

Chapter 3

Service New Brunswick

Property Assessment for Taxation

Purposes

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Service New Brunswick Property Assessment for Taxation Purposes

Background

The Byrne Commission and Equal Opportunity

3.1 In 1963, the report of The New Brunswick Royal Commission on Finance and Municipal Taxation proposed a radical restructuring of the provincial and local governments of New Brunswick. Chaired by Mr. Edward Byrne, Q.C., the “Byrne Commission”, as it is commonly known, sought to address tremendous social and economic pressures faced by municipal governments.

3.2 The report proposed a provincial take-over of general services including health, education, welfare and justice. Municipal governments would remain responsible for local services such as water and sewer systems, fire protection, and policing.

3.3 To finance the delivery of these public services, several changes were recommended within the Province’s taxation regime. One of the most significant changes involved real property taxation. The Commission sought to address inequities in property assessment and taxation policy experienced throughout the Province.

3.4 The Commission recommended an assessment function have the following characteristics:

- uniformity in assessments;
- highly qualified personnel;
- centralized property assessment, billing, and collection system;
- readily accessible avenues of appeal for the property owner;
- freedom from political pressures generated by conflicting local interests; and
- efficiency and value for each tax dollar spent.

3.5 Many of the principles of the Commission's report, including the restructured property assessment and taxation system, were subsequently adopted by the government of Premier Louis J. Robichaud, forming the foundation of its Program of Equal Opportunity.

3.6 It is remarkable that, some 40 years later, the characteristics of the property assessment function proposed by Byrne are still relevant today. To capture some of the zest found in Byrne's work, we quote him throughout this chapter. We believe this will enlighten the reader with an historical and meaningful perspective on the issues we raise.

Legislative authority

3.7 Following its inception in 1966, the provincial property assessment function operated within the Department of Municipal Affairs. In 1989, the function moved to the New Brunswick Geographic Information Corporation (NBGIC), subsequently renamed Service New Brunswick (SNB) in 1998.

3.8 On the authority of the *Assessment Act*, SNB is responsible for annually assessing for tax purposes the value of all real property within the Province.

3.9 Pursuant to the *Real Property Tax Act*, the Department of Finance is responsible for the billing and collection of all real property taxes levied by both provincial and local governments.

Our evaluation of significance

3.10 In deciding to perform an audit of the assessment service, we considered the significance of this function to the Legislative Assembly and the public at large. We noted the following:

- at \$327 million (2004-05 Main Estimates), property tax revenues are the third largest provincial source of revenue;
- at \$439 million (2005 Assessment Annual Levy Report), property tax revenues are the largest source of funding for local governments; and
- there are over 430,000 properties in the Province.

3.11 In addition to these points, the value of the assessment base itself is very large and composed of many different types of properties. The following table breaks down the total assessment

base as of March 2005 by property type, count, and classification as residential or non-residential¹:

Service New Brunswick 2005 Assessment Base by Property Type, Count, and Classification						
Property Type	Property Count	% of Total	Assessment Base (Millions \$)			% of Total
			Residential	Non-Residential	Total	
Private land & residences	308,241	71%	20,503	109	20,612	57%
Apartment buildings	3,344	1%	1,067	4	1,071	3%
Commercial	10,494	2%	202	2,998	3,200	9%
Industrial	6,423	2%	45	3,104	3,149	9%
Institutional	6,565	2%	3,758	1,442	5,200	14%
Recreational	41,091	9%	1,270	113	1,383	4%
Farming	17,342	4%	617	45	662	2%
Timberland	40,290	9%	573	5	578	2%
Total	433,790	100%	28,035	7,820	35,855	100%
			78%	22%	100%	

3.12 With respect to actual revenues raised, residential properties contribute 60% of provincial and municipal tax revenues while comprising 78% of the assessment base. This difference results from tax policy initiatives such as the residential property tax credit and the taxing of non-residential properties at 1.5 times the residential rate.

3.13 From these analyses, we concluded the property assessment service is highly significant to the people of New Brunswick.

1. Under the *Assessment Act*, “residential property” means one’s principal residence, a cottage, an apartment building, a rooming and boarding house, a mobile home and lot, any other single family residence, duplex or triplex not used for commercial purposes, a community hall, a nursing home, a senior citizens’ home, a hospital facility, a subdivided residential building lot separately assessed, farmland including farm buildings, freehold timberland and farm woodlots, and a school or university, but not including real property used for commercial purposes. “Non-residential property” means all real property except residential property.

Our evaluation of risk

3.14 We also evaluated the risk that properties might be improperly assessed. We believe there is a moderate risk of properties being under-assessed due to:

- a recent boom in the residential real estate market in major urban centers, increasing property values significantly;
- the diversity of property types, making assessment a complex, technical exercise; and
- public pressure to hold assessment increases to a minimum.

Scope

3.15 The objective of our audit was to determine if Service New Brunswick complies with the *Assessment Act* by assessing real property at “real and true value”.

3.16 We limited the focus of our audit to the property assessment function. Service New Brunswick, Assessment Services Branch (“Assessment Services”), performs this function.

3.17 Our audit work consisted of:

- inquiry and interviewing of personnel;
- research and investigation of documents, reports, and records; and
- review of property account files.

3.18 We interviewed staff from three of four regional offices and from head office in Fredericton. We sampled the work of approximately 40% of field staff. We reviewed over 100 properties from eight of 15 counties: York, Sunbury, Westmorland, Albert, Kent, Northumberland, Gloucester and Restigouche. The properties selected for audit represented a wide range of property types.

Results in brief

3.19 **The *Assessment Act* prescribes special valuation methods for specific types of properties. We performed limited audit work on these prescribed properties since they are valued at other than real and true value.**

3.20 **We developed five audit criteria to guide our work. On the positive side, we found that the interpretation of “real and true value” used by SNB is consistent with generally accepted assessing practices. We also found that assessment staff are properly qualified according to SNB’s internal requirements.**

3.21 On the negative side, we found that, while policies and procedures are well developed to guide the assessment process, certain practices give rise to some assessments being below real and true value. Further, while monitoring of the performance of the assessment function occurs, management needs to take additional corrective action to ensure assessments fall within generally accepted standards. Finally, we believe SNB should provide more public disclosure with respect to its compliance with the “real and true” provisions of the *Assessment Act*.

3.22 In our judgment, SNB partially complies with the requirement of the *Assessment Act* to assess real property at real and true value.

Equity and taxation policy

Equitable taxation from accurate assessments

3.23 The Byrne Commission clearly set out the basis for an equitable system of property assessment and taxation in New Brunswick:

The accurate assessment of property is as difficult as any tax administration problem. And it is impossible to have equitable taxation without accurate assessment.

A primary aim in levying any type of tax should be to treat similarly-situated taxpayers similarly ... In order to accomplish this, all property must be valued on the same basis ... The only satisfactory basis is market value.

If there are variations among different properties in the ratio of the assessed value to the actual market value, the taxes imposed by applying a uniform rate will be inequitable. The owner of property with an assessment ratio that is higher than the ratio for another owner will bear an unjustly heavier burden.

Taxation policy versus assessment administration

3.24 Byrne described a legitimate role for government in the development of property taxation policy. At the same time, he warned of how political pressures can interfere in the administration of said taxation policy. He recommended establishing “administrative commissions” that would operate semi-autonomously from government and free from any associated political pressure that may be “hostile to the public interest”.

3.25 The government of the day did not adopt this organizational structure. However, recent governments assigned the property

assessment function to SNB. Given the relative independence enjoyed by this Crown corporation, the separation of the property assessment function from tax policy development was established. This is an important characteristic of the property taxation regime in New Brunswick.

