

FOCUS & MUNICIPAL ASSESSMENT TAXATION

CASES, COMMENTARY, NEWS AND BEST PRACTICES • FEBRUARY 2010, VOLUME 15 • NUMBER 2

FEATURE

Winnipeg's new form of community engagement: Sponsor a memory stick?

Whether it's for the police helicopter, Winnipeg's seven animal service vans or 1,300 encrypted memory sticks for the city's police cruisers, naming rights are up for sale. "Winnipeg, like other cities throughout North America, is facing ever-increasing challenges to deliver and maintain services and facilities for its citizens," writes Mayor Sam Katz. "Sponsor Winnipeg is an exciting program that offers public-spirited individuals, businesses, corporations and foundations the opportunity to directly sponsor the delivery of public services and facilities in return for the naming rights and other marketing benefits." Civic facilities, city-owned assets and programs can now be part of official "marketing partnerships" to support the city "by generating new revenue sources or new resources."

Opportunities range from individual naming to full-scale corporate branding. "Put your name or company brand on some of Winnipeg's newest and visible community facilities," notes the website. "Align your company brand with a city program that can deliver city-wide exposure for your company."

From a bus to a parking meter (but no parking spot guarantee!), there are specific listings under nine themes:

- Green Space/Parks/Environment
- High Traffic Infrastructure & City Marketing-Related Assets
- Health, Wellness and Safety
- Recreation Facilities
- Transportation
- Sports Facilities and Programs
- Social/Community Services
- Animal Services
- Literacy

Continued on next page...

Catalyst Update

BC Supreme Court found in favour of the City of Campbell River in Catalyst Paper's petition for a judicial review for the city portion of taxes levied. Court found taxes were reasonable and the bylaw "rationally supported and that its effects or outcomes are within the range of permissible outcomes." The judge ruled against the manner in which the city collected taxes for Strathcona Regional District and ordered Catalyst to pay 80% of the city's legal costs.

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Kalle Lasn, founder and editor-in-chief of *Adbusters* magazine, said cities may be cash-strapped but plastering corporate ads on dog parks isn't the answer and represents an example of backward and unimaginative thinking. "It's really depressing ... they should learn how to be a little bit more innovative. There are ways of cutting back and ways of generating revenue that don't include selling your soul to corporations."

Katz says it's no different than naming a hospital wing after a generous donor, and the program is a good alternative to raising property taxes. "It's incumbent upon us to look at

all credible ways to increase revenue to the city," he said.

But what about the ethics or conflict of interest if a property developer wants to sponsor city vehicles?

Hans Cunningham, first vice-president of the Federation of Canadian Municipalities, said cities have to look at user fees and other ways to raise money. "It's good that communities are creative, and that's very necessary in times like this," he said. "But it isn't a permanent solution." Contact information: 204-452-5200, info@sponsorwinnipeg.ca. See www.sponsorwinnipeg.ca.

FEATURE

US Dissertation Fellowships also for Canadian doctoral students

The Lincoln Institute's Dissertation Fellowship Program supports doctoral students whose work focuses on land-related taxation policies in the United States and selected other parts of the world. You do not need to be a US citizen or be registered in a US university; research may focus on the United States or other industrial or developing coun-

tries. Available for the 2011 fiscal year starting July 1, 2010, between eight to 10 fellowships of \$10,000 each are awarded (the average number of applications is approximately 75). Deadline is March 1, 2010. See www.lincolninst.edu/education/fellowships.asp.

FEATURE

3rd annual *Local Government Performance Index* released

The Frontier Centre for Public Policy released its 2009 *Local Government Performance Index*, which covers 88 cities with a one-page summary showing 34 city-specific statistics for the 2007 and 2008 financial years. The index provides measurements on value of capital assets under local government control, breakdowns of revenue and expenditure, transparency, and assets and liabilities. The centre said the index is the largest assembly of local government statistics published in Canada, comparing municipalities with regional averages for British Columbia, the Prairies, Ontario, Quebec and the Maritime provinces.

