Minutes – Executive Policy Committee - February 28, 2007

REPORTS

Minute No. 198 Two-Year Assessment Cycle
File AA

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

The Executive Policy Committee laid over the matter to its meeting on March 14, 2007.

DECISION MAKING HISTORY:

Moved by Councillor Swandel,
That the matter be laid over to the Executive Policy Committee meeting on March 14, 2007.

Carried

RE: Two-Year Assessment Cycle

FOR SUBMISSION TO: Executive Policy Committee

ORIGINAL REPORT SIGNED BY: Jo-Anne Ferrier, Acting Chief Financial Officer

REPORT DATE: February 12, 2007

RECOMMENDATION: That the City of Winnipeg request formal confirmation from the Province of Manitoba by September 2007 of the intent to amend legislation no later than the spring of 2008 for the implementation of a two-year assessment cycle, starting with 2010 as a general reassessment year, using a reference date of April 1, 2008.

Report Summary

Key Issues:

The Property Assessment Department has developed a work plan that is supportive of a two-year assessment cycle. While there are risks involved in implementing a two-year assessment cycle, the Property Assessment Department believes that the risks can be managed, and that a two-year assessment cycle can be successfully implemented for the City of Winnipeg. The Department believes that there is a low level of risk with respect to residential properties, but there is a heightened level of risk related to the valuation of commercial properties within a two-year assessment cycle.

While there has been discussion regarding the first implementation of the two-year cycle, the Province of Manitoba has not officially announced its intention to alter the governing provincial legislation that would be required to direct a two-year cycle.

If the first implementation of the two-year assessment cycle is to be based on a 2010 reassessment roll year, and using a specific reference date of April 1, 2008, the Department would target the delivery of that 2010 reassessment roll for May 31, 2009, with preliminary values available in fall 2008. This would be followed by a 2012 reassessment roll year, using a reference date of April 1, 2010.

Current Assessment Year	Current Reference Year	Current Lag (Years)	Proposed Assessment Year	Proposed Reference Date	Lag (Years)
2010 R	2007	3	2010 R	April 1, 2008	2
2011	2007	4	2011	April 1, 2008	3
2012	2007	5	2012 R	April 1, 2010	2
2013	2007	6	2013	April 1, 2010	3
2014 R	2011	3	2014 R	April 1, 2012	2
2015	2011	4	2015	April 1, 2012	3
2016	2011	5	2016 R	April 1, 2014	2
2017	2011	6	2017	April 1, 2014	3

Under the existing legislation (four-year cycle), the next general reassessment would be for 2010. This coincides with the timeframe recommended here as the first implementation of the two-year cycle.

As stated, a work plan has been developed for a two-year cycle, and has been shared with provincial officials. However, in the absence of formal indication of pending changes in the provincial legislation, the Property Assessment Department has continued to plan and structure work processes in support of the existing legislated four-year cycle.

There had been some discussion with the Province of Manitoba regarding the first implementation of a shortened assessment cycle starting with 2009. However, no formal notification of the intent to alter the governing legislation to support that reassessment year (and the associated reference date of April 1, 2007) was received, and thus, the timeframe that would have allowed this implementation to take place has passed.

It is critical that the City of Winnipeg receive formal confirmation of the Province of Manitoba's intent to amend the governing legislation so that the department can organize its staff and other resources to target the dates associated with a 2010 reassessment (commencing the two-year cycle).

Implications of the Recommendation(s):

General Implications

□ None
√ For the organization overall and/or for other departments
√ For the community and/or organizations external to the City of Winnipeg
□ Involves a multi-year contract

Comment(s): This specific recommendation will not have general implications. However, if formal notification of the intent to alter the legislation to direct a two-year assessment cycle is received, there are general implications as noted in this report.

Policy implications

√ No
□ Yes
Comment(s):

Regulatory implications

√ None
□ Eliminates or reduces regulatory impact
□ Proposes regulatory impact
Comment(s):

Environmental implications:

√ No
□ Yes
Comment(s):

Human Resource implications:

√ No
□ Yes
Comment(s):

Financial Implications

√ Within approved current and/or capital budget
□ Current and/or capital budget adjustment required
□

Comment(s): The current submitted operating budget for 2007 and administrative forecasts for 2008 - 2009 were prepared considering the existing legislation (four-year assessment cycle). When formal notification of the intended change in legislation is received, a detailed budget review will be undertaken. Should that detailed review indicate the need for a revised budget, or to revise administrative forecasts, the required reports will be prepared and submitted.

