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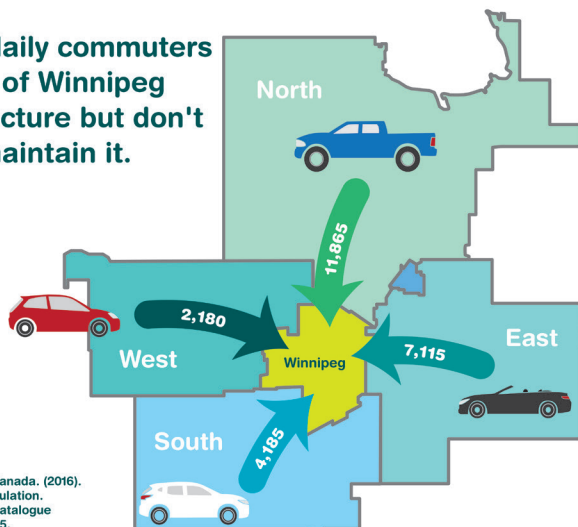
CANADIAN CENTRE FOR POLICY ALTERNATIVES
MANITOBA

The High Cost of Free-Riding and How We Fix It

Examining the Implementation of Commuter Fees in Winnipeg

By Riley Black

25,000 daily commuters use City of Winnipeg infrastructure but don't pay to maintain it.



If ex-urban commuters paid their fair share, City of Winnipeg revenues would increase by \$40 million/year.

Driving in to work in the City puts wear & tear on streets, contributes to sprawl and GHG emissions.



OCTOBER
2019

Source: Statistics Canada. (2016). 2016 Census of Population. Statistics Canada Catalogue no. 98-400-X2016325.

**The High Cost of Free-Riding and How We Fix It:
Examining the Implementation of Commuter Fees
in Winnipeg**

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CCPA

CANADIAN CENTRE
for POLICY ALTERNATIVES
MANITOBA OFFICE

Unit 301-583 Ellice Ave., Winnipeg, MB R3B 1Z7

TEL 204-927-3200

EMAIL ccpamb@policyalternatives.ca



About the Author

Riley Black is a researcher from Winnipeg, Manitoba. He studied political science at the University of Winnipeg and is pursuing a master's degree at Carleton University. This summer, he was tasked by the CCPA-MB Office with researching and writing this report on the implementation of commuter fees in Winnipeg.

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Summary

Every year, the City of Winnipeg's infrastructure deficit grows like the number of potholes that line the city's streets. At a time when the city is beset by provincial funding shortfalls, Winnipeg needs to consider alternative revenue sources to generate funding for its vital services. One such source is a 'commuter fee' — a type of mobility pricing aimed at charging commuters who live outside the city while working inside it, and who therefore do not pay City of Winnipeg property taxes.

The commuter fee is a possible revenue generation mechanism because it targets two significant and interrelated, yet often unnoticed problems in Winnipeg: the regional property tax differential and ex-urban commuting. Short commuting times from bedroom communities with lower property tax rates allows individuals to live close to the city for work but pay less in municipal property taxes than those who actually live within the city limits. This both hurts the city's tax base and exerts downward pressure on Winnipeg's already low property tax rates.

These exurban commuters do not contribute to the City of Winnipeg's tax base — the same tax base that provides the roads they use to drive to work on. As the city grows, and development

spills further outside the city limits, the amount of people using city services will increase, while the city's tax base will not increase in proportion to this exurban growth. This puts Winnipeg in a tricky financial position. On one hand, the city is pressured to keep property taxes low, so as to not push residents out; and on the other, the city must provide a high level of services to all those who live and work in Winnipeg.

While this problem sounds daunting, it is one Winnipeg has faced before. During the mid-20th century, Winnipeg was a fragmented city region composed of multiple municipalities, in which each set their own property tax rates, thus enabling wealthier municipalities to keep their rates low due to their larger tax bases and their free-riding on City of Winnipeg services. To remedy this problem, the province took the drastic step of amalgamating the city region into the Winnipeg we know today, and therefore equalize the property tax rates across the region (Axworthy, Lightbody, Pawluk, & Sherba, 1974).

A similar problem exists on a different scale today. In 2016, median total household incomes in the Winnipeg Census Metropolitan Area ranged between \$86,912 in (St. Clements) and \$130,534 (in East St. Paul), while Winnipeg had a

median total household income of only \$68,402. Moreover, in East St. Paul, nearly a quarter of all households have incomes over \$200,000 (Statistics Canada, 2017a; 2017b). This figure is made all the more remarkable by the fact that 60.86 percent of East St. Paul's labour force actually works in the City of Winnipeg (Statistics Canada, 2016).

Despite these higher incomes, those living in exurban municipalities have lower property tax rates than those living inside the city. On a home valued at \$350,000 in 2016, a resident of Winnipeg could expect to pay \$2,010.65, while property taxes on a home of the same value ranged between \$1,061.24 (in Rosser) to \$1,477.35 (in Springfield) in the surrounding municipalities (MNP, 2016).

In the Census Metropolitan Area, an average of 51.68 percent of each municipalities' labour force commutes to work in Winnipeg. In West St. Paul, the proportion is as high as 65.97 percent (Statistics Canada, 2017c). What makes these figures so alarming is how much these individuals would contribute to the property tax base if they lived in Winnipeg. If each of these commuters owned property in Winnipeg instead, the city could generate upwards of an additional \$41.7 million in property taxes every year.

The skyrocketing infrastructure deficit and uncertainty over provincial funding means that this loss to the city's tax base must be reversed and implementing a commuter fee would be the first step in putting the city on a more stable fiscal footing. The commuter fee would mitigate the property tax differential between the city and its surrounding municipalities, while also raising additional revenue for municipal and regional transit, road repair and construction, as well as other vital infrastructure projects.

In grappling with the various problems associated with commuting, such as sprawl, climate change, and the need to generate revenue, cities across the world have implemented similar fees to deal with these issues. In these cities the results have been crystal clear: they have greater revenue for their public transportation systems, they have better managed traffic and increased public transit usage, and they have done so while improving the local environment by reducing traffic congestion.

In implementing a commuter fee, Winnipeg has a choice. The city could impose a payroll charge, requiring employers to remit a portion of an employee's income if they work inside the city but reside outside of it, or it could utilize a cordon tolling system around the city, which would use license plate recognition software to charge only those exurban residents who commute to the city for work. The former system more easily exclusively charges exurban commuters, but would run into legislative roadblocks; whereas the latter would more effectively address the marginal costs of driving by charging commuters per trip, but would be more costly to implement and operate.

Ultimately, Winnipeg accounts for over two-thirds of Manitoba's population and 70 percent of its gross domestic provincial product (Arcand, Bougas, Diaz, McIntyre, & Wiebe, 2017) yet its financial health is highly constrained by its limited revenue sources and the property tax differential. However, the problems facing Winnipeg and the broader region extend far beyond day-to-day municipal issues and require progressive and creative solutions. The city must recognize this and implement a commuter fee in order to fulfill its mandate of making Winnipeg a "safe, orderly, viable and sustainable" city (The City of Winnipeg Charter Act, s.5(1)).

Introduction

Winnipeg faces a commuting challenge. Unlike most major Canadian cities, this commuting problem is not characterized by snail-paced, bumper-to-bumper traffic during every rush hour. Rather, Winnipeg is closely surrounded by communities with lower property taxes, thus incentivizing people to live outside the city boundaries while still commuting every day to work inside Winnipeg. Because the city generates most of its revenue using property taxes, those living outside the city, yet continuing to work inside it, do not contribute to the municipal tax base. This ‘free-rider’ problem, in which an individual “benefits from the actions and efforts of another without paying or sharing the costs” is exacerbated by the property tax differential between Winnipeg and its surrounding communities (Khemani & Shapiro, 1993, p. 46). This differential encourages growth outside the city, thereby contributing to tax competition and downward pressure on Winnipeg’s property tax rates. To this end, growth in exurban communities situated beyond the city’s suburbs and legal boundaries constitutes a major policy problem for Winnipeg. The municipalities surrounding Winnipeg are developing quickly, while the city’s infrastructure deficit is exacerbated by the absence of any mechanism

for combatting free-riding and tax competition. Ultimately, the consequences of this situation are increasing municipal financial pressures, urban sprawl, and environmental degradation.

This problem requires a creative solution. One policy recommendation proposed by the Manitoba office of the Canadian Centre for Policy Alternatives in its *Alternative Municipal Budget 2018* is a ‘commuter fee.’ Such a fee would be an equitable and progressive form of mobility pricing aimed at charging those who live outside the city boundaries and work within the city. The commuter fee would mitigate the problems associated with tax competition and therefore better manage exurban growth around Winnipeg, similarly to how the city’s development impact fee on new suburban development helps to both manage and finance growth within the city. Additionally, depending on how the fee is implemented, it may also raise the marginal cost, or the cost per trip, of commuting into the city. This would have the benefit of encouraging denser development and greater use of public transportation. This innovative policy proposal represents one of only a handful of examples of similar pricing schemes either being considered or implemented across jurisdictions in Canada, and therefore deserves

further research and analysis as urban sprawl, climate change, and financial challenges place ever-increasing strain on our cities.