Highlights include:

- The average Canadian municipality reported \$4,971 of revenue in 2008, up slightly from \$4,869 in 2007. The greatest sources were taxation at 46%, user fees at 23% and transfers from other governments at 16%.
- The average Canadian municipality spent just over half its

QUOTABLE QUOTE

“Prosperity hides all manner of sin, but no longer. We have to rise to the highest expectation of our people and bring them the lasting change they have long, long fought for and desired. ... No longer are we going to run New York like a payday loan operation.”

— NY Governor David Paterson (State of the State address, January 6, 2010: see www.state.ny.us/governor/press/press_01061001.html)

expenditure on salaries and benefits, approximately one-third on contracted services, material and supplies, and approximately 2.5% (\$122 per household) on interest on long-term debt.

- Reporting Standards assess the quality of reporting from the municipalities' audited financial statements, rating them on such factors as timeliness of data, performance measurement, and whether the distinction is made between capital and operating expenditure.

"Some cities have no debt while in others each household is effectively paying hundreds of dollars per year just to cover

the interest on municipal debt," wrote author David Seymour. "Some cities present glossy accounts of their performance with numerical measures while others can't bring themselves to present adequate financial statements. If every city in Canada performed as well as the best cities, the entire country would be dramatically better off."

The index is designed to focus attention on how municipalities do business, how they compare to one another in performance and how they report on their performance. To download the 125-page report or review the Executive Summary, see www.fcpp.org/publication.php/3084.

FEATURE

Book Value Calculator Q&As and reminder: Online until March 2010

The fully functional Book Value Calculator (BVC) for compliance with PSAB 3150 will remain online until March 31, 2010.

- *What is the difference between reproduction cost vs. replacement cost?*

The application of the policy on accrual accounting requires that a historical cost be recorded to amortize capital assets; in most instances, the original cost of such capital assets will not be available and a *deemed historical cost* will have to be determined. In the determination of that cost, a distinction must be made between reproduction cost and replacement cost.

Reproduction cost may be defined as the amount of expenditures necessary to erect a new improvement which would represent an exact facsimile, imitation, or replica of an existing one, as nearly as is possible under the conditions existing at the time of construction.

Replacement cost may be defined as the amount of monies necessary for erection of a new improvement, under conditions existing at the time of construction, which will be equal in utility to the original and serve as a substitute in function. The new structure may provide comparable shelter and amenities and produce equal net income, but it needs not correspond exactly to the original.

- *What is the difference between expenses/repairs and betterments?*

Expenses/Repairs/Maintenance is defined as: Any expenses incurred to keep the building competitive on the market in terms of desirability and income generating capacity.

Betterments – Items to Capitalize: When costs are incurred to improve the service potential of a capital asset, it is a betterment; it should therefore be capitalized if the total costs exceed the established threshold limit. The service potential may be enhanced when:

1. useful life is extended
2. it represents a new item to the asset
3. increases physical size of the asset
4. improves operating cost efficiency
5. quality of the output is improved

Examples of betterments typical of an asset are:

1. Useful Life is Extended
2. New item to the asset
3. Increase in Physical Size
4. Improved Operating Cost Efficiency
5. Improved Quality of the Output

For other Q&As, see www.bookvaluecalculator.com/bvc/Public/index.aspx.

WORK WORD

prairie dogging, *n.* Response to commotion at the cube farm, as heads pop up over the cubicle walls to see what all the yelling's about.

From *A Devil's Dictionary of Business Jargon*
by David Olive

Publications: New & Noted

The Impact of Wind Power Projects on Residential Property Values in the United States: A Multi-Site Hedonic Analysis

By B. Hoen et al.

