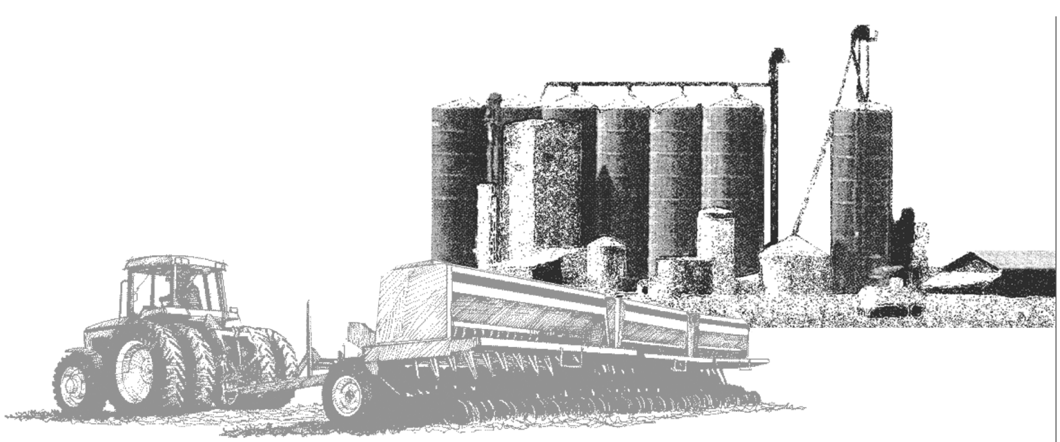
Final Report and Recommendations on

FARM PROPERTY ASSESSMENT ISSUES



MLA Farm Property Assessment Review Committee

February 2002

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EXECUTIVE SUMMARY

Purpose of the report

MLA Farm Property Assessment Review Committee

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The MLA Farm Property Assessment Review Committee was established in 1997 to review a number of issues related to the assessment and taxation of farm property in Alberta.

The committee prepared a discussion paper, consulted with a wide range of stakeholders in the fall of 1998, and released a follow-up summary of the consultation feedback in May 1999 entitled *Farm Consultation Report: Assessing Issues and Taking the Next Steps.*

In the following two years, the committee held further meetings with stakeholders to look at potential solutions to the issues, and conducted research into those options. A draft report was prepared for internal government review, and for review by a key stakeholders group of municipal and agricultural representatives.

Some important considerations have guided this committee through all phases of our activities, most notably that:

- the well-being of the agricultural sector is vital to the economic well-being of Alberta;
- diversification in the agricultural sector has significant implications for the local government sector; and
- the key has been to work collaboratively with stakeholders to identify solutions that achieve the right balance in responding to the issues.

The recommendations in this report of the MLA Farm Property Assessment Review Committee are based on a great deal of consultation, study, analysis and deliberation. As committee members, we are confident that we have listened well to Albertans and developed recommendations that address the issues in a fair and equitable manner.

A. Recommendations for implementation in the short term

In the summer and fall of 2001, the Alberta government provided stakeholder organizations with the opportunity to review and comment on regulatory amendments being proposed in order to:

- set out a clear definition of farming operations for assessment and property tax purposes;
- define woodlots as farming operations for assessment and property tax purposes; and
- set out clear guidelines on the types of property that may be eligible for property tax relief as conservation land.

The proposed amendments were based on recommendations in our initial draft report. We have considered this further feedback and made some subsequent adjustments in Part A of this report.

B. Farm productivity rating system

In valuing farm land for property tax purposes, assessors use a comprehensive set of rating schedules. The rates in these schedules are based upon typical crops and management practices, production costs, crop yields and crop prices. The rating system needs to be updated, and the process needs to keep pace with technological, economic and market-related changes in the agricultural industry.

The committee is therefore recommending that the province review and update the productivity rating system for farm land assessment.

C. Intensive vs. extensive agricultural operations

The current assessment process gives a significant tax break to intensive livestock enterprises and other building-intensive farm operations. Property owners within the agricultural sector have raised concerns about this tax inequity.

In developing recommendations to address this issue, the committee received considerable input from a stakeholders working group of municipal and agricultural representatives. This group worked with us to develop the principles and objectives of the proposed "footprint" approach to farm land assessment. The committee presented its draft report to this group in June 2001. In response to stakeholder feedback, we have made some adjustments in our recommendations.

The committee is recommending in Part C that the Alberta government address current inequities in farm property assessment by:

- adopting the footprint approach to the assessment of farm land;
- allowing a municipality to tax different types of farm property at different tax rates, within specific limitations set out in the legislation;
- specifying in the legislation that a municipality may not levy a local business tax when the use of the property is defined as a farming operation for property assessment and tax purposes; and
- amending the legislation so that farm buildings in urban municipalities are exempt from property tax unless a bylaw is passed to allow them to be taxed (at a 50 per cent level) for municipal purposes.

D. Assessment and taxation of farm residences

Both farm and non-farm ratepayers have voiced concerns about assessment and taxation policies for farm residences and their underlying sites.

One of the major issues relates to the current tax exemption policy for farm residences. Under the existing system, farm residences in rural municipalities are exempt, fully or partially, from municipal and education property taxes. This policy is perceived to be unfair by owners of country-residential acreages whose homes receive no tax exemptions. Moreover, many farmers with small holdings see inequities in the fact that the policy provides higher exemptions to residences owned by farmers with larger or better-quality holdings.

Municipal and agricultural stakeholders have indicated that they would be willing to see farm *residences* fully assessed and taxed—on the condition that farm *land* is no longer taxed for *education* purposes.

This proposed solution, however, relates to a policy area that falls more appropriately under the purview of the MLA Education Property Tax Review Committee. As members of the MLA Farm Property Assessment Review Committee, we are aware that it is not within our mandate to provide the Alberta government with advice on education property tax matters, particularly one of this significance.

We are therefore recommending that the current issues in the taxation of rural residences be brought to the attention of the MLA Education Property Tax Review Committee—and that our two committees work jointly to develop a solution to the issues. We are also proposing that, in working together on this task, consideration be given to the stakeholders' proposal described in Part D of this report.

If that proposal is not feasible at this time, given the current fiscal position of the Alberta government, then we believe that consideration should be given to lowering the education tax rate on farm land. The intent of these potential solutions would be to ensure that the assessment reforms adopted to resolve inequities in the current system would result in no increase in the agricultural sector's overall share of the education property tax burden.

A MESSAGE FROM THE COMMITTEE

MLA Farm Property Assessment Review Committee

Richard Marz (Chair)
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Rob Lougheed
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The role of this committee has been to bring forward recommendations on several issues related to how farm property is assessed and taxed in the province. It was very clear to us, following our consultations with Albertans, that the issues needed to be addressed with great sensitivity and with a view to the possible outcomes of any proposals for both the ratepayers and local governments of Alberta.

We have been careful to do so. We are making our recommendations on the basis of an extensive process of public input, analysis of the issues, meetings with stakeholder representatives, and impact studies into the suitability of potential solutions.

The following is a discussion of some of the key considerations and observations that have guided us through this initiative.

The well-being of the agricultural sector is vital to the economic well-being of Alberta.

We have maintained—during our consultations, studies and deliberations—a keen awareness of the significance of the agriculture industry to Albertans. Agriculture plays a very important role in the economic and social life of this province.

We also recognize that the industry is facing significant challenges and opportunities in today's highly competitive global economy. In recent times, agricultural, government and other stakeholders have engaged in a forward-looking dialogue to explore ways to maintain and enhance the health, sustainability and productivity of Alberta's agricultural sector.

We are aware that any change to the assessment system for farm property must take into account the impact that it will have on the agricultural sector. This has been a major consideration for the committee through all phases of our activities.

Diversification in the agricultural sector has implications for the municipal government sector.

The business of farming is changing. Agricultural producers are looking for new ways to diversify, to add value to primary products, and to achieve success and productivity. We have seen significant growth, for example, in operations such as feedlots, greenhouses, mushroom barns, and intensive hog, poultry and dairy enterprises.

As diversification has occurred in the agricultural industry, there have been implications for local governments in Alberta. Intensive agricultural operations tend to place new demands on municipal infrastructure and services.

In particular, municipalities are finding that significant spending increases may be necessary to maintain the roads used by trucks moving animals, produce or supplies to and from intensive agricultural operations. Local governments are restricted, however, in their ability to ensure that the new enterprises are contributing a fair share of tax dollars for those additional infrastructure costs. Municipal councils have little capacity to address this concern, largely because of limitations in the current legislation and regulations for farm land assessment.

As long as the issue remains unresolved, other types of farm property will continue to bear a disproportionate share of the property tax burden.

One of our primary tasks as a committee has been to study and propose measures that the provincial government and municipalities may adopt to ensure that all types of farm property are assessed and taxed in a fair and equitable manner.

We thank stakeholders for their valuable assistance.

In our research into potential approaches to address issues in farm land assessment, the committee has benefited immensely from the active involvement of stakeholders.

We express sincere thanks to the stakeholders working group. Members of this group worked with us closely to develop the principles and objectives of the "footprint" approach to the assessment of agricultural property.

We also thank the municipal officials and rural ratepayers who participated in the research process. A study of potential solutions was conducted in selected townships in nine rural municipalities.

The key has been to work collaboratively to achieve the right balance.