Using interviews, relevant data, and precedents from around the world, this report will explore the application of a commuter fee in Winnipeg, and whether it is an appropriate solution for the aforementioned issues. I begin by outlining the problems of exurban commuting, tax competition, free-riding, and how they have manifested in Winnipeg. This is followed by a discussion of possible solutions derived from the literature, examples of other cities that have dealt with similar problems, and interviews with local experts and policymakers. Six interviewees with expertise in local planning, political, and economic issues in Winnipeg were chosen, but will not be identified due to the sensitive nature of this topic. The interviews were conducted in order to generate ideas about the potential benefits and consequences of the implementation of a commuter fee in Winnipeg and were therefore administered in a semi-structured manner. Other cities with similar fees have also been used as examples to produce policy ideas and to determine how to best utilize a commuter fee. The cities (New York, London, Vancouver, and Stockholm) were chosen because they are some of the most richly detailed case studies available in the

literature, and by distilling insights from each example, a clearer picture of how a commuter fee should work can be illustrated. Naturally, these comparisons are limited because of the contextual differences between Winnipeg and the other cities; however, their policy experience is still highly relevant, and they will therefore be used as precedents in this paper. This report concludes with recommendations for Winnipeg based on this research and analysis. My findings are that a fee for exurban commuters addresses the issues of free-riding and tax competition that result from the property tax differential between Winnipeg and its surrounding municipalities, while different methods of implementation (payroll taxes or cordon tolls) more effectively address distinct corollary issues, such as sprawl and the costs of driving. The fee would need to be properly communicated to residents in order to highlight the problems associated with the property tax differential and exurban commuting, and why a fee is the appropriate tool for resolving these issues. Any such fee must also be implemented alongside a broad policy framework encompassing planning, transit, and development coordination throughout the capital region in order to successfully reduce the litany of problems stemming from urban sprawl and exurban growth.

The Problem

Any discussion of municipal finance in Canada must necessarily begin with a discussion of property taxes. Cities in Canada are highly constrained in the revenue sources available to them, with most relying almost exclusively on property taxes to fund the services they provide (Slack, 2010). In Canada, constitutional authority (including the right to impose taxes) is divided between federal and provincial governments. Provincial governments are given jurisdiction over their municipalities, therefore providing provinces with the ability to set out the legal authority of their respective cities (The Constitution Act, 1867, s.92(8)). Winnipeg is governed by *The City of Winnipeg Charter*, a provincial act which gives the city a number of revenue-generation tools: property taxes, the frontage levy, a business tax, local improvement taxes, gas and electricity taxes, and a number of other user fees (Kitchen & Slack, 2003, pp. 2232–2233). The property tax, the city’s main source of revenue, is calculated by multiplying the portioned assessment of a property with the mill rate, which

“represents \$1.00 of taxes for every \$1,000.00 of portioned assessment” (City of Winnipeg, 2019). Although imperfect, the property tax is the city’s primary method of generating revenue according to budgetary needs and remains the main funding mechanism for cities across Canada.

Winnipeg, however, is surrounded by municipalities with substantially lower property tax rates, thus creating a three-fold problem. First, people are incentivized to live outside the city and commute to work; second, downward pressure is exerted on property taxes in the City of Winnipeg; and finally, Winnipeg’s tax base is reduced when people move or settle outside the city. To demonstrate this problem, the communities included in this report were chosen because they are part of the Winnipeg Census Metropolitan Area and are therefore closely intertwined with the economic health of the provincial capital. This includes the Rural Municipalities of East St. Paul, West St. Paul, Headingley, Macdonald, Ritchot, Springfield, St. Clements, St. François Xavier, Rosser, and Taché.¹

¹ The Census Metropolitan Area excludes places such as Selkirk, Stonewall, Niverville, and a number of rural municipalities which, although further from Winnipeg, still contain many exurban commuters. Stonewall and Niverville are especially seen as ‘bedroom communities’; however, only the Census Metropolitan Area will be examined in this report for the sake of clarity and consistency.

These municipalities straddle the suburban-rural divide, and are hereafter referred to as ‘exurban,’ meaning that they are located outside the legal limits of the City of Winnipeg and that they are defined by their “fast-paced, low-density growth and development” (Berube, Singer, Wilson & Frey, 2006, p. 2). Exurban commuters are those individuals who reside in exurbia but work in the central city. In Winnipeg, the presence of these municipalities on the urban periphery has significant, yet often unrecognized effects on the city’s tax base and financial situation.

Notably, inter-municipal tax competition is not a new phenomenon in Winnipeg. In fact, it is one of the reasons Winnipeg exists in its current form. During the mid-20th century, Winnipeg was a fragmented city composed of numerous municipalities, altogether forming a broader city region. Each municipality levied their own property taxes, thus enabling wealthier municipalities to keep their rates low due to their larger tax bases and their free-riding on City of Winnipeg services (Axworthy, Lightbody, Pawluk & Sherba, 1974). This situation kept the old City of Winnipeg’s property taxes unsustainably low, while the flight of wealthier residents to suburbs with lower property tax rates eroded the City of Winnipeg’s already dismal tax base and further stratified the city by class. One intention of the amalgamation of the Winnipeg city region in 1972 was to equalize this property tax differential between the competing municipalities and to ameliorate the multitude of problems it caused.

Winnipeg presently faces a functionally similar problem, in that low municipal property tax rates in surrounding areas encourages individuals and households to reside outside the city boundaries while continuing to work inside the city, resulting in wealthy enclaves of exurban commuters using City of Winnipeg services for which they have not paid while also exerting downward pressure on its property tax rates. In its current incarnation, this problem has the effect of aggravating Winnipeg’s infrastructure

deficit, measured as the difference between the capital costs of the city’s infrastructure needs and the funding available to finance these projects, which currently amounts to \$6.9 billion (City of Winnipeg, 2018, p. 9). The total replacement cost of Winnipeg’s roads in poor and very poor condition is \$1.83 billion (City of Winnipeg, 2018, p. 26). Additionally, Winnipeg faces other costs in areas such as public transit, as the province recently reneged on a funding agreement that saw all costs not covered by fares shared evenly between the province and the city (Kives, 2018). The city itself recognizes this financial problem and the issues with funding infrastructure through property taxes, stating that “The City’s current funding model is not sustainable,” and that “accessing new sources of revenue” is a priority for reducing the infrastructure deficit (City of Winnipeg, 2018, p. 14). As the *Alternative Municipal Budget 2018* makes clear, the city has not used its limited revenue generating capacities to their fullest extent by only increasing property taxes annually by 2.33 percent since 2014, following a fourteen-year rate freeze from 1998 to 2012. The infrastructure deficit thus did not develop spontaneously but has instead been the result of systemic underfunding and an absence of alternative revenue sources. In 2003, then-Mayor of Winnipeg Glen Murray proposed a “new deal” for Canadian cities, arguing that cities should be provided with a variety of revenue sources and that they should focus on taxing phenomena with negative consequences, such as pollution, sprawl, and congestion (Mackenzie & Scarth, 2004; Ternette, 2004). Ultimately, however, Murray’s national push was unsuccessful, and Canadian cities continue to face service downloading and dwindling resources.

Both the historical and present examples of Winnipeg’s property tax woes are supported by the empirical and theoretical literature on municipal finance. Because municipal tax rates are partly a “reflection of the interaction of competing jurisdictions,” tax competition

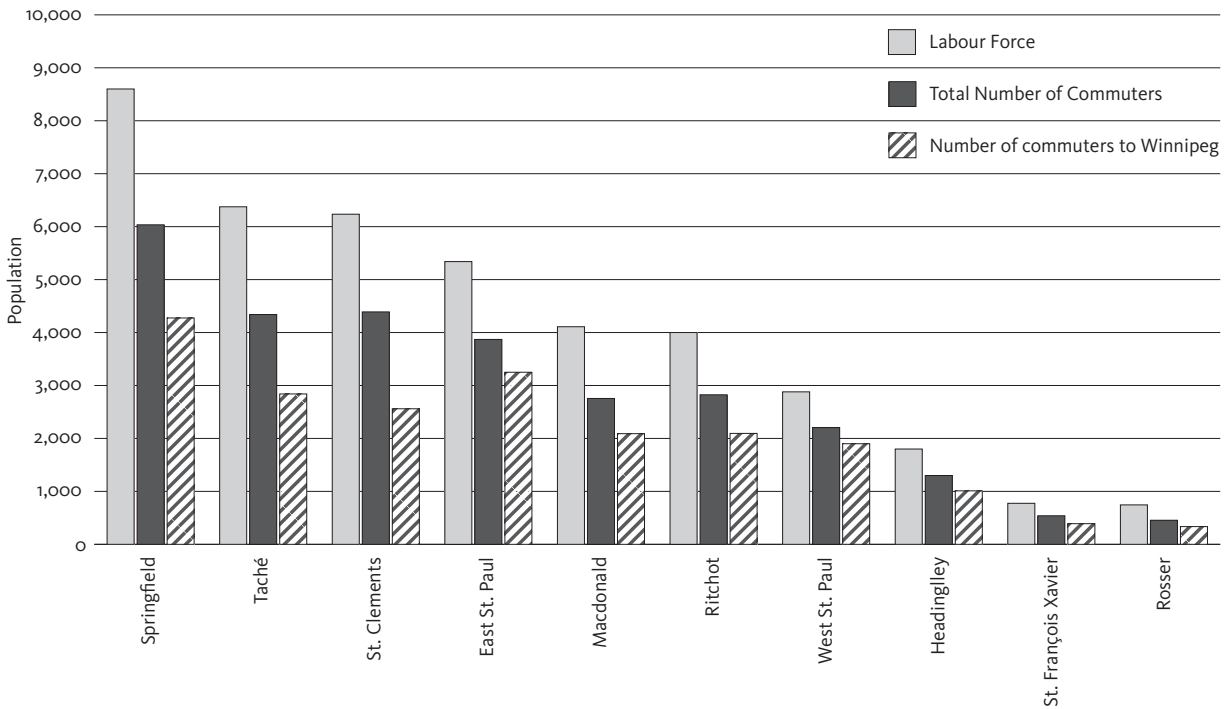
constrains Winnipeg's ability to raise property taxes to generate revenue for services as nearby rural municipalities maintain significantly lower property tax rates (Brett & Pinkse, 2000, p. 696). The literature on tax competition suggests that "citizens choose the community to live in that best satisfies their preferences for public goods and services and ability to pay" and that "in this case, the existence of numerous governments within a region (offering different service and revenue packages), the mobility of residents, and their knowledge of the contents of revenue and spending packages combine to create a competitive public market for residents" (Hendrick, Wu & Jacob, 2007, p. 223). In practice, however, this does not result in economic efficiency, as exurban commuters regularly utilize services across jurisdictional boundaries for which they have not paid. As a result, tax competition leads to free-riding and exerts downward pressure on regional tax rates — thus negatively impacting the level of service provision in the city region.