A Lawrence Berkeley National Laboratory study found no appreciable impact on home values of some 7,500 properties situated near turbines in nine US states. While property value impacts have been found near high-voltage transmission lines and other electric generation facilities, the impacts of wind energy facilities on residential property values had not previously been investigated thoroughly. No model uncovered conclusive evidence of the existence of widespread property value impacts in communities surrounding wind energy facilities. Specifically, neither the view of the wind facilities nor the distance of the home was found to have any consistent, measurable and statistically significant effect on home sales prices. For the 164-page report, see <http://eetd.lbl.gov/ea/ems/reports/lbnl-2829e.pdf>.

2008 Performance Benchmarking Report

The Ontario Municipal Chief Administrative Officers' Benchmarking Initiative released its annual comparative report of services delivered by 15 municipalities. The *2008 Performance Benchmarking Report* compares data within 26 municipal service areas including roads, public transit, policing, long-term care, libraries, water and wastewater systems, solid waste management, child care and social assistance. Year-over-year results from 2006, 2007 and 2008 provide city administrators, elected representatives and citizens with a valuable tool for measuring performance. See www.ombi.ca.

Guide to Municipal Finance

By Enid Slack

\$10, download

This guide explores current issues in municipal finance and the ways in which local governments finance services and infrastructure. It sets out a basic economic framework for evaluating different aspects of finance, emphasizing that responsible, accountable and efficient local governments need to raise their own revenues, adhere to an open and visible municipal budgetary process and engage in transparent and prudent financial management. See www.unhabitat.org/pmss/getPage.asp?page=bookView&book=2808.

Plunder: How Public Employee Unions Are Raiding Treasuries, Controlling Our Lives and Bankrupting the Nation

By Steven Greenhut

316 pages, US\$18.95

The Forum Press

ISBN 9780984275205

The title says it all. Author Greenhut surveys how public employees – the “new American elite” – benefit from higher wages, generous pensions and cost-of-living adjustments, and lifetime free medical care, perks unknown to most private-sector workers. He argues that the resulting “plunder” of the public purse results in higher taxes and unsustainable debt.

Mayor's Task Force for a Better Downtown

Recommendations in Prince George's Mayor's Task Force for a Better Downtown focus on market investment, with 19 recommendations slated for immediate action and 24 others expected to roll out within three years. One proposal is the creation of a “wood-first” permissive tax exception for wood-frame, multi-family housing in the downtown area. The tax exemption would create a zone with reduced property taxes, with construction of wood-frame buildings up to six storeys, using recent changes to the building code that would fit with the development of a provincial wood innovation centre downtown. In addition, the city could look at subsidizing low-cost housing developments in the downtown area, expanding the current five-year tax exemptions on downtown property improvements or both. A prospectus provides potential investors with information about tax incentives, land available, opportunities and market trends. To download the 26-page report, see www.city.pg.bc.ca.

The Royal Institution of Chartered Surveyors (RICS)

• Sustainability and Commercial Property Valuation

This paper heightens awareness and valuers' working knowledge of sustainability's impact on valuation, including ways in which sustainability can be defined. These include how a building's green credentials may be assessed and how such characteristics might be reflected in a valuation, quantitatively or qualitatively. Sustainable characteristics highlighted include the building quality and life cycle, type of materials used, the health and human performance of a building, building services such as air conditioning, energy efficiency, waste management and location and accessibility. The impacts of regulation, tax and financial incentives are also addressed. Issues identified for particular consideration include requiring the valuer to reflect upon the potential impact of sustainability on rental growth prospects, how factors will accelerate or temper obsolescence rates and the risks of weak credentials on tenant retention rates. The paper is part of the RICS commitment to objectives of the 2007 Vancouver Valuation Accord and precedes formal guidance to be included in the *Red Book* when reprinted in January 2010.

- **Valuation and Sale Price Report**

A new study suggests that valuations in the commercial property sector have proven fairly accurate in many European regions despite recent volatility. The latest report finds that in 2008 in the United Kingdom, 59.5% of commercial property valuations fell within a 10% margin of their ultimate selling price, compared with 62.4% in the Netherlands and 60% in Germany. See www.rics.org.

