

Proposed Options to Reform Property Assessment and Taxation in Saskatchewan

ISSUE

Saskatchewan's legislation requires that all properties are to be assessed for taxation purposes once every four years. The latest property revaluation process occurred in 2021, and the next one is scheduled for 2025. The 2021 revaluation generated several concerns from property owners and elected officials throughout the province about Saskatchewan's property assessment and taxation system. This prompted the Saskatchewan City Mayors Caucus (SCMC) of the Saskatchewan Urban Municipalities Association (SUMA) to hire a consultant to conduct a review and propose ideas on how to reform Saskatchewan's existing system. What are the findings of this review and what are some of the proposed solutions to potentially improve the existing system?

RECOMMENDATION

The Administration recommends that the Governance and Priorities Committee:

- (1) His Worship, the Mayor, and the Administration work with SCMC and SUMA to advocate for the implementation of IPTI proposed options 1,3,4, and 5; and
- (2) That the Administration report back to the Governance and Priorities Committee at the appropriate time, on the progress of recommendation 1, and the direct financial costs to the City for implementing the proposed options advanced in recommendation 1.

BACKGROUND

At its July 19, 2021 meeting, the Governance and Priorities Committee (GPC) considered a letter from the Riversdale Business Improvement District highlighting concerns with the 2021 property revaluation. The concerns stemmed from some commercial properties experiencing large increases in their 2021 assessed values relative to the 2017 valuation.¹ As a result, GPC resolved, in part:

1. That the Administration report back on the mass appraisal system and where potential reforms could be made which would improve the perception of the system's transparency, fairness, and predictability for property owners; and
2. That the City work with SUMA / City Mayors Caucus / SAMA to investigate and propose policy reforms to the property assessment system in Saskatchewan.

At its August 2021 meeting, the SCMC discussed the 2021 Property Revaluation and expressed several concerns over the current property assessment system. The discussion prompted the following resolution:

¹ See <https://pub-saskatoon.escribemeetings.com/Meeting.aspx?Id=d5e779a9-fee4-4a0e-ac0f-4126e601cd50&Agenda=PostMinutes&lang=English&Item=25&Tab=attachments>

"That the City Mayors' Caucus instruct administration to work on developing a short research paper on assessment in Saskatchewan, for the November CMC meeting, to inform advocacy and a scope of work for any consultant hired to provide a third-party analysis of SAMA assessment."

At its November 15, 2021 meeting, GPC received a report from the Administration explaining that International Property Tax Institute (IPTI) was selected by SUMA and the SCMC to undertake a comprehensive review of Saskatchewan's property assessment and taxation system. IPTI was selected because of its very good reputation for its understanding of property tax and assessment systems. It conducts studies of property assessment processes in many parts of the world including Canada.

IPTI tabled its final report, provided in Appendix 1, to SUMA and the SCMC working group in April 2022. There were subsequent meetings of the City Manager's working group to discuss findings and next steps for the report. Saskatchewan cities are reviewing the report and sharing the key findings with their councils. It is anticipated that the "options" proposed in the IPTI report would then be discussed in more detail at the SCMC meeting scheduled for September 2022. Subsequently, depending on the level of support change, an advocacy plan will be developed.

DISCUSSION/ANALYSIS

The IPTI report provides a thorough review of the property assessment and taxation system in Saskatchewan and other jurisdictions. To set the foundation for its analysis, the report begins by establishing an analytical framework based on key principles for evaluating a tax system.² It then provides a detailed overview of Saskatchewan's property assessment and taxation regime. Here, IPTI offers a descriptive overview intended to educate the reader about the interrelated pieces, the multiple institutions and agencies, the complex legislative and regulatory framework, and the technical complexities of Saskatchewan's assessment and tax regime. The report then devotes several pages to explaining the role and authority that the Saskatchewan Assessment Management Agency (SAMA) has with respect to property assessments in Saskatchewan.

