

PROPERTY TAX POLICY AND LAND USE OBJECTIVES IN WINNIPEG:
AN ANALYSIS OF MUNICIPAL POLICY COHESION

by

David Michael Ediger

A thesis
presented to the University of Manitoba
in partial fulfillment of the
requirements for the degree of
Master of City Planning
in

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*** ABSTRACT ***

The thesis examines the relative cohesion between two aspects of municipal policy in Winnipeg: property tax policy and land use policy. The development and administration of local tax policy are documented and reviewed in light of the overall objectives of property taxation systems. In this regard, tax policy in Winnipeg is found to be deficient from the perspective of traditional principles of equity, ability to pay (regressiveness), and benefit for services. Local tax policy is then analyzed in terms of its impacts on land use and development. These effects are in turn compared to current land use objectives to determine the degree of cohesiveness between the two functions of local government.

Findings indicate that there is an inequitable distribution of the tax burden in the city that creates regions of tax favourability from the perspective of land use and development. Tax policy encourages new residential and commercial development in the suburbs, and places a high tax burden on older structures in older neighbourhoods. This trend is found to be in direct opposition to the policy direction of land use objectives contained in Plan Winnipeg. It is concluded that little, if any, cohesion exists between tax policy and land use policy in Winnipeg. In light of this, suggestions are made to create a means of establishing cohesive taxation and land use policy, and to create a more coordinated mechanism for the delivery of the two municipal functions in Winnipeg.

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Property taxation is a subject area that can have many pitfalls and permutations. There are several people who have helped me chart a path through this treacherous field, and to whom I am indebted:

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Property taxation is a subject area that can become confusing at times. I am very much indebted to my readers who gave me support and encouragement along the way:

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Chapter I

PROPERTY TAXATION AND THE URBAN ENVIRONMENT

Taxes are a force of immense power over the spirit of men. Tax policy can induce men to work hard, to risk fortunes, to take chances on the expectation of success and profit... Almost every form of tax that is encountered by each of us during the span of a lifetime affects the land. The use, appearance, cost, value, and owner are all influenced by them... They influence the quality of commercial buildings all over America. More than any other single force in our society, taxes control the appearance of our communities... Landowners, building owners, land developers, land speculators, and land investors act in response to the dictates of tax policy.¹

-- Peter Wolf --

1.1 Introduction to Thesis

Of special interest to city planners and urban strategists of various kinds are the many forces that shape and control the urban environment. One of these forces is the property tax, or the claim of the public treasury on the ownership of urban land. Land use planning also represents a public claim on that land, it sets out to regulate how and for what purpose land can be used. To a certain extent these two functions are inter-related, land use influences taxation and taxation has effects on land use.

¹ Land in America (Pantheon Books: N.Y., 1981), p. 102.

• Purpose

On a very general level, the purpose for writing this thesis is to explore the relationships between two separate and yet inextricably linked functions of local government: property taxation and urban planning. Though taxation is widely recognized as an important factor in urban development, it is an area that is often avoided by planning scholars and misunderstood by professional planners themselves. On the policy level, it is often the case that elected representatives are unaware of the fact that local tax policy can work at cross-purposes to the established goals and objectives local land use planning initiatives.

Specifically, the purpose of this thesis is to examine the development of property tax policy and assessment administration in the City of Winnipeg to determine the impacts of property taxation on land use and development, and to determine whether these impacts are consistent with current land use objectives in the city.

• Definitions: Property Taxation and Tax Assessment

The **property tax** in Canada and the United States is an ad valorem tax based on real and personal property. As such, it can be described as a charge imposed by a legislated taxing authority on owners of property within a prescribed tax jurisdiction. It is based on the current or market value of that property. Thus the term **property taxation** refers to

the imposition and subsequent collection of the property tax as a means of generating revenues to defray the costs of public services.

Property **tax assessment** is a distinct procedure within the property taxation process. Assessment refers to the valuation of real and personal property for the purpose of systematically and equitably imposing the property tax. In effect it distributes the tax burden among property owners. The assessment of individual properties is essential for determining the **tax base** or sum total of the values of all taxable properties within a tax jurisdiction. Property tax assessment is thus only one administrative step in the property taxation process, and the two should not be confused or used interchangeably.

Similar to other functions of local government, property taxation includes a legislative or policy-directive dimension, as well as an administrative structure to implement those directives. One way of keeping the distinction between taxation and assessment clear is to view assessment as a single function in the administration of the property tax, and to view property taxation as a legislative function of local government officials within the context of municipal fiscal policy.

1.1.1 Statement of the Problem

Property taxes exert pressures which influence land use decisions and urban development. The administration of the present system of property taxation has direct effects on land use which in turn affect locational choices for specific uses as well as the spatial distribution of urban resources. The establishment of tax policy and assessment procedures within the municipal fiscal context affects the goals and priorities of urban development. This creates an opportunity for conflict between land use planning goals and assessment policy.

• Objectives

To set a mandate for his work in the 1960's, William Joseph Beeman wrote the following:

Urban planners need to know how urban institutions, such as the property tax, affect efficiency in the allocation of urban land and the spatial pattern of growth. Urban experts have recognized the necessity of identifying and quantifying the factors that shape decisions involving land use and investment in urban real estate. The property tax is one of those factors, but until now it has rarely been studied in this context.²

Beeman makes three important points: 1) we need to know how property taxation affects land use and planning; 2) we need to know to what extent property taxes affect land-use and planning; and 3) we don't know enough in general about the

² William Joseph Beeman, The Property Tax and the Spatial Pattern of Growth Within Urban Areas, (Urban Land Institute: Washington, 1969), p.12.

relationship between taxation and planning.

To guide this inquiry, the following specific objectives have been set:

1. to examine the establishment of assessment policy in Winnipeg and document its effects on the process of urban development.
2. to analyze the distribution of the tax burden in Winnipeg to determine the implications of that system on land use decisions.
3. to explore the supposed conflict between the goals of municipal tax policy and those of land use planning in order to examine ways of reducing that conflict.

• Organization

Chapter One of the thesis will serve as an introduction to the study. It will include a formal statement of the problem as well as an introduction to the general relationship between property taxation and land use. A review of literature pertaining to the effects of property taxation on urban development will set the thesis into context with other studies.

Chapter Two of the thesis will review the historical development of the property tax system in Canada. The chapter will also include a short section on the role of taxation in the context of municipal government, particularly as an important element of municipal fiscal policy. Finally, it will present the theoretical underpinnings of property tax systems, and set the criteria for evaluating an effective tax base.

Chapter Three of the thesis will examine the development of tax policy in Winnipeg. It will include a review of legislated policy within the City of Winnipeg Act, as well as administrative and procedural policies of the Winnipeg Assessment Office. Finally, a brief evaluation of tax policy in Winnipeg will be presented in light of the theoretical objectives outlined in Chapter Two.

Chapter Four of the thesis will outline the current land use and development policies now in place in Winnipeg. It will include an introduction to Plan Winnipeg, and an outline of the major land use policy directives contained within the plan.

Chapter Five will establish an analytical model for monitoring the effects of property taxation on land use and development in Winnipeg. This will require the selection of case study areas and the collection of assessment data from within those areas. These effects will be analyzed in the context of current land use policy as established in Chapter Four. Conclusions will then be made with respect to the relative cohesion between the development effects of tax policy and existing land use policy.

Chapter Six will provide a discussion of the results of the previous chapter. Based on the findings, some recommendations can be made concerning whether or not property taxation can be made more consistent with land use planning objectives in Winnipeg. Some general suggestions can also

be made toward the creation of a greater degree of policy coordination between these two municipal functions. Finally a model for a tax-supported planning program will be posited.

1.1.2 Orientation and Parameters

The thesis will be approached from a planning perspective with interest in discovering more about how tax policy affects planning and the realization of land use policies. It will accept as a basic premise that property taxation as we know it is a well established municipal institution that will likely continue to function in our cities relatively unchanged for some time.³ The thesis will therefore be a positive one in that it looks at what the relationships are between planning and property taxation, and will explore ways in which inherent policy conflicts between the two functions can be minimized.

In singling out property taxation from the municipal policy realm, it may be argued that tax policy itself cannot be studied in isolation from the service delivery or expenditure side of fiscal policy. That is, if taxation is directly related to the services it finances, then a relationship between taxation and land use would not be the issue; rather the issue would be whether a relationship exists between expenditure policy and land use policy. In Winnipeg, however, there is no direct linkage between how money is raised

³ As supported by the Manitoba Assessment Review Committee findings in A Fair Way To Share, published in 1972.

(taxation) and where it is spent. In fact, the vast proportion of tax revenues are consumed by the current budget which covers day-to-day administrative costs of running the city. In other words, taxes are treated as general revenues, they have no direct destination on the expenditure side. This means that it is possible to focus on the relationship between taxation and land use without focussing with equal weight on the fiscal budgetary process.

A study of the effects of taxation on land use must achieve some degree of focus to ensure proper scale. It would be unwieldy to analyze all aspects of local tax policy and their consequent impacts on urban land use. In so saying, this thesis will focus on tax policy as it relates to property valuation and assessment administration in Winnipeg to the exclusion of elements such as property tax exemption policy, school tax levies, and local tax incentive programs. This is not to deny the importance of these policy areas to land use and development; on the contrary, each would require a study of thesis proportion to handle properly. As a result, they must be set aside at the outset.

The study will confine itself to one municipal jurisdiction, that being the City of Winnipeg. It has been stated that there are as many property tax systems as there are local tax jurisdictions. This implies that each jurisdiction is unique; each has its own legislated provisions and administrative mechanisms which effectively precludes com-

prehensive inter-urban comparisons. Some general principles may apply, however, to other major Canadian cities.

• Summary

The property tax is a force which acts on the composition of the urban landscape; it affects its physical development and its decision-making process. It is a force that must be more clearly understood by planners and municipal decision-makers. According to a report issued by the Bureau of Municipal Research in Toronto,

The property tax exerts numerous pressures on land development. For the most part these pressures have been unintended and remain uninvestigated with empirical data. Yet it is the conclusion of this bulletin that many of these side-effects produce sub-optimal land use patterns, which, in most cases, conflict directly with sound urban planning principles.⁴

Steps must be taken to create more coordination between land use planning and fiscal policy planning through property taxation.

1.2 Taxation and Development: Literature Review

Over its history, property taxation has been the subject of considerable critical attention. Generally, criticism and analysis of the property tax has fallen into three major streams. Firstly, there are those who attack the tax on the grounds of its revenue generating capacity; on its ability

⁴ Property Taxation and Land Development, (Bureau of Municipal Research, Toronto, 1973), p.5.

to provide necessary funds for local public expenditures. Secondly, property taxation has been scrutinized from the perspective of equity; its critics focusing attention on the distributional effects of the present system. Thirdly, and perhaps most recently, scholarly attention has been focussed on the effects of property taxation on the urban environment. This section will focus on the latter of the three streams of critical analysis of the property tax.

Interest in property taxation and urban development has been increasing in recent years as fiscal resources are under mounting stress from proliferating service demands at the local level. Pressure on the property tax to meet escalating service demands has affected how urban planning priorities are established on the level of public decision-making, as well as how investment decisions are made in the private sector.

Independent studies examining the effects of taxation on the urban environment are varied in scope and in degree. As a result, the literature relating to the impacts of property taxes on urban development can be described as somewhat ad hoc in nature; that is, some studies look at specific impacts on particular sectors of urban development, such as housing for instance, while other studies look at larger trends such as the effects of taxation on demographic migration patterns.

From a review of pertinent literature in this area, the impacts of property taxation on the process of urban development can be organized in the following way. Firstly, property taxation can have broad inter-urban impacts on the national or macro level. Secondly, taxation can have impacts within the urban area, or on an intermediate or intra-city level. And finally, taxation can affect the development of particular projects on a site-specific or micro level. The following section will catalogue some of the major impacts of property taxation as derived from current literature organized according to these three levels of impact.

1.2.1 Inter-Urban Effects

• Demographic Migration

According to Pearl M. Kamer, the current fiscal problems associated with the eroding tax bases of large American cities has contributed to "the general shift of population and economic activity from the 'snowbelt' to the 'sunbelt'."⁵ Kamer examined the dynamics of this shift in a study of thirty-eight American cities which compares, among other fiscal indicators, the population growth rates and the growth of property tax revenues of northern and southern American cities. She also noticed a trend of in-migration of rural southerners into declining northern central cities

⁵ Pearl M. Kamer, Crisis in Urban Public Finance (Praeger: N.Y., 1983), p.2.

which increased demands in areas such as education, welfare, and health care. Concurrent to this in-flow was the exodus of middle income residents and businesses to sunbelt areas which featured less congestion, pollution and high rents associated with northern cities. The move southward was facilitated by changes in technology which reduced the necessity of businesses to be located near urban centres. These shifts accelerated the erosion of northern municipal tax bases and drained northern cities of their most productive workers and businesses.⁶

• Shrinking Local Autonomy

The decline of the revenue producing capacity of the property tax system has necessitated a greater dependency on senior level transfers as a means of financing local expenditures. In terms of urban development, this dependence on federal level support has begun to undermine local autonomy in the formulation of policies and programs. The logic is that local governments enjoy less control of the expenditure side of fiscal planning as sources of internally generated revenues fail to keep pace with public service demands at the local level.

⁶ This trend is also summarized in Irene S. Rubin, Running in the Red: The Political Dynamics of Urban Fiscal Stress (State University of N.Y. Press: Albany), p.5-9. In this work she calls this trend the "migration and tax base erosion" model.

The growth of municipal transfers is primarily a Canadian response to the dilemma of insufficient revenues at the local level.⁷ According to a report issued by the Canadian Federation of Mayors and Municipalities, such a dependence can "destroy [the] accountability and autonomy of the recipient government."⁸ Local governments claim that they can barely generate the revenues needed for maintenance of hard services, and are almost wholly dependant on other sources of funding for major development projects.⁹ Whether this is in fact as great a problem as local government officials suggest is a matter of debate. As we shall see, local governments have much to do in improving their existing revenue sources before they can legitimately make a claim for more.

1.2.2 Intra-City Effects

• Inner City Deterioration / Suburban Migration

Perhaps the most significant impact of property taxation on large cities is its contributing force toward downtown deterioration. As noted by the Bureau of Municipal

⁷ In the U.S. experience, federal initiatives to reduce inter-governmental aid in the form of block grants has been a policy of the Reagan administration, placing the responsibility for local aid on the state level. See Kammer, p.56-60.

⁸ "Puppets on a Shoe-string: The Effects on Municipal Government of Canada's System of Public Finance" (Ottawa: April 26, 1976), p.29.

⁹ See Thomas J. Plunkett, "The Implications For Decision-Making of the Dependence on Conditional Grants From Senior Governments and the Property Tax", in Canadian Tax Foundation, 1973 Conference Report (Toronto, 1974), p. 618.

Research, "[i]n the central city, the conflict between local tax policy and land use goals is particularly acute."¹⁰ As the central work place for many of the city's residents, the central city demands an abnormally high level of services. In addition, as Wm. H. Oakland has discovered that in Baltimore, the situation is

...particularly problematic for this country[U.S.A.]'s central cities, which, because of significant shifts in the socio-economic characteristics of their residents, have experienced extraordinary increases in demands for their public services while experiencing substandard growth in their ability to finance them.¹¹

High tax rates are justified because of artificially high property values due to the locational advantages of the core, however those same tax rates are sufficient to drive many business and residents out of the core. As a result, the inner city is caught in a 'high tax rate, eroding tax base' cycle as low cost taxpayers (middle income residents and small businesses) flee to the suburbs leaving only high cost taxpayers (lower income residents, senior citizens, industry) in the core area.

¹⁰ Property Taxation and Land Use Development (Toronto, 1973), p.7.

¹¹ William H. Oakland, "Using the Property Tax to Pay For City Government," in George E. Peterson, ed., Property Tax Reform (Urban Land Institute: Washington, 1973), p.141.

• Demand for Housing

Studies indicate that property taxation can affect the housing market in two ways: by contributing to the input costs of new construction and by providing a disincentive for the renewal and maintenance of existing structures. According to Dick Netzer, "high property taxes effectively shrink the market for all types of improvement in the central city housing market... Fear of potential property tax increases can be a potential deterrent to improvements of central city residential properties."¹² George E. Peterson has monitored three impacts of property taxation on housing, particularly in the inner city. Firstly, it encourages a reduction in the average size of units to distribute as much as possible the shiftable portion of high tax rates; secondly, it encourages less maintenance and a general reduction in the quality of housing because of the built in disincentives that the present system has on improvements; and thirdly, taxation contributes to the number of abandoned structures in blighted areas which reduces the total number of units on the market."¹³ The net effect is to discourage investment in housing in high tax areas, shifting develop-

¹² Dick Netzer, Impact of the Property Tax (National Committee on Urban Problems, G.P.O.: Washington), 1968, p.223.

¹³ George E. Peterson, "The Property Tax and Lower-Income Housing Markets," in Property Tax Reform p.111. See also Norman A. Katz, Urban Neighborhoods: An Action Report on the Impact of Tax Assessment and Tax Development Policies, (Housing Conservation Committee: Chicago, 1978). Katz monitored the effects of assessment lag in Cook County on neighborhood decline and renewal.

ment toward lower tax suburban fringe areas.¹⁴

• **Spatial Allocation of Land Use**

It stands to reason that all things being equal, firms will relocate in lower tax areas. It has been demonstrated that the existing levels of property taxation affect the locational choice of residents, business and industry. According to N.T. Wang, "[t]he location of buildings, productive equipment, and similar man-made property can depend in part on differentials in taxation among communities or nations."¹⁵ As shall be examined further, the situation in Winnipeg is not so much affected by rate differentials as it is by antiquated assessment levels. The current system creates favourable tax treatment in areas which are clearly under valued due to out-dated assessment data.

1.2.3 Effects on Properties

• **Renewal and Maintenance Disincentive**

The property tax that falls on both land and buildings has been shown to have the effect of "penalizing" owners who want to improve their properties. In a definitive study,

¹⁴ See C.R. Bryant, et al., The City's Countryside (Longmans Press: N.Y., 1982), pp. 32-40.

¹⁵ N.T. Wang, Taxation and Development (Praeger: N.Y., 1976), p.7. Numerous specific studies support the effect of taxation on locational choice: see Norman A. Katz, Urban neighborhoods: An Action Report on Tax Assessment and Tax Assessment Policies (Housing Conservation Committee: Chicago, 1978); W.A. Morton, Housing Taxation (University of Wisconsin Press: Madison, 1955); C.R. Beaton and Y.P. Joun, The Effect of the Property Tax on Manufacturing Location (California, 1968).

Mary Rawson notes that taxation on improvements "evidently contributes ... to the deterioration of our cities by its inhibiting effect on building and capital investment."¹⁶ Generally, fear of an increase in assessments deters property owners from making needed improvements to their properties. According to proponents of the site value system, the current system of assessing both land and buildings in effect penalizes owners who want to make those improvements.

In a similar vein, the present system actually favours the holding of vacant land over the development of that parcel. This is supported by the findings of the Bureau of Municipal Research: "Since improvements (are) taxed, (there is) low incentive to build, maintain, refurbish; these would result in lower returns, higher assessments for core land owners."¹⁷ And finally, in stating a case for a 'land only' basis for property taxation, Mason Gaffney argues that:

Taxing buildings slows down the renewal and replacement of decayed and desolate buildings by new. Taxing land does just the opposite. It drains cash from the sleeping owner of underdeveloped land and presses him to improve or sell.¹⁸

¹⁶ in Property Taxation and Urban Development (Urban Land Institute: Washington, 1961.), p. 29. Rawson studies the effects of eradicating the tax on buildings in Burnaby, B.C.

¹⁷ Property Taxation and Land Development, p.7.

¹⁸ Mason Gaffney, "An Agenda for Strengthening the Property Tax" in George E. Patterson, Property Tax Reform (Brookings Institute: Washington, 1973), p.65.

