

The property tax dilemma

About AUMA

AUMA represents 271 urban municipalities—including cities, towns, villages, and summer villages. We work on a broad range of issues that impact our members and strive to support economic, social, cultural, and environmental vitality.

AUMA's Vision

Municipal governments are a fully engaged order of government and have the capacity to build thriving communities.

AUMA Mission

The Alberta Urban Municipalities Association empowers municipalities by providing visionary leadership, solutions-based advocacy, and service excellence.

To learn more about AUMA please visit
www.auma.ca

Municipalities provide the core infrastructure (roads, bridges, water and wastewater facilities, waste management, emergency response) necessary to sustain Alberta's rapidly growing economy.

Alberta's municipalities provide almost 60% of the public sector infrastructure in Alberta, yet only directly collect 10% of the taxes.

The result has been the creation of an approximate \$26 billion urban municipal infrastructure backlog. Addressing this backlog through property taxation alone will result in an over 50% increase in municipal property taxes.

Simply raising property taxes presents other challenges:

- About 30% of the current property tax collected is handed over to the province. This creates significant issues with transparency.
- Property taxation often hits low income families and seniors disproportionately. Statistics Canada (July 2003 Perspectives) estimates families with income in excess of \$100,000 paid 28.6% in income taxes but only 1.8% in property taxes.
- Property taxes alone are insufficient to meet the infrastructure backlog.

A growing challenge

Alberta continues to be an economic engine for Canada. Alberta's economy grew briskly for the third straight year in 2012. Real GDP expanded by an estimated 3.8%, propelled by a jump in consumer spending and residential investment, along with continued gains in business investment. Alberta led all provinces with 2.7% job growth, and had the nation's lowest unemployment rate.

While it is often assumed that our growth is centered on the oil sands region, our growth is actually occurring throughout the entire province. 10 of the 15 fastest growing census agglomeration regions occur in Alberta. For example, Calgary's population is up 12.6% and Edmonton's 12.1%, which represent the highest growth for major cities in Canada. By comparison, the greater Toronto area grew by only 5.1%. Growth is not limited to our major cities - Okotoks grew by 42.9%, Wood Buffalo 27.1%, High River 20.6%, Strathmore 19.7%, Sylvan Lake 19.2%, Grande Prairie 16.8%, Cold Lake 15.4%, Lloydminster 14%, Lethbridge 11.3%, and Camrose 10.6%.

With this unprecedented growth comes the need for infrastructure and community services. Our local governments are prepared to step up to this challenge but need to know that they have the resources available.

Municipalities are responsible for providing core critical infrastructure that enables Alberta's business activities as well as provides quality of life services to attract and retain the necessary workforce to support our economy. Examples of this

“Municipalities are responsible for providing the core infrastructure, which allows Alberta to attract a workforce and businesses that allow this province to thrive economically.

Alberta is experiencing incredible population growth, and this is distributed throughout the province. Ten of the 15 fastest growing regions in the country are located in Alberta.

critical infrastructure include transportation and transit systems, water and wastewater management systems, fire and police facilities, waste management, and culture and recreational centers. Alberta's municipalities have had to address significant infrastructure pressures resulting from rapid energy driven growth. Our challenges include aging water and wastewater management systems; insufficient transportation systems to connect Alberta's natural resource products to markets; and a lack of community infrastructure to keep pace with our population growth.

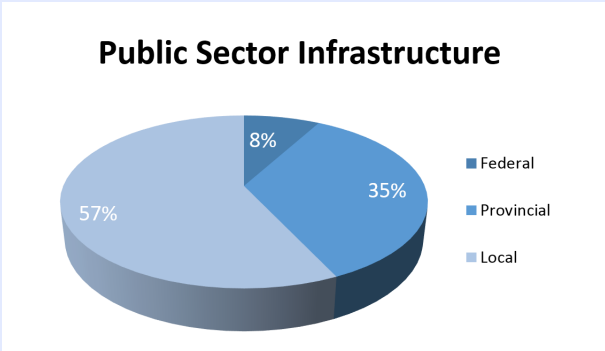
Unlike the federal and provincial governments, municipalities have only one tax source and very few other funding options and directly retain only 10% of the tax revenue in Alberta. Our municipalities are therefore forced to rely on the generosity of other levels of government to benefit from the resource wealth generated in Alberta. Consequently, municipalities have been either taking on debt to address the shortfall or allowing the infrastructure backlog to grow – both of which are short-term solutions.

