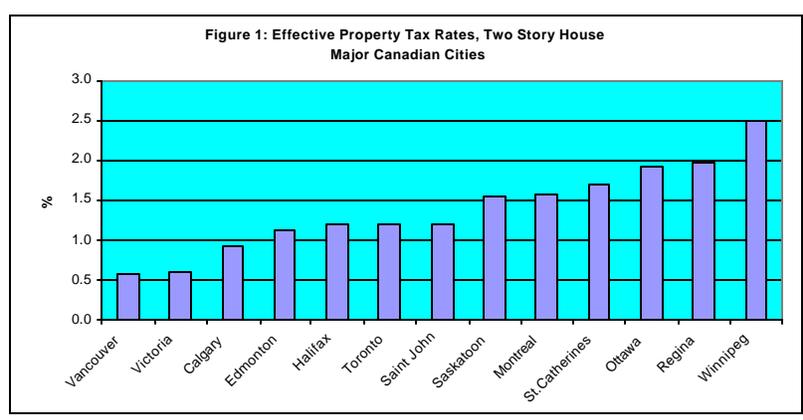




No. 13

# 2002 COMPARISON OF EFFECTIVE RESIDENTIAL PROPERTY TAX LEVELS IN MAJOR CANADIAN CITIES



OCTOBER 2002

By Peter Holle and Daniel Klymchuk

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The Frontier Centre wishes to acknowledge the assistance and advice of Professor Harry Kitchen of Trent University in Peterborough, Ontario.

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# 2002 Comparison of Effective Residential Property Tax Levels in Major Canadian Cities

## INTRODUCTION

In July, 2001, the Frontier Centre assembled a statistical comparison of the property tax burden between Winnipeg and other major North American, primarily Canadian, cities. The positive response to the information indicated a need for an annual review of this benchmark. Property taxes represent a major expenditure for Canadians. In international comparisons, OECD statistics show that Canada has the highest property taxes among developed nations. Our 2002 comparison of property taxes provides a simple overview of the comparatively heavy burden faced by citizens in different Canadian cities.

## EXECUTIVE SUMMARY

This report assesses the relative size of the residential tax burden in Winnipeg. It uses survey data from different sources to compare Winnipeg's property taxes with major cities in Canada and the United States. While the survey results from these sources differ slightly, they still show that there has been significant progress in reducing Winnipeg property taxes.

The fairest and most common way of making this comparison across jurisdictions requires a look at *effective* property tax rates, that is, property taxes relative to market values. Cities might have similar tax levels, but where market values are high, residents enjoy much lower effective tax rates than in cities where market values are low. Winnipeg has comparatively low property values for various reasons. This translates into high effective property tax rates:

- A 13-city comparison of effective residential tax rates for different types of dwellings in 2001 based on the *Survey of Canadian House Prices, Spring 2002* from the real estate company, Royal LePage, shows that Winnipeg property taxpayers continue to pay among the highest effective rates in Canada.
- They varied from 2.49 percent for a standard two-story house to 1.96 percent for a detached bungalow. Effective tax rates are lowest in Vancouver, Victoria and Calgary, where they are one percent or less for all housing types. In other parts of the country, effective tax rates on residential property range between one and two percent.
- Effective tax rates are lowest in cities with rapidly growing market values -- Toronto, Vancouver, Victoria, and Calgary. Effective tax rates are high in Winnipeg, on the other hand, because of slower growth in housing values.
- Effective property tax rates in Winnipeg are about 60% higher than the average rate in major U.S. cities. However, those cities have access to other revenue sources, a fact which makes comparison problematic.

To adjust for the impact of low property values, several measures of absolute tax burden were also used as a basis for comparison. These statistics drew on an internal 18-city survey prepared by the City of Edmonton's Planning and Development Department. These include: combined property tax and utility charges burden, property taxes relative to income and property taxes per square foot. These absolute measures confirm that Winnipeg has among the heavier residential property tax burdens in Canada. Specifically:

- When property taxes and utility charges are combined, Winnipeg has the sixth highest total charges on a standard house in Canada of 18 cities compared.
- Property taxes relative to income for Winnipeg were 4.3 percent, the sixth highest in the country. The lowest taxes relative to income were in Calgary at 2.3 percent of income.
- Winnipeg has the fourth highest property taxes per square foot of the seventeen cities compared.

The city with the highest education taxes in the Edmonton survey was Winnipeg, followed by Saskatoon and Vancouver. This part of the city's residential tax burden accounts for almost half the amount of total property tax.

Although Winnipeg's position on the cumulative ranking for 2001 remains the same as in 2000, the figures do contain the good news that the city has managed to lower its property taxes in the new year reported. But the improvement failed to improve Winnipeg's relative standing because 12 of the 18 other cities surveyed also reduced property taxes over 2000-2001.

There has been solid progress in reducing the levy. The Edmonton survey data shows that property taxes fell in Winnipeg during 2000-2001 due to a 6.5% reduction in the city portion of the tax and a 23% increase in the provincial property tax rebate. While Winnipeg had the 12<sup>th</sup> lowest city taxes of 18 cities in the City of Edmonton survey, its combined ranking remained at 15<sup>th</sup> out of 18 since it continues to have the highest education taxes levied on property in Canada.

Winnipeg's property taxes are high partially because it relies more on property taxes to fund services than other cities.

To improve its ranking on this survey by lowering property taxes the following approaches are recommended:

1. Broaden city revenue sources to include municipal sources common in many Canadian cities such as hotel room taxes and user fees based on full-cost recovery.
2. Phase out school property tax over five years and pay for it by 1) eliminating the provincial property tax rebate and shifting its revenues to education funding and 2) broader education reforms.
3. Encourage more operating efficiencies at Winnipeg City Hall by mandating a shift to output based service delivery models through amendments to the City of Winnipeg Act.
4. Implement a focussed provincial strategy to deal with the broader reasons for low house values in Winnipeg. A shift to a high growth policy model with lower taxes and better public services would boost demand for houses, increase their values and lower effective property tax rates.

A combination of a broader revenue base, a phase out of school property taxes and best practices operating efficiencies at city hall would boost values further and conceivably provide scope to lower property taxes by 60-75% or more.

