The Institute for Public Sector Accountability
'res ipsa loquitur'

Calgary's Dilemma: New Home Levy, Market Value Assessment, Opaque Financial Policies

April 2006

This report was prepared by Marcel G. Latouche MBA, FCCA President & CEO of
The Institute for Public Sector Accountability.

Introduction

Calgary City Council and the Urban Development Institute (UDI) agreed and signed a new Standard Development Agreement for Subdivisions. Over the years the parties have entered into agreements to ensure that the development industry contributed to the growth of the city and that the City collected enough revenues in order to provide infrastructure for new subdivisions, and growth-related projects.

More recently Council has taken the approach that Calgary's growth is causing a revenue problem which requires immediate attention by increasing the contribution made by the development industry. In contrast the city's CFO recently confirmed that growth pays for itself. For 2006 it has been agreed upon, that UDI should increase its current contribution by up to $2,500 or more per new household.

This approach of charging an additional amount is supported by those who believe that the new developments are a burden on inner city properties and older communities. Their premise of this thesis is that, older communities are made to pay higher taxes to support the growth in new suburbs. Furthermore the problem is also perceived to be aggravated by the current method of property assessments which uses Market Value Assessment.

While we agree that there is some truth in the idea that new developments should pay for their own infrastructure we also maintain that this is not the only problem. Our research shows that there exists a combination of factors which has contributed to a perceived imbalance and disparity in property taxes. We will show that these factors are in many cases driven by bad policies and unwillingness on the part of both administration and politicians to curb their excessive taxing ways.

We acknowledge that new sub divisions may contribute to the disparity, but we also believe that changes to the existing financial policies could go a long way to correcting any disparities between new developments and existing urban communities. Growth should pay for itself and we believe that it does. This study will examine the conflicting factors which cause so much disparity and we shall also provide solutions which demands political will from both the provincial and municipal governments.

Market Value Assessment

Much of the reasons given by inner-city councilors for higher taxes in the inner-city and the higher costs of growth are that new developments do not bear their fair share of the city's burden. Property taxes have very little correlation with services provided, and are not based on ability to pay. Very often the disparity is blamed on Market Value Assessment (MVA). In the first place the MVA is a method of assessment which is prescribed by provincial statute. The methodology is used in other jurisdictions and has the same pros and cons. Municipalities are not the ones who mandated the use of the MVA. In second place, given its lucrative results all municipalities have embraced MVA with gusto and have not tried to mitigate its effect and disputed its regressivity until now.

However, we cannot provide an objective solution unless we examine the pros and cons of the assessment process. So what are they?

Pros

Those who support the use of MVA provide the following explanations:

- The system is fairer and replaced a less equitable system which used the value of land plus the depreciated replacement costs of buildings.
- The property tax is distributed among all properties as a proportion of individual properties constituting the total value of the same class of property (residential).
- Increased assessment does not automatically result in higher taxes for all properties.
- The shift in rates is between properties with values that have risen at different rates.
- The median average is used to calculate the assessment;
- Increases in value over the median average will trigger a tax increase,
- Property values which are less than the median will result in a decrease,
- Properties with median values will remain the same,
- Hence the claim that the MVA is revenue neutral. No matter how much values increase, the assessment will result in the same amount of money, plus growth.
- The only revenue increase collected is based on the rate of tax increase in a given year

Cons

Those who do not support the current system claim the following:

- The tax is regressive
- It is unfair because it penalizes inner-city property owners, because of their higher valued properties
- Most inner-city owners are older and often on fixed income
- The tax is based on unrealized gains
- The tax has nothing to do with the level of services
- The tax is punitive for owners in desirable communities.

The issue is that no matter how assessment is looked at, opponents and proponents still miss the important point. The assessment is only a base which is used to calculate property taxes, and that it is no more neutral than any system since it is the level of operating and capital expenditures that ultimately determine the amount of additional taxes that must be levied.

Remedies

Because a booming real estate market is driving the value of properties, there have been some remedies used in the past. This phenomenon is not unique to Calgary. In Vancouver, for example, since 1974 eligible seniors over 60 can defer their taxes. The total amount owing to the city is approximately $174 million, and costs $4 million in yearly administration. It must be noted that a deferral does not mean that the tax is forgiven. In Alberta there are also municipal and provincial programs to help lower-and fixed -income families.

Since everybody seems to agree on one thing – that taxes are increasing, several proposals have been put forward to remedy the perceived imbalance caused by the current system.

- Those who believe that inner-city properties are being unduly taxed under the MVA, propose that there should be a two tiers system to halt the higher taxes within those jurisdictions.
- It has been proposed that the development industry must bear a larger portion of the costs of growth and that the current amount payable under the Development Agreement for Subdivisions be increased to cover the costs of growth.