The evolution of property tax policy

3.26 A modern *Assessment Act* was introduced in 1966, reflecting Byrne's vision of equitable property assessment. Since that time, governments have used the property assessment and taxation system to introduce numerous policy initiatives. Some of the major initiatives include:

- tax relief for principal residences;
- tax relief for low-income property owners;
- differentiating between residential and non-residential properties by taxing non-residential properties at 1.5 times the residential rate;
- special consideration for oil and natural gas pipelines, farms and farm woodlots, timberland, and golf courses; and
- a three-year phase-in of significant assessment increases for heavy industrial properties.

3.27 The tools used to implement these policy initiatives include:

- tax credits;
- prescribing valuations of property at other than real and true value;
- reducing the assessed value of certain properties; and
- exempting certain properties from taxation.

3.28 We will elaborate upon these tools below.

Tax credits

3.29 The *Residential Property Tax Relief Act* was passed in 1973. For residential property maintained as one's principal residence, the owner is eligible for a credit of provincial tax on the owner-occupied portion of the property and up to 0.5 hectares of land.

3.30 For 2003, there were 216,865 properties qualifying for this credit with an assessed value of \$15.9 billion. The provincial taxes foregone amounted to \$203 million.

Prescribed valuation methods

3.31 The following table lists several properties for which a method of property valuation is prescribed by legislation and regulation:

Property type	Prescribed valuation method
Gas holding and distribution systems	Based on the size of the pipe, rates per foot and depreciation rates prescribed by regulation
Natural gas distribution pipelines	Based on the size and type of material of the pipe, rates per metre and depreciation rates prescribed by regulation
Heavy industrial properties	For a prescribed number of properties, significant increases in assessment for 2002 were phased in over three years (2003 through 2005)
Farmland	Real property five hectares or more in actual and bona fide use as farmland shall be assessed as farmland (other potential uses not considered)
Farm woodlots	Assessment value shall yield combined provincial and municipal tax revenues of one dollar per hectare
Freehold timberland	Assessed at one hundred dollars per hectare
Golf courses	Real property in actual and bona fide use as a golf course shall be assessed as same (other potential uses not considered)

Heavy industrial properties

3.32 Heavy industrial properties are unique in the list above and warrant a brief explanation. In the late 1990s, a special project to review the assessments of heavy industrial properties was funded by the Province. Due to the complex nature of these properties, internal specialists and external experts in appraisal were engaged to assist in this endeavour. The project produced large increases in assessment for a significant number of properties. This prompted the government to modify the *Assessment Act* and phase in increases larger than 15% over a three year period from 2003 to 2005. Allowing one more year to adjust for increases occurring subsequent to the project completion date, all heavy industrial properties will be assessed at real and true value beginning in 2006.

Reductions in assessed values

3.33 Section 7.1 of the *Assessment Act* provides for reductions of the property assessment of charitable organizations, not-for-profit organizations, and municipalities. This reduction applies to organizations providing relief of poverty and services to youth, elderly and the disabled, where the organization is funded by donations and volunteer efforts. Property must be owned by the organization and used solely for the prescribed purposes. A committee of Assessment Services, Department of Finance, and

Department of Environment and Local Government staff adjudicates eligibility under this program.

Exemptions from taxation

3.34 Under Section 4 of the *Assessment Act*, certain properties are assessed, but are then exempted from taxation. There are two classifications:

Tax exemption	Examples
Both provincial and municipal taxes	<ul style="list-style-type: none"> • Churches • Historical, literary, and agricultural societies • Volunteer rural fire departments • Fishing harbours • Arenas and provincial parks • University property not used for commercial purposes
Provincial taxes only. Not exempt from municipal taxes.	<ul style="list-style-type: none"> • Transportation infrastructure <ul style="list-style-type: none"> ▪ Major cargo ports ▪ Certified airports ▪ Railway rights-of-way • Crude oil tanks and pipes

SNB’s assessment challenge

3.35 SNB’s property assessment process is straight-forward for the properties with prescribed methods of valuation.

3.36 For the balance of properties, they must be valued at real and true value. Here, the skill of assessment staff is tested. Maintaining equity in assessments continues to be Assessment Services’ greatest challenge.

Valuation of real property

3.37 For the majority of real properties, Section 15 of the *Assessment Act* applies as follows:

... all real property shall be assessed at its real and true value as of January 1 of the year for which the assessment is made.

Real and true value

3.38 No further definition of the term “real and true value” is provided in the *Assessment Act*; therefore, we sought to determine its practical interpretation in the day-to-day work of assessors. In addition, we sought to understand who had the authority to establish these interpretations of real and true value. Hence, our first criterion was:

“Real and true value” should be interpreted by SNB in a manner that is generally accepted by the assessing profession.

Generally accepted interpretations

3.39 Significant court decisions in the matter of property valuation have interpreted the real and true value of property to mean its market value, under normal conditions of sale.

3.40 The Appraisal Institute of Canada establishes generally accepted standards of practice for both property appraisers and assessors. Reflecting the decisions of the courts, these professional standards describe market value as:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, assuming the price is not affected by undue stimulus.

3.41 We found that SNB has adopted this interpretation of real and true value in their policies, procedures, and practices.

Evaluation

3.42 The first criterion is met. “Real and true value” is interpreted by SNB to mean market value. This is consistent with generally accepted practices for property assessors and appraisers.

Policies, procedures and practices

3.43 Using income taxes as an analogy, Byrne addressed the taxpayer’s response to the inequitable distribution of property taxes:

A fair share of taxes

We should be furious if we were taxed on double our income and possibly even feel guilty if the assessor mistakenly cut our income tax in half.

3.44 This call for fairness must apply to both parties involved. SNB must strive to achieve fair and accurate assessment of property values. In turn, all taxpayers must accept the obligation to pay their fair share of property taxes.

3.45 To play its role in seeking fairness, SNB must provide appropriate guidance to assessment staff. Accordingly, our second criterion was:

Appropriate policies, procedures, and practices should guide the assessment process.

Generally accepted appraisal methodologies

3.46 In *Montreal v. Sunlife Assurance Company of Canada* (1952), the courts described appropriate methodologies for determining market value of real property:

- the depreciated replacement cost;
- the price that the revenue-producing possibilities of the property will command; or
- recent free sales of comparable properties.

3.47 Appraisers refer to these methodologies as the cost approach, the income approach and the direct comparison approach.

3.48 The cost approach uses computerized models to estimate a base-year replacement cost of construction. This base year may be several years old, so factors are applied to adjust the base-year cost to a current year value. A depreciation factor is then applied to reflect any observed economic or functional obsolescence. The cost approach may be used to value all types of properties.

3.49 The income approach is used for properties producing a stream of rental payments, e.g. apartment buildings, shopping malls, commercially leased properties. Operating income before interest, depreciation, and income taxes is capitalized at an appropriate rate of return to determine market value.

3.50 Under the direct comparison approach, sales of properties comparable to the subject property are analyzed to establish market value.

Generally accepted assessment methodologies

3.51 Application of the appraisal methodologies is unique for property taxation purposes and occurs through the “mass appraisal technique”.

3.52 Under the mass appraisal technique, an equitable cost base is established for each property. Adjusting these values to current market values requires the calculation of annual “market adjustment factors”. Market adjustment factors are derived from the analysis of comparable property sales. They are applied to the properties’ cost base to arrive at market value. Thus, in property assessment, a combination of the cost and direct comparison approaches is the generally accepted methodology for most properties.

3.53 For income-producing properties, the cost approach is supplemented or replaced with a calculation under the Income Approach.

3.54 Apartment buildings may be valued using a per-unit calculation. This valuation approach reflects the market practice of purchasing apartment buildings based on the number of units in the building multiplied by the current price per apartment unit.