Report

Reason for the report:

The Property Assessment Department has developed a work plan to support a two-year assessment cycle starting with a 2010 reassessment roll year and a specific reference date of April 1, 2008, but formal notification of the intent to alter the governing assessment legislation is required before the Department can officially "switch gears" from the current work plan in support of the existing legislated four-year cycle.

History:

- The City of Winnipeg Audit Department completed a comprehensive audit in November 2001. The first recommendation of that audit was that:
    - "The Property Assessment Department should be evaluating its readiness to conduct annual general assessments and establish a long term plan to increase the frequency from the current four-year cycle. The City should then initiate the process of requesting the Province of Manitoba to amend existing legislation to permit more frequent general assessments."

- In December 2001, Executive Policy Committee established the Assessment Task Force, chaired by Councillor O'Shaughnessy. In September 2002, the Assessment Task Force submitted its final report to Executive Policy Committee (EPC). The report made many recommendations with respect to the overall functioning of the assessment and appeals systems. The report recommended:
    - "Shortening the assessment cycle to one or two years"
    - "The reduction in the cycle be phased in starting with the General Assessment being returned in 2005. Following that a two-year cycle would result in a 2007 General Assessment. At that time a cost benefit analysis would be undertaken to determine the feasibility of a one-year cycle"
    - "The Reference Year be closer in proximity to the Assessment Year. It is recommended that, by the time of the 2007 General Assessment mentioned above, the Reference Date be January 1, 2006."

- On September 24, 2002, EPC referred the report to the Administration for review.

- In September 2003, the Property Assessment Department submitted an administrative response to the Assessment Task Force report to the Chief Financial Officer.

- In June 2004, the Chief Financial Officer submitted a set of reports in response to the Assessment Task Force Report. One of the reports specifically dealt with implementation of a two-year assessment cycle. That report provided an overall plan with a package of very specific recommendations that would be required to be implemented in order to support a two-year assessment cycle.

- In April 2005, the City Clerk, on behalf of City Council, made a formal request to the Province of Manitoba to implement a shortened assessment cycle.

- In October 2005, a task force with representation from the Property Assessment Department and from the Department of Intergovernmental Affairs and Trade, Province of Manitoba was formed. The task force had been working together to determine the viability of a two-year assessment cycle. The Property Assessment Department understands that a report is currently being prepared by the Provincial Municipal Assessor.

- On April 19, 2006, the Executive Policy Committee approved a motion to receive the administrative report dated June 30, 2004 as information, and the Executive Policy Committee recommended to Council that the City of Winnipeg enter into discussions with the Province of Manitoba regarding the implementation of the recommendations of the Assessment Task Force report.

- On April 26, 2006, City Council concurred in the recommendations of the Executive Policy Committee of April 19, 2006.

DISCUSSION:

Representatives from the Property Assessment Department have been working with representatives from the Province of Manitoba (Department of Intergovernmental Affairs and Trade) since October 2005 in a joint task force studying the operational issues involved with a move to a two-year assessment cycle. The plan developed by the Department, and the Department's view of issues related to the implementation of a two-year cycle, have been submitted and discussed with Provincial representatives. While there are risks involved in implementing a two-year assessment cycle, the City of Winnipeg Property Assessment Department believes that the risks can be managed, and that a two-year assessment cycle can be successfully implemented for the City of Winnipeg.

A summary of the risks and an overall evaluation of other related factors are provided in the following section – Two-year Assessment Cycle Analysis.

While there had been some discussion regarding the first implementation of the two-year cycle using a roll year of 2009 (general reassessment) and a specific reference date to be established as being within the first quarter of 2007, the Province of Manitoba had not officially announced its intention to alter the governing provincial legislation that would be required to direct a two-year cycle. We now find ourselves in early 2007 and a 2009 reassessment is not possible. A 2009 reassessment would require an April 1, 2007 reference date. The Property Assessment Department would be targeting the delivery of a 2009 preliminary roll in fall of 2007. Given the current time frame, this is not achievable.

If the first implementation of the two-year assessment cycle is based on a 2010 reassessment roll year (using a reference date of April 1, 2008) the Department would target the delivery of that 2010 reassessment roll for May 31, 2009.

