

# Revenue

## Revenue Growth — The Real Deal

At first glance the amount of revenue earned by the City has been increasing dramatically. Table A shows the changes in revenue collected by the City between 2001 and 2013. Overall, the City earned 42 per cent more than it did in 2001, 17 per cent more than it did four years ago in 2009 and 3 per cent more than it did in 2012.

However, these numbers are misleading for two reasons. First, with each passing year all prices rise due to inflation. This is the distinction that economists make between nominal (the stated price) and real (how much a given amount of money will actually buy) values. When City revenue is adjusted for inflation, the increases are far more modest. The increase between 2001 and 2013 is only 12 per cent, much of which (8 per cent) has come in the four years between 2009 and 2013. The change between 2012 and 2013 was a tiny 0.2 per cent.

The second reason that this increase is misleading is that Winnipeg's population has been expanding. More people place more demands on City services and increase the number of people that are paying taxes, so the City revenues and expenses should increase with population. Between 2001 and 2013 the population of Win-

nipeg grew by 12 per cent — only equal to the amount revenues went up. As a result the real amount per person that the City has collected has remained virtually unchanged since 2001, an increase of 0.1 per cent. What increase there has been has occurred in recent years after a 14 year freeze in property taxes ended in 2012.

## Where the Money Comes From

The City is constrained in the kinds of taxes it can levy. Property taxes, which are levied at a rate (called the mill rate) on the assessed value of residential and commercial property, are the single largest source of revenue.

A homeowner's (or business') property tax is calculated by a very convoluted process. The assessed value of the property is first multiplied by a "proportioned per centage" (45 per cent for residential and between 10 per cent and 65 per cent for different kinds of businesses) to get a portioned value. This amount is then taxed at the "mill rate" (in 2014, 13.672), which is the rate per 1,000 of portioned value.

So, the amount of property tax that a homeowner or business pays can vary with: changes to the assessed value, which happens when the City

TABLE 1 City of Winnipeg Revenue 2001 – 2013

	2001	2009	2012	2013	% change	% change	% change
	Actual	Actual	Restated	Adopted	01-13	09-13	12-13
<b>Nominal \$ millions</b>							
Property Tax	384	428.7	459.6	482.9	25.8	12.6	5.1
Business Tax	60	57.6	57.6	58.4	-2.7	1.4	1.4
Frontage Levy and other tax	19	46.1	63.1	63.4	233.7	37.5	0.5
Government Transfers	73	101.7	113.3	113.0	54.8	11.2	-0.3
Regulations and Fees	18	37.3	37.6	40.9	127.2	9.7	8.8 t
Sales of Goods and Services	42	72.6	62.7	67.8	61.4	-6.6	8.1
Interest	14	9.3	11.4	11.4	-18.6	22.2	0.0
Transfers from other Funds	40	32.9	52.3	46.6	16.5	41.5	-10.9
Other	1	1.0	35.4	38.3	3730.0	3673.4	8.2
<b>Total</b>	<b>651</b>	<b>787.2</b>	<b>893.0</b>	<b>922.7</b>	<b>41.7</b>	<b>17.2</b>	<b>3.3</b>
<b>Real \$ millions</b>							
Property Tax	392.64	376.4	383.3	390.7	-0.5	3.8	1.9
Business Tax	61.35	50.6	48.0	47.2	-23.0	-6.5	-1.6
Frontage Levy and other tax	19.43	40.5	52.6	51.3	164.0	26.	-2.5
Government Grants	74.64	89.3	94.5	91.4	22.5	2.4	-3.3
Regulations and Fees	18.40	32.7	31.4	33.1	79.8	1.1	5.5
Sales of Goods and Services	42.94	63.7	52.3	54.9	27.7	-13.9	4.9
Interest	14.31	8.2	9.5	9.2	-35.6	12.6	-3.0
Transfers from other Funds	40.90	28.9	43.6	37.7	-7.8	30.4	-13.6
Other	1.02	0.9	29.5	31.0	2930.5	3377.3	5.0
<b>Total</b>	<b>665.64</b>	<b>691.1</b>	<b>744.8</b>	<b>746.5</b>	<b>12.2</b>	<b>8.0</b>	<b>0.2</b>
<b>Real Total Per Person</b>	<b>1044.8</b>	<b>1026.6</b>	<b>1056.7</b>	<b>1045.4</b>	<b>0.1</b>	<b>1.</b>	<b>-1.1</b>

periodically reassess property values; changes to the proportion percentage; or, changes to the mill rate.

