

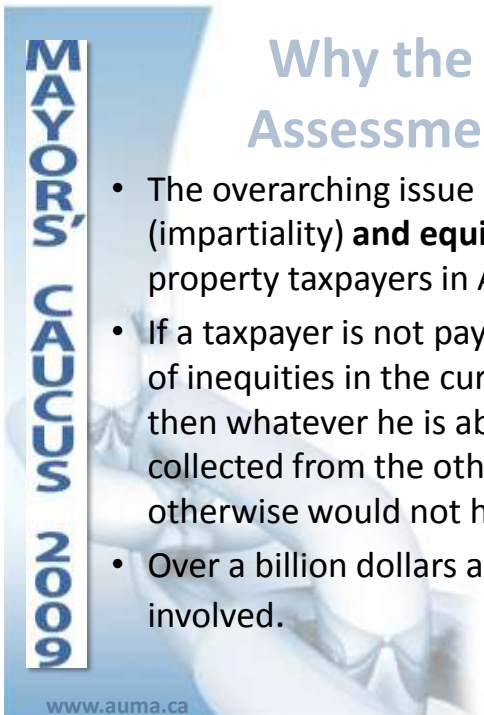
MAYOR'S CAUCUSES 2009

Presentation on Assessment

Mayors' Caucuses, Edmonton
September, 2009

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Why the AUMA Study of Assessment and Taxation?

- The overarching issue under review is **fairness** (impartiality) **and equity** (just to all) for the property taxpayers in Alberta.
- If a taxpayer is not paying his fair share because of inequities in the current property tax system, then whatever he is able to avoid paying is collected from the other property taxpayers, who otherwise would not have to pay that amount.
- Over a billion dollars annually is potentially involved.

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The Recap of Actions to Date

- AUMA prepared an initial policy paper in June, 2009 entitled *Issues Identification*.
- Some 40 issues in the current assessment and taxation system were noted, which AUMA believes should be reviewed and, in many cases, corrected.

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The Recap of Actions to Date (continued)

- A second policy paper, entitled *Addressing the Issues* has now been prepared.
- It takes the larger *Issues Identification* paper and makes some suggestions on what might be reviewed and corrected more easily, and what might require lengthier study.
- AUMA is proposing that these 2 papers form the basis for a Board review in 2010.

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Issues in the Policy Papers

All issues identified in the AUMA policy papers can be categorized into one of the following three areas:

1. *Market Value Versus Regulated Assessment.*

Issues are:

- Alberta system supposedly based on market value (what willing buyer pays to willing seller), but many policies/practices in use **do not conform** to that principle
- The regulated system (which uses formulas to determine value on hard-to-value property like pipelines, railways, machinery and equipment etc.) is **not transparent** in its “tax breaks” and does not value everything it should in the formulas.

Issues in the Policy Papers (continued)

2. *Assessment Exemptions Versus Tax Exemptions*

Issues are:

- **Assessment** exemptions are ‘buried’ and not transparent,
- **Lack of explanation/information** around why certain exemptions exist at all, and their clarity, fairness and effectiveness.

Issues in the Policy Papers (continued)

3. *The Administration of the Assessment Function.*

Issues are:

- the current lack of separation between the political and administrative oversight of the assessment/taxation system,
- the lack of municipal input into the processes,
- the manner of dealing with assessment complaints and appeals,
- the current assessment service delivery system,
- the lack of succession planning and training regarding assessors in Alberta.

Guiding Principles

AUMA recommends that as it reviews these matters in 2010, the AUMA Board should strive to adhere to the following goals and principles:

1. The assessments for all property should be based upon the principles of a true annual market value assessment system.

Guiding Principles (continued)

- 2 All exemptions, whether from assessment or taxation, should be reviewed in an open and transparent manner to ensure that they continue to be appropriate and provide the results for which they were intended.
- 3 Any exemptions that are continued should become exemptions from taxation, not assessment, in order that they continue to be open and transparent.

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Guiding Principles (continued)

4. There should be a clear separation between the political assessment policy decision-making and the administration of the assessment system.
5. Municipalities should have input into the decision-making process.

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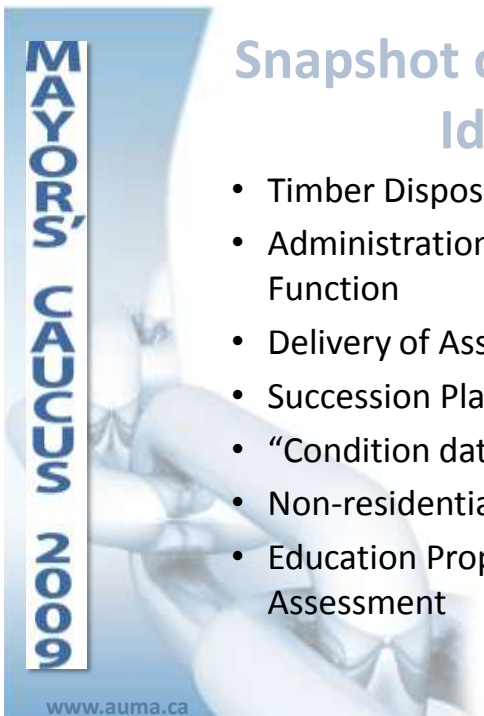
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Snapshot of 15 Main Issues Identified:

- Farm Assessment
- All Regulated Industrial Property
- Linear Property
- Machinery and Equipment
- Non-Profits
- Dams
- Rural Electrification Associations
- Water and Sewage Conveyance/Treatment

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Snapshot of 15 Main Issues Identified:

- Timber Dispositions
- Administration of the Assessment Function
- Delivery of Assessment Services
- Succession Planning
- "Condition date"
- Non-residential Assessment Subclasses
- Education Property Tax and Equalized Assessment

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Farmland

- Assessed values for farmland (not updated since 1994), the assessment and taxation of farm buildings (exempt in rural areas but not in urban areas) and the Rural Residence Tax Exemption policy (not applicable to **urban** farm residences) all need to be reviewed.

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Regulated Industrial Property

- The regulated industrial property definitions (same since 1960's) need review and updating.
- The Construction Cost Reporting Guide does not currently include **all** construction costs used to determine market value and needs revamping.

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Regulated Industrial Property (continued)

- Only some incomplete regulated industrial property is subject to “progressive assessments” (start paying taxes on it as it’s being built). Exemptions currently in use need review, especially since **all** other property is subject to progressive assessment.

Linear Property

- Should linear property be subject to supplementary assessments? (Currently not, but other property is).
- Examine need for exemption from assessment for linear property used for farming.
- Review exemption from education tax for linear electric power generation property.

Linear Property (continued)

- What is the need for current tax exemption for some street lighting systems ,while other street lighting systems pay?
- Examine assessment exemption for rural gas distribution systems (urban systems currently pay).
- Review valuation methodology and depreciation standards of oil and gas wells to better reflect real value.

Linear Property (continued)

- Review the special depreciation policy (“penetration rate”) for telecommunications properties, as it has been criticized internationally as being inappropriate in valuing such properties at market value.

Machinery and Equipment

- Undertake review of entire assessment/tax process surrounding this group(definitions in use, lack of progressive assessments, their exemption from education tax, assessment exemptions, depreciation rates used, assessment and taxation policy on excavation and transportation machinery and equipment used in coal and oil sands etc.).

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Non-Profit Tax Exemptions

- Clarify current vague Regulation regarding exemptions for properties held by non-profit organizations.
- For properties held for seniors' accommodation and low-cost housing, which can be granted exemptions by the municipality, review providing such qualifying organizations with Provincial funds to pay the local municipal taxes.

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Dams, and Rural Electrification Associations

- Review issue of dams, including those privately owned, which currently get an exemption from assessment, even where they are used for income-generating purposes (e.g. tailing ponds in oil sands).
- Clarify if REAs are exempt from assessment or not.

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Water and Sewage Conveyance & Treatment Systems, and Timber Dispositions

- Review current exemptions for both these areas, to see if initial reason for exemptions remain valid.

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Administration

- Review current political/administrative structures regarding oversight of assessment in Alberta and in particular the degree of separation of the functions.
- Review new regulations and legislation in Alberta regarding assessment complaints and appeals.

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Administration (continued)

- Commence review and analysis of assessment delivery services across Canada to ascertain if changes to the Alberta delivery system are warranted.
- Review issue of lack of training initiatives and impending shortage of qualified assessors.

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Condition Date and Splitting Non-Residential Base

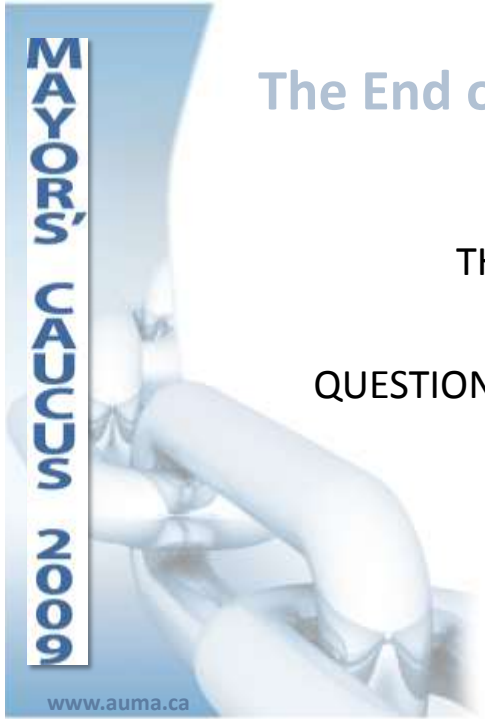
- Review changing “condition date” from December 31 to July 1 (same date as valuation date) to allow more time for complaint and appeal process, and to lower risk of revenue loss.
- Review experience of other Canadian jurisdictions to see if any changes warranted regarding sub-class splitting of non-residential assessment base.

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Equalized Assessment System and Education Property Tax

- The equalized assessment system should be examined in its entirety, since practice has eroded the concept and its fairness over time, and review current lack of direct municipal input into the process.
- Review the cost to municipalities of collecting Provincial Education Tax on behalf of the Province, and the current Provincial requirement of applying education tax on supplemental assessments.

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The End of The Beginning

THANK YOU!

QUESTIONS OR COMMENTS?

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