As Hendrick, Wu, and Jacob (2007) argue, citizens use both their 'exit' and 'voice' powers to convey their displeasure with tax rates, referring respectively to their ability to locate elsewhere or to express their preferences to government through various modes of political action, such as voting (p. 225). The consequence of this, according to Brueckner and Saavedra (2001), is that public goods are generally underprovided by cities because "each community keeps its tax rate low in an attempt to preserve its tax base" (p. 204). In a city region, the central city is pulled in opposite directions by two conflicting forces: the city must provide a higher level of services than outlying communities, while simultaneously keeping property tax rates low so as to not cause ex-urban flight. In Winnipeg, the political pressure to keep property taxes low while maintaining service levels was most evident in the city's fourteen-year property tax rate freeze, which ultimately resulted in greater financial pressure and poorer service provision in the city itself.

One reason the property tax is the subject of so much disdain among homeowners is because it is a highly visible tax. Unlike sales or income taxes, residents annually receive notice they owe a large sum to the city instead of simply having the total added to the cost of their purchases or deducted from their paycheques (Slack, 2010, p. 3). On one hand, this has the benefit of demonstrating to residents the cost of the services they use; but on the other, this 'sticker shock' is why the property tax garners so much contempt from homeowners (Slack, 2010, p. 4). For this reason, the way property taxes are administered leads to them occupying a disproportionate amount of property owners' financial attention despite typically accounting for a marginal amount of their income.

In the Winnipeg Census Metropolitan Area, short commute times enable exurban residents to live in municipalities with low property tax rates, while working in the central city and benefitting from its services without contributing to the tax base. This 'free-riding' further compounds the negative consequences of regional property tax competition. The dilemma of free-riding most often arises from the consumption of common or public goods and is frequently demonstrated using non-excludable goods, such as streetlights. If a city provides streetlights, everyone benefits from additional lighting, even those who have not contributed to the costs of the streetlights. Similarly, individuals are able to free-ride on the provision of other public goods, such as road infrastructure, when they use these services without paying for their public costs. By driving into the city every day for work, exurban commuters use the roads (and potentially other municipal services) for which they have not shared the cost. Free-riding ultimately leads to a fundamental economic problem, which is that underpriced goods typically result in overconsumption. While the total cost of this free-riding falls on the broader community, the net benefit for the individual not paying their share is significant. Over time, the

FIGURE 1 Proportion of Labour Force Commuting to Winnipeg from within the Census Metropolitan Area



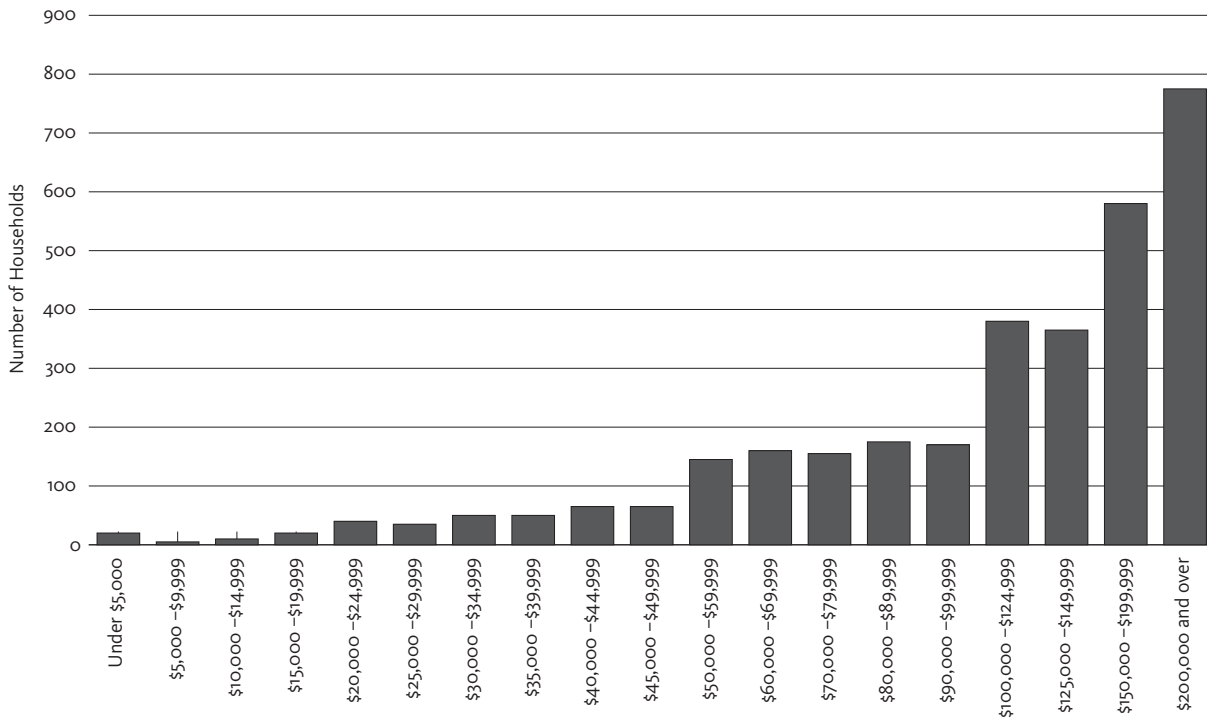
SOURCE: Statistics Canada, 2016.

costs of this behaviour become evident as road infrastructure degrades and the ability to finance its maintenance declines. In Winnipeg, exurban commuters do not contribute to the municipal tax base, thus leaving those living within the city to pick up the costs of the services both residents and commuters alike use every day.

Comparing the literature on municipal finance with property tax rates, population, and commuting data in the Winnipeg Census Metropolitan Area reveals a variety of interesting details — and demonstrates that property tax competition and free-riding are significant policy problems for the city. Between 2011 and 2016, all but three of the rural municipalities in the Winnipeg Census Metropolitan Area grew at faster rates than Winnipeg. Taché, Macdonald, St. François Xavier, and Headingley each had population growth rates approximately double that of Winnipeg during these five years. Ritchot saw a growth rate of 21.90 percent, compared to Winnipeg’s 6.30 percent over the same time period

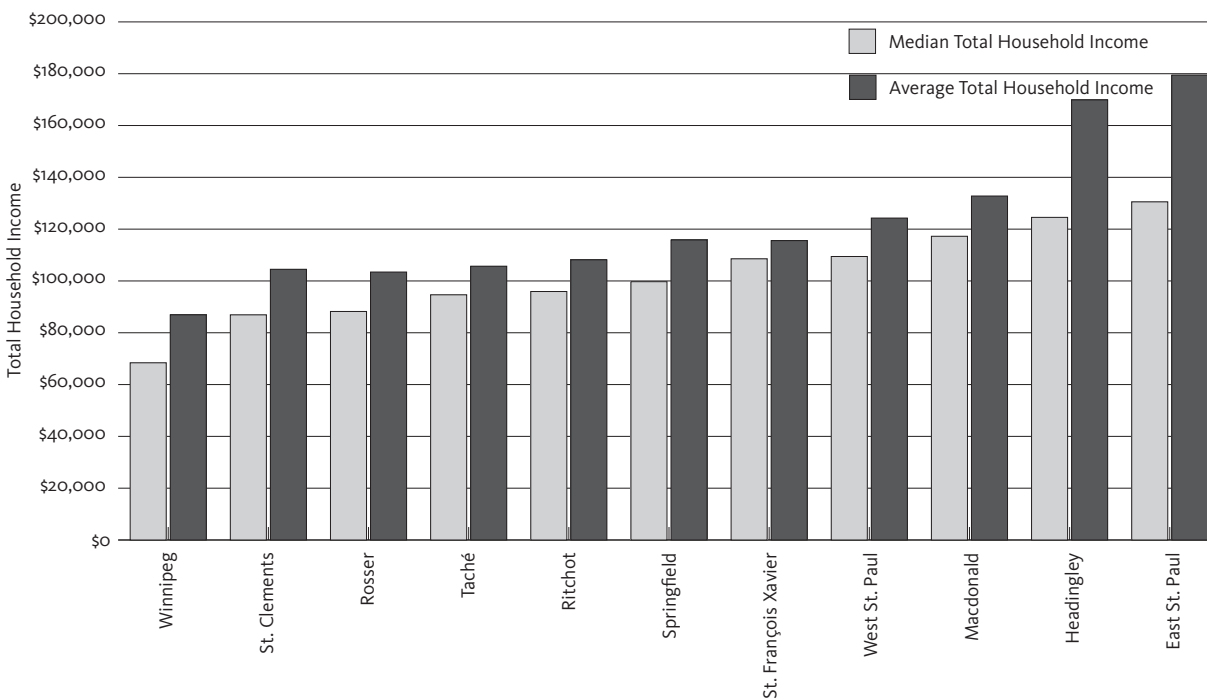
(Statistics Canada, 2017b). Although Winnipeg’s population is growing more substantially in absolute terms, it is important to recognize that as the central city grows, exurban growth will continue at increasingly faster rates as development spills outside the city limits. More revealing than the growth of these communities is the proportion of their labour force who commute to work in Winnipeg every day. In each of the exurban communities surrounding the city, the proportion of the labour force working in Winnipeg ranges between 41.06 percent in St. Clements to 65.97 percent in West St. Paul. The smallest number of people commuting to Winnipeg is 335 from Rosser, whereas the highest is 4,275 from Springfield. A conservative estimate of the total number of exurban commuters from the Census Metropolitan Area is around 20,745 (Statistics Canada, 2016). The total number is likely much higher, as this estimate excludes municipalities within commuting distance to Winnipeg but outside the Census Metropolitan Area.² Most

FIGURE 2 Number of Households by Household Total Income Groups in East St. Paul



SOURCE: Statistics Canada, 2017a.