The reality is that Alberta's urban municipalities have a large and growing infrastructure deficit. Edmonton and Calgary project an infrastructure funding gap of about \$10.9 billion and \$7 billion respectively by 2021. It is possible that the provincial deficit could be in the range of \$26 billion which annually equates to \$2.6 billion. Deferring maintenance (or not performing repairs at all) leads to much higher rates of deterioration and repair bills that can equal the cost of the original asset.

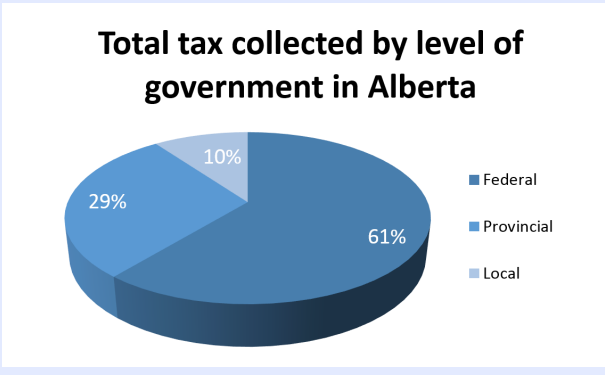
The reality is that addressing this infrastructure challenge through property taxes alone would require an increase of over 50% to the property taxes currently charged in Alberta. This would render Alberta's property tax system non-competitive with other jurisdictions in North America, make home ownership unaffordable for many and drive businesses from the province. Consequently, it is doubtful that property taxes in their current format are adequate to address the municipal infrastructure challenge.

What's wrong with this picture?

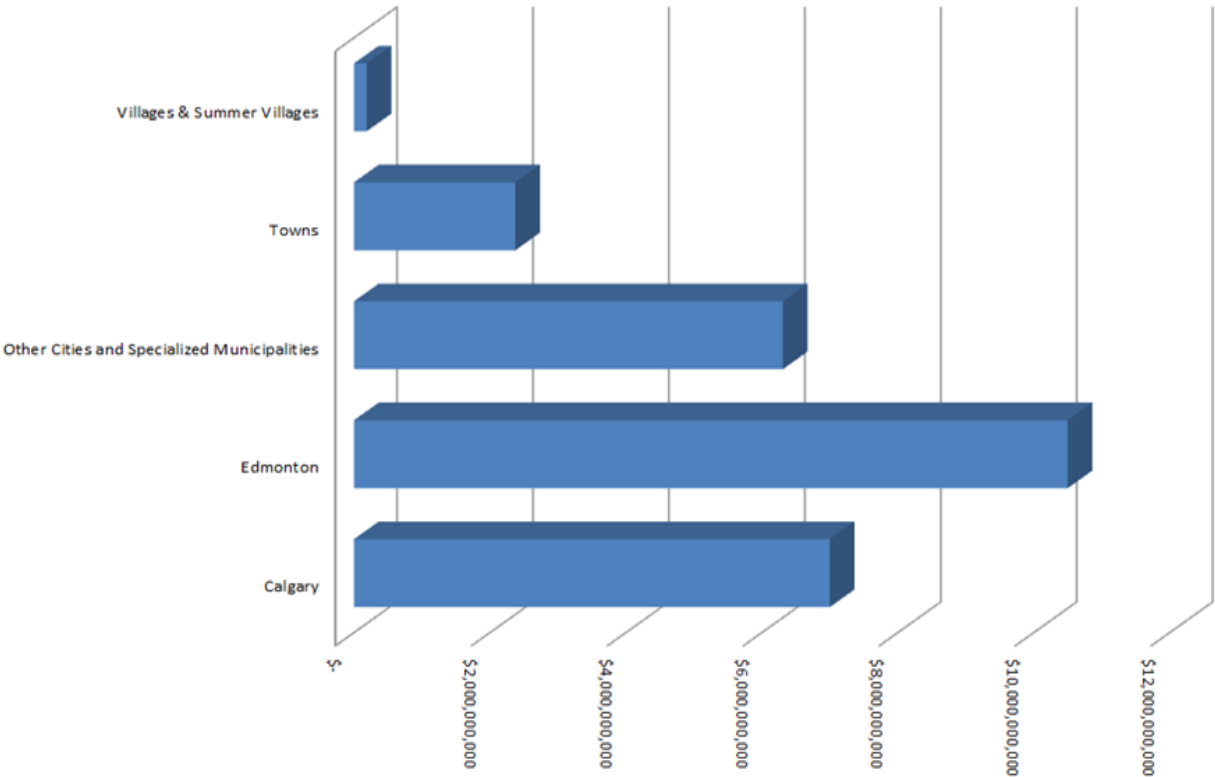
Alberta municipalities have almost 60% of the public sector infrastructure...



