

# Evaluating the Stability of B.C.’s Assessment Rolls

## I. Introduction: Origins of the Issue

Concerns about assessment roll stability have their most recent origins in the early to mid 1980s — beginning with a time of recession (1982) which affected industry profitability, then later a time of rapidly changing property values; both conditions ultimately led to significant local government revenue reductions arising out of large assessment appeals, especially in the Major Industry class. The concerns of the day found their voice principally in two ways:

- in the first **Financing Local Government** study (dated August 1989), a joint UBCM/Ministry of Municipal Affairs initiative, which was debated at the 1989 UBCM convention; and
- in the **Report of Property Tax Forum** (dated December 1989), which resulted from a series of fourteen public forums held across the province.

At the time, various approaches were suggested for dealing with the perceived problems:

- rethinking the valuation of industrial property by going to a “costing manual” approach to valuation and introducing regulated depreciation tables;
- reducing the number of appeals by clarifying the definition of industrial “improvements” as opposed to “fixtures”. This ultimately involved the removal of all property tax from machinery and equipment (or “M&E”);
- streamlining the Assessment Appeal process to permit more effective and efficient use of the courts’ time, to improve fairness and reach decision in a more timely manner, and to improve communications with local governments;
- finding a mechanism to provide some security against retroactive assessment changes, possibly by exploring the concept of a guaranteed assessment roll.<sup>1</sup>

During the late 1980s and through the 1990s, there was action taken to implement most of these suggested improvements to the system. Appendix A, contributed by the Ministry of Municipal Affairs, provides a greater level of detail on the specific reform activities that were implemented over the last fifteen years and the positive impacts they had in mitigating many of the problems identified. The implementation of a guaranteed assessment roll was seen as the most difficult of the suggestions made and the one with the least certain outcome. It seemed reasonable at the time to implement the other recommendations first to see if they would have a sufficient impact on the stability problem as to make unnecessary consideration of a guaranteed roll. Local governments at the time did not feel that the issue had a high priority relative to other initiatives, but it should be recognized that consideration of a guaranteed roll was one of the Financing Local

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<sup>1</sup> The 1989 Financing Local Government study proposed that the BC Assessment Authority might guarantee the authenticated assessment roll, prior to Assessment Appeal Board or Court appeal decisions. Further discussion of the idea of a Guaranteed Roll appears under section V of this report.

Government study recommendations that was approved by the 1989 UBCM convention.

## **II. Why We Are Talking About Assessment Roll Stability Today**

Local government and provincial officials who were responsible for dealing with assessment policy and local finance matters in the late 1980s and are still involved today, would generally agree that the changes made in the assessment system in the 1990s went a long way toward resolving the concerns raised in the 1989 reports about the stability of the assessment system.

However, there remain a group of outstanding appeals and potential appeals that could still have a destabilizing effect in terms of municipal revenues in a limited number of affected communities. These are primarily small and medium sized communities with big industrial concerns. Fortunately, the system reforms of the previous decade made the scope of the problem much smaller than it would have otherwise been, but there are a group of communities whose problems and concerns are still with us.

This paper is intended to analyze the relative stability of the current assessment system overall, focussing particularly on the local tax years 1997 to 1999, and will indicate where there are remaining problems in the system.

The challenge will be to identify any measures that can realistically be taken to remedy the causes of the problems for the communities that are dealing with the consequences of major assessment appeals today.

## **III. Evaluating the Stability of the Assessment Rolls for 1997-1999 and the Associated Tax Impacts**

Earlier this year, UBCM requested BC Assessment to do some research on the stability of the assessment rolls in the last few years and to determine the impacts on communities that major appeals have been having.

After some discussion, BC Assessment agreed to produce reports that would provide actual data on the changes to the assessment base for all local governments and for individual communities, which result from the assessment appeals process and the process of correcting errors and omissions in the authenticated assessment roll (i.e., producing supplementary rolls).

