

**CALGARY
ASSESSMENT REVIEW BOARD
DECISION WITH REASONS**

In the matter of the complaints against the property assessments as provided by the *Municipal Government Act*, Chapter M-26, Section 460, Revised Statutes of Alberta 2000 (the Act).

between:

**Hospitality Inns Ltd.
(as represented by A.E.C. International Inc.), COMPLAINANT**

and

The City Of Calgary, RESPONDENT

before:

**J. Krysa, PRESIDING OFFICER
B. Jerchel, MEMBER
A. Blake, MEMBER**

These are complaints to the Calgary Assessment Review Board in respect of the property assessments prepared by the Assessor of The City of Calgary and entered in the 2012 Assessment Roll as follows:

ROLL NUMBER:	130000292	130000409
LOCATION ADDRESS:	135 Southland Drive SE	227 Southland Drive SE
HEARING NUMBER:	68431	68430
ASSESSMENT:	\$7,700,000	\$7,830,000

The complaints were heard on July 16, 2012, in Boardroom 1 at the office of the Assessment Review Board, located at 1212 – 31 Avenue NE, Calgary, Alberta.

Appeared on behalf of the Complainant:

- B. Ryan, D. Mukherjee

Appeared on behalf of the Respondent:

- D. Grandbois

Board's Decision in Respect of Procedural or Jurisdictional Matters

[1] The Complainant requested that these complaints be heard concurrently with two other complaints scheduled to be heard by the Board on July 16, 2012, as the Complainant intends to put forth a global argument in respect of the Respondent's methodology in preparing the assessments. The Respondent did not object to the Complainant's request to have all four complaints heard concurrently.

The Board allowed the Complainant's request; the complaints were heard simultaneously.

Property Description

[2] The subject properties are two, individually titled parcels of land, improved with a 252 room full service hotel known as the Delta Calgary South. The hotel is comprised of two multi storey structures connected by an overhead, enclosed walkway, as detailed below.

Location Address:	135 Southland Drive SE	227 Southland Drive SE
Parcel Size:	1.60 acres	2.95 acres
Improvement Size:	84,521 Sq.Ft.	113,073 Sq.Ft.
Year of Construction:	1978	1982

The total of the assessments equate to a unit rate of \$61,627 per room.

Issues

[3] The Complainant raised the following matters in section 4 of the complaint forms:

#3. an assessment amount

[4] The Complainant set out 6 grounds for the complaint in section 5 of the complaint form; however, only the following issue was in dispute at the hearing:

Issue: The subject property's food and beverage expenses are understated in the assessment calculation.

Complainant's Requested Assessments

Roll Number:	130000292	130000409
Location Address:	135 Southland Drive SE	227 Southland Drive SE
Assessment:	\$7,700,000	\$7,830,000
Requested Assessment:	\$5,640,000	\$5,540,000

[5] **Global Argument:** The Complainant's global argument is that the Respondent's process of normalizing a hotel's operating expenses inflates the assessed net operating income of some properties beyond the actual stabilized income of the properties. The Complainant argued that the result of this variance is that the property assessments exceed the indicated market value of the subject properties as determined by each property's actual stabilized income by 39% to 50%. The Complainant conceded that the normalization process has been applied in an equitable manner; however, the Complainant argued that consideration should be provided to those properties exhibiting a significant variance from industry norms (outliers), to conclude an assessed expense allowance within 5% of the actual stabilized expenses incurred.

[6] In respect of the subject properties, the Complainant argued that the subject's actual stabilized food and beverage departmental expenses are significantly greater than the normalized food and beverage expense allowance of \$3,424,261 provided by the Respondent in the assessment calculation. The reported food and beverage expenses of the subject property, which reflect 95.2% of the reported food and beverage revenues, are set out below:

***Stabilized:** 20% 30% 50% **Expense:** \$4,220,542

**Stabilized as per the Respondent's weightings:*

[7] D. Mukherjee, Chief Financial Officer of the subject property and witness for the Complainant, conceded that a 70% food and beverage expense ratio is reasonable; however, submitted that the ratio for hotels in Alberta may be slightly higher at 73 to 74%. Mr. Mukherjee provided oral testimony that the subject's actual food and beverage expense ratio is approximately 75% to 76%, and not 95.2% as indicated in the reported revenues and expenses. The discrepancy, according to Mr. Mukherjee, is attributable to the subject's departmental based accounting system which allocates revenues and expenses by profit centre and not in the format employed in the assessment calculation. The witness submitted that the stabilized revenues of \$1,346,739 in "Other Departments" include some food and beverage revenues as well as revenues from banquet room and audio visual rentals.

