

Property Assessment and Taxation Issues

**A Report Prepared for the
Alberta Urban Municipalities Association**

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1.00 Introduction

1.10 Property Assessment

Property assessment has a sole purpose; namely, to provide a fair and equitable distribution of the property tax burden among all of the property taxpayers in a jurisdiction. If the valuation (assessment) is completed using the same equitable basis for all property, the jurisdiction can then distribute the tax burden fairly among the taxpayers.

In Alberta, control over municipal tax which is generated from property assessment lies with the municipality.

Control over the amount of education property tax which is also derived in Alberta from property assessment, however, lies with the Province.

1.20 Limitations of the Assessment and Taxation System

It is sometimes decided that certain properties should not have to pay taxes for any of a variety of policy reasons, and such exemptions are generally authorized by current legislation. It may be an exemption for religious reasons (such as churches and cemeteries), it may be an exemption because of a deemed benefit of the property to the population as a whole (such as schools and hospitals), or it may be an exemption for properties that are owned by the public. Exempting these properties does not mean that the tax burden which they would otherwise “owe” to the community disappears, but rather it means that their tax responsibility is simply shifted to those properties which continue to be taxable. Municipalities are still responsible for the costs of supplying services to these exempt properties. This situation is mostly seen as acceptable to other taxpayers because it is open and transparent, in that the taxpayers know that they are paying extra because of the exemptions. However, as noted below, if these exemptions are not known or are hidden, it becomes much more difficult to ascertain who is actually carrying what share of the tax burden.

1.30 Transparency of the Assessment and Taxation System

There are a number of property tax exemptions in the current assessment and property tax system in Alberta which, unlike the exemptions noted above, are “hidden”, which means that taxpayers are unable to ascertain whether or not they are justifiable. The majority of these exemptions are provided as **assessment** exemptions, either by property type or in the form of adjustments in the valuation process used in calculating assessments. This paper has been written, in part, to provide information on these exemptions and to outline why they should be of concern to the members of the Alberta Urban Municipalities Association.

The transparency of a policy is important because the abatement or incentive lowers the tax burden on the specific property or industry, but shifts this tax burden to all other taxpayers. Transparency in the assessment and taxation system also ensures that the tax policy decision makers are held accountable for their decisions. These abatement or incentives should be

implemented in a manner that allows other taxpayers the ability to judge for themselves whether these policies are effective, efficient and continue to be appropriate over time.

1.40 The Administration of the Assessment Function

The administrative structure of the assessment function in Alberta changed significantly in the mid 1990's. These changes were made as part of government-wide cost-cutting and downsizing initiatives. As a result, over time, some concern has been expressed by municipalities and members of the assessment profession as to the current state of the assessment function in Alberta.

This paper will also highlight some of the issues relating to the following:

- the abolishment of the legislated position of Assessment Commissioner;
- the average age within the assessment profession;
- the training of assessors;
- the complaint and appeal system;
- the administration of the education tax and equalized assessment process; and,
- the assessment delivery mechanism in Alberta in relation to other provinces in Canada.

2.00 Market Value Assessment versus Regulated Assessment

Most properties in Alberta (residential and commercial) are assessed for property tax purposes based upon market value (what a prudent buyer would pay to a prudent seller for the property). Some properties, however, are assessed using regulated procedures where the assessment is calculated using formulas prescribed by the Province. These properties (with numbers 2 to 4 described as “regulated industrial property”) are:

- 1) Farmland;
- 2) Linear Property;
- 3) Machinery and Equipment;
- 4) Railway.

Other than farmland property, the principal reason for regulating the assessment procedure for these groups is that they are difficult to value using the traditional approaches used by the assessment profession (e.g. what is the fair market value of a pipeline?). Thus, given that regulated properties are valued using formulas, it becomes important to study how these formulas are created.

3.00 Property Tax Policy in the Assessment System

In order to promote development in a jurisdiction, municipalities or provincial authorities often supply property tax incentives to commercial or industrial sectors. This can be, and sometimes is, very effective in promoting or assisting development in specific cases. There are varying schools of thought, however, as to the effectiveness of long term incentives that do not have a sunset provision. These types of tax policy, if significant, have a tendency to limit the

jurisdiction's ability to provide the services required to the taxpayers because there is a limit as to how much of the tax burden can be shifted to others. It is important that these incentives be monitored from time to time to ensure that they continue to be effective and are a justifiable shift in taxation to other citizens. It is believed that the Province has not monitored or studied the overall effectiveness of any of the many tax policy incentives it has implemented over the past 50 years.

4.00 Farm Property Assessment and Taxation Issues

Farm related property in Alberta receives a number of special treatments in the assessment and taxation system. The farm property which is indeed assessable and taxable is subject to the education tax system and, as a result, any special provisions provided to this sector have an effect on the overall education property tax system, as well as the local municipal sharing of the tax burden.

There are three principal assessment and taxation issues of concern relating to farm related property in Alberta; namely:

- 1) Farmland Assessment
- 2) Assessment of Farm Buildings
- 3) Rural Residence Tax Exemption

4.10 Farmland Assessment

In general, the principles of market value are closely related to the economic principles of supply and demand. The lower the supply, the higher the demand will be, and so too the resulting market value.

Because farmland in Alberta is a decreasing commodity, there is always long term upward pressure on the value in the market place.

But, it is a fact that the annual return of investment in farmland is much lower than that of other business enterprises, so farmland could never be taxed at its full market value at the same tax rate as other commercial enterprises, or farmers would be unable to stay in business. This is especially the case when the farmland is located where the market value of the property is driven by non-farm influences such as urban, recreational or industrial development.

As a result, all jurisdictions in North America provide some kind of offsetting policy in farmland taxation to account for this reality. Some jurisdictions, for example, assess the market value of the property based on "farmer to farmer sales" (where the only influence in the market place is agriculture) and provide a significant tax exemption (in Manitoba the exemption is upwards of 70 percent). But, this approach would be very difficult in Alberta due to the significant effect on the value of farmland from non- agricultural influences such as urban sprawl, industrial expansion, recreational and country residential development.

Others jurisdictions, like Alberta, assess farmland on the basis of its productive value or its value restricted to its ability to earn an income under typical management practices, and apply a tax

rate similar to other properties. Effectively, instead of a **tax** exemption, as is the case in Manitoba, Alberta has an **assessment** exemption.

However, in order to ensure that the system continues to provide a reasonable sharing of the tax burden between farmland and other properties, a productivity-based farmland assessment system must be kept current. Unfortunately, Alberta's system was implemented in the 1980's based upon 1970's management practices. No updates have been made to the system since that time; in fact, no adjustment has been made to the assessed values of farmland across the province since 1994.

Since then, the system developed by the Province to annually update farmland values has indicated dramatic increases in the productive value, but these have not been implemented in the regulated guidelines which assessors must use in the assessment process.

Since 1994, there have been significant increases in the market value based assessments across the province. During this same time, farmland assessments have remained static. Local municipalities could offset this issue by increasing their local municipal tax rates on farmland. However, education property taxes are another matter. There has been a steady shift in education taxes away from farm property to residential and other property assessed on the basis of market value.

It is legislated that education tax rates for farmland must be the same as residential. Over the last number of years, as a result of dramatic increases in market value, residential and commercial education property taxes across the province have increased, while education property taxes on farmland have decreased during the same period.

4.20 Farm Building Assessment and Tax Exemption Policies

Farm buildings are assessed and taxed differently depending on where they are found in the province. In rural municipalities, and rural service areas of specialized municipalities, farm buildings are exempt from assessment, which means that they are not valued. There is no record of the value of these properties and, as a result, there is no way to ascertain the amount of tax shifted to other taxpayers (municipal or education tax) as a result of this policy.

In urban municipalities, and urban service areas of specialized municipalities, farm buildings are assessed and exempted from tax to a level of 50 per cent of the assessment. As a result urban farmers pay some education property tax and municipal tax on their farm buildings while rural farmers do not. As an example of this disparity, there is an actual situation in southern Alberta where an urban farm taxpayer is paying in excess of \$25,000 in annual property taxes on his farm buildings, while almost across the road in a rural municipality a similar operation pays \$0.

This was not a major issue when rural Alberta was occupied by family farms. The assessment of farm buildings would not have added much to the assessment base province-wide. However, in recent years, building-intensive agricultural operations have increased in incidence across the province. Currently this has led to specific instances where millions of dollars worth of infrastructure have been built with no resulting tax revenue. As a result of these properties being

exempt, more education taxes have been shifted away from farm property onto others. This has and continues to cause rural municipalities a problem, especially in instances where there are a multitude of intensive agricultural operations and little non-farm or non-residential assessment to which to shift the increasing tax burden.

In addition to the education property disparity, this difference also creates a problem for urban municipalities regarding annexations. Owners of farm property in close proximity to urban centers resist annexation because of the property tax impact. This has created the need for annexation orders which maintain rural assessment and taxation rules for farmers annexed to urban municipalities. These orders are intended to provide some time for the annexed property owners to accustom themselves to the new property tax regime. But, these orders are constantly being extended due to political pressure placed on the government and indeed some of these orders have been extended many times and have been in place for longer than 25 years.

Since all assessable farm property is subject to the education tax requisition, this exemption shifts the education tax burden away from the farm sector to all other taxpayers in the province, including urban dwellers.

As a point of interest, it is believed that there are only two jurisdictions in the United States and two in Canada which do not assess and tax farm buildings. These jurisdictions are Arizona, North Dakota, Saskatchewan and Alberta.

4.30 Rural Residence Tax Exemptions

Residences in rural municipalities can qualify for a property tax exemption if the owner of the residence has land assessed at productive value in his “unit”. The tax exemption on the first residence in the unit is based upon the amount of property tax payable on \$61,540 of productive value assessment. The second and subsequent residences can qualify for a tax exemption based upon the taxes payable on \$30,770 in productive value assessment. In other words, this is a farmland tax exemption which is placed on the residences. As this tax exemption is also an exemption from education property tax, it again shifts the tax burden away from agriculture. This property tax exemption provides an annual education tax benefit estimated at greater than \$30 million in comparison to other residential taxpayers.