Next, the report shifts to discuss stakeholder feedback on the Saskatchewan regime. IPTI consulted with several public and private sector stakeholders, including the City of Saskatoon and SAMA officials, among others, to obtain their perspectives on several issues about Saskatchewan's system. The key issues and themes emerging from these consultations are summarized in Section 6 of the report. IPTI does note that, "many stakeholders acknowledged that the plethora of legislation – Acts, Regulations, Bylaws, Orders, etc. – seemed unnecessarily complicated."³ Despite that consensus, IPTI also explains that there was little consensus on how to resolve the many real or perceived challenges of Saskatchewan's system (discussed below).

² For a discussion on these principles, consult section 2 of Appendix 1.

³ See page 104, of Appendix 1.

To assess Saskatchewan's system relative to jurisdictions, IPTI (see Section 7) offers a comparative overview of property assessment and taxation approaches used in other national and international jurisdictions, such as Alberta, Ontario, and New York City to name a few. This review focuses on several issues and topics, including the frequency of assessments, the valuation base date, the assessment appeals system, and the way in which property taxes are collected. IPTI does not say, however, which jurisdiction has the most optimal system, but rather, provides a descriptive review of their approaches on the various issues.

Given the preceding descriptions and analysis, IPTI does not make any firm recommendations on potential reforms to Saskatchewan's property assessment and taxation regime. Instead, it proposes eight "options" for change. Because they propose options, IPTI implies that there is choice in what cities and SUMA may pursue. As they write: "We recognise that some of the options we outline may be seen as somewhat radical and, for that reason, may not be changes that SUMA would consider pursuing."⁴

The eight options IPTI proposes (in no order of importance) are:

1. Move to using true market values
2. Move agriculture property out of regulation
3. Remove the percentage of value
4. Shorten the current 4-year revaluation cycle
5. Change the base date (for assessments)
6. Change the assessment/taxation timetable
7. Reform the appeals system
8. Improve education/training on the system

What follows is the Administration's overall review of IPTI's proposed options. In the subsequent paragraphs, the analysis focuses on two of the more prominent options. Option (4) shorten the current 4-year revaluation cycle and option (5) change the base date for assessments. The focus is on these two options because they have generated the most interest in change by stakeholders. The only option the Administration does not support is option 6, changing the assessment taxation timetable (discussed later).

Option 4: Shorten the current 4-year revaluation cycle

Unquestionably, the option that has generated the most persistent calls for change is to shorten the current four-year assessment cycle to a more frequent schedule, such as once every year or every two years. IPTI notes that stakeholder opinions are mixed whether change to a shorter cycle is needed, but it supports a shorter revaluation cycle. In their view, "annual revaluations are likely to provide the most effective method of ensuring assessed values are kept up to date."⁵ However, IPTI does point out that there is no "ideal" revaluation cycle. It suggests that it may be worthwhile for Saskatchewan to shift to a province-wide two-year revaluation cycle. This means all municipalities would follow that same cycle. IPTI opposes having cities on different cycles than the rest of the

⁴ See Appendix 1, page 146.

⁵ See page 149 of Appendix 1.

province as it would “create a significant number of practical and presentational problems that would hinder the transition to an improved overall system.”⁶ This is likely due to valuing properties for distributing education property taxes in the province.

In terms of shifting to a shorter cycle, the IPTI report offers a simple case study on the experience of Lloydminster who moved from the Saskatchewan system to the Alberta system, whereby property revaluations are conducted annually. According to IPTI, Lloydminster’s switch to the Alberta system produced considerable improvements as it levels out the volatility in property values, avoids large taxation changes from cycle to cycle, and limits the number of appeals. Thus, the Lloydminster experience, suggests IPTI, “supports the type of change we are putting forward for consideration by Saskatchewan, particularly in relation to shortening the revaluation cycle and moving the base date closer to the date when the new assessed values come into force.”⁷

The Administration does not oppose shifting to a more frequent revaluation cycle as there are advantages to it. As explained in Appendix 2, there are some logistical and financial considerations to be aware of. For example, this option does need provincial legislative amendments and will require significant changes to workflow process. It also requires an increase in staff and improvements to technology. As a result, the costs required to implement this option are substantial, likely exceeding \$500,000 leading to the first year of implementation. As it will take time to realize legislative changes and implement the new processes, Administration believes the most prudent approach would be to strive to implement the shorter revaluation cycle after the next scheduled revaluation in 2025 as this will permit time to make the necessary changes to support implementation. The most likely dates to target would be 2027 to 2029.