Stakeholders understand that a well-functioning assessment and taxation system is fundamental to the ability of municipal governments to supply services to local ratepayers. Members of the agriculture industry have indicated they want to ensure they are paying their fair share of the property tax burden. They are also aware of the challenges currently confronting many agricultural producers.

Municipal councils, for their part, need the ability under legislation to address local tax issues in a manner that is appropriate at the local level. Our recommendations respect the fact that local governments need a degree of flexibility and autonomy in matters pertaining to municipal tax policy.

Working together, we have made every effort to put the available options to the test. The recommendations in this document are presented on the strength of a thorough examination of the issues and a detailed analysis of the solutions that we believe would be most effective in addressing them.

The committee believes that this collaborative initiative has led to solutions that achieve the right balance in responding to the issues raised in our consultations with Albertans.

Richard Marz (Chair)	Rob Lougheed	Barry McFarland

MLA Farm Property Assessment Review Committee

Stakeholders working group:

- Alberta Association of Municipal Districts and Counties
- Alberta Urban Municipalities Association

- Alberta Beekeepers Association
- Alberta Canola Producers Commission
- Alberta Cattle Commission
- Alberta Cattle Feeders' Association
- Alberta Chicken Producers
- Alberta Egg Producers Board
- Alberta Grain Commission
- Alberta Greenhouse Growers Association
- Alberta Hatching Egg Producers
- Alberta Market Gardeners Association
- Alberta Milk Producers
- Alberta Pork
- Alberta Turkey Producers
- Canadian Mushroom Growers' Association
- Canadian Seed Growers' Association—Alberta Branch
- Northern Forage Inc.
- Western Stock Growers' Association
- Woodlot Association of Alberta

- Alberta Assessors' Association
- Alberta Municipal Affairs

Municipalities taking part in the impact study:

- Birch Hills County
- County of Barrhead
- County of Grande Prairie
- County of Lethbridge
- County of Stettler
- County of St. Paul
- Municipal District of Rocky View
- Ponoka County
- Strathcona County

WHAT WE HEARD DURING THE CONSULTATIONS

A variety of views: The committee received more than 380 written submissions and replies to the questionnaire in the discussion paper. In addition, about 1,200 people attended or made presentations at public meetings (fall 1998).

The responses to the discussion paper are summarized in the *Farm Consultation Report: Assessing Issues and Taking the Next Steps* (May 1999).

In the fall of 1998, the committee held public meetings across Alberta and circulated a discussion paper on key issues related to the assessment and taxation of farm properties.

During the consultations, the committee heard from rural municipalities, urban municipalities, agricultural producers from small, large, and intensive agricultural holdings, acreage owners, companies, associations, owners of land set aside for conservation purposes, and others with an interest in assessment and tax issues.

The consultations focused on matters related to:

- the definition of farming operations for assessment purposes;
- the assessment of woodlots;
- the assessment of land not used for farming operations;
- inequities in the assessment and taxation of intensive and extensive farm operations;
- the possible use of varying tax rates for different types of farm property;
- the possible use of a local business tax on agricultural operations;
- the tax exemption policy for farm residences;
- the designation of the three-acre residential site for assessment purposes; and
- the valuation of farm land for assessment and property tax purposes.

The following is a brief summary of some of the committee's general observations as well as a summary of the overall views expressed by Albertans during the review.

In many cases, people held fundamentally different points of view.

Not surprisingly, motives often came into question. In the initial consultations, people tended to question why others were looking for changes in the assessment system. There was a lack of trust among various groups and municipalities in terms of why changes are needed, what changes are needed, and who might benefit from adjustments in the farm property assessment system.

Many people appeared to prefer the status quo. Comments were made to the effect that, although there are some inequities in the current system, any changes to it would likely just create new ones.

No clear consensus emerged on several issues, and there were often mixed responses to the committee's preliminary proposals. Some people suggested that new options should be developed, or that an entirely new assessment system should be designed. Various views were expressed on the use of tax exemptions and the merits of the "productive value" versus the "market value" standard for assessing properties.

It was clear that people needed to get together to come up with workable solutions.

The committee is pleased to report that this kind of collaboration has, in fact, occurred in the past two and a half years among members of a stakeholders working group. The ideas generated by this group have given rise to what is referred to as the “footprint” concept, an innovative approach to resolving some of the major issues in farm land assessment.

Many people indicated that the property tax base should not be used to raise funds for educational purposes.

The committee heard time and again that other revenue sources should be used to fund the full cost of education in Alberta—such as provincial income taxes, dedicated education taxes or lottery dollars. Many people suggested that, if school costs continue to be partially funded through the property tax base, then farm *land* should be exempt and only the farm *residence* should be taxed for education purposes.

The issues are complicated and it is hard for many individuals to understand the current assessment system for farm property.

The current system of rural assessment has evolved and changed over the years. The result is a rather complex set of rules, regulations, conditions and exemptions that are applied by assessors at the municipal level.

Without a full understanding of how rural property is assessed, it has been difficult for people to see whether any proposed solutions would make things better. Some made the point that any changes to the assessment system should make it simpler, not more complex.

In this report, the committee has endeavoured to provide some key points about the assessment system in relation to each of our recommendations.

There was some suspicion that any change would result in higher taxes for agricultural producers at a time when they can ill afford it.

Whenever changes are proposed for the tax system, many people assume that the result will be higher taxes. Many were concerned that changes could lead to a tax grab at a time when farmers can ill afford any increase in costs.

The tax system should not present disincentives to agricultural producers who plan to diversify or expand.

Farmers take real risks, the committee was told, and they should not be penalized for their efforts. However, there was general agreement that larger farm operations should be taxed more than smaller ones.

The committee recognizes the need to exercise care in addressing issues in the assessment and taxation of value-added farm operations. It also recognizes that, under current legislation, some agricultural operations are being exempted from a significant share of the property tax burden at the expense of others.

If certain types of farm operations are largely exempt from municipal property taxes, then other farm and non-farm properties are picking up the tab, so to speak. When properties receive exemptions, it doesn't mean that the municipality just "makes do" with fewer tax revenues. Rather, the municipal tax burden is borne by others.

This matter affects rural ratepayers in a very tangible way, especially those in several counties and municipal districts in which agricultural operations account for a major portion of the property assessment base.

The committee is proposing that this issue can be resolved in a manner that is fair, equitable and consistent with provincial objectives to maintain and enhance the health and sustainability of Alberta's agricultural sector.

A. RECOMMENDATIONS FOR IMPLEMENTATION IN THE SHORT TERM

Overview

The recommendations in this section:

- **set out a revised definition of farming operations for assessment and property tax purposes:** The intent is to provide clear guidelines to determine if property should be assessed on the basis of the land's productivity value, rather than its market value, and to determine if buildings qualify as farm buildings for property assessment purposes;
- **define woodlots as farming operations for assessment and property tax purposes:** The intent is to allow managed woodlots to be assessed on the basis of the land's productivity value rather than its market value; and
- **set out clear guidelines on the types of property that may be eligible for property tax relief as conservation land:** The intent is to allow municipal councils, at their discretion, to grant full or partial property tax relief to land that is managed according to recognized conservation goals and objectives.

As discussed in the following pages, these recommendations have been developed, refined and strengthened on the basis of extensive consultations with Albertans. As a result, the Alberta government has decided to move forward with the recommendations in Part A—and it has set processes in motion to make the necessary changes to regulations for the 2003 tax year.

These processes have provided stakeholder organizations with the opportunity to comment on the proposed regulatory amendments that would bring these Part A recommendations into effect. As a result of this feedback and subsequent government decisions, some further fine-tuning may occur before the amendments are officially incorporated into provincial regulations.

The committee would like to thank all organizations and individuals who provided their comments and assistance in the course of developing these recommendations.

A.1 A new definition of farming operations

Recommendation

The MLA Farm Property Assessment Review Committee recommends that the Alberta government adopt a clear, updated definition of farming operations for assessment and property tax purposes. The committee recommends that the definition set out on pages 11 and 12 of this report be included in the Matters Relating to Assessment and Taxation Regulation.

Current situation

In the past, it was fairly easy to see what qualified as a farming operation for assessment purposes. Recently, it has become more difficult. The agricultural industry is diversifying, making use of advanced technologies, catering to specialized niche markets, and setting up operations that add value to primary commodities.

It has become necessary to set out a clear and updated definition of what constitutes a "farming operation" for the purposes of property assessment and taxation, because the industry is changing and advancing in significant ways.

This matter is important to ratepayers, assessors and local governments in Alberta. To carry out their duties effectively, assessors need to be able to refer to a definition that is clear, accepted and applied province-wide. Local governments need to be able to assure ratepayers that their properties are being assessed fairly and consistently in relation to others in their municipalities and across the province.

Note:
In August 2001, the Alberta government began the regulatory review process to revise the definition of farming operations under the Matters Relating to Assessment and Taxation Regulation.

This process included a 60-day consultation period in which stakeholder organizations were invited to provide any further comments on the proposed definition.

As a result of this stakeholder feedback and an internal government review, some wording adjustments have been included in the proposed definition on pages 11 and 12 of this report.

Consultation feedback

During the consultations in the fall of 1998, the committee received support-in-principle for a proposed definition of farming operations that it presented in its discussion paper. Many Albertans said they accepted the definition in general terms, but specific parts of it needed to be clarified and refined.