But collect only 10% of the tax revenue!



Estimated 10 Year Infrastructure Gap By Urban Municipality



Limitations to Alberta's property tax system?

While municipalities acknowledge the potential for raising property taxes to cover services, this possibility raises other issues:

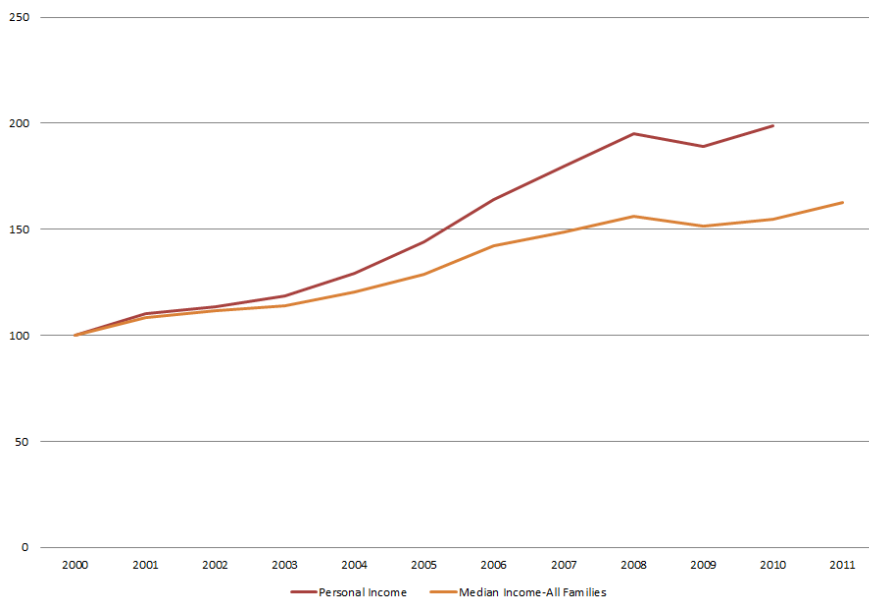
Accountability

Municipalities do not keep all of the property tax that they collect. A significant portion of this tax is turned over to the province in the form of a tax requisition. The province requisitioned about \$2 billion from Alberta's municipalities during the 2013 tax year to assist with the funding for basic education, seniors lodges, etc. Consequently approximately 30% of the total property tax paid by Albertans goes to the province. Municipalities must deliver core services to citizens and be accountable to citizens for those expenses. The link to value for services provided by municipalities becomes a challenge when a significant share of the tax base goes to the province.

“Municipalities are responsible for providing the core infrastructure, which allows Alberta to attract a workforce and businesses that allow this province to thrive economically.

Because of this insufficient tax base, municipalities are forced to defer replacement and maintenance of critical infrastructure. Delays lead to even higher infrastructure costs. Municipal infrastructure deficit is estimated to be \$26 billion across the province.

Growth of Select Indicators, 2000 Base



Fairness

Municipalities believe that **ability-to-pay** is a key principle in a taxation system. However, increasing property taxes can impact seniors and other lower income families disproportionately when compared to their income. So while it can be argued that property taxation as a percentage of income is decreasing, it is important to remember that not everyone is sharing equally in these gains. As shown in the graph above, the growth in personal income has been much more rapid than the growth in median personal income. While it is fine to argue that people will make their choice of living accommodation based on their expectation of life-time income, the effects of a rapid shift in income is far more visible in the property

taxation system, where people are forced to move, because their income does not keep pace with the rising values of property. Other revenue generating opportunities available to other orders of government allow for targeting tax changes at **ability-to-pay**. As local governments taxing authority is primarily through property and business tax—they can raise tax at any time through these mechanisms—municipalities lack the ability to deal with these fairness considerations while raising adequate revenue.

Average Property Tax for an Average Dwelling in 2012 - Canadian Cities

