



Principles of Assessment I
for
Assessment Review Board Members
and the
Municipal Government Board
Members

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1. Learning Objectives

Caution on the Use of the Material

The material contained in this manual has been prepared by Alberta Municipal Affairs for information and for educational purposes. This manual is intended as an educational aid for persons in tribunal work, and should not be used as a substitute for current legislation. If there is any uncertainty with understanding or interpreting the material or information contained in this manual, readers should consult legal counsel or obtain relevant professional assistance.

Important:

The material and information in this manual is not intended to be, and should not be used as, a substitute for the legislation.

Purpose

This manual is part of a training program, approved by the Minister, which is mandatory for persons who wish to become qualified to participate in a hearing as a member of an assessment review board.

Through a hands-on review of assessment principles, legislation and interactive case studies, participants in this course will learn about:

- the matters that an assessed person or taxpayer can file a complaint about, and what information may be presented before a board with respect to a specific matter of complaint;
- the legislation prescribing the assessment of different types of property.

The learning objectives are to:

- Recognize the roles and responsibilities of an assessment review board, including the local assessment review board, the composite assessment review board and a one-member board;
- Become aware of the common methods used for valuing property;
- Know the regulated standards that assessors must apply and the procedures that they must follow in preparing assessments;
- Comprehend when an assessment based on market value may be deemed to be fair and equitable; and
- Recognize when an assessment for regulated property has been correctly prepared.

2. Course Description

Principles of Assessment I is targeted for persons who wish to become qualified to participate in a hearing as a member of an assessment review board. The course presents information about the roles and responsibilities of assessment review board members under the legislative framework. It will also provide assessment review board members with the basic fundamentals of property assessment and matters shown on an assessment notice or tax notice upon which a complaint may be filed. The training session will cover the information in this manual, and target the discussions toward the property types that are relevant to each board. The *Principles of Assessment I* is a companion course to *Administrative Law II*.

Evaluation

A person must successfully complete *Principles of Assessment I* and *Administrative Law II* to become qualified under the legislation to participate as an assessment review board member in a hearing. Successful completion of this course means full participation in the course and its exercises is required, *and* a passing grade on the final examination, to be presented in class, must be obtained.

3. Assessment Complaint System in Alberta

Overview

Alberta's assessment complaint system incorporates a taxpayer's right to challenge information about their assessment and to bring forward correct information. In addition to assessment matters, a person may make complaints about other matters on an assessment notice or on a tax notice.

The assessment complaint system in Alberta is structured in such a way where property taxpayers have the right to challenge their assessment and all parties, including tribunals, are responsible for a fair and effective complaint and appeal process. The assessment complaint system in Alberta provides:

- Taxpayers with improved access to assessment information, and more time for them to review the information and discuss issues with the assessor. Improved access to information is intended to reduce the overall number of complaints.
- Standardized forms for consistent administration of complaints throughout the province.
- A streamlined process to help ensure complaints are heard and decisions are issued in a timely manner.
- Mandatory training programs for assessment review board clerks and board members, which is intended to lead to consistent procedures and better qualified persons hearing complaints throughout the province..

To this end, the government established the following principles for the assessment complaint system in Alberta:

- Taxpayers have the right to an understandable, objective and procedurally fair complaint and appeal process.
- All parties are entitled to, and have an obligation to, make the complaint system effective, efficient and timely.
- Municipalities should have some autonomy for local assessment review boards, yet there must be provincial oversight.
- Information and disclosure must be accessible, transparent and complete while protecting confidentiality and privacy.
- Members and administrators of assessment tribunals must be impartial, competent and qualified.

Why is the complaint system in Alberta referred to as the "assessment complaint system"?

Although a person may make a complaint about several matters shown on an assessment notice or tax notice other than an assessment, most complaints are about property assessments.

4. Assessment Review Boards in Alberta

Alberta legislation provides the framework for municipalities to establish assessment review boards as a part of the property assessment and taxation process. Part 11 of the *Municipal Government Act* defines the scope and limitations of an assessment review board's jurisdiction and responsibilities.

The structure of Alberta's assessment complaint system consists of a one-level complaint process. There are three separate boards, the local assessment review board, the composite assessment review board and the Municipal Government Board. Each board will hear complaints about specific property types.

Complaints at the municipal level are heard by a local or composite assessment review board. Complaints regarding linear property assessment or equalized assessment are heard by the Municipal Government Board. A decision made by an assessment review board, or the Municipal Government Board, may be appealed, but only to the Court of Queen's Bench.

This manual focuses on the assessment review boards at the municipal level. The jurisdiction and responsibilities of the Municipal Government Board are presented in a separate manual. The Municipal Government Board hears complaints about linear property and equalized assessments.

Local Assessment Review Board

A local assessment review board (LARB) is comprised of three members appointed by the municipality. A LARB may hear complaints about matters on an assessment notice for residential properties with three or fewer dwellings, or farm land. These types of properties include:

- detached homes, including acreages and farm residences,
- duplexes,
- triplexes,
- manufactured housing units, and
- individual condominium units.

*The function of the **Local Assessment Review Board** is contained in Part 11 of the *Municipal Government Act* and in the *Matters Relating to Assessment Complaints Regulation*.*

If a municipality imposes taxes other than a property tax, a LARB may also hear complaints about specific matters shown on the tax notice for those taxes. In addition to property tax, a municipality may impose any of the following taxes:

- business tax,
- business revitalization zone tax,

- community revitalization levy,
- special tax,
- well drilling equipment tax,
- local improvement tax, and
- community aggregate payment levy.

Composite Assessment Review Board

A composite assessment review board (CARB) is comprised of three members, two of whom are appointed by the municipality, and one member appointed by the province. A CARB may hear complaints about matters on an assessment notice for residential properties with four or more dwelling units, such as:

- four-plex housing,
- apartment buildings, and
- townhouse rental projects.

and for non-residential properties, including:

- office buildings,
- retail stores,
- shopping centres,
- warehouses,
- industrial plants or special purpose properties (e.g. pulp mills),
- railway, and
- machinery and equipment.

Joint Jurisdiction

Section 12 of the *Matters Relating to Assessment Complaints Regulation* states that if a property is used or designated for multiple purposes in circumstances where both a local assessment review board and a composite assessment review board have jurisdiction to hear a complaint, the complaint must be heard by the composite assessment review board.

Joint Assessment Review Boards

Joint assessment review boards are allowed under section 456 of the *Municipal Government Act*. Municipalities may establish joint boards enabling them to share resources including the provincially appointed member.

The function of the Composite Assessment Review Board is contained in Part 11 of the Municipal Government Act and in the Matters Relating to Assessment Complaint Regulation.

One-member Assessment Review Boards

A municipality may establish an assessment review board consisting of only one member. A one-member assessment review board may hear complaints about non-assessment matters on an assessment notice, and administrative and procedural matters. In addition, a one-member LARB may hear a complaint about matters on a tax notice. The person appointed to a one-member CARB must be the provincial member.

A one-member assessment review board cannot hear complaints about property assessment.
(ref: sec. 30(2) & 36(2) MRAC)

Persons Who are Eligible to be Assessment Review Board Members

Subject to section 49 of the *Matters Relating to Assessment Complaints Regulation*, any person is eligible to be a member of an assessment review board except for following persons described in section 50 of the *Regulation*:

- assessors, as defined in section 284 of the *Municipal Government Act*,
- employees of the municipality in which the board is established, and
- agents, as defined in section 1 of the *Regulation*.

Section 49 of the *Regulation* also requires that a member of an assessment review board successfully complete a training program approved by the Minister of Municipal Affairs to be qualified to participate in a hearing.

Quorum

In accordance with section 458 of the *Municipal Government Act*, two members of a local assessment review board constitute a quorum, and two members of a composite assessment review board constitute a quorum as long as one of those members is the provincial member.

Assessment Review Board Clerk

Section 455 of the *Municipal Government Act* requires a council to appoint a designated officer to act as the clerk of the assessment review boards having jurisdiction in the municipality. The clerk performs several duties in the assessment complaint process, including:

- Accepting and reviewing complaints for compliance, i.e. filed within time frame, fee is included, form is complete;
- Administering the filing fee, if any;
- Providing the municipality and the Minister, when applicable, with a copy of the complaint within the specified timeline;
- Scheduling hearings, and sending hearing notices to all parties within the time lines;
- Providing an assessment review board with documentation received from all parties, and;
- Sending decisions of an assessment review board to all parties.

Timelines for the complaint process are shown in Table 4 and Table 5 in Appendix 2.

Legal Advice

An assessment review board cannot seek legal counsel from a lawyer who conducts business with any of the parties to a hearing (section 17 of the *Matters Relating to Assessment Complaints Regulation*).

Knowing your role and your responsibilities as an assessment review board member will help to achieve the following principles:

Taxpayers have the right to an understandable, objective and procedurally fair complaint and appeal process.

All parties are entitled to, and have an obligation to, make the complaint system effective, efficient and timely.

Members and administrators of assessment tribunals must be impartial, competent and qualified.

5. The Complaint Process

Prior to Filing a Complaint

Access to Information

For the purposes of sections 299 and 300 of the *Municipal Government Act*, an assessed person is entitled to see or receive information about their own property and any other assessed property in the municipality. The municipality must inform property owners where they can see or receive information, the procedures and timelines for receiving information, and where copies of the complaint form are available.

An assessment review board must not hear any evidence from a municipality relating to information that was requested by a complainant under section 299 or 300 of the Act but was not provided to the complainant.
(ref: sec. 5(4) & 9(4) MRAC)

Correcting Information on a Notice

An assessed person or taxpayer should contact their municipality to discuss concerns that they may have with information on the assessment or tax notice. Errors, omissions, or mis-descriptions may be resolved prior to filing a complaint.

Section 309(1)(c) of the *Municipal Government Act*, provides an assessed person 60 days to review and discuss information on the assessment notice with the municipality prior to filing a complaint. Section 334 of the *Municipal Government Act* provides the taxpayer 30 days to review and discuss information on the tax notice with the municipality prior to filing a complaint.

The Municipal Government Act describes assessment notices only in relation to property tax. Municipalities are not required to prepare and send assessment notices for other types of taxation described in Part 10 of the Act.

Filing a Complaint

A complaint may only be made by an assessed person or taxpayer (ref: sec. 460(3) MGA). For property tax, a person liable to pay the tax (the “taxpayer”) is the assessed person of a property. It is the assessed person who receives an assessment notice and, is the person who may make a complaint about matters shown on the notice, and upon doing so, becomes the “complainant”.

Taxpayer is defined in section 1(1)(bb) of the Municipal Government Act. Assessed person is defined in section 284(1)(a) of the Act.

For types of taxation other than property tax, a person liable to pay the tax (the “taxpayer”) is the person who receives a tax notice and, in turn, may make a complaint about matters shown on the notice, and upon doing so, becomes the “complainant”.

Since the municipality issues assessment and tax notices upon which complaints may be made, the municipality is

the “respondent” to a complaint. The municipality is generally represented by its assessor.

While an agent may be authorized to file a complaint on behalf of an assessed person or a taxpayer, the assessed person or taxpayer continues to be accountable for meeting the legislated requirements.

Agent is defined in section 1 of the Matters Relating to Assessment Complaints Regulation. If an agent will be representing an assessed person or a taxpayer, the assessed person or taxpayer must submit the agent authorization form contained in the regulation.

Section 460(5) of the *Municipal Government Act* describes the matters contained on an assessment or tax notice upon which a complaint may be made. These matters are listed on the complaint form as:

1. the description of a property or business,
2. the name and mailing address of an assessed person or taxpayer,
3. an assessment,
4. an assessment class,
5. an assessment sub-class,
6. the type of property,
7. the type of improvement,
8. school support,
9. whether the property is assessable, and
10. whether the property or business is exempt from taxation.

Most complaints that an assessment review board will hear will relate to the assessment of a property.

Question: Who can file a complaint?

Answer: Any assessed person or taxpayer, or agent acting on behalf of an assessed person or taxpayer, may file a complaint relating to any property or business.

Question: How does one know if a person is an assessed person or taxpayer?

Answer: If the name of the person does not appear on any assessment notice or tax notice, as the case may be, then the person must be an agent acting on behalf of assessed person or taxpayer or that person is not entitled to file a complaint.

The Provincial Complaint Form

If a complaint is to be heard by an assessment review board, the complainant must complete and file with the assessment review board clerk a complaint in the form set out in schedule 1 of the *Matters Relating to Assessment Complaints Regulation*. Section 54 of the regulation requires that a municipality must ensure that copies of the complaint form are readily available to the public. An assessed person or a taxpayer must provide the following information on the complaint form:

- Type of notice,
- Property information,
- Complainant information,
- Complaint information, and
- Reasons for the complaint.

An assessment review board must not hear any matter in support of an issue that is not identified on the complaint form.
(ref: sec. 5(1) & 9(1) MRAC)

The appropriate complaint fee, if required, must accompany the complaint.
(ref: sec. 2(1) MRAC)

The reasons for a complaint **must** be described on the complaint form, including:

- What information shown on an assessment notice or tax notice is incorrect,
- In what respect that information is incorrect, including identifying the specific issues related to the incorrect information that are to be decided by the assessment review board, and the grounds in support of these issues,
- What the correct information is, and
- If the complaint relates to an assessment, the requested assessed value.

A board may need to hold a hearing to determine whether a complaint is invalid.

Invalid Complaints

In some instances an assessment review board will have to decide if a complaint is invalid. A complaint may be invalid if:

- the complaint is not filed within the legislated timeframe (60 days for a complaint about a matter on an assessment notice; 30 days for a complaint about a matter on a tax notice),
- the required information is not provided on the complaint form, or
- the complaint filing fee, if required, is not included.

Disclosure of Information

Once a complaint has been filed, there is a formal process for the exchange of information, otherwise known as disclosure, between the complainant and the respondent during the complaint and hearing period. All parties have an obligation and are

accountable for providing complete disclosure within the timeframes set out in the regulation.

Disclosure includes the following:

- all relevant facts supporting the matters of complaint,
- all documentary evidence to be presented at the hearing,
- a list of witnesses who will give evidence at the hearing,
- a summary of testimonial evidence,
- the legislative grounds and reason for the complaint,
- relevant case law and any other information the complainant considers relevant, and
- an estimate of time needed to present evidence at the hearing.

An assessment review board must not hear any evidence that has not been disclosed within the timelines. (ref: sec. 5(2) & 9(2) MRAC)

Abriding or Expanding Timelines

The *Matters Relating to Assessment Complaints Regulation* sets out the notice of a hearing and the disclosure of information timelines for each assessment review board.

With the consent of the parties to the complaint, an assessment review board may shorten the timelines set out in the regulation. An assessment review board may, at any time, expand the disclosure timelines by written order.

Postponements and Adjournments

The complainant or respondent may request a postponement or adjournment of a hearing. The request *must* be in writing and contain the reasons for the postponement or adjournment. If an assessment review board determines that the reasons for the request are not exceptional, the board may not grant the request. A request for postponement or adjournment should not occur twice for the same reason.

An assessment review board cannot postpone or adjourn a hearing beyond the timelines specified in section 468 of the Municipal Government Act. (ref: sec. 15 MRAC)

Reaching an Agreement Prior to the Hearing

At any point during the complaint process, the assessor and the complainant may reach an agreement regarding the issues, whereby:

- the assessor and the complainant agree to make a recommendation to the assessment review board for their decision, or
- the complainant may withdraw the complaint.

Hearing the Matters of Complaint

A hearing is conducted to enable the parties to present information that supports their positions regarding the value of a property or the correct information about a property. The assessment review board will hear testimony and arguments related to the issues identified on the complaint form and as contained in disclosure of information between the parties.

The conduct of hearings is outlined in *Administrative Law II*.

Decisions of Assessment Review Boards

The *Municipal Government Act* outlines the requirements for assessment review board decisions as follows:

467(1) An assessment review board may, with respect to any matter referred to in section 460(5), make a change to an assessment roll or tax roll or decide that no change is required.

(2) An assessment review board must dismiss a complaint that was not made within the proper time or that does not comply with section 460(7).

(3) An assessment review board must not alter any assessment that is fair and equitable, taking into consideration

(a) the valuation and other standards set out in the regulations,

(b) the procedures set out in the regulations, and

(c) the assessments of similar property or businesses in the same municipality.

(4) An assessment review board must not alter any assessment of farm land, machinery and equipment or railway property that has been prepared correctly in accordance with the regulations.

Section 468 of the *Municipal Government Act* requires an assessment review board to issue its decision(s), in writing, within 30 days of the end of the hearing or by the end of the tax year, whichever is earliest.

Decisions must include:

- the issues on the complaint form,
- the decision for each issue,
- the reasons for the decision including dissenting reasons, and
- a notation of any procedural or jurisdictional matters that arose during the hearing, and the board's decision with respect to those matters.

The timelines by which an assessment review board must issue its decision are different for an amended notice or a supplementary assessment notice (ref: sec. 53 MRAC).

An assessment review board must make and keep a record of each hearing in accordance with section 14 of the *Matters Relating to Assessment Complaints Regulation*.

Making Decisions

The assessment review board must always read, listen, and weigh the evidence presented to it by the complainant and the respondent within the legislative context before making a decision on any matter, including whether an assessment is fair, equitable and correct.