3.55 When a property owner appeals an assessment, the direct comparison approach is used to defend the assessed value.

SNB assessment policies and procedures

3.56 We wanted to understand the nature and content of SNB's assessment policies and procedures. We were also interested to see if these policies and procedures were actually followed by assessment staff.

Assessment manuals

3.57 SNB has an extensive property assessment policy and procedures manual. This manual covers matters such as property valuation methods, sales analysis and inspections, assessment referrals and appeals, and public relations.

3.58 Supplementary valuation manuals also provide specific guidance for particular types of properties such as apartments, golf courses, marine aquaculture sites, and retail stores.

3.59 These manuals are approved by management, reflect the latest operating environment, and are easily accessible by staff through SNB's intranet site.

Performance indicators

3.60 Performance indicators are an integral part of the assessment process. SNB policy clearly describes particular measures that serve as both targets for and evaluations of the quality of property assessments. Performance indicators are calculated to ensure that property valuations, on average, reflect market values and there is only an acceptable level of variation in individual valuations.

3.61 The most common performance indicator used is the Assessment to Sales Ratio (ASR). This ratio is calculated by dividing the assessment value by the selling price of the property. A range of 90% - 110% is prescribed by policy and reflects generally accepted assessing practice.

3.62 The ASR may be calculated in two ways. The first calculation uses the assessment value at the time of sale. This would be the most intuitive calculation for the average taxpayer and is the first indicator of the accuracy of the assessment.

3.63 The second calculation uses the “future year” assessment value rather than the assessment value at time-of-sale. The future year is the year subsequent to the year of sale. By using the future assessment, the sum total of the most recent knowledge of market value, results of inspections, professional judgment, and corrective action taken by Assessment Services is reflected in the ASR.

3.64 To illustrate, a home which recently sold for \$200,000 with an assessed value at the time of sale of \$150,000 would have an ASR of 75%; i.e. \$150,000 assessed value divided by \$200,000 selling price. This is outside the range of generally accepted values and indicates this property assessment requires adjustment.

3.65 Following an inspection of the property and an analysis of the factors giving rise to the sale, the cost base may be increased for such things as renovations or additions to the home. After the next year’s market adjustment factor is applied, the assessment could be calculated at, say, \$185,000. The future year ASR is now 93% and falls within the generally accepted standard.

3.66 The future year ASR is the standard performance indicator adopted throughout Canada. In 2000, SNB began using this indicator.

Difficulties in obtaining information

3.67 The *Assessment Act* grants the Director of Assessment free access to all reports, records, financial statements, statistics, etc. of the property owner that he considers necessary for the purpose of making a proper assessment. Where such information is not provided, the Director may estimate the real and true value of the property. Failure of the property owner to provide such information is a punishable offence.

3.68 SNB staff estimated that only one quarter of requests for information are respected by property owners. Subsequent “demands” for information are also ignored. It may be only upon appeal of a property assessment when the property owner finally provides the requested information.

3.69 We believe Assessment Services should exercise their full authority under the legislation to ensure all property owners comply with requests for information.

Our audit of policies, procedures, and practices

3.70 To determine if policies and procedures were actually followed by assessment staff, we selected a sizable number of property files for detailed audit. We sampled 36 private residences, 9

apartment buildings, 28 commercial properties, nine government-owned institutional properties, and two golf courses. These properties were located in the Valley, Beauséjour, and Chaleur regions of the Province.

3.71 We selected newly-constructed properties, recent sales, and other properties of interest. Our audit procedures gathered evidence on the:

- assessment methodology used;
- cost base of land and buildings;
- application of market adjustment factors;
- assessment values over a three-year period;
- calculations of current and future ASRs;
- source documentation supporting transfer of title;
- physical inspection; and
- assessor's professional judgment.

3.72 Overall, we found:

- the Cost Approach was the methodology most frequently used;
- land value maps are prepared for each neighbourhood every four to five years to reflect current market prices for land;
- the cost base of private residences is determined by a costing module;
- the cost base of larger income-producing, commercial, industrial and institutional properties is calculated by well-known commercial computer software;
- market adjustment factors are prepared for each neighbourhood based upon a review of property sales for that neighbourhood;
- a history of assessment values was readily available;
- ASRs are properly calculated and used as a measure for planning and performance evaluation;
- appropriate documents supporting transfer of title following a property sale are properly used and filed;
- physical inspections are documented when performed; and
- decisions of professional judgment are documented.

3.73 Based on our audit work, we believe that, *in general*, assessment practices are consistent with SNB assessment policy and procedures and with generally accepted assessing practices. Assessments are consistently determined for each type of property. Finally, assessment practices are consistently applied from region to region.

Inequitable assessments

3.74 Although staff generally comply with policies, procedures, and practices, we discovered several types of properties that are consistently under-assessed. This under-assessment creates inequity in the property taxation system.

Superior homes

3.75 We analyzed data for residential properties sold, selecting all single-dwelling residential properties sold in the Province from October 2003 to September 2004.

3.76 We grouped these sales into ranges of values emulating the real estate marketplace. For each range of values, we calculated the Assessment-to-Sales Ratio based on the future year assessment:

Single-Dwelling Residential Properties Sold between October 2003 and September 2004		
Selling Price Range (\$)	Number of Properties Sold	Future Year ASR (%)
0 – 60,000	1,329	103
60,001 – 100,000	2,673	96
100,001 – 125,000	1,660	93
125,001 – 160,000	1,502	94
160,001 – 190,000	587	93
190,001 – 250,000	354	92
250,001 +	140	85
Total	8,245	94
0 – 250,000	8,105	95
250,001 +	140	85

3.77 This analysis shows:

- The overall future ASR was 94%.
- The *greater* the value of the property, the *lower* the ASR.
- Properties valued at more than \$250,000, known within SNB as “superior homes”, are valued 10% lower than all other residential properties taken as a group.
- Superior homes have an ASR of 85%, lower than the generally accepted minimum value of 90%.

3.78 Superior homes represented only 2.4% of the assessed value in 2004 of all single-dwelling residential properties. They did represent, however, approximately one million dollars of foregone

municipal and local taxes plus provincial tax on any property not eligible for the provincial residential property tax credit.

3.79 The under-assessment of superior homes is not evident from the general ASR calculation prepared regularly by Assessment Services.

3.80 However, the problem was not unknown to management and staff. In January 2004, the “Residential Housing Survey” report compared sales from 2002 and 2003. It noted similar differences in ASRs between lower-valued and higher-valued properties as those presented above. Further, in December 2002, Assessment Services advised SNB’s Board of Directors of performance indicators that also bore evidence of this problem.

3.81 We found this problem of inequity with superior homes was consistent in all regions of the Province.

Waterfront properties

3.82 Along coastal shores and on riverfronts throughout the Province, property owners are following a trend seen throughout Canada. People want to build homes in areas formerly used for recreational purposes, farmland, or timberland and are paying premium prices for such land. In many cases, these waterfront properties now boast superior homes.

3.83 We audited seven waterfront properties with superior homes. We found evidence of significant under-assessment. For example, one property in Cap Pélé was assessed for 2005 at \$129,900 while it sold in 2003 at \$199,000, a future ASR of only 65%. The land value included in this assessment was only \$21,900, compared with the current estimated value of over \$50,000.

3.84 Another property on Miramichi Bay was assessed for 2005 at \$182,000 while it sold in 2004 for \$305,000, a future ASR of only 60%. The land value included in this assessment was only \$20,000. This low value was not surprising since it had been over nine years since a re-valuation of land was last performed in that neighbourhood.