The committee considered the feedback from the consultations, made refinements, then resubmitted the revised version to Albertans during a regulatory review process in the fall of 1999. The definition proposed on pages 11 and 12 includes refinements made following the 1999 review and the more recent regulatory review in 2001.

Discussion

A major purpose of the recommended definition is to clarify that—for property assessment and taxation purposes—a farming operation entails the raising or production of primary agricultural commodities. Within this context, the packaging, grading or processing of primary agricultural products are activities that do not qualify to be assessed as farming operations.

A productivity-based approach
Farm land is assessed on the basis of its productive value—in other words, on the land's worth or capability in terms of raising or producing agricultural commodities.

Other land (residential, commercial and industrial) is assessed on the basis of its market value.

The productivity-based approach for farm land recognizes that a unit of land, if it is used for agriculture, is generally not capable of yielding as high a financial return as if the same unit of land were used for other purposes.

The committee made refinements in the course of developing the definition in order to:

- clearly specify the activities to be regarded as farming operations for assessment purposes;
- include additional types of commodities in the horticultural category of farming operations;
- clarify and include additional types of commodities in the woodlot category of farm operations; and
- recognize technological advances in the agricultural industry and the diversification into non-traditional agricultural enterprises.

The new definition would have little or no effect on the majority of farmers in the province. For farm operations with commercial ventures on site, the property assessment would increase only to the extent that the overall operation involves the non-farm activity. Under the recommended definition, condominium grain-storage facilities and vegetable grading or packaging facilities are among the property uses that are not regarded as farming operations.

The committee's recommended definition of farming operations for property assessment and taxation purposes is as follows.

Recommended definition of farming operations for inclusion in the Matters Relating to Assessment and Taxation Regulation:

"Farming operations" means:

(i) the raising or production of primary agricultural products on a for-profit basis; or

(ii) the raising or production of primary agricultural products on a for-profit basis or otherwise, by a non-profit organization or the Crown in right of Canada or Alberta;

and includes the following activities:

(iii) the production of field crops if the primary agricultural commodities produced from that activity are sold in their unprocessed state;

(iv) horticulture if the primary agricultural commodities produced from that activity are sold in bulk or unpackaged lots;

(v) silviculture if the primary agricultural commodities produced from that activity are sold in bulk or unpackaged lots;

(vi) the production of sod if the sod is sold in bulk or unpackaged lots;

(vii) the production of flowers or nursery stock if the flowers and nursery stock are sold in bulk or unpackaged lots;

(viii) fish farming, fur farming or bee keeping if all primary agricultural commodities raised or produced from that activity are sold in a raw, ungraded or unprocessed state;

(ix) the raising of any livestock as defined in the *Livestock and Livestock Products Act* in a live condition;

(x) the production of livestock products such as wool, eggs, milk, pregnant mare urine, antlers in their raw state and, embryos or semen in their frozen state;

(xi) the operation of woodlots on a parcel of land for which an approved management plan has been prepared by a registered professional forester as defined in the *Forestry Profession Act* and implemented, solely authorizing the production of timber, where the primary agricultural commodities produced are marketed as whole logs, seed cones, Christmas trees, or willow boughs;

(xii) the storage on land held by the person carrying on the farming operations

  (A) of any machinery, equipment, agricultural product or other item to the extent it is used to produce agricultural commodities within the farm operator's unit, and

  (B) of any primary agricultural commodity raised or produced on the land, including any activity or procedure necessary to maintain the quality of the machinery, equipment, product, item or commodity at industry standards;

(xiii) the maintenance of feeder cattle, hogs, sheep or poultry to the extent that the maintenance is for the purpose of growing or finishing the animals;

(xiv) the production and marketing of seed through a licenced seed establishment, as defined under the *Canada Seeds Act*, to the extent of the farm operator's production;

but does not include the use of any property to the extent that the use is for the following activities:

(xv) the sale of any goods or services, except as provided for in sections (xiii) or (xiv);

(xvi) the grading of a primary agricultural commodity by awarding to the commodity a quality standard established pursuant to an act or regulation of Alberta or Canada, except as provided in section (xiv);

(xvii) the processing or packaging of a primary agricultural commodity, except the production of silage or as provided for in section (xiv);

(xviii) the storage or distribution, or both, of a commodity that has been awarded a grade standard, except as provided in section (xiv);

(xix) the purchase and resale of primary agricultural commodities by the holder of a permit or licence issued under an act or regulation of Alberta or Canada, authorizing those activities;

(xx) the maintenance of any animal for recreational purposes;

(xxi) the compacting or packaging, or both, of any forage commodity to a density of greater than 20 pounds per cubic foot.

A.2 The assessment of woodlots

Recommendation

The MLA Farm Property Assessment Review Committee recommends that woodlots be regarded as a use of property that qualifies as a farming operation for assessment purposes. Woodlots should be assessed on the basis of their productive value as managed woodlots in a manner similar to all other farm properties.

The committee's recommended definition of farming operations includes, as a use of property to be considered as a farming operation for assessment purposes:

"the operation of woodlots on a parcel of land for which an approved management plan has been prepared by a registered professional forester as defined in the *Forestry Profession Act* and implemented, solely authorizing the production of timber, where the primary agricultural commodities produced are marketed as whole logs, seed cones, Christmas trees, or willow boughs."

Note:
In August 2001, the Alberta government began the regulatory review process to revise the definition of farming operations under the Matters Relating to Assessment and Taxation Regulation.

This process included a 60-day consultation period in which stakeholder organizations were invited to provide any further comments on the proposed definition.

As a result of this stakeholder feedback and an internal government review, some wording adjustments have been included in the proposed definition, which includes sustainable woodlots as described on this page.

Current situation

Under current legislation, the operation of a woodlot is not regarded as a farming activity. It is considered as the harvesting of a natural resource. As a result, these properties are assessed on the basis of their market value rather than their productive value as woodlot operations.

Stakeholders say the assessment and taxation of woodlots at market value is encouraging property owners to harvest the trees early and discouraging production of timber on a sustainable basis.

Consultation feedback

In its discussion paper, the committee proposed that woodlots be included among the types of property uses that are considered as farming operations for assessment purposes. Public feedback was positive.

Discussion

The committee agrees with those who say that sustainable woodlot operations should be assessed at productive value rather than market value, especially in view of the many years it takes for trees to become ready for harvest.

The committee also agrees with stakeholders who suggested that a new productivity-based value category should be created for the assessment of sustainable woodlots. A new woodlot classification has been developed in consultation with stakeholders and included in the *Minister's Guidelines for the Assessment of Farmland.* (The guidelines also include categories for the assessment of dry land, irrigated land and pasture land farm operations.)

We have also expanded the definition of farming operations to include seed cones, Christmas trees and willow boughs, as well as whole logs, as products that should be regarded as primary agricultural commodities.

People expressed differing views during the consultations on whether the definition of a woodlot for assessment purposes should specify that the operation be carried out under an approved management plan.

The committee deliberated on this question. Members agree that, if woodlots are to qualify for assessment at productive value, they should be operated specifically for the sustainable production of timber. Woodlot owners show a commitment to that purpose by operating according to a management plan prepared by a professional forester. In sustainable operations, selected trees are harvested for lumber and replaced with seedlings that require long production cycles.

A.3 Property tax relief for conservation land

Recommendation

The MLA Farm Property Assessment Review Committee recommends that all land that is not used for farming operations should continue to be assessed on the basis of its market value.

However, specific land should be eligible for some property tax relief, if it is held by non-profit organizations and managed specifically for conservation purposes. The appropriate regulations should be amended to reflect the committee's proposed policy on Conservation Land Property Tax Exemption (pages 15 to 16).

Note:
In the fall of 2001, the Alberta government began the regulatory review process to amend the Community Organization Property Tax Exemption Regulation to allow municipalities to grant property tax relief to conservation land.

This process included a 60-day consultation period in which stakeholder organizations were invited to provide any further comments on the proposed policy.

As a result of this feedback and any subsequent government decisions, adjustments may be made in the proposed policy before it is officially incorporated into provincial regulations.

Current situation

In the 1990s, new provincial legislation changed the assessment process for land in rural municipalities.

Prior to 1995, the first three acres of a non-farm property in a rural municipality were assessed on the basis of market value. The rest of the property was assessed at farm land rates (productive value).

Under the *Municipal Government Act* introduced in 1995, all non-farm land in Alberta (for example, residential acreages, conservation land and undeveloped property) is now required to be assessed on the basis of its market value.

This change in assessment policy gave rise to concern among owners of non-agricultural land who saw increases in the assessed value of their properties. The increases have varied with the size and location of properties. The change has been particularly significant for large parcels of non-farm land located within rural municipalities near large urban centres.

Consultation feedback

In its 1998 discussion paper, the committee suggested that all land not used for farming operations should continue to be assessed and taxed at market value, as required under the *Municipal Government Act* introduced in 1995.

The committee's view was supported by the majority of those who responded to the recommendation.

With the exception of farm land, rural and urban land across the province is assessed and taxed on the basis of its market value. Committee members believe this consistency should be maintained.

The committee did decide, however, to give further consideration to one concern raised frequently during the consultations—that is, that assessing and taxing land set aside for conservation purposes at market value could discourage landowners from participating in conservation activities.

