Riding off in all directions:
An examination of Winnipeg's New Deal

By Hugh Mackenzie and Todd Scarth

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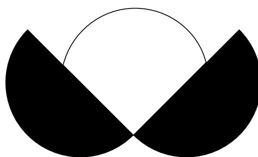

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Executive summary

Glen Murray's initial New Deal for Winnipeg is off the table for now. While Premier Gary Doer has been blamed by the Mayor for spiking the proposal by refusing to consider granting the City new taxes and taxation powers, the fate of the plan is more complicated than that. The idea of a new deal was received with something approaching real excitement yet the specifics of the Mayor's proposal generated criticism from just about every conceivable quarter.

The problem is that in the Mayor's attempt to fashion a package of changes that would draw broadly-based support from the community, his New Deal ended up with too many moving parts. Since progressive, sophisticated taxation packages are typically complex, there is nothing inherently wrong with this. However, the Mayor's proposed New Deal had too many objectives and disparate and sometimes inconsistent impacts. Worse, the inconsistencies were apparently the consequence of political triangulation in an unsuccessful attempt to marshal corporate support for the deal. Finally, the Mayor's plan too-conveniently ignores the fact that Winnipeg's financial problems are at least partially self-inflicted, courtesy of property tax rate cuts totalling 8 per cent since 1998.

The New Deal actually called for four major policy changes rolled into one: an increase in the City's investment in public services, especially in physical infrastructure; a significant reduction in property taxes on both residences and businesses and a proposal to eliminate the business tax; a shift in revenue sources for City services away from general taxes towards user fees (labelled "green" taxes); and a transfer of substantial sources of revenue from the federal and provincial governments to the City.

Each of these elements appealed to various constituencies in the community as part of a package. But it is wrong to suggest that these elements were inextricably linked in any way other than in the Mayor's political strategy for gaining political support for the New Deal.

This Report unbundles the New Deal package. It explores the four key elements of the Mayor's plan; analyzes the way those key elements worked together; and suggests an approach to simplifying the plan for the next stage of the debate.

A detailed analysis reveals that for all of its complexity, the New Deal package breaks down into three relatively simple pieces: a $150-million cut in property and business taxes, funded by new and existing taxes levied on Winnipeg's behalf by the provincial government; a revenue-neutral shift of $50-million in federal government support from one-time-only capital funding to a share of federal gas tax revenue; and a $70-million increase in funding for local services funded through increases in local user fees.

To achieve a net increase of $70-million, the plan calls for revenue increases amounting to $472-million, offset by cuts of $402-million.

Moreover, the $70-million net revenue increase achieved by all of this activity is less than half the amount the City's own budget documents say is needed to prevent further decline in Winnipeg's physical infrastructure, much less restore and renew other services undermined by previous years' cuts.

All of this activity would be of little interest to ordinary Winnipeggers if it were not for the fact that the distributive impact of the change is not neutral. Using the City of Winnipeg's own web site impact calculator to estimate the impact on typical Winnipeg families, we conclude that the package of changes proposed in the New Deal is extremely regressive. The lowest-income homeowners will actually pay more after the change than they did before; higher-income homeowners will save. The amount of the savings is higher, both in absolute terms and as a share of income, as family income increases. Low-income tenants, because they cannot benefit directly from the property tax cuts, will lose the most.

The New Deal plan suffers from a lack of focus. This Report suggests an alternative approach that identifies a clear and over-riding services renewal goal of at least $140-million, and sets out a package of changes which will raise the revenue needed to achieve that goal.

The two key points of departure are that the proposed package does not include municipal property tax cuts and directs all of any increased revenue from senior governments to services improvements.

Property tax cuts since 1998 and business tax freezes since 1996 have already reduced the City of Winnipeg's revenue potential – compared with annual rate increases at the rate of inflation – by $57-million a year in 2003. The total revenue loss comes to nearly $170-million over the eight-year period of cuts and freezes. Under the current fiscal circumstances of the City, the case has not been made for property tax cuts – even in the unlikely event that, as the New Deal proposed, the province could be convinced to fund the cuts.

Great strides have been made in getting senior governments to pay attention to the financial condition of Canada's cities. But it is simply not realistic to expect either the province or the federal government to turn over large sums to cities to enable them to cut property taxes.

Mayor Glen Murray deserves credit for having had the political courage to name the problem and to set out a comprehensive plan to address it. But his is no longer a lone voice. Vancouver has a mayor who would love to get out of the defensive bunker he has been forced into by the B.C. government. Toronto has a new mayor who had the political nerve to campaign on a platform that called for tax increases. Montreal has new leadership. New, more urban-sensitive governments are in power in both Quebec and Ontario.

And urban Canada seems at last to have the attention of the federal government. Prime Minister Paul Martin appears determined to lead with an urban agenda.

