

**Report to the
Saskatchewan Association of Rural Municipalities
2012 Annual General Convention**

The following report from the Saskatchewan Assessment Management Agency (SAMA) is pursuant to section 7(2) of *The Assessment Management Agency Act* (AMA Act).

Under this Act, nominees to the SAMA Board who are appointed by the Saskatchewan Association of Rural Municipalities (SARM) and Saskatchewan Urban Municipalities Association (SUMA) must prepare and submit, at each association's annual meeting, a written report on SAMA's activities for the preceding year.

SAMA and the Rural Sector

John Wagner, Reeve for the Rural Municipality of Piapot No. 110, and Morgan Powell, Reeve for the Rural Municipality of Miry Creek No. 229, are SARM's elected representatives on the SAMA Board of Directors. Mr. Wagner was first elected by SARM to the SAMA Board in April 2004, and was most recently re-elected to another three year term in November 2011. Mr. Powell was elected as a SARM representative to the SAMA Board in December 2010, and re-elected for another three year term in November 2011.

John Wagner is the Vice-Chair of the SAMA Board of Directors, and chairs SAMA's Rural Advisory Committee, which represents rural interests respecting property assessment policy and practice.

Rural Municipalities

SAMA provides annual maintenance and reinspection programs to all its client municipalities. In co-operation with the local municipality, the agency periodically reviews properties to make sure the information used to assess property is accurate and up-to-date.

SAMA Jurisdictions/Independent Jurisdictions

SAMA provides assessment valuation services to 756 urban, northern and rural municipalities. It is responsible for the assessed values of approximately 1,036,300 accounts in the province. SAMA's central office is located in Regina. The Agency provides assessment services to municipalities from seven regional offices – Melfort, North Battleford, Regina, Saskatoon, Swift Current, Weyburn and Yorkton. In 2006, SAMA began providing assessment services under contract to the City of Moose Jaw and we maintain a local office in that jurisdiction as well.

Since 1995, a provision in *The Assessment Management Agency Act* has been available that allows municipalities to use alternative assessment services. Municipalities wishing to undertake their own valuation services need the prior written consent from all affected Boards of Education and the written consent of SAMA. The Minister of Education's consent will also be needed for a municipality to opt out, or opt back into, SAMA's valuation services. Any municipality that carries out its own valuations and revaluations is not required to make payment to the Agency.

As of January 1, 2012, SAMA provided assessment services to all municipalities in the province, except for 18 urban municipalities that used alternate valuation services. In 2011, there were no changes to the number of municipalities for which SAMA provides assessment services. Jurisdictions that employ their own appraisal personnel must still follow SAMA's assessment policies set out in the *Saskatchewan Assessment Manual* and by Board Order.

2011 Budget and Funding Formula

For 2011, SAMA made a budget request to government that would have seen a \$287,000 or 1.8% increase over the Agency's 2010 budget of \$15.78 million. In March of 2011, SAMA received word from government that the Agency would not receive any additional funding revenue for 2011. SAMA's 2011 operating budget, excluding the City of Moose Jaw contract, remained at the 2010 level of \$15.78 million.

SAMA operates under a 65:35 funding formula, with government (Ministry of Municipal Affairs) paying up to 65% of SAMA's budget, and the municipal sector paying 35% of SAMA's budget through municipal requisitions. This funding formula includes a cap on total municipal requisitions, which remains in effect until government reaches their 65% portion of total SAMA funding.

Total municipal requisitions have remained unchanged at \$5,788,000 since 2004. Recent legislative changes also allow SAMA to enter into special agreements with municipalities who may want additional services over and above that provided within basic requisition formula services.

2011 Maintenance

The annual maintenance program reviews and updates properties with changes that may affect the property's assessed value. The municipality submits a list of the properties affected, and the agency reviews each property and provides the municipality with an updated assessed value for their assessment roll.

The agency assessed 42,071 residential, commercial and agricultural properties, and 74,672 industrial properties, under the annual maintenance program for use on 2012 municipal assessment rolls. A total of 116,743 properties were reviewed under the annual maintenance program in 2011. A significant amount of non-industrial maintenance, and virtually all of the industrial maintenance work, occurred in rural municipalities. This maintenance work will result in additional annual and recurring property tax revenues of an estimated \$7.2 million for municipalities, and \$4.9 million for the education sector in 2012.

In early 2012, the increase in taxable assessment to municipalities and government from potash mine inspections alone have added more than \$240 Million in taxable assessment in that industrial category, over and above the 2011 maintenance figures noted in the previous paragraph.

