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# N.W.T. PROPERTY TAX REVIEW

## VOLUME I

# ISSUES PAPER

JANUARY, 1986

PREPARED FOR: THE DEPARTMENT OF LOCAL GOVERNMENT  
OF THE NORTHWEST TERRITORIES

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1. INTRODUCTION

## 1. INTRODUCTION

This Issues Paper is an Interim Report only<sup>1</sup> and sets out those questions, issues and options which have emerged to date, as being significant during the Northwest Territories Property Tax Review. Each issue is outlined and discussed in order to raise important questions and start to formulate preliminary findings on the matters under review. The facts which underlie this discussion are contained in "Volume 2 - Data Base".

This paper does not contain the more formalized analysis of tax alternatives which will be set out at the end of the study in "Volume III - Evaluation of Options". The primary purpose of Volume I, as part of the overall study, is to help to establish general directions and those areas which will be focussed upon during the final phase of the project. This interim report is designed to enable a broad range of N.W.T. officials to provide input and reaction to the information assembled and the matters under consideration. It is anticipated that the series of meetings held on January 9 and 10, 1986 to discuss Volumes I & II will result in additional issues being raised and the data base being verified, extended and clarified. In addition, general consensus should be reached in some policy areas and the background and implications of more controversial issues clarified and debated.

The review and reaction to this Interim Report by those N.W.T. officials most affected, is a critical part of the study process. It is to be expected that an active review process will result in important refinements to the preliminary findings, as the process continues, of setting out the facts, clarifying the issues and analyzing alternatives. This review process will also enable specialist members of the consulting team to address the key issues more specifically during the final phase of the study.

### Important Note:

<sup>1</sup> With minor exceptions, this report was not altered as the study proceeded to the Volume 3 stage. It therefore reflects findings in the first half of the study only. These preliminary findings evolved and changed in some areas as the study proceeded and the changes are reflected in Volume 3.

## 1. INTRODUCTION (Cont' d)

The terms of reference for this Property Tax and Assessment Review set out the following objectives:

1. "To evaluate the effectiveness of the property assessment system used in the Northwest Territories.
2. To review the policies and practices of property taxation as practised by various jurisdictions in the NWT and compare them to taxation systems found in other Canadian jurisdictions.
3. To assess the impact of property taxation and its possible alternatives on economic development, on municipal finances and on the general operation of the Territorial Government."

Questions to be addressed in the course of the study include:

"The principles supporting property taxation and/or its alternatives in the N.W.T.

The appropriateness of existing legislation and regulations related to property taxation.

The application of property taxation in different regions, communities or jurisdictions in the N.W.T. and in particular the equity of tax burden on similar properties in different locations.

- Questions related to the universality of property taxation in the N.W. T. and its appropriateness.

The effectiveness of the present system for property assessment established in the N.W.T. particularly with respect to the equalization of property assessment in different areas and different base years; the establishment of appropriate depreciation allowances and utilization factors for pipelines and other industrial property; the scheduled completion of assessment throughout the N.W.T.

The appropriateness of the School Levy as a method of generating revenue for education in the N.W.T."

And finally, criteria to be considered include:

"Financial impacts on territorial and local governments.

G.N.W.T. policies, legislation and positions.

Policies and practices of comparable Canadian jurisdictions (provincial and municipal).

impacts on economic development, tax equity and efficiency and other related issues.

positions of municipal councils and their representative organizations (as directed by the Co-ordinator)."

2. PREVIOUS N.W.T. PROPERTY  
TAX-RELATED STUDIES



## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES

2.1 A study entitled "Local Finance Study in Hamlets and Settlements" was produced for the Department by consultants in September, 1977. Its purpose was to discuss alternatives to property taxation as a means of raising revenue within those communities, while introducing the residents to taxation.

The community characteristics were identified as:

- small size with average population in hamlets of 566;
- 84% **Inuit** and Indian population;  
very little real property ownership in the area but large majority of the people housed by **NWTHC**; strong identity with the **land re** land claims;
- 38% average rate of unemployment, with 45% of work force government employed;  
residents having a lack of exposure to taxation, with over 50% never having attended school.

The perspectives considered include:

- Territorial government's social goals, legal barriers, economic impact and overall tax relationships;
- Local government's administrative problems, taxpayer awareness and net revenue generation;
- Taxpayers' perception of the **raison d'etre** for the tax and benefits associated with it, burdensomeness, impact on activities and fair distribution within the community.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

The following specific criteria were selected for use in evaluating the prospect taxes:

1. "Visibility - the taxpayer should be conscious of the tax, and aware that he is paying a tax.
2. Productivity - revenue should be generated beyond the cost to administer.
3. Rewards - there should be a relationship between the cost of the tax and the value of the benefit(s) received, as perceived by the taxpayer.
4. Ability to Pay - the tax should not be burdensome and should be equitably applied on a basis which recognizes variance in ability to pay.
5. Economic Distortion - the tax should not unduly raise the cost of living, or have a significant effect on economic balance, within the small communities.
6. Social Impact - the tax should not be a disincentive to the social goals of the Northwest Territories.
7. Application - the tax ought to be simple to implement, easy to administer and enforce, and encounter a minimum of legal barriers; there should also be a high expectation of compliance."

Potential tax sources included taxes on consumption (sales tax, user charges, excise tax, import duties, accommodation tax); taxes on income (personal, corporate, utilities, rent, value added); taxes on wealth (personal, property, gift, luxury, succession duties, etc.); taxes on privilege (business, franchise, lottery, insurance, poll, transportation, etc.) and taxes on environmental impact (pollution, incinerator, recreational parks).

Taxes not considered further include those currently levied at the municipal level in the N.W.T., and those not requiring payment in a direct enough manner from the individual or from a large enough segment of the local population.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont' d)

The twelve candidate taxes remaining were evaluated based on the specific criteria, with the following conclusions reached:

- Amusement Admissions Tax: disqualified on the basis of both revenue potential and visible impact on the taxpayer.
  - Employment Tax: disqualified due to a lack of awareness by the community as well as a misdirected incidence of tax.
  - Export of Animal Resources Tax: disqualified due to variance between impact and incidence and the compliance and administrative problems.
  - General Sales Tax: qualified as a candidate, although not **well-**related to benefits to taxpayer.
  - Gross Receipts Tax: this tax is imposed on goods and services at the enterprise level and qualified as a candidate.
  - Land or Securities Transfer Tax: disqualified due to misdirected incidence, lack of productivity, legal and social implications.
  - Occupations Tax: disqualified due to employment disincentive, enforcement problems and lack of benefits.
  - Personal Property Tax: this tax usually excludes land and buildings and was qualified as a candidate because of awareness level and revenue potential, although compliance and enforcement are likely to be problems.
- Poll Tax: this tax is levied as a per capita tax or a community service charge and is usually levied at a flat rate on persons not subject to property tax. It was qualified as a candidate.
- Rent or Occupancy Tax: qualified as a candidate.
- Tax in Kind: this tax is imposed on an individual's source of livelihood and was disqualified based on extreme complexities of administration.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

The candidate taxes were further analyzed in Table 1 with the conclusion that:

- "There may be alternatives to the Property Tax with potential for generating small amounts of revenue."
- Ultimate choice of one or more of the taxes in the N.W.T. will hinge on the relative weight assigned to the social, political, economic, administrative and legal issues.

It was also concluded that there may be a need to consider alternatives to the revenue approaches, such as creating fiscal capacity by concentrating on the economic development programs needed to increase the individual's income earning ability, stimulate employment and broaden the traditional tax base.