• **Timing of Development, Allowable Densities**

It is widely acknowledged that property taxation can have a bearing on when a particular land parcel should be developed. This is chiefly done by establishing the level or intensity at which the development site shall be assessed. If a land parcel is to be assessed according to its 'highest and best possible use' as is the current policy of most property taxation systems in North America, the effect will be to actually encourage the development of that site. N.T. Wang explains:

If a tax is based on the value of land in its current use, as is often advocated on the grounds that otherwise the tax levied will be out of line with the revenues available to pay it, this will introduce a bias into decisions as to when to develop the property for a new use ... If [it is assessed at] full market value, the higher cost of holding it will induce development.¹⁹

The 'highest and best possible use' controversy becomes particularly problematic in the urban fringe areas as well as in the inner core area of the city. In the urban fringe, the development potential of surrounding agricultural land is recognized by speculators, and the values of such lands become inflated with respect to non-developable farm land. The recognition of the increased market values of this land by assessors creates a situation where the income from farming the land cannot economically support the higher tax rates, thus, a farmer is in a sense forced to sell to the developer.²⁰

¹⁹ N.T. Wang, Taxation and Development, p.20.

In the urban core, vacant land parcels with extremely high development potential also cause problems for municipal assessors. In this case, the recognition of the higher use potential of a site likewise encourages premature development and thus creates a shortage of open space in the central city.

Another impact of property taxation closely related to core development is that the high rate of central city taxation determines to a large extent the allowable densities of residential and commercial projects. It has been demonstrated that "only high densities can carry the tax burden," which creates a development vacuum between intensive, high-rise, new construction developments and old, deteriorating and unrefurbished structures.²¹ In a sense, then, the property tax rates within a city set the parameters for what kinds of developments will be economically viable to carry the tax burden.

1.3 Summary

Property taxes impact the urban environment on three levels. On the macro, or inter-jurisdictional level, property taxes can affect the migration of peoples from regions of high to lower effective tax rates. As yet this is chiefly

²⁰ See Bryant, Russworm and Maclellan, The City's Countryside, pp.17-30. See also Frederic D. Stocker, "Assessment of Land in Urban Fringe Areas" in Arthur D. Lynn Jr., The Property Tax and its Administration (U. of Wisconsin Press: Madison, 1976).

²¹ Property Taxation and Land Development, pp. 9-11.

an American phenomenon in the observed net-flow of peoples moving from 'snowbelt' to 'sunbelt' regions. The declining capacity of the property tax also influences the development of cities on a national level. Increasing dependence on senior level funding for financing local delivery of services creates a situation whereby local autonomy with respect to spending priorities is threatened and eroded by the conditional nature of government transfers. Property tax rates also contribute to competition among tax jurisdictions for opportunities for increasing the tax base. This leads to a proliferation of tax base incentives and enticement packages which enlarges the scope of disparity within and between tax jurisdictions.

On the intermediate or intra-city level, taxation disparities between the central city and the suburbs contribute to the out-flow of low cost (in terms of service consumption) citizens and businesses from the core area to the suburbs. This creates a high tax rate, eroding tax base spiral in the inner city, where tax contributions cannot keep pace with demands on municipal services. The existence of such tax disparity also influences the spatial allocation of land uses within the city as firms and industrial developments relocate in areas containing the greatest degree of tax advantages, most often in the suburbs. Similarly, the housing market is disaffected by high tax rates in that investment is discouraged in the central city. Only smaller

units, capitalizing on the economics of scale, can locate in the core. The amount of the tax burden that must be shifted to inner city tenants effectively precludes new, low income units from locating in the inner city without significant subsidies.

Property taxes also impact development on the micro, or site specific level. As an input cost for developers, taxation on improvements create inherent dis-incentives for the renewal and retrofitting of existing structures and discourages proper maintenance for individual property owners. Also, the use level at which property assessments are determined, that is, according to the current level of use or highest and best possible use, can have an effect on the timing of the development of that property.

Most of the literature surveyed reflect American studies of American conditions. These are arguably not the same as conditions in Canada; this due to the generally superior fiscal 'health' of the latter. It is important to understand the known effects of the tax, however, whether real or potential, before looking at the specific effects of the tax in Winnipeg.

1.4 Conclusion

A review of the current literature addressing the issue of property taxation and the urban environment reveals that the effects of taxation are varied in scope and degree. The

problem most critics are faced with is this: all agree that property taxes do in fact have an effect on the growth and development of our cities, but in the wide range of factors that affect development, it becomes impossible to isolate the effects of property taxes alone from the myriad of other factors that contribute to planning and development. As a result, it becomes impossible to quantify what the sole effects of taxation are in relation to other variables that exist. This is perhaps a plausible explanation for the fact that in all of the studies, no reliable model has been advanced for the exact determination of the degree that taxes impact urban development and the precise nature of those effects.

As a result, the relationship between property taxation and urban development must be viewed and studied more or less as a symbiotic one; we must determine how the two functions co-exist as elements of municipal policy. Mason Gaffney hints at the inter-relatedness of taxation and planning by reasoning as follows:

Land planners concern themselves with the relations among the uses to which independent private owners put their land. These private owners mostly seek to maximize their individual net after taxes. Since taxes are a large function of all costs, after-tax welfare is quite different from before tax welfare. So public land planners seeking to influence private landowners **must perforce be tax planners.**²²

²² Mason Gaffney, "Land Planning and the Property Tax" JAIP 35, May 1969, pp. 178-185 (emphasis supplied).

Property taxation is a force that affects the development of our cities. As such, awareness of the property tax is increasingly becoming an essential ingredient in the enlargement of the planner's scope and understanding of dynamics that play a role in the management of land use in the city.

Chapter II

HISTORY AND OBJECTIVES OF THE PROPERTY TAX

The property tax abounds in anomalies. During the past century, no major fiscal institution, here or abroad, has been criticized at such length and with such vigor; yet no major fiscal institution has changed so little in modern times.¹

-- Dick Netzer --

The property tax is an ad valorem tax levied on real and personal property. It was conceived as a source of revenue for local government to finance the delivery of various services to the community. In a vast majority of tax jurisdictions, the property tax forms the bulwark of internally generated local revenue; in some cases, it is the sole taxing power of municipal government.

In the previous chapter, some impacts of property taxation on urban development were introduced. This chapter will examine the property taxation system in greater detail. It is intended to establish the history and general theoretical principles underlying the property tax as we know it today.

¹ from Economics of The Property Tax, p. 1.

Chapter Two is divided into three sections. The first will present a brief overview of the history of property taxation with a focus on the Canadian system, and will include a survey of the critical trends that have developed throughout the history of the tax. The second section will examine the role of the property tax as an instrument of municipal fiscal policy. It will review the relative importance of the property tax in relation to other local revenue sources. The third section will review the theoretical principles that have emerged out of the critical history of property taxation. These principles or overall objectives will provide a basis for an evaluation of the current taxation system employed in the City of Winnipeg in the following chapter.

2.1 History of the Property Tax

The earliest semblances of a property tax can be traced back to the ancient civilizations of Assyria and Babylon (circa. 3000 B.C.). A tax was levied primarily for military purposes in order to finance defense fortifications and to provide soldiers with necessary military equipment. The role of the property tax was later expanded in England with the passage of the Elizabethan Poor Laws in 1601. These laws shifted the responsibility of providing for the poor from the monastic orders, guilds and private charity organizations, and placed it on government and society at large.

The effect of this legislation was to distribute the responsibility for the provision of social and physical services to local jurisdictions.

The evolution of the property tax in the American experience is complex in that there was no uniform system of taxation sustained throughout the developing colonies; ie. each local jurisdiction established its own unique means of fiscal solvency.² Generally, the local tax system emerged from a pre-American Revolution system known as the 'quasi-feudal quitrent', a nominal sum levied against all land grants and owners. This tax was a symbolic gesture to affirm the recognition that actual users held their rights only under the seignury of the Crown, which ultimately owned the absolute proprietary rights to the land. Interestingly, the quitrent was not levied against the value of property as we know it, but rather according to a user's 'faculty' or ability to pay.

Colonists opposed the tax on the grounds that the accumulated revenue should be used to relieve the hardships of acquiring and improving land at home rather than having it sent over-seas. Also, settlers who refused to sanction the ultimate Crown rights to 'their' land often avoided payment. The quitrent system was abolished after the American Revolution in favour of a tax based on the value of certain clas-

² For a detailed study of the development of local taxation in the New England colonies see Jens Peter Jensen, Property Taxation in the United States, (University of Chicago Press: Chicago, 1931), Chapter 2.

sifications of real and personal property which differed among the thirteen colonies.

The property tax became a comprehensive ad valorem tax following the Civil War applying to all property within a particular tax jurisdiction at a uniform rate. The ad valorem tax, or taxation according to the capital or market value of land and improvements, developed as a product of the predominantly agrarian American society. According to R. Barlowe, the property tax was able to gain a wide margin of acceptance during this time because of three important factors: 1) taxes were low in relation to income due to a modest demand for services; 2) revenues were directly related to the financing of services to properties; and 3) there was a high degree of correlation between the wealth of an individual and his or her ownership of real property.³

The development of the Canadian system of property taxation bears a close resemblance to that of the American system. Section 92 of the British North America Act(1867) gave authority to each province to levy and collect direct taxes for the purpose of financing local, municipal and provincial governments. This direct taxation authority was in turn granted to major municipalities through provincial statute or charter.

³ Raleigh Barlowe, "Taxation of Agriculture", in Richard W. Lindblom ed. Property Taxation USA (University of Wisconsin Press, 1967), p. 96.

The first Canadian legislation enabling local property taxation was passed by the House of Assembly of Upper Canada in 1793. The Assessment Act was enacted to finance the construction of gaols (jails) and gaoler's salaries, and to assist in establishing the means for controlling bears and wolves.⁴ The system used was also an ad valorem tax on real and personal property and was administered by a local assessment officer. In view of these limited objectives, this proved to be a successful and appropriate tax, as was the case with the early forms of American system.

Despite changing circumstances and an entirely different socio-economic climate in urban service delivery, the property tax system in Canada has remained relatively intact to this day. Other local revenue sources have been added, such as licencing fees, business taxes and special property classification levies (non-assessable properties such as telephone companies, railways), but the tax on real property remains one of the most valuable sources of local revenue. In effect, it has become "the bulwark of local autonomy" by giving local authorities the power to generate the revenue necessary for public expenditures.⁵

⁴ 33 Geo III C.3.

⁵ R.M. Bird and N.E. Slack, Residential Property Tax Relief in Ontario (University of Toronto Press, 1978), p.4.

2.1.1 Critical Trends

Over its history, the property tax has been castigated on many fronts. Critics have labelled the tax as inherently regressive in that it discriminates against lower income groups in favour of the wealthy. Others have argued that the property tax can no longer be considered a benefit tax in that it does not adequately reflect a charge for public services directly rendered to property owners, but supports services totally unrelated to property. Others charge that the tax is unfair in that it creates a double tax on those who choose to hold their wealth in real estate as opposed to other less tangible forms of investment holdings. Still other critics have focussed their attacks on assessment administration, claiming that the subjective nature of property valuation creates serious and disruptive inequities within and between jurisdictions. In all, property taxation has been condemned in both theory and practice, its critics having generated a vast literature on its inherent weaknesses and on proposals for various reforms of the present system.

Perhaps the first and in some ways most influential critique of the tax appeared in 1879 in a document entitled Progress and Poverty by political economist Henry George. In this general social treatise, George advocated a single tax on land which in his view would abolish poverty, reduce unemployment, decrease crime and generally elevate human morals, taste and intelligence. By creating a mechanism

whereby it was possible for government to appropriate rent (wealth produced by the exertion of labour and capital), George believed that land speculation would be eliminated as monopolies would no longer be profitable. Essentially, he felt that land owners should be allowed to retain their holdings and improvements as security, but that they should be taxed for the rent accrued to the land which in actuality was the value "given" by society as a whole. An owner would then retain the wealth that he creates, and would be taxed on the wealth that society creates.

George's main concern with the ad valorem tax system was its negative effect on capital improvement. "Tax improvements, and the effect is to lessen improvement; tax commerce, and the effect is to prevent change; tax capital and the effect is to drive it away."⁶ He reasoned that by untaxing the value of real and personal property and by taxing its productivity, individual incentive was in no way diminished. At the same time, the single property tax structure would no longer create a disincentive for social productivity and physical development as a whole.

In 1895, Edwin R.A. Seligman developed some of Henry George's theories a step further in a scathing attack on the property tax which he denounced as "beyond all doubt one of the worst taxes known in the civilized world."⁷ Seligman

⁶ Henry George, Progress and Poverty (25th ed. Doubleday: Garden City, N.Y.), p.412.

⁷ Edwin R.A. Seligman, Essays in Taxation (Macmillan, 1895), ch. 2.

noted that because of the complex nature of property, it was virtually impossible to distinguish the value of physical things themselves (ie. land and buildings) from capitalized income flows. Thus the property tax failed in some counts to reach wealth held in the investment in human capital and other income potentials. In other counts, it amounted to an erratic double tax on property and gross assets which had no consistent guidelines. Secondly, Seligman noted that the tax was poorly related to a person's ability to pay. The value of property did not adequately reflect income potential, he reasoned, nor did assessed values reflect capitalized values consistently throughout a yearly business cycle.

The critiques of Seligman and George had two significant impacts on the property tax. Firstly, it instigated what came to be known as the 'single tax movement', which resulted in a shift away from taxing the value of buildings and improvements to land. In fact, vestiges of the single tax experiment are still detectable today; in Winnipeg, for example, land is taxed at 100% value and buildings at 2/3 total value. Secondly, a shift away from a total dependence on the property tax for municipal revenue resulted from these critiques. At the turn of the century, local governments began to explore new possibilities for revenue sources such as local income tax levies, highway taxes, licencing fees and local sales taxes. As a result the property tax as a percentage of local revenue slowly began to decline.

The rapid urbanization of the early 1900's to the 1920's marked a dramatic increase in the total revenues generated by property taxes. According to Netzer, this was a period when local jurisdictions built an irreversible dependence upon the property tax as a revenue source.⁸ During this time, the revenue producing capacity of the tax responded well to the demands of financing local services and, for the most part, tax revenues were able to keep pace with local expenditures. This virtually enshrined the property tax as an indispensable municipal revenue source, despite its theoretical and practical weaknesses as articulated by Seligman and George, among others. A pragmatic view developed within local government fiscal circles which held that 'what works will remain until something better comes along'.

The 1930's depression, however, brought renewed frontal assaults on the property tax. At that time, property values fell as did personal incomes, and increased demands for local services could no longer be financed by delinquent property rate-payers. As governments went bankrupt, it became evident that the property tax could not adequately adapt to changing economies. In other words, the tax was not as elastic with respect to local service demand as was once deemed. This sparked another round of critical opinion that the property tax should be abolished as a principal revenue source.⁹

⁸ Dick Netzer, Economics of the Property Tax, p.6.

⁹ see Property Taxes (Tax Policy League: Washington, 1940)

Post-war economic growth has once again softened criticisms of the property tax and has led to a current trend of 'qualified acceptance' of the property tax as a municipal fiscal institution. For the most part, critics today are looking at how we can improve the property tax rather than how we can replace it.

2.2 General Objectives of the Property Tax

From the historical evolution and the critical history of the property tax has evolved three basic principles or objectives that form the theoretical foundation of the property taxation system and become the basis for evaluating such systems. These are 1) the equity and fairness principle, 2) the ability to pay principle, and 3) the benefit for services principle.

• equity principle

As defined by Frederic H. Finnis, "[e]quity in taxation means justice or fairness. Accordingly, an equitable tax must provide a fair method of distributing the tax burden among all tax-payers within a taxing jurisdiction."¹⁰ The equity principle is a cornerstone for the justification of the ad valorem system of property taxation, which holds that the current value of real property is the fairest stan-

pp. 21-34 and pp. 174-186.

¹⁰ Frederic H. Finnis, An Introduction to Real Property Taxation (Sir Isaac Pitman Ltd: Toronto, 1972), p.20.

dard for distributing the tax burden. This principle suggests that wealth in the form of real property is the appropriate base for taxation, it is the measure which justly determines the level or amount of levy which shall be applied to real property and thus demanded of a property owner.

Equity in taxation refers to horizontal equity between properties of similar value and like characteristics, it demands objective or equal treatment of all properties of similar value within a taxing jurisdiction. For example, the equity principle simply states that two properties valued at \$60,000, with all other factors being the same, will be assessed at an equal rate. As A.J. Robinson puts it, "[h]orizontal equity requires that individuals and families in similar circumstances bear the same taxes."¹¹

• ability to a pay principle

A primary goal of any system of taxation is that it should be progressive; that is, it should be related to a person's capacity or ability to pay those taxes. In short, taxes must be related to a property owner's income so that as incomes rise, so do his property taxes. Using Robinson's formulation above, one could then say that ability to pay implies vertical equity according to income status, or as Finnis explains, "those who can afford to pay more should be

¹¹ A.J. Robinson, "Is Equity a Viable Policy Objective?", from Canada's Tax Structure and Economic Goals (York University Press: Toronto, 1967).

taxed more heavily so that those in lower income brackets pay proportionately less than those in higher brackets."¹²

The ability to pay principle emerged as it became increasingly apparent that the value of real property, in itself, was not an adequate base for taxation.

Not all wealthy people choose to live in houses of their own and not all people who live in houses are wealthy; the ownership or renting of property will be very much a matter of choice and may or may not be influenced by the income of the person making the choice.¹³

It is surmized that the inadequacy of real property as a base for taxation was largely responsible for the regressive tendencies of the property tax system which placed a disproportionate tax burden on low income earners. Thus, in order for the property tax to keep up with rising incomes and inflation, the socio-economic circumstances of property owners had to be taken into account in distributing the tax burden.

• **benefit for services principle**

The benefit principle is based on simple logic. As Richard M. Bird explains, "[i]n essence, the benefit principle rests on the commercial principle that it is only fair to pay for what you get."¹⁴ According to Finnis, the benefit

¹² Frederic H. Finnis, An Introduction to Real Property Taxation, p.20.

¹³ Ibid., p.23.

¹⁴ Bird, Richard M., Charging for Public Services: A New Look at an Old Idea (Canadian Tax Foundation: Toronto, 1976), p.11.

principle implies that there must be "a geographic relationship between the source of tax revenues and the place where those revenues are spent."¹⁵ As suggested by these two explanations, there are two levels by which a taxing system can be evaluated with respect to its relation to benefit for service delivery.

On the broad level of the taxing jurisdiction as a whole, it is generally conceded that it is those property owners within a tax jurisdiction who will receive the benefits of the expenditures of property tax revenues. Unlike any other major taxation system, the benefits of property tax expenditures are generally enjoyed by those who pay the tax. It is argued that local revenues account for a general improvement of the living conditions of all area inhabitants, thus there is a broad linkage between those who pay the tax and where money is spent.¹⁶

But on the level of individual properties, the relationship between property taxation and services enjoyed breaks down. The Bureau of Municipal Research found that in Toronto, "there is no longer a direct relationship between real property value and services received."¹⁷ Because of the diverse nature of the 'packaging' of local services, it becomes difficult to trace the direct benefit of particular

¹⁵ Finnis, An Introduction to Real Property Taxation, p.21.

¹⁶ see Bird and Slack, Urban Public Finance in Canada, pp. 61-63.

¹⁷ Property Taxation and Land Development, p.8.

municipal services to individual properties. According to Netzer,

The property tax does finance some services to property. However, by and large, a tax based on the value of taxable property does not closely resemble, in its distribution of payments among individual users of service, a price-like user charge, even for local government services to property.¹⁸

In short, the benefit principle implies that there should be a direct relationship between tax levies and the allocation of municipal services and resources. In effect, it views the taxation system as a means of payment for municipal services consumed. The complexity and diversity of municipal servicing, however, makes the benefit principle a relatively nebulous concept for evaluation of the taxation system, but as a general principle or objective, it stresses that there must at least be some relationship between the distribution of municipal costs and the allocation of municipal resources.

2.3 Adequacy of the Property Tax as a Revenue Source

As mentioned earlier, the B.N.A. Act allocated constitutional duties between the federal and provincial governments. One of the responsibilities of the provincial governments was to establish and administer municipal institutions within the province. Property taxation was one of these duties or powers that could be delegated to the local lev-

¹⁸ Economics of the Property Tax, p.71.

¹⁹ for an examination of provincial-municipal sub-

el.¹⁹ This section will examine the role of the property tax as a municipal revenue source, examine the range and types of services which the property tax finances, and provide a list of attributes of an effective tax base from an administrative perspective.