3.85 Property assessments involve two main components: land and buildings. If a building exists, the land is described as “improved”, irrespective of the quality of the building. Whether a lot is improved or unimproved, new land values need to be established throughout the Province to reflect market values for waterfront properties.

Apartment buildings	3.86 We audited nine apartment building properties located in Moncton, Miramichi, and Campbellton.
Valuation methodologies	3.87 Our audit indicated that many apartments are valued using the cost approach. When newly constructed, the cost approach is an acceptable method of determining the initial assessment. 3.88 However, once the apartment building reaches normal occupancy rates, an income approach offers a better estimate of real and true value. 3.89 Sometimes staff also use the simpler value-per-unit approach to determining the market value of apartment buildings. Based on recent sales, it is easy to calculate market values per apartment unit. Currently, staff use this calculation to confirm the reasonableness of their assessments prepared using the cost or income approaches. 3.90 We believe SNB should evaluate whether this market-based value-per-unit approach might be an appropriate, and more efficient, primary technique for valuing all apartment buildings.
Superior apartment units under-assessed	3.91 SNB reported internally that apartment buildings are assessed at less than market value. For the period of October 2003 to September 2004, apartment properties sold reflected a future ASR of 86%. This value is less than the generally accepted minimum value of 90%. 3.92 We discovered, however, that this calculation did not include a number of financially significant apartment sales. Our calculation of future ASR was 42% based on actual 2005 tax bills. This is significantly less than that calculated by SNB. 3.93 SNB staff explained that certain companies have recently purchased large blocks of superior apartment units in an effort to consolidate ownership in this market segment. These corporations are paying premium prices never seen before in New Brunswick. Staff stated they must determine if the market values have truly increased to these premium levels; hence, these values have not yet been reflected in assessment values. 3.94 Clearly, this is a major issue for SNB. It would appear that a new market value has been established for this type of superior apartment unit. Assessment values should appropriately reflect market values.

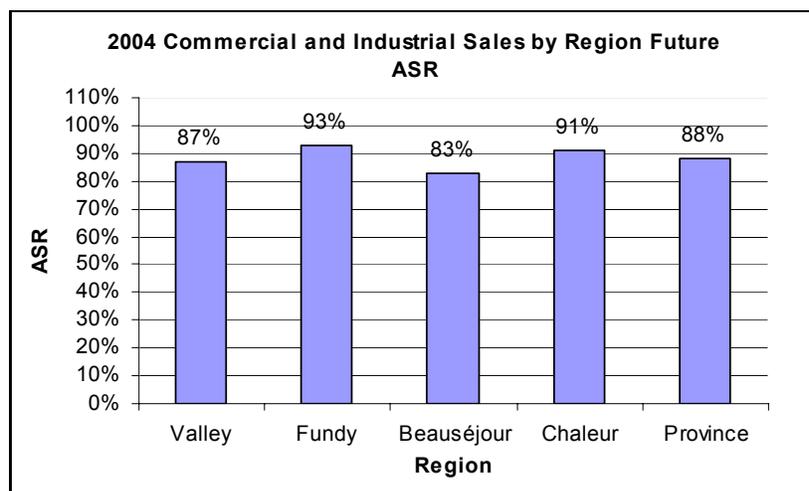
Commercial and industrial properties

3.95 We audited 28 commercial properties. Our samples included office buildings, shopping malls and plazas, retail leased property, and hotels. These properties were located in the major cities and in smaller centres such as Oromocto, Riverview, Shediac, Bouctouche, Neguac, Paquetville, and Atholville.

3.96 Most of the properties we selected for audit were assessed using the cost approach. Five used the income approach and one involved direct judgment by the assessor to arrive at the assessed value.

3.97 We noted there are many more variables to consider in determining the assessment value of commercial properties. Also, there are fewer comparative sales than with residential properties. As a result, assessors must exercise more judgment in determining the assessment value. For example, we found several examples where the depreciation factor applied to the cost base appeared to be unusually high. Staff suggested that assessment team leaders could perform a more rigorous review of these files to confirm the appropriateness of the assessments.

3.98 SNB analyzed commercial properties sold from October 2003 to September 2004. In addition to the types of properties we sampled, their calculations included heavy and light industrial properties. Their future ASR results are presented below by region:



3.99 The ASRs in the Valley and Beauséjour regions, and for the Province as a whole, are lower than the 90% minimum accepted standard.

Explanations for under-assessment***Insufficient stratification of properties***

3.100 These indicators demonstrate the need for more aggressive assessment to keep pace with market advances in commercial and industrial property values.

3.101 We sought to understand the reasons why assessments may be lower than real and true value. We discuss below three matters that contribute to this situation.

3.102 One of the fundamental features of the mass appraisal technique of property assessment is the stratification of similar properties into homogeneous groups. Stratifying properties allows for each group to be assigned a different market adjustment factor. Each group of properties may well have a different movement in market value; therefore, it is very important to be able to precisely adjust property values with appropriate market adjustment factors. With effective stratification of properties, more accurate adjustments are possible.

3.103 Within SNB's proprietary Property Assessment and Taxation System (PATS), properties are identified by taxing authority, neighbourhood, and grouping codes. Taxing authority represents the municipality or local service district. Neighbourhoods are subdivisions within the taxing authority. Groupings are similarly constructed properties within individual neighbourhoods. For example, one neighbourhood might have different groupings reflecting older, general, and superior residences. Staff commented that PATS is quite accommodating in this regard.

3.104 We found this function of PATS has not been used to its full potential. In one region, an historical lack of attention to the grouping code meant many properties were incorrectly classified; thus, with respect to the grouping code, the integrity of the assessment database is questionable.

3.105 As a result of this lack of integrity of the assessment database, we found examples where assessment staff can be reluctant to adequately increase market adjustment factors for particular groups of properties. As a result, they would tend to understate the assessment of a few higher valued homes mixed in with a much larger general population. The alternative would be to overstate the assessment of the larger general population in an effort to correct the problem with the higher valued homes.

Insufficient and untimely sales inspection and analysis

Sales inspections standards not met

3.106 The result of a long-term suppression of adequate increases to certain properties would be a systematic under-assessment such as that seen for superior homes. This issue could be addressed immediately by using the existing features of PATS.

3.107 SNB has established standards for the inspection and analysis of property sales. Assessors are to investigate whether sales are of an arm's-length nature. They are to determine the need for a physical inspection. Finally, they are to analyze the factors contributing to the sale.

3.108 The investigation, inspection, and analysis of sales is a very important function. It allows the assessor to identify improvements made to the property since the time of the last inspection and to adjust the assessment accordingly. Having a visible presence in the community also increases the level of public confidence in the assessment process.

3.109 SNB's sales inspection standards are summarized below:

Residential improved properties

- If sales in the area are scarce, all properties require inspection.
- If sales in the area are plentiful and the ASR of the subject property is *outside* the range of 92-108%, the property requires inspection.
- If sales in the area are plentiful and the ASR of the subject property is *within* the range of 92-108%, a representative sample of properties may be inspected.

Overall, the target percentage of residential improved property inspections, including those falling with the 92-108% range, is a minimum of 50% of arm's length sales.

Non-residential improved properties

All properties require inspection.

Time interval

Sales should be inspected within a maximum of 90 days of the date of registration of the property transfer document.

Minimum inspection cycle

A general target established by SNB is to re-inspect every property within a 15 year cycle.

3.110 For 2004, SNB inspected 43% of potential arm's length sales, 7% less than the target set above.

3.111 We found evidence where properties were inspected six or eight months after the time of sale. This problem is particularly acute in the more active real estate markets of the Province.

3.112 Based on SNB's 2004 performance statistics, SNB's "re-inspection" program is operating within an 18-21 year cycle. The number of properties needing inspection is established annually to meet the fifteen-year target; however, other work initiatives generally reduce the number of re-inspections actually achieved.

