

The Canadian National Taxpayers' Coalition

Examines...

The Auditor General of Ontario's Report from December 6, 2010, on the Operation of the *Municipal Property Assessment* *Corporation (MPAC)*

- *including descriptions of staff behaviour, and success rates*
- *targets*
- *internal business practices*
- *computer cost overruns*
- *general recommendations to the Minister of Finance*

February 14, 2011
Version 4.0

A SUMMARY OF THE ANNUAL REPORT BY THE AUDITOR GENERAL OF ONTARIO 2010

The following is a summary of the important criticisms and recommendations from Chapter 3, Section 3.08, in the annual report by the Auditor General of Ontario to the Provincial Government of Ontario, published on December 6, 2010.

Background: *(as taken from the document, page 193)*

Ontario municipalities collected more than \$20 billion in property tax during 2008. Of this amount, about \$14 billion was levied by municipalities for their own operations while the remaining \$6 billion was collected on behalf of school boards and turned over to them.

Until 12 years ago, the Ministry of Finance set the assessed value for properties in Ontario. On December 31, 1998, the province transferred this responsibility to the Ontario Property Assessment Corporation, later renamed the Municipal Property Assessment Corporation (Corporation). Under the *Municipal Property Assessment Corporation Act, 1997* and the *Assessment Act*, it is the Corporation's primary responsibility to prepare an annual assessment roll for each municipality, for each locality, and for non-municipal territories. Among other things, these rolls must contain:

- the names of all persons in each jurisdiction who own a property liable to assessment;
- a description of each property sufficient to identify it; and
- the current value of the land and buildings liable to taxation.

Under the *Assessment Act*, current value in relation to land (including buildings erected upon it) is defined as "the amount of money [a property], if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer," more commonly referred to as a property's market value. The type and number of properties assessed, and the valuation model used for each, are detailed in Figure 1.

Certain properties, including Crown lands, places of worship, cemeteries, hospitals, public educational institutions, and highways, are exempt from paying property tax, although they are still included in the assessment rolls.

Figure 1: Type, Number, Valuation Model, and Total Assessed Value of Properties in Ontario, as of December 31, 2009

Source of data: Municipal Property Assessment Corporation

Type of Property	# of Properties	Valuation Model Used	Total Assessed Values (\$ billion)
residential and farm properties (including small commercial and industrial properties)	4,500,000	mass appraisals using a computerized analysis that estimates a property's market value based on recent sales of comparable properties in the same market area	1,300
multi-residential and large commercial properties	157,000	capitalization rates applied to a property's estimated current discounted cash flow revenues	279
large industrial properties	77,000	replacement cost, which considers the value of land, the current replacement cost of improvements made, and the accumulated depreciation	90

Audit & Scope:

The audit's objective was to assess whether the **Municipal Property Assessment Corporation (MPAC)**, has adequate systems and procedures in place to ensure that:

- the assessment rolls it provides to municipalities are complete, accurate, and based on up-to-date information about individual properties; and
- all costs incurred are prudent in the circumstances with due regard for economy and efficiency.

Given the high degree of public interest in the taxation of residential property, and the fact that residential properties account for approximately two-thirds of property-tax revenue in Ontario, work focused on the assessment of residential properties.

The scope of the work included a review and analysis of relevant files and administrative procedures, as well as interviews with appropriate staff at the Corporation's head office, its Customer Contact Centre/Central Processing Facility, and four regional offices that were visited (Richmond Hill, St. Catharines, Thunder Bay, and Toronto). Also discussions were held with senior staff at the Ministry of Finance and the Association of Municipalities of Ontario.

Figure 2: Staffing by Department/Function, as of December 31, 2009

Source of data: Municipal Property Assessment Corporation

Major Department/Function	# of employees
valuators/assessors	614
head office and other	344
property inspection (including 233 property inspectors)	338
IT department	122
data processing unit	92
customer contact centre	66
legal and policy- support services	39
Total	1,615

The Auditor compared 11 500 properties to see if the corporation's (MPAC) mass-appraisal system worked. These properties were also sold in 2007 and 2008.

Summary: (as collected from pages 194-196)*

1. He found that 1400 of these transactions differed from the sale price by more than 20%. The selling price was substantially higher or lower.
2. More frequent property inspections could greatly reduce the differences between assessed values and sale prices. However, there is insufficient staff for this to be done.
- 3 Municipalities issued 18000 building permits. In 30% of the cases MPAC had not determined if work had been completed, the full inspection of the property had not been performed and the assessed value had not been completed within the 3 year limit.
4. In only 24% of the cases, a scouting visit had been made to see if the work according to the Building permit had been completed.
- 5 The corporation's target is to inspect every property every 12 years. However, at the current rate it will be every 18 years. Province-wide about 1.5 million residential properties have not been inspected or had their property attributes updated in more than 12 years. That's about 50% slower than their goal!
6. The Corporate quality review was operating efficiently and identified errors in about 10% of files it reviewed.

7. The Corporation had established requirements for determining a need for goods and services and for acquiring them competitively. Nearly **50%** of those goods were not acquired competitively. MPAC did not comply with its own contractual agreements for relatively small amounts of numerous items. This behaviour increased the value of the original agreements by one million dollars or **1500%**.

8 In many cases, written agreements between the Corporation and its suppliers were not in place, and were signed after the goods and services were already delivered or the invoices had already been paid.

9. Paid invoices from contractors lacked detail to assess if the bills were in compliance with contractual agreements. Consultant services were billed **20.1%** higher than agreed upon.

10. Travel/Meals/Hospitality claims were questionable. Some senior staff was reimbursed for hotels near their place of work. **25%** of vehicle claims could not be validated. Meals are allotted \$38.50 per day. Some were viewed as excessive. Many other reimbursements for things like Taylor Made golf clubs, Nintendo Wii consoles, and iPod Touch Models (\$1700), restaurant gift cards (\$625), staff luncheon for 16 people (\$746), staff dinner at CN Tower for 12 people (\$955), a staff luncheon aboard a day-cruise boat (\$550) and a fruit tray (\$125) are examples of questionable expenses.

11. The cost of the Corporation's computer system **exceeded \$50 million** as compared to the original budget of **\$18 million**.

12. Although the new computer system has been used to value residential properties and farm properties (**about 94%**), it has not yet been used for valuation of components in business or industrial properties.

* A shortened and summarized version is listed from the actual document.

Corporation's (MPAC) Response:

The Corporation did make a response to all of these criticisms citing causes ranging from trying to give the best goods and service to taxpayers, valuations accepted 97% of the time by ratepayers, timelines of sales investigations, needed updated policies and more timely sales investigations to accelerate the property inspection cycle.

Recommendations to MPAC by the Auditor General: (as taken from the document on pages 199-210)**

- 1.** Formally establish a threshold above which differences in selling price and assessed price must be established within a reasonable amount of time.
- 2.** Ask all municipalities to provide MPAC with notification that a building permit has been completed so properties can be reassessed.
- 3.** Establish mandatory requirements for conducting and documenting RfRs and sample others to ensure compliance.
- 4.** Require that each regional office selects annually, some properties for reinspection based on a risk of under-over assessment in an attempt to meet the 12 year cycle and maintain accurate records of inspections, completed sales, building permits and new construction.
- 5.** Regularly monitor and assess the productivity of inspectors for quality and daily volume. Be sure all documents are in compliance with acceptable standards indicating what assessment changes are needed.
- 6.** Ensure that supervisory reviews of inspection files are properly completed and purposely include some inspection files that did not need a change in assessment.
- 7.** Ensure that goods and services are acquired only when necessary. Ensure that all vendors are treated fairly and equitably, with documentation, to prove value was obtained. Follow rules of compliance according to Ministry of Finance policy.
- 8.** MPAC needs to follow good business practices using appropriate written agreements, approved by individuals having authority to do so, supply invoices with sufficient details to reflect the amount billed, and adequately document the qualifications/performance of their suppliers.
- 9.** MPAC is to comply with the directives according to the Ministry of Finance's travel, meals, and hospitality expenses o apply more rigour at enforcing those directives.
- 10.** A number of factors contributed to the cost overruns and delays in completing the appropriate computer services. MPAC must address the scope of the project and establish detailed project deliveries and cost estimates; there must be adequate financial analysis to support the business cases; budget increases must be approved and project expenditures tracked; and the use of outside consultants limited for managing and staffing all projects.

** A shortened and summarized version is stated from the document.

General Impression of Auditor's Review (by CNTC)

After careful examination of the document provided by the Auditor General of Ontario on December 6, 2010, CNTC feels that:

1. MPAC has tried to establish goals of proper assessment of residential, commercial and industrial properties in Ontario (nearly 5 000 000 in Ontario). Unfortunately they **do not** have the staff to accomplish these goals (1615 in total).
2. Completion of assessments on properties having recent sales, building permits, and needing follow up procedures on property changes were only **70%** successful.
3. Target dates for reassessment were **50%** slower than expected
4. Operational and business practices both within the Corporation and those of staff who travelled to needed locations were very poorly followed and questionable.
5. Computer and Technological expenses had at least a **200%** cost overrun with little more than residential properties finding some benefit or consistency.

Final Conclusions:

It seems clear that CNTC would encourage the Minister of Finance to thoroughly examine and correct the areas outlined by the Auditor General as soon as possible. We firmly believe that the ratepayers of Ontario are being treated unfairly. We ask the Minister to:

- *Call a conference of all interested parties to examine the assessment issues, their goals and expectations.*
- *If MPAC is to continue, it must be fair to all taxpayers; it must be funded properly and staffed appropriately with well experienced business people, who are fiscally responsible.*
- *Investigate the means by which the average property owner can object to MPAC's valuation which must be streamlined and simplified. When a website is put up that is difficult to navigate and then further hours of legwork during government working hours are required, any figure that is produced based on that information must be invalid. Ideally people need to talk to people and that requires increased staffing.*
- *Investigate the "Cost Approach" as an alternative method of determining correct and fair assessment of property in Ontario that is more fiscally responsible, likely under the direct control of the Ministry of Finance.*