While we are going to address the whole issue of property taxes, we are going to examine the agreement to increase the Standard Development Agreement in greater detail.

Standard Development Agreement (SDA)

The SDA for subdivisions is an agreement between the City of Calgary and the Urban Development Institute (UDI) who represents the development industry in Calgary. The agreement is used to determine a structure and formula which determines the development industry's contributions to the funding of infrastructure, and growth-related costs. This agreement is reviewed annually by the Administration and discussions with UDI are undertaken and ultimately approved by Council.

Over the years this agreement has been changed considerably and not many citizens know about it or are aware of the consequences of these agreements. Now that there is a major change for 2006 and beyond, it is extremely important that we look at some of the history and changes made to this agreement.

Prior to 2000, the agreement provided for an assessment levy which covered the costs of the following: Transportation, Water assessment, Sanitary sewer assessment and recreational levies, and included an amount to cover a contribution to Enmax. In 2000 a new agreement removed any specific amount due to Enmax to be negotiated separately; we therefore have excluded this amount from our study.

In 2000 the agreement was revised and changed to eliminate the levies to water and sewer utilities, and provide for a new recreational levy of $2,000 per hectare, which replaced the existing recreational acreage assessments that existed in some, but not all, parts of the city. But more importantly the new agreement changed the financial structure and allowed the monies to be now used under a new name the Transportation Levy. This is just more than a minor change because the water and sewer utilities are now no longer recipients of any part of the moneys contributed by UDI. This change adds to the burden of the utility rate payer. Let us look at some of these changes:

Development Agreement- $/hectare	**2000**	**2006**
Expressway and Freeway assessment	5,100	
Water Assessment	4,074	
Sanitary sewer assessment (average)	5,100	
Additional Developer contribution	3,000	
New Transportation Levy	**17,274**	**50,625**
New Recreational Levy (plus community and recreation levy)	**2,000**	**42,082**
Source: City of Calgary		

At the time of the previous agreement a report was produced to show the contrast in revenues between 1999 and 2000.

Assessment ($m)	**1999**	**2000**
Transportation Levy	3.46	11.73
Water and Sanitary Levy	6.23	0
Additional UDI contribution	0	3.05
Recreational Levy	0.20	1.36
Total	**$9.89m**	**$16.14m**
Source. City of Calgary		

A significant accounting procedure under the 2000 agreement states that: The Transportation and Recreational levy will be collected, maintained and utilized on a city wide basis. Over the years between 2000 and 2005, with yearly revisions, the amount of $17,274/hectare has risen to $47,424/hectare or up to $5,200 per household, whereas the recreational levy has stayed the same at $2,000/hectare. So its seems that UDI has been paying its share of growth, but as an early proponent of a special levy on new homes, we believe that every new development should pay for itself, or for any additional infrastructure required to make the new community viable. An example is the 37th street Bridge in South West Calgary, which was front-ended by the industry. However we have severe reservations about increases in levy just to make up for shortfalls due to bad management or political legacies.

Robbing Peter to pay Paul

There is a perception that new developments are the major cause for higher taxes payable by inner-city communities. We understand that from UDI's point of view they cannot manage the use of the contributions made to the city to fund growth-related infrastructure, but it is incumbent upon the city to ensure that these contributions are used only for growth related projects and not used for other purposes. One of the problems faced by Calgary is that over the years financial policies have continuously relied on vicarious taxation. Council has constantly charged one area and then transferred and spent money in another area, for political legacies or for the obfuscation of increased taxation. While most agreements between UDI and the City states that: *"The SDA will fund growth-related infrastructure including, roads, waterworks, sanitary sewer, storm sewers, parks and pathways"*, the amounts collected are not banked for specific new developments but are tracked separately. In the past some of the transportation levy contributions have been used for 'traffic-calming' projects in the inner-city. The current balance is $62.4m due to higher contributions from increased developments and delayed projects.

Utilities

First let us look at the effect of the 2000 agreement, which clearly renamed SDA fees as a Transportation Levy. Referring to the comparison of revenues between 1999 and 2000 we can clearly see that, although the total UDI contributions increased from $9.89m to $16.14m the amounts due for water and sanitary utilities were re-directed, at the time this amount was $6.3m. Using a conservative composite percentage for growth and inflation of 3% per year, we made a simple extrapolation over the years 1999 to 2005 inclusively. Therefore we estimate that over these years the utilities have been deprived of $40.8m which had to be made up by increased utility rates. Since the increased utility rates would have generated additional revenues of $40.8m it triggered a 10% franchise fee which would have produced another $4.1m for the general fund. Once again ratepayers have been paying for infrastructure that should not be financed through utility rates.