FIGURE 3 Median and Average Total Household Incomes of Winnipeg Census Metropolitan Area



SOURCE: Statistics Canada, 2017a; 2017c; 2017d; 2017e; 2017f; 2017g; 2017h; 2017i; 2017j; 2017k; 2017l.

significantly, the number of commuters from the outlying communities surrounding Winnipeg accounts for an average of 51.68 percent of their labour forces, as figure 1 demonstrates.

Recalling the issues leading up to Winnipeg's amalgamation, those living in surrounding municipalities tend to have significantly higher median total household incomes than in Winnipeg. In 2016, the median total household income in Winnipeg was \$68,402, and ranged between \$86,912 (in St. Clements) and \$130,534 (in East St. Paul) in the surrounding communities (Statistics Canada, 2017a; 2017h; 2017l). Furthermore, in East St. Paul, where more than half the labour force works in Winnipeg, 41 percent of households have incomes between \$100,000 and \$199,999 while nearly a quarter of all households have incomes over \$200,000. This remarkable proportion of high-income households demonstrates that although there is not significant exurban migration from Winnipeg, a distressing number of high-income residents are choosing to settle outside the city, thus eroding a vital part of Winnipeg's tax base.

While the municipalities surrounding Winnipeg have considerably higher total household incomes, they also have substantially lower property taxes than Winnipeg. For a home with an assessed value of \$350,000 in Winnipeg, a resident would pay \$2,010.65 in municipal property taxes in 2016. For a house of the same value in the surrounding municipalities, property taxes ranged from \$1,061.24 (in Rosser) to \$1,477.35 (in Springfield) (MNP, 2016, p. 43). Consequently, the City of Winnipeg annually loses approximately \$41.7 million in property taxes for the number of commuters in the Census Metropolitan Area who live outside the city limits.³ This figure must

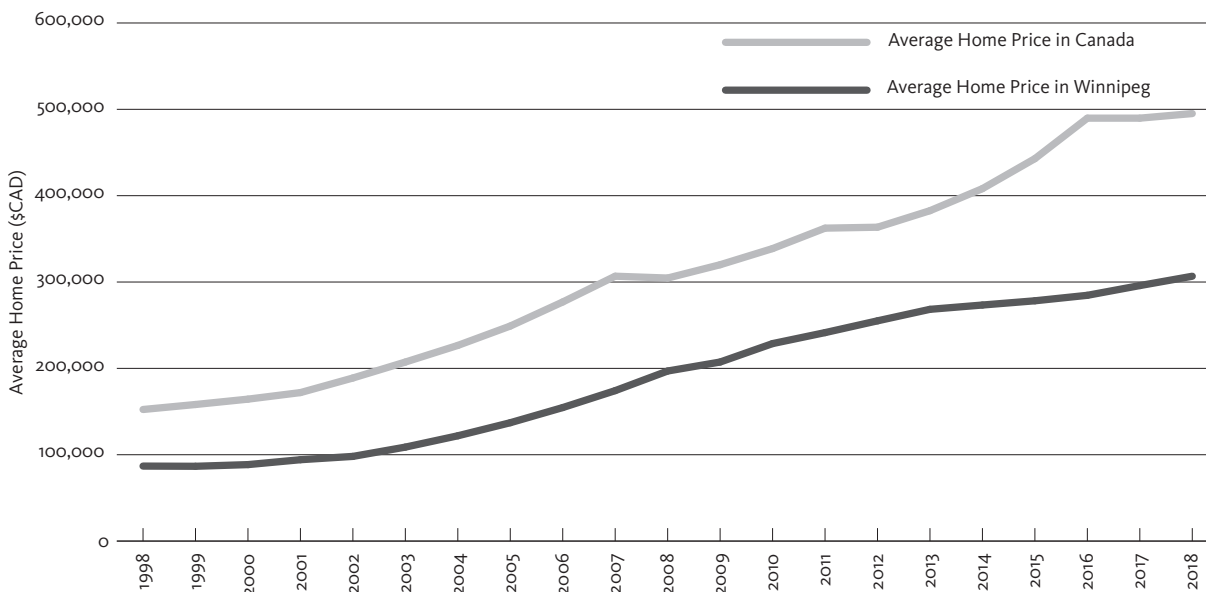
be considered as a conservative estimate because the average home prices in the rural municipalities surrounding Winnipeg ranged from \$315,681 (in Taché) to \$554,088 (in East St. Paul) (Winnipeg Realtors, 2019). Therefore, these bedroom communities tend to have significant numbers of people with higher incomes, more expensive homes, and who commute to Winnipeg without contributing to the tax base. Additionally, none of these statistics can account for the downward pressure that the property tax differential exerts on rates in Winnipeg.

While property taxes in Winnipeg's exurban fringe are demonstrably lower than in the city itself, a common concern identified by many interviewees was the difficulty in determining the precise reason people choose to reside in exurban communities. One participant described residents as "customers" who choose where to live based on a variety of factors, such as affordability, tax rates, and home sizes. As such, they saw the property tax simply as one of a handful of factors influencing individuals' decisions to live outside the city and commute into it. Determining the precise motivations of exurban commuters is beyond the scope of this research, but the motives themselves are extraneous because a commuter fee fundamentally addresses the issues of free-riding and tax competition, which exist independently of individual motivations. However, the claims that exurban living is somehow substantially different or more affordable than living within the city are highly disputable. Winnipeg is, in fact, a cheaper place to purchase a home. As of April 2019, the average price of a single-family detached home in Winnipeg was \$332,185 with 50 percent of homes being listed under \$300,000, while the average

² Expanding this data to include other rural municipalities and towns with short commute times to Winnipeg (yet excluded from the Census Metropolitan Area) puts this figure closer to 30,000 exurban commuters.

³ This figure is calculated by multiplying the number of people commuting to Winnipeg from elsewhere in the Census Metropolitan Area by the City of Winnipeg property taxes on a \$350,000 home in 2016. This figure is limited by the lack of data available on this topic in Winnipeg, but still demonstrates the sheer scope of this issue.

FIGURE 4 Average Home Prices in Winnipeg and Canada, 1998–2018



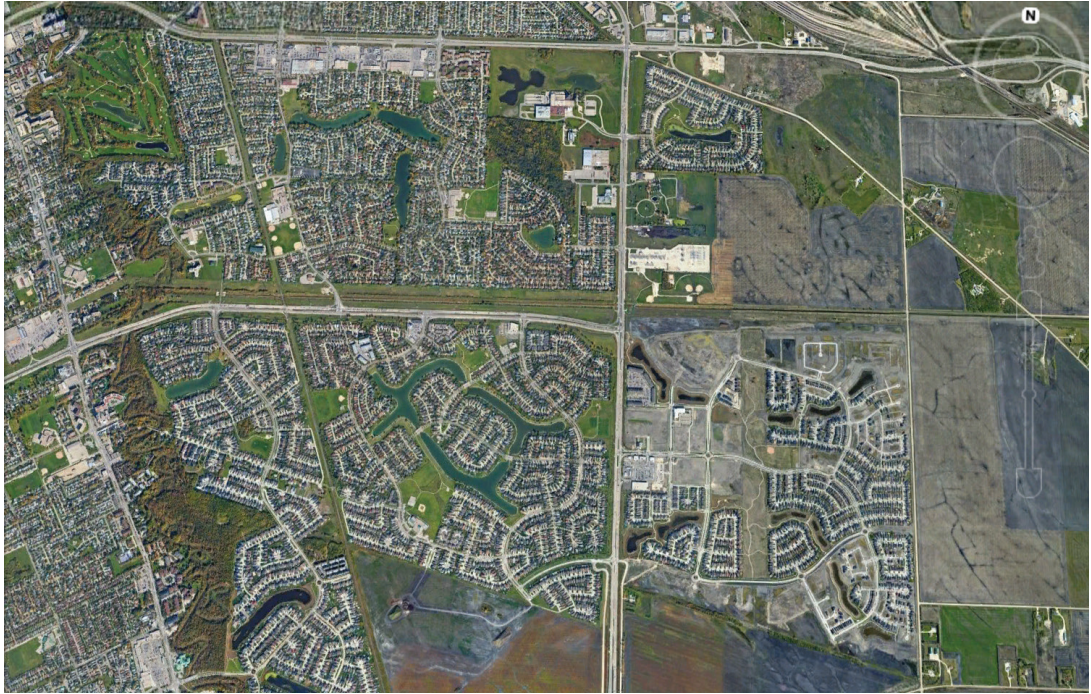
SOURCE: Statistics Canada, 2017a.

prices of homes in West and East St. Paul were \$446,800 and \$544,088 respectively. Importantly, the average home price in southeast Winnipeg, where new suburbs comparable in spatial and demographic terms to their exurban counterparts are located, is \$375,561 (Winnipeg Realtors, 2019). Moreover, figure 4 shows that within Canada, Winnipeg is one of the most affordable places to own a home.

