TO:	**CHAIR AND MEMBERS** **STRATEGIC PRIORITIES AND POLICY COMMITTEE** **MEETING ON APRIL 30, 2012**
FROM:	**MARTIN P. HAYWARD** **CITY TREASURER AND CHIEF FINANCIAL OFFICER**
SUBJECT:	**ASSESSMENT GROWTH POLICY**

RECOMMENDATION

That the following financial policy on Assessment Growth **BE APPROVED**:

1. That assessment growth funding will be dedicated to civic departments, boards and commissions that incur costs to provide an extension of core services to new growth areas.
2. That assessment growth costs be supported by a business case prepared by the respective civic department, board or commission and approved by the City Treasurer, Chief Financial Officer or designate.
3. That the City Treasurer, Chief Financial Officer or designate review and approve the business cases prepared by the respective civic department, board or commission and present a report to Council during the 2013 budget cycle. Commencing with the 2014 budget cycle, the City Treasurer, Chief Financial Officer will report annually, outside of the annual budget review process, on the allocation of assessment growth funding.
4. If assessment growth funding exceeds the accumulated growth costs of civic departments, boards and commissions in any one budget year, the balance available will be applied in that year as follows: 50% to reducing unissued debt; and 50% to the Economic Development Reserve Fund.
5. If assessment growth funding is not sufficient to fund assessment growth costs, excess assessment growth funding from previous years will be attributed to assessment growth costs to the extent that funding is available.
6. If excess assessment growth funding from previous years is not available to fund accumulated growth costs, consideration will be given for a tax levy increase or other cost reductions to fund the difference.

BACKGROUND

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Development charges are raised through the issuance of building permits and are based on the cost of capital related to new infrastructure. This money is set aside in a separate reserve funds and is drawn down to pay for growth in capital infrastructure (road widening, new roads, and new municipal facilities). This infrastructure allows the new homes and businesses to be built.

Once built, property taxes are levied on the new homes and businesses and they expect to receive the same municipal services that existing tax payers receive. The property taxes on new homes and businesses is calculated and recorded as funding from assessment growth. Given there are an increased number of homes and businesses requiring core municipal services, civic departments, boards and commissions have to provide an increased volume of core services (e.g. road maintenance, garbage collection, street lighting, recreation, snowplowing, police and fire protection, etc.). This additional volume results in cost pressures across all civic departments, boards and commissions. The new taxes that are paid are in effect paying for this increased volume of services (in part or in whole).

THE IMPACT OF ASSESSMENT GROWTH

Assessment growth can provide revenue to primarily fund growth costs related to existing program services. The City of London raised $29.3 million in new revenue from increased assessment throughout the 2008 to 2011 period. The new revenue was used to fund the cost of existing services such as road maintenance, solid waste collection, street lighting, protective services, public transit and capital requirements resulting from the increased growth in the City.

Every 1% of assessment growth in London generates approximately $4.7 million in tax revenue (based on 2012 assessment). It is important to note that with increased assessment growth, the costs of existing services also increase. New assessment brings incremental operating costs (i.e. longer solid waste collection routes, more streets to clear, additional police, fire protection and more assets to maintain, etc.). Assessment growth is only created when consumers buy new houses, new shops are opened, or new factories built. It should also be noted that some growth is more expensive to service. Leapfrog development and/or very low density use can add servicing costs that may exceed the incremental revenue. A "compact" city is relatively inexpensive to service (i.e. shorter bus and solid waste routes, fewer miles of pipe, reduced need for arterial roads, etc.). The provincial initiatives for smart growth stress these principles.

CALCULATION OF ASSESSMENT GROWTH

Each year, as part of the budgeting process, weighted assessment growth is estimated to determine the effect on tax revenue. The weighted assessment growth must be estimated because normally the final certified assessment roll is not delivered to the City by the Municipal Property Assessment Corporation prior to budget preparation.

Assessment growth generally refers to the net increase in assessment attributable to new construction less adjustments resulting from assessment appeals and property classification changes. In order to determine the impact of assessment growth on tax revenue, assessment must be weighted with tax ratios which reflect the different tax rates applicable to the various property classes. Measuring assessment growth also requires the use of values of a uniform base year. If a consistent base year for property valuations is not maintained, changes in assessment totals will be distorted by changes in property valuations and will not correctly reflect the actual new construction less adjustments resulting from assessment appeals and property classification changes.

The City of London has recorded the following percentage weighted assessment growth:

2000	1.40%
2001	0.86%
2002	1.20%
2003	0.96%
2004	1.45%
2005	2.00%
2006	2.08%
2007	2.16%
2008	1.51%
2009	2.36%
2010	1.57%
2011	1.40%
2012	1.01%

ASSESSMENT GROWTH POLICY

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2. That assessment growth costs be supported by a business case prepared by the respective civic department, board or commission and approved by the City Treasurer, Chief Financial Officer.
3. That the City Treasurer, Chief Financial Officer or designate review and approve the business cases prepared by the respective civic department, board or commission and present a report to Council for the 2013 budget cycle. Commencing with the 2014 budget cycle, the City Treasurer, Chief Financial Officer will report annually, outside of the annual budget review process, on the allocation of assessment growth funding.
4. If assessment growth funding exceeds the accumulated growth costs of civic departments, boards and commissions in any one budget year, the balance available will be applied in that year as follows: 50% to reducing debt; and, 50% to economic development initiatives.
5. If assessment growth funding is not sufficient to fund assessment growth costs, excess assessment growth funding from previous years will be attributed to assessment growth costs to the extent that funding is available.
6. If excess assessment growth funding from previous years is not available to fund accumulated growth costs, consideration will be given for a tax levy increase or other cost reductions to fund the difference.

Example

($millions)	2013	2014	2015	2016
Carry Forward Balance	$0.0	$0.0	$0.4	$0.0
Assessment Growth Funding	4.7	4.7	4.7	4.7
Growth Costs	4.7	4.3	5.1	5.1
On-going Balance	**$0.0**	**$0.4**	**$0.0**	**($0.4)**
Economic Development	0.0	0.2	0.0	0.0
Debt Reduction	0.0	0.2	0.0	0.0
Current Year Balance	**$0.0**	**$0.0**	**$0.0**	**($0.4)**

Explanation	
2013	assessment growth funding matches growth costs of expanding city
2014	assessment growth funding exceeds growth costs, excess contributed in that year to economic development initiatives and debt reduction
2015	growth costs exceed assessment growth funding, carry forward funding is attributed to growth costs
2016	growth costs exceed assessment growth funding, carry forward funding is not available, consideration be given to fund the excess through a tax levy increase or other cost reductions

CONCLUSION

Assessment growth results from property taxes that are paid primarily as a result of an expanding City (new homes and businesses). These new taxes are paid to receive the same services that existing tax payers receive.

Assessment growth funding should be dedicated to Civic Departments, Boards and Commissions that incur costs to provide existing services to new growth areas. Growth costs should be supported by a business case.

Excess assessment growth funding available should be applied in any year on a one-time basis to the following: 50% to reducing debt; and, 50% to the economic development initiatives. If growth costs exceed assessment growth funding in a current year, excess assessment growth funding from previous years should applied. If excess assessment growth funding from previous years is not available to fund accumulated growth costs, consideration will be given for a tax levy increase or other cost reductions to fund the difference.

PREPARED BY:	**RECOMMENDED BY:**
Larry Palarchio Director of Financial Planning & Policy	Martin Hayward Chief Financial Officer and City Treasurer