These variations are nicely illustrated by the 2.95 per cent increase in property taxes proposed by Council for 2014. It's also an assessment year for Winnipeg, so homeowners have received a notice in the mail stating how much more the City estimates their houses are worth. Since house values have increased substantially, if the City left the mill rate unchanged, this would lead to a much greater increase in taxes than the proposed 2.95 per cent. In order to have the average property tax bill increase by 2.95 per cent, the City has to reduce the mill rate from 14.60 to 13.672. The combination of the reduced

### Example of how property taxes are calculated:

**Assessed value x portion per cent x mill rate/1000 = property tax**

**250,000 x 45 per cent = 112,500**

**112,500 X 0.013672 = 1538.10**

mill rate and the increased assessment will create an average property tax increase of 2.95 per cent. Of course, where each individual household comes out depends on whether its house values

increased more or less than the Winnipeg average. If your property value increased more than the city average, your tax increase will be more than the city average of 2.95 per cent. Conversely, if your property value increased less than the city average, then your tax increase will be less than the 2.95 per cent city average, or in some cases, your taxes could even decrease.

Unlike income or sales taxes, the tax base (the economic activity on which the tax is levied) for property taxes does not increase automatically as the economy grows. When the economy expands, revenue that governments collect through income and sales taxes increases, even when the tax rate (the percentage of income or sales that is taxed) stays the same. This does not happen with property taxes. The tax base from property taxes only increases when either new properties are built or the value of property goes up with a reassessment of property values, which only happens in assessment years. Between assessments, revenues from property taxes barely grow at all. Once reassessed, if property values have been increasing, taxes will skyrocket, which politicians are reluctant to let happen. However, the City's much touted financial problems are not merely the result of the inherent problems with property taxes, but also deliberate policy decisions that have limited the revenue earned from this source.

**However the 14 year tax freeze prior to 2013 meant that property taxes have declined as a percentage of total revenue. In fact, in real terms property tax revenue was lower than it was in 2001.**

The City increased the property taxes in 2013 and plans to do so in 2014. However the 14 year tax freeze prior to 2013 meant that property taxes have declined as a percentage of total revenue. In fact, in real terms property tax revenue was lower than it was in 2001.

The City also collects what it calls a “business tax,” which is collected on all businesses in the City based on the assessed rental value of their business location. The rate in 2013 was 5.9 per cent so the amount that firms pay would equal 5.9 per cent of the assessed annual rental value of their business. Small businesses, those with a rental value of less than \$23,880, do not have to pay this tax. This rate has decreased from 9.75 per cent in 2002 so businesses taxes have been decreasing both as a percentage of City revenue and in real terms (by 23 per cent since 2001).

The Mayor argues that Winnipeg is less competitive than cities that do not have a business tax. He also claims that it is unfair that some businesses must pay both the business tax and the non-residential property tax. However, this argument is only reasonable if the combined taxes on business are in some way “too high.” It is true that many cities in Western Canada do not have a business tax, but this is compensated for with higher rates on non-residential property taxes. There could well be an argument for eliminating the business tax in name and unifying the business tax and the non-residential property tax. If the business tax were eliminated, the non-residential commercial property tax should be increased to ensure no loss in revenue. This is precisely the change that Edmonton recently introduced.

As a result of an unwillingness to raise money the old fashioned way, the City has looked for new ways to make money. For example, in 2011 the frontage levy, a tax the City levies on the length of the frontage of a property for water and sewer services increased from 2.55 to 3.75 per foot, generating an additional \$7 million while allowing the City to claim that it was maintaining its property tax freeze.

The other big increase in revenue generation is in money collected from regulations and fees. While increasing some of these fees, like the amount charged for dumping in the landfill, make sense from a policy standpoint, others,

**TABLE 2 Cumulative Property Tax Increases 1999–2013 Western Canadian Cities**

City	Per cent Increase
Edmonton	68 per cent
Calgary	64 per cent
Saskatoon	55 per cent
Vancouver	53 per cent
Regina	40 per cent
Winnipeg	1 per cent

**TABLE 3 City of Winnipeg Spending 2013**

	2013 Adopted	Per cent of Budget
Millions of dollars		
Police	242.5	26.3
Public Works	182.0	19.7
Fire Paramedic	167.9	18.2
Community Services	111.7	12.1
Planning, Property and Development	42.1	4.6
Water and Waste	33.7	3.7
Contribution to Transit	45.8	5.0
Other	97.0	10.2
Total	922.7	100

like increasing the charge for ambulance rides (the rate for Emergency Medical Service in the proposed 2014 budget was \$500) are more difficult to justify.

#### A Comparison with Other Cities

Faced with the same revenue constraints that confront Winnipeg, other Western Canadian cities have been increasing property tax rates over the last decade and a half (Table 2)

The City trumpets this as prudent financial management that has saved Winnipeg residents considerable sums in tax. However, it has also meant that the City’s budget has been stretched remarkably thin in many places.

#### Where has the money gone?

Table 3 shows where Winnipeg spent its money in 2013. The easy answer to the question, “where

does the money go” is police, infrastructure, and fire/paramedics, which combine for almost 65 per cent of total City spending. Since 2001, the City’s priority has clearly been policing, followed by fire/paramedics. Between 2001 and 2013 police services have grown from 18 per cent of the budget to 26 per cent. Fire and paramedics have increased from 14 per cent to 18 per cent.

#### What’s New? The City’s Plan for 2014

Table 4 compares the proposed 2014 budget to 2013. Overall, revenue and spending will go up by about 5 per cent in 2014. The big focus of the 2014 budget will no doubt be on the property tax increase of 2.95 per cent, two per cent of which is being dedicated to funding local and regional street repair. As a result of the rate increase and new property construction, property tax revenue will go up by 5.7 per cent. The City is also reducing the business tax rate slightly from 5.9

TABLE 4 City of Winnipeg Preliminary Operating Budget

Revenue	2013	2014	% change
	Adopted	Preliminary	13-14
Nominal \$ millions			
Property Tax	482.9	510.6	5.7
Business Tax	58.4	59.7	2.2
Frontage Levy and other tax	63.4	67.1	5.8
Government Transfers	113.0	113.8	0.7
Regulations and Fees	40.9	42.6	4.2
Sales of Goods and Services	67.8	63.8	-5.9
Interest	11.4	11.2	-1.8
Transfers from other Funds	46.6	56.7	21.7
Other	38.3	42.3	10.4
<b>Total</b>	<b>922.7</b>	<b>967.8</b>	<b>4.9</b>
<b>Spending</b>			
	2013	2014	% change
	Adopted	Preliminary	2013-14
Police	242.5	257.9	6.4
Public Works	182.0	188.0	3.3
Fire and Paramedic	167.9	167.6	-0.2
Community Services	111.7	122.9	10.0
Planning Property and Development	42.1	40.9	-2.9
Water and Waste	33.7	31.1	-7.7
Contribution to Transit	45.8	47.6	3.9
Other	97.0	111.8	15.3
<b>Total</b>	<b>922.7</b>	<b>967.8</b>	<b>4.9</b>

**Although business tax revenue will still increase between 2013 and 2014 because of an increase in the number of businesses, the decrease in the rate will cost the City around \$2.1 million in foregone revenue.**

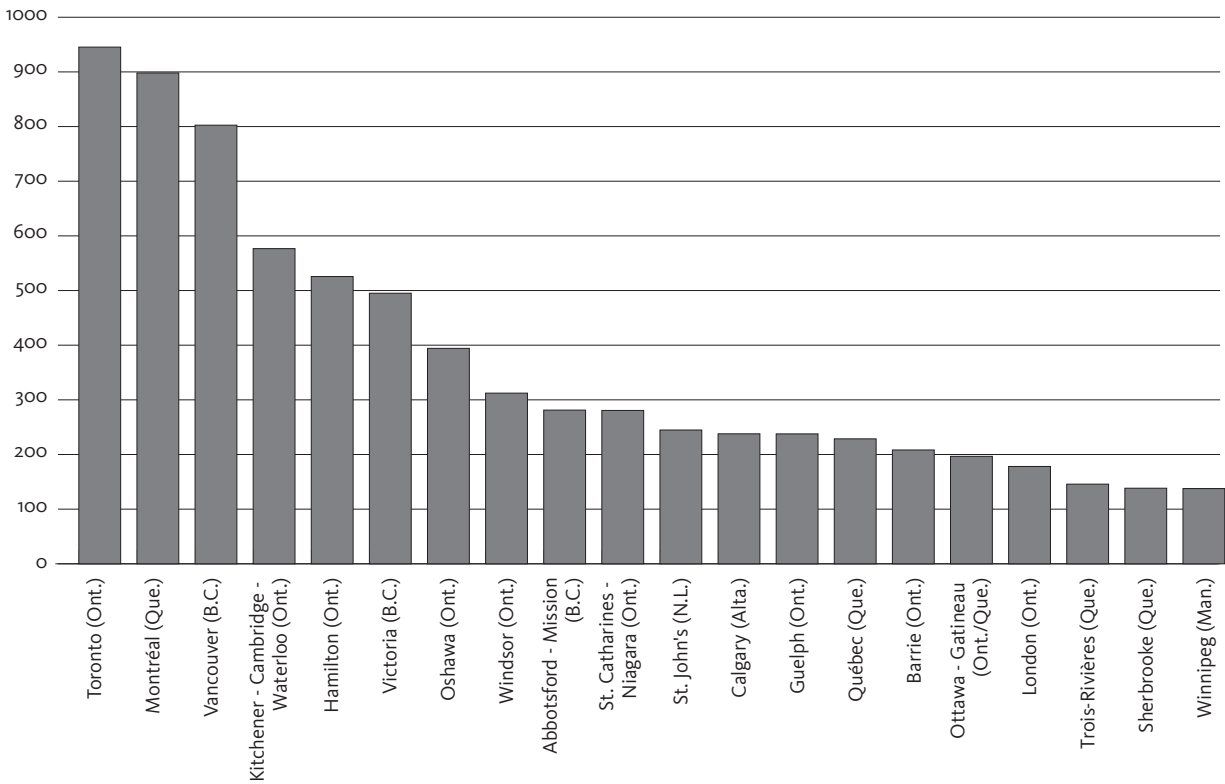
to 5.7 per cent. Although business tax revenue will still increase between 2013 and 2014 because of an increase in the number of businesses, the decrease in the rate will cost the City around \$2.1 million in foregone revenue. The largest per cent increase in City revenue, however, is the \$10 million increase in transfers from other funds, which, of course, is not actually rev-

enue at all, but just taking money from one of the City's reserve funds, like the Financial Stabilization Reserve.

Although it doesn't show up as a big spending budget line in public works, the City is also borrowing money to put into street improvements. In 2014 it plans to borrow \$10 million to spend on local streets and \$10 million for regional roads. The debt payments from this borrowing will be financed by part of the revenue from the 2 per cent tax increase. The remaining income from the tax increase will also be plowed into Winnipeg streets.

The other departments that can look forward to a budget increase in 2014 are, predictably, the Police and, less predictably, Community Services.

**FIGURE 1 Canadian Cities: Census Metropolitan Area Population Density per Square Kilometer**



**SOURCE:** Statistics Canada Population and dwelling counts, for census metropolitan areas, 2011 and 2006 censuses <http://www12.statcan.gc.ca/census-recensement/2011/dp-pd/hlt-fst/pd-pl/Table-Tableau.cfm?T=205&S=3&RPP=50>

## The 2014 AMB Revenue: Making Taxation Work

### Infrastructure

Potholes may be a fact of life in a city with an intense spring thaw, but water main breaks, crumbling streets and brown water are all tangible signs of what is referred to as the “infrastructure deficit,” which is merely the most concrete symptom of the chronic underfunding of all City services as a result of the 14 year property tax freeze. Simply put, taxes pay for city services. Cutting taxes involves cutting services. Every CCPA Alternative Municipal Budget yet written has encouraged modest tax increases to fund much needed services in the City. Now, the City seems to be listening, but it’s more a case of “too little too late” than “better late than never.”

