Capped Assessment Program (CAP)

Legislated Review

March, 2007

Service Nova Scotia and Municipal Relations

Table of Contents

Section	Page
Introduction	5
Legislated Review Process	6
Stakeholders Consulted in the Review Process	7
Scope of the Report	8
Scope Limitations	9
Background	9
Link between Taxation and Assessment	9
Market Value	10
The Issue: Rising Assessments and Property Tax Burdens	10
‘Hot Spots’ Face Sharpest Increases	13
Responding to the Issue	14
Bill 40 - The Capped Assessment Program (CAP)	14
Views on Bill 40 at Law Amendments Committee	14
Administration of the CAP	15
Eligibility Criteria for the CAP	16
Effect on Market Value	17
Setting the CAP Rates	17
Bill 92 – CAP Extended and Tied to Consumer Price Index (CPI)	18
Municipal Property Tax Relief Programs Under the MGA	19
Survey of NS Municipalities on Property Tax Relief	19
Program Analysis	21
Introduction	21
Participation	21
Impact on Assessment	29
Potential Impact on Taxation	30
Potential Impact on the Home Buyer	34
Resort Area Illustration	35
Potential Impact on Uniform Assessment Programs	37

Observations on the Program Analysis	38
Literature Review	39
Key Findings from the Literature Review	39
Exploring the Key Themes	40
Jurisdictional Review / Canada-Wide Survey	45
Key Findings from the Jurisdictional Review	45
Cross Canada Survey – Results at a Glance	45
American Experience with Capping Assessments	48
Minnesota Example – Limited Market Value Law	48
Stakeholder Input	52
Stakeholder Consultation Process	52
The Key Questions to Stakeholders	53
Participant Resources	53
Key Themes from the Stakeholder Input	54
Overall Findings from the Stakeholder Input	55
Municipal Stakeholders	55
Union of Nova Scotia Municipalities (UNSM)	57
Assessment Services Transitional Board (ASTB)	59
Commercial Sector Representatives	61
Additional Avenues for Input	61
Concluding Remarks	67

Appendices

A Municipal Stakeholder Information Package
B Sections 69 and 70, Municipal Government Act
C MGA Information Bulletin #8
D Results from Municipal Property Tax Relief Survey
E Bill 40 – *The Assessment Act* (amended), 2004
F CAP Application Form
G 2007-08 % Reduction in Municipal Market Value (10% CAP)

H 2007-08 % Reduction in Municipal Market Value (10% CAP): Chart
I 2007-08 % Reduction in Municipal Market Value (CPI CAP)
J 2007-08 % Reduction in Municipal Market Value (CPI CAP): Chart
K 2007-08 Summary of Tax Impact: % Municipal Tax Rate Increase (10% CAP)
L 2007-08 Summary of Hypothetical Tax Impact: % Municipal Tax Rate Increase (CPI CAP)
M 2007-08 % Municipal Tax Rate Increase (10% CAP)
N 2007-08 % Municipal Tax Rate Increase (CPI CAP)
O 2001-07 Effect on the Homebuyer (10% CAP): Lunenburg Scenario
P 2001-07 Effect on the Homebuyer (CPI CAP): Lunenburg Scenario
Q 2006-07 Uniform Assessment Before and After Capping (10% CAP)
R 2006-07 Uniform Assessment Before and After Capping (10% CAP): Chart
S 2007-08 Uniform Assessment Before and After Capping (CPI CAP)
T 2007-08 Uniform Assessment Before and After Capping (CPI CAP): Chart
U 2006-07 Net Impact on Municipalities: Uniform Assessment (10% CAP)
V 2007-08 Potential Inter-Municipal Shifts in Uniform Assessment Based Programs: Hypothetical (CPI CAP)
W Literature Review: Works Cited
X MTL Report on Municipal Discussion Sessions
Y CAP Online Survey
Z Stakeholder Submissions on the CAP
Union of Nova Scotia Municipalities (UNSM)
Assessment Services Transitional Board (ASTB)
Canadian Federation of Independent Business (CFIB)
Nova Scotia Chambers of Commerce
Halifax Chambers of Commerce
Municipality of the District of Lunenburg
Municipality of the County of Richmond
Municipality of the District of Chester
Region of Queens Municipality
Town of Lunenburg

Introduction

In May, 2004, the Provincial Government introduced Bill 40 - *An Act to Amend Chapter 23 of the Revised Statutes, 1989, the Assessment Act* - with a goal to protect Nova Scotia residents from the tax effects of dramatic increases in property assessment values. The legislation enables the Governor in Council to limit or "cap" the annual increase in the taxable assessment value of eligible residential and resource property.[1] The Bill was enacted into law, principally, in section 45A of the *Assessment Act* (provided in Appendix E), to take effect April 1, 2005.

The review of the Capped Assessment Program (CAP) and subsequent report to be filed by the Minister of Service Nova Scotia and Municipal Relations (SNSMR) is required under section 45A of *The Assessment Act,* subsection 13, which reads as follows:

> "The Minister shall, before April 1, 2007, review the operation of this Section and table in the House of Assembly if the House is then sitting or, if the House is not then sitting, file with the Clerk of the House a report of that review."

Bill 92 – *An Act to Amend Chapter 23 of the Revised Statutes, 1989, the Assessment Act*, introduced in the Fall of 2006, resulted in the following proposed changes to the CAP:

1) Removal of the sunset clause in place under Bill 40; and
2) Setting the cap percentage[2] at the Nova Scotia Consumer Price Index (CPI).

The changes to the CAP under Bill 92 are to take effect in 2008-2009, thus giving municipalities twelve months notice as required under Section 519 of the *Municipal Government Act*. Bill 92 did not override the requirement under Bill 40 to deliver a report to the House by April 1, 2007.

The following report contains key findings from the legislated review of the CAP. Details are also provided regarding the process undertaken for the review. Changing the CAP percentage to the Nova Scotia Consumer Price Index (CPI) in accordance with Bill 92 could change the impacts of the program on taxpayers and municipalities; thus the scope of the report was expanded to identify the potential implications of this legislative change.

[1] 15% in 2002-03 and 2003-04; 10% in 2004-05, 2005-06, 2006-07; and 2007-08
[2] Under Bill 40, the CAP percentage was set annually by regulation.

Legislated Review Process

The following components comprise the CAP legislated review process:

I. **Literature Review** – a review of existing research on best practices in addressing rising property taxes.

II. **Jurisdictional Review** – National and international review to identify best practices, lessons learned and options for consideration to address rising property tax burdens related to assessment increases.

III. **Program Analysis** – to include the following:

- Analysis of actual assessment data (and potential taxation implications) for 2005-06, 2006-07 and 2007-08 to identify the impact of the program under a 10 percent cap from a municipal perspective.
- Analysis will also include scenario analysis of 2007-08 assessment data to identify the potential impact of the program under a cap at 2.3 percent (estimated CPI for 2006)[3].

I.V. **Stakeholder Discussion Sessions** – In this component of the review, stakeholders were provided with detailed information on the findings from the CAP review process to date. Stakeholders were asked to provide input on their experience with the CAP and their thoughts on the proposed changes to the CAP under Bill 92.

Program objectives were identified, clarified and examined. Finally, observations on property tax relief tools and suggested enhancements to the program were brought forward by stakeholders.

The following mechanisms formed this component of the review:

- <u>Regional discussion sessions</u> – a series of six discussion sessions were conducted with elected officials and staff from Nova Scotia's 55 municipalities;
- <u>Discussion sessions</u> were held with the Union of Nova Scotia Municipalities (UNSM), the Assessment Services Transitional Board (ASTB) and representatives from the commercial sector; and

[3] Data for the Nova Scotia CPI for December, 2006 was not available at the time of this analysis; therefore this estimate is based on the average increase in the Nova Scotia CPI between January and November, 2006.

- Online Survey and additional avenues for input – stakeholders were also provided with the opportunity to provide input into the review process via an on-line survey, e-mail and by telephone. Those stakeholders who wished to provide submissions outlining their position on the CAP were invited to do so.

Stakeholders Consulted in the Review Process

- **The Union of Nova Scotia Municipalities (UNSM);**
- **The Assessment Services Transitional Board (ASTB);**
- **Staff and elected officials from the province's 55 municipalities;**
- **The Halifax Chambers of Commerce;**
- **The Canadian Federation of Independent Business; and**
- **The Nova Scotia Chambers of Commerce**

Scope of the Report

Bill 40 required a review of the CAP program as outlined under this piece of legislation (i.e., cap at 10 percent, set by regulation). Changing the CAP percentage to the Nova Scotia Consumer Price Index (CPI) in accordance with Bill 92 could change the impacts of the program on taxpayers and municipalities; thus the scope of this report was expanded to identify the potential implications of this legislative change. A hypothetical analysis of 2007-08 assessment data under a cap at the Nova Scotia CPI was included in the report to illustrate the potential impact of the amended program on municipalities and taxpayers from an assessment and taxation perspective.

Scope Limitations

Additional components which stakeholders suggested could form part of the review included a broader consultation process and a socio-economic impact analysis of the amended program. Although the inclusion of these additional components would undoubtedly add value, due to time constraints it was not possible to include them within the scope of this report, which is contained to the findings from the legislated review process outlined above.

"Assessment increases cannot be used as an excuse for property tax increases … taxpayer (and media) education is needed to understand the relationship between assessment and taxes."

- Dr Enid Slack, Institute on Municipal Finance and Governance (2005)

Link between Taxation and Assessment

In Nova Scotia, property taxes are the product of an individual's property assessment multiplied by the municipal tax rate. This is a link that can be confusing and is often misunderstood but is crucial in the discussion on the property tax effects of rising assessments. [4]

Municipalities, through the budgeting process, determine the amount of revenue from taxation (known as the tax levy) that they require to provide services to their citizens in a given year. Once this amount is determined, they then use the total assessment value of the properties in their area to calculate the tax rate to be applied to property owners in order to raise this amount. Or, stated in a simple formula:

$$\frac{\text{Residential Tax Levy}}{\text{Taxable Residential Assessment}} = \text{Residential Tax Rate}$$

Individual property tax bills for property owners are then calculated by multiplying this tax rate by the assessed value of each owner's property:

$$\text{Residential Tax Rate} \times \text{Assessed Value} = \text{Home Owner's Tax Bill}$$

[4] For more information on property taxation and assessment, please see Service Nova Scotia and Municipal Relations (2000) *Local Government Resource Handbook*, Part II – Finances, Section 3.3. Available online at the following link: http://www.gov.ns.ca/snsmr/muns/manuals/lgrh.asp

This approach is based on the assumption that property values are an approximate indicator of wealth and, by extension, one's ability to pay; therefore, property owners with higher assessment values pay a larger share of taxes compared to those with lower assessment values. This assumption, however, is not always the case. As a result, some property owners with assessment values that do not correspond with their income level experience affordability issues related to their property taxes.

The assessment values used by municipalities to set tax rates are currently derived from the annual roll they receive from the Assessment Services Division of Service Nova Scotia and Municipal Relations. The roll is delivered to each municipality at the first of January to be used for the municipalities' tax base for the approaching fiscal year which starts April 1. For more information on how assessments are determined in Nova Scotia, please visit the following website: http://gov.ns.ca/snsmr/asmt/

Market Value

Assessments in Nova Scotia are based on market value, which *The Assessment Act* defines as the amount of money that would be arrived at "in the open market by a willing seller to a willing buyer." [5] This method is used across Canada and throughout North America and other parts of the world as a way to ensure that property owners pay a uniform level of tax across the municipality.

One of the critiques of the market value system is that it does not necessarily represent property owners' ability to pay property taxes, particularly for seniors and those on fixed incomes living in waterfront homes they inherited. (For more information on market value and other systems of assessment, please see Section III of the Municipal Stakeholder Information Package provided in Appendix A).

