

Assessing the Assessors

Submission on the Review of the Assessment Act, 2006

Vaughn Hammond, Director of Provincial Affairs, Newfoundland and Labrador

Property assessments play an important role in determining residential and commercial tax bills. In 2016, residents and business owners in Newfoundland and Labrador noted significant increases in their assessments, which for many lead to higher property and business taxes. However, property assessments are just one component in calculating property taxes, with mill rates being the other component, over which municipalities have absolute control.

Introduction

Property tax is one of the oldest forms of taxation in Canada. Before income and sales taxes were introduced, provincial and municipal governments relied on property taxes to generate revenues for programs and services. There has not been much change to the present day, as property taxes remain the primary source of revenue for municipal governments. Property tax refers to the tax levied by governments on assessed property values. Businesses in municipalities across the Newfoundland and Labrador pay a business tax, which is added to the commercial property tax (except in St. John's where the business tax was blended with the commercial property tax in 2013). The values for both the commercial property tax and the business tax are determined by a mill rate established by the municipality and applied to an assessed property value for the business.

CFIB represents over 2,000 small- and medium-sized businesses in Newfoundland and Labrador from all sectors of the economy. Policy positions are taken at the direction of our membership through surveys and discussions with members. This submission was completed using data gathered from the membership as well as some secondary sources, including the financial statements of the Municipal Assessment Agency.

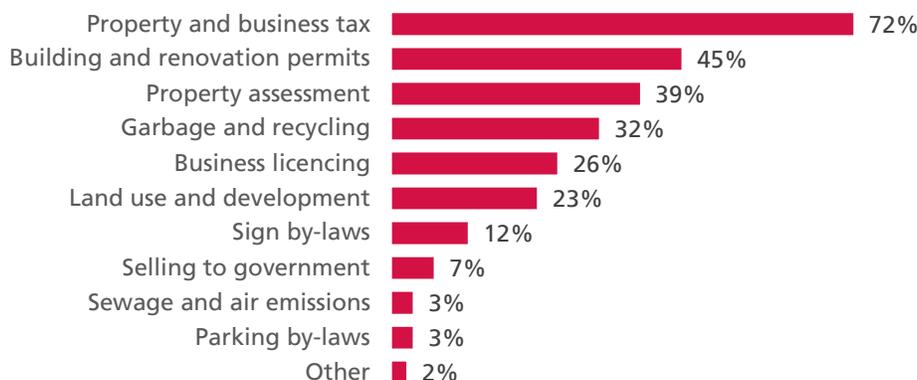
Small Business Views on Municipal Assessment

In Newfoundland and Labrador, the most burdensome municipal government regulations for small business owners are property and business tax, building and renovation permits, and property assessments (see Figure 1). Property assessments in Newfoundland and Labrador are

based on the market value system. Market-value based assessments are not free from criticism, as no direct relationship exists between the value of a property and the cost of the services received. This is especially true for businesses, which often have to pay additional fees for services, such as garbage collection. Reducing the amount of red tape associated with municipal taxation should help make municipalities in Newfoundland and Labrador more business friendly.

Figure 1:

Most burdensome municipal government regulations



Source: CFIB, *Regulation and Paperburden Survey*, June-July 2014, 94 responses for Newfoundland and Labrador.

Small business owners are concerned about municipal commercial and business taxes because they are profit-insensitive, meaning a business has to pay them regardless of how well the business is performing. Commercial and business property taxes are a fixed cost, but the business owner has very little control over them. In Newfoundland and Labrador, there are a lot of seasonal businesses and the property tax system (certainly the tax deadlines) is problematic for them. In addition, the municipal tax system is unfair to small business owners in that they are charged a higher mill rate on property of similar assessed value. In fact, the lack of fairness in the system grew in 2016 based on analysis of mill rates for residents and commercial property owners.