This tax exemption only applies in rural municipalities. Owners of farm residences in urban municipalities are required to pay full property taxes based upon the market value of their residences. It is interesting to note that farmers living in rural municipalities can even use farmland which they own that is located in urban municipalities as part of their exemption unit in the rural municipality.

This exemption also can add problems for urban municipalities when rural farm residential property is annexed into urban municipalities.

5.00 Regulated Industrial Assessment and Taxation Issues

As noted earlier, regulated industrial property includes three types of property; namely, linear property, machinery and equipment and railway. All regulated industrial property in Alberta receives property tax abatements or incentives of one kind or another within the assessment system and/or the property tax system. The exemptions from **taxation** are generally transparent, in that anyone who wants to investigate can determine how much this affects other taxpayers. The property is assessed and the overall tax shift can be determined very easily.

For example the education property tax levy is 0 for machinery and equipment. If the tax rate was the same as all other non-residential property, all one need do is multiply the overall assessment of machinery and equipment by the education tax rate for non-residential property to ascertain the property tax benefit to industry. Currently that assessment is some \$40 Billion and the non-residential education tax rate is about .005. The resulting education tax incentive for machinery and equipment is some \$200 million annually. This incentive is transparent for all taxpayers to judge for themselves whether or not this shift in education tax burden is appropriate.

However, many tax abatements or incentives provided for regulated industrial property are provided through the **assessment** system. These tax policies are implemented through assessment exemptions or, for the most part, are imbedded in the valuation of the properties which carries through to the final assessments which are placed on the assessment and tax rolls of municipalities.

For example, the \$40 Billion in machinery and equipment assessment mentioned above includes a myriad of further property tax abatements and incentives included in the valuation of the properties making up the \$40 Billion. How does the average taxpayer determine if those property tax policies are appropriate and whether or not the resulting annual shift in tax burden to his/ her property is justified?

Some of these abatement policies or incentives apply to all regulated industrial properties and others apply to different groups of regulated industrial properties while still others apply to specific property types. The following discussion provides specifics on each of these areas.

5.10 Regulated Industrial Properties

Regulated industrial property covers a wide range of different properties that are found across the province. These properties, as earlier stated, include linear property, machinery and equipment and railway property. A further breakdown of those properties follows below.

5.11 Linear Property

Linear property, generally speaking, is property that is not located on specific land locations and crosses multiple municipal boundaries. These properties seldom sell or lease, especially for their real property value alone. As a result they are very difficult to value using the traditional approaches used by the assessment profession in determining market value. There is also an

issue of the specialized nature of these properties in that they cross municipal boundaries and, as a result, only part of the property is situated in any particular jurisdiction. Another issue relating to these properties is the sheer number of them, where the value of each property is updated on an annual basis. Currently about 25 per cent of the assessable properties in the province are defined as linear property.

As a result of the above, the assessment procedures are “regulated” and the responsibility for the assessment of these properties lies with the assessor designated by the Minister of Municipal Affairs.

Linear property includes the following property types:

- 1) Electric Power generation, transmission, and distribution systems;
- 2) Street lighting systems;
- 3) Telecommunications systems including cable television;
- 4) Pipelines; and,
- 5) Oil and Gas Wells.

All linear property, except for electric power generation properties, is subject to the full non-residential education property tax rate and, as a result, any abatement or tax incentive applied has the effect of shifting the education tax burden away from linear property onto other taxpayers.

5.12 Machinery and Equipment

The introduction of machinery and equipment assessment and taxation in Alberta began in the 1950’s. Over the past 5 decades, the Province has introduced a myriad of tax abatement and tax incentive policies in order to promote investment in manufacturing and processing facilities in the province. Most of these abatement or incentive policies are imbedded in the assessment system. As a result it is very difficult, if not impossible, to completely understand their total effect on taxation and the resulting shift to non-industrial taxpayers. The effect of these policies is not consistent between property types that are assessed as machinery and equipment, or within individual property types themselves. That, coupled with the fact that there is no central data base available with the required inventory to estimate the overall effect of the policies, leaves the average taxpayer without the knowledge to judge whether or not these policies are appropriate.

It is believed that the Province has never completed a study or a review open to the public to investigate whether these policies were effective in promoting industry, or if they continue to be appropriate in today’s economic environment.

The definition of “machinery and equipment” includes a wide range of properties which are used or intended to be used as an integral part of an operational unit involved in the following areas:

- 1) Manufacturing;
- 2) Processing;
- 3) Associated with pipelines and oil or gas wells;
- 4) Excavation of transportation of coal or oil sands;

- 5) Telecommunications systems; or,
- 6) Electric power systems.

5.13 Railway Property

Railway is defined in the Municipal Government Act (MGA) as “roadway and superstructure”. “Roadway” is the land portion of the right-of-way and the “superstructure” is the grading, ballast, ties and track. Railway property has been assessed and taxed since Alberta became a province. Prior to 1995, railway assessment was completed using a prescribed regulated rate which reflected pure tax policy in the assessment process. The rate had no relationship to market value or any other recognized form of value.

After the introduction of the MGA in 1995, the rate was updated with the intent of prescribing a more realistic value for railway which would relate to the assessment of such property on the basis of market value. However, there were adjustments made in the assessment process which have resulted in ongoing tax abatements in the assessment process.

The amount of depreciation that is applied in the cost approach to value used in the assessment of railway is tax policy, and does not relate to market value or market value principles. Railway receives an immediate depreciation reduction of 60 percent (40 percent remaining). There is no documentation as to the reason for this amount of depreciation being automatically given; however, it appears to be a reaction to the introduction of the MGA and the attempted move to market value assessment. In other words, the depreciation factor was applied to simply offset the increase in regulated rate, to ensure that railway companies as a whole would not pay any higher taxes than they previously did.

Further depreciation is allowed in the railway assessment process to reflect the economic value of the property as a result of limited average annual traffic on a particular branch line or segment. Although this reduction seems based upon market value principles, there is no documentation supporting how these factors were developed or on what they are based.

As a note of interest, after applying the immediate depreciation and the largest amount of depreciation allowed for average annual traffic, the resulting valuation per kilometer for railway is less than the cost of ordinary chain link fence.

A definition of railway property was included in the MGA with its introduction in 1995. Unfortunately, this definition has not provided clarity for the assessment of railway; in fact, it has caused more confusion since that time.

5.20 Issues Pertaining to All Regulated Industrial Property

All regulated industrial property is assessed for property tax purposes using a regulated cost approach to value. The assessor is required to follow regulated procedures and use regulated rates, where provided, in calculating these assessments. These rates and procedures are included in what is known as the “Minister’s Guidelines”. There are specific guidelines for Linear Property, Machinery and Equipment and Railway.

Since the legislation requires that assessments on all property in the province be updated on an annual basis to keep them current, the procedures in the Minister's Guidelines for regulated industrial property include factors to adjust assessments to reflect the annual changes in costs of construction. These factors are known as "Assessment Year Modifiers". The Province on an annual basis hires engineers, specific to the property type, to determine these factors.

In order to ensure an ongoing fair and equitable sharing of the tax burden between regulated industrial property and other property, these regulated rates and procedures need to be updated regularly. The Province has adopted a three-year ongoing review process with annual cost of construction adjustments. This process is consistent with keeping the system current; however many of the regulated procedures and rate development processes are not consistent with using a cost approach to value in determining market value.

5.21 Definitions of Regulated Industrial Property Have Not Been Updated

The definitions for regulated industrial property have remained relatively unchanged since the 1960's. These definitions were, for the most part, copied into the Municipal Government Act from previous legislation. Many of the technological changes which have occurred in the industrial sector were not contemplated when these definitions were drafted. As a result, it is unknown whether or not all property that should be assessed for property tax purposes is actually being valued and included in the property assessment and the assessment and tax rolls of municipalities.

There are some issues related to definitions which have particular interest where machinery and equipment are concerned.

As noted above, the definition of "machinery and equipment" for property tax purposes, for the most part, has also remained relatively unchanged since the 1960's. Some amendments were made to it in the 1970's, 1980's and when it was included in the Municipal Government Act in 1995. Effectively speaking, however, little change in the overall intent of the definition has occurred.

Many industry stakeholders claim that Alberta is almost alone in Canada in assessing machinery and equipment and that personal property should not be assessed. They say that this is counterproductive in a jurisdiction which claims to have the lowest taxes in Canada. If one does not look into the issue further, this would appear to be a strong argument. However these statements about machinery and equipment are, in fact, misleading.

First, Alberta's definition of "machinery and equipment" includes property that would be assessed and taxed in other jurisdictions under a different definition. The vast majority of the property which falls under our definition of machinery and equipment would be assessed as "buildings and other structures" in other jurisdictions. For example, if one looks at a refinery and the improvements one would see on the property, it is estimated that some 85 percent of what one sees is assessed as machinery and equipment (balance is assessed as buildings).

An estimated 85 percent of that 85 percent would fall under the definition of “buildings and other structures” if there was no definition of “machinery and equipment”. In other words, if there was no machinery and equipment assessment in Alberta, the vast majority of the refinery would be assessed as buildings and structures. So, industry is receiving a significant property tax incentive in Alberta by the very fact that the Province assesses and taxes machinery and equipment the way it does. Why is this “significant”?

All of the tax abatements and incentives applied to property fitting Alberta’s definition of machinery and equipment result in an average overall property tax of \$1 for every \$4 paid on non-residential properties assessed on the basis of market value. The tax burden does not disappear; it is shifted to all other taxpayers.