Discussion

Several stakeholders and landowners have expressed the view that land that is actively used for conservation purposes for the benefit of the general public should qualify for preferential assessment and/or tax treatment.

The committee has considered this input in developing its proposed policy on Conservation Land Property Tax Exemption.

The policy reflects the committee's view that land should be eligible for tax relief if it is actively managed for conservation purposes by a non-profit organization that has set out clear goals and objectives for the project. It also recognizes that municipalities need to be able to exercise discretion in local taxation matters.

The proposed policy is intended to:

- set out a clear description for stakeholders and municipalities about the property uses and activities that may be eligible for full or partial tax relief as conservation land;
- enable local governments to determine if the project is of public benefit and worthy of tax forgiveness under the *Municipal Government Act*. Under the act, a regulatory provision grants a municipality the right to pass bylaws to fully or partially exempt land from taxation if it is held by a non-profit organization; and
- set out guidelines for municipalities and assessors for determining whether a property may be regarded as conservation land for property assessment and taxation purposes.

The proposed policy would not affect the assessment status of sloughs, bluffs or other small pieces of idle land that are located in a farm parcel but not actively used for agricultural purposes. These small areas would continue to be assessed on a productive-value basis.

The committee's proposed policy on tax relief for conservation land is as follows.

Conservation Land Property Tax Exemption

The MLA Farm Property Assessment Review Committee recommends that a narrow window of conservation land held by non-profit organizations, administering active projects, should be eligible for some property tax forgiveness.

The MLA Committee suggests that the Community Organization Property Tax Exemption Regulation No. 281/98 could be amended to accomplish the desired result. The committee recommends that the following conditions be included in any regulatory or legislative action to accomplish tax relief.

- The project area must be held and utilized by a non-profit organization actively managing conservation projects.
- The project must have long-term scope or be a capital project that will have long-term results (for example, earthworks, water consolidation, protection of landscape) through active project management.
- The project must have a plan that clearly states the objective of the specific project.
- The program must ensure that a serious conservation commitment exists and the public good is being served by the project.

Recommended definition of conservation land

"Conservation land" means a parcel or designated part of a parcel of land held by a qualified conservation non-profit organization where the use of the property is the conservation activity that has been detailed by the holder in a conservation use plan.

Recommended definition of a qualified organization

"Qualified organization" means a non-profit organization that actively manages conservation projects in the province through third party agreements and/or ownership of property to achieve the specified program detailed in a conservation use plan for the purpose of species protection (both plant and wildlife), and land preservation through protection and enhancement of natural scenic and esthetic values.

The following should be considered a list of eligible non-profit organizations:

- Alberta Conservation Association
- Canadian Nature Federation
- Ducks Unlimited
- National Audubon Society
- Nature Conservancy of Canada
- Municipalities
- Rocky Mountain Elk Foundation
- Southern Alberta Land Trust

- Any organization approved by the Minister of Municipal Affairs on the recommendation of the Minister of Environment or the Minister of Sustainable Resource Development.

Municipal participation

- Municipalities should have the right to determine if the project meets the criteria of public good and is worthy of a tax consideration.
- Currently, section 364 of the *Municipal Government Act* provides municipalities with the option of exempting non-profit organizations from taxation to the extent that council considers appropriate. An exemption granted under this section of the act does not exclude the property from education or other requisitions. An exemption under the Community Organization Property Tax Exemption Regulation includes an exemption from education tax to the same degree that the municipal tax is forfeited.

B. FARM PRODUCTIVITY RATING SYSTEM

Recommendation

The MLA Farm Property Assessment Review Committee recommends that the Alberta government review and update the productivity rating system for farm land assessment.

This would entail:
- updating the base rates used to determine the productive value of land in the various categories of farm land in Alberta (arable dry land, pasture land, and irrigated land);
- developing "regional modifiers" to reflect factors that affect the productive value of land in various regions of Alberta (for example, regional differences in freight rates to transport farm produce); and
- developing a long-term plan to review and adjust the farm land productivity rating system at appropriate intervals to keep up to date with future changes in agricultural practices and economic realities.

Current situation

Current categories:
Categories of farm property assessed at rates based on the land's productive value:
- arable dry land
- pasture land
- irrigated land

Farm land is assessed on the basis of its productive value—in other words, on the land's worth or capability in terms of raising or producing agricultural commodities. Other land (residential, commercial and industrial) is assessed on the basis of its market value.

The productivity-based approach for assessing farm land recognizes that a unit of land, if used for agriculture, is generally not capable of yielding as high a financial return as it would if used for other purposes. Farm land is rated on the basis of ability to produce a net income under typical management practices.

Assessors use a comprehensive set of rating schedules to determine farm land assessments. These schedules are based on typical crops and management practices, production costs, crop yields and crop prices.

There are, however, some problems with the current system. The ratings have not been updated since the 1980s, and the process has not been flexible enough to keep pace with technological, economic and market-related changes in today's agricultural industry. These factors include, for example, increased yields from improved varieties of crops, new market opportunities, new practices in crop rotation, and changes in production costs and commodity selling prices.

In addition, the current rating system does not take into account regional factors that may influence the value of agricultural land from one part of the province to another. Over the past 20 years, the value of farm land has changed in some regions as new market opportunities have opened up, diversification has occurred, or certain regional advantages or disadvantages have diminished (for example, transportation cost changes in post-Crow freight rate times).

Although the assessments of commercial and residential types of property have adjusted along with changes in the marketplace, farm land assessments have remained unresponsive to marketplace factors.

Consultation feedback

During its consultations in 1998, the committee proposed that the productive value system for farm land assessment should be updated and periodically reviewed to reflect current conditions in the agricultural industry.

There was widespread agreement with this proposal and continuing support for the assessment of farm land on the basis of its productive value.

Discussion

The committee recognizes that the task of updating the farm productivity rating system is a major one. It would involve a great deal of data collection on soils, crop rotations, climate, market conditions and other details that go into the recalculation of rates. Current rates are set out in a manual of no less than 800 pages.

As updated rates are brought into effect, there would be some adjustments in the assessed value of farm properties to reflect the factors affecting the productive value of farm land. There would also be some shifting in the tax burden among various types of property. The degree to which tax shifts occur in a municipality would depend on the make-up of its assessment base.

These assessment changes are to be expected as a normal outcome of implementing and maintaining a more accurate and up-to-date farm land assessment system.

C. INTENSIVE VS. EXTENSIVE AGRICULTURAL OPERATIONS

Overview

In recent years, municipalities and property owners have pointed out that the current assessment process gives a significant tax break to intensive livestock enterprises and other value-added farm operations.

This is a major issue among property owners within the agricultural industry. During the consultations, many Albertans recognized that there are problems in the way intensive agricultural operations are assessed and taxed under the current system.

To attempt to define an intensive farm operation for assessment purposes—or determine the point at which a crop-based operation ends and a building-intensive one begins—is very difficult in many situations.

Understandably, the definition of an intensive livestock operation tends to lie in the eyes of the beholder. Usually it happens to be "about forty more animals than I have!"

The committee reviewed the issue and deliberated the question of whether to bring forward a definition of intensive agricultural operations for assessment purposes. Committee members came to the conclusion that it was definitely a path *not* to take. When agricultural producer organizations proposed the "footprint" concept, a method of assessment described in the following pages, the committee agreed to study its potential.

The results of the committee's study and deliberations have confirmed that inequities in the assessment and taxation of intensive enterprises and extensive (crop) enterprises can be effectively addressed through the approaches recommended in Part C of this report.

These recommendations would require changes to provincial policies and legislation to:

- adopt the footprint approach as a key part of the assessment system for farm property in Alberta (as discussed in section C.1);
- enable a municipality, at its discretion, to vary the local tax rates applied to different types of farm property—within limitations specified in legislation (C.2);
- specify that a municipality may not levy a business tax on agricultural enterprises (C.3); and
- exempt farm buildings that are located in urban municipalities from property tax—however, allow urban municipalities by bylaw the option to tax these buildings at a more appropriate rate for municipal purposes (C.4).

The recommendations in Part C of this report are intended to be introduced as a "package." They should be viewed as a set of interrelated measures designed to resolve issues in the taxation of intensive farm enterprises. For example, the committee is recommending that farming operations should not be subject to a municipal business tax (C.3). However, this recommendation is based on the premise that the province will choose to adopt the footprint concept to bring the taxes paid by intensive operations and crop farmers into a more equitable alignment (C.1).

C.1 The "footprint" approach

Recommendation

The MLA Farm Property Assessment Review Committee recommends that the Alberta government amend the farm land valuation process to include the footprint concept to address disparities in the assessment of intensive and extensive types of farm operations.

Current situation

The approach used in assessing farm property in Alberta has not kept pace with changes in the agriculture industry—for example, the growth in operations such as cattle feedlots, intensive poultry and hog enterprises, greenhouses and mushroom barns.

These large-scale agricultural enterprises typically operate on small areas of farm land that are building-intensive in nature. In rural municipalities, they tend to "fall through the cracks" of the current property tax system, which assesses and taxes farm *land*, but not farm *buildings*.

The matter is further complicated by the fact that, in urban municipalities, farm buildings are assessed and then exempt from property tax to a level of 50 per cent.