The Impact of Historic Facade Easements on Condominium Value

Appraisal Journal, Fall 2009

A historic facade easement decreases the value of a home far beyond the benefits of the related tax deduction, according to a new study detailed in the article, "The Impact of Historic Facade Easements on Condominium Value," which examines the resale of condominium row houses in Savannah's National Historic Landmark District. The study found that historic facade easements decreased the sale price by 2.85% each year, or 57% over a 20-year period. Homeowners in recognized historic areas may grant an easement of their home's historic facade to a government entity or non-profit organization, such as a historic preservation society, and receive a tax deduction. The authors suggest that a price discount is related to the loss of rights to change the property and the increased expense of maintaining historic features; they emphasize that while the owner granting the easement receives an initial tax deduction, the negative impact on value will affect all subsequent owners of the property. See the 9-page article at <http://lumlibrary.org/webpac/pdf/TAJ2009/HistoricFacadeEasements.pdf>.

Effect of Suburban Transit Oriented Developments on Residential Property Values

Mineta Transportation Institute, San José State University
Barriers to successful Transit Oriented Developments (TODs) include a lack of inter-jurisdictional cooperation, auto-oriented design favouring park-and-ride lots over ridership-generating uses and community opposition where residents of predominantly single-family neighbourhoods may feel that proposed high-density mixed use will bring noise, air pollution, increased congestion and crime. Economic theory suggests that if a TOD has a negative effect on surrounding residential neighbourhoods, that effect should lower land prices and, in turn, housing prices. Similarly, an increase in housing prices would mean a positive effect on surrounding neighbourhoods. This study empirically estimates the impact of four San Francisco Bay-area suburban TODs on single-family home sale prices. The study found that the TODs either had no impact or had a positive impact on surrounding single-family home sale prices. To download the 102-page report, see www.transweb.sjsu.edu.

Calendar

Building Momentum: 105th Annual Conference & Trade Show

Saskatchewan Urban Municipalities Association
January 31 to February 3, 2010

Regina, SK

www.suma.org/index.php?p=Convention%202010
convention@suma.org

Annual Convention

Saskatchewan Association of Rural Municipalities
March 8 to 11, 2010

Regina, SK

www.sarm.ca
sarm@sarm.ca

Rising above a Falling Market

RICS Americas & IAAO

March 18, 2010

Washington, DC

For appraisers and assessors to expand understanding of market influences on commercial real property

www.ricsamericas.org/2010symposium

Financial Forum & AGM

Municipal Finance Authority of British Columbia

March 24 & 25, 2010

Victoria, BC

www.mfa.bc.ca/ffagm.htm
allison@mfa.bc.ca

Annual General Meeting

Association of Yukon Communities

April 15 to 18, 2010

Dawson City, Yukon

www.ayc.yk.ca
ayc@northwestel.net

Coast to Coast to Coast to Coast

USA (NB: All figures in US\$)