Although machinery and equipment is subject to a 0 tax rate for education tax purposes, this difference in assessment and subsequent taxation is not transparent and the tax savings to the owners of machinery and equipment are shifted to other taxpayers.

5.22 Assessment Process for Regulated Industrial Property Does Not Conform to Market Value Principles

Alberta is what is known as a “real property assessment” jurisdiction. Real property (as in real estate) is assessed for property tax purposes. Personal property (other than a small percentage of machinery and equipment) such as chattels and business value (e.g. “goodwill”), are not included in the market value assessment of property in Alberta.

But, regulated industrial properties seldom sell or lease only for their real property value. Business and commodity values are often imbedded in the sale price.

These properties are valued using the “cost approach to value”, which is a recognized approach used in determining the market value of real property in the assessment profession. The cost approach to value is based upon the appraisal principle known as the “principle of substitution”. Simply stated, it means that a prudent buyer would not pay any more for an existing property (land and improvements) than it would cost him to buy some comparable land and construct a similar improvement on it. The only adjustment the prudent buyer would make would be to account for the time it would take to buy the land and construct the improvement. As can be seen, this approach would not include anything in the value attributable to personal property.

If assessments for these properties are calculated using a “market value based” regulated cost approach to value, they do provide an adequate proxy for market value in determining a fair share of the tax burden to be paid, and such formulas in some jurisdictions do contain such calculations. However, in Alberta this traditional cost approach to value has been altered for tax policy reasons. The valuation procedures used in the assessment process for regulated industrial properties in Alberta do not conform to market value principles.

Regulated industrial property is either assessed using regulated rates supplied in the Minister’s Guidelines or by using industry reported costs of construction as the base cost used in the cost

approach to value. All of the costs of construction used in the assessment of these properties are modified by a regulated process called the Construction Cost Reporting Guide (CCRG).

The CCRG directs which costs of construction are to be included and what costs of construction are to be excluded in the assessment process. Many of the costs removed under the CCRG would otherwise be included in the market value of the property. As a result, this approach is totally contrary to market value principles. The percentage amount of costs removed relative to total costs of construction depends upon the property type. This percentage varies from a minimal amount to some 30 per cent or more of total construction costs.

The introduction of the CCRG gave a new and significant tax abatement policy for regulated industrial properties. This policy can be conservatively estimated at some \$250 million in annual property taxes in relation to properties that are assessed on a market value basis. This policy is in addition to the other tax abatement or incentive policies.

This adjustment is pure tax policy, which has the effect of lowering taxation on regulated industrial property (the current overall regulated industrial property assessment is in excess of \$100 Billion) while shifting it to other taxpayers.

5.23 Regulated Industrial Property Is Not Subject to Progressive Assessments

All property, except for linear property and machinery and equipment, is assessed on the basis of its status as of the condition date of December 31 prior to the taxation year. If, for example, a property is being constructed and is 50 percent complete on December 31, the assessment will reflect the market value of the property as 50 percent complete. However, regulated industrial property, other than railway, is not subject to this provision.

Linear property's condition date is October 31 in the year prior to taxation. If a linear property is not complete or capable of being used, it cannot be assessed at all. For example, if a pipeline is 95 percent complete on October 31, it is not assessed or taxed at all for the next taxation year. This tax policy has the effect of shifting the tax burden away from linear property to others in the municipality and, in the case of the education tax, to others across the province.

If machinery and equipment is not complete or in operation on or before December 31 in the year previous to the taxation year, it is not assessable at all for that next taxation year. This exemption from assessment and subsequent taxation also applies to the buildings and structures associated with the manufacturing and processing operation. To illustrate, the buildings on a plant site may be complete, but if the plant is not in operation on December 31, there is no assessment on the buildings or other improvements for the next taxation year.

This tax policy for machinery and equipment was introduced in the legislation in the early 1960's. In the past this policy did not have the effect that it has today, especially considering the multiple years required to complete the construction of today's major industrial facilities. In most cases in the past, this resulted in only the one year of tax abatement. However, with major industrial facilities now which may take 4 or more years to complete, what can be significant

costs of the municipal services required as a result of the development during construction are shifted.

To illustrate the significance of this policy, consider a plant costing \$10 Billion to construct which takes 4 years to complete. Using a municipal tax rate of .012, the property tax savings to the plant owner would be some \$75 Million during construction while others pay for the municipal costs associated with the development.

This policy can have a detrimental effect on the municipality's ability to supply the services required because of the development. This would especially be the case if, for example, a number of these facilities were being constructed in a municipality at the same time. In fact, the Rural Municipality of Wood Buffalo has experienced this exact problem in recent years.

5.24 Most Regulated Industrial Property Is Not Subject to Business Tax

If a municipality passes a bylaw authorizing a business tax assessment to be made in that municipality, the bylaw cannot apply a business tax on premises where linear property or machinery and equipment are being assessed.

5.30 Issues Pertaining to All Linear Property

5.31 Linear Property Is Not Subject to Supplementary Assessments

If a municipality passes a bylaw authorizing supplementary assessments to be made in that municipality, it cannot authorize supplementary assessments on linear property. All other property, including machinery and equipment, is subject to supplementary assessments. It is believed that this exemption was placed in the legislation because of the difficulty in determining the supplementary assessment on these particular properties. However, with the advent of computers and geographical information systems, this is not as difficult as it once was.

5.32 Linear Property Used For Farming Operations Is Not Assessable

Linear property used exclusively for farming operations is exempt from assessment. Currently, electric power, telephone and natural gas services to farm properties are exempt from assessment. This includes such services owned by for-profit corporations like Telus and Atco. This is a tax policy which has been in place for a long time. It is likely that this policy was established at a time when these services were first introduced in remote areas and the cost of installation was prohibitive. It is likely that the Province was subsidizing the costs and wanted to provide incentives for this to be completed. However times have changed since that era.

This property is exempt from assessment and there is no record of the amount of assessment forgone or how much of the tax burden has been shifted away from industry.

5.40 Issues Specific To Individual Linear Property Types

Some of the tax abatements or tax incentives provided to industry are property type specific. They are applied as tax exemptions or assessment exemptions, either as property specific or as adjustments made regarding what costs are included in the assessment of the property.

5.41 Linear Electric Power Property Is Not Subject to Education Property Tax

As part of the deregulation of electric power generation in 2000, the Province introduced a phase-out of the education property tax on electric power generation property. The education tax levy was phased out over two years based on the provision that the electric power generation industry would invest in needed generation capacity in the province. This was completed in the two year time frame. This is the only type of linear property which has been exempted from the education tax levy. The education tax burden on these properties has been shifted to other taxpayers.

5.42 The Assessment and Taxation of Street Lighting Systems

Street lighting systems are all defined and assessed as linear property. In some municipalities, the street lighting systems are owned by private for-profit corporations where the costs of supplying light to the streets are borne by the taxpayers of the municipality through their taxes. These systems, of course, are taxable and the municipality receives municipal tax revenue from them. In addition these systems are subject to the education tax levy and this part of the tax revenue is transferred to the Province. All of these taxes will also be borne by the taxpayers of the municipality as a flow through cost to the corporation and paid for through the utility charges to the municipality.

Some municipalities own their own street lighting systems. It was the intent of the Province to have all street lighting systems, regardless of ownership, taxable in order that there would be a fair distribution of the education tax burden. However, the provisions making that happen were not included in the legislation. As a result, municipally owned street lighting systems are not taxable. These systems therefore are not subject to the education property tax burden.

Thus, taxpayers in municipalities where corporately owned systems are operated pay education property taxes through their municipality, while taxpayers in municipalities where the system is municipally owned do not.

5.43 Rural Gas Distribution Pipelines Are Not Assessable

Natural gas distribution systems in urban municipalities are assessable and taxable, regardless of ownership. The only exceptions to that rule are those municipalities where the municipality owns the system and the population is less than 500.

On the other hand, rural gas distribution systems, other than a very few exceptions, are exempt from assessment, regardless of ownership. This includes property that is owned by private for-profit corporations, rural gas cooperatives or municipalities. It appears that when natural gas

services were being introduced in rural Alberta in the 1950's and 1960's, the costs of providing these services, especially in remote areas, was prohibitive in relation to the revenue from supplying natural gas to consumers. The Province apparently decided to exempt these properties at that time and no significant change has since been made to those provisions.

As a result, no assessment has ever been prepared in this regard, and there is no way of knowing how much the tax benefit is or how much of the tax burden has been shifted to others.

5.44 Drilling Costs Are Removed From the Assessment of Oil and Gas Wells

In the late 1940's, municipalities were given the authority to pass bylaws authorizing a well drilling equipment tax to provide funds to deal with the problem of road damage as a result of heavy oil drilling equipment travelling on rural roads. The Well Drilling Equipment Tax has been in existence since that time.

Oil and gas wells became subject to property taxation in the early 1950's. The Province decided at the time, as an incentive for industry to expand the oil and gas industry in the province, to not include the costs of drilling the well in the construction costs used to calculate the cost approach to value. It also felt that the costs of drilling were already taxed anyway in the Well Drilling Equipment Tax. However, while the Well Drilling Equipment Tax is a one-time tax for a specific purpose, the realty property tax is an ongoing annual tax levied for the purpose of supplying ongoing services to property.

These types of construction costs are included in all other property assessments (e.g. pipeline trenching, site preparation, digging basements and preparation for building foundations). They are a normal cost of construction that would otherwise be included in the cost approach to value used in determining the market value of a property.

The costs of drilling an oil or gas well, as a percentage of the total costs of completing the well for production, vary dramatically depending upon the depth of the finished well. In Alberta, the percentage of total costs of completing a well varies from some 20 percent on very shallow wells to some 85 to 90 percent on the very deep wells. The drilling cost as a percentage of total costs of completing a well of average depth in Alberta is some 40 to 45 percent.