2.3.1 Role in Municipal Finance

In Canada, the property tax is the third largest single tax (including all governments) in terms of revenue productivity behind the Personal Income Tax and the Sales Tax, generating 9.6 billion dollars in 1984. In the 1920's, the property tax accounted for over 80% of local municipal revenues, but with the rapid expansion of services, local governments have had to depend less and less on the property tax as a revenue source. In the mid 1960's, property taxes generated approximately 50% of municipal revenues, but by 1979 that figure fell to approximately 33%, or 6.665 billion

delegations of taxing power in Canada, see Frederic H. Finnis, Property Assessment in Canada, (Canadian Tax Foundation, 1979), chapters 2-11. Finnis summarizes the situation as follows: In five of the ten provinces - Prince Edward Island, Nova Scotia, New Brunswick, Ontario, and British Columbia - the whole assessment function is the responsibility of the provincial government or, as in British Columbia, of an independent provincial authority. In the other five provinces provincial responsibility ranges from full control of assessment in all municipalities except one or two of the larger cities, as is the case in Newfoundland, Manitoba and Saskatchewan, to no direct responsibility for the function other than requiring the use of a provincially prepared manual in all municipalities as is the case in Quebec. Alberta also requires the use of a provincial manual, but municipalities may and do request the province to undertake the work for them (pp.1-2).

dollars nationally.²⁰ Today it is estimated that on the average Canadian municipalities generate approximately 25% of their local revenue from the property tax.

Concurrent with the decline of the fiscal importance of the property tax as a source of revenue was a dramatic increase in local government spending. While the property tax has consumed a stable percentage of the G.N.P. at between 3 and 4%, public expenditures have grown by an average of 12% per year since 1947, while the G.N.P. has increased at only 8%. Thus, while government expenditures absorb an increasing percentage of the G.N.P., property tax revenues have barely managed to keep pace. In short, the gradual decline of relative importance of the property tax as a source of municipal revenue suggests that it is inelastic to the dramatic growth in public expenditures, and that it is becoming less and less an adequate means of financing local government services.

• **Growth of Municipal Services**

Along with the rapid urbanization of the early part of the century, increasing demands were made on local governments to provide a wider range of services. These demands on services included social service areas such as parks and recreation services, increased police and fire protection services, and continued support of school and library facil-

²⁰ Canadian Tax Foundation, Provincial and Municipal Finances 1979 (Toronto, 1980), pp. 108-118.

ities. According to Thomas J. Plunkett, municipal governments were no longer faced with issues associated with the delivery of traditional hard services (ie. roads, water supply, sewage collection); rather, they were increasingly faced with new issues more closely affecting the "quality of urban life." These demands concerned

... development patterns, the rehabilitation of neighborhoods, the provision of social and recreational amenities, the revitalization of the downtown core, the provision of public support to housing schemes to those who (could) not be provided with adequate accommodation entirely through the market mechanism, the revamping of public health and social services to meet the needs of a varied urban population and the provision of adequate institutional facilities for the care of the aged and the handicapped. In addition, these issues (were) associated with the development planning and the location of public improvements in a manner which (minimized) their undesirable social and economic effects on both people and neighborhoods.²¹

In order to finance the growth of public expenditures in soft services at the local level, municipal governments have become increasingly dependent on transfer payments from senior governments. To off-set the decline of the dependence on the property tax as a revenue source, conditional and unconditional grants paid to municipal governments have dramatically increased. Senior level transfers accounted for 17% of local revenue in 1947, a figure which now exceeds 45%.²²

²¹ Thomas J. Plunkett, The Financial Structure and Decision-Making Process of Canadian Municipal Government (C.M.H.C: Ottawa, 1972), p.70.

²² For an examination of the growth of municipal transfer systems see Dale E. Richmond, "Some Common Issues in Pro-

According to Richmond, "the gap between local revenues and local expenditures has tended to widen over time", due in large part to "a substantial change in the composition of the public goods and services requested of local governments."²³ This situation has resulted in what some critics term "fiscal imbalance." The Canadian Federation of Mayors and Municipalities has noted in a report that "local governments, having access only to the property tax (non-growth tax) cannot keep up with the demand for expenditures." This creates an unprecedented dependence on transfers which are "over-whelmingly conditional," and which "destroy [the] accountability and autonomy of the recipient government," making it virtually impossible to balance municipal budgets.²⁴ The problem facing municipal governments is that assigned or assumed responsibilities are out of balance with their assigned fiscal resources.

The gradual decline of the adequacy of the property tax to finance local expenditures has complicated decision-making at the municipal level. Property taxation has been described as not unlike plucking feathers from a goose, where city fathers must gather as many feathers as possible while producing as little squawk as possible. In property

vincial - Municipal Transfer Systems" Canadian Public Policy Summer 1980, pp. 252-268.

²³ Ibid., p. 256.

²⁴ Canadian Federation of Mayors and Municipalities, "Puppets on a Shoestring: the Effects on Municipal Government of Canada's System of Public Finance", (Ottawa, 1976), pp. 29, 32, 33.

taxation, a 'squawk point' is reached, regardless of the demand for public expenditures, whereby it becomes counter-productive to raise the effective rates of property taxation or to assess property at a higher level.

Jerome P. Pickard has noted as early as 1962 that "the unwholesome combination of high taxes and rapidly rising municipal costs coupled with the need for still greater municipal expenditures to keep the older cities reasonably attractive has in many cities almost reached the point of explosion."²⁵ Property taxation, no longer capable of generating the revenues demanded by local governments, has been pushed to a point of saturation -- it has reached a plateau of revenue productivity which it is no longer responsive to the expanding fiscal needs of local government.

To summarize briefly, the authority for the direct taxation of real and personal property in Canada is delegated to major municipalities by provincial statute. The property tax is a major source of municipal revenue which has not been able to keep pace with escalating demands for public expenditures at the local level. As a result, local governments have had to seek new sources of local revenue, and have had to depend more and more on senior governments for revenues in the form of transfer payments. This creates fiscal problems for balancing municipal budgets in situations where responsibilities assigned to local governments

²⁵ Jerome P. Picard, Changing Urban Land Uses as Affected by Taxation (Urban Land Institute Research Monogram #6, Washington, D.C., 1962) p. 90.

are unrelated to the taxing powers delegated to them for financing expenditures. The shrinking sphere of internally generated revenue capacity for local governments has both direct and indirect implications for the establishment and administration of municipal land use policy, while at the same time it provides the opportunity for greater intervention from senior levels into general urban development through municipal transfer mechanisms.

2.3.2 Objectives of an Effective Tax Base

Property tax bases are evaluated not only according to theoretical principles such as equity, but they are also rated according to pragmatic objectives; that is, their ability to generate revenues to meet municipal government service responsibilities. Over its history, the tax has successfully generated large revenues, thus, theoretical objectives have sometimes come secondary to basic practicality. Jens P. Jensen reflected this more realistic position as early as 1929 in saying, "there is no general principle of taxation that inexorably demands identical forms, equal rates, and complete inclusiveness of properties for taxation. A tax system must be justified by its results."²⁶ In view of this observation, following are some of the administrative requirements of the municipal tax base.

²⁶ Jensen, Tax Exemption as a Means of Encouragement to Industry, (University of Kansas: Lawrence, 1929), p. 10.

- **public legitimacy and acceptance**

The property tax system must be easily understood by the general public and generally perceived to be fair. As noted in a report by the Research and Policy Analysis Branch of Winnipeg,

A point which can be overlooked is the fact that taxes are paid 'with the consent of the governed.' Any system which is widely perceived as wrong will break down politically and in practice.²⁷

A main ingredient in this objective is accountability. This can be applicable on two levels: firstly, to be legitimate in the broad sense, the jurisdiction which spends the money should be the jurisdiction that collects it. Secondly, on a more specific level, those who collect the taxes should be accountable to those from whom the taxes are collected.

- **technical criteria**

Other factors of consideration in evaluating a tax base are: 1) flexibility, 2) certainty, 3) economy of collection and 4) difficulty of avoidance.²⁸ Flexibility refers to the elasticity of the tax to changing circumstances of service demand. Responsiveness is essential to ensure adequacy of revenues to cover annual fiscal expenditures. Certainty is closely related to flexibility in that the time of collection as well as approximate amount of tax owing are known

²⁷ "Approaches to Urban Finance in Winnipeg in the 1980's," (unpublished), p. 14.

²⁸ these are treated in greater detail in "Approaches to Urban Finance ...," pp. 17-20.

factors -- unlike, for instance, the income tax. This carries weight of practicability. Economy of collection is self-explanatory, this refers to the percent of the revenue raised that is consumed by the assessment and collection system. In Canadian property tax jurisdictions this figure ranges from 3 - 5% on average. Finally, the avoidance principle rates the tax system according to ease of evasion. Again, in comparison to the income tax structure, the property tax system rates high in this respect.

• **neutrality**

One of the administrative objectives of the property tax system which is often overlooked is its effects on economic distribution patterns, or its neutrality. William Joseph Beeman explains this term as follows: "neutrality means to avoid interference with the attainment of an optimal allocation and use of resources."²⁹ A tax that is neutral will not affect the normal consumption patterns relating to that which is taxed. It becomes evident that this particular principle is central to the nature of this study. Clearly, if the property tax is such that its imposition affects the distribution of land uses and influences locational choice for development, it does not conform to the principle of neutrality.

²⁹ Beeman, p.11.

The economic neutrality of the property tax is the subject of considerable debate among tax theorists. Firstly, many disagree that neutrality is a principle worth striving for in taxation. Secondly, there are those who consider that property tax neutrality is a misnomer; that is, the very nature of the tax has allocational implications and thus precludes neutrality. This latter group advocates the positive use of the non-neutral implications of the tax as a land control device, thus discarding neutrality as an objective of the tax system. As Jerome P. Picard has noted,

There is considerable difference of opinion as to whether tax systems should be used as a tool or could be an effective tool in encouraging either development or non-development of land.³⁰

This "debate" will become the focus of the latter chapters of this thesis.

2.4 Conclusion

The property tax is one of the oldest and most reliable forms of institutional levy used for the purpose of financing local government in Canada, yet at the same time it is one of the most unpopular. No other tax has been more vilified by academics, cursed by property owners and scrutinized by public officials than the property tax. It has been stated that if criticism alone could rid a tax of its defects, the property tax would have been a perfect tax long ago. Dick Netzer notes that "during the past century, no

³⁰ Picard, Changing Urban Land Uses as Affected by Taxation (Urban Land Institute: Washington, 1962), p. 30.

major fiscal institution, here or abroad, has been criticized at such length and with such vigor; yet no major fiscal institution has changed so little in modern times."³¹ Despite the many inherent weaknesses of the property tax, it remains one of the most venerable and dependable forms of taxation used in North America today.

³¹ Dick Netzer, Economics of the Property Tax (Brookings Institute, 1966), p.1.

Chapter III

ASSESSMENT ADMINISTRATION AND TAX POLICY

DEVELOPMENT IN WINNIPEG

To find a value good and true
Here are the things for you to do
Consider your replacement cost
Determine the value that is lost
Analyze your sales to see
What market value really should be
Now if these suggestions are not clear
Copy the figures you used last year.

-- Anonymous Rhymester --

The intent of this chapter is to provide an overview of the property tax structure in the City of Winnipeg. To this end, the chapter is divided into three sections according to three specific areas of consideration: a) the legislative provisions governing the tax system as contained within the City of Winnipeg Act, b) the administrative structure within the Winnipeg Assessment Office which provides the mechanism for implementing the assessment process; and c) the policy structure established by the city which provides the directives that determine the manner by which the assessment function is to be executed in the City of Winnipeg. Finally an evaluation of the property tax structure can be provided in light of the theoretical and administrative objectives outlined in the previous chapter.

3.1 Legislation Governing the Tax System

All matters pertaining to the assessment of real property in Manitoba municipalities, with the exception of the City of Winnipeg, are governed by The Municipal Assessment Act (S.M.1970). Separate provisions for assessment in Winnipeg are contained within The City of Winnipeg Act (S.M.1971). The two acts differ only in a few details, thus the following review will focus on the latter Act as most pertinent to this study.

The Act stipulates that "all lands are liable to taxation"[s.152(1)]. Properties which are exempted from taxation are catalogued; generally Crown land, railway properties, and lands owned by the Rural Municipality of Rosser [ss.152(2-5)]. It should be noted that 'land' as defined by the act includes all rights and interests in land proper as well as improvements and structures whether affixed to the land or not [s.151(d)]. One peculiarity of the Act allows for the exemption of the value of new construction for up to two years from the start of construction [ss.156(1-20)]. This in effect provides a 'tax break' for new structures for the amount of time a building has been completed in under two years.

Regulations pertaining to general reassessment cycles are provided in s.158(1) as follows:

At least once in each three consecutive years the assessor shall, after enquiry, and aided by such information as may be furnished to him, make a valuation of every parcel of rateable property in the city according to his best judgement and enter

such valuations in an assessment roll to be prepared by him annually in an appropriate form approved by council, but any failure ... by the assessor in making the valuations at least once in each three consecutive years does not invalidate and shall be deemed never to have invalidated, the assessment rolls.¹

This section contains two important provisions: 1) that all properties in the City are to be reassessed every three years; and 2) failure to do so does not invalidate previous assessments. In essence, this means that the City is required by law to regularly reassess property in Winnipeg, but allowances are made in the event that this does not happen -- in which case, the old assessments are to be used. As will be discussed later, the City has not carried out a regular reassessment program, and the consequences of such reassessment policy has had important implications for land use development in the city.

Subsections 159(1-2) create a distinction between the levels of value at which land as distinct from buildings and improvements are to be assessed. The land portion of real property are to be assessed at its full current value whereas buildings are to be assessed at 2/3 of their respective values. As noted in Chapter One, this distinction has been established in order to shift the tax burden more heavily toward land to counteract the inherent dis-incentives for improving properties which a balanced levy (land and buildings at full value) would create.

¹ emphasis supplied.

The validity of assessed values is judged on the basis of whether they are fair in relation to other assessments in the immediate vicinity. Section 159(3) provides that

...an assessment of any land shall not be deemed to have been improperly made or to be fixed at an unreasonable, unjust, or improper amount if the amount at which the land is assessed bears a fair and just relation to the amounts at which other lands in the city are assessed.

Thus, a property is properly assessed if other properties in the area bear similar assessed values, regardless of whether or not these properties are assessed at or near their respective market values.

A major part of the assessment legislation in the City of Winnipeg Act regulates the administration of the business tax. This tax is levied on the basis of a percentage of the rental value of all business premises [s.166(1)] according to detailed schedules which determine the business tax rate [s.172(2)]. Business owners are liable to a tax on a percentage of rental value ranging from 2% - 15% depending on the type and nature of the business. The business tax is levied in addition to the normal property taxes on the land and buildings assessment.

Remaining sections deal with appeal procedures available to owners of assessed properties and other interested parties. Appeals are heard by a Board of Revision which is appointed by council [s.186(1)]. Where assessed values are deemed not in accordance with properties of similar characteristics, the board may order a reassessment [s.199(2)].

Where a complainant is dissatisfied with the decision of the Board of Revision, he or she may appeal to the Municipal Board [ss.203-208], and further to the Court of Queen's Bench [ss.212-220].

• **Legislated Tax Policy**

In general, Part VII of the City of Winnipeg Act is a detailed body of legislation controlling the types and interests in properties which are liable to property taxation. With respect to policy governing assessment procedure, however, the act is unspecific. Generally, it states that valuations are to be made by assessors in accordance with the information that is available to him and according to his best judgement, thus there are few legislated policies governing valuation techniques or standards of value. These are generally determined by the assessment office.

3.2 The Winnipeg Assessment Office

The City Assessor is appointed by council and carries out his responsibilities through the Winnipeg Assessment Office. The department operates four separate branches: the Commercial Assessment Branch, the Residential Assessment Branch, the Land Assessment Branch, and the Business Assessment Branch. The office operates on an annual budget of approximately \$3.69 million, and carries 115 full time positions, of which approximately fifty-five are field assessors,

thirty-five are clerical and office staff, and ten are in management positions. City assessors are trained jointly with Provincial assessors under the Manitoba Assessors Training and Education Program which is affiliated with the Appraisal Institute of Canada. The four year program is structured so that on-the-job training can be supplemented with evening courses to create a balance between theoretical study and practical application of techniques in the job situation.

3.2.1 Assessment Procedure

The assessment procedure in Winnipeg consists of three steps or processes. The first step involves the classification of all properties in the tax jurisdiction according to type or use. The second step involves the actual valuation of each individual parcel of real property including the use of various methods of valuation for different classes of land and buildings. The final step of the assessment procedure is the listing and recording of all property valuations on assessment rolls.

• classification of properties

The first stage of the assessment procedure lists all real estate, both taxable and non-taxable, to ensure a complete inventory of land and property holdings. It is important for the Assessment Department to maintain a comprehensive record of all land transactions, land consolidations

and sub-divisions, as well as building construction, demolitions or additions which may affect property values. In order to generate a complete property inventory, assessment officials make extensive use of air photos for land surface mapping, building permit and inspection data for building condition and real estate transaction records for ownership status.

In Winnipeg, land parcels are classified according to four predominant use classifications: residential, commercial, farm, and other. The importance of the use classification is that different mill rates are applied to different classes; thus the tax burden is distributed with different "weight" among the various classes of property according to policy set by assessment officials. A recent report on the assessment system in Winnipeg summarizes as follows:

[t]he classification system identifies the nature of a property, the use to which a property is put and the status of the property in relation to various exemptions.²

• valuation techniques

The most important step in the assessment process involves the valuation of all properties within the taxing jurisdiction. There are three major methods of (or approaches to) property valuation employed by City of Winnipeg assessors. These are: 1) the market, or comparative

² Alan F.J Artibise, "A Matter of Political Responsibility: Real Property Assessment in Winnipeg" (Institute of Urban Studies: Winnipeg, 1984), p.2.

sales approach; 2) the income, or capital productivity approach; and 3) the cost of replacement approach. In all of these approaches, uniformity is the major objective.

The market approach uses real estate transactions to indicate the market values of properties. In order for this approach to be effective, there must be frequent market transactions within a particular property class. In this way, homes that have been recently sold can serve as "benchmark" properties in determining the value of many others. In this approach, the real estate market is viewed as the fairest and most objective judge of the true value of various properties. According to the provincial assessor's training manual,

There is a statement repeated time and time again that 'people not assessors make value'. This is another way of saying that value is found in the market place. There can be no other basis for value; a property is worth exactly what it can be sold for.³

The nature of "value" sought by the market approach is therefore defined in the marketplace. According to this concept of value, a property is worth that amount of money it would fetch in an uncoerced and unbiased transaction, where both buyer and seller were reasonably informed and of sound mind. The comparative sales (market) approach is not used extensively in the Winnipeg Assessment Office in ordinary valuations. Some use of sales data is, however, used for the purpose of checking the legitimacy of assessments

³ The Manitoba Assessors Education and Training Program: Year III, Part 1, p.6.

made using other methods or valuation techniques.

The income approach is used mainly in the valuations of large commercial and unique institutional properties. It derives value from the income-producing capacity of a given property. "The theory of this method is that the value of a property... is the present worth of all the net income it will produce each year for its remaining useful life."⁴ In this approach, assessors must gain as much information as possible with respect to the annual capital revenues generated by properties, a figure which is capitalized into the net value of that property. In short, as Radcliffe explains, the assessor seeks to determine the "present worth of future benefits."⁵ This approach, however, has inherent limitations; particularly the difficulty of predicting future incomes and revenues. For this reason, this approach is used where the other two systems cannot be applied -- for example, it could be used to assess a private golf course where comparative sales are infrequent, and the income derived from the property far exceeds the replacement costs of its few buildings.

⁴ The Manitoba Assessors Education and Training Program, Year III, part IV, p.2. The manual of the American Institute of Real Estate Appraisers similarly defines this approach to value as "the value of a property is the present worth of the net income it will produce during the remainder of its economic life: Appraisal of Real Estate, (Chicago, 1964), p.236.

⁵ Richard U. Radcliffe, Current Practices in Income Property Appraisal - A Critique (University of California; Berkeley, 1967), p.6.