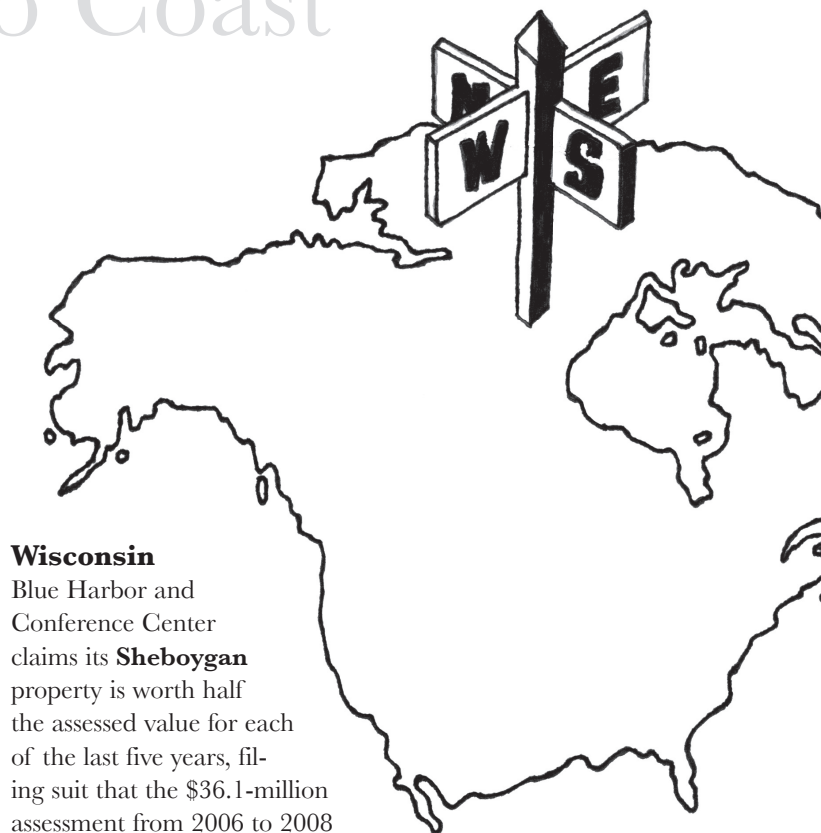
California

Oakland will allow residents to finance solar panels and efficiency improvements through property tax bills. Council unanimously voted to join California First, a state plan on solar financing allowing residential and commercial property owners to make energy improvements without up-front costs. Instead, installments are paid through tax bills over a 20- or 30-year period. Since **Berkeley** first adopted the plan in 2007, hundreds of cities, counties and 17 states have enacted versions. "Property owners should start to see a savings on their energy bills on day one," said Garrett Fitzgerald, Oakland's sustainability coordinator, who said the city will pay the \$20,000 administrative costs. Property owners can sign up for projects ranging from \$5,000 to \$75,000 or 10% of property value; tax payments stay with the property when sold. See www.oaklandnet.com.

San Francisco's Transfer Tax Review Board unanimously ruled – the fourth and final hearing – the Roman Catholic Archdiocese owes the city \$14.4 million in taxes from 2008 property transfers. Assessor-Recorder Phil Ting argued the archdiocese's transfer of 232 parcels of property from two of its non-profit incorporated entities to a third was not exempt. The archdiocese argued that transfers were part of an internal restructuring. Properties included vacant lots, parking lots, apartments, commercial buildings, parishes and schools worth nearly \$2 billion. Ting said the money owed is the second-largest transfer tax in San Francisco's history and "the decision clearly states that we followed the law."

Texas

Chief appraisers of the state's central appraisal districts are **prohibited from excluding foreclosures** as comparables. House Bill 1038 prohibits exclusion of properties in the same neighborhood as the property being appraised solely because the property was sold at a foreclosure sale within the last three years or has a lower value due to a declining market. Changes were also made to the ad valorem tax process as the passage of Proposition 2 by voters in November 2009 requires residential property to be appraised only based upon its use as a homestead, regardless of whether its residential use by the owner is considered the highest and best use. The above legislation (HB 1038 and propositions 2 and 3) is aimed at ensuring that appraisal districts follow uniform practices and procedures with transparency and accountability in the process. For HB 1038, see www.capitol.state.tx.us/tlodocs/81R/billtext/pdf/HB01038F.pdf. For Propositions 2 and 3 use the same link, replacing "HB01038F" with **HJ00036F**.



Wisconsin

Blue Harbor and Conference Center claims its **Sheboygan** property is worth half the assessed value for each of the last five years, filing suit that the \$36.1-million assessment from 2006 to 2008 "is excessive and fails to reflect the true fair market value of the property." Blue Harbor was assessed at \$29.9 million in 2005, with the 2009 assessment down to \$30.4 million, yielding taxes of \$749,000. The resort initially claimed fair market value was \$9.5 million, changed to \$19.5 million after a third-party assessor's review. Blue Harbour filed the lawsuit after its appeal was rejected by the city's Board of Review. It opened in June 2004 as the centrepiece of the revamped South Pier District, which developers saw as a tourist destination. City investments in the \$54-million resort included \$10.2 million in district infrastructure improvements, \$8 million to build the conference centtr and a \$4-million loan for resort construction. The parent company, Great Wolf Resorts, took a \$24-million write-down and placed its market value at \$6 million, saying it might sell the property.

