The Institute for Public Sector Accountability

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Alberta Property Tax Review

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August, 2020

Executive Summary

The collapse of Alberta's Oil industry coupled with the catastrophic Covid-19 pandemic has put the spotlight on the problems caused by the current Market Value Assessment system used by municipalities to raise property taxes. The real estate market in Alberta, more significantly in large cities, have seen a significant drop in property values, and yet property taxes have risen at a higher rate than the inflation rate.

Property taxes are computed based on the market value assessment, which means that your taxes go up, in most cases, because the value of your property goes up. Then there is the fact that property taxes cover education costs which do not correlate with property values. Although a portion of the education is returned to municipalities under a new agreement between the local and provincial governments. Furthermore, municipalities continuously raise taxes because they have no will, and little incentive, to look at costs cutting in their organizations.

The Alberta Urban Municipalities Association (AUMA) continues to push for additional rights of taxation for local authorities. While presumably, discussions are taking place between the Province and AUMA, little is being done to curtail the increasing taxes due to the inability and the unwillingness of municipalities to look at alternative ways of delivering services and cutting their costs.

After a meeting with the Honorable Ministers Schulz, Madu and Toews, The Institute for Public Sector Accountability was asked to present a paper to express our concerns with the current property tax system in Alberta. This paper purports to examine the current Property Tax system and offer alternatives and solutions to address the problem of increased property taxes in Alberta.

Since property taxes are a matter of concern for other advocacy groups, IPSA invited The Canadian Taxpayers' Federation and Common Sense Calgary to consult on this paper. While we do not relish the idea of yet another task force, if the decision is made to enact one, we would be very grateful to have a seat at the table. We believe that this is a matter of great importance to citizens of Alberta and should therefore not be debated only by municipal and local authorities.

Preamble

Since 1997 IPSA and other advocacy groups have been concerned about the Market Value System used as a basis for property tax assessment. This system, in our view, is at the root of the problem caused by significant increases in tax rates while municipalities claim poverty. This problem has been further amplified by the collapse in oil prices and Covid-19. The value of properties has dropped, and yet taxes continue to go up.

In 2019, Farah Omran and William Robson of the *CD Howe Institute* released a report that showed: Most Canadian large Cities missed their targets by 8% annually since 2010, and ran surpluses of $8 billion over expectations for 2018 alone.

A C.D. Howe Institute report supported our claim that municipalities have excess surpluses. They reported that in 2018, 31 Canadian municipalities accumulated $11B in surpluses. Citizens have no idea that these surpluses exist and continue to grow because budgets and annual financial reports are produced under two different accounting rules. Budgets are done on a "cash basis," while financial reports are done under Public Sector Accounting Standards using "accrual accounting" that does not separate operating and capital costs.

For 2020 the City of Calgary raised residential property taxes by 7.5% while Edmonton raised theirs by 2.5%. The reality is that many Calgary taxpayers saw their taxes increase by more than 7.5%. The Calgary Residential Rental Association reported: "Close to 1,000multi-residential properties in Calgary (or 46 % of this property class will face double-digit tax increases this year. The property tax increases for multi-family rental properties are currently estimated between 10-30% and higher. On average multi-residential landlords will see property tax bills go up 23% due to combined assessment and mill rate increases."

The Alberta Blue Ribbon Panel found that: "Municipalities have experienced significant revenue growth of 48% per person, including 29% per person for Edmonton and 41 per cent per person for Calgary, primarily driven by municipal property tax increases [between 2007 and 2017," Last year alone Calgary had accumulated surplus of $1.3B (2019 $21.B), Edmonton $0.6B (2019 $14.9B)"

Surpluses are created by over-taxation, and when they occur, a portion is transferred to reserves. Reserves can be held as either dedicated or discretionary funds. Dedicated reserves are created for future use for specific projects, while discretionary reserves are accumulated from surpluses and can be used for many different purposes by Council decisions. The most common discretionary reserves are known as Fiscal Stability or Fiscal Stabilization Funds.

As of December 31st, 2019, reserves of the two major Alberta cities of Calgary and Edmonton were as follows:

Municipal Reserves 2019 ($000s)

Reserve Funds	**Calgary**	**Edmonton**
Fiscal Stability Reserves	426,189	175,177
Other Reserves	2,067,399	758,230
Total	$2,493,588	$758,230

Granting more powers of taxation to municipalities will result in even more opportunity for over-taxation and create more surpluses that could be transferred to discretionary reserves ultimately used for political legacies.

Market Value Assessment

The City annually assesses property under a market value standard using mass appraisal techniques. To determine the market value of a property, we use one of three approaches, depending on the type of ownership:

- ***sales comparison***: comparing to sales of similar properties.
- ***income:*** capitalize on the income being generated by the property.
- ***cost:*** land value and the depreciated replacement cost of the improvement.

Most residential properties are assessed using the sales comparison approach.

For non-residential property assessments, we may use any one of the three approaches. Some property types, such as farmland, are subject to standards other than market value.

The idea that the value of your property reflects your ability to pay is flawed since, for many seniors, the value of their home does not reflect their ability to pay. The initial purchase price of their house and the current value may not reflect their ability to pay because their income may not have risen at the same rate as the property value. Furthermore, the increased value of a property does not mean that there is an increasing demand for services.

In 2019, Harry Kitchen, Enid Slack and Tomas Hachard of the *Institute on Municipal Finance and Governance* released a study on Property Taxes in Canada, concluding that we should take steps to ensure a fair and efficient property tax system in Canada.

