



Market Value Assessment in Saskatchewan Handbook

Introduction

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Introduction

Market Value Based Assessment Legislation in Saskatchewan

Saskatchewan has different assessment legislation¹ than other jurisdictions in Canada that must be taken into account when valuing properties for assessment and taxation purposes. There are specific definitions in Saskatchewan for “base date”, “market value”, “Market Valuation Standard” and “mass appraisal”. It is important to understand how these definitions relate to one another and the requirement for market value based assessments to be determined in accordance with the Market Valuation Standard.

Base Date is defined as “...the date established by the agency for determining the value of land and improvements for the purpose of establishing assessment rolls for the year in which the valuation is to be effective and for each subsequent year in which the next revaluation is to be effective;”

Market Value is defined as the “...amount that a property should be expected to realize if the estate in fee simple in the property is sold in a competitive and open market by a willing seller to a willing buyer, each acting prudently and knowledgeably, and assuming that the amount is not affected by undue stimuli;”.

Market Valuation Standard means the “standard achieved when the assessed value of property:

- (i) is prepared using mass appraisal;
- (ii) is an estimate of the market value of the estate in fee simple in the property;
- (iii) reflects typical market conditions for similar properties; and
- (iv) meets quality assurance standards established by order of the agency;”

Mass appraisal is defined as “...the process of preparing assessments for a group of properties as of the base date using standard appraisal methods, employing common data and allowing for statistical testing;”.

Assessment legislation in Saskatchewan requires that non-regulated property assessments be determined pursuant to the Market Valuation Standard. Throughout this Handbook the term “market value based assessments” is used to refer to non-regulated property assessments. Unlike single property appraisals, market value based assessments must be prepared using mass appraisal and “...shall not be varied on appeal using single property appraisal techniques”. All Handbook references to market value are subject to the requirements of the Market Valuation Standard.

¹ The following Acts provide the statutory basis for property assessment in Saskatchewan:

- *The Assessment Management Agency Act*
- *The Legislation Act*
- *The Cities Act*
- *The Municipalities Act*
- *The Northern Municipalities Act, 2010*

For more details on how to access this information refer to Appendix 1: Resources - Section 2a (Publications Saskatchewan).

1.0 Purpose

The purpose of the Introduction Chapter is to provide basic, easy to understand information regarding the property assessment and taxation system in Saskatchewan.

Assessors may find the information in this chapter useful when responding to inquiries from property owners, municipal officials and other assessment stakeholders.

This chapter also highlights the real property valuation process with particular attention to:

- The valuation process
- Market Valuation Standard
- Regulated Property Assessment Valuation Standard
- Valuation approaches

Desired Outcomes

The outcomes that are desired as a result of the use of the *Market Value Assessment in Saskatchewan Handbook* include the following:

- Fair and equitable assessments
- A better understanding among assessors and other stakeholders, including the public, of the assessment processes
- Accurate and stable market value based assessments

1.1 Principles of Property Assessment and Taxation

What is Property Assessment and Taxation?

Property assessment is the process of determining the value of a property for taxation purposes. Once an assessment for a property is developed, a percentage of value and a tax rate can be applied to calculate the property tax payable. In its simplest form, this relationship can be expressed as follows:

$$\text{Property Assessment} \times \text{Percentage of Value} \times \text{Tax Rate} = \text{Property Tax Payable}$$

Property taxes can be a primary source of revenue for local governments to finance local programs and services, such as:

1. Municipal
 - Infrastructure
 - Police and fire protection
 - Parks and leisure facilities

- Libraries

2. Education

Property assessment is the method used by local governments and the province to distribute the tax burden among property owners in each municipality. Within this context, the municipality is responsible for ensuring that property owners pay their fair share of taxes.

Relationship between Property Assessment and Tax

Too often the terms “assessment” and “taxation” are considered to be interchangeable; however, assessment and taxation are very different. Although one impacts the other, each is a distinct and independent process. (*Refer to Figure 1 for an Assessment and Taxation System diagram.*)

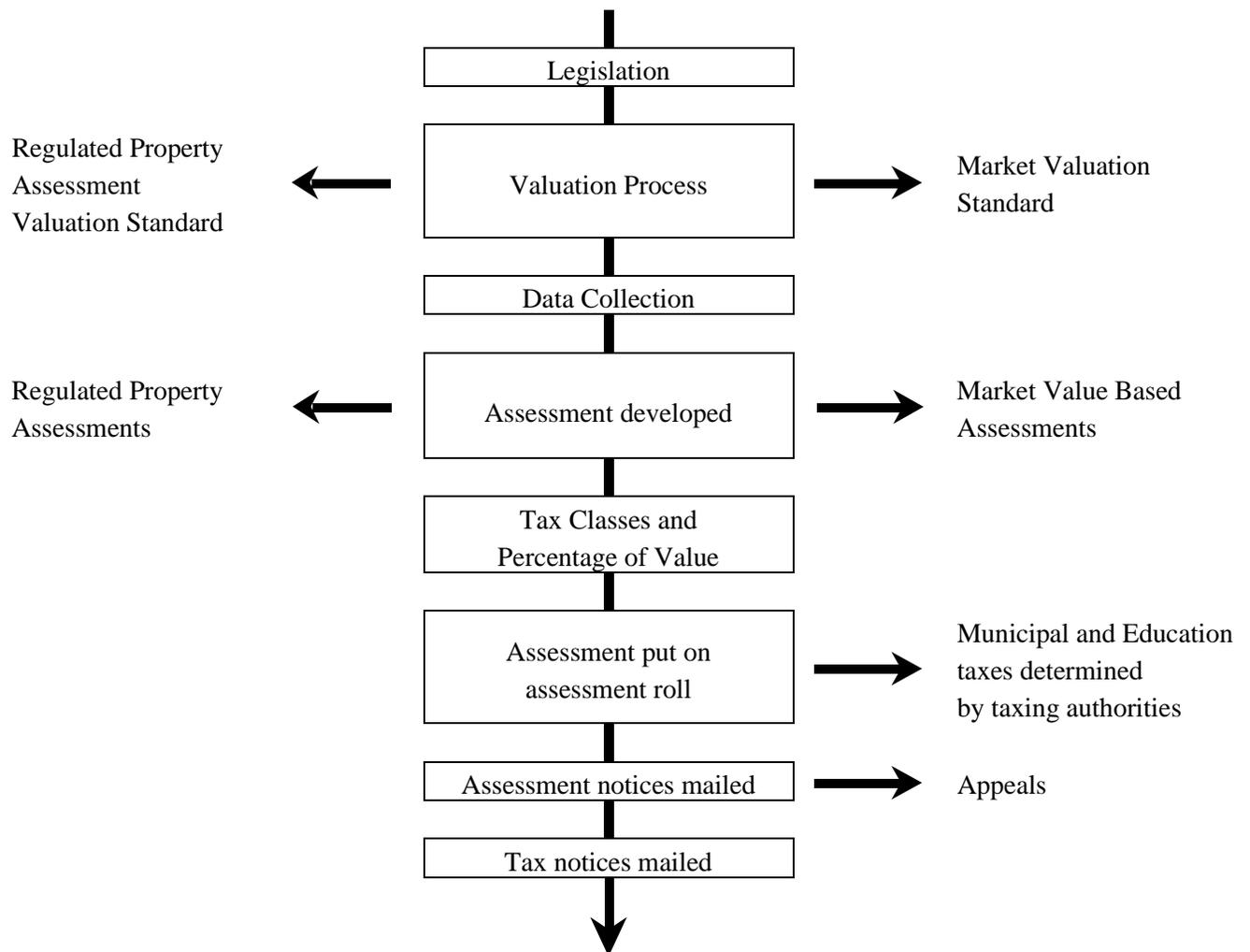
“Assessment” is the process of determining the value of a property for taxation purposes - assessors do this. This assessed value is used to calculate the amount of taxes that will be levied to the owner of the property.

“Taxation” is the process of applying tax policy and a tax rate to a property’s assessment to determine the taxes that are applicable for that property - municipalities/local governments do this.

It is the budget process of municipal governments that determines the total amount of taxes raised. The provincial government sets the mill rates for school taxes.

For example, a council, in its budget deliberations, considers the total amount of revenue required to provide the services specified in the budget. The council will consider revenue sources from fees and fines and other sources and then determine what is needed from property tax revenue to achieve the funds needed for the budget amount. Tax policy option decisions, such as mill rate factors and phase-in are also considered. The mill rates and mill rate factors, when applied to a property assessment, determine the property tax for that property. Since 2009, the provincial government in Saskatchewan sets the property tax mill rates used to levy education taxes for all school divisions.

Figure 1: Assessment and Taxation System



The assessor interprets the legislative and regulatory provisions to determine which valuation method is most appropriate for determining the assessment for each property. The assessor collects a variety of information, which is then analyzed to use in determining a property assessment.

The provincial government sets the percentage of value for the different tax classes and any exemptions from taxes, which are applied to the property assessment. Once these steps are completed, the assessment information for all property is entered on the municipality's assessment roll.

Assessment notices are created from the information on the assessment roll. In the first year of the four-year revaluation cycle, a notice is mailed to every property owner in a municipality. In other years, a notice may only be mailed to those properties that have experienced a change in value from the previous year. However, for every year, if a property owner does not agree with the assessment of his or her property as listed on the assessment notice, the legislation provides for a complaint and assessment appeal process.

The assessment roll is used in conjunction with local government and other taxing authorities' budget requirements to calculate the amount of municipal and education property taxes payable on each property, and is also used by the province in the formula for the distribution of operating and capital grants to school divisions.

Who Prepares Property Assessments in Saskatchewan?

The assessment of properties in Saskatchewan is carried out by two statutorily recognized and defined roles – the assessor and the assessment appraiser.

In provincial legislation (*The Assessment Management Agency Act*), the assessor is defined as, "...the person appointed as assessor by a municipality", while an assessment appraiser is "...a person appointed pursuant to subsection 13(2) to carry out valuations and includes:

- (i) a person appointed by a municipality to carry out valuations; and
- (ii) a person who is an employee of a firm that the municipality has engaged to carry out valuations on its behalf'

Although these roles are separately defined in provincial legislation, they are interrelated and are often referred to by the general public, assessment appeal tribunals and the Courts as "the assessor".

An assessor is a person appointed as assessor by the council of a city, town, village, resort village, rural municipality or northern village. The assessor is the person responsible for compiling and accurately listing the information that forms the assessment roll.

An assessment appraiser is a person appointed by a municipality to carry out valuations. Assessment appraisers perform physical inspections of properties, calculate the assessed value of property, and appear at appeal hearings when properties are appealed by their owners.

In short, the assessor is responsible for ensuring that all properties eligible for assessment are in fact assessed, whereas the assessment appraiser is responsible for the day-to-day functions of determining assessments.

For the purposes of this Handbook, these two roles and functions will be referred to as they are commonly and collectively known – the assessor.

Sources of Information on Assessment in Saskatchewan

(Refer to Appendix 1: Resources for details and additional resources.)

1. Relevant legislation includes the following Acts:

- *The Assessment Management Agency Act*
- *The Municipalities Act*
- *The Cities Act*
- *The Northern Municipalities Act, 2010*

2. The Ministry of Government Relations provides advice to government on property tax tools, percentages of value for revaluations and the governance and structure of, and funding for the Saskatchewan Assessment Management Agency (SAMA). The Ministry develops related legislation, regulations and policies.
3. SAMA publications are available including:
 - Regulated Property Assessments
 - *Saskatchewan Assessment Manual*
 - Non-regulated Property Assessments
 - *Market Value Assessment in Saskatchewan Handbook*
 - *SAMA's Cost Guide*
4. *Marshall & Swift Valuation Service* (published by CoreLogic, Inc.) can be used for estimating replacement costs for most commercial properties. A version is specified for each revaluation.
5. The *Residential Cost Handbook* (published by CoreLogic, Inc.) can be used for estimating replacement costs for both single and multi-family residences. A version is specified for each revaluation.
6. The Saskatchewan Assessment Appraisers' Association (SAAA), International Association of Assessing Officers (IAAO) and the Appraisal Institute of Canada (AIC) are professional associations that can provide technical knowledge.