Obligations and Accountabilities

A composite assessment review board may award costs or penalties if the board determines that there has been an abuse of the complaint process by the respondent or complainant. Costs, penalties and a board's authority to award costs or impose penalties are also discussed in *Administrative Law II*.

Information related to costs is contained in section 52 of the Matters Relating to Assessment Complaints Regulation.

Appeals to the Court of Queen's Bench

A decision of an assessment review board may be appealed to the Court of Queen's Bench on a question of law or jurisdiction. An application for leave to appeal must be filed with the Court of Queen's Bench within 30 days after the persons notified of the hearing receive the assessment review board decision.

6. Complaints about Matters Shown on an Assessment Notice or Tax Notice

Matters Contained on an Assessment Notice, Other than an Assessment

An assessment notice applies only to assessments prepared under Part 9 of the *Municipal Government Act* for the purpose of property taxation. An assessment notice or an amended assessment notice must show the same information that is required to be shown on the assessment roll (ref: sec. 303 and sec. 309 MGA).

A local assessment review board and a composite assessment review board can hear issues related to a property's assessment, and any other matter shown on an assessment notice that is described in section 460(5) of the *Municipal Government Act*:

- (a) the description of a property or business,
- (b) the name and mailing address of an assessed person or taxpayer,
- (c) an assessment,
- (d) an assessment class,
- (e) an assessment sub-class,
- (f) the type of property,
- (g) the type of improvement,
- (h) school support,
- (i) whether the property is assessable, and
- (j) whether the property or business is exempt from taxation.

When a municipality issues a combined assessment and tax notice for property tax, the rules for a complaint regarding an assessment notice still apply.

Most complaints that an assessment review board will hear will relate to the assessment of a property.

Some matters describe in section 460(5), such as correcting the name or address of the assessed person, may be straight-forward and should be able to be resolved without having to file a complaint by contacting the assessor. More information about matters other than an assessment is provided in this section and in the Property Assessment section.

A one-member assessment review board can hear any matter in section 460(5) of the *Municipal Government Act*, except an assessment.

Matters Contained on a Tax Notice

Under Part 10 of the *Municipal Government Act*, municipalities are authorized to impose the following taxes:

- property tax,
- business tax,
- business revitalization zone tax,
- community revitalization levy,
- special tax,
- well drilling equipment tax,
- local improvement tax, and
- community aggregate payment levy.

A complaint cannot be made about any tax rate. (ref: sec. 460(6) MGA)

A municipality must prepare one or more tax rolls annually for all the taxes it imposes. And, the municipality must annually prepare and send tax notices to all taxable property and businesses shown on the tax roll(s). A tax notice may consist of one notice for all the taxes imposed, a separate notice for each tax or several notices showing one or more tax.

Assessment notices only relate to property tax.

An assessment review board cannot hear issues related to matters shown on a *property tax* notice. A complaint about those matters must be made in conjunction with the property *assessment* notice.

In accordance with section 334 of the *Act*, a complaint about matters shown on a tax notice must be made within 30 days after the tax notice is sent to the taxpayer. For tax notices other than a property tax notice, only the following matters described in section 460(5) of the *Municipal Government Act* can form the basis of a complaint:

- (a) the description of a property or business, for example, a description sufficient to identify the location of the property or business;
- (b) the name and mailing address of the taxpayer,
- (c) an assessment, other than a property assessment. Business tax assessments are described in section 374 of the *Act*. An assessment for the business revitalization zone tax is described in AR 89/2005.
 - (i) whether the business is assessable for the purposes of section 374(1) of the *Act*, and
 - (j) whether the property or business is exempt from taxation.

Non-Assessable Property

Section 298 of the *Municipal Government Act* designates specific properties for which no assessment is to be prepared. The criteria to determine whether a property is assessable may be:

- specific, for example, dams, canals, monuments and minerals are non-assessable,
- based on ownership and/or use of land or improvements. For example property in Indian reserves and Métis settlements is not assessable. Property in provincial or national parks is also non-assessable. However, land or improvements held under a lease, license or permit from the Crown within a national or provincial park may be assessable.

Some properties may be assessable even though they are included in section 298 of the *Municipal Government Act*. For example, no assessment is to be prepared for farm buildings and machinery and equipment, except to the extent set out in the *Matters Relating to Assessment and Taxation Regulation*.

For a property to be considered non-assessable, all of the criteria in section 298 of the Act respecting the property must be met.

Property Exempt from Taxation

Section 351 of the *Municipal Government Act* describes property that is exempt from taxation, such as property that is non-assessable under section 298. There is an exception to this rule: section 397 of the *Act* states that no land is exempt from a local improvement tax, including land described in section 298.

For the purpose of section 362(1)(n) of the Act, a municipality may, under the Community Organization Property Tax Exemption Regulation, grant an exemption from taxation for specific property if it meets the qualifications and conditions set out in the regulation.

Under sections 361 and 362 of the *Municipal Government Act*, even though some properties are assessable, they are exempt from taxation. These exemptions may be based on the use of property, or who owns or holds the property under a lease, license or permit.

For the purposes of section 361 of the *Municipal Government Act*, farm residences and farm buildings are exempt from taxation except to the extent set out in the *Matters Relating to Assessment and Taxation Regulation*. For example, in section 22(c) of the regulation, farm buildings located in a city, town, village or summer village are exempt from taxation to the extent of 50 percent of the assessment.

Sections 22(a) and (b) of the Regulation describe exemptions for farm residences. One residence in a farm unit situated in a county, municipal district, improvement district, or special area, situated on a parcel of not less than one acre, is exempt from tax, based on the assessment of land in the farm unit, up to \$61,540. Each additional residence in the

farm unit, used chiefly in connection with farming operations, is exempt from tax, based on any remainder of assessment of land in the farm unit, up to \$30,770.

Section 363 of the *Act* describes properties that are exempt from taxation but that can be made taxable, by bylaw, to any extent a council considers appropriate.

Under section 364 of the *Act*, council may also exempt from taxation, property held by a non-profit organization or property classified as machinery and equipment. An exemption from taxation under this section is made at the discretion of a municipality and cannot form the basis of a complaint.

7. Property Assessment

Overview

The primary activity of an assessment review board is to hear and decide complaints about property assessment. Taxation is a means by which governments raise revenue to fund programs and services. Generally, municipal taxation powers are limited to taxes on property. Property assessment is the process of estimating the value of property for the purposes of allocating taxes among property owners in a uniform manner.

The *Municipal Government Act* and the *Matters Relating to Assessment and Taxation Regulation* set out the valuation standards used to prepare assessments of property in Alberta. Most properties are assessed using a market value standard, while other properties, known as regulated properties, have valuation standards that follow the procedures described in the Minister's Guidelines. The assessment of regulated properties is discussed in more detail on pages 54 to 61.

Understanding the assessment standards and the procedures assessors must follow in preparing property assessments will help an assessment review board determine whether the assessment under complaint is correct, fair and equitable.

Preparation of Property Assessments

Municipalities are required to prepare an assessment for all property in the municipality except for properties defined as linear property and those properties for which no assessment is to be prepared. Alberta Municipal Affairs is responsible for assessing linear property such as pipelines, electric power systems, and telecommunications systems.

The assessor appointed by a municipality is required to prepare assessments for each property annually. The assessor must follow the legislation when preparing assessments, and in doing so, must:

- apply the valuation standards and the procedures set out in the regulations in a fair and equitable manner,
- establish an assessment that reflects the characteristics and physical condition of the property on December 31 of the year prior to the taxation year,
- not prepare an assessment for any property that is exempt from assessment pursuant to section 298 of the *Act*, and
- assign one or more assessment classes to the property in accordance with the *Act*.

Assessment Classes

When preparing an assessment, the assessor must assign one or more of the assessment classes to the property. The properties included in each assessment class are described in section 297(1) of the *Municipal Government Act*.

The assessment classes are:

- Class 1** Residential
- Class 2** Non-residential
- Class 3** Farm land
- Class 4** Machinery and Equipment

Section 297 of the *Municipal Government Act* also specifies that a council may, by bylaw, divide Class 1 into sub-classes on any basis it considers appropriate, and may divide Class 2 into *vacant* non-residential and *improved* non-residential. When a council does this, the assessor may assign one or more sub-classes to a property. If more than one assessment class or sub-class is assigned to a property, the assessor must provide a breakdown of the assessment showing the amount of assessment attributed to each class.

Valuation Date and Characteristics and Physical Condition Date

In Alberta, the two key legislated dates for preparing assessments are the valuation date and the characteristics and physical condition date.

The valuation date set out in section 3 of the *Matters Relating to Assessment and Taxation Regulation* is July 1 of the assessment year. The valuation date is a fixed date on which assessment values for all properties in a municipality are based.

A fixed valuation date is necessary because property values change over time and so do the characteristics and physical condition of a property.

The characteristics and physical condition date set out in section 289 of the *Municipal Government Act* is December 31 of the assessment year. The assessment reflects the description and condition of the property on that date.

*The assessment year is the year **prior** to the taxation year. For example, for the 2010 taxation year, the assessment year is 2009 and, as such, the assessment must reflect the value of the property as of July 1, 2009 and the condition of the property as of December 31, 2009.*

A board may be presented with selling prices of comparable property that sold before or after the July 1 valuation date. In such cases, the selling prices may have to be adjusted for time to the valuation date.

Example:

Construction of a house began on August 2009 and was estimated to be 70% complete on December 31, 2009 (the characteristic and physical condition date). The assessor is required to prepare an assessment that reflects the market value of the property with a 70% complete house on July 1, 2009 (the valuation date).

If the market value of comparable properties with completed houses is estimated to be \$450,000 and the market value of comparable vacant land is \$150,000, then the residual value for the house can be calculated to be \$300,000 (\$450,000 - \$150,000). The assessed value for the subject property would be \$210,000 (\$300,000 x 70%) + \$150,000 = \$360,000. The 2010 property taxes would be based on an assessment of \$360,000.

Supplementary Assessments

For the purposes of property taxation, assessments reflect the characteristics and physical condition of a property as of December 31 of the assessment year. However, if improvements are completed or occupied in the tax year, the municipality may pass a bylaw that allows it to determine a supplementary assessment and levy a supplementary property tax on those improvements. A supplementary assessment must reflect the value of an improvement that has not been previously assessed, or the increase in the value of an improvement since it was last assessed.

Supplementary assessments only apply to improvements, not to land. (ref: sec. 313 MGA)

Supplementary assessments must be prepared in the same manner as assessments are prepared, but must be prorated to reflect the number of months, including the whole of the first month, during which the improvement is complete, occupied, or moved into the municipality.

Example:

A municipality passes a bylaw that allows it to prepare supplementary assessments and levy a supplementary property tax on improvements in the taxation year.

Assume the house in the previous example is completed *or* becomes occupied on June 1, 2010 in the taxation year. This means that the assessor must prepare a supplementary assessment for the property. If the house was 100% complete on December 31, 2009, the property's assessment for the 2010 taxation year would have likely been \$450,000. The supplementary assessment would reflect the value of the house not previously assessed, which is \$90,000 (\$450,000 - \$360,000).

Then, the supplementary assessment must be prorated to reflect only the number of months the house is complete or occupied in the tax year. For example:

$$\$90,000 \times 7 \text{ months} / 12 \text{ months} = \$52,500$$

Equalized Assessment

An equalized assessment is prepared each year to create a common provincial assessment base and to provide a fair and equitable assessment base for the distribution of provincial and regional requisitions among municipalities. The provincial equalized assessment is also used in the calculation and distribution of some provincial and federal grants. Only the Municipal Government Board will hear complaints about equalized assessments.

8. Assessment of Property Based on Market Value

Fundamentals of Market Value Assessment

Market value is defined in section 1(n) of the *Municipal Government Act* as:

“... the amount that a property might be expected to realize if it is sold on the open market by a willing seller to a willing buyer.”

Implicit in this definition is the finalization of a sale as of a specific date, transferring the title from the seller to buyer under conditions whereby:

- There has been sufficient time for exposure in the open market,
- The buyer and seller are not subject to undue pressure,
- The buyer and seller are both well informed,
- Payment is consistent with the standards of behaviour of the market.

Most properties in Alberta are assessed using the market value standard. Typical properties assessed using market value include: vacant lots, residences, multi-family properties, commercial, retail and industrial properties. The *Matters Relating to Assessment and Taxation Regulation* discusses the valuation standards for land, improvements, and land and improvements. Unless a property is defined as regulated property (see pages 54 to 61), the valuation standard for the property is market value.

The *Matters Relating to Assessment and Taxation Regulation* requires that properties assessed based on the market value standard use mass appraisal processes. Mass appraisal is described on pages 30 to 53.

Differences between Assessment and Appraisal of Property

Both an assessment and an appraisal are opinions of value. Both are estimated by applying common approaches to value, and by following industry standards and best practices. However, there are some distinct differences between assessments and appraisals.

For assessment purposes, the value of property must be determined in accordance with the legislation and the regulations.

Both appraisers and assessors must be adept at applying appropriate appraisal techniques to estimate the value of property; however, assessors must first comply with provincial legislation and regulations while preparing assessments. For example, in accordance with Alberta legislation, some properties are not assessed on the basis of market value.

Appraisals may be conducted for various reasons. There are five major appraisal functions that cover most business decisions or transactions and appraisal assignments, depending on the need of the client. These are:

1. transfer of ownership
2. extension of credit
3. compensation for damage or loss
4. taxation
5. land use studies

Appraisals that were completed for reasons other than property taxation may result in a different interpretation of value of a particular property.

Each of these appraisals may result in a slightly different interpretation of value for a subject property. For example,

- An owner wanting to sell his property is interested in how much he can obtain.
- A prospective purchaser is interested in the value of the property he hopes to purchase.
- The mortgager is interested in the value of the security as a mortgage risk.
- An insurance company, owner and mortgager are all concerned with the replacement or reproduction costs of the improvements so they can be adequately insured.

Assessment, on the other hand, has one function: the fair and equitable distribution of property taxes for all properties within a jurisdiction. Standard methods and common data (mass appraisal) are used so that assessments are similar for similar properties. Mass appraisal is discussed in more detail on pages 40 to 53.

A single property appraisal uses a few comparable properties to estimate the market value of a particular subject property. Assessments based on market value are prepared for large groups of property using data from the marketplace for all types of property.

An appraisal of a property is conducted on assignment and the opinion of value is made as of a particular date relative to the assignment. In Alberta, assessments must be prepared annually for all properties in a jurisdiction and the estimates of value must reflect the fixed valuation date of July 1 of the assessment year.

Sale Price versus Market Value

Sale price is the amount that a purchaser agrees to pay and a particular seller agrees to accept under the circumstances surrounding the sale of a property. Sale price is a historical fact of a property that sold, while market value is an estimate of the probable selling price of a property as of a specified date. In Alberta, assessments based on market value are estimates of the probable selling price of properties on the July 1 valuation date.

Market value is estimated from objective observations of the collective actions of the marketplace, not from an isolated action in the marketplace.

A sale price may not equal market value for any of the following reasons:

- For assessment purposes, the date that the property sold is different than the July 1 valuation date;
- The purchaser/seller may not have been aware that similar properties were selling for more or less than the property he or she purchased/sold;
- The buyer or seller may have been unduly motivated; or
- The sale may have involved a trade, a partial interest, special financing, personal property, or assumed leases.

Fee Simple Estate

Ownership in land is never absolute except by the State (i.e. the Crown in Right of Canada or Alberta). The nearest thing to absolute ownership by individuals is called an estate in fee simple. A fee simple title is the ultimate ownership estate in real property and reflects all rights, title, and interests in the property. Simply stated, it means “to own all that there is to own in a parcel of land.”

Real property includes all interests, benefits, and rights inherent in the ownership of physical real estate. Real property includes a bundle of rights which includes the right to use it, sell it, lease it, or choose to exercise all or none of these rights. The bundle of rights is limited by taxation, expropriation, police power and escheat.

In Alberta, an assessment of property based on market value must be an estimate of the value of the fee simple estate in the property. However, other interests in property that affect value may be presented to the assessment review board.

Interests in Property Other than Fee Simple

Other than the fee simple estate, other interests in property include life estates and leasehold estates. A life estate refers to an interest in property that lasts only for a specified person’s lifetime; thus the owner of a life estate is unable to leave the property to heirs. A leasehold estate refers to interests in a property that are associated with the lessee (the tenant) as opposed to the lessor (the property owner).

The leased fee estate and the leasehold estate represent two distinct but related estates of property. The leaseholder, or tenant, receives the right to use the real estate for specific purposes over a defined period of time, but is obliged to pay rent for the right. The leased fee estate is the lessor’s, or landlord’s estate. A leased fee estate is an ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others.

For income producing property encumbered by leases, it is the leased fee estate that usually sells, not the fee simple estate. When a property is encumbered with leases, the owner’s interest in the property is that of the leased fee estate. The leased fee estate can

either fall short of, or exceed, the value of the fee simple interest, depending on the value of the rights conveyed relative to the contract rent.

The sum of the value attributable to the leased fee estate (lessor interest) and leasehold estate (lessee interest) is usually equivalent to the value of the fee simple estate. Market rents are used in the valuation of the fee simple estate because estimates of market income eliminate the possibility of any value attributable to a leasehold estate.

The majority of property transactions in an open real estate market involve estates in property which are less than fee simple or involve the fee simple estate with registered encumbrances. A property's land title can be encumbered by a mortgage, caveat, utility right-of-way, encroachment agreement, etc.