Rather than being an issue of affordability or a housing shortage, these higher prices are primarily attributable to the fact that these homes are generally bigger and located on larger lots than those inside the city limits. Considering these average prices, it is a stretch to claim that housing in these communities is in any way more affordable than in Winnipeg. Moreover, as communities such as East St. Paul develop, sizes of lots and homes are decreasing. From 2012 to 2016, the average house size in the capital region (excluding Winnipeg) decreased from 1,502 square feet to 1,416 square feet (DeGroot, 2017, p. 56). This reduction in home size is likely to continue as development intensifies on the

city’s fringe, thus making some exurban communities practically indistinguishable from the suburbs within the city. Assessing the visual data also leads to a similar conclusion, which is that exurban communities are not far different spatially from their suburban counterparts. The images below demonstrate this point clearly. On the left is a satellite image of Sage Creek, one of Winnipeg’s newer suburban neighbourhoods; and on the right is a satellite image of East St. Paul, one of Winnipeg’s closest exurban communities. Examining the property assessment data of similarly priced homes in these two areas shows just how similar these communities are in spatial structure and style. Though homes in East St. Paul had larger lot sizes, property values were correspondingly higher. While undoubtedly some exurban commuters do live in truly ‘rural’ settings, the fact is that development necessitates some level of density, thus making exurban residential developments more akin to suburban subdivisions than bucolic farmland. The pattern continues with other exurban residential communities, which despite their rural

FIGURE 5 Sage Creek



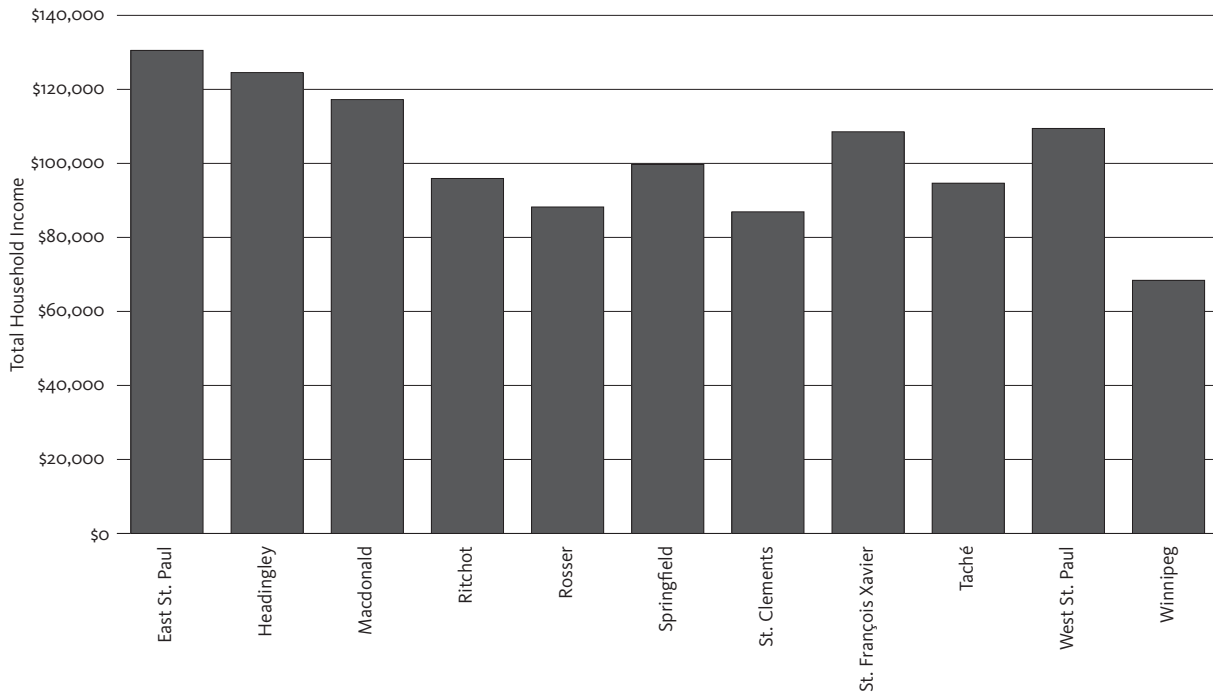
SOURCE: Google Earth, 2019

FIGURE 6 East St. Paul



SOURCE: Google Earth, 2019

FIGURE 7 Median Total Household Income in the Winnipeg Census Metropolitan Area



SOURCE: Statistics Canada, 2017a; 2017c; 2017d; 2017e; 2017f; 2017g; 2017h; 2017i; 2017j; 2017k; 2017l).

setting, are near lookalikes when compared to wealthy suburbs within Winnipeg. Consequently, the similar housing characteristics and spatial development between suburban and exurban communities casts doubt on the claim that living conditions in a bedroom community outside Winnipeg are functionally different or more affordable than the suburban communities inside the city. Assessing this data demonstrates that places like East St. Paul are simply suburbs without suburban property taxes.

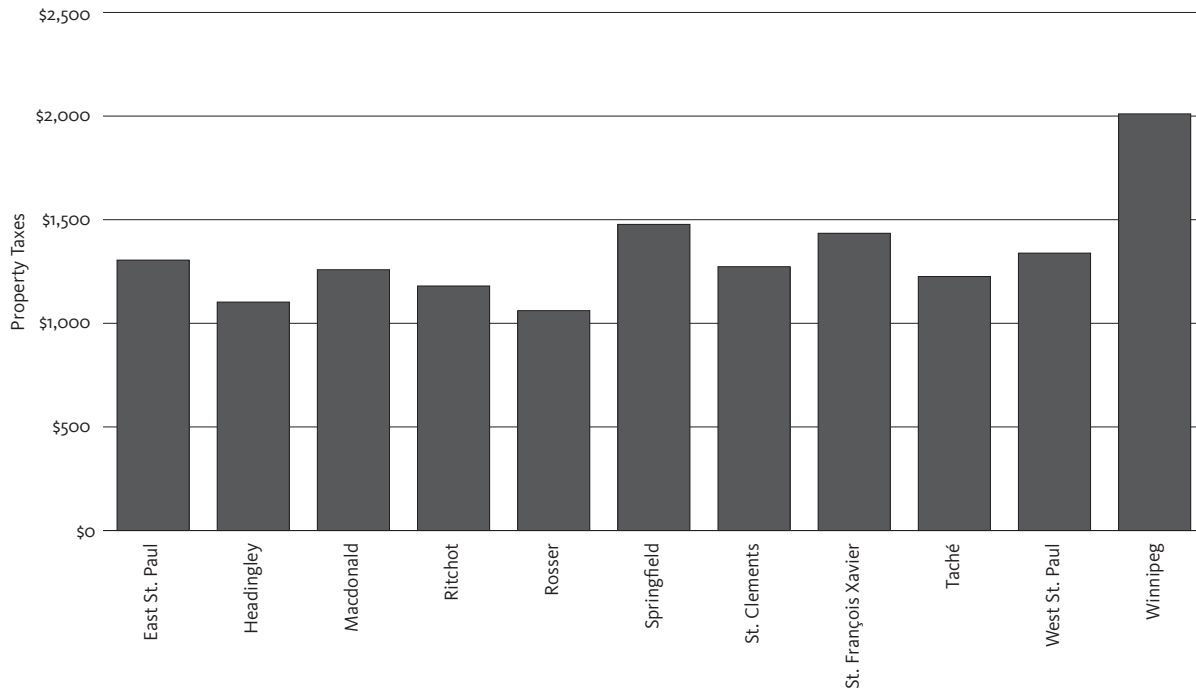
In fact, some of the starkest differences between the City of Winnipeg and its outlying exurban communities are revealed by comparing property taxes and income levels. Property tax rates in Winnipeg's surrounding communities are an average of 37 percent lower than in the City of Winnipeg.⁴ Despite this, median total

household incomes are substantially higher than in Winnipeg. The two following graphs visually demonstrate that those with high incomes living outside the city typically pay lower property tax rates relative to those living inside the city.

As a result of this differential and exurban development, the city misses out on a potentially important part of what would otherwise be its tax base. Although it has been demonstrated that there are significant issues with the rationale that living in exurban communities is more affordable or of a substantively different lifestyle than living in the city, a fundamental issue remains: free-riding. Regardless of the motive for living outside the city only to commute to it every day, this decision should not exempt individuals from paying for the public costs of their choices. The unfair disparity between property tax rates and

⁴ This figure assumes an average home price of \$350,000 and is calculated using 2016 mill rates. Because home prices in the exurban communities are generally higher in Winnipeg, this must be considered to be on the lower bound of the range of potential losses.

FIGURE 8 Property Tax on \$350,000 Home in Winnipeg Census Metropolitan Area



SOURCE: MNP, 2016.

NOTE: Again, the property tax rates included in this graph are calculated based on a home value of \$350,000, using the 2016 mill rates from each community. 2016 mill rates were used because it was the latest census year, and therefore the latest year for which household income data was available.

the detrimental effects of free-riding impose significant costs on those living in Winnipeg, and these costs must be internalized. Currently, Winnipeg loses a significant source of revenue because of the wealthy enclaves situated outside of its boundaries, and a commuter fee is one policy tool that can rectify the situation.

By this point, it should be clear that exurban commuting is a problem for Winnipeg. The property tax differential between Winnipeg and its surrounding communities provides a powerful incentive for people to live on the fringes of the

city while continuing to work within it. However, this does not come without its costs. On one hand, the city is deprived of a crucial portion of its tax base; and on the other, those exurban commuters not contributing to the tax base use city services, such as roads, without paying their fair share. Anyone who has recently driven on Winnipeg's crumbling roads knows that this situation is unsustainable. As the city grows, so too does its exurban fringe—and the need to find a solution to the problems of tax competition and free-riding grows as well.

