment system for railways.

## **7.00 Feedback of Other Stakeholders**

### **7.10 The Cities of Edmonton and Calgary**

The cities of Edmonton and Calgary voiced their input together. Both cities expressed their strong support for the Issues Paper and AUMA's endeavors to address these important issues. Their input was separated into four areas of concern relating to the assessment and taxation functions in the Province.

#### **1) The Unfair Distribution of the Education Property Tax Burden**

Both cities expressed concern regarding the matters expressed in the Issues Identification Paper regarding regulated property and the exemptions. The amount of education tax burden shifted away from regulated property to market value-based assessments, especially to those in urban municipalities is of substantial concern.

The City of Calgary also expressed concern with the manner in which the Province distributes the revenue back to the School Boards in Calgary. They feel that they are not only paying more than their fair share but are also receiving less than their fair share of the education revenue.

Both cities expressed frustration with an issue that was not included in the original paper; namely, the issue of education property tax on supplementary assessments. They both believe that the

provincial requirement of applying education property taxes on supplementary assessments is discriminatory. This has been an issue since the introduction of the provincial education tax requisitioning process.

2) The Issues surrounding Assessment and Property Tax Exemptions

The principal issue for the cities is related to non-profit tax exemptions. It was pointed out that the cities, along with other urban municipalities, have the majority of these types of properties and are assuming a greater responsibility for tax exemption policy decisions and being forced to shift more and more taxes, including education property taxes, onto their own residents in urban municipalities. They expressed their full support for an increase in provincial grant programs to address this matter in order that all residents contribute to the costs associated with the services provided.

With regard to the other exemption issues, the concerns expressed dealt with two areas; first, those relating to the shift in education tax burden and secondly the transparency of exemptions. Exemptions should be from taxation, not assessment, in order for taxpayers to judge for themselves whether they are appropriate.

Another issue brought forward by the cities which was not outlined in the Issues Paper related to the point that the Province should be responsible for the delinquent taxes on properties owned by the Province and leased to taxable parties.

3) Concerns regarding Municipal Property Tax Certainty

The cities' main concern is with regard to the tax revenue risk they are experiencing in relation to the timing and critical dates involved in the annual assessment cycle. They feel that one of most significant issues for them is a change in the property condition date from the current December 31 date to July 1. This would allow municipalities the time to complete the complaint and appeal process prior to the passing of the property tax bylaw.

4) Administration of the Assessment Function

The cities both believe that the introduction of an Assessment Authority would not address the concerns they have with the administration of the assessment system. They indicated that other provinces have had trouble with the assessment authority model, mainly as a result of provincial government interference in the assessment process. They believe that without a clear separation of the assessment and taxation functions that a change in the assessment services delivery mechanism will not rectify the current issues in the assessment system.

They did agree that there needed to be a separation of the policy making and the administration of the assessment system. They both noted, however, that placing a position as an Assessment Commissioner into the current structure without significant change to that structure would not result in the leadership and separation required. The need for a significant change in the structure of the administration of assessment from a provincial standpoint was apparent.

Other issues were also alluded to regarding the administration of the assessment function. The need for provincial funding support for the training of assessors was expressed. The cities, however, did not want the Province to become directly involved in the training of assessors. The cities also expressed a frustration with the fact that the Province does not recognize the fact that both cities now expend a substantial amount of financial resources on legal services which was not the case in the past. Much of this increased support required is a direct result of the lack of support for the assessment function provided by the province. The lack of clarity in the legislation and the lack of direction provided by the Province have led to the tax agent phenomenon which in turn has contributed to the increase in the number and complexity of assessment complaints and appeals.

In conclusion, the cities expressed two final points:

- 1) The need for the Municipal Government Act to be opened and amended to correct long needed changes, including those changes to increase the efficiency of the assessment and taxation system; and,
- 2) The need for AUMA to set out Guiding Principles that the Province should follow which will result in a fair, equitable, transparent and efficiently effective system in which all Albertans can have confidence.

## **7.20 The Alberta Assessors' Association**

The Executive of the Alberta Assessors' Association (AAA) believes that the issues relating to assessment can be separated into two areas; those related to provincial assessment and taxation policy, and those related to municipally-related assessment service delivery.