Finally, a review of revenue approaches used in remote areas of a number of provinces and states, revealed a number of programs which may have applicability within the N.W.T., including:

- Ontario's Isolated Community Assistance Fund where the contribution from the community may take the form of cash or equivalent. Each project request is judged on its own merits by the Province and the success of each community in raising funds is viewed as a meaningful commitment to a high priority item (e.g. fire protection).
- Alaska's optional Local Sales Tax which was used in 34 of the 93 "second class municipalities", often for a limited time period to fund a specific project.
- New Mexico's optional Gross Receipts Tax which is levied at a maximum of 0.25% and collected coincidentally with state taxes and immediately transferred to each municipality. It covers virtually all goods and services and is the broadest possible tax on consumption. The tax tends to be very regressive but is accompanied by a comprehensive tax credit.

TABLE 1

COMPARISON OF IMPLICATIONS OF CANDIDATE TAXES

<u>ISSUES</u>	<u>Sales Tax</u>	<u>Gross Receipts</u>	<u>Personal Property</u>	<u>Rent or Occupancy</u>	<u>Poll Tax</u>
<u>Political</u>					
a) Possible intervention by the Department of Indian Affairs, Northern Development, or other Federal agencies.	Minimal	Low	High	Low to moderate	None
b) Possible stimulation and acceleration of native land claim activities.	Low	Low to moderate	Extreme	Low to moderate	Moderate to high
c) Possible negative reactions from native organizations (Brotherhoods, Bands, etc.) on discriminatory grounds.	Minimal to Low	Low	Moderate to High	Low	High
d) Possible weakening of elected council members' position in hamlets and settlements .	Low	Moderate	Extreme	Low to moderate	Moderate
<u>Social</u>					
a) Possible withdrawal from school education programs if taxed to subsidize programs.	None to Minimal	Minimal to Low	High	Low to Moderate	Moderate to High
b) Possible withdrawal from community life, as it exists, through tax pressures or lack of understanding.	Minimal to Low	Low	High to Extreme	Low	Low to Moderate
<u>Economic</u>					
a) Effect on real or perceived cost of living in small communities.	Low	Moderate	Moderate to High	Low to Moderate	Moderate to High
b) Possible negative effect on local enterprise.	Low	Moderate	Minimal to Low	None to Minimal	None
c) Impact of tax on transient or fluid population.	Moderate to High	Low to Moderate	Moderate to High	High	Low to Moderate
<u>Administrative</u>					
a) Degree of complexity in introducing tax to communities for workable acceptance level .	Low to Moderate	Moderate	High	Low to Moderate	Low
b) Problems in maintenance and enforcement from within the community.	Moderate to High	High	Extreme	High	High
c) Level of compliance problems expected.	Minimal to Low	Low	Extreme	Moderate	High
<u>Legal</u>					
a) Conflict with formal or informal rights of people.	None	None	Possible	Possible	None
b) Complications through requirements for changed legislation.	Low	Moderate	High	High	Minimal

2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

- The Yukon's Labour in Lieu of Taxes Program, where the Territory contributes 90% of the cost of installations (other than sewer and water), with the local community paying 10% by any means at its disposal, including cash, a mill rate increase and/or a volunteer labour contribution.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.2 The Department of Local Government produced a publication in January 1979 entitled, "Responsibility and Local Revenue". It established several principles basic to sound financial responsibility at the community level.

These were that:

- a portion of the cost of providing local services should be raised from their recipients and there should be incentives to encourage this situation;
- the local council has this cost responsibility and may raise revenues to provide services beyond the basic level provided by the G.N.W.T.

The paper concluded that property taxation is the most practical basic revenue source for senior municipalities. When supplemented by a property users' tax it is also applicable to hamlets and settlements where there are few direct property taxpayers. Selective implementation of property taxation has resulted in inequities, where some property owners are not taxed and a significant revenue loss (estimated at \$1,600,000) is involved. The paper observed that G.N.W.T.-collected property taxes do not provide the required incentive or a basis for developing local responsibility and control. It recommended that all property users (owners and renters) be levied a 211 mill tax with the rate for property taxes on owners set at an additional 15 mills.

When fully implemented, these taxes were to be collected by the local council, with 25% of the proceeds being discretionary and 75% applied against the operating budget. Councils would be permitted to impose 5-10 additional mills. It was recommended that all N.W.T. communities be assessed under an accelerated program over a three year period and that the school tax be retained, with communities encouraged to assume responsibility for education. Full implementation was expected to generate \$3,500,000 in new annual revenues, with approximately one-third going to the communities and the balance to G.N.W.T.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.3 The Report of the Special Representative "Constitutional Development in the Northwest Territories", was published in January, 1980 and included a chapter dealing with public finance in the N.W.T. Conclusions reached relative to local government include:

- "While efforts are underway to identify and develop independent sources of revenue for local councils, none of the various options, such as extension of the property tax, implementation of a property users' tax, or a local income tax, will either resolve or mitigate substantially the current degree of revenue dependency. Settlement, hamlet and village councils cannot be expected to derive locally much of the revenues required to provide even a minimum level of essential community services.

However, despite these fiscal constraints, the objective for local councils should nevertheless be the assumption of authority and responsibility for resource allocation, and accountability for raising revenues and establishing the overall community budget level."

- "The objectives for all incorporated municipalities in their fiscal relations with the GNWT should be to provide communities with equal access to territorial financial support, consistent with the intent to eliminate the present hierarchical structure of municipal authorities. Authority to exercise local responsibility should not be dependent on the ability to raise revenue."
- "The objective for community government finance should be the provision of general purpose funds through block transfers on the basis of a formula that takes into consideration all local programs and services.



## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

Provision of block transfers and elimination of special purpose grants and conditional funding would permit communities to undertake expenditure planning and to set priorities according to local needs and interests. Because the onus for decision-making would shift to the local level, variations in service from community to community would be permitted and local autonomy increased. Because the monies available to communities would be transferred in a block and on a predictable basis, local accountability and responsibility would be enhanced. While GNWT transfers could be supplemented by locally-raised revenues, local councils would be forced to make spending decisions within the resources available."

- "Community operating revenues should be a combination of the territorial **per** capita grant and revenues raised locally. However, to avoid disincentives to levying taxes or introducing user charges, and to encourage local **fiscal** responsibility, territorial grants to the communities should not be directly tied to locally-raised revenues."
- "To encourage local understanding of the relationship between revenues raised and costs, the revenues from taxes levied and service **charges** paid locally should be retained by the community council and not be turned over to the GNWT Consolidated Revenue Fund."
- "The residential property tax, commercial and business **licences** and property tax on industrial and commercial properties should be maintained, notwithstanding the relatively low occurrence of private property in the communities. With the extension of the property tax to all communities, the current distinction between tax-based and **non-**tax-based communities would be eliminated."

2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

- "The GNWT should permit the community councils to explore other means of raising funds. Although the property users' tax proposed by the GNWT may be difficult to implement, and does not take into account the taxpayer's ability to pay, it may be appropriate for those communities with a higher proportion of transients from southern Canada. However, the use of utility charges would seem a more effective means of raising local revenue and might, at the same time, increase local interest in energy conservation. For example, substantially increased rates might be charged for utility use in excess of a community established per capita level, without causing hardship to those least able to bear the burden of increased taxes."

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.4 "Design for **Devolution**" was issued by the G.N.W.T. in May 1983 as a public discussion paper on proposed local government legislation, namely the modernization of the Municipal Ordinance.