Part of the concern small business owners have with the property assessment system is lack of clarity and fairness in how their properties are valued. They strongly or somewhat disagree (69 per cent) that their latest property assessment was explained transparently (see Figure 2). Small business owners have noted there is no justification given in the assessment notice for how a property valuation is determined. This is especially noteworthy for business owners who have businesses in two or more municipalities. Small business owners have also suggested they rarely see or meet with an assessor of their commercial properties. This is surprising given section 7 of the *Assessment Act, 2006* (Act) allows for an assessor to enter a real property. But it is also unfortunate because business

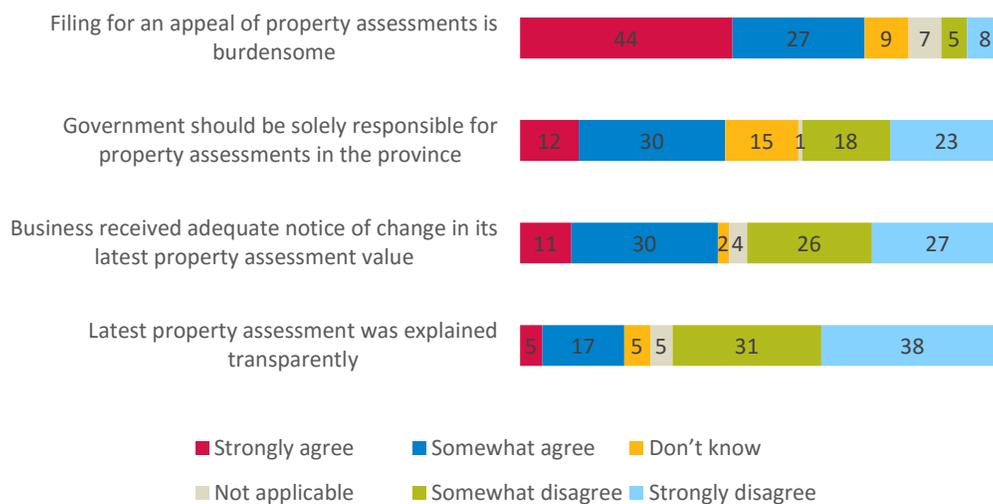
I agree that property taxes are necessary as a means of funding municipal services, but feel that there is no accountability for fairness in the methods of assessment from one community to the next.

-CFIB member, Western Newfoundland

owners may receive inaccurate assessment values as a result. They want more than “curb appeal” to be factored in when determining property valuations.

Figure 2:

To what extent do you agree or disagree with the following statements? (%)



Source: CFIB, NL Municipal Taxation and Spending Survey, March-April 2016, 142 responses.

The problem may lie with section 4 of the Act, which states “where the assessor is not in receipt of information to indicate that alterations have taken place which may significantly affect the real property’s value, the assessor may dispense with an inspection of it.” If there is some work done on a property, it may not necessarily require municipal permits, but helps the operation of a business and the municipality. For example, many business owners are adopting more environmentally friendly practices (eg. low-water flow toilets) that could help them and their municipalities save money. However, these initiatives are not considered nor rewarded, as tax bills continue to rise. Yet, if an assessor does not have any information of improvements or changes, there is no requirement to inspect the property.

The solution lies with simply visiting and entering a property as section 7 allows. Business owners are likely to have few concerns with this and would definitely appreciate a meeting with an assessor, especially during the assessment appeal process.

The assessment appeal process is rife with red tape. In a recent survey, 71 per cent of small business owners strongly or somewhat agree that filing an appeal for their business property assessment is burdensome, while 13 per cent strongly or somewhat disagreed (see Figure 2 above). Under the current system, the fee to appeal an assessment of a residential property is \$25 and for a commercial property \$100. Applying a fee to an appeal of a commercial property is an added cost of doing business. The reason for this is appeals are only considered if detailed information is provided before the re-assessment can occur. This is typically information for

Municipal Assessment Agency should try to reduce the number of appeals as it is a time-consuming and costly process for all involved.
 -CFIB member, Eastern Newfoundland

which the assessor is responsible. For instance, a business owner will have to get an independent appraisal of their commercial property and submit this information to the assigned assessor. The cost of doing this could range from \$1500 to \$2500, depending on the property. The appeal process heavily relies on the small business owner to collect any information and make the case for any changes to property valuations.