3.113 Insufficient sales inspections result in a less accurate assessment for the properties sold. Untimely sales inspections result in assessment staff knowledge of market conditions not being as current as it could be. This could have implications when establishing the market adjustment factors. If these factors are understated, the impact of insufficient and untimely sales inspections spreads to entire neighbourhoods.

Alternative sources of information

3.114 The majority of homes now have no-one at home during the work day. If no-one is at home, attempting an interior inspection is impossible. Thus, effort to visit the property makes for an ineffective and inefficient use of the assessor's time.

3.115 Some North American jurisdictions have opted for alternative methods of obtaining the information required to complete the sales analysis. Some sources discussed with staff include the property listing services of real estate boards and the inspection work of municipalities and District Planning Commissions throughout the Province.

Limitations of information system

3.116 The PATS information system does have a number of functional limitations that inhibit the efficiency and effectiveness of assessment staff.

3.117 For example, the residential costing module no longer emulates current residential construction. It was designed for the simpler styles of the early 1980s. Today's homes have much more complicated floor plans and roof lines, more sophisticated heating and ventilation systems, and higher quality materials used in their construction.

3.118 Assessment staff have identified a number of improvements they would require in a replacement system for PATS, including:

- integration with the land registry system;
- incorporation of Global Positioning System (GPS) coordinates;
- access to digital photographs, plot plans, and building blueprints;
- real-time data analysis;
- efficient capture of data in the field and electronic transfer to the central database;
- improved valuation tools and methodologies;
- easier implementation of tax policy changes;
- administration of staff scheduling and work assignments; and
- choice of official language.

3.119 In its Annual Report 2003-04, SNB identified the obsolescence of the PATS system as one of the business risks faced by the corporation. It has not yet secured funding for a replacement system.

3.120 We reviewed a number of internal documents proposing the replacement of PATS. The operational improvements needed and other qualitative factors were well documented; however, we were not provided with a comprehensive financial cost-benefit analysis supporting the request. Estimated at several million dollars, a cost-benefit analysis should be required to justify an expenditure of this magnitude.

Best practices from other jurisdictions

3.121 Returning to other good practices at SNB, we were pleased to learn of the degree of their involvement with other assessing jurisdictions.

3.122 The Canadian context of assessment issues is well known to Assessment Services staff. For example, SNB is an active participant

in the annual conference held by Canadian Directors of Assessment. Also, a benchmarking exercise annually compares operational performance between Canadian assessment jurisdictions.

3.123 For the international perspective, two members of the Assessment Services senior management team are members of the International Association of Assessing Officers, thus maintaining an important link to assessment issues and developments in the United States. Also, a manager attended the First International Francophone Conference on Real Property Valuation held in Quebec City in 2004.

3.124 Through these external relationships, SNB is exposed to the latest developments in the assessing field. For example, a new software model for costing commercial properties was implemented in 2004.

3.125 In 2003, SNB made a case to the provincial Red Tape Reduction Committee to make sales prices publicly available. The significant benefits proposed were:

- more informed buyers and sellers of property - business or private;
- a more consistent marketplace with more knowledgeable participants;
- more accurate property assessments, yielding fair and competitive levels of taxation;
- support for assessors defending their valuations upon referral or appeal of property assessments; and
- possible reduction in the need for appeals of assessment, saving time and resources.

3.126 In New Brunswick, while information on sales is not publicly available, information on any outstanding mortgage *is* publicly available through the property registry system. Sales values are publicly available in all Canadian jurisdictions except the Maritime Provinces.

3.127 Some jurisdictions make sales information available for a fee, thus representing a possible revenue source for SNB.

3.128 Our Office recommended this change in our 1994 audit of the New Brunswick Geographic Information Corporation. We believe it is still a valid recommendation.

- Recommendation** 3.129 **We recommended SNB exercise their full authority under the *Assessment Act* to obtain all relevant information required to properly assess all properties.**
- SNB response** 3.130 *SNB accepts the recommendation and will continue to exercise its authority by issuing requests and demands for information. The final step is to proceed to a prosecution of taxpayers who do not comply – ensuring equitable treatment of those who do not comply for various individual reasons is difficult. Assessment has relied on the Assessment and Planning Appeal Board to rule as to whether or not an appeal should be heard if a valuation where information has not been provided is taken to that level. Legislative amendments may be required to confirm that copies of requested information must be provided and not simply made available for viewing.*
- Recommendation** 3.131 **We recommended SNB eliminate inequity in assessments of superior homes, waterfront properties, apartment buildings, commercial, and industrial properties.**
- SNB response** 3.132 *Eliminating inequitable situations is the major goal of assessment work programs. Because of the vastness and complexities of the various property types above, and changing market biases and preferences, inequities arise more frequently in these categories of property. We agree that they need focussed attention in certain locations and upcoming work programs will address this.*
- Recommendation** 3.133 **We recommended SNB evaluate whether the value-per-unit approach is an appropriate primary technique for valuing apartment buildings.**
- SNB response** 3.134 *This approach has been used as a primary tool in valuing apartment buildings in locations where sufficient sales data exists to enable the necessary stratification. We will explore opportunities to utilize this approach more widely. We feel it is most appropriate if a detailed analysis and stratification is performed (adjusting for size, age, condition, quality, features, land value, etc). However, referrals and appeals of these properties will necessitate the use of multiple approaches to determine if the initial assessment is correct.*
- Recommendation** 3.135 **We recommended SNB sufficiently stratify properties within its existing assessment database.**
- SNB response** 3.136 *We agree with the recommendation and have been working to stratify properties to better react to recent market sales. The outdated*

twenty-five year old residential costing system makes it more difficult as stratification is sometimes needed based on age, size, style, and location. This normally requires a complete re-inspection of an entire neighbourhood.

Recommendation

3.137 We recommended SNB ensure its sales inspection standards are met.

SNB response

3.138 Our current level of funding does not allow us to meet our internal inspection standards. In managing work programs, choices and prioritization must be made within current resourcing. Managers assign assessors to the highest priority work program elements – appeals, referrals, new construction, sales, re-inspections, etc – and must sometimes sacrifice activities that are less crucial to the overall assessment outcome.

Recommendation

3.139 We recommended SNB identify more efficient means of inspecting and analyzing property sales.

SNB response

3.140 We recognize that this is a very important function and that changes are required to make it more efficient. Alternative methods of collecting and analyzing this information would be addressed with a technology upgrade and in conjunction with an organizational and job function review.

Recommendation

3.141 We recommended SNB put forward a financial cost-benefit analysis in support of the request for replacement of the property assessment information system.

SNB response

3.142 A submission to government is being developed outlining the rationale and need for a replacement PATS system.

Recommendation

3.143 We recommended SNB make property sales information available to the public.

SNB response

3.144 SNB has pursued, and continues to support, the legislative change that is required so that sales information is available to the public.

Evaluation

3.145 The second criterion is partially met. While policies and procedures are well developed to guide the assessment process, certain practices give rise to some assessments being below real and true value.

Staff qualifications**Capable, aggressive, and incorruptible administrators**

3.146 Byrne reminded us of the critical importance of having appropriately qualified staff:

We have placed a great deal of emphasis ... on the importance of mustering staffs of capable, aggressive and incorruptible administrators. The success of ... any programme of public services will depend more on the ability to recruit and retain such men than on any other single factor.

3.147 Appropriately, our third criterion was:

Assessment staff should be properly qualified.

Professional associations***International Association of Assessing Officers (IAAO)***

3.148 We felt it was important to understand the professional context within which property assessors work. This led us to compare the *assessing* and *appraising* professions.