The current practice of reassessing property value on an annual basis is also discriminatory. An owner's property tax can go up or down drastically just because the neighbour's property value changes.

Alternative Methodology for Assessment

Other jurisdictions around the world have used different methods of property assessment.

- IPSA's preferred method would be the use of the value of the purchase price as the base and for future years increase the valuation by the Consumer Price Index not the Municipal Price Index which is a manipulated rate.
- Use a new Index that better reflects the ups and downs in the real market
- Another solution is a land tax
- In Ontario, property assessments are updated based on a four-year assessment cycle. In 2016, MPAC updated the assessed values of Ontario's more than five million properties to reflect the legislated valuation date of January 1, 2016. Assessments updated for the 2016 base year are in effect for the 2017-2020 property tax years.

Services

Too often, the relationship between the provision of services and taxation are ignored. For example, a property with a higher value does not necessarily consume more services than a lower valued property. Furthermore, we believe that the private sector is better suited to provide many services, hence come off the taxation roll. The problem is that if municipalities are granted more powers of taxation, they will automatically find more services that could be taxed. This is exemplified by the latest Calgary Financial Task Force which continues to reach for taxing powers instead of better fiscal management.

The Calgary Financial Task Force was explicitly mandated to:

- Ignore recommendations targeted at cost control to avoid duplication with the other initiatives underway, such as the Solutions for Achieving Value and Excellence (SAVE) Program.
- Ignore recommendations aimed at reforming assessment processes and procedures, which were already underway following Council directed work by Heuristics Consulting.
- Only find additional revenue sources, which in our view, means, creating more taxes. In the view of one Councilor, the mandate was to: "Occupy the tax Room."

The Calgary Financial Task Force proposed new powers to raise revenue from many sources which all fly in the face of what the Province is trying to do. Some of the recommended sources of revenue include ubiquitous charges for driverless vehicles, e-scooters, non-brick and mortar businesses, home base business, e-commerce revenue, to name but a few.

Any new taxes will undoubtedly negate Alberta's Finance Minister's latest proposal to cut corporate tax and provide incentives for new industries to come to Alberta and Calgary. Any incentive that the Province may provide for new businesses and new enterprises will quickly be negated by the City of Calgary and other Municipalities if they follow the power grab sought by the City of Calgary.

Unfortunately, the City of Calgary is not the only municipality pushing for new tax powers during an economic downturn. The City of Lethbridge, which is one of the biggest spending cities in Alberta, is urging for a sales tax to fund its municipal spending. The City of Brooks supports the Alberta Urban Municipalities Association resolution pushing for a sales tax. Another AUMA resolution, this time from the cities of Edmonton and Red Deer, calls for new "measures and tools" so cities can continue to fund their high-cost budgets.

After looking at the data, it is clear that Alberta's municipalities should be looking at ways to provide services more efficiently rather than trying to increase taxes. As referred to above, your

Blue Ribbon Panel noted: “In 2017/18, Alberta’s municipal per capita expenses were the second- highest among provinces (behind Ontario where municipalities also deliver a range of social services). Per capita capital spending in Calgary and Edmonton is among the highest for comparable cities across Canada.”

A recent report from the Canadian Taxpayers Federation highlights similar findings. Calgary and Edmonton would spend $656 million and $566 million less every year, respectively, if their per-person spending were in line with other major Western Canadian cities such as Vancouver, Saskatoon, Regina and Winnipeg, according to the CTF report.

Another CTF report shows the key area where spending must be addressed at the local level. The report notes that Alberta’s municipal government labour costs increased by 17% between 2014 (when the oil price initially collapsed) and 2018 (most recent data for all municipal governments), while total compensation paid to all Alberta employees declined by 6%. These types of cost increases cannot be maintained by struggling taxpayers and should be reversed to provide much-needed tax relief.

The Institute contends that:

- We should have budgets and financial reports done under the same PSAS rules.
- There is no correlation between the value of a property and the education cost. The cost of education should be transferred to the income tax.
- The Market Value Assessment system currently used is skewed towards continuing increases even in a time of economic slowdown
- Business assessment is a value placed on premises for taxation purposes and does not correlate with revenues or profits.
- Usually Capital Gains are taxed on the disposition of the assets
- Property Taxes are based on Market Value not Realized Gains
- The Municipal Price Index (MPI) used by Calgary is a concocted measurement; the Canadian Consumer Price Index (CPI) should be used instead.

- Property tax policies vary from place to place, but one thing is certain there is no such thing as a "Tax Room" there is only one taxpayer

The Institute's position is that:

1. Remove the Market Value Assessment system for property tax calculations.
2. Given that major cities in Alberta have recreation and sports facilities that need to be either built or replaced, it is time for governments to allow municipalities to create tax-free municipal bonds, which we would be recognized as an investment in TFSAs.
3. Instead of funding these facilities entirely by property taxes, it is time for the taxpayer to have a choice and an opportunity to invest in these facilities.
4. The repayment of these bonds would be made entirely from revenues from these facilities.
5. Given the debacle of the 2026 Olympic Games bid by the City of Calgary, we believe that significant expenditures in facilities costing millions of dollars of taxpayers' should be put to a plebiscite and not left to the whims of politicians alone.
6. Given that our proposals have extensive repercussions on the finances of local authorities, and they derive their taxing powers from the Municipal Act, we suggest that a task force be put together to study how Alberta can better manage the relationship between the Province and municipalities.
7. The task force should be made up of outside advocacy groups and not restricted to local Authorities or their representatives at the AUMA.
8. IPSA will gladly take part in any further discussions regarding a review and implementation of Property Taxes in Alberta.

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