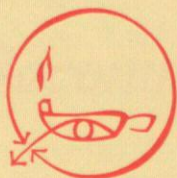


April/66



BUREAU OF
MUNICIPAL
RESEARCH

A bulletin issued by the Bureau of Municipal Research

CIVIC AFFAIRS

APRIL 1966

TORONTO

4 RICHMOND ST. E.

Assessment — The Recurrent Controversy

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This Bulletin in Brief— Its Findings and Recommendations

The Bureau was prompted to undertake this study of residential assessment in Metro (and is considering a study of commercial and industrial assessment) because we believe that the recurrent assessment controversy has been allowed to escalate in a climate of misinformation and confusion. This bulletin attempts to explain the complex assessment function so that ratepayers and others can gain greater understanding of valuation and appeal procedures. Our major findings and recommendations follow.

1. ASSESSMENT ADMINISTRATION SHOULD BE MORE CENTRALIZED THROUGHOUT ONTARIO, AND THE BASIS OF ASSESSMENT VALUATION SHOULD BE CLEARLY DEFINED.

Increased centralization is needed to achieve greater equity, consistency, and quality in assessment. Pivotal terms should be given more precise meaning, and detailed ASR (assessment/sales ratio) figures and income formulae should be disclosed annually by the Province. Proportional assessment (assessment at a percentage of the "actual" value apparently required by the Assessment Act), while permitted by the Ontario Municipal Board if uniformly applied to all types of property, is not being so applied in Metro. Deviations in assessment levels now reach one-half the proportional rate itself ("about 1/3" of actual value) (see 7). In addition, proportional assessment tends to breed differential assessment, or comparative over-assessment (see 4).

The Bureau thus believes that assessments should be made on a full-value basis, possibly averaged over a three-year period, within a 20% range to compensate for such factors as temporarily inflated values. If proportional assessment is to be retained in Ontario, an attempt should be made to stipulate a standard and near-to-full-value proportion and a maximum acceptable deviation therefrom.

2. AN ASSESSMENT COMMISSIONER'S REPORT SHOULD BE SUBMITTED TO THE DEPARTMENT OF MUNICIPAL AFFAIRS AND THE MUNICIPAL COUNCIL(S) AFTER EACH ASSESSMENT PERIOD.

Information should be made available so that ratepayers can understand current assessment levels and the methods of arriving at them. This would help to pinpoint differential assessment and to reduce the sense of injustice and arbitrariness now existing.

3. METRO SHOULD BE REQUIRED TO SYSTEMATICALLY ADOPT THE ONTARIO ASSESSMENT MANUALS.

The 1963 *Handbook of Cost Factors* and the 1964 *Appraisal Notes* should become mandatory as envisaged by 1965 legislation. Much of the current confusion stems from continued use in Metro of a 1940 base year. Any phasing-in of a 1962 base year must be systematic, fully disclosed, and under provincial supervision.

4. A SINGLE LEVEL OF REALTY ASSESSMENT SHOULD BE ADOPTED IN METRO UNLESS OTHERWISE STIPULATED IN THE ASSESSMENT ACT.

Differential or comparatively higher assessment of non-residential as opposed to residential properties, and of apartment as opposed to low-density properties, should cease — unless the Act is amended to permit same (see 7).

5. METRO SHOULD INSTITUTE A FOUR- OR FIVE-YEAR SPECIAL REASSESSMENT TO TAKE EFFECT AT THE END OF THE FOURTH OR FIFTH YEAR RESPECTIVELY.

Such a *special* reassessment, supervised by the Province, is needed to update assessments and to correct current inequities.

6. FOLLOWING THE SPECIAL REASSESSMENT, METRO SHOULD BE PERMITTED TO COMPLETE ITS ASSESSMENT ROLL EVERY THREE YEARS RATHER THAN ANNUALLY.

Metro's assessment staff is insufficient to conduct a proper annual assessment of almost 500,000 properties, as now required by the Province. As a result, shortcuts (otherwise useful as supplementary techniques) are substituted for true assessment, and delayed piecemeal reassessment is performed in selected areas. Ratepayers in these areas thus must pay sharp and sudden tax increases. On the other hand, until such reassessment other ratepayers are unfairly disadvantaged.

7. THERE SHOULD BE AN IMMEDIATE ADJUSTMENT OF RESIDENTIAL ASSESSMENTS IN CENTRAL TORONTO.

Although street median ASRs range from 18% to 41% on certain low-density Toronto streets, most median ASRs are below the "about 1/3" proportion purportedly in force generally. Yet apartments in Toronto had a median ASR of 46% in 1965. (Apartment median ASRs in the three outer suburbs were between 44% and 49%.) This low- vs. high-density differential highlights the greatest inequity in residential assessment — apartments are assessed about 50% above prevailing low-density ASRs. While a 15% variation from the "about 1/3" ASR appears reasonable within and among categories of property (i.e. from 28% to 38%), almost this degree of variation is to be found among large geographic areas (Toronto's Ward 9 had an ASR of 29% in 1964 while Ward 1 was 36%).

8. QUANTUM ASSESSMENT APPEAL SHOULD BE CENTRALIZED IN ONTARIO.

A centralized, two-level tribunal is needed to achieve sufficient expertise and standardization in quantum (over-assessment) appeals. Under the existing Court of Revision and County Judge system, which could be retained for appeals involving matters of fact other than quantum, too much reliance has been placed upon assessors' partially disclosed information and mass assessment formulae.

9. PRINCIPLES OF EVIDENCE SHOULD BE RATIONALIZED AND THE ONUS OF PROOF SHOULD BE SHARED IN QUANTUM ASSESSMENT APPEALS.

Current practices place the quantum appellant at an unfair disadvantage. He must prove his case by applying formulae which he cannot understand, which are unavail-

able to him until he is in court, and which themselves lead to Metro's proportional-dated-differential-phased assessment. Once an appellant has presented a reasonable case of assessment inequity, assessment officials should be required to systematically satisfy the tribunal that the assessment is proper.

10. THE PERIOD BETWEEN THE RETURN OF THE ASSESSMENT ROLL AND THE FIRST HEARING OF QUANTUM ASSESSMENT APPEALS SHOULD BE EXTENDED.

This could be accomplished most easily by combining the local level of quantum assessment appeal as suggested in the recommendation for centralization.

11. A CENTRAL RECORD OF ASSESSMENT AND ASSESSMENT APPEAL DATA SHOULD BE KEPT IN TORONTO.

Since the Metro level is responsible for assessment, the Metro Clerk should have duplicate sets of assessment rolls now returned only to municipal clerks.

12. A PROVINCIAL ROYAL COMMISSION ON URBAN LAND SHOULD BE CONSIDERED.

A comprehensive and independent study of the interaction of public and private urban land development would be helpful. Combined with the relevant findings of the Ontario Committee on Taxation, such a study would help to systematize the relationship between assessment, taxation, zoning, development, and expropriation policies.

Assessment — The Recurrent Controversy

Assessment administration, in theory a purely technical matter, has become one of the most controversial aspects of metropolitan government in Toronto since assessment responsibility was transferred to the new Metro level in 1953. In the middle 1950's, residential assessment increases resulted in a large number of assessment appeals and a sharp public outcry in the southwestern areas of Metro. Recently, a similar heated controversy has developed in one of the City of Toronto's central wards.

In an attempt to determine the causes and possible cures of this recurrent Metro problem, the Bureau of Municipal Research has undertaken this study of the assessment function. Since property assessments serve as the basis for some 85% of locally raised revenues in Ontario municipalities, and form the basis for the distribution of property and business tax burdens over the jurisdiction, assessment procedures and decisions are vital.

Public concern is at present directed at increases in individual assessments in certain areas, as well as at the wall of difficulties encountered when a ratepayer decides to appeal his assessment. Both the purposes and implications of assessment and assessment appeals must be better understood before present weaknesses can be appreciated and corrected.

WHAT IS ASSESSMENT

The purpose of real property assessment is to create a base for the municipal real property tax. After the assessment rolls

are returned to the municipal clerk at the conclusion of each assessment period, the real property tax base is legally established. Municipal councils subsequently strike two tax rates — one for public school supporting properties and one for separate school supporting properties. The tax rates struck will produce revenues making up the difference between estimated non-property tax revenues plus other available funds and the estimated expenditure requirements for the coming fiscal year.

In Ontario municipalities, however, there are currently a minimum of four rates because provincial per capita grants to municipalities, since 1957, have been distributed so as to reduce the rates on residential and farm properties alone, leaving the rates on non-residential properties at the original and higher level.

It is essential to distinguish between the prior act of assessment and the subsequent act of taxation or rating. An assessment should represent an objective judgement as to the value of a property. Ability to pay a tax based on that judgement is not considered. The taxing or rating power, on the other hand, presupposes a standardized and equalized assessment, and properly implies the "political" act of billing properties thus assessed for general municipal and school services. Taken into account at this latter stage may be the very principles of tax incidence and current municipal policies which the assessment judgement should ignore.

Inequities in assessment frequently stem from three practices:

1. Assessments based on outdated costs and market values;
2. Partial (or phased) reassessment within a given tax period; and
3. The over-assessment of income-producing and industrial realty in comparison with other properties (differential assessment) apparently on the assumption that the ability to pay taxes on such properties is eased because of the corporate tax structure or because the owner can transfer a part of his realty tax burden to tenants or to consumers without their being as aware of or protesting to the same extent as the direct ratepayer.

These practices also have distorting and/or amplifying effects upon:

1. The municipal business tax, which in Ontario consists of a surcharge on commercial and industrial properties ranging from 10% to 150% of real property assessment;
2. Metro's per capita grant from the Province, which is applied to reduce the Metro (but not the local) levy on residential and farm assessment;
3. Appraisal of standard tax burdens and the current debt capacities of Metro's municipalities; and
4. Representation on the newly-proposed Metro Executive Committee, which is to be based upon assessment rather than upon population or some derivative thereof.