The assessment of oil and gas wells make up a significant part of the total provincial linear assessment. As oil and gas wells are subject to both the municipal and the provincial education property tax levy, this provision amounts to a significant tax break to industry. In addition, as it is an exemption from assessment which is included in the assessment process, it is very difficult to estimate the overall effect of this tax abatement policy. However, considering the amount of assessment in oil and gas wells, one can assume that there is a large shift in tax burden away from industry.

Further, although the assessment rates in the Minister's Guidelines for oil and gas wells have been adjusted on an annual basis to reflect the increase in costs of construction, there has been no change in the actual rates or models for oil and gas wells since the late 1970's or early 1980's.

There is currently no way of knowing whether the rates currently used reflect the actual costs of constructing any specific oil or gas well in the province.

5.50 Issues Pertaining to All Types of Machinery and Equipment

The assessment and taxation policies which provide tax abatements or incentives apply to all types of machinery and equipment.

5.51 Machinery and Equipment Assessments Are Altered To Provide a Tax Policy Incentive

New machinery and equipment is given an immediate 25 percent deduction described as “depreciation” in the cost approach to value. This policy was introduced in 1984 as a property tax incentive to promote investment in the manufacturing and processing sector. This amount of depreciation remains constant until the plant is of the age where more than 25 percent depreciation is warranted. At the same time the Province also implemented a “floor” for depreciation. Depreciation, regardless of the plants age, cannot exceed 60 percent (40 percent good). These policies do not conform to the principles of market value where depreciation is a measurement of loss in value due to age, utility, functional or economic conditions.

The true nature of this policy is confirmed by the court decision in Scotford versus County of Strathcona, which stated that the 25 percent immediate reduction in assessment was not depreciation, but a “political gift”.

The overall effect of this tax incentive policy is very difficult to measure, due to the varying ages of existing plants in the province. Without the central data base of information, there is no way to estimate the effect. In any event, this tax policy in the assessment process undoubtedly has the effect of shifting the tax burden away from industry during the early years of the life of machinery and equipment.

5.52 The Valuation Process Used in the Assessment of Machinery and Equipment Has Not Been Updated

The valuation process used in the cost approach to value has not been updated for machinery and equipment since at least the 1970's. During the mandated review of the assessment processes for regulated industrial rate and depreciation review that has recently been completed and included in the Minister's Guidelines in 2006, no adjustment was made to the process for assessing machinery and equipment.

A significant change to the methodology currently used for the assessment of these properties was recommended to bring it into line with other properties. Due however to the lack of a central database of machinery and equipment inventory for the assessment of these properties, no impact studies were able to be completed. As a result, no change was made to the system.

It is believed that the current system does not reflect any relationship to market value or market value principles. Because the central database of information is currently unavailable, there is no

current way to estimate the overall effect of changing the system to one that does reflect market value principles.

5.53 Machinery and Equipment receives an Assessment Exemption of 23 Percent

In 1984, at the same time the immediate depreciation policy referred to in section 5.51 was introduced, the Province decided to provide a further incentive in the form of an assessment exemption of 23 percent (77 percent good) for machinery and equipment. This was provided as a tax relief mechanism for industry at a time when the economic conditions in Alberta were less than positive. No change has been made to this policy in the interim. With an overall provincial machinery and equipment assessment estimated at some \$40 Billion, and using a municipal tax rate of .012, this tax policy amounts to some \$140 million in annual municipal property tax savings to industry, a tax burden shift to other taxpayers, or a combination of both.

5.53 Machinery and Equipment is Subject to an Equalized Education Property Tax Rate of 0

In the mid to late 1990's, the Province phased out the education property tax on machinery and equipment. The plan was to phase it out over 5 years at 20 percent per year based upon industry investing \$20 Billion in manufacturing and processing facilities across the province. The full phase out was accelerated and completed in 3 years instead of 5 due to industry meeting the requirement of investment.

At the time, the Province stated that this would not shift the education tax burden away from industry to others because the loss in revenue would come from the general revenue fund. However, in the long run, if the Province needs a certain annual amount of revenue for education from the property tax base, machinery and equipment is not contributing thereto. Using an education tax rate of .005, the education property tax revenue on \$40 Billion of machinery and equipment would be some \$200 million in annual revenue for education purposes. As the total education tax requisition is currently in the area of some \$1.6 Billion, this represents about 12.5 percent of the total education property tax levied.

It should be noted that machinery and equipment is not technically exempt from taxation; however, ever since the late 1990's the Province has set the equalized education tax rate for machinery and equipment at 0 by Order-in-Council.

5.54 Machinery and Equipment Used for the Excavation and Transportation of Coal or Oil Sands

In 1984 the then Minister of Municipal Affairs stated in the Legislature that the large heavy haul trucks and shovels used in the oil sands for excavation and transportation were assessed as machinery and equipment for property tax purposes. This was also the case regarding the large draglines used to excavate coal in open pit mining operations, which are currently being assessed and taxed. The assessment of these was expressly provided for in the legislation at the time.

There has been no stated or documented change in the policy for the assessment and taxation of these properties since that time. However, although the definition of machinery and equipment

and the provisions for assessed property and assessed person that are included in the legislation include the trucks and shovels in the oil sands, they are currently not being assessed and taxed. This is due to a legal interpretation which finds that an exemption for these properties is included in section 298(p) of the MGA. Although this legislative conflict has been pointed out to the Province a number of times, no change or clarification has been made.

Considering the number of these properties in the oil sands, if these properties were assessed and taxed, the municipality would realize a significant amount of municipal tax revenue to provide the services that are required.

5.55 Comparison of Machinery and Equipment Assessment and a Market Value Assessment

To illustrate the overall effect of the tax policies provided for machinery and equipment in the assessment and taxation processes the following example is provided:

- Two properties each costing \$1 million to construct
- One property is processing plant machinery and equipment
- One property is a retail store
- Tax rates: municipal - .011, education tax .005 for retail, .000 for M& E
- Both properties newly constructed
- Both assessments completed using the Cost Approach to Value

<u>Policy</u>	<u>Retail Store</u>	<u>Machinery and Equipment</u>
Total Construction Cost	\$1,000,000	\$1,000,000
CCRG – Less 25 %	N/A	-\$250,000
Immediate Depreciation 25%	N/A	-\$187,500
Assessment Exemption 23%	N/A	-\$129,375
Final Assessment	\$1,000,000	\$433,125
Municipal Tax @.011	\$11,000	\$ 4,764
Education Tax @.005	\$ 5,500	@.000 \$ 0
Total Property Taxes	\$16,500	\$ 4,764

It is important to note that a large percentage of what is assessed as machinery and equipment in this example would be assessed as buildings and structures if it did not fall under the definition of machinery and equipment. In other words, if Alberta decided not to assess machinery and equipment and removed the definition from the legislation, most of the property now assessed as machinery and equipment would be assessed as improvements on the basis of market value.

6.00 Other Assessment and Taxation Issues

6.10 Non-Profit Property Tax Exemptions

Section 362 (1)(n) of the MGA provides property tax exemptions for certain properties that are held by non-profit organizations and that meet the requirements and conditions in the *Community Organization Property Tax Exemption Regulation* or “COPTER” (Alta. Reg. 281/1998).

Municipalities have expressed concern about the Regulation in two areas:

- 1) The Regulation does not provide clear intent regarding some of its provisions; and,
- 2) The Regulation does not address the property tax issues of senior and low cost social housing held by non-profit organizations.

6.11 Clarity of the Intent of the Regulation

There are a number of areas of the Regulation which require amendment to be more prescriptive. Municipalities have expressed concern and frustration regarding the consistent application of some of the definitions in the Regulation and have asked the Province on a number of occasions to address their concerns. To date, the Province has been hesitant in dealing with the vagueness of some of the provisions.

6.12 Senior and Low Cost Social Housing Held by Non-Profit Organizations

Municipalities, especially the larger cities, are concerned about the future regarding the property taxation of these entities. Properties which are subsidized by the Province are exempted from taxation under the Regulation and the MGA; however, properties that are subsidized by the non-profit organizations which hold the property are not exempt under the legislation.

Municipalities, in order to assist non-profit organizations, can exempt these properties from property tax; however, under provincial law, the education property tax portion must be paid to the Province. If the municipality exempts a specific property from all taxes including the education property tax levy, then other taxpayers in the municipality are required to pay the education tax levy. This is clearly a problem for both the municipality and the other taxpayers.

If the municipality decides to exempt the property from the municipal tax levy only, it raises another issue. The municipality is still responsible for providing municipal services to that property, and, as a result, the costs associated with that responsibility are simply shifted to others. Simply stated, the taxes do not go away.

Municipalities agree that the need for investment in these types of properties is important and especially the need for accommodation for seniors, which will significantly increase in the coming years. It should be noted that the vast majority of these properties are located in urban municipalities and it would thus appear to be largely an urban issue. However, one queries if it is fair that urban taxpayers should have to shoulder the costs of supplying municipal services to

all these properties, especially when a large percentage of the residents may have once been residents of the surrounding rural municipalities.

Thus, providing further provincially mandated property tax exemptions for these properties would only add a further burden to the urban taxpayer. The Province has in the past provided grants to municipalities for the municipal portion of the property taxes for some selected senior citizens' accommodations held by non-profit organizations. It would appear that an expansion of this type of grant program may be the most appropriate way to deal with the problem. In this way, all citizens would contribute to the municipal costs of providing services to these properties.

6.20 Condition Date For the Assessment of Property

In valuing property for assessment purposes, assessors must reflect the characteristics and physical condition of property, other than linear property, on December 31 of the year prior to the year the assessment is used for taxation purposes. In addition, they must value that property as if those characteristics and physical conditions existed on the legislated valuation date of July 1 in the year prior to the year the assessment is used for taxation.

