ASSESSMENT FOR THE NON-ASSESSOR

Alberta Assessors' Association

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OUTLINE

I. **General Overview – Assessment**
   - What is an Assessor
   - What is an Assessment
   - What types of property are assessed
   - How is property valued

OUTLINE

- Market Value
  - Mass Appraisal
  - Valuation Date / Condition Date
  - 3 Approaches to Market Value
- Regulated Value
- Supplementary Assessments
- Assessment Complaints
- Assessment Cycle
- Assessment Audit & Compliance

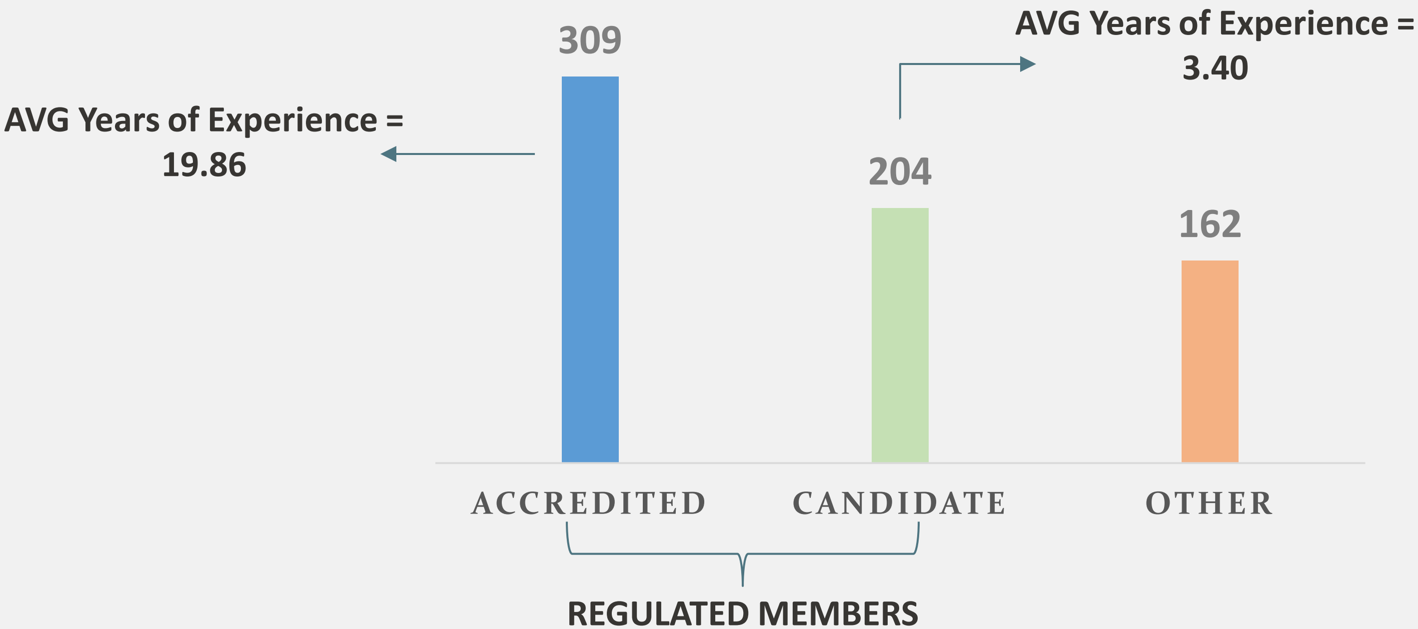
OUTLINE

II. **Taxation**

III. **Summary and Questions**

HISTORY OF AAA

- The Alberta Assessors' Association (AAA) was incorporated under the Societies Act on January 19, 1962.
- 675 Current Members



SERVICE DELIVERY

- The Property Assessment function in Alberta is delivered by either:
  - Assessors employed by the Municipality (in-house), or
  - Contracting Service Providers

- There are currently 23 Contracting Service Providers operating in Alberta who employ 57 of our regulated members.

SERVICE DELIVERY

IN-HOUSE	CONTRACTING SERVICES
✓ 23 Rural Municipalities	✓ All other Municipalities
✓ 9 Cities	
✓ 4 Towns	

WHAT IS AN ASSESSOR?

- Person employed by the Municipality to prepare and defend the assessment roll in accordance with the Municipal Government Act (MGA) and the Regulations.

