Re: Item No.  15.1.2

# COMMERCIAL ASSESSMENT AVERAGING - FEATURES OF PROPOSED BY-LAW

Halifax Regional Council
March 22, 2022

HALIFAX

Finance and Asset Management

# Introduction

Since 2015 extensive discussion at Regional Council and in the business community over impact of commercial taxation.

- including sudden “spikes” (lack of predictability) in commercial assessment

In 2016, provincial legislation enacted to allow phase-in of commercial assessment increases in Commercial Development Districts

<u>Council Direction on Averaging:</u>

- three-year rolling assessment average
- target properties with assessment growth 5 percent above the average
- amend Regional Plan to enable Commercial Development Districts
- start averaging program in fiscal year 2022-23

# Assessment Averaging

Currently property owners pay tax on the most recent assessed value.
Under Assessment Averaging increases would be phased-in over three years.
This change will be administered by HRM, using assessment values from the Property Valuation Services Corporation (PVSC).

## Purpose

To reduce impact of **unexpected spikes** in commercial assessments to property owners.

## Principles

Increase **stability** and improve **predictability** for commercial property owners.

# Current Assessment/Tax System

**Property Tax = Assessment x Rate**

**This program focuses on assessment.**

A commercial property assessed at $1,000,000 in 2020 would have paid $30,000 in general urban property taxes:

Property Tax = $1,000,000 x $3.000 (per $100)

**Property Tax = $30,000**

If the above property experienced a 30% assessment increase in 2021, that would directly impact its property tax in 2021, increasing it by more than $8,000:

Property Tax = $1,300,000 x $2.953 (per $100)

**Property Tax = $38,400**

# DISCUSSION OF BY-LAW FEATURES

# Key Features

- **Many Features to the new Program**
- **Two key features**
  1) Fixed 5% Eligibility Threshold
  2) $1.5 Million Phase-in Maximum

# By-law Features – Keeping it Simple

- **No application Required**
  - Each year, eligibility will be confirmed by HRM staff/systems
  - Averaging automatically applied to final tax bill of each eligible commercial property
  - Averaging details will be shown on each tax bill
- **Eligibility Threshold Set at 5%**
  - Properties increasing in value more than 5% will be eligible
    - Threshold **not** based on "average commercial increase"
  - Improves transparency and increases predictability for property owners
  - Easier to communicate program threshold (in advance of fiscal year)
  - Can be reviewed/adjusted periodically by Regional Council

# How Assessment Averaging Works

If a commercial property value increases more than the **annual threshold**, the assessment increase will be phased-in or **“averaged” over three years**.

**Example 1 – Property value increases more than annual threshold**

| | Base Year | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| Market Value | $1,000,000 | **$1,300,000** | **$1,300,000** | **$1,300,000** |

**30% Increase**

# Example 1 – Property Increases $300,000 (30%)

If the property value increases more than the **5% annual threshold**, the increase will be **"averaged" over three years**.

| | Base Year | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| Market Value | $1,000,000 | **$1,300,000** | **$1,300,000** | **$1,300,000** |
| **After Assessment Averaging** | | | | |
| Taxable Value | $1,000,000 | **$1,100,000** | **$1,200,000** | **$1,300,000** |

# Example 2 – Property Increases $300,000 (30%), $375,000 (29%) and $450,000 (27%)

| Base Year | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** |
|---|---|---|---|---|---|
| $1,000,000 | **$1,300,000** | **$1,675,000** | **$2,125,000** | **$2,125,000** | **$2,125,000** |

A property increases in value, more than 5%, for three consecutive years.

# Example 2 – Property Increases $300,000 (30%), $375,000 (29%) and $450,000 (27%)

| Base Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| $1,000,000 | **$1,300,000** | **$1,675,000** | **$2,125,000** | **$2,125,000** | **$2,125,000** |
| Value added from Year 1 | **$100,000** | **$100,000** | **$100,000** | | |

In Year 1, the $300,000 increase is averaged over three years, $100,000 each year.
=> creating a taxable value of $1,100,000 that year.

| | |
|---|---|
| **Taxable** | **$1,100,000** |

# Example 2 – Property Increases $300,000 (30%), $375,000 (29%) and $450,000 (27%)

| Base Year | Year 1 | Year 2 | Year 3 | | |
|---|---|---|---|---|---|
| $1,000,000 | **$1,300,000** | **$1,675,000** | **$2,125,000** | | |
| Value added from Year 1 | **$100,000** | **$100,000** | **$100,000** | | |
| Value added from Year 2 | | **$125,000** | **$125,000** | **$125,000** | |

| **Taxable** | **$1,100,000** | **$1,325,000** |
|---|---|---|

The following year,
the $375,000 increase
is averaged
over three years,
$125,000 each year.
=> creating a taxable value
of $1,325,000 that year.