1.2 Valuation Process

Property Assessment Valuation Standards

Pursuant to legislation, there are two valuation standards in Saskatchewan that are used to value property for assessment and property tax purposes:

- 1) Market Valuation Standard
- 2) Regulated Property Assessment Valuation Standard

This section is intended to provide a general understanding of both standards; how real property is assessed using the applicable standard and how the assessed values are determined. The *Market Value Assessment in Saskatchewan Handbook* must still be used in conjunction with relevant Saskatchewan legislation and accompanying regulations and SAMA Board Orders.

1.3 Market Valuation Standard

Market value based assessments (referred to in the municipal Acts as “non-regulated property assessments”) are as of the base date set by SAMA.

According to the municipal Acts, the Market Valuation Standard is “...achieved when the assessed value of property:

- (i) is prepared using mass appraisal;
- (ii) is an estimate of the market value of the estate in fee simple in the property;
- (iii) reflects typical market conditions for similar properties; and
- (iv) meets quality assurance standards established by order of the agency;”

The municipal Acts define mass appraisal as “...the process of preparing assessments for a group of properties as of the base date using standard appraisal methods, employing common data and allowing for statistical testing;”. The IAAO (Standard on Mass Appraisal of Real Property, 2013, page 20) has a similar definition for mass appraisal - “The process of valuing a group of properties as of a given date, using standard methods, employing common data and allowing for statistical testing”. (Refer to the Valuation Parameters Guide for a general discussion on statistical testing.)

Market value is a term commonly used in general appraisal theory. In Saskatchewan, for the purpose of determining assessed values pursuant to the Market Valuation Standard, market value is defined in the municipal Acts as “...the amount that a property should be expected to realize if the estate in fee simple in the property is sold in a competitive and open market by a willing seller to a willing buyer, each acting prudently and knowledgeably, and assuming that the amount is not affected by undue stimuli;”.

“Estate in fee simple” is also referred to as “fee simple estate”. It is defined (*The Appraisal of Real Estate, 3rd Canadian Edition, 2010*) as “absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the four powers of government: taxation, expropriation, police power, and escheat.”

Difference between Mass Appraisal and Single Property Appraisal

There is a different purpose for mass appraisal than for single property appraisal – mass appraisal is for the assessment of properties for taxation purposes, while a single property appraisal can be undertaken for a number of reasons such as for financing or insurance. Mass appraisal is used to value all properties in a municipality while single property appraisal is used to value an individual property.

The most important difference between mass appraisal and single property appraisal is that assessors have legislated requirements that they must follow:

Legislation	Mass Appraisal	Single Property Appraisal
Valuation Standards	Property must be valued for assessment purposes using one of the two Valuation Standards: <ul style="list-style-type: none"> • Market Valuation Standard • Regulated Property Assessment Valuation Standard 	Not applicable
Base Date	Must be as of the legislated base date	Can reflect any effective date
Market Valuation Standard Mass appraisal	Must use mass appraisal processes. Mass Appraisal is defined as "...the process of preparing assessments for a group of properties as of the base date using standard appraisal methods, employing common data, and allowing for statistical testing;".	Uses single property appraisal techniques by generally considering three or more comparable property sales to derive a market value estimate for a single subject property.
Estate in fee simple	Considers the valuation of the population of properties Must determine market value of the estate in fee simple	Does not consider the valuation of the population of properties Can determine partial interests
Typical market conditions for similar properties	Uses mass appraisal processes to analyse multiple sales and other market data for a group of comparable properties to determine typical valuation parameters to derive a market value based assessment for all properties within a group.	Not applicable
Quality assurance standards	Must meet quality assurance standards established by SAMA Board Order.	Not applicable

Difference between the Market Value Based Assessment and the Sale Price

Sometimes the market value based assessment of a property is confused with its sale price. The sale price is not the market value based assessment of a property. The sale price is a historical fact. It is the amount the purchaser agreed to pay and the seller agreed to accept under the circumstances surrounding the sale. A market value based assessment is not a historical fact – it is an estimate. A sale price might not equal the market value based assessment of a property for any of the following reasons:

- The sale might not have occurred on the same date on which the property was valued for assessment purposes.
- The purchaser or seller might not have been aware that similar properties were selling for more or less than the price for which the property was purchased.
- The buyer or seller might have been unduly motivated (for example, urgency due to being transferred to another city, needed to sell property as part of a division of matrimonial assets, etc.).
- The sale might have involved a trade, partial interest, special financing, personal property, assumed leases or something less than a fee simple interest.

Assessors in Saskatchewan gather information on properties that have sold and determine the ranges of sale prices in the marketplace. This statistical data is used as part of the process for calculating market value based assessments.

Sale price information is used by assessors to help develop market value based assessments. Assessments are calculated by analyzing the sale prices of groups of properties at a specific point in time. Sales of similar properties are compared to determine market value based assessments of specific types of properties that have similar characteristics.

While the actual sale price of a property might be in the same range as the sales of similar properties, the resultant market value based assessment is derived from a composite analysis of all of the similar sales.

Key Characteristics of Market Value

The key characteristics of market value in general appraisal theory are:

- It is the most probable price estimate within a range, not the highest, lowest or average price.
- It is expressed in terms of a dollar value.
- It assumes an arm's length transaction in the open market.
- It assumes a willing buyer and a willing seller with no advantage being taken by either party.
- It recognizes the present use and potential use of the property.

Highest and Best Use

The principle of highest and best use is defined as that use which, at the date of valuation, is most likely to produce the greatest net return in money or amenities over a given period of time. The highest and best use must be legally permissible, physically possible, economically feasible and maximally productive. The highest and best use must also be the most probable of those uses that are possible. For this reason, highest and best use is more or less a synonymous term for most probable use.

The purpose of determining a property's highest and best use or probable use is to provide a basis for establishing its market value. It is the marketplace that determines highest and best use and it is up to the assessor to analyze the marketplace to determine what this use is. Usually the present use of a property is its highest and best use.

Highest and Best Use As-if -Vacant

Estimating the highest and best use of the site as-if-vacant is an essential prerequisite to applying the appropriate approach to value. Typically, the five criteria that are considered during a highest and best use analysis that must be met are:

- The use is from among those legally permissible;
- The use is physically possible;
- The use is financially feasible;
- The use is the most probable of those that are possible;
- The use is maximally productive.

Highest and Best Use As-If-Improved

The highest and best use of a property is also estimated a second time for the property as-improved. The existing improvements will usually be the highest and best use of the property as-improved. An exception would be where the property and the neighbourhood are in transition to another use. An example would be where an older smaller home is located on a street that has been partially redeveloped with arterial commercial developments, such as restaurants, general commercial properties and suburban office buildings. In this example, and depending on land prices and expected future benefits, the most probable use as-improved may be for commercial redevelopment.

Three Approaches to Value (Sales Comparison, Cost and Income Approaches)

There are three standardized approaches that may be used to estimate the market value based assessment of a property (*Refer to Figure 2.*):

- Sales comparison approach
- Cost approach
- Income approach

Figure 2: Summary of the Three Approaches to Value (according to general appraisal theory)

Approach	How Market Value is Estimated	Property Type
Sales Comparison	Compare sale prices of similar property being assessed	<ul style="list-style-type: none"> • Residential • Commercial
Cost	Market value of land + (cost of improvements – depreciation) = value of property	<ul style="list-style-type: none"> • Unique and special use Residential/Commercial (limited market data)
Income	Analyze future anticipated benefits (i.e., income-producing potential of the property)	<ul style="list-style-type: none"> • Income-producing (i.e., rental properties)

The following is a brief outline of each approach according to general appraisal theory and the types of properties for which each approach is best suited.

Sales Comparison Approach

The sales comparison approach is based on the assumption that a purchaser would not pay any more to purchase a property than for comparable properties of similar utility.