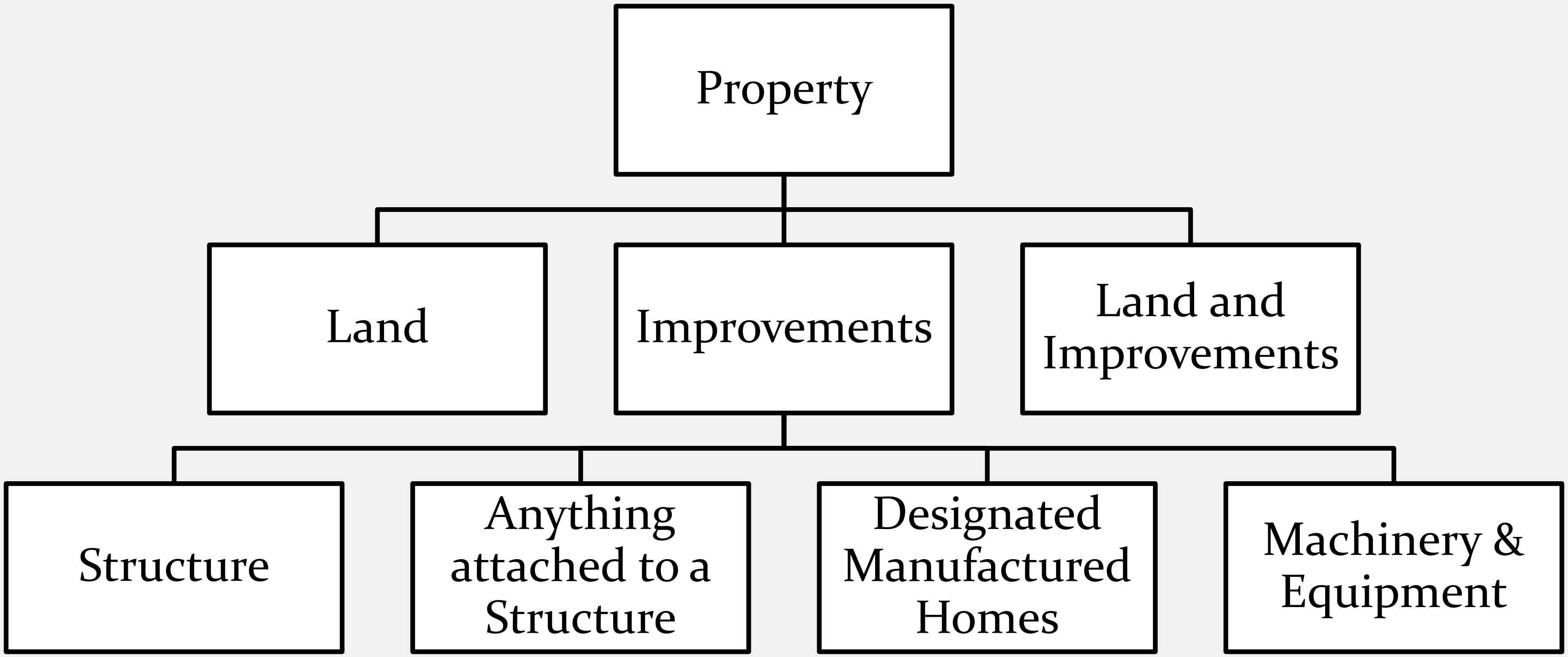
- The "Designated Assessor" is appointed by the Municipality and MUST have qualifications pursuant to Provincial Statutes. These include the following designations:
  - AMAA – Accredited Municipal Assessor of Alberta
  - CAE – Certified Assessment Evaluator
  - AACI – Accredited Appraiser Canadian Institute

WHAT IS ASSESSMENT?

- Property Assessment is the process of calculating/assigning a dollar value to each property for the purpose of property taxation.

- Based on Legislation, this “dollar value” can be:
  - Market Value
  - Regulated Value

WHAT IS ASSESSED?



WHAT IS ASSESSED?

- Land and Structure
- Assessed at Market Value by Municipality

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WHAT IS ASSESSED?

- Machinery & Equipment (DIP)
- Wellhead and Downhole Pipe (Structure/Linear/DIP)
- Land held by Lease (Linear/Well/DIP)
- Assessed by Provincial Assessor
- Regulated Value

WHAT IS ASSESSED?

- Machinery & Equipment (Power Generation/Linear/DIP)
- Land (DIP)
- Structures (DIP)
- Assessed by Provincial Assessor
- Regulated Value for M&E
- Unknown Valuation Standard for Land and Structure

WHAT IS ASSESSED?

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WHAT ABOUT?

Pulp & Paper	- Major Plants List (About 260 Facilities)	- DIP	- Provincial Assessor
High Throughput Grain Terminal	- Not Regulated by AER, Not on Major Plants List	- Municipal Assessor	
Food Processing Plant	- Not Regulated by AER, Not on Major Plants List	- Municipal Assessor	

MARKET VALUE

- Section 1(n) of the MGA defines market value as:

  "the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer"

- Section 284(1)(r) defines property as:
  - a parcel of land,
  - an improvement, or
  - a parcel of land and the improvements to it;

REGULATED VALUE

- A regulated value is a rate set by the Province. Property types assessed with regulated rates are:
    - Farmland (Agricultural Use Value)
    - Railway
    - Machinery & Equipment
    - Designated Industrial (DI) Property
- These types of properties, for various reasons, are difficult to assess using the market value standard.