# Example 2 – Property Increases $300,000 (30%), $375,000 (29%) and $450,000 (27%)

| Base Year | Year 1 | Year 2 | Year 3 | The following year, the $450,000 increase is averaged over three years, $150,000 each year. | |
|---|---|---|---|---|---|
| $1,000,000 | **$1,300,000** | **$1,675,000** | **$2,125,000** | | |
| Value added from Year 1 | **$100,000** | **$100,000** | **$100,000** | | |
| Value added from Year 2 | | **$125,000** | **$125,000** | **$125,000** | |
| Value added from Year 3 | | | **$150,000** | **$150,000** | **$150,000** |

# Example 2 – Property Increases $300,000 (30%), $375,000 (29%) and $450,000 (27%)

| Base Year | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| $1,000,000 | **$1,300,000** | **$1,675,000** | **$2,125,000** | **$2,125,000** | **$2,125,000** |
| Value added from Year 1 | $100,000 | $100,000 | $100,000 | | |
| | | | $125,000 | $125,000 | |
| | | | $150,000 | $150,000 | $150,000 |
| **Taxable** | **$1,100,000** | **$1,325,000** | **$1,700,000** | **$1,975,000** | **$2,125,000** |

Getting to $1,700,000 in taxable assessment in Year 3 and, eventually, back to Market Value in Year 5.

# Example 3 – Property Does Not Increase More Than 5% Annual Threshold

| | Base Year | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| Market Value | $1,000,000 | **$1,050,000** | **$1,100,000** | **$1,150,000** |

# Example 3 – Property Does Not Increase More Than 5% Annual Threshold

| | Base Year | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| Market Value | $1,000,000 | **$1,050,000** | **$1,100,000** | **$1,150,000** |
| **Assessment Averaging does not apply** | | | | |
| Taxable Value | $1,000,000 | **$1,050,000** | **$1,100,000** | **$1,150,000** |

# By-law Features – Keeping it Simple (Part 2)

## ➢ Averaging Carries Forward to New Owner

- Averaging (from prior years) will carry forward to new owner
- Provides predictability to tenants when their properties sell
- Eliminates administrative issues around change of beneficial ownership

## ➢ Averaging applies to Assessment Increase, regardless of cause

- Program does not attempt to differentiate between market increases and new construction
- Data <u>not available</u> (from PVSC) to determine this
- New construction can be eligible for Averaging

# By-law Features – Focus on Small Properties

- **Averaging Limited to First $1.5 Million Increase**
  - Averaging will apply to only the first $1,500,000 of assessment increase in any year
    - Remaining increase will become taxable assessment in Year 1
  - Focuses the benefit on smaller properties
  - Reduces the rate increase required to maintain revenue neutrality
    - Limits the tax impact on properties that are not in the Averaging program

# Example 4 – Focus on Small Properties (e.g. Small Property Expansion)

The property value increases more than the 5% annual threshold;
the **$1,500,000 increase** will be "averaged" over three years.

| | Base Year | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **Market Value** | $1,500,000 | **$3,000,000** | **$3,000,000** | **$3,000,000** |
| **After Assessment Averaging** | | | | |
| **Taxable Value** | $1,500,000 | **$2,000,000** | **$2,500,000** | **$3,000,000** |

# Example 5 – Focus on Small Properties (e.g. Large New Build)

Vacant land valued at $1,000,000 has a new building constructed on it, increasing the total value to $10,000,000. The property value increases more than the 5% annual threshold; the (maximum) **$1,500,000 increase** will be "averaged" over three years.

