Alberta Assessors' Association
P: 780 483 4222 || F: 780 487 7505 || E: info@assessor.ab.ca
10555 172 Street, Edmonton AB T5S 1P1

September 21, 2020

The Honourable Tracy Allard
Minister of Municipal Affairs
132 Legislature Building
10800 - 97 Avenue
Edmonton, AB T5K 2B6

Re: **THANK YOU**

On behalf of the Alberta Assessors' Association, we appreciate the opportunity to meet to discuss assessment principles in relation to the Assessment Model Review.

Attached are Briefing Notes prepared in support of our position which is formed with consideration to our guiding principles:

- To increase an assessor's accountability by promoting public understanding and awareness;
- To improve fairness and equity of the assessment;
- To maintain and improve the stability of assessment;
- To separate valuation and tax policy; and,
- To promote efficient assessment administration.

If you have any questions, any member of our Executive Committee can be reached by calling or emailing our Executive Director at 780-483-4222.

Thank you,

R. Scott Powell, BA AMAA
President

Attachment

Briefing Note for the Honourable Tracy Allard
Minister of Municipal Affairs on the Assessment Model Review

Purpose

The purpose of this briefing note is to present, for the Minister in response to her invitation, the position of the Alberta Assessors' Association on the Assessment Model Review that elements in each of the four scenarios deviate from sound property valuation policy and practices and are not in the public interest being neither fair, equitable nor transparent.

Summary

There is increasing public awareness of the potential impacts these changes to assessment regulation may have on property taxes that fund budgets, services and operations of municipalities.

Alberta's annualized property valuation (assessment) for municipal taxing purposes is considered the gold standard for property assessment, providing more accurate valuations and, also addressing market/economic issues better than multi-year processes in other jurisdictions[1]. The issues identified by industry in Alberta have varied over time from consistency in the application of assessment principles to outdated or overstated values to, now, high tax rates. Professional municipal property tax assessors across Alberta are concerned with the erosion of assessment principles and practice in the service of property tax reform. Assessment regulations reside with the province whereas taxation rates are the purview of municipalities.

Background

Regulated rates for assessing wells, pipelines and Machinery and Equipment (M&E), based on construction costs, assessment year modifiers and depreciation, have been subject of discussion, but not substantially updated, since 2005. The most current review that has resulted in the four scenarios of the Assessment Model Review Report began in 2019 with the following stated objectives:

- update the model for current costs and technological changes (advancements);
- maintain the regulated valuation standard;
- improve industry competitiveness; and
- maintain municipal sustainability

With these laudable considerations, the full involvement of all stakeholders should have ensured that in either assessment regulation changes or tax reform policies, the effect is specific and the cascading impact is minimized.

[1] Slack, E. and R. Bird (2014), "The Political Economy of Property Tax Reform", OECD Working Papers on Fiscal Federalism, No. 18, OECD Publishing. P. 18 http://dx.doi.org/10.1787/5jz5pzvzv6r7-en

Municipal assessors were generally excluded from discussions even though municipalities and property owners typically use assessors' expertise to forecast and calculate impacts. Municipal taxing authorities were likewise excluded from much of the discussion until scenarios had been prepared by provincial staff with industry input. While jurisdictional assessment policies are properly developed by the province (in Alberta), the policies must be considered as the sum of parts rather than individual parts. Tax reform, however, can target specific parts, industries or sectors.

Considerations

Standards of Practice

- Assessments should reflect to the greatest degree possible values which are fair and equitable. This standard applies across property types[2] when reviewing in accordance with professional standards and principles
- Assessments, both in value and in methodology, must be transparent in order to maintain public trust and confidence.
- Property assessment is a technical practice that requires a unique skillset using standardized principles and applied methodologies to provide property values. Ensuring that the final product is accurate and operates as intended falls to assessors

Macro Implications of Assessment Model Review

- Impact analyses have demonstrated tax reallocation (tax shifts) to property classes outside of the oil and gas (O&G) sector. When one group of properties pays less, others must pay more. This tax shift would fall other non-residential properties (often small businesses), residential property owners and farmland properties.
- This is no longer a "rural issue." The effect of assessment value changes on O&G to equalization (school requisition, RCMP) and on intermunicipal collaboration frameworks that are based on multi-year forecasting with a secure revenue stream are demonstrably alarming.
- Market values for non-O&G assets are being affected. Uncertainty, coupled with the likelihood of a tax shift and an increase in tax burden, will effectively stall other sector investments. Investors dislike uncertainty; the models create uncertainty resulting in hesitancy to enter Alberta markets without a decision and without an understanding of the tax/cost implications.
- Smaller O&G companies are generally excluded from the benefits of the model review scenarios; these "smaller businesses" make up 54% of the industry and could face increases in assessments.
- The unanticipated cascading effects for non-O&G (or smaller O&G) businesses include increased operating costs and decreased values.
- Government policy is a factor in wealth creation; it can likewise be a factor in investment retraction.[3]