When the uses associated with a property are limited by easements or covenants, the property's fair market value usually declines. The amount that the land's value declines will vary depending on factors such as the development potential of the land and the nature of restrictions imposed.

Easements, covenants and restrictive covenants are land use restrictions that may affect the value of a property.

Highest and Best Use versus Actual Use

Highest and best use is driven by the market and may be described as the most reasonable, probable and legal use of vacant land or an improved property; which is physically possible, appropriately supported, financially feasible and results in the highest value. For assessment purposes, the actual use of a property on December 31 of the assessment year is the use that is typically assessed.

For most properties, the highest and best use is the actual current use of the property.

Land Use Designations

In accordance with section 639 of the Municipal Government Act, every municipality must pass a land use bylaw. The land use bylaw may prohibit or regulate and control the use and development of land and buildings in the municipality. The land use bylaw may contain codes and descriptions for the various types of buildings and land uses found in the municipality

9. Traditional Approaches to Market Value

Overview

For properties assessed using the market value standard, the assessed value is derived using one or more of the approaches to value. These approaches are recognized and accepted by the marketplace and the judicial system.

The three traditional methods of estimating market value are:

1. Sales comparison, or direct comparison, approach to value;
2. Income approach to value;
3. Cost approach to value.

The three approaches to value can be used for both single-property and mass appraisal. Each approach is to some extent related to the other two approaches and must be market-based to have any relationship to market value.

Selecting the approach to value that is to be used in a mass appraisal environment depends upon the availability of data, the ease of application, and the accuracy of the results. The more complex a property is, the more difficult it is to apply all three approaches to value.

Specific types of properties, including farm land, linear property, railway, and machinery and equipment, are valued using regulated rates provided in the Minister's Guidelines, and will be discussed in more detail on pages 54 to 61.

For assessments based on market value, legislation does not require that the assessor use a particular approach to value. The focus of an ARB is to determine whether an assessment based on market value is reasonable; not whether the preferred approach to value was used.

Sales Comparison Approach to Value

The sales comparison approach is based on the principle of substitution, which states that a buyer will pay no more for a property than the cost of an equally desirable alternative property. Values are estimated using direct comparisons with sales of similar properties in and around the date of valuation.

The sales comparison approach provides the best evidence of market value when there are sufficient numbers of recent comparable sales transactions to identify value patterns in the marketplace, and when properties are similar in nature and can be easily compared, such as, single family homes.

The use of market transactions to estimate market value makes the sales comparison approach the primary approach for many property types. However, the following three factors limit the usefulness of this approach:

- Some property types are not frequently sold, such as lumber mills or food processing plants.
- In some municipalities, sales data is limited even for common properties, such as single-family homes, so it may be difficult to establish appropriate points of comparison to estimate values for similar properties.
- Some sales may not be good indicators of market value.

Evidence may be presented regarding the circumstances of each sale, and why they do or do not represent market value.

The following basic steps are used in the sales comparison approach:

- Research the market to obtain information about sales transactions, listings, and offers to purchase or sell properties.
- Verify that the information obtained is factually accurate and that the transactions reflect arms-length market considerations.
- Adjust the elements of comparison for each comparable property to the equivalent of:
 - Fee simple estate.
 - Payment consistent with standard behaviour of the market.
- Select a unit of comparison and an analytical technique that produces results most consistent with market behaviour. Quantitative and qualitative analytical techniques are used to identify which attributes affect value and measure the amount of adjustment for each. The different attributes of the comparables may require significant adjustment in order to form points-of-comparison and the basis of valuation for the subject property.
- Consider whether the sale price reflects the value of all the transferable interests in a property including real estate interests, business interests and personal property. Not all of these interests are assessable for property taxation purposes, such as the business interest in a hotel.
- Consider whether leases reflect “non-market” conditions, such as long-term leases, which do not necessarily reflect current fee simple interest. As a result, a sale price may not be a good indicator of market value for assessment purposes.

Units of Comparison

The sale price, list price or lease rate may be converted into a unit of comparison. Units of comparison are components into which a property may be divided for the purpose of comparing similar properties with one another. The units of comparison depend on the type of property being valued, for example:

- Single-family residential - per square foot of above-grade floor area;
- Multi-family residential - per apartment unit, per room, per square foot of floor area (gross and rentable);
- Warehouse/industrial - per square foot of area, per cubic foot;

- Land - per square foot of area, per front foot, per acre, per square foot of developable building area (existing and potential);
- Office buildings - per square foot (gross and rentable area);
- Shopping centres - per square foot (gross leasable area);
- Hotels/motels - per square foot, per room;
- Theatres/auditoriums - per square foot, per seat;
- Manufactured home communities - per square foot, per site.

Elements of Comparison

Elements of comparison are the characteristics of properties and transactions that reflect variations in the prices paid for real estate. The following are examples of elements of comparison that may impact property value.

Real Property Rights Conveyed

A sale price is always based on the real property interest conveyed. Income-producing property may be sold subject to existing leases. The revenue generating potential of a property is often fixed or limited by the terms of existing leases.

To value the fee simple estate, the sales used for income producing properties must reflect market rents or the net revenue to the owner in respect of the assessable real estate. Thus, the rent structure, or revenue, of each potential comparable sale must be examined to see if contract rents are at market levels and reflect net income to the owner.

Vacancy rates and operating costs must also represent current market conditions. If all leases have been recently negotiated, one may assume that the property is operating at market levels. A rapidly changing market or the presence of long-term leases could require an adjustment to the sale price or invalidate a sale for comparison purposes.

In an appraisal of income-producing property, it is the leased fee estate and the revenue attributable to the entire enterprise value of the property (both tangible and intangible interests), which is most frequently valued. When properties are sold subject to existing leases, caution must be used and careful analysis of rents and incomes are required.

*In Alberta, an assessment of property based on market value must be an estimate of the value of the fee simple estate in the property.
(ref: sec. 2 MRAT)*

Financing Terms

The sale price of one property may differ from that of a property having similar characteristics due to different financial arrangements. The purchaser of a comparable property may have assumed an existing mortgage at a favourable interest rate or negotiated a low down payment. Conversely, interest rates that are above market levels can result in lower sale prices. Sales with non-market financing terms are compared to

other sales transacted with market financing to determine whether an adjustment is warranted. Market evidence is the best indicator for such an adjustment.

Conditions of Sale

Adjustments for conditions of sale usually reflect the motivations of the buyer and seller. For example, a developer may pay more than market value for lots needed in a site assemblage because of the anticipated value of plots resulting from the greater utility of a larger parcel. If non-market conditions are detected in a transaction, the circumstances must be researched to quantify an adjustment to the sale price or the sale should be excluded from the market analysis.

Date of Sale

Economic conditions, such as inflationary and deflationary cycles and the availability of financing at the time of a comparable sales transaction, may limit the reliability of the sales comparison approach as a method of valuation. An adjustment may be required if price levels have changed between the date of sale and the valuation date. A market analysis is required to determine if adjustments for time are necessary.

*In Alberta, the valuation date for assessments is July 1 of the assessment year.
(ref: sec. 3 MRAT)*

Location

Location may affect market value because a property may be more or less desirable than other similar properties based on its location. Sales of physically similar properties in different locations are analyzed to determine whether the location affects the market value of similar properties.

Property Characteristics

When the characteristics of comparable properties are different, adjustments may be needed to bring the characteristics in line with typical market conditions. Property characteristics include building size and land size, condition, age, design, quality of workmanship, and materials. The value added or lost by the presence or absence of any physical characteristic may not equal the cost of installing or removing the item.

Non-assessable Items (Chattels)

Items that are not assessable, such as personal property, may be included in the sale price. In commercial properties like a hotel or restaurant, the value of personal property items, such as furniture, fixtures and equipment, should be recognized, estimated, and then deducted from the sale price. Adjustments to residential property sales are not typically made for small personal property items, such as fridges and stoves.

Adjustment Amounts

Appraisers and assessors use several sold properties as comparables. The sales comparison approach requires numerous adjustments to sales prices for time, property

characteristics and other factors. Physical characteristics of a property are such things as the age, size, number of bathrooms and quality of construction. The sale price is a function of how buyers and sellers perceive the utility of important property characteristics. The importance of a characteristic is known only after data from the marketplace has been analyzed. The appraiser or assessor must decide which property characteristics will be used for selecting and adjusting comparable properties; however, the selected characteristics must reflect the important supply and demand variables in the marketplace at the time of the valuation date.

There several methods of making adjustments to comparable properties. The objective of each method is to adjust each comparable to the subject property. For each characteristic the adjustment process applies the marginal contribution to value against the different characteristics between the subject and comparable properties.

The sequence of adjustment depends on the adjustment method selected by the assessor. However, comparables should be adjusted first for financing and then for time to a common date (i.e. valuation date). The time adjustment provides a common starting point from which to make all other adjustments to the sale price.

Property characteristics may be quantitative or qualitative in nature, and adjustments may be made accordingly. A quantitative characteristic is something that can be measured or counted with little ambiguity. For example, building size or number of bathrooms are quantitative characteristics. A qualitative characteristic is something that can be rated or categorized. For example: the quality of a house (poor, average, good, excellent); types of heating systems (no heat, forced air, hot water); or the presence or absence of an item (garage – yes/no).

Adjustments may be in the form of “lump-sum” adjustments or percentage adjustments. Lump-sum adjustments are dollar amounts representing the difference between the subject and comparables. Percentage adjustments represent the difference between the subject and comparables in terms of percentage rather than dollar amounts. These percentages are either summed or multiplied to determine the net adjustment to a comparable property.

Example – Sales Comparison Approach

The example, *Table 1 Sales Comparison Approach*, on the following page is intended to show how comparative sales analysis is used in single property appraisal to determine appropriate adjustments for differences between the basic elements of comparison for several comparables. In mass appraisal, multiple regression analysis is often used and follows the same principles, although the information may be displayed in a different way.

Table 1 Sales Comparison Approach

	Subject	Comparable A	Comparable B	Comparable C	Comparable D	Comparable E
Sale Price	-	\$344,000	\$354,000	\$365,300	\$339,000	\$305,500
Property Rights	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Financing	Market	Market	Market	Market	Market	Market
Transaction	Arms-length	Arms-length	Arms-length	Arms-length	Arms-length	Arms-length
<i>Adjusted Price</i>	-	\$344,000	\$354,000	\$365,300	\$339,000	\$305,500
Sale Date	July 1	2 weeks ago	1 month ago	6 months ago	1 year ago	1 year ago
Adjustment		0 %	+ ½ %	+3 %	+6 %	+6 %
<i>Adjusted Price</i>		\$344,000	\$355,700	\$376,300	\$359,300	\$323,800
Bldg Size	1,200 sq ft	1,200 sq ft	1,200 sq ft	1,450 sq ft	1,450 sq ft	1,200 sq ft
Adjustment		0	0	-35,500	-35,500	0
Finished Basement	Yes	Yes	No	Yes	Yes	Yes
Adjustment		0	+7,000	0	0	0
Garage	None	None	2-car	2-car	None	None
Adjustment		0	-17,000	-17,000	0	0
Location	Average	Superior	Superior	Average	Average	Average
Adjustment		-20,000	-20,000	0	0	0
<i>Adjusted Price</i>		\$324,000	\$325,700	\$323,800	\$323,800	\$323,800

Adjustments

Comparable **A** and **E** are similar except for location.

Comparable **C** and **E** are similar except for house size and 2 car garage.

Comparables **D** and **E** are similar except for house size.

Comparable **A** sold for \$20,200 more than **E** after the time adjustment.

Comparable **D** sold for \$35,500 more than **E** after the time adjustment.

After the time adjustment, comparable **C** sold for \$52,500 more than **E**. If the \$35,500 adjustment for house size is correct; then a \$17,000 adjustment is applied for the garage.

Income Approach to Value

The income approach is based on the premise that income-producing properties are bought and sold based on their income-earning potential. The use of the income approach is generally restricted to properties that are typically rented, such as apartment buildings or rental office buildings provided there is sufficient rent or lease and/or sales data.

The income approach uses income capitalization to estimate market values for income producing properties. Income capitalization is the process where annual net income is converted into a value for a property. This approach adjusts readily to changing market conditions.

The following basic steps are followed to determine value using the income approach:

- Estimate gross annual potential income as though fully occupied.
- Deduct from gross potential income an allowance for typical vacancy and collection losses.
- Add other, or miscellaneous, sources of income such as parking, laundry, and concessions. These items may or may not be subject to a vacancy and collection allowance depending on whether the actual income from the source is used (no allowance) or the potential 100 percent occupied income is used (make an allowance).
- Calculate the effective gross income.
- Estimate the annual operating expenses, which include all the normal expenditures that must be made to generate and protect the income stream.
- Determine the net operating income, which is the income remaining after deducting annual operating expenses from the effective gross income.
- Select the appropriate method of capitalization.
- Select the appropriate capitalization rate.
- Using the appropriate mathematical technique, convert the income into an indication of the capital value.

Income and Expense Estimates

Income and expense estimates are necessary components of the income approach. Gross income estimates are made to forecast the most probable future income for the next year or subsequent years following the valuation date. Gross income is calculated based on the rents received by the property owner or landlord.

Potential gross income is the income that a property will generate with normal management, before allowing for vacancies, collection losses, and normal operating expenses. Potential gross income is derived from comparable factors, such as net rentable area, leases, percentage of sales, expense increases, renewal rights, quality of

management, and the date that the rents were originally negotiated. Effective gross income is then calculated by deducting an allowance for vacancy and collection losses and the expenses necessary to operate the property from the potential gross income.

Operating expense data is derived primarily from three sources: the operating expense of the subject, typical competitive properties in the market, and published studies of comparative standards for the property type.

Expenses should reflect the expected future circumstances based on the subject property's past and present performance, and should be compared to the expenses of similar properties. The resulting *net operating income* is an estimate of the property's earning capacity free of debt and before income taxes.

Property Tax

Property taxes may be included as an operating expense or as an effective tax rate incorporated into the overall capitalization rate. If an effective tax rate is incorporated into the overall capitalization rate, the actual property taxes are not included as an operating expense. Effective tax rates may be calculated for a single property, for a group of properties or for the municipality as a whole.

$$\text{Effective Tax Rate} = \frac{\text{Property Tax}}{\text{Property Value}}$$

Excess Land

For an improved property, excess land is land that is not needed to serve or support an existing business operation. Excess land can be determined by analyzing local land use bylaws and comparing the permitted development with the development that has taken place, or by analyzing the land-to-building ratio of similar properties. Unless there is income attributable to the excess land (parking, on-site storage, etc), the income capitalization approach is an indication of the value of a property that has a typical land-to-building ratio. If excess land is marketable or has value for future expansion of the existing improvements, its market value as vacant land is added to the value that has been determined by the income capitalization approach.

Rent

Rent is the sum of money payable under a contract by the tenant to the landlord in return for the tenant's right to have exclusive possession of the premises for the term of the lease. When a property is rented, the owner's interest becomes the leased fee estate (which is less than the fee simple estate).

Rent is the basis on which the gross income and net income estimates are calculated.

Gross Rent and Net Rent

In a *gross rent* lease the landlord pays and is responsible for administering all operating expenses. Some leases have clauses that raise the rent under specific conditions or limit the landlord’s responsibility for certain expenses to a negotiated amount (the tenant is responsible for the balance of the expenses).

In a *net rent* lease the tenant pays all real estate taxes, insurance, and operating expenses such as repairs and maintenance, utilities, and janitorial services. However, a landlord will often pay the operating expenses and then recover them from the tenant in accordance with the terms and conditions of the leases.

The terms of a lease may include a combination of gross rent and net rent conditions.

Regardless of the nature of the lease, the net income to the landlord is capitalized to an indication of market value. Net income is determined by subtracting from gross income all operating expenses, determining amounts attributable to non-assessable items, but does not allow debt service, income tax, and owner’s business expenses.

Effective Rent

Effective rent is the base rent or minimum rent stipulated in a lease, over the specified lease term, less rent concessions. When real estate markets are oversupplied, landlords may give tenants concessions such as free rent for a specified period of time, extra tenant improvements, moving allowances, lease buyouts, or cash allowances.

Market Rent

Market rent is an estimate derived from the analysis of current rents paid, and asked for, for comparable rental space as of the valuation date. Market rent is the rental income that a property would most probably command in the open market. Market rent is used for the purposes of preparing assessments using the income approach to value.

Contract Rent

Contract rent is the rent agreed upon by the landlord and tenant: it is the actual rental income specified in a lease. Contract rent is used when a market value for non-assessment purposes of the leased fee estate is required.

Lease rates (rents) must be adjusted to reflect the July 1 valuation date.

The value of the fee simple estate and leased fee estate are similar if contract rents approximate market rents. The length of a lease term may cause a difference between contract rent and market rent. When initially negotiated, contract rents may reflect current market rents. The longer the term of the lease and the further into the lease term, the more likely it is that market conditions will change and the greater the variation between market and contract rent (assuming that lease terms do not permit lease amounts to be renegotiated with changing market conditions).

Capitalization Methods

Capitalization is the process where the annual net income of a property is converted into a lump-sum value for a property. The rates of return represent prospective rates and the marketplace's perception of risk and purchasing power. Higher rates of return are required for less desirable properties and lower rates of return for more desirable properties. The following methods are used to convert the estimated net income into value.