REGULATED VALUE ≠ MARKET VALUE

REGULATED VALUE

- Called this because calculation process is set out in regulations called Minister’s Guidelines
- For commonly occurring types of equipment (eg. at well-sites) set rate per size and type of equipment
- Unique pieces of equipment – cost to construct
- Multiplied by assessment year modifier
- Depreciation factor based on age set in table
- Assessment represents mathematical result of calculation

DI PROPERTY

- Starting in 2018, DI Property is the responsibility of the Provincial Assessor (PA).
  - Municipalities may enter into a contract to continue assessing some of these properties on behalf of the PA.

- DI Property includes:
  - Linear Property
  - Properties regulated by the Alberta Energy Regulator, National Energy Board, or Alberta Utilities Commission
  - Property designated as a “Major Plant”

FARMLAND

- Farmland is NOT assessed at market value. This property type is assessed based on regulated rates set by the Province and on the PRODUCTIVE CAPABILITY of the soil.
  - Irrigated Farmland = $450/Acre
  - Non-Irrigated Farmland = $350/Acre

- If a residence(s) is situated on farmland then 3 acres of land MUST be assessed at market value. The remaining land remains assessed using the regulated rates.

FARM RESIDENCES

- Rural Assessment Policy (RAP)
- Exemption applied to residence(s) based on the total assessed value of farmland owned by assessed person
- Maximum RAP exemption on first residence = $61,540
- Maximum RAP exemption on secondary residences = $30,770

Assessed Value of Residence	$300,000
Assessed Value of Farmland	$40,000
Taxable Assessed Value of Residence	$260,000

WHAT IS ASSESSED?

- The MGA outlines what types of property are assessable for taxation, but not all property are assessable for property tax purposes.

- A few examples of non-assessable property are:
  - Municipal Water Treatment Plants
  - Farm Buildings
  - Airport improvements (roads, sidewalks, runways, reservoirs, etc…)
  - Weigh Scales

TAXABLE OR EXEMPT?

- The MGA exempts several types of properties from taxation:
  - Schools
  - Churches/Cemeteries
  - Hospitals
  - Nursing Homes
  - Municipally Owned Properties
  - Crown

- COPTER
  - *Community Organization Property Tax Exemption Regulation*

- Some property is assessable but exempt from taxation, while other property is simply non-assessable.

ASSESSMENT STANDARDS

- The MGA and *Matters Relating to Assessment and Taxation* Regulation (MRAT) define the method and standards that must be met when assessments are prepared.

- A property assessment based on MARKET VALUE must:
  - be prepared using mass appraisal
  - be estimate of the value of the fee simple estate in the property, and
  - reflect typical market conditions for properties similar to that property;

MASS APPRAISAL

- Section 1(g) of MRAT defines mass appraisal as:

  "the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing"

- Mass Appraisal allows the Assessor to accurately value a large number of properties in a short period of time.

HOW ARE ASSESSMENTS PREPARED

- Valuation and Condition Dates
  - In Alberta, there are two key legislated dates by which certain assessment processes must be complete – the valuation date and physical condition date.
- Valuation Date
  - Assessed value must reflect market conditions as of July 1 of the assessment year.
- Condition Date
  - Assessed values must reflect the physical condition of a property as of December 31 of the assessment year.

HOW ARE ASSESSMENTS PREPARED

- Assessors can utilize three different approaches to value when assessing property:
  - Cost Approach
    - Non-residential and special purpose properties
  - Sales Comparison Approach
    - Residential properties
  - Income Approach
    - Multi-family, commercial, and industrial properties

COST APPROACH

- This approach to value is based on the premise that market participants relate the value of their property to the cost of construction.
- Under this approach, the value of a property is determined by adding the value of the land to the current cost of constructing the improvement(s) and then subtracting an amount for depreciation.
- The cost approach is a very reliable when valuing new/nearly new improvements or properties that exchange very seldom in the market place.

SALES COMPARISON APPROACH

- This approach to value is based on the premise that the value of a property is directly related to the prices of comparable properties.

- Under this approach, value is determined by comparing properties similar to the one being assessed that have recently sold or are listed for sale.
  - Adjustments for differences are made to the sale price of the comparable properties being analyzed to bring them more in line with the property being assessed.