As well, reports would be produced to detail the local government property tax loss or gain as a result of changes to the authenticated assessment rolls. It was understood that this kind of research would assist local governments in discussions on the appeals process, but would also give BC Assessment itself some valuable information to serve as a benchmark for judging whether the various

changes in the assessment system have achieved the stability that was being sought since the mid 1980s.

BC Assessment was very cooperative in this project, and prepared some very useful information for the three tax years 1997 to 1999 inclusive. A number of the reports produced are included here, in summary form. Appendices B and C include the more detailed information on a taxing jurisdiction basis, for those interested in area specific comparisons.

#### A. Local Government Revenue Changes Resulting from PAAB Decisions and Supplementary Assessments

One set of reports indicate the changes as a result of appeals to the Property Assessment Appeal Board (PAAB) and another indicates the cumulative effect of changes as a result of combined supplementary assessments and the PAAB decisions. This information is summarized in the following tables:

**TABLE 1**

<b>Provincial Totals – % of Tax Revenue Change Authenticated Roll including PAAB only</b>			
<b>Roll Year</b>	<b>Total Tax Revenue</b>	<b>\$ of Tax Revenue Change</b>	<b>% of Tax Revenue Change</b>
1997	1,658,963,861	(2,096,644)	-0.13%
1998	1,722,442,959	(2,546,792)	-0.15%
1999	1,876,304,943	(2,609,656)	-0.14%

Table 1 shows that tax revenue returned by local governments to taxpayers as a result of Property Assessment Appeal Board (PAAB) decisions ranged from 0.13% to 0.15% of all local government property tax collected for the period 1997 to 1999. On average over these three years, for every \$1,000.00 in property tax revenue, an average of 1.4 cents is refunded. For reference, the Total Tax Revenue figures are property tax revenue calculations based on aggregate of the taxes raised by each property class (tax rate × assessed value for each class). These were calculated by BC Assessment.

**TABLE 2**

<b>Provincial Totals – % of Tax Revenue Change Authenticated Roll including Supplementaries and PAAB</b>			
<b>Roll Year</b>	<b>Total Tax Revenue</b>	<b>\$ of Tax Revenue Change</b>	<b>% of Tax Revenue Change</b>
1997	1,658,963,861	419,762	0.03%
1998	1,722,442,959	-2,111,293	-0.12%
1999	1,876,304,943	519,020	0.03%

Table 2 indicates that when the Supplementary Assessment process is combined with the decisions of the Property Assessment Appeal Board over the past three years, for every \$1,000.00 of property tax revenue less than 1/4 of one cent is refunded to taxpayers. In some years, the net result is actually a revenue increase.

#### **B. Number of Jurisdictions within Specified Range of Revenue Gained or Lost**

A further set of reports analyze the magnitude of revenue gained or lost by municipalities through the Appeals process alone (Tables 3 and 4) and the combination of Appeals and Supplementary Assessment processes (Tables 5 and 6), and the number of communities affected. It should be noted that these tables do not reflect the associated revenue changes for the other taxing jurisdictions that also use the assessment base.

**TABLE 3**

<b>Number of Municipal Jurisdictions within Specified Range of Municipal Tax \$'s Gained or Lost</b>									
<b>Authenticated Roll changes attributable to PAAB Decisions alone</b>									
<b>Year</b>	<b>Losses</b>				<b>No Change</b>	<b>Gains</b>			
	<b>&gt;-\$9,000</b>	<b>-\$6,000 to -\$8,999</b>	<b>-\$3,000 to -\$5,999</b>	<b>-\$1 to -\$2,999</b>		<b>\$1 to \$2,999</b>	<b>\$3,000 to \$5,999</b>	<b>\$6,000 to \$8,999</b>	<b>&gt;\$9,000</b>
1997	27	4	10	23	85	6	2	2	2
1998	32	1	6	22	86	6	2	2	5
1999	20	3	8	41	81	5	1	0	2