One of the problems outlined, pertained to hamlets which have few owners of private property and thus limited property taxation potential. These communities were perceived by some as having elements of local authority, with limited responsibility for paying their own way. On the other hand, nearby major resource development was not providing direct revenues to affected hamlets in order to enhance their ability to grow with development.

Proposals respecting tax-based municipalities included:

- criteria for establishing cities and towns should reflect adequate taxable assessment so as to ensure fiscal viability, including population and demonstrated administrative competence;
- plans to enhance the tax authority of tax-based municipalities with respect to property taxes, school taxes, and other sources of revenue.

Proposals respecting hamlets included:

- The option for a hamlet to retain all revenue from taxes levied and from service charges paid in the hamlet under a formula provided by the Government for funding services;
- The local council is to be the prime public authority in the community, with responsibility for the co-ordination of special purpose bodies.

Relative to community governments (settlements and unincorporated communities), it was concluded that a sufficient level of funding should be provided by the G.N.W.T. and determined on the basis of discussion, to permit them to discharge their responsibilities.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.5 An Options Paper for Municipal Tax Reform was prepared by Local Government staff in 1983 and appeared in several forms, including the "Municipal Funding Working Group Interim Report" July 14, 1983, a response to the latter from a regional superintendent, dated July 18, 1983, "Municipal Tax Reform, Options Paper", November, 1983 and "Municipal Revenue Generation, Options Paper", January 9, 1984.

The Interim Report established a number of principles to which any municipal financing system in the N.W.T. should adhere, i.e.

- promote and sustain northern cultures and traditions, while encouraging the development of uniquely northern community governments;
- enhance the quality of individual and community life through the increased involvement of community residents with their own local governments;
- improve government effectiveness and performance and increase public accountability;
- meet basic needs across the Territories and grow to meet future needs;
- apply consistently to all municipalities regardless of incorporated status;
- operate in a simple and inexpensive manner;
- increase the accountability of local councils to community residents;
- recognize the cultural values of original peoples as they relate to property and land;
- operate in a fair and equitable manner, based on the ability to pay;
- involve progression on the municipal hierarchy, based on the council's willingness and competence to accept greater responsibility.

The report noted, based on a review of municipal taxation in Canada, that property tax is the main source of municipal tax revenue; however, its elasticity is relatively low, as it does not respond to increasing national income without mill rate increases or reassessment. In recent years, there has been a movement toward formalized provincial-municipal tax revenue sharing.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

Problems within tax-based municipalities were cited, including Fort Simpson which experienced serious financial difficulties and deteriorating municipal services in recent years; Pine Point, which is dependent on the economic survival of a single mining operation and Frobisher Bay, where the 85 ratepayers represent **only** 15% of the municipality's households. Rivalry in terms of views respecting formula inconsistencies between these municipalities and the hamlets, was also noted. Also hamlets with limited assessment growth potential have no basis or motivation for progressing in the municipal hierarchy. It is contended that "Northerners are generally less concerned about owning the dwelling in which they reside than the people from Southern Canada, where real property ownership is culturally enshrined and historically significant". The present system was thought not to recognize this fact, or the reality that ratepayers are such a small group as to be politically insignificant and at odds with the demands for greater services by the **majority** of voters who pay no property taxes.

The report sets out three alternatives in response to this commentary:

1. **Status Quo** with its equity, funding and accountability problems.
2. Consolidate all property tax collection with G.N.W.T., thereby producing consistent treatment of all local governments, a funding formula tied to overall growth in G.N.W.T. revenues and a probable moderation in mill rates.
3. Replace the entire property tax system with increased personal and corporate income tax rates, use of special municipal service levies, a new resource development tax, and split billings to landlords and tenants in order to encourage local accountability.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

The progression between municipal levels would be based on the community's willingness and competency to take on added **responsibility** and authority.

The report concluded that alternative 3 was preferable and was consistent with Northern priorities, easier to administer, fairer in terms of ability to pay, and more stable over time with inflationary increases built in. It would, however, require a move from the traditional to the non-traditional and potentially involve misunderstandings concerning the purpose of the income tax increases involved.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cent' d)

2.6 The July 18, 1983 response to this Interim Report defended the property tax system as follows:

abolishing property taxes would "... substantiate more than ever, the view that municipalities simply administer programs on behalf of the G.N.W.T.";

the tax point transfer system would be productive of constant haggling at the inter-municipal level;

- with division possible, it would be unwise to concede such a major municipal device as real property taxation authority; presumably, income tax increases would be shared equally, while services are not equal;

- what would replace Federal and Territorial grants in lieu of taxes? Landlords may hold rents constant even after the tax burden has been shifted;

income tax revenues are highly variable in times of recession and losses can be carried forward;

abolishing property taxes may prejudice NWT's ability to tax the resource sector based on discrimination;

different forms of taxation are used to catch the exceptions and spread the tax burden over different classes of **assets**. Real property is a large class of assets that would not be taxed;

curbs on land speculation would be reduced, **along** with incentives to develop prime land;

- property taxes are generally accepted in the tax-based communities. "Why fix what isn't broken?". If some municipalities are unable to maintain tax-based status, change the criteria;
- resource development company towns should receive special treatment based on negotiations;

the mix of communities in the N.W.T. may necessitate settling for several systems with sufficient **commonalities** as to be comparable. A mixed system of income tax revenue sharing and property taxation may be workable.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.7 The November, 1983 "Municipal Tax Reform, Options Paper" rephrased the principles as follows:

- Consistency: consistent system for all local governments to assume greater responsibility and authority, based on willingness and competence.
- Adequacy: the resources realized should be adequate to provide a standard basic level of services, recognizing the responsibility of local council to raise a local contribution toward the cost.
- Equitability: Those who are able to pay, contribute according to their ability to pay.
- Efficiency: The cost of raising the revenue should be minimized.

The five alternatives presented include:

1. Status Quo
2. Allowing municipalities to levy and collect property taxes or assign the responsibility to G.N.W.T. based on a transfer formula adjustment.
3. Abandon school tax levies; raise the equivalent funds through income tax increases.
4. Have G.N.W.T. levy and collect all property taxes, revising its funding arrangements accordingly.
5. Abandon the property tax system in favour of income tax increases, special local levies and property-based resource development taxes. Tenants would be invoiced for municipal service charges, thereby expanding the accountability of the local council. This approach would raise revenue through "sharing wealth" rather than property ownership, which reflects the Northern culture more adequately.



## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.8 The "Municipal Revenue Generation Options Paper" January 9, 1984 noted that general agreement had been reached on the criticisms level led at the property tax system, but the income tax option which was recommended was unsuitable for implementation for the foreseeable future. The objections raised to such a dramatic change were that:

- the substantial investment made in the property tax system would be lost;  
municipal income rights are controversial and would require lengthy negotiations, probably for at least 3-4 years;
- local administration of income tax could be difficult;  
territorial administration of income tax would be inflexible locally and make it difficult for taxpayers to relate taxes paid to municipal services delivered.

This report reviewed 20 local revenue options, most of which were already used or could be introduced when the new legislation is passed.

The earlier principles of taxation were redefined as follows:

- **Autonomy:** The ability to exercise local initiative and independence in generating revenue for services beyond the basic level supported by G.N.W.T.
- **Consistency:** The options should be open to all incorporated local governments regardless of size or status.
- **Adequacy:** G.N.W.T. funding is required to augment local revenues. The former should be provided on a consistent basis.
- **Equitability:** Local revenues should generally adhere to the principles of horizontal and vertical equity and payment for benefits received.
- **Efficiency:** The cost of raising municipal revenues should be minimized.