CURRENT ASSESSMENT PRACTICE

Assessment is carried out under the Assessment Act (R.S.O. 1960, Ch. 23 as amended through 1965). Although assessors are appointed and paid at the municipal level, the assessment function is subjected to limited substantive direction

by municipal councils. Such direction must ordinarily come from three sources: (1) legislative amendment to the Assessment Act itself; (2) provincial executive and administrative regulations arising from provincial administration of the Assessment Act by the Assessment Division of the Department of Municipal Affairs; and (3) judicial and quasi-judicial decisions stemming from individual assessment appeals.

Under S.35 (1) of the Act, assessed value of property should represent the assessor's judgement as to the "actual value" of land and of buildings associated with the land. In arriving at the assessed value of improved property (that with buildings), S.35 (4) requires that consideration should be given to "present use, location, cost of replacement, rental value, sale value and any other circumstances affecting the value." This Section also provides that "... the value of the buildings shall be the amount by which the value of the land is thereby increased, and the actual value of the land and the buildings so ascertained shall be set down separately in the columns of the assessment roll, and the assessment shall be the sum of such values."

Thus both land and buildings must be assessed according to the same use, and, by implication, both the land and building portions of an assessment must be as accurate in their own right as the total assessment to which they add up. The system envisaged by the Section is usually referred to as a "capital" (wealth in realty) assessment, as contrasted to a purely "rental" (income in realty) system or a "site" (actual land value) system, both of which are found elsewhere.

"Actual value" has been determined by the courts to be the market or exchange value placed on a property by a willing seller and a prudent buyer (e.g. Sun Life vs. City of Montreal (1950) S.C.R. pp. 240, 246). The Ontario Municipal Board (hereafter O.M.B.) has stipulated that the best measure of such value

in the absence of an actual sale is a record of recent average comparative sales.*

To aid assessors in their difficult task and to achieve a degree of standardization, the Department of Municipal Affairs (hereafter D.M.A.) in 1950 published the *Assessor's Handbook of Cost Factors*. Revised in 1954 and 1963, this manual has a companion volume of comprehensive *Appraisal Notes for the Assessor* (1964). It is the intention of the D.M.A. that, ultimately, these volumes will apply in all Ontario assessment jurisdictions. Starting this year, they will be programmed into the 16 Ontario "urban" counties where centralized assessment is in force. According to provincial officials, the manual will not be made mandatory in Metro in the same sense as it will be elsewhere in the Province, but will be phased into use over the next several years. It is not clear how this "phasing" will take effect.

Mandatory and uniform application of the manual to Metro would have one major automatic effect—changing the basis for building assessment from a rather obscure 1940 base to a disclosed 1962 base. In addition, adoption would presumably affect Metro's system of proportional assessment whereby a property is assessed at a proportion or percentage of actual value. The overall proportion in Metro in 1964 was 32.1% of market value, according to the D.M.A.'s own spot check of prevailing assessment/sales ratios. A more recent base year than 1940 for building assessment would force the average Metro total assessment/sales ratio (hereafter ASR) higher in keeping with the "capital" system of assessment.

Proportional assessment, which confuses ratepayers unaware of the going proportion of assessed to market value in their area and in the jurisdiction and which appears to violate the "actual

value" requirement of the Act, has long been accepted in Ontario subject to the frequently stated condition of the O.M.B. that "the assessments in any municipality must be equitable and all owners must be assessed in the same proportion of value" (emphasis added), (e.g. Chapman McLeod and Town of Parkhill, 1948, 43 A.R./O.M.B., 58). This conditional acceptance of proportional assessment, with all its potential for confusion and misunderstanding, has not been refined by the Province. Neither an acceptable nor minimum proportion, nor a maximum degree of deviation from the prevailing proportion nominally in use has been spelled out.

In Metro, as demonstrated below, standard deviation reaches as much as one-half the proportional rate itself under prevailing differential assessments. Moreover, proportional assessment tends to further obscure a situation where the reassessment of changing residential areas requires an appraisal period exceeding any given assessment year. The Assessment Act requires that realty be assessed every year before the roll is returned and the mill rate struck, subject only to the provision of S.60 that a municipal council may elect to shift assessment to a two or three year rotary system. Under such a system, a municipality can be assessed by halves or thirds so that the assessment would first take effect on the second or third tax year respectively. While Metro Council has not elected to use this system, assessment officials have admitted that certain volatile residential areas require more than a year to reassess, that several years pass before such reassessment is actually imposed, and that area assessments are being updated on a staggered basis. Yet the Province has not agreed with the 1956 recommendation proposed by the Assess-

*... a record of sales is considered the best measure of actual value as the buyers, presumably after due consideration of all factors, are willing to back their judgement to the extent of paying out their money" (City of Owen Sound and Lorne J. Boyle (1949) 44 A.R./O.M.B. 124, 125); (see also W. S. McKay, *The Assessor's Guide*, 21st Ed., 1962).

ment Commissioner and supported by Metro Council that legislation be amended to enable Metro to adopt a two-year system of assessment so as to avoid the need for such partial annual reassessment.

DIFFERENTIAL ASSESSMENT IN METRO

Given the long acceptance of proportional assessment by the O.M.B., there are several reasons why properties in Metro would be equitably assessed at levels of up to some 15% above or below the ratio that overall assessment currently bears to actual property value. These reasons include: (1) the difficulties of an almost 500,000-property mass appraisal programme; (2) the current professional margin of appraisal error of up to 10% or more even on average individual properties; and, (3) inevitable appraisal discrepancies inherent in an annually returned assessment roll.

The ASR test, while it is the "best measure" of the equity of assessments, must be applied with care. First, chattels (e.g. carpeting) are included in many realty sales, and other sales are not "at arms length" (e.g. inter-family). Secondly, overall assessment/sales figures are mainly a test of the equity of the assessment of low-density residential properties. Income and industrial properties change hands less frequently, and there are far fewer of these properties in comparison to low-density residential properties. Thirdly, it is not sufficient merely to check recent sales and the most recent total assessment on given properties. Allowance must be made for the sale levels and type of financing typical to a street and/or category of property. Allowance also must be made for assessable building improvements which may have occurred since the last sale to raise both building and total assessment. Moreover, sales inflation on particular streets must be checked against realty inflation and economic inflation generally (both of

which have increased sharply in Ontario since 1963). Nevertheless, the Bureau has found that distorted sales, while they account for much of the assessment ratio variation on similar properties within given streets, do not affect the median ASRs on the streets concerned. Accordingly, street median ratios, (as well as category and area median ratios) are reliable and comparable measures of assessment levels.

It should be expected that ASRs derived from normal sales within and between categories of property would range in Metro from 28% to 38%. This range constitutes a 15% variation on a percentage based on the actual overall Metro ASR of 32.1% in 1964 and the "about 1/3" proportion used in 1965 by assessors and the Court of Revision Commissioners as the proper ratio between assessment and sales value. Presumably, such a percentage represents approximate 1940 values which are used by Metro's assessors in calculating the replacement cost of buildings.

Metropolitan Toronto's current residential assessment, however, fails to satisfy the practical standard of assessment equity permitted by a 28% to 38% range of normal ASRs. Table I depicts the 1964 ASRs for all categories of property in Metro by municipality, with the City of Toronto broken down into wards. This material is based on the annual spot-check taken by the Assessment Division of the D.M.A. for the purpose of regulating intergovernmental financial transactions. As noted above, the average ASR throughout Metro was calculated at 32.1% in 1964.

Table I demonstrates that there is considerable territorial variation within Metro from the 32.1% average ASR. The most extreme discrepancies appear within the City of Toronto itself, where Ward 1 properties had an average ASR of 36% in 1964 and Ward 9 properties had an average ratio of 29%. While it has been argued that a 28% to 38% ASR is accept-

able within and among *categories* of property in Metro, a similar wide range should not apply to the large geographic *areas* represented by Wards 1 and 9. Between the suburbs, however, there was significantly less variation in 1964, and,

in fact, the three outer and newer suburbs all had 1964 average ASRs very close to an exact $\frac{1}{3}$ proportion (because there are many easily assessed uniform tract subdivisions in these suburban municipalities).

TABLE I

METROPOLITAN TORONTO ASSESSMENT/SALES RATIOS - 1964

Area	ASR	Sales Activity*	Area	ASR	Sales Activity*
Toronto:					
Ward 1	36 ⁰ / ₁₀₀	heavy	Leaside	30 ⁰ / ₁₀₀	light
Ward 2	35	light	Mimico	34	"
Ward 3	30	heavy	New Toronto	30	"
Ward 4	31	"	Weston	32	"
Ward 5	30	"	Forest Hill	32	"
Ward 6	30	"	Long Branch	30	"
Ward 7	33	"	Swansea	31	"
Ward 8	34	"	Etobicoke	33	"
Ward 9	29	light	Scarborough	32	variable
			York	31	heavy
			East York	31	light
			North York	33	variable
			METRO COMPOSITE ..	32.1 ⁰ / ₁₀₀	

*Toronto Real Estate Board "Statistics," *Bulletin* No. 12, Nov., 1965. (June, 1965 cited as typical month).
Source: Department of Municipal Affairs, Assessment Division, 1965.

There are two basic reasons other than conscious design for this wide ASR variation in Metro: (1) phased reassessment (to be discussed under "Assessment Timing" below); and (2) the interplay of various assessment formulae on the distribution of different categories of property in Metro.

A TEST CASE OF DIFFERENTIAL ASSESSMENT: CENTRAL TORONTO

The specific application of various assessment formulae (see Appendix) has resulted in an inequitable degree of variation in the level of assessment associated with different categories of residential property in Metro. The extent of this variation is indicated in Tables II and III.