The challenge for Winnipeg's mayor now will be to find the flexibility to refocus his New Deal on the essentials and the political modesty to participate in the development of a national consensus on those essentials.

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The problem is that in the Mayor's attempt to fashion a package of changes that would draw broadly-based support from the community, his New Deal ended up with too many moving parts. Since progressive, sophisticated taxation packages are typically complex, there is nothing inherently wrong with this. However, the Mayor's proposed New Deal had too many objectives and disparate and sometimes inconsistent impacts. Worse, the inconsistencies were apparently the consequence of political triangulation in an unsuccessful attempt to marshal corporate support for the deal. Finally, the Mayor's plan too-conveniently ignores the fact that Winnipeg's financial problems are at least in part self-inflicted, courtesy of property tax rate cuts amounting to 8 per cent since 1998.

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Why the New Deal debate should continue

The debate over the New Deal is central to the future of the City of Winnipeg. For all the variety in the criticisms levelled at Mayor Murray's plan, his assertions that Winnipeg's current level of services is not sustainable, and his conclusion that status quo options are not sufficient to solve the problem is widely accepted, and, indeed, has been virtually unchallenged. Even after allowing for the impact of recent property tax cuts, Winnipeg still faces a substantial funding shortfall. The acceptance of these asserstions is an important achievement, and should be seen as a first step toward a renewed funding arrangement for Winnipeg.

As the Mayor has said repeatedly, Winnipeg is not alone in struggling with cost pressures, services gaps, infrastructure deficits, and conventional revenue sources stretched to the limit. Nearly every city in Canada is in the same situation. With new leadership in cities like Vancouver, Toronto, and Montreal, at the provincial level in Quebec and Ontario, and in the federal government, Canada is building towards an unprecedented political focus on the problems of cities.

The way the issue of city finances plays out in Winnipeg is bound to resonate across Canada.

The Four Key Elements of the New Deal

Services spending increase

The City of Winnipeg has become quite tight-fisted over the past decade. Overall per capita spending has fallen, and per capita program spending has shrunk even more quickly. In 1992, the City spent $1,496 per person on non-debt payments. Ten years later, after adjusting for inflation, that figure had fallen by 15 per cent.

Winnipeg's government accounts for an ever-shrinking share of the gross domestic product (GDP) of the City of Winnipeg, having fallen from 6.1 per cent a decade ago to 4.7 per cent today. These spending reductions have been accomplished in a number of ways. Services – especially "second-tier" services, which include almost everything except the police and fire departments – have been reduced or eliminated. The City's workforce has been cut from about 11,000 to about 8,000 in less than a decade. Infrastructure spending has been all but frozen.

As a result of these changes, Winnipeg is now one of the lowest-cost city governments in Canada. But it is also facing very real and growing cost pressures. Meanwhile, the spending cuts that have already been imposed are hurting the quality of life in the City.

In 1998, the Strategic Infrastructure Reinvestment Policy Task Force (SIRP) reported that Winnipeg was facing an infrastructure deficit of $82-million per year. That figure measured the gap between what the City should have been spending on infrastructure, and what it was actually spending. According to the City's own figures that gap has since grown to a level of $150-million for "recommended" investment and nearly $200-million for "ideal" investment. In particular, roads are in bad need of repair, as are sewers, water treatment facilities, and bridges. By not maintaining or renewing such key infrastructure, the City is digging itself into a deeper hole. Similarly, it must spend to attract and keep the employees who actually provide city services.

There is remarkably widespread agreement that the City's services are suffering and that major reinvestments are needed. But does there need to be a net increase? That is to say, leaving aside the question of how revenues are raised, does the City need more money over all? Here, too, there is a high level of agreement. While a number of business lobby groups are officially opposed to a net increase, their solution to dealing with the mammoth infrastructure deficit is typically that the City should find "increased efficiencies." The Winnipeg Chamber of Commerce argument that a city that has squeezed spending so much can fund its renewal on a revenue-neutral basis is so lame that no informed observer would take it seriously.[1]

Property tax cuts & business tax repeal

Another major cost pressure identified by the City is the perceived need to reduce its reliance on business and property taxes. These are seen as highly visible disincentives to local business investment. While it might at first sound strange to consider tax cuts a "cost," lowering taxes results in lower revenues, which amounts to the same thing on the City's balance sheet.

Moves in recent years by the City on both business and property taxes have contributed to its slow overall revenue growth. Property taxes were cut by 8 per cent between 1998 and 2002, and the business tax has been frozen since 1996. These measures have themselves contributed to Winnipeg's current financial problems. Had the City of Winnipeg increased property tax rates at the rate of inflation since 1998, instead of cutting them by 8 per cent, annual property tax revenue would now be $47-million higher. Had the business tax rate kept pace with inflation since 1996, Winnipeg's annual revenue in 2003 would be nearly $10-million higher. The revenue foregone as a result of these measures since 1996 comes to a total of nearly $170-million spread over eight years.