2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

The revenue options may be summarized as follows:

1. Real Property Taxes - Permit hamlets and incorporated local governments to levy and collect property taxes with Ministerial approval of mill rates. Additional capital levies permitted, based on ratepayer approval. Differential mill rates between assessment classes could be used. Importance of property tax base within the municipal hierarchy would be reduced.
2. Property Users' Tax - This tax may serve to increase residents' interest in local government operations, broadening the base of ratepayers. Difficulties may exist regarding collections from transients, greater burdens on low income families and obtaining compensating rent reductions.
3. Municipal Sales Tax - This approach is widely used in the U.S. and warrants further investigation. The proposal is to levy the tax at the point of sale through vendors. It has a high incidence rate, increasing citizens' involvement, provides for tax on non-residents and increases autonomy of local councils in collecting revenue. However, it is a regressive tax, may not be efficient in small communities and could cause geographical spending patterns to shift.
4. Special Flat Rate Levy - Would be levied only for specific purpose (e.g. a new playground) rather than as a general revenue; may be paid either in cash or **labour**; requires referendum. This **approach** increases accountability and public **participation**, but **collection** may be difficult.

2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

5. Liquor/Tobacco Excise Taxes - Local collection may be difficult and produces a form of conflict-of-interest locally re the use of funds.
6. Amusement Tax - Excise tax on admission fees collected and remitted by the vendor. As an alternative a special licensing fee could be charged for recreational activities where admission is charged. However, in some communities, the local council is the "vendor" and would be taxing itself.
7. Business Licenses - Already provided for under the Municipal and Business Licenses Acts.
8. Road Usage Licenses and Vehicle Licenses - Applicable to local all-terrain vehicles. Could also apply to license covering wear and tear on local roads.
9. Liquor Permits - Could be coupled with local excise taxes on alcohol sales.
10. Development Permits - The cost of issuing these permits apparently does not always generate funds sufficient to cover costs.
11. Franchise Permits - Could be charged against private contractors providing municipal services and against utilities providing telephones and natural gas distribution.
12. Municipal Service Fees - Municipalities charge consumers for services such as water delivery, sewage and garbage collection. The full capital costs of the system are seldom charged back and hence service fees could be increased. However, the basic level of service essential for public health must be provided out of general revenues, if necessary.

2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont' d)

13. Recreation Fees - These are charged for some functions (e.g. movies) but subsidization by the local government and G.N.W.T. occurs because of the social benefits involved.
14. Rentals and Leases - Communities should have the right to lease under-utilized local facilities for private purposes, where possible.
15. Ambulance Fees - Where a community operates an ambulance, fees could be charged, as is done by a private operator.
16. Library Fees - Where a facility is owned, rentals, membership and overdue fees could be charged.
17. Fines - These can be levied for by-law violations, e.g. traffic and dogs.
18. Land Leases and Sales - Communities will eventually be able to generate revenues from land sales for land development reserves or from quarry royalties and timber fees for general revenues.
19. Contracts - In some communities, the local council is the only body capable of bidding on construction and related contracts and should establish prices for full cost recovery.
20. Cable TV - Communities operating cable TV facilities could charge individual "customers", but often do not.

2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.9 An interdepartmental committee produced a report on "Municipal Service Rates" dated March 22, 1985, for Ministerial review. The report was prepared in response to unpredictable increases in municipal service charges for water and sewerage within many hamlets as part of the budget balancing process. It recommended the adoption of a new subsidy arrangement to replace the present trucked water delivery subsidy scheme in tax-based municipalities and the assistance program for water delivery/sewage pick-up services in hamlets. The recommended arrangement involved charging commercial users 0.4¢ per litre and 0.2¢ per litre to homeowners, renters and private non-profit organizations. The subsidy would represent the difference between the economic rate and the aforementioned. Government users (Federal, N.W.T., N.W.T.H.C., municipal governments and crown corporations) would pay the full economic rates, including direct costs of operating and maintaining water and sewage systems calculated for each community, using standard criteria. Further, all users within a community would be treated the same, regardless of whether services are provided by pipe or truck.

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.10 A submission was made to Financial Management Board April 15, 1985 concerning "Revisions to Transmission Pipeline Assessments". The submission noted that property taxes would be collected on the Norman Wells Pipeline, once operations begin in 1985. Under present N.W.T. assessment methods, property tax revenues will be substantially less than those paid on similar lines in Alberta and British Columbia. Also, pipelines would be undertaxed relative to other N.W.T. property. This is because the present property tax schedule was thought to underestimate pipeline replacement costs.

It was anticipated that increased pipeline taxes would reduce the net returns to the Federal Government and field operators, although the additional cost per barrel shipped would be minor, if not trivial, and the impact on northern activity would be very limited.

The report also noted that the mill rate and the Territorial Assessment Factor should both be considered, given that "the uniformity of tax burden between various classes of property does not appear to be a universally accepted goal of property taxation systems (in Canada)."

The report also recommended that the Department of Local Government be authorized to undertake a comprehensive review of property assessment and taxation in the N.W.T. by August 30, 1985. This review was to address matters such as:

- maintenance of the real value of tax revenues in inflationary circumstances;
- equalization of property assessment values where different assessment base years are used;
- allowance for depreciation and utilization factors in pipeline taxation;
- use of differential mill rates and Assessment Factors by property category.

2\* PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.11 A tax overview entitled "Revenue Initiatives Study" was conducted for the GNWT Department of Finance in June, 1985. It looked broadly at alternative sources of additional tax revenue and concluded that there were a variety, including higher income taxes, sales taxes, payroll taxes, etc. One section of the report addressed property taxation in the N.W.T. and concluded that:

- Local government in the N.W.T. is less well developed and subsequently, the Territorial government has played a significant role in the taxation of property;
- The August, 1984 study by DIAND - "Fiscal Capacities of the Northern Territories" which concluded that the N.W.T. was significantly under **property-taxed**, erred in its calculations by omitting property taxes in the tax-based communities;
- Because the mill rates in relation to the assessment base have not changed, the tax bill on most properties has remained constant. Taxes have actually declined in real terms as inflation eroded the purchasing power of the dollar;
- Not all property in the N.W.T. is assessed and taxed and this omission causes some inequity among property owners;  
Property taxes in the tax-based municipalities have increased, while they have remained stable in taxation areas;
- The predominance of socially-assisted rental units in most communities leaves the owner-ratepayer a distinct minority left to shoulder the tax bill;  
Local sales tax is not recommended; whereas the occupancy tax and flat rate levy have the advantage of making some of the cost of local services more explicit to local residents and broadening the tax paying group;
- Local income taxes expands the tax base and provides a direct tax-benefit relationship. Taxable income for local income tax purposes

## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont' d)

- could be reduced to broaden the base, but Child Tax Credit offsets could pose a problem;
- Property taxes should be maintained throughout the Territories as a legitimate and significant form of taxation, which can support local governments directly;
  - Centralized assessment offers numerous advantages and should be continued;
  - Property tax rates throughout the **N.W.T.** should be maintained at levels similar to those in the tax-based municipalities, **considering** the level of services provided;
  - More frequent updating in the tax rates is required in the taxation areas to avoid erosion in the taxes;
  - It would be desirable to make property taxes payable to local councils in organized communities and to allow discretion in raising local revenue, such as a discretionary property tax levy or a local income tax;
  - Consideration should be given to an income tax credit to soften the effect of higher property taxes;
  - A thorough examination is required of the distribution of the burden of local government costs (and benefits) under the various financial alternatives;
  - Greater reliance would be placed on **communities** if the system of fiscal equalization were revised and expanded to ensure that each community had the resources to provide a standard level of services;
  - It is often argued that property taxes are not well-suited to education finance but there is no apparent reason why GNWT should abandon this portion of its property taxation.



