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City Council, City of Medicine Hat
580 1st Street SE
Medicine Hat, AB, T1A 8E6

RE: Predictable and Fair Market Value Assessments Policy

The Medicine Hat & District Chamber of Commerce is thankful for our ongoing work and collaboration with the Assessment Department in the last ten years.

With the challenges that surfaced in 2013, there were several recommendations the Chamber of Commerce made on behalf of our members for improvements, and there has been conversation and progress made since.

We wanted to provide a summary of progress and expression of appreciation for the work that has been done, particularly under the leadership of Sue Sterkenburg, City Assessor.

We had asked for detailed information in the methodology reports to support the information, including cap rates, rental rates, vacancy rates, and valid sales lists.

The Assessment Department has been committed to following legislation when determining an annual fair & equitable assessment for each property. We are pleased that the Assessment Department uses all three approaches to value when conducting the mass appraisal of non-residential property, recognizing that not all three approaches are used simultaneously and reconciled on each property. The same approach is applied across similar properties, and the cost approach is used for special or unique properties.

We encourage property owners to discuss with the Assessment Department any circumstances that may affect the valuation and any concerns with the approach used.

We also communicate that property owners have a voice in the property assessment system through the Municipal Government Act complaints and appeals system and assist by communicating the need to fill in their assessment request for information form, so they can leverage the appeal process if and when needed.

We also recently found out that no other municipality was providing a non-residential property listing of primary building classification that the City of Medicine Hat provided on their website, and so that is why it was discontinued for 2018. While we appreciated this information being provided, it was expressed that municipalities found that property owners are familiar with other similar buildings to theirs, and they may request comparable building details through an MGA 300 request or look up information on the GIS map. The Assessment Department also invites property owners to open dialogue and to ask questions if they are unfamiliar with comparable properties.

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We had also recommended that the Assessment Department supports their conclusions on capitalization rates with specified data provided on vacancy rates and the values pertaining to how net operating income was derived, along with the time-adjusted sales values and consults with local market experts semi-annually to consult on the calculations and conclusions along with continuing the annual physical inventory assessment. We have also recommended that the Assessment Department continues to use more advanced vacancy rate applications, applying vacancy rates based on variables such as type, location/neighbourhood and quality versus having city-wide vacancy rate applications.

The Assessment Department has sent yearly Assessment Request for Information (ARFI) to property owners to increase the database for lease rates, vacancies, expenses and sales verification data. We have continued working with the department to share this information and encourage property owners to submit it, as the ARFI returns and AB Land Title sales data are reviewed yearly for the annual valuation and are critical in the data calculations. We are also resuming our yearly meetings between the Assessment Department and the commercial realtor's group to discuss the typical market conditions and assessment analysis results. The group may provide details regarding space actively advertised for lease by other means than a sign on the premises.

The Assessment Department has provided information regarding the primary differences in assessment valuation versus real estate appraisal valuation. The assessment analysis results reflect typical market rent versus actual rents in place as of the previous July valuation date. For the 2023 tax year (2022 assessment value), the time-adjusted sale values are derived from the assessment to the actual sales prices and the median ratio is used. The linear equation is derived from the median ratio data. Capitalization rate calculation uses sales from the past 36 months (Jul 2019 to Jun 2022).

The vacancy rates are determined by the Assessment Department annually by reviewing and physically driving the entire inventory of income-producing buildings within the City. The Assessment Department applies the vacancy allowance based on actual city data reflecting the differing space types and locations.

Local factors used in determining the capitalization rates include all the following factors within the city limits; sale price of properties, lease rates and vacancy rates. All these factors, including typical expenses such as structural and operating costs, are verified after gathering expense data from the ARFI process. These expenses are analyzed yearly to reflect local market conditions.

The Assessment Department has committed to improving the valuation process for income approach non-residential properties with improvements made to the vacancy rates of non-residential properties. From 2017 prior, the vacancy rate allowance was applied based only on location. Since the 2018 tax year, the vacancy rate application was applied based on

- *Type: Retail, Office, Industrial & Mini Storage*
- *Location: Downtown, not DOWNTOWN*

We learned that this current application eliminated the potential of large fluctuations with small data sets within neighbourhoods.

Since the 2021 tax year, assessments have been based on triple net rents applied to net leasable areas. When it comes to properties with leasable areas, the owners are requested to provide the leasable area through the annual ARFI forms, which are stated in the lease agreement between the tenant and the

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owner. If this information is not provided, the available information will be used, which could be the gross area. If the amount of leasable area compared to the common area are outside of the range, the Assessment Department will contact the owner for clarification, which may result in a request to inspect the property.