Besides being very difficult to explain to taxpayers, the December 31 condition date has proven to be somewhat problematic for municipalities, especially the major cities. This condition date means that municipalities must set their tax rates and collect taxes long before they know the final decisions from assessment complaints and appeals tribunals. This can create a significant risk of revenue loss for municipalities, and also the time required to go through the assessment complaint and appeal process has frustrated taxpayers as well. Due to the delay that is caused by the condition date, many assessment appeals in a taxation year are not finalized until well into the following taxation year.

Some municipalities have requested that the legislation be amended to move the condition date from December 31 back to be the same as the valuation date. Not only would this be easier for taxpayers to understand, but it would also allow the assessment complaints and appeals process to be completed prior to setting the tax rates by the municipality.

6.30 Property Used for Dams

Dams are expressly exempt from assessment regardless of their use or ownership. The only parts of dams which are assessable and taxable are the portions used for the generation of power. In addition, the land that forms the site of a dam is exempt from assessment regardless of use or ownership. Although there is no documentation supporting this assumption, it is felt that this exemption was introduced as part of the provincial initiatives in infrastructure for the irrigation of farmland in southern Alberta.

It should also be noted that because embankments surrounding tailings ponds in the oil sands are considered dams under their governing federal legislation, they are exempt from assessment. Further, the land forming the site of the embankments is exempt from assessment because it forms the site of a dam.

These embankments fall under the definition of structure and improvement in the Municipal Government Act and would be assessable and taxable, if not for this exemption from assessment. To illustrate the issue, these embankments are some 70 plus feet in height and cover many kilometers in length. There is no valuation placed on these properties for assessment purposes, and therefore there is no way of measuring the effect of this exemption.

If they were not exempt as dams, these structures, together with the land, would be assessable and taxable on the basis of their market value and be subject to the non-residential tax rate for municipal and education property tax. Although it would be difficult to determine the market value, it would appear to be a significant amount.

6.40 Property Held by Rural Electrification Associations

Electric power distribution systems owned by Rural Electrification Systems (REA) are not included in the definition of linear property. Their electrical distribution rates are not regulated, and as such the property would fall under the definition of machinery and equipment that is integral to the operation of an electric power system.

Although there is no specific exemption for electric power distribution systems owned by REAs, it appears that at this time, there is no municipality that is assessing these properties. There is no provision which is included in the legislation that would specifically allow a municipality to assess these properties in a reasonable fashion. As a result, no assessment has ever being prepared in this regard, and there is no way of knowing how much the tax benefit is or how much of the tax burden has been shifted to others.

6.50 Water and Sewer Conveyance and Treatment Systems – Manufacturing

Water and sewer conveyance systems operated in association with manufacturing and processing plants were exempted from assessment in 1984. It was felt that, at the time, it was unfair to assess and tax industry for this property when municipally-owned systems were exempt from assessment. These systems are associated with plants that are located in rural areas where municipal water and sewer systems are not available. But, privately owned systems located in rural areas are not exempt. If they add market value to the property, they are included in the assessment of the property.

6.60 Interest in Land Held Under Timber Dispositions

Any interest held from a timber disposition under the Forests Act is exempt from assessment. These properties are usually located in remote areas and routinely involve large tracts of land. Due to the fact that industry's interest in the land is exempt from assessment, there is no valuation placed on the property. Thus, there is no way taxpayers can determine the effect of this exemption.

6.70 Limited Number of Assessment Classes

There are four assessment classes provided for in the MGA. There is very limited ability for a municipality to separate these classes into subclasses for the purposes of applying different tax rates to subclasses. The classes are:

- 1) Residential;
- 2) Non-residential;
- 3) Farmland; and,
- 4) Machinery and Equipment.

Class 1 may be split into as many subclasses as the council of a municipality feels are appropriate and on any criteria that the council feels are appropriate. Class 2 can only be split based on vacant and improved non-residential property. Classes 3 and 4 may not be split. Furthermore, a municipality must apply the same municipal tax rate to the machinery and equipment class as it applies to the non-residential class. The legislation however, does not specify which non-residential subclass.

Municipalities have over the last number of years expressed concern regarding the limitations placed on them by the legislation in applying split tax rates on the non-residential assessment class. They feel that, like residential, they should have latitude in dealing with tax policy within their municipalities. They have stated that this would especially be appropriate considering the tax abatement and tax incentive policies which the Province has placed in the assessment process for regulated industrial property.

The Province has defended its policies regarding the limitations on split tax rates by stating that a municipality could discriminate against certain industries and this would defeat the intent of provincial policies.

Other provinces have multiple assessment or tax classes to allow greater latitude at the local municipal level. However, it should be pointed out that this has caused and continues to cause some problems in those jurisdictions. The fairness of the tax distribution system through the assessment process becomes a definite issue. The assessment of a property or group of properties becomes less and less meaningful as a tool to ensure a fair distribution of the tax burden. To illustrate this issue, consider the example of a municipality where the large industry in town is suffering from an economic downturn and the assessor reduces the assessment. The municipal council, instead of increasing its non-residential rate applied to all of the non-residential class, creates a new subclass for the one suffering industry and increases the tax rate on that property only. In other words, instead of the property where the value has gone down significantly getting a deserved tax break in relation to the other non-residential properties, it does not. The assessment process, in fact, becomes meaningless. This exact result has and continues to occur in provinces like British Columbia. The biggest issue in the appeal courts tends to not relate to the assessment on the property, but rather whether or not the property has been placed in the proper tax class.

7.00 Education Property Tax and Equalized Assessment

7.10 History of the Education Property Tax

Prior to 1996, municipalities were directly requisitioned by local school boards. Municipalities were required to levy their ratepayers to get the revenue to pay the requisitions of the school boards. Due to the vastly different levels of assessment and numbers of students in different areas of the province, the levels of taxation on individual properties of similar value in different areas of the province were significantly different. In addition, the average amount of education dollars available per student could also be very different.

To illustrate these variations, the following example is provided. The tax rate in one area of the province may be 18 mills and the average dollars available per student in that school district would be \$3000. In another area of the province the tax rate could be 3 mills and the average dollars available per student would be \$20,000. Not only would the taxation levels vastly differ, but the level of revenue available for education per student would also vastly differ.

In 1996, in order to “even out” the levels of taxation and education property tax support for students, the Province decided to take over the education tax requisitioning process. Its intent was to increase the fairness and equity of the education property process by applying one tax rate relative to the assessment class on all taxable properties across the province. It would mean that similar properties with similar values, regardless of location, would pay similar education property tax.

This system, which is similar to the municipality sharing the tax burden fairly among its taxpayers, would provide a province-wide sharing of the education property tax requisition fairly among all taxpayers in the province.

With some minor variations, the amount of dollars available per student regardless of location would be similar. That was the intent of the overall policy change.

Although the equal funding of education on a per student basis can be said to have been appropriate, as will be discussed below in 7.30, the actual system did not result in the fairness in the distribution of the education property tax requisition burden which was intended.

Another issue regarding the education property tax is the lack of provincial government funding to municipalities for the collection of the education property tax requisitions. The Province requisitions municipalities for some \$1.6 billion annually in education property tax revenue from municipally financed assessment and tax operations. The Province does not contribute to the costs of these operations. A case can be made that, if the education property tax makes up some \$1.6 billion of the total of some \$4.4 billion in annual property tax levied, the Province should contribute a similar percentage of the total costs of administration of the assessment and taxation operations of municipalities.

7.20 History of Equalized Assessment

Municipalities and the Province have long used the equalized assessment process to facilitate cost sharing and grant sharing programs between municipalities. The administration of and the procedures used to determine equalized assessments changed significantly in the 1990's.

Prior to the coming into force of the MGA in 1995, municipalities were required to complete assessments only once every eight years. As a result, assessments on the rolls of municipalities across the province reflected varying levels of value. In order for the assessment function to provide a fair basis for cost sharing and grant sharing between municipalities, these levels of value had to be adjusted to reflect the same level of value. This process of "evening out" the level of assessed values between municipalities is called assessment equalization.

In order to administer the procedures of equalized assessment, the legislation provided for an Assessment Equalization Board which was given the power to determine the equalized assessments for all municipalities and adjust those equalized assessments on any basis the Board felt was appropriate. A decision of the Board could be appealed to the Alberta Assessment Appeal Board, although this seldom occurred. The Province, through legislation, supplied the Chairman and the Secretary of the Board. Other members of the Board were appointed as representatives of the Alberta Association of Municipal Districts and Counties, the Alberta Urban Municipalities Association, the Alberta Association of Summer Villages and Alberta Education. Municipalities, therefore, had direct input into decisions made by the Board regarding equalized assessments and their effect on the cost sharing and grant sharing programs.

With the coming into force of the MGA in 1995, the process and administration of the function changed significantly. In the first drafts of the MGA, there was no equalized assessment process due to the fact that the drafters of the legislation had envisioned a very different administrative structure for the delivery of assessment services in Alberta. The draft legislation had contemplated the need for a single Municipal Assessment Corporation to introduce and maintain annual assessments based upon market value. It was felt that because one entity was going to provide annual assessments based on market value, there would be no need to have an equalized assessment process.

However, with the provincial government's decision to move in a different direction and privatize the assessment function, it was decided that an equalized assessment process was required. Therefore, an equalized assessment process was added to the MGA in the last months before it was introduced. The Province decided not to have an Assessment Equalization Board and shifted the responsibility for determining equalized assessments to the Minister of Municipal Affairs who was given the responsibility for determining equalized assessments and adjusting them on any basis that he felt was appropriate.

Although there remains a provision for a municipality to appeal the equalized assessment to the replacement for the Alberta Assessment Appeal Board (the Municipal Government Board), it can be said that municipalities lost their input into decisions regarding equalized assessments and their effect on cost sharing and grant sharing programs.

7.30 The Distribution of the Education Tax Burden

One queries how there can be a fair distribution of the education property tax burden among all of the taxpayers in the province through the property assessment and taxation system when not all properties or municipalities are treated in a similar fashion.