INCOME APPROACH

- This approach to value is based on the premise that the value of a property reflects the quality and quantity of the income* it is expected to generate.
    - *REAL ESTATE INCOME ONLY
- The Assessor:
    - collects lease rates and expense information
    - places properties into similar groupings (based on type, use, age, size, quality of construction, etc…)
    - assigns a “market rent” to each property based on its grouping

INCOME APPROACH

- The Assessor…..:
  - applies standardized deductions for vacancy and collection losses and deductions for operational expenses to create a

NET OPERATING INCOME (NOI)

- NOI is then divided by a market derived capitalization rate* to determine a final value.

VALUE = NOI / CAP RATE

* Capitalization Rate represents the return of and return on the investment.

MARKET-MODIFIED COST APPROACH

- This approach can be considered a hybrid of both the Cost and Sales Comparison approaches.
- It is used by the majority of Municipalities in the Province.
- Under this approach:
  - all improvements are first valued based on the cost approach
  - improvements are placed into groupings based on comparability (age, construction type, size, location)
  - values are adjusted based on what properties similar to each group are selling for

ASSESSMENT COMPLAINTS

- Three types of Assessment Review Boards (ARB):
  - Local Assessment Review Board (LARB)
    - Residential (3 Dwellings or less) and Farmland
  - Composite Assessment Review Board (CARB)
    - Non-Residential, Multi-Residential
  - Municipal Government Board (MGB)
    - DI Property and Equalized

ASSESSMENT COMPLAINTS

- 60 day period to file complaint to ARB or MGB
- Procedural regulation for filing evidence and argument
- 60 days to file for judicial review with Court of Queen's Bench from ARB or MGB decision

SUPPLEMENTARY

- Supplementary Assessments allow a Municipality to assess and tax property in the same year.
    - Must be authorized by Municipal Bylaw
    - Applies to new construction, or
    - Completed construction

  that is either occupied or completed during all or part of the year.

SUPPLEMENTARY

- <u>Scenario 1</u>

December 31, 2017 – Vacant lot worth $100,000

2018 Property Tax = $100,000 x Tax Rate

March 1, 2018 – Start construction on $400,000 house

September 30, 2018 – Construction Complete

Supplemental 2018 Tax = ($400,000 x Tax Rate) x (3/12)

