Newmarket

INFORMATION REPORT
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CORPORATE SERVICES INFORMATION REPORT – FINANCIAL SERVICES 2015-18

TO: Mayor Tony Van Bynen and Members of Council

SUBJECT: Proactive Assessment Management

ORIGIN: Supervisor, Property Tax & Assessment

In accordance with the Procedure By-law, any Member of Council may make a request to the Town Clerk that this Information Report be placed on an upcoming Committee of the Whole agenda for discussion.

A Council Workshop has been scheduled for Monday, September 21, 2015 at 9:00am.

COMMENTS

General

The purpose of this report is to provide Council with information regarding the Financial Services Department plans to pro-actively manage our property assessment base on a go forward basis.

The Town currently has an assessment base of $14.7 billion with values established as at January 1, 2012. This base, phased in from the 2008 base, is used for taxation in 2013, 2014, 2015 and 2016. Properties that saw an *increase* in their current value assessment (CVA) from the last base date of January 1, 2008, saw that value change phased-in over the four years. Properties that saw a *decrease* in their CVA realized that benefit immediately; it was not phased in. See the example below:

	2008 CVA	2012 CVA	Difference	2013 Tax Value	2014 Tax Value	2015 Tax Value	2016 Tax Value
Property A - Increaser	500,000	700,000	+200,000	550,000	600,000	650,000	700,000
Property B - Decreaser	800,000	550,000	-250,000	550,000	550,000	550,000	550,000

The Municipal Property Assessment Corporation (MPAC) is currently working on the next Province wide reassessment. New values for every property in Ontario will be established based on their CVA as at January 1, 2016. These new values will again be phased in for taxation years 2017, 2018, 2019 and 2020. The same rules regarding the phase-in of decreases realized immediately, remains in effect.

Preliminary value changes were provided by MPAC at the recent AMO conference.

Residential properties in our zone are expected to see increases in their values of 20-30%, with Newmarket specifically falling around 25% to 30%.

Multi-residential properties are experiencing a higher demand as vacancy rates are decreasing and we can expect an increase in those values of approximately 25%.

Although Newmarket has a very limited number of farmland properties, those being sold from farmer to farmer (not for development purposes) are seeing an increase in value of approximately 48%, due in part to the fact that they are becoming more scarce.

The results relating to commercial and industrial properties are very preliminary; however, the trends are showing that office and high quality retail, such as modern malls, will increase 15-20% while older neighbourhood malls appear to be flat. With the struggling auto and manufacturing sector, the industrial growth appears to be 20% at best. However, MPAC is seeing a trend of industrial property going through retooling over to more commercial uses.

Notices of Assessment

Property owners can receive a number of assessment notices throughout an assessment cycle. Please refer to Attachment #1 – Property Assessment Notice Matrix for an overview of the notices currently being used, and notes indicating whether they can result in either a tax bill or an appeal.

MPAC did announce at AMO that it is their intention to begin rolling out the new value notices as early as April of 2016, where in past reassessments they would not have been done until October or November. We have some concern that this timing may cause confusion for homeowners because they will be receiving a new assessment notice just prior to receiving a final tax bill in June calculated on the old value. We will develop a communication strategy and ensure that all staff are able to clearly explain the changes.

Assessment at Risk

Through the *Assessment Act*, anyone has the right to challenge both the CVA and classification of any property in Ontario any year, not just in the first year of the reassessment.

Non-Business Properties (Residential Homes, Condominiums and Farms)

The owners of non-business properties are required to file a Request for Reconsideration (RfR) with MPAC by March 31st of the tax year in question. This is a no-charge option, filed directly to MPAC, in which the municipality has no early role. MPAC works directly with the property owner and can come to an agreement to change the class or reduce the assessment by any amount, and the municipality is notified and then required to process a refund of taxes levied for that year.

The only option open to a municipality, if they disagree with the settlement, is to appeal it to the Assessment Review Board (ARB) and then represent themselves against both MPAC and the property owner at the ARB. This can be very time consuming and costly for the municipality and would only be undertaken in very rare and extreme circumstances. Should staff see a situation where this action may be advisable, Council will be advised.

The largest number of RfR's will occur in the first year of the new assessment cycle (2017). RfR's are resolved during the tax year and the results apply to all the remaining years in the cycle. It is a benefit to the municipality that it is settled quickly as this allows the assessment roll to be updated for the next year so that we are setting a tax rate based on stable assessments.

We will be implementing a pro-active assessment management program (PAM) in which we will monitor all the RfR's, record the amount of assessment and tax dollars lost, and use this information for budgeting purposes as well as indicators of future assessment at risk.

Business Classes (Commercial, Multi-Residential and Industrial)

Business class properties do not have the mandatory RfR first step and may appeal directly to the ARB by March 31st of the tax year in question. There is a nominal fee for the appeal. At this point, MPAC and the municipality become respondents to the taxpayer appeal. For most of the business properties in the Town, the property owner is represented by a professional consultant, many of whom are compensated based on the resulting tax refund as well as future savings within the assessment cycle. Others may be compensated on an hourly basis.