## 1. INTRODUCTION

The residential property tax rate in Winnipeg in 2001 was 1.83 percent.<sup>1</sup> This means that on an average house assessed at \$125,000 the residential property taxes were about \$2,292. Is this too much or too little? How does it compare with other cities in the Canada, and the U.S.?

The purpose of our annual property tax survey is to assess the weight of the residential tax burden in Winnipeg. It compares that cost to other jurisdictions across North America.

The information in this report comes from several sources in Canada and the United States. Although the comparisons across jurisdictions within each study may be consistent, the studies are not always comparable with each other. Each study looks at different information in different jurisdictions in different years.

International property tax comparisons are also complicated by significant differences in expenditure responsibilities and revenue sources of municipalities in different countries. American cities have access to additional revenue sources and receive substantially more transfers from higher levels of government.<sup>2</sup> Furthermore, in the U.S. ratepayers can deduct property taxes from income when calculating income taxes, which is not allowed in Canada. This, too, must be factored into a comparison of relative property tax burdens.

There are some problems with the statistical analysis in much of the information provided. For example, some of the studies provide averages and medians for property taxes in different cities. These statistics are not always based on a random sample and averages are often unweighted. This means that smaller cities are equally weighted with larger cities. Notwithstanding the problems associated with the individual studies, a consistent pattern emerges when all of the studies are considered together.

### ***Effective Property Tax Rates***

The most common way to compare property taxes across jurisdictions is to look at effective property tax rates (property taxes relative to market values) because the property tax is levied on the market value of properties. Since market values vary significantly across jurisdictions, however, a similar tax level would result in much lower effective tax rates where market values are high and higher effective tax rates where market values are low. For this reason, other measures of tax burden are also used as the basis for comparison. These include: property taxes on a standard house, property taxes per square foot, and property taxes relative to income.

Residential property tax burdens, however measured, will vary across jurisdictions because of differences in overall property tax levels and because of differences in the relative importance of residential and non-residential assessment. The overall level of property taxes will depend on the expenditure responsibilities and other revenue sources in each municipality.

Expenditure responsibilities differ across municipalities. For example, Ontario municipalities are required to pay a portion of social assistance and social housing whereas most other municipalities in Canada are not. The City of Edmonton owns an airport, while Saskatoon's city government operates a graveyard. It is impossible, at the margins, to avoid comparing apples and oranges. Revenue sources available to municipalities also vary. For example, many cities in the U.S. have access to income and sales taxes; a few cities in Canada receive a share of provincial fuel taxes.

With these qualifications, this report compares the residential property tax burden in Winnipeg with the tax burden in other jurisdictions.

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<sup>1</sup> This tax rate includes municipal and education property taxes.

<sup>2</sup> See Harry Kitchen, *Canadian Municipalities: Fiscal Trends and Sustainability*. An edited version of this paper was published in the *Canadian Tax Journal*, Vol. 50, Issue # 1, 2002, pp. 156-180.

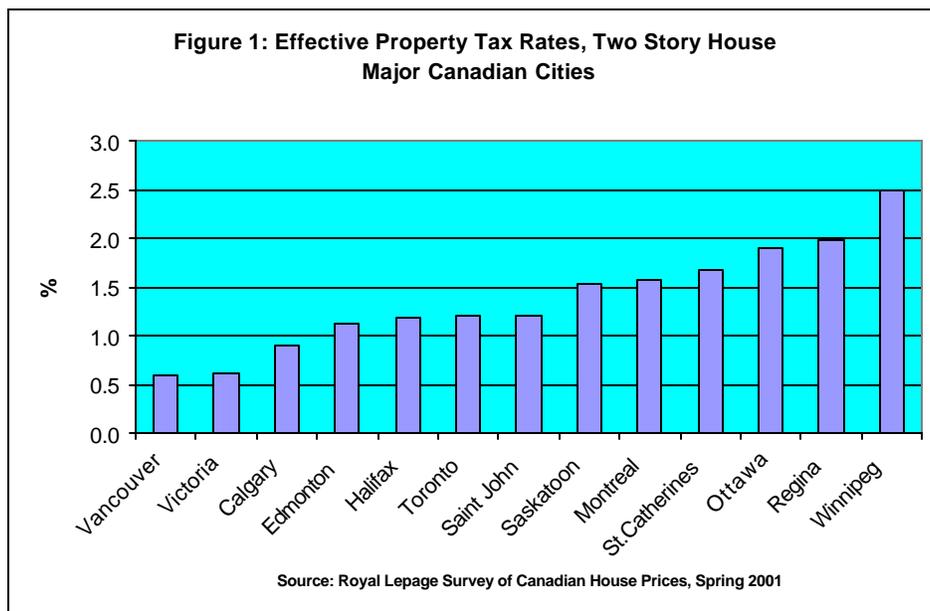
## 2. MEASURING THE BURDEN OF RESIDENTIAL PROPERTY TAXES

The burden of residential property taxes can be compared using a number of different measures.

**Winnipeg's effective residential property tax rates are among the highest in Canada.**

To compare property taxes across jurisdictions, it is necessary to use a standardized measure of comparison. A common way to compare property tax burdens across jurisdictions is to look at effective property tax rates.

Figure 1 shows effective tax rates for a two-story house in selected cities across Canada. The information is taken from Royal LePage data from the *Survey of Canadian House Prices, Spring 2002*.<sup>3</sup> Appendix Table A-1 shows effective tax rates for seven categories of housing: detached bungalow, executive detached two story, standard two story, standard condominium apartment, standard townhouse, senior executive, and luxury condominium apartment.<sup>4</sup> The pattern across cities tends to be the same except for standard detached bungalows.



Effective residential tax rates in Winnipeg in 2001 based on this Royal LePage data were the highest in Canada with the exception of detached bungalows in Regina (1.99% vs. 1.96% in Winnipeg). They varied from 2.49 percent for a standard two-story house to 1.96 percent for a detached bungalow. Effective tax rates are lowest in Vancouver, Victoria, and Calgary where they are one percent or less for all housing types. In other parts of the country, effective tax rates on residential property range between one and two percent.