The New Deal would have continued to chop away at these two taxes. It would eliminate the business tax and cut property taxes in half (offset in part by new frontage fees).

The business community has long hated the business tax, arguing that, because most other cities do not levy such a tax, it contributes to an image problem, serving as a symbol that Winnipeg is not open for business. Of course, the businesses making this case already operate in Winnipeg and would benefit immediately and directly from the tax's repeal.

As it now stands, many businesses are able to pass the tax on to consumers, and deduct it as a cost of doing business. It is impossible to separate completely the real negative effect this tax has from opportunism on the part of the business community. It is highly unlikely that eliminating the business tax on its own will cause a surge in growth – certainly not enough to make up the $62-million in revenue (or 9 per cent of total revenue) that the City would lose by cutting the tax. While the City certainly does not want to discourage investment, the case for eliminating the business tax is far from compelling.

Property taxes may be the worst option except for all the others.

It is widely agreed that property taxes are imperfect. Because they are not based on ability to pay, they are not necessarily progressive. In particular, taxpayers who are house-rich but cash-poor – typically young families or seniors – pay a disproportionate share of property taxes.

The City's biggest objection to the property tax may be that it does not grow at the same pace as the economy – especially in a slow-growth city like Winnipeg, where population has increased by less than 3 per cent over the 1990s. But this works both ways. Because property values in Winnipeg are unlikely to go bust, property taxes are a very stable revenue source. They are simple and difficult to evade.

When we take into account the range of taxation options the City has available to it, to paraphrase Winston Churchill's famous comment about democracy, property taxes may be the worst option except for all the others. The City lacks the legal authority to levy more progressive taxes, such as those on income and wealth. Despite a number of exceptions and distortions, there clearly is at least a rough-and-ready correlation between wealth and ability to pay and property value.

Cutting property taxes is one thing – shifting away from them and onto consumption taxes is another.

Shift towards user fees

The New Deal proposed a major shift toward user fees and consumption taxes, including:

- A 1 per cent city sales tax, plus a 0.5 per cent share of the existing PST
- A fuel tax of 5 cents/litre, plus an additional 5 cents of the existing federal fuel tax
- A 7 per cent tax on natural gas and electricity utilities
- A $1 per bag garbage fee
- A 7 per cent liquor tax
- A 7 per cent hotel tax

Such taxes are seen to serve a dual purpose. They raise money and they also, in theory at least, change the behaviour of taxpayers for the better. Since the tax on garbage bags may lead more people to recycle and the fuel tax may lead more people to use public transit these taxes are assumed to have environmental benefits. (Because most of the consumption taxes contained in the New Deal are linked in some way to environmental issues, a useful shorthand for them is "green" taxes.)

Proponents of consumption taxes sometimes say that we should tax "bads," not goods. This is an elegant idea in the abstract that does not hold up particularly well under scrutiny. For one thing, it assumes that consumers are hyper-rational calculating machines whose behaviour is highly predictable. In reality, the package of consumption taxes proposed in the New Deal is complex and its effect on consumers' behaviour very hard to predict. As well, the two main goals are somewhat contradictory – for example, if the fuel tax were to be extremely successful in reducing car use, the City might face a revenue shortfall.

A consumption tax's success in actually changing anyone's behaviour depends in large measure on the taxpayer's ability to absorb the new taxes and the availability of real options. For example, a high-income family with a mini-van and an SUV would certainly pay more gas tax, but it could very easily decide simply to pay it – and so the tax would have no effect on them A low-income family driving an inefficient beater would also feel the effects of the fuel tax, but without the ability to trade up for a more fuel-efficient car, again, the desired effect would not be achieved. Winnipeg's public transit system is far from ideal. While the New Deal proposed cutting bus fares in half, selling the family car and taking the bus simply is not an option for those who do not happen to live on major bus routes that could take them to work, school, grocery stores, daycare, and so on.

These examples suggest the biggest problem with consumption taxes – they are regressive. For the two families described above, gas or sales taxes are levied at the same rate, unlike the income tax. Consumption taxes are not based on ability to pay. In fact, low-income people may tend to spend less money in ways that would be captured by consumption taxes, but they spend a *higher proportion* of their income this way. In contrast, higher income earners are more likely to save, invest, travel, or import goods, actions not covered under the consumption taxes included in the New Deal. A sales tax is regressive, even if there were

exemptions made for basic necessities or low-income rebates. All of this raises the question, are there not better ways to change behaviour than through regressive taxes?

A municipal sales tax would help ensure that the growing number of exurban commuters who have fled the higher property taxes in the City would pay a fairer share for the City services they use and do not pay for through their property taxes. Such a sales tax would pose a number of complications. Would an extra 1.0 per cent tax encourage some consumers to drive just outside the City limits to make purchases? If so, would there then be a ring of business just outside the Perimeter?