SUPPLEMENTARY

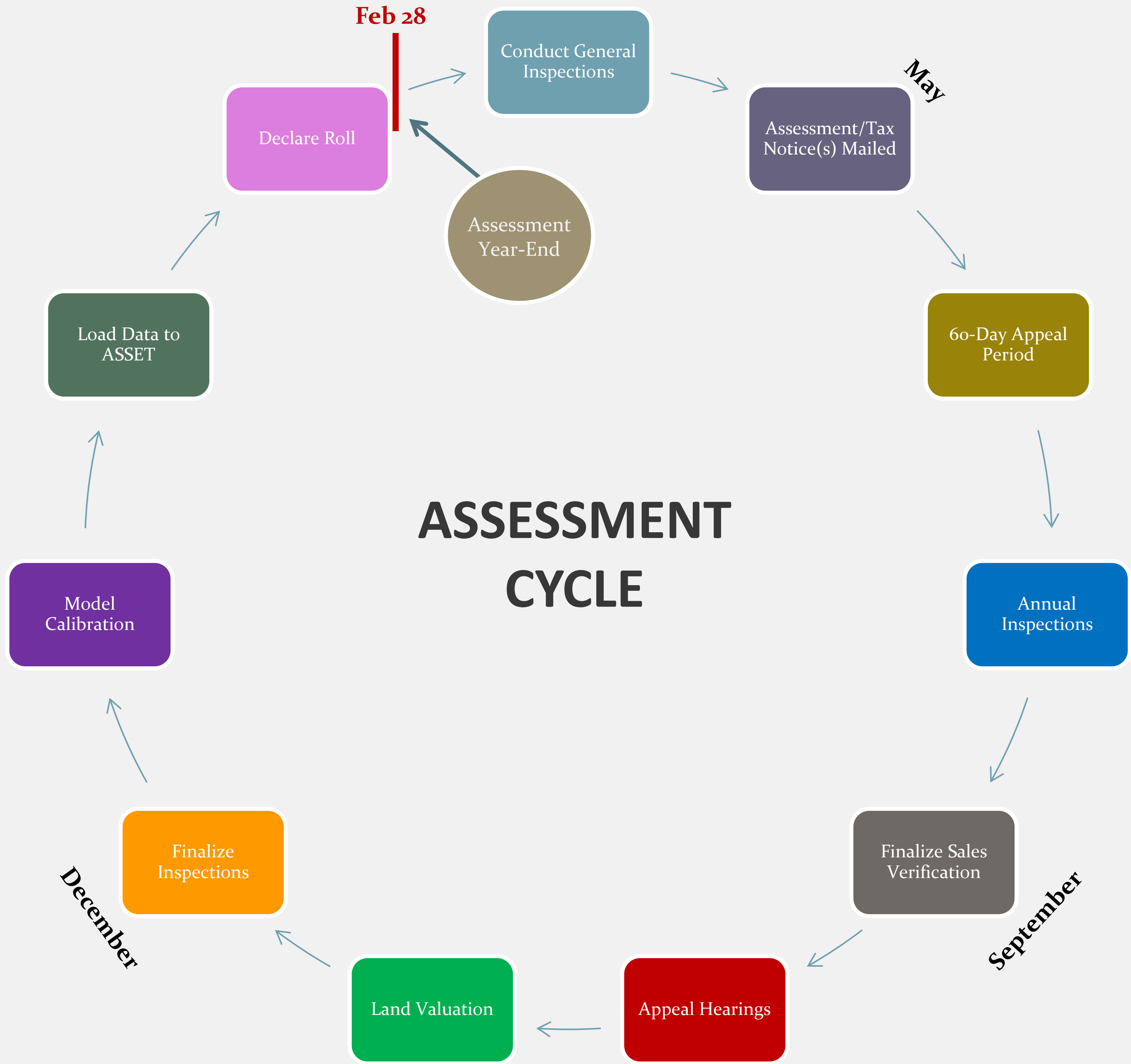
- Scenario 2

December 31, 2017 – $100,000 lot value
$400,000 house is half complete

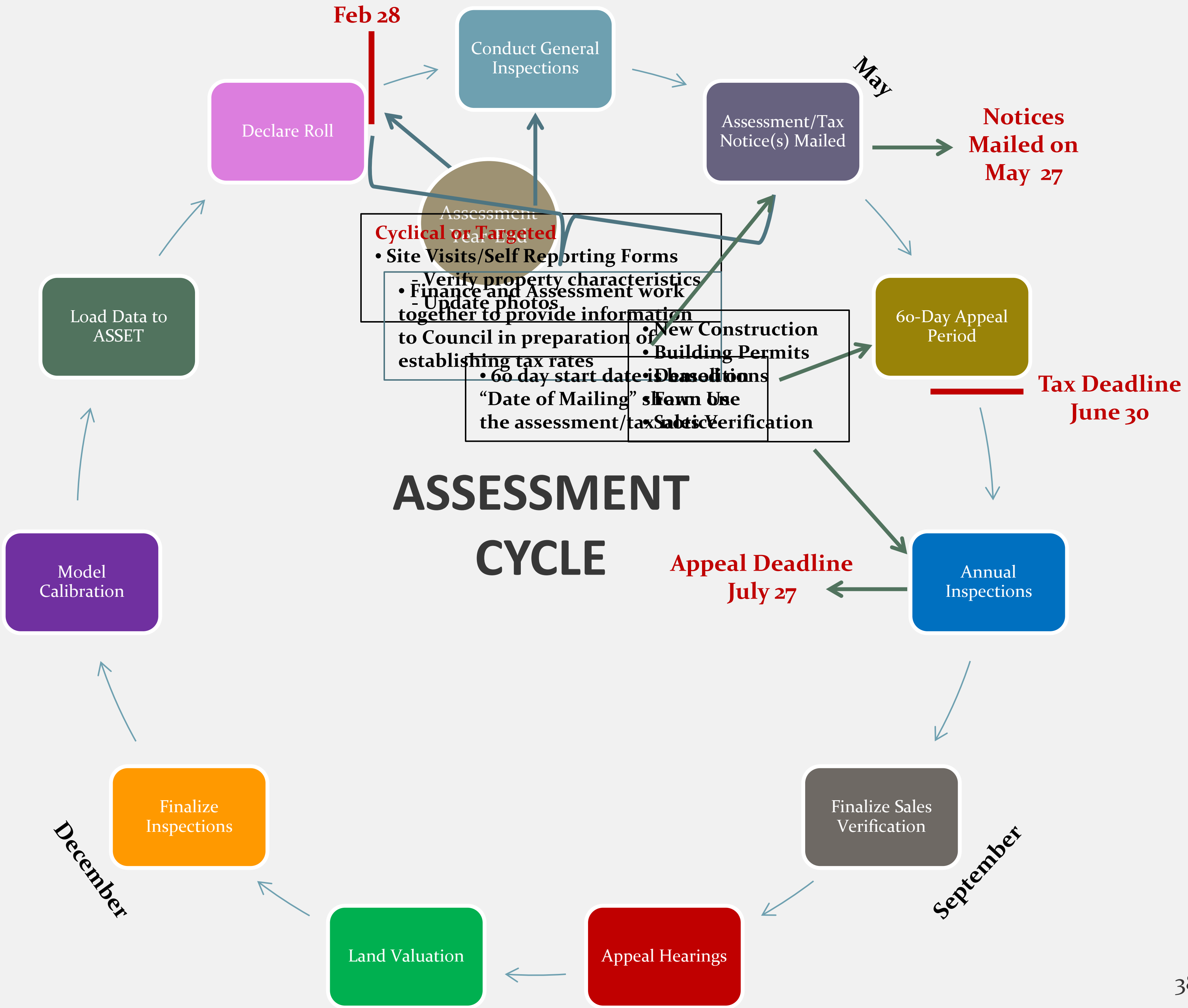
2018 Property Tax = ($100,000 + 200,000) x Tax Rate