[2] "*How to Reform the Property Tax: Lessons from around the World,*" Slack, E. and Bird., R, 2015 Footnote 15, p. 8 (https://munkschool.utoronto.ca/imfg/uploads/325/1710_imfg_no.21_online_sept17.pdf)
In practice, most countries use a mixture of systems. For example, a country employing market-value assessment may tax single-family residences on the basis of values estimated by what is called the comparable sales method, commercial properties on the basis of values estimated by capitalizing some income stream, industrial properties largely on the basis of their estimated depreciated cost method, and rural properties on the basis of a more or less refined area (value per unit) method: see Bird and Slack (2004) and Norregaard (2013) for further discussion.

Tax Problems & Assessment Solutions

- Property taxation processes in Alberta have been designed to effectively distribute the tax load equitably across all property types. Inequities in the tax load should then be addressed in the taxation process.
- The issue of tax reform has been considered by experts who agree that attempts to control taxation through assessment in down markets are difficult to repeal or correct when the market corrects.
- Changes in property valuation formalized as exceptions in regulations that are limited to a certain sub-set within a sector or property class creates inequities within the targeted industry property classes and the same classes outside the target industry.
- In the models, wellsite Machinery and Equipment (M&E) is provided a specific depreciation table. While this may be appropriate, a more extensive analysis on the age lives of a wide variety of M&E should be required before changing the schedule(s) in whole or in part.
- The lack of transparency in the development of the depreciation table is counterproductive in promoting public understanding and awareness of assessment and "assessment equity" (the degree to which assessments are related to market value).
- The regulated M&E assessment base outside of the target sector (O&G) will undoubtedly be exposed to additional complaint/appeal risk.

Summary

Tax policy and taxation rates exist in the political realm to provide local governments with an income stream and can include consideration to ameliorate the effect of a down (or up) market economy. The public is sensitive to taxation rate changes. As such, the valuation tool that forms the basis for taxation, **assessment**, needs to be held to the highest standard considering all property types. Assessment policy should follow fixed professional standards in order to provide the most supportable valuation and, ultimately, some certainty for both the tax payer and the tax collector for a secure version of that revenue stream.

[3] Residential CMHC lending allows 32% Gross Debt Service GDS for monthly costs (PITH). An increase in any portion of PITH reduces market value and removes market participants. Affordability loses equilibrium and migration occurs. A 1% decrease of residential market value in Alberta is equal to a 6 billion loss (2021 EA report)

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September 2, 2020

Provincial Assessor Janice Romanyshyn
Executive Director, Grants and Education Property Tax Branch
Alberta Municipal Affairs
15th fl Commerce Place
10155 - 102 Street Edmonton, AB T5J 4L4

Re: **ASSESSMENT MODEL REVIEW**

On behalf of the Alberta Assessors' Association, thank you for the invitation to respond to the Assessment Model Review.

The Executive Committee struck a working group to review the scenarios as they were provided to us by the Rural Municipalities Association. The working group's consideration related to whether the scenarios met the stated objectives of the Assessment Model Review as follows:

- update the model for current costs and technological changes;
- maintain the regulated valuation standard;
- improve industry competitiveness; and
- maintain municipal sustainability.

On behalf of our professional members, our concerns relate to whether the scenarios follow the sound principles of assessment that are central to an effective assessment and taxation system. The Alberta Assessors' Association holds that annualized valuation and the consistent application of valuation concepts are the hallmarks of a fair, equitable and transparent (easily understood) assessment system. They are also defensible as such and, arguably, the gold standard of property assessment.

The assessment of the designated industrial property inventory has long been an issue. What is clear in our analysis is that the properties for which the model review has been prepared will be treated differently from like properties outside of the scope of the review (e.g. those included in the model review inventory are distinguished by size, value or other factors will receive special consideration). In a 2005 paper, titled *"Property Taxation: Issues in Implementation"* now-Professor Emeritus Dr. Harry Kitchen posited that "the practice of exempting certain properties or applying differential assessment rates to others lowers the tax base and creates potential problems. Lower assessment rates are often used to provide special treatment..."