Solutions

Addressing the property tax differential requires an innovative policy solution from the City of Winnipeg. As proposed in the *Alternative Municipal Budget 2018*, one possible solution is a commuter fee. Commuter fees are a type of mobility pricing, which refers to “a range of fees that could be applied for the use of transportation services,” such as road tolls, transit fares, and insurance costs (Mobility Pricing Independent Commission, 2018, p. 4). The principle underlying mobility pricing is simple — users should pay for the public costs of the services they use in order to achieve a desirable policy outcome (Lee, 2018a, p. 4). Congestion charges are a common type of mobility pricing intended to disincentivize driving and encourage the use of other modes of public transportation by charging drivers for entering a highly congested part of a city. While commuter fees in Winnipeg differ from congestion charges in that their purpose is to counteract the difference in property tax rates between municipalities and to encourage people to live closer to where they work, both types of pricing share many similarities in their implementation and outcomes, and therefore examples of congestion charges will be used as comparable precedents in this report. Ultimately, both types of

mobility pricing attempt to deal with the costs of driving and exurban commuting and have a variety of corollary benefits such as reducing urban sprawl, decreasing greenhouse gas emissions, and generating revenue.

These potential benefits are not lost on the City of Winnipeg. In 2013, Councillor Ross Eadie argued that charging a toll on those entering Winnipeg would be an effective way to generate much-needed revenue to repair Winnipeg’s crumbling roads (Eadie, 2013). During the 2014 municipal election, then-candidate (and future Mayor) Brian Bowman responded to an editorial on toll-roads, saying that “the status quo isn’t working, we need to have new ideas...Mobility pricing is on the table and we are fully considering it,” because property taxes will not be sustainable in the long-run for funding Winnipeg’s growing infrastructure needs (Annable, 2014). Despite this, no form of mobility pricing has been officially proposed in the city since. While the main objective of the commuter fee is to counteract the property tax differential, it is crucial to recognize that similar ideas have been proposed before in Winnipeg and in other jurisdictions around the world. Stockholm, London, New York City, and Vancouver have imple-

mented, or are in the process of implementing various forms of mobility pricing as they grapple with the multitude of challenges facing modern cities, such as congestion, pollution, and service downloading. Winnipeegers may scoff at the idea of comparing their own city to these global cities, but alongside relevant data and the expertise of stakeholders, these examples provide valuable insights into the benefits and consequences of similar systems around the world and how they can be implemented in Winnipeg. The problems facing the City of Winnipeg require that the concept of a commuter fee be given serious consideration as a solution by residents, policymakers, and politicians alike.

New York

Beginning in 1966, the state of New York imposed a tax on people who lived outside New York City and commuted into the five boroughs of the city every day for work. After five years, the tax was increased to 0.45 percent of taxable income, and continued to be a source of revenue for the city until it was repealed in 1999 by suburban and ex-urban state legislators (Perez-Pena, 2000). New York City benefited enormously from the tax, so much so that the Independent Budget Office “estimated a potential loss to the City of \$360.0 million in fiscal year 2000 alone” following its repeal (Kirshnitz, 2000, p. 936). In 2009, the state passed a similar measure, called the “metropolitan commuter transportation mobility tax,” which “required employers to set aside 34 cents for every \$100 in payroll costs” after reaching a payroll expense threshold of \$312,500 (Schwartz, 2012). The tax is meant to provide funding exclusively for the Metropolitan Transportation Authority, the agency that operates public transit in New York City, because the employees of businesses in the city use public transportation to commute to work. New York’s long experiment with road pricing was again reignited in 2019, when the state announced that beginning in 2021, New

York City would be the first American city to use congestion pricing. Precise details are murky, but initial pricing estimates range between \$11 and \$25 per trip for commuters entering Manhattan below 60th street. The pricing scheme is aimed at decongesting Manhattan’s car-filled streets while simultaneously generating \$15 billion for New York’s deteriorating public transit system (Fitzsimmons & Hu, 2019).

London

The idea of implementing congestion charges in London emerged during the 1960s, at the same time New York implemented its commuter tax (Prud’homme & Bocarejo, 2005, p. 279). However, the London Congestion Charging Scheme only officially began in 2003, with the intent of reducing congestion in inner London by charging all vehicles entering, passing through, or leaving London’s Inner Ring Road (Santos & Fraser, 2006, p. 270). The charge was originally £5 during the hours of 7:00 am and 6:30 pm on weekdays but has since been raised to £11.50. The seemingly high charges for driving are offset by the fact that many drivers receive discounts or exemptions, such as those with low emission vehicles or those who reside within the cordon, resulting in the charge being applied to around only 30 percent of vehicles crossing the boundary (Lee, 2018b). According to *The Telegraph*, the charging scheme cost £200 million to implement with annual operating costs of £85 million. These costs include 688 cameras placed at 203 sites throughout inner London (*The Telegraph*, 2003). The cameras collect video data, sent to Automatic Number Plate Recognition software, which checks the plate number against a list of vehicles whose charges have been paid that day. Penalties are only imposed after staff personally check the recorded images (*The Telegraph*, 2003). By law, all revenue generated by the congestion charge must go towards improving public transport in London (*The Telegraph*, 2003). Conse-

quently, the charge has been extraordinarily successful in achieving its objectives, as the share of car trips fell from 46 percent to 36 percent between 2002 and 2015 (Lee, 2018b). Moreover, public transit use jumped significantly from 29 percent to 37 percent during the same time period, and biking has become increasingly popular as well (Lee, 2018b).

Stockholm

Not long after London implemented its congestion charge, Stockholm followed suit. In 2006, the Swedish capital carried out a trial period of congestion pricing, which in 2007 was fully implemented following a referendum (Gullberg, Isaksson, & Eliasson, 2009). Like London, Stockholm uses a cordon-style charging system relying on automatic camera identification, after shifting away from onboard transponders (Eliasson, 2014, p. 6). After passing through 1 of 18 charging stations, drivers are charged a certain amount depending on time of day, which has had the effect of decreasing traffic by 20 percent within the cordon (Gullberg, Isaksson, & Eliasson, 2009, p. 2). Significant environmental improvements have been recorded since the implementation of the charge, both as a result of the reduction in overall traffic, and the exemptions made for alternative fuel cars (Eliasson, 2014, pp. 7–13). The total cost to implement the system in 2006 was \$277.8 million CAD. A unique aspect of the Swedish experience with mobility pricing is that despite major public disapproval prior to the trial period, the congestion charge was passed following a successful referendum (Eliasson, 2014, p. 2).

Vancouver

Facing many of the same problems as the cities described above, Metro Vancouver has embarked on a similar process of studying the potential implementation of mobility pricing within the city

region. Following the elimination of two bridge tolls, the regional government of Metro Vancouver struck the “Mobility Pricing Independent Commission” to study how mobility pricing could be implemented in the Vancouver area (The Globe and Mail, 2018). Traffic congestion in Vancouver’s core caused by suburban and ex-urban commuting has led the regional government to consider mobility pricing as a way to deal with this issue. The commission’s findings outline three principles guiding the design of a sustainable mobility pricing strategy: congestion reduction, fairness, and increasing investment (Mobility Pricing Independent Commission, 2018, p. 2). The report recommended pricing based on either distance-based tolls or congestion point charges, meaning charging people based on either how far they are travelling or the points at which they enter a certain area, respectively (Mobility Pricing Independent Commission, 2018). While these charges for commuting have yet to be implemented, the example of Vancouver demonstrates that Canadian cities are seriously considering charging commuters as a way to achieve certain policy objectives.

Policy Lessons

Despite their unique individual circumstances, each pricing scheme highlights a variety of themes common to seemingly disparate types of road pricing. All the cities described above view mobility pricing as a way to manage traffic, improve the environment, and generate revenue for local and regional public transportation. From these goals, however, emerge a whole swath of issues relating to mobility pricing as a solution for the cities’ problems: will it accomplish its objectives? Is it fair? How should it be implemented? Where should the generated revenue go? Answering the first question is relatively straightforward, as each of the above-mentioned cases has experienced significant degrees of success in achieving their objectives. Prior to being re-

pealed as a result of the influence of suburban state legislators, New York City's commuter tax generated approximately \$360 million USD per year for the city's public transportation system (Perez-Pena, 2000). Despite its repeal in 1999, the commuter tax should not be considered a failure. It was enormously popular among residents of New York City, so much so that residents have called for its reinstatement and they have been successful in gaining the ability to levy a congestion charge in the near future (Fitzsimmons & Hu, 2019). In reducing congestion, the London and Stockholm schemes have been similarly successful, as traffic within the cities' cordons was reduced by around 20 percent as a result of congestion pricing (Eliasson, 2014, p. 2; Lee, 2018b). In both cities, trips taken using public transit increased as well (Lee, 2018b). In Stockholm, emissions and pollution in the inner city decreased between 10 and 15 percent, as a result of both decreased traffic and an increase in alternative-fuel vehicles due to their exemption from the charge (Eliasson, 2014, pp. 7–13).

While these examples demonstrate the promise of road pricing and commuter fees as a solution for various traffic-related problems, they also raise important questions of fairness. As Lee (2018a) argues, mobility pricing is unlikely to be successful if it is seen as unfair (p. 5). Flat-rate road pricing and user fees can be inequitable and disproportionately burden those with lower incomes, as the charge is not based on their ability to pay (Litman, 2011, p. 2). Thus, while it is fair to charge drivers for the roads they use, it is also fair to account for their financial means (Lee, 2018a). By necessity, any commuter fee must be progressive and equitable in who is being charged, how much they are charged, and why they are being charged. To this end, mobility pricing schemes may implement multiple measures to improve equity, such as rebates and tax credits. Both measures are better at achieving equity than exemptions, as in the case of London and Stockholm, because they still use

the price incentive while also compensating certain individuals for the cost of the charge. These mechanisms to improve equity thus address the cost of driving without burdening low-income individuals. In the examples described above, each city also responded to the issue of equity by investing revenues raised by the pricing scheme in public and regional transportation. In London, for example, all of the revenue generated by congestion charging is legally required to be spent on improving public transportation in the city (The Telegraph, 2003). Similarly, the revenue from New York City's various pricing schemes has been dedicated to funding the Metropolitan Transportation Authority. In Stockholm, public transit service was increased to coincide with the imposition of congestion charging (Lee, 2018b). Any serious consideration of commuter fees must necessarily grapple with the question as to whether they are fair — and if not — how to make them fair.