**TABLE 4**

Number of Municipal Jurisdictions within Specified Range of Municipal Tax \$'s Gained or Lost									
Authenticated Roll changes attributable to PAAB Decisions alone									
Year	Losses				No Change	Gains			
	>-\$150,000	-\$100,000 to -\$150,000	-\$50,000 to -\$99,999	-\$1 to -\$49,999		\$1 to \$49,999	\$50,000 to \$99,999	\$100,000 to \$150,000	>\$150,000
1997	7	0	4	53	85	11	0	1	0
1998	4	3	8	46	86	12	0	1	1
1999	5	2	5	60	81	8	0	0	0

Taken together, Tables 3 and 4 indicate that municipal jurisdictions experiencing **no revenue loss** as a result of PAAB decisions ranges from 55% to 62% of all municipal jurisdictions in BC during the 1997-1999 period.

If municipal jurisdictions experiencing **no change or a small revenue loss** (i.e., less than \$9,000) as a result of PAAB decisions are combined for this same period, they range from 75% to 81% of all municipal jurisdictions.

**TABLE 5**

Number of Jurisdictions within Specified Range of Municipal Tax \$'s Gained or Lost									
Authenticated Roll including Supplementaries and PAAB Decisions									
Year	Losses				No Change	Gains			
	>-\$9,000	-\$6,000 to -\$8,999	-\$3,000 to -\$5,999	-\$1 to -\$2,999		\$1 to \$2,999	\$3,000 to \$5,999	\$6,000 to \$8,999	>\$9,000
1997	18	5	10	35	24	33	6	8	22
1998	32	5	9	51	28	22	2	1	11
1999	26	5	5	52	27	20	11	1	14

**TABLE 6**

<b>Number of Municipal Jurisdictions within Specified Range of Municipal Tax \$'s Gained or Lost</b>									
<b>Authenticated Roll including Supplementaries and PAAB Decisions</b>									
<b>Year</b>	<b>Losses</b>				<b>No Change</b>	<b>Gains</b>			
	<b>&gt;-\$150,000</b>	<b>-\$100,000 to -\$150,000</b>	<b>-\$50,000 to -\$99,999</b>	<b>-\$1 to -\$49,999</b>		<b>\$1 to \$49,999</b>	<b>\$50,000 to \$99,999</b>	<b>\$100,000 to \$150,000</b>	<b>&gt;\$150,000</b>
1997	6	0	2	60	24	62	3	1	3
1998	3	4	7	83	28	32	3	0	1
1999	2	2	3	81	27	40	3	1	2

Taken together, Tables 5 and 6 indicate that the vast majority of municipalities experience very small net gains or losses of tax revenue as a result of authenticated roll changes resulting from supplementary assessments and PAAB decisions, when the effects are taken together. Table 6, in particular shows that on average over the three years, less than four municipalities experienced a net loss of more than \$150,000.

### **C. Municipal Revenue Changes Resulting from PAAB Decisions by Property Classification**

Another set of reports analyze the magnitude of revenue gained or lost by municipalities, by property class, through the Appeals process (Table 7) and the combination of Appeals and Supplementary Assessment processes (Table 8). While it is important to understand the affects that appeal decisions have on property classes, it is also important to understand what the real net effect is on revenues of both assessment increases and decreases that come about through both appeals and supplementary assessments.

**TABLE 7**

<b>Municipal Revenue Gains and Losses through PAAB Decisions by Property Class</b>									
	Residential	Utilities	Unmanaged Forest	Major Industry	Light Industry	Business and Other	Managed Forest	Recreation/ Non-Profit	Farm
1997	-\$ 31,203	-\$335,569	\$ -	-\$777,179	\$ 2,904	-\$ 951,250	\$ -	-\$ 3,124	-\$1,222
1998	-\$ 74,547	-\$872,543	\$ -	-\$210,436	-\$131,236	-\$1,239,298	\$ 144	-\$ 19,192	\$ 317
1999	-\$ 52,357	-\$888,668	\$ -	-\$402,012	-\$ 75,593	-\$1,164,583	\$ -	-\$ 26,607	\$ 163