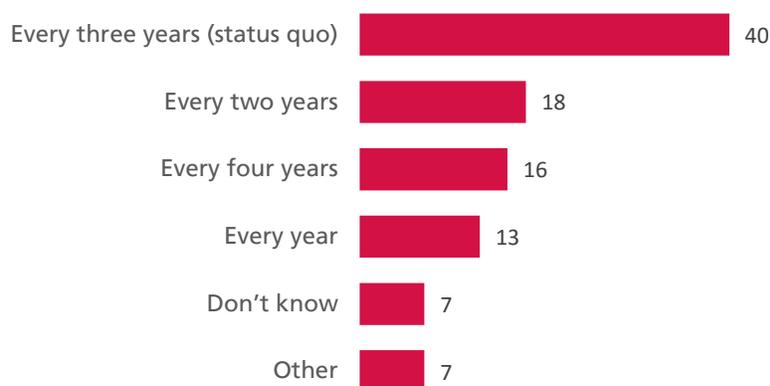
The timing of issuance of property assessments is a concern for small business owners. When considering the timing of property assessment notices, 53 per cent of business owners strongly or somewhat disagreed that they received adequate notice of change in their latest property assessment value, though 41 per cent strongly or somewhat agreed. To address any concerns, it is appropriate to consider issuing property assessment notices earlier in the calendar year. Three-year assessments based on valuations two years prior should make this change possible.

Assessments come at the end of the year where in retail we are too busy to deal with it.
-CFIB member, Northeast Avalon

The revaluation period for property assessments should remain at three years. According to survey data, 40 per cent of business owners prefer a period of every three years, 18 percent chose every two years and 16 per cent identified every four years (see Figure 3). The concern business owners have is the cost associated with doing assessments properly every year. As noted previously, assessments are not being conducted in the manner they should be with a three-year valuation period.

Figure 3:

How frequently should commercial and residential property values be revaluated in the province? (%)



Source: CFIB, NL Municipal Taxation and Spending Survey, March-April 2016, 142 responses.

The consolidated financial statements of the Municipal Assessment Agency show revenues generated by assessment services averaged over \$5.5 million between 2013 and 2016. This revenue is collected from the municipalities, which in turn is collected from the residential and commercial taxpayer. If property values are to be revaluated every year, there has to be clarity on what additional costs, if any, this will mean for the taxpayer. One can imagine an argument

being made for more assessment staff at the Municipal Assessment Agency and the City of St. John's. However, this argument would be misguided because section 6(3) of the Act allows for private sector involvement. As the section states, "the director or manager may, where he or she considers it to be appropriate, direct that an assessment of real property be carried out by a person not employed by the city or the agency." Members' opinions, as Figure 2 shows above, are split about whether government should be solely responsible for property assessments in Newfoundland and Labrador. Nonetheless, government may consider greater use of private assessors as part of the process regardless of the property valuation period.

Transparency of Information

Property tax bills are calculated using a mill rate and an assessment value. While property mill rates are public information and, for the most part, widely available, there is very little public information on property assessment values. While section 27 of the Act does not necessarily require assessment rolls to be placed on a website, one can obtain the 2016 value of any property in the province using the websites of the Municipal Assessment Agency or the City of St. John's. However, general, aggregate information that can be used for analysis of municipal finance is unavailable. A request can be submitted to the Municipal Assessment Agency for general information like average residential and commercial property assessments in a municipality, but the approval of the head of the municipality is required before the information is released (requests can be submitted directly to the City of St. John's division). CFIB recently submitted information requests to five municipalities,¹ but approval for release of that information has yet to be granted. General, aggregate information, like average residential and commercial property assessments, should be proactively disclosed, without compromising the privacy of individual property owners. The alternative is to retrieve the data and information through the access-to-information process.

Appendix I shows the average residential and commercial property values for the 20 largest municipalities in the province. As one would expect, the magnitude of growth in property values from 2015 to 2016 varied by municipality. It is this growth each municipality had to consider, as well as their budget targets, when determining what their mill rates for 2016 would be. This information can be used to educate residents and business owners on how their municipal tax bills are calculated and establish a benchmark to help put their assessed property values into context.

