

2021 Revaluation

Date	June 10, 2020
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Assessment, Tax & Utility Billing
Item No.	EX20-23

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Endorse the guidelines and principles for consulting on a commercial phase-in tax policy as outlined in this report.
2. Instruct Administration to continue the consultation with the business community on the options for a phase-in of tax changes for commercial property due to the 2021 Revaluation.
3. Bring forward a report on tax policy options in the first quarter of 2021.
4. Approve these recommendations at its June 24, 2020 Meeting.

ISSUE

Provincial legislation requires all municipalities in Saskatchewan to be revalued once every four years. As a result, 2021 is the next revaluation year. The 2021 revaluation will update the base date to January 1, 2019, which is the appraisal date used for determining assessments. Updating the base date ensures the assessment values are reflective of current market conditions and that any change in property value occurs over a period of time. Progress continues to be made in the implementation of the 2021 revaluation; however, there is still considerable effort required to complete the revaluation.

Public consultation and transparency in assessment, property tax, and budget processes are important to maintain confidence and build trust in Regina's municipal government.

Developing principles for the 2021 tax policies, scheduling the timing and setting direction early in the process will allow appropriate information available to be considered in the tax policy discussions.

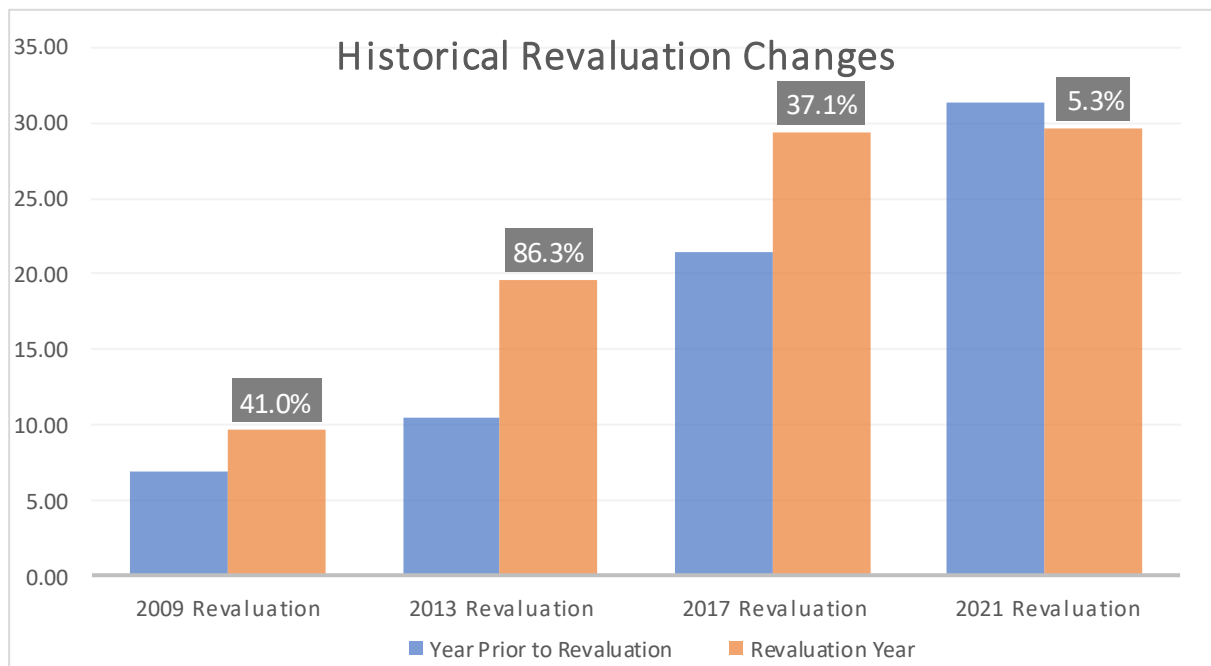
Legislation applicable to the revaluation includes:

- Section 22(1) of *The Assessment Management Agency Act* states:
“Notwithstanding any other Act, commencing on January 1, 1997, all assessable properties in every municipality are to be revalued under the direction and supervision of the agency once every four years.”
- Sections 165 (1) and (2) of *The Cities Act* state:
(1) “An assessment shall be prepared for each property in the city using only mass appraisal.”
(2) “All property is to be assessed as of the applicable base date.”