**To achieve the increase in revenue, property taxes will have to be increased by an additional 3.05 per cent over the City’s 2014 increase of 2.95 per cent, for a total increase in property tax rates of 6 per cent.**

As a result, the AMB is recommending drastic action to close the infrastructure deficit outlined in our Capital Budget Section. Of the \$400 million raised, \$100 million will be dedicated to the North End Waste Water Treatment Plant. Meeting the annual debt payments on the \$400 million borrowed by the City will require an additional \$28.6 million in spending in the operating budget. \$21 million of this (75 per cent) will be counted on the Public Works budget and \$7.2 million (25 per cent) will be attributed to Water

and Waste to correspond to the \$100 million for the treatment plant and \$300 for general infrastructure spending. To achieve the increase in revenue, property taxes will have to be increased by an additional 3.05 per cent over the City's 2014 increase of 2.95 per cent, for a total increase in property tax rates of 6 per cent.

### **Policy Based Taxes**

Winnipeg's infrastructure problems are not merely a result of funding neglect. Infrastructure costs are also influenced by the form of the city. A US study examined the connection between infrastructure costs per capita and urban sprawl. They found that all costs (which included not only total direct expenditure, but also sub-categories like capital facilities, roadways, police protection, and education) were positively related to urban sprawl (Carruthers and Ulfarsson, 2003). New subdivisions are more costly for the City than infill housing and increased urban density, yet this is the development plan that Winnipeg follows. Figure 1 shows that Winnipeg ranks 21st among Canadian cities in terms of population density.

It is not merely infrastructure costs that are negatively impacted by urban sprawl (although these are of most obvious concern in a municipal budget). The quality of life in the city is also affected. More sprawling cities are associated with more driving miles, greater vehicle emissions, less walking, more obesity and even greater hypertension (Reid et al, 2003).

Cities can take a number of actions to promote more liveable, "smart" urban areas. Zoning is perhaps the most obvious measure, but pricing incentives can also play an important role in changing the structure of the city. Taxation can be used to achieve important public policy objectives as well as generate much needed civic revenue.

The City of Winnipeg Charter currently limits Winnipeg's ability to levy taxes other than the property tax. As a result, any broadening of the

City's tax sources must involve agreement from the provincial government. The AMB therefore urges in several sections that the Province and the City re-examine the limits of the current taxation arrangements. The aim of these negotiations would be far more encompassing than the City's requests for a portion of Provincial revenue from the gasoline tax, and should grant the City the power to implement tax policies that would decrease urban sprawl.

Winnipeg's ability to implement tax policy is also limited by the structure of the capital region in which there are separate municipal tax jurisdictions within easy commuting distance of Winnipeg. Commuter communities negatively impact Winnipeg's budget in several ways. They create pressure on Winnipeg to remain "tax competitive" limiting the ability of the City to raise property tax rates. Growing communities outside the perimeter also create urban sprawl as people relocate from the City to exurban areas, increasing commuter pressure on infrastructure and generating large environmental costs including increased greenhouse-gas emissions. Commuters from outside the perimeter are free riders, using City infrastructure during their work day without paying. Between 2001 and 2011 the growth rate of the Winnipeg city proper (12.1 per cent) was considerably lower than some of the municipalities outside the perimeter, like Headingly (67 per cent) and East St. Paul (18 per cent). The City must devise some way of dealing with this issue whether it is through negotiation with the capital region municipalities and the province or through its own tax policies.

Taxes can play an important role in changing behaviour to achieve much desired policy goals. The policies that follow will create a more liveable, less expensive, and healthier city.

### **Suburban Parking Space Charge**

Large suburban retail developments with their accompanying expansive parking lots increase automobile commuting, expand urban sprawl, are visu-

**TABLE 5 AMB Revenue Changes to the City of Winnipeg 2014 Budget (\$ millions)**

Tax	Revenue Increase
Property Tax	28.6
Frontage Levy and Other Tax	
Parking Lot	9.7
Growth Charge	15.0
Zoning Opt-out Fee	4.3
Billboard Tax	0.8
Building Art	0.5
Total	58.9

**TABLE 6 AMB Spending Changes to the City of Winnipeg 2014 Budget (\$ millions)**

Department	Spending Increase	
	Operating Costs	Payments for Debt Servicing
Police	0.2	
Public Works	0.0	21.5
Community Services		
of which		
Recreation	0.6	1.6
Food Security	0.2	
Art & Culture	5.6	
Housing	4.6	
Employment and Training	2.0	
Planning, Property and Development		
of which		
Planning	5.2	
Green Plan & Golf	0.3	
Environmental	1.4	0.3
Water and Waste	0.0	7.2
Contribution to Transit	8.2	
Other		
Total	28.3	30.6

ally unappealing, discourage more active forms of transportation and reduce the vibrancy of cities.