3.149 The International Association of Assessing Officers (IAAO) has existed since 1934. Its mission is to promote innovation and excellence in property appraisal, property tax policy, and administration. This Association acts in a professional capacity to train and certify property assessors. It researches and produces professional standards for its members. It was a founding sponsor of the American Uniform Standards of Professional Appraisal Practice (USPAP). These standards apply to both appraisers and assessors in the United States.

3.150 Two senior SNB employees hold professional designations with the IAAO.

Appraisal Institute of Canada (AIC)

3.151 The Appraisal Institute of Canada (AIC) establishes Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP). It trains, certifies, and regulates the conduct of its members. It confers professional designations of Certified Residential Appraiser (CRA) and Accredited Appraiser Canadian Institute (AACI) to appropriately qualified candidates.

3.152 Many SNB employees have received training via the AIC professional education program. Some have received their professional appraisal designations; hence, these *assessors* are also members of the *appraisal* profession.

Roles of assessors and appraisers

3.153 We found the two disciplines – assessing and appraising – are inter-related and hold similar professional standards of practice. SNB

staff are well versed in generally accepted practices for assessors and appraisers.

3.154 There are, of course, significant differences between the two disciplines. Appraisers operate in the world of private enterprise, while, in New Brunswick and in many other provinces, property assessors are government employees. Appraisers value individual properties at a point in time for commercial purposes, while assessors annually value property en masse for taxation purposes. Finally, appraisers are often hired by property owners to challenge property assessments before the Assessment and Planning Appeal Board.

3.155 We believe each discipline has a unique perspective on property valuation. Some SNB employees have worked in both disciplines. Their knowledge, skills, and perspective are certainly richer from this experience.

Employment qualifications for assessment staff

3.156 We investigated the standards for establishing employment qualifications for assessment staff. We found that Canadian jurisdictions are free to establish their own qualification levels for assessment staff. Comparisons are made frequently among provinces, but no national guidelines exist. The IAAO's Standard on Professional Development does provide guidelines for the hiring, professional development and certification of assessing officers.

3.157 At SNB, an Assessment Education Committee, chaired by the Manager of Policy and Programs, establishes qualifications for assessment staff based upon the model supplied in the IAAO Standard.

3.158 Assessors are unionized members of the New Brunswick Public Employees Association (NBPEA) Group: Engineering and Field Technical Inspection, Laboratory and Medical, Highway Supervisors. The collective bargaining agreement between the provincial Board of Management and the NBPEA governs the working relationship between assessors and management. When filling a vacant position, the collective agreement requires the competition notice to contain the description and location of the position, the wage rate, and the required qualifications.

3.159 We reviewed the process SNB follows when hiring new employees. This process has clearly established procedures for:

- requesting a position be filled;

- preparing the job description, qualifications, remuneration, etc;
- advertising the competition;
- establishing an impartial selection board;
- interviewing, testing, and evaluating candidates;
- preparing an eligibility list for the President's decision;
- preparing letters of offer; and
- communicating the appointment to staff.

3.160 Through discussion with human resource staff and our review of competition files, we believe SNB has appropriate procedures to ensure people are properly qualified when they are hired as employees.

Professional designations

3.161 Professional designations are not a *requirement* of any positions within SNB Assessment Services, including management. Of 117 staff, 42 (36%) have professional designations with either the AIC or the IAAO.

3.162 Staff wishing to reach the highest classification within the collective agreement must complete all course requirements of the AACI designation. While they are not required to complete the final appraisal report granting the designation, it is *recommended*.

3.163 We learned that Prince Edward Island and British Columbia both require appraisal designations for their staff and management. The reasons given for having this higher standard of employee qualifications include:

- gaining increased credibility in the eyes of the public;
- receiving increased respect as expert witnesses before the assessment appeal boards;
- establishing a larger pool of talent for meeting future leadership requirements; and
- achieving higher quality assessments from a more highly-trained workforce.

3.164 We believe increasing the qualifications of employment to include professional designations is a point worthy of considerable discussion.

Human resource management issues

3.165 We found SNB has many initiatives in place to manage its human resources. Some examples of strategic initiatives are:

- SNB's 2004-07 Business Plan has a goal to ensure the right people are in the right jobs with the right tools;
- the Human Resource Strategic Plan is designed to ensure people have the policies, support and tools they need to do their jobs to the best of their abilities;
- employee performance management systems are well established and operating in compliance with policy; and
- Assessment Services initiated a strategic review of its regional management model to determine what structure will best serve future needs.

3.166 The effectiveness of these measures will soon be tested. There is an urgent need within Assessment Services to address succession issues. The senior management group at head office (Director of Assessment and three Managers), two provincial coordinators, and two regional managers are all eligible for retirement in the next five years. These retirements will create great challenges for the transfer of knowledge to a new generation of leaders.

Recommendation

3.167 We recommended SNB evaluate the costs and benefits of requiring higher levels of qualification for its assessment staff.

SNB response

3.168 *We agree that higher levels of qualification should lead to higher quality results and we encourage our staff to pursue professional accreditation. However, a more specialized work force -- whereby resources are trained and skilled in their respective roles -- is preferred over a broad brush approach. Requiring all managers and coordinators to have designations could compromise other more necessary job skills.*

Recommendation

3.169 We recommended SNB prepare a succession plan to address its human resource needs in Assessment Services.

SNB response

3.170 *SNB recognizes that this is a critical issue and is addressing it.*

Evaluation

3.171 The third criterion is partially met. While assessment staff are properly qualified according to SNB's internal requirements and standards, we suggest higher levels of qualification for staff be considered.

Management of the assessment process**Achieving the very best performance**

3.172 The Byrne Commission wanted staff to "...achieve the very best attainable administrative performance." Performance management continues to be a key issue in the public service today. Hence, our fourth criterion was:

Management should monitor the performance of the assessment process and take corrective action when necessary.

Monitoring performance

3.173 Generally accepted performance indicators are analyzed on both a regional and provincial basis. The most widely used indicator is the Assessment to Sales Ratio (ASR).

3.174 The Manager of Policy and Programs participates in a benchmarking exercise with other Canadian jurisdictions. They evaluate a wide range of operational measures, including ASRs, cost per assessment, and number of properties per staff. These measures are used by Assessment Services to monitor the economy and efficiency of their operations.

Corrective action by management

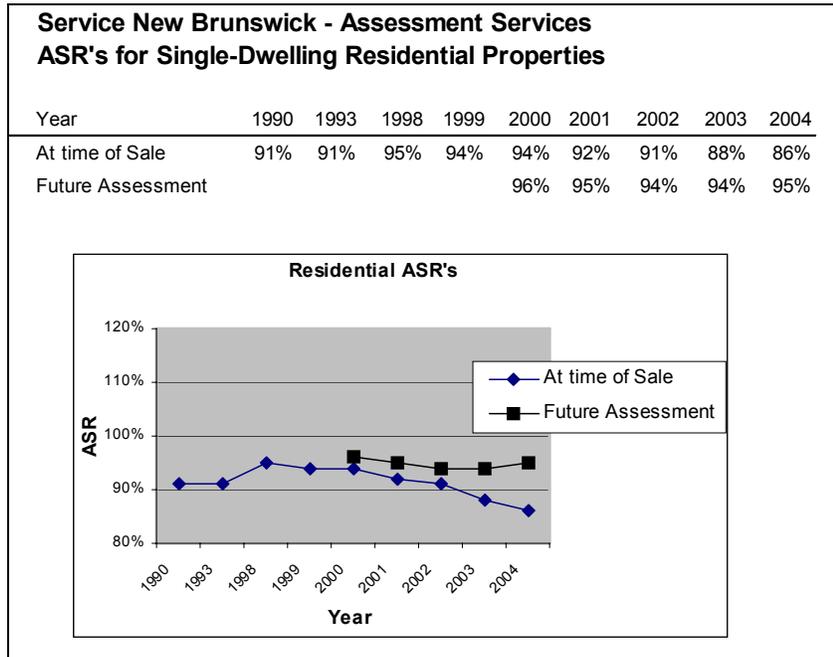
3.175 We sought to learn if management was taking appropriate corrective action in response to information they receive on market changes.