IMPACTS

Financial Impacts

Revaluation is revenue neutral for the City and there is no financial impacts to City property tax revenue. The total value of properties has changed from the base year of 2015 to 2019 (base year for the 2021 revaluation). Preliminary results of the 2021 revaluation indicate the total value of all properties within Regina has decreased 5.3%. This is a significant change from the last three revaluations and is consistent with market indicators. The chart below shows the historical change in the assessment base as a result of past revaluations.



Although the scale of change in assessment values is an overall decrease, properties will experience a wide range of tax changes. A decrease in assessment does not mean a decrease in individual property tax.

Approximately 90% of all properties within the city will see a 10 to 20% reduction in property value. Residential assessments will see an average reduction of 9%, with condominium properties averaging a 15% reduction. Multi-family properties experienced a slight increase in assessment value.

The Commercial and Industrial Class of properties will see an overall increase of approximately 3%. This group includes a wide range of properties. There are just over 3600 taxable properties in this group that contribute approximately \$95 million in municipal property taxes. There are 400 properties that contribute 75% of the property taxes for this group. This distribution of values makes the commercial group subject to the potential of larger variances in property tax impacts because a relatively small number of the properties has the majority of value in the group. There is a wide range of changes, and while there are many properties with small decreases or increases, some properties will see larger property tax increases and decreases.

A misconception that commonly occurs is that a decrease of assessment value on individual properties automatically means proportionally lower property taxes. Changes in assessment value may result in changes to individual property tax. The key message is that the revaluation is revenue neutral for the City. It is important to ensure this message is provided early and often in the revaluation process. If the City requires additional revenue those decisions are made through the budget process not the revaluation process.

OTHER OPTIONS

There are no other options as assessment revaluation is a legislated requirement.

COMMUNICATIONS

To enhance public awareness and education about Revaluation 2021, a phased communication strategy has been developed for Q3 to Q4. This strategy supports the work of the Assessment, Tax & Utility Billing department to facilitate a clear understanding about what property assessment means, the factors that determine property value, and an estimate on how the updated assessment values impact property taxes on individual properties.

Given the current financial environment resulting from COVID-19, communication related to property revaluation will be sensitive to citizen expectations regarding their property taxes. Administration will ensure that the necessary resources are in place to assist property owners with questions about their assessment.

DISCUSSION

The 2021 revaluation is mandated by provincial legislation and requires a revaluation every four years. Given the last reassessment occurred in 2017, the next year for revaluation is 2021. Legislation also requires that each revaluation reflect a base date. The base date for the 2021 revaluation is January 1, 2019. Legislation directs that assessments are based on a mass appraisal market value assessment system.

There have been significant changes in the market with respect to differing property types since the last base date of revaluation in 2015. The City determines the assessed value of a property using the following valuation approaches:

Direct Sales Comparison Approach: property values are estimated based on the statistical analysis of current sale prices for similar type properties. This is the preferred approach for residential and condominium properties as there is typically an abundance of property sales in the market to estimate these property values.

Income Approach: an income stream generated from the land/buildings is capitalized into a market value estimate. The approach is commonly used in the valuation of multi-family and commercial properties. The income generated from renting space (1-2-3-bedroom apartments, commercial space in shopping malls) to several tenants in a building results in an income stream that can be converted into a market value estimate.

Cost Approach: property value estimate is based on the cost to acquire a parcel of land, plus the cost to build the improvement, less depreciation. In most situations, the property estimate should be the same as the cost to construct a similar building. This approach to value is often used for those property types that do not sell in the open market such as churches, hospitals, schools, industrial sites, railway right of ways, etc.

Efforts related to the 2021 revaluation to date include:

1. Updates to the Computer Assisted Mass Appraisal (CAMA) and Taxation and Assessment System (TAS) to support the 2019 base date have been completed.
2. Collecting data required to implement the Income Approach. The data required is for the 2015, 2016, 2017 and 2018 fiscal years. Requests were mailed to approximately 7780 properties with responses received from 80% of the properties.
3. Property sales data has been collected and the sales information has been reviewed and verified.
4. Preliminary valuation models for all properties have been completed.

5. An independent consultant has been engaged to review our mass appraisal valuation models and to ensure compliance with industry standards.
6. The development of a communication strategy and a customer service strategy is underway. Much of the effort on these plans will occur in the second and third quarters of 2020. As in past revaluations, use of the City's web site will be a major component of the communication and customer service strategies.
7. The Province (Ministry of Government Relations) set a deadline of April 1, 2020 for the submission of preliminary assessment values for 2021. The Province will use the data for the analysis leading to the establishment of provincial percentages. The City of Regina has submitted values to the Province to meet this deadline.