The cost of reproduction plus accrued depreciation approach is by far the most widely used approach to value or valuation method employed in Winnipeg. In this approach, the value of property is equal to the upper limit of the cost required to replace it, less the imputed depreciation and accrued obsolescence of the property. The cost approach conceives of "value" as the replacement cost of property (ie. land and buildings); in this method separate assessments combine to define property value, or 'current' value. It would be impossible for assessors to make a detailed cost breakdown of each individual component of a building, as a result, estimates of building costs are prepared and tabulated for various types of buildings on a per square foot basis. Assessors in Winnipeg can therefore use a variety of cost tables to suit the peculiarities of any building in the city without having to appraise each one individually.

Any deviation from the standard cost table system can be either added to or subtracted from the total assessment according to the judgement of the assessor. This is still a cumbersome process, however. In building assessments for example, adjustments to the basic rates must be made for each type of material used in construction, from the kinds of tile used in the bathroom to the variety of siding used on the exterior of the structure.

The cost approach is predicated on the assumption that the market is not the true arbiter of property value.

According to the cost theory, true value is in the cumulative parts of property, and the market value merely represents temporary aberrations in this "true" value. Often cited as an example of this concept is the effect of the depression on property values, when properties were sold for far less than they were worth. Proponents of the cost approach liken other valuation methods that define value in market terms as "shooting at a mark that sways with the wind."⁶

The cost approach is not without its inherent weaknesses however, not the least of which is the difficulty of separating the exact values of the land and building contributions to the total value package. This problem will receive more detailed attention in Chapter Five of this thesis.

The cost of reproduction less accrued depreciation method is clearly the 'work horse' of the Winnipeg Assessment Office. Following is an overview of the key elements of this system.

⁶ Harold M. Graves, "Is the Property Tax Conceptually and Practically Administrable?", in Arthur D. Lynn, Jr., ed., The Property Tax and Its Administration, (U of Wisconsin Press: Madison, 1969), p.16. Groves notes that: "at times even a well established market is not reliable", (p.17) and "to judge an assessor strictly on the conformity of his work to particular sales is to judge him in a court of inferiors." (p.25).

- **Factors Affecting Land Valuation**

There are two categories of factors which contribute to the value of properties in urban areas. The first set of factors are characteristics of the physical property itself and the second set are factors relating to the property or external value factors.

- physical value factors

The value of real property in urban areas is largely determined by the size and accessibility of the property. In determining the values of land parcels, assessors take into account the shape, amount of street frontage, depth, topography, and location in relation to street corners and lanes. These factors are recorded for each parcel and adjustments are made to the standardized value of raw land which has been determined for the area from sales data. For larger tracts of land, such as agricultural plots or industrial areas, an acreage rate is used along with the above factors.⁷

For individual parcels, adjustments are made to the base value of raw land involving a series of calculations according to graded adjustment tables. Generally, the determination of the value of urban land parcels does not involve subjective judgement on the part of assessors; it merely

⁷ see Frederic H. Finnis, An Introduction to Real Property Taxation for an overview of the methods for determining the values of variously shaped irregular lots, pp. 103-112.

involves the application of various factor tables to suit the physical characteristics of the particular land parcel.

- external value factors

This category of factors can be defined as those qualities relating to a property which affect its value but which are not physically associated with the property. Examples of such factors are: access to major transportation routes and public transit, location of the parcel in the surrounding area, local zoning restrictions, availability of municipal services such as sewer, water, street and lane pavements, and proximity to amenities such as churches, parks and schools, shopping centres and recreational facilities.

The determination of the effects of such factors is not as well defined in assessment practice as the application of the physical value factors and adjustment tables. Assessors must use a certain degree of subjective judgement to determine, for example, the amount that the existence of a school will contribute to the value of properties across the street from it as compared to a property several blocks away.

3.2.2 Assessment Procedural Policy

An important aspect of tax policy in Winnipeg can be described as policy relating to the "nature" of value sought in property assessments and the methods or techniques used in arriving at that concept of value. In Winnipeg assessment officials define value as the combined replacement

costs of land and buildings. This is significant in that by definition of this approach, assessments may or may not be reflective of market values of similar properties.

In conducting valuations, assessors make extensive use of manuals which provide base rates for both land and buildings. Adjustments to these rates are then made to suit the unique characteristics of land parcels individual structures. The use of such manuals removes much of the subjective "guesswork" of the appraisal process. In essence, the bulk of the work has already been done in the setting of the base rates contained within the coating manuals.

3.3 Tax Administration in Winnipeg

The final area of tax policy development relates to the administration of the overall tax system. This is policy that is made at the municipal level which is separate from the assessment function. Administrative policy deals with setting the annual mil rates according to expenditure requirements, and determining the cycle of reassessments within the tax jurisdiction.

• setting the Mil Rate

The mil rate is established by dividing the total revenue required by the City by the realty tax base (the sum total of assessed taxable real property in the city). One mil represents .1 of one cent or .001 of one dollar. Thus if a

property is assessed at \$10,000 dollars, one mil would represent a tax levy of \$10.00. Generally, the mil rate is merely adjusted; that is, the previous year's mil rate is adjusted up or down according to a surplus or shortfall situation calculated from the capital and current budget estimates. For example, if budgetary estimates project a shortfall of fourteen million for the coming year, the City must generate the additional revenue by adjusting the mil rate upward. If actual expenditures for that year are less than those projected in the current budget, that amount in surplus is carried forward as revenue for next year's estimates and subsequent mil rate.

• **determining reassessment policy**

The City of Winnipeg completed its last general reassessment of taxable and non-taxable property in 1962. At that time, assessments were made according to 75% of 1957 values --- values which approximated full 1949-1950 property values. As noted earlier, the City of Winnipeg Act requires that the City conduct a general reassessment at least once in a three year cycle. In view of this legislated provision, it is remarkable that the City of Winnipeg has not held a general reassessment since 1962, and is still assessing properties in Winnipeg according to a 1949 level of value.

A recent report has surveyed the severity of the problems relating to what it terms "delinquency" on the part of the City in not keeping assessments up-to-date. "It has been demonstrated that (a) many citizens are grossly and unfairly overtaxed (or undertaxed), and (b) that development patterns in Winnipeg are being adversely affected by an unfair tax system."⁸

It must be noted however, that the City did in fact begin a reassessment of real property in 1974. This was not a general reappraisal of individual properties as required by the Act; but rather, it was a process of "factoring up" of the old 1949/1962 values based on estimates of changes in property values. This so-called reassessment was completed in 1978, bringing all previous assessments up to a new 1975 level of value, and was scheduled to be implemented for the following tax year. This did not occur, however, when it was discovered that the new assessments would represent too dramatic a shift in property taxes for some classes of properties, the most notable being a general increase in residential assessments and general decrease in commercial and industrial levies. In short, property assessments in Winnipeg had become so seriously out-dated that there appeared to be no quick solution available for rectifying the situation.

⁸ Alan Artibise, "A Matter of Political Responsibility: Real Property Assessment in Winnipeg", p.35.

3.3.1 Policy Reform Measures

Recognizing the serious state of the assessment function, the provincial government under Premier Sterling Lyon commissioned the Manitoba Assessment Review Committee in July, 1979 to review and report on all matters relating to tax assessment in the province. The Committee narrowed its frame of reference by looking at three major issues which served as overall objectives for the study:

- 1) to determine the level at which real property should be assessed,
- 2) to examine the impacts of properties exempted from taxation, and
- 3) to make recommendations with respect to the administrative organization for carrying out assessment in Manitoba.

The Committee first undertook to examine the existing assessment situation in the province, the results of which were contained in the First Interim Report submitted in February, 1980. That report highlighted several problems with the current system, most of which were due to the fact that assessments were outdated. This reassessment lag had created inequities between properties within certain use classifications, and between property classifications in general. An analysis of the effects of bringing property assessments into line with current property values revealed that farm and single family residential classes were significantly undertaxed, while multiple residential and commercial prop-

erties were carrying an unfair distribution of the municipal tax burden in the City of Winnipeg.⁹ The study noted that discrepancies between property values and property assessments were growing, and that measures were needed to create a more equitable distribution of the tax burden between property classes.

The major recommendations of the M.A.R.C. were published in a report entitled A Fair Way to Share in March 1982. Most of the recommendations were grouped around four basic concepts. The Committee recommended:

1) that all valuations in the province be made according to a standard level of value, and that assessments be made according to 100% of that value (M.A.R.C. Report, p.86).

2) that the process of implementing the reassessment be made gradually according to an equalization system and would be up-dated on an annual basis (pp. 91-96, 225-231).

3) that all property exemptions be standardized in the province (chap. IV).

4) that assessment administration be carried out by a single taxing authority supported by the provincial government (pp. 181-216).

The tabling of the report by the Manitoba Assessment Review Committee has not as yet resulted in any significant assessment reform measures in the City of Winnipeg. It should be noted, however, that Bill 100 was enacted by the Provincial Government in 1980 in response to the M.A.R.C. First Interim Report, a bill which effectively froze the level of assessment until such a time when assessment

⁹ see Graphs I-H, Manitoba Assessment Review Committee, A Fair Way to Share, pp. 9-18.

reforms could be implemented. As of July 1985, however, assessment levels in the city are still frozen under this bill, and remain at levels which are thirty-five years out of date. This is certain to change soon, however, in view of a recent court ruling.

3.4 Evaluation of Tax Policy in Winnipeg

As noted in Chapter Two, there are three main objectives of property taxation. The equity principle holds that the tax should be distributed equitably among all property owners according to the value of real property wealth. The benefit principle prescribes that the tax must reflect the level of services rendered to the taxable property so that the tax in effect represents a payment for municipal services. The ability to pay principle stipulates that taxes must be progressive in so far as the income of property owners would allow for the payment of property taxes, thus enlarging the basis of taxation from the pure value of real property wealth to include other income sources as well.

The quality of property tax administration in the City of Winnipeg has of late become a major public issue. According to a recent article in the Winnipeg Free Press, "[p]roperty taxes in Winnipeg are grossly unfair and elected officials have a legal and moral obligation to address the problem immediately."¹⁰ This has led to a situation where the City

¹⁰ "City Taxes Outdated, Need Action, Study says", Winnipeg Free Press, Nov. 21, 1984.

is currently faced with an unprecedented amount of appeals against property tax bills.¹¹ This is significant in light of the fact that property owners very often fear assessment reform measures and appeal procedures. As Richard R. Almy puts it, "most taxpayers are apt to equate assessment reform with revaluation which, in turn, is equated with higher taxes."¹² That people are more actively seeking appeals in Winnipeg suggests that the assessment problem is quite serious.

The assessment problem in Winnipeg stems from a lack of direction from the political development side. Elected representatives are not acting responsibly in failing to meet the requirements of the City of Winnipeg Act. Property tax assessments no longer reflect real property values because of the fact that reassessments have been infrequent or non-existent and have not kept pace with changing property values. As noted in the M.A.R.C. Report,

Inflation has resulted in a large increase in property valuations during the last thirty years. To date, these increases in values have not been reflected in the municipal assessment rolls. As a result, the assessment values have reached a point where they are almost meaningless when related to the current level of property values... Failure to implement more frequent assessment programs in the past has resulted in some significant inequities, not only between classes of properties, but also between individual properties within each class as

¹¹ "City Targets 1988 for Tax Reassessment", Winnipeg Free Press, Jan. 17, 1985.

¹² Richard R. Almy, "Rationalizing the Assessment Process", in George E. Peterson ed. Property Tax Reform (The Urban Institute: Washington D.C., 1973), p.177.

well as between tax jurisdictions.¹³

As the situation now exists, "many homeowners in the inner city are paying excessive taxes compared with suburban dwellers," due to the fact that "property values in the suburbs have increased dramatically since the last general reassessment in 1962." As a result, the City finally made public a new plan for a general reassessment to be put into effect for the 1988 tax year.¹⁴

In terms of equity and fairness, Winnipeg tax policy does not meet its objectives. The inequitable distribution of the tax burden also violates the principles of benefit for services and ability to pay, both of which will be explored more fully in Chapter Five of this thesis. The overall policy objective of the Winnipeg Assessment Office is uniformity, a principle that is suggested in the City of Winnipeg Act in that assessments must "bear a fair and just relation" to assessments in the immediate vicinity. This implies horizontal equity from one property to the next. But on the broader level, or on the regional level of the entire jurisdiction, horizontal equity breaks down. This is evidenced by the fact that disparity exists between the city's older areas and areas of new development. This disparity is well documented in studies analyzing the divergence of assessed values from market values which have shifted over time.

¹³ M.A.R.C. Report, p. 266.

¹⁴ "City Targets 1988 For Tax Reassessment", Winnipeg Free Press, Jan. 17, 1985.

In Winnipeg's 'regional' tax burden inequities, vertical equity seems non-existent in that older areas bear disproportionately high taxes relative to new development in the suburbs. This violates the ability to pay principle, in that higher value properties (from the market perspective) pay generally lower taxes compared to lower value properties in the inner city. According to one city assessor, the combined use of antiquated base levels (1949 levels of value) and a general lack of reassessment policy has "kicked the he[ck] out of the equity principle" in Winnipeg property taxation.¹⁵

In terms of administrative policy objectives, the tax system in Winnipeg fares much better. The tax is generally considered to meet its adequacy requirements in that:

1. the tax system consumes only 3% of revenues generated, compared to approximately 5-8% in other Canadian cities,
2. the tax generates approximately 67% of municipal revenues in Winnipeg, compared to only about 30-45% in other Canadian cities, and
3. the tax enjoys high success rates in total amount collected (meaning low level of avoidance) and appears to be flexible enough to the demands of expenditures in Winnipeg.

By the same token, however, Winnipeg has one of the highest tax rates in Canada, at about 2.7% of value; compared to 1.6 in Toronto, for example. A Senior Budget Officer in the Budget Bureau of Winnipeg has stated that "taxes are about as high as they can get."¹⁶ But one of the most important

¹⁵ interview with Blaine MacKinnon, Feb. 6, 1986.

weaknesses in Winnipeg tax policy concerns the objective of economic neutrality. Inequitable distributions cause significant impacts on where development is likely to take place (from a taxation perspective) and in what sectors investment will seek to locate. This is a clear departure from the neutrality principle advocated in property taxation systems. The investigation of the importance of this point for the realization of land use policy objectives will become the central theme of the remaining chapters.

3.5 Summary

The City of Winnipeg Act provides that real property in the City of Winnipeg shall be reassessed on a three year cycle. It states that land shall be assessed at 100% of its value and buildings shall be assessed at two-thirds of their respective values. The act does not provide regulations with respect to how assessments are to be done; it states only that they shall be made according to the best judgement of the assessor and according to the best information available to him.

Property assessment in Winnipeg is broken down into three separate stages: listing and classification of all properties in the tax jurisdiction according to use, the valuation of all properties according to established levels of value, and the recording of all assessed property values on assessment rolls.

¹⁶ Interview with Dick Stone, Feb. 9, 1986.

Winnipeg assessors follow three basic approaches to value in the valuation of real property. The market approach holds that value is defined by that amount which it can be sold for in an unbiased, uncoerced market transaction. The cost approach holds that value is defined by the component parts of real property. The income approach holds that the value of a property is determined by its capital productivity. This approach is mainly used in the calculation of business taxes and capital intensive commercial uses.

The development of tax policy in the City of Winnipeg is basically confined to the establishment of the annual mil rate, and the determination of the general reassessment cycle. The mil rate is adjusted according to the revenue deficiencies of the current and capital municipal budgets. With respect to reassessment policy, the City of Winnipeg has not conducted a general reassessment since 1962, and continues to assess property according to a 1949-1950 level of value. Attempts to up-date the assessment situation in the City have not as yet been implemented due in part to the degree to which the tax distribution would shift if assessed values were to be brought back into line with current property values as documented in the Manitoba Assessment Review Committee Report.

The level of value by which properties are assessed is an important aspect of policy set by the Winnipeg Assessment Office. Other procedural policies set by this department

involve the methods by which valuations are conducted (the cost of replacement less depreciation method) and the nature of 'value' sought by assessors (current value).

3.6 Conclusion

The extent to which property taxes affect land use policies will be the subject of the following chapters. High tax rates and declining property values present clear disincentives for residential development in the City's inner core areas. This shifts development to suburban areas where tax rates are low in comparison to land values. Again, this situation is largely due to the fact that assessments in the outlying areas are still based on land value patterns that existed over thirty years ago.

Chapter IV

LAND USE POLICY IN WINNIPEG

It would seem desirable to establish goals in land use planning before we try to achieve those goals by tampering with the taxation system. What type of land development are we talking about?¹

-- Mabel Walker --

Land use policy refers to limited public regulation and control of private property. The concept of governmental management of the use of land is very much inter-connected with the concept of private property rights, and even more fundamentally, the relationship between man and nature.

4.1 Theoretical Principles of Land Use Management

In the western culture, the concept of land as property has emerged over the past centuries from three divergent philosophical stances with respect to land and the rights and constraints to use and control land as property. In the 17th century, John Locke developed the concept of the use of land as an unlimited natural right of the individual; "as much land as a man tills, plants, improves, cultivates and

¹ from "Land Use Economics and General Tax Policy" in Richard B. Andrews, ed., Urban Land Use Policy, (Macmillan: N.Y., 1972), p.218.

can use the product of, so much is his property."² Another view, presented in the 18th century by Rousseau, affirmed the use of property as an individual right but imposed societal limitations; "each individual's right over his own holding is always subservient to the community's right over all the holdings."³ In the 19th century, Marx championed the total removal of private property rights from competitive society: "Communism is the positive abolition of private property, of human self-alienation, and thus real appropriation of human nature through and for man."⁴

The contemporary Western view of private property closely resembles that of Locke, although it is tempered and somewhat modified by the other two philosophies. As Richard S. Bolan writes, "essentially land, seen as property, still bestows wealth and status on those who control it, in spite of alternative concepts of property in the modern world."⁵ Consequently, government regulation of land use is often viewed as an infringement of a landowner's private interests and in the extreme as a disruption of fundamental social order. This tradition understandably resists expansion of

² from "Two Treatises of Government" (1689) in C.B. MacPherson, ed. Property: Mainstream and Critical Positions (U. of T. Press: Toronto, 1978), pp. 17-27.

³ from The Social Contract (Henry Regner Co: Chicago, reprint 1954).

⁴ from E. Fromm, Marx's Concept of Man (Frederick Unger Co: N.Y., 1961), p.167.

⁵ "New Perceptions in Land Regulation" (editor's introduction), JAIP 41, Jan.1975, p.2.

the scope of governmental management of land use; particularly in such cases where regulation impacts economic conditions and the operation of the free market.

Bolan notes that as late as the 1960's, planners viewed land use as "the convenient arrangement of man's artifacts," a view that has more recently been expanded to a recognition of the importance of land use "as central to the issue of survival of the planet."⁶ Private exploitation of land threatens human survival in three ways: by endangering food supplies, by eroding non-renewable energy resources, and by the contamination of the environment. Public land regulation policies are directed at this triple threat to the human environment. Land use management preserves and protects the public interest with respect to the use or misuse of land, thus the fundamental principles of land use planning are concerned with environmental protection and human survival.

Land use management can also be construed as a means of protection of individual property rights. One of the primary instruments of land use management is zoning, or the process of segregating properties into areas of particular use characteristics. Essentially, zoning emerged as a means of protecting various property "zones" from the intrusion of undesirable uses which could be perceived as a threat to the values of individual adjoining properties. By passing ordinances restricting the uses to which land could be put, the

⁶ Ibid., p.1.

rights and interests of individuals within those areas were served and protected.

Land use management and control is thus two-dimensional: it sets policies which serve to protect the public interest with respect to the private exploitation of land, and it protects individual property values by creating a framework for the orderly and desirable development of land uses. Public perceptions of land use management are in large part shaped by prevalent views of property rights. The extent to which land use control is condoned or supported by society depends upon the intricate balance of community values and protectionism of individual rights contained within its policies.

4.2 Land Use Policy in Winnipeg: Plan Winnipeg

Municipal land use policy in Winnipeg is contained within the Greater Winnipeg Development Plan. Plan Winnipeg is a policy statement on future growth and physical development, it serves as an advisory document "in respect of the development or the use of land in the City."⁷

• Background and Status

Initial work on Plan Winnipeg began in 1977 as a tri-level initiative between the federal, provincial and municipal governments. The plan emerged as draft bylaw 2960/81 in August, 1981 but has not as yet been adopted as an official

⁷ Plan Winnipeg: Draft Bylaw 2960/81 sec. 2(1), p.8.

municipal bylaw. The reasons for the delay are mainly due to disagreements between the province and the city on key issues surrounding the limitation of suburban expansion.⁸ According to the senior development plan officer of the Environmental Planning Department for the City of Winnipeg, the plan, in the form of bylaw 2960/81, was adopted as unofficial interim land use policy until the plan is officially approved. What this means is that although Plan Winnipeg is not as yet official, its policies and proposals have been adopted as if it had been until such a time as revisions acceptable to both the city and the province can be made.⁹

At the time of the preparation of Plan Winnipeg it was evident that the City of Winnipeg was experiencing different growth characteristics from those which formed the basis of the previous development plan of 1968, adopted as Bylaw 1117. Projections of demographic and economic growth fell far short of earlier projections, which necessitated a new strategy for the management of development and land use. According to new projections established by the Plan Winnipeg study team, the anticipated population growth for the 20 year study period was set at no more than 0.75% per year. This meant an anticipated increase in population of 80,000 persons, or that the population would grow from 578,000 in

⁸ A detailed analysis of the struggle for the adoption of the bylaw can be found in "Report on Part XX of the City of Winnipeg Act" (unpublished, Department of City Planning, University of Manitoba, 1985, pp. 26-30.

⁹ interview with Mr. Bill Muir, Jan. 26, 1986.

1978 to approximately 658,000 by 1999. In addition, it was projected that economic activity within that same period would be relatively stable.¹⁰ The shift from a rapid growth context to a slow growth one obviated a concurrent shift in growth management policy which formed the basis of the new plan.

4.2.1 Principal Policy Direction

Within the slow growth context, the fundamental policy directive of Plan Winnipeg shifted from an overall strategy focussed on accommodating growth in the suburbs to one of preservation and maintainance of the downtown and older neighbourhoods. Plan Winnipeg states that:

--- The future of the city now lies largely in its existing neighbourhoods and infrastructure and not in the suburban periphery. In short, the major issue to be faced within the context of long range development planning in Winnipeg has become: What is the most effective strategy for encouraging the maintainance and revitalization of older existing neighbourhoods?

--- There is not enough forecast future growth for Winnipeg to permit both downtown revitalization and at the same time allow continuing growth of traditional downtown uses in the suburbs. A strong commitment to downtown growth and inner city renewal is in the interests of Winnipeg's economic future.¹¹

The principal policy direction of Plan Winnipeg in terms of future land use and development is therefore one of revitalization, renewal and maintainance, an obvious shift from

¹⁰ See Population Projections (City of Winnipeg, 1978), pp. 3-40; Economic Base Study (MacNeal, Hildebrand and Associates, 1978), pp.1-14.

¹¹ Plan Winnipeg p.1 and p.63.

previous peripheral growth policies.

4.2.2 Policy Area 1: Revitalization of Older Neighbourhoods

- Policy 4(1): THE CITY SHALL UNDERTAKE DIRECT INVOLVEMENT IN THE REHABILITATION AND IMPROVEMENT OF OLDER NEIGHBOURHOODS ON A PRIORITY BASED ON NEED.
- Objective 4(2): TO EFFECTIVELY ALLOCATE PUBLIC SUPPORT REQUIRED IN OLDER NEIGHBOURHOODS ACCORDING TO SEVERITY OF PHYSICAL SOCIAL AND ECONOMIC NEEDS.

One of the primary findings of the Plan Winnipeg study team revealed that Winnipeg's older neighbourhoods were in serious decline. A study of migration patterns determined that although the population of the city was expected to grow by 80,000, it was also expected that the older neighbourhoods would experience a net loss of 37,000 residents. This meant that the anticipated new resident population would likely be accommodated in the suburbs, supplemented with a further out-migration from the inner city. This trend would accelerate the decline of the established neighbourhoods. Thus, Plan Winnipeg opted for a "containment" approach to stabilizing the out-migration trend and thus beginning the process of neighbourhood revitalization.

The major strategy for implementing this high priority policy directive was one of Infill/Revitalization. According to the plan, this was to be accomplished in two ways. Firstly, revitalization can be accomplished through **direct municipal involvement** in support of older neighbourhoods.

This included increasing local government initiatives in the areas of housing and community development. Secondly, revitalization requires the **provision of incentives** to attract private sector investment. To do this, "tax deferral programs and other concessions for investment in older areas should be developed." In this regard, the stated objective is to direct at least 20% of anticipated suburban growth into established neighbourhoods in older areas of the city.

• **Specific Policies and Objectives in Support of Neighbourhood Revitalization**

1. Policy 3(1): The city shall support the maintenance and revitalization of older neighbourhoods **as the priority** in meeting the city's responsibilities for housing and community development.
2. Objective 5(1): To sustain and enhance the living environment of older residential neighbourhoods, and thus the **viability of the central city** as a community
3. Objective 4(2): To effectively allocate [sic] public support required in older neighbourhoods **according to severity of physical social and economic needs**.
4. Policy 5(1): The city shall encourage wherever possible, **private sector investment** in appropriate development of older neighbourhoods.
5. Objective 5(2): To sustain and improve the physical characteristics of **residential, commercial and industrial development** in older neighbourhoods.

4.2.3 Policy Area 2: Suburban Growth Management

The second priority area for land use policy directives focussed on managing the anticipated demand for new development in suburban areas. It is significant to note that the

posture taken in the plan toward suburban development was one of management, representing a shift from the previous posture of accommodation of rapid growth taken in the previous plan. Under "Suburban Growth Management Policy," Plan Winnipeg states the following:

Once the primary focus of traditional long range planning, suburban growth management is now regarded as a secondary priority over the next twenty years of Winnipeg's development ... Nevertheless, there will be some significant need for some level of new suburban residential development over the next two decades, and it is important that it be managed and directed in such a manner as to protect and/or enhance the quality of the overall urban environment. Suburban growth decisions must reflect the overall objectives of the preferred option.¹²

The strategies for implementing suburban growth management policies in Plan Winnipeg are as follows. Firstly, clear designation of the preferred location of new neighbourhoods as well as a proper timing framework for development were deemed essential. Also, new developments must meet minimum municipal servicing requirements and must maximize the efficiency of existing service infrastructures. Secondly, new large lot residential developments must be conducive to "a compact city form" thus preserving the rural-like environment of the fringe areas. Thirdly, policies directed at environmental protection in the area of noise, air and water pollution; sensitive use of the riverbanks; preservation of historically and archaeologically significant sites; as well as potential conflicting uses

¹² Plan Winnipeg (Draft Bylaw 2960/81), p.20.

were established in the plan. Some of these policies and objectives are given below:

• **Specific Policies and Objectives in Support of Suburban Growth Management**

1. Policy 6(1)(b): The urban limit line... describes limits outside which applications will not be approved for development requiring service by the city's sewer or water system.
2. Objective 6(2): To clearly identify the location of policy areas.
3. Policy 7(1)(a): Suburban residential policy areas may allow as determined by the council:
 - a. low density residential development to an absolute maximum of six units per hectare;
 - b. low intensity ancillary uses including local commercial, educational, recreational, religious and institutional uses at a scale and density compatible with and necessary to support low intensity, residential development.
4. Objective 7(2): To clearly identify [sic] the uses within suburban residential policy areas for planning and development purposes.
5. Policy 10(1): The city shall only approve new suburban residential development which, in its opinion, can be economically serviced.
6. Objective 10(2): To maximize use of the city's investment in infrastructure and services.

4.2.4 Policy Area 3: Downtown Development

The principal development objective for land use in the downtown as as stated by Plan Winnipeg is identical to that as stated in the 1968 development Plan: "TO STRENGTHEN AND IMPROVE DOWNTOWN SO THAT IT WILL BE A VITAL, EFFICIENT AND

ATTRACTIVE CENTRE FOR THE CITY OF WINNIPEG." Toward this objective, the principal policy directive is aimed toward increasing densities downtown: "The encouragement of high density, non-family residential development is considered to be the most important component in the future renewal of Winnipeg's downtown."¹³

At the time of Plan Winnipeg's preparation the dramatic decline of the downtown area was evidenced by the fact that the core's share of the municipal labour force had slipped from 39% in 1962 to approximately 26% in 1981.¹⁴ This necessitated a reiteration of the commitment of the earlier plan toward downtown renewal. However, the new plan took that policy commitment a step further. This was accomplished by creating supporting policies to restrict downtown uses from locating outside of the core area. Also included in this policy area were policies aimed at developing and meeting open space requirements, ensuring historic building preservation, creating urban design standards, and encouraging private sector investment in the downtown. Again, some of these sub-policies are given below

• **Policies in Support of Downtown Development**

1. Policy 23(1): The city shall encourage the establishment of a large residential population in the downtown.

¹³ Plan Winnipeg (Draft Bylaw 2960/81), p.39.

¹⁴ See Employment Analysis (City of Winnipeg, 1980), pp. 1-35.

2. Objective 23(2)(b): To increase the resident population of the downtown in order to create a catalyst which will attract other uses into the downtown.
3. Policy 24(1): In areas outside of the downtown, high density residential development exceeding 14 units per hectare shall be a conditional use approval of which shall be subject to the following condition: that it does not defeat the intent and purpose of Plan Winnipeg, specifically, with regards to the establishment of a large resident population in the downtown.
4. Objective 24(2): To establish an increased residential population in the downtown through the restriction of continued development of high density apartments in suburban locations.
5. Policy 25(1): The city shall encourage development of commercial, office and entertainment uses in the downtown.
6. Policy 31(1): The city shall maintain an inventory of buildings having special historic or architectural merit and shall endeavor within its powers to preserve them or preserve a record of them.

4.2.5 Ancillary Policy Issues

Plan Winnipeg also contains policy directives in the areas of economic development; streets and transportation; water, waste and disposal; parks and recreation; and land use in the additional zone. Many of these policy directives are concerned with environmental protection and upgrading of existing infrastructures, and thus are not directly related to the establishment of land use policy as such. There are some issues that are relevant to development, however. These are

• Economic Development

1. Policy 45(1): As determined by council, the city shall limit the further development of shopping centres, outside the downtown area, to a scale necessary to meet the needs of local neighbourhood and consistent with the objective set out in paragraph 45(2).

2. Objective 45(2): To enable provision of neighbourhood retail shopping centres to meet the needs of local residential communities, and to encourage the location of larger scale shopping development in the downtown.

• **Parks and Recreation**

1. Policy 82(1)(b): The city shall encourage the private sector to incorporate open space and other visual amenities into major development projects
2. Objective 82(2)(b): To enhance the image of downtown through the provision of small, landscaped open spaces and other visual amenities incorporated into structures and sites developed by the private sector.

4.3 Summary

Within the current slow growth context of the city's social and economic development, Plan Winnipeg sets forth a policy direction which represents a qualitative shift away from the previous policies in place under the 1968 Greater Winnipeg Development Plan. Plan Winnipeg emphasizes the urgent need for halting the dramatic decline of the city's older neighbourhoods and deteriorating downtown, while at the same time the plan advocates the sensitive management of suburban growth in order to support the primary objectives of inner city revitalization. It supports a philosophy of **containment**, a philosophy aimed at re-directing growth into existing areas to create a compact, efficient city form. In essence, there is little or no need for urban expansion, hence planning initiatives and land use policies are to concentrate on the renewal and maintenance of existing areas rather than seeking to accommodate growth.

The revitalization of older neighbourhoods is a priority policy area of Plan Winnipeg. In this area, policies directed at stimulation infill housing projects, increasing the viability of the central city, and encouraging private sector investment through tax incentives are advanced. The management of suburban growth is another major policy area of the plan. In this respect, policies aimed at limiting the expansion of subdivisions, maximizing the cost-efficiency of expanding suburban service networks, and curtailing high density residential development are advanced. And finally, downtown development is a primary land-use policy area of Plan Winnipeg. Toward this end, policies concerned with increasing the resident population of the core, limiting traditional downtown uses to the confines of the core, and provision of incentives to increase private sector commercial development are advanced. All policies fall under the general principle of controlling suburban expansion to support the renewal of the declining inner city; this is the main thrust of land use policy under Plan Winnipeg.

Chapter V

THE EFFECTS OF PROPERTY TAXATION ON LAND USE IN WINNIPEG

The extent of the failure to recognize the relationship between the power to tax and land use objectives is best evidenced by the almost total lack of coordination in municipal government between property tax assessment policy and land use planning policy.¹

-- Orlando E. Delogu --

The basic elements of property tax policy governing the distribution of the tax burden in the City of Winnipeg were examined in Chapter Three of this thesis. That chapter evaluated the city's current fiscal tax policy in light of the overall theoretical objectives of property taxation developed in Chapter Three. The purpose of this chapter is to analyze the effects of property tax policy and the distribution of the tax burden on land use and development in the City, and to determine whether those impacts are consistent with current municipal land use policies as examined in Chapter Four.

¹ from "The Taxing Power as a Land Use Control Device" in Richard B. Andrews, ed., Urban Land Use Policy, (Macmillan: N.Y., 1972), p.209.

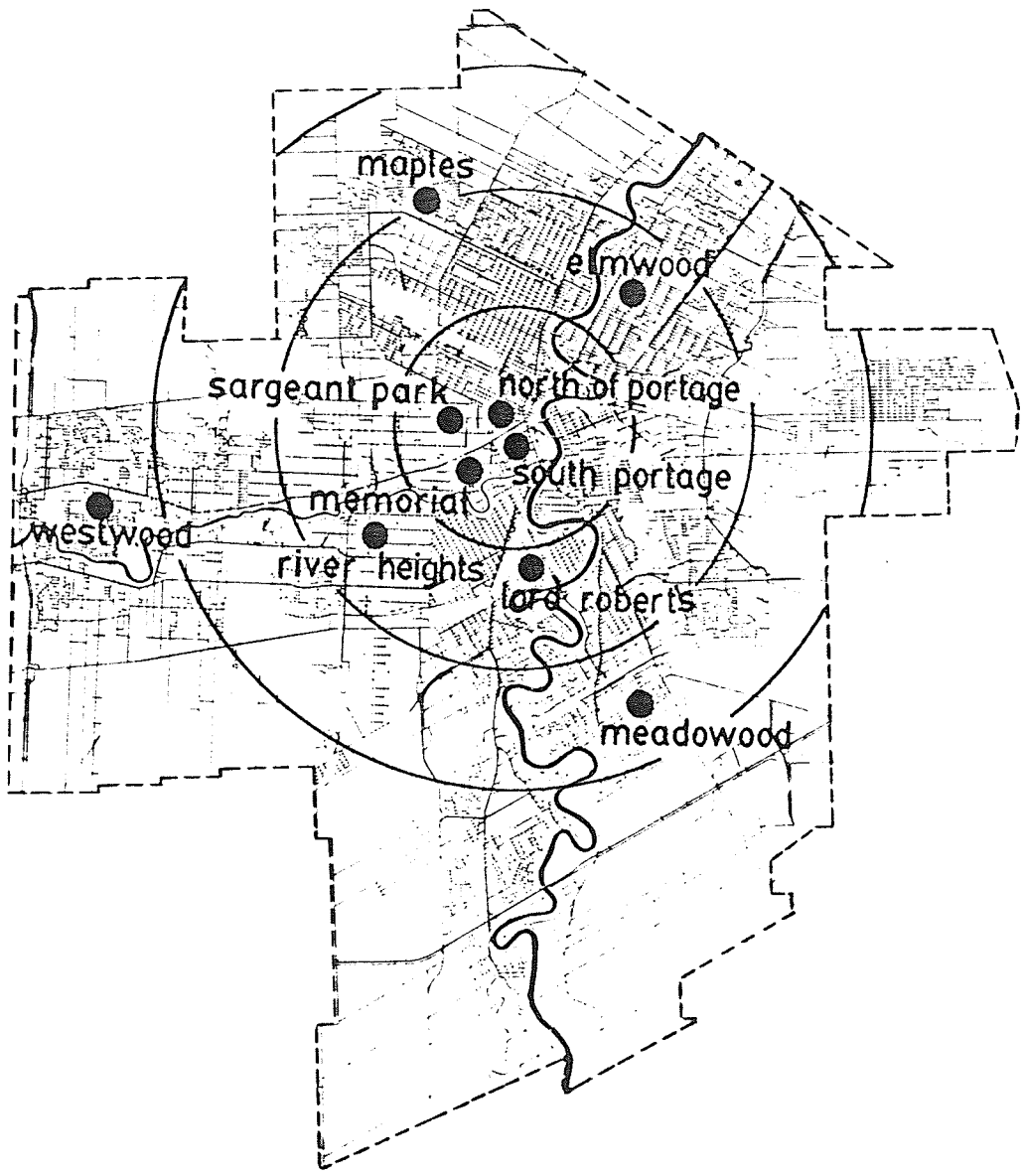
The means of monitoring the impacts of property tax policy is through the use of a case study analysis approach. Within each case study area, assessment data were collected in order to establish the relative tax burdens on land and buildings throughout the city. To facilitate an analysis of consistency between tax policy and land use policy, case study areas were selected from within the three main policy areas as designated in Plan Winnipeg. These included case studies from older neighbourhoods, from the suburbs, and from within the downtown area. From these analyses, conclusions will be made with respect to how the distribution of the tax affects locational choice for development in the city, as well as how the tax compares with current land use policy.

5.1 Case Study Selection and Analysis

As mentioned, the major criterion for case study selection was to select case studies from the major land use policy areas outlined in Plan Winnipeg. Another criterion was that case study areas should contain a mix of commercial and residential land uses for comparative purposes. The final selection criterion was that case study areas should receive a full range of municipal services so as not to skew the assessment data. For example, some areas of the city, such as Charleswood, for instance, do not receive a full range of services; as a result, their property tax assessments are correspondingly low and cannot be compared to other areas.

In all, ten case study areas were selected which represented a random distribution throughout the city (see Figure 1). Three case study areas representing suburban areas were chosen: the Maples in north-central Winnipeg, Meadowood in South St. Vital, and Westwood in the West End/St. James area. These neighbourhoods qualified as suburban in nature both geographically and in terms of age: the former two were developed within the past ten years and the latter within the last 18-20 years. Two case studies were selected from the transitional areas which were developed between 25-45 years ago: River Heights from the south-west, and Elmwood from the north-east sector which was once Old Kildonan prior to Unicity. Three case study areas were chosen from older neighbourhoods developed prior to 1935: Memorial, from the City Centre area, Lord Roberts, from the Fort Rouge area, and Sargeant Park, from the old West End. Finally, two case study areas were selected from the downtown core. As Portage Avenue approximately bisects the downtown area, the two case studies are simply: North of Portage Avenue and South of Portage Avenue.

Figure 1: Location of Case Study Areas



scale:  KM

From within each case study area, random samplings from property tax assessment rolls were taken for commercial and residential uses. Where possible, sales data were collected for comparative purposes. Table 1 gives an overview of the number of samplings from within each case study area:

<u>Table 1:</u> Summary of Case Study Areas and Data Collection			
Case Study Area	# of Samples	Approx. Age	Dist.Fm. CBD(km)
Downtown:			
North of Portage	26	---	---
South of Portage*	30	---	---
Older Neighbourhoods:			
Memorial	20	60-70	1.2
Sargeant Park	25	50-60	1.8
Lord Roberts	18	45-60	4.1
Transitional N'hoods:			
Elmwood	29	35-45	4.9
River Heights	15	30-40	4.7
Suburban Neighbourhoods:			
Maples	21	5-10	6.1
Meadowood	32	10-15	8.2
Westwood	17	12-20	10.5

Following is a summary of the analysis of the assessment data looking first at residential land assessment patterns; second at commercial land assessments, and finally at building assessments in the case study area.

5.1.1 Residential Land Assessment

As noted in Chapter Three of this thesis, land is currently assessed in Winnipeg according to land value relationships that existed in 1949. These base values for land form the functional core for land valuations, thus land is assessed on the basis of what it was worth over thirty-five years ago. Needless to say, land values have fluctuated and changed over time throughout the city, as have land uses, while assessed values of that same land have remained fixed.

The resulting disparity between assessed values and market values has once been described as "a bloody mess" by the mayor of the City, who noted that one of the city's most prominent shopping centres "is still being assessed as though it were a cow pasture, as is land in other suburban areas developed since 1957."² In contrast, land values in the downtown area are reflective of the commercial prominence the core area once held in the early 1950's, despite the fact that the area has since "hit rock bottom as a retail and commercial centre."³

Assessed land values in the developed areas (fully serviced lots) of the City of Winnipeg range from a high of approximately \$35.00 per square foot on Portage Avenue between Smith and Hargrave to a low of about \$0.14 per square foot in suburban subdivisions. A summary of the analysis of the distribution of the land portion of the tax

² Winnipeg Free Press, June 30, 1984, p.3.

³ Winnipeg Free Press, Nov. 23, 1984, p.3.

levy reveals the following pattern indicated in Table 2. The figures in Table 2 are derived by calculating the average assessed value of land in each case study area and reducing this to an assessed value per square foot. The second column gives the distance from the downtown (measured from the corner of Portage Avenue and Donald Street) to test whether a relationship exists between assessed land values and proximity to the downtown.

<u>Table 2:</u> Distribution of Land Assessments and Market Value				
Case Study Area	Assess't/ sq.ft.	Average/ (50x100)	Dist. (km.)	Mkt. Val. /sq.ft.)
Downtown:				
North of Portage*	\$3.63	\$18100	---	---
South of Portage*	3.23	16150	---	---
Older Neighbourhoods:				
Memorial	0.73	3650	1.2	\$3.41
Sargeant Park	0.58	2900	1.8	2.23
Lord Roberts	0.33	1650	4.1	2.60
Transitional N'hoods:				
Elmwood	0.35	1750	4.9	3.62
River Heights	0.37	1850	4.7	4.90
Suburban N'hoods:				
Maples	0.29	1450	6.1	4.50
Meadowood	0.23	1150	8.2	3.87
Westwood	0.25	1300	10.5	4.75
*excluding Portage Avenue Properties				

Table 2 indicates that proximity to the downtown is perhaps a more important determining factor in land value assessments than current market values. This relationship is not surprising in light of the fact that assessments are based on 1949 levels of value.

Generally land assessments decrease in value as one moves away from the central city. Although the difference between 0.73 per square foot and 0.23 per square foot may not seem significant initially, by applying the 1985 mil rate to an average size lot of 50 x 100 feet, the higher rate translates into a tax levy of \$726.77 while the tax levy on a similar size lot in St. Vital would be \$228.82, or a difference of \$495.82. In short, land parcels in older neighbourhoods will pay as much in land taxes as serviced lots over three times as large in the suburbs.

Table 2 demonstrates that land assessments are skewed away from current values. In comparing columns 1 and 3, it is clear that **a closer relationship exists between land assessments and proximity to the downtown than between assessed value and current values.** This clearly demonstrates the effects of the use of 1949/1950 levels for assessing land which are reflected in assessor's land rate manuals.

The wide disparity between land assessment rates in the older areas and suburban properties provides an immediate incentive for commercial and residential investors to locate

in lower land tax areas. Generally, home-buyers and businessmen will avoid locating in high tax areas because of the economic effects of property taxes on real estate values. As is pointed out by Peter Wolf:

Often ignored, indeed far from clear to most people, is the significant impact that tax expense has on the value of land and property. It is the relationship that is proclaimed in the apparently contradictory but, in fact, accurate statement that the higher the taxes, the lower the property value.⁴

The way by which high taxes can lower property tax values can be shown by the process of capitalization, which in effect quantifies the economic effects of property taxes on the current value of land. This process can be applied to property taxes as are other costs of owning property. Capitalization determines that amount by which the capital value of land is reduced due to tax liability in the event of a potential sale. In other words, it determines the proportion of the market value of the land required to offset the tax liability at the prevailing interest rate.⁵ This sum is

⁴ Peter Wolf, Land in America: Its Value, Use, and Control, (Pantheon Books: New York, 1981), p.103.

⁵ For a detailed explanation of the mechanics of capitalization, see Jens P. Jensen, Property Taxation in the United States, pp.63-75. Capitalized effects of property taxes on land values are calculated by dividing the prevailing expected return on investment into the annual land tax levy. This renders the portion of the original market value of the land required to cover the annual tax levy at prevailing interest rates. For example, if the annual taxes on a piece of land are \$100.00, and the prevailing interest rate is 4%, a capital sum of \$2,500.00 will be needed to yield an amount equal to the taxes. This will be subtracted from what a purchaser would be willing to pay in the event of no taxes.

taken into consideration by a purchaser and deducted from the amount he is willing to pay.

The capitalization effects on assessed values in the case study areas are summarized below in Table 3. The table uses a conservative figure of 8% for expected returns on an investment. A standard value of \$20,000 is used as the cost of a 50 x 100 foot lot in each case study area. This is to compare the capitalized effects of the property tax levy in each area in a control situation. The results were calculated as follows (for Memorial): $\text{market value } (\$20,000) - \text{annual taxes } (\$726.28) / \text{capitalization rate } (.08) = \$20,000 - \$9078.40 \text{ or } \underline{\$10921.50}$. This represents what the purchaser is willing to pay after capitalizing the property taxes.

The table represents the economic effects of current land assessments on property values in various parts of the city. It demonstrates the effect of the capitalization of current tax liabilities on a \$20,000 market investment. In simpler terms, assuming that an investor had \$20,000 dollars with which to buy a lot (perhaps to build a house), the table illustrates the areas in which his investment buys the greatest land value. It is immediately apparent that an investment in a suburban lot will present the greatest return for his investment. Clearly, the distribution of the land tax burden will directly influence the locational choice for his land purchase because the capitalized effect of the skewed land assessment system in effect lowers property values in higher tax areas.

Table 3: Capitalization Effects of Land Taxes on Property Values

Based on standard lot=50x100'; value=\$20,000.; capitalization rate=8%; mil rate=198.98(1984).

Case Study Area	Average Ass't	1984 Taxes	Capital'n Effect	Net Value
Older N'hoods:				
Memorial	\$3650	\$726.28	\$9078.40	\$10921.50
Sargeant Park	2900	577.04	7213.02	12786.98
Lord Roberts	1650	328.32	4103.96	15896.04
Trans'l N'hoods:				
Elmwood	1750	348.22	4352.69	15647.31
River Heights	1850	368.11	4601.41	15398.59
Suburban N'hoods:				
Maples	1450	288.52	3606.51	16393.49
Meadowood	1150	228.83	2860.34	17139.66
Westwood	1300	258.67	3233.41	16766.58

5.1.2 Commercial Land Assessment

The assessment of commercial land in the downtown area has of late become a public issue, as documented in Chapter Three. This is due in large part to the over-assessment of land along Portage Avenue. In this regard, land assessment rates vary from between \$13.50 - \$23.96 on the north side (between Colony and Donald Sts.) and between \$25.38 - \$44.59 per square foot on the south side (between Vaughn and Donald Sts.). Again, these extremely high land assessments are reflective of the once dominant position these properties once held in the commercial development of the City during

the 1940's and 1950's. According to a local real estate appraiser, "at that time the downtown retail area was still active with high rents and sales volumes evident. This is no longer the case."⁶

Assessed land values fall dramatically as one moves away from Portage Avenue. For example, the range of assessed land values along Broadway Avenue is between \$2.56 - \$5.65/sq.ft. On the average, land assessments are in this range within the downtown area moving from the high to low end as the distance from Portage Avenue increases.

Table 4 summarizes land assessment rates on various commercial uses in the city. The figures are calculated by dividing the assessed land value by the number of square feet in the land parcel:

The table of comparative commercial land assessments indicates a wide disparity between downtown assessed values and those of commercial properties in the suburbs. Again, this suggests that land assessments are as much a factor affecting locational choices for commercial development as they are for residential development (see Table 2). But another interesting pattern emerges here, which is related more to assessment practices than to the distribution of the tax burden. It is apparent that assessed land values are unaffected by use; that is, rates applied to commercial land

⁶ Report prepared on behalf of Portage Avenue Property Owners on the occasion of that group's second assessment appeal, by E. Karl Farstad and Associates Ltd., Winnipeg (unpublished), p.10; Interview Feb. 12, 1986.

Table 4: Commercial Land Assessments

Case Study Area	Land Assessment	Land Area (sq.ft)	Rate/ (sq.ft)
Downtown Shopping Ctr. Eaton's + Eaton Place The Bay	\$2,569,980 1,394,440	252,323 154,350	\$10.18 9.03
Suburban Shopping Ctr. Polo Park* Grant Park Plaza* St. Vital Kildonan Place Unicity Mall Garden City Mall Westwood Mall	1,719,700 1,383,901 540,640 381,980 436,380 393,120 111,890	2,439,217 552,120 2,162,536 1,527,699 1,746,712 1,572,515 486,794	0.71 0.40 0.25 0.25 0.25 0.25 0.25
Downtown Hotels: Delta Winnipeg Holiday Inn Sheraton Hotel Westin Inn Hotel Fort Garry	423,760 219,400 81,320 94,660 191,990	16,924 31,296 21,010 27,849 65,000	25.07 7.02 3.91 3.40 2.80
Suburban Hotels: Grant Motor Inn* Dakota Motor Inn Holiday Inn South* Birchwood Inn	24,920 16,490 28,050 77,180	33,328 47,091 37,400 125,060	0.75 0.35 0.75 0.61
* in transitional area			

are remarkably similar to residential land rates in the immediate vicinity (see Table 2 and Table 4). For example, land assessments for the St. Vital Centre are similar to those of adjacent Meadowood; Garden City Mall rates are equivalent to land assessments in the Maples; and Polo Park

is only slightly higher than assessments in Sargeant Park and Wolsely neighbourhoods.

The importance of this pattern should not be underestimated. Essentially, it demonstrates that in utilizing fixed land value rates, land assessments remain unchanged regardless of changes in current use. Under the present assessment system, taxes on land do not change whether the land is developed or not. In short, tax liability upon development responds only to the value of the structural improvement (building assessment). What is more, the assessed values of surrounding land parcels are inelastic to the improvement of a neighbouring property.

The question here is this: does not the land acquire an intrinsic value above its original value after development? The answer lies in understanding the fundamental components of property value; land value is not simply the sum of the cost of raw land plus the cost of the buildings erected on it, but rather value is inextricably linked to the use to which land is put. It is the use that determines the capital productivity of land, or its ability to generate income and thus increase in value. Land value, then, is a function of its current use; hence, property value in fact has three component parts: raw land, plus use (or potential capital value), plus improvements.

To illustrate, we can look at a specific example. The St. Vital Centre was built in 1979 on a fifty acre lot.

That land was assessed at \$540,640.00 or 0.25 per square foot both prior to and after development. From the perspective of its assessed value, the shopping centre would then have a value equal to the input costs of development (raw land plus improvement). This is not how the real estate market perceives its value, however. Indeed, its value on the market would be far above its component input costs at a value commensurate with its costs plus its capacity to generate capital. It is this 'extra' value due to the current use of the land parcel that goes unrecognized. In other words, the current assessment system, which depends heavily on fixed land rates, cannot adequately compensate for increased value due to change in use; thus, a large proportion of the 'current use value' remains untaxed in land assessments. This contributes to the current situation in which high use suburban retail areas are "still assessed as though they were cow pastures."

Table 4 clearly demonstrates that the current assessment method is a key factor contributing to the growing inequities in the distribution of the tax burden. Again, the use of fixed land rates, which are low in the suburbs, funnels commercial land development into these areas.

5.1.3 Building Assessment in Winnipeg

Buildings and improvements are assessed at 2/3 of 1966 replacement cost. Again, as mentioned in Chapter Three, cost assessments have not been depreciated since Dec. 31,

1961. Building costing manuals are consistent throughout the city, thus the distribution of improvement taxes is a relatively straightforward (though cumbersome) process. Collection of building assessment data for case study purposes was complicated by the fact that access to field notes on which actual cost calculations are made by assessors was denied by assessment officials. In short, the particulars of building assessments were not deemed to be public information. This effectively precluded an analysis of the distribution building assessments by comparing structures of similar age, gross square footage, and quality in various locations in the city.

It is possible, however, to discern meaningful patterns with respect to the distribution of building assessments in the city by using what information is available from the assessment rolls (total building assessments) and by comparing these to actual market value data in cases where data pertaining to size, age and quality are available. Table 5 presents a comparison of building assessments with market values of selected representative properties where data was available. In this table, figures are calculated by dividing total assessments into sale price to derive ratios for comparative purposes. Also, a ratio of the building assessment to sale price was calculated to derive the relative weight of the building portion of the assessment to the total assessment:

Table 5: Ratio of Building Assessment to Price

Case Study Area	Year	Sale Price	Tot.Ass't /Price	Bdg.Ass't /Price	Age
Downtown:					
*388 Portage (Boyd Bldg.)	1978	\$1,400,000	(%) 50.57	(%) 27.14	1911
*259 Portage (Paris Bldg.)	1980	1,445,000	46.23	28.79	1915
*290 Portage (Delta Wpg.)	1980	5,866,392	37.88	30.66	1964
*155 Carlton (Lakeview Sq.)	1976	11,839,213	17.70	17.18	1974
Non-Downtown:					
*1150 Grant Av (G.Park Plaza)	1983	8,000,000	24.09	07.05	1963
*635 Pembina (Grant Motel)	1979	1,660,000	20.15	02.50	1966
*2305 McPhil'ps (Gdn.City)	1981	20,500,000	11.46	09.55	1976

The most obvious relationship that emerges from the table is that total assessments on downtown commercial property are significantly higher than on non-downtown properties in terms of actual market value. That is, downtown properties are assessed at a significantly higher percentage of market value than are suburban properties. This trend conforms to Table 2 and Table 4 where the land portion of the assessment skewed the tax burden higher in older areas. As noted in Table 3, this is in large part due to high land assessments in the inner-city relative to suburban properties. But another, less obvious relationship can be detected which

deals with the contribution of the building portion of the total assessment. In the case study data, building assessments were highest relative to market value for buildings that were constructed prior to 1967; that is, the improvement portion of the tax burden was significantly higher for older buildings than for newer ones.

In effect, this relationship has 'distributional' consequences. Simply put, the heavier tax load on older structures creates investment disincentives in areas of the city with relatively high concentrations of older buildings. This is particularly true of certain parts of the downtown core and of course older neighbourhoods.

The key to understanding this trend is linked to building assessment policy regarding the depreciation component of building valuation. As detailed in Chapter Three, municipal assessors apply a depreciation factor to building assessments up to the point of the last reassessment. For standardization purposes, assessors depreciate buildings only as of December 31, 1961; this because the last reassessments occurred in Winnipeg in 1962. All buildings constructed after this date are assessed at a 1967 replacement cost level, with no depreciation factor applied. By the same token, then, buildings constructed prior to this date have enjoyed a recognition of depreciation only up until 1962, and subsequent depreciation has not had a significant effect on assessed values. This trend can be observed in the building assessments and their relative ages in Table 5.

To illustrate the dynamics and significance of this factor, the following example can be considered: A building is constructed in 1962. Let's say that it is a ten story office building which cost 0.5 million dollars to construct. Today, 1986, a builder wishes to construct, for nostalgic or other reasons, an exact replication of the 1962 structure, which will likely cost him in the neighbourhood of three million dollars. According to the current cost less accrued depreciation assessment procedure, the valuations of the two properties will be identical in light of the cancellation of the 'accrued depreciation' condemnation factor in 1962.

It stands to reason that the "value" of the two structures will not at all be similar. The 1962 model, having endured 34 years of 'wear-and-tear' will require large infusions of capital to bring it up to the same level of quality as the 1986 version. This might manifest itself in necessary repairs to a leaky roof, or other such means of ordinary maintainance. The short explanation is that the older structure is faced with immediate capital costs or a history of regular capital infusion to bring it into qualitative parity with the newer building, and to bring its current market value into line. If all operating costs are capitalized, this substantially reduces the value of the older building against the new, which, according to building assessors, are of the same value. This, in addition to the capitalization costs of excessive land assessments in older

areas (Table 3), substantially erodes the actual property values of older structures in the downtown core and in older residential neighbourhoods.

5.2 Implications of Tax Policy on Land Use Development

Assessment policy in respect of land valuations distribute the tax burden according to land value relationships that existed in 1949. This places a heavy land tax burden on the downtown core and older residential neighbourhoods. The net effect is to discourage land acquisition in these areas for the purpose of development due to higher capitalization costs. This introduces a strong bias in favour of suburban development, where land is more readily available and capital costs of holding that land are considerably lower due to property taxes.

The use of fixed land rates for assessment purposes fails to acknowledge the inherent value of 'current use' as a direct factor in land valuation. Land valuations remain essentially the same irrespective of use. This has important implications for development. Firstly, it tends to fuel the development of open land due to the fact that capital costs of owning the land are no different whether developed or not. For commercial properties, it can be argued that the business tax (based on capital productivity) partially off-sets the magnitude of this factor, but the same cannot be said for residential development. Taken in con-

junction with the strong distributional bias of the tax burden in favour of suburban land, this factor creates additional incentive for suburban residential development.

Secondly, the use of fixed land rates fails to recognize the indirect effects of changes in current use. In this respect, the capital benefits which are accrued by properties surrounding a developed property are not reflected in the assessment process. Taking the example cited before, the development of the St. Vital Shopping Centre has the effect of raising the property values of the surrounding neighbourhood from a market value standpoint, but these benefits are not reflected in land assessments. The general trend in this regard is that contiguous uses benefit from new development in terms of higher market value, and further benefit from the non-payment of property taxes on that unearned increment. Again, suburban properties are the beneficiaries here because of an imbalance of new development in these areas over the past twenty years in Winnipeg.

Property tax policy in respect of building or improvement assessment in Winnipeg also has implications for land use and development in Winnipeg. As has been shown, the 34 year freeze on the application of depreciation factors by assessment officials places a heavier tax burden on older structures. This creates inherent dis-incentives for private investment in older buildings. The absence of the depreciation factor necessarily holds assessments disproportionately

high despite natural forces of deterioration of older buildings which decrease market values. Coupled with higher maintenance costs, property taxes conspire to weaken the financial stability of older commercial buildings in the core. This is reflected in the low rents which older commercial structures along Portage Avenue have been able to command. Average rents in this area were 50 - 80% lower than for comparable space in other areas of the city.⁷ According to one irate owner, "Portage Avenue has been the goose that laid the golden egg for the tax department for years," suggesting that the situation has reached the point where the viability of the entire strip is in jeopardy.⁸ Tax policy in regard to building assessments contributes to the high operating costs of these buildings, thus contributing to the erosion of property values due to capitalization.

Property tax policy with respect to conducting reassessments also has indirect implications for land use and development. This is largely due to the fact that current assessment practices are allowed to perpetuate, creating a situation where assessed values no longer resemble property values determined by the real estate market. And as development proceeds, inequities grow larger. This establishes a system of 'tax preferences' that are enshrined within the taxation system; creating, in a sense, an elaborate network of development incentives and dis-incentives which influence

⁷ see E. Karl Farstad and Associates, Report pp.37-42.

⁸ Winnipeg Free Press, Nov. 23, 1984, p.3.

the locational choice of capital investments and ultimately affect patterns of land use.

5.3 Tax Policy in Light of Municipal Land Use Policy

Predominant land use policy in Winnipeg, as developed in Chapter Four of this thesis, is concerned with re-directing growth into existing older neighbourhoods and stimulating investment and revitalization in the downtown core.

Specific policies relating to older neighbourhoods stipulate that the city's responsibilities must be reinforced in housing and community development, thus improving the viability of the central city as viable living environment. The plan outlines several means of public support which are to be allocated according to severity of need, including tax incentives and stimuli for private investment in the residential, commercial and industrial sectors within older areas.

There is little connection between these land use objectives and current tax policies. Tax policy which serves to over-burden older structures in terms of municipal tax load will do little to stimulate "private investment" in these areas, nor will it promote the rehabilitation of older buildings. Property owners in the central city are faced with high land assessments as well as building assessments which are unresponsive to the degree of deterioration of these buildings. High taxes represent high operating costs

for most property owners, who have less residual capital to invest in their homes or businesses in repairs and upgrading.

Policies in support of suburban growth management recognize the need for some growth in these precincts, but the over-riding principles are toward encouraging a "compact" city form and limiting urban expansion beyond existing service infrastructures. As we have seen, implications of tax policy tend toward the stimulation of suburban residential development by providing favourable tax advantages in this area. Firstly, land assessments in the outlying areas of the city are significantly lower relative to the inner city. Secondly, unearned value increments due to higher use development are not reflected in higher land assessments; this providing an attractive incentive to propagate development within these areas. In short, property values in the suburbs are allowed to increase in terms of the real estate market, while enjoying fixed tax rates. Property tax policies do little to encourage management and control of suburban growth. Rather, they serve to encourage growth in these areas by holding tax burdens artificially low in relation to escalating property values.

Finally, Plan Winnipeg denotes a third policy area as 'downtown development' in which policies aimed at strengthening the viability of the core area as a commercial and, to some extent, residential area are formulated. In this

respect, some degree of policy cohesiveness exists insofar as tax policy actively encourages new development by assessing buildings at the 1967 level of value, thus "untaxing" a significant proportion of the current value. But, as is the case with older neighbourhoods, high relative land assessments are weighted against choosing the downtown as opposed to the lower cost fringe areas.

In the case of existing or older properties, tax policy can in no way be deemed supportive of land use and development objectives. Particularly devastating to older structures are high taxes on land and non-depreciated building valuations which seriously undercut the viability of core businesses. This dynamic is most notable on the north side of Portage Avenue where declining property values, high vacancy rates and low rents have conspired to destroy retail activity which has necessitated the present wholesale renewal scheme currently in progress.

5.4 Conclusions

Analysis of the distribution of the tax burden in Winnipeg has produced the following results. The distribution of land assessments skews assessments away from current values in such a way that older neighbourhoods suffer disproportionately high tax rates on land as compared to suburban land. When these high taxes are capitalized as input costs of owning land in the inner city, the economic effect is to

discourage investment. Analysis of the distribution of commercial land assessments reveals that the current method of valuation is unresponsive to changes in use. In other words, it fails to recognize the accrued value of development to that particular site and to contiguous uses.

The net effect of the concentration of commercial and residential development in the suburbs, and concurrent use of antiquated base levels in valuation, has tended to widen the gap of inequities in the distribution of the tax burden between older areas of the city, and the newer suburban areas. Analysis of the distribution of building assessments reveals that the current methods skew assessments in that older buildings bear a heavier burden of the tax load. This deals a double blow to the revitalization of older neighbourhoods and the downtown, and obstructs the ultimate realization of land use and development policy currently in place in the City of Winnipeg.

There is a demonstrated lack of policy cohesion between taxation and local land use objectives in Winnipeg. This is manifest mainly in the effects and impacts of the current system of property tax administration and assessment procedures used by the Winnipeg Assessment Office. It is readily apparent that land use policies are not supported by local tax policy and it can be said that tax policy in fact poses a serious impediment to the potential realization of land use and development policy in the city.

The distribution of the tax burden has implications for development in two ways. With respect to land valuation, assessments are heavily weighted in favour of fringe development. In building valuation the distribution of the burden falls heavily on older structures in favour of new development.

In general, tax policy affects urban development by creating regions of tax favourability from the perspective of private development. The case study analysis has shown that such regions of tax favourability exist in Winnipeg with significant impact on the suburban areas, older neighbourhoods and the downtown core. As tax policy does in fact influence urban development patterns, it cannot be said that property taxation is neutral with respect to land use in Winnipeg. On the contrary, current tax policies effectively distribute non-neutralities that have direct implications for future land use development. These come in the form of tax inequities which provide incentives for growth in directions antithetical to current land use policy directives.

Winnipeg's property tax 'non-neutralities' come not in the form of varying and discriminatory tax rates as is the case in many other centres, but rather, they are a result of inequities in the distribution of assessed values. These have been allowed to evolve through

1. an infrequent and, in terms of legislative responsibility, delinquent reassessment policy;
2. an antiquated distribution pattern of base land values which reflect actual values of 1949-50, but bear no relation to 1986 real property values; and

3. a method of assessing improvements which places a disproportionately heavy tax burden on older buildings of 34 years or more due to the elimination of the depreciation allowance in 1962, and the valuation of building costs at a 1967 replacement cost level.

In Winnipeg, the inequitable distribution of the tax burden and its consequent negative impacts on land use is not so much an administrative problem as it is a problem of tax policy mismanagement. To a certain extent it can be argued that assessors perform their roles competently and adequately according to the rules set out for them by tax policy-makers. From this perspective, it clearly becomes the responsibility of policy-makers to set proper guidelines for them. Who makes tax policy in Winnipeg and whose responsibility is it to see that policy objectives are being met?

In Chapter Three, it was noted that the City of Winnipeg Act provides scant policy direction with respect to how assessments are to be conducted in the city; it merely stipulates how often. In this respect, city council is clearly in breach of ensuring that the statutory requirements of the act are being met. In short, it is breaking the law. For example, in commenting on the power to order reassessments, the Mayor has claimed that "[t]heoretically, the assessor has complete jurisdiction. He is a statutory officer. He is not subject to the control of council. If our assessor said, 'I have got the authority and I am going to reassess,' it would put us all in a very difficult position."⁹ Need-

⁹ "Reassessment Effect on Taxes Alarms Norrie," Winnipeg Free Press, Nov. 22, 1984, p.1.

less to say, policy-makers must assume responsibility for ensuring the proper management of municipal functions.

The distribution of the tax burden is not fair, nor is it equitable. Only in the narrow sense that assessments are made with neutral objectives in mind and objectivity at heart can such a claim be made. Clearly, poor policy respecting how assessments are to be made, along with delinquency in conducting reassessments has destroyed all semblances of fairness in the present system. Moreover, the alienation of property taxation from its theoretical principles has had adverse consequences for land use and development.

Peter Wolf has noted that "because of the eventual impact of assessment policy on land development, public officials in every community are armed with a potential and volatile authority."¹⁰ Clearly, the exercise of tax policy in Winnipeg has been (and is) an important force in the development of the city; and, as noted in this chapter, a sometimes destructive force from the perspective of sound planning principles. The next and final chapter will explore the use of property tax policy as an instrument of positive land use effectiveness. It will be an exploration into a potential coordination of goals between fiscal tax policy and land use management.

¹⁰ Land in America, p.110.

Chapter VI

TAXATION AND LAND USE: TOWARD A SYNTHESIS OF GOALS

Present systems of taxation in this country neither provide for accomplishing land use objectives nor do they remain neutral. In far too many instances taxing systems contradict and serve to defeat land use objectives. However, contradictions can be corrected, and tax programs which facilitate the attainment of land use objectives can be developed.¹

-- Orlando E. Delogu --

This being the final chapter of the thesis, we must address the simple and yet difficult question: 'so what?'. The main challenge of this thesis was to answer the question in its simplest form. What difference does it make if tax policy and land use policy are not related in terms of goals? This has been addressed throughout the course of the thesis; it has been demonstrated that municipal tax policy is a force that can influence, and in the case of Winnipeg, adversely affect the realization of municipal land use policies. As planners, we need to know more about the forces that obstruct the effectiveness of that which planners do; in particular, the establishment of policies that serve the

¹ in Andrews, p. 214.

public interest in the management and control of land use in the city.

Such knowledge can lead to solutions aimed at minimizing the conflict of goals that exist in local government, and at creating a more integrated approach to the execution of these municipal functions. These solutions speak to the more difficult aspects of the 'so what?' question. It now becomes a challenge of what must be done about the situation.

This chapter is divided into four sections. The first section is a discussion about the broader context of the problem: we know how it has come about, we are now prepared to look at some possible reasons why it has come about. The second section looks at the imperative first steps toward municipal policy cohesion. It looks at how tax policy in Winnipeg can once again meet its overall objectives of equity and fairness, as well as how tax policy can remove the contradictory elements that impede land use objectives. The third section looks beyond mere policy cohesion. It looks at ways in which tax policy and land use objectives can be coordinated within an integrated system of tax-supported planning initiatives. The final section presents recommendations in support of these aims. It looks at options for the future.

6.1 Tax Policy in Winnipeg: Anatomy of Fiscal Zoning

As noted in Chapter Three of the thesis, tax policy in the City has been of a controversial nature since 1978, with the inaugural claims of two Portage Avenue property owners to the Board of Revision. For the Province, assessment reform has been an issue since early 1979, with the commissioning of the Manitoba Assessment Review Committee. Long delays in much needed assessment reform raises speculation as to whether or not assessment reform is possible, or even desired, in Winnipeg.

According to an article in the Winnipeg Sun, "city councillors say reassessment was always put off because it was a political hot potato."² In much of the literature on tax reform, a phenomenon known as 'fiscal zoning,' or otherwise as 'fiscal mercantilism,' is responsible for the apparent lethargy or inertia exhibited by municipal governments toward tax policy reform. To cite a Winnipeg example of ambivalence to reform measures, a response by a city councillor, "whose ward reaps windfall benefit from the city's outdated assessment system," refused to acknowledge the report noting that "city council didn't ask for the report, ... and there's no reason [to] take it seriously."³

² The Winnipeg Sun, "Suburbs Get Shafted," Oct. 25, 1985, p.3.

³ The Winnipeg Free Press, "Councillor Plans to Ignore Study," Oct. 23, 1985, p.3.

According to Katherine C. Lyall, 'fiscal zoning' is a term used to describe measures to

discourage the migration of families whose local tax contributions are not expected to cover the average cost of supplying them with the public services at the current levels in that locality.⁴

Fiscal zoning is motivated by intense concern by municipal decision-makers for protecting the tax base, and thus ensuring the maximization of tax revenues and minimization of costs. It refers to a slightly subterfugal system of fiscal control of tax 'enclaves' of similar assessment characteristics. Netzer suggests that this practice is more often representative of "conscious discrimination rather than incompetence or accident," where non-uniformity is actually desired in an effort "to export service costs and import tax base".⁵ In this particular instance, Netzer is referring to the manipulation of tax rates between competitive tax jurisdictions, a situation that exists mainly in large American metropolitan cities. In Winnipeg, tax rates are standardized. However, vestiges of fiscal zoning are noticeable in the inequitable application of assessment land rates in favour of newer suburban development, and in heavy taxation of older buildings.

According to Jerome P. Picard, "there is a well established principle that slums cost far more in public services

⁴ in "Tax Base Sharing: A Fiscal Aid Towards More Rational Land Use Planning," JAIP 41, 1975, pp.90-99.

⁵ Economics of the Property Tax, p. 183, 131.

than they pay in taxes."⁶ One of the objectives of fiscal zoning is to segregate groups of 'classes' of local service consumers. In simple terms, certain groups of residential and commercial property owners are considered to be high-cost consumers of local services. Generally this group is associated with low-income wage earners; it is this group that is defined as high consumers of soft services such as police and fire protection, health and welfare services, housing support subsidies, and institutional facilities for the elderly and handicapped. On the other hand, low-cost consumers of local services depend less on soft services than on hard services such as roads, sewers and general utilities.

From the perspective of the city, the provision of soft services represents a drain on municipal coffers in that expenditures cannot be considered as investments in hard assets, as is the case with tangibles such as roads. That is, they do not represent an increase of the net worth of the city's infrastructure, they represent services to property that are not recaptured by the city.

The rationale for fiscal zoning, or the segregation of low-cost from high-cost consumers of local services, is as follows. Firstly, local decision-makers seek to maximize the efficiency of service delivery by concentrating 'deficit producing' service consumption areas. Secondly, it is

⁶ Changing Urban Land Uses as Affected by Taxation, (Urban Land Institute: Washington D.C., 1962), p.33.

assumed that the tax base is protected in the sense that declining property value -- eroding tax base areas associated with high-level service consumers are contained and not allowed to spread into low-level consumption areas. Moreover, favourable assessments in stable property value areas provide an attractive combination for additions to the tax base in the form of new development.

As mentioned earlier, the situation in Winnipeg resembling fiscal zoning is accomplished not by varying tax rates, but by the slow evolution of assessment disparities between the older areas of the city and the suburbs or newly developed areas. Wolf has noticed this dynamic before in stating that

... preferential assessment occurs quite naturally in communities where property reassessment is infrequent. Such a system generally permits older assessments to remain fixed, based on market values of years gone by, which may have absolutely no relation to current property values.⁷

It can be said that the situation of "preferential" tax treatment for new suburban development "evolved naturally" through tax policy mismanagement, but this is only a part answer. There are other forces at work, primarily the potentialities of fiscal zoning for exercising effective control of the tax base, which stand in the way of assessment reform in the interests of equity and fairness.

⁷ Land in America , p. 111.

The desire to 'zone' properties in accordance with revenue productivity is a by-product of the declining capacity of property taxation for producing adequate revenues for expanding municipal services. Because of this heavy dependence, elected representatives tend to view development as 'increasing the tax base,' and thus make decisions on the basis of maximizing the public fisc. "Dependence on the property tax for local finance encourages land use planning in the developing parts of urban areas designed to maximize narrow, parochial fiscal advantage rather than economic efficiency or broader social goals."⁸ These decisions therefore may or may not be based on sound planning principles. In effect, fiscal zoning distributes the tax burden according to revenue concerns rather than according to principles of equity and fairness.

Pressures to preserve the tax base in an era of decreasing revenue elasticity to escalating service demands has tended to isolate the property tax function of municipal government in Winnipeg both from its theoretical objectives and from other municipal policies relating to land use. In examining the role of public policy, Meyer R. Wolfe has made the following observation:

There are some interesting dichotomies inherent in government policies at all levels which presumably foster sensible growth patterns on one hand, and encourage land shortages and sporadic irregular development consequences on the other.⁹

⁸ Dick Netzer, Economics of the Property Tax, p. 166.

⁹ "Land Use Economics and General Taxation Policy," in Rich-

The challenge in the face of fragmented and in some respects self-contradictory municipal policy in Winnipeg is to create an awareness of the cause and effect dynamics between taxation and land use planning, and to create a system in which the two functions can comfortably coexist in terms of their overall consequences and objectives.

6.2 Tax Policy Reform: Removing Development

Non-Neutralities

The first step in creating a more coordinated approach to property tax policy and land use objectives is to remove the non-neutral impacts of tax policy that disrupt the realization of land use objectives. In Winnipeg, tax policy serves to provide incentives for suburban development and to discourage the revitalization of older neighbourhoods and the downtown. As cited in Chapter Two, Beeman defines the term 'neutrality' as follows: "neutrality means to avoid interference with the attainment of optimal allocation and use of resources."¹⁰ The property tax in Winnipeg cannot be justified as a neutral tax because of its preferential treatment of newer structures and fringe area development. Moreover, these incentives are antithetical to prevalent land use pol-

ard B. Andrews, ed., Urban Land Use Policy: The Central City, (Free Press: N.Y., 1972), p. 235. Wolfe concludes that the right hand does not know what the left hand is up to. (p. 236).

¹⁰ Wm. Joseph Beeman, The Property Tax and the Spatial Pattern of Growth Within Urban Areas, (Urban Land Institute: Washington D.C., 1969), p. 11.

icy aimed at discouraging these trends. This dynamic is supported by Orlando E. Delogu's observation that

Present systems of taxation in this country [USA] neither provide for accomplishing land use objectives nor do they remain neutral. In far too many instances taxing systems contradict and serve to defeat land use objectives.¹¹

Basically, neutrality in taxation asks: "is the tax imposed so as not to distort the consumption or production pattern of consumers or suppliers?"¹² From the perspective of land use and development in Winnipeg, the answer is clear. According to the analysis in Chapter Five, the tax does distort natural consumption and production in the commercial and residential sectors, and does so in an adverse way in light of land use policy. Two objectives of tax policy reform must therefore be

1. to realign property tax policy in Winnipeg with the overall objectives of a fair taxation system, and
2. to eliminate the adverse non-neutralities of taxation for development by returning Winnipeg tax policy to a neutral state in terms of its impacts on land use and development.

In essence, the two objectives are one and the same. That is, by creating a system that is quantitatively fair in terms of incidence, one necessarily creates a tax which is

¹¹ Orlando E. Delogu, "Land Use Economics and General Taxation Policy," in Andrews, Urban Land Use Policy, p. 215.

¹² City of Winnipeg; Research and Policy Analysis Branch, "Approaches to Urban Finance in Winnipeg in the 1980's" (March, 1985), p. 17.

economically neutral in that it falls equally upon all manner of production and consumption so as not to influence development in one way or another -- at least not in theory. In so saying, it is reasonable to assume that the two objectives can be met by following a single course of action. Following is a prescriptive path for meeting the two objectives.

The first stage of tax policy reform is to adopt and implement key principles advocated in 1981 by the Manitoba Assessment Review Committee. These findings have been the subject of five years of provincial scrutiny, particularly in the area of analyzing the ramifications of tax shifts between classes of properties. In this respect a system of portioning is being hammered out to soften the impacts of massive shifts between classes of property. The Province is currently conducting its own reassessment to determine exactly what the portioning formula will be. It is expected that it will be implemented in the near future.

Until such a time as effective policy can be struck with respect to portioning, it is essential that measures be taken to remove the inequities that exist within property classes. These constitute the locational non-neutralities that contradict the general policy direction of land use objectives in Plan Winnipeg.

In October, 1985, an appeal court judge ruled that the city assessor in Winnipeg was in breach of his statutory

duty and ordered the immediate re-assessment of the City of Winnipeg to be completed for the 1986 tax year. In view of these developments, assessments will soon be brought up to date. However, it is imperative that the reassessment be based on as recent a level of value as possible.

Two factors are relevant to setting the level of value at which properties are to be assessed. The first is availability of data, the second is allowance for market fluctuations. Concerning the availability of information, assessors argue that the lack of time allowed in the October court ruling for the 1986 reassessment will force the reassessment level down; that is, insufficient time has been granted for assessment officials to bring costing manuals to current levels, thus, the reassessment level will likely be based on a 1975 or earlier level of value.¹³ Basing the reassessment on such a level will not serve to eliminate all of the inequities that currently exist. Clearly, assessments must be based on as current a level as possible in order to accommodate inequities that are the result of recent development.

Concerning allowance for market fluctuations, the setting of assessment levels at a fraction of current value is a means of protecting the assessment function from a barrage of public appeals in the event of market fluctuations. The reasoning is this: if assessments are based on 100% of 1986

¹³ Interview with Blaine MacKinnon, Assessor: Winnipeg Assessment Office, Jan. 23, 1986.

value, any market shifts will be immediately recognized by property owners, who will demand a concurrent adjustment in their property assessments. But by assessing properties at only a fraction of value, an owner is less apt to perceive the relationship between his assessed value and the fluctuating market value of his property.

In effect, the practice of assessing at a fraction of value (or as is the case in Winnipeg, at a much earlier level of value) is a way of 'coding' assessments, or making them pragmatically obscure in a way, so that officials are not over-wrought by assessment appeals. This, however, can be taken to the extreme. As John Shannon points out, "the lower the assessment level, the larger becomes the administrative graveyard in which the assessor can bury his mistakes."¹⁴ In Winnipeg, the assessment procedure is totally incomprehensible to the average citizen in that he has no clue as to the relationship between his assessments and the value of his property. This becomes a problem when the assessment function is not held accountable in the public forum. In view of these two factors, it is reasonable to set a level of value at or near 1980 values.

It is also imperative that a regular program of mandatory reassessment be established to ensure that inequities are not allowed to recur in the event of changing property val-

¹⁴ "Conflict Between State Assessment Law and Local Assessment Practice," in Richard W. Lindblom, ed., Property Taxation U.S.A. (U. of Wisconsin Press: Madison, 1967), p.45.

ues. As Kenneth Back has pointed out;

Where real estate markets exhibit rapid changes, either increases or decreases, an acceptable degree of equalization can only be achieved by frequent reassessments. Ideally, this requires annual reassessments, however, few if any jurisdictions are provided with sufficient resources.¹⁵

According to city officials, the estimated cost of the court ordered 1986 reassessment would total approximately \$658,696.00.¹⁶ As noted in Chapter 3, the cost of assessment administration in Winnipeg is considered to be extremely low, thus a \$220,000.00 additional cost per year to maintain up-to-date assessments would not seem unreasonable.

Two other areas of municipal tax policy are in need of reform. These are concerned with the nature of the "value" sought by assessors and the means of or approach toward arriving at that concept of value in property valuation procedures. Again, these points have their antecedents in the Weir Report and need not be elaborated in great length here. However, in the interests of removing the non-neutralities that disaffect land use policy objectives, IT IS IMPARATIVE THAT VALUE BE DEFINED IN SUCH A WAY AS TO INCLUDE A MARKET DEFINITION OF VALUE, AND THAT A MARKET SALES APPROACH TO VALUE SUPERSEDE THE PRESENTLY IMPLEMENTED COST PLUS ACCRUED DEPRECIATION APPROACH TO VALUE.

¹⁵ "Property Tax Administration: Current Conditions and Future Possibilities," in Arthur D. Lynn, Jr., ed., Property Taxation, Land Use, and Public Policy (U. of Wisconsin Press: Madison, 1976), p. 58.

¹⁶ Winnipeg Free Press, Feb. 3, 1986, p. 3.

In order to restore the current system of assessment in Winnipeg to some degree of public legitimacy, property assessments must be made more comprehensible to the average citizen. According to the City's Research and Policy Analysis Branch, "the only way a taxpayer may begin to be convinced that a tax is fair is if she or he can compare their own case to some universal, understandable, standard. With homes, the standard is value, and to nearly everyone, 'value' means 'what would be received if it were sold'."¹⁷

The use of market sales data to arrive at property valuations has greater significance than increased public acceptance. A greater linkage between assessed values and real market values effectively dismantles tax-motivated locational incentives (in the case of Winnipeg) between the suburbs and older areas. The closer the relationship, the greater the tax neutrality in terms of development incentives, either unintended or sanctioned from the perspective of fiscal zoning. In other words, a tax that falls equally on all property in accordance with the market value of that property creates no tax-induced favourability from one area to the next. In Winnipeg, this would ensure that investment in residential development would be equally as attractive in older neighbourhoods as in the suburban areas from the perspective of capitalization costs of the property tax.

¹⁷ "Approaches to Urban Finance in Winnipeg in the 1980's", p. 27.

A new definition of 'value' necessitates a modified valuation methodology, or approach to value. As suggested by the Manitoba Assessment Review Committee,

Assessment manuals should continue to be used, however, it is the Committee's opinion that valuations, contained therein, should normally be established by using sales data rather than replacement cost.¹⁸

There are many lucid arguments that outline the deficiencies of the replacement cost plus accrued depreciation method.¹⁹ Most basic is the amount of time required. There are simply not enough resources available to appraise the component parts of each and every structure in the city on a three year basis. To do so, each of Winnipeg's assessors would have to appraise 2,350 properties per year, or about ten per day --- this is not feasible. For the purpose of this study, however, the key deficiency is the failure of this method to accurately account for the 'use' factor in valuation, and the intangible effects of changes in use on contiguous uses. In a fairly lengthy statement, Radcliffe presents the following indictment of this "questionable" appraisal system:

For nearly 40 years commentaries have appeared on the cost of reproduction less accrued depreciation Approach which have totally destroyed it on logical grounds as a device for estimating market value... The most damaging defect of their approach is that it requires the separation of the real estate into two physical components, land and

¹⁸ A Fair Way to Share, p. 84.

¹⁹ see, for example, Henry A. Babcock, Real Estate Appraisals (National Association of Real Estate Boards: 1932), p. 232

building, and the separate estimation of the value of each component so that the total may represent the market price of the combination. Clearly, the individual and separate contribution of each component to the market value of the total going concern is not determinable... such summation appraisals are condemned as unsound, inaccurate and misleading.²⁰

The importance of using sales data to determine market value is that the market itself assesses the contribution of the use, or income potential to the total value of the property consisting of land and buildings. Thus, much of the 'untaxed' value which is lost to assessment would be captured as it is interpreted by the market and evidenced in sales data. Moreover, this would remove inequities currently existing in Winnipeg where higher use value is unrecognized in suburban areas, and where too high a use value is recognized in older areas, and, as we have seen, particularly in older areas of the downtown along Portage Avenue.

Presented here are suggested courses of action with respect to tax policy reform in Winnipeg. These, of course, represent only the 'tip of the iceberg' --- the Weir Commission made over 170 such recommendations. These steps must be considered as fundamental, however, to the interests of land use policy; that is, they attack those inequities or non-neutralities that contradict the objectives of Plan Winnipeg. They are house-keeping measures to "keep assessment clean" in respect to disallowing interference with the opti-

²⁰ Richard U. Radcliff, Current Practices in Income Property Appraisal - A Critique, (University of California: Berkeley, 1967), p.11.

mum allocation of resources. These represent basic steps toward the fundamental objectives of taxation systems. It is the very least that must be done.

6.3 Tax-Supported Planning: The Case for Non-Neutrality

To this point, strategies have been put forth in an effort to restore property tax policy in Winnipeg to its neutral condition, thus alleviating the non-neutral consequences of poor tax policy which undermine rational planning principles enunciated in current land use policies. Though it is possible to conceive of the assessment of real property as a neutral exercise municipal government in terms of its objectives, it is not possible to conceive of it as neutral in terms of its consequent impacts on development. Taxation policy, which governs the assessment process, is not neutral. This has been documented in the analysis in Chapter Five of this thesis. But this situation is not only true of Winnipeg. George E. Peterson offers this important general observation:

Assessment policy affects the distribution of tax burdens among local residents, it can serve to attract or repel new commercial investment; and it can encourage or discourage improvement to the housing stock. For this reason, it is disingenuous for assessors to hide behind the facade that their job is policy-neutral, consisting only of the determination of the market value of parcels.²¹

²¹ Peterson, ed., Property Tax Reform (The Urban Land Institute: Washington, 1973), p.11.

Taking our cue from Peterson in that neutrality is merely an administrative "facade" of the assessment stage of taxation, and recognizing the inherent non-neutral impacts of the tax system as a whole, it is possible to view taxation in a different light; it is possible to consider taxation as a non-neutral fiscal policy element in service of land use policy rather than as a principal foe. These possibilities have been considered before: Raleigh Barlowe notes that

Property taxes are not ordinarily used for non-revenue purposes. It must be recognized, however, that tax policies can be used quite effectively, along with the police, eminent domain, spending, and proprietary powers of government, as a means for controlling and directing future development.²²

And Frederick D. Stocker notes that

The property tax, even in its present form as a tax that falls equally on land and improvements, would seem to be potentially a highly effective tool for deliberately influencing urban development. But before it can be brought fully into play in that unaccustomed role, there needs to be a fairly clear, unambiguous, and generally accepted view of what a rational pattern of urban growth is.²³

Stocker makes two key points here. Firstly, the property tax can be used as a positive instrument of public land use policy, and secondly, he cautions that in order to do so we must have clearly defined and rational land use policies that have the general support of the public. In short, it

²² "Taxation in Agriculture" in Richard W. Lindblom, ed., Property Taxation U.S.A., p. 100.

²³ "Property Taxation, Land Use and Rationality in Urban Growth Policy," in Arthur D. Lynn Jr., ed., Property Taxation, Land Use and Public Policy, p. 193.

is essential that land use policies are backed by solid support and commitment at the local level. Mabel Walker agrees with this chronology: "It would seem to be desirable to establish goals in land use planning before we try to achieve these goals by tampering with the taxation system."²⁴

Winnipeg's experience with Plan Winnipeg indicates a need for some improvement in the area of public support for municipal land use policy. Firstly, attitudinal differences have led to a protracted squabble with the province over some key elements of policy direction such as the urban limit line. Moreover, general policy directives do not receive direct fiscal support as do policies relating to hard service delivery. In effect, the primary policy objectives of revitalization of older neighbourhoods, downtown development and suburban growth management are treated as 'soft' policies to be considered by council where convenient. This is evidenced by such qualifiers as "where, in the opinion of council", "as council sees fit", "shall encourage where possible." On the other hand, policies relating to streets and transportation; water waste and disposal; and parks and recreation enjoy direct linkage with the five year capital budget, which precludes discretionary treatment by council.

²⁴ "Land Use Economics and General Tax Policy," in Andrews, Urban Land Use Policy, p. 218.

To create a sense of "hard policy" in the general policy direction of Plan Winnipeg, the plan must be immediately adopted as an official municipal by-law. Also, direct fiscal support of the plan must be balanced between general policy areas and specific policy in support of hard services.

These are not uncomplicated tasks; each would require much work before they could be implemented. But until such a time as municipal land use policies in Winnipeg receive 1) solid public support in the form of commitment to the plan, and 2) financial support in the capital budget, it would be highly unreasonable to suggest that these policies receive the support of the taxation system. Land use policy must be clearly defined and clearly supported before a model of tax-supported planning can be effective.

Tax support of land use policy is predicated on the judicious allocation of property tax non-neutralities that represent fiscal support of those policies. It is possible to conceive of tax-supported land use policy as consisting of two key component parts: tax support of land use policy from the revenue side of fiscal policy, and tax support of land use policy from the expenditure side of fiscal policy. These two components form the basis of the remaining recommendations of this thesis.

• **Revenue Support of Land Use Policy**

The problem of creating a greater degree of coordination between taxation and planning is a complex one. Planning clearly involves the **conscious and positive** allocation of urban resources. Taxation, which seeks economic neutrality in its administration, affects the allocation of resources by its very nature. As Netzer puts it, "it tends to lead to patterns of resource allocation which differ from those which would obtain in its absence."²⁵ In a sense, it **unconsciously and negatively** affects resource allocation in its consequent impacts on urban development. The problem then becomes: how does greater coordination between taxation and planning come about without compromising the fundamental presuppositions of either or each?

An effective solution lies in the distinction between assessment administration and property tax policy. At one point in a conversation with a representative of the Social Planning Council, the following suggestion was made: The key to the solution "lies in keeping assessment clean. If you want to diddle with the results, it has to be done by the policy-makers."²⁶ Though somewhat cryptic out of context, this perspective is highly significant. What is referred to here is this: assessment can, and perhaps should, continue to be an objective science concerned with simple, accurate, property appraisal procedures regardless

²⁵ Economics of the Property Tax, p. 67.

²⁶ Harvey Stevens, interviewed Dec. 12, 1986.

of what this means economically for development and land use distributions. It thus meets its self-imposed criterion of neutrality, and frees assessors from subjective judgement in the area of the value impacts of various land use policies.

On the policy level, however, it is possible to provide for adjustments in the distribution of the tax burden to support land use policies and planning initiatives in a non-neutral way. The means of affecting such a re-distribution of the tax burden is through the implementation of **municipal development support levies** based on a priority of need. This process involves the manipulation of tax rates in order to create localized incentives for investment in pre-determined policy areas. Recalling a point to this effect from Plan Winnipeg, "the city's primary tax leverage potential is in the form of tax deferrals on its own property tax for new residential development in older neighbourhoods or on major improvements to existing properties."²⁷

The use of municipal development support levies can be viewed as an elaborate system of tax incentives that are enshrined within the taxation system. Currently, tax incentives for development are allotted on an ad hoc basis by decision of council. With respect to the 'ethics' of this practice, Mabel Walker asks a question of fundamental importance:

Do we seek equity and incentive for all taxpayers, or only for the urban developer? If the tax system of a city so inhibits private developers that

²⁷ Draft Bylaw 2960/81, p. 16.

certain projects can be accomplished only by special tax favours, then the city had better give its tax system a rigorous overhauling. Justice for all seems a more worthy objective than special favours for the few."²⁸

The basic premise of municipal development support levies is to provide equity and fairness in the use of tax incentives to stimulate private development. Such a tax policy initiative can create a direct linkage between local tax policy and municipal land use policy. Moreover, such a system of tax burden distribution has progressive elements in terms of development. Through prioritization based on need, tax rates can be manipulated in such a way as to reflect a specific ability to pay, a basic objective of the property tax system.

• Expenditure Support of Land Use Policy

Direct fiscal support of land use policies can be accomplished through the use of a Planning-Programming-Budgeting System (PPBS) model for expenditure control and resource allocation at the municipal level. This system is designed to integrate the overall objectives of planning with the budgetary process to create a comprehensive strategy for coordinated municipal policy. Traditionally, planning initiatives and land use policies have been kept separate from the budgetary process.

The failure of the capital budget to provide direct fiscal support for land use policies is largely due to the susceptibility of the budget to economic constraints and to

²⁸ Walker, in Andrews, Urban Land Use Policy, p. 218.

"tunnel vision focus on short-term budget execution and control" where long-term planning considerations are lost to short term physical development objectives.²⁹ A key aspect of the PPBS is the comprehensive evaluation of the physical, social and economic needs of a community, and prioritization of these needs into a long-term resource allocation program. Dr. Ruth Davis summarizes the complex PPBS approach as follows: "The System Design sentence is WHERE, WHEN, WITH WHAT, AND WITH WHOM, YOU MUST ACCOMPLISH WHAT, FOR WHOM, AND WHERE."³⁰

Using the integrated approach offered by PPBS, tax revenues can be allocated according to land use policy areas as outlined in Plan Winnipeg. The areas of greatest need have already been identified in the plan, the task now would be to provide a more clear prioritization of that need from which expenditures could be graduated and allotted according to these areas.

Fiscal support of land use and development policy can be accomplished through innovative programme development techniques such as the PPBS. This system poses a structure for coordinated policy at the municipal level, and clearly identifies the target area for expenditure allocations. Moreover, as time progresses and new priorities for expenditures

²⁹ Vincent J. Moore, "Integrated PPB Systems: Breakthrough or Bureaucracy?" in Virginia Curtis, ed., Planning-Programming-Budgeting Systems, (ASPO National Planning Conference: Chicago, 1969), pp. 2-3.

³⁰ as cited by Wilbur A. Steger, in Curtis, *ibid.*, p.47.

emerge, the PPB System can accommodate such changes within its programme framework. This restores a clear relationship between where a communities needs are, as established by municipal land use policies, and where municipal revenues are spent. It restores the benefit for services principle to a place of prominence in the tax policy structure.

The major task confronting the creation of more coordinated fiscal and planning policy is to establish a departmental body to oversee the overall fiscal management of various functions of the executive wing. In Winnipeg, the functions of assessment, planning, and budget preparation are all split between four separate administrative streams. In view of this structural organization, it is not surprising that unrelated and sometimes contradictory policy can co-exist in the overall fiscal management of the city. At present, it is the Board of Commissioners that makes the ultimate fiscal management decisions on the basis of 'competing' claims from each of the separate departments.

6.4 Recommendations

On the basis of the above discussion, it is obvious that immediate and decisive measures must be undertaken if assessment unfairness and taxation non-neutralities are to be kept in check. Following are a number of recommendations which offer themselves as a direct result of this study:

- **Recommendation 1**

In order to re-create equity and fairness in the tax distribution within specific property classes, it is recommended

THAT THE LEVEL OF VALUE INCORPORATED FOR THE 1986 REASSESSMENT BE SET AT NO EARLIER THAN AT A 1980 LEVEL, AND THAT A REGULAR CYCLE OF SUBSEQUENT REASSESSMENTS BE MADE MANDATORY EVERY THREE YEARS.

- **Recommendation 2**

In the interests of removing the non-neutralities that disaffect land use policy objectives, it is recommended

THAT VALUE BE DEFINED IN SUCH A WAY AS TO INCLUDE A MARKET DEFINITION OF VALUE, AND THAT A MARKET SALES APPROACH TO VALUE SUPERSEDE THE PRESENTLY IMPLEMENTED COST PLUS ACCRUED DEPRECIATION APPROACH TO VALUE.

- **Recommendation 3**

To create a sense of "hard policy" in the general policy direction of Plan Winnipeg, it is recommended

THAT PLAN WINNIPEG BE IMMEDIATELY ADOPTED AS AN OFFICIAL MUNICIPAL BY-LAW, AND THAT DIRECT FISCAL SUPPORT OF THE PLAN BE BALANCED BETWEEN GENERAL POLICY AREAS AND SPECIFIC POLICY IN SUPPORT OF HARD SERVICES.

- **Recommendation 4**

The basic premise of municipal development support levies is to provide equity and fairness in the use of tax incentives to stimulate private development. To this end, it is recommended

THAT MUNICIPAL DEVELOPMENT SUPPORT LEVVIES BE ESTABLISHED TO STIMULATE PRIVATE INVESTMENT IN POLICY AREAS BASED ON NEED AND IDENTIFIED IN THE DEVELOPMENT PLAN.

• **Recommendation 5**

In order to create a greater degree of fiscal support for land use policy, it is recommended

THAT A SYSTEM OF EXPENDITURE ALLOCATION BASED ON THE PPBS MODEL BE UTILIZED IN THE PRIORIZATION OF NEED AND FISCAL PROGRAMME DEVELOPMENT IN WINNIPEG.

• **Recommendation 6**

The administration of a tax-supported planning program requires a greater degree of inter-communication between planning, taxation and budgeting. This can be accomplished by realigning these three departments under the same administrative stream. Innovative fiscal programme development can only come about through the input of all of these traditionally separate municipal functions; they must work together rather than as adversaries. It is therefore recommended

THAT THE ASSESSMENT DEPARTMENT, ENVIRONMENTAL PLANNING DEPARTMENT AND THE BUDGET BUREAU BE

CONTAINED WITHIN THE SAME EXECUTIVE WING IN THE CITY OF WINNIPEG.

6.5 Summary

Current conflicts of goals between local tax policy and land use objectives in Winnipeg stem from the narrow parochial interests of local decision-makers whose main interests are in the preservation of the tax base over and above basic land use policy interests. This is due in part to the shrinking effectiveness of the property tax to generate sufficient revenues to finance a broad spectrum of local service involvements. However, as noted by Delogu,

Theoretically, tax policies having negative effects on land use objectives are capable of being corrected, and perhaps of greater importance, and range of positive uses of the taxing power can be developed which will encourage acceptance and achievement of land use objectives. Whether or not these devices and programs, as simple as some of them may be, will be used is another question - a question of political will.³¹

The initial task of reform is to create an awareness of the serious ramifications of a breakdown in municipal policy cohesiveness. In this respect, the orderly physical development of the City of Winnipeg is clearly obstructed by antiquated and harmful tax policy. The second task is to admit that we have a problem in this regard. And the final task is to summon the political will to address this problem

³¹ Delogu, in Andrews, p. 210.

effectively and from the perspective of broader social and economic goals.

We need reform of tax policy to realign its execution and impacts with its basic theoretical objectives. This becomes the minimum form of redress. This can be done through keeping assessments up-to-date, and establishing a methodology that is consistent with equity and fairness, and removes inherent biases which work to the detriment of land use policies.

We need also to look at ways in which tax policy can be used in the active service of land use policies. This can be done on both the revenue and expenditure sides of fiscal policy in which municipal budgetary considerations are based on policies established in Plan Winnipeg. This would require some degree of policy prioritization and administrative reorganization, but the essential ingredients are already there, and the administrative structures already in place. What is lacking is broad understanding and support for such measures.

CONCLUSION

Property taxes exert pressures which influence land use decisions and urban development. The administration of the present system of property taxation has direct effects on land use which in turn affect locational choices for specific uses as well as the spatial distribution of urban resources. The establishment of tax policy and assessment procedures within the municipal fiscal context affects the goals and priorities of urban development. This creates an opportunity for conflict between land use planning goals and assessment policy.

This thesis has examined the relationships, both actual and potential, between two functions of local government in Winnipeg: property taxation and land use planning. Chapter One reviewed the work of other studies in this area focussing on how taxation effects land use in other study contexts. Chapter Two surveyed the historical development of the property taxation system in Canada and established the basic theoretical principles toward which taxation systems strive. Chapter Three examined the basic elements of tax policy in Winnipeg and described how the property tax is administered in the Winnipeg tax jurisdiction. Chapter Four examined the current land use policies in place in the city

in order to provide a context for an evaluation of the relationship between these policies and those of property taxation. Chapter Five analyzed that relationship from the perspective of how the tax impacts on development in Winnipeg and evaluated the degree of cohesiveness of the two policy systems. Chapter Six focussed on how the two functions could be coordinated in a more constructive way from the perspective of land use and development. Conclusions were made toward a positive integration of the two functions in terms of policy objectives and organizational structures, and recommendations were put forth to this effect.

The study of tax effects on urban development is not an easy task, it necessarily involves a complex labyrinthine passage through overlapping fields and interests. As Beeman has pointed out, "the interests of urban economics, urban planning, and local public finance join when the effects of the property tax are considered."¹ What is more, each study is unique in that differing local government structures, fiscal policies, and land use objectives complicate the process of deriving commonalities between separate jurisdictions in this problem area.

Coordinated municipal policy can only begin to emerge from the study of the inter-relationships between all of the forces which ultimately determine the direction of growth in the city; and of these, property taxation must be recognized

¹ The Property Tax and the Spatial Pattern of Growth Within Urban Areas, p. 11.

as a key player. It is only then that a proper symbiosis can emerge between taxation and local land use objectives, and between fiscal policy and planning as a whole.

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