On balance, an increase in consumption taxes and user fees of the magnitude proposed in the New Deal would appear to be too regressive to be justified.

Revenue source transfer from province and federal government

The New Deal depended to a very great extent on the provincial and federal governments providing the City with new tax monies, or the power to levy new taxes. In general, the City has a strong case. Currently the City receives about 15 per cent of its revenue from provincial transfers. These take two forms: unconditional and conditional grants. In the first category, Manitoba is the only province in which a set percentage of income taxes automatically flows to municipalities; 22 per cent of personal income tax and 1 per cent of taxable corporate income. Unlike the City's largest source of revenue, property taxes, these funds grow with the economy. Winnipeg also receives 10 per cent of net revenues from video lottery terminals. While the amount of these grants is officially determined annually, they have become in effect permanent and predictable.

While this is a relatively generous level of transfers, the City argues that the other two levels of government can count on their revenue growing with the economy. In its budget for 2003, the City of Winnipeg noted that federal and provincial revenue growth (adjusted for inflation) over the period 1994-2002 greatly exceeded that of the City. Federal corporate income tax revenues grew by 89 per cent, personal income tax revenues grew by 23 per cent and revenues from the GST grew by 38 per cent. At the provincial level there was a 21 per cent increase in personal income tax revenues and a 28 per cent jump in the Provincial Sales Tax. Over the same period, Winnipeg collected 15 per cent less property tax revenue than it did in 1994. It should be noted that this was in part the City's own fault. While the fact that property values have not kept pace with inflation is beyond the City's control, the decision to cut property tax rates by 8 per cent was Winnipeg's alone.

Winnipeg is home to more than half of the people in the province. It is the economic, social, and political centre of Manitoba – no other city in the county is as powerful a presence within its province. So it has leverage on this issue.

How the elements work together

Where's the money going?

The proposed New Deal used a number of changes in existing taxes and programs and a number of new or redirected tax levies to move a great deal of money around. The estimated amounts from the official presentation of the plan are shown in Table 1.

Table 1

Revenue sources
$ million

	Current	Proposed	Change
Residential Property tax	241	121	(120)
Non-residential property tax	134	130	(4)
Business tax	62	0	(62)
Provincial funding	143	0	(143)
User fees	93	73	(20)
General funding	59	63	4
Amusement tax	3	0	(3)
City Sales Tax	0	127	127
City Fuel Tax	0	99	99
Income Tax Sharing	0	99	99
Frontage Levies	0	25	25
Natural Gas and Electricity Tax	0	41	41
Environmental Fees	0	37	37
Enforcement Fines	0	16	16
City Liquor Tax	0	16	16
911 Telephone Fee	0	5	5
City Hotel Tax	0	3	3
Federal Government	50	0	(50)
TOTAL	$785	$855	$70

It is apparent from Table I that, in the most simplistic terms, there were a lot of things going up and down, for a relatively limited impact on the City of Winnipeg's net revenue. As Table 2 shows, the total of things going up was $472-million; the total of things going down was $402-million, for a net change of only $70-million.

To put this into perspective, the City's total revenue for 2003 is $785-million. The increases proposed in the New Deal amounted to more than 64 per cent of the City's current revenue. The decreases in the New Deal amounted to nearly 55 per cent of the City's current revenue. All for an increase in revenue for services for the City of Winnipeg of about 10 per cent.

The movement of all of this money makes it complicated to determine exactly what is happening. Table 3 groups the changes together, making it clear what is actually happening behind the dust cloud created by the New Deal. It also helps to explain why the provincial government might have been somewhat reluctant to join the parade.

Table 2

Increases and decreases
$ million

	Change
Increases	472
Decreases	(402)
NET CHANGE	70

Table 3

Net change

$ million

Provincial Government	Change
Provincial Government Direct	
Sales tax diversion to Winnipeg	42
Income tax Sharing	99
Grants elimination	(143)
Total direct contribution	(2)
Provincial Government Indirect	
Sales tax levy for Winnipeg	85
Fuel tax levy for Winnipeg	50
Liquor tax levy for Winnipeg	16
Total indirect contribution	150
TOTAL PROVINCIAL DIRECT & INDIRECT	149

Federal Government	Change
Federal Government Grants	(50)
Fuel tax levy for Winnipeg	50
TOTAL FEDERAL	0

Net Funding	Change
Total Provincial	149
Total Federal	0
Total Municipal	(82)
General Funding	4
GRAND TOTAL	70

Municipal Government	Change
Property taxes	
Residential	
Residential property tax	(120)
Frontage levies	25
Total Residential Property	(95)
Business	
Business property tax	(4)
Business tax	(62)
Total Business Property	*(66)*
TOTAL PROPERTY TAXES	(161)
User Fees and Related	
Amusement tax	(3)
Hotel tax	3
Environmental fees	37
User fees	(20)
Fines & penalties	16
Electricity and fuel tax	41
911 telephone fee	5
TOTAL USER FEES & RELATED	79
TOTAL MUNICIPAL	(82)

Totals may differ by + or - 1 from sum of individual items because of rounding.