For ratepayers in the agricultural sector, the current scenario has given rise to wide variations in the levels of property tax being paid by landowners with similar incomes but different types of farm enterprises. Because farm buildings are not taxed, building-intensive farm operations tend to contribute significantly less in property taxes than crop enterprises.

For municipalities, the infrastructure costs related to the growth of building-intensive operations have been substantial. Heavy truck traffic has put wear-and-tear on rural roads and a resulting pressure on municipal budgets. The properties largely responsible for the traffic increase are contributing little to road maintenance.

The inequities are recognized by municipal councils and by agricultural producer organizations. This is an issue that councils have been unable to resolve at the local level, primarily because there is little flexibility in the current farm assessment system and few "tools" that municipalities can apply to the problem.

The issues are of particular concern in rural municipalities that have a number of intensive operations (or even one large-scale enterprise) within their boundaries.

Consultation feedback

The committee initially set out four options for Albertans to consider:

- Make no changes to the present system and address the local infrastructure costs through a business tax on intensive agricultural operations;
- Assess farm buildings, and then exempt them from taxation to a certain level by introducing an assessment exemption amount;
- Continue to exempt all farm buildings and apply an increased land assessment to reflect intensive use of the land; or
- Assess and tax either the land or the buildings on each parcel, whichever results in the highest assessment.

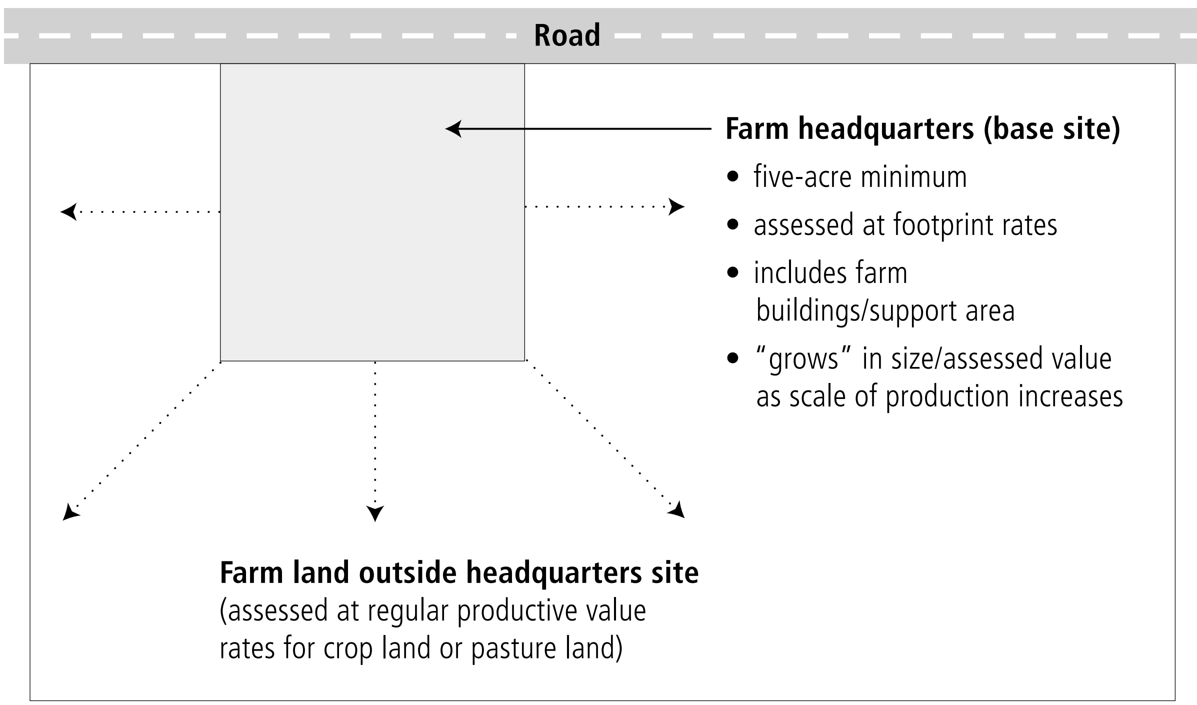
Many people suggested that there should be a better solution. Various possibilities were proposed; they ranged from introducing a road levy, to giving municipalities a portion of fuel tax proceeds to help cover infrastructure costs.

Several agricultural producer organizations suggested a “footprint” approach to address the problem. In the past two and a half years, the committee has worked with a stakeholders working group to look into this concept more closely.

The committee observed, among other things, that the footprint approach deals with assessment inequities in a way that does not attempt to define either intensive or extensive operations—and does not attempt to resolve the issue by assessing and taxing farm buildings. This latter option was not supported during the consultations. The footprint approach does, however, set out a method to measure the productive capacity of building-intensive agricultural enterprises.

In the summer and fall of 1999, the committee met with stakeholders to develop the valuation principles and objectives for the footprint concept. The firm of Nichols Applied Management was contracted to conduct a study in nine rural municipalities in Alberta.

FOOTPRINT CONCEPT



Footprint size varies: Grain and oilseed farms and small livestock operations would receive a minimum footprint or base site. The footprint assessment of livestock enterprises would increase as the number of animals increases.

The footprint approach

The footprint approach recognizes that a farm operation leaves an “imprint” on the land in the form of maintenance buildings, commodity storage and general support areas for farm activity.

The footprint left on the land by a grain or oilseed farm is relatively small—typically support buildings such as a shop, commodity storage and structures for machinery storage.

The footprint left by a livestock, greenhouse or mushroom operation is typically larger. The site may be used for production buildings, barns, feed storage, pens, calving sheds and climate-controlled facilities, as well as the traditional shops and support structures.

How it works

The footprint concept is applied in the following manner:

1. **Farm headquarters (base) site**
   Each agricultural operation with farm buildings is considered to have a farm headquarters (base) site on which support structures are situated.

   There was a consensus among agricultural producers in the stakeholder working group that a five-acre base site would reflect a typical farm-operation headquarters.

   (If an agricultural operation has no farm buildings, no headquarters site would be designated and no change would occur in the way the farm land is assessed.)

2. **Footprint size and value**
   The footprint concept recognizes that the headquarters (base) site contributes to the productive capacity of the enterprise. It sets out an approach to measure this contribution to the overall productivity of the operation.

   The concept recognizes that the productive capacity of an enterprise increases as its scale of production increases. For a livestock operation, for example, this scale of production would be measured on the basis of the number of animals in the enterprise.

   Under the footprint approach, each type of agricultural operation would be assessed according to a footprint assessment rate set out for the type of agricultural activity taking place. For example, separate rates would be established by the province for poultry, hog, beef, dairy, mushroom, fish, honey and other enterprises. The rates would reflect the building and support area needs of the different types of operations.

   These rates, in effect, would reflect the production that each animal unit of an enterprise would contribute to the overall productivity of the farm operation.

   For example, a footprint assessment rate for a poultry enterprise might be based on the typical egg-laying production of one hen. The footprint assessment on the site would be calculated by multiplying the number of laying hens in the enterprise by that assessment rate.

   The area of farm land included in the footprint would increase proportionately with the number of animals in the enterprise. This area would be determined on the basis of housing standards endorsed for different species by Alberta Agriculture, Food and Rural Development (for example, square footage of housing per animal).

3. **Variations and exceptions**
   The footprint concept would accommodate variations and exceptions.

   For example, a property owner may have a headquarters site on one parcel of land and an additional commodity-storage site on another parcel. In this case, the commodity-storage site would be exempt from the footprint method (providing that the capacity of the storage bins does not exceed the volume of grain or other crop that the parcel is capable of producing).

Keeping the rates current: Footprint property would become a new category of farm land that is assessed at rates based on the land's productive value. The current categories are: arable dry land, pasture land, and irrigated land.

Footprint assessment rates would need to be updated periodically to reflect commodity price changes and other factors—and to ensure that these rates continue to bear an appropriate relationship to those of the other farm land categories.

The footprint rates would be uniform across the province.

A farm with multiple enterprises (for example, hog and cow-calf enterprises) would not be regarded as leaving two footprints. It would have a blended footprint with an assessment rate determined in such a way as to recognize the productive capacity of each type of enterprise.

The footprint assessment rate for some types of multi-faceted enterprises (for example, a hog farrow-to-finish enterprise) would be based on the productivity potential of two operational aspects of the enterprise (the farrowing operation and the feeder operation). This rate would reflect differences in typical management practices for the two types of operation.

The headquarters site is the principal farm site where the primary agricultural activity occurs or is directed from—for example, the extraction house site in the case of apiaries, or the wintering site for cattle that graze in pastures in warmer months.

4. **Total assessment of the farm land**
   The land in the footprint site would be assessed at the applicable footprint assessment rate. The assessed value of the footprint could be considered as the "enhanced" productive value of this land, reflecting its additional productivity.

   The remainder of the land in the farm unit (that is, land not included in the footprint site) would be assessed on the basis of its productive capability for traditional agricultural land uses (for example, wheat production).

Effects of the footprint approach

The effects of the footprint approach can be discussed in terms of the effects on property owners, municipalities and the overall assessment system.

1. **The assessed values of farm operations increase as the scale of production increases.**
   For an intensive agricultural operation, the size and assessed value of the footprint site would increase as the scale of production increases.