New Development Levy

When we look at the agreements between UDI and the City it is quite clear that the intent of the Municipal Act is to ensure that any new development is paid for and that the contribution made by UDI is for the use of ‘ new expanded roads required for or impacted by a subdivision or development’. However it seems that not only has the funds collected been used to financed new infrastructure they have also been used to financed projects in other areas, many of them could be termed as “pork”, as was the case prior to the 2003 agreement.

Therefore it would be quite disingenuous to categorically state that new developments in the city are the cause of higher taxes and that inner-city communities are being made a scapegoat for growth by having to pay higher taxes. While we can agree that MVA is not the best form of assessment, we must make clear that Calgary’s financial policies are not transparent, and that there is a clear lack of accountability in the fiscal management of funds collected and how they are used.

Solutions

We understand that growth can cause shortages, but in our opinion it is not growth that is the problem, but rather the management of growth. If we continuously take moneys raised for one area and spend it in another area, we are obviously going to run into trouble, eventually.

We therefore propose the following solutions:

- Earmark and place moneys collected from the UDI under the Standard Development Agreement into specific accounts related to specific new developments, and growth-related projects.
- Each new development will have the sums collected used in that area alone. Any additional funds required to embellish that area should be raised under local improvement levies.
- Moneys paid for utilities are returned to the utilities to ensure that utility rates are not being used for infrastructure other than those used by the utilities.
- As for the MVA, we should lobby the provincial government to make change or even replace it.
- Consider a new assessment based on the purchased value is used for future assessment.
- Allow for a $20,000 to a maximum of $100,000 dollar reduction of current assessment for existing inner-city properties.
- Cap any existing assessment in all areas of the city to the 2005 level until 2008.
- Most of all, since it is increasing costs that are driving the need for new levies and increased taxes, the City should adopt cost cutting measures, including alternative ways of delivering services – from privatization, managed competition and zero-base or line-by line budgets.

Conclusions

We sympathize with inner-city taxpayers, because we believe that the current assessment system needs reviewing. We also agree that new developments should pay for themselves, and that they in fact do because UDI does contribute to new infrastructure under the Standard Development Agreements. The opponents of change will very likely refuse to link the higher taxes to the fiscal management of new developments levies, but we clearly feel that there is a clear link between the two.

To infer that MVA is the sole reason for higher taxes in the inner-city is another fallacy. The MVA has nothing to do with the delivery of services. It is the additional rate added to the property taxes based on the MVA which triggers the higher taxes. As for a deferral payment plan, it is a short term solution which does not reduce the taxpayers burden, because it will have to be paid in the future. To make the assessment process as a wedge between inner-city and suburban dwellers is preposterous and disingenuous.

The real problem is that for years Calgary has ignored to provide infrastructure proportionate to its rapid growth. We have continuously ignored alternative ways of providing services and infrastructure and played games with funds collected for specific purposes. The City has altered and amended fiscal policies to create hidden taxes for political gains resulting in fiscal losses for the tax payer. Citizens are increasingly being asked to pay higher taxes, because existing taxes in Calgary are lower in comparison to other cities. The supporters of this argument consistently ignore to acknowledge Calgary’s high business and utility rates. The real problem is that Calgary has failed miserably in the areas of accountability and transparency and citizens should demand change.

Marcel G. Latouche
President & CEO
The Institute for Public Sector Accountability

Canada is one of the most democratic countries of the world. Its diversity and cultural richness are the basis for our prosperity. However in recent past there have been too many instances of government mismanagement, which if left unchallenged can and will endanger our democratic system.

In the 21st century we can no longer manage our public institutions with 20th century models. It is time to re-examine the role of government in our society and seek new ways for the delivery of public services. We need more transparency and accountability in the public sector. There is a need for a new vehicle to allow citizens to express their opinions and provide new ideas to maintain our prosperity.

The Institute for Public Sector Accountability (IPSA) is a not-for-profit organization founded to promote transparency and accountability in the public sector. **IPSA** is dedicated to the enhancement of democracy.

Vision: Through research, analysis, evaluation and the publication of papers and articles, IPSA will inform and provide new ideas and add a new voice to the democratic process.

Mission:

- **To inform the public on issues related to the public sector**
- **To be a voice to make government more transparent and accountable**
- **To educate the public on matters concerning public policy**
- **To promote dialogue between the public, politicians, and public sector administrators.**

How can you help?

The Institute for Public Sector Accountability is a not-for-profit organization, and we cannot enhance democracy and promote your ideas without your help. We invite you to support us and make a donation. Please contact our President and CEO at (403) 238-3865 for more information.