Direct Capitalization

Direct capitalization converts an estimate of a single year's income into an indication of value in one direct step. This is achieved by either dividing the income estimate (net operating income) by an appropriate income rate (an overall capitalization rate), or by multiplying the income estimate by an appropriate income factor (a gross income multiplier). The income estimate should be the anticipated future income. Generally, the current year's income is used as a reflection of future income. The calculated rate or factor represents the relationship between the income and value observed in the marketplace.

Direct capitalization, where capitalization rates are derived from comparable sales, is the preferred method for assessment purposes when:

- (a) the investment opportunities of the properties being valued are similar to those provided by recently purchased income producing properties; and
- (b) a consistent pattern of overall rates (or multipliers) emerges from the analysis of sales of income producing properties.

The net operating income of each comparable property is calculated and estimated in the same way that the income of the property or properties being valued is estimated. To value the fee simple estate, it is necessary to use market rents that the property is capable of producing. It is usually necessary to analyze a number of sales subject to leases in order to find properties that were sold with market rents or with rent structures that can be easily adjusted for market rent equivalency. The required market rent type structures would include typical vacancy and operating expenses.

An overall capitalization rate is determined using sales of similar income producing properties. The net operating income of each comparable property is divided by the sale price.

Gross Income Multiplier

The gross income multiplier is an income factor derived from the sales comparison approach. Gross income multipliers must be extracted from properties with similar physical and locational characteristics that reflect similar income to expense ratios,

similar risk characteristics, and similar expectations as to change in income and value over a typical investment holding period.

The sale price can be divided by either the potential or effective gross income, but the data and measure must be used consistently throughout the analysis, to produce reliable results. The gross income multiplier method uses the same data as the capitalization rate method.

A gross income multiplier is applied to gross income, which might suggest that an expense analysis is not required. However, operating expenses have to be examined because a gross income multiplier is only reliable if there are similar income-to-expense ratios (total operating expenses expressed as a percentage of effective gross income) for comparable properties being valued.

Example

Income Approach -- Subject property: 8 unit apartment building

A. Calculating Net Operating Income (reconstructed from income/expense statement)

Potential gross income		
Rents	(8 units@ \$800 per month x 12 months)	\$ 76,800
Other Income (laundry, parking)		\$ 2,000
Potential gross income		\$ 78,800
<hr/>		
Less vacancy and collection loss (5%)		\$ 3,940
Effective gross income		\$ 74,860
<hr/>		
Operating Expenses		
<u>Fixed</u>		
Property Taxes	\$ 7,500	
Insurance	\$ 2,000	
		\$ 9,500
<u>Variable</u>		
Management	\$ 3,700	
Utilities	\$ 4,800	
Repair and maintenance	\$ 7,500	
Miscellaneous	\$ 500	
		\$ 16,500
Total operating expenses	\$ 26,000	(\$ 26,000)
<hr/>		
Net Operating Income	(\$74,860 - \$26,000)	\$ 48,860

** The International Association of Assessing Officers recommends that property taxes be excluded from the operating expenses and instead an effective tax rate be added to the*

capitalization rate. However, in this example, property taxes are included as an operating expense.

B. Calculating the Capitalization Rate

The capitalization rate is the ratio between net operating income and value, or sale price.

$$\text{Capitalization rate} = \frac{\text{Net operating income}}{\text{Sale price}}$$

Capitalization rates can be derived from sales of properties similar to the subject.

	Comparable A	Comparable B	Comparable C	Comparable D
Net Operating Income	\$50,000	\$56,100	\$42,700	\$68,600
Sale Price	\$369,500	\$425,000	\$310,000	\$500,000
Cap Rate	13.53%	13.20%	13.77%	13.72%

$$\text{Capitalization Rate (Comparable A)} = \frac{\$50,000}{\$369,500} = 13.53\%$$

C. Calculating the value using property tax as an operating expense

Assume that Comparable A is most comparable to the subject property. Therefore, the value for the subject property using the direct capitalization method is:

$$\text{Value} = \frac{\text{Net Operating Income}}{\text{Capitalization Rate}} = \frac{\$48,860}{13.53\%} = \$361,100$$

D. Gross Income Multiplier

As an alternative to using the capitalization rate method, a gross income multiplier may be used to calculate a value for property. A gross income multiplier is the ratio of the sale price to the annual gross income at the time of sale. Using the data from Comparable A above, the following demonstrates possible calculations.

Assume the potential gross income for Comparable A is \$80,800.

$$\text{Gross income multiplier} = \frac{\text{Sale price}}{\text{Potential gross income}} = \frac{\$369,500}{\$80,800} = \mathbf{4.573}$$

Applying this gross income multiplier, to the subject property's potential gross income, results in a value of \$360,350. (\$80,800 x 4.5730 = \$360,350)

The effective gross income for Comparable A is
 \$80,800 less 5% vacancy and collection loss = \$76,760

$$\text{Gross income multiplier} = \frac{\text{Sale price}}{\text{Effective gross income}} = \frac{\$369,500}{\$76,760} = \mathbf{4.814}$$

Applying this multiplier to the subject property's effective gross income results in a value of \$360,400. (\$74,860 x 4.814 = \$360,400)

The three values calculated by the different methods range from \$360,350 to \$361,100. Any of these estimates of value are considered to be reasonable for the purposes of assessment or appraisal.

Cost Approach

The cost approach to value is based upon the principle of substitution which maintains that people would pay no more for an object than the cost of replacing it with an equally desirable or functional substitute.

The cost approach considers the cost to replace the improvements, less any depreciation inherent in the improvement, added to the market value of the land. A simple cost approach formula is:

$$\text{Market value} = \text{Land value} + (\text{Improvement replacement cost new less depreciation})$$

The cost approach is useful when a lack of market activity limits the sales comparison approach and there is little or no income evidence available to support the income approach.

The cost approach is less desirable for determining value of older improvements because it is often difficult to accurately estimate depreciation due to physical deterioration or for obsolescence.

Replacement Cost versus Reproduction Cost

The cost approach may be based on either the replacement or the reproduction cost of the improvements. Replacement cost refers to the present cost of replacing the improvement

with one having the same utility. If a building is replaced or a component of a building is replaced, it will typically be replaced using modern materials and construction practices. For example, when roof shingles are replaced, the latest roofing products, materials and installation methods are used.

Reproduction cost is the present cost of replicating an improvement with the same materials and functionality. Reproduction cost may be used for historical sites, or for specialized machinery and equipment used in manufacturing and processing. However, for most properties reproduction cost is not used because it is not practical or feasible to use materials and construction methods that are out of date.

In Alberta, when the cost approach is the basis for assessment, replacement cost is applied for most property types. Commercial cost manuals are used to determine current replacement cost for most residential, commercial, and industrial buildings. The Alberta Residential Assessment Manual (2001) and the Marshall and Swift are examples of cost manuals used by assessors. A cost manual generally reflects the replacement cost of improvements in major market centres, such as Edmonton or Calgary. Such costs may have to be adjusted to reflect local market conditions.

Example

If the cost manual indicates that the cost to build an average quality bungalow in Edmonton is \$200 per sq. ft. and an analysis shows that local costs to build the same house in Grande Prairie is \$225 per sq. ft. (e.g., because of different market conditions, higher costs of transporting materials, higher labour costs, etc.) a local cost modifier, or market modifier, for Grande Prairie would be required to reflect local replacement cost:

The local modifier for Grande Prairie would be: $\$225/\$200 = 1.125$

Market value = Land value + (Cost manual replacement new x 1.125 less depreciation)

The market value of an existing property may not equal the cost to build a replacement, or the cost to purchase an existing structure and make any necessary modifications because cost and value are not necessarily the same. Cost is a component of the value, or the amount of money necessary to produce a commodity. All items of cost do not necessarily contribute to value. Value is the relationship between a thing desired and a potential purchaser. It is possible for a property to have a value less than its replacement cost, even immediately after the construction of the building is complete. It is also possible that the replacement costs of two structures are similar but each has a different market value. In these situations the difference between the cost of a new building and its value may be either depreciation or developer's profit.

Depreciation

The cost approach requires an accurate estimate of depreciation of improvements to produce values that reasonably meet the market value standard. Depreciation is a loss of

value from any cause. Theoretically, depreciation begins to accrue as soon as construction is finished, even if the improvement is at the highest and best use. Depreciation only affects an improvement; there is no depreciation to land.

There are a number of ways to estimate depreciation. One way is to relate cost values to market data. Another way is to use depreciation schedules, or tables, in commercial cost manuals that illustrate the “typical” loss in value for improvements at various ages or effective ages. These schedules primarily recognize normal physical deterioration over an improvement’s economic life; however, additional depreciation may be required due to functional or external obsolescence.

Recognized sources of depreciation are:

- Physical deterioration — caused by deterioration in the physical components of the structure. While virtually all structures deteriorate with age, regular maintenance can help to slow the deterioration.
- Functional obsolescence (curable/incurable) — caused by an inability of an improvement to perform its function efficiently. Functional obsolescence may be attributable to deficiencies, defects, inefficiencies, or super-adequacies of a property. For example, a one bedroom home in a neighbourhood with three bedroom homes.
- Economic (external) obsolescence — adverse factors outside of the property that decrease the desirability of the property. These factors are usually beyond the owner’s control. For example, the market value for a residential property located next to an industrial plant would likely be less than a similar residential property in a cul-de-sac.

Application of the Cost Approach

The basic steps to estimate the value of property using the cost approach are:

1. Estimate the land (site) value as if vacant and available for development to its highest and best use.
2. Determine the total replacement cost new of the improvements as of the valuation date (July 1).
3. Estimate the total amount of accrued depreciation.
4. Calculate the depreciated replacement cost of the improvements by subtracting the accrued depreciation from the total replacement cost new of the improvement.
5. Calculate the estimated market value for the property by adding the depreciated replacement cost of the improvements to the land value.

Regardless of which valuation method was used to prepare assessments, the assessment review board must decide whether a particular assessment reasonably reflects market value, and is fair and equitable taking into consideration the assessments of similar properties.

10. Mass Appraisal

Mass appraisal is a standard in the *Matters Relating to Assessment and Taxation Regulation* that assessors must follow when preparing assessments of property based on market value:

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

Overview

Market value for assessment purposes is generally determined through mass appraisal techniques. The purpose of mass appraisal is the equitable and efficient appraisal of all property in a municipality for ad valorem tax purposes. Mass appraisal is defined in section 1(k) of the *Matters Relating to Assessment and Taxation Regulation*:

“mass appraisal” means the process of preparing assessments for a group of properties using standard methods and common data and allowing for statistical testing.

Mass Appraisal and Single-Property Appraisal

While mass appraisal is the systematic appraisal of groups of properties as of a given date, single-property appraisal, or “fee” appraisal, in contrast, is the valuation of a particular property as of a given date. The steps in mass appraisal and single-property appraisal are the same, but market analysis, valuation and quality control are handled differently.

Mass appraisal, unlike single-property appraisal, requires the development of a valuation model capable of replicating the forces of supply and demand over a large area. Mass appraisal judgments relate to groups of properties rather than to single properties. The assessor must be able to develop, support and explain standardized adjustments in a valuation model among use classes, construction types, neighbourhoods and other property groups. Single-property appraisers, on the other hand, conduct a market analysis and develop one or more valuation models capable of estimating the value of a subject parcel only. The appraiser then provides the client with an appraisal report stating an estimate of value.

In mass appraisal, the approaches to value are applied by examining the market data for all properties and by creating valuation models specific to the most typical properties (benchmarks). Estimation of the value of typical properties is done by the application of the model. Estimating the value for atypical properties involves adjusting the model to the atypical property or if the property is very unique, estimating the value by single property appraisal techniques.

Quality control is handled in a fundamentally different way between mass appraisal and single-property appraisal. In single-property appraisal, with the focus on an individual property, the reliability of the value estimate can usually be judged by the depth of research and analysis, or by a comparison with sales of comparable properties. In mass appraisal, statistical methods are used to gauge the accuracy and consistency of valuations for a group of properties.

The assessor needs skills in both mass appraisal and single-property appraisal – mass appraisal skills for preparing assessed values and single-property appraisal skills to defend those assessed values and to appraise special-purpose properties that do not lend themselves to mass appraisal techniques.

Mass appraisal is an end to a means; it provides a way of reaching assessed values for properties without having an assessor visit each property in a municipality. For an individual assessment complaint, it is not the methodology or valuation approach that is in issue; it is the end result.

Principles of Mass Appraisal

Mass appraisal and single-property appraisals are built on the same basic valuation principles. However, because they involve the appraisal of many properties as of a common date, mass appraisal techniques emphasize equations, tables and schedules collectively called valuation models.

Mass appraisal valuation models must reflect appraisal theory and market behaviour. Successful modeling begins with market analysis, including a profile of the properties being modeled. During this phase, the assessor identifies appropriate units of comparison, considers stratification of the data and decides which data elements or variables to use in model specification.

Model specification is the first step in the development of the mass appraisal model. Assessors must understand the models they use and be sure they reflect the way property is valued in the local market. A general model provides a framework to simulate supply and demand forces operating in a real estate market. The assessor specifies the variables, or property characteristics, and their relationships, to be used in the model.

In a mass appraisal context, market value is derived from the range of probable selling prices, not a specific sale price.

In the Matters Relating to Assessment and Taxation Regulation:

Section 27.1(a) “coefficient” means a number that represents the quantified relationship of each variable to the assessed value of a property when derived through a mass appraisal process;

Section 27.1(c) “valuation model” means the representation of the relationship between property characteristics and their value in the real estate marketplace using a mass appraisal process;

Section 27.1(d) “variable” means a quantitative or qualitative representation of a property characteristic used in a valuation model.

Model calibration is the second step in developing the model. Calibration is the process of determining adjustments, or coefficients, that are assigned to the variables in a mass appraisal valuation model. The adjustments are based on an analysis of the current market data, and can be applied to the model’s formulas, tables or schedules.

A computer assisted mass appraisal (CAMA) system is essential for mass appraisal. The CAMA system allows a large quantity of property and market data to be stored and quickly analyzed. An up-to-date data base of property characteristics with careful model building and calibration can produce very good estimates of value.

When preparing assessments using mass appraisal, the assessor should not expect to exactly match the assessment with the sale price for every sold property, but instead should strive for consistent estimates of value based on observable characteristics. Sales can be analyzed to provide a basic per-square-foot or per-unit rate. For rental property, gross income multipliers and other benchmarks using available income data should be established.

To be able to prepare assessments for all properties in a municipality, the assessor must rely on valuation equations, tables and schedules developed from an analysis of market data. Assessments may not equal the sale prices of properties; rather assessments are determined by applying the equations, tables and schedules consistently to property data that is complete, accurate and up-to-date. Except for unique properties, individual analyses and appraisals of properties are not practical for ad valorem tax purposes.

Common mass appraisal models are listed below.

Cost Approach Model

The cost approach mass appraisal model uses tables, schedules, modifiers and factors from cost manuals and/or based on a local market analysis. This includes:

- Cost tables which include base rates, per square foot adjustments and lump sum adjustments to determine replacement cost new. Cost tables are contained in manuals provided by commercial cost services, or may be locally developed by the assessor.
- Depreciation schedules that are contained in commercial cost manuals, or are developed by the assessor for each major class of property in the jurisdiction, and then tested to ensure they reflect the local marketplace.
- Time and location modifiers which may be used to adjust cost data for local variations and changes in cost over time. The modifiers can be developed from commercial cost services or through local studies.
- Market adjustment factors that are often required to adjust values obtained from the cost approach to the market. These market adjustments should be applied by type of property and area based on sales ratio studies or other market analyses.

A simple form of the valuation model for the cost approach can be written as:

$$\text{Assessed Value} = (\$ \text{ rate} \times \text{area of the house} - \text{accrued depreciation}) + \$ \text{ rate} \times \text{the frontage of the lot}$$

The area of the house (e.g. in square feet) and the frontage of the lot (e.g. in front feet) are variables. The rates applied to those variables are coefficients.

Income Approach Model

The application of the income approach valuation model is generally restricted to properties that are rented, such as apartment buildings or rental office buildings provided there are sufficient rent or lease data and sales data. This data includes:

- Market rents. The income approach begins with the development of *typical* current market rents, expressed on a per unit basis. Market rents can be developed from income data obtained from property owners or local third-party sources.
- Vacancy and expense ratios are required to adjust potential gross income (i.e., market rent multiplied by number of units) to typical net income. These ratios should be based on a study of the local market and reflect *typical* management. Separate vacancy and expense ratios may be developed for different types of commercial properties (e.g., apartments, hotels and motels, office buildings, retail stores, warehouses, etc.), and perhaps for age groups.
- Capitalization rates and multipliers are used to convert income to market value. They include the overall capitalization rate and the gross income multiplier. Rates and multipliers usually vary by type of property and must be based on a thorough analysis of the local market.

A simple form of the income approach valuation model can be written as:

$$\text{Assessed Value} = \frac{\text{Potential Gross Income} - \text{Expenses}}{\text{Capitalization Rate}}$$

Data used in the mass appraisal income valuation model will reflect market rents on a per unit basis (rather than the actual rent of a single property); typical vacancy and expense ratios based on market analyses of similar properties and typical or average capitalization rates that are derived from sales of comparable properties.