Our recommendations also included that the Assessment Department physically inspects each non-residential property at least once every four to six years to determine the accuracy of the rental income quality, maintain and use that building information year over year for consistent application of assessment information, particularly if a property does not follow typical model/classification norms such as access/egress, deficiencies or structural problems, amongst others.

We know the Assessment Department understands the importance of the re-inspection cycle to review properties based on the mandate of Alberta Municipal Affairs. They have committed to having future inspections planned to inspect cost-approach properties and a rotating schedule for income-producing properties by type in future years, depending on available resources. Additional methods are available to gather information, such as ARFI forms and drive-by vacancy studies, and assessors are available to do an on-site inspection as requested.

One common concern raised over the last decade was communication, including changes in rental income quality and fluctuations in values. As such, we had requested that the Assessment Department refrain from changing a rental income quality classification without notification and a physical inspection of the property and works with property owners to ensure assessments are reflective of market value and make corrections to the roll when an issue is identified under section 305(1). We want to ensure corrections are applied consistently for any properties with a 5% or greater error due to an error in data, calculations or incorrect assumptions on the property identified, along with correction to any similar properties.

The Assessment Department committed to improving communication with property owners and has, over the last few years under the leadership of Sue Sterkenburg, recognizing that notifying owners of upcoming changes is beneficial to build trust with property owners and ensuring the correctness of assessment data. They continue to communicate the importance of the ARFIs, and that contact information is correctly stated on the ARFI for the Assessment Department to communicate with the property owner. The Assessment Department is also committed to best practices and department standard operating procedures that have been established. Each assessment is reviewed on an individual basis. Each property owner is responsible for contacting the municipality and checking the property record to ensure the details are accurate.

The Assessment Department follows provincial legislation and prepares a yearly current assessment value to distribute municipal property taxes. With the current assessment value being the focus of the Assessment Department and the property owner, it is incumbent on a property owner to review their previous year's assessment value, which is accessible to owners by reviewing their previous notice, calling the Assessment Department or viewing the previous year assessment roll document on the City's website.

We understand that most urban municipalities have moved towards removing the previous year's assessment, with 16 out of 20 municipalities displaying only the current assessment value.

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A common issue brought up by ratepayers is the percentage increase change in their assessment value year over year. We know that the Municipal Government Board and the Assessment Review Board have dealt with this argument numerous times and learned that in each case, the respective Boards have held that each year's assessments are independent of the previous year, as a large percentage increase is not sufficient information to conclude that an assessment is too high. The Boards have concluded that the resulting large increase year over year is not a reason to reduce an assessment under appeal. We recognize that an assessed value is not based on the previous year's assessment. However, it does encourage a level of transparency when the data can be provided, despite that there are new inputs and data used in the annual analysis that may contribute towards annual changes and shifts in the assessment values. While we hoped that the Assessment Department would reinstate the provision of the prior year's assessment on assessment notices, we know that this information is also available if needed.

There was also a recommendation to flag irregularities (in excess of a 20% variation), which would then be followed up with individualized consultation, education and information to gather proper information before assessment notices are distributed.

Since 2014, there has been a commitment to improved communication with all property owners, including phone communication with property owners experiencing an assessment increase of over 30%. From the year 2018 to current, a letter of notification was included with the Property Assessment Notice to communicate to property owners that a large change in assessment, over 20% increase occurred, except for the properties with permitted construction changes. This letter and notice provided a summary of available tools and options for communication for property owners to phone, visit or email the Assessment Department during the 60-day inquiry period.

Another request was to update bylaw 3031 to establish fees for tax certificates and other information regarding assessments and taxes provided by the City's Assessment and Taxation Department to offer the first five comparable properties on a 300 request at no charge.

We understand the Assessment Department follows best practices that are consistent across the province regarding MGA 300 fees. We also understand that providing information for property owners requires effort, time and expense on behalf of the municipality. The Assessment Department has advised us that eliminating the MGA 300 or comparable assessment fee is contrary to the direction of other municipalities and would cause significantly more cost and effort on behalf of the City. Information for the property owner on their own property is free through an MGA 299 request. The 2023 fee schedule of \$52.50 per property for assessment details on a comparable property is available through an MGA 300 request. We were also recently advised that the MGA 300 fee will be increasing to \$54.50/account for 2024 which is the surveyed average of other mid-size cities. This recent survey of other mid-sized cities also found that the direction of most cities is to charge for both MGA 299 & 300 requests. Requests fees in other municipalities range from free to \$75/hour.

We had also asked for the opportunity to consult with the department to further redevelop the assessment request for information notification letter and form to simplify information collection and encourage a higher response rate from property owners.

