

Guide to Equalized Assessment in Alberta

A layperson's guide

This guide provides stakeholders with general information about equalized assessments and how they are used to support provincial and regional programs.

Government of Alberta ■

Municipal Affairs

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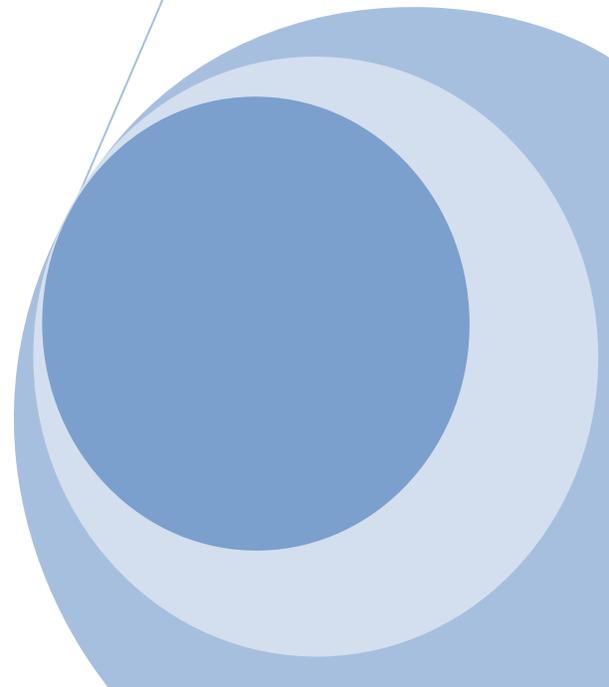
Preface

This *Guide to Equalized Assessment in Alberta* has been developed by Alberta Municipal Affairs to provide stakeholders with a general explanation of equalized assessments and how they relate to the allocation of property taxes that support provincial or regional programs. It is intended to be helpful to anyone who has an interest in how the equalized assessment process works. Municipal councillors, administrators, and assessors may find it particularly relevant to their work.

It is recommended that readers refer to the *Guide to Property Assessment and Taxation in Alberta*, another publication of Municipal Affairs, for more information about how property is assessed in Alberta.

Municipal Affairs welcomes any feedback about this guide. Comments can be directed to the Assessment Services Branch at 780-422-7125 or lgsmail@gov.ab.ca.

Both this publication and the *Guide to Property Assessment and Taxation in Alberta* are available online at www.municipalaffairs.alberta.ca. (Click on “Municipalities & Communities,” and choose “Property Assessment and Taxation.”)



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1. Equalized assessment – levelling the playing field

Property assessment is used as the basis on which to requisition property taxes from all or a number of municipalities for the financial support of several regional and provincial programs. Equalized assessment is a process that levels the playing field for municipalities so that property tax requisitions and grants can be fairly allocated. This concept will be explained within this guide.

Just as property owners pay taxes in proportion to the value of the property they own, municipalities are required to contribute to the provincial education and other requisitions¹ based on the proportion of assessment within their jurisdictions.

Equalized assessments are used to determine the specific contributions to be made by each municipality, and they are also used in formulas for provincial grants to municipalities.

2. Why equalize?

Intermunicipal fairness and equity is important when requisitioning property taxes from municipalities or calculating grants. In this regard, it is usually necessary to make some adjustments in the assessment base figures that each municipality reports to the province before those assessments are used to determine each municipality's contribution to a regional or provincial program, or its equitable share of grant dollars. These adjustments are made through the equalized assessment process.

Alberta's *Municipal Government Act* requires that most properties be assessed at market value. Ideally, all properties would be assessed at 100 per cent of market value. In practice, however, assessments may vary from market value to a limited degree. Municipal assessors estimate the market values of both sold and unsold properties by applying a technique called "mass appraisal." Using common data and standard methodology, this technique enables an assessor to value a large group of properties in a short period of time. Mass appraisal is a practice that is used widely in the assessment of property, but it does not necessarily result in a value at 100 per cent of market value. This variation is recognized by legislation, which specifies an acceptable range (95 to 105 per cent) within which a group of properties can be assessed below or above market value.

Because this range may occur, equalization is used to adjust each municipality's assessments to 100 per cent of market value. The equalization process removes the variations in assessment levels to make the assessment bases more comparable among municipalities. The process produces a set of adjusted, or "equalized," assessments that can then be used to distribute requisitions, or allocate grants, among municipalities in a fair and equitable manner.

¹ The *Municipal Government Act* defines "requisition" as any part of the amount required to be paid into the Alberta School Foundation Fund that is raised by imposing a tax rate, and any amount to be paid to a management body referred to in the *Alberta Housing Act*.

3. Calculating an equalized assessment

Each year, local assessors collect information on properties that have sold, including sale prices, and submit it to the province. The Assessment Services Branch of Municipal Affairs audits the information and analyzes the differences between the assessment values of sold properties and their actual sale prices. This analysis results in an overall assessment level for each assessment class (residential or non-residential) in the municipality. In accordance with legislation, assessment levels must fall within a range of 95 to 105 per cent of market value.