Hotel and Motel Assessment Changes for 2011

SAMA revised the hotel and motel income approach valuation models in 2011 to ensure that they are fairer to property owners, with particular regard for adjustments to non-realty components. Non-realty value includes, but is not limited to, personal property, such as furniture, fixtures and equipment (FF&E) and management costs. SAMA also set aside video lottery terminal (VLT) revenue for assessment purposes.

SAMA's goal is for non-realty components to be appropriately identified and removed to ensure that assessments reflect land and building value only.

Hotel properties that have limited room rental are now valued using the cost approach to value with one exception: in municipalities where the income approach is applied to commercial property in general, SAMA applies comparable market rents for hotels with limited room rental. These adjustments improve the equity between hotels with limited room rental and comparable properties such as taverns and lounges located in the same community.

There also exist differences between the way hotel owners account for and report income and expenses, and the way that income and associated expenses should be applied in the assessment industry to calculate an assessed value on a property, exclusive of any going concern value. A going concern value is a value that contains both realty – assessable – and non-realty – non-assessable – components. SAMA uses a series of adjustments to account for this difference.

To implement these improvements, SAMA revised and updated all hotel and motel assessments as part of the Agency's 2011 annual maintenance program. The revised assessments included results from updated physical data collected as part of a general reinspection of all hotel and motel properties in 2010.

Revaluation 2013

SAMA conducts revaluations based on a four-year cycle. 2009 was the year of the last revaluation, and the 2013 Revaluation will see assessed values updated to reflect a new base date of January 1, 2011. The base date is the date to which all assessed values are related. Based on the strength of the real estate market between the last base date of June 30, 2006 and the new base date of January 1, 2011, assessment shifts are expected to be higher than any revaluation since 1997.

Although local governments and the provincial government already have the authority to mitigate overall/average assessment changes through their annual budget and mill rate processes, all parties will need as much time as possible to examine the assessment shifts and make tax policy decisions prior to 2013.

To mitigate this risk SAMA plans to ensure that assessment trends and associated impacts are communicated to government and our municipal clients as soon as possible in the market analysis process. SAMA will be submitting preliminary assessment values to the province on or before April 1, 2012. The preliminary 2013 property values will be distributed to municipalities in June 2012 after all the 2012 maintenance work has been completed and incorporated into the 2013 preliminary assessments.

Preliminary Assessed Values for 2013

The result of the active and strong real estate market in Saskatchewan since the 2009 Revaluation will bring with it significant increases to property assessments that will be reported with the 2013 Revaluation.

Based on the provincial averages for all SAMA jurisdictions, preliminary numbers indicate that residential properties will, on average, be increasing approximately 95%, and resort residential properties will, on average, be increasing approximately 100% over their assessed values from the 2009 Revaluation. It is important to note that this is the anticipated increase to the provincial average for residential and resort property. Specific local increases in residential property values between 2009 and 2013 may vary substantially from this figure depending on the overall trend in market values between June 30, 2006 (the base date for the 2009 revaluation) and January 1, 2011 (the base date for the 2013 revaluation).

Agricultural land will see an increase of approximately 50% to assessed values, which reflects the 2006 to 2011 change in the provincial average selling price of agricultural land.

Industrial property, which includes oil and gas, mines, heavy industrial and institutional property, is set to increase an average of 15%. All other commercial property is set to increase an average of 70%. Certain categories of commercial property may increase substantially more or less than the provincial average depending on the type of property.

All preliminary value trends are estimations, and are subject to change prior to 2013.

Revenue Neutrality

While a revaluation updates property assessments, it is designed to be revenue neutral on an overall municipal budget basis.

Provided that a municipality's budget requirements remain the same in a revaluation year as in the previous year, changes in taxable assessments will only result in changes to tax levels if a property's assessment increases or decreases substantially, relative to the average for that jurisdiction.

Based on the current provincial government practice of establishing common provincial education mill rates, potential education tax shifts will be based on how a specific assessment change relates to the overall provincial average increase in assessments for that same category of properties.

Looking Forward to 2013 – What's Next?

SAMA's goal to communicate value changes well ahead of the 2013 Revaluation allows municipalities and government time to review and provide feedback on the preliminary values and generate policies and budgets with as much information as possible.

SAMA expects government to announce the 2013 percentages of value for each property tax class in early fall 2012, communicating them with SAMA and other independent assessment service providers so that we can prepare final assessed values for 2013.