[8] The Complainant provided a comparative analysis of the subject's property taxes in relation to the property taxes of three comparable properties not under compliant; the Coast Plaza Hotel, the Royal Inn, and the Ramada to demonstrate the following:

	Revenue PAR*	Tax PAR*	Effective Tax Rate	Property Tax per Door
Subject	\$ 100.04	\$ 2.74	2.70%	\$ 1,001
Coast Plaza	\$ 60.99	\$ 1.38	2.30%	\$ 503
Royal Inn	\$ 68.82	\$ 1.86	2.70%	\$ 681
Ramada	\$ 70.10	\$ 2.15	3.10%	\$ 785

**Per Available Room (Rooms x 365 nights)*

[9] The Complainant further provided three food and beverage department income statements, for the 12 month periods ending March 2009, March 2010, and March 2011, exhibiting departmental food and beverage revenues and expenses as follows:

*Sales	Mar-09		Mar-10		Mar-11	
Food	\$4,150,214		\$3,467,769		\$3,458,592	
Beverage	<u>\$ 976,896</u>		<u>\$ 880,675</u>		<u>\$ 874,881</u>	
Total F&B Revenue	\$5,127,110		\$4,348,444		\$4,333,473	
Allowances	<u>\$ (10,595)</u>		<u>\$ (2,127)</u>		<u>\$ (5,405)</u>	
Net F&B Revenue	\$5,116,515		\$4,346,317		\$4,328,068	
Other (Non F&B) Revenues	<u>\$1,285,165</u>		<u>\$1,007,893</u>		<u>\$ 924,896</u>	
Total Departmental Revenues	\$6,401,680		\$5,354,210		\$5,253,054	
*Cost of Sales (COS)						
Food	\$1,313,760	31.7%	\$1,041,301	30.0%	\$1,031,793	29.8%
Beverage	\$ 299,078	30.6%	\$ 286,983	32.6%	\$ 259,351	29.6%
COS: Food and Beverage	\$1,612,838	31.5%	\$1,328,284	30.6%	\$1,291,144	29.8%
COS: Other (Non F&B) Revenues	\$ 276,317	21.5%	\$ 178,594	17.7%	\$ 160,310	17.3%
Total Departmental Cost of Sales	\$1,889,155	29.5%	\$1,506,878	28.1%	\$1,451,454	27.6%
Gross Profit	\$4,512,525	70.5%	\$3,847,332	71.9%	\$3,801,600	72.4%
Payroll and Related Expenses	\$2,546,781	39.8%	\$2,290,189	42.8%	\$2,198,967	41.9%
Other Expenses	\$ 459,298	7.2%	\$ 325,344	6.1%	\$ 358,151	6.8%
Total Expenses	\$3,006,079	47.0%	\$2,615,533	48.9%	\$2,557,118	48.7%
Departmental Income	\$1,506,446	23.5%	\$1,231,859	23.0%	\$1,244,483	23.7%
Departmental Expense Ratio		76.5%		77.0%		76.3%

[10] The Respondent submitted that the assessment has been prepared in accordance with the procedures set out in the provincial hotel/motel valuation guide, and argued that the process of normalizing atypical expenses to within 10% of industry norms is an integral part of the procedures. The Respondent provided a copy of a PKF Consulting (Pannell Kerr Forster) publication titled, Trends in the Hotel Industry 2011, to demonstrate the industry norms for full service hotels, and specifically, the typical food and beverage expense ratio of 70.2%.

[11] In respect of the subject's food and beverage expenses, the Respondent further argued that the subject's stabilized food and beverage expenses of \$4,220,542, reflect approximately 95.2% of total food and beverage revenues, in contrast to the indicated industry norm ratio of 70.2% of total revenues. In preparing the assessment, this expense was adjusted to reflect an allowance within 10% of the industry norm, as follows:

Stabilized Total F&B Revenues	F&B Expense Ratio (Industry Norm)	F&B Expense (Industry Norm)	Adjustment	F&B Expense Allowance
\$ 4,434,423	70.2%	\$ 3,112,965	10%	\$ 3,424,261

[12] The Respondent submitted that after the +10% adjustment is applied, the effective expense ratio applied to the subject's food and beverage revenues is 77.2%; a ratio consistent with the Complainant's witness' testimony that a 70 to 75% expense ratio is typical. The Respondent further argued that the full service hotels in the Complainant's evidence, not under complaint, (Sheraton Cavalier, Coast Plaza, Royal Inn and Ramada), exhibit average and median food and beverage expense ratios of 79.2% and 81.3%, respectively, in contrast to the subject's adjusted expense ratio of 77.2%.

Decision

[13] The Board finds that there was insufficient evidence to demonstrate that the subject property's food and beverage expenses are understated in the assessment calculation.