It appears from Figure 1 that effective tax rates are lowest in cities with rapidly growing market values -- Toronto, Vancouver, Victoria and Calgary. To collect a given amount of taxes, a larger assessment base will mean a lower tax rate is required.<sup>5</sup> Furthermore, the higher the market value, the lower will be the effective tax rate (property taxes relative to market value). The effective tax rate could also be lower in these growing municipalities because of a proportionately

<sup>3</sup> The information in this publication is based on a survey of housing prices and property taxes that sold in the spring of 2001. As with any survey, there may be problems with small sample sizes in some cities.

<sup>4</sup> Effective tax rates by neighbourhood are averaged (unweighted) across neighbourhoods in each city.

<sup>5</sup> The assessment base may increase for two reasons: property values may be increasing and/or the number of properties increase. When property values increase, there is not necessarily an increase in the demand for services. The same tax levy is required. Higher market values will mean a lower nominal tax rate and a lower effective tax rate. When the number of properties increases, there is likely to be an increase in expenditure demands and an increase in the tax levy. The tax rate may or may not fall.

higher commercial and industrial tax base. Effective tax rates are high in Winnipeg, on the other hand, because of lower growth in housing values.

**Effective property tax rates in Winnipeg decreased between 2000 and 2001**

Compared to 2000 the effective tax rate on a detached executive two-story house in Winnipeg decreased marginally by .11 of a percentage point during a time when property values rose by eleven percent. Over this period, effective tax rates declined the most in those cities with the fastest growth in residential property values, although some variation does exist.<sup>6</sup> For example, property values in Halifax grew by 21.1 percent with the effective tax rate on this property declining by .27 of a percentage point.

**Winnipeg’s effective residential property tax rate is substantially higher than the rate in U.S. cities.**

Winnipeg’s effective property tax rates are twice those found in major U.S. cities. For a number of major U.S. cities, the effective property tax rate on a \$US150,000 property is less than one percent, namely in Los Angeles, Washington, Boston, New York, Portland and Seattle. Table 1 shows that the effective residential tax rate of about 2.12 percent in Winnipeg is about 60% higher than the average for the largest U.S. cities.

**Table 1: Winnipeg and U.S. Average Effective Property Tax Comparison**

Effective Property Tax Rate	\$US 70,000 House	\$US 150,000 House
U.S. Average	1.30 %	1.17%
U.S. Median	1.14%	1.00%
Winnipeg	2.12%	2.13%

Source: Appendix A 14-15, Minnesota Taxpayers Association, Royal Lepage Survey, Spring 2001

This kind of comparison, however, must necessarily be heavily qualified. It ignores the opportunity for U.S. homeowners to deduct property taxes (and mortgage interest) from income for income tax purposes which effectively lowers the financial impact of property taxes compared to Canada.

On the other hand, American cities rely more heavily on other sources of revenue, particularly municipal sales and income taxes. Cities in 16 U.S. states have some form of municipal income tax ranging from a high of 4.79% in Philadelphia to .5% in various smaller centres. Municipal income tax generates 20 percent of local tax revenue in Ohio and Pennsylvania, and 30% in Maryland. Some of this money also funds local school districts in various states.<sup>7</sup>

In 1999 local governments in 31 states levied some form of sales tax usually one or two percent up to a maximum of 5 percent in some states.<sup>8</sup>

**Residential property taxes on a standard house are higher in Winnipeg than in most Canadian cities.**

Another way to examine the property tax burden is to compare property taxes on a similar house in different parts of the country. A comprehensive study by the City of Edmonton’s Planning and Development Department compares property taxes in 2001 on a sample residential house: a 10- to 15-year-old, detached three bedroom bungalow with a main floor area of 1,200 square feet, a one-car garage, a full basement but no recreation room or fireplace, on a 5,500 square-foot lot.<sup>9</sup>

By this comparison (Table 2) Winnipeg ranked 15 out of the 18 cities compared. In other words it had the fourth highest property taxes on the list surveyed. The tax on a standard house is higher in Winnipeg compared to most other Canadian cities. This finding is not surprising, since property

<sup>6</sup> The rank correlation coefficient between housing prices and effective tax rates for the Canadian cities cited is -0.50 for a detached bungalow and -0.55 for an executive detached two-story house.

<sup>7</sup> See Harry Kitchen, Canadian Municipalities: Fiscal Trends and Sustainability. An edited version of this paper was published in the Canadian Tax Journal, Vol. 50, Issue # 1, 2002, pp. 156-180

<sup>8</sup> Ibid

<sup>9</sup> The City of Edmonton collected information from a survey of cities across Canada.

taxes are based on market value and market values are significantly lower in Winnipeg than most other cities.

When property taxes are taken as a percent of market value in each of these cities (with market values taken from Royal LePage, because the house description is similar to one in their study), Table 2 places Winnipeg 10<sup>th</sup> out of 12 cities or the third highest taxing jurisdiction among Canadian cities. Only Regina and Montreal are higher. Table 2 also includes utility charges in selected Canadian cities. These include fees for water and sewer service, garbage pick-up where applicable and telephone and power rates (see Appendix Tables A-2 and A-3 for a detailed breakdown of these charges by municipality).

It is important that both property taxes and utility charges across jurisdictions be combined in an inter-municipal comparison because the property tax does not fund the same services in every city. For example, garbage is funded from property taxes in some municipalities and from user fees in other municipalities. When property taxes and utility charges are both included, Winnipeg's position slides from 10<sup>th</sup> place in front of Montreal and Regina to 11<sup>th</sup> ahead of Regina. In other words, Winnipeg has the second highest total charges on a standard house in Canada. It is also interesting to note that Winnipeg had the highest water utility charges in the country.