The official presentation makes it look as if the provincial government's role in this restructuring was essentially neutral. That is true, if you look only at direct contributions from the Province in the plan. The plan calls for the elimination of targeted grants from the Province, to be replaced by the Province ceding $99-million of its income tax revenue and the revenue generated by 1/2 per cent of Manitoba's 7 per cent Provincial Sales Tax. Looking only at the direct transfers, it works out to a net reduction of $2-million in funding from the Province.

However, that is not the whole story. In addition to these changes, the plan called for a number of new revenue sources for the City of Winnipeg that would have to be both legislated and administered by the provincial government, on Winnipeg's behalf. These include an additional 1 per cent of PST, an additional 5 cents per litre of fuel tax, and a new liquor tax. While these additional taxes would technically be raised by the Province on Winnipeg's behalf, the provincial government could be forgiven for assuming that the people paying the taxes won't appreciate the distinction. So the plan effectively has the provincial government anteing up another $150-million in new taxes dedicated to the City of Winnipeg – contributing $149-million to the plan in a form that will be completely invisible.

The federal government's role is neutral. The plan calls for the conversion of $50-million in funding the City currently receives into 5 cents per litre of federal gas taxes collected in Winnipeg. While this looks fine on a balance sheet, it is not quite that simple. The New Deal as far as the federal government is concerned converts one-time projected-based funding into permanent, on-going funding delivered in a form that will be completely invisible.

Municipal user fees and related charges go up, in net terms, by $79-million – nearly $10-million more than the amount that would be required to provide the $70-million increase in total revenue the plan delivers.

So the Province puts up $149-million. User fees and the like contribute $9-million, after covering the $70-million in net new revenue. A $4-million increase in "general revenue" is added to the mix. Where does the money go?

To a property tax cut. In the New Deal, property taxes are cut by $161-million: a net cut of $95-million for residential property (after factoring in increases in frontage fees); and a cut in taxes on businesses based on property value of $66-million.

What we have here is a substantial property tax cut, financed with increases in taxes – which the provincial government would levy on Winnipeg's behalf, and for which it would undoubtedly bear the political responsibility.

How substantial? Residential municipal property taxes (value-based taxes and frontage fees combined) would go down by 39 per cent. Business municipal property taxes (property and business taxes combined) go down by 34 per cent.

That is what the core of the debate should be about – because when the dust settles, that was the core of Winnipeg's proposed New Deal.

That shift, along with the funding of $70-million in new expenditures from increased user charges and similar fees, is also what has been driving the public debate over the distributive impact of the plan.

Who pays?

From the perspective of the people of Winnipeg, all of this would be much ado about very little, were it not for the fact that different people end up paying the various taxes and fees that are moving up and down in the plan. Measuring these impacts would ordinarily be a very complex exercise, requiring estimates of impacts of changes in property taxes, user fees, sales and fuel taxes, and income taxes to reach any conclusion.

Fortunately, the City itself has provided a very helpful tool, which can be used to give some insights into the likely impact of the plan on Winnipeg families. On its web site (*www.winnipeg.ca*), the City of Winnipeg has posted a handy calculator that generates an estimate of the net impact of the New Deal financial plan, based on family characteristics that are entered on a form on the site. (The calculator is at *www.winnipeg.ca/interhom/mayors_office/newdeal/help.stm*.)

While analysis based on the use of the calculator does not lead to firm conclusions about impacts on all Winnipeg residents, it provides some broad indicators of the kinds of impacts we would expect to see on Winnipeg families of varying socio-economic status and living in various communities within the City. It has the further virtue that individuals can reality-check any broad inferences that might be drawn by checking out their own examples using the City's calculator.

The calculator's analysis is based on 13 family characteristics:

- Number of people in the household
- Assessed value of the home
- Lot frontage
- Household income
- Weekly consumption of vehicle fuel
- Monthly expenditure on transit fares
- Annual expenditure on city recreational fees
- Monthly expenditure on liquor
- Monthly gas or electricity bill for heating
- The number of telephone numbers in the household
- The number of bags of garbage put out each week
- The number of blue boxes of recyclables put out each week
- Quarterly water bill

The calculator generates an estimate of the impact of each of these factors on the household and reports a net total of the increases and decreases generated by the plan. It also compares this total with the amount that property taxes could go up if the City were to spend $120-million on infrastructure without a new deal. (The figure of $120-million results from adding the $50-million in federal infrastructure funding to the $70-million in new revenue generated by the plan.)

To evaluate the impact of the plan on Winnipeg households, we used the calculator on the City's web site to estimate the impact of the plan on four families with characteristics typical of four different Winnipeg neighbourhoods. (The neighbourhoods and family characteristics are listed in Table 4.)