Current Assessment	Current Reference	Current Lag	Proposed Assessment	Proposed Reference	Lag (Years)

Year	Year	(Years)	Year	Date	
2010 R	2007	3	2010 R	April 1, 2008	2
2011	2007	4	2011	April 1, 2008	3
2012	2007	5	2012 R	April 1, 2010	2
2013	2007	6	2013	April 1, 2010	3
2014 R	2011	3	2014 R	April 1, 2012	2
2015	2011	4	2015	April 1, 2012	3
2016	2011	5	2016 R	April 1, 2014	2
2017	2011	6	2017	April 1, 2014	3

For the past two general reassessments, the Department also has issued preliminary preview letters. Preview letters state a preliminary or proposed reassessment value and are mailed to property owners well in advance of the delivery of the roll. The delivery of the preliminary values and the implementation of the Open House process have been positively received by property owners. The Department would target to have preliminary values available starting in fall 2008.

Sufficient lead time must be provided to the Property Assessment Department in order that staff and resources be properly aligned to support the dates associated with the first implementation of the two year cycle. The amended legislation must be adopted by the spring of 2008 in order to provide the required legislative foundation for the issuance of preview values in the fall of 2008. Also, it is important that the intent to amend the legislation be communicated to the Property Assessment Department by September 2007, so that the Department can make the proper plans to support the reference date of April 1, 2008.

Two-Year Assessment Cycle Analysis

This section summarizes the key areas of risk, including the Department's view of issues related to the assessment process.

Assessment Appeals

Careful management of dealing with assessment appeals will always be an ongoing and very important task for the Property Assessment Department. The Department has taken considerable steps in the last few years to balance workloads and keep appeals a priority.

Below is a table summarizing the appeals filed at the Board of Revision and at the Municipal Board by roll year.

Roll Year	**1998**	1999	2000	2001	**2002**	2003	2004	2005	**2006**	2007
Board of Revision	13,575	4,163	2,218	1,600	10,399	1,354	1,247	418	4,525	676
Municipal Board	1,553	340	697	399	1,220	244	192	63	753	n/a

[By unique property]

The Assessment Tax Communication Task Force, comprised of representation from many civic departments, does pay considerable attention to the outstanding tax liability flowing from assessment appeals. The monthly analysis of projected liability and other levels of analysis provide a very good "early warning" system that provide the Property Assessment Department and other related departments the ability to become aware of emerging situations and to propose mitigation and/or risk management strategies in a timely fashion.

The June 2004 report from the Chief Financial Officer in support of the two-year assessment cycle did include a package of recommended changes to processes related to assessment appeals. Many of these recommendations were also made in the Assessment Task Force Report. The CFO report recommended changes in how the department did its own work, but the report made six specific recommendations with respect to issues relating to appeals. Recommendations included a January 1 reference date. The report was clear in dealing with the assessment system in general; which included the appeals part of the system, as well as the information gathering part of the assessment system.

The City Assessor at that time wrote that *"In moving to a shortened assessment cycle, the two business processes that require the most resources to complete – appeal defence and data analysis / value generation – must be performed at the same time. Neither can withstand a significant diminution of staff resources and due attention. Failure to pay adequate attention to either of the major functions of appeal defence or data analysis and value generation will increase fiscal risk and most likely undo, at least on a temporary basis, any positives that stakeholders would garner from a shortened assessment cycle"* .

In addition, the report stated that "*It is important to note that these recommended changes in legislation, policies, and procedures work cooperatively together as a complete package in order to support a move to a two-year assessment cycle. A shortened cycle could not be achieved by simply implementing selected components of the plan."*

When the report was written, it was felt that the assessment system should be considered in a holistic view. The City Assessor of the time was drawing attention to the need to make changes to other parts of the assessment system (including the appeals function), in order to improve and streamline it, to avoid a possible "balloon" of assessment appeals that may follow the implementation of a shortened assessment cycle.

However, to date, the only discussions with representatives from the Province with respect to changes in processes related to appeals have been:

• Allowing single panel Board of Revision hearings to deal with residential properties,

• Enabling the Municipal Board to provide a mediation function without the need for formal hearings, (Case Management)
• Allowing owner / assessor agreements without the need for a formal appeal.

The Department believes there is a medium to high level of risk with respect to appeals, mainly due to the fact that few of the recommendations contained in the CFO report are being considered for implementation.

Data Collection & Value Generation

A shortened assessment cycle depends on having accurate and current information available in a timely manner. Methods to report, process, and analyze data must be highly efficient.