The City of **Verona** was ordered to pay \$63,508 in back taxes and fees to Walgreens after a judge ruled the store had been assessed excessively, with final numbers complicated by the presence of a tax-increment financing district. Two adjacent parcels assessed at approximately \$4.1 in 2007 and 2008 and were taxed a total of \$155,614. The suit asked valuations be cut to \$2.37 million (2007) and \$2 million (2008), with court setting value respectively at \$2.75 million and \$2.6 million. Walgreens filed the suit three days after the company won a Wisconsin Supreme Court case that ruled **Madison's** method of assessment was invalid regarding long-term leases, recogniz-

ing that Walgreens typically leases buildings from a developer at rates higher than market value because of development costs related to super adequacies, specially tailored features such as high ceilings, large signage and drive-through bays. Since 2006, Walgreens has sued more than 20 municipalities statewide.

Ohio

Ohio Supreme Court upheld a finding that **Fogg-Akron Associates LP failed to present sufficient evidence** to the board of tax appeals to substantiate claims that its warehouse, which the board valued at \$3 million, should be valued based on the \$2.5-million assessment for 2005. The board of tax appeals found that Fogg's contention lacked a report from a qualified appraiser, that the evidence presented was limited to a discussion of the history of the property and its vacancy rates, and that the company failed to substantiate the value it sought.

Stadiums have been sold as a key to redevelopment, but deals to persuade taxpayers to finance construction have backfired with optimistic revenue assumptions and the recession. In 1996 in **Cincinnati**, the county approved an increase of half of 1% in the sales tax to build and maintain two stadiums for professional football and baseball, pay public schools and give homeowners an annual property tax rebate. But tax receipts fell and the county is scrambling to bridge a \$14-million fund deficit, with public schools already deferring their share for years. The county will cut basic services, lower legal bills and drain a bond reserve fund. "Anyone looking at this objectively knows it's a train wreck," said Dusty Rhodes, county auditor. "I told them they were making a big mistake, but they didn't want to hear me." Author Mark Rosentraub said many stadium deals included "revenue bombs" with traps such as balloon payments on debt and sweeteners like rebates to win public support. In many cases, architects of the deals are long gone by the time bills come due. Cincinnati's football stadium exceeded its budget by \$50 million, the forecast sales tax revenue was excessive, and the county issued more bonds. The stadiums were expected to cost \$500 million combined but came in at \$792 million; the Bengals only cover game-day costs, the county paying \$8.5 million in 2009 to keep the stadium going. Starting in 2017, the county will reimburse the team for game-day costs. With a \$94-million shortfall predicted for 2014, a year later, interest payments on stadium bonds will rise 44%, when the baseball team will no longer be paying rent. David Pepper, the commissioner who voted against the proposal, said, "It's like the movie where the blob keeps growing and eating away at other elements of county government. We're beginning to cross a line in the sand by taking money from the general fund to pay for the stadiums." He added, "Once you put that money in jeopardy, you put the whole county at risk." See www.nytimes.com/2009/12/25/sports/25stadium.html?pagewanted=2&_r=3&emc=eta1.

New York

In the fall of 2009, **New York City's** BigApps competition encouraged technological innovation to benefit government and civic engagement, with public voting for favoured applications. One submission was Blocks and Lots, with more than 5 million property records to allow developers to integrate detailed property information into any Web or mobile application. The company Blank Slate gathered data files from 45 file sources from three different city agencies and imported them in a few days. Blocks and Lots will add location-aware iPhone and Android apps where a user's mobile device can automatically retrieve property data, enabling the addition of user-generated content to the city's data. See <http://blocksandlots.com>.

