

MGA Review Discussion Paper

Equalized Assessment and Education Property Tax

This technical document is part of a series of draft discussion papers created by Municipal Affairs staff and stakeholders to prepare for the Municipal Government Act Review. It does not reflect existing or potential Government of Alberta policy directions. This document is the result of a careful review of what is currently included in the Municipal Government Act (MGA) and regulations, definitions of terms and processes, changes requested by stakeholders over the last 18 years, some highlights from other jurisdictions, and identification of potential topics for discussion during the MGA Review. This information will be used to prepare consultation materials as the MGA Review proceeds.

These discussion papers have been reviewed and approved by the MGA Stakeholder Advisory Committee, comprised of representatives from major stakeholder organizations: Alberta Association of Municipal and Counties, Alberta Association of Urban Municipalities, Alberta Rural Municipal Administrators Association, Alberta Chambers of Commerce, City of Calgary, City of Edmonton, and Local Government Association of Alberta.

The Government of Alberta is asking all Albertans to directly contribute to the MGA Review during online consultation in late 2013 and consultation sessions throughout Alberta in early 2014. This technical document is not intended for gathering stakeholder feedback, but to generate thought and discussion to prepare for the upcoming consultation. Public engagement materials will be available in early 2014. To learn more about how you can join the discussion on how we can build better communities, please visit mqareview.alberta.ca/get-involved.

Preamble

The *Municipal Government Act (MGA)* provides the legislative framework to guide the operations of municipalities in Alberta. The current *MGA* empowers municipalities with the authority and flexibility to provide services in the best interests of the community. The *MGA* Review will proceed along three major themes: *governance and administration*; *assessment and taxation*; and *planning and development*.

This paper is one of 12 discussion papers exploring aspects related to the *assessment and taxation* theme. Property tax valuation systems should be designed to maximize equity among property taxpayers and visibility or openness, while minimizing administrative complexity and confusion¹. Alberta's property assessment and taxation framework must be considered with the following principles in mind:

- Clarity
- Fairness
- Efficiency
- Predictability
- Stability
- Transparency

This paper focuses on market value assessment and administration as outlined in the *MGA* and its attendant regulations. Below is a list of the 12 papers that relate to the *assessment and taxation* theme.

- Market Value Assessment and Administration
- Linear Property Assessment
- Machinery and Equipment Assessment
- Farm Property Assessment
- Railway Property Assessment
- Airport Property Assessment
- Supplementary and Progressive Assessment
- Equalized Assessment
- Taxation
- Exemptions and Other Special Tax Treatment
- Assessment Complaints and Appeals
- Municipal Revenue Sources

¹ International Association of Assessing Officers (IAAO). *Standard on Property Tax Policy*. Kansas City: IAAO, 2010.

Equalized Assessment



In Alberta, property owners pay property taxes in proportion to the value of the property they own. Likewise, municipalities are required to contribute to the provincial education tax and other requisitions based on the proportion of assessment within their jurisdictions. Equalized assessments are primarily used as the basis to distribute the education tax requisition among municipalities. They are also used in allocation formulas for provincial grants (ie: Municipal Sustainability Initiative, Basic Municipal Transportation Grant – rural component) and to calculate each municipality's share of cost for inter-municipal programs or services (e.g., seniors' lodges administered by management bodies under the *Alberta Housing Act*).

Inter-municipal fairness and equity is an important principle when the Province is requisitioning property taxes from municipalities. In this regard, it is usually necessary to make some adjustments in the assessment figures that each municipality reports to the province before those assessments are used to determine each municipality's contribution to a regional or provincial program.

These adjustments are made through the equalized assessment process. Equalization is a process intended to bring the taxable assessment in all municipalities to a common level. The *MGA* requires that all properties in Alberta be assessed at market value (with the exception of some specific property types that are assessed at regulated rates²). Municipal assessors often estimate the market values of properties using a technique called mass appraisal³. This technique does not necessarily result in an assessment at 100 per cent of market value. This variation is recognized by legislation, which specifies an acceptable range (95 to 105 per cent of market value) within which a group of properties can be assessed. The equalization process aims to bring all assessments to 100 per cent of market value, thereby reducing variations among assessment and creating a level playing field for distributing requisitions.

During the early years of implementing the equalization process under the *MGA*, a number of appeals regarding equalized assessments were filed. In response to concerns from municipalities about the equalization process, the Minister of Municipal Affairs appointed an Equalized Assessment Panel (EAP) in 1999. After implementing several critical recommendations of the EAP, including creation of the Assessment Shared Services Environment (ASSET) system and tighter assessment quality standards, the equalization process has improved significantly. There have not been any equalization appeals heard by the MGB since 2004.

² As noted in other discussion papers, regulated rates and procedures are used to assess linear, machinery and equipment, farm land and railway properties. The assessments of these properties are added directly to the municipality's equalized assessment without any adjustments.