Table II presents assessment/sales data for 39 selected streets in central Toronto where there are particularly marked dis-

crepancies in assessment on residential streets. These streets, representing about 5,150 properties and 451 normal sales in 1964-65*, have been divided into three major classes:

1. "Stable" Streets — existing use being maintained; property values undergoing gradual change; and existing improvements represent highest use of the land as zoned, given the medium-term realty market.
2. "Unstable" Streets—existing use being renewed; property values undergoing rapid inflation; existing buildings require and many are receiving rehabilitation to reflect best use of land as zoned (i.e. town-houses) given the medium-term realty market; high pre- and post-rehabilitation sales volume; (2a) a general increase in assessment occurred in 1965; and (2b) no

*No streets or properties are specifically identified in the text of this bulletin; data has been taken from the Bureau's analysis sheets of selected streets and properties.

improvements relative to medium-general increase in assessment in 1965.

3. "Transitional" Streets—high-density residential potential exists as indicated by the low value of existing improvements relative to medium-term financial possibilities of an apartment development; (3a) inflation in property values stemming from registered sales to apartment developers; zoning is already high (Z4) or permissive (Z3), that is, there has been a "zoned" inflation in property values; and, (3b) apartment speculation occurring without associated apartment zoning, that is, where there has been an "unzoned" inflation of property values.

Table II, based on ASR variation between *street* median ASRs calculated by the Bureau for low-density residential properties only, reveals a substantial degree of assessment inequity in residential central Toronto. Firstly, median ASRs range from a low of 18⁰/₁₀₀ on transitional streets which have been subject to "unzoned" property value inflation (Class 3b) to a high of 40⁰/₁₀₀ and more on streets in the other low-density residential classes. Secondly, there are many "unstable" residential streets in central Toronto which have significantly lower median ASRs than those in Class 2a that underwent sharp general increases in assessment in 1965. Thirdly, variations within even sub-classes of low-density residential streets are well beyond an acceptable 15⁰/₁₀₀ from the relevant median based on typical sales. The sharpest variation in this respect occurs in transitional streets of Class 3a where there has been or very soon will be a general "zoned" inflation of property values.* Moreover, in all classes of low-density residential streets,

median ASRs are below 1964's 32.1⁰/₁₀₀ overall ratio for Metro and the "about $\frac{1}{3}$ " ratio considered proper by Metro's assessment officials themselves. This, in spite of the fact that a significant number of individual streets or blocks of streets have ratios above the Metro or "proper" average.

Three aspects of Table II should be emphasized. Firstly, it appears that a sharp general increase in assessment was warranted on many of the streets in Class 3a which were subjected to a residual sales reassessment in 1964 (discussed below). This is borne out by the fact that median ASRs on many of the streets concerned are still at or below an "about $\frac{1}{3}$ " proportion even after the reassessment.

Secondly, the 20⁰/₁₀₀ median ratio that applies to Class 3b streets and properties where there has been recent "unzoned" inflation probably applies to many streets where a similar but less apparent "unzoned" inflation has resulted from apartment speculation in the form of options or of conditional sales where sales are not "closed" or registered until an actual rezoning occurs. (The most outstanding current example of this is quite possibly in the Jane-Runnymede-Bloor area, where a major high-density redevelopment proposal requiring rezoning has already been presented to the City Planning Board although the developer is not yet a registered purchaser of many properties.)

Finally, Table II also shows the extent of assessment variation between Class 2a streets and properties where there was a proportional sales residual reassessment in 1965. This variation has been sharply increased as a result of recent Court of Revision decisions in Wards 3 and 4. Data are given in Table IV for two such

*The Bureau's analysis indicates that this variation within Class 3a is not related to zoning. The ASR on one block of a street zoned R2Z3 near Bloor and Avenue Road, where there has been a limited amount of apartment speculation already, is 27⁰/₁₀₀; the ratio on a block of Sherbourne Street zoned R4Z4, where a major apartment land assembly has already taken place, is 25⁰/₁₀₀; the ratio on a short street zoned R4Z4 close to the new Sherbourne subway station, which has not yet been subject to apartment-based sales, is 40⁰/₁₀₀.

TABLE II
ASSESSMENT/SALES RATIOS IN 1965 ON LOW-DENSITY RESIDENTIAL PROPERTIES ON 39 SELECTED RESIDENTIAL STREETS IN CENTRAL TORONTO - DISTRIBUTION OF MEDIAN STREET RATIOS BY CLASSES OF STREETS

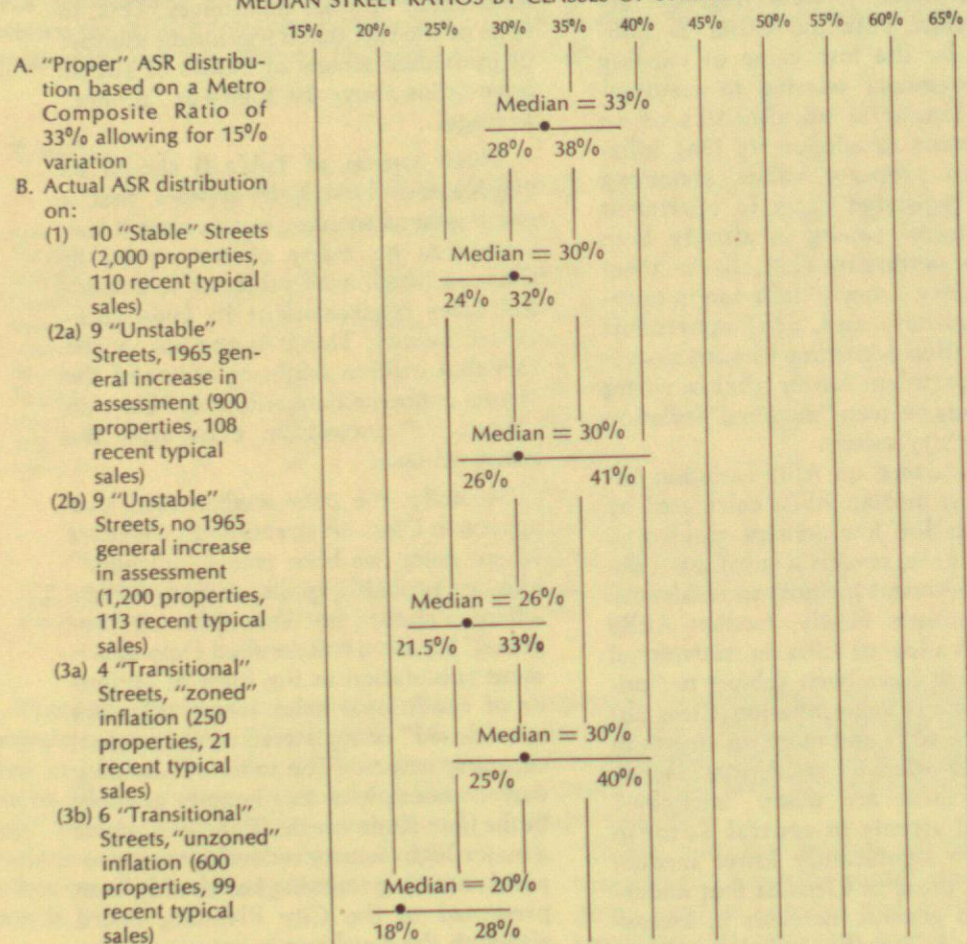
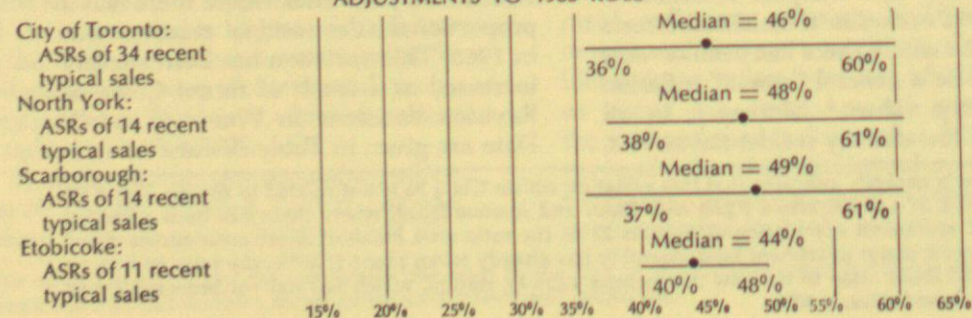


TABLE III
APARTMENT PROPERTY ASSESSMENT/SALES RATIOS IN METRO'S FOUR LARGEST MUNICIPALITIES - AFTER COURT OF REVISION ADJUSTMENTS TO 1965 ROLL



streets - "X" in Ward 4 in the North Annex area and "Y" in Ward 3 in the Ramsden Park area. It can be seen that, subsequent to Court of Revision review of appeals on these two streets, assessment variation on virtually equivalent modest properties will result in 1966 realty tax differences of \$75 and \$50 respectively.

Table VII indicates that realty tax differentials on equivalent properties as

between residential streets in central Toronto will be at an even higher level. Equivalent \$25,000 properties on "townhouse" streets "A" and "B", for example, will bear 1966 realty tax loads differing by as much as \$150. When related to sales value, this constitutes a major assessment inequity in the City of Toronto. Apparently the inequity extends throughout Metro according to the D.M.A. 1964 ASR findings in Table I.

TABLE IV

ASSESSMENT VARIATION ON EQUIVALENT PROPERTIES AFTER RECENT COURT OF REVISION CHANGES ON TWO SELECTED CENTRAL STREETS WHICH WERE SUBJECT TO A "PROPORTIONAL RESIDUAL SALES" REASSESSMENT IN 1965

	Street	Equivalent Properties	Variation
'Land' Assessment	(a) Street "X"	(example: two adjacent 25'x118' properties; 'land' assessed at \$3,250 and \$2,500 respectively after Ct. of Revision changes)	30%
	(b) Street "Y"	(example: two 17'x120' properties on same side of street in middle block; 'land' assessed at \$2,600 and \$1,750 respectively)	49%
'Total' Assessment	(c) Street "X"	(same two properties as (a); 'building' assessed at \$4,350 on original assessment; new 'totals' - \$7,615 and \$6,550 respectively)	16%
	(d) Street "Y"	(same two properties as (b); 'building' on first assessed at \$2,900, on second at \$3,300; new 'totals' - \$5,500 and \$5,050 respectively)	15% (Weighted)
Probable 1966 Tax Differences* on "equivalent" properties cited on	(e) Street "X"		\$75
	(f) Street "Y"		\$50
	(g) Street "X"	On 1965 Assessment	33%
Median ASRs		1965 Assessment as adjusted by Court of Revision**	27%
	(h) Street "Y"	On 1965 Assessment	30%
		1965 Assessment as adjusted by Court of Revision**	30%

*Based on a City of Toronto projected 1966 mill rate of 75 mills.

**On "X" most properties recently subject to sales were appealed; however, on "Y" the opposite was the case - there were no assessment appeals on properties subject to recent sales.

DIFFERENTIAL ASSESSMENT - APARTMENTS vs. LOW-DENSITY

A comparison between Tables II and III reveals the greatest single inequity in Metro's current residential assessment

- the fact that apartment buildings are assessed throughout Metro at levels producing median ASRs of up to 50% above those prevailing on low-density residential properties. The strong demand for

apartments in Metro currently enables apartment owners to pass on a part of this disproportionate burden to their tenants. Assuming this transfer of the tax burden, from owners to tenants, apartment tenants are paying much higher municipal taxes in the indirect form of higher rents than are home-owners directly. The irony of this basic inequity — which results from a concealed public revenue policy abetted by the absence of an organized apartment citizenry — is accentuated by the fact that standard apartment units require considerably less in municipal service expenditures than do an equivalent number of standard houses. This was revealed by a 1965 Scarborough Township Planning Board study on education financing.

A HIDDEN INEQUITY

Tables V and VI indicate inter-municipal assessment distortion based on the proportional distribution of different

categories of property and property assessment throughout Metro. Table V reveals that the current system of differential residential assessment in Metro favours the home-owning ratepayer in the municipalities with a high proportion of apartments (North York, Forest Hill, Mimico, Weston, and Long Branch). Table VI shows that the system further favours home-owners in municipalities having a high proportion of commercial and industrial assessment (Toronto, Leaside, New Toronto, and Weston). This occurs because non-residential properties tend to be assessed at higher levels than low-density residences.

It should be pointed out that, as in so many measures of intermunicipal fiscal equity within Metro, the Township of Scarborough, with only 16% of its 1964 residential units being apartments, is in the weakest fiscal condition of Metro's municipalities. Etobicoke's 16% is compensated by its relatively high percentage of non-residential assessment.

TABLE V

CLASSIFICATION OF RESIDENTIAL UNITS IN METRO - 1964

Municipality	Low Density	Apartments	Total	Percentage Apts.
TORONTO	133,520	43,464	176,984	25%
North York	65,741	26,665	92,406	29
Scarborough	54,630	10,735	65,365	16
Etobicoke	43,996	8,423	52,419	16
York	27,846	9,398	37,244	25
East York	17,843	5,685	23,528	24
Forest Hill	3,620	4,365	7,985	54
Leaside	4,183	2,671	6,854	26
New Toronto	2,386	991	3,377	28
Mimico	3,212	3,286	6,498	50
Swansea	2,384	863	3,247	26
Weston	2,154	1,016	3,170	33
Long Branch	2,157	1,151	3,308	35
METRO	363,672	118,713	482,385	25%

Source: Metropolitan Toronto Planning Board, December, 1965.

TABLE VI

CLASSIFICATION OF 1964 ASSESSMENT FOR 1965 METRO TAXES

Municipality	Total (000's)	Residential (000's)	(%)	Commercial (000's)	(%)	Industrial (000's)	(%)
TORONTO	\$1,954,308	\$ 741,801	40%	\$ 988,902	51%	\$223,471	11%
North York	869,496	581,139	67	186,028	21	101,028	12
Scarborough	498,999	328,433	68	95,459	19	71,664	14
Etobicoke	584,662	340,050	58	130,430	22	112,974	19
York	234,195	160,108	68	40,477	17	33,609	14
East York	130,567	99,603	76	17,918	14	13,046	10
Forest Hill	75,339	68,035	90	7,304	10	—	—
Leaside	81,073	40,478	50	20,375	25	20,220	25
New Toronto	44,869	12,902	29	8,057	18	23,909	53
Mimico	35,608	26,828	75	5,515	15	3,266	9
Swansea	24,780	18,209	77	3,662	15	1,909	8
Weston	27,927	14,868	53	7,933	28	5,126	18
Long Branch	21,823	14,698	67	4,269	20	2,855	13
METRO	\$4,582,644	\$2,447,152	53%	\$1,516,329	33%	\$613,078	13%

Source: Metropolitan Toronto Assessment Department, January 25, 1965 (Not Revised). Discrepancies in figures result from rounding and from the omission of other categories of assessment — Farm, Vacation Resort, Wasteland — amounting in 1964 to 0.1% of total.

"PROPORTIONAL" ASSESSMENT

It has been demonstrated above that differential proportional assessment in Metro is currently violating both the "actual" value requirement of the Assessment Act and the "practical" requirement of the Province that a proportional assessment must be equalized between and within categories of property. It is a fair question to ask why we have a system of proportional assessment at all.

Aside from the administrative advantage that sudden shifts in market value will not automatically result in large numbers of assessment appeals, two arguments are put forward for proportional assessment in Metro:

1. A total assessment of "about 1/3" normal current sales value represents about the same ratio as current 1940-based building assessment bears to current replacement costs. Accordingly, it could be argued that the "about 1/3" system should be retained if we are to maintain a consistent "capital" system of assessment whereby both

assessment components are as accurate in their own right as the total to which they add up.

2. Proportional assessment purportedly reduces the size and impact of errors unavoidable in a mass assessment programme based on full-value appraisals.

Yet these claims do not justify a system of proportional assessment, let alone the differential system currently in effect in Metro. In the first place, 1940-based building assessment should and can be updated to present replacement costs by annually adjusted cost factors based on the D.M.A.'s *Assessors' Handbook of Cost Factors*. Accordingly, land and total assessment need not be proportions of current value. Moreover, the "capital" system of assessment has recently been somewhat distorted by the use of the residual sales land assessment principle (see p. 17). Certain areas in central Toronto were subjected to a general increase in assessment in 1965 which applied to all properties regardless of the actual or even potential relationship of

existing improvements to the "highest probable use" emerging in these areas. It may be that a consistent capital system of assessment is inappropriate to these areas. If so, the entire Metro area should be assessed by some other method.

The "error reduction" justification for proportional assessment is also specious. The percentage error on a full-value assessment which was found to be over-assessed according to a subsequent normal sale is the same as the percentage error would have been if the property had been assessed at "about 1/3" of full value. Since the required mill rate must be trebled, the actual tax paid would be the same. Thus these are not valid justifications for other than full-value assessment. (Indeed a mechanical error is magnified under a proportional assessment system.)

Proportional assessment is thus a needlessly confusing practice. Some of the advantages of a full market value base are: it is a universal and easily recognized value norm; it can be established by competent investigation according to objective appraisal techniques; it is not as subject to distortion by influence and bargaining; and it can be used to establish assessment equity between property (because of its ready comparability and its direct relation to the reasons for owning property — rental income, amenities, and capital gains).

Full market value would help to clarify and standardize assessment procedure and valuation. Yet it is a highly debatable point whether or not taxes based on assessment at full market value should be a legitimate carrying cost on properties still being held for amenity purposes (and which are undergoing inflation in value for reasons unrelated to the present replacement cost of their existing improvements and use). Certainly, it would benefit a municipality from a tax revenue standpoint if these properties were rapidly redeveloped or rehabilitated to their "highest and best" use. But it is equally

certain that many, if not most, low-density residential properties are owned for both amenity and investment reasons. It would seem unfair to tax them on the same basis as a vacant tract of suburban land being held strictly for capital gain purposes.

"RESIDUAL" ASSESSMENT

Most of the recent controversy over general assessment increases in central Toronto has derived from attempts to increase the total assessment in the areas concerned by the proportional "sales residual" method of assessment (see Appendix). This method of assessment involves the following steps:

1. The calculation of a total assessment on properties recently subject to a "normal" sale — currently "about 1/3" of the sale value;
2. The subtracting of building assessment (based on 1940 replacement costs in Metro) on the properties concerned from total assessment derived in step 1., thus obtaining land assessment as a residual; and
3. The application of the land assessment rate derived in step 2. generally to all typical properties in an area or block, thus generally increasing total assessment.

While proportional assessment has been accepted by the O.M.B., and the sales residual technique is recommended in the Ontario assessment manual, the proportional sales residual method (that is the combination) should meet four conditions: (1) building and total assessment should be based directly on the same year; (2) the technique must be applied in all areas of an assessment jurisdiction in a given assessment period where there is evidence of sales inflation; (3) the same proportion must apply to total assessment from area to area; and (4) the technique's implicit assumption that building

values are remaining uniformly steady while land values are uniformly changing must be consistent with reality. These conditions have not been met in the 1965 assessment.

Table VII examines equity in central Toronto where the proportional sales residual technique was admittedly used by assessment officials in 1965. The Bureau selected six residential streets, and a standard property which underwent a recent "normal" sale on each of those streets. Although the standard depth varies to a degree, front-foot land assessment rates are comparable on the properties cited because they are standard properties for their streets and because a depth variation on typical residential lots of between 110 feet and 150 feet does not significantly alter lot value rates. It should be noted that standard property values, as measured by recent "normal" sales, are similar on Streets "A", "B", and "D" after allowance is made for the different building values on the properties as indicated by the different building assessments in Column (3). Moreover, while property values on Street "C" are proportionately higher than on the other three streets in the low-density category relative to the building values, this appears to be the result of extremely low current replacement values on the existing buildings relative to what they would be after town-house rehabilitation.