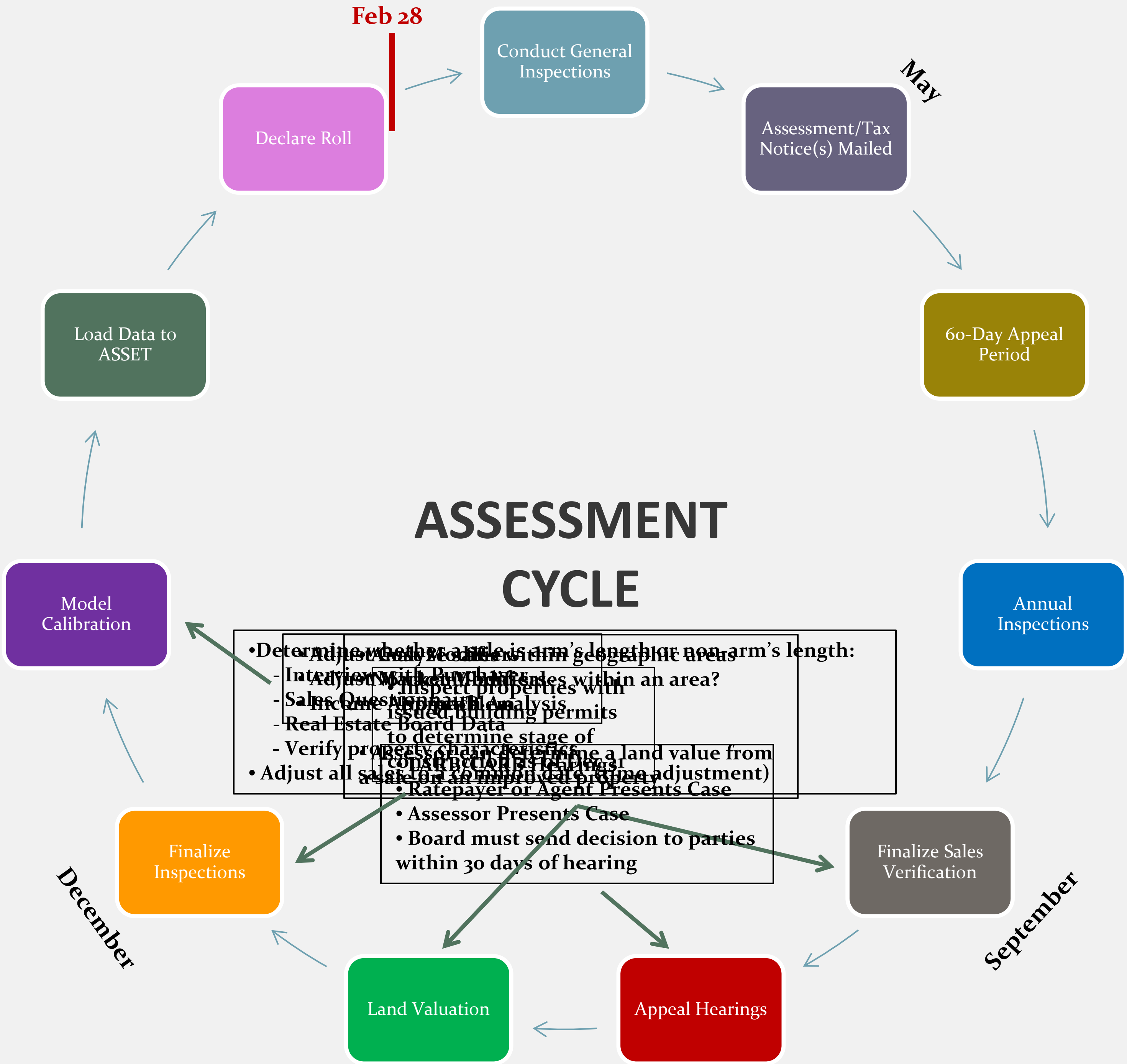
April 30, 2018 – Construction Complete

Supplemental 2018 Tax = ($200,000 x Tax Rate) x (8/12)