In order to reduce the amount of land dedicated solely to the parking of cars and to create a more level retail playing field between downtown and suburban retail, the AMB recommends a \$100 per parking spot tax on every ground level parking spot outside of the downtown area.

The City keeps no information on the amount of land dedicated to parking outside the downtown area so estimating the revenue from this tax is dif-

ficult. A 2004 study of Winnipeg retail by Brian Lorch found that there were 22 shopping centres (traditional malls) and power centres (big box stores linked by large parking lots like Unicity) in the city, and the number has certainly grown since then. The St. Vital Centre boasts 4,400 parking spaces, so the tax would cost the mall \$440,000 a year. If each of the 22 centres has a similar capacity this would mean that there are almost 97,000 parking spaces just in these retail areas. The \$100 tax per spot would then generate \$9,700,000 from



**TABLE 7 Debt Servicing Requirements for Capital Spending (\$ millions)**

Department	Capital Spending	Yearly Payment for Debt Servicing
Public Works + Water & Waste	400	28.6
Recreation	22	1.6
Environmental	4.5	0.3

**TABLE 8 Summary of 2014 AMB Revenue and Spending Compared to City's**

Revenue	2013	2014	% change	2014	% change
	Adopted	Preliminary	13-14	AMB	13-14
Nominal \$ millions					
Property Tax	482.9	510.6	5.7	539.2	11.7
Business Tax	58.4	59.7	2.2	59.7	2.2
Frontage Levy and other tax	63.4	67.1	5.8	97.4	53.6
Government Transfers	113.0	113.8	0.7	113.8	0.7
Regulations and Fees	40.9	42.6	4.2	42.6	4.2
Sales of Goods and Services	67.8	63.8	-5.9	63.8	-5.9
Interest	11.4	11.2	-1.8	11.2	-1.8
Transfers from other Funds	46.6	56.7	21.7	56.7	21.7
Other	38.3	42.3	10.4	42.3	10.4
Total	922.7	967.8	4.9	1026.7	11.3
<b>Spending</b>					
	2013	2014	% change	2014	% change
	Adopted	Preliminary	13-14	AMB	13-14
Police	242.5	257.9	6.4	258.1	6.4
Public Works	182.0	188.0	3.3	209.5	15.1
Fire and Paramedic	167.9	167.6	-0.2	167.6	-0.2
Community Services	111.7	122.9	10.0	137.4	23.0
Planning Property and Development	42.1	40.9	-2.9	48.1	14.3
Water and Waste	33.7	31.1	-7.7	38.3	13.6
Contribution to Transit	45.8	47.6	3.9	55.8	21.8
Other	97.0	111.8	15.3	111.8	15.3
Total	922.7	967.8	4.9	1026.6	10.4
Surplus/Deficit	0.0	0.0		0.1	

those 22 centres alone. It is important to note that this is a considerable underestimation of the total revenue that would be generated by this tax since it only includes the 22 retail centres from 2004 in the calculation and the tax would be levied on all shopping-centre, mall and power-centre parking spots outside the downtown. In addition, there has been considerable large scale suburban mall

development since 2004, the biggest example of which is the Seasons of Tuxedo, with 6,000 parking spaces (City of Winnipeg Planning).

*Projected Revenue Change \$9.7 million*

#### **Growth Development Charge**

In slow growth cities such as Winnipeg, new subdivisions are developed at the expense of exist-

ing neighbourhoods and infrastructure. As highlighted in the Planning section of the budget, a Growth Development Fee (GDC) that increases as new property construction is further away from the city center would encourage Winnipeggers to use the existing housing stock and build in existing neighbourhoods. The AMB recommends a \$15,000 fee, which would amount to about 4 per cent of a new \$350,000 house, be applied to housing starts in new suburban residential developments in Winnipeg. It will not apply to the

replacement or renovation of existing homes. It will also not apply to new units on vacant lots in existing developments or designated areas close to Winnipeg's urban centre that have not yet been developed. Between 2000 and 2013, an average of 1,370 new single-family dwellings were built each year (City of Winnipeg Statistics). Not all of these were built in new developments, so if 1,000 homes of the 1,370 were built on new developments the tax would raise \$15 million.

*Projected Revenue Change \$15 million*