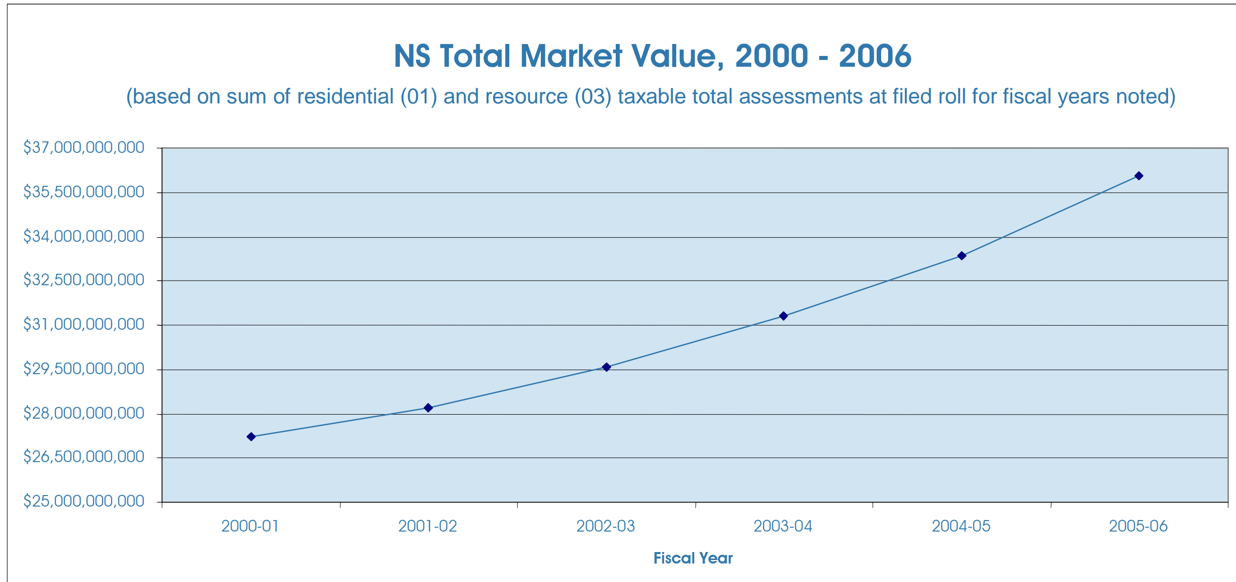
The Issue: Rising Assessments and Property Tax Burdens

In many areas of Nova Scotia, as in other jurisdictions across the country, the real estate market has seen dramatic increases since the early 2000s. The following graph illustrates an average annual increase of six percent in the total market value of residential and resource properties[6] in Nova Scotia

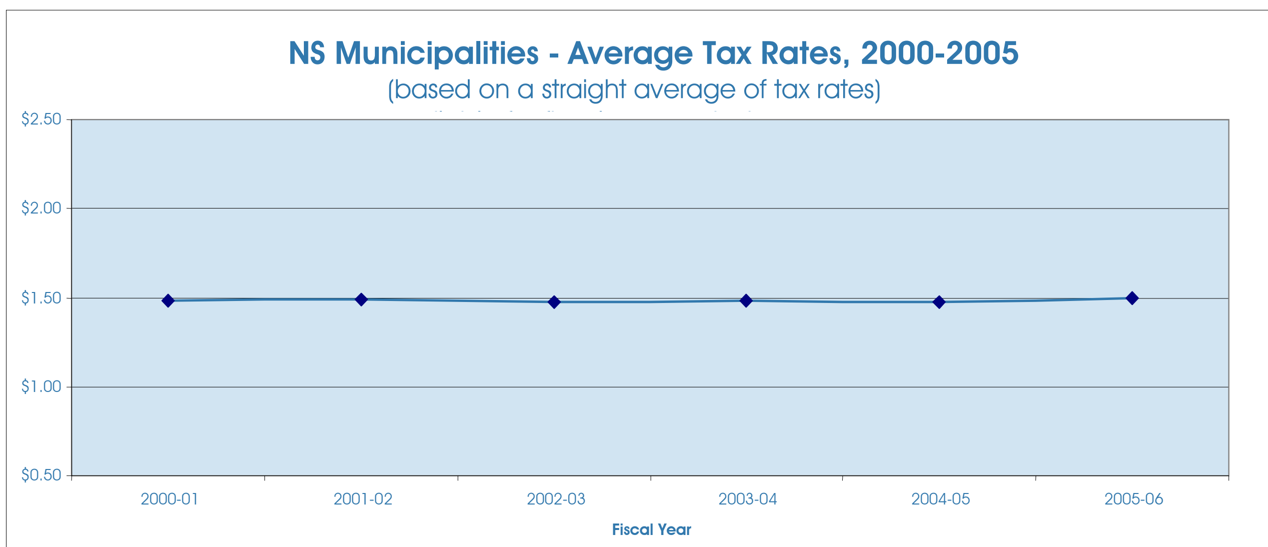
[5] as per Chapter 23, Section 42 of *The Assessment Act*

[6] Based on a sum of residential (legislative code 01) and resource (legislative code 03) taxable total assessments at filed roll for fiscal years noted

for each year between 2000 and 2005[7]. Although some of this is due to new construction, much of it is due to increases in market value.

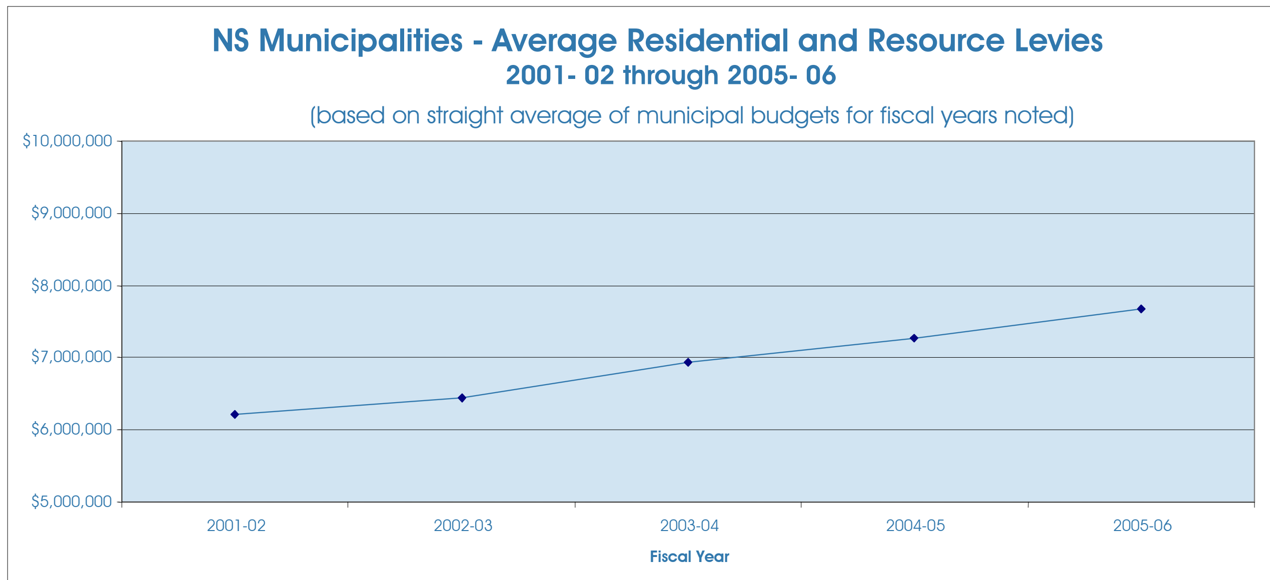


Rising assessment values and increasing municipal budgets in combination with relatively stable tax rates throughout most municipalities resulted in large increases in property tax bills in areas around the province. The following charts illustrate this concept based on a straight average of both municipal tax rates and municipal budgets for 2000 – 2005.



[7] 3.7% in 2001-02; 4.8% in 2002-03; 5.9% in 2003-04; 6.6% in 2004-05; and 8.1% in 2005-06

Given that property taxes are determined by multiplying the municipal tax rate by assessment values, there is a view that municipalities could have eased the tax burden by reducing tax rates to offset growth in the assessment base[8]. In fact, municipal tax rates remained relatively stable (see chart on previous page) despite a period of large assessment increases, resulting in increased municipal revenues obtained through taxation.



Municipalities point out that they are unable to reduce tax rates because of increasing service demands and other budgetary pressures, including the mandatory contributions that municipalities must make to the province related to education and corrections costs.

[8] For a discussion on this point and other issues and options related to rising property assessments and tax burdens, see: Youngman, Joan and Jane Malme, "Stabilizing Property Taxes in Volatile Real Estate Markets." Lincoln Institute of Land Policy. *Land Lines:* July 2005, Volume 17, No. 3, Available at: http://www.lincolninst.edu/pubs/PubDetail.aspx?pubid=1040

‘Hot Spots’ Face Sharpest Increases

Strong market forces over the last several years have boosted home values in many areas of the province, particularly in waterfront resort areas. Several ‘hot spots’ experiencing large assessment increases resulting from strong local market growth have appeared, primarily along the South Shore, the Bras d’Or Lakes, and in the Halifax Regional Municipality.

On the South Shore where rising assessments had become a topical issue, there was strong lobbying for reforms led by an advocacy group called the Nova Scotians for Fair Property Assessments (NSFPA). Part of the concern was that the significant assessment increases for some (but not all) taxpayers would shift the burden of municipal taxation to those with rapidly increasing property values. As expressed by NSFPA and others, a central issue was the concern that some Nova Scotians, particularly those on low or fixed incomes, could be forced out of their homes as a result.

Responding to the Issue

Within the context of rising property values and flat tax rates, the NS Government introduced Bill 40 in 2004 to protect Nova Scotia residents from the tax effects of sudden and dramatic increases in property assessments. The following section details the legislative background and key administrative components of the resulting Capped Assessment Program (CAP).

Bill 40 – The Capped Assessment Program (CAP) [9]

In May, 2004, the Provincial Government introduced Bill 40 with a goal to protect Nova Scotia property owners from the tax effects of dramatic increases in property assessment values. The legislation enables the Governor in Council to limit or "cap" the annual increase in the taxable assessment value of eligible residential and resource property.[10] The Bill was enacted into law, principally, in section 45A of the *Assessment Act* (see Appendix E), to take effect April 1, 2005.

The goal of the legislation was in response to the frustration of property owners over tax hikes associated with rising assessments. As stated in the Legislature by the Minister of Service Nova Scotia and Municipal Relations, the intention was to ensure that "Nova Scotians are protected, that they receive the level of protection that their government can afford and that is protection that keeps them in their house when they see their assessment increase dramatically"[11].

Views on Bill 40 at Law Amendments Committee

The presentations on Bill 40 to the Law Amendments Committee were sharply divided in their support or opposition to the Bill. The witnesses included several property owners, business representatives, the Union of Nova Scotia Municipalities (UNSM), the Association of Municipal Administrators of Nova Scotia, and a number of municipal representatives. *(The list of witnesses and any written submissions are available from the Legislative Library[12]).*

The property owners appearing before the Committee were all in favour of the Bill. Most spoke of experiencing dramatic increases in assessment and in their tax bills. One expressed fear that her elderly mother and others in her situation could be forced out of their homes.

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[9] *An Act to Amend Chapter 23 of the Revised Statutes, 1989, the Assessment Act*.
[10] See page 17 of this report for details on the specific CAP rates as set by regulation.
[11] Hansard, April 19, 2004, p. 2224
[12] For more information on the Legislative Library and its services, please visit: http://www.gov.ns.ca/legislature/LIBRARY/index.html

There were at least three presentations from business organizations. The submission from the Halifax Chamber of Commerce opposed the Bill on the grounds that it could shift the tax burden to the business community and to other taxpayers not benefiting from the CAP. This view was also expressed by the Canadian Federation of Independent Business Director of Provincial Affairs. On the other hand, the presenter from the Riverport Board of Trade, supported the Bill as a good first step in reforming the property tax system.

Municipal representatives at the Committee hearing strongly opposed Bill 40. Only the Town of Lunenburg expressed support for assessment capping as a means to protect property owners from the tax effects of rising assessments. Most of the concerns in the municipal submissions on Bill 40 were similar to those in the UNSM submission. They acknowledged that assessments had dramatically increased in some areas, but suggested that the issue could be resolved on the taxation side. The main solution offered was to amend the legislation to expand local use of property tax relief tools (tax exemption and tax deferral) for low-income taxpayers in the *Municipal Government Act*.

A further municipal concern at the hearing was that limiting taxable assessment increases could ultimately undermine the integrity of the market value system and distort equity in distributing property taxes between property owners.

Administration of the Capped Assessment Program (CAP)

This Cap Assessment Program is open to all Nova Scotia property owners who are residents of the province[13] and is administered by the Assessment Division of Service Nova Scotia and Municipal Relations. It does not extend to commercial properties. A new governance and service delivery model for assessment services is currently being implemented that will see a representative municipal board take over administrative responsibility for the delivery of assessment services as of April, 2008[14].

The following section details key administrative components related to the CAP, including:

- Eligibility criteria for the CAP;
- Effect on Market Values;
- Setting the CAP Rates;
- Changes to the CAP under Bill 92; and
- Information on the Consumer Price Index (CPI).

[13] who meet eligibility criteria as identified on the following page.
[14] Bill 94 - The *Property Valuation Services Corporation Act, 2006*, recently proclaimed, creates the Property Valuation Services Corporation (PVSC), effective April 1, 2008.

Eligibility Criteria for the CAP

In order to qualify for an assessment cap, an individual property must meet the following eligibility criteria:

- be at least 50 percent owned by a Nova Scotia resident[15];
- be classified as taxable residential or taxable vacant resource property[16];
- have an increase in market value assessment greater than the CAP percentage excluding any new assessment value as a result of construction or renovations to the property; and
- have not transferred, or if transferred, then only to certain close relatives (i.e., spouse, child, grandchild, great grandchild, parent, grandparent, or sibling); may also be transferred to family trusts or farm cooperatives.

The CAP covers most homes, but not apartments or mobile homes in parks. Condominiums were initially not covered, but are now eligible following legislation changes that took effect for the 2006 assessment roll.

In order to be eligible, residential property owners must apply for the CAP[17] and state on the application form that they are residents of Nova Scotia. Owners of more than one property must submit an application for each property they wish to have considered for a CAP. Once a property has been deemed 'eligible' for the CAP, it is not necessary to reapply as the application related to this property is maintained for future years. Residency status is not monitored once a property is in the CAP program. (Please see Appendix F for a sample CAP application form). The sale of the property restores the assessment to market value except for inter-family, farm trust or co-operative transfers.