Option 5: Change the base date for assessments

Closely related to the frequency of assessments is the date at which properties are valued, more commonly called the base date. In Saskatchewan, the current base date is set two years prior to the date that revaluations come into effect. For example, the 2021 property valuation had a market value base date of December 31, 2019. In IPTI’s view, a two-year “gap” between the antecedent (or base) valuation date and the date when the new assessed values come into effect is too long. It would be advantageous to change the base date from two years to one year, preferably alongside a move to reduce the revaluation cycle from the current four-year cycle. However, IPTI notes that this option could be implemented in the absence of a shorter revaluation cycle.

From the City Administration’s perspective, this option will require changes in reported assessed values to the province, but it could benefit the property taxpayer in that their property value will be more up to date and closer to a true market value or recent price. To implement this option, legislative amendments are needed. Moreover, the City would have to address some logistical issues in collecting, inputting and verify market data closest to the base date. Current processes take up to a year to complete and need to be expediated through additional resources and cooperation from property owners. As a

⁶ See *ibid.* IPTI does not elaborate on this in the report.

⁷ See page 114 of Appendix 1.

result of these logistical challenges, cost estimates are moderate to implement this option. With those caveats in mind, the Administration would prefer to have this option implemented in conjunction with a change to a shorter assessment cycle.

Remaining Options

Option 1 proposes to “revolutionize” the assessment system according to IPTI, “because it would ensure all properties were assessed on the same basis at the same date.”⁸ It does not mean that mass appraisal techniques would not be used, but rather, other statistical techniques and pre-appeal review could be added to address outlier properties. As noted in Appendix 2, the Administration is mixed on this option but does see more benefits than drawbacks. The implementation of this option would generate moderate costs as internal work process and computer systems need updating.

Option 2 has little to no impact on the City. The Administration is indifferent to it but would support the other Saskatchewan cities and/or SUMA if they choose to pursue this option.

The Administration supports Option 3, the removal of the percentages of value because in IPTI’s words it is “an unnecessary and unhelpful complication which adversely impacts consistency, simplicity and transparency that are the hallmarks of a good property tax system.”⁹ The percentages of value (POV) simply adjust the assessed value to give the taxable assessed value. For example, residential properties in Saskatchewan are taxed at 80% of their assessed values, but in Alberta they are taxed at 100% of the assessed value. This means the tax payable in Alberta is simply the tax rate multiplied by the assessed value. By removing the POV, the tax burden on the property would not change as tax rates are adjusted to reflect taxable assessments.

The Administration does not recommend pursuing Option 6, changing the assessment and taxation timetable. In this option, IPTI proposes four process changes to the assessment, as explained in Appendix 2. In the Administration’s view this process change may cause revenue losses due to cutting off supplementary assessments earlier in the year. Thus, City Assessors would need to significantly change work processes, potentially resulting in a lower assessment growth revenue in that budget year.

Option 7 speaks to reforming the assessment appeals system. Here, IPTI proposes several sub-options for reform, include mailing out assessment and tax notices at the same time, and establishing a provincial Board of Review (or Revision) to name the most prominent. The Administration disagrees with the mailing assessment and tax notices at the same time as this generates more confusion on the appeal process, since assessments can only be appealed. That said, this option is not clear as to whether a city like Saskatoon would keep its own Board of Revision or whether the process would be managed by a provincial one.

⁸ See Appendix 1, page 146-7.