In regard to assessment and taxation policy, they believe that the Province should update all regulated property rates and procedures to bring fairness and equity to this component of assessment. They believe that this would result in a decrease in the tax burden to residential and other non-residential taxpayers.

They further believe that the Province should develop clear assessment and taxation policy for non-profit exemptions. This includes an expanded provincial grant- in-lieu solution to the seniors' and low-cost housing issues. Further exemptions from taxation are not the answer.

In regard to the administration of the assessment function, the AAA believes that currently assessors are more rigorously trained and the educational requirements for assessor accreditation and recertification are greater than ever before. Positive provincial funding programs such as internships and sponsorships should be fostered.

They do not believe that a provincial assessment authority is the answer. They point to loss of local autonomy, direct customer service and other issues currently being experienced by other provincial authorities as indications that an Authority is not a magic bullet. In addition, they refer to the issues identified in the Issues Identification Paper regarding the unsatisfactory assessment services presently provided by the Province as other indications of this position.

Finally, the AAA believes that a broader representation of municipalities should be consulted in addition to the major cities when the Province is proposing changes to assessment and taxation legislation.

## **8.00 Summary and Conclusions**

### **8.10 Issues Which Require Immediate Attention**

#### **8.11 Regulated Property Issues**

The following regulated property assessment issues need to be dealt with as soon as administratively possible:

- 1) A review of the definitions of regulated industrial property;
- 2) An update of farmland assessed values ;
- 3) A review of the depreciation policy for telecommunications properties;
- 4) An overhaul of the Construction Cost Reporting Guide; and,
- 5) The inclusion of drilling costs in the assessment of oil and gas wells.

The overarching need for dealing with the assessment process for regulated property in comparison to market value properties is evident. The above issues need to be addressed in order to deal with all of the

issues over the longer time frame. These issues include the definitions and the Construction Cost Reporting Guide. Other issues have also been neglected for a long time and there is no reason for further delay. These issues include farmland values and drilling costs. The issue of the depreciation policy is relatively simple due to the fact there is no need for it in a market value-based assessment system.

#### 8.12 Exemptions

The following exemption issues should be dealt with immediately:

- 1) Clarification of the non-profit tax exemptions and an expansion of the grant program to include seniors' and low-cost housing;
- 2) The assessment of incomplete regulated property – progressive assessments;
- 3) A review of the education property tax levy of a 0 tax rate on machinery and equipment;
- 4) A review of the education property tax exemption on electric power generation property; and,
- 5) Discontinuance of the farm residence tax exemption policy.

The overarching need to deal with the unfairness of the distribution of the education tax burden is also evident. This is of particular importance regarding the education tax break given to machinery and equipment and electric power generation property. Although this is a component in relation to all of the other issues in this section, the issue of non-profit tax exemption is of particular concern for urban municipalities. The other exemptions simply need to be discontinued. There is no good reason for the exemption of incomplete industrial facilities or the tax exemption on farm residences.

#### 8.13 Assessment Administration

The following administration issues should be dealt with immediately:

- 1) The reinstatement of the legislative position of Assessment Commissioner, including the reinstatement of the powers that were transferred to the Minister in 1995;
- 2) The introduction of a comprehensive provincially funded assessor internship program; and,
- 3) A change in the condition date for assessment.

The assessment function needs leadership from the Province. This is especially important if there is any hope of addressing the inadequacies of the current assessment system over time. The function needs consistency and continued improvement over time. This is not possible under the current structure. The need for continued training of assessors is also apparent and the sooner this is addressed the better the situation will be later on.

The change in condition date is very important especially for the major cities. This also requires immediate attention.

### **8.20 Issues Which Require Some Study and Addressed Over the Next 2 to 3 Years**

#### 8.21 Regulated Property Issues

The following regulated property assessment issues need some further review and resolution in the near future:

- 1) The valuation of machinery and equipment for assessment purposes;
- 2) The immediate and maximum depreciation policies for machinery and equipment; and,
- 3) The policies on the assessment and taxation of oil sands trucks and shovels.