**Table 2: Effective Residential Property Tax and Utility Rates:  
Selected Canadian Cities - Ranked from Lowest to Highest**

City	Rank	Est. Market Value	Property Tax Only	Property Tax plus Utility Charges	Property Tax Only 2	Prop Tax plus Utility Charges 3
Vancouver	1	\$ 360,000	\$ 1,946	\$ 3,182	0.54%	0.88%
Victoria	2	\$ 240,000	\$ 1,474	\$ 2,090	0.61%	0.87%
Toronto	3	\$ 350,000	\$ 2,802	\$ 4,010	0.80%	1.15%
Calgary	4	\$ 195,000	\$ 1,476	\$ 2,842	0.76%	1.46%
Halifax	5	\$ 172,000	\$ 2,045	\$ 3,303	1.19%	1.92%
Edmonton	6	\$ 145,000	\$ 1,596	\$ 2,901	1.10%	2.00%
Ottawa	7	\$ 180,000	\$ 2,607	\$ 3,777	1.45%	2.10%
Saskatoon	8	\$ 140,000	\$ 2,246	\$ 3,413	1.60%	2.44%
Montreal	9	\$ 150,000	\$ 2,989	\$ 3,908	1.99%	2.61%
Saint John	10	\$ 109,000	\$ 1,559	\$ 2,895	1.43%	2.66%
Winnipeg	11	\$ 125,000	\$ 2,292	\$ 3,502	1.83%	2.80%
Regina	12	\$ 110,000	\$ 2,194	\$ 4,202	1.99%	3.82%

Notes:

<sup>1</sup> Market values were obtained by taking the average value for all single family homes reported for each city (from different neighbourhoods) in Royal LePage's Annual Survey of Housing Prices. The home is a 1,200 square foot single-detached with three bedrooms, 1.5 bathrooms, one-car garage, full basement with no recreation room, fireplace or appliances on a 5,500 square foot lot.

<sup>2</sup> Calculated by taking average annual property taxes as a % of average estimated market value.

<sup>3</sup> Calculated by taking average annual property taxes plus utility charges as a % of average estimated market value.

Source: Calculated from Jong Huang, "2000 Residential Property Taxes and Utility Charges Survey", City of Edmonton, Planning and Development Department, December 2001 and Royal LePage's Survey of Housing Prices.

Table 3 below breaks down the City of Edmonton residential property tax survey data into its municipal and education components. In most cities, property tax is a major funding source for education. The city with the highest education taxes in the survey was Winnipeg, followed by Saskatoon and Vancouver.

**Table 3: Components of Residential Property on a Sample Residential House<sup>1</sup> in 2001:  
Selected Canadian Cities - Ranked from Lowest to Highest**

City	Property Tax Levy				Home owner grant/ Credits <sup>3</sup>	Net property tax levy (after grants /credits)	City Tax Rank	School Tax Rank	Total Tax Rank
	Municipal	School	Other	Total					
Medicine Hat	\$350	\$612	\$0	\$962		\$962	1	6	1
St. John	1265	0	0	1,265		1,265	10	1	2
Lethbridge	850	564	0	1,414		1,414	3	4	3
Red Deer	795	658	0	1,453		1,453	4	8	4
Victoria	1038	668	238	1,944	470	1,474	8	9	5
Calgary	709	767	0	1,476		1,476	2	11	6
Fredericton	1535	0	0	1,535		1,535	11	1	7
Saint John	1559	0	0	1,559		1,559	15	1	8
Edmonton	942	654	0	1,596		1,596	6	7	9
Yellow Knife	1076	755	0	1,831		1,831	9	10	10
Vancouver <sup>4</sup>	1136	1111	169	2,416	470	1,946	8	13	11
Halifax	1460	518	67	2,045		2,045	13	3	12
Regina	991	1087	106	2,184		2,184	7	12	13
Saskatoon	896	1244	106	2,246		2,246	5	14	14
Winnipeg	<b>1361</b>	<b>1331</b>	<b>0</b>	<b>2,692</b>	<b>400</b>	<b>2,292</b>	<b>12</b>	<b>15</b>	<b>15</b>
Ottawa	2036	571	0	2,607		2,607	17	5	16
Toronto	1828	974	0	2,802		2,802	14	13	17
Montreal	2555	434	0	2,989		2,989	18	2	18

Notes:

<sup>1</sup> Defined as a 10 to 15 year old detached three bedroom bungalow with a main floor area of 1,200 square feet, one car garage, full basement, no recreation room or fireplace, on a 5,500 square-foot lot.

<sup>2</sup> Provincial government homeowners grant for owner occupied dwellings.

<sup>3</sup> Based on averaged value single-family house which may not correspond to the sample house.

Source: Jong Huang, 2001 Residential Property Taxes and Utility Charges Survey", City of Edmonton, Planning and Development Department, December 2001

**Residential property taxes on a standard house in Winnipeg are falling.**

While Winnipeg's relative ranking on property tax burden remains at 15 out of 18 in the latest survey the city's absolute tax levels have fallen. This is part of a trend in other cities where property tax declined in 12 of 18 cities between 2000 and 2001. Table 4 below shows that the most of the decline in Winnipeg's rates occurred in the municipal portion of property tax.

**Table 4: Distribution of Property Tax Reduction in Winnipeg**

Year	Municipal Portion	School Portion	Total Property Tax	Provincial Grant	Net Property Tax Levy (after grants)
2000	\$ 1,456	\$ 1,350	\$ 2,806	\$ 325	\$ 2,481
2001	\$ 1,361	\$ 1,331	\$ 2,692	\$ 400	\$ 2,292
% Difference	<b>-6.52%</b>	<b>-1.41%</b>	<b>-4.06%</b>	<b>23.08%</b>	<b>-7.62%</b>

Source: Jong Huang, 2000 and 2001 Residential Property Taxes and Utility Charges Surveys, City of Edmonton, Planning and Development Department, December 2000 and 2001

**Changes in residential property taxes on a standard house between 2000 and 2001.**

The following tables compare property tax levels for the same cities for the most two recent years of data. Table 5a shows that Winnipeg was one of a minority of cities that lowered the municipal portion of property tax. Winnipeg's reductions were on the lower side of the range.