The first assessment roll to reflect the Capped Assessment Program was filed in December, 2004 for the 2005 assessment roll (2005/2006 fiscal period). For more information on the administration of the CAP, please visit the following link: http://gov.ns.ca/snsmr/asmt/cap/

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[15] A person must live in the province for at least 183 days a year to meet this requirement.
[16] Taxable vacant resource property includes land not actively being used for agricultural, forestry, and recreational purposes that is potentially residential property.
[17] Applications must be received before September 30th of the year preceding the applicable municipal taxation year.

Effect on Market Values

All property in Nova Scotia continues to be assessed using the market value standard required by Section 42 of *The Assessment Act*. Where homeowners are eligible for the CAP, they receive a capped assessment value in addition to their market value assessment. Municipalities are then required to use the lesser of the market value or capped value when calculating individual property taxes. Essentially, the CAP limits the amount of assessment increase that a municipality can use to determine a homeowner's property taxes. It may create a taxable assessment lower than market value.

As indicated above, sale of the property restores the assessment to market value except in the case of those that take place between certain family members, farm trusts and co-operatives.

Setting the CAP Rates

At present, the legislation provides for provincial regulation to establish each year a maximum rate of increase in residential and resource assessment allowable for municipal tax purposes. Assessment increases above the regulated CAP rate are not taxable.

While relief to eligible homeowners was first introduced in the 2005-06 fiscal year, the base year to start the comparisons and calculations was 2001-02 municipal taxation year. By regulation, the CAP rates established to date are as follows for each municipal taxation year:

CAP Rates as Set by Regulation	
Year of Program	**CAP Rate**
2002-2003	15%
2003-2004	15%
2004-2005	10%
2005-2006	10%
2006-2007	10%
2007-2008	10%

Bill 92 – CAP Extended and Tied to Consumer Price Index (CPI)

In the Fall 2006 sitting of the provincial legislature, the legislature unanimously agreed to new capping limits for residential/resource properties, effective 2008-09. Bill 92 - *An Act to Amend Chapter 23 of the Revised Statutes, 1989, the Assessment Act* - resulted in the following proposed changes to the CAP:

1) Removal of the sunset clause in place under Bill 40; and
2) Setting the cap percentage[18] at the Nova Scotia Consumer Price Index (CPI).

The changes to the CAP under Bill 92 are to take effect in 2008-2009, thus giving municipalities twelve months notice as required under Section 519 of the *Municipal Government Act*. Bill 92 did not override the requirement under Bill 40 to deliver a report to the House by April 1, 2007.

Consumer Price Index (CPI)

The Consumer Price Index provides a percentage of how much the prices Canadians paid for consumer goods has gone up or down in a given period of time (month/year). This index is also available for each province.

The index is determined by calculating, on a monthly basis, the cost of a fixed "basket" of goods purchased by a typical consumer during a given month. The basket contains products from various categories, including shelter, food, entertainment, fuel and transportation.

Since the contents of the basket remain constant in terms of quantity and quality, the changes in the index reflect price changes, up or down. The Nova Scotia CPI has ranged from 1.8% to 3.4% between 2001 and 2006.

For more information on the Consumer Price Index, see Statistics Canada's *Your Guide to the Consumer Price Index,* available at: http://www.statcan.ca:8096/bsolc/english/bsolc?catno=62-557-XIB

[18] Under Bill 40, the CAP percentage was set annually by regulation.

Municipal Property Tax Relief Programs

There are various property tax relief mechanisms in place for low income taxpayers throughout Canada. While some of the programs may be provincially operated, all provinces have given municipalities discretionary authority to reduce the tax burden on low income households.

In the case of Nova Scotia, authority for municipalities to provide tax relief to low income taxpayers is found in the *Municipal Government Act* (MGA). The legislation gives Council discretion to adopt a policy for full or partial tax exemption under Section 69 and to pass a bylaw under Section 70 to allow postponement of tax payment. (For more details, please see Appendix B for sections 69 and 70 of the MGA; and Appendix C which contains MGA Information Bulletin #8).

Survey of NS Municipalities on Property Tax Relief

Based on a survey undertaken for this review (table of results provided in Appendix D) 52 of the 55 municipalities have adopted policies for property tax exemptions. It is up to Council to specify the exemption amount. The survey results show that less than 41 municipalities have taxpayers taking advantage of the exemptions offered. There is considerable variation between municipalities in the exemptions offered, which range from a low of $50 to a high of $500 and average around $152 per residential taxpayer. This average represents about 15 percent of residential taxes per dwelling unit across the province.

Income Eligibility

Income eligibility for the exemption is also specified by Council, and ranges between a maximum of up to $12,000 per person to a maximum of up to $27,000 per household. On average, the exemptions are for income less than $16,000, which is just above the current level of less than $15,000 required for a single person to qualify for the supplement to the old age pension. Council may also establish a scale of exemptions based on income or on a percentage of the total tax bill rather than a fixed amount. A few municipalities are providing a scale of tax exemptions based on income level (please see page three of Appendix D for details).

Program Costs

The cost of tax exemptions is an important factor in how much municipalities are providing. Survey responses on the costs did not allow a fuller analysis of the relative impact on municipal finances. However, of the municipalities reporting, the total costs of exemptions ranged from around $3,000 to $22,000 for rural municipalities; $600 to $19,074 for towns; and $80,000 to $1.1 million for regional municipalities.

Tax Deferrals

With respect to tax deferrals, their use is very limited. Most municipalities do not appear to regard postponement of taxes as practical option to assist low income taxpayers. Only Halifax Regional Municipality (HRM) has a well-established scheme in the province. However, HRM's deferral scheme has only over 300 participants in contrast with about 2,750 recipients of full or partial tax exemptions.

Tax deferrals accumulate debt as a lien against the property. The literature suggests (Mikhailov, 1998; Kolman, 2001) that taxpayers want to avoid this. The suggestion is that older taxpayers tend to resist accumulating such debt. They want to avoid passing encumbered real estate property on to their children. As such, they would rather have a tax exemption than a tax deferral.

Feedback from Municipalities

In the regional consultations with municipalities that formed a component of this report, many municipal officials suggested that the existing low income tax relief measures could be enhanced to create a more progressive property tax system (see "Stakeholder Input," page 52 of this report for details). They offered to work with the Province to reform existing tools to provide them with better means to target assistance to key populations of concern, including: seniors, persons with low-income, the working poor, and some low-income homeowners with properties in 'hot' real estate markets such as waterfront properties.

Summary

It should be noted that, prior to the MGA provisions on tax relief, authority for municipal tax exemptions was targeted to certain groups such as widows, seniors and single parents. The intention of the MGA was to provide municipalities with discretionary powers to allow residents of low income to stay in their homes through tax exemptions and postponement of tax payment, regardless of classes such as age and marital status. The committee that recommended the change considered this to be fairer to all low income taxpayers.

Overall, the MGA gives municipalities authority to provide tax relief to low income taxpayers. Most municipalities have tax exemption policies in place, but the extent of the relief provided varies considerably between them. Municipalities recognize that there are shortcomings in the application of the existing legislation when responding to such challenges as the tax effects of rising assessments. As such, they want to explore jointly with the Province the possibility of adapting the legislation to better assist residents with lesser means and enable them to stay in their homes.

Program Analysis

Introduction

The Program Analysis section of the report has two components. First, as part of the review under Bill 40, the section looks at the experience to date at 10 percent assessment capping. Actual municipal assessment and financial data (for 2005-06, 2006-07 and 2007-08) is analysed focusing on participation of homeowners in the program and the impact of the program on municipal assessments and finances.

Secondly, the CAP percentage change to the Nova Scotia Consumer Price Index (CPI) in accordance with Bill 92 is analysed to identify the potential implications of this legislative change. The analysis at CPI capping cannot be based on actual experience as the change is legislated to commence 2008-09. Instead, the approach taken is to use a hypothetical projection of potential impact, based on 2007-08 assessment data (the most current) with CPI capping set at 2.3 percent[19]. Results from the scenario analysis should be viewed as hypothetical and are intended for illustration purposes only.

Specifically, this section examines both actual experience with 10 percent capping and potential implications under a 2.3 percent CPI capping. In each case, the main areas of the analysis include:

- The extent of participation in the program,
- The impact on assessment,
- Possible impact on taxation for property owners and municipalities,
- Potential impact on the home buyer, and
- Potential inter-municipal financial shifts.

Participation

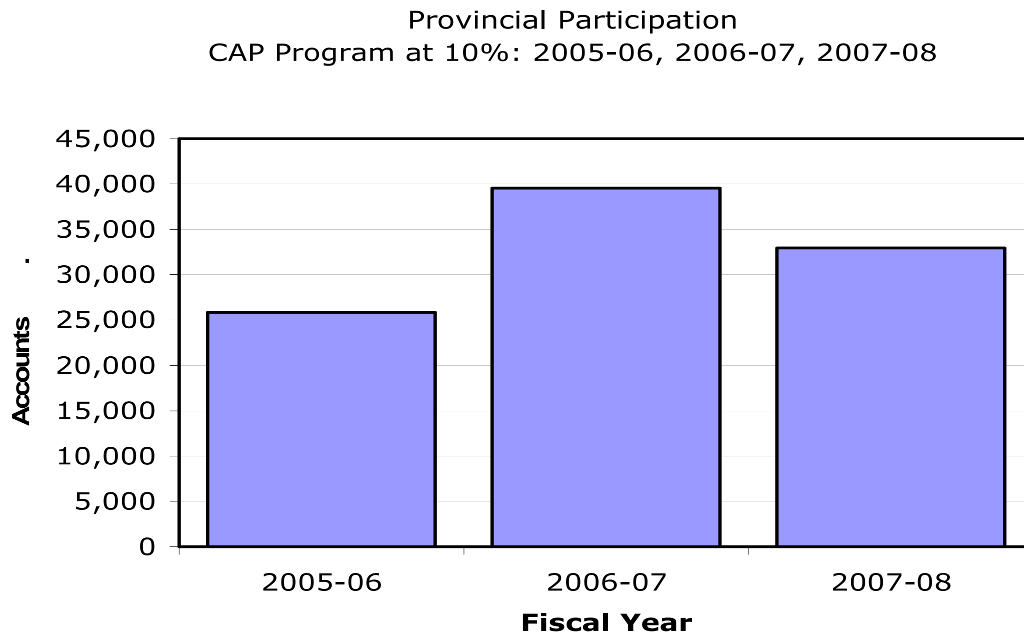
As stated in several sections of this report, assessment capping is available to residents of Nova Scotia with eligible residential and resource property through a one-time application process. Efforts to inform Nova Scotians with eligible property that they should apply for assessment capping have included: targeted mail-outs with information on the CAP, media advertisements; messages sent out to property owners in preliminary and

[19] Data for the 2006 Nova Scotia CPI was not available at the time of this analysis and, therefore, this estimate is based on the average increase in the Nova Scotia CPI between Jan. and Nov., 2006.

assessment notices; the use of a call centre; information posted on a website; and discussions held with stakeholders regarding the program.

Eligible properties are those that meet the physical and market criteria explained in detail in the "Interpretive Bulletin" contained in Section IV of Appendix A of this report. An application process is required to confirm residency, as non-residents who are ineligible for the CAP own some of the properties that meet the basic market criteria.

The following bar chart outlines program participation, expressed as the number of accounts that received the CAP, from 2005-06 through 2007-08:



Source: Assessment Services Division database, analyzed by Municipal Services Division

Since one owner can have two or more property accounts capped, the number of capped accounts does not necessarily translate to the number of people receiving the CAP. However, it is assumed to be a close proxy of the extent of participation by homeowners in the program.

Based on the chart information, participation was around 26,000 in the first year of the CAP (2005-06) and increased by more than 50 percent to about 40,000 in the second year (2006-07). For 2007-08, there was a drop to about 33,000 in the number of homeowners using the program. The increase in participation between 2005 and 2006-07 is partly explained by a strong real estate market and also by the fact that owner-occupied

condominium units became eligible for capping in the second year of the program[20].

The following 'Provincial Summary' provides additional detail on 2007-08 level of participation, with capping at 10 percent:

Provincial Summary – 10% Cap

2007-2008

Account Summary	Total
No. of Accounts (total residential/resource taxable)	466,466
No. Eligible (meets physical, market and sale criteria)	119,424
No. Capped	32,654
Accounts Capped as % of Total Accounts	7.00%

Source: Assessment Services Division database, analyzed by Municipal Services Division

Of the total of 466,466 residential and resource accounts in the summary, 119,424 (or 26 percent of total accounts including non-residents[21]) met the criteria to be eligible to apply for capping. In the end, there were fewer than expected applications and 32,654 were capped. This represented 27 percent of the eligible accounts or just 7 percent of total residential and resource accounts.

At CPI capping, the scope of the program is anticipated to expand because considerably more properties could be eligible for the program than at a 10 percent CAP. For purposes of this report, a scenario analysis has been conducted to illustrate the potential impacts of the program on taxpayers and municipalities under a cap at CPI. A participation level of 75 percent has been assumed in the CPI capping scenario to account for anticipated increases in awareness and eligibility for the program under a CPI cap; although it is not possible to predict exactly how participation in the program will unfold until the application process for 2008-09 has concluded. For 2007-08, the provincial participation rate for the CAP at 10 percent was

[20] There are approximately 10,000 condominiums across the province and many of these are rented out. Of the owner occupied condominiums, approximately 1,978 units were capped in 2006-07 and approximately 1,875 have been capped for 2007-08.

