***MGA* Review Discussion Paper**

Airport Property Assessment

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 mgareview.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 confusion[1]. 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
- Farm Property Assessment
- Supplementary and Progressive Assessment
- Exemptions and Other Special Tax Treatment
- Linear Property Assessment
- Railway Property Assessment
- Equalized Assessment
- Assessment Complaints and Appeals
- Machinery and Equipment Assessment
- Airport Property Assessment
- Taxation
- Municipal Revenue Sources

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

Airport Property Assessment

The *MGA* sets out two methods, or standards, for the assessment of property in Alberta: the market value based standard (a methodology based on the market value of a property[2]) and the regulated procedure based standard (a methodology that uses assessment rates and procedures as prescribed under regulation to calculate the assessed value of a property). In general, the market value standard is currently used to assess property associated with airports. Some type of airports and airport-related property are exempt from assessment.

The way in which an airport in Alberta is assessed depends on its ownership – that is, whether it is municipally owned, privately owned, or owned by a regional airport authority – as discussed in this paper and summarized in the table below:

Table 1: Assessment of Airports

Type of Airport	How is it assessed?
Municipally owned airports	Exempt from assessment and taxation.
Privately owned airports	Assessed by the municipal assessor using a market value standard.
Airports owned by Regional Airport Authorities	Assessed by the municipal assessor using a market value standard, with exemptions applied for specific components of the airport property.

The Province maintains an interest in ensuring that a stable and predictable taxation system is in place for all types of property, including airports, which play an important role in serving Alberta's growing economy.

[2] Market value is the price a property might reasonably be expected to sell for if sold by a willing seller to a willing buyer. Generally speaking, property assessors gather information on ranges of sale prices in the marketplace. This statistical data is used as part of the process for calculating market value based assessments.

Discussion Points

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

1. <u>Airport Property Assessment</u>

Background

In Alberta, several airports are municipally owned and locally operated. As such, they are exempt from municipal taxation. There are approximately 82 municipally owned airports in Alberta, located in centres such Lethbridge and Grande Prairie.

Some airports in Alberta operate under the Regional Airports Authorities Regulation, and these airports are subject to property assessment (with some exemptions to be discussed) as are other commercial properties in Alberta. These entities include the Fort McMurray Airport Authority, the Red Deer Regional Airport Authority, the Edmonton Regional Airports Authority, and the Calgary Airport Authority.

Airport property assessment has two components: the terminal and the leased space within the terminal (for retail stores, restaurants, etc.). Both are currently assessed at market value. As discussed on page 2, concerns have been raised regarding the difficulty for airport authorities to predict the assessment changes that can occur from year to year as a result of market volatility. In addition, it is common practice for airports to "overbuild" in order to position themselves for increased passengers and air traffic, and airport authorities assert that a property tax which is based on passenger traffic (rather than the market value of the terminal/leased space) would better represent the true value of the property.

Cross-jurisdictional Research

- In Ontario, the major airports (Toronto, Ottawa, London and Thunder Bay) are assessed on a per passenger rate set under legislation.
- In Saskatchewan, the Regina and Saskatoon airports are assessed on a per passenger rate established by a negotiated tax agreement under the *Cities Act.*
- Nova Scotia also uses a per passenger rate for assessing the Halifax airport.
- In British Columbia and Quebec, airports are generally exempt from assessment and taxation. In Quebec, the federal government provides a Payment-In-Lieu-Of-Tax on Mirabel and Pierre Elliot Trudeau airports.

Stakeholder and Legislative Amendment Requests

- Recently, airport authorities in Alberta have requested that the Province use a per passenger rate, indexed to an inflation indicator such as the Consumer Price Index to control rate increases. They believe the current assessment model does not accurately account for use of the airport. Affected municipalities have expressed concern that they may lose tax revenue under this proposed model.

2. Airport Exemptions

Background:

The *MGA* sets out exemptions for specific improvements owned or leased by a regional airports authority. These exempt improvements include runways, paving, roads and sidewalks, reservoirs, fencing, conveyor belts, cranes, weigh scales, loading bridges, machinery and equipment, pole lines, transmission lines, light standards and unenclosed communications towers.

Privately owned airports do not receive any exemptions under the *MGA*. There are an estimated 90 privately owned airports in Alberta. These airports are typically owned by private companies needing access to remote areas, recreational flying clubs, or private pilots.

Cross-jurisdictional Research

- All provinces assess and tax privately owned airports.

Stakeholder and Legislative Amendment Requests

- Some operators of privately owned airports have commented that it is unfair for exemptions to be granted to some airports, and not others, and that private and regionally owned airports should be treated similarly with respect to assessment and taxation.

3. Definition of runways

Background:

Currently, runways are not assessable and, therefore, not taxable**.** Over the past decade, there have been some discussions around the definition of "runways" for assessment purposes. To date, the practice has been to treat taxiways[3] and aprons[4] as being included in runways and, therefore, exempt from property taxation.

Cross-jurisdictional Research

- In all provinces, the actual runway portion of the airport is exempt from assessment and taxation. The cross-jurisdictional research was not clear on how taxiways and aprons are treated for assessment purposes.

Stakeholder and Legislative Amendment Requests

- Municipal stakeholders have requested additional clarification on the definition of "runways" and how "taxiways" and "aprons" should be treated for assessment purposes.

[3] A taxiway is a path on an airport connecting runways with ramps, hangars, terminals and other facilities on airport property.

[4] An apron is the area of an airport where aircraft are parked, unloaded or loaded, refueled, or boarded.

Discussion Questions

1. Is the current airport property assessment process fair and equitable for municipalities and property owners? Why or why not?
    a. Should the Province consider using a regulated per passenger rate assessment model, rather than market value assessment, for airport property assessment? Why or why not?

2. Is the current assessment exemption for the specified components (e.g. runways) of regional airports still relevant? If not, why not?

3. Should private and regionally owned airports be assessed and taxed in a consistent manner? Why or why not?

4. Is the current definition of runways clear and relevant? Why or why not?

5. Which key characteristics should define a runway for assessment purposes?