Sales Comparison Approach Model

Mass appraisal applications of the sales comparison approach usually work well for residential properties; however, success of the application depends on adequate data. Property data should be accurate and include attributes important in explaining value within a market area or for a particular group of properties. Data for a sales comparison model may include the following:

- Land valuation tables. Land valuation tables contain land values per unit along with standard adjustments for topography, depth and locational features. They should be based on an analysis of the local market and updated annually.
- Sales comparison adjustments. As traditionally applied, the sales prices of comparable properties are adjusted for physical and locational differences to estimate the value of a subject property. In mass appraisal these adjustments are stored in tables for consistent application to groups of properties. The adjustments are derived from local sales analysis and, in mass appraisal, can be based on statistical techniques, such as multiple regression analysis and feedback.

Multiple Regression Analysis Equations

Multiple regression analysis can produce highly accurate and consistent values for most residential properties, provided that there are sufficient sales data and property characteristics data is coded consistently. Separate equations should be developed for each “market area” in a jurisdiction, or a “global” model should be adjusted for locational variations.

Feedback Equations

Adaptive estimation procedure, or feedback, is another version of the sales comparison approach. The structure of this technique is similar to the cost approach but the values assigned to each property characteristic are based on sales analysis rather than from cost manuals.

The following is a simple sales comparison valuation model for single-family residential properties:

$$\text{Assessed Value} = \$ \text{ Constant} + \$ \text{ Rate} \times \text{main floor area} + \$ \text{ Rate for attached garage}$$

In this example, the main floor area and the attached garage are variables that contribute to the value of the property. The rates applied to the variables and the constant are coefficients.

Sales Data and Mass Appraisal Performance Evaluation

Sales data are needed for specifying and calibrating valuation models, and for sales ratio studies. Sales data must be collected, verified and adjusted to obtain good indicators of market value. Properly adjusted sales, or other indicators of market value, are required along with assessed values to conduct ratio studies, and data on property characteristics are needed for grouping of properties.

Overall consistency, not minor valuation adjustments, is the goal for assessments using mass appraisal valuation models.

Data Collection

The most important (and most time-consuming) part of the ratio study is building the sales database. A database of sales is the focal point of sales ratio studies, general market analyses and the sales comparison approach to value.

In large urban areas, there are usually adequate sales in a one-year period to conduct meaningful market analyses for residential properties. In most other municipalities, and for most other property types, it may take several years to collect enough sales for a sales database that is sufficient to complete the ratio study.

The *Recording and Reporting Information for Assessment Audit and Equalized Assessment Manual* states that, when necessary, up to three years of sales records can be used to achieve an adequate sample size for the annual audit ratio study - if the sales are adjusted for the time period.

The Recording and Reporting Information for Assessment Audit and Equalized Assessment Manual is included in the meaning of Minister's Guidelines under section 322.1 of the Municipal Government Act.

Sales Verification

The importance of proper sales verification and processing cannot be overemphasized. Market analyses and the reliability of sales ratio studies depend on the accuracy of sales data.

The very nature of Alberta's land title registration system verifies that a sale or some type of transaction occurred. Registration documents contain both the consideration paid and

the transferee's (purchaser's) declared opinion of market value for land and buildings for assurance fund purposes. Typically, the stated consideration is used to represent the sale price; however, there will be times when the stated opinion of value represents a more accurate representation of market value.

Sales verification is an important step in determining whether a sale is indicative of market value or if it can be adjusted to be indicative of market value. Through verification, the assessor determines whether the sale is arm's-length and if the buyer has received a benefit or obligation other than the

Non-arm's-length sales should not be used in market analyses or ratio studies without careful examination and documentation of adjustments.

value of the real property. Some sales, such as sales between relatives or sales involving governments, trades or special financing, are non-arm's-length; in other words, these types of sales are not indicative of market value and, as such, are often rejected from market analyses or use in ratio studies. Types of non-arm's-length sales listed in the *Recording and Reporting Information for Assessment Audit and Equalized Assessment Manual* and include the following:

- sales involving traded property
- special financing arrangements
- sales made under duress
- partial interest sales
- foreclosures
- tax recovery property
- government sales
- sales of a leasehold interest
- sales involving family members
- multiple parcel sales

Ratio Studies

For property tax to be fair, mass appraisal must produce accurate and equitable assessments. The quality of an assessment produced by mass appraisal is tested through statistical analysis. The statistical analysis helps to ensure that the estimated assessed values are within an acceptable range of variance from the underlying market value benchmark. The primary tool used to measure mass appraisal performance is the ratio study.

A ratio study compares assessments to indicators of market value. Market values are usually represented by sales prices; the actual sales price may be adjusted for time of sale to the valuation date, financing, personal property or other considerations. Sales that do not represent open-market arm's-length transactions should not be used in ratio studies. The ratios used in a ratio study are formed by dividing the assessment by indicators of

market value, such as sales prices (adjusted). For example, a property assessed at \$342,000 that sold on the valuation date for \$360,000 has an assessment ratio of 0.95 or 95%:

$$A/IOV = \$342,000/\$360,000 = 0.95$$

Where **A** is the assessment and **IOV** is the indicator of value, in this case the sale price.

Assessment ratio is defined in the *Matters Relating to Assessment and Taxation Regulation*:

1(e) “assessment ratio” means the ratio of the assessment to an indicator of market value for the property.

The most common indicator of market value is a land title transfer of a property, or sale, but when only a few sales exist, other indicators of market value, such as single-property appraisals, real estate listings or opinions of value, may be used.

It is normal to expect that assessments do not always equal their indicator of market value (e.g., assessment ratio = 1.000) because real estate markets are typically imperfect. For example, there may be relatively few buyers or sellers, and all market participants may not be fully knowledgeable of the market. In addition, real estate markets are highly localized and segmented according to type of property. Furthermore, the supply of land is relatively fixed, whereas the demand for land can be quite volatile. For these reasons, actual sales prices, which are historical facts, and assessments, which are estimates of value or hypothetical prices, cannot be expected to be equal. The terms “price” and “value”, as used in property assessment, are not synonymous, although they are frequently used as if they were. Thus, assessment ratios will typically vary for most groupings of property. However, assessment ratios that are higher than 1.000 should balance assessment ratios lower than 1.000 so that the typical ratio or assessment level is near 1.000.

Since sales are the most common indicator of value, the assessment ratio is also commonly referred to as an assessment to sale ratio or ASR.

Outliers are properties with very high or low assessment ratios. Some outliers occur naturally in the market place; others are due to data discrepancies - they may result from poor or outdated assessments, non-arm’s-length sales, or a mismatch between the property sold and the property assessed. When the sales sample is small, outliers can distort ratio studies and should be reviewed carefully. When sales samples are large,

The impact of outliers in ratio studies is minimized through the use of the median assessment ratio and when sales samples are adequate.

Outliers should be carefully reviewed to determine whether the requirements of a market value sale have, in fact, been met, especially when sales samples are inadequate.

outliers may be ignored or excluded by cut-off points (e.g., properties with assessment ratios of less than 0.70 or greater than 1.30) set to exclude what may be predominantly invalid sales.

The goal of sales screening and verification is to obtain an adequate number of valid sales, not to find reasons to exclude sales. Most sales are usable for the sales comparable approach and for ratio studies, although many sales require adjustments. In large sales samples, the accidental inclusion of a few invalid sales will have little effect on ratio studies.

In the Matters Relating to Assessment and Taxation Regulation: Section (1)(c) “assessment level” means, for the property class, the overall ratio of assessments to indicators of market value;

Section 1(l) “median assessment ratio” means the middle assessment ratio when the assessment ratios for a group of properties are arranged in order of magnitude”.

Ratio studies measure two primary aspects of mass appraisal accuracy: level and uniformity. Measures of assessment level are calculated statistically by measures of central tendency, which describe the typical level of assessment by a single number or statistic. The four measures of central tendency applicable to ratio studies are the median, mean, the weighted mean and the geometric mean. In Alberta, the standard for the measure of central tendency is the median assessment ratio.

Section 10 of the *Matters Relating to Assessment and Taxation Regulation* sets the following quality standards for median assessment ratio

that assessors must meet in preparing assessments for groups, or strata, of properties:

Property Type	Median Assessment Ratio
Property containing 1, 2 or 3 dwelling units	0.950 – 1.050
All other property	0.950 – 1.050

Table 2 Median Assessment Ratio

Sale Number	Assessment (A)	Sale Price ¹ (IOV)	Assessment Ratio (AR)
1	\$319,000	374,850	0.851
2	345,750	393,000	0.880
3	342,000	360,000	0.950
4	379,200	383,000	0.990
5	412,100	389,900	1.057
6	331,800	299,400	1.108
7	339,500	289,900	1.171

¹Adjusted for time to the valuation date

In this table:

A = Assessment for the property

IOV = Indicator of market value for the property (e.g., the adjusted sale price)

AR = assessment ratio (A/IOV)

In *Table 2 Median Assessment Ratio*, the median assessment ratio for the group of properties shown is 0.990, which is within the regulated quality standard. The median assessment ratio has several advantages in ratio studies compared to other measures of central tendency. It is easy to compute and interpret, and it discounts the effects of extreme assessment ratios (outliers) so it is less affected by data errors. The median assessment ratio is also the base from which the coefficient of dispersion is calculated.

Assessment uniformity relates to the fair and equitable treatment of individual properties. Uniformity requires, first, that properties be assessed equitably within groups or categories of properties (e.g. use classes, neighbourhoods, etc.) and, second, that each of these groups is assessed at the same level, or ratio, of market value. Assessment uniformity requires equity within groups and between groups of properties.

*In the Matters Relating to Assessment and Taxation Regulation:Section 1)(g)
“coefficient of dispersion” means the average percentage deviation of the assessment ratios from the median assessment ratios for a group of properties.*

Uniformity *within* a group of properties is determined by measuring the magnitude of the differences (deviation) between each assessment ratio and the median assessment ratio. The average absolute deviation of all the assessment ratios from the median assessment ratio, expressed as a percentage, is called the coefficient of dispersion (COD). The COD is the most used measure of uniformity in ratio studies.

Section 10 of the *Matters Relating to Assessment and Taxation Regulation* sets out the following quality standards for the coefficient of dispersion that assessors must meet in preparing assessments for groups, or strata, of properties:

Property Type	Coefficient of Dispersion
Property containing 1, 2 or 3 dwelling units	0 – 15.0
All other property	0 – 20.0

Using the data from *Table 2 Median Assessment Ratio*, the sum of the absolute deviation of the assessment ratios from the median assessment ratio is 0.658, and the average deviation is 0.094 (0.658/7 sales). The coefficient of dispersion (COD) expressed as a percentage from the median assessment ratio is 9.5 for this group of properties, which is within the regulated quality standard.

As a rule, low CODs (15.0 or less) tend to be associated with good appraisal uniformity. CODs of less than 5.0 are very rare except in:

1. subdivisions in which lot prices are strictly controlled by the developer,
2. extremely homogeneous property groups, such as condominium units in the same complex,
3. ratio studies where the assessors' values and independent appraisals reflect the same valuation manuals and procedures, or
4. assessments that have been adjusted to match sales prices.

Uniformity *between* groups of properties can be evaluated by comparing their median assessment ratios. Large differences may indicate inequitable assessments and thus unequal taxation between the groups. For example, if the median assessment ratio is 0.900 for single-family residential property and 0.750 for multi-family property, multi-family property is under-assessed relative to single-family property.

Determining "market value" or a "fair and equitable value in relation to similar properties" is not an exact science, but then the marketplace itself is far from exact, being influenced by a multitude of individual factors.

"Market value" lies somewhere in the middle of the range which informed parties would settle, neither unduly high or unduly low. There may be a limited range of values of a particular property, none of which could be said to be other than "market value", and a range of assessed values of a particular property, none of which could be said to be inequitable between taxpayers. The existence of such ranges may sometimes provide an opportunity to reconcile market value with equitable assessed values.

(Based on Bramalea Ltd. v. British Columbia (Assessor of Area#09 – Vancouver) 76 D.L.R. (4th) 53, leave to appeal to the Supreme Court of Canada refused 79 D.L.R (4th) vi.)

Systematic differences in assessment level can be analyzed in terms of horizontal inequities and vertical inequities. Horizontal inequities are differences in assessment levels between groups of properties defined by property type, location, size, age, or some other attribute. The above comparison between single-family and multi-family properties illustrates horizontal inequity.

Vertical inequities are differences in assessment levels for groups of properties defined by value. Assume that assessment levels are

similar among neighbourhoods, but that more expensive houses are generally assessed at a lower percentage of market value than less expensive houses. Although there is no horizontal inequity among neighbourhoods, vertical inequity exists.

Matching Assessment Data and Market Data

The ratio study is a useful tool that can provide valuable information for a variety of purposes, including any legal requirements, such as the quality standards set out in the *Matters Relating to Assessment and Taxation Regulation*.

In Alberta, ratio studies are primarily used for the following purposes:

- by Alberta Municipal Affairs for annual and detailed assessment audits
- by assessors to measure quality of assessments
- by assessors to calculate market adjustments used in cost approach models

Part of a ratio study requires the matching of the assessment and the sale price, or other indicator of market value, for a property. Both the assessment and the sale price must reflect the same property in the same physical condition. If a property has changed in some physical way between the time of the assessment and the time of sale, the sale should be excluded from the ratio study unless appropriate adjustments can be made where the property assessed corresponds to the property sold.

An assessment review board must not alter any assessment that is fair and equitable taking into consideration the valuation and other standards set out in the regulations.

(ref: sec. 467(3)(a) MGA)

Example

Assume that a property sold for \$120,000 and is currently assessed at \$360,000, giving an apparent assessment ratio of 3.00 ($\$360,000/\$120,000 = 3.00$).

However, a review of the sale reveals that the property was vacant when sold and a house was subsequently built before the time of the assessment. The \$360,000 assessment consists of an improvement value of \$250,000 (based on local construction costs) and a residual land value of \$110,000.

In this case, an assessment ratio can be calculated using the land value only, yielding a ratio of 0.917 ($\$110,000/\$120,000$).

Stratification

In ratio studies, stratification is the sorting of properties into relatively homogeneous groups based on use, physical characteristics or location. Stratification permits the analysis of mass appraisal performance within and between property groups.

Assessors may stratify properties by such criteria as improvement classification, neighbourhood, size and age so they can use ratio studies for a variety of purposes, including testing for compliance with regulated quality standards, evaluating the effectiveness of assessment procedures, or gauging the merit of taxpayer complaints.

An assessment review board can use information from ratio studies to evaluate whether the assessment for a given property is a reasonable measure of market value, and whether the assessment is fair and equitable in relation to similar properties.

In Alberta, the assessment classes described in section 297(1) of the *Municipal Government Act* are the highest order of strata and they form the basis of other strata used in the annual audit ratio studies conducted by the province, or to calculate assessment levels

The *Matters Relating to Assessment and Taxation Regulation* requires that property be stratified, at minimum, into two property types: property containing 1, 2 or 3 dwelling units, and all other property. The *Recording and Reporting Information for Assessment Audit and Equalized Assessment Manual* sets out guidelines for further stratification of properties into actual use groups, such as single-family dwellings (SFD) and commercial retail (RET). In addition, assessors assign property characteristics (e.g., market areas, improvement classification, building size, etc.), which can also be used to stratify similar properties for ratio studies. The *IAAO Standard on Ratio Studies* discusses the importance of sales being representative of the strata and not creating strata too small to achieve statistical reliability.

Sampling

Sales sampling is the foundation on which the ratio study is built. The sample consists of those properties for which sales or other valid indicators of market value are available.

In ratio studies, statistics based on a sample of properties that sold will be used to make decisions that affect all properties in the population.

Statistics calculated from a sample of properties may be used to estimate the parameters for a population of properties; for example, the average sale price of the sample can be used to estimate the average value of the population. The population of properties can consist of all properties in a jurisdiction, in a particular classification of improvement,

in a neighbourhood or market area, or in another stratum or grouping of property under analysis. As well, statistics calculated in the ratio study (e.g., median assessment ratio and COD) can be used to draw conclusions or inferences about a population of properties, based on information contained in a sample.

The accuracy of statistics as estimators of population parameters depends on the representativeness of the sample. Types of property should appear with the same relative frequency in both the sample and the population. Representativeness is, in turn, primarily a function of the method of selecting the sample and sample size.

The method of selecting a sample should be random in nature. A random sample is one where each item in the population of properties has an equal chance of being included in the sample of properties. Sales, however, do not strictly meet this assumption because some property types tend to sell more frequently than others. Inequities related to the randomness assumption only become serious when properties overrepresented in the sample tend to be assessed more (or less) accurately than those properties that are underrepresented.

The other major factor affecting representativeness is sample size. For any given population, the representativeness of a sample will increase with the size of the sample (i.e., the number of properties in the sample). As size increases, the characteristics of the sample properties tend to converge with those of the population; thus, statistics computed from the sample are more likely to be valid measures of corresponding population parameters.

Alberta's detailed assessment audit program recommends a sample of at least 15 properties for a ratio study, and, in small sample sizes, the samples used should be representative of the population or grouping of properties.

How large must a sample size be before it provides statistically reliable results? Much depends on the precision required of a particular ratio study. For greater precision, a larger sample size is required. For some property types (e.g., commercial) and in municipalities with few sales, there is limited control over sample size, so the interpretation of ratio study results is limited by the sample available.