ASSESSMENT CYCLE
Feb 28
Conduct General Inspections
May
Assessment/Tax Notice(s) Mailed
60-Day Appeal Period
Annual Inspections
Finalize Sales Verification
September
Appeal Hearings
Land Valuation
Finalize Inspections
December
Model Calibration
Load Data to ASSET
Declare Roll
Assessment Year-End


ASSESSMENT CYCLE
Feb 28
Declare Roll
Conduct General Inspections
Assessment/Tax Notice(s) Mailed
May
Notices Mailed on May 27
60-Day Appeal Period
Tax Deadline June 30
Annual Inspections
Appeal Deadline July 27
Finalize Sales Verification
September
Appeal Hearings
Land Valuation
Finalize Inspections
December
Model Calibration
Load Data to ASSET
Assessment Year-End
Cyclical or Targeted
• Site Visits/Self Reporting Forms
- Verify property characteristics
- Update photos
• Finance and Assessment work together to provide information to Council in preparation of establishing tax rates
• 60 day start date is based on "Date of Mailing" shown on the assessment/tax notice
• New Construction
• Building Permits
• Demolitions
• Farm Use
• Sales Verification



Feb 28
Conduct General Inspections
May
Assessment/Tax Notice(s) Mailed
60-Day Appeal Period
Annual Inspections
Finalize Sales Verification
September
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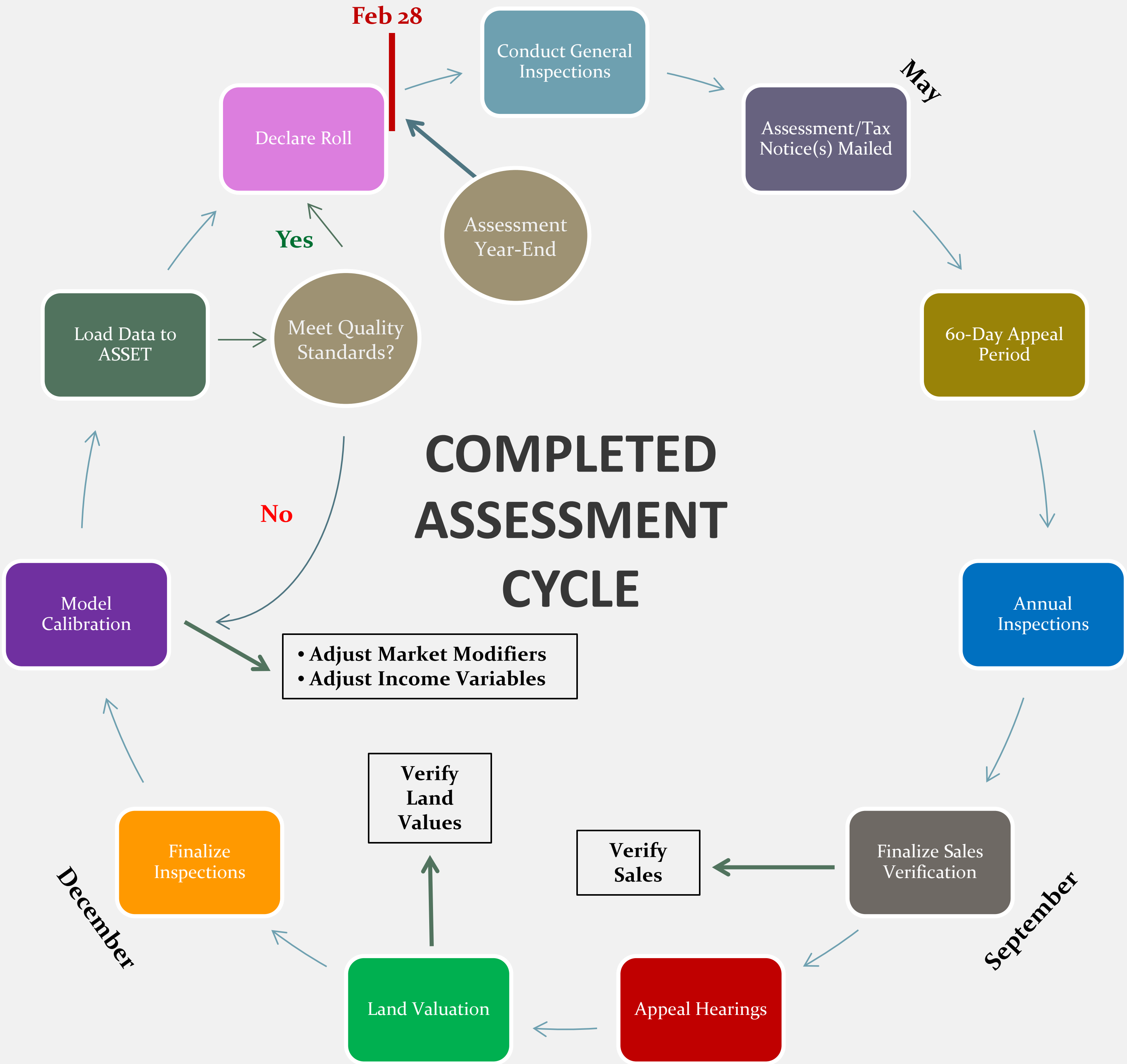
Land Valuation
Finalize Inspections
December
Model Calibration
Load Data to ASSET
Declare Roll
ASSESSMENT CYCLE
- Real Estate Board Data
• Ratepayer or Agent Presents Case
• Assessor Presents Case
• Board must send decision to parties within 30 days of hearing