The Agency will complete the final assessments and prepare to send out updated values by the end of 2012. We will work closely with our client municipalities to meet their needs regarding these new values. SAMA will be completing maintenance in the last part of 2012 to be ready to implement the revaluation in 2013.

The Agency will be making full use of SAMAView, our website application that allows the general public access to individual property assessments for all SAMA client jurisdictions, to communicate assessed values for the 2013 Revaluation. However, SAMA will not post any final 2013 revaluation property assessments on SAMAView prior to 2013 when they will have been seen by government and the majority of municipalities.

2010-2013 Strategic Directions

In 2008, the SAMA Board established, in consultation with the Agency's funding stakeholders, five strategic directions to position and guide the Agency from 2010 through to 2013:

1. Maintain stable, long-term funding;
2. Improve quality of assessment valuations;
3. Deliver services within agreed timelines;
4. Improve work processes and technological systems; and
5. Strengthen the capabilities of all employees.

These strategic directions focus on four generic perspectives – financial expectations, client and stakeholder expectations, internal business process expectations and learning and growth expectations.

As part of translating our strategic directions into annual objectives, SAMA prepares an annual business and financial plan. This plan is prepared in consultation with our funding stakeholders, the Saskatchewan Association of Rural Municipalities (SARM), The Saskatchewan Urban Municipalities Association (SUMA) and Municipal Affairs. The annual budget is submitted to government by July 15th of the year prior to the year the budget comes into effect.

A Performance Report that tracks four main categories of performance measures (Delivery of Property Assessment Services, Quality of Property Assessment Services, Cost of Property Assessment Services and Workforce Commitment) is prepared each year, evaluating SAMA's success at achieving the goals laid out in the business and financial plan.

SAMA appreciates the input its stakeholders have provided to its planning process for 2010 to 2013. The Agency will continue consulting closely with stakeholders and listening carefully to what is needed to improve the Saskatchewan assessment system and the service the Agency provides for municipalities and the Province.

Lean Philosophy

In 2008, SAMA embarked on a strategy called the Lean philosophy. Lean is a process improvement philosophy that focuses on reducing waste, variation and imbalance. It is a common sense approach to working with complex processes ensuring that clients' and stakeholders' needs are successfully met.

The Goals of Lean at SAMA:

- A 25% increase in efficiency and productivity between 2009 and 2013;
- Highly engaged staff, that take ownership of the business processes; and
- An Agency in a much better position to meet the increasing demands from clients.

One of Lean's strengths is its focus: the people most familiar with the actual work determine the necessary process improvements and plan the necessary changes. Significant progress has been achieved to date. Lean process improvement initiatives will continue to be a major focus for SAMA in 2012 and beyond.

Governance

SAMA's Board of Directors occupies a central position in the governance of the Agency. The Board's general role is to foster the organization's short and long-term success consistent with its mandated objectives and accountability to stakeholders, such as the Saskatchewan Association of Rural Municipalities. Maintaining a positive relationship with rural municipalities is essential to a stable funding base for Saskatchewan communities, and to our joint success.

With regards to overarching assessment policy, The Board oversees the Technical Standards and Policy Division (TS&P), whose responsibilities include researching and studying assessment valuation policy, and best practices in assessment valuation standards and policy. The TS&P division advises the Board with respect to property assessment legislation, prepares the Assessment Manual and assessment related Board Orders as well as non-regulated valuation publications including the SAMA's Cost Guide and Market Valuation in Saskatchewan Handbook. TS&P also plays a role in liaising with stakeholders which includes facilitating SAMA's four statutory advisory committees (city, urban, rural and commercial) that met twice in 2011.

The Board also oversees SAMA's independent Quality Assurance Division, which is responsible for the Roll confirmation process, undertaking assessment audits (Confirmation and Primary audits) to ensure that municipalities' assessments are prepared and administered in accordance with the requirements set out in applicable legislation. Additionally, the Quality Assurance Division is also responsible for undertaking Secondary Audits (detailed or comprehensive audits concerning matters of property assessment statutory compliance), and undertaking any review assigned by the SAMA Board.

Acknowledgements

The SARM representatives on the SAMA Board would like to thank the representatives who sit on SAMA's Rural Advisory Committee. We appreciate the guidance provided by this committee, which serves to ensure the Agency is better serving the needs of municipalities. The Rural Advisory committee meets twice each year to provide direction on all SAMA Bylaw, policy and legislative proposals.

Respectfully submitted,

John Wagner & Morgan Powell