Establishing market adjustment factors

3.176 When establishing annual market adjustment factors, both regional and head office personnel have roles to play. Regional staff recommend factors based on their knowledge of sales and market conditions. Head office staff review and challenge these recommendations based upon their provincial perspective. Thus, we found significant involvement by management in this important process.

Analysis of residential ASRs

3.177 To objectively review management's actions, we analyzed ASRs calculated over several years for single-dwelling residential properties:



3.178 This analysis reveals two things:

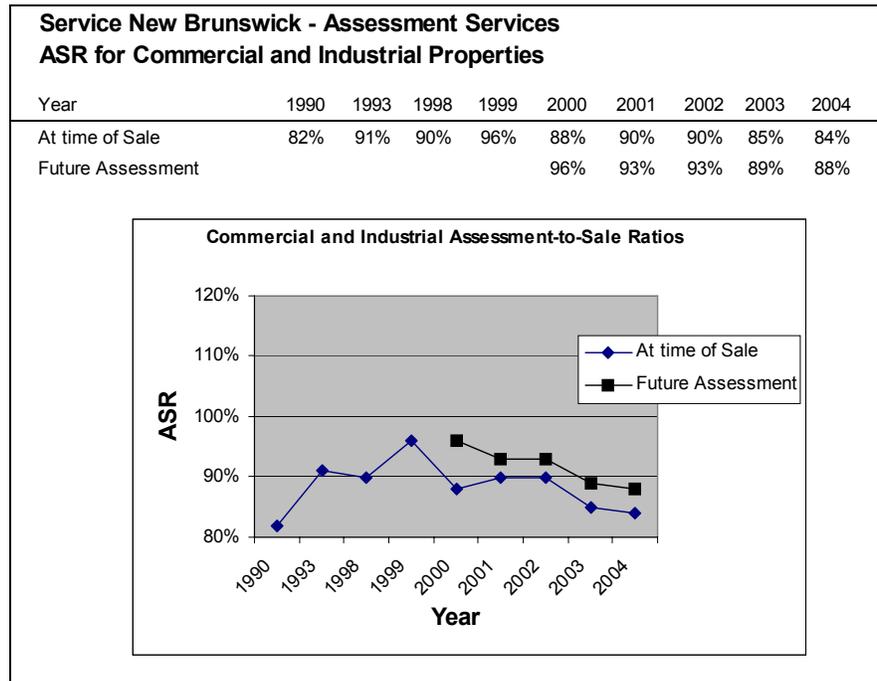
- ASRs at time-of-sale have decreased since 1998. This means that market values were increasing at an accelerating rate and exceeding current property assessments.
- In response to accelerating market values, SNB adjusted the future assessments upward, bringing the assessments within an acceptable percentage of sales prices.

3.179 This analysis indicates that SNB has been taking sufficient corrective action in response to rising market values for residential properties.

3.180 It should be noted that the role of SNB is not to anticipate market trends. It cannot set assessments in excess of current market values. Future increases in market values can only be reflected in future assessments.

Analysis of commercial and industrial ASRs

3.181 We also analyzed ASRs for commercial and industrial properties:



3.182 From this analysis, we see that ASRs at both time-of-sale and for the future year are lower than for residential properties. As well, future year assessment ratios have fallen below 90% in 2003 and 2004. Corrective action for commercial and industrial properties has not been as successful at keeping pace with market values as it has with residential properties.

Quality control

3.183 The Quality Control unit reviews compliance with policy and procedures in the regions. The unit includes two senior assessors working out of head office. Their reviews contribute toward accurate, complete, and consistent assessments.

3.184 We examined five Quality Control review reports covering the Sales Inspection and Analysis, Revaluation, Referral Register, and New Construction programs. We found the reports were very detailed and technical in nature. They noted specific variances from policy and errors made by the assessor.

3.185 We suggested a number of improvements be made to the format of these reports. We also believe Assessment Services should prepare an audit plan for the Quality Control unit. This plan could clarify the role of Quality Control. The audit plan could also establish

objectives and performance targets for Quality Control staff. This would allow management to more objectively evaluate the effectiveness of this function.

Reporting performance

3.186 SNB Assessment Services reports to a number of governing authorities.

3.187 Assessment Services establishes an annual work plan that details specific initiatives to be undertaken. SNB's Board of Directors receives a presentation on this work plan once it is established. SNB's senior management receives a monthly update on the number of properties addressed under each initiative.

3.188 The Board of Directors and the Province's Board of Management receive an annual briefing on the increases in property assessments and the resulting Municipal Tax Base.

3.189 For actual performance indicators such as the Assessment-to-Sales Ratio, Assessment Services prepares an annual report each December for internal review. Selected indicators are included in the briefing notes prepared for the subsequent fiscal year's Main Estimates. Also, we observed examples of presentations on performance indicators being made to the Board of Directors.

Consideration given to assessment appeal decisions

3.190 Following Byrne's recommendations, an independent, quasi-judicial appeal process allows property owners to challenge their property assessments.

3.191 The steps in this process are:

- The property owner may informally discuss the assessment with the assessor and obtain an explanation of how the assessed value was determined.
- The property owner may file an official "Notice of Reference of Assessment". This step "refers" the property to the assessor for a formal inspection of the property, review of the property file information, and issuing of a decision to confirm or vary the assessed value.
- If the property owner is not satisfied with the referral decision, an appeal may be filed with the Assessment and Planning Appeal Board. The appeal must contain a statement of facts and the reasons for objecting to the assessment. The onus of proving that

the assessment exceeds real and true value rests upon the property owner. The Board will issue a written decision confirming or varying the assessed value.

- Any further appeal can only be made on questions of law to the Court of Queen's Bench, the New Brunswick Court of Appeal, and, ultimately, the Supreme Court of Canada.

3.192 According to SNB's internal performance measurements, 5,838 (1.4%) of property assessments were referred in 2004. Of these referrals, 58% were reduced by Assessment Services. The assessments were reduced by an average of 9%.

3.193 SNB also monitors the success of appeals filed with the Assessment and Planning Appeal Board. Using 2002 as a representative year, a total of 268 appeals were filed with an assessed value of \$308 million. Of these appeals, 51% were withdrawn, dismissed or confirmed as correct by the Board; 17% had their assessments reduced; and 32% remain outstanding. The reduction in assessments ordered by the Board amounted to only \$1.1 million. These low success rates for appeals attest to the quality of the assessments.

3.194 Based upon discussions with SNB staff, we believe that SNB gives due consideration to the decisions rendered by the Board. All decisions are reviewed, analyzed, and interpreted by assessment management. Decisions are disseminated through electronic mail, posted on SNB's internal internet site, and discussed with appropriate levels of staff. Where necessary, modifications are made to policy, procedures, and practices to reflect the Board's decisions.

Recommendation

3.195 We recommended SNB take sufficient corrective action in response to changing market values for commercial and industrial properties.

SNB response

3.196 We accept the recommendation and will monitor more closely the market sales of commercial and industrial properties to gain a better understanding of this segment of properties. There is much less homogeneity to these property types than residential properties making it more difficult to apply mass appraisal techniques. The introduction of the Marshall Swift costing system will assist in this regard.