In the 2014 report to the Organisation for Economic Co-operation and Development titled "Political Economy of Property Tax Reform," authors Slack and Bird also state that "As assessment inequities become more and more entrenched over time, politicians find it more and more difficult to update values and good assessment practices are less and less likely to be followed..." This supports the principle of consistent and enduring assessment models, irrespective of economic conditions. However, if an emergent or critical situation arises, change to the effect of the assessment model may be implemented on a temporary basis through tax policy with a defined term.

Two of the objectives of the model review were to enhance industry competitiveness while concurrently ensuring the ongoing viability of municipalities. Our Municipal partners have clearly stated that these scenarios do not support municipal sustainability and analysis suggests that industry competitiveness may be compromised. The largest oil and gas companies operating in the province will receive a disproportionate share of benefits from changes to the assessment model while small and locally-owned companies will, on average, receive significantly less benefit, and in some cases may face assessment increases. What interests the Association and its membership in the realm of public trust is fairness and equity in the valuation of property for taxation purposes. The application of tax rates and tax policy are political issues that should not restrict the principled application of assessment processes in property valuation.

The Association has prepared a chart (attached) which indicates, in a broad analysis, how the four scenarios continue to add tax policy – or tax reforms – to the assessment model thereby compromising the objectivity of regulated assessment principles.

On behalf of the Alberta Assessors' Association, thank you for your willingness to consider our position; we appreciate your interest.

Thank you.

R. Scott Powell, BA, AMAA
President

c.: S. Young
A. Slotsve
C. Risling

Attachment

MODEL REVIEW SUMMARY (WELLS, PIPELINES AND WELL SITE M&E) - CORRECTED

Stated Objectives of the Model Review:

- update the model for current costs and technological changes;
- maintain the regulated valuation standard;
- improve industry competitiveness; and
- maintain municipal sustainability.

Municipal Affairs has proposed 4 scenarios. The changes have varying degrees of impact to reduce the assessment. The proposed changes are summarized against whether the objectives of the Model Review are met.

PROPOSED CHANGE	TECHNOLOGICAL CHANGE / CURRENT COST	MAINTAINS REGULATED VALUATION STANDARD	TAX POLICY INSERTED IN THE VALUATION MODEL	NOTES
Standard rates for well site M&E	Unknown - because technical data was not produced to the municipal stakeholders	Unknown		It is not known whether the standard groupings are reflective of the inventory, and whether equipment physically present but not included in the rate would be assessed.
Stimulation and completion costs for deep horizontal wells excluded from the Schedule A rate	A new rate does need to be added for this type of well. The costs to drill this type of well were not produced to municipal stakeholders.	The regulated valuation standard only allows a cost to be excluded if allowed by the CCRG.	It is uncertain whether the CCRG would exclude stimulation and completion costs, therefore doing so departs from the valuation standard and is tax policy.	
The rate for land at a well site, is excluded for some wells.	No reason provided related to technological change or updated costs.	Departs from the legislation, unless the definition of 'well' is amended.	Reflects tax policy to reduce the assessment for some wells.	
A reduced rate for pipelines in the same right of way.	Unknown - technical data was not shared with municipal stakeholders.	Departs from the objective of the legislation that the specifications and characteristic would be obtained from the AER's records.		Increases the reliance on self - reported information.
A depreciation table added for wells, pipelines, and wellsite M&E. Alternate depreciation proposed for pipelines based on size.	No reason provided related to technological change or updated costs. The data to support the additional depreciation based on pipelines size has not been shared.	Departs from the age based depreciation approach determining the typical useful life of the equipment. Introduces factors of profitability to the owner.	The proposed table will have an age life of 16 years after which there will be 10% remaining. The rationale for the 16 years is that industry has stated that this is the timeframe after which the typical well is not profitable.	This introduces the concept of depreciation related to whether the property is profitable. This may open up the argument - on equity grounds - for M&E.
Statutory factor in MRAT for wells.	No reason provided related to technological change or updated costs.		The historical reason for the statutory factor for M&E is unknown. The proposed scenarios would introduce a statutory factor of differing ratios for wells – without a stated policy objective or timeframe.	