COMPLETED ASSESSMENT CYCLE
Feb 28
Conduct General Inspections
May
Assessment/Tax Notice(s) Mailed
60-Day Appeal Period
Annual Inspections
Finalize Sales Verification
Verify Sales
September
Appeal Hearings
Land Valuation
Verify Land Values
Finalize Inspections
December
Model Calibration
• Adjust Market Modifiers
• Adjust Income Variables
Load Data to ASSET
Meet Quality Standards?
Yes
No
Declare Roll
Assessment Year-End

ASSESSMENT AUDIT & COMPLIANCE

- Assessment Shared Systems EnvironmenT – ASSET
  - Provincial database designed by Municipal Affairs to monitor the quality of assessments throughout Alberta.
  - Ensures that assessed values comply with quality standards.

ASSET

- On an annual basis, a Municipalities' Assessment Database must be loaded directly to ASSET by February 28.
- Any changes made after this date (i.e. corrections or changes resulting from appeals) are loaded throughout the year.
- Time adjustments applied by the Assessor are reviewed to ensure correctness.

ASSET

- Assessment information and sales information are examined to ensure completeness.

- Assessment/Sales ratio tests are conducted to determine whether assessed values meet legislated quality standards.

ASSESSMENT COMPLIANCE

- Assessment/Sales Ratios (ASR) must meet the standards set out in the *Matters Relating to Assessment and Taxation (MRAT)* Regulation.

Assessed Value = $500,000

Sale Price = $525,000

ASR = $500,000/$525,000

ASR = 0.95 or 95%

ASSESSMENT COMPLIANCE

- Municipal Affairs places all sales into groupings using various criteria to check the accuracy of the assessment:
  - Type of property – vacant, multi-family, single-family, commercial, industrial
  - Value Ranges

- The MRAT regulation states that the median ASR must be between 95% and 105% for each group or subgroup.

ASSESSMENT COMPLIANCE

- The Coefficient of Dispersion (COD), which measures the spread of sales, must be less than 15 for residential properties and less than 20 for non-residential properties.

- The Assessment Roll is not “legal” unless it meets these standards set out in MRAT.
    - The Designated Assessor will not be able to “Declare” the Assessment Roll until corrections are made to bring assessed values into compliance with the legislated quality standards.

ASSESSMENT COMPLIANCE

- ASSET could be considered a "Stage 1" audit that is legislatively required to be met by the Assessor every year.
- Municipal Affairs also conducts a more thorough audit, known as a "Detailed Audit", on all Municipalities in Alberta over a five year period.

WHAT IS TAXATION?

- Taxation is the process of applying a tax rate (mill rate) to a property’s assessed value to determine the taxes payable by the owner of that property.
- Property taxes are the major revenue source of local governments.

WHAT IS A MILL RATE?

- The Mill Rate (or Tax Rate) is the relationship between the total taxable assessed value and the tax levy.

$$\frac{\text{Municipal Budget}}{\text{Taxable Assessment}} = \text{Mill Rate}$$

- Mill Rates fall under the following three categories:
  - Residential
  - Non-Residential (includes Linear and M&E)
  - Farmland

PROVINCIAL EDUCATION

- The amount of taxes needed for education is set by the Province but are collected by the Municipality through property taxes.
    - The education portion is approximately 30% of the total property tax amount shown on the assessment notice.

PROVINCIAL EDUCATION

- Who pays this tax?
  - All property owners:
    - It does not matter if your property is residential/non-residential
    - It does not matter if you have children in school or at all
    - It does not matter if you are a senior citizen

SUMMARY

- Assessors DO NOT determine how much property tax ratepayers must pay to a Municipality.
- The amount of municipal taxes needed to operate are determined by Council on an annual basis.
- Property Assessment is simply a distribution mechanism to fairly and equitably distribute the tax burden amongst all property.

ASSESSMENT FOR THE NON-ASSESSOR

QUESTIONS

Alberta Assessors' Association