**Table 5a: Change in Municipal Portion of Property Tax (2001vs 2000)**

City	Municipal Portion Property Tax			
	\$ 2001	\$ 2000	\$ Change	% Change
Medicine Hat	350	596	-246	-41.3%
St. John	1265	1150	115	10.0%
Lethbridge	850	765	85	11.1%
Red Deer	795	758	37	4.9%
Victoria	1038	1203	-165	-13.7%
Calgary	709	753	-44	-5.8%
Fredericton	1535	1932	-397	-20.5%
Saint John	1559	1973	-414	-21.0%
Edmonton	942	870	72	8.3%
Yellowknife	1076	1380	-304	-22.0%
Vancouver	1136	1126	10	0.9%
Halifax	1460	1406	54	3.8%
Regina	991	1202	-211	-17.6%
Saskatoon	896	837	59	7.0%
Winnipeg	<b>1361</b>	<b>1456</b>	<b>-95</b>	<b>-6.5%</b>
Ottawa	2036	2152	-116	-5.4%
Toronto	1828	1759	69	3.9%
Montreal	2555	2490	65	2.6%

**Cities with tax increases: 10**

**Cities with tax decreases: 8**

Source: Jong Huang, 2000 and 2001 Residential Property Taxes and Utility Charges Surveys

The school portion of property tax also fell slightly in a majority of Canadian cities. Table 5b shows slightly lower school taxes in Winnipeg, but it remains the city with the highest school property taxes in Canada. Four cities experienced property tax increases dedicated to schools.

**Table 5b: Change in School Portion of Property Tax (2001vs 2000)**

City	\$ 2001	\$ 2000	\$ Change	% Change
Medicine Hat	612	685	-73	-10.7%
St. John	0	0	0	0
Lethbridge	564	682	-118	-17.3%
Red Deer	658	737	-79	-10.7%
Victoria	668	822	-154	-18.7%
Calgary	767	890	-123	-13.8%
Fredericton	0	0	0	0
Saint John	0	0	0	0
Edmonton	654	735	-81	-11.0%
Yellowknife	755	969	-214	-22.1%
Vancouver	1111	1073	38	3.5%
Halifax	518	539	-21	-3.9%
Regina	1087	1349	-262	-19.4%
Saskatoon	1244	1186	58	4.9%
Winnipeg	1331	1350	-19	-1.4%
Ottawa	571	608	-37	-6.1%
Toronto	974	911	63	6.9%
Montreal	434	403	31	7.7%

Cities with increases: 7

Cities with decreases: 11

Source: Jong Huang, 2000 and 2001 Residential Property Taxes and Utility Charges Surveys

**Table 5c: Change in Total Net Property Tax (2001vs 2000)**

City	\$ 2001	\$ 2000	\$ Change	% Change
Medicine Hat	962	1281	-319	-24.9%
St. John	1265	1150	115	10.0%
Lethbridge	1414	1447	-33	-2.3%
Red Deer	1453	1495	-42	-2.8%
Victoria	1474	1851	-377	-20.4%
Calgary	1476	1643	-167	-10.2%
Fredericton	1535	1960	-425	-21.7%
Saint John	1559	1996	-437	-21.9%
Edmonton	1596	1605	-9	-0.6%
Yellowknife	1831	2349	-518	-22.1%
Vancouver	1946	1892	54	2.9%
Halifax	2045	1995	50	2.5%
Regina	2184	2679	-495	-18.5%
Saskatoon	2246	2124	122	5.7%
Winnipeg	2292	2481	-189	-7.6%
Ottawa	2607	2760	-153	-5.5%
Toronto	2802	2670	132	4.9%
Montreal	2989	2893	96	3.3%

Cities with increases: 6

Cities with decreases: 12

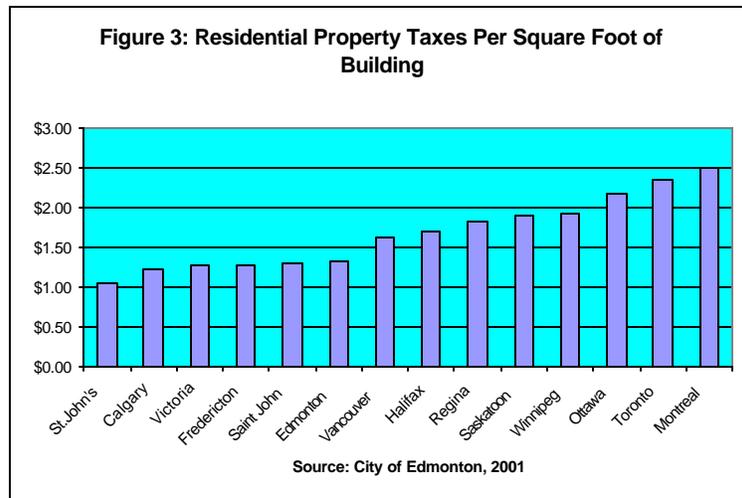
Source: Jong Huang, 2000 and 2001 Residential Property Taxes and Utility Charges Surveys

As Table 5c shows, net property taxes, less provincial rebates, fell in a majority of Canadian cities, including Winnipeg, which managed a decline at the lower end of the range of reductions.

**Residential property taxes per square foot above average**

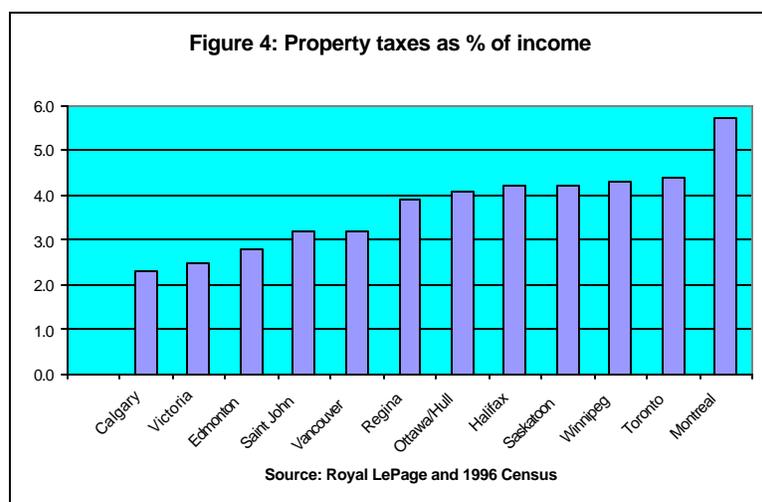
Figure 3 compares residential property taxes per square foot for each of the major cities across Canada, based on the standard house used in the Edmonton study (see appendix table A-4). Winnipeg has the fourth highest property taxes per square foot of the 14 cities compared.

