Assessment Cap Program Fact Sheet
Prepared by UNSM
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PURPOSE:

The purpose of this fact sheet is to update municipal elected officials and senior staff on the work prepared by UNSM's Cap Review Committee. As a result of UNSM lobbying efforts, the Province agreed to postpone its municipal consultations on the Cap Program until the Fall of 2010. The UNSM wants to ensure that municipalities have sound information on the program when conveying their position to the Province, and to encourage municipalities to provide input to SNSMR during their review process.

CAP ASSESSMENT PROGRAM DESCRIPTION:

- The cap is set at the Consumer Price Index (CPI) (3.4% for the 2009 roll; 0 % for the 2010 roll as CPI was negative during the past year).
- With the cap set at zero, capped assessments in 2009 will be the same as in 2010.
- The program is no longer application based; all eligible property owner receive the cap
- In 2009, 360,889 of 488,504 residential/resource properties across the province were capped representing 74%.
- The cap applies to single family dwellings, apartments up to four units, resource properties, condominiums and mobile home parks.
- At least 50 per cent of the property must be owned by a Nova Scotia resident.

ISSUE:

The UNSM is concerned that the current Assessment Cap Program is not meeting its original intent of helping to protect property owners from dramatic assessment increases. Research from the UNSM Cap Review Committee has found that:

1. The current cap at CPI has resulted in the unintended effect of transferring the property tax burden from higher assessed properties to lower assessed properties. While 75 percent of eligible properties are now capped, 25 per cent remain uncapped thus transferring the tax burden to these lower priced homes.

2. New home construction and home sales remain uncapped which can create huge assessment discrepancies between two identical homes located side by side. In researching various projection scenarios, the Committee found that the disparity

between capped and uncapped properties escalates each successive year the program remains in place.

3. Such inequities could have a negative impact on the economy by discouraging young families from purchasing or building a home. At the same time the property tax burden will continue to increase onto lower assessed properties that are generally owned by lower income families.

Table 1 below illustrates how the cap is transferring the property tax burden onto lower assessed homes. A home in Kentville valued at just over $86,000 received a 7.7 per cent reduction in their assessment as a result of the cap; whereas a home valued at over $480,000 received a 46.5 per cent reduction in their assessment.

Table 1: Town of Kentville Sample of Residential Properties Impacted by Cap, 2010

Market Value	Capped Value	Difference	% Change
$86,600	$79,900	$6,700	7.7%
$127,600	$118,100	$9,500	7.4%
$482,400	$258,300	$224,100	46.5%
$551,500	$375,100	$176,400	32.0%

Table 2 on the following page from the Municipality of East Hants demonstrates the severe impact of the cap on assessed values when a home sells. Two identical homes with a market value of $238,000 in 2009 are assessed dramatically different when projected out to 2016. One house was capped the entire period from 2009 to 2016 and received an assessment decrease of $207,366. An identical home in the same area that is sold in 2014 and in 2015 received the full market value assessment of $463,795. This will result in dramatically different property tax bills for properties which are virtually identical in structure and location. Over the same time period, the forecast assessment of a smaller, rural home results in modest growth with a far less financial benefit from the cap when compared to the larger urban homes.

Table 2: Municipality of East Hants: Projections out to 2016 under Present Cap Assessment Program

	2009	2014	2015	2016
New Urban Home				
Market Assessment	$238,000	$383,301	$421,632	$463,795
Capped Assessment	$208,500	$241,709	$248,960	$256,429
Difference	**$29,500**	**$141,592**	**$172,672**	**$207,366**
New Urban Home Sold in 2014				
Market Assessment	$238,000	$383,301	$421,632	$463,795
Capped Assessment	$208,500	$241,709	$421,632	$463,795
Difference	**$29,500**	**$141,592**	**$0**	**$0**
Rural Older Home				
Market Assessment	$59,100	$71,904	$74,780	$77,772
Capped Assessment	$44,700	$51,820	$53,374	$54,975
Difference	**$14,400**	**$20,084**	**$21,406**	**$22,797**

ALTERNATIVES TO THE CAP:

The UNSM Board passed a resolution in 2008 requesting that a committee be formed to review and make recommendations on the current Assessment Cap Program. The committee, consisting of members from the UNSM, AMANS and the PVSC was formed in April 2009. SNSMR was asked to participate but declined indicating they would be conducting their own review in 2010. The committee was expanded in 2010 to bring in additional expertise.

The Committee’s mandate was to:

- Assess the impacts of the Assessment Cap Program on property owners and municipalities, with particular emphasis on the cap being set at CPI
- Propose recommendations to the UNSM Board including possible exit strategies and alternative programs.

The Committee made a presentation to the UNSM Board of Directors on June 18. Following the presentation the Board passed a motion supporting the Committee’s work to date including cap impacts, guiding principles associated with the assessment system, recommendations and an engagement strategy. The Committee is preparing a final report to be distributed at the UNSM Fall Conference in October 2010.