Recommendation

3.197 **We recommended SNB develop an audit plan for the Quality Control function.**

SNB response

3.198 *A detailed plan for Quality Control will be developed. We recognize that the roles of the QC function need to be documented, that the items to be reviewed need to be identified and prioritized along with the rationale for reviewing each item, and that the results of the review must be tied to individual performance reviews and training needs. The plan will be communicated to all regional staff.*

Evaluation

3.199 The fourth criterion is partially met. Monitoring of performance occurs. Additional corrective action is required to ensure assessments fall within generally accepted standards.

Public accountability

3.200 Even in 1963, accountability for the stewardship of public resources was an important issue for the Byrne Commission:

Giving an account of stewardship

The budget of the administrative commission is submitted every year and the Treasury Board combs through it for expenditures which are not justified, for costs which could be reduced, and for extensions of services which should receive prior executive approval. Each year, in effect, the commission gives an account of its stewardship.

3.201 The mission of the Office of the Auditor General is to promote accountability to the people of New Brunswick; hence, our fifth criterion was:

SNB should report publicly on its compliance with the “real and true value” provisions of legislation.

Provincial policy on organizational reporting

3.202 The Province of New Brunswick has an administrative policy on annual reporting by government organizations. It states “all departments and agencies in Parts I, II, III and IV of the Public Service are to publish annual reports....” SNB is one of many provincial Crown corporations listed under Part I of the *Public Service Labour Relations Act*; therefore, it is subject to the annual reporting policy.

3.203 The objective of this policy reads as follows:

The prime function of an annual report is to be the major accountability document by departments and agencies for the Legislative Assembly and the general public. It serves

as the key public link between the objectives and plans of a government entity and the results obtained.

3.204 The policy further addresses the appropriate content of the annual report:

To the degree possible, departments and agencies should give a clear account of goals, objectives and performance indicators. The report should show...how well the organization performed in achieving its plans....

SNB's annual reporting

3.205 We reviewed SNB's annual reports for the past four fiscal years. We found these reports provided a good level of general information about the corporation and its mission, its lines of business, property tax-related programs offered, and a discussion and analysis by management of the annual financial statements.

3.206 We believe, however, the annual reports lack a clear evaluation of whether corporate strategic goals and objectives were achieved. Specifically, key result areas identified in the corporation's Business Plan are not evaluated in the annual reports.

3.207 For Assessment Services, key performance indicators, such as Assessment-to-Sales Ratios, should be disclosed to demonstrate the degree of compliance with the "real and true value" provisions of legislation.

Accountability relationships

3.208 SNB, like many provincial Crown corporations, has a complex accountability relationship with its governing authorities. To appreciate the degree of complexity, we summarized in the following table the relationships described in the *Service New Brunswick Act* and other legislation:

Authority	Relationship to Service New Brunswick
Lieutenant-Governor in Council; i.e., the provincial Cabinet	<ul style="list-style-type: none"> • Appoints SNB's Board of Directors; • Appoints SNB's President; • Approves the by-laws of the Corporation; and • Authorizes any guarantee by the Province of money borrowed by SNB.
Board of Directors	<ul style="list-style-type: none"> • Administers the affairs of the Corporation on a commercial basis with decisions and actions based on sound business practices.
President	<ul style="list-style-type: none"> • Serves as an ex officio member of the Board; • Serves during the pleasure of the Lieutenant-Governor in Council; effectively, the President reports to the Premier.
Board of Management, a standing committee of Cabinet	<ul style="list-style-type: none"> • Approves the annual "Cost of Assessment" to be charged to the municipalities and the Province (the cost of assessment is \$0.02 per \$100 assessment); • Receives SNB's annual budget and request for operating subsidy and capital expenditure funding.
Minister responsible for Service New Brunswick	<ul style="list-style-type: none"> • Administers the <i>Service New Brunswick Act</i>; • Receives the minutes of each meeting of the Board of Directors; • Receives financial forecasts; • Receives the audited financial statements; and • Lays the audit report before the Legislative Assembly.
Minister of Finance	<ul style="list-style-type: none"> • Designates chartered banks available for use by provincial agencies; • Approves loans or money overdrafts and mortgaging of assets to secure such loans as the Corporation considers advisable and necessary; and • Issues guarantees of funds borrowed.
Minister of Human Resources	<ul style="list-style-type: none"> • Oversees the <i>Public Service Superannuation Act</i> applicable to the President and employees; • Oversees collective agreement negotiations; and • Oversees treatment of SNB employees as civil service employees under the <i>Civil Service Act</i> for employment competition purposes.

3.209 We believe it is in the public's interest to understand the complex nature of these accountability relationships through disclosure in the annual report.

Operating results by line of business

3.210 SNB has four lines of business:

- property assessment services;
- real property, personal property, and corporate registries;
- government service delivery; and
- geographic information infrastructure.

3.211 Corporately, SNB is required to operate profitably and in a commercial manner. Assessment Services, however, presently operates in a deficit position and is subsidized by other lines of business.

3.212 We feel it would be appropriate for Service New Brunswick to disclose operating results by line of business. Such reporting would help the government, the Legislative Assembly, and the public make more informed judgments about the financial performance of Assessment Services individually and SNB corporately. Although not required disclosure under Generally Accepted Accounting Principles, such “segmented reporting” would be relevant information for readers of SNB’s annual report.

Recommendation

3.213 We recommended SNB disclose in its annual report performance indicators as a measure of its compliance with the real and true value provisions of the *Assessment Act*.

SNB response

3.214 *Assessment performance indicators will be included in the 2004-05 Annual Report.*

Recommendation

3.215 We recommended SNB disclose in its annual report the degree of success in achieving strategic goals in key result areas.

SNB response

3.216 *The Annual Report is prepared annually for submission to the Minister by the Chairman of the Board of Directors. We believe that it does highlight key achievements during the year but we will be more explicit in the future in accounting for strategic goals in key results areas.*

Recommendation

3.217 We recommended SNB disclose in its annual report the nature of its accountability relationships with its governing authorities.

SNB response

3.218 *As indicated in this report, the Corporation “has a complex accountability relationship with its governing authorities.” The key relationship is with the Board of Directors which is charged by legislation to administer the affairs of the corporation. This relationship is made clear by the Annual Report. Other relationships are disclosed contextually where appropriate.*

Recommendation

3.219 We recommended SNB disclose in its annual report operating results for each line of business.

SNB response

3.220 *The Corporation follows generally accepted accounting principles (GAAP). As noted in the report, the requirements of GAAP for segmented reporting do not apply to SNB. While the information is available internally and shared from time to time with relevant stakeholders, the cost of providing such breakdown in audited financial statements would far exceed its value to general readers.*

Evaluation

3.221 The fifth criterion is not met. SNB does not adequately report publicly on its compliance with the “real and true value” provisions of legislation.

A time for change

3.222 Service New Brunswick faces several issues with significant implications for its operations. For example:

- preparing for the succession of senior staff requires urgent attention;
- deciding to replace PATS will entail a significant capital investment;
- ensuring all assessments meet generally accepted standards may require changes in work assignments and work methods; and
- deciding to release sales information would significantly alter the dynamics of the real estate market.

3.223 These issues are not unique to SNB; rather, they are being addressed by assessment jurisdictions right across Canada.

3.224 A generation ago, a road of change was paved by Byrne:

We resolved to treat no established pattern of relationships nor structure of government as inviolate. Certainly change for the sake of change has no virtue. But if change were unavoidable if the public interest was to be served, we were resolved to recommend it.

3.225 SNB has a mandate to serve the people of New Brunswick. We trust our work will contribute toward a period of change allowing SNB to better fulfill that mandate.