## 2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

2.12 A staff review of the N.W.T. Property Assessment and Taxation Act has been underway for more than a year. Draft legislation has not yet been submitted for review, but the following points are representative of those under consideration:

- Taxing authority will be either Ministerial or Municipal. Ministerial Taxing Authority includes the functions of assessment, levying and collection of taxes in taxation areas. Municipal Taxing Authority includes levying and collection of taxes in tax-based municipalities and includes classification of property. The assessment function in municipalities is performed by the G.N.W.T.
- It was agreed that municipal councils should have the power to classify property not just as residential and non-residential, but in various sub-classes of both residential and non-residential property, and to set different mill rates for the various sub-classes.
- Section 224 of the Municipal Act and Section 15 of the Taxation Act provide for the Commissioner to make an adjustment of the assessment on improvements by prescribing a percentage rate applicable to the fair actual value. This has the effect of weighting taxation against the owner of undeveloped land.
- Section 260 of the Municipal Act, which permits the Commissioner to establish zones and set percentage rates of fair actual value within municipalities, was considered undesirable.
- All property within municipalities and taxation areas is liable to assessment.

2. PREVIOUS N.W.T. PROPERTY TAX-RELATED STUDIES (Cont'd)

- All property assessed except Federal, Territorial (Commissioner's) and Municipal land is liable to taxation except . . . .0 and there remains considerable debate as to exemption for schools, hospitals, museums, etc.
  
- The present system of Courts of Revision was seen to be broadly effective. The appeal procedure (to the Supreme Court) was thought to be cumbersome and prohibitively expensive to the individual. An Assessment Appeal Board is recommended - for which reason it is recommended that Courts of Revision should be called Boards of Revision.

3. WHAT DOES PROPERTY TAXATION INVOLVE AND WHAT ARE THE REQUIREMENTS OF AN EFFECTIVE N.W.T. SYSTEM?

3. WHAT DOES PROPERTY TAXATION INVOLVE AND WHAT ARE THE REQUIREMENTS OF AN EFFECTIVE N.W.T. SYSTEM?

Property taxation in most situations involves three considerations:

1. a budgeted municipal revenue shortfall, after considering grants and other local revenues, which can only be met through taxation;
2. an amount of taxable assessment against which property taxes can be billed;
3. a mill rate representing the "percentage" (actually dollars per thousand, rather than per hundred) of the taxable assessment which must be taxed if the budgeted shortfall is to be met.

This process is represented on Table 2 for a hypothetical municipality. This table illustrates the use of a dual mill rate, as is applicable in most municipalities in Canada, but only in Yellowknife and Fort Smith, within the N.W.T. In the example shown, the residential mill rate is calculated so as to equal 85% of the commercial mill rate.

Taxable assessment is calculated using a variety of approaches, but is normally based on value in terms of replacement cost and/or fair market value using a sales or income approach. Assessed values are normally modified by including factors such as an assessable percentage of improvements, depreciation, business assessment, base year adjustments and locational adjustments, all in an effort to assess property in a uniform and equitable manner.

Property taxation is used in this manner to meet the financial needs of local governments such as municipalities. It is also used, in a similar fashion, to meet the financial needs of school boards, although provincial grants frequently play an even more important role in this area.

TABLE 2  
EXAMPLE OF MILL RATE CALCULATION

000' s \$

MUNICIPAL BUDGET	\$000 ' s
<u>EXPENDITURES</u>	
General <b>Government</b>	1173
Fire Protection	<b>708</b>
Nursing Home	339
Protective Inspection	287
Transportation Services	2565
Storm Drainage	<b>21</b>
Garbage Collection	<b>71</b>
Parks, Recreation and Libraries	1548
Planning and Zoning	153
Tile Drainage and Agriculture	37
Surplus Contributions	28
Other	49
TOTAL EXPENDITURES	6979
<u>REVENUES</u>	
Payment <b>In Lieu</b>	<b>47</b>
Per Capita Grant	<b>132</b>
General Support Grant	223
Specific Grants	1358
Fees and Service Charges	779
Investment Income	135
Tax Penalties	228
Licenses, Permits, Rents and Fines	171
<b>B.I.A. and C.I.</b>	35
Supplementary Taxes	66
Area Rates (Garbage)	56
Telephone and Telegraph	78
SUBTOTAL	3308
<b>TAX LEVY</b>	3671
TOTAL REVENUES	6979
<u>MILL RATE</u>	
Residential Assessment (Millions)	264.66
Weighted at <b>85%</b>	224.96
Commercial /Industrial /Business	33.98
Total Weighted Assessment	258.94
Commercial Mill Rate	14.18
Residential Mill Rate	12.05

3. WHAT DOES PROPERTY TAXATION INVOLVE AND WHAT ARE THE REQUIREMENTS OF AN EFFECTIVE N.W.T. SYSTEM? (Cont'd)

Outside of the N.W.T., property taxation by the Province itself, is limited in the main to the provinces of Prince Edward Island and New Brunswick and to municipally unorganized areas in other provinces. For example, in New Brunswick, the province levies a real property rate of 1.5-2.25% (1974 values), depending on whether the property is residential or non-residential. In the N.W.T., by comparison, the percentage levied is 2.5%, based on 1963 values, for all types of property.

There are numerous versions of taxation principles or objectives in the literature and in recent N.W.T. tax reviews. The following are proposed as criteria for this evaluation, based on the perceived priorities which exist. The tax system should be:

1. Fair - treating persons under similar circumstances on a consistent basis, without discrimination, both within and between communities; defensible to the public and on legal appeal.
2. Worthwhile - yielding significant revenues, based on limited administration costs.
3. Broadly Based - affecting the majority of the residents and businesses in a community.
4. Affordable - geared to the taxpayers' ability to pay, without reducing living standards or discouraging business growth.
5. Justifiable - visible and clearly linked to the service benefits received by individual taxpayers.

3. WHAT DOES PROPERTY TAXATION INVOLVE AND WHAT ARE THE REQUIREMENTS OF AN EFFECTIVE N.W.T. SYSTEM? (Cont' d)

6. Locally Administered - furthering the autonomy of local councils in making spending decisions and their accountability to the local taxpayers who are funding them.
7. Flexible - increasing readily with inflationary increases and responsive to the needs of growth centres or special projects.
8. Traditional - building on the N.W.T.'s local government experience in recent years, and Northern values, traditions and negotiations respecting private property and the land.
9. Enforceable - being relatively simple to administer and convenient to the taxpayer so as to promote compliance.
10. Reasonable - being consistent with practice in related jurisdictions and productive of a healthy financial state in N.W.T. communities.