³ Mass appraisal – the process of valuing a group of properties as of a given date, using common data, mathematical models, and statistical tests. Mass appraisal techniques allow assessors to accurately value a large number of properties in a short period of time. (Source: International Association of Assessing Officers, Standard on Mass Appraisal of Real Property, (Kansas City: International Association of Assessing Officers, 2013).

Discussion Points



Below are some discussion topics and questions identified through a review of requested amendments, cross jurisdictional research and issues raised by stakeholders.

The requested amendments discussed below draw upon an inventory of requests received by the Province over the past 18 years. It is important to note these requests:

- i) do not necessarily represent the views of most Albertans;
- ii) do not necessarily apply to all municipalities; and
- iii) are categorized by policy topic, and have not been evaluated or ranked by number of requests received.

1. Equalized Assessment Process

Background

In Alberta, the equalization process is a joint responsibility between municipalities and the Ministry of Municipal Affairs. Each year, municipal assessors collect information on properties that have sold, including sale prices, and submit the information to the province along with their municipal assessments. Municipal Affairs staff applies an audit process to the information and analyzes the differences between the assessment values of sold properties and their actual sale prices. This analysis results in an overall assessment level being established for each assessment class (residential or non-residential) in the municipality.

As noted earlier, assessments of properties that are assessed using regulated rates and procedures (linear property, machinery and equipment, and farm land) are not adjusted in the equalization process; rather, the assessment amounts are added directly to the total equalized assessment of the municipality.

Cross-jurisdictional Research

- B.C. uses a similar process to Alberta. Sale prices and other information are collected on properties that have sold, and the data is tabularized into what is called a *mass appraisal cost modifier* (also referred to as a *market adjusted cost modifier*). This modifier is used to adjust assessments to 100 per cent of market value.
- Of the 50 U.S. states surveyed by the International Association of Assessing Officers, 20 states indicated the use of equalization similar to Alberta.

Stakeholder and Legislative Amendment Requests

- One municipal stakeholder has requested the elimination of the equalized assessment process.
- One municipal association recommended that the province establish an administrative tribunal for the purposes of determining equalized assessments that is held at arm's length from the policy setting function of the Provincial Government.⁴
- One municipal association recommended that the province amend the legislation to ensure that the equalized assessments for all taxable property (including linear property, machinery and equipment and railway property), other than farmland, be based on market value principles and equalized at a common level and a common year.⁴

2. Complaints on Equalized Assessments

Background

A municipality may file a complaint with the Municipal Government Board (MGB) in relation to the amount of an equalized assessment, but not in relation to the principle of equalized assessment or its methodology. No complaints have been heard by the MGB since 2004. The MGB is comprised of experts in their field appointed by Cabinet.

Stakeholder and Legislative Amendment Requests

- One municipality has requested the ability to complain on matters related to the formula used in and the policy intent of equalized assessments, not just the amount of an equalized assessment.
- One municipal association has requested that complaints on equalized assessments be heard by another, separate board that would be comprised of members from municipal associations and other stakeholders. They believe an expert board could more appropriately manage these types of complaints.⁴

As indicated, there have been no equalization complaints heard since 2004. These comments are mainly historical and prior to the implementation of the ASSET system.

3. Education Property Tax

Background

In 1994, the provincial government assumed responsibility for education property tax to ensure revenue stability for funding for students across Alberta and promote fairness and transparency in Alberta's education property tax system. Under the MGA, the province sends each municipality an education tax requisition using the equalized assessment for each municipality. Each municipality then collects the education tax on behalf of the province.

⁴ Proposed in the 2010 AUMA *Report and Recommendations of the Task Force on Property Assessment*. These recommendations were supplemented by the AUMA's 2012 policy paper entitled *Changes to Property Assessment and Taxation*.

Cross-jurisdictional Research

- In B.C., similar to Alberta, the Province sets the education funding level which is then collected by municipalities.

Stakeholder and Legislative Amendment Requests

- Several municipal stakeholders have requested the province share the cost of collecting education taxes.
- One municipal association requested the elimination of collecting education taxes through property taxes thereby freeing up financial resources for municipalities to adequately provide required services.

4. Disparity between education property tax and education funding

Background

As equalized assessments are primarily used to distribute the provincial education tax, some stakeholders claim that equalization creates a disparity (and therefore inequity) between education taxes paid and education funding received. Jurisdictions with relatively high property values are paying more in education property taxes but do not necessarily receive more education funding.

Stakeholder and Legislative Amendment Requests

- Recently some municipalities have expressed concerns over the fairness of relatively high property value jurisdictions paying relatively more provincial property taxes.

Discussion Questions



1. Is the equalization process effective at creating a level playing field between municipalities, for cost sharing purposes? Why or why not?
2. What changes, if any, should be made to the administration of the equalized assessment process?
 - a. Is the complaint process for equalized assessment effective? Why or why not?
3. What changes, if any, should be made to the education tax requisition process in Alberta?

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