

MZ INDIVIDUAL LAND RATE MODEL

I have openly stated that we need to find a rate model that is fair and equitable and in particular to find a solution to the never-ending debate about which rate model is the best.

Is it AAV? (assessed Annual Value) Many think not as it penalises improvements and have suggested that it is an impediment to investment and has other flaws. It has become outdated.

A refinement on AAV is the Brighton Model? This model is based on the AAV on commercial properties and a flat rate on residential. The disadvantage is that any capital improvements in the commercial sector will see a dramatic increase through the AAV system. So this also has its drawbacks.

How about a capital value only model? The list could go on and on.

The fundamental flaw in such models (AAV and capital models) is that it acts as a deterrent for property owners to develop and or make capital improvements to their property, since it will impact on their future rates.

I believe that we should encourage capital improvements without being penalised for it.

The only way to achieve this is through a “land value only” rate system. In the past the major obstacle has been how to make that transition without heavily penalising existing rate payers. An immediate move to such a system would have residential owners, some 80% of the rate base, having to pay a much higher level of rates.

So what is needed is a model that does not cost shift but provides a pathway towards change.

The model that I have developed will provide a mechanism for anyone to further develop their property add capital value without being penalised.

Where did this model come from? A little back ground first and then the detail.

Over the past few years the Hobart City Council has been modelling a number of rate options. However, every option end up with winners and losers and that would not be a fair and reasonable way to go forward.

The residential sector being some seventeen thousand households out of twenty thousand would be some 31% worse off. On the other hand the cost shift would benefit the commercial sector. This option could occur as part of a transition period over a number of years but ultimately the residential sector paying the price.

So the question remains: how to move to a land based model and avoid a feud?

The solution is based on everyone remaining on the existing rate payment. Whatever the rate is now is used as the base for a “land value only” rate model.

I will provide an example based on a current rate bill.

(Say) Land Value	(Say) Current Rate bill	Percentage factor
\$300.000.00	\$7000.00	2.33%

The 2.33% forms the “percentage rate base” for that individual parcel of land

As land only value increases as does the Council rate multiplied by the percentage.

Example

Revalue of Land \$325,000 X 2.33 % = \$7572 (new rate)

Another example:

Say) Land Value	(Say) Current Rate bill	Percentage factor
\$250.000.00	\$3000.00	1.20%

Revalue of Land \$275,000 X 1.20% = \$3300 (new rate)

I have done modelling on a number of examples with lower and higher land values and current rates paid.

This model is specific to each and every parcel of land. I have also spoken to a number of property owners, developers and industry personnel and have received positive responses and support. Their view has been that the approach needs to be given serious consideration.

A number of questions have been asked

What about vacant land that has no improvements on it?

You average out the immediate developed land around the land divide it by the square meter and apply it to the undeveloped land for a percentage factor.

What if there is no land value increase and Council needs to balance the budget?

Any new model would require legislation changes, as part of the legislation the following to form part of the Legislation

- Councils may increase rates at no more that 1.5% above CPI
 - This will ensure Councils are prudent in their budgeting
- Unforeseen or special circumstances

- Councils would require Ministerial dispensation and must put a case forward to the relevant Minister to strike a special rate for a “period of time”

The above are examples that would need to be considered as part of a review but the model has some real advantages.

Such a rate model will provide the opportunity for the housing and commercial sector to benefit whereby no capital improvements would incur any rate spike and both sectors would be able to stimulate the economy and provide much needed GST revenue to the State.

A commercial property owner could re-develop an existing property (of course subject to planning and building regulations) and would not be penalised in doing so.

A home owner could redevelop their home without it affecting their rate base, again providing economic activity and wealth to the home owner without detriment.

The issues foreseen are pensioners, low income families and self funded retirees that are currently hurting. This will not increase their rates nor provide relief and I consider that some form of rate rebate could be forthcoming from the State if in fact this rate model delivers economic activity as I predict it will and that equates to GST revenue for the State.

I have developed a spreadsheet that will calculate a number of scenarios from current land value to future land value increases and also considering a possible CPI increases.

The State Government is presently considering the Rate Review as part of the changes to the Local Government Act. This model should be given serious consideration as part of that review.

This may or may not end up being the ultimately solution but rather than do nothing or make promise's that cannot be achieved, I have endeavoured to work towards finding a solution with ideas based on probable's rather than sit on it and maybe the issue would fade away and so will possible opportunities.

To this end I will be presenting it to Council for their evaluation and endorsement, and remain very positive of an outcome.

Marti Zucco