[14] The Board rejects the Complainant's global argument in respect of relying on a property's actual stabilized income, or adjusting the actual stabilized expenses to an amount within 5% of the actual stabilized income, rather than the Respondent's normalized methodology as documented in the provincial hotel/motel valuation guide. The Complainant's proposed approach would not reflect "typical" conditions for properties similar to the subject, and therefore would not meet the requirements of the legislation.

[15] Section 2 of *Matters Relating to Assessment and Taxation Regulation, AR 220/2004*, sets out the criteria for preparing assessments.

2 An assessment of property based on market value

- (a) must be prepared using mass appraisal,
- (b) must be an estimate of the value of the fee simple estate in the property, and
- (c) must reflect typical market conditions for properties similar to that property.

[16] Mass appraisal is defined in section 1 of *Matters Relating to Assessment and Taxation Regulation, AR 220/2004*

- 1 (k) "mass appraisal"** means the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing;

[17] The Board accepts that the Respondent has equitably adjusted the subject's food and beverage expenses to reflect typical market conditions of full service hotels (properties similar to that property), and there is no evidence before the Board to demonstrate that a food and beverage expense ratio equating to 95.2% of revenues is typical of full service hotels. On the contrary, the Complainant's comparative evidence in respect of other full service hotels in the municipality, demonstrates that a 95.2% food and beverage expense ratio is not typical.

[18] Moreover, the Board was not persuaded by the Complainant's evidence of Statement(s) of Income (Loss) – F&B, as the statements indicate a departmental income ratio of 23% to 23.9%; reflecting actual expense ratios approximating 76%, as submitted in the oral testimony of the Complainant's witness. Although the Complainant argued that some food and beverage revenues are included in other assessed categories, only the "Food and Beverage" income statements were provided to the Board. The Board accepts that the statements are inclusive of some non-food and beverage revenues; however, the revenues for those components do not equate to the total reported "Other departments" revenues. Consequently, without the subject's full financial statements before the Board, the Board is unable to make a determination if all of the subject's revenues and expenses are properly accounted for in the assessment.

[19] The Board however, notes that the Respondent's "typical" 70.2% food and beverage expense ratio is derived from an Alberta-wide study, and is not supported by the evidence of the full service hotels before the Board; which for the most part exhibit food and beverage expense ratios somewhat in excess of 80%, but well below the subject's 95.2% expense ratio.

[20] The Board was not persuaded by the Complainant's comparative analysis [Appendix 3.6], as the properties in the analysis are dissimilar to the subject; given that the subject's total revenues per available room are 43% to 64% greater than those of the comparables. Moreover, the Complainant's analysis demonstrates that the subject's property tax ratio of 2.7% (of revenues per available room) is not disproportionately high in relation to the ratios exhibited by the comparables.

[21] In review of the other full service hotel properties under complaint before the Board, set out in the Complainant's evidence at Appendix 3.3, the Board notes that the subject property not only enjoys the lowest assessment value and property tax liability per room, but also the lowest property tax ratio, at 2.7% (of revenues per available room) as detailed below:

	Total Assessment	Rooms	Assessment per Room	Property Tax per Door	Effective Tax Rate
Subject	\$15,530,000	252	\$61,627	\$1,001	2.70%
Carriage House	\$12,980,000	157	\$82,675	\$1,343	3.90%
Country Inn & Suites	\$8,740,000	106	\$82,453	\$1,339	4.60%
Sheraton Cavalier	\$31,172,084	306	\$101,870	\$1,655	4.20%

DECISION:

The assessments are **CONFIRMED** at the values set out below:

ROLL NUMBER:	130000292	130000409
ASSESSMENT:	\$7,700,000	\$7,830,000

DATED AT THE CITY OF CALGARY THIS 12 DAY OF SEPTEMBER, 2012.


J. Krysa,
Presiding Officer

APPENDIX "A"**DOCUMENTS PRESENTED AT THE HEARING
AND CONSIDERED BY THE BOARD:**

NO.	ITEM
1. C1	Complainant's Submission
2. R1	Respondent's Submission
3. C2	Complainant's Rebuttal Submission

An appeal may be made to the Court of Queen's Bench on a question of law or jurisdiction with respect to a decision of an assessment review board.

Any of the following may appeal the decision of an assessment review board:

- (a) the complainant;*
- (b) an assessed person, other than the complainant, who is affected by the decision;*
- (c) the municipality, if the decision being appealed relates to property that is within the boundaries of that municipality;*
- (d) the assessor for a municipality referred to in clause (c).*

An application for leave to appeal must be filed with the Court of Queen's Bench within 30 days after the persons notified of the hearing receive the decision, and notice of the application for leave to appeal must be given to

- (a) the assessment review board, and*
- (b) any other persons as the judge directs.*

FOR ADMINISTRATIVE USE

Subject	Property Type	Property Sub-Type	Issue	Sub-Issue
CARB	Other	Hotel	Income Approach	Expenses (Actual v. Typical)