When combined with Total Tax Revenue figures shown in Table 1, Table 7 indicates the following impacts of PAAB decisions on the various classes as follows:

	Revenue Loss from PAAB Decisions for Each Property Class as a % of All Losses	Revenue Loss from PAAB Decisions as a % of Revenue Raised by Each Property Class
Residential (Class 1)	2%	0.005%
Utilities (Class 2)	29%	1.817%
Major Industrial (Class 4)	19%	0.347%
Light Industrial (Class 5)	3%	0.207%
Business & Other (Class 6)	46%	0.201%
<b>Combined:</b> Unmanaged Forest (Class 3), Managed Forest (Class 7), Recreational/Non-Profit (Class 8), Farm (Class 9)	1%	Negligible
TOTAL	100%	

**TABLE 8**

<b>Municipal Revenue Gains and Losses by Property Class resulting from PAAB Decisions and Supplementary Assessment Changes</b>									
	Residential	Utilities	Unmanaged Forest	Major Industry	Light Industry	Business and Other	Managed Forest	Recreation/ Non-Profit	Farm
1997	\$ 4,550	\$28,646	\$ -	-\$190,840	-\$ 71,707	\$ 674,660	\$ 124	-\$ 18,596	-\$ 7,076
1998	\$ 26,593	\$2,444	\$ -	-\$731,171	-\$244,112	-\$1,167,328	\$ 3,036	-\$ 10,839	\$10,084
1999	-\$ 272,882	\$133,936	\$ -	\$867,710	-\$149,609	-\$ 53,350	\$ 5,333	-\$ 1,289	-\$10,899

Table 8 indicates a very varied situation: some years show significant decreases in value, likely resulting from appeal decisions, while other years show significant increases in assessed values, likely from new businesses or plants coming on line. The classes most consistently affected are the utility, industrial and business classes.

#### **IV. Discussion of Implications**

Taken on a province-wide basis and across all property classes, it is clear that the assessment system as a whole is quite stable, certainly within the last three years. Even for the Business class which seems to have the largest share of appeal decisions that reduced municipal tax revenue (46% of all losses were in this class), it has to be acknowledged that these losses make up only 0.201% of all Business class taxes collected, which is miniscule relative to all local revenues from property taxes.

However, assessment gains or losses occur in individual communities and affect individual property owners. The local effects of changing assessed values can be significant. The most difficult cases occur where large industrial properties are appealed in small or medium sized communities, where those industries make up the bulk of the non-residential tax base. Clearly, a loss of property value in these situations can be detrimental to the economic well-being of the community over the short and long term. While municipalities have the ability to increase property tax rates for various classes of property, there is often little ability to actually shift tax burdens between property classes if much of the tax base is in a single class.

Appendices B and C (included with the full version of this paper only) contain detailed revenue gain and loss information for each assessment jurisdiction, broken down by property class. These Appendices assist in identifying specific gains and losses of revenue that are significant. For instance:

- Appendix B indicates a 4.54% increase in tax revenue for Colwood in 1997 attributable to a decrease in Residential assessment (-\$11,287) combined with an increase in Light Industry assessment (\$140,023). These changes resulted from PAAB decisions.
- Appendix B indicates revenue decreases for Mission in each of 1997 (-1.79%), 1998 (-4.59%) and 1999 (-4.93%), due primarily to decreases in Utilities class assessments for each year (1997: -\$205,572; 1998: -\$564,901; 1999: -\$644,985). These changes resulted from PAAB decisions.
- Appendix B indicates a revenue decrease of 4.08% for Houston in 1999, which was primarily caused by a decrease in the Major Industry assessment of \$100,837. These changes resulted from PAAB decisions.

While other communities may have experienced greater increases or decreases in absolute dollar amounts, the impacts on revenues may have been less significant, given the size of the communities. As well, the larger communities may have broader tax bases with which to absorb the changes.