This approach is based on the theory that the market value of a property is directly related to the sale prices of similar properties. When property types are relatively similar, the sales comparison approach provides a dependable indication of market value.

This approach is best suited to residential properties and investment types of property that sell frequently on the open market or where there are sufficient sales to use this approach.

Cost Approach

The cost approach is based on the assumption that a purchaser would not pay any more to purchase a property than it would cost to buy a similar lot (or site) and construct an improvement on it with similar utility.

Values for properties that are assessed using the cost approach are determined by applying the following formula:

$\text{Market Value of Land} + [\text{Cost of Improvements (i.e. buildings)} - \text{Depreciation}] = \text{Total Value of Property}$

The assessor first estimates the market value for the land separately, usually through application of the sales comparison approach.

The cost of improvements is estimated using either the reproduction or replacement cost method. The reproduction cost method is the cost associated with the “reproduction” or exact duplicate of the structure for which an assessment value is being sought. The replacement cost method is the cost associated with the construction of an improvement or building with the same utility as that for which an assessment value is being sought. The replacement cost method is the technique normally used.

Depreciation is a loss in value caused by physical deterioration, functional obsolescence and external obsolescence. An estimate for all forms of depreciation is then subtracted from either the reproduction or replacement cost. Sales are used to adjust for depreciation within the mass appraisal application of the cost approach. Obsolescence can also be measured by capitalizing any income lost due to the obsolescence. (Refer to the Depreciation Analysis Guide for a detailed discussion of depreciation, obsolescence and the Market Adjustment Factor - MAF.)

The cost approach is used when the property being valued is recently constructed, or nearly new. It is also applicable in situations where there are no or limited comparable sales available or when the improvements are unique or specialized (e.g., institutional, recreational or special purpose).

Income Approach

The income approach is sometimes referred to as the rental income approach. The theory behind the income approach is that income-producing properties are bought and sold based on their income-producing potential. The value of an income-producing property is based on the present worth of anticipated income. For assessment purposes, this value is calculated by capitalizing the typical income produced by the real estate. The typical income received and the typical capitalization rate employed is established through analysis of market data.

Income-producing properties are properties that either produce income for their owners in the form of rents or those properties that could produce income. The potential income is affected by many factors, including building quality, amenities, location, neighbourhood, available parking, condition of the building, economic conditions and competition.

Income-producing properties are typically purchased for investment purposes; thus the properties' ability to earn income is the critical element affecting their value from a market point of view.

Income-producing properties are delineated into a number of different property classes and categories. Income-producing properties also include those that are owner-occupied, which, while they do not generate rent, can be directly compared to those that do.

Typically, income-producing properties include commercial and investment properties such as:

- Multi-residential buildings
- Manufactured home communities
- Warehouses
- General commercial properties
- Office buildings
- Enclosed shopping centres
- Hotels / motels

Multiple Regression Analysis (MRA) Explanation² (statistical mass appraisal technique)

Multiple Regression Analysis (MRA) is a statistical mass appraisal technique that is available to assessors to use in the application of the three approaches to value, subject to having adequate sales and income related data for its application. MRA is used for estimating unknown data on the basis of known and available data. In mass appraisal, the unknown data is typically market value. This is the dependent variable. The known and available data are property characteristics and sales or income data. These are the independent variables.

MRA quantifies the relationship among multiple independent variables and a dependent variable. This technique is used in mass appraisal to estimate market values based on property characteristics and location data. In mass appraisal, the dependent variable can be a market value estimate, potential gross income, capitalization rate, or any other component of the three approaches to value.

Regardless of model format, MRA operates on the principle of least squares, in that it finds the lowest sum of squared errors between actual and estimated values. MRA contains a rich set of diagnostic statistics that aid the assessor in evaluating the accuracy and reliability of the model.

The assessor *specifies* the model by determining which variables to include in the model based on a combination of judgment and experience and exploratory data analysis. The assessor may write transformations to create the appropriate variables. This process is known as *specification*.

The assessor then uses MRA to *calibrate* the model. Model *calibration* is the process of solving for unknown quantities in a model associated with the independent variables in the model. For example, construction costs, depreciation in the cost model, valuation rates and adjustments in a sales comparison model, and market rents and capitalization rates in an income model.