4. WHAT IS THE N.W.T.'S CURRENT SYSTEM  
OF PROPERTY TAXATION AND HOW  
EFFECTIVE IS IT?



4. WHAT IS THE N.W.T.'s CURRENT SYSTEM OF  
PROPERTY TAXATION AND HOW EFFECTIVE IS IT?

Figure 1 illustrates, in schematic form, the tax system within the N.W.T. as it relates to the tax-based communities. The Federal Government is central to the financial system, providing 77% of the G.N.W.T.'s revenues and a component of the municipal revenues through payments in lieu of taxes. A large portion of the funds expended by the tax-based municipalities is provided via G.N.W.T. grants, particularly outside of Yellowknife. In Fort Simpson in 1984 the percentage was 81.3. G.N.W.T. also rebates up to 50% of the property taxes paid by home-owners in order to encourage home ownership. School taxes are paid by all municipalities and hamlets (except Yellowknife) to G.N.W.T., nominally for school purposes (in that they are not earmarked or credited). Local ratepayers provide income and other taxes to G.N.W.T. and the Federal Government and property taxes and other charges to the municipalities.

Figure 2 summarizes the property tax billings which occurred in the N.W.T. in 1985. 28.5% of the property taxes were billed by the City of Yellowknife for general purposes. 38.8% of the taxes were billed by the remaining six tax-based communities and 13.6% were billed on behalf of the two school boards operating in Yellowknife. Thus, 81% of the property taxes in the N.W.T. are directly allocated for local purposes. The balance is billed in three components.

- 6.5% for school purposes generated by the tax-based municipalities, other than Yellowknife;
- 7.6% for general and school purposes billed by the G.N.W.T. to hamlets and assessed settlements;
- 5% for general and school purposes billed by the G.N.W.T. against outlying mines, lodges, resource installations and other hinterland properties.

FLOW OF LOCAL GOVERNMENT

FINANCES IN N.W.T. TAX-BASED COMMUNITIES

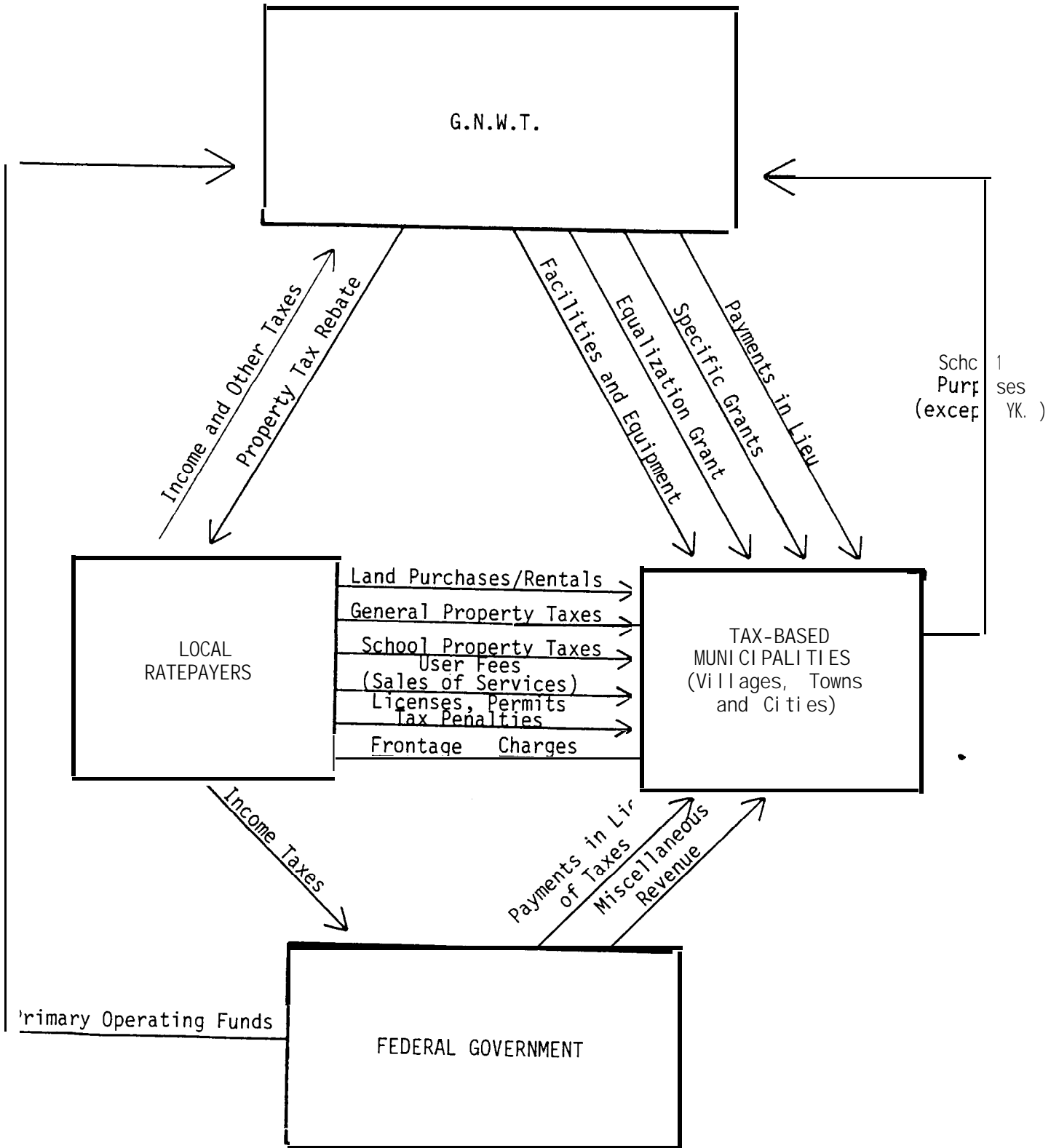
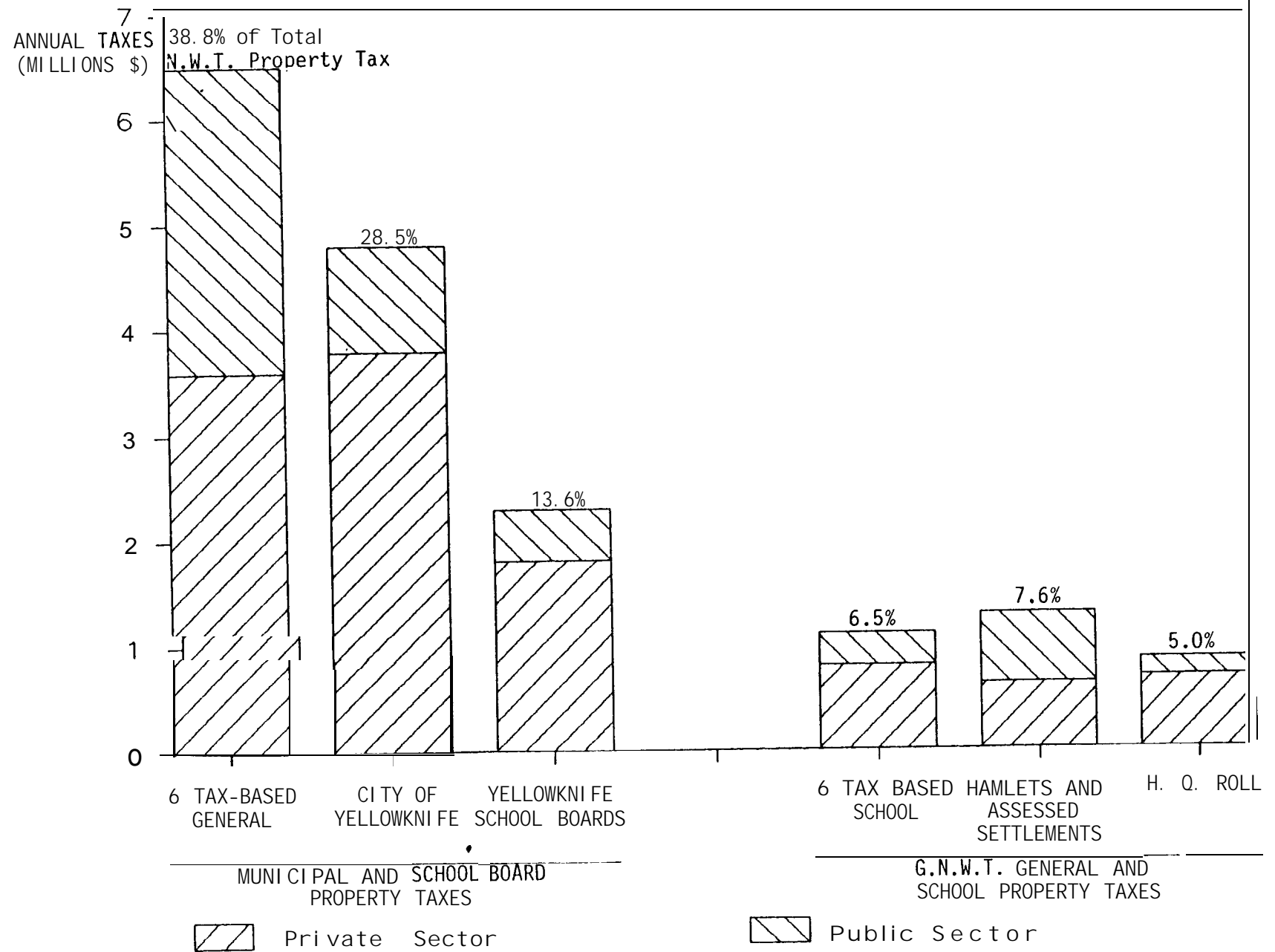