[21] Residency is not tracked by the Assessment Services database, which is the source for "No. Eligible" for the CAP. Residency is only known at the time of application for the CAP.

close to 26 percent. As indicated above, results from the scenario analysis should be considered hypothetical only.

In the table below, 2007-08 data is projected assuming CPI capping with participation at 75 percent[22].

Provincial Summary – 2.3% Cap

2007-2008

Account Summary	Total
No. of Accounts (total residential/resource taxable)	466,162
No. Eligible (meets physical, market and sale criteria)	306,291
No. Capped (based on participation percentage)	229,718
Accounts Capped as % of Total Accounts	49.28%

Source: Assessment Services Division database, analyzed by Municipal Services Division

Of the total of 466,162 accounts, about 66 percent (306,291) are projected to meet the eligibility criteria to apply. This would be a substantial increase of nearly three times the 119,424 eligible accounts at 10 percent capping.

If the 75 percent participation rate were to hold, about 229,718 accounts would be capped as shown in the table. In effect, at this level of participation, about 50 percent of total residential and resource accounts would be capped. That is, in comparison with just 7 percent of total accounts at 10 percent capping, about half of the accounts on the residential roll at CPI would be capped and the other half of these accounts would be based on market value.

For the capped accounts, participation rates vary according to home values. That is, there is a pattern in how capped accounts as a percentage of eligible accounts are distributed within categories of home values. In the following 2007-08 distribution at 10 percent capping, the percentage of eligible accounts receiving the CAP (the 'participation rate') increases progressively in line with home values.

[22] There is a slight difference in the totals at 10% and CPI capping because the data base is updated daily and the data used was taken on separate dates.

Province of Nova Scotia						
Review of Assessment Capping Program						
Capped Accounts as % of Eligible Accounts, 10%						
		0 -	$150,000 -	$300,000 -	$450,000 -	$600,000
Assessment Values	Total	$150,000	$300,000	$450,000	$600,000	+
Eligible Accounts	119,424	92,356	22,972	2,892	691	543
Capped Accounts	32,654	21,532	9,056	1,443	355	268
% Capped	27%	23%	39%	50%	51%	49%

Source: Assessment Services Division database, analyzed by Municipal Services Division

Based on the above table, the rate of participation more than doubles from 23 percent for home values less than $150,000 to 49 percent for homes valued over $600,000.

The first category in the preceding home value ranges includes homes up to $150,000. Given that many small communities have relatively low property assessments, a distribution of the 32,654 capped accounts with two categories below $150,000 is given in the following chart:

Province of Nova Scotia						
Review of Assessment Capping Program						
Capped Accounts as Percentage of Eligible Accounts, 10%						
		0 -	$75,000 -	$150,000 -	$225,000 -	$300,000
Assessment Value Ranges	Total	$75,000	$150,000	$225,000	$300,000	+
Eligible Accounts	119,424	51,577	40,868	17,507	5,389	4,083
Capped Accounts	32,654	10,997	10,569	6,456	2,570	2,062
% Capped	27%	21%	26%	37%	48%	51%

Source: Assessment Services Division database, analyzed by Municipal Services Division

As in the previous distribution, participation rates increase progressively as home values increase. Of the eligible accounts, 21 percent are capped in the category below $75,000. In contrast, the participation rate more than doubles to about 50 percent as home values approach $300,000 and over.

According to the data, lower value homes appear to have lower participation in the program than higher valued homes. This can be shown by comparing differences between the various home value ranges in terms of the eligible accounts as a percentage of total accounts. The experience so far with 10 percent capping is shown below:

Province of Nova Scotia						
Review of Assessment Capping Program						
Eligible Accounts as Percentage of Total Accounts, 10%						
Assessment Value Ranges	Total	0 - $75,000	$75,000 - $150,000	$150,000 - $225,000	$225,000 - $300,000	$300,000 +
Total Accounts	466,466	249,252	131,352	54,756	16,298	14,808
Eligible Accounts	119,424	51,577	40,868	17,507	5,389	4,083
% Eligible	26%	21%	31%	32%	33%	28%

Source: Assessment Services Division database, analyzed by Municipal Services Division

Based on the above rates, about 21 percent of owners with home values below $75,000 were eligible to apply. In contrast, 33 percent of owners with home values in the range $225,000-$300,000 were eligible to apply.

Similar variation could be expected at CPI capping in terms of use of the program by lower and higher valued homes. A projection of accounts eligible to apply as a percentage of total accounts for the home value ranges is shown in the table below.[23] The projection is hypothetical, based on assumptions that CPI capping is at 2.3 percent and that 75 percent of eligible accounts will apply:

[23] There is a slight difference in the data totals at 10% and CPI capping because the data base is updated daily and the data used was taken on separate dates.

Province of Nova Scotia						
Review of Assessment Capping Program						
Eligible Accounts as Percentage of Total Accounts, 2.3%, 75% Participation						
		0 -	$75,000 -	$150,000 -	$225,000 -	$300,000
Assessment Value Ranges	Total	$75,000	$150,000	$225,000	$300,000	+
Total Accounts	466,162	248,964	131,349	54,746	16,297	14,806
Eligible Accounts	306,291	126,374	109,912	46,402	13,169	10,434
% Eligible	66%	51%	84%	85%	81%	70%

Source: Assessment Services Division database, analyzed by Municipal Services Division

As may be expected, the projection shows that the overall percentage of those eligible to apply is much higher at CPI than at 10 percent capping; on average 66 percent at CPI versus 26 percent at 10 percent capping. Also, there is a progressive increase in the percentage of those eligible to apply according to home values. Based on the above rates, about 51 percent of owners with home values below $75,000 would be eligible to apply, while 81 percent of owners with home values in the range $225,000-$300,000 would be eligible to apply.

Participation Summary

Overall, participation in the CAP started at around 26,000 in the first year; rose to 40,000 in the second year; then dropped to 32,654 in 2007-08. Based on these figures, capping at 10 percent has on average been utilized by about one in three of those eligible to apply. The participation rates in the preceding value ranges suggest relatively greater use of the program for those with higher valued properties than for lower valued properties.

It should be noted that these observations on program results are aggregates, based on totals for all municipalities. However, there is significant variation in how individual municipalities are impacted by assessment capping. A review of the impact on individual municipalities from assessment capping at 10 percent and potential impact at CPI follows in the next section.

Impact on Assessment

As described in earlier sections of the report (see page 14, 'Administration of the CAP) the CAP functions by limiting the amount of assessment increase that municipalities can use to determine homeowners' property taxes. Property in Nova Scotia will continue to be assessed using the market value standard required by Section 42 of the *Assessment Act*. Where homeowners are eligible for the CAP, they receive a capped assessment value in addition to their market value assessment. Municipalities are then required to use the lesser of the capped value or market value assessment when calculating individual property taxes.

The following "Provincial Summary" table provides total reduction in municipal taxable assessment, based on 2007-08 assessment data at 10 percent capping and at CPI capping with 75 percent participation:

Provincial Summary – 10% Cap
2007-2008

Eligible Account Summary	Total
Reduction in Value	$439,511,700
Reduction as % of Total Market Value (eligible accounts)	3.43%

Provincial Summary – 2.3% Cap
2007-2008

Eligible Account Summary	Total
Reduction in Value	$2,002,102,200
Reduction as % of Total Market Value (eligible accounts)	5.98%

The table shows a reduction in municipal taxable assessment of $439.5 million across the province at 10 percent capping. At CPI capping, the assessment base could be reduced by a projected $2 billion, based on the assumption that CPI is at 2.3% with 75 percent participation in the program.

Since capping reduces municipal taxable assessment, the extent of the reduction for each municipality is of particular interest. This reduction (i.e., market value less capped value), when expressed as a percentage of market value, provides a relative comparison of capping activity within each

municipality and between municipalities. A reduction of zero percent means there is no capping activity in the municipality, while a reduction by a high percentage indicates a high amount of capping of market value growth in the municipality.

For a municipal comparison, Appendix G provides a ranking or array of the percentage reductions (from low to high) for the 55 municipalities, based on 10 percent capping of the 2007-08 assessment roll. (A chart based on this array is provided in Appendix H. For CPI capping, the potential percent reductions are provided in Appendix I and in chart form in Appendix J).

At 10 percent capping, the middle (or median) of the percent reductions for the 55 municipalities is 1.40 percent. Based on both the array and the chart, several of the South Shore municipalities have the highest percent reductions, well above the median. The three regional municipalities as well as 15 of the 21 rural municipalities have percentage reductions above the median. For the 31 towns, most (20) have percentage reductions below the median.

The percentage reductions in market value are potentially much higher for all municipalities at CPI capping. Based on the scenario analysis, the median percent reduction is 5.00 percent. With a few exceptions, the South Shore municipalities continue to have the greatest percentage reductions. Two regional municipalities and 14 of the 21 rural municipalities are above the median. Most towns continue to have the lowest reductions, even though these reductions are now potentially considerably higher under CPI capping than at 10 percent capping.

A significant issue with capping, particularly over time, is its unintended effect of shifting tax burdens, both within and between municipalities. The percent reductions in market value are a useful predictor of tax burden shifts. A review of these shifts is provided in the next two sections.

Potential Impact on Taxation

The CAP is intended to address the tax effects of large assessment increases in residential and resource property. Homeowners who receive the CAP are protected from unpredictable tax increases that can occur outside of the municipal budgeting process when municipal tax rates are not adjusted down to account for increases in assessment values. Although the CAP achieves this goal for those property owners who are eligible for and receive its benefits, property owners who either are not eligible for or do not apply for the CAP may experience disproportionately high tax burdens, particularly

over time, due to tax burden shifts that occur from capped to non-capped properties.

The direction of the tax burden shift is from owners with property values that are increasing rapidly to owners with property values that are increasing less rapidly, that is, from owners with large capping in home values to those without capping or with less reduction in property values. Therefore, if a municipality chooses to raise the same amount of taxes, the tax reductions realized from capping become a charge on other taxpayers through the municipal budgetary process.

To illustrate the tax burden shift, the two tables that follow provide 2007-08 CAP results relating to the experience of Town 'X' with capping at 10 percent and, based on the scenario analysis, hypothetical projections for the town at 2.3 percent CPI capping and 75 percent participation in the program.[24]

Town 'X' – 10% Cap

Account Summary	**Total**
No. of Accounts (total residential/resource taxable)	3,859
No. Eligible (meets physical, market and sale criteria)	1,362
No. Capped	208
Accounts Capped as % of Total Accounts	5.39%

Eligible Account Summary	**Total**
Reduction in Value	$1,132,600
Reduction as % of Total Market Value (eligible accounts)	0.76%

Impact on Taxation	**Total**
Total Taxes Redistributed	$19,882.73
Taxes Reduced per Capped Account (average)	$95.59
Taxes Redistributed per Account (average)	$5.15
Average Net Benefit to Capped Accounts	$90.44
Increase in tax rate due to CAP (vs. no CAP)	0.26%

Source: Assessment Services Division database, analyzed by Municipal Services Division

While Town 'X' may not have high capping activity, the CAP impact can still be illustrated. At 10 percent CAP, the Town had relatively low capping activity as indicated by its small percent reduction (0.76) in market value. As

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[24] Figures used in the illustration with Town 'X' are actual figures for one of the towns at 10% and at CPI capping.

a result, there is a relatively low tax burden shift of $19,882.73 from capped properties. If the town chooses to still raise the same revenue through taxation, the tax recovery would occur through a rate increase. Assuming the impact is only on the residential rate, the increase in this case is relatively small, calculated to be 0.26 percent.

According to this scenario, the tax savings of $19,882.73 by capped accounts are recovered through a general rate increase averaging $5.15 per residential/resource account. As a result of this rate increase, which applies to both capped and non-capped properties, the initial average benefit of $95.59 per capped account drops to a net benefit of $90.44 per capped account.

Town 'X' – 2.3% Cap	
Account Summary	**Total**
No. of Accounts (total residential/resource taxable)	3,859
No. Eligible (meets physical, market and sale criteria)	2,984
No. Capped (based on participation percentage)	2,238
Accounts Capped as % of Total Accounts	58%
Eligible Account Summary	**Total**
Reduction in Value	$18,242,925
Reduction as % of Total Market Value (eligible accounts)	6%
Impact on Taxation	**Total**
Total Taxes Redistributed	$320,253.60
Taxes Reduced per Capped Account (average)	$143.10
Taxes Redistributed per Account (average)	$82.99
Average Net Benefit to Capped Accounts	$60.11
Increase in tax rate due to Scenario CAP (vs. no CAP)	4.30%

Source: Assessment Services Division database, analyzed by Municipal Services Division

At 2.3 percent CPI capping and an assumed 75 percent participation rate, capping activity could potentially be much higher, resulting in a calculated tax burden shift of $320,253.60 from properties with higher capping to those with no capping or less capping. For this scenario, the projected residential rate increase is 4.30 percent.