How a commuter fee is structured and implemented is of the utmost importance for its level of equity and its viability as a solution for the problem of exurban commuting and property tax competition. While only limited data is available on the effect tolling systems have on individuals' choice of residence, two studies in New York City and Washington D.C. suggest that an income tax may have some effect on location decisions (Kitchen & Slack, 2016, p. 15). The main point raised by those interviewed regarding location decisions was that determining the optimal rate at which exurban commuters would be charged must be an integral part of any charge that seeks to change behaviour. Whether the imposition of a commuter fee would impact the decision-making of homebuyers necessarily relies on both the form and rate of the charge. If Winnipeg were to implement a commuter fee, its rate structure and charging method must therefore be central areas of research in a feasibility study. Regardless of the impact a commuter fee will have on location choice, this policy tool in-

creases fairness by effectively equalizing property taxation between urban and exurban residents, by ensuring that road-users pay for the costs of their driving, and by offsetting the revenue problems caused by the erosion of the tax base in Winnipeg resulting from tax competition.

While the total effect a commuter fee would have on the decision to settle in exurban areas is unclear, the potential usefulness of such a fee is not. As the examples described earlier demonstrate, different forms of mobility pricing have positive impacts on the state of municipal finances, the environment, and urban life in general. In London and Stockholm, congestion charges had the effect of shifting individuals' mode of transportation towards public or active transportation (Bhatt & Higgins, 2008, i). Nevertheless, despite the benefits that accrue to jurisdictions with mobility pricing, the concept itself is incredibly divisive. All those interviewed believed the political viability of additional fees or taxes to be the biggest challenge facing the implementation of this policy tool. The fiery debates that ensue over such pricing schemes are largely the result of drivers being accustomed to 'free' roads, or those roads for which the full public costs are not paid by those who use them. In spite of the contentious nature of such policies, they have garnered broad public support in the locations that have implemented them. In New York City, residents have long supported various forms of pricing, and in Stockholm, congestion charging passed a public referendum following its trial period. In recognizing these successful examples, it is important to rationally assess the effects a commuter fee could have on Winnipeg and to avoid the initial aversion to the concept at all costs. The literature and interviews suggest that any form of commuter fee can be a successful solution if it is well-communicated to residents and if it achieves public acceptance by coinciding with improved infrastructure, increased transit service, and stronger regional coordination of planning and development.

Both the examples and interviews show that there are numerous ways of implementing road pricing, congestion charges, and commuter fees. An important takeaway from this research is that the successful implementation of any form of charge depends on the policy objectives it sets out to achieve, and how appropriately the charging method fits with those objectives. For example, tolls directly address the marginal cost of commuting, or more simply the cost per trip, thus raising the costs of driving and encouraging a shift towards public transit use among commuters. Each added trip will cost an additional sum, therefore charging the most to those who use the roads the most. However, an effective road-pricing system is incredibly complex because of the difficulty of pricing all roads and funding reliable alternative modes of transportation (Lindsey, 2007, p. 8, 12). The examples of Stockholm and London are successful because they managed to strike a balance between disincentivizing driving and improving regional public transportation. Their systems of exemptions and incentives to use more environmentally-beneficial modes of transportation also managed to improve equity and the environmental situation in each city. However, both examples deal with a different policy problem than Winnipeg — they seek to reduce congestion — whereas a commuter fee in Winnipeg would primarily seek to negate property tax-related issues and to better manage regional growth. While this does not discount the policy lessons that can be learned from London and Stockholm, it provides important caveats for the recommendations to be made later in this report regarding Winnipeg's situation.

The example most closely resembling a commuter fee was New York City's commuter tax, in use from 1966 to 1999. While the primary policy goal of this tax was different than that of a potential commuter fee in Winnipeg, in that it intended purely to generate revenue for regional public transportation, the general problem was

similar: significant numbers of exurban commuters spent most of their waking hours in the central city without contributing to its tax base. By levying an income tax, rather than a toll, the New York City scheme effectively generated revenue solely from those exurban commuters who worked in the central city while avoiding its taxes by living in surrounding cities and states, rather than charging all who passed in-and-out of the city. Designing the commuter charge in this way effectively cuts to the heart of the problem: economic free-riding and the losses to the central city's tax base. To this end, such a system has lower implementation and administrative costs than a road-pricing scheme because it lacks the complex technology and infrastructure required to track movements across a cordon surrounding the city, while also more easily avoiding the

equity problems associated with a flat toll rate. Whether such a tax effectively negates the incentive to live in exurban areas is up for debate. However, it appropriately addresses the policy problems associated with exurban commuting, such as free-riding and the erosion of the tax base. Despite these benefits, a payroll tax would not address the marginal costs of commuting, meaning that it would not cost more to drive more. Ultimately, in order to effectively tackle the various problems of exurban commuting, both types of commuter fees require that the proper policy framework is in place before the implementation of any fee, that tax revenue is earmarked for infrastructure construction and improving local and regional transit, and that Winnipeg itself adopts a planning strategy aimed at density, housing affordability and sustainability.

Recommendations

Distilling the lessons learned from the literature, examples, and interviews suggests some important conclusions for policymakers to consider when implementing a commuter fee. The following points are adapted from Lindsey's (2007) guidelines for road pricing in Canada and are combined with the research findings from Winnipeg to produce context-specific considerations for levying a commuter fee in Winnipeg. First, any scheme must be publicly acceptable. As Lindsey notes, this is the "largest barrier" to any type of road pricing. Second, it must be part of a broader policy initiative. Such an initiative would be a crucial part of making a commuter fee acceptable — whether that be through using revenue to fund road renewal, new infrastructure projects, or improving regional transit and housing — because the issues associated with exurban growth, such as sprawl, pollution, and reduced social cohesion extend far beyond the immediate problems caused by the property tax differential. Third, an appropriate policy and legal framework must be in place before any fee is implemented. The policy objectives of a commuter fee must be clearly outlined, and enforcement mechanisms must be realistic and feasible. Finally, any progressive fee must be fairly levied

while simultaneously improving equity in the broader community (p. 14). With these guidelines in mind, it is now possible to analyze how a commuter fee may be implemented in the City of Winnipeg.

The public acceptability of any form of commuter fee relies on who is being charged, how much they are being charged, and why they are being charged. Within the City of Winnipeg, a fee levied on exurban commuters who use city services without contributing to the municipal tax base may prove to be politically popular. The disparity between income and property tax rates, as well as the effects that tax competition and exurban commuting have on Winnipeg are incredibly unfair — and a commuter fee will be an effective tool in resolving these inequities. To this end, how the tax is implemented and communicated is crucial. If structured in such a way so as to only charge exurban commuters working inside the city, a tolling system would be highly effective at addressing the marginal costs of exurban commuting and its environmental consequences. Each additional trip across the toll cordon would raise the cost of driving, and thus encourage a shift towards other forms of transportation or other residential decisions. The

costs of driving are multifaceted: road degradation, pollution, and congestion — and a cordon toll is well-suited to mitigate these costs and has proven to be enormously successful at doing so in other jurisdictions. Depending on the policy objectives decisionmakers seek to achieve, a toll may be a highly effective tool.

Conversely, a payroll tax would more easily charge exurban commuters and would cost significantly less than the infrastructure required to implement a toll cordon. In this system, employers inside the city would be expected to deduct a certain percentage of an employee's income if they reside outside the city, and then remit the amount to the city or the province, depending on how the system is implemented. Unlike a tolling system, a payroll tax would not cost drivers more depending on how much they drive. Consequently, this method does not adequately tackle the marginal costs of driving. However, there is evidence that such a tax may have an impact on where individuals decide to live (Kitchen & Slack, 2016, p. 15). Both charging methods would effectively address the problems of property tax competition and free-riding. But while a commuter fee may be one policy tool among many to combat excessive sprawl, it requires a broader policy push to mitigate the other problems associated with commuting.

A consistent refrain heard from those interviewed was that Winnipeg requires effective municipal and regional planning to completely deal with these issues. One interviewee noted that due to the city's lack of natural geographic boundaries, it will always grow outwards, but the important task is to focus development so it "grows up and out." Another interviewee argued that Winnipeg needs a concerted housing strategy aimed at densification and sustainable development, focused on building the "missing middle" of housing: duplexes, courtyard apartments, and other forms of denser housing. Therefore, a commuter fee will not solve all the issues associated with exurban commuting, but it is an

important policy tool in combatting the property tax-related issues present in Winnipeg, and it is the first step in spurring development in the right direction. Because of this, the city and the broader metropolitan region need to push forward with more innovative planning strategies that encompass housing, transportation, and revenue generation.

Presently, the city is shackled financially by extremely limited sources of revenue. In concert with other municipalities, Winnipeg must lobby the provincial government for additional sources of self-generated revenue. The city has already shifted towards user fees as a key source of revenue; however, the shift has also coincided with a greater reliance on provincial and federal grants. One interviewee was worried that the city has become increasingly dependent on provincial and federal grants for funding, which in the long term are less stable and consistent than a mix of revenue sources, while user fees can be a particularly regressive form of taxation when they do not account for an individual's ability to pay. The commuter fee will undoubtedly play an important role in increasing Winnipeg's fiscal autonomy and equity while simultaneously managing regional development and generating revenue to fund infrastructure projects and public transit.