The 2006 reassessment was the first reassessment where mass appraisal modeling was utilized for the majority of properties. The mass value generation process is critical in providing values in a shortened assessment cycle; mass value generation must be reliable and expeditious.

Residential

While there are many more residential properties, generally the systems, processes, and valuation approaches used are well established. Overall, the residential data is in good shape (reflective of the true circumstances of the inventory). There is an effective mechanism in place for sales investigation, and the valuation models have proven to be highly predictive. The public preview program has been highly successful, and overall, there has been an improvement in the acceptance of the processes and methods used by the Department. The focus on improving openness and understandability has improved the relationship with the residential property owner.

While there is some risk in moving to a shortened assessment cycle, the Department believes there is a low to medium level of risk with respect to this property type.

Non-residential

Non-residential properties, by their very nature, are more difficult to value. The steps to collect and analyze the data needed to drive the non-residential valuation process are much more complex and time consuming. In particular, the collection of the required income and expense information is a key process that is critically important, yet highly manual in nature. Also, there is generally less market information available upon which to base values. Data analysis typically requires valuation staff that have an intimate knowledge of the marketplace for these specialized properties. The department is heavily reliant on a small number of highly skilled valuation staff during reassessment.

Overall, there is a heightened risk in the valuation of non-residential properties within a two-year assessment cycle.

The 2006 reassessment was also the first time detailed information was available on the department's website for all properties. Owners are able, through unique ID's, to view the details of the physical characteristics and assessment valuation of their property.

The Department continues to balance workloads to commit resources to maintain up-to-date attribute data. Enhancements to the CAMA system, permit tracking system, the website, and the realignment of the organizational structure all support this commitment.

The Department discussed with the Province of Manitoba a legislated format for Income and Expense and Sales mailers. It was viewed that this complete harmonization of the forms would be problematic. To have a legislated form in a changing economic environment would require continuous updates over time.

Systems

The 2002 reassessment was the first reassessment utilizing the new CAMA system in conjunction with Multiple Regression Analysis modeling for residential properties. Refinements in systems and processes were made to support the 2006 reassessment as well. While there is an ongoing need to make incremental system enhancements, the systems and processes currently in place are well established and highly functional.

The 2006 reassessment was the first reassessment where non-residential valuation processes were incorporated into the CAMA system. This was the first reassessment where the income approach with mass modeling was utilized. The Department has launched an initiative to make some further system enhancements to better support the valuation of non-residential properties.

A project has been identified to significantly update the user interface and other operational aspects of the core CAMA system. This project will also migrate the system to a more up-to-date technological platform. This effort is to be accomplished in a stages fashion. However, the functionality contained in the current system is fully supportive of a two-year cycle.

The Department is actively developing an online data collection system to establish a formal process of collecting Income & Expense information online. This will streamline the data collection process, requiring less manual data entry and improving accuracy. This system will be up and running for the spring 2007 Income & Expense requests.

The Department believes there is a low to medium level of risk with respect to the systems or processes utilized.

Reference Date vs. Reference Year

Key to the implementation of a two-year assessment cycle is the move from a reference year to a specific reference date. The use of a specific reassessment date is meant to emulate the normal process of market real estate transactions. Specifically, the reference date can be seen as the date that a willing buyer concludes a transaction with a willing seller. On that date, the buyer and the seller have all of the necessary market information that assists in the determination of a fair market transaction. The assessor would use the same market information that was available to the buyer and seller on the reference date in order to determine an assessed value. The use of a reference date would provide for timely collection of key information (notably income and expense information) that can then be used to determine the relevant market conditions. Legislation would need to be altered to provide for a specific reference date.

The Property Assessment Department had originally recommended a January 1 date for the reference date. Current discussions with Provincial officials have centered on a reference date of April 1, 2008 to be used for a 2010 general reassessment.