The results obtained from testing these examples highlight the concerns about the distributive impact of the proposal that came out in a number of the public meetings about the plan.

The examples evaluated suggest that the New Deal would result in a substantial shift in the City's revenue sources from higher-income families and businesses to lower-income families. Table 5 reproduces the results obtained directly from the City's calculator.

Table 4				
Household options evaluated				
	North End	**Transcona**	**Fort Rouge**	**Linden Woods**
Household size	4	4	4	4
Assessed value	$35,000	$70,000	$120,000	$280,000
Frontage	40	30	40	45
Household income (annual)	$20,000	$40,000	$80,000	$160,000
Litres of gas (weekly)	60	60	90	120
Transit fares (monthly)	$50	$60	$70	$-
Recreation fees (annual)	$300	$400	$800	$600
Liquor spending (monthly)	$40	$40	$80	$120
Natural gas bill/ month	$200	$150	$250	$200
Phone numbers	1	1	2	3
Garbage bags/ week	3	3	3	3
Blue boxes/ week	-	1	2	2
Water bill (quarterly)	$150	$150	$150	$150

In our examples, the household from North End Winnipeg would face an increase in costs of $173 per year – nearly 1 per cent of their income. The other example households would benefit from reductions, with the size of the reduction increasing as income increases, both in absolute terms and as a share of income.

The results obtained from the City of Winnipeg's calculator suggest that, overall, the plan would likely have a regressive impact on Winnipeg households. As the examples show, low-income families lose, despite the redirection of nearly $150-million in provincial money to the City of Winnipeg. For other families, the higher your income, the greater your benefit from the proposed change, both in absolute terms and as a share of income.

These results assume in each case that the household is a homeowner household. Tenants would likely be in an appreciably worse position, because there is no assurance that reductions in property taxes on rental property would be passed on to tenants. This issue arises in the implementation of any property tax reduction plan. It is at least theoretically resolvable in jurisdictions with rent controls.

For residents of social housing, the situation would also be appreciably less favourable than that suggested by these examples. Social housing residents would obviously receive no benefit from property tax reductions, but would be required to pay most of the increased and new levies in other areas.

Table 5				
New Deal household annual impact				
Fee category	**North End**	**Transcona**	**Fort Rouge**	**Linden Woods**
Municipal property tax	(234)	(468)	(802)	(1,870)
Frontage levies	98	74	98	110
City sales tax	59	123	246	498
City fuel tax	156	156	234	312
Transit fares	(300)	(300)	(420)	0
City recreation fees	0	0	0	0
City liquor tax	29	29	59	88
City natural gas & electricity tax	138	104	173	138
City 911 phone fee	8	8	17	25
User pay garbage charges	150	150	150	150
Recycling charges	0	0	0	0
Total City water bill	69	69	69	69
TOTAL NET IMPACT PER YEAR	$173	($55)	($176)	($480)
Share of income	0.9%	-0.1%	-0.2%	-0.3%
Impact if property tax funded	$150	$300	$514	$1,200
Note: City recreation fees and recycling charges have no impact on impact calculator and are included for completeness only				

Overall impact

Our analysis concludes that the New Deal amounted to a substantial cut in property taxes funded by increases in taxes levied by the provincial government on Winnipeg's behalf, together with increases in user fees and other charges which are used to fund $70-million in increased spending on services.

It also suggests that the overall impact of the New Deal is regressive – imposing increased costs on the lowest-income residents of the City while reducing taxes more than proportionally as household income increases from middle- to upper-income.

Simplifying and improving the package

Despite the often rough ride the New Deal proposal experienced in public consultations, there is still strong support for the effort to rebuild Winnipeg's financial base and put local services funding on a sound footing. The key to getting a "new New Deal" back on track is to refocus the exercise on the core objective of creating the fiscal capacity needed to sustain services.

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There is certainly strong public support for a new fiscal deal. Over the past 10 years, the citizens of Winnipeg have seen substantial cuts in service levels virtually across-the-board. From hockey rinks to libraries; from tree pruning to road repairs; from garbage pick-up in parks to road signage and traffic line painting, the services cuts have been both substantial and highly visible.[2]

There is no constituency in Winnipeg for further cuts in services as an approach to the City's financial problems. The City's recent experience with services cuts provided much of the political energy that led to the proposal of the New Deal in the first place.

However, that recent experience also clearly coloured the public response to other key elements of the New Deal. Property tax cuts may have looked to its promoters like a big selling point. But property tax rates had already been cut by 8 per cent in recent years. The 30 per cent+ cut in the plan[3] looked like more of the same, only more. Perhaps more important, cutting property taxes appeared to conflict with the basic message of strengthening fiscal capacity.

In a similar vein, the increased reliance on user-related charges in the plan – marketed as "green" financing initiatives – looked a lot like a continuation of the steady upward shift in Winnipeg's reliance on user charges to finance its services that has taken place since 1993. Between 1993 and 2001, user charges increased from just over 33 per cent of the City's budget to nearly 40 per cent.