Performance Evaluation with Limited Sales

Perhaps the most frequent and significant obstacle to effective mass appraisal performance evaluation is the scarcity of sales for certain types or property, particularly commercial properties and special purpose properties. In small municipalities and in some rural municipalities, even residential sales data may be in limited supply. Since sales data is the preferred yardstick for evaluating mass appraisal performance, there are several techniques for expanding the number of sales available for a ratio study, such as:

- adjust rather than exclude sales from the analysis, and
- extend the sales period.

The *Recording and Reporting Information for Assessment Audit and Equalized Assessment Manual* describes indicators of market value that can be used by assessors in Alberta to augment sales data. These indicators of value types include:

- Independent, formal appraisals,
- Listings of property,
- An offer to purchase,
- An opinion of value provided by expert, third-party sources, such as real estate agents, private appraisers and bankers, and
- Non-titled leased sales.

A properly designed ratio study provides valuable information about the quality of the mass appraisal work. However, ratio studies have limitations. A perfect estimation of every property's value is not possible in mass appraisal, and a ratio study does not always provide perfect information about appraisal performance. Insufficient sales or overrepresentation of one neighbourhood with an active market can distort results. In general, the reliability of a ratio study increases with the number and representativeness of the sales or other market indicators used in the study. In addition, reliability requires that unsold properties be assessed in the same manner as sold properties.

The principles which underlie the assessment process dictated by the Act are threefold. They require assessments of property be based on market value, that they not be in excess of that which is fair and equitable having regard to assessments of similar property in the same municipality and that they be prepared using mass appraisal. The requirements imposed by these three principles may be in conflict. If they are, the conflict should be resolved.

Excerpt from paragraph 21 in court decision, Mountainview (County) v. Alberta (MGB) [2000] A.J. 1042, Fraser J.

11. Assessment of Regulated Property

Some properties in Alberta are not assessed using the market value standard. The regulated valuation standard for these properties, known as regulated properties, is the assessment that is calculated in accordance with prescribed procedures set out in the *Matters Relating to Assessment and Taxation Regulation*. Regulated properties are defined in section 1(n) of the regulation as:

- land in respect of which the valuation standard is agricultural use value (i.e., farm land)
- railway
- machinery and equipment, and
- linear property

An assessment review board does not have jurisdiction to hear linear property complaints. They are the jurisdiction of the Municipal Government Board.

Municipalities are responsible for preparing assessments for regulated property, with the exception of assessments for linear property, which is the responsibility of Alberta Municipal Affairs. Linear property includes electric power systems, telecommunication systems and pipelines as defined in section 284(1)(k) of the *Municipal Government Act*.

In preparing an assessment for regulated property, the municipality's assessor must follow the procedures set out in the applicable Minister's Guidelines.

The Minister's Guidelines for Regulated Property

The Minister's Guidelines are regulations made under section 322 of the *Municipal Government Act*. Each year the Minister of Municipal Affairs establishes the following Minister's Guidelines for the purposes of preparing the assessments of regulated property:

- Alberta Farm Land Assessment Minister's Guidelines
- Alberta Linear Property Assessment Minister's Guidelines
- Alberta Machinery and Equipment Assessment Minister's Guidelines
- Alberta Railway Assessment Minister's Guidelines
- 2005 Construction Cost Reporting Guide

An assessment prepared using the Minister's Guidelines cannot be challenged on the basis of the validity of the Guidelines.
(ref: sec. 322.1(2) MGA)

The rates, modifiers and factors contained in the Minister's Guidelines reflect typical replacement cost scenarios for each type of regulated property or for particular

components of regulated property. The process for establishing the Minister's Guidelines involves industry experts, who make recommendations for the Minister's review, and consultations with municipal and industry stakeholders

12. Farm Land

Legislation Relating to Farm Land

Section 284(i) of the *Municipal Government Act* states that “farming operations” has its meaning given in the *Matters Relating to Assessment and Taxation Regulation* where in section 1(i):

“farming operations” means the raising, production and sale of agricultural products and includes

- (i) horticulture, aviculture, apiculture and aquaculture,
- (ii) the production of horses, cattle, bison, sheep, swine, goats, fur-bearing animals raised in captivity, domestic cervids within the meaning of the *Livestock Industry Diversification Act*, and domestic camelids, and
- (iii) the planting, growing and sale of sod;

Land used for farming operations is also referred to as “farm land”, which is defined as such for the purposes of section 297 of the *Municipal Government Act*. Farm land in section 297 must be assigned to assessment class 3 – farm land.

Section 4 of the *Matters Relating to Assessment and Taxation Regulation* sets out the valuation standard for a parcel of land. The valuation standard for land used for farming operations is agricultural use value.

Parcel of land is defined in section 1(1)(v) of the Municipal Government Act.

Section 4(4) of the Matters Relating to Assessment and Taxation Regulation identifies situations where an area within a parcel of land is to be assessed as if it were a parcel of land.

Even though a parcel of land may be used for farming operations, section 4(3) of the *Matters Relating to Assessment and Taxation Regulation* identifies when the land, or a portion of the land, may be assessed using the market value standard rather than the agricultural use value standard. For example, a three acre residential site on farm land, or area of the farm land used for commercial or industrial purposes, must be assessed using the market value standard.

Section 298(1)(y) of the *Municipal Government Act* states that farm buildings are non-assessable except to the extent set out in the *Matters Relating to Assessment and Taxation Regulation*. Section 1(h) of the regulation defines farm buildings as any improvement other than a residence, to the extent it is used for farming operations.

Farm buildings are not regulated property.

Farm residences located in rural municipalities or other specific areas prescribed in Part 5 of the *Matters Relating to Assessment and Taxation Regulation*, may receive an exemption up to a maximum amount of \$61,540 for the first residence; and up to a maximum amount of \$30,770 for additional residences, provided that they are used in

connection with the farming operation. This exemption does not apply to farm residences located in an urban municipality.

Assessment of Farm Land

The *Alberta Farm Land Assessment Minister's Guidelines* sets out the procedures for calculating the agricultural use value of land used for farming operations, other than the exceptions specified in section 4(3) of the *Matters Relating to Assessment and Taxation Regulation*.

Schedules A and B of the Guidelines include the base rates and assessment year modifiers for assessing farm land, and the ratings and factors described in Schedules C and D of the Guidelines are contained in the 1984 Alberta Assessment Manual.

Farm land issues may include:

- a parcel of land has been categorized as arable land when the property is a woodlot,
- a parcel of land has been assessed based on the market value standard rather than on its agricultural use value

Please see the example in Appendix 4.

An assessment review board must not alter any assessment of farm land that has been prepared correctly in accordance with the regulations.
(ref: sec. 467(4) MGA)

The assessment of farm land may be used to calculate an exemption from taxation for residences in a farm unit (see *Property Exempt from Taxation* on page 14).

13. Machinery and Equipment

Legislation Relating to Machinery and Equipment

There are several areas of legislation and the regulations that deal with the assessment of properties classed as machinery and equipment. The following is not all-inclusive. However, it highlights the legislation that relates to machinery and equipment.

Machinery and equipment is included in the definition of “improvement” of section 284 of the *Municipal Government Act*. Machinery and equipment is further defined in section 1(j) of the *Matters Relating to Assessment and Taxation Regulation* as:

materials, devices, fittings, installations, appliances, apparatus and tanks other than tanks used exclusively for storage, including supporting foundations and footings and any other thing prescribed by the Minister that forms an integral part of an operational unit intended for or used in

- (i) manufacturing,
- (ii) processing,
- (iii) the production or transmission by pipeline of natural resources or products or by-products of that production, but not including pipeline that fits within the definition of linear property in section 284(1)(k)(iii) of the Act,
- (iv) the excavation or transportation of coal or oil sands as defined in the *Oil Sands Conservation Act*,
- (v) a telecommunications system, or
- (vi) an electric power system other than a micro-generation generating unit as defined in the *Micro-Generation Regulation* (AR 27/2008),

whether or not the materials, devices, fittings, installations, appliances, apparatus, tanks, foundations, footings or other things are affixed to land in such a manner that they would be transferred without special mention by a transfer or sale of the land.”

Machinery and equipment is a specific assessment class under section 297(1) of the *Municipal Government Act*. The machinery and equipment assessment class cannot be divided into a sub-class.

For the purposes of section 297 of the *Municipal Government Act*, machinery and equipment, does not include the following:

- (i) any thing that falls within the definition of linear property as set out in section 284(1)(k), or
- (ii) any component of a manufacturing or processing facility that is used for the cogeneration of power.”

Each year, the assessor should ask for and retain the appropriate documentation from the property owner to support an allowance for additional depreciation.

Section 298(1)(z) of the *Municipal Government Act* states that machinery and equipment is non-assessable except to the extent set out in section 9(3) of the *Matters Relating to Assessment and Taxation Regulation*. According to section 9 of the Regulation the assessment of machinery

and equipment that is not part of linear property must reflect 77 per cent of its value.

Assessment of Machinery and Equipment

In conjunction with section 9 of the *Matters Relating to Assessment and Taxation Regulation*, the municipality's assessor must prepare assessments for machinery and equipment following the procedures and schedules set out in the *Alberta Machinery and Equipment Assessment Minister's Guidelines*. The procedure for calculating the assessment of machinery and equipment follows the formula $A \times B \times C \times D$, where:

- A = the base cost as prescribed in Schedule A;
- B = the assessment year modifier prescribed in Schedule B, which adjusts the base cost to the assessment year;
- C = the depreciation factor prescribed in Schedule C; and
- D = additional depreciation, allowed under Schedule D when acceptable evidence of loss of value exists.

Allowable depreciation is set out in the applicable Minister's Guidelines.

One of two ways must be used to determine the base cost referred to in Schedule A. When a component of machinery and equipment is described in the Minister's Guidelines, the corresponding base rate in Schedule A must be used to calculate the base cost of that component. Generally, the base rates in Schedule A relate to components of oilfield equipment.

When a component is not described in Schedule A, the base cost is determined using the 2005 Construction Cost Reporting Guide. Base costs for machinery and equipment found in gas plants, pulp and paper plants, food processing plants, and other manufacturing and processing facilities are derived using reported costs determined in accordance with the 2005 Construction Cost Reporting Guide.

An assessment review board must not alter any assessment of machinery and equipment that has been prepared correctly in accordance with the regulations.
(ref: sec. 467(4) MGA)

Once an assessment has been calculated in accordance with the Minister's Guidelines, the assessment must be reduced to reflect 77% of its value as per section 9(3) of the *Matters Relating to Assessment and Taxation Regulation*.

A complaint may be filed about the assessment class that was assigned to the property.

Many industrial properties are assessed using market value and a valuation standard for regulated property. For example, in a typical seed cleaning plant the land and structures would be assessed based on the market value standard while the facility's machinery and equipment would be assessed following the procedures in the applicable Minister's Guidelines. For the purposes of section 297 of the *Municipal Government Act*, the land and structure would

be assigned as Class 2, non-residential, and if the machinery and equipment is not linear property, it would be assigned as Class 4, Machinery and Equipment. The Industrial Assessment example in Appendix 4 demonstrates how an assessment would be prepared for such a parcel.

Machinery and equipment that is classified as linear property is not assessed using the *Alberta Machinery and Equipment Assessment Minister's Guidelines*. Linear property is defined in section 284(1)(k) of the *Municipal Government Act*. Machinery and equipment classified as linear property is assessed at 100% rather than at 77%.

Construction Cost Reporting Guide

The *2005 Construction Cost Reporting Guide* is the Minister's Guidelines used for preparing assessments of regulated property that is not specifically described in the Alberta Machinery and Equipment Assessment Minister's Guidelines.

The *2005 Construction Cost Reporting Guide* and its interpretative guide are used to assist the company and the assessor with determining the assessable costs related to the construction of a facility. The assessor uses the *2005 Construction Cost Reporting Guide* to determine which project costs reported by the company should be included in, or excluded from, the calculation of the assessment.

The *2005 Construction Cost Reporting Guide* may also be applied to regulated property that is not specifically described in the Alberta Railway Assessment Minister's Guidelines, and the Alberta Linear Property Assessment Minister's Guidelines.

14. Railway

Legislation Relating to Railway

Railway is defined in section 284(1)(s) of the *Municipal Government Act* as “roadway” and “superstructure”, which are further defined in section 284:

- (t) “roadway means the continuous strip of land owned or occupied by a person as a right of way for trains, leading from place to place in Alberta, but not including
 - (i) land that is outside the right of way and owned or occupied by the corporation for station grounds or extra right of way for sidings, spur tracks, wyes or other trackage for trains, or
 - (ii) land within the right of way that is used by the corporation for purposes other than the operation of trains.”
- (v) “superstructure means
 - (i) the grading, ballast and improvements located on a right of way for trains and used for the operation of trains, and
 - (ii) the improvements that form part of a telecommunications system intended for or used in the operation of trains.”

Railway property is assigned to assessment class 2 – non-residential, in accordance with section 297(4)(b) of the *Act*. The valuation standard for railway is set out in Section 7 of the *Matters Relating to Assessment and Taxation Regulation*.

*Section 290 of the Municipal Government Act states that land used for purposes other than the operation of the railway must be assessed as if it is a parcel of land.
(ref: sec. 290(2) MGA)*

Assessment of Railway

Section 289 of the *Municipal Government Act* states that an assessment of a railway must be based on a report, provided by the person that operates the railway, to a municipality in which the railway runs through. If a person that operates the railway does not provide the report to the municipality, the assessor must prepare the assessment using whatever information is available about the railway.

Assessments for railway must be prepared following the procedures set out in the Alberta Railway Assessment Minister’s Guidelines.

In conjunction with section 7 of the *Matters Relating to Assessment and Taxation Regulation*, the municipality’s assessor must prepare assessments for railway following the procedures and schedules set out in the Alberta Railway Assessment Minister’s Guidelines. Calculating the assessment of railway follows the formula $A \times B \times C$ where:

- A = the base cost as prescribed in Schedule A
- B = the assessment year modifier prescribed in Schedule B, which adjusts the base cost to the assessment year
- C = the annual traffic factor prescribed in Schedule C

Three companies operate railway in Alberta: CPR, CNR, and Northern Alberta Railway. The companies are required to annually report net tonnage to each municipality that their railway runs through. The net tonnage is used to determine the annual traffic factor.

Trackage and other improvements outside of a railway right-of-way are not included in the definition of railway (such as trackage that is part of an industrial plant site). These improvements are non-regulated property, and are assessed using market value standard in accordance with section 5(1) of the *Matters Relating to Assessment and Taxation Regulation*. The cost approach can be used to estimate the market value of non-regulated railway improvements.

Section 467(4) of the Municipal Government Act states that an assessment review board must not alter any assessment of railway that has been prepared correctly in accordance with the regulations.

Appendix 1 Definitions

Assessment and Appraisal Terms

Additive model.....	A model in which the values are adjusted or estimated by multiplying the value of property attributes - for example, a fireplace by its value per unit (\$2,000 for one fireplace, \$1,700 for a second fireplace = \$3,700 for fireplaces).
Ad valorem tax.....	A tax levied in proportion to the value of the things being taxed; property tax is an ad valorem tax.
Assessment.....	The value of property determined in accordance with the legislation and the regulations (ref: sec. 284(1)(c) MGA).
Assessment level.....	The overall ratio of assessments to indicators of market value for a property assessment class (ref: sec. 1(c) MRAT).
Assessment progressivity.....	An appraisal bias such that higher value properties are appraised higher than low value properties in relation to market value.
Assessment ratio.....	The ratio of an assessment to an indicator of market value for a property (ref: sec. 1(e) MRAT).
Assessment regressivity.....	An appraisal bias such that higher value properties are appraised lower than low value properties in relation to market value.
Assessment year.....	The year prior to the taxation year (ref: sec. 1(f) MRAT).
Bundle of rights.....	Basic rights associated with private ownership of property including: <ul style="list-style-type: none"> - Right to use. - Right to sell. - Right to lease or rent. - Right to enter or leave. - Right to give away. - Right to refuse to do any of the above.
Calibration.....	The process of estimating the values of the variables in a mass appraisal model in relation to the market.
Capitalization.....	Conversion of an annual income into a lump-sum value for a property (as of a given date).
Capitalization rate.....	The link between typical future net income and today's market value expressed as a percentage.
Coefficient.....	A number that represents the quantified relationship of each variable to the assessed value of a property when derived through a mass appraisal process (ref: sec. 27.1(a) MRAT).

Coefficient of Dispersion (COD).....	The average percentage deviation of the assessment ratios from the median assessment ratio for a group of properties. The COD is the primary measure of appraisal uniformity used in ratio studies. (ref: sec. 1(g) MRAT).
Coefficient of Variation (COV)	A measure that expresses standard deviation as a percentage of the arithmetic mean, which facilitates comparison of appraisal levels between groups; analogous to and interpreted in the same manner as the COD.
Comparable sales	Properties that are compared to the subject property to estimate market value or the fairness of assessed values.
Cost approach.....	This approach quantifies the cost in current dollars to recreate the property being assessed and assumes that a potential purchaser would pay no more for that property than the cost of replacement.
Covenant	A written contract where the parties agree to abide by or refrain from certain acts. A covenant may restrict the uses of a property for the benefit of other lands – for example, a property owner may be restricted from operating a feedlot on his property.
Dependent variable	A variable which depends on another variable — for example, sale price can depend on and be predicted by other variables, such as location or finished living area.
Depreciation.....	A loss of value from any cause.
Easement	An agreement that confers the right to use a landowner’s property in some way. An easement may restrict an owner’s use of a property.
Economic obsolescence	Decrease in desirability caused by adverse factors outside the property and usually beyond the control of the owner.
Effective tax rate	The property tax rate expressed as a percentage of market value.
Equity	The degree to which assessments bear a consistent relationship to market value. The COD and COV are customary measures.
Escheat	Property reverts to the Crown when an owner dies without heirs.
Fee simple	In land ownership, complete interest in a property, subject only to governmental powers such as eminent domain.