These issues are only of significance to AUMA if the review of the education tax rate of 0 on machinery and equipment results in education property tax on these properties. If the 0 tax rate policy continues to be in place, this is an important issue related only to the fair sharing of the municipal tax levy.

All of the items require some study in order to determine the most appropriate manner in which to address them and complete impact studies to ascertain the affect on the industrial sector.

#### 8.22 Exemptions

The following exemption issues need some further study and resolution in the near future:

- 1) The farm buildings assessment exemption;
- 2) The assessment exemption for linear property used for farming operations;
- 3) The assessment exemption for rural gas distribution systems;
- 4) The 23 percent assessment exemption policy for machinery and equipment;
- 5) The assessment exemption on property used for dams; and,
- 6) The assessment of rural electrification association property.

All of the above items, except for issue 4 above, are directly related to the distribution of the education property tax burden and should be of concern municipalities and all taxpayers. If the 0 tax rate policy on machinery and equipment is discontinued, issue 4 will also relate to the distribution of the education tax burden. All of the above items also affect the fair distribution of the municipal tax levy.

All of the items require some study in order to determine the most appropriate manner in which to address them and complete impact studies to ascertain the affect on the industrial sector.

#### 8.23 Assessment Administration

The following administration issues require more study and should be dealt with over the next 2 to 3 years:

- 1) Assessor succession;
- 2) The assessment complaint and appeals system; and
- 3) Provincial funding for the municipal collection of the education property tax levy.

All of these issues require some study prior to addressing the issues. There remains some concern relating to the assessment complaint and appeals system and the issue of assessor succession is a difficult problem to address in a privatized assessment system. Provincial funding for the municipal collection of the education property tax levy needs to be studied to determine the most appropriate manner in which to achieve the desired result.

### **8.30 Issues That Require Extensive Study Prior to Consultation and Discussion**

#### 8.31 Regulated Property Issues

The following regulated property issues require further review and study:

- 1) The farmland assessment system;
- 2) Supplementary assessments on linear property;
- 3) Business tax assessment on regulated property; and,
- 4) Property tax exemption on street lighting systems.

These issues require either extensive study or are of less concern to AUMA than the other issues discussed previously. The farmland rating system is, for the most part, an issue of fairness and equity within the agricultural sector, and prior to any discussion on updating the current system, study should be undertaken whether some other system would not be more efficient and appropriate for Alberta. Implementing a supplementary assessment and taxation on linear property would be complex. Extensive study is required to determine if a methodology could be found to complete this efficiently. The business tax is not employed in many municipalities in Alberta; however, there really is no reason for not applying both taxes on the same property in the same manner as is done on all other business premises. The street lighting

issue should be studied to determine whether or not taxes should be applied to these properties in all municipalities, regardless of ownership.

8.32 Exemptions

The following exemption issues require further review and study:

- 1) Water and sewer conveyance systems – manufacturing and processing; and,
- 2) Interest in land held under timber dispositions.

Study should be undertaken to ascertain whether or not these properties should be made taxable. In any event, these properties should be made assessable to determine the amount of tax that is shifted to other properties.

8.33 Assessment Administration

The following administration issues need extensive study and brought back for review over the next three to five years:

- 1) Delivery of assessment services – review of assessment authority;
- 2) Review of the assessment equalization process including a mechanism for municipal input; and,
- 3) The number of non-residential assessment subclasses.

All of these issues require extensive study prior to discussion and consultation.

**8.40 Guiding Principles**

All of the reviews and studies completed as a result of reform of the current assessment and taxation system should adhere to the following principles associated with a fair, equitable, open, transparent, efficient and effective system:

- 1) The assessments for all property should be based upon the principles of a true annual market value assessment system;
- 2) All exemptions, whether from assessment or taxation, should be reviewed in an open and transparent manner to ensure that they continue to be appropriate and provide the results for which they were intended;
- 3) Any exemptions that are continued should become exemptions from taxation, not assessment, in order that they continue to be open and transparent;
- 4) There must be a clear separation between the political assessment policy decision-making and the administration of the assessment system; and,
- 5) Municipalities should have input into the decision-making process.