Current Assessment Year	Current Reference Year	Current Lag (Years)	Proposed Assessment Year	Proposed Reference Date	Lag (Years)
2002 R	1999	3			
2003	1999	4			
2004	1999	5			
2005	1999	6			
2006 R	2003	3	2006 R	2003	3
2007	2003	4	2007	2003	4
2008	2003	5	2008	2003	5
2009	2003	6	2009	2003	6
2010 R	2007	3	2010 R	April 1, 2008	2
2011	2007	4	2011	April 1, 2008	3
2012	2007	5	2012 R	April 1, 2010	2
2013	2007	6	2013	April 1, 2010	3
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2015	2011	4	2015	April 1, 2012	3
2016	2011	5	2016 R	April 1, 2014	2
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Staffing

The ability to allocate the required number of staff with the essential skill and experience to all activities related to a reassessment will continue to be a challenge. There is a small group of skilled staff that takes on leadership roles with respect to reassessment activities. Their names are on the critical paths of many areas of the reassessment plan. Any reduction of the availability of these core individuals will tend to have a fairly dramatic impact on the reassessment plan. It is very important to identify these key individuals and to carefully coordinate their time and activity.

The Department believes there is a higher level of risk with respect to the allocation of staff and succession planning for the future.

Organization

The Property Assessment Department reviewed the realigned organizational structure of the Department in October 2006. It was felt that improvements could be made to the organizational structure that would better support the work required for a shortened assessment cycle. The Department's structure now reflects a functional orientation as opposed to a geographic orientation. This promotes a more focused approach to reassessment and day-to-day operations by developing and maintaining expertise with specific property types.

The Department now believes there is a low level of risk with respect to the organizational structure.

Province-wide Impact

It must be recognized that any change to the assessment cycle must be uniform across the entire Province of Manitoba. This is clear given that the assessment function is directed in most part by the *Municipal Assessment Act*. However, the approach taken by this report is to only analyze this issue from the perspective of the City of Winnipeg Property Assessment Department, and to specifically note the events, actions, and changes that are required as they relate to the properties within the City of Winnipeg. This report does not analyze the impact of a reduced assessment cycle on the balance of the province, nor does the report analyze the actions needed or the readiness of the Office of the Provincial Municipal Assessor to support such a two-year assessment cycle.

Conclusion

While supporting a two-year assessment cycle, the Property Assessment Department recommended a number of changes to the manner in which the assessment system functions. The *Municipal Assessment Act* primarily governs the assessment system in the Province of Manitoba, and the system involves many stakeholders. The Department is prepared to put in place the measures and systems that are within its control to support a two-year cycle.

The Department believes that the discussion points in this report are in line with the fundamental principles of fairness, openness, understandability, and defensibility, and are in the best interests of all stakeholders in the assessment system. These changes will allow the Department to streamline the assessment process and allow the Department to enhance effectiveness. A well running and efficient property assessment system provides the backbone of an efficient, reliable, and robust municipal taxation system that delivers the necessary resources to municipalities, so they can deliver front line public services. With the implementation of the overall plan presented in this report, the Department believes that a successful transition to a two-year assessment cycle can be achieved and this shortened cycle can be sustained in the long run for the benefit of all stakeholders.

However, the Department must receive a clear indication of timing and approach for the first implementation of a two-year cycle that provides sufficient time to adequately implement the work plan needed to support a two-year cycle. While the Property Assessment Department was prepared for the first implementation of the two-year cycle commencing with a 2009 reassessment, without confirmation that the legislation would change, time now has passed, to the point that a 2009 reassessment roll (delivery of a preliminary roll in fall 2007) is not possible. At the present time, the Department recommends that the focus be set on a 2010 reassessment (April 1, 2008 reference date) as the first implementation of a two-year assessment cycle. It is important that confirmation be received by September 2007, in order to allow the department to fully implement the work plans necessary to support the goals. The required amendments will have to be adopted no later than the spring of 2008 so that the issuance of the preview values in the fall of 2008 have a valid legislative foundation.

Financial Impact Statement

Date: February 5, 2007

Project Name: Two-Year Assessment Cycle

First Year of Program

	0	1	2	3	4
Capital					
Capital Expenditures Required		$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs		-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs					
Less: Incremental Revenue/Recovery		-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts					
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: The current submitted operating budget for 2007 and administrative forecasts for 2008 - 2009 were prepared considering the existing legislation (four-year assessment cycle). When formal notification of the intended change in legislation is received, a detailed budget review will be undertaken. Should that detailed review indicate the need for a revised budget, or to revise administrative forecasts, the required reports will be prepared and submitted.

"Original signed by B Cull"
Brad Cull
Manager of Finance & Administration
Property Assessment Department

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:

External Consultation With and Concurrence By:

This Report Submitted By:

Department: Property Assessment Department
Prepared by: Nelson Karpa
City Assessor / Director