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INEQUITIES IN PROPERTY ASSESSMENT
IN DIFFERENT COMMUNITIES

DISPOSITION

Tabled	To Committee	Accepted as Read	Accepted as Amended	Deferred (to Session)	Rejected	Noted not Considered

INEQUITIES IN PROPERTY ASSESSMENT IN DIFFERENT COMMUNITIES

From a study of the Debates of the 41st Session in this matter, it is immediately apparent that the concern about the inequities in assessment stems from the fact that the assessment on real property is directly linked to the fixed Territorial School Levy.

Taxation of real property has historically been the major source of revenue of municipalities. For the purpose of levying such taxes, real property (except such property as might be declared exempt by Federal or Territorial Legislation) has been valued or assessed. The basis for such municipal valuation is found in the Municipal Ordinance and the regulations made under it. The basic concept expressed in Section 194 of the Ordinance is that land (which includes all improvements) shall be assessed at its fair actual value.

Any person may appeal his assessment. The sole question is as to whether property is assessed on a common basis as related to the valuation of all other rateable property.

As long as the real property assessment is only employed for the raising of taxes within a municipality the relationship to fair actual value is not of real importance. The important matter is that the assessment of each piece of realty within the municipality should be just and equitable having regard to the assessed value of all other properties in the said municipality.

If the Town of Hay River were to assess land at 100% of market value and the Town of Fort Smith at 10% of market value, no inequities would arise so long as the assessed value was used solely for the purpose of raising taxes within the limit of each town.

To exemplify such rates of assessment in terms of taxation, the following theoretical computation is provided.

At an assessment of 100% One Mill in taxation would produce \$3,000.

To raise the same amount of taxes at an assessment level of 10% would require Ten Mills.

When the fixed Territorial School Levy (14 Mills in 1970) is applied to such assessment values it follows that the municipality rated at 100% would have to pay \$42,000; while the one rated at 10% would only be required to pay \$4,200.

While the municipalities have complained about the fixed Territorial School levy no complaints have been received, nor can any be expected about the automatic increase in the Territorial Grant of 10 mills based on total assessment. The School Levy is applied on taxable assessment while the Territorial Grant is applied on total assessment. The increase in the Territorial Assessment Grant should have the effect of slightly reducing the mill rate for general purposes (although municipal costs are increasing and reductions may not be realised) but the fixed school levy applied on substantially increased assessments will have a severe impact on the average ratepayer and for this reason it is suggested that a new base formula for calculating this levy be developed.

There are two ways in which such inequalities can be overcome:

a) The easiest way would be to amend present legislation by eliminating the fixed Territorial School Levy, which is due to reach a maximum of 15 Mills in 1972 (Federal/Territorial Five Year Financial Agreement), and substituting therefore a dollar amount to be paid by each municipality annually for education. By this means the Mill rate for education would find its own level each year.

The sum required to be paid would be determined by the Territorial Government and would be based on such percentage of actual educational costs as are deemed fair and equitable for the municipality to pay.

b) The second, and more complex method, would be to establish equalized assessment in all municipalities in the Territories.

There is a lack of uniformity in assessments throughout Canada, and the N.W.T. is not alone in this respect. New Brunswick has established a form of equalized assessment which is causing administrative problems. Ontario is in the midst of establishing a similar program and is sustaining storms of protest. Alberta endeavoured to equalize assessments in 1968 which resulted in a concerted appeal to the Supreme Court by the urban municipalities. A new Bill is to be presented to the Alberta Legislature on the matter, but as the terms of the Bill have been made public it is already being opposed by the urban municipalities on the grounds that it does not properly equalize assessments. The other Provinces are not becoming involved as their systems of provincial levies are not linked to assessment.

This is not to say that it is impossible to equalize assessments, but it should be emphasized that it is a difficult and complex task necessitating the services of economists who establish factors to be employed in different areas. This is expensive and time consuming.

In addition, the factors established require constant surveillance in order that they keep pace with the changing economy of the various areas.

The matter is further complicated by the fact that several of the municipalities in the N.W.T. are dependent for their economy, to a large extent, on substantial grants in lieu of taxes received from the senior governments based on the assessed value of properties owned by the governments. The Federal Government reserves the right to place their own assessed valuation on their properties and can eliminate the assessment on their properties at will as the grant in lieu of taxes is basically ex gratia.

This circumstance alone would negate the work of establishing equalized assessment in the municipalities.