It should be noted that this tax rate increase means that many of the capped accounts above CPI would still face increased taxes. In the illustration with Town 'X', the tax savings of $320,253.60 by capped accounts are recovered through a general rate increase, averaging $82.99

per account. As a result, the initial average benefit of $143.10 drops to a net benefit of $60.11 per capped account, which is below the general increase of $82.99 per account.

The general tax increase of $82.99 per account applies to uncapped accounts as well as those accounts that are not eligible for capping. These include rental units and housing in mobile home parks, which can be affected by the decision of the landlord to increase rent to offset tax increases.

The same analysis as for Town ‘X’, and similar conclusions on tax impacts, can be arrived at by looking at the figures for each municipality at both 10 percent and CPI capping. A summary of the tax impact on each municipality at 10 percent capping is provided in Appendix K, and the potential tax impact at the hypothetical 2.3 percent CPI capping in Appendix L. Respective charts in Appendix M and Appendix N provide a municipal comparison of the percentage rate increases at 10 percent and CPI capping.

Based on the data analysis, there is a significant difference between municipalities in terms of their tax burden shifts, and this affects the extent of potential increases in their relative tax rates. At 10 percent capping, the middle (or median) of the potential percentage increase in tax rates for the 55 municipalities is 0.22 percent, with several of the South Shore municipalities well above the median. Two of the three regional municipalities and most of the rural municipalities have potential percentage increases above the median; most of the towns have percentage increases below the median.

At 2.3 percent CPI capping with an assumed 75 participation rate, the middle (or median) of the potential percentage increases in tax rates is 3.81 percent. As at 10 percent capping, the potential tax impact at CPI capping appear relatively low in towns, higher in most rural municipalities, and much higher in several South Shore municipalities. However, potential municipal tax rate increases to offset tax reductions from capping are much higher at CPI capping; for example, the medians are 0.22 percent at 10 percent capping and 3.81 percent at CPI capping.

Summary – Potential Impact on Taxation

Municipalities could choose to offset the taxable assessment limited by the CAP by increasing other revenue sources, such as user fees, through expenditure reductions, or by increasing tax rates. So long as the municipality determines that it needs the same or more property tax revenues, a capping program can result in unintended tax burden shift. In

this case, any tax advantage to a homeowner above the cap will be offset by an increase in taxes paid by another homeowner below the cap or ineligible for the CAP.

Over time, municipalities may resort to raising property tax rates to offset burden shifts, with varying impacts among them. The higher the capping level (e.g. 10 percent or higher), the smaller the municipal percent reduction in its total market value assessment and related shifts in tax burden. On the other hand, the lower the capping level, the higher the percent reduction in total market value assessment and the greater the shift in tax burden from capped accounts to non-capped accounts.

In addition, there could also be tax burden shifts between different classes of residential property. As already noted, capping affects both uncapped homes and other ineligible properties, including apartments and mobile homes in parks. Any increase in the residential rate to offset the tax benefit to capped accounts is applied to all residential accounts. In the case of apartments, it can be assumed that tax increases to the landlord could eventually be passed on to tenants.

Since the legislation is silent on tax rates, it is possible that municipalities could choose to recover revenues lost from the reduction in the taxable residential assessment base through rate increases applied to the commercial base. It is entirely up to municipalities to decide the commercial-to-residential split rate ratio in their budgetary process. The potential for municipalities to raise commercial rates to recoup lost residential tax revenue resulting from the CAP is a concern that has been expressed by the business community, particularly as the commercial rate is expected to gradually increase over the next several years to offset the phasing out of business occupancy taxes.

Potential Impact on the Home Buyer

As illustrated by the experience of several states with assessment capping programs in place, an issue concerning assessment capping is that the difference between the market value of a home and its taxable capped value will widen over time. Moreover, capped values are not transferred with a transfer of ownership, unless the sale or transfer is to a close relative.

When a sale or transfer occurs and assessments are “uncapped” or reset up to market value, most new owners will carry higher assessments and pay higher taxes than those paid by the previous owner. In the areas where there is little capping activity, the impact may be negligible. In the “hot spots” or areas of high capping activity the impact could be significant over time.

The problem arises when the gap between market value and the capped value becomes quite large, resulting in a large difference between current taxes payable by the current owner and higher taxes that would be paid by the new home buyer.

Resort Area Illustration

To illustrate locally the effect of a widening gap between market and capped value assessments over time, Appendix O shows market value and capped value if 10 percent capping had been in place over the past six years. Appendix P is a hypothetical illustration of capped value against market value, if CPI capping had been in place over the past six years[25].

The most recent tax rate of the municipality where the property is located is $0.81. Based on data from Appendix O the taxes payable by the current owner at 10 percent capping would be $938. Had the CAP program been in place at 10 percent since 2001, for the new home buyer, the property taxes payable at the "uncapped" market value would be $1,754, that is, $818 more than the taxes payable by the current owner.

Using the same illustration, at CPI capping, the municipality's 2007-08 projected tax rate is $0.86. The taxes payable by the current owner would be $650 based on data from Appendix O. For the new home buyer, the property taxes payable at the "uncapped" market value would be $1,862, that is, $1,212 more than the taxes payable by the current owner.

The resort area property was selected for illustration purposes only. Its market value increase is not typical outside waterfront properties. The rates of increase in market value assessment of property in most municipalities are significantly below the illustration. Thus, the tax impact on the new homebuyer across the province may not be that large, at least in the short term. Over the long term, however, the tax increase could be significant. Homeowners who choose to stay in their homes could be entitled to reduced taxes while those who choose to purchase homes could pay more.

The higher taxes payable by new owners could discourage housing sales. At higher capping rates (10 percent or over) or at CPI in the short term, the increase in taxes may not matter. Over the long term, however, higher taxes payable by new owners could become a disincentive. The net effect could be a dampening of the housing market.

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[25] Market Value data provided by Assessment Services Division database, analyzed by Municipal Services Division.

Potential Impact on Uniform Assessment Programs

Uniform Assessment is used as a measure of each municipality's ability to pay, just as an individual's assessment has traditionally been used as a measure of ability to pay for purposes of the property tax. The calculation of uniform assessment is simply a municipal unit's total taxable assessment plus the assessment equivalent of certain grants and payments.

The primary use of uniform assessment is in allocating the equalization grant paid by the Province and in calculating municipal costs for school education, corrections and assessment services. Some municipalities also use it to measure each unit's ability to pay in determining cost-sharing arrangements.

Generally, any significant change in market value assessment will affect a municipality's uniform assessment and result in financial burden shifts between municipalities. From the previous discussion, there are varying percentage reductions in market value assessment between municipalities at 10 percent and at CPI capping. Since residential and resource assessments are a component of a municipality's uniform assessment, there will also be varying percent reductions in the uniform assessment between municipalities.

The actual reductions and the percent reductions in each municipality's uniform assessment at 10 percent capping are in Appendix Q. The chart based on these reductions is in Appendix R. Similarly, at CPI capping, the potential percent reductions are in Appendix S and the chart is provided in Appendix T.

The net impact at 10 percent capping on uniform assessment based programs (equalization grant, and municipal costs for education, corrections, and assessment) can be found in Appendix U. Similarly, the potential net impact on these programs at CPI capping is provided in Appendix V.

It is apparent from the data provided in these appendices that another unintended effect of capping is the financial burden shifts between municipalities. In the following table, the hypothetical net impact of a 2.3 percent CPI CAP on inter-municipal shifts is illustrated.

Hypothetical Impact Analysis - Net Dollar Savings (Loss)	
Cap @ 2.3%, 75% Participation Rate	
Net of Equalization, Education, Corrections, Assessment Services	
1. Lunenburg (Rural Municipality)	490,000
2. Chester	365,000
3. Cumberland	105,000
4. Hants East	90,000
5. Shelburne (Rural Municipality)	80,000
51. Bridgewater	(95,000)
52. Pictou (Rural Municipality)	(105,000)
53. Kings	(145,000)
54. CBRM	(195,000)
55. HRM	(370,000)

Source: The Table is summarized from net impact figures in Appendix V

The above table gives the top five municipalities projected to gain and the bottom five projected to pay more as a result of shifts in uniform assessment based programs at CPI capping. These shifts would result in revenue decreases for some units and revenue increases for other units.

In general, the CAP reduces uniform assessment and shifts the financial burden between municipalities. The direction of the shift is generally from municipalities whose property values are increasing rapidly to municipalities with modest increases or no increase in property values. In terms of actual dollar amounts, the Municipality of the District of Lunenburg has one of the highest percentage reductions in uniform assessment and would benefit the most from the financial shifts between municipalities.

The negative impact from the financial shifts is largest in Halifax Regional Municipality (HRM). This is in part because, despite the fact that HRM has the highest reduction of approximately $1 billion in uniform assessment, in relative terms, the reduction is not the largest; falling 34th out of the 55 municipal units. Also, HRM is not eligible for equalization grant in light of the size of its uniform assessment base or ability to pay.

Further, it could be expected that, since towns tend to have lower percent reductions in uniform assessment from capping than rural municipalities, there could be a direct burden shift from rural municipalities to towns. This

shift is not as pronounced as it might otherwise be because of a revenue guarantee to towns that is built into the equalization grant. Also, 12 municipalities including HRM, six towns and five rural municipalities are not eligible for the equalization grant because of their high ability to pay recognized in the grant formula. All this, tends to reduce the impact of the burden shift to towns.

Summary - Impact on Uniform Assessment Based Programs

Overall, capping affects uniform assessment based programs and results in financial burden shifts between municipalities. The shifts will vary depending on the CAP level. The higher the CAP, the lower the percent reductions in uniform assessment and the less the impact among municipalities. The lower the CAP, the higher the percent reductions in uniform assessment and the greater the financial shifts between municipalities.

Observations on the Program Analysis

The analysis in this section raises a difficult question in relation to the application of the market value standard of assessment in distributing the tax burden. Traditionally, property taxation at market value uses property value as a proxy for a homeowner's ability to pay. It is a proxy that is used across Canada and throughout North America and other parts of the world.

Assessment capping provides a measure of protection against higher taxes to all properties with rising assessments above the CAP level. On the other hand, properties not eligible for the cap are not afforded the same protection and, as such, will pay a disproportionate share of property taxes.

Based on participation rates in this section, program utilization is higher for higher-valued properties and lower for lower-valued properties. Also, the "uncapping" or resetting up to market value in housing sales could result in much higher taxes payable by new owners, at least over the long term. This could dampen the housing market.

Capping may result in financial burden shifts between municipalities through uniform assessment based programs in terms of their relative contributions to programs such as education, corrections and assessment and their receipt of the equalization grant. This effect could be significant depending on the level of capping.

Literature Review

> "There is an urgent need to provide government officials, lawmakers and the public with better information on property tax policy choices."
>
> - Lincoln Institute of Land Policy, 2005

A review of the literature was conducted to identify policies and best practices in assessment and taxation and particularly those that attempt to address issues related to the tax effects of rising property assessments. Key findings from the review are detailed below. (Please see Appendix W for a complete list of sources).

Key Findings from the Literature Review

- Approaches that moderate tax bill shifts but maintain a market-value base are preferred to those that alter assessments;
- Assessment-altering programs, such as capping, that modify the market value base are seen by the public to be a solution to higher taxes but their potential widespread policy impacts and unintended effects (i.e., tax burden shifts) may not be recognized.
- Despite inherent flaws in the market value system, it is the preferred system of assessment worldwide. Benefits of market value include: uniformity, understandability and administrative efficiency; and
- Need for greater emphasis on education (i.e., on burden shifts resulting from assessment caps) related to the complex issue of assessment and taxation which is frequently misunderstood by the general public, government and the media.

Exploring the Key Themes

Need for Greater Emphasis on Education

The review revealed that the link between taxation and assessment can be confusing and is often misunderstood not only among the general public but also by government and the media (Youngman and Malme, 2005; Slack, 2005; Haverman, 2006; Reschovsky, 2006; Alberta Municipal Affairs, 2002). According to the literature, this results in a need for greater emphasis on public education to raise understanding of policy issues related to property taxation and assessment (Youngman and Malme, 2005; Slack, 2005; Haverman, 2006).

A review of the literature identified the following best practices in local taxation and property assessment. Cautions against the use of assessment caps were noted among best practices in assessment:

Best Practices in Property Taxation

The following characteristics describe best practices in local taxation (Slack, 2005, Culverhouse, 2001):

- Equity/Fairness
- Efficiency
- Stability and Predictability
- Accountability/Transparency
- Ease of Administration

Assessment Best Practices

An international comparison of property assessment systems (Kitchen, 2005) identifies the following best practices in assessment:

- Use of market value system for assessment
- Uniform treatment of all properties
- Annual reassessments
- An effective appeals mechanism
- No capping/freezing of assessments
- No preferential treatment of certain properties or property types

Market Value as a Preferred System of Assessment

Market value is the most commonly used system world wide and is used in both developed and developing countries where there are functioning real estate markets (Kitchen, 2005). Examples include but are not limited to: Canada, Australia, Germany, Japan, the U.K., the U.S.A., China, New Zealand, Argentina, and Mexico.