⁹ See Appendix 1, page 148.

With those options in mind, the IPTI report concludes with a pointed summary about the challenges of maintaining Saskatchewan's existing assessment and tax system:

The main risk associated with continuing with the existing system is that aspects of it are already the subject of considerable criticism due to the deficiencies identified by stakeholders and outlined in this report. Those criticisms are likely to become more vociferous if they are not addressed.

Furthermore, the current property tax assessment system in Saskatchewan is widely regarded as "different" to the systems that operate in other provinces in Canada and, in particular, considered to be less sophisticated than those other systems and more unfair to taxpayers.

There are risks of further reputational damage, and loss of confidence, if steps are not taken to improve the property tax system in the province.

Despite those concerns, IPTI cautions that the system does generate substantial revenues (\$2.1 billion in 2021) so pursuing any change should be done cautiously and prudently. It should be noted that there are many stakeholders who have an interest in the property assessment and taxation system. For the more significant options, such as implementing a shorter property revaluation cycle, getting a consensus from key stakeholders is important to obtain policy change on this issue.

Given the preceding analysis, and the summary in Appendix 2, the Administration recommends that His Worship the Mayor and the Administration work with the SCMC and SUMA to prioritize and advocate for Options 1, 3, 4, and 5. The Administration is indifferent on Option 2 and does not recommend pursuit of Option 6. Option 8 can be implemented at any time and does not require any legislative change.

FINANCIAL IMPLICATIONS

The financial implications to the City of Saskatoon from implementing the proposed options in the IPTI report are addressed in the body of this report and in Appendix 2. While these costs estimates are qualitative, more detailed cost analysis could be conducted on each of the options as required. As noted, the largest financial costs would be attributed to shortening the assessment cycle, which would exceed \$500,000 in new financial costs in the assessment year.

IPTI's work cost is approximately \$70,000. The City Managers and SUMA agreed to cost share the project with each participating city contributing 5.53% or almost \$3,300 for a total cost share of approximately \$50,000. SUMA covered the remaining balance of approximately \$20,000. For clarity, this means that the City of Saskatoon paid approximately \$3,300 to participate in the project. The City's contribution is within existing budgetary allocations and approval is within the delegated authority of the City Manager.

OTHER IMPLICATIONS

Many of the proposed options require legislative or regulatory change to implement. As a result, the province would need to develop legislative proposals, seek consultation with stakeholders, and eventually draft a Bill for introduction in the Legislative Assembly for those Acts and provisions that do require amendment. The earliest opportunity for this to happen is when the next sitting of the Legislature opens after the 2024 general election. However, the more likely case is for new or amended legislation to be introduced in the fall of 2025 sitting of the Legislature, after the next provincial revaluation. This follows the legislative timetable of the province where most Bills are introduced in the fall sitting and passed in the spring sitting.

NEXT STEPS

The SCMC is expected to discuss the findings of the IPTI report at its next meeting in September 2022. It is anticipated that the SCMC will select options to advocate for and work with SUMA on developing a plan to pursue legislative changes to support the implementation of its selected options. The Administration will report back to Committee on the outcome of this process.

Until the proposed options are implemented, the Administration will continue to refine its approach to managing large changes in property values. One potential way to do this may be to use the phase-in approach for potential property tax changes. There is an outstanding GPC resolution for the Administration to report back on the feasibility of the four-year phase in, which will provide more details on this approach.

APPENDICES

1. International Property Tax Institute, Review of the Property Tax System in Saskatchewan – April 2022.
2. City Administration's Summary of IPTI Proposed Options to Reform Saskatchewan's Property Taxation and Assessment System

Report Approval

Written by: Mike Jordan, Chief Public Policy and Government Relations Officer

Reviewed by: Clae Hack, Chief Financial Officer
Bryce Trew, City Assessor
Mike Voth, Director of Corporate Revenue
Cindy Yelland, City Solicitor

Approved by: Jeff Jorgenson, City Manager