

Property Assessment and Taxation

Understanding the process could save you money

by Brian M. Knowles, aaci, srpa, fri

It's human nature to complain about taxes. For most people, including many golf course owners, that's as far as it goes. Not too many appeal the valuations placed on their golf courses, according to assessment office officials.

Understanding the process by which real estate is assessed for municipal taxation purposes is important to every individual who owns or leases any type of real estate. Taxes generally represent a sizable portion of a business' operating expenses. While some golf courses are exempt from real estate and business taxes because of their "special use" category, those courses that do pay should be aware of this subject.

Real estate and business tax payable to the local municipality is calculated on the basis of the assessed value of the property and the residential mill rate for the area.

Many who are involved in the field feel that the system of property valuation and calculation of the applicable assessment continue to operate in the dark ages. Out-dated valuation factors and classifications cause significant confusion in calculating assessments.

To add to the confusion, in 1998, the entire Province of Ontario will be reassessed on the basis of what is called "current value assessment" (CVA). The provincial government hopes this change will bring the system in line with current market values. The government says it wants to create a system will assess all properties fairly, and at the same time maintain the tax base of each community. The base year for the current value calculation will be 1996. This means it would be prudent for property owners to hold on to all records of the operation of their business for 1996, including construction records.

With these changes, 1998 is bound to be a challenging year for assessors and will probably add considerably to the weight of the mailman's bag delivering assessment appeals.

The process Ontario is implementing could also be adapted by other provinces thinking of moving from arbitrary assessment methods to a province-wide market value basis. This has already happened in British Columbia and Alberta.

While I believe assessors in my region have a good record of assessing properties fairly, there have been instances where properties have been over

valued (no one ever appeals an under valued property). This happens for a variety of reasons, some the fault of owners or property managers, others an oversight on the part of the assessor.

To get some additional insight into the current process the assessment department uses for valuating golf courses, I went to Paul Smith, regional assessment commissioner and Paul Cotie, an assessor involved in the valuation of golf courses. The current process will be used within the new system.

Paul Cotie explained that the valuation of golf courses is generally based on the cost approach. The cost approach involves the current cost of replacing the property, including the underlying site value, less accumulated depreciation from all identifiable sources.

The first step in the valuation process is allocating land value to the property. In this stage of the valuation, the assessor uses what is known as the direct comparison approach to value. This approach is simply the comparison of known land sales to the subject property, with adjustments made to reflect differences between the two properties. This produces a unit value attributable to the property in question.

Although there can be variations from location to location, the area surrounding the clubhouse is generally given a commercial site value. The actual golf course itself is assessed in comparison with surrounding agricultural or bush and gully lands.

Establishing land value for urban golf courses presents a more difficult problem. In most cases, there has to be an analysis to find what is called the site's "highest and best (most profitable) use" of the land.

For example, let's assume that the course has a total area of 100 acres of which two acres are allocated to the clubhouse and related buildings. This land would attract the commercial land value. It is estimated that 18 acres are bush and gully, with the remaining 80 acres dedicated to the actual course. The site would be valued as illustrated in table 1. The next step in the valuation process, is the addition of between \$500 to \$1,000 per acre for clearing and rough grading of the land. The third step involves basic land improvements such as fairway seeding, tees, greens and watering systems. In this step, the soil profile and drainage and size are all important considerations. Greens are valued on the basis of cost per square foot and are classified [as type A, B or C] reflecting the quality of their construction. Tees are also valued on the basis of cost per square foot [with two individual classifications]. Watering systems generally fall into one of four categories and basically relate to the length of the course. Interestingly, these systems are immediately depreciated by 50 percent of the purchase cost.

Calculation of Land Value

| SITE ALLOCATION | AREAS (ACRES) | PRICE PER ACRE* | MARKET VALUE |
|--------------------------------------|----------------------|------------------------|---------------------|
| Site Value Course | 80 | \$2,000 | \$160,000 |
| Site Value Commercial | 2 | \$60,000 | \$120,000 |
| Bush and Gully Area | 18 | \$500 | \$9,000 |
| TOTAL INDICATED VALUE OF LAND | | | \$289,000 |

Table 2 provides an overview of how a typical course would be looked at by the assessor.

Land Valuation Additives

| ADDITIVE | CALCULATION COST* | COST |
|--|------------------------------------|------------------|
| Clearing & Rough Grading | 80 Acres @ \$500 Per Acre | \$40,000 |
| Seeding | 80 Acres @ \$150 Per Acre | \$12,000 |
| 18 tees <i>Type A</i> | 20,000 Sq. Ft @ \$0.45 Per Sq. Ft. | \$9,000 |
| 18 tees <i>Type B</i> | 70,000 Sq. Ft @ \$0.65 Per Sq. Ft. | \$45,000 |
| Watering System <i>Type B</i> | \$52,000 Less 50% Depreciation | \$26,000 |
| TOTAL LAND ADDITIVE COST (1969 VALUE) | | \$132,500 |
| 1992 COST MODIFIER (1969 COST X 4.0) | | \$4.00 |
| TOTAL 1992 LAND ADDITIVE COST | | \$530,000 |

The final step in the valuation process is costing any buildings such as the clubhouse, pro shop, and storage and maintenance sheds. The units of cost are based on 1969 rates, which are updated by a modifier to reflect the valuation date selected by the Municipality.

Once the total market value has been calculated, a local residential factor is applied to the value, resulting in the assessed value. The local residential factor is a means of ensuring the tax will be applied fairly, regardless of differences in properties. The assessed value is then used by the municipality in the calculation of real estate taxes.

Based on our hypothetical golf course, the assessed value would be calculated as follows:

Total 1992 market value \$999,510 x 0.035 (residential factor) = \$34,983
(assessed value)

In addition to real estate taxes, golf courses pay business tax. In the past, golf courses owned and operated by any county or municipality were exempt from taxation except if leased by a tenant who would be liable for taxation. A course owned and operated as a business on a public or semi-private basis would be liable for business tax on the entire course assessment.

As noted above, private (non-profit) courses are not liable for business assessment.

This will change in 1998 in Ontario with the total elimination of the business tax. However, because municipalities will require the same amount or more tax revenue in 1998, a new tax concept called the variable mill rate will be introduced. This will allow the municipality to set their own economic standards for the various types of real estate within the community.

It is too soon to know the full impact the new assessment and mill rate calculations will have on the taxes of golf course properties in Ontario. But one thing is certain; golf course owners will have to review their situations this year as the new current value assessment program is implemented.

(Editor's Note: The first issue of Golf Business Canada contained an examination of the factors involved in valuing golf course properties from the perspective of a sale situation. In this article, we look at what's involved in establishing value for tax purposes. While the article looks at the proposed changes in Ontario's assessment of real estate, it will be of interest to golf course owners in other provinces where similar market value approaches may be introduced.)