Assessment on town-house Streets "A" and "C" was increased sharply in 1965 as a result of the acknowledged application by assessors of the sales residual method of assessment — however, with different results. Land assessment rates, as measured by front-foot on standard properties in Column (4), appear to be well above what they should be on Street "A", but well under what they should be on Street "C" if the "about 1/3" proportion of market value is in fact the proportion to apply. As Column (8) reveals, this discrepancy exists even when a generous

margin of error is allowed on the land assessment of standard properties on both streets.

Moreover, as Table VIII indicates, a test of three heavy sales streets ("M", "N", and "O") in the reassessed area of Streets "A" and "C" reveals that land ASRs show more variation than either total ASRs or, oddly enough, than building ASRs on two of the streets. This suggests that the proportional sales residual technique was applied inconsistently, since land assessment should be the most reliable indicator of sales value (and certainly more reliable than unadjusted cost-based building assessment).

What is even more unwarranted is the current rate of land assessment on Street "B" (Table VII), a town-house street very similar to "A" and "C", which was not increased at all in 1965. This leaves it far below what it should be if assessed in the same way as "A" and "C". Land assessment on Street "D", which was selected here as a typical stable residential street from the point of view of its normal ASR median, is also somewhat lower than it should be (but not at all to the same extent as "B").

Finally, Streets "E" and "F" were selected as residential streets where street characteristics, sales and rezoning activity indicate that the "highest probable use" will be reflected by high-density apartments in the near future, regardless of present zoning restrictions. Street "E" properties, because the street is currently restricted by low-density zoning, are assessed at what appears from summary analysis (See Table VII) to be a not abnormally low rate for stable residential streets (which Street "E" has long since ceased to be). This rate is four times below what it would be if the assessment method used on Streets "A", "C" and one block of "F" were to be applied to Street "E". The land on the relevant block of "F", because of its permissive (Z3) residential zoning, and because of its proximity to the new Bloor-Danforth subway,

TABLE VII
 'LAND' ASSESSMENT COMPARISONS - COMPARING 'LAND' ASSESSMENTS ON STANDARD LOW-DENSITY RESIDENTIAL PROPERTIES ON SIX STREETS IN CENTRAL TORONTO

(1) Street	(2) Dimensions of Standard Property on Street	(3) Current 'Building' Assessment on Standard Property	(4) Current 'Land' Assessment on Standard Property	(5) Current 'Total' Assessment on Standard Property	(6) 'Normal' Current Sale on Standard Property	(7) A 'Total' Assessment Resulting From 'about 1/3' of (6)	(8) A 'Land' Assessment Resulting From 'about 1/3' Sales Residual Method (7) less (3)
"A" (Ramsden Park area; zoned R2Z2; town-house rehabilitation situation); general assessment increase in 1965.	28'x150'	\$ 5,300	\$4,700; \$168/front ft.; (Ct. of R. reduced to \$110 on many appealed unrehabilitated prop's.	\$10,000 (40% of recent sale)	\$25,500 (adjusted to reflect median 39% ASR on street)	\$ 8,000 to 9,000	\$2,700 - \$3,700; \$97-\$132/front ft.
"B" (Yonge & St. Clair area; zoned R2Z2; town-house rehabilitation situation); no general assessment increase in 1965.	25'x122'	\$ 4,000	\$1,250; \$50/front ft.	\$5,250 (24% of recent sale)	\$21,500 (adjusted to reflect median 26% ASR on street)	\$ 6,600 to 7,600	\$2,600 - \$3,600; \$97-\$144/front ft.
"C" - North Side (Ramsden Park area; N. Side of street zoned R4Z3; considerable town-house rehabilitation in spite of zoning); general assessment increase in 1965.	14'x108'	\$ 1,700	\$1,925; \$137/front ft. (Ct. of R. confirmed 'land' assess't. on appealed prop's.	\$3,625 (28% of recent sale)	\$13,300 (adjusted to reflect median 27% ASR on street)	\$ 4,200 to 4,600	\$2,500 - \$2,900; \$178-\$208/front ft.
"D" (North Rosedale; zoned R1Z1 and R1Z2 properties require no rehabilitation to reflect "highest probable use"); no general assessment increase in 1965.	50'x140'	\$11,000	\$3,500; \$70/front ft.	\$14,500 (28% of recent sale)	\$52,000 (adjusted to reflect median 26% ASR on street)	\$16,700 to 18,000	\$5,700 - \$7,000; \$114-\$140/front ft.
"E" - North Side (Yonge & St. Clair area; zoned and being developed for apts. on S. Side; North Side zoned R2Z2; recent sales and rezoning applications indicate extensive apt. speculation; location could support highest apt. rents in Toronto); no general assessment increase in 1965.	27'x150'	\$ 5,900	\$1,500; \$55/front ft.	\$7,400 (20% of recent sale)	\$37,800 (adjusted to reflect median 18% ASR on street)	\$11,800 to 13,400*	\$5,900 - \$7,500; \$220-\$278/front ft.
"F" (Bloor St. & Avenue Rd. area; zoned R3Z3; similar to North Side of "E" with permissive zoning but in an earlier stage of speculation; only 1 block of street assessed as here indicated); general assessment increase in 1965.	27'x138'	\$ 4,950	\$3,900; \$144/front ft.	\$8,850 (32% of recent sale)	\$31,500 (adjusted to reflect median 27% ASR on street)	\$ 9,500 to 11,500*	\$4,550 - \$6,550; \$169-\$242/front ft.

*Wider range owing to complexity of sales on transitional streets.

TABLE VIII
 STANDARD DEVIATION FROM THE MEDIAN OF ASSESSMENT/SALES RATIOS ON THREE CENTRAL CITY STREETS RECENTLY CLAIMED TO HAVE BEEN ASSESSED BY THE PROPORTIONAL RESIDUAL SALES TECHNIQUE

Street	Current Median ASR on Street	Standard Deviation (from Median) of 'Total' ASRs.	Standard Deviation (from Median) of 'Land' ASRs.	Standard Deviation (from Median) of 'Building' ASRs.
"M" (recent sales on 20 of 200 properties)	30%	13%	17%	8 1/2%
"N" (recent sales on 12 of 110 properties)	41%	5%	7%	13%
"O" (recent sales on 30 of 200 properties)	39%	10%	14%	7 1/2%

has been assessed in 1965 at a rate very close to a rate derived from the "about 1/3" residual sales test - even though it is less advanced in actual transition to apartments than Street "E".

In fairness, some adjustment in realty assessment should be made for "unzoned" inflation in property values when a full adjustment has been made with regard to "zoned" inflation in property values.

Such are the vagaries of our assessment and zoning practices.*

It is clear, then, that the use of the proportional sales residual method of assessment was inequitable even within an area of Metro where the technique was definitely used to update assessment in 1965. Such being the case, there is little doubt that the technique was applied inconsistently throughout Metro in 1965.

Moreover, analysis of the same central portion of Toronto raises doubts as to whether the present application of the sales residual method of assessment is consistent with reality, given its basic assumption that building values, where there are no renovations, are remaining uniformly steady while land values are

uniformly changing. It has already been noted that the Assessment Act requires that buildings be assessed according to the value they add to a property. This requirement of the Act can easily be contradicted by the results of a sales residual reassessment in complex areas, particularly town-house areas, whereby land assessment is generally increased while building assessment remains the same or is only nominally reduced. The essential problem is: to what component of total assessment should the increase in market value which has been found to be general in a town-house district be applied in order to have the "capital" system of land-building assessment make sense?

There are many factors which serve to revitalize a stagnant or declining residential area through town-house rehabilitation - its central and convenient location, the social, physical, and aesthetic qualities of the neighbourhood, the town-house convertibility of the individual dwellings themselves, and the extent of rehabilitation the neighbourhood has already undergone. Thus the location and nature of the existing dwell-

*An even more unjust example of these vagaries in 1965 concerned "underdeveloped" properties along Carlton Street which were threatened with a density down-zoning of 1/3 in the proposed "Downtown Plan" while land assessment on the same properties was increased in 1965 by as much as 200%.

ings themselves are important determinants of whether given properties can sustain full town-house renovation without demolition. To illustrate, a developer who is currently renovating 15 dwellings of Belmont Street just west of Yonge Street has deliberately retained the basic dwellings because they possess a certain elegance, although it would have been less expensive (and possibly more profitable) to demolish and build anew. Such are the subtleties of the town-house market.

Town-house convertibility is, in part, dependent upon the particulars of design and execution. Since these qualities are often unassessable, assessors are forced to adjust their figures to a land reassessment based on "highest probable use." Yet such reassessment violates a "capital" system of assessment based on the value-added principle if it is applied generally to all properties in an area without sharp reductions in building assessment on those properties where there is not yet evidence of town-house convertibility. Reassessment on such streets should be the result of individual property appraisals and not of a generally applied factor alone.

ASSESSMENT TIMING

The current establishment of Metro's Assessment Department provides for 247 permanent assessors, 25 assessor's assistants and 40 temporary assessor's assistants. As of December 1965, the actual assessment staff included 226 permanent assessors, 10 assessor's assistants and 50 temporary assessor's assistants. Accordingly, there are about 280 assessors currently available in Metro to maintain an accurate annual record and evaluation of Metro's 500,000 properties.

Yet, in order to attempt to visit and assess Metro's full number of properties, there is and has to be a considerable mixing of assessors' duties regardless of classification differences based on qualifications and experience. In fact, many of the lower grade assessors who have only a few years of appraisal experience and whose annual salaries average around \$5,000*, are performing appraisal tasks expected of appraisers employed by trust, mortgage and realty firms whose experience is much longer (often gained as assessors) and whose salaries are currently averaging well over \$6,000

Moreover, in order to meet the heavy requirements of Metro's annual mass assessment programme, assessors have been required to adopt many short cuts which in actual practice unavoidably detract from the reliability of the annual appraisal.