| | Base Year | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| **Market Value** | $1,000,000 | **$10,000,000** | **$10,000,000** | **$10,000,000** |
| **After Assessment Averaging** | | | | |
| **Taxable Value** | $1,000,000 | **$9,000,000** | **$9,500,000** | **$10,000,000** |

# **Limit Averaging to First $1.5 Million** (Recap)

## ➢ Summary of Benefits

1) Avoids the “new construction” data issue
2) Reduces tax rate hikes due to phase-in of large increases
3) Focuses the program on assisting small properties
4) Meets the economic development objective of the legislation

# By-law Features – Consistent Approach

## ➢ Year 1 Phase-In Starts at 5%

For all eligible commercial properties

- Year 1 assessment increase is 5% (minimum) or one-third of market increase
- Remaining assessment increase applied equally in Years 2 and 3
- Maintains consistency between those in program and those increasing less than 5%

# Example 6a – Consistent Year 1 Phase In

A property increases **5%** – the increase is <u>not</u> phased in,
the value **increases 5%** in Year 1:

| | Base Year | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| **Market Value** | $1,000,000 | **$1,050,000** | **$1,050,000** | **$1,050,000** |
| **No Assessment Averaging** | | | | |
| **Taxable Value** | $1,000,000 | **$1,050,000** | **$1,050,000** | **$1,050,000** |

# Example 6b – Consistent Year 1 Phase In

A property increases **7%** – the increase is phased in over three years, with a **5% increase** in Year 1 and the remaining 2% over Years 2 and 3:

| | Base Year | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| **Market Value** | $1,000,000 | **$1,070,000** | **$1,070,000** | **$1,070,000** |
| **After Assessment Averaging** | | | | |
| **Taxable Value** | $1,000,000 | **$1,050,000** | **$1,060,000** | **$1,070,000** |

# Example 6c – Consistent Year 1 Phase In

A property increases **9%** – the increase is phased in over three years, with **5% increase** in Year 1 and the remaining 4% over Years 2 and 3:

| | Base Year | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| **Market Value** | $1,000,000 | **$1,090,000** | **$1,090,000** | **$1,090,000** |
| **After Assessment Averaging** | | | | |
| **Taxable Value** | $1,000,000 | **$1,050,000** | **$1,070,000** | **$1,090,000** |

# Example 6d – Consistent Year 1 Phase In

A property increases **15%** – the increase is phased in over three years, with **5% increase** in Year 1 and the remaining 10% over Years 2 and 3.

★ Properties increasing more than 15% will see full assessment averaging.

| | Base Year | **Year 1** | **Year 2** | **Year 3** |
|---|---|---|---|---|
| **Market Value** | $1,000,000 | **$1,150,000** | **$1,150,000** | **$1,150,000** |
| **After Assessment Averaging** | | | | |
| **Taxable Value** | $1,000,000 | **$1,050,000** | **$1,100,000** | **$1,150,000** |

# Commercial Tax Averaging will be Revenue Neutral

- The commercial general tax rate will increase to offset the lost taxes from averaging
- HRM collect’s the same total commercial property taxes
- Some properties will **pay less tax**
  - due to averaged assessments
- Some properties will **pay more tax**
  - those with low or no assessment increases
- The commercial property tax system will become more complex

# Enabling Commercial Development Districts

## Legislative Requirement

Phase-in of commercial assessment increases is allowed only within a Commercial Development District established as part of an approved municipal plan (Section 92C of the HRM Charter).