Realistically, it would not be appropriate to assess and tax all properties in the province. However, there should be very good reasons for exempting property and shifting the burden of tax to other properties. These reasons should be documented and open to taxpayers for their review. If it is appropriate to provide tax policy abatements or incentives in the property tax system, these abatements should be transparent to allow the policy makers to be held accountable for their decisions.

As was previously noted in 1.30 above, most of the property tax abatements or incentives that are in place for regulated property are applied through the assessment system, where it very difficult to determine their effect, or ascertain whether or not they are doing what they were intended to do. If these policies are appropriate, then they should be applied as exemptions from taxation. Due to the fact that most of the properties in question are subject to the education property tax, any exemptions or adjustments in the assessment system have the direct effect of shifting the education tax burden onto other taxpayers.

There are two significant types of otherwise taxable regulated properties which are exempt or not subject to the non-residential education property tax rate. They are machinery and equipment and electric power generation linear properties. While some may disagree with exemptions from education tax, they are at least tax policy decisions which are transparent and open to the public for their review.

In the long run, regardless of how education tax abatements or incentives are applied, there is a shift in the education tax burden away from regulated properties to properties that are assessed on the basis of market value. Some urban municipalities have argued that rural municipalities and their ratepayers are not contributing their fair share of the education tax. Although this may appear to be true, it is only because most of the regulated properties are located in rural municipalities. Although there are some differences in the assessment and tax rules on similar properties between rural and urban municipalities (farm buildings and residences), the vast majority of the shifting in the education tax burden is away from regulated properties to non-regulated properties regardless of where they are located.

8.00 Administration of the Assessment Function

8.10 History of the Assessment Function

8.11 Assessment in Alberta Prior to the Municipal Government Act

As stated earlier, prior to 1995 municipalities were required to update assessment once every 8 years based upon a fully regulated cost approach to value. This period could be extended with permission of the Minister of Municipal Affairs. Due to the heavily regulated system and the

legislated requirement for an inspection of each property in the municipality in order to determine assessments, this process became very labour intensive and costly.

Also, because no change in assessed values occurred during that eight year cycle or longer, these values had little relationship to the actual market values of properties, which fluctuated during the life of the assessment. This did not seem to be a major problem as long as actual market values increased relatively equally year over year. The only time of concern was after new assessments were completed and the assessed values increased dramatically.

However, in Alberta some major municipalities had completed reassessments during the late 1970's and early 1980's when market values were high. These high values were reflected in the assessments of properties. Then came the downturn of the mid 1980's when market values on properties, some more than others, dropped substantially. This led to situations where assessments on the roll of municipalities reflected values more than double the actual current market value of the property.

The complaint and appeal functions became overloaded, the lucrative new Alberta profession of property tax consultant arose, and municipalities suffered large revenue losses due to appeal losses. The courts at the time also ruled that, regardless of the regulated nature of the assessment system in Alberta, assessments must have an underlying benchmark of market value. It became abundantly clear that something had to be changed.

8.12 Municipal Statutes Review Committee

In the late 1980's the Province established the Municipal Statutes Review Committee to review the statutes relating to municipal government in the province, to consult with Albertans and to provide recommendations to the government. One of the mandates of the Committee was to review, consult and provide recommendations on what should be done regarding the property assessment and taxation system in Alberta. The Committee brought forward their final recommendations in the form of three "white papers".

8.13 White Papers Relating to Municipal Government

The Municipal Statutes Review Committee provided to the government and the citizens of the province their recommendations in three white papers; namely, the White Paper on the Municipal Government Act, the White Paper on the Property Assessment Act and the White Paper on the Municipal Assessment Corporation Act. The three draft Acts provided clear recommendations from the Municipal Statutes Review Committee on the future of assessment in Alberta. They provided that:

- 1) There needed to be a clear separation of the assessment and taxation functions, as illustrated by the assessment function under one Act and the taxation function under another;
- 2) The valuation standard for assessment needed to be the market value of the property and the value needed to be updated annually; and,

3) There needed to be one authority separate from municipal government that provided assessment delivery services for all municipalities. This body would be funded equitably by all municipalities and the Province.

In the background material for the white papers, the Committee stated that they felt that having only one body responsible for providing assessment delivery services to all municipalities was the appropriate way to ensure the efficient and effective delivery of annual assessments for all property based upon market value.

It was also pointed out in this background material that the Committee realized that the assessment procedures for some “hard to value” properties would have to remain regulated; however, it was stated that the procedures that had been used to assess these properties would have to be reviewed and updated to reflect the move to market value.

8.14 Reaction and Government Decision

The white papers received mixed reviews. Most municipalities realized that annual market value assessment was the only way to deal with the fluctuating real estate market, and they also realized that most taxpayers had a reasonable idea of the market value of their property, and therefore the assessment system would be much more understandable to the public.

However, municipalities disagreed on the assessment service delivery model. Some liked the “one authority” model while others did not. Since there was no agreement on the issue, the Minister shelved the White Paper on the Municipal Assessment Corporation.

At about the same time, the provincial government decided as part of its overall policy of reducing the size of government and its costs, that the remaining assessment delivery staff employed by government would be relieved of their duties and the Province would no longer be involved in the assessment service delivery function. Thus, the only assessment delivery function which remained with the provincial government was linear property assessment.

The provincial government further decided that the functions of assessment and tax need not be separated as envisioned, and all of the assessment provisions of the White Paper on the Property Assessment Act should be included in the Municipal Government Act. These amendments to the draft legislation were indeed made and the Municipal Government Act was introduced in 1995.

8.20 Delivery of Assessment Services

8.21 Privatization of the Assessment Function

Quebec is the only province in Canada which has a “privatized system” similar to Alberta’s for the delivery of assessment services. For the most part, the other provinces have either the provincial government as the employer of all assessors or a separate Crown corporation with the overall responsibility of supplying assessment services to municipalities. Some jurisdictions allow for municipalities to opt out of the general provincial format. For example, the City of

Winnipeg has its own assessment function separate from the balance of the province, which is administered by the provincial government.

There has been some concern expressed by municipalities and industry relating to the location of the linear assessment delivery service being within the Assessment Services Branch of the Province. They feel that the delivery of assessment services should be under a separate authority than the Branch that is also responsible for policy development. Although the appearance of this responsibility within the Branch may be of concern, it is really no different than having an assessor hired directly by a municipality where policy is being set by the same body which employs the assessor. Both situations are less than favorable in ensuring the separation of assessment and taxation policy.

8.22 The Effect on the Assessment Profession

During the period prior to the government's decision to privatize the assessment function, there were mixed messages given to the assessment community, especially those who were directly employed by the Province. This led to a general feeling of mistrust by the assessment community. This feeling unfortunately remains a reality to this day. Thus, any discussion regarding the changing of the system for the delivery of assessment services to municipalities needs to be dealt with very carefully.

8.23 Consistency of Assessments and the Assessment Delivery

The principle issue relating to the delivery of assessment services is the consistency of procedures used by assessors in determining the values of properties across the province. In order to ensure that similar properties with similar values have similar assessments, assessors should be using similar procedures. In the determination of market value, there are three recognized approaches that are used by the profession. Admittedly, regardless of what method or methods are used, there still remains some level of subjectivity in determining the final values. However, with one body supplying assessment services using the same procedures and the same computer-assisted mass appraisal system, the level of consistency can be said to be much greater than multiple groups of assessors using different procedures and different computer-assisted mass appraisal systems.

The determination of the assessment of some properties is very complex and requires a high level of expertise in order to determine the value correctly. If these properties happened to be located all in one municipality, that municipality could hire the required expertise. However, this is not the case. As a result, the level of expertise dealing with these properties is not consistent across the province. As an example of this problem, there have been concerns expressed by assessment professionals regarding the consistency in the assessment of major industrial plants. The assessment of these properties requires specialized knowledge and experience and involves a high degree of subjectivity in the valuation process. Although these properties, for the most part, are not subject to education taxes, there remains a concern regarding the fair distribution of the municipal tax burden, cost sharing programs and grant sharing programs.

With the above in mind, there is also a concern with a consistent level of service provided to municipalities. Some municipalities, generally the small and medium sized urban municipalities, hire contracting firms to provide assessment services, usually on a set fee annual per parcel. There has been some suggestion that some firms or individuals have offered services for a price which does not allow them to provide required consistency and quality of assessments over an extended time frame. Some municipalities with tight budgets have accepted these contracts and, if not already, may suffer the consequences of higher costs and problems in the future.

There are also issues of assessor training, succession planning and clarity of provincial assessment and tax policy.

8.24 Should A Single Assessment Delivery Agency or Some Other Model be Investigated?

Yes, but prior to any discussion on proposed “new” models for Alberta, a comprehensive study of all the models across the country (including Alberta’s) should be undertaken to determine their strengths and weaknesses.

It is imperative that the assessment profession in Alberta be involved in this process from the very beginning. No consultative process regarding the delivery of assessment services will be successful unless the profession is part of the planning and process from the start.

8.30 Removal of the Legislated Position of Assessment Commissioner

Prior to 1995, the legislation provided for the position of Assessment Commissioner whose duties involved ensuring that assessment policies made by the Minister or the government were applied consistently across the province. This position was responsible for the ongoing administration of the assessment function. The Assessment Commissioner also held the positions of Assistant Deputy Minister and the Chairman of the Assessment Equalization Board.

The Minister, under that legislation, was responsible for the most part, for setting assessment policies through regulations (under ministerial order) that were under his authority. These assessment policies were almost always recommended to him by the Assessment Commissioner, who was a professional assessor and a full time employee of the department. This was a prescribed responsibility under legislation. When issues arose relating to clarification of provincial government policy, the Assessment Commissioner often provided direction to the assessment community and municipalities in the form of Assessment Commissioner Bulletins. This was especially done in relation to the administration of the assessment function on properties that are currently regulated.