Even one of the centrepieces of the plan – the proposed halving of transit fares – looked less than compelling when seen against the backdrop of a decade in which farebox funding for transit increased from less than 50 per cent of operating costs to more than 60 per cent, while services levels were deteriorating.

The fundamental flaw in the plan is its approach to property taxes. There are many problems with property taxes, both from the perspective of taxpayers and from the perspective of municipal governments. From the taxpayer perspective, the main problem with property taxes is their relative insensitivity to ability to pay. From the perspective of municipal governments, the main problem is that the property tax base is not reliably related to the cost of providing local services, necessitating regular increases in tax rates.

Despite these acknowledged problems, however, there really is no effective substitute for the property tax as a source of funding for local government. The fundamental problem in local

government finance is to find secure revenue sources. The tax base for sales and income taxes – which have more to offer from the perspective of reliability or fairness – are simply too mobile to serve as a secure local revenue base. Tax avoidance is a problem for all levels of government, and for all taxes, but it is particularly a problem for non-sovereign governments and for taxes with economically mobile tax bases. The fact that property is not mobile makes it ideal as a local tax base.

Accepting the key role played by property taxes in local government finance, however, is not an argument for making no change in the current system. Indeed, the strength of the property tax as a source of revenue for local services suggests two clear directions for change in local finance in Manitoba.

First, the suitability of the property tax as a local revenue source begs the question of why the Province levies property taxes on the same base, when it has access to a much broader array of potential revenue sources. While there may have been a case for property taxes as a source of funding for education when education was a locally determined service, that argument evaporated when the Province assumed substantial control over education funding. Since 1999, Manitoba has been one of the few provinces that still has a significant local property tax component set by school boards as part of their education funding model. One significant contribution that the provincial government could make to the fiscal health of Manitoba cities would be to phase out direct and indirect participation in the local property tax system, limiting education taxes on property to purely locally determined discretionary amounts and leaving more tax room for local services financing. While the provincial government is in the process of phasing out its direct provincially-determined Education Support Levy, it still relies on a substantial locally determined levy for the funding of approximately one third of education costs.[4]

Second, the fact that property taxes are uniquely suited to play their role as the main source of general revenue does not mean that property taxes are the most appropriate source of revenue for all services delivered by local governments.

Property taxes may not be well suited for the funding of services that are consumed by non-residents as well as by residents of the municipality. That fact is one of the key arguments for direct or indirect user charge funding – using gas taxes or tolls to pay for roads, or levying a hotel tax to support local cultural activities.

Another argument for user fees arises when there is an overriding public interest in how much of a service is consumed. This argument, however, depends critically on the ability of the taxpayer to change his or her behaviour in response to the user charge. In addition, with necessities like garbage collection and sewer and water services, concerns about access to services, and regressive taxation become important.

In addition, it is a generally accepted principle of local government finance that services whose purpose is income redistribution or which benefit society generally without regard to municipal boundaries should be funded from more broadly-based taxes better related to the taxpayer's ability to pay.

The appropriate revenue sources arguments outlined above would support a realignment of revenue sources for local governments with the provincial government. Given these arguments, there are two possible approaches. One would be to follow the direction suggested in the New Deal and direct pre-defined shares of provincial revenue

bases to the financing of local services. The other would be for the provincial government to provide funding from its own general revenue base for specific local services.

While revenue base sharing as proposed in the New Deal would clearly be preferable to the municipal government, it suffers from two drawbacks, both of which are related to the fact that in this instance, a shared revenue source is still a provincial revenue source. First, it is not particularly realistic to expect a provincial government to take the political heat for levying a tax on behalf of a municipality and not get any of the political credit for the services funded from the shared tax base. Second, the fact that it will be the Province levying the tax on behalf of the municipality raises the very questions about accountability for spending that New Deal advocates raise concerning the current system of provincial grants.

Thus, the key elements of a revised New Deal should be:

1. A fiscal capacity increase target sufficient to address both infrastructure funding needs and deficits in other local services.
2. An agreement with the provincial government to phase out its indirect use of the local property tax base for education funding, reserving local education property tax funding for spending in excess of provincially mandated levels.
3. Provincial authority for local motor vehicle fuel taxes dedicated to funding of public transit and road construction and maintenance, either combined with a reduction in provincial and federal motor vehicle fuel taxes or as a stand-alone measure.
4. A policy on user charges for environmental services that protects low-income households through the use of "lifeline rates" – preferential rates on basic levels of consumption.
5. Reduction of user charges to nominal levels for local community and recreational services.
6. Increased funding for public transit sufficient to reduce the fare box share to less than 50 per cent, to be accomplished by using increased funding from senior levels of government for improved service.
7. Targeted increases in provincial and federal grants for services of general public benefit such as housing and social services.
8. Property tax rate increases at the rate of inflation.