Canada

British Columbia

Across the province, 1,883,669 properties were valued for the 2010 roll, compared to 1,856,687 on the 2009 revised roll. The total value of the provincial 2010 assessment roll is \$969 billion, an increase of 1.7% over the 2009 value of \$953 billion. According to BC Assessment Authority, the value of **Greater Victoria's** residential and commercial properties for 2010 is almost \$89 billion – an increase of nearly \$4 billion from the previous year, of which some \$1.4 billion was subdivisions, rezoning and new construction. Assessments are based on the estimate of a property's value as of July 1, 2009. More than 98% of owners accept their property assessment without proceeding to review or appeal.

Alberta

In **Calgary**, some 464,000 residential and business properties were assessed for a \$218-billion 2010 residential assessment value (down \$27 billion from 2009). According to assessors, the value of the typical home dropped by 13% as of July 1, 2009. While 92% of homeowners will see their taxes change by between plus or minus 10%, the rest will see a drop of between 10% and 20%. Individual tax bills are determined using market value assessment as of July 1 and improvements to that property as of December 31. The roll added 8,000 new accounts.

Ontario

(Note: Acronym MPAC is *Municipal Property Assessment Corporation*)
Goderich Elevators Limited received refunds of \$768,961 for overpayment of property taxes related to revised assessments by MPAC of its **Goderich** facilities for the tax years 2003 through 2009.

Prince Edward Island

PEI residents can download the **Provincial Property Tax Programs Post Card** to request provincial information on eight programs, including farm or farm use assessments under

the Environmental Land Credit for High Slope Land if a property of one hectare (2.5 acres) or more has slope greater than 9% and the buffer zone for properties of a minimum of one hectare with a cleared or wooded buffer zone. See www.gov.pe.ca/forms/pdf/1064.pdf.

Charlottetown is attempting to boost economic development by bringing back its tax incentive program, discontinued in April 2008, for the entire municipality. The new program will be applied differently for downtown properties, addressing vacant buildings and new construction. Outside the core, it is aimed at attracting businesses such as financial service companies. Businesses will receive 100% tax relief based on assessment in the first year, with a sliding scale downward over the next five to seven years. Councillor David MacDonald, chair of economic development, said businesses will no longer be penalized on a taxation basis if they renovate: "If you have an assessment on your building now of \$200,000 and you do renovations and that assessment increases to \$230,000, then your incentive will be based on the increase in the tax assessment." McDonald also said "a \$200,000 tax incentive would mean millions and millions of dollars spent on a building" that "effectively eliminated smaller projects [and] defeated the [program's] purpose. Now the program will hinge on the amount of actual increase in assessment you have. ... "It's a fair way to do it because those people who don't spend a lot of money on a project but who get a \$10,000 increase in assessment, they are going to be eligible." The old program was meant to fill downtown vacancies but for some businesses, moving to newer buildings outside the core was cheaper than renovating old buildings downtown.

Quirky but true...

The failed Fair Share Tax proposal of Pittsburgh's Mayor Luke Ravenstahl – for a 1% tuition tax on students attending colleges – was an attempt to raise \$16.2 million in annual revenue to pay pensions for retired city employees. Ravenstahl said he was left with no other option, having first asked universities and other tax-exempt non-profits to pay \$5 million annually. The Pittsburgh Council on Higher Education refused to consider payments as long as the mayor threatened to tax students, noting that colleges and universities already pay \$23 million annually in city taxes for payroll, parking, business privileges and real estate not related to educational missions. Joe King, president of the firefighters' IAFF Local 1, said his union has 900 retirees and 450 surviving spouses whose pensions need to be financed. Homeowner and graduate student Chad Ellis said, "Holding students hostage in negotiations with non-profits to come up with money to pay for bloated city pension plans is divisive."

FOCUS MUNICIPAL ASSESSMENT & TAXATION

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