In view of the Federal Government reservation to delete such items as fences, ornamental stone and ironwork et cetera from their assessments it seems only fair that private property owners in the N.W.T. receive the same exemption. It is therefore recommended that the Government of the N.W.T. should formally adopt the same assessment manual as in effect in the Province of Alberta but deleting therefrom several of the items which the Federal Government will not accept as being assessable. This would eliminate the resentment which has been expressed by the municipalities in this respect. It would not make any significant difference to the total assessment in the municipality and would not affect local taxes but it would prove to be a popular move as ratepayers are under the, perhaps erroneous, impression that they are being taxed more heavily by virtue of the Federal exemptions.

The up-dating and revaluation of assessment of all lands in the municipalities in the N.W.T. is to be encouraged in the interests of proper municipal administration and to achieve equitable distribution of local tax burdens. However, by virtue of the fixed Territorial School Levy inequities in tax levies will continue

unless a change in legislation is enacted as outlined in either "A" or "B" above.

In consultation with representatives from the Education Department a discussion was held to ascertain the possibility of determining the actual cost of education in any one municipality in the N.W.T. with a view to implementing annual charges as outlined in "A" above. These figures are not available. It may be possible to obtain the average annual "per pupil" cost in the N.W.T. but at present there are no concrete figures available upon which charges can be based.

Consideration has been given to implementing a per capita charge for education using the total municipal population as a base factor. A percentage of the total cost of education could be designated as recoverable from the municipalities and costs allocated accordingly. In this manner the mill rate for education would find its own level in each municipality.

The key to this method of recovery would be to decide upon what percentage of educational costs is fair and equitable for the municipalities to pay. There have been some rumblings of discontent from the municipalities that while they make a contribution to the cost of education they have no say in school matters. Present legislation provides that local school boards may be formed and have complete autonomy. The municipalities are reluctant to take this step as they realise that they simply could not raise sufficient funds at the local level to sustain the costs involved. This state of affairs has been experienced in other parts of Canada and has been overcome to a degree, notably in the Province of Alberta, which has established a fund consisting of a yearly appropriation by the Provincial Government plus a requisition on each municipality based on equalised assessment and a uniform mill rate which is presently 26 mills. From this fund each school board receives its operating costs up to the standard prescribed by the Program. Each school board retains the right to requisition its parent municipalities for additional funds, if local opinion is such that standards should be higher than those provided for by the Program.

A ready and final solution to the problem in the N.W.T. cannot be made at this time due to the lack of financial information.

A temporary solution which would provide a measure of immediate relief would be to amend the School Ordinance and the Municipal Ordinance to the effect that municipalities which have re-assessed all properties subject to taxation at 100% valuation be permitted to levy the Territorial School Tax on a reduced assessment valuation of 66 2/3%. This would provide a rough form of equalization insofar as contributions towards the cost of education are concerned. Such an amendment would require sanction from the Federal Government as it would affect the Five Year Federal/Territorial Financial Agreement. The Agreement does not permit for such variations.

An intensive study of levying school tax on a per capita basis is warranted as this would appear to be the fairest methods of implementing such taxes. By this means the formula can be kept as simple as possible so that local authorities can readily ascertain that they are not being dealt with inequitably as compared to other municipalities.

The same formula (per capita) could also be used to replace the basis for calculation of the annual Territorial Grant which is paid at the rate of 10 mills on the total assessment in municipalities. Due to the wide variances in assessment it is impossible to treat each municipality fairly by way of a ten mill grant based on assessment. Among the advantages of such a basis are that it eliminates the almost insuperable problem of equalization of assessments. To develop a policy of providing grants to municipalities on the basis of need it is necessary to review the reasons why municipalities require assistance.

The property tax is the principal tax source open to local governments throughout Canada and in the N.W.T. is the only available tax other than the Poll Tax. Supplementary non-tax sources from fines, fees and the like cannot fairly be utilized to bring in very much money. Income from rates and fares is generally confined to utility type services - water/sewer services, public transit etc. The property tax is not an ability-to-pay tax and cannot be converted into such a tax. It constitutes a stable but not a buoyant source of revenue. Changes in assessment to enrich the base and changes in the mill rates to increase the level of taxation have both to be consciously engineered and sold to the public. The position contrasts sharply with the federal income tax where increases in income bring an automatic increase in tax revenues.

Municipalities in the N.W.T. are not permitted to engage in deficit financing and the temptation is great to finance as much as possible by means of capital borrowing over an extended term. The effect of such action, however, is to build up an increasing proportion of debt charges in the current revenue requirements of the succeeding years.

And so municipalities need help. The help is particularly required with respect to the so-called services to persons. The strength of the tax base in the municipality is determined by the actual value of the taxable real property holdings within its boundaries, whether or not such properties are assessed at or close to actual value. A portion of this strength comes from business properties.