FIGURE 2

# 1985 PROPERTY TAX BILLINGS IN NWT

BY COMMUNITY CLASS AND PROPERTY SECTOR



4. WHAT IS THE N.W.T.'s CURRENT SYSTEM OF  
PROPERTY TAXATION AND HOW EFFECTIVE IS IT? (Cent' d)

One reason for the latter categories representing such a small share of the total is that the G.N.W.T. has frozen mill rates outside of the tax-based municipalities since their inception, whereas mill rates have gradually increased within the tax-based communities. More significantly, most new development has occurred within the latter areas, with major gas and oil taxable assessment potential in the hinterland areas not yet a reality. Also, the economy within most of the hamlets and settlements is frequently quite underdeveloped and is generally not oriented toward real property assets. The housing in most cases is modest and the 25 mill tax rate produces only a nominal tax, by comparison with the tax-based communities.

The present property tax system outside of the tax-based municipalities, meets virtually one of the objectives and principles established in Section 4.

It is "fair" in that most communities are assessed on a similar basis and pay property taxes. However, the amount of tax paid within the N.W.T. varies radically without clear reason\* and most residents do not, in fact pay the tax, as it is frequently paid (and absorbed) by N.W.T.H.C. or major employers.

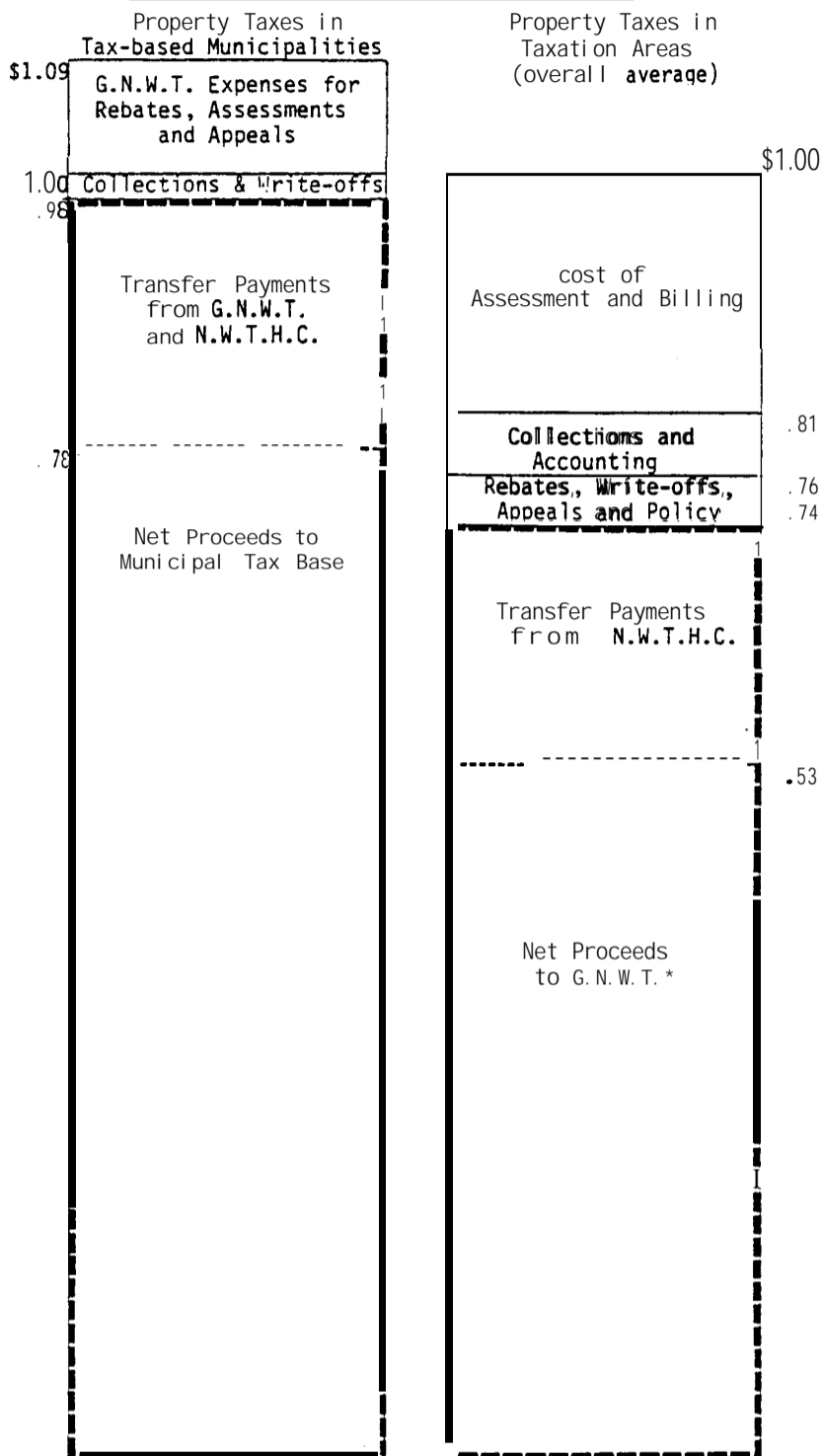
This system, as it is applied, cannot be considered "worthwhile" in many hamlets, since the amount of tax generated is nominal (less than 2% of total community revenues, even when payments in lieu of taxes are included). In many cases, the tax generated would appear to be less than the G.N.W.T. costs expended in recovering it. This is particularly

4. WHAT IS THE N.W.T.'s CURRENT SYSTEM OF  
PROPERTY TAXATION AND HOW EFFECTIVE IS IT? (Cont'd)

true if transfer payments made to G.N.W.T. by N.W.T.H.C. and then returned to N.W.T.H.C. in the form of operating subsidies are handled in a more direct way (Figure 3).