   In other words, the more animals in the livestock enterprise, the greater the footprint assessment. Or, in the case of a greenhouse or mushroom enterprise, the greater the square footage of the facilities, the greater the footprint assessment.

   The footprint size and value of some agricultural operations would significantly exceed that of the five-acre base site.

   For example, the footprint size of a 9,500-head cattle feedlot could grow beyond the five-acre minimum to about 135 acres. This land would be assessed at the footprint rate for cattle feedlot enterprises; the balance of the parcel would be assessed at the productive-value rate for pasture or arable dry land.

   The footprint assessment will result in an increase in the total assessed value of the agricultural parcel.

There would be a minimal increase in the total assessed value of the crop farm, reflecting its relatively small footprint assessment.

The committee believes this minimal increase for crop-based farms is acceptable in view of the fact that, by using the footprint approach to reduce tax inequities, farm buildings would continue to be exempt from assessment and taxation in rural municipalities.

The following are examples of adjustments that could occur in the assessment and property taxes on various agricultural enterprises with the use of the footprint assessment method.

Examples of footprint's effect on property assessment and taxation

Note:
These are examples only. The actual property tax that an agricultural operation would pay depends on the tax rate set by the municipality in which it is located.

These calculations do not include the assessments on the farm residences.

Cereal/oilseed operation (irrigated, 160 acres)
Home quarter – Gross production: $45,000/year

Current (no footprint)	Proposed (footprint applied)
Assessment: $48,385 Property taxes: $699	Assessment: $54,385 Property taxes: $783

Broiler operation (62,500 birds, 10 acres)
Gross production: $900,000/year

Current (no footprint)	Proposed (footprint applied)
Assessment: $1,620 Property taxes: $23	Assessment: $88,010 Property taxes: $1,271

Cattle feedlot (24,000 head, 160 acres)
Gross production: $12 million/year

Current (no footprint)	Proposed (footprint applied)
Assessment: $24,720 Property taxes: $357	Assessment: $793,000 Property taxes: $11,451

Beekeeping enterprise (500 colony, 12 acres)
Gross production: $62,500/year

Current (no footprint)	Proposed (footprint applied)
Assessment: $2,110 Property taxes: $30	Assessment: $10,747 Property taxes: $155

2. **The footprint approach brings greater fairness into the assessment process.**
The footprint concept extends the property assessment and tax system so that it includes building-intensive agricultural operations. The footprint approach increases the assessment of intensive livestock operations more than that of crop farms. In doing so, it brings closer together—but does not make equal—the way in which the property assessment and tax system treats intensive and extensive agricultural operations. It allows the tax burden to be distributed more equitably among the various types of farm properties.

3. **The effects on a municipality's assessment base will depend on the number and types of agricultural operations within its boundaries.**
All rural municipalities would see some increase in their assessment bases. The amount depends upon the number of farm parcels with footprints, and the number and scale of intensive enterprises in the municipality.

The increase in the assessment base may or may not have an effect on a municipality's tax revenues. Some councils might decide to lower the local tax rates so there is no increase in the overall level of property taxation. Other municipalities might choose to maintain their current tax rates, thereby increasing tax revenues to fund local services.

Stakeholders point out, however, that the purpose of the footprint concept is to *redistribute* the property tax burden among property owners in the agriculture sector—not to draw in more tax dollars from the industry. They caution that, if the tax contribution from intensive agriculture increases in a municipality, then the tax contribution of grain farmers should decrease.

Discussion

In the summer of 2001, the committee met again with the stakeholders group of agricultural and municipal representatives. The committee outlined the overall results of its study on the footprint method of assessment and asked group members for feedback.

The stakeholders again responded positively to the footprint concept, generally endorsing it as a viable means of addressing tax inequities among intensive operations and crop farms.

Their feedback to the province was clear: Move forward with the footprint approach, develop it fully, and keep this industry involved.

The committee agrees that the industry's continuing involvement is necessary. The footprint rates will need to reflect the economic factors and practices typical to each type of enterprise—and be flexible enough to adjust to marketplace changes in commodity prices.

The footprint rates will also be a key factor in determining the degree to which the property tax burden is to be readjusted between crop enterprises and intensive enterprises. It will be necessary for government to consider this carefully in developing the rates.

Agricultural representatives said that any additional revenue generated by the footprint assessment method should be used for local infrastructure. It was pointed out that the current property tax system would direct a portion of any revenue increase in a municipality into provincial education coffers. Some people said that this use of footprint revenues would not be appropriate in view of the fact that it is largely the need for infrastructure maintenance that has given rise to the footprint concept.

On this point the committee would note once again that, as some stakeholders have pointed out, the footprint approach is intended to be a method of *redistributing* property taxes. In each municipality, the property tax burden is made up of revenue requirements for both municipal and educational purposes. The footprint mechanism is meant to shift a portion of that tax burden away from crop farms and onto intensive operations. It is to be expected that education tax dollars will be included in the tax shift.

The committee believes, however, that the implementation of the footprint concept and other assessment reforms proposed in this document should result in no increase in the agricultural sector's overall share of the provincial education tax burden. The committee discusses this matter further in section D.1.

Some concern was expressed about the fact that small farms would acquire a minimum footprint site of five acres. However, the committee holds the view that, to be equitable, the footprint approach needs to be applied in a consistent manner to farm holdings of all sizes. It is also important to note that, under the footprint approach, farm buildings would continue to be exempt from assessment and taxation.

The committee notes that it would be necessary to allow a full year to implement the footprint method of assessment. The task of putting the footprint approach into province-wide effect would be a significant one, as observed by some stakeholder representatives, including professional assessors. The province will need to work with municipalities, assessors and agricultural representatives to design a way for farmers to periodically advise local assessors of the types and scale of their enterprises. In each municipality, assessors would need to visit all farm properties. It is likely, however, that the administrative workload will decrease following the initial implementation phase.

The committee has been impressed by the willingness of the agriculture industry to resolve issues around the assessment of intensive operations—and by the active participation of stakeholders in bringing forward a solution.

The committee recommends that the province proceed to fully develop and implement the footprint concept.

C.2 Tax rate subclasses for farm property

Recommendation

The MLA Farm Property Assessment Review Committee recommends that the *Municipal Government Act* be amended:

- to allow a local government, at its discretion, to set out subclasses within the farm land class of property for assessment and taxation purposes; and
- to specify that the highest subclass tax rate in a municipality may not be more than 1.5 times greater than the lowest subclass tax rate within the farm land property class.

Current situation

Municipal councils would have greater ability to respond to local tax policy and infrastructure issues, some stakeholders suggest, if they were able to apply different tax rates to different types of farm property.

The tax policy options of local councils are currently restricted by the fact that all farm properties must be grouped into a single assessment category. This lack of flexibility under the legislation is a particular constraint in municipalities in which farm land makes up a large portion of the assessment base.

Consultation feedback

In its 1998 discussion paper, the committee proposed that the *Municipal Government Act* be amended to give municipalities the flexibility to apply different tax rates on farm property depending on the type of agricultural operation taking place on the property.

Those who agreed with the suggestion saw it as an effective way to address local tax issues and enhance municipal autonomy. Others voiced concerns, including the view that municipalities might use this new flexibility to increase taxes on some properties without providing any more services.

This divergence of opinion was evident once again at the committee's meeting with agricultural and municipal stakeholders in the summer of 2001. Municipal officials said it is important for local governments to have tax policy options available to them under the legislation. Agricultural representatives were concerned that a municipality's use of agricultural tax-rate subclasses, in addition to the province-wide use of the footprint method of assessment, would amount to double taxation of some properties.

Discussion

Recommendation C.2 reflects the committee's position that:

- **A municipality should have access to this tax policy option if it can assist in responding to local taxation issues in the agricultural sector.**

  The committee anticipates that in most municipalities, most issues related to the distribution of the property tax burden within the agricultural sector would be resolved through the footprint method of assessment recommended in section C.1. There may be little need for municipalities to designate farm land subclasses.

  Nevertheless, depending on the make-up of a municipality's assessment base, there may be circumstances in which this policy tool could be applied to respond effectively and equitably to the needs or concerns of local ratepayers. For example, a council might determine that it is appropriate to set individual subclasses for properties used for feedlot, poultry and grain operations. Council could then designate a different tax rate for each subclass to reflect its use of infrastructure relative to other types of farm property.

- **The agriculture industry must be assured that, under the legislation, major variations will not be allowed in the tax rates assigned to different types of farm property in a municipality.**

  Agricultural producer groups have expressed concern that a municipality might decide to designate subclasses as a means to specifically target and substantially raise taxes for certain agricultural operations—to the extent that these enterprises would bear an inordinate portion of the property tax burden.

  The committee is therefore recommending that a limit be set on the extent to which a municipality may vary its tax rates for various types of farm land. This safeguard would ensure that this policy option is not used to place an undue tax burden on any particular type of farm property.

Note:
The identification of farm land subclasses for property tax purposes would occur only if a municipal council were to make a policy decision to do so. It is important to note that the provincial implementation of the footprint concept would not create local tax-rate subclasses in a municipality.

A limited variation:
Under this recommendation, a municipality would not be able to vary its tax rates for different types of farm land beyond a certain level.

A municipal council might decide, for example, to designate two farm land classes for assessment purposes: a dry land subclass and a livestock subclass.