Business property assessment appeals rarely settle within the first or even the second year of the assessment cycle. Therefore, the ARB automatically deems the property owner to have an open appeal for each subsequent year within the assessment cycle until it is resolved. For example, if you appeal in 2013 (the first year of this cycle), you will automatically have an appeal for 2014, 2015 and 2016 if the appeal remains open.

Currently, the Town is subject to assessment appeals on approximately seventy business properties. Five of these properties have appeals open that date back to the 2009 taxation year. The other sixty-five properties have appeals that date back to 2013. Although this is not unusual, it is especially concerning from a financial perspective because when the appeals are settled, tax refunds must be calculated for every year for which there are open appeals. In other words, if the five properties with appeals back to 2009 are not settled until 2016, refunds will be payable for eight years, all within one tax year. These five properties pay the Town of Newmarket taxes of approximately $275,000 per year. If the assessment reduction is approximately the provincial average of 10%, the tax refund of the Town portion only would be approximately $220,000. The Region of York and Provincial Education tax portions are even larger.

Although we do budget annually for tax appeal losses as part of the PAM strategies we are implementing, we are identifying each of these appeals, determining their current status, and working directly with MPAC, the appellant (or their agent), and the ARB to not only expedite the settlements, but also to mitigate the tax losses.

Early results with the PAM strategy are showing success. We have had ten properties either withdraw their appeal completely, or settle the appeal for less than they originally were seeking, without the time and expense of a full hearing. Other successes we have seen are:

- Properties being scheduled into a full hearing, which pressures the parties to move along their preparation and ultimate resolution.
- Representatives agreeing to move Newmarket properties to the top of their pile in order to complete them sooner.

The ultimate goal of this pro-active approach with assessment appeals is to have all of the open appeals for the 2013 to 2016 cycle completed and closed by the end of 2016. Once the new cycle begins in 2017, we will begin working on the new appeals right away, with a view to not allow any appeal to exceed two open years, thereby managing our financial risks.

These are aggressive goals given that there are three other parties involved in the process: MPAC, the ARB and the taxpayer. However, any appeal where this is achieved will result in a benefit, not only to the Town, but also to Region of York and the School Boards whose levies are also affected.

Other Areas of Assessment Management

Assessment appeals are just one of the things that erode our property tax revenues. There are other areas that also need more pro-active management, such as;

- Vacant Unit Rebate Program
- Vacant Land Classification and Valuation Reviews
- Exempt Property Reviews
- Development Land Assessment Triggers

Vacant Unit Rebate Program

The *Municipal Act* requires municipalities to have programs in place to provide a rebate of property taxes to commercial or industrial buildings that have vacant space. The criteria to apply are:

I. An entire Commercial or Industrial building is unused and vacant for at least ninety consecutive days;

II. A portion of a Commercial building is vacant for at least ninety days, is unused, is clearly delineated or separated by physical barriers from any used portion of the building and is capable of being leased for immediate occupation or was capable of being leased, but not immediately, due to repairs or renovations or was under construction;

III. A portion of an Industrial building is vacant for at least ninety days, is unused and clearly delineated or separated by physical barriers from the portion of the building being used.

Upon receipt of a complete application, by February 28th of the year following the year for which the application applies, the taxpayer is provided with a rebate of 30% of the taxes paid for a commercial property and 35% for an industrial property.

In 2015, the Town received seventy-six applications for the 2014 tax year. Similar to appeal losses, we do budget for these tax rebates, however as part of the PAM strategy, we engaged an outside consultant to review each application, inspect the properties involved, and make recommendations to the Town as to whether the application should be processed as submitted, processed with modifications, or completely denied.

At this point in time not all the applications have been processed; however, we are about 95% complete and are tracking rebates that are approximately 20% lower than last year despite the fact that the tax levy is higher. Council will be provided with a complete summary in a subsequent report.

Vacant Land Classification and Valuation Reviews

As part of the PAM strategy, we will be compiling an annual list of the properties on the roll that are assessed as vacant land, with no structures. A review will be done to ensure the land is in fact vacant, that it is classified under its correct zoning or use, and that the value per acre is appropriate. Any anomalies will be documented to MPAC for review and updated if necessary.

Exempt Property Reviews

A review will be undertaken of all properties that are currently on the assessment roll as Exempt. The review will comprise of checking the ownership/usage to ensure the Exempt status is correct, as well as reviewing the CVA. Although no taxes are paid on the CVA, these properties may still be used as comparable properties for the purpose of reducing the values of similar taxable properties in an appeal. It is therefore important that the values on exempt properties reflect the current market.