#### **V. The Guaranteed Roll Idea**

As indicated earlier, the one suggestion from the 1989 Financing Local Government study that was not implemented was the idea of a Guaranteed Assessment Roll. This concept came out of concerns for situations where



municipalities have difficulty responding to large assessment changes that affect current year budgets or prior year budgets. It was thought, then, that it would be valuable to provide some security against retroactive changes. The idea was that the BC Assessment Authority would guarantee the authenticated assessment roll as follows:

- an insurance fund would be established by the Assessment Authority through a small levy on all property in the province. The levy might be greater for certain classes of property where appeals are more prevalent;
- any municipality would qualify for payment out of the fund if assessed values of property declined by more than a specified percentage of their tax revenue as a result of an Assessment Appeal Board or Superior Court decision (i.e., with a reasonable deductible);
- payments from the fund would guarantee any authenticated roll issued prior to a Board or Court decision but would not guarantee future rolls.

The idea then, was to create an insurance scheme, financed by an additional property tax levy. In 1989 given the magnitude of problems in the system, as documented by the two major reports of the day, this might have been a suggestion that had merit.

But does it have merit today? Considerations in exploring the idea might include:

- given the other initiatives that have been implemented during the 1990s, the figures show that BC has a reasonably stable assessment system, without a guaranteed roll in place.
- implementation would involve some considerable effort, including:
  - assembling more detailed historic information on the value of gains and losses;
  - doing a formal assessment of the risks inherent in such an insurance scheme and how these would be costed;
  - determining what an appropriate deductible would be;
  - determining what appropriate tax rates would be;
  - setting rules for when and how pay-outs would be made;
  - determining who would administer the fund; and not least –
  - whether those municipalities who experience little or no impact from assessment appeals, would be willing to participate in such a scheme when they are unlikely to benefit; and
  - whether the public would accept a new property tax.
- given that property owners will continue to have the right to appeal the value of their property, are there other methods or tools available to assist communities that have significant property appeals to plan for the outcomes and to minimize the disruption in municipal budgeting that results from appeal decisions that favour the property owner.

- are there other policy options that could be considered to deal with the problem? For example, as part of the 1989 Financing Local Government study, the idea was floated of pooling all major industrial taxes and redistributing these according to a formula. At the time, the reason for the suggestion had more to do with sharing revenue rather than sharing risk, as we might perceive it today. The idea was strongly rejected by local governments at the time, and the concept went no further. Are there other realistic possibilities that might be considered today?

## **VI. Policy Questions for Consideration**

In order to determine whether further work on the idea of guaranteed roll would be useful, local governments should consider these questions. These are intended to be used for discussion purposes during the Convention Workshop on Managing the Assessment Appeals Process, scheduled for Thursday, October 26th, 2000 at 10:30 a.m.

### **Question 1:**

Are you prepared to levy property taxes in advance to build up a reserve fund that will be used in some communities but not all?

### **Question 2:**

What conditions would have to be met before you would agree to enter into such a pooling arrangement?

### **Question 3:**

Would it be acceptable to have only resource communities participating in the scheme (paying in and benefiting)?

### **Question 4:**

What barriers do you perceive as stopping you from dealing with problems now?

### **Question 5:**

Are there other policy alternatives that should be considered?

## APPENDIX A

## Review of Historical Considerations associated with Managing Property Tax Stability in Resource Communities

Contributed by Dale Wall, Assistant Deputy Minister, Ministry of Municipal Affairs

### Origins of the Issue

- this issue has its origins in the 1982 recession;
- at that time significant declines in resource prices had serious financial impacts on resource industries;
- as industry profitability fell industrial property owners argued – with reason – that the value of major industrial property was falling;
- these arguments were complex and resulted in long complicated hearings before the then Assessment Appeal Board;
- results often came several years after the appeals were initiated and the cumulative effect of the appeals had significant effects on resource community revenues - in particular they generated substantial tax refunds.