For example, the Bureau has learned from two assessors that in order to achieve even an approximation of an annual assessment on properties in their area, assessors in the field are restricted to an average of three minutes per property. In that time, assessors check against field books of the previous year such details as property description (both land and buildings) property use, ownership, occupancy, school support and number of dogs. This timing restriction means that assessors in the field check on the average 50 properties in a morning and then formally complete their books in the afternoon. Extensive changes in ownership and occupancy, plus alterations and additions to existing and new buildings on a residential street, mean that a reliable assessment cannot be achieved under the 50 properties per day per field assessor requirement. Yet, the roll must be returned on time.

*The latest revised figures contained in the standardized *Survey of Wages and Working Conditions of Municipal Employees* issued by the Canadian Federation of Mayors and Municipalities shows that starting salaries of permanent assessors in Metro in 1964 were some 35% lower than in the City of Montreal in 1962 and some 25% lower than in the City of Vancouver in 1964.

Another basic short cut required by Metro's mass annual assessment programme involves the assessment techniques themselves (see Appendix). Under the pressure of time, sound and helpful supplemental criteria become substitutes for true assessment itself. Square and cubic foot building classifications, mathematically calculated linear building depreciation, and a rent multiplier based on rents having a base year other than the assessment year can and do result in assessments wholly unrelated to actual circumstances.

Even with the most agile use of assessment techniques, Metro's Assessment Commissioner has had to update assessment in only certain areas according to an area-by-area approach. This was openly acknowledged by assessment officials and accepted by the Court of Revision Commissioner in the November 1965 Ward 3 (City of Toronto) assessment appeal hearings. During the sessions it was frequently admitted that streets which appellants had discovered were comparatively underassessed "had not been done this year" and "would be gotten around to in a year or two."

This practice of partial reassessment has been sanctioned indirectly by Metro Council which has annually passed an assessment and assessment appeal period by-law according to which the assessment roll for the various wards and municipalities in Metro is returned at different dates in the year (as permitted by S.56 (3) of the Assessment Act).

There is another problem related to assessment equity which arises from the impossibility of reliably assessing all Metro's properties in a given year — large disproportionate changes occur in assessment on given properties from one year to the next. The Assessment Commissioner has admitted that had he followed the original advice of his assistants he could and would have started to increase assessments in the central areas of Ward 3 as long as three years ago on the basis

of reliable realty trends. Instead, ratepayers concerned faced abrupt increases in assessment in 1965 only. This delay could have resulted from subway expropriations and speculations, compassion for the home-owners concerned, or concentration upon other areas.

Whatever the specific reasons, the Commissioner cites the fact that the area has not been reassessed since 1954 as the basic justification of a 46.9% increase in the area's assessment in the single assessment year of 1965. This 12 year delay in reassessment, however, is the very reason why the assessment increase in 1965 was so sharp. Such increases—which will result in 1966 average tax increases of \$200, and more, in the area — have been minimized in recent Court of Revision hearings. One such increase was dismissed by the Court of Revision Commissioner as being "only 57%." Increases of this magnitude, imposed in single doses rather than gradually, are unsettling to those who must pay the resulting sharp taxation increases. On the other hand, during such long delays in reassessment other ratepayers are unfairly disadvantaged.

ASSESSMENT APPEAL

The Bureau's investigation shows that there are two main reasons for ratepayer indignation over the current system of assessment in Metro: sharp variations of assessment within and among comparable areas from one year to the next; and the difficulties involved in making a legitimate appeal. Having dealt with the first problem, we may turn to the second.

There are many reasons for making an assessment appeal. In 1964, "quantum" appeals (over-assessment resulting from erroneous property valuation) were made on only about 1.1% of the approximately 270,000 properties assessed in the City of Toronto. In 1965, however, reports

are that appeals for this reason have jumped by six times in Ward 3, and they have risen in other central areas as well. Yet when all forms of assessment appeal

are taken into account, in the 1964 assessment year, the difference between "returned" and "revised" assessment figures for land and buildings was negligible.

TABLE IX

NUMBER OF ASSESSMENT APPEALS - CITY OF TORONTO*

Year	School Support (27) ^a	Over-Assessed (72) ^a	Personal ^b	School Boards (72) ^a	Business Tax Adjustments (131) ^a	All Other ^c	Total
1957	200	2,219	9,181	3,000	11,100	870	26,570
1958	1,500	2,349	4,178	6,527	12,000	1,555	28,109
1959	2,302	2,387	4,145	4,974	11,496	3,927	29,231
1960	2,953	5,887	3,999	4,993	12,234	5,433	35,499
1961	2,857	4,655	5,091	5,250	12,850	5,562	36,265
1962	3,645	2,983	5,862	6,059	12,846	7,516	38,911
1963	3,709	3,230	6,586	4,455	12,690	5,283	35,953
1964	4,765	3,093 ^d	6,283	6,248	12,596	5,394	38,379

*Court of Revision only.

1. i.e. ownership, tenancy, spelling, etc.

2. Including: errors, omissions, additions, use conversions, local improvements, demolitions, vacancies, exemptions under S's. 53-54, 131, 137, 144, 145 of Assessment Act.

3. Section of Assessment Act.

4. Represents about 1.1% of properties billed for city taxes in 1965.

Source: City Clerk's Department, Dec. 1965.

Thousands of annual assessment appeals in the City of Toronto do not therefore in themselves constitute evidence of a substandard assessment. Some point during the year has to be fixed as the date by which municipal clerks must receive a general assessment roll upon which municipal councils can levy their annual taxes. Errors, omissions, and discrepancies in the ratios of assessed to current sale value are bound to result. Moreover, the amount of time after the return of the roll within which major changes in assessment levels can be made is further restricted in an annual system of general assessment. Accordingly, in Metro, the time for making and hearing assessment appeals is also brief. The latter is shown in Table X, which outlines current assessment appeal procedure.

A period of under two months is ample time for the preparation and hearing of most factual assessment appeals at the first level of appeal. Such a period is often insufficient, however, for the preparation

of a *prima facie* case of individual over-assessment, let alone assessment inequity which is general to a street, neighbourhood, or category of property. The quantum appellant faces difficulties inherent in the complexity of realty appraisal as well as other serious obstacles in making an appeal. Under current procedure, he must pass through two redundant local stages of appeal, thus needlessly complicating his original preparation. Moreover, the Court of Revision Commissioners and County Court Judges are appointed to their present positions on the basis of legal experience and qualification, not on the basis of appraisal or related experience. Their decisions tend to be based too heavily upon the local assessors' own specific formulae.

While there are many matters of assessment appeal and adjustment which locally appointed and legally oriented appeal tribunals can handle with relative ease — school support, errors and omissions on the roll, ownership, tenancy, etc.

TABLE X

ASSESSMENT APPEAL PROCEDURE AFTER RETURN OF ASSESSMENT ROLL*

STAGE AND JURISDICTION

1. *Court of Revision*: Matters of fact and level ("quantum") of assessment including ownership, property description, business tax, over-assessment, etc.** Court may not decide on matters of law. No fee; hearing is informal before a Commissioner (appointed by Metro).
- 2a. *County Judge*: Second level of appeal on matters for Court of Revision decision. No fee in Metro, informal hearing in Judge's chambers.
- 2b. *County or Supreme Court*: First level of appeal on all legal questions including assessability, by-laws, agreements, etc. (A direct interpretation of the Assessment Act may be obtained on a motion to a single high court judge.)
3. *Ontario Municipal Board*: Final level of appeal from Court of Revision and County Judge decisions on matters of fact and quantum. O.M.B. decisions, however, can often be construed as legal matters and are accepted as such by the Ontario Court of Appeal.
4. *Ontario Court of Appeal*: Normally, final level of appeal on all legal questions, although some questions, notably on appeal jurisdiction itself and on the question of "actual" value, have gone on to the Supreme Court of Canada.

NOTICE OF APPEAL

Written notice giving reasons on form provided on assessment notice, within 14 days of return of roll. Court sits until 60 days after return of roll.

Written notice within 10 days after Court of Revision decision mailed by registered mail. Judge may hear appeals until 60 days after Court of Revision closes. A full originating notice within 10 days of Court of Revision notice as outlined above.

Notice of County Judge's decision must be mailed to appellant within 14 days of decision; written notice of appeal to O.M.B. within 21 days of Judge's decision.

"Leave" must be obtained and a "statement of case" made within 21 days after a County Judge's decision or 1 month after a lower court or O.M.B. decision.

*The assessment roll for a given assessment jurisdiction must be returned by October 1st. This may be extended to November 30th (60 days) by municipal by-law.

**School support appeals may be processed through the Court of Revision at any time.

— these tribunals should not deal with questions relating to the validity of an assessor's appraisal of property.

There should be one Ontario assessment tribunal for quantum appeals, organized on a two-level basis with regional tribunals, including one for Metro, to process original hearings. The O.M.B. could be decentralized for this purpose. Yet there are a number of other problems connected with realty value (notably expropriation). Thus a two-level assessment appeal jurisdiction might be organized as a permanent session tribunal sitting on all matters of contention involving land valuation and govern-

ment, including quantum assessment appeals. Such a composite tribunal would attract persons of high qualification in appraisal and would serve to give some consistency to public land policies in Ontario.

The elimination of redundant and legally (instead of technically) qualified tribunals would solve only half of the quantum appellant's problem. It is equally important to rationalize the rules of evidence and share the onus of proof in current assessment appeal procedure. Recent City of Toronto Ward 3 Court of Revision hearings indicated that quantum appellants are currently at an unfair and

unnecessary disadvantage in making their appeals.