Although property taxes per square foot are sometimes compared across municipalities, this measure does not reflect either the use of services by property taxpayers or their ability to pay property taxes. For this reason, it has generally been discarded as a measure of property tax burden.



**Residential property taxes relative to income are the third highest in Winnipeg.**

Figure 4 compares residential property taxes relative to income in Winnipeg with other cities across Canada.<sup>10</sup> This Figure is based on Appendix Table A-4 which compares property taxes to a number of affordability variables for cities across Canada.



<sup>10</sup> These are an over-estimate because property tax information is taken from the Royal LePage survey for 2001 and income estimates are from the 1996 Census. Although this measure does not reflect the current property tax burden in any city, it does illustrate inter-municipal differences.

Property taxes relative to income for Winnipeg were 4.3 percent, the third highest in the country. The lowest taxes relative to income were in Calgary at 2.3 percent of income.

As noted earlier, one of the reasons that property taxes are higher in Winnipeg than in other parts of the country is because housing prices are among the lowest in Canada. Appendix Table A-4 indicates, for example, that the ratio of market values to income is 2.45 in Winnipeg. This is the third lowest ratio in the country after Regina and Saint John.

### **3. WINNIPEG'S RESIDENTIAL PROPERTY TAX BURDEN: DISCUSSION AND CONCLUSIONS**

When the nominal property tax rate or the effective property tax rate is compared with municipalities across Canada, Winnipeg's residential rate remains among the highest in the country.

#### ***Solid progress***

However there has been solid progress in reducing the levy. The Edmonton survey data shows that property taxes fell in Winnipeg during 2000-2001 due to a 6.5% reduction in the city portion of the tax and a 23% increase in the provincial property tax rebate. While Winnipeg had the 12<sup>th</sup> lowest city taxes of 18 cities in the City of Edmonton survey, its cumulative ranking remained at 15<sup>th</sup> of 18 since it continues to have the highest education taxes levied on property in Canada. While Winnipeg has managed to lower property tax, its position on the combined ranking remains the same since 12 of 18 cities also reduced property taxes.

Winnipeg relies more on property tax for funding operations. Other Canadian cities have access to other revenue sources, like gasoline taxes and higher per capita provincial grants. Many cities have hotel taxes and rely more heavily on user fees for items like garbage collection. Several provinces, for example New Brunswick, have also shifted funding for education away from property tax, dramatically lowering rates as a result.

#### ***Expenditure and revenue mix were not covered by the survey***

The expenditure side of the property tax equation is a little more complicated. There is a straightforward bias in Canadian public policy toward increasing revenue as opposed to examining more effective means of delivering services. Part of this is due to a chronic lack of transparency about delivery costs and organizational inertia fuelled by incentive systems that tilt delivery to in-house providers. These higher costs are necessarily factored into higher property taxes.

This survey is meant to provide a simple snapshot of property taxes across major Canadian cities. It is not meant to provide a detailed breakdown of the relative provincial grant contributions nor the widely varying revenue and expenditure mix cities operate with. Winnipeg's high property taxes, on the expenditure side, may either be driven by higher service levels or it may be spending proportionately more to provide similar services delivered by other cities.

Despite some promising administrative reforms in recent years, there is little evidence that major structural reforms on the level of those found, for example, in cutting-edge U.S. cities have taken place. It would be reasonable to say that a portion of the higher tax burden in Winnipeg reflects higher than necessary operating costs.

#### ***Phase out Provincial Property tax rebate***

Manitoba is one of few provinces where the provincial government chooses to kick back a homeowner's property tax rebate to offset municipal property taxes. The grant is a holdover from the 1970s when it was introduced for political reasons: handing taxpayers their money back in the form of a rebate can be good public relations. Unfortunately, the rebate is frequently forgotten in inter-city comparisons of property taxes, an error which exaggerates the popular perception of Winnipeg's higher property tax regime.

The province needs to reconsider the utility of this rebate program and consider the wider benefits or lowering rates by eliminating it. The cost of administering this extra program is a needless complication all around and an unnecessary use of resources. It should be terminated with savings

applied to the total property load, perhaps as part of a five-year plan to phase out the school portion of property taxes.

### ***Low property prices are a symptom of broader economic malaise and policy weaknesses***

There are complex policy reasons for the low value of residential property in Winnipeg compared to other communities which effectively skews the effective residential property tax upwards. Manitoba's high tax environment, for example, has produced a steady exodus of entrepreneurs, capital and head offices to other jurisdictions with lower overall tax rates. In turn, the drop in economic growth has cut demand for housing and helped produce the country's lowest residential property values. As well, high property taxes themselves have the effect of depressing property values because they are in effect capitalized into the total costs of homeownership (high taxes plus low mortgage payments on low value house = low taxes plus high mortgage payments on high value house).

While the residential property tax in Winnipeg is high compared to market values, this survey also finds the city at the high end when other measures are used. For example, Winnipeg has the sixth highest total charges on a standard house in Canada of 18 cities when comparing combined property taxes and utility charges. Water charges, in particular, are the highest in Canada.

Residential property taxes per square foot are higher in Winnipeg than most Canadian cities. Finally, when property taxes are compared to income, they are the third highest in the country.

In conclusion, this survey confirms that Winnipeg's property taxes have indeed fallen during the last few years with the bulk of the reduction occurring on the municipal side, followed by an increase in the provincial property tax rebate.

### ***Some thoughts on cutting effective property taxes in Winnipeg***

There are several ways to reduce Winnipeg's high property taxes on both the revenue and expenditure sides. The easy way is simply to gain more of the traditional revenue sources used by other Canadian cities to broaden the revenue mix flowing to the city:

- Introduce a hotel tax to gain revenue from visitors who use city infrastructure.
- Introduce user fees that recover the full costs of operation wherever possible. Garbage collection user fees are the most obvious candidates for user fees in Winnipeg. They make good policy sense beyond providing scope for lower property taxes because they create incentives in favour of recycling and minimizing household waste.