Development Land Assessment Triggers

As Council is aware, the process of moving raw unused or farmed land to a completed development is lengthy and involves many steps. Some of these steps such as official plan amendments, rezoning, draft plan approvals, active sales, servicing and ultimately building, will increase the value of the land. Our goal within the PAM strategy is to monitor lands with development pending and/or ongoing, and work with MPAC to ensure the stages that trigger an assessment or classification change are reacted to in a timely manner.

In the News

In recent weeks, there have been articles in the national press that refer to tax shifting and assessment methodologies for commercial properties that negatively impact local municipalities. To assist with understanding the concept of tax shifting, one way of looking at it is to review the change in how much of our assessment is Residential vs. how much is Commercial/Industrial.

In 2013, our assessment base was 16.4% commercial/industrial and 83.6% residential. By 2015, those numbers had changed to 15.4% commercial/industrial and 84.6% residential. The loss of 1% to the business base means that the taxes previously paid by that assessment are now being paid by the residential base. The impact is further exacerbated by the fact that the commercial/ industrial assessment is weighted heavier than residential. The residential class pays taxes against $1 of assessment as $1, however the commercial class pays at $1.10 for each $1 of assessment, and the industrial class pays at $1.30 per $1. These are known as the assessment ratios which were implemented in 1998 when current value assessment was introduced.

Whether commercial/industrial assessment is lost due to assessment appeal strategies of existing taxpayers, or through broader economic circumstances causing industry to downsize or shutdown all together, the impact is that any tax not paid by these properties is shifted to the residential class.

Other items in the press recently are *novae res urbis* publications in August that provide charts that compares the Residential, Multi-Residential, Commercial and Industrial property tax rates across the GTHA. While this information may be useful to someone wanting to know the rate in a particular municipality, it has little value if used as a comparator between municipalities. It does not take into account the variance of assessment values in those locations, nor does it take into account different budget challenges, Council priorities, or the quality of services provided. Using these numbers as presented could lead to misleading conclusions.

BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

Under the theme of Efficiency / Financial Management, Council has set the priorities of ensuring effective and efficient services and measuring and benchmarking our financial performance. Proactive Assessment Management is a key component in the Financial Services Departmental goal to establish a sustainable financial strategy to support those priorities.

CONSULTATION

- Assessment Roll Audit & Strategic Planning Study prepared for the Town by Municipal Tax Equity (MTE) Consultants Inc.
- Online Property Tax Analysis (OPTA) for Statistics
- Municipal Property Assessment Corporation, Assessment Roll for 2015 Taxation

HUMAN RESOURCE CONSIDERATIONS

Staffing levels remain the same. An Assessment Analyst is currently being hired to replace a vacant existing full time permanent position.

BUDGET IMPACT

Operating Budget (Current and Future)
The operating budget for 2015 will not be impacted to any material degree, however, the 2016 and beyond operating budget may see a reduction in the allowance for outside consultants with expertise in property tax and assessment. There may also be an increase in tax revenue as a result of additional assessment being added to the roll in a timelier manner.

Capital Budget
There are no capital budget impacts.

CONTACT

For more information on this report, contact: Grace Marsh at 905-953-5300, ext. 2143 or via e-mail at gmarsh@newmarket.ca

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Attachment Property Assessment Notice Matrix (1 pg.)

PROPERTY ASSESSMENT NOTICE MATRIX

Name on Notice	Short Name	Purpose	Time of Receipt	Tax Bill	RfR or Appeal
Property Assessment Notice	PAN	Regular annual notice.	Everyone-fall of 2016, and Anyone in a year where a change has occurred.	Yes – This is the value used for the annual tax levy.	Yes – by March 31st of the tax year in question.
Property Assessment Change Notice (formerly known as Supplement or Omitted Assessment Notices	PACN	Changes, such as improvements, have occurred to a property that had not been previously assessed	Throughout the year, and may be effective for the current and/or two prior years.	Yes- Supplementary and/or Omitted tax bills.	Yes-within 90 days of the notice date.
Statement of Revised Assessment	SRA	This describes in more detail the changes assessed on the PACN	Together with the PACN	No	No
Amended Property Assessment Notice	APAN	Correction of factual information that results in a change to value or class	Anytime	May be a tax bill or a tax credit.	Yes-within 90 days of the notice date.
Post Roll Amended Notice	PRAN	This is the electronic version of the APAN, sent to municipalities only to trigger the tax changes from the APAN.	Not seen by property owners	See APAN above	See APAN above
Advisory Notice of Adjustment	ANA	Notification of a change in phase-in values for an assessment cycle generally resulting from an ARB decision for tax years in the prior cycle.	Anytime	May be a tax bill or tax credit.	No – however obvious errors should be brought to MPAC's attention.
Special Amended Notice	SAN	Used in rare cases where a legislative change results in a change to a property class or assessment.	Anytime	May be a tax bill or tax credit	Yes-within 90 days of the notice date.

Revised 8/24/2015