Conclusion

Overall, the property assessment system in Newfoundland and Labrador is performing well. From the small business perspective, there is red tape that can be removed from the system to make it more cost-efficient and less time-consuming. There may also be, with serious consideration, room for more private sector involvement not only in the appeals process, but also in the regular assessment process. In addition, there needs to be more transparency and

¹ Requests for property assessment data were sent by email (in alphabetical order) to the Towns of Bishop's Falls, Botwood, Harbour Grace, Lewisporte and Pasadena.

accountability built into the system. Better explanation of property assessments and greater availability of general assessment information and data will be very helpful in achieving this objective. Fundamentally, however, it has to be recognized property assessment values, particularly the substantial increases in 2016, did not have to result in the significant property tax increases many residential and commercial property owners experienced. The solution lies in municipalities controlling spending if the property tax burden is to be reduced.

Recommendation

Based on these findings, CFIB recommends the following:

- Maintain the current three-year property valuation period.
- Address the red tape in the system, especially as it concerns the appeals process:
 - Eliminate the \$100 fee for commercial property appeals;
 - Assessors should enter properties more frequently, which could result in more accurate property values and fewer appeals;
 - Assessment notices should be clearer on how a property was valued; and
 - Change the assessment notice date to earlier in the calendar year.
- Consider the use of private property assessors to assist in meeting the obligations set out in the *Assessment Act, 2006*.
- Publish general, aggregate municipal assessment information in a standardized format for each municipality (the Municipal Assessment Agency already has an effective format that could be proactively disclosed).
- Adopt a public awareness campaign on the municipal assessment process and the role municipal assessments play in determining residential and commercial property taxes.

Appendix I

Change in Average Residential and Commercial Property Values (2015-2016)

Municipality	Average Residential Property Value (2015)	Average Residential Property Value (2016)	Average Commercial Property Value (2015)	Average Commercial Property Value (2016)	Change in Average Residential Property Value (y-o-y)	Change in Average Commercial Property Value (y-o-y)
Bay Roberts	\$153,985	\$181,555	\$297,493	\$378,204	18%	27%
Bonavista	\$61,968	\$84,958	\$109,741	\$126,983	37%	16%
Carbonear	\$125,947	\$151,219	\$414,045	\$483,894	20%	17%
Channel-Port-aux-Basques	\$82,715	\$122,157	\$204,318	\$231,164	48%	13%
Clarenville	\$195,171	\$243,319	\$409,599	\$534,551	25%	31%
Conception Bay South	\$256,591	\$290,801	\$354,834	\$434,931	13%	23%
Corner Brook	\$194,408	\$212,436	\$552,165	\$668,810	9%	21%
Deer Lake	\$182,135	\$206,665	\$328,658	\$404,740	13%	23%
Gander	\$206,737	\$226,954	\$423,169	\$506,964	10%	20%
Grand Falls-Windsor	\$152,847	\$177,059	\$382,462	\$464,529	16%	21%
Happy Valley-Goose Bay	\$185,403	\$246,469	\$267,577	\$315,884	33%	18%
Labrador City	\$246,412	\$310,835	\$599,181	\$866,685	26%	45%
Marystown	\$118,729	\$158,470	\$303,851	\$363,232	33%	20%
Mount Pearl	\$245,721	\$285,911	\$1,112,973	\$1,408,987	16%	27%
Paradise	\$297,250	\$354,408	\$678,814	\$1,091,724	19%	61%
Placentia	\$85,260	\$132,199	\$149,299	\$164,299	55%	10%
Portugal Cove-St. Philip's	\$312,910	\$362,910	\$229,381	\$260,818	16%	14%
St. John's	\$263,000	\$304,000	\$1,506,750	\$1,823,000	16%	21%
Stephenville	\$150,568	\$176,329	\$299,283	\$366,411	17%	22%
Torbay	\$306,390	\$370,745	\$412,358	\$519,522	21%	26%

Source: Data provided by Municipal Assessment Agency and the City of St. John's upon request.