Revenue target

Infrastructure is not the only services deficit facing the City of Winnipeg. The New Deal revenue target of $70-million should be increased to $140-million, reflecting a balanced investment in infrastructure and community services.

Education property taxes

About 20 per cent of provincial education funding comes from a provincial property tax – the Education Support Levy (ESL). In 2002 the government began to phase out the ESL for residential properties. As this process continues, it will open up millions in tax room for the City of Winnipeg. Further changes in education funding that reduce dependence on locally-determined property tax levies would free up even more tax room.

Motor vehicle fuel taxes

All motor vehicle fuel taxes are collected at the retail level, at the pump. The City should ask for provincial legislation to permit it to levy a motor vehicle fuel tax, and then contract with either the federal government or the provincial government to collect the tax on the City's behalf. The objective would be to replace a portion of the current provincial and federal motor vehicle fuel taxes with

the City levy. Failing that, fuel taxes would increase by 4 cents per litre, raising an additional $100-million a year.

Environmental user charges

Introduction of lifeline rates for sewer and water services and a per-bag charge for garbage, with the first two bags free and credits for recyclables. This would be introduced on a revenue-neutral basis.

Reduction in user charges for community services

The City of Winnipeg currently raises millions annually from recreation user charges and library fees. These fees would be cut in half in the first year, with further reductions tied to availability of additional property tax room from education tax reductions.

Increased funding for public transit

The City would seek additional funding from provincial and federal governments, with the goal of improving service so that the fare box pays a maximum of 50 per cent of operating costs and capital costs are shared on a 25/75 basis with other governments.

Involve senior governments in funding services

The Government of Manitoba is alone among the provinces in providing all municipalities a designated share of personal and corporate income taxes under the Provincial-Municipal Tax Sharing Act. This presents a unique opportunity for increased support for the City through the income tax. Currently the PMTA transfer amounts to 22 per cent of the personal income tax payable and 1 per cent of taxable corporate income, but there is no reason these levels could not be adjusted.

While the federal government is not likely to offer revenue sharing on the same basis as the Province, its renewed interest in urban issues has opened the door to badly-needed funding for infrastructure renewal, public transit and affordable housing. A renewed federal role in these areas would be of substantial benefit both to the people of Winnipeg and to their City's budget.

Increased property tax

While property taxes contain some regressive elements, they do appear to have a legitimate place in a municipal tax package, especially while a truly progressive tax – the income tax – is unavailable to city governments, and while other forms of wealth are not taxed.

Conclusion

After more than a decade in which tax cuts have dominated the political agenda, Canadians – and even some of their political leaders – have latched onto the link between the public services we want and our capacity to pay for them. They are approaching the conclusion that we may have cut taxes to the point where we can no longer pay for the services we want.

It would seem that tax reform, unless it is heavily subsidized, will always be a political dead weight. Instead, a new New Deal for Winnipeg should build from strength – the public's support for improved services, and its willingness to pay for those services, providing the revenues are raised in ways that are seen to be fair.

Winnipeg has already restrained property taxes; it has already gone to the well on user charges. These may (or may not) have been politically necessary to lay the groundwork for the New Deal, but they are not desirable ends in themselves. To the extent that they are carried over into any

revised New Deal, that deal is likely to experience many of the same political problems encountered by the first draft.

Mayor Glen Murray deserves credit for having had the political courage to name the problem and to set out a comprehensive plan to address it. But he is no longer a lone voice. Vancouver has a mayor who would love to get out of the defensive bunker he has been forced into by the Government of B.C. Toronto has a new mayor who had the political nerve to campaign on a platform that called for tax increases. Montreal has new leadership. New, more urban-sensitive governments are in power in both Quebec and Ontario.

And urban Canada seems at last to have the attention of the federal government. Prime Minister Paul Martin's Throne Speech announcement that municipalities will be exempted from the GST and that infrastructure funding will be accelerated is a positive sign that he may be prepared to respond to the needs of cities. However, the absence from the plan outlined in the speech of city-specific issues such as transit and housing underlines the reality that even these substantial changes are an important first step, but a first step nonetheless.

The challenge for Winnipeg's mayor now will be to find the flexibility to refocus his New Deal on the essentials and the political modesty to participate in the development of a national consensus on those essentials.

Notes

1 'New Deal' a tough sell to Chamber of Commerce, Winnipeg Free Press, September 28, 2003, p. A5
2 "Municipal Services in Winnipeg," in The State of Public Services in Manitoba, Canadian Centre for Policy Alternatives, Manitoba, Spring 2003
3 A 50% cut in residential property taxes worth $120 million, offset in part by $25 million in frontage levies.
4 Dooley, Chris, "A Better, Fairer Way To Fund Education," CCPA Manitoba Fast Facts, April 27, 2001.