Functional obsolescence	Decrease in value caused by an inability of an improvement to perform its function efficiently; may be attributable to deficiencies, defects, inefficiencies, or super-adequacies of a property.
Highest and best use.....	That use which will generate the highest net return to the property over a period of time, given probable legal, physical, locational, and financial constraints.
Income capitalization approach	This approach analyzes the anticipated future benefits or income from a property and converts this income into an estimate of present value.
Income stream.....	Series of payments (usually net income payments) receivable from an investment over the life of the investment.
Independent variable.....	An item used to predict or explain a dependent variable.
Location variable	A variable such as the distance to the nearest commercial district or traffic count on an adjoining street that seeks to measure the contribution of locational factors to the total property value.
Market value.....	The amount that a property might be expected to realize if it is sold on the open market by a willing seller to a willing buyer (ref: sec. 1(1)(n) MGA).
Market value standard.....	A requirement that a property be assessed on the basis of its market value.
Mass appraisal.....	The process of preparing assessments for a group of properties using standard methods and common data, and allowing for statistical testing (ref: sec. 1(k) MRAT).
Mean	The average determined by adding the value of all observations and dividing by the number of observations.
Median	The mid-point value when a number of values are ranked in order of magnitude.
Median assessment ratio.....	The middle assessment ratio when the assessment ratios for a group of properties are arranged in order of magnitude. The median assessment ratio is the base for calculating the coefficient of dispersion (ref: sec. 1(l) MRAT).
Multiple regression analysis (MRA).....	Quantitative technique for measuring the magnitude of the market's response to data elements; used to relate the characteristics of sold properties to their sale prices.
Multiplicative model.....	A model in which the values of independent variables serve as powers (exponents) to which the

	independent variables are raised, or in which independent variables themselves serve as exponents; the results are then multiplied to estimate the value of the dependent variable.
Neighbourhood	The environment of a subject property or group of properties that has a direct and immediate effect on value.
Normal distribution	A theoretical frequency distribution; symmetrical and bell-shaped; 68 percent of the observations occur within one standard deviation of the mean and 95 percent within two standard deviations of the mean, and almost all (99 percent) with a measure of three standard deviations.
Outliers.....	Observations that have unusual values and differ markedly from a measure of central tendency.
Price-related differential	In ratio studies, the mean divided by the weighted mean. Price-related differentials above 1.03 tend to indicate assessment regressivity; price-related differentials below 0.98 tend to indicate assessment progressivity.
Ratio studies.....	A study of the relationship between appraised or assessed values and market values. Indicators of market values may be either sales (sales ratio study) or independent “expert” appraisals (appraisal ratio study), or both. Of common interest in ratio studies are the level and uniformity of the appraisals or assessments.
Real property.....	The rights, interests, and benefits connected with real estate.
Recapture	A provision for the reduction in the economic life of an improvement; the longer the economic life, the lower the recapture rate.
Replacement costs.....	The costs required to construct a substitute structure having similar utility using current design, materials, and building standards.
Residual.....	The difference between an observed value and a predicted value for a dependent variable — for example, comparison of actual and predicted sale prices.
Sales comparison approach.....	This approach estimates market value of the property being assessed by comparing it to similar properties that have sold recently.

- Single property appraisalThe estimated value of a particular property as of a given date; or the act of valuing a particular property.
- Stratification.....The division or grouping, for purposes of analysis, of a sample of observations into two or more subsets according to some criterion or set of criteria.
- Weighted meanAggregate ratio determined by dividing the total of appraised values by the total of sale prices; the appropriate measure of central tendency for estimating total dollar value of a number of parcels.
Note: this measure is subject to sampling errors.

Appendix 2 Forms and Charts

The Assessment Review Board Complaint Form Page 1

Government of Alberta

Assessment Review Board Complaint

Municipality Name (as shown on your assessment notice or tax notice)	Tax Year
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Section 1 - Notice Type

Assessment Notice: Annual Assessment Amended Annual Assessment Supplementary Assessment Amended Supplementary Assessment

Tax Notice: Business Tax Other Tax (excluding property tax and business tax)

Name of Other Tax: _____

Section 2 - Property Information

Assessment Roll or Tax Roll Number: _____

Property Address: _____

Legal Land Description (i.e. Plan, Block, Lot or ATS 1/4 Sec-Twp-Rng-Mer): _____

Property Type (check all that apply): Residential property with 3 or less dwelling units Residential property with 4 or more dwelling units Farm land Non-residential property Machinery and equipment

Business Name (if pertaining to business tax): _____ Business Owner(s): _____

Section 3 - Complainant Information

Is the complainant the assessed person or taxpayer for the property under complaint? Yes No

Note: If this complaint is being filed on behalf of the assessed person or taxpayer by an agent for a fee, or a potential fee, the Assessment Complaints Agent Authorization form must be completed by the assessed person or taxpayer of the property and must be submitted with this complaint form.

Complainant Name (if the complainant, assessed person, or taxpayer is a company, enter the complete legal name of the company): _____

Mailing Address (if different from above): _____ City/Town: _____ Province: _____ Postal Code: _____

Telephone Number (include area code): _____ Fax Number (include area code): _____ Email Address: _____

Section 4 - Complaint Information

Check the matter(s) that apply to the complaint (see reverse for coding): 1 2 3 4 5 6 7 8 9 10

Note: Some matters or information may be corrected by contacting the municipal assessor prior to filing a formal complaint.

If information was requested from the municipality pursuant to sections 299 or 300 of the Municipal Government Act, was the information provided? Yes No

Section 5 - Reason(s) for Complaint

Note: An assessment review board must not hear any matter in support of an issue that is not identified on the complaint form.

The reasons for a complaint must accompany the complaint form, including:

- what information shown on an assessment notice or tax notice is incorrect;
- in what respect that information is incorrect, including identifying the specific issues related to the incorrect information that are to be decided by the assessment review board, and the grounds in support of these issues;
- what the correct information is;
- if the complaint relates to an assessment, the requested assessed value. Requested assessed value: _____

(a) include a statement that the complainant and the respondent have discussed the matters for complaint, specifying the date and outcome of that discussion, including the details of any issues or facts agreed to by the parties, or

(b) include a statement, if the complainant and the respondent have not discussed the matters for complaint, specifying why no discussion was held.

Note: If necessary, additional pages or documentation required to complete this section may be submitted with this complaint form.

Section 6 - Complaint Filing Fee

If the municipality has set filing fees payable by persons wishing to make a complaint, the filing fee must accompany the complaint form, or the complaint will be invalid and returned to the person making the complaint.

If the assessment review board makes a decision in favour of the complainant, or if all the issues under complaint are corrected by agreement between the complainant and the assessor and the complaint is withdrawn prior to the hearing, the filing fee will be refunded.

Section 7 - Complainant Signature

Signature: _____ Printed Name of Signatory Person and Title: _____ Date (mm/dd/yyyy): _____

Important Notice: Your completed complaint form and any supporting attachments, the agent authorization form, and the prescribed filing fee must be submitted to the person and address with whom a complaint must be filed as shown on the assessment notice or tax notice prior to the deadline indicated on the assessment notice or tax notice. Complaints with an incomplete complaint form, complaints submitted after the filing deadline, or complaints without the required filing fee, are invalid.

Assessment Review Board Clerk Use Only

Was the complaint filed on time? Yes No

Is the required information included on or with the complaint form? Yes No

Was the required filing fee included? Yes No N/A Date received: _____

Was a properly completed authorization form attached? Yes No N/A

Complaint to be heard by: LARB CARB

The Assessment Review Board Complaint Form Page 2

MATTERS FOR A COMPLAINT

A complaint to the assessment review board may be about any of the following matters shown on an assessment notice or on a tax notice (other than a property tax notice).

- | | |
|--|--|
| 1. the description of the property or business | 6. the type of property |
| 2. the name or mailing address of an assessed person or taxpayer | 7. the type of improvement |
| 3. an assessment amount | 8. school support |
| 4. an assessment class | 9. whether the property or business is assessable |
| 5. an assessment sub-class | 10. whether the property or business is exempt from taxation |

Note: To eliminate the need to file a complaint, some matters or information shown on an assessment notice or tax notice may be corrected by contacting the municipal assessor. It is advised to discuss any concerns about the matters with the municipal assessor prior to filing this complaint.

If a complaint fee is required by the municipality, it will be indicated on the assessment notice. Your complaint form will not be filed and will be returned to you unless the required complaint fee indicated on your assessment notice is enclosed.

ASSESSMENT REVIEW BOARDS

A Local Assessment Review Board will hear complaints about residential property with 3 or less dwelling units, farm land, or matters shown on a tax notice (other than a property tax notice).

A Composite Assessment Review Board will hear complaints about residential property with 4 or more dwelling units or non-residential property.

DISCLOSURE

Disclosure must include:

- All relevant facts supporting the matters of complaint described on this complaint form.
- All documentary evidence to be presented at the hearing.
- A list of witnesses who will give evidence at the hearing.
- A summary of testimonial evidence.
- The legislative grounds and reason for the complaint.
- Relevant case law and any other information that the complainant considers relevant.

Disclosure timelines:

- For a complaint about any matter other than an assessment, the parties must provide full disclosure at least 5 days before the scheduled hearing date.
- For a complaint about an assessment - Local Assessment Review Board:
 - Complainant must provide full disclosure at least 21 days before the scheduled hearing date.
 - Respondent must provide full disclosure at least 7 days before the scheduled hearing date.
 - Complainant must provide rebuttal at least 3 days before the scheduled hearing date.
- For a complaint about an assessment - Composite Assessment Review Board:
 - Complainant must provide full disclosure at least 42 days before the scheduled hearing date.
 - Respondent must provide full disclosure at least 14 days before the scheduled hearing date.
 - Complainant must provide rebuttal at least 7 days before the scheduled hearing date.

DISCLOSURE RULES

Timelines for disclosure must be followed;

Information that has not been disclosed will not be heard by an assessment review board; and

Disclosure timelines can be reduced if the disclosure information is provided at the time the complaint form is filed. Both the complainant and the assessor must agree to reduce the timelines.

PENALTIES

A Composite Assessment Review Board may award costs against any party to a complaint that has not provided full disclosure in accordance with the regulations.

IMPORTANT NOTICES

Your completed complaint form and any supporting attachments, the agent authorization form, and the prescribed filing fee must be submitted to the person and address with whom a complaint must be filed as shown on the assessment notice or tax notice, prior to the deadline indicated on the assessment notice or tax notice. Complaints with an incomplete complaint form, complaints submitted after the filing deadline, or complaints without the required filing fee, are invalid.

An assessment review board must not hear any matter in support of an issue that is not identified on the complaint form.

The assessment review board clerk will notify all parties of the hearing date and location.

For more details about disclosure please see the *Matters Relating to Assessment Complaints* Regulation.

To avoid penalties, taxes must be paid on or before the deadline specified on the tax notice even if a complaint is filed.

The personal information on this form is being collected under the authority of the *Municipal Government Act*, section 460 as well as the *Freedom of Information and Protection of Privacy Act*, section 33(c). The information will be used for administrative purposes and to process your complaint. For further information, contact your local Assessment Review Board.

Table 3 – Notice Types

Matters for a complaint s. 460(5) for LARB and CARB	Notice Types								
	CARB res. with 4 or more units and non-res.	LARB res. with 3 or less units and farm land	LARB Tax Notices, not including a property tax notice						
	Assessment notice, incl. suppl.	Assessment notice, incl. suppl.	Business tax, incl. suppl. (tax notice)	BRZ (tax notice)	CR levy (tax notice)	Special tax (tax notice)	Well Drill Equip. (tax notice)	Local Improv. (tax notice)	CAP levy (tax notice)
(a) description of a property or business	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
(b) name and mailing address of an assessed person or taxpayer	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
(c) an assessment	Yes	Yes	Yes (s. 374(1))	Yes (AR89/05)	ref. to assessed value	ref. to asmnt.		ref. to asmnt.	
(d) assessment class (see s. 297(1))	Yes	Yes							
(e) assessment sub-class (see s. 297(2))	N/A (vacant only)	Yes							
(f) "type" of property	Yes	Yes							
(g) "type" of improvement (see s. 284(1)(j))	Yes	Yes							
(h) school support (responsibility of municipality)	Yes	Yes							
(i) whether property is assessable (see s. 298)	Yes	Yes	Yes (s. 374.1)						
(j) whether property is taxable or business is exempt from taxation under Part 10	Yes	Yes	Yes			Yes		Yes	

Table 4 – Local Assessment Review Board Timelines

Local Assessment Review Board (LARB) Timelines	Residential property, 3 or less dwelling units, or farm land Assessments	Business tax Assessment	Non-assessment Matters on Assessment Notice	Matters on Tax Notice	Administrative or Procedural Matters
	LARB	LARB	One-member LARB	One-member LARB	One-member LARB
Step and Timeline					
Assessment or tax notice sent					
(a) Number of days for filing a complaint	60 days	30 days	60 days	30 days	n/a
Complaint filed					
(b) Number of days to provide copy of complaint to respondent	30 days or less	30 days or less	30 days or less	30 days or less	n/a
(c) Soonest hearing date after complaint is filed	35 days	35 days	n/a	n/a	n/a
(d) Number of days before hearing to notify parties of time and place of hearing	35 days	35 days	15 days	15 days	15 days
(e) Number of days before hearing for complainant disclosure	21 days	21 days	7 days	7 days	7 days
(f) Number of days before hearing for respondent disclosure	7 days	7 days	7 days	7 days	7 days
(g) Number of days before hearing for complainant rebuttal	3 days	3 days	n/a	n/a	n/a
Merit hearing					
(h) Issue written decision	30 days	30 days	30 days	30 days	30 days
(i) Send decision	7 days	7 days	7 days	7 days	7 days

Table 5 – Composite Assessment Review Board Timelines

Composite Assessment Review Board (CARB) Timelines	Residential property and 4 or more dwelling unit Assessment	Non-Residential property Assessment	Non-assessment Matters on Assessment Notice	Administrative or Procedural Matters
Step and Timeline	CARB	CARB	One-member CARB	One-member CARB
Assessment or tax notice sent				
<i>(a)</i> Number of days for filing a complaint	60 days	60 days	60 days	n/a
Complaint filed				
<i>(b)</i> Number of days to provide copy of complaint to respondent	30 days or less	30 days or less	30 days or less	n/a
<i>(c)</i> Soonest hearing date after complaint is filed	70 days	70 days	n/a	n/a
<i>(d)</i> Number of days before hearing to notify parties of time and place of hearing	70 days	70 days	15 days	15 days
<i>(e)</i> Number of days before hearing for complainant disclosure	42 days	42 days	7 days	7 days
<i>(f)</i> Number of days before hearing for respondent disclosure	14 days	14 days	7 days	7 days
<i>(g)</i> Number of days before hearing for complainant rebuttal	7 days	7 days	n/a	n/a
Merit hearing				
<i>(h)</i> Issue written decision	30 days	30 days	30 days	30 days
<i>(i)</i> Send decision	7 days	7 days	7 days	7 days

Appendix 3 Acts and Regulations

A User's Guide to Legislation

Statutes of Alberta: annual volumes

Each year the public acts and private acts enacted by the Legislature that year (bills that receive Royal Assent) are published by the Queen's Printer in a hard-cover volume. The volume also contains reference materials. The annual volumes of the *Statutes of Alberta* are the authoritative source for interpreting and applying Alberta's acts.

Public acts include entirely new public acts, public amendment acts, repeal acts and appropriation acts. Private acts are brought forward (or "petitioned") by Members of the Legislative Assembly, and do not affect the population as a whole.

The annual volume contains:

- a table of contents that lists the acts by chapter number
- an alphabetical list of acts
- public acts enacted in that year
- private acts enacted in that year
- reference materials.

The first page of each act contains the following information:

- the bill number under which the act was introduced in the Legislative Assembly (in the upper left hand corner)
- the title of the act
- the chapter number assigned to the act
- the date on which the act was given Royal Assent.

Statutes of Alberta: loose-leaf

The Queen's Printer also publishes a 15-volume loose-leaf consolidation of the public acts, excluding appropriation acts. These volumes are updated as soon as possible after new acts are enacted or amendments come into effect. Volumes 1 to 15 consolidate the public acts enacted by the Alberta Legislature. Volume 15 also contains those amendment acts from the Revised Statutes of Alberta 2000 that are still awaiting proclamation, RSA 2000 Schedules A to D, proclamation tables, and the Table of Public Statutes (printed on pink paper).

The loose-leaf version is an unofficial consolidation. The original acts, in the hard cover volumes of the Revised Statutes of Alberta 2000 and the annual *Statutes of Alberta*, should be consulted for all purposes of interpreting and applying the law.

The Alberta Gazette Part II

Regulations filed under the *Regulations Act*, except those exempted from publication under that act, are published in Part II of The Alberta Gazette within a month of being filed. The Gazette is available from the Queen's Printer.

