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HALIFAX
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Committee of the Whole
November 14, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Geri Kaiser, Acting Chief Administrative Officer

DATE: November 2, 2006

SUBJECT: **Bill 92 - Assessment Cap**

ORIGIN

Staff originated this report due to the unexpected introduction of Bill 92, an act to extend the Assessment Cap to 2008-09 and future years. Staff has the opportunity this week to present information to the Law Amendments Committee.

RECOMMENDATION

It is recommended that :

> HRM request that before passing Bill 92 the Province complete a full review of the assessment cap in Nova Scotia, in particular its (1) economic impact, and (2) impact on tax burden.

BACKGROUND

For the 2005 tax year the province passed legislation for an assessment cap on properties with high assessment growth. The legislation did not specify a percent that assessment would be capped at. That percentage, rather, is set by the Provincial cabinet through regulation. The legislation included a sunset clause and was to expire in 2007. The legislation requires the Minister to review the program and file a review with the House by April 1, 2007.

On November 8th, 2006 the Province introduced legislation to extend the assessment cap. A review is still to be conducted but will occur after the legislation is passed.

DISCUSSION

While Assessment caps are based on relatively simple and appealing concepts, they tend to have very complex and wide-reaching impacts. In their simplest form, they only appear to place an upper limit on assessment growth, hence protecting the taxpayer from unpredictable growth in individual tax bills. However, the difficulties with the current assessment system go much deeper than simply the growth in market values. Rather, market value has only a weak connection to either ability to pay or to the provision of municipal services. The assessment cap bears no connection to either of these factors, and hence only further complicates the policy issues with assessments.

The down side of assessment caps is that they tend to slowly shift the tax burden away from one set of properties and onto the remaining properties. There is no clear logic as to why these particular properties are receiving relief while others pay for it. Many capped properties have below average assessments while properties with higher assessments may be ineligible for relief. For instance, roughly 50% of all eligible properties are below the HRM average assessment before the cap is applied. In some cases a property may have been under assessed relative to market value for some time. The sudden jump in values may reflect an attempt by the assessment system to get such properties up to a proper value. Only 3% of those in the cap program are low income families. Apartments, where most low income families reside, are ineligible for the cap.

For municipal governments, raising the tax rate, or reducing services, offsets any revenues lost through the assessment cap. Loss of revenues is only a secondary concern. A much deeper problem is the additional inequities that the capped system has created.

The assessment cap rate is one of the critical elements of an assessment cap system. Under regulations set by cabinet the assessment cap is set at 10%. Private member legislation currently before the legislature would set the percent equal to the consumer price index (CPI). While this may appear logical, the inequities in the tax system tend to grow dramatically as the cap rate is lowered.

A system with a very low or frozen assessment is often called "acquisition value". A number of US states, including California and Florida, use such systems. Under a system like this an individual's assessment is frozen at the time of purchase or is limited to a very small increase. Modifications to the home are added on separately as they occur. New homes or homes which have sold are assessed at their value when they are built or sold. Homes may be identical in location, size and value but will be assessed differently according to when they were either built or last sold. Entire neighbourhoods may have dramatically different assessments and hence tax bills. The cost of keeping assessment low for long-term homeowners is shifted onto newer homeowners and other properties such as apartments. As such, the tax system tends to make it harder for new, younger families to afford a home. The long-time homeowner benefits as long as they don't have to sell their property. (For example, seniors transitioning out of their homes). When they wish to sell, two things happen. First, they may find it more difficult to sell, and sometimes have to accept a lower selling price due to the high taxes. Secondly, any new home they purchase as a replacement will come with disproportionately higher taxes. All of this greatly distorts the housing markets and the overall economy. The impact tends to cumulate as time goes on.

Currently, the 10% assessment cap does not appear to have caused major distortions in the housing market even though it has shifted the tax burden. Staff have estimated that a typical homeowner on the cap has seen a 6% drop in taxes. This cost has been shifted onto the remaining taxpayers (80% of homes) who have seen a 1% increase. As the cap percentage rate declines, more and more homes are eligible and the cost is shifted onto a smaller and smaller percentage of the tax base. The relationship between the cap rate and shifts in the tax burden is complex and deserves careful analysis.

To demonstrate this, HRM staff reviewed the last 10 years of assessment records. Staff assumed that the assessment cap had been set at 0% in 1996 and modelled the impact upon the assessment base, the tax rate and tax burden. A home that existed in 1996 (and had not been sold) would see its assessment stay flat. Likewise, new homes built or purchased in 1997 would be assessed at their original 1997 value. In total, the residential assessment base would drop in value by $4.5 billion or 25%. To compensate the tax rate would have to rise from $1.228 to $1.61. This higher rate would be paid by all, including the capped properties. The end result would see the group of 1996 homes with a 17% decline in their tax bills. Homes built or purchased in 2006 would see tax increases of 31%. After 10 years the difference between comparable homes would be $900. Staff was unable to model any slowdown in real estate sales or construction. Any such slowdown could have worsened the discrepancy in tax bills.

At the present time, HRM staff are undertaking a review of the Nova Scotia assessment cap. Staff has spoken with Service Nova Scotia staff and have agreed to share findings and research. Unfortunately, the Province of Nova Scotia has decided to extend the legislation prior to undertaking a full review of the program. It is staff's opinion that **a full review should be completed before any extension of the program and that the review should focus on the economic impact and the shift in tax burdens that such programs create.**

Ultimately, assessment caps will not solve the difficulties in the market value system. Rather, wholesale reform of the property tax system may be required. This is the initiative now being led by HRM Regional Council.

BUDGET IMPLICATIONS

There are no immediate budget impacts. Assessment caps, however, lead to a decline in the taxable assessment base. As a result the municipality may either raise the rate to deal with the decreased tax base, cut services, or some combination of the two.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

None.

ATTACHMENTS

None.

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.html then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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