The additional revenues should be revenue-neutral; they should be offset dollar for dollar by equivalent reductions in property tax.

Broader changes would require policy reform at the provincial level.

- Change school funding - Over the longer term, say 5 years, phase out the school portion of property taxes as part of a broader structural overhaul of the public education system. This might be paid for by converting the provincial homeowners rebate into funding for the school system, phasing out school boards, and moving to a more consumer-centred funding system based on tax credits and parent grants. Several precedents for a funding shift away from property taxes exist in other provinces and states. Where this has occurred, property values have inevitably increased.
- Finally, substantial room remains for more operating efficiencies at City Hall using successful models operating in other cities. Managed competition, for example, requires services to be exposed to competitive processes with in-house staff bidding against outside vendors to provide services. Experience with these systems in other cities indicates they dramatically reduce operating costs and management overheads. This system also requires a shift to output-based measurement and accounting systems and substantial reform to the central agency culture of rules, regulations and process. These reforms will be best implemented by the provincial government which has the power to embed principles of high-performance government in the City of Winnipeg Act.

These substantial reforms, along with a modest broadening of city revenue sources with user fees and hotel tax, should take place before considering the idea of providing sales or income tax sources to cities, a theme increasingly under discussion in urban policy circles.

***Broader policy reforms can dramatically reduce Winnipeg property tax***

On a much broader scale, creating an environment with growth and rising house prices will also stimulate a lower effective property tax rate as the tax take shrinks in proportion to rising market values. Major reforms to create a more attractive environment for growth and investment, including expenditure reforms throughout Manitoba's public sector and lower taxes in general, would also shift the province back onto a high-growth path, with a concomitant boost to depressed market values.

With focussed reform and some leadership it is conceivable that Winnipeg could find itself with property taxes that are lower by at least 60 to 75%. A combination of a broader revenue base, the end of school property taxes and operating efficiencies at City Hall would also bring dramatically higher property values and slash the effective property tax rate as a smaller property tax is divided into higher house prices.

## Appendix - Detailed Tables

**Table A-1: Average Effective Residential Tax Rates by Property Type**

**Selected Canadian Municipalities 2001 –  
Property tax as % of Market Value**  
(Ranked lowest to highest - Standard 2 Story)

Municipality	Standard 2 Story	Executive Detached 2 Story	Detached Bungalow	Standard Condo Apt.	Standard Townhouse	Senior Executive	Luxury Condo
Vancouver	0.59	1.12	0.72	0.57	0.71	0.77	0.76
Victoria	0.61	0.61	0.61	0.61	0.61	0.61	0.61
Calgary	0.91	0.91	0.84	0.88	0.91	0.92	0.92
Edmonton	1.13	1.28	1.24	0.94	0.95	1.13	1.15
Halifax	1.19	1.29	1.18	1.18	1.18	1.19	1.18
Toronto	1.21	0.99	1.15	1.05	1.05	0.62	1.04
Saint John	1.21	n/a	1.29	1.2	1.85	n/a	n/a
Saskatoon	1.54	1.54	1.57	1.83	1.94	1.32	1.7
Montreal	1.57	2	1.78	1.39	1.71	1.24	1.25
St. Catherines	1.69	2.3	1.93	1.17	1.82	1.53	2.24
Ottawa	1.91	1.08	1.34	1.08	1.23	1	1.02
Regina	1.98	1.99	1.99	1.98	1.99	1.97	1.98
Winnipeg	2.49	2.85	1.96	2.56	2.43	2.72	1.99

Source: Royal LePage Survey of Canadian House Prices, Spring 2001

**Table A-2 Change in Market Value and Effective Tax Rate for Detached Bungalow for Selected Cities**

City	Market Value			Effective Tax Rate			% point change
	2000	2001	% change	2000	2001		
Winnipeg	\$ 113,455	\$ 125,000	10.1	2.67	1.83		-0.84
Halifax/Dartmouth	\$ 119,363	\$ 172,000	44	1.41	1.18		-0.23
Saint John	\$ 101,000	\$ 109,000	7.9	1.67	1.29		-0.38
Montreal	\$ 134,650	\$ 155,000	15	1.86	1.78		-0.08
Toronto	\$ 260,296	\$ 350,000	34	1.03	1.15		0.12
Hamilton	\$ 140,667	n/a			n/a		n/a
Kitchener	\$ 159,000	\$ 161,000	0.01	1.42	n/a		n/a
Ottawa	\$ 161,832	\$ 180,000	11.2	1.78	1.34		-0.44
St. Catharines	\$ 125,000	\$ 135,000	4	1.76	1.93		0.17
Niaagara Falls	\$ 114,000	\$ 127,000	11.4	1.58	1.65		0.07
Regina	\$ 110,000	\$ 110,000	0	1.82	1.99		0.17
Saskatoon	\$ 126,625	\$ 140,000	11.1	1.48	1.57		0.09
Calgary	\$ 187,502	\$ 195,000	5.5	0.91	0.84		-0.07
Edmonton	\$ 140,626	\$ 165,000	17.3	1.32	1.25		-0.07
Vancouver	\$ 289,864	\$ 360,000	24.5	0.87	0.72		-0.15
Victoria	\$ 230,000	\$ 240,000	4.3	0.96	0.61		-0.35