Under current legislation there is no such individual as the Assessment Commissioner, other than the Minister, who cannot be expected to be an expert in the field. As a result, direction on or clarification of assessment policy is lacking. An example is the oil sands trucks and shovels situation mentioned earlier, where these entities are intended under provincial government policy

to be assessed and taxed and are currently not, despite efforts by others to have the matter rectified.

The drafters of the three white papers referred to earlier did not envision the abolishment of the position of Assessment Commissioner. They envisioned the Assessment Commissioner as the Chief Executive Officer of the Municipal Assessment Corporation.

When the idea of the Corporation was scrapped, it appears that the position of Assessment Commissioner also disappeared and all of the duties were transferred to the Minister of Municipal Affairs.

If the Minister of Municipal Affairs is indeed the person primarily responsible for the setting of assessment and taxation policy, and he is also responsible for the administration of the function province-wide, it follows that he should be aware, on an ongoing basis, of the issues which inevitably arise with assessment across the province. Since the privatization of the assessment function in 1994 and the introduction of the MGA in 1995, the Ministry has had 7 different Ministers, and some 8 different Deputy Ministers. It is thus extremely difficult for anyone in the position of Minister of Municipal Affairs to provide ongoing consistency in the administration of the assessment function which is intended to provide leadership to assessors and municipalities across the province.

8.40 Issues Surrounding the Assessment Complaints and Appeals System

Prior to the introduction of the MGA, the system for assessment complaints involved a system that is similar to that currently in place. The first level of complaint was the local municipally appointed Court of Revision which is very similar to the current Assessment Review Board. Another provincial tribunal level was available called the Alberta Assessment Appeal Board, which was formed under the Alberta Assessment Appeal Board Act. For the most part, this level was provided for those individuals who had filed a complaint about their property assessment at the Court of Revision where their complaint was heard, but the taxpayer was not satisfied with the local decision. The taxpayer was provided the right to file an appeal to this provincial tribunal.

Members of the Alberta Assessment Appeal Board were appointed under Order in Council and these members were generally very experienced assessors with a high degree of knowledge in the assessment field. It was long considered an honour to be appointed to the Board and, generally speaking, Board members were held in some esteem by the assessment community. The Assessment Appeal Board Act was repealed with the coming into force of the MGA.

In the White Paper on the Property Assessment Act, the second level of tribunal was called the Alberta Assessment Appeal Commission and it carried on similarly to the former Alberta Assessment Appeal Board. This was evident in that the members of the previous Alberta Assessment Appeal Board were deemed in the White Paper to be members of the new Alberta

Assessment Appeal Commission. It is therefore obvious that the intent was to have professional assessors as members of the Board.

The Province, however, decided not to adopt this structure. When the provisions of the White Paper on the Property Assessment Act were amalgamated into the Municipal Government Act, the sections regarding the Alberta Assessment Appeal Commission were not included.

As part of the government downsizing initiative, three former quasi-judicial boards dealing with municipal issues (the Alberta Planning Board, the Alberta Municipal Authorities Board and the Alberta Assessment Appeal Board) were amalgamated into what is now known as the Municipal Government Board. The members of this new Board were not to be permanent employees of the government, but would be members of the Board appointed for term limits.

In addition, there was no requirement that these individuals would have experience in the assessment field. There have been former assessors who have served on the Municipal Government Board since the Board was established, but there has never been any assurance that an assessment appeal would be heard by these particular individuals.

Another issue involves the number of appeals which are annually heard by the Municipal Government Board. During the time when the Assessment Appeal Board was rendering decisions, the volume of appeals was much less than today. Assessments in a municipality were completed every eight years instead of annually. Very few appeals occurred in a municipality during the time between assessments. Now, however, every property in the province is valued annually and there has been a large increase in the number, length and complexity of appeals.

The Province has just introduced Bill 23, which establishes a new structure designed to provide for three separate boards hearing specific matters so that, as Municipal Affairs indicates... *a complaint is heard once by the right board instead of twice by two separate boards*. It remains to be seen to what extent this legislation, if passed, will cure the current problems.

8.50 Provincial Support for the Training of Assessors

Prior to the privatization of the assessment delivery structure in Alberta, part of the Assessment Commissioner's mandate was to ensure that a supply of fully trained assessors was available to complete assessments across the province. This mandate went so far as to ensure that assessor wages with Alberta Municipal Affairs were kept slightly lower than the wages offered by municipalities and private contractors so as not to compete with them for qualified staff. In other words, the Province had the resources to provide the on-the-job training necessary to ensure that assessors were given the training required to become fully qualified assessors for municipalities and private operators.

Since the privatization of assessment delivery in 1994, the Province has not involved itself directly in providing training for assessors. It did and continues to provide funding for the Property Assessment in Alberta Handbook and it has supplied some funds and other resources to learning institutions and the Alberta Assessors' Association in dealing with some of their

training initiatives. It has not, however, been directly involved in the delivery of training to assessors.

There is only one learning institution in western Canada between the University of British Columbia and Ontario which provides a curriculum in Appraisal and Assessment Technology. That institution is Lakeland College in Vermilion, Alberta. It provides a two year diploma curriculum which supplies students with the basics of appraisal and assessment technology. Successful students coming out of this program, however, require a significant amount of on-the-job training, experience and completion of a successful demonstration assessment report sanctioned by the Alberta Assessors' Association prior to becoming a fully qualified assessor able to be designated as the assessor for a municipality.

Currently, only a small number of municipalities are large enough and have the required resources allowing them to successfully supply the needed training. Small contracting firms supplying assessment services to most small urban and medium urban municipalities and rural municipalities with small staff complements do not have the resources available to supply the needed training.

This issue has already created some issues where municipalities have had difficulty in attracting qualified staff and have decided to acquire the services of contracting firms. However, the contracting firms may also be limited in the amount of contract work which they can undertake due to a limited staff complement.

The Province decided to privatize the assessment function as one way to control provincial costs and continues to rely on municipalities, the professional association and the learning institutions to provide the required training of assessors. The problem is with the lack of resources available to fulfill this mandate. This issue is especially of concern in those areas that require specialized expertise such as major industrial plants.

8.60 Retirement of Professional Assessors

The majority of the assessors who were in the profession at the time of the privatization of assessment delivery are still in the business. Most of these assessors, however, are nearing retirement. There is a significant amount of knowledge and expertise that will be leaving the profession in Alberta over the next few years. The issue of succession planning has not been addressed in most of the assessment delivery offices in the province.

Most new assessors coming out of the technical schools have very good skills with automated systems and new valuation models and procedures. However, they have not had the opportunity to learn what it takes to run an overall assessment office or how to deal with politically sensitive issues in the assessment function.

This is especially an issue relating to specialized expertise needed to prepare assessments. For example, due to the fact that farmland assessment ratings have not changed since the 1980's and the values have not changed since 1994, there has been no requirement to re-inspect and value

farmland for assessment purposes. Very few individuals remaining in the profession have the knowledge in soils and agricultural production required to inspect and value farm properties.

If the Province decides to update the farm land rating system, which is badly needed and recommended by the MLA Farm Property Assessment Review Committee, who will complete these valuations?

There are a very few individuals in the province who have the experience and expertise to value heavy industrial plants. In fact, there are less than 10 individuals with any level of experience and expertise to complete these assessments on an annual basis. Most of these are nearing retirement age and little succession planning has been done.

9.00 Summary of the Issues

The issues can be categorized into the following areas:

- 1) Assessment Exemptions Versus Tax Exemptions,
- 2) Market Value Versus Regulated Assessment,
- 3) The Administration of the Assessment Function

9.10 Assessment Exemptions Versus Tax Exemptions

Exemptions from property assessment or taxation have the same effect. They shift the property tax burden to those properties that remain taxable. Property tax exemptions are transparent. They are open and understandable to the public. Taxpayers can judge for themselves whether they are fair and justifiable.

There are a number of assessment and tax exemptions on property that have been put into place over the last 50 or more years. There has never been a review done regarding these exemptions in order to determine whether or not they continue to be fair and justifiable in today's Alberta.

Some are tax exemptions such as education tax abatement for machinery and equipment and electric power generation properties. Others are tax exemptions that are applicable for both municipal and education property tax, such as farm residences in rural municipalities, farm buildings in urban municipalities and non-profit organizations providing community programs and benefits to the general public.

Exemptions from assessment, on the other hand, are hidden or buried in the assessment system. In these cases, there is no manner in which to ascertain the amount of property tax that is shifted to taxable properties. Because there is no record of the property's assessed value, or the property's assessed value is altered, there is no way to ascertain whether the exemption is fair or justifiable.

Alberta has many exemptions from assessment. Some properties are not valued at all and many others have their assessment process altered to reflect a property tax exemption through the assessment system. All regulated property has exemptions imbedded in the assessment system. Some have only small exemptions, others are significant. Some other assessment exemptions are specifically provided for in legislation. Such properties such as dams, rural gas distribution systems, linear property used for farming operations, water and sewage treatment at manufacturing or processing operations and timber dispositions are specifically exempted in the legislation from assessment.

9.20 Market Value Versus Regulated Assessment

Most properties in Alberta are assessed for property tax purposes annually based upon market value. Some difficult-to-value properties, however, are assessed using a provincially regulated cost approach to value.

Although the cost approach can be used to determine the market value of property, the system employed in Alberta does not allow for it. The cost approach to value used for the assessment of regulated industrial property does not result in market value. There is a question as to whether the system provides a fair and equitable basis of sharing the property tax burden between regulated properties and those assessed on the basis of market value.

Farmland in Alberta is assessed for taxation on the basis of its productive value (agricultural use value). In order for this kind of system to distribute the tax burden fairly between farmland and all other property, it must be kept current. This is not the case in Alberta. The system used for the assessment of farmland is based on management practices in the 1970's and the assessed values for farmland have not been adjusted since 1994. While all other property has increased dramatically in assessment, farmland's share of the tax burden has decreased since the mid 1990's.