MRA can also be used to estimate parameters for the income approach to value (rent per unit, expense ratios, gross income multipliers, and capitalization rates) from an analysis of many variables. In mass appraisal, rents, expenses, GIMs, and overall rates can all be estimated in one of two basic ways: by developing typical per-unit values through stratification, often using spreadsheet software, or by using statistical techniques such as MRA.

² Gloude-mans, Robert and Almy, Richard, *Fundamentals of Mass Appraisal*, (The International Association of Assessing Officers, 2011)

1.4 Regulated Property Assessment Valuation Standard

Some types of properties are difficult to assess using the Market Valuation Standard because:

- They seldom trade in the marketplace. When they do trade, the sale price may include non-assessable items that are difficult to separate from the sale price.
- They are unique in nature and are intended to be used for a specific purpose.

Therefore, it is difficult to arrive at a dollar value based on any of the three approaches to value. The value of a property of this nature is primarily determined by what it is used for or its activity. When preparing an assessment on property using the Regulated Property Assessment Valuation Standard, the assessor is required to use the formulas, rules and principles set out in legislation and in the *Saskatchewan Assessment Manual (Manual)* or other agency regulations. SAMA assigns rates for each of the various components that make up each type of regulated property to arrive at assessed values. These rates are reviewed on a regular basis with industry and stakeholders.

Regulated property assessments are as of the base date established by SAMA.

There are five types of regulated property:

- Agricultural land
- Railway roadway
- Resource production equipment
- Heavy industrial property
- Pipelines

Agricultural Land

A productivity rating system for agricultural land is used to determine assessment values.

Agricultural land inspection is conducted by appraisal-agrologists trained in soil classification and knowledgeable about soil rating criteria. They can readily identify productivity limiting factors such as eroded areas, salinity, hardpan soils, sand, gravel pockets, and land subject to flooding. SAMA classifies and rates nearly 200 soil associations.

Agricultural land productivity ratings are converted to the land's value as of the specified base date using sales. Sales of agricultural land are obtained from the Information Services Corporation (formerly the Land Titles Office) and then verified. Only arm's length agricultural land sales are used. A provincial factor, based on the average provincial agricultural land selling price as of the base date, is applied to all final ratings in the province to convert them to a value per acre.

Three basic models are used to value agricultural land - arable, pasture and waste:

- The arable land model values land suitable for crop production.
- The pasture model values land best suited for grass production.

- The waste model values land that has no potential to produce crops and is not suited for use as pasture land.

Railway Roadway

Railway roadway is defined in the municipal Acts as the “...continuous strip of land not exceeding 31 metres in width owned or occupied by a railway company, and includes any railway superstructure on the land”.

The assessed value of railway roadway is based on replacement cost new less lifetime depreciation plus an adjustment for the net tonnage for the railway subdivision.

Resource Production Equipment

According to the municipal Acts, resource production equipment includes the “...fixtures, machinery, tools, railroad spur tracks and other appliances by which a mine or petroleum oil or gas well is operated, but does not include tipples, general offices, general stores, rooming houses, public halls or yards”.

Replacement cost new, lifetime depreciation and downtime are the factors that are considered in determining the value of mining equipment.

Replacement cost new, lifetime depreciation, downtime and low production are the factors that are considered in determining the value of oil and gas equipment.

Heavy Industrial Property

The *Manual* contains a definition of heavy industrial property that includes the following types of property use:

- Extracting, producing, processing or refining a mineral resource
- Producing, upgrading, refining or transmitting petroleum
- Producing ethanol
- Manufacturing of plywood, particle board, wafer board, fertilizer, malt, paper, pulp, steel or steel pipe
- Generating power
- Manufacturing lumber and other wood products from raw logs in a sawmill

All heavy industrial property is valued using the replacement cost approach.

Pipelines

Pipelines are used for the transportation of petroleum, petroleum products, gas or any substance prescribed in the Regulations of the municipal Acts.

All pipelines are valued using the replacement cost approach, lifetime depreciation and a volume adjustment factor.

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