According to the *Alberta Guide to Property Taxation and Assessment* (Alberta Municipal Affairs, 2002):

- Market-value-based assessments allow property owners to readily understand their assessments and make comparisons with similar properties.
- Market value is considered by both professional organizations and municipal governments to be the most fair and equitable way to assess property.
- Market value assessment systems are used in the vast majority of local government administrations throughout North America.

The market value system of assessment is not without its challenges. Hot real estate markets can result in assessment values rising unevenly in different geographic locations and for different types of property. In this case, a uniform tax rate applied to the entire property class will not maintain level tax collections. This scenario can result in unpredictability of taxes for property owners who experience assessment increases related to strong real estate markets (Youngman and Malme, 2005). Interestingly, when market values decline, the market value system is seen as the 'cornerstone of fairness.'

Modifications on Market Value

Modifications to a market value system of assessment by capping assessment increases has gained prevalence in several states and is the approach currently in place in Nova Scotia with the Capped Assessment Program. The popularity of capping assessment is largely related to the fact that it addresses some of the concerns that arise in a market value system with a hot real estate market.

Based on findings from key experts in the field (Slack, 2005; Haverman, 2006; Reschovsky, 2006; Schrag, 1998; Smith, 1998;) legislation and

programs are sometimes put into place in an effort to respond to concerns articulated by members of the public and/or lobbyists to address the tax effects of rising assessments without recognition of the potential widespread policy impacts of such programs, including any unintended effects.

Unintended effects experienced by jurisdictions employing assessment capping programs has been documented (Youngman and Malme, 2005; Schrag, 1998; Smith, 1998; Slack, 2005) and include the shifting of tax burdens. According to the Lincoln Institute of Land Policy (Youngman and Malme, 2005):

> Altering assessments by limiting increases in value can result in situations where owners of similar properties pay very different tax bills. Over time, properties with average or lesser value appreciation can experience an increasingly greater share of taxes compared with properties that have had larger market increases. As a result wealthier taxpayers are more likely than those of moderate or low incomes to benefit from assessment limits.

For further discussion on this issue, see the section on "Potential Impact on Taxation" in the Program Analysis section, page 30 of this report. As a result, best practices in assessment indicate that, despite inherent flaws in the market value system, assessment systems should remain under the market value and avoid the capping or freezing of assessments (Slack, 2005; Kitchen, 2005; Schrag, 1998; Smith, 1998; Haverman, 2006).

Tools to Provide Direct Property Tax Relief

Under a market value system of assessment, various tools can be employed by municipalities to address affordability issues, including those that may stem from the tax effects of sudden and dramatic increases in assessment. The following chart (Haverman, 2006; Mikhailov, 1998 and Kolman, 2001) highlights examples of direct property tax relief measures that are intended to directly reduce tax bills for homeowners.

Examples of Property Tax Relief Mechanisms		
Example	**Description**	**Observations**
General Limitations	▪ **Levy Limits** – limit the amount of taxes that can be collected ▪ **Rate Limits** – limit the tax rate	▪ Constrain the role of property tax in local finance
Tax Base Modifications	▪ **Assessment caps** – limit growth in taxable assessment ▪ **Split roll taxation-** different tax rates for different property classes (i.e. commercial, industrial, residential) ▪ **Homestead exemptions** – reduces the base by subtracting some amount from assessed or market value eligible property owners	▪ Shifts the tax burden
Direct Relief	▪ **Homestead credits** – a prescribed amount is subtracted from the tax bill after the liability has been calculated. ▪ **Circuit breakers –** provide a refund or credit for taxes that exceed a set percentage of the property owner's income. Can be 1) **"sliding scale"** – amount of rebate falls as income rises; and 2) **"threshold –** property taxes do not exceed a certain percentage of household income (may be limited by maximum benefit expressed in a dollar amount). ▪ **Deferrals –** allow homeowners to use the equity in their homes to guarantee payment on deferred taxes, which become a lien on the home that is satisfied when the home is sold or when the homeowners' estate is settled.	▪ Reduced the economic impact on households. ▪ Can be targeted to specific populations (i.e., low income, persons with disabilities and/or seniors)
Alternative methods of tax collection	▪ **May include:** credit card, direct debit or more frequent payment schedules, as opposed to more common annual and semi-annual billings.	▪ Provide more flexibility to taxpayers

Market Value Based Strategies to Address Rising Property Assessments/Taxes

A Lincoln Land Institute seminar in 2005 brought together public finance and assessment officials, policy analysts and scholars "to consider alternate approaches to the recurrent problems that volatile real estate markets pose for value-based property taxes"[26]. To maintain a market-value tax base, with its benefits of uniformity, understandability and administrative efficiency, participants offered the following suggestions to stabilize rapid increases in tax payments due to significant shifts in the assessment base.

- Expanding eligibility for direct relief mechanisms. For example: eliminating stringent income limitations on eligibility for senior citizen deferral programs and expanding eligibility for circuit breakers and tax deferral programs.

- Including such direct relief measures in programs offered by senior levels of government (i.e., state/province) to allow more taxpayers to participate.

- Establishing a state/provincial property tax deferral fund to reimburse local jurisdictions for delayed collections.

- Alternative methods of tax collection, such as credit card, direct debit or more frequent payment schedules, may offer greater financial convenience than the more common annual and semiannual billings.

- Annual reassessments using computer-assisted mass appraisals offer greater stability and uniformity. Tax bills that reflect current values, rather than fractional assessments or outdated figures, are easier for taxpayers to understand.

A practice not recommended was changing the property classifications to accommodate a shift in the value base. Although this approach can be an appropriate short-term remedy it may have harmful economic consequences in the long term.

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[26] Youngman, Joan and J. Malme (2005), "Stabilizing Property Taxes in Volatile Real Estate Markets." Lincoln Institute of Land Policy, *Land Lines*: July 2005, Volume 17, No. 3. Retrieved March 13, 2007 from: http://www.lincolninst.edu/pubs/PubDetail.aspx?pubid=1040

Jurisdictional Scan

In addition to a scan of available research, a Canada-wide survey was conducted to identify best practices in addressing rising property taxes and increases in assessment values in place across Canada and internationally. Results of this research and cross-country survey have been included in the legislated review of the CAP.

Key Findings from the Jurisdictional Scan

- Rising property taxes/assessments are a concern across Canada.
- No other province has addressed this issue by capping property assessments. Ontario has frozen assessments and tax ratios between property classes as a temporary measure while transitioning to market value. PEI has capped increases in the provincial portion of property taxes for residential owner occupied property.
- All provinces offer direct tax relief programs, most commonly targeting seniors, persons with low-income and/or persons with disabilities.
- Specific details related to direct relief programs (i.e., eligibility criteria, amount of relief, etc.) are usually at the discretion of municipalities and can vary dramatically within a province.
- Jurisdictions in the states with capped assessment programs have experienced issues with tax burden shifts related to such programs. Those who have tried to move away from assessment capping programs (i.e., Minnesota), particularly after such programs have been in place for some time, have faced serious challenges in getting back to market value based assessments.

The cross Canada survey was targeted to agencies responsible for assessment services in Canada's provinces. It focused on ways in which provinces addressed the tax effects of rising assessment values. A summary of results are contained in the following table:

Cross Canada Survey – Results at-a-Glance Property Tax Relief Mechanisms	
Nova Scotia	▪ Province 'caps' increases in assessment ▪ Province provides rebates to low income seniors ▪ Municipalities can provide property tax relief to selected groups (low income, seniors)
Newfoundland	▪ Province not involved with property taxation ▪ Municipalities can provide property tax relief to selected groups (low income, seniors)
Prince Edward Island	▪ Province 'caps' provincial portion of property tax increases for residential owner occupied property ▪ Province provides low income seniors with property tax deferral ▪ Municipalities can provide property tax relief to selected groups (low income, seniors)
New Brunswick	▪ Province provides low income property tax reductions for provincial property taxes ▪ Province provides property tax deferment for farm property ▪ Municipalities can provide property tax relief to selected groups (low income, seniors)
Quebec	▪ Province provides a refundable property tax credit through the personal income tax system available to both homeowners and renters ▪ Province provides for partial property tax reimbursements for eligible farm and forest property ▪ Municipalities can provide property tax relief to selected groups (low income, seniors)
Ontario	▪ Province has frozen assessments and tax ratios between property classes as a temporary measure while transitioning to market value. They have recently updated their valuation date and will move to a four year assessment cycle with mandatory phasing in of assessment increases over a four year period. ▪ Province provides a refundable property tax credit through the personal income tax system available to both homeowners and renters on their principal residence ▪ Municipalities can provide property tax relief or deferral to selected groups (low income, seniors)
Manitoba	▪ Province provides a refundable property tax credit through the personal income tax system available to homeowners ▪ Province provides rebates to seniors, both homeowners and renters of school property taxes ▪ Municipalities can provide property tax relief or deferral to selected groups (low income, seniors)

Cross Canada Survey – Results at-a-Glance Property Tax Relief Mechanisms	
Saskatchewan	▪ Province sets the taxable assessment of residential property at a proportion of market value - has an indirect effect of cushioning increases in municipal and school property taxes. ▪ Municipalities can provide property tax relief or deferral to selected groups (low income, seniors)
British Columbia	▪ Province provides a property tax credit/rebate (Homeowners Grant) to owner occupied residential property with higher credit/rebate for seniors and disabled ▪ Province provides property tax deferral for seniors ▪ Municipalities can provide property tax relief or deferral to selected groups (low income, seniors)

All provinces allow municipalities considerable flexibility in tax reduction, tax relief and in some cases tax deferment. This policy is considered a local matter, partially on the assumption that this 'break' is not paid for by other municipalities.

The practice of property tax relief that originates from the Province and the issue of who pays for reductions in the tax burden of selected property tax owners is more complex:

Property Tax Relief Mechanisms Administered by Provinces	
Addressed through Assessment	▪ Cap on increase in assessment – Nova Scotia only ▪ ON temporarily froze assessments while transitioning to market value. ON has recently announced it will move to a four year assessment cycle with mandatory phasing in of assessment increases over a four year period.
Addressed through Property Tax	▪ Cap on increase in property tax - PEI – provincial portion of property tax - Ontario – tax ratios between property classes capped as a temporary measure while in transition to market value - Saskatchewan – education portion
Addressed through rebates	▪ Reduction or rebate for low income, seniors, etc - Nova Scotia (low income seniors) - New Brunswick (low income – prov portion only) - Manitoba (school tax) - Alberta (education property tax) - British Columbia (all homeowners-school portion)

Property Tax Relief Mechanisms Administered by Provinces	
Addressed through income tax	▪ Refundable tax credit for low income, seniors - Quebec (municipal, school board) - Ontario - Manitoba
Addressed through tax deferment	▪ Province pays property taxes, recovers when property transferred - New Brunswick (farms) - PEI - British Columbia

American Experience with Capping Assessments

Several American states have implemented capped assessment programs, including California (Proposition 13), Massachusetts (Proposition 2½), Colorado (Gallagher Amendment) and Minnesota (Limited Market Value law). Research indicates that jurisdictions in the states with capped assessment programs have experienced issues with tax burden shifts related to such programs. Those who have tried to move away from assessment capping programs (i.e., Minnesota), particularly after such programs have been in place for some time, have faced serious challenges in getting back to market value based assessments.

The experience of Minnesota offers an interesting example for consideration as their capping limits (10% and 15%) are similar to what has been used to date in Nova Scotia. Also, as their program has been in place for fourteen years, Minnesota's experience may offer some insights into potential long-term effects of such assessment capping programs. The following section details the Minnesota Department of Revenue's findings, including lessons learned, in relation to their assessment capping program under the Limited Market Value (LMV) law.

Minnesota Example – The Limited Market Value Law

In the case of Minnesota, the Limited Market Value (LMV) law was enacted in 1993. It applied to farms, residential homesteads and cabins. The LMV "limited" market value by exempting from taxation annual assessment increases exceeding 10 percent, or 33.3 percent of the total year-to-year assessment change, whatever was greater, for these properties. In 2006, these limits – in effect, assessment 'caps' - have been decreased to 15 and 25 percent, respectively.

Tax burden shifts

In 2006, approximately $32.5 billion in assessment was excluded from taxation in Minnesota under the LMV program. As municipalities raised their tax rates to recoup revenues lost under the program, the resulting tax burden shifts saw 78 percent (1.4 million homes) of the state's residential homesteads subsidizing $106 million in property tax relief for the remaining 22 percent (314,000 homes). This works out to an average increase of $96 in taxes for those 1.4 million homes not eligible for the assessment cap and an average decrease of $273 in taxes per parcel ($86 million in total) eligible for the cap. Tax burden shifts onto other types of properties not eligible for the LMV (apartments, commercial and industrial properties, resorts, public utilities, etc.) resulted in these properties paying $478 million more in taxes (+3.3 percent) because of the LMV program in 2006.

Tax increases even for those in the program

In a finding described as "counter-intuitive," 16 percent (224,000) of homes with property tax increases were actually in the LMV program. This is because, for these property owners, the effect of the LMV with respect to their property was overwhelmed by proportionately larger limitations on other properties. "In other words, to be a winner, the limitation on one's property must be proportionately larger than the average limitation.[27]"

Issues with exiting the program

Originally intended to be a six-year program, attempts to shorten and eventually phase out the program were delayed several times. According to the Commissioner of the Minnesota Department of Revenue,

> "…our limited market value law presents policy-makers with the classic approach-avoidance conflict. As long as taxpayers think value limitations reduce their tax, it will be perilous for lawmakers to oppose them. This explains why the limited market value law, a great example of bad tax policy, will survive through taxes payable in 2009, and probably longer."