For example, appellants were told their demonstration of under-assessment on comparable properties did not constitute evidence as to over-assessment on their own properties. In the words of the Commissioner: "Two wrongs do not make a right — if they (the assessments on the under-assessed properties) are too low because assessors have not caught up to them yet, it does not prove your case that you are over-assessed. You should be appealing theirs as too low." (Court of Revision, Dec. 8, 1965). The Commissioner is applying, and requiring appellants to apply, the assessors' own formulae which currently produce Metro's proportional-differential-phased assessment. And this, when the assessors' field books are opened only to individual owners before the Court hearing under Section 216 (1) of the Assessment Act.

In cases of this kind, where the Commissioner is unable to achieve equity (his prime function in quantum appeals) in the application of the assessors' own formulae, the Bureau believes that he should be able to order an assessor either to justify the comparative under-assessment on the unappealed properties referred to or else order the elimination of the comparable under-assessment. (This would require an amendment to, and an extension of, Section 72 of the Assessment Act.) Accordingly, an assessment appeal tribunal should be able to exceed the confines of individual cases to ensure generally equitable assessment. It should not be expected of an individual quantum appellant that he prove, using the assessors' own undisclosed formulae, that certain specified properties similar to his own are under-assessed and should have their assessment increased. An appellant should be required only to demonstrate that a serious inequity may exist, which should be impartially remedied whether it means his own assessment will be lowered or someone else's will be raised.

A further clouding of this issue has arisen as a result of the February, 1966, mass adjournment of quantum assessment appeals in the Ramsden Park area of Ward 3 by the (York) County Court Judge. The conditions of this adjournment require a general re-examination of the 1965 assessment in the Ramsden Park area by a committee of three assessors (along with certain appellants). The confines of individual appeals thus have been exceeded in so far as the over-assessment in this particular area is concerned. Apparently, no provision has been made for correcting the comparative *under-assessment* in other areas which the Court of Revision told appellants was a major source of inequity. Further adjustment in assessment in the Ramsden Park area beyond that which the Court of Revision has already made (see Table VII) may result in an equitable assessment within the Ramsden Park area. Yet if the result is further reductions in assessment, it will mean the County Judge has contradicted the comparative under-assessment principle referred to so frequently by the Commissioner of the Court of Revision. Even if this is not the case, such a large-scale assessment deal after the return of the assessment roll should be related to the assessment levels in surrounding comparable areas only where those levels are themselves proper.

Inconsistent and obscure principles of evidence place the quantum assessment appellant at an unfair disadvantage. This disadvantage is increased by the current practice of assessment tribunals regarding the onus of proof, which has been placed on the appellant even though there is no explicit mention of onus in the Assessment Act. The result is that an appellant must develop a *prima facie* case before the assessor need present any justification of the existing assessment. With very loose principles of evidence regulating quantum hearings, assessors may pick and choose what forms of evidence to present to a tribunal. As a result,

elements of the appellant's case may be thrown into doubt without an actual justification of the existing assessment. Often, a hearing constitutes a desultory exchange of vague generalities, highly selective data, and assessors' jargon between the tribunal and the assessor(s), interspersed with occasional and frequently misleading questions to the appellant.*

It seems only fair to require an assessor to fully justify a given assessment or group of assessments once the appellant has presented a reasonable (although not necessarily *prima facie*) case. Although such a policy would not appear to violate Ontario assessment legislation, it may be necessary to explicitly amend Section 72 of the Assessment Act for this purpose. The rather haphazard current approach to quantum assessment appeals might be remedied if assessment appeal was centralized as discussed above. Even if this were achieved, however, the matters of evidence and onus would still require attention, and the present assumption that the level of assessment is correct unless conclusively proven otherwise would need to be modified. Also, sufficient data and readily applicable assessment formulae should be made centrally available in Metro to assist the quantum appellant in making his case within the very short appeal periods currently allowed.

Furthermore, the question of an assessment "ombudsman" should be discussed. The City of Toronto recently decided to

hire such an official to assist ratepayers in their search for assessment information and explanation. His annual salary was set at \$5,292 — about one-fourth of the Assessment Commissioner's salary, whose expertise an ombudsman would have to question (at least in theory) on occasion.

There is some confusion as to what the term ombudsman implies. An ombudsman is not simply a functionary who, in the words of one Toronto Controller, "can direct people through the right doors." On the other hand, the New Zealand ombudsman has recently stated that it is a bad principle for an ombudsman to infringe upon any existing machinery for redress from administrative decisions. The kind of official who could assist quantum assessment appellants in Metro lies between these two concepts of ombudsman. He would be an official capable of conducting assessment research from an independent vantage point and of appearing before appeal tribunals in support of *bona fide* appeals. The person obtainable at a \$5,292 starting salary would not be such an official and, in fact, is not needed in the City of Toronto. The City ratepayer is already served by officials who preside over the assessment rolls, and he can receive a great deal of basic explanation and direction from these officials. Moreover, given a number of basic reforms in current assessment practice and appeal procedure, even a properly-equipped assessment ombudsman would become unnecessary.

*One such question was: "Do you let rooms?" The answer to this question did not affect the general reductions in land assessment which the Commissioner himself ultimately made in Ward 3 and 4 — even on (R4) streets. Selective data is usually presented by assessors in the form of isolated sales figures without any reference to the full normal sales picture on the street or block concerned. An illustration of unexplained jargon involved the following (Commissioner to assessor): "Well if you do an 'economic' the assessment looks about 1/3 of its value."

Recommendations

1. ASSESSMENT ADMINISTRATION SHOULD BE MORE CENTRALIZED THROUGHOUT ONTARIO, AND THE BASIS OF ASSESSMENT VALUATION SHOULD BE CLEARLY DEFINED.

Given the need for maintaining assessment objectively and standardization within and between Ontario's counties and municipalities, as well as the need for increasing the qualifications and career possibilities of assessors themselves, the Province of Ontario should accelerate its present effort to control municipal assessment. It is strange that the Province, which is currently absorbing more and more traditionally municipal responsibilities, has shown such restraint with respect to a technical tax base function. Because of the historical semi-independence of the assessment official and the assessment judgement, the assessment function is a grey area between local and provincial government. The Bureau supports a Canadian and American trend* in urging that certain aspects of the assessment function be centralized in a single Provincial Assessment Office. Included in these aspects should be province-wide administration of assessment manuals, specific determination and disclosure of assessment equity and techniques, mandatory training and licensing of assessors, establishment of province-wide assessment career lines, assessment and appraisal research, and the supervision of an independent municipal census. Al-

though Metro creates special assessment problems, it should be borne in mind that the Assessment Division of the D.M.A., located in Metro, is never far from Metro's "special problems."

Moreover, assessment centralization in Ontario should be accompanied by a concerted effort to clarify the basis of assessment valuation. Such concepts as "actual" value, "present" use, "value-added," "normal" sale and "any other consideration" must be given more precise meaning if assessment is to be truly equitable and understandable to the ratepayer. It should be emphasized that the most equitable, comparable, and understandable assessment is one based on full value (within a 20% range) as measured by actual or systematically estimated sale value. Given the impossibility of submitting a full-value assessment on almost 500,000 properties by a fixed date, and given the "abnormality" of speculative and expropriation sales, even a full-value assessment will be dated and proportional. The point is that the data should be as recent as possible, the proportion should be as near to full-value as possible, and the formulae used to assess should be similar to the formulae used in professional appraisal. A shift to full value (possibly based on average values over a three-year period), or a revised proportional assessment, would have to be uniform and accompanied by a proportional reduction of mill rates and adjustment in the base for provincial grants to municipalities.

If proportional assessment is to be retained in Ontario, the Province should make a sincere attempt to stipulate a standard and near-to-full value proportion and a maximum acceptable deviation from that proportion. Should a single province-wide proportion prove impracticable, the Assessment Act could be amended to provide a minimum acceptable proportion of sales value. This could be exceeded each assessment period only by a municipal by-law subject to provincially supervised tests of assessment equity.

There is no need for the D.M.A. to be secretive about the results and methods used in its annual assessment/sales spot-check.* Detailed ASR figures and other measures of inter- and intra-municipal assessment equity should be disclosed annually to local assessors and ratepayers alike by the D.M.A.'s Assessment Division.

A centralized and rationalized Ontario assessment cannot be accomplished overnight. The basic changes required will have to be imposed systematically and openly over a period of time. It should not be left to local assessors in any jurisdiction to phase in assessment updating and reform at will. Moreover, the "capital" system itself may require searching examination before reforms will be effective and equitable. This is particularly true of the "present" use difficulty and the value-added (as opposed to cost) approach to building assessment. It must be set down more precisely in the Act to what extent "present" use should modify an assessor's judgement of "actual" value on properties on unstable and transitional residential streets. Also, it must be established whether "present" use means "existing" use, "highest probable" use or "zoned" use in the determination of land assessment.

*In 1958, for example, the then Deputy-Minister said it was not D.M.A. policy to reveal details of its "equalization" check in reply to a specific request for such details from Metro Council. (Metro Council Minutes, 1958, Item 154).

2. AN ASSESSMENT COMMISSIONER'S REPORT SHOULD BE SUBMITTED TO THE DEPARTMENT OF MUNICIPAL AFFAIRS AND MUNICIPAL COUNCIL(S) AFTER EACH ASSESSMENT PERIOD.

If municipalities are to continue to levy realty taxes responsibly, appoint assessment personnel, and pay the costs of assessment administration, municipal councils should receive a full assessment commissioner's report at the end of each assessment period. This report should be submitted to the D.M.A. as well. Included in such a report would be area-by-area details of assessment totals and an account of the equity of assessment levels. The commissioner's report, in combination with provincially supplied data, would point out differential assessment where it exists and would help ratepayers understand current assessment levels and the methods of arriving at them. It would serve also to reduce the obscurity and sense of injustice and arbitrariness which now produces the greater part of the recurrent assessment controversy. And such a report would tend to foster beneficial legislative debate on the justice and consequences of whatever differential assessment was being retained in the Province and the municipality(ies) concerned.