9.30 The Administration of the Assessment Function

Many changes were made to the assessment system and the administrative structure of the function in the mid 1990's. The changes in the assessment system were made as a result of problems with a costly outdated system that was not providing the basis for the fair and equitable distribution of the property tax burden. This brought about the change to annual market value assessment in Alberta.

The changes that were made to the administrative structure of the assessment function, however, were made for a completely different reason. These changes were made as cost-cutting and government downsizing. Assessment delivery was privatized, other than the linear property assessment function, and became the responsibility of municipalities. The provision of assessor training and succession planning in the assessment function was moved from the provincial government and also became the responsibility of the local municipalities.

The legislated position of Assessment Commissioner was abolished and the responsibility for the administration of the assessment function in leadership, direction and clarification of provincial assessment policy became an added ongoing responsibility of the Minister of Municipal Affairs. In the past, this position had been held by a senior civil servant with extensive knowledge and experience in assessment who had the authority in legislation to order inspections of assessments, quash assessments and direct new assessments to be made.

The Alberta Assessment Equalization Board was abolished. Under that Board, municipalities had direct input to the equalized assessment process. The responsibility of determining equalized assessments became another added responsibility of the Minister of Municipal Affairs. Municipalities lost their direct input into the cost sharing and grant sharing process of the equalized assessment process.

The Province took over the responsibility for education property tax requisitions in 1996. Prior to that time, local school boards requisitioned municipalities for education tax. Although this approach was the most appropriate, effective and efficient manner in which to proceed, the inherent differences in the rules for the assessment of different property types put into question whether or not there is a fair distribution of the education property tax burden among all of the taxpayers in the province today.

Three quasi-judicial tribunals, the Alberta Planning Board, the Local Authorities Board and the Alberta Assessment Appeal Board were amalgamated into the Municipal Government Board. The former members of the Alberta Assessment Appeal Board had been full-time employees of the Ministry and were generally assessors with extensive knowledge and experience in valuation and the rules of assessment. The members of the Municipal Government Board are appointed for terms rather than employees of Alberta Municipal Affairs and are not required to have extensive assessment experience.

A further review of all of the above issues, including consideration of which ones might be most advantageous to pursue at this time, is recommended as the next course of action.

All of which is respectfully submitted:

L.W Collins

APPENDIX

ISSUES IDENTIFIED

1. Where there is a lack of transparency (e.g. assessment formulas which build in a “break” when taxes are calculated), it is not possible to assess the fairness of who is really bearing the true cost of property taxes. When a “break” is given, either transparently through a tax exemption or indirectly through assessment, someone still has to pay the bills, and the burden does not “disappear”.
2. No adjustment has been made to the assessed values of farmland across the province since 1994, and their assessments based on farm productivity are based on farming practices from the 1970’s.
3. Farmland by legislation must have the same education tax rate as residential tax rate. While other Alberta properties have experienced increased education tax, education taxes on farmland have decreased.
4. In **urban** municipalities, and urban service areas of specialized municipalities, farm buildings are assessed and pay some tax, while if they are in rural municipalities, and rural service areas of specialized municipalities, they are fully exempt from assessment. As a result, more education taxes have been shifted away from farm property onto other taxpayers.
5. Residences in rural municipalities can qualify for a property tax exemption if the owner of the residence has land assessed at productive value in his unit. This tax exemption is also an exemption from education property tax. This tax exemption only applies in rural municipalities. Owners of farm residences in **urban** municipalities are required to pay on full market value of their residence.
6. Many of the regulated procedures and rate development processes related to all regulated industrial property (including linear) are not consistent with using a cost approach to value in determining market value so assessments are lower than market.
7. For other than linear property, the value of property as at December 31 in the year prior to the year in which the assessment is used for taxation purposes must reflect a valuation in that same year as of July 1 (valuation date), rather than both dates being the same.
8. Linear property’s condition date is October 31 in the year prior to taxation. If a linear property is not 100% complete or capable of being used it cannot be assessed at all.
9. A municipality cannot apply a business tax on premises where linear property or machinery and equipment is being assessed.
10. A municipality cannot authorize supplementary assessments on linear property.
11. Linear property used exclusively for farming operations is exempt from assessment, including those owned by TELUS, ATCO etc.
12. There is no education property tax on electric power generation property.
13. Municipally owned street lighting systems are not taxable, but taxpayers in municipalities where corporately owned systems are operated do pay education property taxes through their municipality.
14. Generally, natural gas distribution systems in urban municipalities are assessable and taxable regardless of ownership. However, rural gas distribution systems, other than a very few exceptions, are exempt from assessment regardless of ownership.
15. Drilling costs are removed from the assessment of oil and gas wells. These types of construction costs are included in all other property assessments (for example, pipeline

trenching, site preparation, digging basements and preparation for building foundations). This provision amounts to a significant tax break.

16. Although the assessment rates in the Minister's Guidelines for oil and gas wells have been adjusted on an annual basis to reflect the increase in costs of construction, there has been no change in the actual rates or models for oil and gas wells since the late 1970's or 1980's.

17. The some \$40 Billion in machinery and equipment assessment in Alberta includes not only transparent incentives and/or "breaks" (generally accepted) but also a myriad of further property tax abatements and incentives which are not transparent, and therefore difficult to review and judge for fairness and effectiveness.

18. Since the 1950's, the Province has introduced a myriad of tax abatement and tax incentive policies in order to promote investment in manufacturing and processing facilities in the province. Most of these abatement or incentive policies are imbedded in the assessment system. The Province has never completed a review open to the public to investigate whether these policies were or continue to be effective.

19. The definition of machinery and equipment for property tax purposes, for the most part, has remained relatively unchanged since the 1960's.

20. All of the tax abatements and incentives applied to property fitting Alberta's definition of machinery and equipment result in an average overall property tax of \$1 for every \$4 paid on non-residential properties assessed on the basis of market value.

21. If machinery and equipment is not complete or in operation on or before December 31 in the year previous to the taxation year, it is not assessable at all for that next taxation year. This exemption from assessment and subsequent taxation also applies to the buildings and structures associated with the manufacturing and processing operation.

22. New machinery and equipment is given an immediate 25 percent deduction described as depreciation in the cost approach to value. At the same time the Province also implemented a "floor" for depreciation. Depreciation, regardless of the plant's age, cannot exceed 60 percent (40 percent good). These policies do not conform to the principles of market value.

23. The valuation process used in the cost approach to value has not been updated for machinery and equipment since at least the 1970's.

24. In 1984, a further incentive was granted in the form of an assessment exemption of 23 percent (77 percent good) for machinery and equipment. It was for tax relief in those tough times and never revisited.

25. Machinery and equipment is not technically exempt from education taxation; however, ever since the late 1990's the Province has set the equalized education tax rate for machinery and equipment at 0 by Order-in-Council.

26. In 1984, the then Minister of Municipal Affairs stated in the Legislature that the large heavy haul trucks and shovels used in the oil sands for excavation and transportation were assessed as machinery and equipment for property tax purposes. Despite that, no assessment has been made on them. Argument that there is a conflict provision in MGA, but no amendment ever been made to fix it.

27. The amount of depreciation that is applied in the cost approach to value used in the assessment of railway is only tax policy and does not relate to market value or market value principles. Railway receives an immediate reduction of 60 percent (40 percent remaining), with no reason offered as to why that amount.

28. Further depreciation for railway is allowed to reflect the economic value of the property as a result of limited average annual traffic on a particular branch line or segment, but there is no information on how these depreciation factors were developed.
29. Properties used for senior citizens accommodation that are subsidized by the Province are exempted from taxation under the COPTER Regulation and the MGA; however, properties which are subsidized by the non-profit organizations that hold the property are not exempt under the legislation.
30. Municipalities can exempt these properties from property tax, but the education tax must still be paid to the Province.
31. If the municipality decides to exempt such property from the municipal tax levy only, it is still responsible for providing municipal services to that property and as a result the costs associated with that responsibility are shifted to the other taxpayers in the municipality.
32. The Province requisitions municipalities for some \$1.6 billion annually in education property tax revenue from municipally financed assessment and tax operations. The Province does not contribute to the costs of these operations. The education property tax makes up some \$1.6 billion of some \$4.4 billion in annual property tax levied in the province, yet the province does not contribute to municipal collection costs.
33. There is a significant aging factor in the assessor community, and a lack of ongoing training, succession planning and experience.
34. Instead of keeping an Assessment Equalization Board in place in 1995 when the Province privatized assessment, into which Board municipalities had direct input and membership, the Minister of Municipal Affairs was given the responsibility for determining equalized assessments and adjusting them on any basis that he felt was appropriate, which meant loss of any direct municipal input into the process.
35. Dams are not assessed. Oil and gas embankments fall under the definition of “structure and improvement” in the MGA and would be assessable and taxable if not for this exemption of them as “dams” (some over 70 ft. and many kilometers in length). There is no valuation placed on these properties for assessment purposes and therefore there is no way of measuring the effect of this exemption.
36. REA electric power distribution systems are not included in the definition of “linear property”. Currently, there is no provision which is included in the legislation that would allow a municipality to assess these properties in a reasonable fashion.
37. Water and sewer conveyance systems operated in association with rural manufacturing and processing plants are exempt from assessment. Privately owned systems located in rural areas are **not** exempt.
38. Lands held from a timber disposition under the Forests Act are exempt from assessment. These properties are usually located in remote areas and usually involve large tracts of land.
39. There is very limited ability for a municipality to separate these classes into subclasses for the purposes of applying different tax rates to subclasses.
40. Given the use of various approaches across Canada, and given the number of pending retirements of assessors and the difficulties in providing training and experience, other assessment delivery models require study, in conjunction with the assessor community.