The LMV program remains in place in 2006, with a commitment to phase it out and return to market value assessments by 2010; though doubts have been expressed by the Minnesota Department of Revenue as to the

[27] Esme Evans (2006) 'Commissioner's Comments: Minnesota's Limited Market Value Law - Romancing the Fiscal Illusion' *Equal Eyes*, Spring 2006.

likelihood of this occurring, at least within this timeframe. In summary, the Department observes that,

> "As with many past attempts to deliver property tax relief, our intentions were good, but the results were not what we expected…It seemed like a good idea at the time.[28]"

Lessons Learned: Minnesota Department of Revenue

In a 2006 presentation to the International Association of Assessing Officers, The Minnesota Department of Revenue identified the following points as "lessons learned" with respect to the Limited Market Value law:

Lessons Learned from the Limited Market Value Minnesota Department of Revenue
• Value limitations do not reduce total tax burdens; they merely redistribute them…unless they reduce all property values by a uniform percentage – in which case they are useless. They merely change local tax rates, while preserving the distribution of levies across properties.
• Limitations that result in disproportionate changes in valuations will create winners and losers.
• Like any property tax exemption, non-limited parcels pay for the tax relief of limited parcels – (the typical zero-sum game associated with all property tax exemptions).
• The biggest policy surprise – value limits will increase taxes on value-limited parcels if their limitation is proportionately smaller than the average limitation. o Example: limit reduces parcel A's value by 2%, and all other values by 10% - A loses.
• The incidence of valuation limits is not clear. They may be regressive. Rapid valuation growth likely occurs in more desirable, high income areas, forcing low-income taxpayers to subsidize high-income taxpayers.
• Value limitations impose hidden increases on many taxpayers with value-limited property, who reasonably assume they are better off under the limitation.
• Lawmakers will not repeal valuation limits as long as taxpayers *think* limitations reduce their tax. The fiscal illusion keeps the program alive.

[28] Esme Evans (2006) 'Commissioner's Comments: Minnesota's Limited Market Value Law - Romancing the Fiscal Illusion' *Equal Eyes*, Spring 2006

Lessons Learned from the Limited Market Value Minnesota Department of Revenue
• The basic problem: very few taxpayers/legislators understand that the property tax is a tax on relative values, not absolute values. Levies are spread across properties based on shares of taxable value.
• Getting rid of valuation limits present a unique political problem – limits must be repealed gradually.
• Good micro data on property taxes, good computer models of the local property tax system, and good policy analysis are necessary conditions for policy improvement…but they are not sufficient.

Stakeholder Input

Stakeholders Consulted in the Review Process

- **The Union of Nova Scotia Municipalities (UNSM);**
- **The Assessment Services Transitional Board (ASTB);**
- **Staff and elected officials from each of the province's 55 municipalities;**
- **The Halifax Chambers of Commerce;**
- **The Canadian Federation of Independent Business; and**
- **The Nova Scotia Chambers of Commerce**

Input received from the key stakeholders listed above regarding their experience with the CAP and suggestions for enhancements to the program form a key component of this report. The following section details the process and findings related to this component of the review.

Stakeholder Consultation Process

Stakeholder input was obtained through the following mechanisms:

- Regional discussion sessions – a series of six discussion sessions held in locations around the province between late January and mid-February were conducted with a mix of 92 elected officials and staff representing 41 of Nova Scotia's 55 municipalities.

  These sessions were led by a professional facilitator who confirmed and recorded participant input for each of the sessions. This input, along with an analysis of overall themes from the sessions and the results of participant evaluations forms an independent report that has been included as Appendix X.

- Discussion sessions were conducted by staff from Service Nova Scotia and Municipal Relations (SNSMR) with the Union of Nova Scotia

Municipalities (UNSM), the Assessment Services Transitional Board (ASTB) and representatives from the commercial sector; and

- Online Survey and additional avenues for input – stakeholders were also offered the opportunity to provide feedback on the CAP to SNSMR staff via an on-line survey, by e-mail and by telephone. Those stakeholders who wished to provide formal briefs outlining their position on the CAP were invited to do so.

The Key Questions to Stakeholders

At each of the sessions, participants were provided with an opportunity to:

- **Discuss their experience to date with the CAP at 10%;**
- **Express their ideas about recent legislation that has set the annual CAP amount at the Consumer Price Index (CPI);**
- **Discuss proposed policy direction in light of experience to date with the program; and**
- **Identify potential enhancements to the program and additional property tax relief tools for consideration in the legislated CAP review process.**

Participant Resources

In order to enhance dialogue and ensure participants had access to pertinent information on the program and the review process, the following information resources were provided by Service Nova Scotia and Municipal Relations.

Interactive Presentation

A detailed and interactive presentation was delivered by SNSMR staff at each of the stakeholder discussion sessions. Prior to receiving their input, the presentation provided an opportunity to walk participants through the following data and information related to the CAP review and to address any questions with respect to this information:

- Background information on the CAP program, legislation related to the CAP and information on the mandated review process;
- An agenda and answers to frequently asked questions about the review process and the sessions; and
- Findings from the research and jurisdictional reviews to date, including perspectives on assessment and taxation and examples of property tax relief mechanisms in use across Canada; and
- Provincial and municipal level data illustrating the potential impact of the CAP program at both 10 percent and CPI[1]on the 2007 assessment roll.

Municipal Information/Data Package

Accompanying the invitation to the session, packages containing the above information, including data 'snapshots' tailored to each municipality, were circulated to the mayors/wardens and chief administrative officers from each of the province's 55 municipalities in advance of the municipal discussion sessions. Mayors/Wardens and CAOs were invited to extend the discussion session invitation to key staff and/or elected officials and to distribute the information packages within their organizations as they deemed appropriate.

In order to address any questions regarding how to interpret the municipal data 'snapshots' the lead presenter walked through examples of the data and responded to questions during the interactive presentation. A copy of this package is provided in Appendix A.

Key Themes from the Stakeholder Input

This section details the key themes identified at by the following stakeholders at the CAP discussion sessions:

A) Municipal Stakeholders;

B) The Union of Nova Scotia Municipalities (UNSM);

C) The Assessment Services Transitional Board; and

D) The Commercial sector.

It also identifies themes stemming from the online survey and offered through formal submissions and by e-mail and/or telephone (Section E).

Overall Findings from the Stakeholder Input

With the exception of one municipality and some individual councilors[29], municipal and commercial stakeholders who provided input are clearly not in favour of the CAP, particularly the CAP at the Consumer Price Index (CPI), according to the overall input received through the discussion sessions, formal submissions and online survey. Generally speaking, concerns centered around the fact that the CAP forces municipalities to raise tax rates; that it results in burden shifts impacting non capped properties including apartment buildings, mobile homes in parks and the commercial sector; and that it was implemented without consultation with stakeholders. Participants from all the sessions indicated a willingness to work collaboratively with the province to find a mutually beneficial solution.

Specific concerns cited by the various stakeholders are detailed in the following section.

A) Municipal Stakeholders

The content of Section A – Municipal Stakeholders is comprised of direct excerpts from the consultant's independent report on the findings from the municipal discussion sessions. A full copy of this report can be found in Appendix X:

> "The overwhelming view in each session was against the CAP. Most participants felt they had the tools to deal with their specific property tax issues before the CAP. The untargeted approach to the provincial capping legislation creates more problems for municipalities than it solves."

General feedback by key question follows, as captured by the MTL report:

[29] Town of Lunenburg supports the CAP at CPI provided it applies to principle residences only, not seasonal homes, and that a means test be instituted.

Municipal Participant Feedback by Key Question

Municipalities' Experience with CAP at Ten percent and General Capping Observations:

- CAP becomes complicated over time.
- There is little awareness about the CAP.
- Capping shifts the tax burden from capped to non-capped accounts.
- Capping shifts the burden among municipalities under the U/A grants and contributions formula.
- Capping creates an administrative burden on Assessment Services.
- Capping may negatively impact the real estate and construction markets and be a disincentive to growth.

Municipalities' observations on CAP at CPI

Participants noted that all the adverse effects noted above regarding capping, become even more pronounced with a cap at CPI. In addition they noted:

- CPI does not make sense as a capping percentage.
- Capping at CPI is not reflective of "sudden and dramatic" increases in assessment.
- The lack of information/consultation about why the Province introduced the CAP at CPI is frustrating.
- Municipalities want information and consultation about issues that affect them in advance of legislation being passed, not after.

Clarifying the program objective (i.e., identification of property tax challenges)

Participants noted that the unintended effects of the CAP were the problems they now face. They reported they had the tools under the MGA to address the issues of rising property taxes before capping, though they noted that some enhancements to these programs would help them offer assistance to the key populations they were concerned about: seniors, low-income, working poor, and waterfront properties.

Only a couple of municipalities acknowledged that high assessments were a problem that the CAP helped solve, but these municipalities were also quick to say the current program requires renovations.

Municipal Participant Feedback by Key Question
Identifying tools for addressing property tax relief
Most municipal units said they had the tools they needed to deal with their property tax problems, but that these might be enhanced to be even more effective: ▪ Reconsideration of income levels. ▪ Creation of a menu of programs under the MGA from which municipal units could choose as best fit their circumstances.
Potential enhancements to the existing program
Despite their lack of support for the CAP, if it must stay, municipalities felt that the following improvements would reduce its negative impacts, primarily by reducing its scope and refocusing on intended populations: ▪ CAP percentage should be reconsidered: - Keep the percentage at 10 percent – feeling was that this was manageable. - Phase in a lower percentage (i.e. 10 to eight, etc.) - Use an index for CAP that is more indicative of a "municipal basket of goods" as an alternative to CPI. - Use an index more reflective of "sudden and dramatic" assessment increases. ▪ Institute a means test. ▪ Restrict the program to primary residence. ▪ Enhance Assessment Services.

B) Union of Nova Scotia Municipalities (UNSM)

The following UNSM resolution on the CAP was unanimously endorsed by the 47 mayors and wardens represented at the March 8, 2007 UNSM Mayors and Wardens meeting (Please see Appendix Y for full resolution):

> **THEREFORE BE IT RESOLVED** that while the UNSM continues to oppose assessment capping in any form, the Mayors and Wardens strongly urge the Province to rescind the cap at CPI and to continue setting the cap at 10 percent subject to a means test for principle residences only, until 2010 at which point it will be reviewed by the Province and UNSM.

According to their written submission on the CAP "the UNSM Board of Directors opposes capping assessments at CPI for the following reasons (Please see Appendix Y for full submission):

UNSM Board of Directors Opposition to capping assessments at CPI
▪ It will result in a significant rise in municipal tax rates to make up for lost revenues caused by the CAP.
▪ It will result in a shift in the tax burden from capped properties to uncapped properties.
▪ A larger burden will be placed on municipal units with fewer uncapped properties who will have less of a decrease in their Uniform Assessments. This will result in these units shouldering a larger share of Provincial mandatory municipal contributions. This will have a severe negative impact on small towns.
▪ It undermines the fair market value assessment system which is recognized worldwide as the most appropriate method of assessing and taxing property owners.
▪ It does not include an income test to determine those property owners who are challenged with an ability to pay their property taxes due to rising assessments.
▪ The shift from a ten percent capping rate to that of CPI was supported by all three political parties with absolutely no consultation with municipalities.
▪ The program penalizes residents who build a new home or buy a home because they will be assessed at the market value.
▪ Assessment increases by CPI would not constitute addressing "dramatically rising assessments" which is the mandate for the capping program.
▪ The cap program is not based on ability to pay like income tax. As a result, only property owners with increased assessments will benefit.
Other General Comments Include:
▪ The Provincial Capping Report should include a category for the number of provincial accounts with assessments between $0 - $75,000 to capture those property owners with potentially lower incomes.
▪ The online survey sent to the AMA and session participants should have been emailed to all Mayors, Wardens and CAOs.
▪ The current system of self-identification for residency status is inappropriate.
▪ Currently the province is using the calendar year for the capping program. This will be problematic given that CPI for the previous year is not established until mid-January. The legislation will need to be amended given this anomaly.