Perhaps the most cumbersome hurdle a commuter fee will face is the political and legal framework it needs to overcome. As explained earlier, Winnipeg's revenue streams are legally constrained to a few key sources. At the moment, the city does not have the legal authority to levy other forms of taxes, including a payroll tax. This presents the starkest barrier to the implementation of a commuter fee in Winnipeg. However, this challenge should not cause consternation among those who support innovative and progressive policy change in Winnipeg. As has already been explained, the city and province took a much bolder step in amalgamating the Winnipeg city region, precisely in order to

deal with some of the same issues the city is currently facing. Despite this obstacle, *The City of Winnipeg Charter* provides the city with the legal right to “establish, charge and collect prices, rates, fees, deposits and other charges for the use, consumption by consumers, or provision by the city, of commodities, equipment, works, services, or other things provided by the city” (The City of Winnipeg Charter Act, s.209(2)(c) (i)). This provision could possibly legally justify a commuter fee, as the fee is charged for the use of roads provided by the City of Winnipeg. Crucially, the city’s charter stipulates that the purpose of the city is “to develop and maintain safe, orderly, viable and sustainable communities” (The City of Winnipeg Charter Act, s.5(1)). Ultimately, this lofty task naturally requires the city to increase its revenue generating capacities consistent with its status as a growing metropolitan region. In fact, Winnipeg alone accounts for around two-thirds of Manitoba’s gross domestic provincial product (Arcand, Bougas, Diaz, McIntyre, & Wiebe, 2017). Regardless of whether the province is up to the political challenge of truly supporting its primary economic engine, a progressive provincial government must realize that the health of Manitoba depends on the strength of Winnipeg as a safe, orderly, viable, and sustainable community.

As Winnipeg grows, the city region grows as well. One participant claimed that regional “development is going to occur, and Winnipeggers need to get past that.” But one must ask the questions: how do we want the city to develop, and what kind of a city region do we want to live in? To these questions, the answer must be that we want an equitable, progressive, and innovative city that balances growth with sustainability, and development with financial responsibility. To achieve this vision, Winnipeg requires better long-term planning within the city, and a stronger regional planning framework outside it. The City of Winnipeg has taken small steps towards this goal by implementing a develop-

ment impact fee that generates revenue from new developments as a way to manage growth within the city. But why should Winnipeg not also influence growth on the exurban fringes of the city as well? As Winnipeg develops, innovative policy tools such as the development impact fee and the commuter fee will become indispensable in guiding growth in a progressive and sustainable direction. By necessity, improved coordination between Winnipeg and its surrounding municipalities is a vital component of managing this exurban growth. Whether this occurs in a Winnipeg Metropolitan Region with more “legislative teeth,” as one participant put it, or an upper-tier regional government, both Winnipeg and its surrounding region require substantive mechanisms for planning and transportation coordination. To this end, a commuter fee will prove to be a vital tool for supporting and financing these initiatives.

Finally, any commuter fee must be fair. In Winnipeg, a variety of aspects of equity need to be taken into consideration. Most easily, a payroll tax would be fair so long as it is levied progressively on exurban commuters. Feasibility studies would need to be conducted in order to assess precisely what rate would mitigate the incentive for settling in exurban areas and commuting to the city for work, while also not greatly exceeding the cost of the basket of services exurban commuters benefit from in the City of Winnipeg. Moreover, a commuter fee must include rebates and tax credits for people with low incomes. Despite the perception of these bedroom communities as enclaves of wealth, there are undoubtedly people who commute to the city for work who do not fall under the high-income status of many exurban commuters. Moreover, revenue from the commuter fee should be allocated towards funding reliable transit service and affordable housing initiatives in order to make living within Winnipeg more viable and appealing to low-income individuals living outside the city. A commuter fee must contain policy mechanisms

that will keep these exurban communities from becoming even more unequal in terms of wealth by pricing out low-income residents. To this end, rebates and transit access will ensure that those with lower incomes are not burdened by a commuter fee. For residents of Winnipeg, a commuter fee would inherently improve equity within the city. A situation in which between 20,000 and 30,000 individuals use city services without contributing to the tax base is akin to exempting an entire community from paying their share of the tax burden. Naturally, this is incredibly unfair, especially when many exurban commuters have a greater ability to pay than many of those living in Winnipeg's inner-city neighbourhoods. Considering this information, the optimal recommendation for Winnipeg is to:

1. Ensure that the proper policy frameworks are in place prior to implementing a commuter fee.

Depending on what type of fee the city chooses to implement, different legal and political frameworks will need to be agreed upon before moving forward. Combined with the City of Winnipeg's mandate, the city has a strong case for collecting user fees for the consumption of services, as outlined in s.209(2)(c)(i) of the charter. Any system that goes beyond a simple fee, such as a payroll tax, would necessarily involve amendments to the municipal charter and would therefore require provincial approval. Moreover, the framework would have to form part of a broader policy initiative aimed at making long-term development in Winnipeg more equitable and sustainable. For example, Winnipeg Transit service would have to be expanded in order for it to become a viable alternative mode of transportation for those living in exurban municipalities immediately on the city's fringe. To this end, the policy framework must stipulate where revenue generated by the commuter fee is to be spent. To effectively respond to Winnipeg's most pressing problems, the revenue would ideally be directed towards reducing the

city's infrastructure deficit and improving transit service throughout the central city and extending it to the city's immediate neighbours, such as Headingley. Moreover, the structure of the fee must be clearly outlined. A vital component of the fee's implementation will be guaranteeing that it is levied progressively and does not burden those with low-incomes. Cost-benefit analyses will be required to determine which charging method best suits the city's objectives, and studies must be conducted in order to calculate the rates that will be levied on exurban commuters. Regardless of the path the city chooses, a clear policy framework that sets out the scope and parameters of the commuter fee is vital to ensuring its success in achieving its objectives.

2. Properly communicate the issue of the tax differential to city residents, and why a commuter fee is an appropriate solution to this problem.

As with any form of mobility pricing, success relies on effectively communicating the problems that the policy sets out to achieve and why the policy is the right tool for the job. In the absence of strong regional coordination, property tax equalization is the Winnipeg Census Metropolitan Area is highly unlikely, thus making a commuter fee a suitable solution for the problems stemming from the property tax differential. The city must communicate to residents that it requires additional revenue sources because the property tax differential drives down tax rates in Winnipeg and diminishes the city's tax base. Perhaps more importantly, it is vital to clearly convey precisely where fee revenue will be directed. It is up to the city to decide how it spends this money, but it should be clearly connected to both the policy goals of the fee and the needs of residents. Consequently, to mitigate the impact of free-riding, some portion of the revenue must be spent on road infrastructure. Additionally, revenue must go towards improving transit service within the city and expanding it to en-

able nearby exurban commuters to take public transit instead of driving. Some of the most detrimental consequences of exurban development are sprawl and environmental degradation, and improved public transit with greater accessibility will go a long way in combatting these problems. If residents of Winnipeg understand why the property tax differential hurts the city's finances and development, and by extension their own pocketbooks — it will be immediately clear why a commuter fee is a necessary step in improving Winnipeg's situation.

3. Levy a commuter fee on exurban commuters.

Ultimately, a commuter fee will provide the City of Winnipeg with an additional source of self-generated revenue that will both help reduce the infrastructure deficit and improve service provision across the city, while also mitigating the effects of the property tax differential in the Winnipeg Census Metropolitan Area. Assuming

continued low-density growth, one interviewee explained that Winnipeg will tap “out its development potential,” and population growth will increasingly occur on the exurban fringes of Winnipeg's boundaries, thus causing the city to face the higher costs of growth without a growing tax base. Looking into the future requires one to accept that the City of Winnipeg will soon need new revenue sources, such as a commuter fee, in order to successfully overcome the costs of commuting and sprawl, and to grow as a sustainable, equitable, and vibrant community. This report clearly identifies the property tax differential as a major problem facing the city and finds that a commuter fee is an important tool that can be used to deal with this issue. However, it is up to city council to decide upon the exact details of a commuter fee. Ultimately, the problems facing Winnipeg and the broader region go far beyond the realm of zoning and property taxes — and therefore require solutions not constrained by the short-term thinking of electoral politics.

Conclusion

Winnipeg is at a crossroads. The city can continue on the same trajectory it has been travelling along for the past half-century, or it can advocate for the additional revenue sources and legal powers that a growing, modern city deserves. The tax competition and free-riding stemming from ex-urban commuters residing in municipalities with lower property taxes is one of the many problems associated with urban sprawl. Having wealthy enclaves surrounding the city harkens back to the time prior to amalgamation, when Winnipeg was a fragmented city region of competing municipalities and where the wealthy self-segregated into “property tax havens” (McAllister, 2005, p. 104). Describing the lead-up to the amalgamation of Winnipeg, Axworthy, Lightbody, Pawluk and Sherba (1974) write that “wealthy suburbs had relatively low mill rates because they could utilize services provided by the central city” (p. 12). This problem should sound familiar, because it

is precisely the present situation outlined in this report. Although the amalgamation of Winnipeg had many unintended consequences, it provides a useful historical example to demonstrate that both the province and the city have sought creative solutions to the city’s problems, especially those regarding fairness in finance and property taxes. Implementing a commuter fee would be the first step in developing new creative solutions to the multiplicity of challenges currently facing Winnipeg. As growth, climate change, and financial strain place unprecedented pressure on the city, Winnipeg has the opportunity to make innovative policy decisions aimed at curbing these problems and improving the lives of its residents. As it has been so often throughout its history, Winnipeg can be the centre of progressive political action in Canada — all it requires is a bold leap towards a stronger, more independent, and ultimately a more livable city.

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CCPA

CANADIAN CENTRE
for POLICY ALTERNATIVES
MANITOBA OFFICE

Unit 301-583 Ellice Ave., Winnipeg, MB R3B 1Z7

TEL 204-927-3200

EMAIL ccpamb@policyalternatives.ca

WEBSITE www.policyalternatives.ca