If the municipality set a tax rate of 10 mills for the dry land subclass, it could set a tax rate not more than 1.5 times greater for the livestock subclass. The maximum tax rate for livestock enterprises would therefore be 15 mills.

The use of tax-rate subclasses is by no means a unique concept. It is consistent with the way in which municipalities apply varying tax rates to different types of residential property. Municipalities have for years had the ability under the legislation to set out residential assessment subclasses.

C.3 No business tax on farming operations

Recommendation

The MLA Farm Property Assessment Review Committee recommends that the *Municipal Government Act* be amended to specify that a business tax may not be levied on any activity that qualifies as a farming operation under the proposed definition of farming operations for assessment and property taxation purposes (as set out in section A.1 of this report).

Current situation

Some rural municipalities have considered the possibility of levying business taxes on intensive farm operations to ensure they pay their share of municipal infrastructure costs. The *Municipal Government Act* does not limit a council's ability to introduce a business tax on agricultural operations.

A business tax is not a property tax. It is a tax on a business operated on a property, not a tax on the property. Municipal councils that levy the tax generally do so to offset municipal service or infrastructure costs created by the presence of businesses in the community. There is no education tax component in a business tax.

Consultation feedback

In its 1998 discussion paper, the committee recommended that municipalities should continue to be allowed to levy a business tax on farming operations. The committee also suggested that the *Municipal Government Act* be amended to enable councils to apply this type of tax in a manner that would be appropriate for the agricultural industry—for example, by basing the tax on the number of animal units on a property.

The consultation feedback was divided. Some suggested that the business tax would be an appropriate way to generate the revenue needed for additional costs resulting from intensive farm operations. They said municipalities should have the flexibility they need to introduce the business tax. Others saw the possibility of a patchwork of local taxes emerging across the province if some municipalities decided to levy the tax and others did not.

Some people raised concerns about the financial effects on the agricultural industry. There were also suggestions to the effect that the necessary infrastructure funding should be accessible directly through the property assessment system; a municipality should not have to impose another tax.

Discussion

Note:
The committee's recommendation that business taxes not be levied on intensive farm enterprises is based on the premise that the footprint proposal would be adopted by the government for province-wide use. The footprint concept is outlined in section C.1.

Recommendation C.3 is a direct response to the feedback of agricultural representatives.

At its June 2001 meeting with municipal and agricultural stakeholders, the committee once again stated its view that a local council should have the flexibility under legislation to apply a business tax to intensive farm enterprises if this would help to resolve local tax issues. The idea was once again greeted with opposition from the industry.

Agricultural stakeholders said farm property should not be subject to multi-tiered taxation. They voiced concern that the agricultural sector could be taxed unfairly if—after the footprint concept were applied province-wide—a municipality were then also able to apply tax-rate subclasses and/or a business tax to some farm properties.

The committee recognizes the position of agricultural stakeholders on the business tax. It is also aware that municipalities would likely have little need of this tax if the province adopts the footprint concept. (As discussed in section C.2, the committee maintains its view that a local council should be able to tax different subclasses of farm property at somewhat different levels.)

To date, no municipal council in Alberta has levied a business tax on intensive farm enterprises. The legislation can therefore be changed to disallow the use of this tax on farm operations without disrupting the way in which municipalities conduct their affairs.

C.4 Farm buildings in urban municipalities

Recommendation

The MLA Farm Property Assessment Review Committee recommends that the Alberta government exempt farm buildings in urban municipalities from property tax, in order to address a current inconsistency in the treatment of urban and rural farm buildings. However, an urban council by bylaw should have the option to tax farm buildings (at a 50 per cent level) for municipal purposes.

The MLA Farm Property Assessment Review Committee also recommends that, if an urban council chooses to tax farm buildings, it should be able to apply a more appropriate tax rate to those properties. Farm buildings in urban municipalities are currently taxed at the same rate as commercial properties. This issue may be addressed by amending the *Municipal Government Act* to include an assessment classification for farm buildings.

Current situation

There is a significant difference in the way in which farm buildings in rural municipalities—and farm buildings in urban municipalities—are treated under the current assessment and property tax legislation.

In rural municipalities, farm buildings are fully exempt from property assessment and taxation for both municipal and educational purposes. In urban municipalities, farm buildings are assessed and then exempt from property tax to a level of 50 per cent for both municipal and educational purposes.

Moreover, because the legislation does not include an assessment class for farm buildings, farm buildings in urban municipalities are taxed at the same rate as commercial properties (non-residential assessment class).

Consultation feedback

This difference in provincial policy for urban and rural municipalities is one of the factors contributing to tax inequities among farm properties across the province. Ratepayers voiced concerns, in particular, about the fact that farm buildings in urban municipalities are subject to property tax, while those in rural municipalities are not.

Discussion

The committee is proposing that all farm buildings in Alberta be treated more consistently in regard to property tax.

This can be achieved by including urban farm buildings in the properties identified in section 363 of the *Municipal Government Act* as exempt from taxation *unless* an urban council chooses to pass a bylaw to make them taxable for municipal purposes. In this case, a farm building would be taxed on 50 per cent of its assessed value.

Note:
The footprint method of assessment proposed in Recommendation C.1 would not be applied in urban municipalities in which farm buildings are assessed and taxed.

The committee believes that urban councils should continue to have the discretion to levy a municipal tax on these buildings if local circumstances justify it. The loss of this revenue could significantly affect the financial stability of a few small communities in Alberta. The committee also recognizes that there can be benefits, in terms of municipal services and programs, associated with a property being located in an urban municipality—and municipal property taxes reflect the revenue required to support these services and programs.

Although it may be appropriate for municipal taxes to be levied on farm buildings in urban municipalities, it is not appropriate for these buildings to be taxed at commercial rates. The recommendation to include an additional assessment class in the legislation would allow an urban council to adjust its tax rate accordingly.

D. ASSESSMENT AND TAXATION OF FARM RESIDENCES

Overview

In the 1950s and ’60s, people from urban centres began to build homes in rural areas, and the trend gained momentum in the following decades.

Inevitably, homeowners on farms and homeowners on country-residential acreages took note of what their new neighbours were paying in property taxes. When they perceived inequities, many ratepayers were concerned enough to take their cases to court. Provincial policies were amended on various occasions in an attempt to resolve emerging issues in the assessment of rural properties.

In the late 1980s, the Rural Assessment Policy took a two-pronged approach to addressing the concerns of ratepayers:

- **Residential sites were designated for assessment purposes:** The site underlying a residence on a rural property (farm or non-farm) was considered to be a minimum of three acres in size. This residential site was assessed by the methods used at the time to determine its market value. The rest of the land in the parcel (farm or non-farm) was assessed at farm land rates (productive value).
- **Residences were allowed to “earn” exemptions in assessment:** An exemption was applied in the assessment of the residence (farm or non-farm) according to the assessed value of the land in the owner’s unit that was valued at farm land rates.

The Rural Assessment Policy was designed to treat all rural properties in a consistent way. Both farm and non-farm landowners were eligible for some amount of exemption on their residences if they owned qualifying land to trigger the exemption. The higher the assessment in the landowner’s unit, the greater the exemption.

A number of concerns, however, have been expressed by both farm and non-farm ratepayers in connection with the Rural Assessment Policy.

For example, country-residential acreage owners are no longer able to qualify for the tax exemption on their homes. As a result of new legislation introduced in the 1990s, all land that is not used for farming operations is now assessed on a market value basis. No portion of a country-residential acreage is any longer assessed at farm land rates, so an exemption for the residence cannot be earned.

As for the designation of the three-acre residential site, farm ratepayers point out that few farm residences actually occupy sites as large as three acres. Many farmers also question the fairness of a policy under which landowners with larger or better-quality farm holdings can qualify for higher exemptions on their residences than smaller farm operators.

The committee deliberated on these matters at length. We recognized that **it is important to consider the two components of the Rural Assessment Policy carefully and jointly** in the development of recommendations to alleviate the issues. The two parts of the policy (the designation of the underlying site and the tax exemption for the residence) were introduced together in response to concerns arising with the growing number of country-residential homes in rural areas. Therefore, any attempt to deal with one policy component without giving attention to the other would create new tax inequities.

We also recognized that **it is difficult to propose solutions to concerns about the assessment of rural residences without considering the provincial education property tax.** As members of the MLA Farm Property Assessment Review Committee, we are aware that it is not within our mandate to provide the Alberta government with advice on education property tax issues. Policy recommendations on the provincial education tax, particularly on matters of this significance, would fall under the purview of the MLA Education Property Tax Review Committee.

Yet we are unable to disregard the fact that education taxes figure prominently into rural property tax issues, and we received a great deal of input on education tax matters during the consultations. This committee would be remiss if we did not bring the issues forward to the Minister and our government colleagues. We made a commitment to stakeholders that we would do so.

We are recommending, therefore, that the issues related to the assessment and taxation of rural residences be brought to the attention of the MLA Education Property Tax Review Committee—and that our two committees jointly develop a workable solution. We are also proposing that, in working on this task, consideration be given to a possible solution that has gained support among municipal and agricultural stakeholders in recent years. This proposal is discussed further on the following pages (D.1).

D.1 The tax exemption policy for farm residences

Recommendation

The MLA Farm Property Assessment Review Committee recommends that the current issues related to the assessment and taxation of rural residences be brought to the attention of the MLA Education Property Tax Review Committee—and that the two committees jointly develop a workable solution.