C) Assessment Services Transitional Board (ASTB)

The following key themes were raised in the ASTB discussion session:

Key Themes from ASTB Feedback
Operational Concerns
• Administration costs associated with setting up CAP at CPI do not meet the 12 month notice required under the MGA.
• A market may emerge for companies to fill out CAP applications on behalf of residents – will have impacts for program in terms of increased participation in the program.
• CAP will capture homes with assessment increases due to corrections (as opposed to market increases) if they were previously under assessed.
• Concern expressed regarding operational issues associated with M/U suggestion of using a rolling average for assessments.
▪ If government decides to continue with CAP, need to open door to discuss who will pay. CAP is an add-on to original mandate of ASTB. This is a substantial issue for the ASTB - M/Us are not happily shouldering the cost of CAP.
• ASTB cannot take on costs of enforcement related to residency. Is there a role for Natural Resources? They may currently house a registry of non-resident owners.
• Point made that there is no universal definition of resident/non-resident.
• Need to look at eligibility criteria. Not all Nova Scotians are eligible – mobile homes in parks not protected...anticipate optics of this will cause public outrage: "Why are mansions in south end Halifax protected and not trailer parks?"
• Serious administrative challenges associated with wording of legislation in relation to the use of a December CPI.
• There is a duty to advertise CAP, if the program remains. Costs associated with this. This is not the responsibility of ASTB – most likely that of SNSMR.
• Would like to see further breakdown of home value ranges to show $0 - $75,000; this would be more meaningful, especially for CBRM and rural NS.
Policy Concerns
▪ Tax policy cannot be created in a vacuum – phase out of Business Occupancy Assessment Tax and changes made to the Seasonal Tourist Designation have impacts for M/Us – need to look at CAP in terms of the big-picture.

Key Themes from ASTB Feedback
▪ Having the Province set mandatory income levels may be problematic ....appropriate levels would vary by M/U.
▪ Conflict exists b/t what may be in best interest of M/Us (tax impacts) and that of ASTB (admin costs).
▪ CAP at CPI is flawed. CPI is not the right measure. No logical rationale behind cap at CPI.
▪ ASTB recognizes Province's role to make policy. At same time, the Province must recognize its responsibility and commitment to consult with ASTB & stakeholders. Process in which CAP was put in place was anything but consultative. ASTB cannot support this non-consultative approach.
Need for an Exit Strategy
▪ An exit strategy is needed – the longer CAP in place, harder it will be to get back to market value – this has operational & PR implications for the future of the ASTB - Public outrage will accompany transition back to market value, as evidenced in ON.
▪ Need to recognize CAP is not a long-term plan. Prep of an exit strategy would help illustrate this.
▪ Need phase-out of CAP (I.e., 5 – 6 years) – if went from CAP to market in 1 year, would be dramatic – this phase-out should be part of exit strategy.
▪ Suggestion that phase-out could be undertaken by continuing to increase cap (i.e., 10% to 12% to 15%) till program is discontinued.
▪ It may be politically difficult for any government to remove CAP (b/c of issues with returning to market value). On the other hand, public pressure will likely exist to remove CAP once its true effect (burden shifts) are understood by public.
Need to emphasize following points
▪ M/Us don't want the CAP (Enhancements are only if CAP MUST stay) 10% is a good starting point for an exit strategy.
▪ Fact that we heard applications should not be required if CAP @ CPI (b/c so many people would be eligible)...(Note – this point conflicts with message we also heard that M/Us don't want non-residents to benefit from program)
▪ Fact that slides only reference general, common themes ... Report captures detailed input from sessions, survey & submissions
▪ All 3 parties made decision without knowing the facts – this approach to legislation does not work

D) Commercial Sector

The following representatives from the commercial sector provided input on the CAP: the Canadian Federation of Independent Business (CFIB), the Halifax Chambers of Commerce and the Nova Scotia Chambers of Commerce. Key themes from their input follow in the table below:

Key Themes from Commercial Sector Session
• Commercial rate payers are vulnerable as they form a much smaller base than residential
• Concerned that tax burden shift will fall to commercial rate payers – Tax increases could drive away business (continuous cycle) – Disincentive for new business – Impacts on sector will be province-wide (urban and rural)
• Predictability is important to this sector. CAP impedes this.
• Increased red tape with the CAP. – Government has made positive steps toward better regulation CAP does not head in that direction – There are other social policy tools to accomplish the original goal of the legislation – Intent of legislation is honorable but the premise is flawed
• Effect on UA seems counter-intuitive
• Will real estate industry/developers be consulted? CAP has impacts for them.
• Sector representatives willing to work collaboratively with government

E) Additional Avenues for Input

The following additional avenues for input were offered to municipalities, the UNSM, the ASTB, the commercial sector, and anyone expressing an interest in providing input into the CAP review:

- Online Survey
- Formal Submissions
- E-mail/telephone

A summary of results from these mechanisms for input follows.

Online Survey

The online survey was designed to mirror the key questions asked of stakeholders in the CAP discussion sessions, namely:

- Their experience to date with the CAP at 10 percent;
- Their thoughts about the CAP at the Consumer Price Index (CPI);
- Proposed policy direction in light of experience to date with the program; and
- Potential enhancements to the program and additional property tax relief tools for consideration in the legislated CAP review process.

A copy of the online survey questions has been provided in Appendix X.

Methodology

All participants in the municipal, commercial, ASTB and UNSM discussion sessions were provided with the link to the online survey as a means of providing additional input. They were asked to distribute the link within their organizations as they deemed appropriate to ensure that staff and elected officials who were not able to attend the discussion sessions have an opportunity to provide their input on the CAP.

The survey was also posted twice on the Association of Municipal Administrators of Nova Scotia (AMANS) listserv. The official close date of the survey was February 16; however, several opportunities were provided to stakeholders, particularly those from the ASTB and UNSM, whose sessions took place at the end of February, to complete the survey questions after this date.

Participation

29 respondents completed the online survey. 72 percent (21) of respondents were municipal staff. One mayor, one warden and three 'other elected officials' also responded. Two members of the public responded to the survey. One self-identified as a non resident.

62 percent (18) of respondents had attended a CAP discussion session; their responses indicate that participants from each of the six session locations replied to the online survey. None of the respondents had attended the ASTB or commercial sector sessions, though some participants in the ASTB session may have attended one of the six municipal discussion sessions within their capacity as municipal elected officials and/or staff. Each of the commercial sector stakeholders who had participated provided formal submissions outlining their positions on the CAP (please see Appendix Y).

Key Findings from the Online Survey
Experience with the CAP at 10% (n = 29)
Overall, survey participants had a negative view of the CAP. When asked "What overall effect has the Capped Assessment Program had on your municipality?" ▪ 61% (17) indicated "negative effect"; ▪ 32% (9) indicated "don't know"; and ▪ 7% (2) indicated "positive effect.[30]" Respondents also indicated that the CAP may not be meeting its intended objective. When asked the following question: "The CAP program is designed to protect residential and resource property owners from the tax effects of sudden and dramatic increases in assessments. Do you think the CAP addresses this problem in your municipality?" ▪ 66% (19) said "no"; ▪ 17% (5) said "don't know"; and ▪ 17% (5) said "yes".
Thoughts on the CAP at CPI (n = 29)
The majority of respondents indicated that changing the cap to CPI would negatively affect their municipalities: ▪ 86% (25) of respondents indicated a cap at CPI would have a "negative effect" on their municipality; ▪ 7% (3) responded "don't know"; and ▪ 7% (2) indicated a change in the CAP percentage to CPI would have a "positive effect".
Proposed Policy Direction
The following are a sample of themes which emerged in response to the question: "What do you see as the problem that needs to be addressed?"
▪ We should have a mechanism that allows low income home owners in areas with rising property values to defer a portion of their taxes until they are no longer living in that home.
▪ If assessment is done properly then there should be no need for a cap program.
▪ Address the sharp rise in residential assessments in particular areas of Nova Scotia.

[30] Total responses add up to 28 as one of the 29 survey respondents did not respond to this question. Percentages do not add to 100 due to rounding.

Key Findings from the Online Survey
▪ Protect lower income families paying higher tax bills due to increased assessments.
▪ Protect resource properties.
▪ Prevent inordinate assessment escalation from adversely impacting on the capacity of low and modest income earners to remain in their own homes.
▪ Address rising costs for seniors on fixed incomes.
▪ Assist those who cannot bear the brunt financially through no fault of their own.
Potential enhancements to the program/property tax relief tools
▪ Several respondents indicated that the CAP should be left at 10%;
▪ Several others suggested the program be eliminated altogether; and
▪ Several suggested that municipalities should provide assistance programs for low income people in lieu of the CAP program.
▪ Limiting the program by instituting a means test and to restrict the program to principle residences.
▪ There were several responses indicating that existing flaws in the assessment system need to be corrected.

The following comments were in response to the question: "What is the main message you would like to provide to the Province regarding the Capped Assessment Program?"

Main Messages Regarding the CAP from the Online Survey
▪ If we must use the CAP, use it at 10%, not CPI.
▪ CAP should never have been offered as Municipal Units can provide tax relief for individuals who meet their means tests.
▪ By offering the program at CPI, might as well cap every property in NS and eliminate the high administration costs.
▪ Once you start a cap program you will have great difficulty in getting out of it once you see it has crated a mess (example: Ontario).
▪ The CAP at CPI will not work in the long term; it will be a nightmare to manage. The legislation should not be enacted.
▪ The worst legislation in many years which will hurt Municipalities and the Government in years to come.

Main Messages Regarding the CAP from the Online Survey
▪ Abolish it – it is not a way of helping reduce taxes for tax payers who can't afford their property.
▪ Eliminate the program!
▪ CPI cap is unacceptable. If cap is to continue, respect the UNSM position of a cap at 10%.
▪ If you are interested in best practices, the CAP is obviously not one of them.
▪ Certainly do not use CPI, and don't assume nothing has been done to the properties to not have to reapply.
▪ The MGA – section 69 and 70 – are there to help property owners. Let the 'elected council' decide on how they want to deal with the issue.
▪ Scrap the program.
▪ It is ill-conceived response to an overstated problem. It will not have the intended effect and will have many unintended consequences. It was brought in for political gain on the assumption the broad majority who will end up paying for it won't make the connection.
▪ It is a clear example of policy making of the worst kind.
▪ Thank you for protecting us from poor assessors.
▪ A 30% increase in one year, 2000 had no justifications for the increase.
▪ The CAP program does not work for all municipalities and if there is a problem in one area then fix that area but leave the rest alone.
▪ Install a means test.
▪ Toss it out and start over.
▪ Lowering the CA P will create larger problems than the one it is trying to resolve. Let municipal units (using their own programs) deal with increased tax burdens on those without the means to pay.
▪ Use for resource coastal properties only. The proposal is an affront to the UNSM. The Province is making a great change before the new governance structure has a chance to implement any strategies or at least to recommend any strategies to the Province after they have reviewed it. Could look like a vote buying scheme to the public at large by the political parties.
▪ Get rid of it.
▪ It is bad legislation that has mutated from express desire to help persons who are vulnerable to a universal initiative that will almost assuredly be of greater benefit to the well-to-do and, with no cap on education or corrections changes that are based on uniform assessment, lay a greater burden on some units than others. For example, using the department's

Main Messages Regarding the CAP from the Online Survey
own analysis the Town of Mahone Bay fares better, the Town of Canso fares worse – go figure!
▪ I am certainly willing to pay my fair share of the costs of municipal services. The key word here is “fair”. I do not wish to see unfairness entrenched into the taxation system. How does one justify treating a non-resident of the province differently from a resident in a fashion that will cost that non-resident citizen thousands of dollars in taxes? And, that taxation is without any democratic representation.
▪ Fit CAP to the problem to be solved: Consider the big picture, identify the problem and related issues, consider the options, design the program to solve the problem and implement it effectively.
▪ Maintain status quo for once listen to the public.
▪ UNSM and AMA should have been involved.
▪ Unfair levels of taxation. Making the market value approach meaningless and will continue to do so.
▪ Scrap it.

2) Formal Submissions

In addition to the input they provided in the discussion sessions, the following stakeholders chose to provide formal submissions outlining their organization’s position on the CAP:

- Union of Nova Scotia Municipalities (UNSM);
- Assessment Services Transitional Board (ASTB);
- Canadian Federation of Independent Business (CFIB);
- Nova Scotia Chambers of Commerce;
- Halifax Chambers of Commerce;
- Municipality of the District of Lunenburg;
- Municipality of the County of Richmond;
- Municipality of the District of Chester;
- Region of Queens Municipality; and
- Town of Lunenburg.

Summary of Findings from the Formal Submissions

Submissions received from the UNSM and ASTB outlined specific concerns with capping in general and with a cap at CPI in particular. Each of the commercial sector stakeholders voiced concern that the CAP program has the potential to further increase reliance on the commercial sector for taxes and that this effect would be compounded with a CAP at CPI. Concerns were also expressed about burden shifts that would occur among residential property owners.

With the exception of the Town of Lunenburg, which expressed its support for the CAP in general and at CPI, provided it apply to principle residences only and that a means test be implemented, each of the municipal submissions received indicated their opposition to the CAP program and the tax burden shifts resulting from it, particularly at CPI.

These submissions have been included in Appendix Y.

3) E-mail/Telephone

Two members of the public and two municipalities chose to provide input by telephone/e-mail. One member of the public suggested that the review process be extended to the general public. The other indicated that, regardless of the outcome of the review, seniors in the province should receive property tax relief. A representative of the Town of Shelburne indicated the town's strong opposition to the CAP.

Concluding Remarks

Thanks and appreciation for their time and efforts are extended to all those who participated in the review process. We appreciate the message that timely consultation and communication is important to municipalities and that rising taxes are – and will continue to be – of obvious importance to citizens.

Significant concern was raised by stakeholders to warrant consideration of a review of the results of the program in the next few years, particularly under a CPI cap. Consideration should also be given to conducting a socioeconomic impact analysis to identify implications for property taxation related to the program along with any broader impacts on the economy.