An equalized assessment is then calculated by dividing the taxable assessment by the assessment level as follows:

$$\text{Equalized assessment} = \text{total taxable assessment} \div \text{the assessment level}$$

Through this formula, the total taxable assessment in a municipality is adjusted to market value. The following example illustrates how the equalized assessment is calculated for two municipalities with different assessment levels:

Village A has a total taxable residential assessment of \$10,000,000, and the assessment level is 0.950, or 95 per cent of market value. The residential equalized assessment for Village A is calculated as shown in Table 1:

Taxable Assessment (A)	Assessment level (B)	Equalized Assessment (A÷B)
\$10,000,000	0.950	\$10,526,316

Village B has the same total residential assessment as Village A, and an assessment level of 1.050. The calculation of its residential equalized assessment is shown in Table 2.

Taxable Assessment (A)	Assessment level (B)	Equalized Assessment (A÷B)
\$10,000,000	1.050	\$9,523,810

As these calculations show, although the two municipalities reported the same taxable assessment totals for their residential property, their equalized assessments for this property class vary significantly.

4. Equalized assessments make a difference

Suppose villages A and B in the above example share the cost of a regional program based on their residential property assessments. Table 3 shows how the sharing of the costs varies when different assessment bases are used.

Table 3 How Equalized Assessments Make a Difference

	Village A	Village B
Taxable assessment	\$10,000,000	\$10,000,000
Assessment level	0.950	1.050
Equalized assessment	\$10,526,316	\$9,523,810
Share of the cost based on taxable assessment	50.0%	50.0%
Share of the cost based on equalized assessment	52.5%	47.5%

Without equalized assessments, each village would share 50 per cent of the costs, as their total assessments are the same. This would occur even though statistically the properties in Village A are assessed below market value by five per cent and those in Village B are assessed above market value by five per cent.

When equalized assessments are used, each village will contribute a more equitable share of the costs with Village A contributing more (52.5%) than Village B (47.5%).

5. Equalized assessment timelines

An equalized assessment is prepared for each municipality and reflects the assessments of property from the year preceding the year in which the equalized assessment is effective. The following describes the timeline for preparing the 2010 equalized assessment.

1. In 2008, the assessor prepared assessments for taxation in 2009.
2. In 2009, the assessor established an assessment roll based on the assessments prepared in 2008 and the municipality levied property taxes on those assessments. The assessor remitted the assessment information to Municipal Affairs for audit and equalization purposes.
3. In 2009, the Assessment Services Branch audited each municipality’s 2009 assessment information and prepared an equalized assessment that has been used in the formulas for requisitions and grants in 2010.



Based on this timeline, it can be said that equalized assessments have a one-year time lag when compared to municipalities’ assessments.

6. Programs that use equalized assessments

The following is a brief description of the major programs in Alberta that use equalized assessments as a base to allocate all or part of the program costs:

- Alberta's education system. As indicated previously, the province annually requisitions education property taxes from all of Alberta's municipalities. The equalized assessment is used in the calculation of the education property tax requisitions that contribute to the cost of educating students in kindergarten to Grade 12.
- Seniors lodge program. The seniors lodge program is administered by management bodies under the *Alberta Housing Act*. Management bodies have legislated authority to requisition taxes to assist with the costs of the accommodation services they provide to eligible seniors. Equalized assessments are commonly used to proportionally allocate lodge requisitions.
- Capital Region projects. Under the Capital Region Board's cost allocation formula, each municipality will contribute a small core fee. The remainder of the costs will be allocated in proportion to each municipality's population and total equalized assessment.
- Intermunicipal service agreements. Some municipalities voluntarily enter into agreements to share services such as fire protection, recreation, and assessment complaint review. They may agree to use equalized assessments to allocate part or all of the costs incurred by these programs.
- Provincial grants. Some provincial grants use equalized assessments in their grant allocation formulas. An example of this is the Rural Transportation Grant which is allocated using a formula that takes into account kilometres of open road, population, equalized assessment, and terrain.

Appendix: Questions and Answers

1. Who is responsible for preparing the equalized assessments in Alberta?

The Minister of Municipal Affairs is required to prepare an equalized assessment for each municipality that reflects taxable property assessment from the year preceding the year in which the equalized assessment is effective. The provincial equalized assessment report is published each year by the legislated date of November 1.

2. How can a municipality be assured that its equalized assessments are accurate?

Equalized assessments are based on taxable assessments as well as sales information reported by a municipality's designated assessor. The Assessment Services Branch conducts regular audits of the reported assessment data and sales information to ensure compliance with legislated standards.

Municipal administrators have access to the equalized assessment reports, ratio study reports, and audit reports through the Assessment Shared Services Environment (ASSET) system. Municipalities are encouraged to review these reports and discuss any questions they may have with the designated assessor or with the Assessment Services Branch of Municipal Affairs.

3. What if a municipality does not agree with the amount of its equalized assessments?

A municipality may contact Municipal Affairs to resolve its concerns. If a resolution is not reached, the municipality can file a complaint to the Municipal Government Board no later than 30 days from the date the equalized assessment report is sent to the municipality.

4. What factors can affect a municipality's equalized assessments?

The common factors that increase or decrease a municipality's equalized assessments include the following:

- Real growth, which is the assessment change that results from the construction, renovation, or demolition of properties; subdivision development; or other physical changes to properties in a municipality. New development will add assessment to a municipality's total assessment base.
- Inflationary growth, which is the assessment change resulting from a change in market conditions. When demand for properties is high values may increase, and during a slowdown in demand values may decline.

5. Are all local assessments included in the calculation of the equalized assessments?

Properties that are exempt from taxation are excluded from the equalization calculation. Properties that are subject only to municipal taxation are also excluded from the equalized assessment. Examples of these properties include some senior citizens' self-contained accommodation facilities and student dormitories.