The UNSM membership passed a resolution in 2008 supporting a low income property tax exemption program that would apply to all municipalities (provided the Cap Program was eliminated). The Committee supports this recommendation and will also recommend a suite of programs to assist low income households challenged to pay their property taxes. Initiating these types of options will address the Government's original program objective.

KEY SPEAKING POINTS:

- The Assessment Cap Program was introduced by the Province in 2005 to help protect property owners against dramatic assessment increases. The cap decrease from 15 per cent to 10 per cent to CPI could hardly be defined as a dramatic assessment increase.

- The impetus for the Cap Program was to help long term taxpayers of a municipality who had experienced a significant increase in their property values. These properties were for the most part waterfront locations in a limited number of municipalities. Many of these property owners, who were on fixed incomes, were challenged to pay their taxes as a result of dramatically rising assessments. The Province's solution was to create the cap as a province-wide program to address a problem for a small number of waterfront properties. By painting all residential properties with the same brush, the cap has resulted in the unintended effect of redistributing the tax burden from higher value property owners to lower value property owners.

- Nova Scotians with the most expensive properties are benefiting the most from the cap resulting in a transfer of tax burden from the wealthy to the poor and to new home buyers.

- The Assessment Cap Program is eroding the market value assessment system. While not perfect, the market value system is the most widely used system that is easily understood and easy to administer. The farther we move away from the market value system under the current program, the greater the inequities that will occur.

- A 2008 report published by the Lincoln Institute provided a critical analysis of assessment capping programs in United States over the last thirty years beginning with California in 1978. The report's conclusions on assessment capping mirror many of those put forth by the UNSM—that it is the least effective, least equitable and least efficient strategies available for providing property tax relief. The report recommends alternatives to addressing rising assessments such as low income tax relief programs, and homestead exemptions and credits, among others.

- The cap has created inequities among municipal taxpayers. Identical houses located side by side can result in significantly different tax bills. This situation worsens when projecting out five to ten years. Such discrepancies may discourage young families from buying or building a home. It may also discourage retired residents from downsizing.

- The program is not based on ability to pay—if we are to provide relief to home owners challenged to pay their property taxes, the program should be means tested.

- The shift from a ten per cent cap to CPI was supported by all three political parties with no consultation with the UNSM or municipalities. This undermines the one-year notice clause the province is supposed to issue to municipalities when impacting municipal budgets.

- Reports in the media claim that municipalities have taken advantage of high assessments by holding the tax rate and taking the "lift". Statistics do not support this statement. 42 per cent of municipalities in 2009-10 had lower tax rates than in 2005-06. From 2005 to 2010, the average municipal tax rate dropped from $1.44 to $1.43.

- Unlike other levels of government, municipalities balance their annual operating budgets and have demonstrated success in reducing debt while continuing to invest in new infrastructure while upgrading existing infrastructure.

- Only 8 cents of every tax dollar collected goes to municipalities, the rest goes to provincial and federal governments.

- Municipalities in Nova Scotia rely on property tax for the majority of their revenue. Increasing demands from citizens as well as increased provincial regulations have resulted in municipalities requiring additional revenue to meet these demands.

- Municipalities are responsible for policing services which is growing nationally at a rate of 5 per cent annually. This is just 1.45 per cent below healthcare costs.

- The Assessment Cap Program has resulted in increased administrative costs to both municipalities and the Property Valuation Services Corporation (PVSC). Municipalities fund almost 100 per cent of the PVSC at over $16 million per year. Duplication of effort has resulted in maintaining two assessment rolls; the market and the capped. It has also resulted in increased assessment appeals and increased staff time to answer questions from the public.

- The Assessment Cap Program works against a number of key commitments with the current Provincial Government including:

  a) **Ensure more young people stay and build a life here in Nova Scotia**: The current Assessment Cap Program is transferring more municipal tax burden to starter homes and new homes generally. For example, new neighbours in some subdivisions are being assessed as much as $100,000 more for similar homes. This results in dramatic differences in taxes payable. There is a growing awareness among young families and the real estate industry of the negative impact of the expanding gap between capped and market values of properties, something that is not a factor in buying properties in other provinces in Canada.

b) **Give seniors options to stay in their homes and communities longer:** The origin of the Assessment Cap Program was a response to seniors with high property values living in a modest home. This group is now beginning to pay relatively more taxes as their wealthy neighbours gain more benefit from the cap. Given the pressures on municipal taxation because of growing environmental, infrastructure renewal and other requirements, seniors in modest housing, or those wishing to move to a smaller, cheaper and more accessible home will face the “un-capping” of that new home.

c) **Create secure jobs and growing the economy:** Building new homes is an important element in the Province’s overall employment and economic strategy. As the cap impacts grow, new home buyers will face greater “sticker shock” in terms of uncapped assessment values as they consider new home construction. In the Municipality of East Hants for example, the projection of existing trends indicate that two similar houses in the same subdivision could have as much as an 80% difference in tax burden by 2016. This situation will be repeated in other parts of Nova Scotia, causing new home buyers to hesitate, reducing demand for new home construction.

NEXT STEPS

The Assessment Cap Review Committee will work with the Province on proposed solutions to the Cap Program: