THE INFLUENCE OF
CERTAIN MUNICIPAL REVENUE RAISING TECHNIQUES ON THE
PHYSICAL DEVELOPMENT OF THE COMMUNITY

SUBMITTED BY
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As partial fulfillment of course requirements for the completion of the Master of City Planning Degree,
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BY

LLOYD MELVILLE GRAHAME

A thesis submitted to the Faculty of Graduate Studies of
the University of Manitoba in partial fulfillment of the requirements
of the degree of

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CHAPTER I

INTRODUCTION

A. PURPOSE

The purpose of this thesis is to determine how land use and development planning are affected by the various forms of revenue available to a municipality, and to assess their relative influence.

Although the rate and pattern of development in a free market society is dependent in the final analysis upon the intersection of supply and demand curves, it must be remembered that many factors affect these curves.

Planning has traditionally utilized zoning and development controls to influence the pattern of land use within the community. However an effective tool, which can strengthen planning concerns, has been both available and neglected to date - public finance.

There are two means by which public financing can influence the built form of a municipality: the way in which revenues are raised, and the manner in which those funds are spent. This study deals with the former, leaving the latter to other investigators.

B. PROBLEM

In the past the manner of raising revenues has not reinforced the public objectives as stated in planning policy. Through this investigation of the probable planning consequences which would follow from the implementation of each revenue producing technique available to local entities, it is endeavoured to recommend the most suitable (in terms of
policy reinforcement) manner of producing revenue. No matter what goals our society may pursue, it should be rational enough to reinforce those goals with the corresponding system of raising revenue. For planners to work in a vacuum and perhaps towards goals which are not reinforced by suitable taxation policy is frivolous.

The planning profession has traditionally been one that moves apart from the financing of the community, and it is the author's belief that by integrating planning policies with a financial system which supports those policies, we are more likely to bring about desirable change. This investigation will refrain from promoting certain policies, but instead will attempt to demonstrate the effects of implementing the many revenue techniques available to a local body. As an example, a tax on trees will not only raise revenue but also be a deterrent to future tree planting, and may lead to the removal of trees altogether. Just as this hypothetical example shows the side effects of a manner of raising revenue on the physical form of the community, so too all methods of revenue raising influence the growth of urban areas. This research will show the ramifications and anticipated influences of different revenue sources on the physical development of the city.

C. HYPOTHESIS

The questions raised by the above problems are best expressed by the following hypothesis:

"Revenue raising techniques are planning tools, which when properly utilized can bring desirable change to a community".

The author shall endeavour to address all of the problems in the process of testing this hypothesis.
D. METHODOLOGY

In Chapter I, the purpose, hypothesis, problem, and methodology of the thesis are stated. In Chapter II it will be important to establish first an understanding of the various revenues available to a municipality, including both a knowledge of the characteristics and intent of each revenue source, as well as the general theoretical basis on which they are justified.

This investigation will not analyze all revenues which together form the gross income of a community. Instead, only the revenues which are raised by the municipality, and which may influence the development of the community will be researched. These revenues will be termed controllable influential revenues. Government grants, interest from funded reserves, and short and long term borrowing are excluded, for although they influence community development as they are expended, they are non-influential until that time.

In general the controllable influential revenues available to a municipality can be categorized as either i) user charges/pricing system, or ii) taxation; and therefore will be approached under these headings. Equally important is the legal structure that allows first, for municipalities to collect revenues, and second for the means by which they are allowed to collect them. At this stage the investigation will deal with the urban municipalities within Manitoba specifically. (Winnipeg excluded).

Since taxation is the principal revenue available to municipalities, it will receive correspondingly more attention. It must be remembered that there is no one set of rules upon which taxes are justified. They are based on theories which are thought by certain
people at certain times to be just, and no more. The most famous
criteria for 'good taxes' are Adam Smith's four 'canons of taxation'.
These will be explored so that different taxes available for use by a
municipality can be judged in regard to their conformity with these
basic principles.

A 'good tax' refers to an equitable tax, and the question of
equity as it applies to the financial system will be studied. Taxes in
their very simplest definition are rates applied to a base. The question
of what base is to be used is largely a matter of equity. The question
of what rate is to be applied is the factor determining whether the tax
is regressive, proportional, or progressive; and this in turn determines
whether or not the tax is equitable.

All taxes will be criticized by those taxed as being unjust, but
the system as a whole should be just in the eyes of the society.

The investigation must also look into the incidence of the
revenue sources - to see who in the final result pays for the levy or
tax. It is important to know who is being affected by the implementation
of a revenue source, and whom the levy or tax has been shifted to, if
in fact it can be shifted. Finally in this section, it is important to
note the characteristics of an equitable revenue producing system, which
is also efficient to administer.

In Chapter III the research will analyze the various specific
revenue sources available to the local bodies of urban municipalities
in Manitoba, and determine the various influences of each revenue
source on the built form of the community. Within this section, the
revenues will again be approached under the headings, i) user charges/
pricing system, and ii) taxation. It will be important to analyze the
revenue source as it is applied at present, as well as the manner in which it could be applied through varying the bases and rates. At the same time it will become necessary to research the assessment and administration of the revenues; for as just and equitable as they may be in theory, poor administration procedures may be their demise. As well the investigation will look at adjustments to the revenue sources which are available in other provinces and countries. Many of these have a definite impact on society; and if these impacts are desirable within our society we should explore the possibility of their implementation in this context.

Finally, in Chapter IV, the research and conclusions found in the preceding sections will be applied to the financial system of urban municipalities in Manitoba. In this way the progressiveness of the system can be determined and the influence on the physical form of the communities can be anticipated. It will be possible to now identify the policies supported by the existing financial system, and if these are contrary to those stated in planning documents it is hoped that rational change would occur. For if planning is to be effective, it is important that both planners and government use all of the tools at their disposal in the implementation of their agreed upon goals.

In conclusion, it is anticipated that the various forms of municipal revenue do have influence on community development patterns. Furthermore, the revenues found to be supportive of planning objectives can be used to help implement those ideals, as well as to equitably raise the revenues needed to finance the municipality.
CHAPTER II

THEORY OF REVENUE RAISING BY LOCAL BODIES

The investigation will begin with a careful definition of the various revenues available to a municipality. In general they can be categorized as taxation or other revenues, which this study labels 'user charges/pricing system'. In addition to establishing a definition for each revenue, and describing its characteristics, this section will analyze the various general theories, and explain the legal framework in Manitoba upon which each revenue technique is based and authorized.

The incidence of the revenues, and the ability of each to be shifted is then discussed. Finally a discussion of the characteristics and equity of a revenue system as opposed to individual revenues brings this chapter to a close.

This chapter provides much of the basic knowledge which is required before any meaningful analysis and testing of the hypothesis can be undertaken.

A. DEFINITIONS, CHARACTERISTICS, AND INTENT*

1. User Charges/Pricing System

By the title user charges/pricing system we refer to the revenues of a municipality which are not gained through taxation. The revenues are

*The information contained in this section is found in most of the sources listed in the bibliography, which relate to public finance. In specific the reader may refer to any of the sources which are footnoted within this section.
obtained through the public sectors involvement in business. This involvement may be undertaken in pursuit of revenues, or simply to cover all or part of the costs involved in rendering the service.

Under this heading then, we refer to fees, licences, and user charges. Although not of primary fiscal importance, it can be expected that they will remain very important secondary revenue sources, especially in light of the great reliance now placed on the property tax. It is possible to lump these revenues together and treat them singularly because they have two like characteristics; first, they are only paid when the payer requests a special benefit or service of the municipality, and second, the amount of payment is always related to the cost of the benefit received. As a general rule taxes meet neither of these criteria.

Fines may also be categorized as user charges/pricing system, however they are a unique exception to the above definition. These are not payments in response to benefits received but rather penalties for improper conduct within the municipality. They are compulsory levies which are based on definite although non-fiscal principles.

Individually we will look at the various municipal revenues which fall under this heading.

1.1. Fees

Fees are compulsory contributions by individuals to the municipality in return for a municipal service. The contribution is established in advance, will cover part or all of the cost of the service, and make available a specific privilege in return. For example fees are collected to ride the bus, skate in the arena, swim in the pool, etc. Those who do not seek these privileges need not contribute any direct fee payment,
however those that make use of the service are compelled to pay the fee.

One reason behind the collection of fees is that it is much easier to introduce a new municipal service if those who benefit are made to contribute at least part of its cost. As the general benefit becomes more apparent and the taxpayers become increasingly willing to support the service through the general fund, the service may be financed through taxation.

If the collections exceed the cost of providing the service, they become in essence taxes, and by definition are no longer simply fees. It is not uncommon for activities originally financed through fees to develop into taxes or to be abolished and subsequently financed through the general fund. For example, entertainment promoters were originally subject to an amusement fee which gradually became a revenue producing amusement tax on the audience. Other fees were abolished as the specific benefit received by the individual, became recognized as a general social benefit to which everyone should have ready access. Perhaps the best example of this is our education system. However, from this we cannot assume that fees will eventually disappear, for as the old vanish they are quickly replaced by others.

The essential characteristic of a fee is the existence of measurable special benefit, together with a predominant public purpose: the absence of public purpose makes the payment a price; the absence of special benefit makes it a tax.  

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1.2. Licence Fees

A specific kind of fee collected by a municipality is a licence fee. It too is a compulsory contribution in return for which the contributor receives or is presumed to receive a special benefit. The special individual benefit is in addition to the group benefit which is the principal reason that a licence is demanded in the first instance. The issuance of licences is a very important regulatory device, for which the fees help cover the cost. Licences are issued for a vast assortment of uses including marriage certificates, the recording of mortgages and deeds, various professions and trades, weigh scales, restaurants, bowling alleys, and parades. In this way the council of a municipality can regulate all aspects of community life; from the components of the community to the quality and quantity of those components. The licence fee is simply a particular type of fee with very important regulatory functions.

1.3. Charges

Charges may be laid by a municipality to cover the costs of installing, maintaining, and supplying utility services. The charges are applied directly to the individual for services received. The services may be done by the municipality through the authorization of a prearranged agreement or on account of neglect on the part of the person who should have provided the services. In other words, charges may be collected for work entered into by the municipality in contract with individuals; and in addition work may be done that has been neglected or omitted by the responsible bodies, and subsequently charged for by the municipality. The principle behind providing the service is generally that by doing so the public interest is followed, and the public safety is protected. An
example of such a service would be to repair broken water or sewer pipes on an individual's property. Consumption of utilities is charged for in much the same way, according to the principle of benefits received. The revenues obtained through such charges are usually quite small and fiscally they are not important, other than that they help cover the cost of the service.

1.4. Fines and Penalties

These are compulsory levies which are not fees or user charges, but a class of revenues unto themselves. They are based on non-fiscal principles which attempt to order and regulate society. The various fines and penalties are intended to correct behavior deemed wrong by the society, through the imposition of financial penalty. As a secondary effect, revenues are thereby raised.

2. Taxation

In its simplest form a tax is a rate applied to a base. It is a compulsory contribution to a public authority, that is not related directly to services provided to the taxpayer, and further is not a penalty for any legal offence. The revenue required by a municipality, that is not available from any other source, is divided by the valuation of the base to produce a tax rate. This tax rate can be applied to the value of each individual's share of the base to determine their share of the tax burden. Taxation is required to supply that portion of public revenue not available from other sources. In essence part of the general private wealth is appropriated to meet public expenses. The
political decisions involving taxation rates and bases are not always popular, but they form such an important component of a municipality's revenue that they cannot be avoided. The growth of public expenditures, especially in the twentieth century, in response to a demand for increased and improved services has necessitated the growth of taxes. It has been said that excluding intergovernmental transfers and grants, the local tax applied to a property base supplies 85% of municipal revenues.²

Besides providing revenue, the sources of and uses for tax collections are a primary instrument of social policy which can influence overall employment levels and income. Taxation has a regulatory and distributive function, as well as a very important planning function. There is a great public interest whenever the government concerns itself with taxation policy for it has great economic, political, and socio-logical ramifications; taxation policy affects everyone.

A tax then, is used to finance that large part of the public service which for one reason or another, society has decided not to finance through a pricing system, or through borrowing. Society feels that individuals should not be allocated the cost of these services in proportion to the amount of service performed for the individual's benefit. The costs of police protection, fire protection, parks, and libraries on a per person basis cannot be determined, no matter how equitable this at first appears. This then is the major difference between taxes and prices or user charges.

There are three main reasons behind not financing every aspect of the city with user charges:

i) First, there is often difficulty in allocating the individual benefits. (e.g. the salaries of city councillors).

ii) Second, there may be great difficulty and inefficiency involved within the collections (e.g. a large road that benefits many persons).

iii) Third, there is often great benefit to having all members of a community enjoy a service regardless of ability to pay (e.g. public schools).

Very few people will argue that there is not a need for taxation, for at the very least a society needs defence against threats to that society. However taxation is regularly and increasingly under attack. The questions pertaining to taxation are chiefly questions of equitably allocating the tax burden. What base should be used and what rate should be applied to the chosen base? The choice is important in regard to equity and justice, for as stated earlier taxation policy is much more than a means of raising revenue. This has been acknowledged since very early as import taxes illustrate. The main justification for their imposition was not to raise revenue but to protect domestic manufacturers, and to discourage the flow of money out of the country. It is important then to define the concept of equity as it is used within this thesis.

If a local entity hopes to raise revenue through taxation, and not run into opposition at every turn, it must implement a system of taxation which subscribes to some established and equitable principles. (However even this does not guarantee freedom from opposition.)
Of these perhaps the most well known are the four maxims of taxation put forward by Adam Smith. ³

According to Smith, taxes should be equitable, certain, convenient, and efficient. To these four maxims many economists have since added adequacy. They feel that a tax, no matter how equitable, is not a good tax if it fails to raise adequate revenue.

By equity, Smith maintained that each individual should contribute to the government in proportion to his or her abilities. Those with greater economic interests in the state should contribute more in relation to their increased interests, since the state was providing the system within which they prospered. Those receiving the greatest benefits from the state, measured by their greater ability to pay, should pay more taxes if the system is to be equitable.

Adam Smith's second maxim - certainty - he equated with neutrality. A good tax system is one that provides a minimal level of distortion in the free market system. He felt this could be established with a tax that was certain in regard to time of payment, the manner of collection, and the quantity to be paid. Smith went on to claim that a considerable degree of inequality is not as evil as a small degree of uncertainty.

The third maxim of a good tax is that it be levied in a manner and at a time which makes it convenient to pay. In general the public objects to paying taxes, and the easier the system of collection the less public resistance we can expect towards the tax.

Smith's fourth criterion was efficiency. A good tax will be implemented so as to minimize the cost of tax collection as well as the amount it must collect from each taxpayer. The administrative costs should be small for if the tax is expensive to collect, its efficiency and applicability are in doubt. In addition an efficient tax is one that does not obstruct natural incentives and thereby adversely affect industry and reduce employment. Finally an efficient tax should not be bothersome to the taxpayer. For example a toll tax payable at each bridge would impede circulation, and create unnecessary friction.

Smith's canons of certainty, convenience, and efficiency are in reality comments on the administrative procedure and not on the taxes themselves. They none-the-less stress the importance of the administrative procedures operating behind any tax, and are applicable to all taxes.

The two basic general principles on which to base a just tax today are: the cost of service principle and the ability to pay principle. These are general principles because it is either impossible or impractical to apportion the tax with any degree of exactness to either cost of service or ability to pay. It is much easier to talk of cost of service than benefits received, because the latter adds many value judgements. They are not the same thing however and should not be mistaken as such. (This will be illustrated in Chapter II, Section B.)

**Equity**

Before a description of the various theories behind raising revenues, it is important to realize that equity is a normative concept; and that while one group may think a tax is fair, it may seem outrageous to others. Principles of equity in taxation are only matters of opinion. In fact they may not be equitable at all; but at a given point in time certain
people feel that they are. Thus instead of referring to the abstract term equality, we use the concept of progressiveness of taxation.

In general a tax system is said to be progressive if the tax rate increases commensurately with the tax base and to be regressive if it decreases as a percentage of the base, as the base increases. Modern opinion feels that there should be some degree of progression in our tax system, and therefore as the base increases so too should the proportion the taxpayer pays. Therefore it is very important to determine what indeed is an equitable distribution before we affect public finance in such a way as to produce this distribution.

It is the author's belief that an equitable tax or revenue source is one which is progressive, given that the existing social order and distribution of wealth is something less than perfect, and that taxation should be one of the amending tools. Consequently, for the purpose of this thesis, an equitable revenue is one which is progressive and consistent.

However, because equity is a normative concept, the theories of taxation are not all supportive of this definition. Many other sources define fairness and equity in a contrary manner. These arguments will not be ignored but presented to the reader for analysis and examination.

Many persons argue for example, that all taxes are inequitable in that they strike one group of persons more severely than other groups. For example, a tax on gasoline implies a burden on only gasoline purchasers and is thereby arbitrary and inequitable. "In matters of taxation, therefore, injustice, since it exists everywhere, cannot be appealed to anywhere". It is idle to argue against individual taxes.

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on these grounds for each individual tax is inequitable; and therefore this is not a part of the definition of 'equity' as defined in this thesis.

To maintain equity it is clear that persons in the same economic position should be treated equally, but what of persons in different economic positions?

Although it is an error to object to particular taxes because they strike one particular societal group, some taxes can be singled out as being especially equitable. An example of this would be a tax on the unearned increment in the value of land. The reasons for this are that this wealth is characterized by first undeservedness, and second unexpectedness. Undeservedness because the wealth was taken without services being provided, and thus justifying taxation on the grounds of equity; and unexpectedness, thus justifying taxation on an economic basis. However, in fairness we should tax all forms of windfall wealth if we tax one, and the rate at which we should tax is not at all obvious.

Taxation affects private wealth, and affects social policy; and through the proper utilization of taxation the desirable distribution of wealth can be reached.

The ideal distribution, from an economic point of view, is that which causes a given amount of production to yield the maximum of social welfare.\(^{5}\)

This infers that the ideal and most equitable distribution of wealth should be in relation to an individual's capacity to make use of the income. Given the present wealth inequalities we can be reasonably sure

that,

"...any practicable reduction in inequality will give us a closer approximation to the ideal distribution".\(^6\)

"A regressive tax system tends to increase the inequality of incomes".\(^7\) However, "a more sharply progressive tax system tends to reduce inequality and, the sharper the progression, the stronger this tendency".\(^8\)

The principles on which the just distribution of the total direct money burden or the total yield of the tax to the public treasury should fall, are the theories of taxation.

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\(^6\)Ibid, p.93

\(^7\)Ibid., p. 93

\(^8\)Ibid., p. 93
B. GENERAL THEORIES BEHIND THE VARIOUS REVENUES

With the definitions for user charges and taxation established, and their general intent discussed, this section will now address the theories upon which the distribution of the revenue burden should be based. No theory alone can or should be used as the sole philosophical basis for the apportionment of the aggregate revenue burden, but together these are the general principles upon which the community should base their contributions.⁹

1. Purchase Theory

This theory, which is often called the cost of service principle, is exactly that. It maintains that services provided by the municipality should be financed through charging the beneficiary of the service, the cost incurred by the municipality. It is a regressive theory in that regardless of income or overall wealth, the individual contributes the same amount towards financing the service.

The theory breaks down however, when one attempts to measure the cost of services provided to each individual or to their properties. In addition, there are many persons within our society who are unable or unwilling to contribute any payments at all. Within this group are the criminals, the sick, and the poor. The theory then, is only applicable in instances where the costs to the municipality of providing services are easily measurable. This situation is found in services financed by fees, licences, special assessments, and charges; but it is not found in services financed through taxation. The purchase theory is applicable,

⁹Jensen, J.P. Problems of Public Finance, New York, Thomas Y. Crowell Co., 1924, Chapter XIII.
to some limited degree, when we attempt to measure the cost of providing a service to a collective group of individuals as opposed to a singular individual. An excellent example of the purchase theory being utilized in providing for the costs of servicing a group, is the case of special assessments levied on specific properties in a special assessment district. However, there is still a problem within this theory, of financing services for the poor and the sick. They are left to either receive transfer payments to cover the costs of their services, or to do without.

2. Benefit Theory

This theory maintains that the apportionment of the tax burden should be according to benefits received by the individual; and that the benefits received are proportionate to property owned or income received. However this theory when used in isolation is open to severe criticism. It fails in isolation because the benefits provided to individuals by many forms of public expenditures and services cannot be determined. In other cases the benefit to individuals is obvious, but the application of this theory would be ridiculous. For example, the poor receive a welfare voucher which is in actuality the benefit they receive, and should according to this theory, be the amount they contribute to cover their benefits received.

However as a theory of raising revenue this cannot be ignored. All fees, licences, special assessments, charges, and to some extent taxes are based on benefit received, but as the welfare example shows, there must be some qualifications. Others argue that public expenditure is for the common benefit and through this the theory can be used to justify taxation. Since it is felt that citizens benefit in proportion
to their incomes, expenditures should be financed through taxation proportional to individual income. However, in general the benefit to individuals from local expenditures is not proportional to individual income, but is simply unascertainable.

3. The Ability to Pay Theory

The ability to pay theory maintains that those with the greatest ability to contribute to the financing of the municipality should provide the majority of the monies required to finance the municipality. The theory was one of Adam Smith's four canons of taxation and was in that instance related very directly to benefits received. It was argued that those procuring the greatest wealth within the system, depended on the state most heavily for providing the framework in which to operate; and therefore besides having the ability to contribute proportionately more to the state, they received benefits under the government which justified their contributions being increased with their rising ability to pay.

This theory is a necessary basis for any fair or equitable tax, but is difficult to measure and apply since ability to pay is affected by more than one condition. The question arises as to which base should be used for the tax: income, property, wealth, etc., and also whether it should be proportional, progressive, or regressive. There should be horizontal equity among people with the same taxable base—equity above all — however people with different amounts of taxable base should pay differently. When the rate is uniform on all units of the base the tax is said to be proportional, but if it varies with the value of, or another characteristic of the base, it is said to be graduated.
If as the taxpayer's base increases, his tax rate increases, the graduated tax is progressive. If however as the taxpayer's base increases his tax rate decreases, the graduated tax is regressive. In contemporary Canadian society it is believed that a revenue system which is progressive is the system which would equitably reflect ability to pay. Our federal income tax is a prime example of progressive taxation. This theory is not used to support user charges or the pricing system.

4. **Equality of Sacrifice Theory**

Due to the difficulties inherent in measuring an individual's ability to pay, many have substituted the equality of sacrifice theory. They maintain that while ability is indefinite, sacrifice is a more definite measure. The theory states that contributions should be in relation to the sacrifice the individual makes in paying the tax.

Equality of taxation, therefor, as a maxim of politics, means equality of sacrifice. It means apportioning the contribution of each person toward the expenses of government, so that he shall neither feel more nor less inconvenience from his share of the payment than every other person experiences from his.\(^\text{10}\)

There are three theories of sacrifice; equal sacrifice, proportional sacrifice, and minimum sacrifice. While some believe that taxes should be imposed so as to involve equal sacrifice, so that the direct real burden on all taxpayers is equal, others prefer proportional sacrifice, in which the direct real burden on each is proportionate to the economic welfare derived from his income; and still others prefer minimum

sacrifice, in which the direct real burden on the taxpayers as a whole, is as small as possible.

Proportional taxation can only be justified according to the principle of equal sacrifice, on the assumption that the marginal utility of income diminishes very slowly, and can only be justified according to the principle of proportional sacrifice, on the assumption that the marginal utility of income does not diminish at all, but remains constant as income increases. 11

Although Adam Smith claimed proportional taxation was best, he wrote before the discovery of the law of diminishing marginal utility. In essence, the law of diminishing marginal utility states that as consumption of a commodity increases, the utility or satisfaction obtainable from each additional unit will decrease, assuming that the consumption of other commodities is constant. 12 Thus it is equitable to tax away the purchase power for the additional units, because this will not greatly affect the utility of the individual.

The problem with this theory however, is that although we know an individual's sacrifice decreases as income rises, it is no easier to determine his sacrifice than his ability to pay. However, while we may struggle to measure either ability to pay or sacrifice through payment, it is important that neither of these principles be violated, for this is what is generally taken to define fairness. Unfairness is the most effective argument against a tax.

Just as ability to pay is not used to support user charges or the pricing system, neither is this theory of sacrifice.


5. **The Socio-political Theory**

This theory is widely accepted and very practical. It maintains that taxation cannot be introduced with a purely fiscal motive. Instead it is possible to introduce taxation to achieve any form of social control or social goals that our society feels are meritorious at that moment. In addition, the system utilized to raise the required revenues must consider not only the fiscal condition of the municipality but the welfare of the municipality as a whole. An example would be to use the revenue policy to redistribute wealth.

No one can doubt the fact that the main purpose of revenues is to finance government expenditures, but nevertheless we must remember that the revenue system, especially taxation, changes the relative prices of commodities and effects what is produced and in what manner it is produced. Taxation directs production and consumption patterns away from the course they would otherwise take in a free market economy, and this theory recognizes this fact. The theory then states that we must utilize our revenue base as a tool to support the moral judgements of the society. Taxation, as well as user charges, are in part based on this theory.

6. **The Socialistic Theory**

This theory maintains that our present society is not just, and that taxation and the revenue system should have but one goal - to even out the gross inequalities. Taxes should be steeply progressive and seek to redistribute wealth in a fair manner which eventually leads to the equalization of wealth. The revenue system should be liberally laced with exemptions for the poor in the society.
7. **The Compensatory Theory**

This is a particular form of the Socialistic Theory which has developed in one particular direction. The theory maintains that inequalities within the society are in part due to the faulty provision of public services. It argues that the State creates conditions through servicing which favor certain classes of people — usually the very wealthy and influential. Thus, the theory states that those favored by the State or those 'lucky enough' to happen upon wealth, ought to pay more heavily towards financing the community. An excess profits tax is strongly based on this theory.

8. **Special Compensatory Theory**

This theory maintains that all revenues should be progressive. Acknowledging that some revenues must necessarily be regressive however, (e.g. user charges) they maintain that the other revenues in the system ought to be steeply progressive in order to balance the system on the progressive side of the scale.

9. **Fiscal Theory**

This theory is fiscally attractive and therefore resorted to in times of fiscal emergency (e.g. war), but seldom at any other time. The theory is concerned with realizing the maximum revenue through highly progressive taxation, based on the principle of, 'those who have and who are not in a position to effectively object, shall pay.' The theory is seldom utilized. Perhaps this is due to the intimate relationship between the tax policy makers (or government) and the wealthy in our society.
C. MANITOBAN LEGAL FRAMEWORK ALLOWING REVENUE COLLECTION

In Manitoba, the municipalities receive their power to raise revenues within basically two legal statutes handed down from the provincial government. The main act in this regard is The Municipal Act (M225 S.M.) which was enacted in 1970. In addition, The Municipal Assessment Act (M226 S.M.) which was also enacted in 1970, contains clauses which grant municipalities the power to tax, and further more dictates the rates at which they may do so.

The Province gained exclusive control over, "Direct Taxation within the Province in order to the Raising of a Revenue for Provincial Purposes." (sic), within Section 92.2 of the British North America Act, 1867. Thus, they may legally grant the municipalities the power to collect monies in accordance with provincial statutes.

This section will first analyze the various revenues legally available to the municipality via user charges/pricing system, and then discuss the legalities of local taxation in Manitoba.

1. User Charges/Pricing System

1.1 Licencing

The issuance of licences and permits are usually accompanied by a licence fee which attempts to recapture some of the administrative costs involved in regulating that particular aspect of community life. Sections 705-717 of The Municipal Act states the activities, businesses, occupations, persons, animals, exhibitions, and other features of the

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municipality which are subject to licensing. In addition to establishing the various aspects of the community which require licences, these sections go on to state the amounts of the fee, and the regulations which shall apply to holders of the various permits and licences.

The scope of licensing is wide and includes all vendors and traders operating within the community; all games and exhibitions, including pinball machines, side shows, theatrical companies, movie theatres, rinks, and clubs; all restaurants and eating places; all weights and measures; and all callings, businesses, and professions.

The licence fees are in most instances small and of little fiscal importance; for example a ten dollar per day fee for a theatrical company. However some fees are set at rates which clearly attempt to raise revenue, such as a licence fee of up to five hundred dollars per day for a circus. In summary though, licence fees are a minor source of revenue which usually attempt to simply recapture the costs of administration.

1.2 Pricing

In addition to allowing a municipality the right to licence, The Municipal Act authorizes the local council of a municipality to set prices for various fees and user charges. These prices may be for benefits as diverse as parking fees, rental fees for public spaces, and golf course fees; to the pricing of water, sewer, and energy consumption and the installation and maintenance of such services.

The Municipal Act authorizes the municipality to measure the amount of utility consumption by means of meters in section 698. Other sections authorize the municipalities to set the price at which the service will be supplied, and to establish the times and manner of payment for the
good or service.

In addition to licencing and pricing, a municipality is able to raise revenues through leasing land or through the sale of land. They are also authorized via The Municipal Act to borrow monies, and finally they are allowed to cancel in whole or in part any monies owed to the municipality.

Although plentiful in number, the user charges/pricing system produce much less revenue than does taxation.

2. Powers of Taxation

2.1 Local Improvement Taxation

Local Improvement taxes are allowed for within The Municipal Act. The term local improvement is an all encompassing term which includes everything from the construction and maintenance of roads and sewers, to the cutting of boulevards and trimming of shrubbery, to the establishment of parks, to the expropriation of lands. Section 625(1) of The Municipal Act allows for the levying of taxation in order to recover the costs of local improvements.

The Act allows the tax to be based on a frontage basis, an area (square footage) basis, a value of land and improvement basis, a value of land only basis, or any combination of these bases, whichever is the most appropriate for the given improvement. In actuality the financing is most often a combination of one of the above and a general levy of a number of mills on property values throughout the community. This general levy is allowed for within section 627(1). The rate at which the local improvement tax is levied is sufficient to cover the costs of providing
the service, less the value of the community benefits which will be financed through the general revenues. The revenues cannot exceed the costs of providing the local improvement.

These taxes have been discussed first because they are in some ways similar to user charges. In fact, section 625(1) declares that local improvements may be financed through special taxes or special charges, with the option resting with the council of the municipality.

2.2 Taxation for the Creation of Special Funds

The Municipal Act grants the municipalities the ability to create funds for special purposes, which are subject to the approval of the Minister. The reserve funds are ear-marked for a specific purpose and are financed by either surplus monies or by the levying of additional mills on the property tax base. An example of a special fund is for the purchase of a community fire engine. The fire engine may be financed by the addition of four mills on everyone's property assessment for five years. The monies collected are for the special fire engine fund alone. Essentially, this tax is authorization to increase the mill rate applicable to the property tax base, until the special project has been financed, and is not a unique tax.

2.3 Parks Fund Taxation

The Municipal Act allows for a specifically defined special fund in section 418(1): the parks fund. The tax is to be levied on the total assessed value of taxable property in the municipality, at a rate determined by council as appropriate. The fund is to be used for the operation and maintenance of parks. Similar to other special funds, the
parks fund places added burden on the property tax base and is not in itself a unique base from which to raise revenue.

2.4 Property Taxation

Section 564(1) of The Municipal Act gives municipalities the power to tax property. After the adoption of both the financial estimates and the annual assessment role, council may levy a tax rate on each dollar of assessed value of municipal property. The rate shall be determined by council and shall be sufficient to balance the budget.

The Municipal Assessment Act, under section 2(1) allows all lands to be liable to taxation by a municipality excepting all Crown lands and Indian lands. Besides granting the authority to tax to the municipalities, and stating the allowable tax bases, The Municipal Assessment Act states the assessment levels for the tax on property. Section 29(1) declares that

Lands apart from buildings shall be assessed at their value and in determining value, the assessor shall consider, amongst other things, the advantages and disadvantages of location, the quality of the soil, the annual rental value which, in his judgment the lands are reasonably worth for the purposes for which they may be used, the value of any standing timber and such other considerations as the provincial municipal assessor directs. 14

These assessments need not be the true value of the property, and in fact seldom are, however an assessment cannot be questioned as unreasonable, unjust, or improper if its assessed value bears the same relation to market value as all other properties in the municipality. Thus, it is not important that assessed values are close to real values, but

14 The Municipal Assessment Act, Winnipeg, Queen's Printer, (1970, 1979), Section 29(1).
extremely important that the assessed values each bear the same relation to market value.

Section 30(1) allows for buildings to be assessed at two thirds of their value in constrast to assessing land at its value. However, if the principal livelihood is obtained through grain growing or stock raising on a parcel greater than 40 acres, or obtained from market gardening on a parcel greater than 4 acres, then the buildings on those lands are tax free. The only exception from this exemption occurring if and when the exempted building is within the boundary of an incorporated village district, or a local improvement district, at which time it can be taxed.

Subjectivity was removed from the assessment process in amendments to the Act in October 1976, at which time section 30(7) was removed. It stated,

"The assessor may lower the assessment of a building to less than two-thirds of its value in any case where he is of the opinion that its inappropriate- ness of location or other circumstances affecting its value fairly justify him in so doing."

Up until the 1976 amendments to The Municipal Act, section 565(1) set a limit on the rate that could be applied to the assessed value of the base, at 35 mills. The repeal of this section is noteworthy because it allows assessed values to vary greatly from sales values, since the mill rate can now be raised over 35 mills to obtain equal revenues.

2.5 Personal Property Taxation

The Municipal Assessment Act defines "personal property" as goods and chattels. In the context of Manitoba, personal property is that involved in obtaining or producing oil, gas, salt, and hydro. It includes
pipe lines, hydro lines, railway tracks and rights of way. It may be assessed and collected whether built on the land, over the land, or under the ground surface. Therefore it often implies no cost or inconvenience to the municipality yet raises revenue. The assessment of personal property is to be at value but similar to property taxation it is more important that the assessments bear relation to each other. Personal property shall be revalued at least once every 5 years as stated within section 36(1) of The Municipal Assessment Act. The revenues are often times obtained as grants-in-lieu of taxes rather than taxes per se because they are often levied on crown property. The reasoning is that the crown or crown corporations cannot be taxed, and they therefore give grants in-lieu of taxes.

2.6 Business Taxation

Another taxing power allocated to the municipalities by the province is that which allows the taxation of businesses. Section 70(1) of The Municipal Assessment Act asserts the businesses subject to this tax; and includes "all persons engaged in any occupation, art, profession, or means of profit or livelihood".\(^\text{15}\)

The base of this tax is the annual rental value of the business property, and according to section 73(1) the value shall be assessed annually. Similar to the fact that assessed values do not represent the true market values; the assessed annual rental need not equal the real annual rental, as long as there is consistency amongst all properties. The municipal assessor may adjust the level up or down, as long as each

\(^{15}\)Ibid., section 70(1).
property bears the same relation to the true market value. Section 762 of The Municipal Act stipulates that the rate applied to the assessed annual rental values of each business property shall not exceed 15% of the rental value.

This section of the chapter has shown the various ways in which a municipality can legally raise revenues. Of primarily regulatory importance are the user charges/pricing system which include the licences, fees, and pricing of goods and services. Although primarily regulatory, they do provide needed revenue for the municipality, and release some of the pressure which is continually applied to the chief revenue source - property taxation. In addition to local improvement taxes and property taxes, the municipality may tax personal property and business. Barring major reform these are the sources of revenue available to municipalities in the future, and therefore it will be these revenues upon which much of Chapter III will be based. In addition Chapter III will address the topic of possible adjustments to the present revenue raising techniques, and explore their influence on the physical urban environment. Such possibilities include progressively taxing increments in value above an established base line, tax exemptions on low value land, and assessments which more accurately reflect true market values. Though any adjustments require political adoption at the provincial level before it is possible to utilize them municipally; it is important to study the different influences available through minor adjustment.
D. SHIFTING AND INCIDENCE

1. User Charges/Pricing System

If an individual can pass on the costs of licence fees or public service prices, he is said to have shifted them. A full discussion on the process of shifting is found in section D2, so let it suffice here to note some of the user-charges which can also be shifted.

Licencing fees levied on businesses or occupations can be shifted to consumers through higher prices for their goods and services. The entrepreneur will lump his licence fee into his fixed costs, and these must be recovered through his system of pricing. The impact on prices, of these small regulatory levies is very small, and the shifting itself is subject to the same restraints and characteristics as tax shifting. (See Chapter II, section D.2.)

Personal licence and permit fees, such as a marriage licence fee, are not able to be shifted, however fees for building permits and electrical permits are easily shifted into the future selling price of a new home.

The pricing of public services and levying of user charges is usually paid by the consumers of the good or service. Bus fares, parking fees, and recreational facility fees rest on the user. Water and sewer consumption are either paid directly by the landowners or the tenant; or the costs can be shifted to the tenant through appropriate rent levels. Likewise, all businesses can shift their water and sewer charges to consumers in the form of higher prices, subject to the elasticity of their product and the nature of their markets.

In general the fees levied that fall in this category are borne by the consumer directly. When they rest on business they are usually
shifted to the consumers through higher prices for business goods and services. A much more in depth discussion of shifting as it applies to taxation now follows, but the comments apply equally to fees, user charges, and the pricing of public goods and services.

2. Taxation

If a tax is paid, the payment acts as a burden on someone in that their purchasing power in the market is reduced. However often times the individual who is taxed is not the person who pays the tax. The process by which someone other than the taxed individual is made to pay the tax is known as shifting, and a tax may be shifted many times before it comes to rest on the person who pays it. This individual who cannot shift the tax any further is said to bear the incidence of the tax. It is important for those dealing with taxation to be aware of where the tax burden falls, for otherwise the tax system may be very inequitable.

If we feel that the purpose of taxation is to raise revenues alone, we must be sure that the same group of people do not bear the tax incidence for all taxes. If taxation is implemented with a purpose other than raising revenue, then we must be sure to understand how far the tax can be shifted, in order to achieve that purpose. It may be known that a tax can and will be shifted, and through subsequent anticipation of the tax incidence, it is possible to effect an influence. Shifting is not always undesirable. However it is most important that all groups in society bear their fair and equitable share of the tax burden.

There are but two means by which an individual can shift a tax:
i) by charging and receiving a higher price for the goods or services he sells, (forward shifting) or,
ii) by convincing another to sell him the goods and services he requires at a lower price (backward shifting). 

An example of forward shifting occurs when a developer shifts his land taxes forward by increasing the sale price of a new home. Backward shifting would occur if the consumers of housing curtailed their purchases of new homes, and forced the developer to lower his prices and absorb the tax himself. Shifting therefore, transforms a tax into a price, for shifting cannot occur without a change in the price demanded for a given set of goods or services. However, the simple addition of a tax onto a price does not constitute shifting (e.g. an amusement tax added to the purchase price of tickets). This is simply a form of tax collection.

Thus the power to shift a tax rests only with those who can control prices, and the ability to change prices in response to the imposition of taxes is determined by the characteristics of:

a) the tax and its form,
b) the object of the tax, and
c) the persons who are subject to the tax.

a) Five characteristics of the tax and its form are influential in determining whether or not the tax can be shifted. These are:

i) the magnitude of the tax,
ii) the universality of the tax,
iii) the form of the tax,
iv) the tax rate, and the
v) point of imposition of the tax.

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i) Shifting may take many forms of which raising the prices to cover the tax is but one. It is also possible to lower the quality or the quantity of a good or service, and charge the same price as previously. Whichever is chosen, the purchaser obtains less for a given price and there is bound to be friction involved. The magnitude of the tax influences shifting since it is often times worthwhile to absorb a small tax than to create the friction involved through shifting. Small tax increases are therefore more inclined to be absorbed than to be shifted.

ii) In terms of universality, we can expect that a tax levied on but one or a few of many competing goods will be less readily shifted than if the tax had been applied to all of the competing goods. For example if taxes were added to two storey houses but not single storey houses, we could expect the tax to be absorbed by the producer, and in the long run only single storey homes to be constructed. However this factor is very dependent on the closeness and keeness of competition in the market, and it may be that people would demand the two storey units regardless of the higher prices brought about through tax shifting.

iii) The form of the tax is very important in determining whether or not it would be shifted. Specific taxes such as a flat rate tax would be more readily shifted since it would have the effect of reducing the smaller marginal producers, creating a drop in supply, and subsequently an increase in price. An ad valorem tax on the other hand, which took a percentage of annual value from each producer, would affect everyone to the same degree and tend to decrease shifting.

iv) If the tax rate becomes progressive it is less easily shifted. For example a progressive property tax could not be shifted because there is nothing inherent within the tax to lead others to pay more, or to sell
for less. A progressive tax on property values in which the larger your holding the more progressive the tax, would tend to break up large holdings in order to avoid the tax, if it had any affect at all. The property could not be sold or leased for an amount which included the tax because other suppliers with lesser amounts of property and therefore lower taxes would not have to shift the same amount of tax, and could thereby charge a lower price.

v) The closer the point of imposition of the tax to the final consumers, the more difficult and less likely shifting becomes. For if the consumer demands a final good on which a tax is levied he is obliged to bear the incidence of the tax; unless the consumers as a group curtail their consumption and shift the tax backward. However if taxes are levied on components of a final product, a number of exchanges and price setting appear before the final price is set, and the taxes are more easily shifted towards the final consumer.

b) The most important characteristic of an object, when discussing the possibility of shifting, is its elasticity. The greater the elasticity of demand for the good or service the less likely it will be for consumers to purchase the same quantity at a higher price. For this same reason, elastic demand will facilitate backward shifting, and producers will be more inclined to absorb taxes rather than shift them. Conversely, should the supply be elastic, producers will quickly shift the tax without worry of any backward shifting, for elastic supply implies that the consumer must obtain the good or service, even at the higher equilibrium price. Following along this elasticity argument one step further, an ad valorem tax on land could not be shifted because the supply of land is constant. However a flat tax or specific tax on land can be shifted if
it taxes the users of marginal land out of existence, and thereby decreases the supply.

The cost of production of goods and services will have no effect in regards to shifting.

c) The characteristics of persons subject to the tax are important in that they may control the supply. If ideal conditions prevail there is no control over supply by anyone, however oligopolies and monopolies are increasing in number in our society, and they can control supply. Contrary to popular opinion however, even though they control supply they cannot shift taxes anymore easily than can be done under competitive market conditions. A monopolist is already producing at a level at which he makes maximum net profit. If he were to shift the tax, his gross return/unit would increase, however the total demanded would decrease and his net return would be less than before. It could not increase unless he had been producing at a sub maximum level before the implementation of the tax. Therefore, taxes in this case could cut into monopolistic profits. However they could also be shifted through the monopolist changing his output and price level in order to maintain the same net return/unit.

We can see then that whether or not a tax can be shifted depends on a number of factors; among them being the size, rate, form, and imposition of the tax, the elasticity of demand for, or supply of, the good or service, and to some extent the structure of the market. It is not an extremely simple task, but nevertheless a very important one, to determine the incidence of taxes within the local revenue system, and thus avoid inequalities.
E. REVENUE PRODUCING SYSTEMS

It has already been noted that a revenue system in our society should be progressive if it is to be equitable. In order to evaluate the quality of a revenue system beyond this basic premise, it is necessary to look deeper into the components of a good system.

It is generally agreed that a revenue system should provide for both:

i) the current standard of public expenditures and functions, and

ii) emergency financing

The ability to raise revenues quickly to cover emergencies necessitates that there be some degree of elasticity present in the system. In the case of local financing however, variations are small, true emergencies do not occur with much regularity, and they are seldom confronted without provincial and federal assistance. The property tax is therefore sufficient to supply the elasticity needed in the local system, however care should be taken to avoid placing undue strain on this one, much overused source of local revenue.

It is generally agreed that a system composed of a moderate number of revenues is best. Proponents of a single tax on land values may disagree, however there are numerous objections to raising all revenue from the assessment of one base. Basically it fails to comply with the established principles of justice and equality which can only be achieved through the utilization of several bases. The single tax fails completely to capture ability to pay based on wealth, salaries, and incomes which are not related to land. On the other hand too many taxes are an annoyance to taxpayers, are uneconomical to collect, and lead to high overhead costs and an inefficient system.
Taxes within the system can be divided into two categories: direct and indirect. Direct taxes are those whose incidence is generally borne by the person taxed - they are not intended to be shifted. Indirect taxes on the other hand, are shiftable and applicable to anyone purchasing the good or service which is taxed. It is probable that a good revenue system be a combination of both direct and indirect taxation, and user charges - which are similar to direct taxes in that the person charged is expected to bear the charge. The question of whether a tax or charge is indirect or direct, and subsequently whether or not they are shiftable, is a matter which is still heavily debated. Many believe all taxes except those on land to be indirect, rationalizing that all taxes were eventually shifted to the owners of land. Others however, feel that property taxation is a direct tax, along with poll taxes and income taxes. This topic will be brought up in the next chapter. However for both social and fiscal reasons, a municipality cannot afford to miss the revenues obtainable from indirect taxes. Direct and indirect taxes can be more clearly defined as follows.

Direct taxes cannot be readily shifted for they are subject to a great degree of administrative control which dictates the distribution of the burden. They are also more controlled than indirect taxes with respect to their yield, for indirect taxes can be avoided through avoiding the taxed commodity. This direct relationship between the taxpayer and the treasury is economical in the appropriation of funds. As well, these taxes can be easily graduated and constructed to contain allowances and exemptions, so that progressivity may be built into the system. They possess powerful possibilities for redistributing wealth, however critics argue that they needlessly antagonize the taxpayer whereas indirect taxes are usually not as prominent.

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17 Ibid., p. 445.
Indirect taxes are not arbitrary for they hit everyone purchasing the taxable good or service. In this way they exercise great social control over industry since consumption can be checked by the levying of taxes; especially when the demand is elastic and thus very much influenced by price changes. The taxes are regressive in that they collect equal tax regardless of wealth or income, but are dependent on the amount of the taxable item purchased. Progressivity can be achieved through taxing goods and services demanded by the wealthy. They are convenient to pay in that they are less apparent and thereby create fewer objections. This advantage decreases as a country matures and taxpayers become willing to tax themselves in exchange for social goods and services.

Any alteration in a system of taxes upsets the established equilibrium, however change is often necessary as new revenue sources appear and old sources become obsolete. It must be remembered though that change may involve definite sacrifice for some persons, especially if this source of revenue was previously untapped. A change must have definite and profound effects, for otherwise the change in itself will cause more unfairness than that eliminated through the change. It is common that taxes remain because they are old, established, and expected, rather than because they are equitable. If they were proposed as new taxes today many would never be accepted. The sacrifice involved in the creation of a new tax can be minimized if the base of the tax is an economic surplus. Examples of economic surplus include inheritances and profit gained through speculation.

The basic theories and principles upon which a good tax is based are virtually the same as those upon which an equitable revenue system is based. It is very important that contributors should do so in
relation to their ability, and not violate the theory of equal sacrifice. It is hoped that the proper balance of revenues can be reached through researching the economic conditions of the contributors and the shifting and incidence of various revenues. It is somewhat of a trial and error method, which relies on active participation by the payers to help the system reach and maintain a balance.

It must be noted that the revenue system can also be used for social control. Customs duties and excise taxes have always been used for regulating industry, consumption patterns, and the level of capital flowing out of the country. Meanwhile income and inheritance taxes have worked towards redistributing wealth. Land value taxes are claimed by their proponents to have a magnitude of social objectives. It is obvious then that the system chosen can be used for regulatory purposes and for reaching social goals through both exemptions and differential rates.
F. SUMMARY AND CONCLUSIONS

This chapter has intended to fully describe the revenues available to an urban municipal entity in Manitoba. It began by defining the characteristics and intent of the available revenues, which were easily categorized as either user charges/pricing system, or taxation. With an overview of what exactly the revenue was and what it intended to do, the theories and principles upon which the revenues were justified were discussed. Of the many theories, three clearly stood out as the justification for this society's revenues:

1) the benefits received by individuals,
2) an individual's ability to pay,
3) the socio-political theory which claimed that the manner in which revenues were collected could be used to realize social goals, in addition to their financial capabilities.

This latter theory is specifically in accordance with the hypothesis of this paper—although revenues can be used as a tool to support planning goals, they are presently not used in this way.

The chapter then discussed the legal powers with which the municipalities in Manitoba may collect revenues. Not only are the various user fees, charges, and prices specifically stated and allowed for, but also the rates at which they may be collected, and the manner in which they may be collected. In addition taxation is allowed on only specified bases, at only specified rates, and with only specified forms of assessment and collection.

It became necessary at this stage to deal with the incidence of taxation, and the capability of some taxes to be shifted. The many factors influencing whether or not a tax is shiftable were discussed so that the various tax revenues could be analyzed specifically and
completely in Chapter III. Likewise it became necessary to discuss the various revenues individually, for the attributes of a just system must be known before the system as used in Manitoba's urban municipalities can be analyzed.

Chart I summarizes the revenues legally available to Manitoba municipalities, the theories upon which they are justified, and their degree of equity.

**Chart I**

**Summary of Chapter II**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Theory of Justification</th>
<th>Progressivity of Incidence (Equity)</th>
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<tbody>
<tr>
<td>Licencing</td>
<td>Cost of Service</td>
<td>Regressive</td>
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<td></td>
<td>Benefits Received</td>
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<tr>
<td>Pricing</td>
<td>Cost of Service</td>
<td>Regressive</td>
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<td></td>
<td>Benefits Received</td>
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<tr>
<td>Local</td>
<td>Cost of Service</td>
<td>Regressive</td>
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<tr>
<td>Improvement</td>
<td>Benefits Received</td>
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<tr>
<td>Tax</td>
<td>Ability to Pay</td>
<td>Progressive (if Land Values Indicate Ability to Pay)</td>
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<td>(qualified)</td>
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<tr>
<td>Special</td>
<td>Benefits Received</td>
<td>Regressive</td>
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<tr>
<td>Funds Tax</td>
<td>Ability to Pay</td>
<td></td>
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<tr>
<td></td>
<td>(qualified)</td>
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<tr>
<td>Park Fund Tax</td>
<td>Benefits Received</td>
<td>Regressive</td>
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<tr>
<td>Land Tax</td>
<td>Benefits Received</td>
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<td></td>
<td>Ability to Pay</td>
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<td></td>
<td>Cost of Service</td>
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<td></td>
<td>Socio-Political</td>
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<td></td>
<td>(if Poor whose Land Value is &gt; Building Value)</td>
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<tr>
<td>REVENUE</td>
<td>THEORY OF JUSTIFICATION</td>
<td>PROGRESSIVITY OF INCIDENCE (EQUITY)</td>
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<tr>
<td>Improvement Tax</td>
<td>Benefits Received (qualified)</td>
<td>Progressive (if expenditures are a greater portion of a poor than of a wealthy person's income). Regressive - burden shifted to tenants through increased rents and consumers through increased prices. Poor's contribution is a greater percentage of income. Taxes private value and work of an individual.</td>
</tr>
<tr>
<td></td>
<td>Ability to Pay (qualified)</td>
<td></td>
</tr>
<tr>
<td>Property Tax</td>
<td>Benefits Received</td>
<td>Regressive - poor pay a greater portion of income than wealthy Progressive - expenditures supplement the poor more than the wealthy</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td>Personal Property Tax</td>
<td>Benefits Received</td>
<td>Progressive</td>
</tr>
<tr>
<td>Business Tax</td>
<td>Benefits Received</td>
<td>Regressive - often a lump sum tax imposed regardless of business size or ability to pay</td>
</tr>
<tr>
<td></td>
<td>Ability to Pay (qualified)</td>
<td></td>
</tr>
<tr>
<td>Increment Tax with</td>
<td>Benefits Received</td>
<td>Progressive</td>
</tr>
<tr>
<td>Progressive rates (not utilized at present)</td>
<td>Ability to Pay Socio-Political</td>
<td></td>
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</tbody>
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Source: Compiled by the author.
CHAPTER III

THE INFLUENCE OF REVENUE RAISING TECHNIQUES
ON THE DEVELOPMENT OF THE URBAN ENVIRONMENT

In this chapter the various revenues legally available to municipalities in Manitoba will be analyzed with respect to their characteristics and intent, the specific theories and principles upon which they are established, and their influence on the physical environment. It will be important to note their degree of progressivity, and to establish their incidence. Through this in-depth look at the available components of the revenue system, it is presumed that the policies which each revenue source supports become evident. At this stage too, the non-physical influences of the revenue source on the community, particularly the social effects (redistribution of wealth, etc.), will be discussed.

The chapter will also address itself to the assessment process as presently practiced in Manitoba, and attempt to deal with any problems which may arise through proposing alternatives. It is important to isolate the discussion of the revenue source from that of its administration, in order to more clearly identify problem areas.

Adjustments to the present system, which have been implemented in other locations will be analyzed as to the possible effects of their implementation in this context.

Because new revenue sources are not legally established in existing provincial statutes, the discussion will be limited to adaptations of the existing, legally permitted revenue sources.

In essence this chapter applies the understanding of revenue raising techniques, gained from Chapter II, to the legally available revenues found in Manitoba urban municipalities. In addition this chapter
analyzes the influences on development which accompany each revenue raising technique employed by a Manitoba municipality.

For the reader's convenience, some of the definitions and characteristics of the various revenues will be reiterated, during the discussion of the specific theories upon which they are justified, and their influence on community development.

A. USER CHARGES/PRICING SYSTEM

Essentially these revenues may be subdivided into two broad categories. The first involves licencing, and is basically a regulatory device; while the second is a system of pricing heavily based on the benefits received principle, which implies that the user or individual benefitting is charged.

1. Licence

Licence fees are levied to cover the costs of administration inherent in the issuance of licences and permits. Licences, as discussed previously (see Section II Cl. 1) are for the regulation of the community and are not a financial tool intended to raise revenues. Licence fees are lump sum fees and are therefore not related to ability to pay. They represent benefit received in so much as the community has sanctioned the activity through the issuance of the licence.

Licence fees can be characterized as first, small - and therefore not a regressive burden - and second as fiscally unimportant. They therefore do not affect the physical development of the community, other than that they either allow a business, occupation, or other activity to operate in the community, prohibit the operation through their non-
issuance, or discourage the operation through excessively high rates (e.g. massage parlours).

2. **Pricing**

The residents within a community are charged directly for many services received. This service charge prices the consumption of public services, and these prices, found in the form of various fees and user-charges, are "quid pro quo" (payment for benefits received). In this way they are distinctly different from taxation, which by definition is a compulsory payment not directly related to services provided or benefits received.

The payments made by individuals in return for benefits received are important in many ways, not the least of which is that they provide revenue and thereby relieve the pressure on the overworked property tax. Prices make individuals aware of the cost of a public service, and they may therefore more rationally select the bundle of services (and their corresponding prices), as proposed by the various political alternatives. This tends to appear utopian, but pricing a service nevertheless measures the willingness of an individual to purchase each service at the given price. Pricing also rations demand and distributes the service to those most willing and able to pay the price.

A characteristic of pricing is that it implies an individual can reject a public service and save money. For this reason, pricing cannot be used to finance a great many public services, for example snowclearing. It is irrational and inefficient to suppose a snow plough would raise his blade and not clear the snow from in front of an individual's home if he has decided not to purchase the service. Therefore a great many services
are more rationally financed through the general revenues based on property taxation.

Generally, a good pricing system should be: consistently applied, economically efficient, simple to administer, and an adequate revenue producer.

There are two principal means of setting the prices of fees and user charges: average cost pricing and marginal cost pricing.\(^{18}\) An average cost pricing system sets the price equal to the average cost of providing service to all customers. The marginal cost pricing system sets the price equal to the long run marginal cost of servicing each customer. It is immediately obvious that when a cost is averaged, some individuals will be subsidized by the overpayments of others. Marginal pricing on the other hand, will set the price equal to the cost and be neutral.

Whether or not the prices are determined through the use of average cost pricing or marginal cost pricing, any pricing system is regressive in that the price is set regardless of ability to pay. Average cost and marginal cost pricing ignore the ability to pay measure of equity, and are instead an attempt to measure only the benefits received, by means of the cost of service principle. They attempt to allocate the cost of services in proportion to the amount of service performed for the individual's benefit - the purchase theory.

However as mentioned previously, it is acceptable to have regressive components within a finance system, as long as the system as a whole is progressive.

Economists are in agreement that marginal cost pricing is a more
desirable method for establishing benefit received than is average cost
pricing, due to the fact that the cost of service is correctly apportioned
to those necessitating the cost. However it may be that the costs
involved in determining the marginal costs would outweigh the resultant
gains in efficiency. In addition if there are positive externalities
associated with the provision of a public service, then it may be desir-
able for a marginal cost pricing system to be subsidized by the value of
the generated external benefit. For example, a sewerage system has a
great positive effect on the general health and quality of life in a
community, that would justify subsidizing a portion of the system out of
the general fund. This portion should represent the value placed on the
external effect.

The determination of a simply administered yet equitable allot-
ment of the burden is perhaps the pricing system's largest problem.

The setting of service charges or prices for public services can
be separated and analyzed under two headings: fees and user charges.

Fees

Fees are neither an important component of municipal revenues nor
a great influence on community development. They are service charges
which attempt to recapture the cost of supplying the service. When the
provision of service has no associated positive externalities, it is
expected that the fee will cover the full cost of service. However often
times there are external benefits given off to individuals besides those
who pay the fee, and therefore it is justifiable to finance part of the
cost of service through the general revenue. Examples of the various
fees available include the rental of a public auditorium, admission fees to the municipal pool, rink, or golf course, parking fees, and bus fares.

Bus fares are a good illustration of how the service provided benefits more than just those who ride the bus. As increasing numbers of people use the service, the roads become less congested, and private vehicles receive benefits in the form of less traffic. Parents also benefit through having their children ride the bus, and saving themselves the trouble of chauffeuring them. Businesses benefit since customers without another form of transportation (e.g. the elderly) are brought to their shops. Therefore a bus user fee or fare need not cover the full cost of service, and should in fact be subsidized by the total value of the external benefits.

The provision of bus service however, (other than school bus service) is only found in large municipal centres, and thus does not effect the majority of Manitoba communities. In communities with a bus service, it can be expected that the serviced areas would be more desirable for both residents and business, and that land values would rise to reflect this, for value depends on nearness, and nearness is dependent upon accessibility.

The influence of parking fees is more pertinent to the majority of Manitoba communities. Parking fees, which are only found in the central commercial areas, are influential to community growth since the downtown areas must often compete with suburban shopping centres. The shopping centres usually offer two main advantages over the competing downtown: enclosed weather shopping, and free parking. If downtown areas are to compete effectively they must offer the customers a similar level of service. High fees for downtown parking will lead to the decline of this shopping district; while the costs involved in administering and
collecting low parking fees will be high relative to their yield, and economically inefficient. The revenue available from parking fees is small, and their imposition is bothersome. Their impact tends not to support a strengthening of the central commercial district, but instead encourages the use of shopping centres. The imposition of parking fees in the downtown, in the face of shopping center competition, is not consistent with any policy calling for revitalization and strengthening of the central commercial district.

In general low fees may serve the purpose of regulating the level of consumption of a public service, yet not prohibit its use. As fees rise they become increasingly prohibitive, negative, and regressive in their influence. A community must be careful that fees do not create burdens on individuals which are contrary to the accepted public policy. Fees placed on recreational services may not cover the full cost of operation; however, the positive benefits that emanate from them may make a general fund subsidy worthwhile. For example, a municipal pool with non-prohibitive fees may attract users from the rural areas around the community, and at the same time strengthen the community's attraction of their business and shopping dollars.

Service charges, including both fees and user charges are flexible and can adapt to changes in demand and cost levels. They are equitable in that they are in return for a specific benefit; however, they are regressive in that they do not reflect ability to pay. Service charges are most beneficial where the following propositions are true:

i) primarily individual benefits are provided in return

ii) in the absence of a price, there may be wasted consumption

iii) administration is simple and efficient
iv) the influence of the price is not contrary to public policy.

User Charges

The service charges which will be dealt with as user charges include:

a) water
b) sewer servicing
c) drainage servicing
d) garbage collection.

The use of these charges is becoming increasingly popular in Canada as an additional source of revenue. The major objections have been the high collection and administrative costs inherent in a truly equitable system; and the fact that although they relate directly to benefits received, they are applied equally to rich and poor alike and are thereby regressive. They are important revenues in that they can be levied on properties which are tax exempt and obtain funds where taxation cannot.

The major decisions to be made regarding user charges is how to best set the price of the service—by average cost or marginal cost pricing; and how best to value the positive community benefits of the service. There are advantages to each type of pricing system and dependent on this decision, different influences are applied to the form development takes.

Average cost pricing inherently results in a subsidy from those who are economical to service, to those who are expensive to service. In the contemporary situation this has meant that the low density outskirts

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19 Special Assessments and Service Charges in Municipal Finance, New York, Tax Foundation Incorporated, Government Finance Brief No. 20, August, 1980.
have had their expensive servicing subsidized by the older and more compact central areas of the community.

As a result, prices at the urban-rural fringe are almost certainly below costs, a discrepancy which tends to encourage premature development of the area.  

The result of undercharging the low density areas and overcharging the high density areas has been for, "development to move outward and to occur at a lower density than is economically efficient". Communities became spatially dispersed as the flat rate average fees penalized owners of smaller homes, denser development, and the lower income classes.

Pricing according to marginal cost is more efficient with regards to influencing the form of development. If it is more expensive for the municipality to service low density developments, the cost of low density living would rise with marginal cost pricing, and a reduced rate of development could be anticipated. Homeowners may find an economical advantage in smaller lots and more dense development, if a number of these charges, consistent in their overall influence, were confronted. Marginal cost pricing would influence community resource allocation as the form of development became more efficient to service, and as homeowners paid the full costs of their service provision. If the rationale behind the provision of these services is economic efficiency, marginal cost pricing would be the most appropriate fiscal instrument, (e.g. the

21 Ibid., p. xii.
provision of water). However if the service is provided to avoid the externalities inherent in not providing the service, the price should not equal marginal cost, but should be reduced by the value of the external benefit, (e.g. the provision of garbage collection).

The general conclusion is that, in the presence of externalities, output and distribution charges would be adjusted up or down to reflect negative or positive external effects.\textsuperscript{22}

Some argue that marginal cost pricing would not have as profound an effect on development as its proponents claim. They base their feelings on four important factors:

i) First, they believe individuals prefer low density development and single family detached houses, and would not alter their preference in light of increased servicing costs.

ii) Second, they feel it is the availability of servicing which determines site development, and not the price of servicing.

iii) Third, they feel the extra administrative costs would eliminate any gains in efficiency.

iv) Finally, they feel that because marginal cost pricing would be capitalized into land values, the resultant long term prices would be equal (with land expensive to service losing value, and land economical to service becoming valuable), thus low density developments would remain more attractive to home buyers.

In rebuttal it is true that demand for single family homes would probably remain, but it is equitable that these individuals pay the marginal costs of servicing. It is also possible to retain the single family home in subdivisions designed to maximize the efficient provision

\textsuperscript{22} Ibid., p. 443.
of services, and on smaller lots. The areas of land which are serviced influence development more than the price of servicing. However infill growth offers prices which reflect an efficient layout, and thereby offer an alternative which would check the rate of new development; especially during times of slow growth. The extra administrative costs associated with efficient marginal cost pricing is indeed a valid criticism as will be shown later in this section. Finally, the value of inner community land may in fact rise due to the increased demand for efficient building sites and lower servicing costs. However this demand would indicate that marginal cost pricing was successful in influencing a more efficient growth pattern. Land values could be kept low by implementing an incremental form of the property tax. The demand for low density development is expected to fall when purchasers are confronted with the true costs. This could signal the development industry to turn to more efficient subdivision designs.

If it can be assumed that the wealthier people live on lower density land, then marginal cost pricing is not as regressive as at first thought, for it will tap ability to pay. In general however, all pricing systems are regressive for they do not vary with a resident's ability to pay, or even with the value of his property. For example a central business site may pay a smaller user charge than a residence.

The efficient marginal cost pricing systems as applied to public services which may lend themselves to a pricing system - water supply, sanitary sewerage, storm water sewerage, and refuse collection, are outlined below.²³

²³ Ibid., p. 443.
a) Water Supply

There are four factors involved in marginally pricing the provision of water. The first is a capacity output charge which is a flat rate charge based on meter size. Essentially the property owner is charged a flat rate dependent upon the maximum capacity per unit of time that the system allows him to utilize. The final three factors are an attempt to equitably divide the distribution costs. They involve first, the distance from the supply source. This, for ease of administration, is usually averaged within service areas and applied as a flat rate charge. Second, the density of customers per frontage length influences distribution costs and therefore a foot frontage rate is applied to the property owner. Finally, the volume used by each customer is metered and charged a fixed rate per gallon, in order to charge according to benefits received.

b) Sanitary Sewerage

Marginal cost pricing applied to sanitary sewerage, is similar to that applied to water in four ways. First, a capacity output flat rate charge is levied dependent on water meter size. Second, a service area is created and a flat rate levied to cover the costs imposed by the distance between the source and the disposal area.

Marginal costs of collection and transmission increase with distance between the site of production of the sewerage and the site of disposal and decrease with increasing density. 24

Third, a frontage foot charge is levied. Finally, the same metered water volume charge would be used to determine the marginal cost price. An efficient price for sanitary sewerage differs from water supply in that

24 Ibid., p. 450.
there are positive benefits accruing to a property owner through his neighbours' sewer connection. In addition the capital cost involved in a treatment plant has not yet been apportioned. It is clear that some sewage requires greater treatment than other sewage, but it is often difficult to determine exactly whose does and by how much. A treatment plant may be subsidized by the general fund, with the various strengths of sewage being average cost priced. However industry and other potential polluters may instead be levied strength surcharges or be required to pretreat their sewage. In some instances expensive sewage strength meters may be justified.

c) Storm Water Sewerage

The costs of storm water collection are dependent upon the distance between the site and the end of the sewer line, the percentage of the site covered with impervious material, and the amount of environmental damage. Storm water runoff increases as impervious surface areas, such as concrete, increase, and therefore those sites with a greater percentage of impervious area should contribute more. If the impervious area is held constant, lower costs are experienced by each individual in a denser development. An average cost pricing system subsidizes those properties necessitating the installation of larger storm drains. Service areas composed of sites with approximately equal percentages of impervious site are established as a first step of marginal cost pricing. A flat rate charge is levied on the service area to measure use made of the drain, and a frontage foot charge is levied to capture costs relating to distance. The possible environmental damage costs are based on surface area and the percentage covered by impervious materials. Dirt, fertilizers, and oil are all possible polluters found on the land area.
d) Refuse Collection

The costs relating to refuse collection are categorized as disposal costs - relating to the volume collected and the environmental damages; and collection costs - relating to distance and density. A marginal cost price charges a constant rate per unit of garbage (which includes the environmental damage); and a collection charge which varies between routes and increases as the distance from the disposal site increases, and the density drops. Thus it is less expensive to service an apartment block rather than a great number of single family homes. It is also expected that the volume of garbage from commercial and industrial sites will be greater. Problems relate to economically measuring the volume of garbage and thus average cost pricing often appears.

As requirements of the systems as outlined above are neglected, the system begins to be averaged and inefficient. As the rates are lowered below the marginal costs they begin to reflect positive externalities which should equitably be financed through the general fund. However as the requirements for obtaining an efficient marginal cost pricing system become economically inefficient and more difficult to administer, the equity and advantages of averaging the costs to obtain a reasonable price become evident.

Marginal cost pricing of these four services favors the creation of smaller lots and more dense development. When average cost pricing occurs low density areas are subsidized by high density areas and sprawl is unchecked.

In Manitoba sewer and water user charges are based on marginal cost pricing via a three part tariff. Since the provincial statutes
allow the placement of meters on the service lines, the consumer is charged on the basis of his actual consumption of the good. Second, a connection fee is paid to finance the long run operating costs, and is dependent upon the availability of the service, not upon its use. The third component is a distribution charge that prices the long run marginal cost of service delivery to the site, at the volume demanded by the customer. (Usually based on frontage feet.)

However not all municipalities in Manitoba are metered. Some communities without meters are therefore charging a flat average rate, while others are mixed with some areas using meters and other areas paying the flat rate. In addition vacant land can often escape frontage foot charges through successful appeals to the Municipal Board, regarding the levies' unfairness. However leap frog developments usually pay the full distribution charge, and are later reimbursed by the vacant land owners, if and when they connect to the systems, through high connection fees. In Manitoba sewerage rates rise with the volume of water used, but not if the waste requires additional treatment and implies additional cost. As the towns grow into cities, industrial surcharges may be levied in relation to sewage strength. The intention is to have the originators either pre-treat their sewage or reduce their output.

In Manitoba, municipalities almost always finance the costs of garbage collection through the general revenues, (i.e. property taxation). In some instances the community may service an outlying development (e.g. summer cottages), and in these cases usually levies a flat rate for collection.

Storm drainage is often times established with the aid of taxes being applied to the benefitting district or local improvement district.
In the long run the use of the service is not priced but funded through the general revenues. If massive construction or repairs is needed, local improvement taxes are structured so as to partially marginally price these improvements.

In so far as sewer and water are metered, they are marginally priced and can be termed equitable according to the benefits received principal. In communities without meters, those who use less water are subsidizing those who use more than the average. The connection fees are equitable, and as used in Manitoba may capture the marginal share of initial capital outlay from those on vacant lands who may request connection at a later date. The three part tariff as used in most of Manitoba has the potential to influence the physical development of the community. It does not favor periphery development, but it may not be administered at a rate high enough to effectively discourage inefficient outward expansion either.

If the rates cover the full cost they are economically efficient; and if they capture a percentage of the cost they may reflect a positive community benefit which may be otherwise financed; and if levied at a rate above the cost of supplying the service they may more effectively influence an efficient growth pattern in the community. This would be supportive of the hypothesis that financing techniques are more than just a form of revenue; they are a tool for community development.
B. TAXATION

1. Local Improvement Taxation

Municipalities render services and undertake improvements in order to provide for the general overall benefit. In many cases however, there is special benefit to owners of lands located near the municipal improvements, which is often times capitalized into increased land values. In this type of situation, a compulsory contribution is collected from the benefitting property owners, in order to defray a portion of the costs.

Local Improvement taxes are levied upon real property only, and usually only on land. The reasoning behind this is that only land can experience an increased value through local improvements since all other property is mobile. All other property including buildings, can be removed, leaving the increased value resting on the land alone. In addition, the property must be located in a local improvement district, which is created for the sole purpose of this levy. The amount of land within this district is fixed and no property is exempt from the special assessment; even though they may usually be exempt (e.g. church properties are usually exempt). In the case of Manitoba however, both Crown and Indian lands are exempt from Local Improvement Taxation. The total assessment cannot exceed the cost of the improvements or the benefits received by individuals, and often times is not to exceed a defined percentage of the cost. In addition the revenues may be collected and expended for only those improvements which clearly benefit the property on which they are assessed.

The difficulty with special assessments is correctly measuring the benefits accruing to each property from the local improvements, and
assessing the properties in relation to benefit received. There are three basic principles used for this purpose:

i) In such cases as lineal improvements, where we can assume lots of equal depth receive equal benefits a foot frontage principle is used. Those with a greater number of frontage feet contribute proportionately more to the improvements.

ii) If on the other hand, it is believed that a property benefits in relation to its over all area, from improvements such as irrigation and drainage projects, it is in that way assessed.

iii) Finally, the proximity to an improvement is often the key factor affecting increases in property value. An example of this is a community park wherein it is believed that the benefit will vary inversely with the distance between the park and each property.

It is also possible to combine these principles and thereby assess the benefit accruing to each property.

To base a tax on frontage feet or on area serviced is justified, since they both reflect the cost of service, and are easily administered. To base a tax on proximity however is not necessarily just, and is much harder to administer. A park, for example, may increase the values of properties fronting the park, however any increase in value to properties a block away is more difficult to determine. Further, the individuals living a block away may in fact use the park more than persons living on adjacent properties.

Two alternative methods used to finance local improvements are to finance them through the general fund if it is felt they benefit the

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whole community, or to impose special taxes on the benefitting districts.

In Manitoba, as stated in Chapter II, Section C.2.1 of this thesis, the municipality may base a local improvement tax on any one of, or a combination of, the following bases: frontage, capital value of land with improvements, capital value of land without improvements, or the area of the land. Provincial statutes do not mention proximity.

Therefore local improvement taxes are levies against a property which sometimes resemble a charge and other times resemble a tax.

Where the levy has a clear relationship to the cost of the improvement, the payer tends to regard it as a special charge for a service rendered. But if the property owner does not perceive a clear cut nexus between the cost and the amount of the assessment, he will probably regard it as a tax.26

In so far as this tax behaves like a pricing system based on frontage feet in the appropriate instances, and land area in times when that is more suitable, the tax follows the principle of cost of service and is appropriately justified. Since public improvements raise the land value by at least the cost of the service, the tax is also justified in that the property base represents increased taxpaying capacity, although not necessarily greater ability to pay.

Since local improvement taxes cannot exceed the cost of providing servicing and are often times limited to a percentage of that cost, these revenues cannot be used to finance any other expenditures. In addition the improvements can either be initiated or rejected by a unanimous petition of the affected property owners and thus do not become an unwanted strain on low income districts. Homeowners confronted with the actual costs of improvements may change their demands, but otherwise the

local improvement tax based on a frontage or area base has no influence on community development.

In Manitoba however, the local improvement tax is usually a two-tiered tax; partially based on frontage or area in order to capture specific, private benefits (represented by increased land values); and partially based on the value of property, including only land or land and buildings - in order to capture the general public benefits. The general public benefits may accrue to only the properties within the local improvement district or to the whole community; and subsequently a general mill rate will be applied to the assessed property values in one or the other of these geographical areas. The local improvement is assumed to have increased the property value and therefore acts to partially recover the unearned increment.

To the extent that local improvement taxes fall on land, or land and building bases, there can be definite influences expected on the form of development.

A tax based on the value of the land will have many influences which will be discussed later in this chapter. (See Section B.4.1) As a just base upon which to finance local improvements however, land values fall short. It does not necessarily cost more to service a more valuable suburban site, and therefore there is no justification for having the more valuable site contribute a greater amount. A much fairer base would be to tax the land value increment resulting from the improvement, since it is agreed that values of land increase with additional servicing and this increment is equitable to tax.

Basing the local improvement tax on land value would penalize the more valuable parcels, which could be thought of as capturing ability to
pay. However it may be that the land was inherited and although it represents a greater capacity to pay (through sale of the property), it represents no greater ability to pay than does a less valuable parcel. A tax on land would be capitalized into lower land values and is justified because it thus recaptures socially created values; but is this equitable in the case of purchasers today whose payments represent nothing that is unearned?

Basing this tax on the value of land plus improvements is the same base that the current property tax utilizes. It is expected then, that the influence on the physical development of the community would reinforce those of the property tax. These influences are described in Section B.4.2 and B.4.3.

Similar to using land as a base, the value of land and improvements in this instance is not a base which reflects either the cost of service, or necessarily the ability to pay. A more appropriate base would be the increased value as created by the improvement. It is also questionable to base any portion of a tax on the value of improvements on land.

Thus the impact of this revenue source on the form development takes, varies with the tax base utilized. It is obvious however that neither land value nor the combined land and improvement value are a justifiable basis in light of the cost of service principle, or of ability to pay.

Local Improvement taxes are declining in importance in some areas as developers are contracted to provide all services in new developments, and as private and public benefits become increasingly difficult to separate. However,
...residents of a particular neighbourhood may desire higher quality facilities associated with a rising standard of living, and these improvements could be financed through special assessments, in the form of local improvement taxes, and could influence development through the utilization of the various available bases.

Local Improvement taxation is an approved method of financing part of the costs of improvements to land, and is based on a principle which is essentially just.

2. Taxation for the Creation of Special Funds

These funds are often times created to finance a specific local improvement project, or to purchase capital goods for the community. They are set at a rate as approved by the Minister of Municipal Affairs and levied on the general property tax base over the whole community.

They are equitable in that they finance community benefits and therefore are justifiable on the basis of benefits received. Ability to pay is based on the assumption that property values reflect each member of a community's ability. The impact of the creation of this type of fund is that the property tax base is relied upon more heavily. The influence on the physical growth of the community is the same as that stated under Section B.4.3.

3. Parks Fund Taxation

This tax is used to finance the creation of a specifically designed special fund, and is based on the assessed value of all taxable property in the municipality. It may be set at any rate deemed by the municipality as appropriate.

27 Ibid., p. 20.
In effect then, this tax influences development in precisely the same manner as the property tax, for that is what it is. The establishment of the park fund is enabled through provincial statutes, but the revenue is actually a further burden on the property tax base. All of the characteristics and influences of the property tax are enhanced by the additional strain put on it to create this fund.

4. Property Taxation

The contemporary property tax is not just one tax but the fusion of two completely opposite and conflicting taxes. In essence the tax is the combination of a tax on land and a tax on improvements on the land. Since the characteristics and effects of these taxes are often in complete contrast this investigator has chosen to analyze each in turn; the land tax and then the improvement tax, and to follow this with an analysis of the property tax as a whole.

4.1. The Land Tax

In order to show clearly the influence of the land tax it will be discussed as if it is a single tax.

Land is unlike any other base which we tax in that it is indestructible. No matter at what rate we tax this base we cannot reduce its supply. (The supply of urbanizable land can however be increased through annexation, zoning, and servicing, for although the supply of land is fixed, the supply of urbanizable land can be expanded.) Land is very adaptable in that many uses can be made of a given site; and in fact the choice of how land is used can be influenced through economic pressure. Land is a product of nature which has always been in existence and that
has required no input of labor and/or capital, to obtain its value. Its value is most often dependent upon its locational relationship to the urban infrastructure. For these reasons land is a tax base like no other and is believed by many to be the only justifiable base.

It is because of the characteristics of land that it is a very just base on which to tax. There are two components of the land value tax - economic rent and improvements. The aspect of economic rent is based on the Ricardian Theory of rent in which payment for the use of capital is excluded and only that which constitutes the consideration for the exclusive use of land is included. Payments for the use of buildings or other improvements on land are properly designated as interest. There are two groups of factors influencing economic rent - physical factors and psychological factors. Physically when land values go up and the site's desirability increases, the economic rent increases. Psychologically, the concept of usefulness or utility is partially subjective. It must be remembered that economic rent is what individuals are willing to pay per year for the exclusive use of the location. The second component of economic rent is improvements, and these can be distinguished as 'to land' or 'on land'. Improvements to land primarily involve the increasing accessibility to the site by public agencies at public expense, and are those which relate to the land value tax. Improvements on land are made by private people with control over a particular site, and these are exempt from and not considered under land value taxation.


29 Ibid., p. 283.
Land taxes fall in their entirety upon values which have been created by society as a whole, and not by the efforts of individuals.

Since value depends on economic rent, and rent on location, and location on convenience, and convenience on nearness, we may eliminate the intermediate steps and say that value depends on nearness.\(^3^0\)

Value depends on nearness to transportation facilities, utilities, shops, business, schools, parks, rivers, public buildings, etc. Thus the tax is viewed as equitable since increased land values should logically be recaptured by the society as a whole that created them. This then is the principle justification behind the land tax.

**Neutrality and Equity**

As stated earlier the supply of land is fixed in that it cannot be removed from the market. In contrast other tax bases will be reduced in quantity and quality when the tax rates are increased. Because this is impossible in the case of a land base, the tax is neutral and efficient.

The land tax cannot be shifted backward because shifting is possible, under reasonably competitive conditions, only if the supply of land is reduced,\(^3^1\) and the land cannot be reasonably held off the market since someone must own the land and pay the tax. The individual is thus encouraged to use his site more intensively.


\(^3^1\)Op. Cit., p. 286, Bails, D.
In addition the tax is equitable in that the land values reflect the ability of the owner to pay the tax. Natural economic behavior is not distorted because the ability to pay is directly related to the benefits received. No adverse effects or economic consequences stem from the taxing of land values because, as population grows, business opportunity increases, the demand for suitable sites increases, and land values rise. The land value tax simply collects the increased economic rent. Within urban areas, land value is an indication of a site's earning power and thus ability to pay and benefits received are not in conflict. Land receives some advantage from both repetitive annual services which are directly rendered to the property, such as sewer and water connections, street repairs, snow ploughing, boulevard maintenance, etc., as well as capital outlays for public improvements which produce increased real estate values, such as parks, schools, hospitals, libraries, museums, etc.

It is important to note that a land tax should not be applicable to all land, only valuable land in proportion to its value. By definition it would not be paid on the poorest land in use and thus would not become a condition of use, or restrict the amount of land which could be profitably used. The relative profitability of different land uses remains unaffected and therefore land cannot be forced out of use.

However Dalton feels that a land tax distributes the tax burden unfairly since a very wealthy man who owns no land escapes the tax. He claims, "a single tax on land has no relation to ability to pay". It must be combined with taxes in the federal and provincial revenue systems;

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income tax, inheritance tax, etc., to equitably tax all persons with ability to pay.

The land tax is neutral in that no matter what type of improvement is constructed on the land, the tax remains unchanged. Therefore if a site has the potential to bear a three storey walkup and earn the corresponding income, the site is taxed as if the maximum allowed, were actually constructed and maintained. In fact the site may be vacant or underdeveloped. Because the value on which the tax is assessed is independent of the work and investment of its owners, the land value can be taxed away while remaining neutral with regard to the allocation of resources.

The land tax rests only on the landowners since the tax cannot be shifted; if we assume that the landlord is securing the highest rent possible, for if he is not he can shift the tax up to that point. This group then must pay all of the taxes, and critics argue that this is inequitable. If ability to pay is based on land values however, then the land tax appropriately taxes this societal group. In addition, one cannot claim inequity simply because a tax affects one group over another for all taxes do this (tobacco tax, liquor tax, gasoline tax, etc.). "In matters of taxation, therefore, injustice since it exists everywhere, cannot be appealed to anywhere".33 Others question the justification of only taxing land values when many local services relate more directly to the value of improvements; for example fire protection. Since all ability to pay is not based on land values however, as evidenced by the wealthy who own no land, the land tax is not equitable as a single tax, and must be used in conjunction with other revenues.

33 Op.Cit., p. 12, Pigou, A.C.
Capitalization

Once again, because the land tax cannot be shifted, the cost of land is capitalized by the amount of the tax. Unshiftable taxes on any capital asset will be capitalized. Simply put, if an individual wishes to purchase property and knows that there will be an annual tax on the value of the land, he will account the tax into the purchase price and thereby offer the vendor less in return for the land. Capitalization appears whenever taxes are regularly and permanently imposed on a durable base, and that tax cannot be shifted. In theory a high land tax could push the purchase price of land to zero. The land tax in general then, lowers the cost of land through capitalization by the amount of the tax. This phenomenon does not always occur however, because if the tax revenues go to provide, public services to the land, the value of the land may increase despite the tax (e.g. local improvement tax based on land value).

In general though, the price of land would decrease and this is expected to have many effects on the community. Urban renewal becomes much more affordable since the price of land is the major cost involved in any renewal scheme. Likewise the creation of parks and maintenance of public open space becomes increasingly affordable. Housing expenses for tenants would become lower in the face of lower land values, and likewise the sale price of homes is reduced for home buyers. In part, the reason behind these effects stems from an assumed lower rate of taxation upon improvements and thereby an anticipated increase in construction and subsequently supply, until a new equilibrium is reached. Therefore the land tax is not directly responsible, but is responsible in that it would replace improvement taxes.

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34 Op.cit., P. 283, Bails, D.
A land tax and the resulting lower prices for land however, are not beneficial to current land owners. If this tax had been introduced from the beginning it would be extremely justifiable, however to increase the level of land taxation now would be disruptive at the very least. The present owners of land are in general not the people who owned the land as it acquired increased value through societal growth and servicing, and therefore it is not just to take this private value by confiscating economic rent. The land value tax claims to recapture the unearned increment in the land values for the public benefit, however most present landowners have paid for land with saved earnings, and their land value does not represent anything that is unearned.

Economical Pressure

In general, the introduction of a land value tax would place increased pressure on sites which were not improved, but the total tax burden on improved properties would remain largely unaltered. The tax benefits all well improved properties. Financial pressure would be placed on all property owners whose land values were greater than their building values. Proponents of this tax claim society owes nothing to an owner who has kept land in a use below its potential and thus the tax is justified, but they agree that gradual introduction would be more equitable.

The land tax can be expected to have a devastating effect on inner city neighbourhoods. With the economic pressure and incentive for redevelopment inherent in the land tax it is expected that older homes in the central city business district would quickly be replaced with new
development. These homes would be penalized because the land is not being put to its highest and best use. Land uses which are nonconforming to the existing zoning, in that the site is under utilized would be financially pressured into conformity. Thus land taxation is a positive planning tool which can direct the growth of the community in the manner deemed desirable by planners, when used in conjunction with zoning and development controls. In light of this, it is important that only the land needed for a particular use be so zoned and fiscally pressured, so that unnecessary construction and the inherent externalities do not occur. Commerical land, for example, will be taxed as suitable for business in an attempt to attract business to that site, but the possibility of attracting the additional business must be tangible especially in the case of small communities.

Land taxation economically forces land into its most profitable use, as allowed for within zoning schemes and development plans. It is essential that the two go hand in hand for land taxation by itself could easily create premature development and cause a city to become overbuilt. Although this would decrease rents, it is an inefficient economical situation.

Forms of Land Valuation

There are three possible forms of land value taxation. The first taxes land values assessed in their current use; the second taxes land values assessed in their highest and best use; and the third taxes land values as determined by their current market price. The problem

associated with utilizing a form of land taxation in which the tax is based on the value of the land in the use to which it is actually put, is that like the current property tax the owner of the vacant land or land put to an unremunerative use is favored. Speculation is not checked and is in fact allowed for. The retention of inexpensive and rundown housing is not penalized.

The land tax based on the value of the highest and best use could create overbuilding and inefficiency. If it is felt that certain parcels of land should be commercial for example, yet there is no current demand for that use, then to tax the owner according to a commercial income is unjust, and to tax him at a lower level in response to this fact allows for speculation. To tax at a residential rate in the interim would encourage residential construction and may destroy any future commercial development.

There are problems with assessing land at its current market price as well. For example land on the fringe of a community which is presently used for agricultural purposes may have a value which anticipates future zoning changes and development. Basing the tax on market value will financially pressure the legitimate farmer to sell, as his taxes rise to reflect this value, and the land becomes uneconomical to farm.

An optional form of land value assessment and taxation is possible. This option is to differentiate the land which should be developed now, and that which should be taxed according to the value of the highest and best use. However that land on which there is a prospect for future development should be taxed according to its current market value, rather than by its existing annual value. This does not force land owners to develop land or sell land in a market with no demand, yet it acquires the
increase in value brought on slowly through societal growth. These holding areas could be so zoned that little development is allowed, and the land is effectively held from use. This could perhaps take the form of residential zoning with a minimum parcel size of twenty acres, or agricultural zoning. When, as in our example, the commercial land is required it would be so zoned and taxed according to the value of the highest and best use. Speculation will have been checked through taxing the selling value of the land in the meantime.

Influence on Development

When used in conjunction with zoning, the land tax is neutral with regard to the intensity of development. The most profitable use before implementation remains and there is no insistence that the land be fully utilized. It is presumed however, that when the populace pays the full economic value of anything, they will desire 'their money's worth' and build to the limit. In 1914 a commission investigating the untaxing of buildings in New York City declared,

The results will be, without any doubt, that all vacant land, so far as there is any, will tend to be covered with buildings, and that there will be a tendency to replace all low two or three storey structures by skyscrapers in the business districts and by lofty tenements in the slums. 36

This observation failed to consider the untaxing of buildings in conjunction with development controls and zoning. The use of the land value tax is seen as a way of encouraging economic efficiency and generating

more intensive development of land, since greater concentration of
development is visioned as a more desirable form of land use.

Implementation of the land value tax would almost completely halt
the trend towards urban sprawl and promote a dense, continuous, and
financially efficient growth pattern. The 1914 commission concluded,

...it has clearly been proved that the
tendency of the project (untaxing of
buildings) would be toward a more inten-
sive use of land.37

The servicing costs for such a growth pattern are greatly reduced. When
we consider the extent to which urban sprawl has contributed to the
fiscal plight of urban areas, we quickly see how the land value tax can
help give local entities increased financial independence. Lower land
prices in central cities reduce the attractiveness of large scale de-
velopments in urban fringe areas. The decreased attractiveness of
investment in land would encourage high rise growth of central areas.
Infill growth would be encouraged as vacant and underutilized lots begin
to reflect more precisely the public cost of servicing that land.
Regardless of the level of development, the land tax would attempt to
collect the cost of supplying servicing and is thereby in part based on
the purchase theory.

Besides arresting sprawl, the financial pressure on vacant and
underutilized land would discourage speculation. Since this is responsi-
ble for the greatest portion of current land values, we could again
anticipate land values to drop. Through land taxation speculation
would become unaffordable even though the cost of land would decrease,
and the land would be pushed into use. The withholding of suitable land

37 Ibid., p. 257.
from use brings increased costs to the community in terms of housing, servicing, and amenities, and therefore the higher taxes are justified and equitable.

The land tax would entice owners of slum property, commonly held in speculation, to improve it or dispose of it. Incomes obtainable from slum property would not cover the level of taxation and the landlord would be forced to improve or sell to someone willing to improve. The result may be to tax slums out of existence. However there would also be a large number of lower income taxpayers who would be forced to pay more taxes than at present since,

...pressure is brought to bear on owners either to keep their buildings in good repair or to replace them by modern structures suitable to their valuable sites,\(^{38}\)

and this pressure may be unaffordable to many. It is necessary then to recognize the pressure which could be placed on low income housing. If the system of taxation was aligned with a system of zoning so that tax rates reflected the desired residential land use this pressure would not develop.

The tax would definitely be an important agent of urban renewal in that it operates within the market towards the goal of rehabilitated neighbourhoods.

The most obvious advantage of site valuation would be the elimination of the imposition of extra taxation on those who improved the appearance of their buildings or made other alterations that increased the building value.\(^{39}\)


\(^{39}\)Op. cit., p. 73, Finnis, F.H.
Improvements are not penalized through increased taxation and thus the construction of new buildings is also encouraged.

The financial pressure exerted by the land tax on the community is such that no land will be underutilized. Therefore we cannot expect the private sector to provide green space and open space, except wherein it is controlled through zoning regulations. Likewise we cannot expect the private sector to protect and preserve heritage buildings. Public open space is at present secured by public bodies, and if anything the lower land prices created through land taxation will make this more affordable. Historic preservation however, would not occur under a system employing land value taxation, without an historic building preservation program accompanied by tax relief for certain parcels of land.

If some areas were to employ land taxation financing, and others were not, we could expect, other location factors being equal, that increased levels of new capital would flow into the land value tax area, in response to the absence of taxation on that capital.

For the removal of taxation from improvements and all other capital means that the net percent income from improvements and other capital in that community compared with the net income they yield in communities operating under the old system, will be, at least for a time, definitely higher.40

As a word of caution it must be asserted that a tax on land values would not be a panacea. This research is not suggesting that it replace the current property tax, but that we look at the influence of this

property tax component on the physical form of the urban area, and in terms of equity. It will

...not pour huge sums into city treasuries. Nor will the land value tax build new structures, put all land to its best use, eliminate sprawl, or renew our cities immediately. Nevertheless, the tax is economically sound and practically feasible. 41

and therefore the positive aspects of such a tax should be studied with respect to the possibility of their implementation within our system.

Next, is an analysis of a single tax on improvements.

4.2 The Improvement Tax

A tax based on improvements on land is in complete contrast to that based on land. Improvements are not constant in supply as is land, but require economic inducements for their creation, and will diminish in quantity and quality when subjected to taxation. In the face of high taxes few will be produced or maintained. This is possible because unlike land, improvements are the direct product of their owner's capital and labor, and when subjected to taxation that capital and labor can be easily shifted to other ventures. The improvement value is gained in part through societal expenditures and services, however in the main the improvements directly reflect the cost of their production. Finally, improvements differ from land as a tax base in that they are not as adaptable to fiscal pressures. Improvements are designed for specific uses and it is difficult to adjust their productivity in light of increased taxes.

Neutrality and Equity

A tax on improvements was originally instituted under the premise that the quality of the structure reflected wealth, and the tax was therefore justifiable in accordance with the ability to pay theory. Today, however, it is recognized that improvements are only in a small way related to ability to pay. The contemporary view is that this tax is regressive because the burden of the tax can be passed on to the poor in our society, and their tax contribution represents a greater percentage of their income than that of wealthier persons. Additional housing expenditure will provide either greater quantity or quality of housing. The greater quantity of space needed is not related to increased income and the increased quality desired is limited.

Landlords are thought to shift the tax on to the tenants by way of higher rents, and commercial businesses pass their taxes on to consumers of their goods or services. In the case of rental properties, the question of who pays the property tax, the landlord or the tenants via shifting, arises. The analysis of tax shifting has shown the various factors which determine whether or not a tax may be shifted. In this case supply and demand play crucial roles. If landlords raise rents by the full amount of the tax, it can be expected that the quantity demanded will drop. With less demand there will be a surplus of accommodation, on which landlords will be inclined to accept lower rent payments rather than earn nothing. As other landlords follow suit to remain competitive, a shift occurs along the supply curve and the tax is effectively shifted backwards. In the long run a shift in the supply curve itself will occur as new rental units are not constructed, and rents are thus prohibited from falling to their pre tax levels. This new equilibrium
point means that the tax will be shared between the landlord and the renter. The main reasons the tax is able to be shifted in part by landlords are that in reality, the supply of improvements is not plentiful, often times there is a very low vacancy rate, and housing cannot be substituted for. The people who cannot shift the improvement tax incidence are the individual home owners.

Neither does the improvement tax relate to the benefits received theory. Improvements receive no greater benefits because they are well maintained or new than if they are old or rundown, nor do they necessitate greater municipal costs. The tax on improvements then is void of justifiable theory.42

As stated from the beginning, the purpose of this research is to deal with the developmental influences emanating from revenue raising techniques. However when discussing the equity of a revenue source, we must also look at the way in which those revenues are expended. The property tax is progressive in that,

...the benefits are substantially larger percentages of the income of lower income groups than of higher income groups.43

In addition those consuming a greater quantity of housing space, and therefore paying more tax, as a rule do so because they have more children, and thus benefit more, since a full one half of the property tax goes to finance education. As this example shows, revenue expenditures are important factors which have to be continuously considered


while this thesis deals with the influences and equity of revenue raising techniques.

In other words, we cannot ignore the public expenditure side of the fiscal system and say anything about the distribution of income; as soon as we do talk about redistribution, we are implicitly - and rather arbitrarily - assuming that public expenditures are distributed proportional to income.44

The tax on improvements has also been labeled regressive because it taxes improvements which have been brought into existence by the labor and thrift of individuals. Because this value is not socially created but privately created, it is felt that it should not be taxed. Through the use of this tax the volume of investment in buildings is discouraged and effectively reduced. Investment money is driven out of the housing field if the rates become too great, despite the fact that housing is a social necessity.

Municipalities offer owners of properties, that are undesirable because of the age and condition of their buildings, an inducement to allow them to continue to deteriorate by granting them successive reductions in their assessments.45

The improvement tax discourages housing in so much as it depends on the price elasticity of the demand for housing.

The demand for housing space per se is quite unresponsive to price, depending much more on family composition and similar exogenous factors, but the demand for better or less quality in housing has a lot to do with price.46

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44 Gillespie, W.I., The Incidence of Taxes and Public Expenditures in the Canadian Economy, Studies of the Royal Commission on Taxation, Number 2, Ottawa, Queen's Printer, 1966, p. 84


46 Op.cit., p. 73, Netzer, D.
In addition taxes imposed on owner occupied housing (which cannot be shifted) depreciate their value through the process of capitalization.

Some critics of this tax claim it is inefficient in that over the long run smaller structures are induced. With the assumption that more is better, they claim that labor and materials are more efficiently allocated in larger buildings, since 'the law of the cube' states that a much larger space can be created with a small additional input of capital. Further they argue that these potential benefits are lost due to the present structure of property taxation. The supply of improvements can be altered in the long run, and will be as capital is shifted to other ventures on which less tax is assessed. 47

Influence on Rehabilitation

Not only are new improvements regressively taxed and discouraged, but also is the rehabilitation of existing improvements. The tax on improvements is to blame for the market failing to renew our cities fast enough. It is the deterrent to the rebuilding we desperately require in our inner cities.

Heavy taxation of real property is a deterrent to rebuilding of the big cities, especially when it is high in relation to the prevailing rates in the suburbs. 48

There is no incentive or desire to better one's improvements since you are subsequently penalized for so doing through increased taxation. The


tax always favors older structures and rundown dilapidated buildings over new and modern facilities. Rehabilitation is effectively discouraged by two factors: major repairs will lead to increased property taxation, and minor repairs are believed by many to increase taxes, although in reality they are free from increased taxation. Nevertheless this psychological feeling is a very important retardent to rehabilitation.

Underneath all economic laws, the final basis of human action is psychological, so that the last stage of analysis of the problems of the structure of cities, the distribution of utilities, the earnings of the buildings that house them, and the land values resulting there from, turn on individual and collective taste and preference, as shown in social habits and customs.49

In concept, any tax on improvements, whether on a capital value or on an annual value basis, is likely to have an adverse impact, relative to no tax at all, on investment, in new construction and remodelling of older structures.50

The tax on improvements contributes to making slums the most profitable form of real estate investment. Any improvements create increased taxes so the landlord allows the structures to deteriorate. Because the tax favors the retention of obsolete buildings, it not only encourages slums but presents an obstacle to urban renewal, in that land prices are kept high.

Influence on Speculation

A tax on improvements fails completely to check speculation. In fact it contributes to, and condones the under utilization of land by levying lower taxes. The greater the number of these undesirable land uses, the less able is the municipality to raise the required revenues,

49 Op.cit., p. 18, Hurd, R.M.

50 Op.cit., p. 194, Netzer, D.
for as these land uses increase, the tax base decreases. Such undesirable uses include:

i) slum and rundown areas,
ii) old buildings located on valuable business land,
iii) properties with improvements unsuitable to their locations,
iv) manufacturing buildings or other uses occupying sites larger than that required,
v) vacant land held in spite of demand for its utilization, and
vi) undeveloped sites which could be more intensively used without causing overcrowding. 51

The cost of holding inner city land in these ways is relatively inexpensive, and therefore the land is speculated upon. There are no large disincentive costs to holding the land out of production, so they do. The high resultant price of inner city land creates further incentive for developers to locate in the outskirts on less expensive land. This form of growth, precipitated directly from the tax on improvements, or perhaps more correctly the lack of a tax on land values, leads to the numerous financial externalities associated with sprawl. The costs of providing services relating to frontage length (sewer and water), response time (fire, ambulance, and police), and proximity (elementary schools) all increase.

4.3 The Property Tax

Our contemporary property tax then, is the fusion of these two taxes. The land component of a property is assessed, the improvement

component of a property is assessed, and the total assessment is divided into the total revenue required which is not available from other sources. The quotient is the tax rate which is applied to the assessed value of each person's taxable property to arrive at the tax payable. As just shown the principles and theories upon which each of these components is based are in conflict, the characteristics of the bases are dissimilar, the degree of justice and progressivity inherent within each are at odds, and the effects of each on the physical environment are in complete contrast. It is no wonder then that policies proposed within municipalities are not reinforced with the corresponding fiscal policy. The property tax however, is the third largest revenue producer in Canada, behind the income tax and the sales tax.  

In 1970, the Director of the Canadian Tax Foundation, D.J. Sherbaniuk said,

Municipal expenditures are growing at a rapid rate in response to the continuing pressures for more and better services for an increasingly urbanized population.

He went on to say that although local revenues are supported by increasing government transfers,

...the property tax will almost certainly be called upon to generate greater revenue than it does today.  

This important revenue source then, has the following characteristics.

**Neutrality and Equity**

In general one can say the property tax is justifiable according to the benefits received theory, for as a community receives more benefits
the taxes paid by the community generally increase in direct proportion. Thus the municipalities which provide the most services are generally those with high taxes, while those which provide fewer services are advantageous in that less tax is collected. However, within any given community the relationship between taxes paid and benefits received is at the very best crude, and the justification of this tax according to the benefits received theory is questionable.

The second guiding principle of justice, ability to pay, is invalid when applied to property taxation. The amount of property one owned may at one time have indicated the ability of that person to pay, however in our present society it is common for the very wealthy not to own property, or for the elderly to own little else but the home they worked for all their lives. In addition the majority of the property tax is levied on residential real estate, and individuals at the lower end of the income scale pay a higher proportion of their income on housing than those at the upper end.

Ownership of real property certainly implies the existence of paying capacity, but this does not mean that property values measure a taxpayer's ability to pay.\(^{54}\)

The tax is regressive and inequitable in that in most cases it takes a greater proportion of the incomes of low income groups than high income groups. This is partially rectified by assuming that low income groups will live in poorer quality housing and thereby be taxed less, but this

is not always true. The quantity of housing demanded by large families will be much greater than that demanded by smaller families of equal income. Although it can be argued that a larger family would benefit more through the school system (approximately 50% of the property tax is for financing education), the tax contradicts the ability to pay principle by taxing the family with more children a greater amount, in relation to more space consumed. Further, the very wealthy do not contribute the same proportion of their income towards the property tax as do the middle class. This is regressive since a larger portion of a poor person's income is taken than that of a wealthy person. The break down of these principles: ability to pay and benefits received, lead many critics to declare the property tax a very unfair and inequitable tax.

In theory, the property tax is not regressive. The property investor will originally figure his overall payment, including taxes, and not purchase the property if the burden of the payments is too great for his income. However this theory is loaded with assumptions. It first of all assumes elastic demand, which implies that should taxes be increased, the demand for that specific property is so weak that the land owner will move. However this is a false assumption as much more enters into the choice of a property than the level of taxation. Second, it assumes that supply is plentiful and constant. However urbanizable land cannot be reduced and in fact the supply is very restricted by decisions on the zoning, whether or not to service the land, and whether or not to subdivide. The supply of improvements are restricted because of such expenses as high interest rates and high tax rates, and thus the supply is not plentiful and constant. Third, it assumes that a fairly high level of vacancy exists so that there are real alternatives regarding
location. Fourth, it assumes that land is a commodity, when in fact it is unique to its location and use; some uses of which cannot be substituted for - they are essential and cannot be replaced (e.g. housing). Fifth, it assumes there are alternative investments which the entrepreneur would find more attractive; which is simply not true for the majority of funds. Finally, in the case of companies, it assumes that location is based on tax pressures alone. This is not true either, for the market, location of associated industries, transportation costs, and many other factors all influence the decision on where to locate. Thus, the theory regarding neutrality falls completely apart when the assumptions it is based on are analyzed.

According to Jensen, the property tax has failed to live up to the standards of a good tax because it was established on three assumptions which no longer exist. First of all it was assumed that all property was alike. This assumption of homogeneity is false since each parcel of land is unique from any other. The second assumption was that the property tax measured ability to pay, and this as just illustrated is invalid. Third, it was assumed that the administration of this tax would be simple and effective. This assumption will be dealt with later in this section.

Others believe that the tax is vertically equitable,

...because (although) the tax itself is more or less proportional in its incidence among income groups; the expenditures it finances are very heavily 'pro-poor' in their incidence.56

However, horizontally it is inequitable because of poor quality assessment techniques, and because housing consumption patterns differ among


persons with similar incomes, thus failing the ability to pay test.

In fairness the tax is equitable in that it has been long established and is expected. Because the tax is considered previous to the purchase of property and can therefore be accounted into the purchase price, it can be thought of as equitable.

Although the property tax was sufficient to finance the city at the turn of the century and up till approximately the end of World War II, it now fails to provide enough revenue in every urban area in which it is used. It has failed to meet the maxim of adequacy. The difference between the collected revenues and the city costs must be made up in large part by conditional grants from the provincial and federal governments, and in this way local autonomy is lost. Failure to completely finance local expenditures is one reason why the tax has declined in importance and become the subject of constant criticism. The tax simply does not respond to inflationary pressures as readily as local expenditures do, or taxes on sales and incomes do, and thus falls short of providing for the expenditures of the municipality. In times of inflation, the taxable value of properties are slow to respond to the same pressures which affect commodity prices and the cost of living. While during deflationary times municipalities can do little to reduce expenditures for their essential services. Although there is no professional consensus existing on this subject, there seems to be universal assent on one point – there is too much reliance on the local property tax. Attempts to obtain additional revenues by raising the level of property taxation are not politically feasible and therefore can only be done very slowly.
Influence on Development

The property tax traditionally combines a relatively high assessment on improvement value with a low assessment on land values, to obtain the revenue needed to meet the public demand for services. For this reason the effects on the physical form of the municipality are very similar to those influences created by a theoretical single tax on improvements. The component relating to land value is never powerful enough to effect the changes which according to theory should occur. Thus the influence of the property tax on the physical form are brought on as much by the low tax on land as by the high tax on improvements. They include sprawl, land speculation, inefficient growth, high land prices - and the subsequent high costs of new homes, urban renewal, and the public appropriation of park space and open space - a lack of rehabilitation, and a reduced volume of investment in buildings. In general, as the tax assessment falls increasingly on the land value component of the property tax, it can be anticipated that those influences brought on by a land tax would begin to occur. Similarly, as the tax rests more heavily on the improvements component, the influences of this component come into action.

There are advantages and disadvantages to be found in each half of the property tax.

If the land tax and improvement tax together form our property tax, then we can anticipate that as the portion resting on land increases the portion resting on improvements decreases; and the influences brought about through the implementation of a land tax increase as those effected by an improvement tax decrease. Conversely if the proportion resting on improvements increases those influences are strengthened; while the proportion resting on land necessarily decreases, and in conjunction so do
the influences of this component.

The component of property taxation resting on land value is important in that it is neutral. Higher rates of taxation cannot influence the quality or supply of land for these characteristics are fixed. Through taxing improvements however, a municipality adversely influences both their quality and quantity. The effects of taxing the improvements are to discourage their maintenance and rehabilitation, and to act as an obstacle to urban renewal and new building construction. Individual incentives to improve are financially penalized. The land component of the property tax however, allows rehabilitation and the erection of new structures free of financial penalty and therefore is neutral.

A tax based heavily on land values can be expected to promote infill development, discourage speculation, and lower the incentive towards sprawl and leapfrog development. The complementary lowering of the improvement tax will encourage both rehabilitation of existing building stock and new construction, as this disincentive is lessened.

Ralph Nader's Tax Reform Research Group endorses the heavier taxation of land values as an instrument both of tax equity and of desirable patterns of land use.57

However as the improvement portion of the property tax increases at the expense of the land component, the under utilization of land is promoted. There is less financial penalty for holding land vacant in speculation, and an inclination to raise the price of land and thereby raise the costs of urban renewal, land acquisition for parks and open space, and of home buying.

Instead the land component operates to financially pressure the lands into their highest and best use, operating with the assumption that a more intensive use of land is financially desirable, and on the principle that land values created by society should be recaptured for the benefit of society. The land values recaptured in this way however, also capture land values which were paid for with private capital and labor and that are therefore not unearned. In addition this component would pressure development on all real estate which has a land value greater than a building value, and in many instances this is not desirable. Such cases include older inner city neighbourhoods and historic buildings. Indeed, it must be emphasized that basing a graded tax largely on land values is not a panacea. For besides encouraging unaffordable redevelopment of properties owned by the poor, it fails to tax the wealthy who own no land, does not relate to the benefits accruing to the structure, is capitalized into lower sales prices for homeowners, and is seriously doubted as to its ability to singly finance the urban area. It is important then that a significant portion of the property tax remain on improvements.

The property tax is levied at a high enough rate to effectively distort rational economic behavior. When it is applied to business it acts like a business tax and influences a company's growth or decline. The company must carefully consider the tax realities of any capital investment, and the tax is thereby a deterrent to growth. Some local jurisdictions desire clusters of businesses, so that residential taxes can be kept low. The businesses simply pass the taxation costs on to their customers via the pricing of their products. Shifting in this way is in fact indirect taxation, and although it is politically wise
it is regressive and an inequitable form of tax reform.

There are special obstacles to shifting property taxes however. First, there is a great deal of industrial property lying vacant or under-utilized in many cities for which demand, and therefore rents, are low. Shifting of taxes to the tenant is not easy because of the many alternative sites available. Second, because taxes vary from municipality to municipality, firms often compete with others who are not subject to the same taxes and therefore cannot shift taxes if they wish to remain competitive. Shifting is only possible if the taxes are common to all business competitors, or if they reflect the value of public services which otherwise would have to be privately purchased. These factors along with the fact that many firms compete in largely local markets with the same taxes allows a substantial amount of business property taxes to be shifted forward to consumers. The non-residential property tax is in part a general consumption tax and therefore is regressive for many classes of income. The distribution is in proportion to consumer expenditures.

An added feature of property taxation applied to businesses is that it is a deductible expense in the calculation of federal income taxes. Thus, at least part of the property tax on a business is never borne by the business.

Similarly, residential property tax credits allow a maximum $325 reduction on federal income taxes within Manitoba. Thus homeowners and tenants also escape the full burden of the tax.

The property tax is advantageous in that its structure allows it to be easily administered to add progressivity and give relief to the aged and the poor. The tax is also advantageous in that it gives local
jurisdictional units the monetary power to act independently of higher governments. The local nature of the tax is also good in that tax levels are very related to voter desires. Through the political process they can determine, which budget proposals will require higher taxes, and their desirability for increased government spending and the corresponding increase in taxes.

Assessment

The property tax is frequently if not consistently badly administered. According to Seligman, and agreed with by Netzer,

...the property tax as actually administered is one of the worst taxes in the civilized world, and the defects are inherent rather than correctable.58

But since real property assessed at its capital value forms the principal tax base for municipalities, it has been retained in spite of constant criticism. In addition, according to F.H. Finnis it is important as a base because it is immovable and easily discovered, and therefore it is difficult to evade the tax (see footnote 59).

Tax administration involves assessment, applying a given tax rate to the equalized assessed valuations, and the collection of taxes. Equitable assessment can only be achieved when every parcel of property is assessed at the same ratio to true market value. In Manitoba land is taxed at its full assessed value and buildings at two thirds of their assessed value. The Municipal Act provides the assessor with guidelines in order to correctly value the land, however no similar guidelines exist

with which to assess improvements. Assessed value does not equal full value and thus rates are quite high, however each assessment should bear the same relation to real value. The assessment roll is revised annually to reflect changes, and after a maximum of six years, a Court of Revision or The Municipal Board may order a complete reassessment. The tax includes all land and all interests in land (subject to exemptions), but specifically excludes mines and minerals. All buildings and fixtures are taxable except where otherwise exempted. The exemptions allowed for are included in Chapter II under legalities of the property tax (section C.2.4).

The courts in Manitoba contend that assessment must show equity and that assessment at normal market value affects equity.59

Some see the theoretical administration of the property tax as a favorable feature of the tax. In fact however this is seldom the case, with the actual assessment and administration of the tax being shamefully bad. The heart of the administrative process is the actual assessment administration. The assessment must be both equitable and at a moderate cost. Assessments however, are invariably two or three years behind current market values since the assessor needs data on sales and rental prices over a number of years in order to determine value.

Because of the inherent difficulty of valuing property in the absence of actual market transactions and because of the extremely varied nature of properties within a large city, its hardly likely that assessors could achieve a high degree of uniformity, even if they attempted to do so.60


60 Op. cit., p. 77, Netzer, D.
In addition he must be sure that any changes are trends which apply generally to all similar properties, and this inevitably must occur over a number of years. Valuation cannot be interpreted as an exact science but as a series of educated judgments based on facts over the years.

About the best the assessors can hope to do is to establish average levels of value for each classification of building over a given period of time and modify these 'bench marks' for different building sizes and other deviations from the standard.61

Therefore acceptable assessment administration at a reasonable cost may not be possible. Because of the lack of actual sales data and rental data/year, many assessors use a proxy to find market value.

The most commonly used proxy for buildings is depreciated reproduction costs,62 however capitalized earnings is also used. The use of these methods often involves applying the property to a detailed collection of formulas and tables.

The criticism of property tax administration and assessment can be summarized in three points:

i) heterogenous properties are often times assessed at many different relations to true market value.

ii) owners of different categories of property are often treated differently by assessors (giving tax breaks to businesses for example).

iii) assessment practices and levels often differ within different assessment jurisdictions.


Adjustments

The contemporary property tax is advantageous in that it is easily adapted to provide greater progressivity, equity, and social goals.

Neither the professions of political science nor of city planning have given sufficient attention to the employment of real estate taxation as an instrument for metropolitan reform, despite the fact that it constitutes one of the most important vehicles that the local community possesses for guiding urban growth.63

However change imposed on any tax system may involve more unjust externalities than the change is worth.

A new tax, if paid and not shiftable, thus put on a hither to untaxed commodity will impose a very heavy burden on the owners, especially if the commodity be a durable one.64

Removal of an existing tax similarly gives the owners of the previously taxed base a bonus. Nevertheless it is true that,

...if a better understanding of taxpayer motivations toward urban change could be achieved, better tax strategies could be devised to lead to more successful metropolitan planning.65

There is much evidence that

...many if not all of the harmful and undesirable economic effects of the general property tax can be attributed to the application of the tax to manmade property.66


Although this research has shown that land is not equitable, desirable, or practical as a single base, many believe that increased taxation should apply predominantly to the land base. While an immediate increase in rates applied to the land base is unfair to current property owners, since the tax would be capitalized into lower future sales prices; so too the gradual introduction of increased rates is inequitable since future rate increases will be acknowledged and also capitalized. The most just introduction of increased land taxation would be to establish the present values and highly tax future increments in land value.

This proposal has the unusual advantage of being highly acceptable on equity grounds while having generally beneficial if not overwhelmingly powerful, allocation effects.\(^{67}\)

The anticipated future tax increments would be discounted into the future selling price, and would not infringe on existing property owners who have paid historic prices with private capital and labor. This compromise would escape the externalities associated with recapturing the socially created values, which were privately paid for and represent nothing that is unearned. This increment tax is justified in that it is levied on those best able to pay – those whose land values have increased through direct government action, or the general growth of the municipality. Those whose property does not benefit, as reflected in constant land values, are not burdened with higher taxes.

Thus, rising land values which are recognized from time to time could be subjected to an increment tax; or land which is the chief beneficiary in rising realty values, could be exposed to heavier tax rates than those chargeable to improvement values.\(^{68}\)

\(^{67}\) Op.cit., p. 213, Netzer, D.

\(^{68}\) Op.cit., p. 49, Groves, H.M.
Through imposing a tax on land value increments above a base line the following advantages can be gained;

i) no injustice is done to present landowners

ii) there is no reduction in the assessed total of the base, and thus no fear over the securing of future loans, and therefore, less opposition from those claiming we need a greater tax base not a smaller one.

iii) if known about previous to purchase it can be accounted into purchase prices and thereby level off the escalating price of land.

iv) building taxes would not increase and the negative effects of taxes on improvements would gradually fade as land became the predominant base.

From the Australian and New Zealand experiences it has been shown that the current property tax can be easily made progressive, in three major ways. First, as the size of an individual's or corporation's holdings increase, the rate applied to that base increases. Thus this progressive rate compels the subdivision of large tracts of land or requires a heavy tax payment for the privilege of holding the land in this form. In the case of many separate parcels held by one owner, the progressive rates apply as if the many parcels are contiguous. The principle upon which this tax rate is based is ability to pay. Second, the government imposes an additional percentage based tax on the holdings held by absenteees. Thus individual property ownership is encouraged through discouraging investment in land on which the investor does not live.

Additional levies can also be charged in this same manner on lands owned
by foreigners, in an attempt to maintain local control and to discourage foreign investment. Third, the tax was made progressive by allowing tax exemptions on properties below a stated value, and allowing reduced exemptions on properties until they rise to an established level.

If many low value properties are owned, their total value is viewed as one before any exemptions are allowed.69

The urban growth pattern can be affected through property taxation policy alterations.

Together with planning and zoning, and the location of public improvements (including highways), property taxation constitutes one of the three most important governmental methods of controlling the pattern of land use.70

Through the proper administration of taxation exemptions and concessions, growth can be encouraged in specific forms and specific areas of the city. An example would be to attract growth to an urban renewal area.

Many persons feel that an important and equitable adjustment could be made to property tax administration by keeping the assessed values of property closer to the actual sales values. While some argue that assessment should be at 100% of true value,71 others would be content to have the assessed values more closely reflect the sales values. In New Zealand and Australia assessments are conducted by highly trained officials at maximum intervals of every four years. In this way assessed values are kept close to sales values and tax rates are reduced, however during times of high inflation rates this policy is exceedingly difficult

70 Op.cit., p. 97, Becker, A.P.
to apply. In Manitoba new assessments may be made at five year intervals and need not be close to sales values, as long as they all bear the same relation to actual values; and thus the tax rates are kept high.

Assessed valuations of property are kept close to real sales values in New Zealand and Australia with the aid of another administrative technique. The individual property owners assess their own properties; however should the government feel the assessment is too low, it may either apply a government assessment to it or purchase the property at the landowners assessed value. If a government assessment is made the landowner can either accept the assessment or require the government to purchase his property at the assessed rate. In this way the assessment process remains close to sales values and is justly checked.

5. Personal Property Taxation

This revenue source attempts to charge utilities, railroads, and natural resource companies for placing their equipment above, on, or under land in the municipality. The municipality is in essence collecting rent. Often times the equipment, such as railroad tracks, pipelines and hydro lines, create no burden on the municipality and imply no strain on municipal financing. For example, a pipeline buried in the ground is subject to the tax, yet implies no municipal costs. In addition, the community can tax the land over the pipeline via the property tax.

This revenue is often obtained through grants-in-lieu of taxes because personal property is often owned by the Crown. It provides bonus revenue to a community, but is not influential in determining the form of community development.
6. Business Taxation

The business tax is an attempt to fairly tax businesses which for some reason elude the grasp of the property tax. Corporations, for example, have a great ability to bear a tax, but this is not captured through either the property tax or the income tax. The business tax is one based on product, yield, or earnings. It is often used for regulation and control, and because of this has often become administered as a licence fee on occupations. There are many grounds on which to justify a business tax. The municipality may provide special privileges or services to certain businesses, and in addition provides general services to all businesses. There may be social costs or losses resulting from certain business operations that can be equitably financed in this manner. The tax also allows the municipality to exercise the necessary social control over certain types of businesses. In addition to the fact that businesses possess a large taxpaying capacity, all of the foregoing may justify the collection of a business tax.

The business tax in Manitoba is in actuality an attempt to indicate income and taxpaying ability with the use of an external criterion - the rental value of business premises. In this way ability to pay is estimated without actually determining the annual income. As a reliable indicator of ability to pay the system is poor.

If you want to have a tax based on ability to pay, then the thing to shoot for is an income tax and nothing else, because neither the capital value nor the rental value is even a close approximation to income. 72

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The major objection to a business tax is that it is not easily made progressive, and is frequently a lump sum tax imposed on all businesses regardless of their size or ability to pay. For this reason the tax is often criticized as being regressive. The tax discriminates against the marginal businessman and forces them from the market, thus contributing to business concentration. This discrimination is in part avoidable by using some external base for measuring ability, for example the rental value of the business premises; and by graduating the rates applicable to various types of operation or business.

However an external base, such as the system of rental values used in Manitoba, is unreliable, and they in themselves can be criticized as being regressive. For on a given property with a set rental value, equal tax would be paid whether the businessman had a large family or was single. In addition, the tax fails to separate the rental values on inherited property from those on property obtained from individual earnings, and therefore may not equitably reflect ability to pay.

If in the light of these inequalities the business tax were based on earnings, the situation is not improved. A tax paid on gross earnings is advantageous in that it is simple to administer and the rate can be kept low. However gross earnings do not equitably capture ability to pay amongst industries with differing gross-net earning ratios.

Net earnings, while being a more equitable base, are not fiscally desirable because as incomes vary from year to year, the municipal revenues would also fluctuate. Municipal services which must be supplied in all years, not just the profitable years, cannot be sufficiently financed by using net earnings as a base. It is also difficult to establish net earnings in the case of businesses operating chain stores in many municipalities.
A business tax based on 'value added' is an attempt to be progressive, since it measures the actual production of the business; while at the same time retaining simple administrative techniques. The tax is based on gross sales, less the costs incurred by production materials and services. In this way the base is free from pyramiding since you are not taxed on inputs which have already been taxed. The value added base is important because it relates more closely to one of the principle justifications for business taxation than does the assessed rental value of property base. This is that businesses receive special government supplied inputs. The problem with this base is that similar to the net earnings base it fluctuates annually, while the costs of the community servicing do not.

The business tax then is most unfair, and if it is expected to raise much revenue it is intolerable. Its inherent inequity makes it unpractical as a major source of revenue. As an incidental revenue it is important in that ability to pay may be captured via this tax even though it escapes both the property and income tax. The influence of the tax on the physical development of the community is not clear. The base in Manitoba is rental value of the business premises, and the rate can be up to a maximum of fifteen percent. The assessed values of the base need not be accurate but should all bear the same relation to actual values.

As the rent obtained from the business premise increases, the base increases, and the taxes equitably rise. Competitive businesses would be encouraged to upkeep their properties as this is often a visual, easily identifiable advertizing image for the company. Although the rental value does not always equitably reflect ability to pay when owner occupied (as it may have been inherited), when leased we can assume that it does.
The owner would not be discouraged from property rehabilitation since although increased taxes could be anticipated, so too could increased rents. Inefficient utilization of property would be discouraged in that a larger holding would imply a larger rental value, and this would not be attractive unless the production of the business rose at the same time.

The rate is important in that other factors being held constant, rate adjustments may have strong influences. Although constant throughout a municipality rates may vary fifteen percent between municipalities, and may therefore influence a company’s decision on where to locate. Within the community the ease of shifting the tax would vary with many factors; the elasticity of supply of and demand for the business service or product, the condition of the market, whether or not the business competes outside the community with businesses not subject to the tax, and whether a competitive or monopolistic market exists. Inevitably some business taxes will be shiftable to their products and become consumption taxes, while others will be shifted backwards to landowners, employees, and suppliers through lower rents, wages, and prices, while still others will be absorbed as an unshiftable cost of production. The closer that rental value reflects ability to pay, the less able is the businessman to shift the tax, as it acts like an ad valorem tax and effects all businesses to the same degree. However as the tax base - rental value - less accurately reflects ability to pay, the tax becomes a flat rate tax which eventually will eliminate the marginal producers. As competition decreases, price increases and the tax is shifted to consumers.

The business tax then has no clearly defined physical impacts on the community, especially when utilized as a minor source of revenue.
However with progressive adjustments to its administration it could become more equitable by varying the rate with the type of business operation. In addition social and political objectives could be obtained through the imposition of higher or lower tax burdens on some industries. For example by removing the business tax on dairies, the production costs of milk could be lowered.
C. SUMMARY AND CONCLUSIONS

It is by now obvious that the revenue techniques utilized within a municipality have variable influences on the form development takes, dependent upon their bases, rates, progressivity, etc. Although it is very difficult to make broad statements concerning the revenues since there seems always to be exceptions to generalized conclusions; it is felt that Chart II summarizes the equity, progressivity, and influences emanating from the various revenue techniques available to municipalities in Manitoba.

...it would appear that differential taxation of land and improvements could be used as a policy tool to foster whatever is deemed to be a socially desirable pattern of land use.73

Since it is the property tax that finances the majority of local expenditures it is expected that the influences from this revenue source will be dominant.

It would appear from this chapter that the revenue techniques used in Manitoba are usually based on one of, or a combination of three theories; the purchase theory (cost of service), the ability to pay theory and the benefits received theory. They shy away from the socio-political theory or socialistic theory, and therefore this investigation submits that the revenue techniques as implemented in Manitoba, are based on primarily fiscal motives.

It would also appear from this chapter that the local revenue system as a whole can be categorized as regressive. The system does not

tend to redistribute wealth but instead often regressively effects marginal entrepreneurs, the poor, and the middle class. However, a full analysis of community expenditures is needed to verify and ascertain the extent of this comment.

The important influences on community development result primarily from the pricing of public services, and the levying of taxation on assessed property values. The following chart is a condensed summary of this chapter.
<table>
<thead>
<tr>
<th>REVENUE</th>
<th>THEORY OF JUSTIFICATION</th>
<th>PROGRESSIVITY OF INCIDENCE (EQUITY)</th>
<th>INFLUENCE ON COMMUNITY DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licencing</td>
<td>Cost of service</td>
<td>Regressive</td>
<td>Allows or prohibits activities, businesses, and occupations in the community</td>
</tr>
<tr>
<td></td>
<td>Benefits received</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pricing</td>
<td>Cost of service</td>
<td>Regressive</td>
<td>High rates - prohibitive</td>
</tr>
<tr>
<td></td>
<td>Benefits received</td>
<td></td>
<td>Moderate rates - consumption regulators</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Average cost sewer and water - increase sprawl</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Marginal cost - increase density, decrease lot size</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Parking fees - discourage growth and use</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bus fares- strengthen land values</td>
</tr>
<tr>
<td>Local Improvement</td>
<td>Cost of service</td>
<td>Regressive</td>
<td>Based on frontage or area - no effect other than increased marginal cost pricing influence</td>
</tr>
<tr>
<td>Tax</td>
<td>Benefits received</td>
<td></td>
<td>Based on land value - increased land tax</td>
</tr>
<tr>
<td></td>
<td>Ability to Pay</td>
<td></td>
<td>Based on land and building value-increased property tax influence</td>
</tr>
<tr>
<td></td>
<td>(qualified)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Progressive (if increased land values indicate increased ability to pay.)</td>
<td></td>
</tr>
<tr>
<td>Special Funds Tax</td>
<td>Benefits received</td>
<td>Regressive</td>
<td>Increased influence of the property tax</td>
</tr>
<tr>
<td></td>
<td>Ability to pay</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(qualified)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Progressive (if increased land values indicate increased ability to pay)</td>
<td></td>
</tr>
<tr>
<td>REVENUE</td>
<td>THEORY OF JUSTIFICATION</td>
<td>PROGRESSIVITY OF INCIDENCE (EQUITY)</td>
<td>INFLUENCE ON COMMUNITY DEVELOPMENT</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------------------</td>
<td>----------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Park Fund Tax</td>
<td>Benefits received</td>
<td>Regressive (if land values relate to ability to pay.) Regressive (on poor whose land value is greater than building value)</td>
<td>Increased property tax influence</td>
</tr>
<tr>
<td>Land Tax</td>
<td>Benefits received</td>
<td>Progressive (if expenditures are a greater portion of a poor than of a wealthy person's income)</td>
<td>Pressures development on sites with land value greater than building value and on land which is non-conforming to zoning</td>
</tr>
<tr>
<td></td>
<td>Ability to pay</td>
<td>Regressive - burden shifted to tenants through increased rents and consumers through increased prices. Poor's contribution is a greater percentage of income.</td>
<td>Halts sprawl and encourages increased density</td>
</tr>
<tr>
<td></td>
<td>Cost of service</td>
<td></td>
<td>Checks speculation and land values decrease</td>
</tr>
<tr>
<td></td>
<td>Socio-political</td>
<td></td>
<td>Non-shiftable and therefore land values decrease therefore urban renewal and the creation of parks and open space become more affordable.</td>
</tr>
<tr>
<td>Improvement Tax</td>
<td>Benefits received (qualified)</td>
<td></td>
<td>Does not encourage the preservation of green space or historic buildings</td>
</tr>
<tr>
<td></td>
<td>Ability to pay (qualified)</td>
<td></td>
<td>Does not negatively influence construction and/or rehabilitation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Discourages building investment and rehabilitation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Inducement to deterioration and therefore slums</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Depreciates value of structure through capitalization</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Fails to check speculation and land values</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Inexpensive to hold land vacant</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Condones the under utilization of land</td>
</tr>
</tbody>
</table>
### CHART II (continued)

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>THEORY OF JUSTIFICATION</th>
<th>PROGRESSIVITY OF INCIDENCE (EQUITY)</th>
<th>INFLUENCE ON COMMUNITY DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>Benefits received</td>
<td>Regressive - poor pay</td>
<td>Assessing buildings high relative to property makes the influences of the property improvement tax dominate.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>a greater portion of income than</td>
<td>Sprawl, land speculation, low density growth, high land prices create increased housing prices, urban renewal, public land appropriation costs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>wealthy</td>
<td>Does not encourage rehabilitation and reduces the overall volume of investment in buildings.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>progressive - expenditures</td>
<td>Heavier basis on land values influences development in that way, while a heavier basis on improvement values makes improvement tax influences dominate.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>supplement the poor more than the</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>wealthy</td>
<td></td>
</tr>
<tr>
<td>Personal Property Tax</td>
<td>Benefits received</td>
<td>Progressive</td>
<td>No influence on development.</td>
</tr>
<tr>
<td>Business Tax</td>
<td>Benefits received</td>
<td>Regressive - often a lump sum tax</td>
<td>Contributes to business concentration and discriminates against marginal businesses.</td>
</tr>
<tr>
<td></td>
<td>Ability to pay</td>
<td>imposed regardless of business size</td>
<td>Does not discourage property rehabilitation.</td>
</tr>
<tr>
<td></td>
<td>(qualified)</td>
<td>or ability to pay</td>
<td>Inefficient utilization of property (land and improvements) would be discouraged.</td>
</tr>
<tr>
<td>Increment Tax with progressive Ability to pay rates (not utilized Socio-political at present)</td>
<td>Progressive</td>
<td>Capitalized into land values and levels off rising land values.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Negative effects of taxing improvements would gradually fade.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Encourage the subdivision of large tracts of land.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Absentee and foreign ownership is discouraged.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>All influences of land based taxation are discouraged.</td>
</tr>
</tbody>
</table>

Source: compiled by the author
In response to the hypothesis, "revenue raising techniques are planning tools, which when properly utilized can bring desirable change to a community", the chart illustrates that certain revenue raising techniques have specific effects on development. The question as to their conformity to planning principles remains to be answered in Chapter IV.

In Section II(E), this paper addressed the topic of equitable revenue systems. Recalling the characteristics of such a system, it is now possible to comment on the system utilized in Manitoba.

Although an equitable system should be progressive, Chart II shows Manitoba's system to be generally regressive. To meet the two main requirements of a successful system,

i) to fund public expenditures, and

ii) emergency financing; Manitoba's system must rely first, on government grants and transfers to obtain adequate revenues, and second on property tax and government relief to meet fiscal emergencies.
CHAPTER IV

ANALYSIS OF REVENUE RAISING TECHNIQUES

IN MANITOBA URBAN MUNICIPALITIES

This chapter will discuss: first, the percentage of the total revenue in the system contributed by each revenue raising component; and second, the impact of the influences of those components on the development of the community.

Through an analysis of current planning documents presently used by urban municipalities in Manitoba, it will be possible to establish a general core of policies applicable to most Manitoba municipalities. The relationship of policies desired, as stated in planning statements; to policies promoted by revenue techniques, as determined in Chapter III; will be analyzed and compared in order to conclude whether or not they are complementary or contradictory.
A. COMPONENTS OF THE REVENUE SYSTEM

The urban municipalities discussed throughout this paper have included all incorporated villages, towns, and cities (excluding Winnipeg), in Manitoba. These municipalities have other revenues available to them, however they are not influential towards the form development takes. They include grants from the provincial and federal governments, interest on funded reserves, and short and long term borrowing. Whether or not the provincial and federal governments grant monies to the local communities may determine the location and scope of both municipal improvements and capital projects, however the municipality has little or no control over the grants from above. Their impact occurs when the funds are expended, not from the manner in which they are raised. They are not an influential tool of community development other than that they may be a catalyst of private development or redevelopment; for example a bridge may become an impetus to growth on the other side of a river. Likewise the issuing of debentures and short term borrowing allows for expenditures which may influence community development; however the manner in which these revenues are raised does not. Similarly, interest earned from reserves is neutral in its effect on the community's physical development. It is only when these revenues are spent that they may influence the development pattern in the municipality.

The revenue techniques which have been discussed throughout this paper, and which have been shown to influence community development, were termed controllable influential revenues in Chapter I. They are controllable in that the local council determines if and when they are used, and at what rate they shall be levied.
### Chart III

**Breakdown of Controllable Influential Revenues in Absolute Dollars and as a Percentage of the Total**

<table>
<thead>
<tr>
<th>Controllable Influential Revenues</th>
<th>Villages</th>
<th>Towns</th>
<th>Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>%</td>
<td>$</td>
<td>%</td>
</tr>
<tr>
<td>Licences and Permits</td>
<td>52,860</td>
<td>.66</td>
<td>304,235</td>
<td>.86</td>
</tr>
<tr>
<td>Pricing - Parking Fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sales of Goods</td>
<td>74,631</td>
<td>.93</td>
<td>78,327</td>
<td>.23</td>
</tr>
<tr>
<td>- Sales of Services</td>
<td>97,870</td>
<td>1.22</td>
<td>888,577</td>
<td>2.52</td>
</tr>
<tr>
<td>- Public Rentals</td>
<td>48,049</td>
<td>.60</td>
<td>242,373</td>
<td>.69</td>
</tr>
<tr>
<td>Metered H2O Consumption</td>
<td>834,589</td>
<td>10.4</td>
<td>3,123,655</td>
<td>8.87</td>
</tr>
<tr>
<td>Flat Rate H2O Consumption</td>
<td>179,934</td>
<td>2.24</td>
<td>560,910</td>
<td>1.59</td>
</tr>
<tr>
<td>Hydrant Rentals</td>
<td>20,845</td>
<td>.26</td>
<td>150,250</td>
<td>.43</td>
</tr>
<tr>
<td>Consumer Installations</td>
<td></td>
<td></td>
<td>5,734</td>
<td>.02</td>
</tr>
<tr>
<td>Connection Revenues</td>
<td>16,611</td>
<td>.21</td>
<td>72,866</td>
<td>.21</td>
</tr>
<tr>
<td>Sewer Service Charges</td>
<td>72,763</td>
<td>190</td>
<td>136,328</td>
<td>.39</td>
</tr>
</tbody>
</table>

(Continued on next page)
**CHART III CONTINUED**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local imp. tax -Frontage</td>
<td>304,772</td>
<td>3.80</td>
<td>Special funds tax</td>
<td>74,828</td>
<td>.93</td>
</tr>
<tr>
<td>-Mill rate at large</td>
<td>243,587</td>
<td>3.03</td>
<td></td>
<td>635,624</td>
<td>1.95</td>
</tr>
<tr>
<td>-Mill rate on L.I.D.</td>
<td>461,108</td>
<td>5.74</td>
<td></td>
<td>13,686</td>
<td>.05</td>
</tr>
<tr>
<td>Special funds tax</td>
<td></td>
<td></td>
<td></td>
<td>774,138</td>
<td>1.09</td>
</tr>
<tr>
<td>General tax -General</td>
<td>2,427,098</td>
<td>30.24</td>
<td>General tax -General</td>
<td>2,998,826</td>
<td>37.36</td>
</tr>
<tr>
<td>-School</td>
<td>2,998,826</td>
<td>37.36</td>
<td></td>
<td>13,649,491</td>
<td>38.76</td>
</tr>
</tbody>
</table>

**TOTAL CONTROLLABLE INFLUENTIAL REVENUES**

<table>
<thead>
<tr>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,026,495</td>
<td></td>
</tr>
<tr>
<td>35,212,480</td>
<td></td>
</tr>
<tr>
<td>27,865,101</td>
<td></td>
</tr>
<tr>
<td>71,102,076</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL GROSS INCOME**

<table>
<thead>
<tr>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>11,087,436</td>
<td></td>
</tr>
<tr>
<td>51,639,614</td>
<td></td>
</tr>
<tr>
<td>51,407,717</td>
<td></td>
</tr>
<tr>
<td>114,134,767</td>
<td></td>
</tr>
</tbody>
</table>

**PERCENTAGE OF CONTROLLABLE, INFLUENTIAL REVENUES TO GROSS INCOME**

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>72.4%</td>
</tr>
<tr>
<td>68.19%</td>
</tr>
<tr>
<td>54.20%</td>
</tr>
<tr>
<td>62.30%</td>
</tr>
</tbody>
</table>

**SOURCE:** data from 1978 *Statistical Information*, Department of Municipal Affairs, Province of Manitoba, table compiled by the author.
As illustrated on Chart III, the controllable influential revenues provide: $8,026,495 or 72.4% of the gross income of villages, $35,212,480 or 68.19% of the gross income of towns, and $27,863,101 or 54.20% of the gross income of cities in Manitoba. Thus a significant portion of the community revenues are raised via techniques which influence development.

Chart III breaks down the total of the controllable influential revenues in order to apportion and illustrate the absolute dollar totals, as well as the percentages of the total, raised by each of the many components.

From the data it can be observed that while some revenues are minimal; the property tax base, which raises the general tax and the school tax revenues, is heavily depended upon. With heavier reliance, it can be assumed that the influence exerted on community development increases. Small revenues negligibly influence the community one way or another. However, before any revenue is discarded as noninfluential, it is best to observe Chart IV. This analysis groups the controllable influential revenue components according to similar influences on community development, and it may be that many small revenues sum to effect an appreciable influence on community development.
### CHART IV

**GROUPING OF REVENUE SOURCES WITH SIMILAR INFLUENCES ON COMMUNITY DEVELOPMENT**

(Figures Represent % of Controllable Influential Revenues)

<table>
<thead>
<tr>
<th>Controllable Influential Revenues</th>
<th>VILLAGES</th>
<th>TOWNS</th>
<th>CITIES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licences and Permits</td>
<td>.66</td>
<td>.86</td>
<td>.94</td>
<td>.87</td>
</tr>
<tr>
<td>Pricing - Parking Fees</td>
<td>—</td>
<td>.13</td>
<td>.73</td>
<td>.35</td>
</tr>
<tr>
<td>Sales of Goods</td>
<td>.93</td>
<td>.23</td>
<td>.28</td>
<td>.33</td>
</tr>
<tr>
<td>Sales of Services</td>
<td>1.22</td>
<td>2.52</td>
<td>2.43</td>
<td>2.34</td>
</tr>
<tr>
<td>Public Rentals</td>
<td>.60</td>
<td>.69</td>
<td>.54</td>
<td>.62</td>
</tr>
<tr>
<td>Sub Total</td>
<td>2.75</td>
<td>3.44</td>
<td>3.25</td>
<td>3.29</td>
</tr>
</tbody>
</table>

| Utility Charges                   |          |       |        |       |
| Hydrant Rentals                   | .26      | .43   | .26    | .43   |
| Consumer Installation            | .21      | .21   | .13    | .13   |
| Connection Revenue               | .90      | .39   | .29    | .29   |
| Sewer Service Charges            | 10.40    | 8.87  | 8.89   | 9.05  |
| Metered Water Consumption        | 3.80     | 3.83  | 3.21   | 3.58  |
| Sub Total                         | 15.57    | 13.75 | 12.36  | 13.48 |

| Flat Rate H₂O Consumption        | 2.24     | 1.59  | 1.24   | 1.53  |
CHART IV
(Continued)

<table>
<thead>
<tr>
<th>Property Tax -General</th>
<th>30.24</th>
<th>28.04</th>
<th>30.24</th>
<th>30.95</th>
</tr>
</thead>
<tbody>
<tr>
<td>School</td>
<td>37.36</td>
<td>38.76</td>
<td>37.36</td>
<td>37.87</td>
</tr>
<tr>
<td>L.I. Tax at Large</td>
<td>3.03</td>
<td>4.38</td>
<td>2.90</td>
<td>3.65</td>
</tr>
<tr>
<td>Sub Total</td>
<td>70.63</td>
<td>71.18</td>
<td>70.50</td>
<td>72.47</td>
</tr>
</tbody>
</table>

| Additional Taxes      |       |       |       |       |
| L.I. Tax on L.I.D.    | 5.74  | 4.62  | 3.33  | 4.24  |
| Special Funds Tax     | .93   | 1.95  | .05   | 1.09  |
| Sub Total             | 6.67  | 6.57  | 3.38  | 5.33  |

| Business Tax          | 1.47  | 2.49  | 3.26  | 2.68  |

SOURCE: data from 1978 Statistical Information, Department of Municipal Affairs, Province of Manitoba, table compiled by the author.
Chart IV clusters the revenue components which have similar influence on the development of the community. It shows that in all urban municipalities, the revenue raised from a mill rate based on the total assessed value of land, buildings, and personal property is approximately 70.5% of the controllable influential revenue. This includes the mill rates applied for the school tax, the general revenue tax, and local improvement taxes which are applied to the community at large. In order to more clearly illustrate the influences of this major revenue source, Chart V illustrates the percentage of controllable influential revenues each of these bases supports.
## Chart V

### Percentage of Controllable Influential Revenue Raised Per Tax Base

<table>
<thead>
<tr>
<th>VILLAGES</th>
<th>TOWNS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assessed Values</td>
</tr>
<tr>
<td>LAND</td>
<td>6,551,080</td>
</tr>
<tr>
<td>BUILDING</td>
<td>39,390,870</td>
</tr>
<tr>
<td>PERSONAL PROPERTY</td>
<td>365,610</td>
</tr>
<tr>
<td>TOTAL</td>
<td>46,307,560</td>
</tr>
</tbody>
</table>
CHART V
(Continued)

<table>
<thead>
<tr>
<th>CITIES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assessed Values</td>
</tr>
<tr>
<td>LAND</td>
<td>48,369,670</td>
</tr>
<tr>
<td>BUILDING</td>
<td>125,178,560</td>
</tr>
<tr>
<td>PERSONAL PROPERTY</td>
<td>2,479,540</td>
</tr>
<tr>
<td>TOTAL</td>
<td>176,027,839</td>
</tr>
</tbody>
</table>

SOURCE: data from 1978 Statistical Information, Department of Municipal Affairs, Province of Manitoba, table compiled by the author.
The tax based on the assessed building values alone is shown to provide a minimum of 50% of a community's controllable influential revenue, and therefore it can be anticipated that community development will be characterized by those influences, as stated in Chapter III, Section B.4.2.

Since the influences anticipated via an improvement tax are reinforced with a lesser tax applied to the land base, it can be expected that villages will most clearly illustrate this form of development. However even in the case of cities, the percentage of revenue collected from an assessed improvement value base is two and one half times that collected from an assessed land value base.

From Chart IV, the second most influential component of the controllable influential revenues is the marginal cost pricing of user charges. Urban municipalities together collect an average of 13.48% of their revenues in this way. It can be thus anticipated, that the influences of this revenue, although submissive to the dominance of the improvement tax, will tend to lessen those influences which are contrary.

The third most influential revenue, as determined from Chart IV, are the additional taxes levied in return for special benefits received. These revenues are equitable in that they clearly represent special benefit, however their influence on the form of development is the same as that of the property tax. The breakdown of this revenue, as it applies to land, buildings, and personal property is dependent upon the breakdown of assessments in the benefitting district; however it is safe to assume that these percentages are similar to those previously discussed. Total assessments applicable to local improvement rates are greater however, as less property is exempt from the tax. Generally then, the breakdown will
be as shown in Chart VI.

### CHART VI

**BREAKDOWN OF ADDITIONAL TAXES PER TAX BASE**

<table>
<thead>
<tr>
<th></th>
<th>Total of additional</th>
<th>Percent of controllable influential revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>taxes as % of controllable influential revenues</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>5.33</td>
<td>x .2253</td>
</tr>
<tr>
<td>Building</td>
<td>5.33</td>
<td>x .7494</td>
</tr>
<tr>
<td>Personal Property</td>
<td>5.33</td>
<td>x .0253</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5.33</td>
<td></td>
</tr>
</tbody>
</table>

Source: compiled by the author

The remainder of the controllable influential revenues are minimal, and therefore lack any generally applied influence on community development. It may be that parking meter fees are high in certain towns or cities and are to the detriment of the central commercial district, however from Chart IV this can only be postulated. Similarly, some villages may be completely financing water consumption with an average cost pricing system; and therefore their development will not be characterized by the marginal cost influences - which in the majority of instances will apply.

The purpose of this investigation is to determine the relative influences that financing options have on the future physical development of a community in general. An analysis of particular community growth patterns is beyond the scope of this thesis.
To establish whether the trends and influences, as determined through an analysis of the financing techniques used in Manitoba urban municipalities, are supportive or contradictory to community development policies; this paper must first determine a consensus of generally applicable development policies. This is the purpose of the next section of this chapter.
B. GENERAL OUTLINE OF MUNICIPAL OBJECTIVES AND POLICIES

In order to establish a general trend of objectives for urban municipalities in Manitoba, five planning documents either currently in force or in the final stages of adoption were analyzed. The objectives and policies found in these documents are put together in this section so that trends adopted,

...to guide and promote orderly development so as to fashion an environment that is socially desirable and economically attractive;\(^\text{74}\)

could be established as similar for, and applicable to many urban municipalities. Although not all policies and objectives are relevant in this study; since many are not related to the available revenue raising techniques (for example),

To adopt and enforce a maintenance standards and occupancy by-law regulating the condition and repair of the entire housing stock.\(^\text{75}\)

while others are specific and apply only to one municipality; others are relevant since they are both general, and subject to influence from the techniques of community revenue raising (for example).

In filling of vacant lands throughout the existing built up residential areas shall be encouraged.\(^\text{76}\)

The revenue raising techniques can either support the policy, or oppose the policy.

\(^{74}\) Town of The Pas Development Plan, By-law No. 2551, Municipal Planning Branch, Department of Municipal Affairs, Province of Manitoba, December 6, 1977, p.3.

\(^{75}\) Ibid., p. 9, Section 1.3.3.

\(^{76}\) The Rural Municipality of Richot Basic Planning Statement, By-Law No. 5/79, Municipal Planning Branch, Department of Municipal Affairs, Province of Manitoba, 1979, p. 6, Section 3.2.8.
The following general core of objectives and policies are based on principles common to the five planning documents, and are possibly influenced by the manner of revenue raising employed within the community. With the assumption that this general guideline of objectives and policy statements is applicable to most Manitoba communities, this investigation will demonstrate first, to what extent the present revenue techniques reinforce the planning guidelines, and second, what adjustments should be made to the present revenue system in order to better support the existing policy.

This then is the general outline of objectives and policy statements common in principle among the five planning documents; that can be generally applied to all Manitoba communities.

1. FRINGE DEVELOPMENT

Objectives

a) "To channel development into the core of the community"\(^7\)

b) "To create a buffer zone around the community"\(^7\)

c) To prevent incompatible uses from intermixing, such as feed lots adjacent to residential areas.

d) "Development that should properly be located in urban centres be encouraged to become established in such centres whenever possible."\(^7\)

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\(^7\) Brokenhead River Planning District Basic Planning Statement (Tyndall), By-law No. 7, Municipal Planning Branch, Department of Municipal Affairs, Province of Manitoba, December 6, 1977, Section 10.2(2).

\(^7\) Ibid., Section 10.2(2).

\(^7\) Morden, Stanley, Thompson, Winkler Planning District Basic Planning Statement, By-law No. 4-78, Municipal Planning Branch, Department of Municipal Affairs, Province of Manitoba, p. 18 Section B.2(3).
e) "Good agricultural land not be despoiled through the proliferation of urban type developments that create urban sprawl or unwarranted urban fringe developments." 80

f) "To organize village growth so as to promote efficiency, amenity, and flexibility for future change and development by discouraging periphery sprawl and the premature development of land in areas which shall be required for eventual village expansion." 81

g) "To balance growth against the measurable costs of growth in terms of service, utilities, taxes, public facilities, and environmental quality, thereby ensuring the greatest benefits possible are received by the community from investment in development." 82

Policies

h) To enter a special planning arrangement with the surrounding R. M. of ensure policies outside the urban municipalities boundaries.

i) To preserve the agricultural land in acreages large enough to be economically farmed.

j) "Development in these areas shall be limited to agricultural, and agriculturally related uses, which are compatible with the relative proximity of an urban area". 83

k) "Where there is a reasonable amount of suitable vacant land existing within or immediately adjacent to the built up area of the urban centre, no further subdivision or development of land beyond this area will be permitted". 84

80 Ibid., p. 18, Section B.2(5).


82 Ibid., p. 14, Section 6.1(5).

83 Village of Riverton Basic Planning Statement, By-law 49/78 Municipal Planning Branch, Department of Municipal Affairs, Province of Manitoba p. 7, Section B1.3.2.

84 Op.cit., p. 20, Section B.3(10), M.S.T.W. Planning District B.P.S.
2. RESIDENTIAL

Objectives

a) "To phase residential development so that it occurs in an orderly and economical fashion, and not in a scattered and unorganized manner". 85

b) "To restrict residential development in areas unsuitable for such development". 86

c) "To encourage residential development along existing sewerage lines and within suitable residential areas, in such a way as to improve the general environment, amenities, convenience, and costs for the residents and the Village". 87

d) "To limit frontages, and thereby decrease the cost of utility servicing". 88

e) "To encourage development that would maintain or improve the character and value of land, buildings, and structures". 89

f) "To encourage the creation of distinctive residential developments". 90

g) "To require such standards of new developments that a full range of services is provided for such developments at no cost to the municipal rate payer". 91

Policies

h) Development on unserviced lands shall not be encouraged until Council feels additional growth requires more land.

i) "Residential development shall be encouraged to infill the vacant lots of the established residential area before any outward expansion". 92

---

85 Op.cit., p. 8, Section B2.2.1, Village of Riverton B.P.S.
86 Op.cit., p. 4, Section 6.2(2), Brokenhead River Planning District B.P.S.
87 Op.cit., p. 8, Section B2.2.3., Village of Riverton B.P.S.
88 Ibid., p. 8, Section B2.2.4.
89 Op.cit., p. 4, Section 6.2(4), Brokenhead River Planning District B.P.S.
90 Ibid., p. 4, Section 6.2(6)
92 Op.cit., p. 9, Section B2.3.4, Village of Riverton B.P.S.
j) "All new residential development shall be required to connect to the existing municipal sewerage system". 93

k) "All new residential subdivisions shall be required to connect to the existing municipal water system". 94

l) "Areas designated for residential development shall be located in such a manner to provide maximum use of existing and proposed municipal services". 95

m) "To rehabilitate and redevelop older residential districts by converting available sites to more habitable accommodations". 96

3. COMMERCIAL

Objectives

a) "To promote the development of a centralized and concentrated commercial area, so as to improve convenience and to contribute to the creation of a community identity". 97

b) "To encourage the location of central commercial outlets where they would integrate well with other land uses, and thus improve the general environment". 98

c) To utilize any existing vacant serviced lands.

d) To encourage the development of a highway commercial district in those situations in which the need for one has arisen.

e) "Existing urban centres be strengthened and maintained to provide employment opportunities and a range of commercial and community facilities to its residents and the residents of the region". 99

93 Op. cit., p. 6, Section 3.2(6), The R.M. of Richot B.P.S.

94 Ibid., p. 6, Section 3.2(7).

95 Ibid., p. 6, Section 3.2(9)


97 Op. cit., p. 9, Section B3.2.1, Village of Riverton B.P.S.

98 Ibid., p. 9, Section B3.2.2.

Policies

f) Commercial and retail businesses shall locate in the areas selected, and these areas shall be primarily infill sites.

g) The village shall encourage landscaping and streetscaping.

h) "To rehabilitate the Central Business District". 100

i) To provide adequate, convenient, and economical parking in the central commercial district.

4. INDUSTRIAL

Objectives

a) "To facilitate the development of new industries, and the expansion and redevelopment of existing industries". 101

b) "To locate industrial areas in such fashion that other land uses will not be adversely affected". 102

c) "To ensure industrial development is located in a manner that maximizes the efficiency and effectiveness of waste disposal, the provision of municipal services, and site development". 103

d) "To remove existing industrial sites from residential and commercial areas, either physically, visually, or both; and to encourage them to locate in close proximity to one another so that servicing costs can be minimized". 104

e) "To direct new industries arriving in the Village to an area which will be economical to service, be easily accessible by truck and rail transportation, and have the least detrimental effect on the surrounding land uses". 105

Policies

f) Wherever possible land uses shall not be mixed.

g) When adjacent land uses are incompatible, adequate buffering shall be provided.

---

100 Op.cit., p. 15, Section 2.3.2, Town of The Pas Development Plan.
101 Ibid., p. 18, Section 3.1.1.
103 Ibid., p. 14, Section 6.1(13).
104 Op.cit., p. 10, Section B5.2.1, Village of Riverton B.P.S.
105 Ibid., p. 10, Section B5.2(2).
5. PARKS AND RECREATION

Objectives

a) "To ensure that an adequate amount of land, in suitable locations, is reserved and maintained for purposes of public park and recreational use". 106

b) "To encourage the development of parks and open space in conjunction with other compatible and related uses". 109

c) "To work towards re-establishing the natural environment in certain areas". 110

Policies

d) Lands suitable to this use shall be reserved and where possible acquired under Section 74(1) of the Planning Act.

e) Incompatible uses shall not be allowed to develop in close proximity to recreation areas.

f) Retention of tree cover and wood lots shall be encouraged.

g) "To control development in areas reserved for future expansion and maintain these areas as natural reserves until they are required for urban development". 111

106 Op.cit., p. 10, Section 5.2(1), The R.M. of Richot B.P.S.

107 Ibid., p. 10, Section B5.2(3).

108 Op.cit., p. 9, Section 8.2(2), Brokenhead River Planning District B.P.S.

109 Ibid., p. 9, Section 9.2(3).

110 Op.cit., p. 12, Section B6.2.2, Village of Riverton B.P.S.
6. OTHER

I. Historic

Objectives

a) "To protect historic resources from uses or activities that would endanger them".\(^{112}\)

Policies

b) "No development of land shall be permitted that endangers any site, building, or other structure of historic significance as established by an inventory of heritage resources".\(^{113}\)

II. Servicing

a) "Due to the high cost of providing sewerage facilities, expansion shall be limited to that financed by private developers. Growth and development within the Village shall be directed to infill the existing network and thereby reduce costs".\(^{114}\)

b) "Costs and inconvenience arising from providing services to poorly and unwisely located developments be eliminated or minimized".\(^{115}\)

c) "Endeavor to ensure that proposed development allow the economical provision of services".\(^{116}\)

These then represent a general core of objectives and policies which are common in principle among the five planning documents. Is it plausible that these objectives and policies will be achieved without the community and the council of that community utilizing every possible means towards this goal? Further, is it plausible that these objectives and policies will be achieved if there are financial forces acting within the community which influence the pattern of development in a contrary direction? It is the author's contention that the objectives and policies, as stated


\(^{113}\)Ibid., p. 39, Section H.3(1).

\(^{114}\)Op. cit., p. 13, Section B8.2.1, Village of Riverton B.P.S.

\(^{115}\)Op. cit., p. 18, section B.2(4), M.S.T.W. Planning District B.P.S.

\(^{116}\)Ibid., p. 19, Section B.3(2).
above, will not be achieved in a community employing revenue raising techniques which are not supportive of planning policy.

The objectives and policies can be thought of as a collection of guidelines on community development to which most urban municipalities would ascribe. None are site specific. As stated in the Tyndall Basic Planning Statement, the

Implementation of the objectives and policies set out by this document shall be carried out through zoning regulations, subdivision controls, building regulations, development agreements, and other available controls.¹¹⁷

It has been the contention, indeed the hypothesis of this research, that the techniques employed to raise revenues within the municipality influence the physical form that the municipality acquires. The methods employed to finance the community expenditures are in fact, "other available controls".

It is necessary to now recall the influences found to exist in the preceding chapter, and their impact as determined in the preceding section, so that it can be shown whether the present revenue techniques support these common policy statements, or in fact operate in defiance of them.

C. SUMMARY AND CONCLUSIONS

Chart VII illustrates the impact of each revenue source of each of the objectives and policies stated in the general outline. The percentage of the controllable influential revenue total represented by each of the revenues, is given a positive or negative value dependent upon whether the revenue supports or is contrary to, the policy statement. Chart VII then sums the influences to arrive at the net impact from financing techniques on each of the policies and objectives.

If it was found that the revenue technique was neutral in regards to a particular policy statement, the corresponding square of the matrix was left blank. In addition, many policies are not influenced by the various financing techniques. Although the attempt was made to eliminate this type of policy statement from the outset, it was not anticipated that so many policy statements were free from influence. Thus they were not removed from this investigation, but instead remain in order to clearly illustrate this point.
### CHART VII

**IMPACT OF INDIVIDUAL REVENUES ON GENERAL GUIDELINES OF OBJECTIVES AND POLICIES**

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| Land tax                                           | +16.3        |
| Building Tax                                       | -54.31       |
| Personal property tax                              | +54.31       |
| Additional taxes - on land                         | +1.2         |
| - on buildings                                    | - 3.99       |
| Business tax                                       | + 3.99       |
| Net impact on policy from financing techniques     | + 39.77      |

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Source: compiled by the author
From the chart, the revenues obtained through licences and permit fees, parking fees, sales and rental charges, the personal property tax, and the business tax are found to be neutral with regards to the vast majority of policy statements.

The influences derived from parking fees, sales and rental charges, and the business tax seem to be most dependent upon their rate levels, and not upon the percentage of revenue they account for. Therefore, the influences attributed to these revenues in Chapter III are still valid, but their influence on this set of policy statements is negligible.

The revenues with the most influence on the outline of general policy statements are; the taxes based on land and buildings, and the utility charges, dependent upon whether they are marginally priced or average priced. In general, a system involving marginal cost pricing and land based taxation are supportive of the policies; while average cost pricing and improvement based taxes are contrary to the desirable development pattern. However improvement taxes and average cost pricing do support some policies which the land tax and marginal cost pricing are contrary to. Such policies include the creation of a commercial district on the fringe of the community - a highway commercial district; and the retention of parklands, natural environment areas, and historic buildings. Therefore it is clear, that although a financing system composed of predominantly marginal cost pricing and taxes applied to a land base are supportive of the majority of policies, care must be taken to safeguard the policies which are contrary to the influences of these revenues.

An example from the chart should serve to clarify its intent. If we look at policy statement 2.i) "Residential development shall be encouraged to infill the vacant lots of the established residential area before
any outward expansion", we note the following:

a) Marginal cost pricing would be more costly for suburban sites and be to the benefit of sites in older established areas (refer to Chapter III). Since marginal cost pricing represents 13.48% of the controllable influential revenue, the policy statement is positively reinforced by this value.

b) Average cost pricing promotes growth at the fringe, is contrary to the policy statement, and therefore exerts a negative influence equal to its percentage of the controllable influential revenues; -1.53%.

c) The tax based on land value promotes the utilization of land and is therefore supportive of the policy statement (+16.3%).

d) The tax based on building value encourages the holding of vacant land, and therefore is not supportive of the policy statement. (-54.31%).

e) The additional taxes based on land (+1.2%) and buildings (-3.99%) were similarly apportioned.

f) The remainder of controllable influential revenues were found to be non-influential. Therefore the summation of impact of the controllable influential revenues is -27.82%, and the revenue system does not promote this policy statement.

Chart VII illustrates clearly that the system of revenue raising controlled by urban municipalities within Manitoba, is not being utilized as a tool to implement the objectives and policies stated as desirable within the applicable Manitoba planning statements. Revenue raising in Manitoba is primarily for fiscal motives, and the influences emanating

\[118\] Op.cit., p. 9, Section B2.3.4, Village of Riverton B.P.S.
from the revenue techniques are most often contrary to planning policy. Further, Chart VII illustrates that financing techniques which are currently legally available to the municipalities (i.e. basing taxation on land values, and marginal cost pricing), could be supportive of the desirable land development objectives and policies, with some minor adaptations.

In summary, if planning policies and objectives are to be rationally buttressed with the appropriate revenue raising techniques, the system in Manitoba must be restructured around a core of direct taxation on land values, and marginal cost user charges. Specifically, the Manitoba revenue system should resemble that put forward as an alternative in the next section. However change must come from the Province, as municipalities must legally follow the laws as laid down in provincial statutes.
AN ALTERNATIVE

The local revenue system is justifiably composed of a moderate number of revenues, in the form of direct and indirect taxation and user charges. The system however is generally regressive and is therefore in direct need of modification. To tinker with the addition of new charges and minor tax bases is an attempt to put a patch on an inherently inequitable system. This investigation has isolated the tax based on assessed improvement values, as the central problem of the local revenue system; in terms of both regressivity and poorly directed influence on development. To reform the local revenue system therefore, requires a replacement for the improvement base; which can be equitably introduced, is progressive in nature, is capable of raising equal revenue, and which tends to support desirable landuses and development policies.

This investigation submits that a tax based on land value increments, after the establishment of accurate, assessed property values, could meet the above criteria if introduced in the following manner.

1. A property assessment would be taken provincewide, to bring the assessed values equal to the market values. This would include the value of land and the value of improvements, and would establish a base line from which to measure future increments in value. At this point equal revenues would be obtained despite a lowering of the mill rate, and this is politically feasible.

2. As land values rose above the established base line they would be taxed at a progressive rate. Since land values are created through the growth of society, and the supply of public services and improvements, this is equitable. At the same time the increment tax does not capture
revenue from anyone who has not benefitted through community growth via increased land values. The base line value of land is not taxed any differently, and therefore those who purchased land at high values with private capital and labor are not penalized. Speculation would be halted.

If a tax is levied on land value increments, and this tax is capitalized into lower land values; then there is no longer any basis for levying the higher tax rate. The "threat" of high tax rates on land value increments will therefore keep land from increasing in value via speculation. If however, the land value increases because of benefits received or services supplied by the community, the market value as determined by supply and demand will increase regardless of the tax, assessed values increase, and the increment is equitably taxed by the community.

As improvement values increased above the base line they would be taxed at a very low rate and would thereby not become a disincentive to rehabilitation or development.

Thus there would be three mill rates. One would tax the base line values of improvements and land, at a proportional rate, and thereby not disrupt the established system. The second would progressively tax land value increments, while the third would tax improvement value increments at a low proportional rate. As the percentage of the tax based on improvements becomes less, the tax's inequalities and negative influences on development would fade. Increments in value are anticipated to equal the inflation rate at the very least.

3. Assessed land values would be very dependent upon the zoning of the land; and therefore underutilized land would be assessed a value in accordance with the allowable development. This would pressure land into its highest and best use, as determined by zoning, and act as a positive
development tool.

In some instances the market value (now equal to assessed value) may be higher than is logical in consideration of the zoning. The market value would include a speculation value based on the feeling that someday the land will be rezoned. This would be common in areas designated by council as future growth zones. In such instances the assessed value should still reflect market value and capture the land value increment; however in some instances the rate should be applied to a value set with respect to the highest and best use allowed by the zoning. An example may clarify this point. If a farmer on the fringe of a community is farming his agriculturally zoned land, he should not be forced to pay taxes based on market value. Speculation that the land will someday be rezoned may have raised market value, and to base a tax on this value may make agricultural pursuits uneconomical. Therefore, on receipt of an application from the affected individual, the tax may be based on the value related to the highest and best use allowed under the present zoning. However should the land be sold or rezoned, the owner must repay the back taxes as based on market value.

It is also important that excess land not be zoned ahead of demand, for pressure will be placed on the land from which there is no escape.

4. An essential component of this alternative revenue raising scheme is an historic building preservation program. Buildings which are thus categorized will be zoned historic. The land values applicable to this zoning would be low and therefore would not pressure redevelopment. Similar to above, should rezoning ever occur, the property would be subject to the back taxes based on market value.
5. Assessed values would be kept close to market values by means of the same method used in New Zealand. The government would issue an assessed value which could be accepted by the taxpayer as valid, or rejected. If rejected the land owner can either submit his assessment of the value or demand the government purchase his property at their assessed value. If the government receives an assessed value from the landowner, they have the power, and the option, to accept it or purchase the property at the landowner's assessed value. This administrative technique balances and checks the system; as the government becomes hesitant to over assess property values and the landowner becomes hesitant to under assess his property value.

6. Progression may be added to this alternative revenue technique through two more means:

   a) an additional percentage levy may be placed on all absentee and or foreign land owners, and

   b) total tax exemptions could be allowed on low value properties, and these exemptions could vary inversely as property values increased to a set value.

The implementation of this alternative is advantageous in that it is built on the existing system and therefore causes minimal disruption. In essence it states that the future rules of the game are changing in order to provide greater equity and progressivity, and to support development policies. The change implies no penalties or rewards for past performance, but will instead influence future development and community growth in an equitable manner. Therefore it is possible with minor legal alterations, to introduce a revenue raising technique in Manitoba urban municipalities which will efficiently, and equitably, finance the
community; and at the same time support and promote the planning policies and objectives, as stated in planning documents.
CHAPTER V

SUMMARY

The purpose of undertaking this investigation was to ascertain the principle planning consequences behind each possible form of revenue available to a municipality, and to then determine the relative influences that these options have on the future development of the community. The thesis attempted to analyze the hypothesis:

'that revenue raising techniques are planning tools, which when properly utilized can bring desirable change to a community'.

Chapter I was an introductory chapter, which established the purpose and hypothesis, and outlined the investigation and the methodology.

In Chapter II, the revenues available to Manitoba municipalities were carefully defined by means of an analysis of their characteristics and intent. The research then discussed the theories and principles upon which an equitable revenue is based. An analysis of the legal statutes which allow municipalities to collect the various revenues were found to be based predominantly upon the ability to pay and the benefits received theories. The statutes specifically stated the communities possible revenue sources, their rates, and the manner of their collection. The chapter also addressed the incidence of shiftable revenues, and the characteristics of an equitable system; for it was found that although each and every revenue could be labelled inequitable, it was important that the system as a whole be justifiable and equitably progressive.

This understanding of revenue raising techniques was applied to those revenues legally available to Manitoba municipalities in Chapter III. This chapter also analyzed the influences on development emanating from
each of the various revenues. It became obvious that varying influences on development could be achieved through altering the base, the rate, the progressivity, and the incidence of the revenue source. Finally, the revenue system used in Manitoba was compared to the equitable system described in Chapter II. In comparison the Manitoba system was found to be regressive, and based principally on fiscal motives. The important influences on community development were found to result from the pricing of public services, and from basing the tax on assessed property values. A complete summary of the influence of each revenue source was found at the end of this chapter. It became necessary at this point to investigate the dependence of the community on each revenue source.

Chapter IV studied the percentage of revenues raised by each method, and thereby more precisely determined their influence on community development. Through an analysis of current planning policy, it was found that while many revenues are neutral with regards to policy reinforcement, others are very influential; most notably the taxes based on land and improvement values, and pricing systems. Chart VII summarized the influence of the revenue sources on each policy statement. In conclusion it shows that the system of revenue raising as currently utilized does not reinforce planning objectives and policies. The system is primarily based on fiscal motives. However, with minor adaptation the system could be supportive of planning policy, and at the same time be more equitable. It is recognized however that change must occur via provincial statutes.

Finally, the research outlines and proposes a system based on land increment taxation, which should be reviewed and implemented by the province, if local revenue raising and planning policies are to be
complementary. For pursuing planning objectives which are contrary to the influences of the revenue raising system is frivolous.

This thesis has established that the revenue raising techniques employed by a municipality do influence the development pattern within that municipality. In addition, by utilizing the techniques which are supportive of established planning policy, the desired development pattern is encouraged and enhanced.
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