A necessity for services to persons, however, depends upon the number of people who reside within the municipality. What is more, many of the service requirements are in residential areas and are not based upon the worth of residential properties. The poor residential area will require at least as much in the way of schooling facilities as the better residential area and more in the way of public health, welfare, and recreational services. It is to overcome the shortcomings of types of revenue sources available to municipalities as well as to develop acceptable minimum standards that it is considered that a per capita grant system is more equitable than the present grant of ten mills based on assessment.

The extent to which grants are made, the purpose for which they are made, and the basis on which they are paid vary widely from province to province but they have been developed for three main purposes:

1. To assist municipalities to carry the general cost of municipal government, or certain aspects of it thus relieving the burden of taxation.
2. To encourage municipal councils to undertake certain services, to improve their services, or to maintain a certain standard of service.
3. To equalize the burden of maintaining certain services at adequate standards as between different municipalities, consideration being given to the relative capacities to carry the cost of these services.

General Subsidy or Unconditional Grant

A general subsidy is a grant made for the purpose of assisting a municipality with its financing and is not conditional on the maintenance of specific services. Its sole purpose is to relieve the burden upon the local taxpayer. Such a grant may or may not be uniform for all municipalities and may not have an equalizing factor in it.

The Territorial Assessment Grant of 10 mills based on assessment means that the amount received by the respective municipalities varies directly according to the total local assessment (not including charitable) with the result that the more prosperous the community, as reflected in its assessed values, the larger the grant received.

Allocation of this grant on an assessment basis fails to recognize relative capacities to provide services nor does it allow for the variations in the extent and quality of the services which different types of municipalities must provide.

Assessment variations do not provide a common standard against which need can be measured. Population is the barometer of the need for most municipal services.

To work out a satisfactory system of Territorial assistance to municipalities is a difficult one but basically it can be analyzed as follows:

1. To find a basis of distribution which will be equitable between the municipalities.
2. To keep the grant simple from an administrative viewpoint.
3. To achieve the desired purpose.

If the municipalities are to be satisfied that they are being fairly dealt with as compared with each other the grant should be sufficiently simple that it can be readily understood both as it applies to all municipalities and to the one immediately involved. The municipalities and the Territorial Government must be satisfied that each municipality is receiving its fair share in comparison with others. From the municipal standpoint it is desirable that the revenue can be predicted with reasonable accuracy and it is essential that the Territorial Government forecasts expenditure accurately.

The provinces of New Brunswick and Ontario, among others, provide unconditional grants based on population and these per capita grants vary according to the type of municipality and recognize the difference in the cost of local services resulting from geographical location and the economic base of the municipality.

This is one type of grant which provides a unit of measurement that can be applied with much greater objectivity between municipalities than is possible where an assessment basis is used. The need for assistance is more closely related to population than to any other factor.

The grants paid in the Province of Newfoundland differ in purpose from those found elsewhere. They are designed to encourage the collection of taxes.

The Newfoundland formula is as follows:

A grant of \$2.00 is paid for each \$1.00 collected in taxes, up to \$1,000.
A grant of \$1.00 is paid on next \$4,000 collected
A grant of \$0.90 is paid on next \$10,000 collected
A grant of \$0.70 is paid on next \$10,000 collected
A grant of \$0.50 is paid on remainder up to a maximum grant of \$75,000.

In addition Newfoundland pays a grant of \$2.50 per capita for the maintenance of roads.

In British Columbia a straight grant of \$25.00 per capita is made. This grant is intended primarily to be used for the development of

roads. It does not increase or decrease for remote areas or vary depending upon the status of the municipality.

The province of Alberta has a very complex point system of allocating grants and is too detailed to relate here. Very few municipalities are capable of calculating the amount they can anticipate and there is some feeling of resentment against such an obscure and complicated system as the municipalities do not know whether they are being fairly treated in relationship to other municipalities.

The per capita grant system is fair, understandable, and recognizes the need for assistance in meeting the requirements of the people in the municipality.

It is designed to lower the overall tax burden upon the ratepayers in the municipality. As the population grows the question arises in the minds of ratepayers as to why they should pay more to provide the amenities necessitated by the increase in population.

As grants to municipalities increase, the Territorial Government in its own interest must be assured that these monies are being expended with reasonable efficiency and for the purpose for which they are granted. This in turn could be interpreted by municipalities as interference but an unconditional grant based on an understandable factor such as population is generally acceptable and it is difficult to find an argument against such a factor.

It is submitted that an expanded study of the merits of using population as a base for the recovery of education costs and for the payment of unconditional grants is warranted. Many methods of distribution have been tested in the search for a more equitable method of apportioning cash assistance to municipalities. The conclusions arrived at indicate that the per capita formula is the most fair by reason of its close correlation with municipal needs.