Other Formats

Alberta Statutes and Regulations are also available in pamphlet form, and on the Queen's Printer Web site.

How to cite statutes (Acts)

Statutes (Acts) are referred to by their titles. For court and other legal purposes, a complete citation would consist of the title of the act followed by a reference to the more recent of:

- the most recent statute revision in which that act was included
- the year in which the act was enacted (received Royal Assent)

plus the chapter number of the act.

Entirely new public acts are given alpha-numeric chapter numbers; other acts are numbered Chapter 1, 2, 3 etc.

The statute revision is cited in this form: Revised Statutes of Alberta 2000. This may be abbreviated as RSA 2000.

Years of enactment are cited in this form: Statutes of Alberta, 2002. This may be abbreviated as SA 2002.

Here are some examples of citations of acts:

- Cooperatives Act* (SA 2001 cC-28.1);
- Hospitals Act* (RSA 2000 cH-12);
- Public Works Amendment Act, 2002* (SA 2002 c21).

How to cite regulations

A regulation may be cited by its title, or as "Alberta Regulation" or "Alta. Reg." or "AR" followed by its number, a slash and the last two figures of the calendar year of the filing of the regulation. For example, the Partnership Regulation may be cited as:

- Partnership Regulation, or
- Partnership Regulation, Alberta Regulation 276/99, or
- Partnership Regulation (Alta. Reg. 276/99), or
- Partnership Regulation (AR 276/99)

Beginning with regulations filed in the year 2000, all four figures of the calendar year are used in Alberta Regulation numbers; for example, Change of Name Regulation (AR 16/2000).

Interpretation Act

Users of the Statutes of Alberta should be aware of the *Interpretation Act* (RSA 2000 cI-8). It sets out various presumptions, definitions, and rules of statutory interpretation

and construction that apply to all Alberta acts and regulations. For example, the *Interpretation Act* contains definitions that apply to words and phrases used in all acts, except where an act indicates otherwise.

Reference Materials

Reference aids are placed at the end of the annual volume and in the supplement volume of the loose-leaf statutes. The reference materials included are:

Proclamation Tables - (printed on white paper)

These tables list:

- all enactments brought into force by proclamation
- unproclaimed public enactments
- acts amended by unproclaimed enactments
- acts repealed by unproclaimed enactments
- public enactments that expire on named dates
- public enactments that come into force on named dates.

Table of Public Statutes - (printed on pink paper)

Part 1 of the table shows all acts in the *Revised Statutes of Alberta 2000*, all amendments to those acts, and all other public acts and amendments enacted between December 31, 2000 and the date stated in the first paragraph of the table.

Part 2 of the table shows public acts enacted before December 31, 2000 for which no express repeals have been found, and which were not consolidated in or repealed by the *Revised Statutes of Alberta 2000*.

Table of Private Statutes of the Province of Alberta - (annual volume only: printed on blue paper)

The table shows all the private acts, and amendments to them, enacted up to the date printed under the title of the table.

RSA 2000 Schedules - (loose-leaf statutes)

Schedules A to D to the Revised Statutes of Alberta 2000 are included in the last volume of the loose-leaf statutes.

- Schedule A: Acts Consolidated in RSA 2000
- Schedule B: Acts Omitted from and Repealed by RSA 2000
- Schedule C: Acts Not Consolidated Nor Repealed by RSA 2000
- Schedule D: Table of Concordance

Organization of a Statute (Act)

Preambles

Some acts begin with a preamble. The preamble is part of the act and may be used to interpret the act.

Definitions

Most acts contain a definition section that lists, in alphabetical order, definitions of terms used in the act. The definition section is usually at the beginning of the act. However, definitions that are restricted in their application to a section, part, division or other portion of an act may be at the beginning of that section, part, division or other portion.

Marginal Notes and Section Headers (Sidenotes)

Marginal notes and section headers (sidenotes) are not part of the statute and should not be relied on to interpret the act. They are included only for convenience of reference and may be changed editorially whenever appropriate.

Sections, Subsections, etc.

Every act is composed of numbered sections, cited as section 1, 2, 3, etc.

- many sections are further divided into two or more subsections, cited as subsection (1), (2), (3), etc.
- some sections and subsections contain clauses, cited as clause (a), (b), (c), etc., subclauses, cited as subclause (i), (ii), (iii), etc., paragraphs, cited as paragraph (A), (B), (C), etc., and subparagraphs, cited as subparagraph (I), (II), (III), etc.

Decimal Numbering

The numbering system can be easily understood by regarding each section number as if it were followed by a decimal point and some zeros that are not shown; that is, section 4 can be thought of as 4.0 or 4.00 etc.

In applying the system, only one decimal place is usually needed, so that between sections 4 (4.0) and 5 (5.0) sections 4.1 to 4.9 can be added (4.10 is not used since it is the same as 4.1), for a total of nine sections.

By later amendments, up to nine more sections can be added between any two sections by using two decimal places, for example:

- between section 4 and 4.1, sections 4.01 to 4.09 can be added,
- between sections 4.1 and 4.2, sections 4.11 to 4.19 can be added, and
- between sections 4.9 and 5, sections 4.91 to 4.99 can be added

and in the same manner a further nine sections can be added between any of those sections by using three decimal places.

If it is necessary to add more than nine sections in the same place at the same time, then some of the sections are numbered using an additional decimal place.

The same rules apply to adding new subsections, clauses, subclauses and paragraphs, so that

- subsections are numbered (1.1) to (1.9),
- clauses are numbered (a.1) to (a.9),
- subclauses are numbered (i.1) to (i.9),
- paragraphs are numbered (A.1) to (A.9), and
- subparagraphs are numbered (I.1) to (I.9).

Parts, Divisions

Some acts are divided into numbered parts, cited as Part 1, Part 2, etc. A part may be divided into divisions cited as Division 1, Division 2, etc.

Transitional Provisions

If an act or provision cannot come into force on an intended day without hardship or confusion occurring, the act may contain a transitional provision. Transitional provisions are used to provide for the transition from an earlier act to the act that replaces it, or to phase in how a new or an amending act applies to persons affected by it. A transitional provision may be included in an act if, for example, certain provisions of the previous act will apply for a significant period of time or if the provisions may affect many persons. Transitional provisions are usually located near the end of the act.

Consequential Amendments

Consequential amendments in an act amend other acts that are affected by that act. Consequential amendments are included in the acts as published in the annual volume.

In the loose-leaf statutes and office consolidations, all amendments are incorporated into the amended acts. If an act made consequential amendments to other acts, an editorial note to that effect is included in the consolidated amending act.

Repeal Provisions

Provisions repealing other acts are placed near the end of the act, immediately before the coming into force section.

Coming Into Force Provisions

The section dealing with the coming into force of an act or of provisions of an act is usually the last section of the act. If there is no coming into force provision in an act, the *Interpretation Act* (RSA 2000 c1-8) provides that the act comes into force on the date of Royal Assent. The Royal Assent date is on the first page of each act in the annual statute volume, following the chapter number.

If an act, or a portion of an act, comes into force in a manner other than by Royal Assent, the last section of the act will set out the method. The act, or portion of the

act, may come into force on proclamation or on a named future date, or may be deemed to have come into force on a named previous date.

Citations (Historical References)

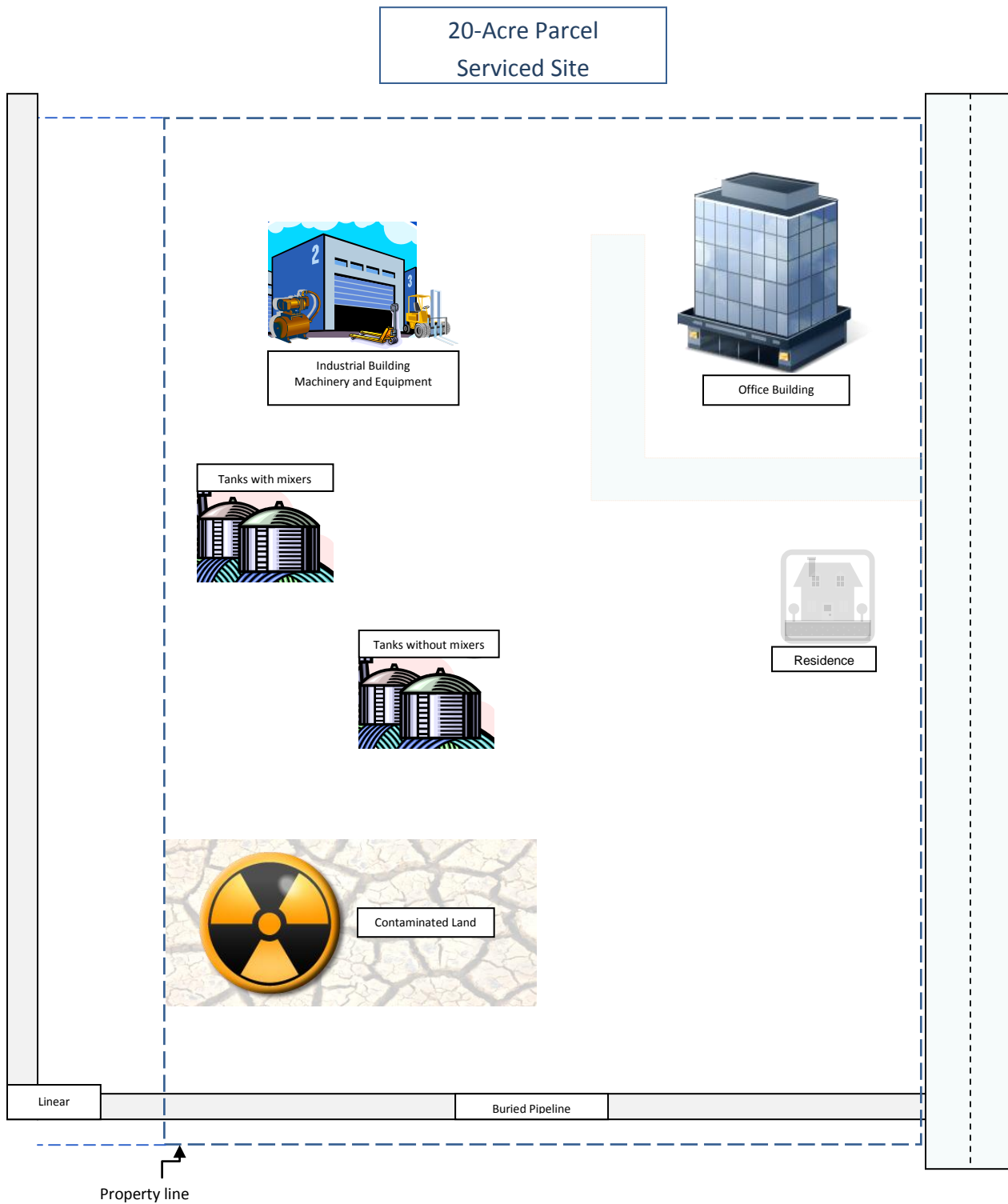
Each section of a consolidated act is followed by the citation for that section and the citations of any amendments to that section. Citations do not form part of the act. They are added editorially.

Relevant Legislative Sections

1. Municipal Government Act as amended by the Municipal Government Amendment Act, 2009
2. Matters Relating to Assessment Complaints Regulation, 2009 (AR 310/2009)
3. Matters Relating to Assessment and Taxation Regulation, 2009 (AR 220/2004)
4. Minister's Guidelines

Appendix 4 Examples

Example 1 – Assessing Mixed Use Property



How Different Uses in Example #1 are Assessed

When preparing an assessment, the assessor must apply the appropriate valuation standard to each use or type of property, or part of a property, and assign one or more assessment classes to the property. If more than one assessment class is assigned to a property, the assessor must provide a breakdown of the assessment showing the assessment class and the portion of the total assessment assigned to that assessment class (ref: sec. 297 MGA). In example #1, the assessor must determine which valuation standard to apply to each different use or type of property, prepare an assessment in accordance with the legislation and regulations, and assign the appropriate assessment class to each use or type of property.

Property Assessed on the Basis of Market Value

The residence is assessed at the market value standard (ref: sec. 5(1) MRAT), and is assigned an assessment class 1 – residential (ref: sec. 297(4)(c) MRAT).

The office building is assessed at the market value standard (ref: sec. 5(1) MRAT), and is assigned an assessment class 2 – non-residential (ref: sec. 297(4)(b) MRAT).

The building housing the machinery and Equipment is assessed at the market value standard (ref: sec. 5(1) MRAT), and is assigned an assessment class 2 – non-residential (ref: sec. 297(4)(b) MRAT).

The tanks without mixers do not form an integral part of an operational unit; therefore, they cannot be considered to be machinery and equipment (ref: sec. 1(j) MRAT). These tanks are assessed at the market value standard (ref: sec. 5(1) MRAT), and are assigned an assessment class 2 – non-residential (ref: sec. 297(4)(b) MRAT).

The land, including the contaminated land, is assessed at the market value standard (ref: sec. 4(1) MRAT). However, in determining the market value of the land, the assessor must:

- (a) Consider the different uses of the property and the contribution each use has to the overall value of the property,
- (b) Consider the effect of the major road adjacent to the property on the overall value of the property.
- (c) Determine the effect of the contaminated land on the overall value of the property, and
- (d) Assign an assessment class and a portion of the land's assessment to both the residential use and to the non-residential use.

The presence of the septic tank and water well are reflected in the market value of land (i.e. serviced land).

Regulated Property

The machinery and equipment inside the industrial building is assessed at the valuation standard for machinery and equipment (ref: sec. 9(1) MRAT), and is assigned an assessment class 2 – non-residential (ref: sec. 297(4)(a.1) MRAT).

The tanks with mixers form an integral part of the operational unit located in the industrial building; therefore, they are considered to be machinery and equipment. These tanks are assessed at the valuation standard for machinery and equipment (ref: sec. 9(1) MRAT), and are assigned an assessment class 2 – non-residential (ref: sec. 297(4)(a.1) MRAT).

The portion of the pipeline within the parcel is assessed at the valuation standard for linear property (ref: sec. 8(1) MRAT). The assessor designated by the Minister is responsible for preparing the assessment for the linear property and sending an assessment notice to the owner of the linear property owner. The pipeline is assigned an assessment class 2 – non-residential (ref: sec. 297(4)(b) MRAT).

Example 2 – Assessing Farm Property

For this example, it is assumed that the farm unit consists of 320 acres of land (2 quarter sections of land) as one parcel, with two farm residences and various farm outbuildings.

Rural

Total of 320 acres; all categorized as dry arable.

Note: 3 acres has to be attributed to the residential site ($320 - 3 = 317$)

Schedule A: Rate identified in the Minister's Guidelines: \$350

Schedule B: Assessment Year Modifier: 1

Schedule C: Final Rating Factor: 70%

Schedule D: Farm Service Centre Rating (5-10 mi.): 2% deduction

Assessment calculation: $A \times B \times C \times D$

$$317 \text{ acres} \times \$350 \times 1 \times 70\% \times 98\% = \$76,112$$

The estimated market value of the 3-acre residential site	\$ 24,000
The estimated market value of the primary or first residence	\$140,000
The estimated market value of the second residence	\$ 60,000

The total eligible value that can be applied to the exemption that the farmer can receive for his home and the second residence is based on the total assessed value of the farm land, or \$76,112.

- The first residence will receive the maximum amount of exemption (\$61,540), leaving a taxable assessment on the first residence of \$78,460.
 $\$140,000 - \$61,540 = \$78,460$
- The remaining exemption amount from the farm land value after deducting for the primary residence is \$14,572.
 $\$76,112 - \$61,540 = \$14,572$
- Even though the maximum eligible exemption amount for a second residence is \$30,700, the second residence in this case will receive an exemption of \$14,572 – the residual after the first residence.
- The taxable assessment on the second residence is \$45,428.
 $\$60,000 - \$14,572 = \$45,428$

The following is the taxable assessment for the farm unit:

Total farm land value		\$ 76,112
3 Acre Site		\$ 24,000
Primary residence assessment	+ \$ 140,000	
Exemption for first residence	- \$ 61,540	\$ 78,460
Second residence assessment	+ \$ 60,000	
Remaining residence exemption	- \$ 14,572	<u>\$ 45,428</u>
The final taxable assessment is		\$ 224,000

Farm buildings in rural municipalities are not assessable

The example shows the assessment for a farm unit in a rural municipality. The assessment for a similar farm unit located in an urban municipality would be different.

Urban

Farm residences that are in an urban municipality are assessed fully at market value and fully taxed. There is no farm residence exemption in an urban municipality. Also, farm buildings in an urban municipality are assessed, but exempted from property tax to 50% of the assessment.

Using the previous example, assume the same assessed values with the following exceptions:

Farm land - Schedule D, Farm Service Centre Rating (0-5 mi.): 0% deduction

Assessment calculation: A x B x C x D

$$317 \text{ acres} \times \$350 \times 1 \times 70\% \times 100\% = \$ 77,665$$

Farm buildings assessed value is \$ 30,000

The assessment for the “same” farm unit in an urban municipality would be calculated as follows:

Total farm land value		\$ 77,665
3 Acre Site		\$ 24,000
Primary residence assessment		\$ 140,000
Second residence assessment		\$ 60,000
Farm buildings	+ \$ 30,000	
Less 50%	- \$ 15,000	<u>\$ 15,000</u>
The final taxable assessment		\$ 316,665

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