## Approved Action

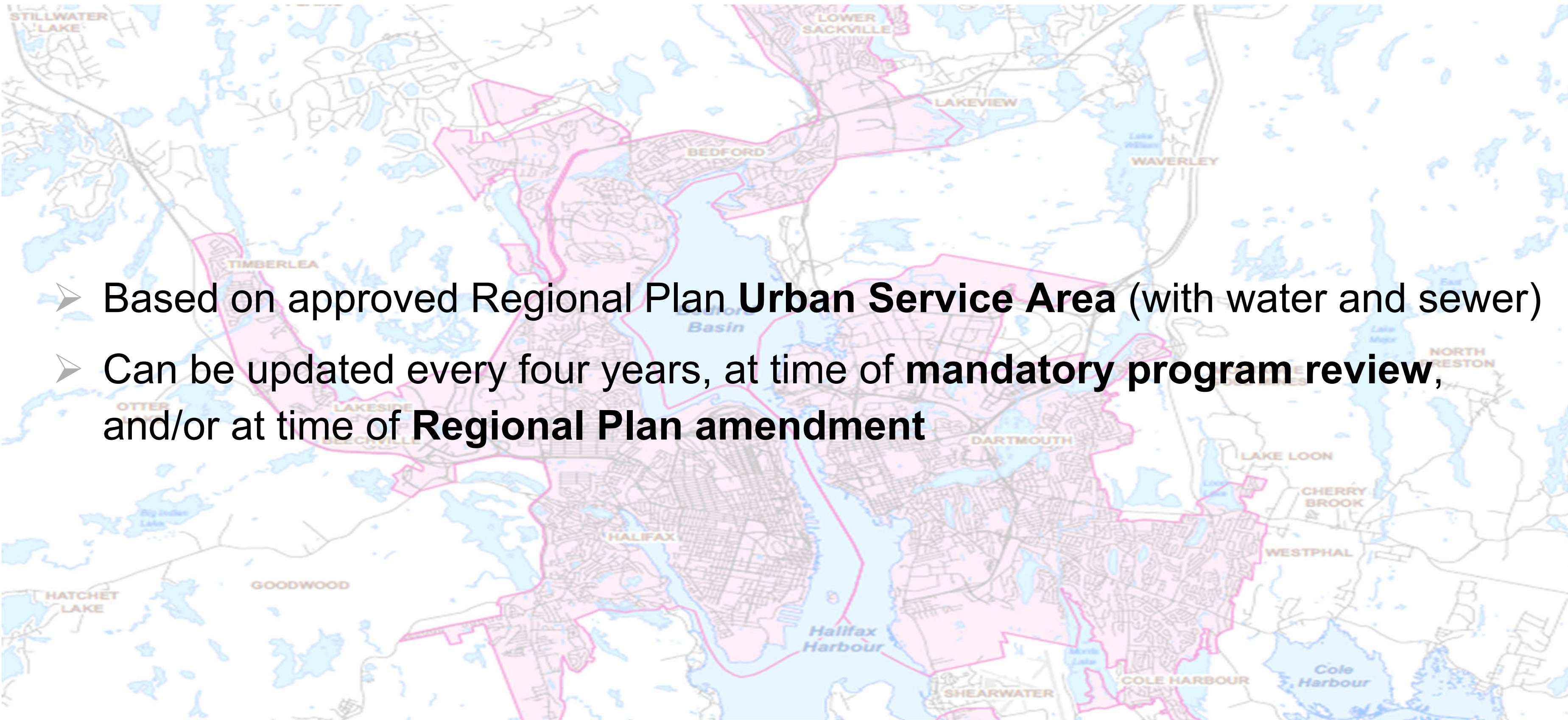
Promptly amend the Regional Plan (RMPS) to allow **100% of those with water and wastewater services** to participate in the Assessment Averaging program.

## Current Status

- Regional Council passed RMPS amendment on December 7, 2021
- Planning document reviewed by Minister of Municipal Affairs
- Amendment effective February 5, 2022

Completed

# Commercial Development District Area (Schedule 1)




- Based on approved Regional Plan **Urban Service Area** (with water and sewer)
- Can be updated every four years, at time of **mandatory program review**, and/or at time of **Regional Plan amendment**

# Remaining Steps for Implementation

- **Amend Regional Municipal Planning Strategy** for those areas of the Municipality serviced by wastewater facilities and a water system;
  - Approval by Regional Council December 7, 2021
  - Effective February 5, 2022
- Approve required **Assessment Averaging By-law** (including Ministerial approval);
  - Current step
- Implement revenue component of the **new SAP system**;
  - Targeted to go live June 2022
- **Communicate** the final assessment averaging program to the business community
  - Ongoing
- **Issue first tax bill** using assessment averaging in Fall 2023

# Recommendation

That Halifax Regional Council adopt By-law C-1200, the Commercial Development Districts By-law, as set out in Attachment 1 of this report, with an effective date of April 1, 2023.