We are pleased that each year, the Assessment Department has been committed to working with our Chamber to develop and improve the ARFI income & expense requests to promote and encourage a

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higher response rate from property owners. All information requested on the forms is vital to the yearly analysis, and a submission that is missing can make the submission unusable for the analysis, so more education and compliance will only improve the overall process. The layout of the form is a mixture of feedback from people filling out the forms and making the process of processing the information more time effective. The Assessment Department is committed to sending yearly ARFI to property owners to increase the database for lease rates, vacancies, expenses and sales verification data. The response rate for income & expense ARFIs in 2022 was approximately 66%. The percentage fluctuates yearly between 62-70% with the ongoing communication with the property owners and the Chamber of Commerce.

We appreciate that the Assessment Department is committed to fair and equitable assessments for all property owners within the City of Medicine Hat, and the quality standards for the preparation of assessments set out by the provincial government are what is used for implementation. We also recognize that through assessment submissions to the Alberta Municipal Affairs Audit division, the Minister evaluates if the assessments have been prepared in accordance with legislation, are fair and equitable, taking into consideration assessments of similar property or does not meet the standards required by the regulations.

We learned that the City Assessment Department has regular communication with other municipalities through annual Assessment conferences, City Assessor Meetings, Senior Assessor meetings, SharePoint websites, an ARB decision shared site and regular emails to survey assessment practices and processes to promote consistency across the province. This communication and collaboration with other municipalities has resulted in ongoing changes and improvements to the department.

As a result of the work done, property owners have an open invitation to participate in the property assessment process. Assessment Requests for Information are sent annually for property owners to actively participate and respond to questions that form the basis of the property value. The Assessment Department invites owners to open dialogue. A phone call or email to schedule an appointment to discuss their assessment is available for property owners to bring forward concerns, and owners are encouraged to bring forth information that they have gathered to show how their assessment value may not reflect the market value of their property.

The Assessment Department is committed to improved communication to build trust while focusing on the main purpose of property assessment to distribute the property tax fairly among property owners within the municipality. Our Chamber is also committed to ongoing dialogue and ensuring education and communication are provided to our members.

We do have three concluding recommendations that are more specific to Council.

1. We would continue to advocate that when an assessment on a property is greater than a 30% increase on a year-over-year basis, without an equivalent change in the marketplace nor due to new construction, the Council will exercise their options to cancel or refund taxes for that property assessment in that year.

We understand that the Assessment Department communicates by including a "greater than 20% increase" letter with the Annual Assessment Notice of a large change to prompt the property owner to enquiry of the department or to file an appeal.

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2. We would also recommend that through the Corporate Services Committee an item is added to the outstanding items list to evaluate the feasibility of implementing a pre-roll Consultation, similar to Calgary, recognizing that timelines would have to be considered for this to be a viable option. You can find more insight here: <https://www.mnp.ca/en/insights/directory/pre-roll-consultation-key-to-ensuring-accurate-property-tax>

We understand that to participate in pre-roll discussions, property owners must be compliant with any requests for information which have been issued from the municipality. Once requirements have been met, the property tax advisor can assist in reviewing the assessment and ensure your property has been valued correctly. If the assessment seems inaccurate, the consultant will work with the City's Assessment Department to resolve any issues, providing them with market evidence and property-specific information. Issues resolved during pre-roll can result in tax savings before you receive your tax bill. We understand that this may not be feasible for the department during challenging times of limited staffing resources.

3. We would also request that Corporate Services add a committee agenda item or outstanding item to look at the feasibility of implementing a tax calculator similar to the City of Calgary: <https://www.calgary.ca/property-owners/taxes/calculator.html>. This calculator could be a useful tool to break down the municipal and provincial portion, as well as the year-over-year changes, but then also has a chart that demonstrates where the property tax dollars are spent. This would be useful for residential and non-residential property owners and provide an additional layer of transparency and education.

We look forward to the continued efforts on the practices and progress made with assessment for continuity purposes, including the annual inspections for vacancies, the provision of methodology reports, and data used for assessments, while also continuing to consult annually with industry groups to enhance ongoing communication and education.

As the Medicine Hat & District Chamber of Commerce, we give credit and appreciation to this demonstration of active, progressive and collaborative work in the last decade, demonstrating successful work and completion of the recommendations we had put forward. This is a credit to the work of the Assessment Department in their ongoing commitments, communication and dialogue with us over the years.

Sincerely,



Trevor Anhel, President
2022-2023 Medicine Hat & District Chamber of Commerce Board of Directors

CC: City Manager, Ann Mitchell
CC: Managing Director Corporate Services, Dennis Egert
CC: City Assessor, Sue Sterkenburg