While progress has been made there is still effort required to review and establish tax policies and deliver the communication and customer service strategies. Significant steps that remain are:

1. The mailing of individual letters in late August of 2020 advising property owners of the changes in assessment and the estimated tax impact due to the revaluation.
2. The 2021 assessment notices will be mailed in November of 2020. The timing of the release of assessment values advances the timing of assessment appeals, allowing the first stage of appeals to be resolved prior to the setting of the mill rate bylaw in 2021, thus resulting in a more stable tax base. It also allows taxpayers time to prepare for tax changes.
3. The 2021 assessment values are complete and work on the analysis of impacts is underway.
4. Development of principles to use as guidelines for establishing tax policy options. This process will include public consultation to help inform the final recommendations presented to Council. This approach was very successful in past revaluations and has been supported by the business community and the Regina and District Chamber of Commerce. This was cited as a critical step in the public consultation process for commercial property owners and occupants.
5. Consultation with the business community will continue in 2020 with initiatives such as meetings with and presentations to the Regina Economic Development, Regina and District Chamber of Commerce, Regina Hotels Association and other interested business groups. The business community has advised that communication of the impact of revaluation needs to occur in the fall of 2020 so that businesses have time to adjust budgets for the revaluation tax year.
6. Administration will prepare a review of tax policy tools for consideration by Council. The tax policy tools available include the incidence of tax between property classes

(residential and commercial), the use of a base or minimum tax, and the phase-in of tax changes resulting from the revaluation. Tax policy decisions need to be made prior to setting the mill rates and mill rate factors for 2021.

Property Tax

The City of Regina will continue to use the “Truth in Taxation” principle. The International Association of Assessing Officers’ Standards for Property Tax Policy describes the principle as requiring governments to notify property owners if there is going to be an increase in property tax rates or revenues separately from tax changes due to revaluation. As in past revaluations, the City of Regina will provide individual notices (mailed in late August as previously noted) on the effect of revaluation that include projected property taxes and will also make this information available for every property on Regina.ca.

Revaluation is property tax revenue neutral for the city. The concept of establishing a revenue neutral tax rate will continue to be a key message in all communication efforts with the public. Tax revenue is based on the updated 2021 property assessments and a revenue neutral tax rate. The property assessment system is the mechanism used to fairly distribute the property tax levy to all property owners; the result being that in a revaluation year, increases or decreases due to revaluation do not necessarily mean an increase or decrease in property tax for the individual account. Rather, the change in property tax for each individual account is dependant upon whether the assessment change is above or below the average change in assessment for the property class.

The “Truth in Taxation” principle, along with transparency in property assessment and the budget process, are important in the effort to achieve public confidence in municipal government.

Phase-In

Legislation provides for phasing in of the changes in assessment due to revaluation. Phase-in plans were applied to the Commercial and Industrial property class in each of the past revaluations. For the past two revaluations, City Council adopted the following principles to use as guidelines for consulting with the business community and in establishing tax policy:

1. Stability in property taxes is important to ensure we have a sustainable, fair, competitive and viable economic environment.
2. Administrative cost and complexity should be avoided as much as possible.
3. Principles for a commercial phase-in should be established as:
 - It is recognized that phase-in programs create administrative overhead and complexity for property owners and need to be used judiciously.
 - Any phase-in plan must be revenue neutral.
 - Phase-in should only be considered if there are many properties with exceptional increases.
 - A phase-in plan must be structured so that it is two or three years maximum in duration.

Administration recommends that City Council adopt the above principles for the 2021 revaluation.

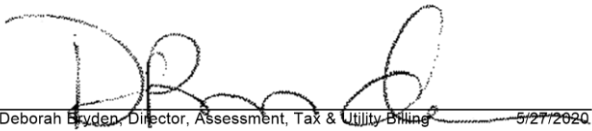
DECISION HISTORY

In each of the prior City Council revaluation year reports CR09-34, CR13-16, and CR17-24, City Council has adopted the proposed principles for revaluation and phase-in of revaluation impacts for commercial properties.

The recommendations contained within this report require City Council approval.

Respectfully Submitted,

Respectfully Submitted,



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Barry Lacey, Exec. Director, Financial Strategy & Sustainability 6/1/2020

Prepared by: Steve Ward, City Assessor