3. METRO SHOULD BE REQUIRED TO SYSTEMATICALLY ADOPT THE ONTARIO ASSESSMENT MANUALS.

It seems an obvious reform for Metro to adopt the D.M.A.'s recent *Handbook of Cost Factors* (1963) and accompanying *Appraisal Notes* (1964). This has been widely recommended and the Bu-

*Alberta, British Columbia, and, beginning in 1966, New Brunswick, to a greater or lesser extent have centralized the property valuation aspect of assessment. A number of American states have begun to do the same, while others have made their assessment legislation much more precise in recent years. The Advisory Committee on Intergovernmental Relations of the United States Congress in its 1966 *State Legislative Program* recommends that states legislate at least a minimum ASR and that state assessment offices provide the data necessary to enforce equity in assessment levels.

reau strongly supports the recommendation. The Bureau suggests that, in Metro, the manuals take precedence in the sense envisaged by the 1965 enabling legislation, which reads: "Where there is any conflict between any provision of section 35 and any provision of the manuals as they may be changed by any regulation, the provision of the manuals prevails" (Section 21-3, Assessment Act). The Bureau warns that any attempt to phase a 1962 base year into Metro's assessment should be systematic, fully disclosed, and under provincial supervision. If this is not the case, Metro's already obscure assessment formulae will become even more so. Moreover, even if the manuals are properly implemented, they will have to be converted to the actual assessment year by local assessors and be systematically and frequently revised by the Province itself. (The previous provincial manual was dated 1954.)

4. A SINGLE LEVEL OF REALTY ASSESSMENT SHOULD BE ADOPTED IN METRO UNLESS OTHERWISE EXPLICITLY STIPULATED IN THE ASSESSMENT ACT.

A single assessment level should apply to all forms of residential property. Currently, apartments are assessed at up to 50% more than low-density residences based on median ASR comparisons of recent typical sales. This is reflected in rent levels, and is unfair to apartment tenants. Moreover, apartment tenants (who are, after all, indirect ratepayers) should be given information which would assist them in calculating the equity of their assessment level and tax burden *vis-a-vis* homeowners.

*At a recent meeting of the assessment sub-committee of the City of Toronto Committee on Welfare, Housing, Fire and Legislation, the assessment commissioner stated that his work-load would prevent him from implementing the results of research into the town-house problem alone until the 1967 assessment roll.

5. METRO SHOULD INSTITUTE A FOUR- OR FIVE-YEAR SPECIAL REASSESSMENT TO TAKE EFFECT AT THE END OF THE FOURTH OR FIFTH YEAR RESPECTIVELY.

A special reassessment in Metro supervised by an independent reassessment board certainly will be required if systematic assessment reform is to take place. This bulletin has already demonstrated the degree of inequity and obscurity that can result from piecemeal reassessment in the form of partial annual updating of assessment. A *special* reassessment (with a period of fixed assessment) is needed to correct these inequities and to avoid further ones which would result from piecemeal reform. The Bureau estimates that such a special reassessment would take four or five years.* Assessment officials of course would retain the right to add to and supplement the assessment roll. A general reassessment, at or close to full value, would result in proportional mill rate reductions. Any ensuing sharp increases in taxation could be phased over a two- or three-year period.

6. FOLLOWING THE SPECIAL REASSESSMENT, METRO SHOULD BE PERMITTED TO COMPLETE ITS ASSESSMENT ROLL EVERY THREE YEARS RATHER THAN ANNUALLY.

A three year assessment period would be sufficient to achieve an effective general assessment of Metro without removing the assessor's right to add to and supplement the roll. Given an effective special reassessment as recommended

above, increases in assessment should not be sharp over any given three year period. They would be far below the 50% increases recently experienced in parts of Toronto's Ward 3 where the general assessment level has not been updated for at least 12 years. Further, a three-year assessment period need not distort annual census estimates by assessment officials, since they can be based on an effective sample survey.

7. THERE SHOULD BE AN IMMEDIATE GENERAL ADJUSTMENT OF RESIDENTIAL ASSESSMENTS IN CENTRAL TORONTO.

Our analysis and the data presented recently to the assessment appeal tribunals show that there are substantial inequities of assessment level within similar categories of property in central Toronto. These amount to as much as 15% on equivalent properties within certain streets after Court of Revision adjustments (see Table 4). Since these differences stem largely from the generally applied rate of land assessment, (where the variation was 50%) individual appeals cannot correct or equalize the situation. Moreover, it should be indicated whether the basic inequity has resulted from comparative over-assessment or comparative under-assessment. The adjustment required should be related directly to assessment levels throughout Metro.

8. QUANTUM ASSESSMENT APPEAL SHOULD BE CENTRALIZED IN ONTARIO.

A centralized two-level tribunal is needed to achieve the degree of competence, standardization and rationalization that is lacking in the current system. This system, involving the Court of Revision and the County Judge, could be retained for assessment appeals on matters of fact other than over-assessment itself.

9. PRINCIPLES OF EVIDENCE SHOULD BE RATIONALIZED AND THE ONUS OF PROOF SHOULD BE SHARED IN QUANTUM ASSESSMENT APPEALS.

Once an appellant has presented a reasonable case of assessment inequity (whether it involves over- or under-assessment) based on consistent and disclosed assessment formulae applying throughout Metro, assessment officials should be required to fully satisfy the tribunal using the same kind of evidence that no significant inequity exists. Failing this, assessment officials should be required to make necessary adjustments whether or not they concern the subject property. Where they affect properties other than those appealed, owners concerned should be given a full explanation and be permitted to appeal such adjustments.

10. THE TIME PERIOD BETWEEN THE RETURN OF THE ASSESSMENT ROLL AND THE FIRST HEARING OF QUANTUM ASSESSMENT APPEALS SHOULD BE EXTENDED.

This could be accomplished most easily by combining the local level of quantum assessment appeal as suggested in the recommendation for centralization.

11. A CENTRAL RECORD OF ASSESSMENT AND ASSESSMENT APPEAL DATA SHOULD BE KEPT IN METRO.

Assessment data centralization in Metro should not be prevented by the fact that taxation itself is a local rather than a metropolitan responsibility. Since the Metro level is responsible for assessment, the Metro Clerk should have a duplicate set of assessment rolls currently returned only to local municipal clerks. This would greatly facilitate assessment-based financial research, and would enable rate-

payers in one part of Metro to compare their assessments with those in other parts of Metro by going to a central location.

12. A PROVINCIAL ROYAL COMMISSION ON URBAN LAND SHOULD BE CONSIDERED.

Such a commission could undertake a comprehensive and independent study

into the interaction of the public and private sectors in the development of our urban and metropolitan land. One of its central concerns could be an examination of current realty assessment and taxation and their relationship with public zoning, development, and expropriation policies. Specific areas of research would be suggested by the revelant findings of the soon-to-report Ontario Committee on Taxation.

APPENDIX: HOW RESIDENTIAL PROPERTIES ARE ASSESSED IN METRO

Low-density Properties

Building Assessment

- 1940 replacement cost (formulae undisclosed).
- Depreciation is usually mathematically calculated, but most older houses have not been reassessed for many years.
- A $\frac{1}{2}\%$ allowance is made for new (post-war) fixed labour costs and new building materials (18 $\frac{1}{2}\%$ and 27 $\frac{1}{2}\%$ respectively).
- Alterations which "increase usable space," "prolong building life," increase family occupancy potential — i.e. increased plumbing — and generally require a building permit will increase assessment subject to the assessor's discretion as to their effect on sale value. Redecoration and alterations deemed "replacements," including a new roof and a change in interior walls are supposed to be exempted (from assessment) in current practice.

Land Assessment

- Unless there are special corner, alley or lot shape influences, generally a front-foot rate for a standard depth adjusted according to depth variation tables.
- Rate is either based on "about $\frac{1}{2}\%$ " of vacant lot sales in area or calculated as a residual as noted under "Total Assessment."
- Rate is supposed to depend on the highest zoned use if properties in area are selling for or already constitute that use. (Property must be large enough to sell for highest use.)
- Rate is "up-dated" periodically as discussed below.

Total Assessment

- Total of land + building(s). However, this is periodically adjusted as follows: A proper assessment is currently assumed to be "about $\frac{1}{2}\%$ " of a recent "normal" sale. This represents approximate 1940 value. Sales resulting from pressure, financial manipulation, or rezoning speculation are not considered to be "normal." "Normal" sales are periodically examined in an area, the proper assessment is determined on the properties concerned and from the latter the building assessment is subtracted yielding a new land assessment rate as a residual. The land assessment rate is then applied generally, thereby changing all land and total assessments in the area. Residual reassessment occurred in 1965 in the Ramsden Park and Annex areas of the City of Toronto where there are a large number of unstable and transitional low-density residential streets and a large volume of "normal" sales.

Current ASR* Range

20 $\frac{1}{2}\%$ - 40 $\frac{1}{2}\%$

Apartment Properties

- Replacement cost formulae similar to those used for low-density properties can be used (when they are, however, the allowance for new materials is 52 $\frac{1}{2}\%$). Building assessment, however, is usually calculated as a residual.

- Usually derived directly as a $\frac{1}{2}\%$ of recent lot price on property concerned or from a general front-foot rate applicable to the apartment area concerned. (Can be calculated as a residual when building value known.)

- Can be total of land and building assessment as directly calculated, is usually a $\frac{1}{2}\%$ of present capitalized value or the "economic" value. Although the capitalization rate is applied to net rental income after allowing for costs, vacancy rates, and management standards, the assessment itself is currently not supposed to exceed a gross rent multiplier of three times.

40 $\frac{1}{2}\%$ - 60 $\frac{1}{2}\%$

*Assessment/Sales Ratio.



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