Considerations:

The MLA Farm Property Assessment Review Committee believes that consideration should be given to a potential solution that has been suggested by municipal and agricultural stakeholders, and supported by the Alberta Association of Municipal Districts and Counties. Under this proposal:

- farm residences would become fully taxable for both municipal and educational purposes; and
- farm land would continue to be fully taxed for municipal purposes, but no longer taxed for educational purposes.

The committee further believes that, if it is not feasible to remove the education tax from farm land at this time due to the current fiscal position of the Alberta government, then consideration should be given to lowering the education tax rate on farm land. The intent would be to ensure that the assessment reforms adopted to resolve inequities in the current system would result in no increase in the agricultural sector's overall share of the education property tax burden.

Current situation

In rural municipalities, farm residences are exempt in whole or in part from assessment for property tax purposes. The amount by which a residence is exempt is based on the assessed value of the agricultural land that the property owner owns or leases from the Crown or a municipality.

The maximum exemption that a residence can receive on its assessment is $61,540. If there is more than one residence on the owner's farm land, each additional home may receive an exemption of up to $30,770.

Consultation feedback

A number of issues have arisen in relation to this policy:

- **Owners of urban residences and country-residential acreages are concerned about the fairness of the farm residence exemption policy.**

  This policy applies to property taxes for both education and municipal purposes. As a result, a farm residence in a rural municipality pays less property tax for education than a non-farm residence of similar value. Concerns have been expressed to the effect that this runs counter to the concept of a uniform property tax rate for education purposes in Alberta.

  Many owners of farm residences contend that it is appropriate for farm homes to be fully or partially exempt from education taxes because educational services differ between urban and rural areas (for example, long bus rides and fewer programs for rural students). On the other hand, owners of non-farm residences in rural areas (who receive no exemption) could also make a case that they should not pay full education taxes for similar reasons.

The farm residence exemption:
- If a farm residence qualifies for the full exemption, this would reduce its property-tax bill by $600 to $1,200, depending on the municipal tax rate.
- The average benefit is about $900.
- These figures apply to the first assessed residence on the farm land.

- **Farm ratepayers also express concerns about the policy.**

  Some farmers say it is unfair that land they rent from neighbours or other private parties is not taken into account in the calculation of the residential exemption. (It is estimated that more than 50 per cent of agricultural land in Alberta is farmed by someone other than the landowner.)

  Some farmers with small or poor-quality holdings believe it is unfair that people with larger or better-quality tracts can qualify under the policy for higher exemptions on their homes.

  If a farmer's home is situated on land that he or she does not own, then the farmer cannot include the assessed value of any land that he or she does own when calculating the exemption. (This situation can arise, for example, if a son lives in a residence near his father's home on his father's land, and the son owns farm land elsewhere.)

The policy does not apply in urban municipalities, so a farm residence on agricultural land in an urban municipality does not receive an exemption. However, a residence in a rural municipality can receive an exemption on the basis of farm land owned in an urban municipality.

During the consultations of 1998, the committee presented three options for Albertans to consider. Those options were to: maintain the present system; apply no exemption to a residence regardless of its location; or phase out the current exemption on farm residences and shift the exemption to farm land. None of the options received strong support. Many people said a better solution should be developed.

The committee did, however, receive some suggestions that it would be acceptable to remove the exemption policy to allow farm *residences* to become fully taxable for municipal and education purposes—but only if the education property tax were removed from farm *land*.

The committee made a commitment to look at the effects of removing the exemption before making a further proposal on the matter.

Discussion

The current policy for the assessment of farm residences is no longer serving Albertans well. It may have done so in the early years following the implementation of the Rural Assessment Policy in the late 1980s. But subsequent changes in assessment and tax legislation have taken a toll on the policy's effectiveness. The policy is seen to be unfair and inequitable.

These inequities could be resolved by discontinuing the policy. This would put farm and non-farm residences on an equal footing: both would be fully assessed and taxed for municipal and education purposes.

However, the committee is aware that—unless some type of counter measure is put into place—the removal of this exemption policy would place an increased burden on the agricultural sector.

One potential solution to this concern would be to discontinue the current exemption policy for farm residences on the condition that farm land would no longer be taxed for educational purposes. (Farm land would continue to be fully taxed for municipal purposes.) This option has been endorsed by the Alberta Association of Municipal Districts and Counties.

From the perspective of the agricultural sector, removing the education tax from farm land would offset the effects of losing the tax exemption on farm residences.

From the perspective of rural municipalities, the proposal is likely to result in assessment-base increases as farm residences become fully assessable and take on a greater share of the municipal tax burden. The amount of this increase is difficult to estimate due to differences in local policies and tax rates.

From the perspective of the Alberta government, the proposal would result in a net loss of an estimated $22 million in education property taxes. (The province would acquire an estimated $12 million in education taxes as farm residences become fully taxable, but simultaneously lose an estimated $34 million as the education tax is lifted off farm land.)

As members of the MLA Farm Property Assessment Review Committee, we believe this proposal should be brought before the MLA Education Property Tax Review Committee. We believe that our two committees should look at its potential closely in developing a workable solution to property assessment and tax issues pertaining to rural residences.

In doing so, the two committees will need to consider the effects of this education tax decrease within the context of the current fiscal position of the Alberta government. If the province is unable at this time to assume this $22 million loss, this committee nevertheless maintains that it is not appropriate for the agricultural sector to assume an increased share of the education tax levy as a consequence of fully taxing farm residences.

Therefore, if it is not feasible at this time to fully remove the education tax from farm land, then the committee contends that the province should adjust its tax rate to ensure that the agricultural sector's overall share of the education tax burden is maintained at the present level.

This objective can be achieved by:

- amending the *School Act* so that the province is able to set a specific education tax rate for farm land. (Under the act, the province currently applies a common tax rate to both farm land and residential property.)
- adjusting this farm land tax rate as necessary to ensure that, in implementing the assessment reforms proposed in this document, the agricultural sector's overall share of the education property tax levy is maintained at its present level.

This alternative is consistent with the overall intent of this committee's recommendations. The intent is not to pull more tax dollars into the system, but rather to increase fairness and equity in the distribution of the existing property tax burden among property owners. The option above would ensure that the province does not stand to gain or lose unduly in the process of resolving inequities in the current system.

D.2 The three-acre residential site

Recommendation

The MLA Farm Property Assessment Review Committee recommends that, in working together to address rural property tax issues, this committee and the MLA Education Property Tax Review Committee should:

- consider the three-acre residential site issue in conjunction with the farm residence tax exemption issue; and
- consider adjusting current policy so that the site underlying a farm residence is regarded, for assessment purposes, to be a minimum of one acre (rather than the current three acres) in size. However, this policy should be adjusted only if the decision is made to discontinue the farm residence tax exemption.

Current situation

Farm land in Alberta is assessed on the basis of its productive value—except for the sites on which farm residences are situated. The farm residential site is assessed on a market value basis. Under the current system, the site is considered to be three acres in size and it is assessed as if it were a separate parcel of land.

Consultation feedback

Farm homeowners have pointed out that the land used for residential purposes on farms is usually less than three acres. Moreover, many people see little point in assessing the site as though it were an individual, three-acre parcel of marketable residential property. They say it is an integral part of the larger farming operation. In many cases, these sites are not legally permitted to be subdivided from the surrounding farm land.

The 1998 discussion paper set out three potential options in which:

- no change would be made to the current system;
- no residential site would be assessed on the basis of its market value. All land, including the site of a residence, would be assessed on the basis of its productive value; or
- the site of a residence on a farm parcel would be valued on the basis of the market value of a one-acre site as part of the total farm parcel.

Once again, opinions were divided. Of the options presented, the status quo seemed to be preferred. The committee indicated in its summary paper following the consultations that it would recommend no change to the current assessment approach.

This issue continues to be a concern, however, and after further deliberation the committee has determined that it should be looked at closely in conjunction with the farm-residence tax exemption issue.

Discussion

The committee has heard and agrees with those who have criticized the three-acre residential site policy. We are aware that many farm residences occupy sites of less than three acres, and few farm residences sit on separate parcels of land.

It is important, however, that this policy issue be addressed in conjunction with the tax exemption policy for farm residences. The two policies, or earlier versions of them, date back to the late 1980s when they were introduced jointly to respond to tax-related concerns at that time among farm and non-farm property owners. An adjustment to either policy, without considering the other, would create new tax inequities.

The committee continues to see merit in the third option in the discussion paper (or a refinement to it). This approach would reduce the size of the farm residential site from the current three-acre minimum to a one-acre minimum for assessment purposes. A one-acre site is more realistic, considering the amount of land typically used for residential purposes on most farms.

However, this policy change should be implemented only if a decision is made to discontinue the farm residence tax exemption. Otherwise, the result of introducing a one-acre site policy, without an offsetting change in the exemption policy, would be a significant shift of the property tax burden onto country-residential acreages and other properties. This would be particularly evident in municipalities near large urban centres.

Care will therefore need to be taken to develop a well-balanced and coordinated approach to the assessment and taxation of rural residences. We are confident that, by working together, this committee and the MLA Education Property Tax Review Committee will be able to meet this challenge by combining the considerable expertise that each of our committees has acquired in our respective policy areas.

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