Source: Royal LePage Spring 2001

**Table A-3 : Average Monthly Utility charges for Single Family Residential House in 2001**

City	Telephone	Power	Water	Sewer	Garbage	Total	Rank
Montreal	\$ 21.95	\$ 40.72	\$ 0.01	\$ 14.94	\$ -	\$ 62.67	1
Victoria	\$ 23.80	\$ 32.31	\$ 12.84	\$ 3.43	\$ 12.43	\$ 84.63	2
St. John's	\$ 21.95	\$ 50.09	\$ 16.44	\$ -	\$ -	\$ 88.45	3
Ottawa	\$ 21.80	\$ 43.81	\$ 11.71	\$ 18.26	\$ -	\$ 95.58	4
Toronto	\$ 22.60	\$ 51.88	\$ 18.45	\$ 7.72	\$ -	\$ 100.68	5
Vancouver	\$ 25.60	\$ 32.31	\$ 21.75	\$ 11.00	\$ 12.42	\$ 103.08	6
Medicine Hat	\$ 25.16	\$ 40.79	\$ 16.85	\$ 15.15	\$ 6.59	\$ 104.54	7
Halifax	\$ 25.00	\$ 52.25	\$ 13.94	\$ 13.66	\$ -	\$ 104.35	8
Saskatoon	\$ 22.00	\$ 54.33	\$ 19.32	\$ 10.05	\$ -	\$ 105.71	9
Fredericton	\$ 22.00	\$ 53.91	\$ 14.90	\$ 16.73	\$ -	\$ 107.22	10
Red Deer	\$ 25.16	\$ 45.36	\$ 12.03	\$ 16.44	\$ 6.25	\$ 110.24	11
Regina	\$ 22.00	\$ 49.37	\$ 22.75	\$ 16.62	\$ -	\$ 110.74	12
Winnipeg	<b>\$ 25.00</b>	<b>\$ 31.67</b>	<b>\$ 34.95</b>	<b>\$ 19.25</b>	<b>\$ -</b>	<b>\$ 110.90</b>	<b>13</b>
Saint John	\$ 22.00	\$ 48.15	\$ 18.75	\$ 22.51	\$ -	\$ 111.41	14
Calgary	\$ 23.86	\$ 49.31	\$ 24.81	\$ 15.68	\$ -	\$ 113.66	15
Edmonton	\$ 23.86	\$ 38.83	\$ 25.42	\$ 21.65	\$ 8.00	\$ 116.01	16
Lethbridge	\$ 26.16	\$ 46.13	\$ 26.42	\$ 19.99	\$ 11.95	\$ 129.65	17
Yellowknife	\$ 29.33	\$ 86.85	\$ 68.35	\$ -	\$ 10.00	\$ 194.53	18

Table A-3 Annual Total Property Taxes and Utility charges for a Single Family Residential House in 2001 continued

City	Total Property Tax	Total Utility Charges	Total	Rank
Victoria	\$ 1,474	\$ 1,061	\$ 2,326	1
St.John's	\$ 1,265	\$ 1,061	\$ 2,326	2
Medicine Hat	\$ 1,262	\$ 1,254	\$ 2,480	3
Red Deer	\$ 1,453	\$ 1,322	\$ 2,775	4
Fredericton	\$ 1,535	\$ 1,286	\$ 2,821	5
Calgary	\$ 1,476	\$ 1,366	\$ 2,842	6
Saint John	\$ 1,559	\$ 1,336	\$ 2,895	7
Edmonton	\$ 1,596	\$ 1,305	\$ 2,901	8
Lethbridge	\$ 1,447	\$ 1,568	\$ 3,015	9
Vancouver	\$ 1,946	\$ 1,236	\$ 3,182	10
Halifax	\$ 2,045	\$ 1,258	\$ 3,303	11
Saskatoon	\$ 2,246	\$ 1,268	\$ 3,413	12
Winnipeg	<b>\$ 2,292</b>	<b>\$ 1,210</b>	<b>\$ 3,502</b>	<b>13</b>
Ottawa	\$ 2,607	\$ 1,170	\$ 3,777	14
Montreal	\$ 2,989	\$ 919	\$ 3,908	15
Toronto	\$ 2,802	\$ 1,208	\$ 4,010	16
Yellowknife	\$ 1,831	\$ 2,335	\$ 4,166	17
Regina	\$ 2,194	\$ 1,328	\$ 4,202	18

Source: Jong Huang, "2001 Residential Property Taxes and Utility Charges Survey" City of Edmonton, Planning and Development Department, December 2001

**Table A-4: Affordability Measures**

City	Property Tax per household 2001 \$	Property taxes as % of income	Market values relative to income	Shelter costs as % of income	Rent as % of income	Average Household income 1995 \$
Calgary	\$ 1,476.00	2.3	3.1	17.8	12.7	\$ 63,586.00
Victoria	\$ 1,474.00	2.5	4.0	18.8	16.3	\$ 59,585.00
Edmonton	\$ 1,596.00	2.8	3.2	19.2	12.8	\$ 56,090.00
Saint John	\$ 1,559.00	3.2	2.2	16.9	11.5	\$ 49,138.00
Vancouver	\$ 1,946.00	3.2	5.9	20.4	17.2	\$ 60,438.00
Regina	\$ 2,194.00	3.9	1.9	17.3	11.5	\$ 56,844.00
Ottawa/Hull	\$ 2,607.00	4.1	2.8	19.7	13.6	\$ 64,243.00
Halifax	\$ 2,045.00	4.2	3.3	18.6	14.1	\$ 52,241.00
Saskatoon	\$ 2,246.00	4.2	2.6	17.5	12.2	\$ 53,196.00
Winnipeg	\$ 2,292.00	4.3	2.5	17.1	12.4	\$ 53,759.00
Toronto	\$ 2,802.00	4.4	5.5	21.4	15.6	\$ 64,044.00
Montreal	\$ 2,989.00	5.7	2.8	17.3	13.3	\$ 52,795.00

Sources: Property Tax data from Royal LePage, Survey of Canadian House Prices, Spring,2001.

Income and rent are from the 1996 census, and shelter costs are from the 1998 Survey of Family Expenditures.

**Table A-8: Residential Property Taxes per Square Foot of Building**

City	
Medicine Hat	\$ 1.04
St.John's	\$ 1.05
Lethbridge	\$ 1.18
Red Deer	\$ 1.21
Calgary	\$ 1.23
Victoria	\$ 1.23
Fredericton	\$ 1.28
Saint John	\$ 1.29
Edmonton	\$ 1.33
Vancouver	\$ 1.62
Halifax	\$ 1.70
Regina	\$ 1.83
Saskatoon	\$ 1.89
Winnipeg	\$ 1.91
Ottawa	\$ 2.17
Toronto	\$ 2.33
Montreal	\$ 2.49

Source: City of Edmonton, 2001