### Issues Raised by the Appeals

#### 1. Level of Industrial Property Tax

- at the political (as opposed to the Appeal Board level) industrial property owners took the view that the issue was less one of assessed values and more one of property tax levels. The argument went something like this - *so long as industrial property taxes are high and we are not making profits the fixed cost nature of property taxes means that we do what we can to reduce the amount of fixed taxes.*

#### 2. How Industrial Property Should be Valued

- prior to 1987 industrial property was valued at its market value - there was no approach prescribed in legislation. This left lots of room for argument before appeal tribunals. It also meant that economic factors such as commodity prices could dramatically affect the market value of industrial property. However any alternative that kept industrial property values stable meant that the assessed value would exceed the likely market value during economy slowdowns.

### **3. How Industrial Improvements Should be Defined**

- so long as there was a substantial difference in how industrial machinery was taxed relative to how industrial structure was taxed it was key to have a clear idea of what was what. As technology changes and new machinery was installed this became a second point of contention.

### **4. How the Appeal System Should Work**

- the length of time involved in dealing with the appeals raised issues about alternative ways of dealing with assessment appeals - always the issue was one of balancing appropriate procedural fairness for taxpayers and the time used to resolve an appeal.

## **Options**

At the time the available options were some mix of the following:

#### **1. Go after the root causes of the problem**

This would require an approach which had some mix of the following actions:

- cuts to industrial property taxes in order to reduce the underlying tension in the system and the incentive to appeal;
- legislating a prescribed method assessing industrial property;
- sharpening the definition of industrial improvements to achieve clarity in what was taxable at various rates and for various purposes and at what rates;
- improving the appeal process in a way which allowed decisions to be reached on a more timely basis, while retaining fair treatment of taxpayers.

#### **2. Accept a high degree of risk and manage it**

This would require setting up a fund into which all or some local governments would pay and out of which some part of the local government share of assessment appeal based refunds would be paid.

#### **3. Pool industrial property taxes**

Have all industrial property taxes paid into a fund and make payments out of that fund to respective local governments.

## **What Did Government Do?**

- no conscious strategy was chosen;

- over time government essentially adopted the first option
- in 1985 it reduced industrial property taxes by over \$200 million/year by eliminating school taxes on machinery and equipment, reducing school tax rates on industrial property and phasing out regional district and regional hospital district taxes on machinery and equipment;
- in 1987 it amended the *Assessment Act* to legislate a prescribed approach to the assessment of major industrial property – essentially requiring that such property be assessed through the use of prescribed cost manuals and regulated depreciation rates;
- in 1989 it changed the definition of improvements to more clearly distinguish taxable structures from exempt machinery; and
- by 1999 it completed a process of legislative and administrative changes to the assessment appeal system.

### **What Did Government Not Do?**

- it considered but did not adopt a “guaranteed assessment roll” in the late 1980's:
- at that time the idea was rejected because local government response was very mixed. Given the level of potential losses to be covered it would have required:
  - (1) a low rate/broad based tax and a high claim deductible meaning that many of the contributing local governments would likely never be in a position to make a claim;
  - (2) a high tax rate on a narrower base (resource communities) with a high deductible - that would have had communities with smaller industrial tax bases, less revenue capacity and less risk paying tax refunds for those with larger industrial tax bases, more revenue capacity and more risk; or
  - (3) a very high tax rate and high deductible on a very small number of high industrial tax base communities - this was seen to be not much of an advance over these local governments managing their own risk.
- it chose not to pursue the idea of pooling all major industrial taxes and redistributing these according to a formula after strong UBCM opposition to a proposed legislative committee review of such an option.

APPENDIX B

for 1997-1999 PAAB Decisions only –  
Revenue Gains and Losses  
for each Property Class by Jurisdiction

APPENDIX C

for 1997-1999 PAAB Decisions and  
Supplementary Assessments –  
Revenue Gains and Losses  
for each Property Class by Jurisdiction