- The system is not "broadly based". Because of the massive amount of public housing and employee-subsidized housing in the N.W.T., most residents don't pay property taxes, are unaware of them and unimpacted by them.
- The property tax burden may be "affordable" in the hamlets because it is quite nominal (\$100-200 per unit in many cases). However, much of the populace suffers under real economic hardship, with extremely high unemployment and living costs and low cash incomes and would have real problems shouldering a property tax burden of any real magnitude. The opposite may be true of taxes imposed on resource industries and businesses which, in the N.W.T., are not levied for additional business assessment or premium mill rates beyond residential or even always for realistic land values. In fact, some resources in Yellowknife and elsewhere are still receiving substantial discounts below their actual assessed value based on Commissioner's regulations issued more than 15 years ago.
- The tax is not "justifiable" to the taxpayer in the sense that it is not paid locally and not related or linked to any particular services, undertakings or benefits.
- The tax is not "locally-administered" and does nothing to further local autonomy or accountability.
- The tax has not proven to be "flexible", given that mill rates have remained unchanged since its inception more than a decade ago. This means that the real value of the property tax has plummeted over this period of high inflation and many N.W.T. taxpayers have become accustomed to paying nominal taxes and being heavily subsidized by the

FIGURE 3  
ESTIMATED ALLOCATION OF FUNDS PER DOLLAR  
OF PROPERTY TAX BILLED IN THE N.W.T.



\*Nil in majority of individual hamlets and settlements. The overall average is positive because of the profitability of property taxation in Norman Wells, Nanisivik, Tuktoyaktuk, etc.

4. WHAT IS THE N.W.T.'s CURRENT SYSTEM OF PROPERTY TAXATION AND HOW EFFECTIVE IS IT? (Cont'd)

**G.N.W.T.** This makes the task of realigning them to higher levels much more difficult. The system is flexible in the sense that taxation areas are established for isolated developments and facilities throughout the Territories, whether or not the area is organized, populated or even provided with any services such as access roads.

- The system is "traditional" in the sense that it has successfully withstood efforts to change it and has remained essentially intact and gradually spread throughout the Territories. **It** is not traditional, however, in terms of its conflicts with native values concerning private property and land claims negotiations.

Despite taxpayer protests in some areas, the system appears to be enforceable and tax arrears are not out of line (although there appear to be two quite different sets of data regarding arrears).

There is no evidence to suggest that the system is "reasonable" by comparison with practice in other jurisdictions. Property taxes per capita in the tax-based municipalities and resource based hamlets and settlements are in the \$400-700 per capita range, which is consistent with levels paid in small-medium sized centres throughout Ontario, for example. However, in many of the hamlets and settlements, property taxes are in the \$20-50/capita range, most of which is paid as transfer payments from **N.W.T.H.C.** and the Federal Government. In these cases, the property tax has very little to do with the creation of a healthy financial state in the **communities** involved.

On a more positive note, 87.4% of the property taxes in the **N.W.T.** are billed to the seven tax-based municipalities, where the system functions much more effectively. This is because almost all of these taxes are locally budgeted and because of the much stronger economic bases which they have, even with the

4. WHAT IS THE N.W.T.'s CURRENT SYSTEM OF  
PROPERTY TAXATION AND HOW EFFECTIVE IS IT? (Cont'd)

problems experienced with a resource base. The amount of the tax paid is locally-determined in that mill rates are set by municipal council in order to provide a tax levy sufficient to balance the annual budget. The assessment function can be carried out more readily in larger centres with improved access and a market rationale for land valuation. The private sector of the economy is much stronger, with home ownership more common and land claims issues less a deterrent.



5. ARE THERE AREAS OF THE N.W.T.  
FOR WHICH PROPERTY TAXATION  
IS INAPPROPRIATE?

5. ARE THERE AREAS OF THE N.W.T. FOR WHICH  
PROPERTY TAXATION IS INAPPROPRIATE?

Nine factors are indicated as being unfavorable to the application of property taxation in N.W.T. communities. These factors individually may not be sufficient to negate the usage of property taxation in a particular area; however, when a number of these circumstances apply to one community, the case for property taxation is significantly weakened and an alternate approach to raising municipal revenues at the local level, may well be preferable. The nine factors fall into four broader headings or areas of concern:

1. Ability to Pay
  - Local unemployment 40% or higher
  - Income per capita less than \$4,500
  - Cost of living more than 70% above southern comparable
  
2. Limited Property Tax Base
  - Property taxes (and payments in lieu) less than **\$15,000/year**
  - Property taxes less than 2% of total community revenues
  - Private sector taxation less than 30% of total taxation
  
3. Limited Community Development
  - Community unincorporated
  - Population less than 100 persons
  
4. Other
  - Land claims and related political developments a major factor

Where there are "ability-to-pay" deficiencies in a community, unemployment is far above N.W.T. or National averages, incomes are low and living costs are substantially higher than N.W.T. or National averages. Under these

5. ARE THERE AREAS OF THE N.W.T. FOR WHICH  
PROPERTY TAXATION IS INAPPROPRIATE? (Cont'd)

circumstances, government is seeking to maintain local services at an acceptable level, to stimulate the local economy and to increase local incomes and living standards. In this situation, the imposition of a significant property tax in these communities can be counter-productive, regressive and even inequitable to those facing economic hardship.

The property tax base in a community is limited where the taxes produced are nominal in terms of the total cost of providing local services or the actual cost of administering the property assessment and taxation system. The definition of "nominal" in this case is subjective, to some extent, but the cut-off points used in Figure 4, (less than \$15,000 in taxes per year and taxes less than 2% of total community revenues) were set at very low levels and deal with tax amounts that are clearly of limited consequence.

The other measure of tax base employed, involves the percentage of total taxation which is derived from the private sector (as opposed to the N.W.T. Housing Corporation or payments in lieu of taxation from the G.N.W.T. or the Federal Government). Where the vast majority of the property taxes (including payments in lieu) come from those three public sectors sources, it may be argued that there are less expensive and even fairer means of making these transfer payments, outside of the property tax system. Also, where most of the property in a community is publicly owned, most of the taxes imposed are paid in Yellowknife and Ottawa and are not, in fact, passed along to the local occupants of the properties involved. This is, in a sense, inequitable to the minority of the local population who are private property owners and actually do have to pay the tax.

Property taxation does nothing to encourage the establishment of small businesses or home ownership. In recognition of the latter fact, the G.N.W.T. rebates up to 50% of property taxes paid by homeowners, which reduces even further the net tax proceeds from the private sector in these smaller communities.

TABLE 4

FACTORS NOT FAVORABLE TO PROPERTY TAXATION IN N.W. TERRITORIES

	AB			LIMITED PROPERTY			LIMITED COMM		THER
	A	B	C	D	E	F	G	H	
	emp- ment %+	ist of ving '0%+ bove base city	1982 come/ pita 4, 500	985 rop. axes 15,001	,984 rep. axes % of venue	i vate : tor sessm % of otal	om- nity incor	Op' 1 100	
<b>Tax-Based</b>									
Frobisher Bay									
Inuvik									
Fort Simpson									
Fort Smith									
Hay River									
Pine Point									
Yellowknife									
<b>Hamlets</b>									
Arctic Bay				•	0	•			•
Broughton Isl	•		•	•	0	•			•
Cape Dorset			•	•	•	•			•
Clyde River			•	•	•	•			•
Hall Beach			•	•	•	•			•
Igloolik		•	e	•	•	•			•
Lake Harbour			•	•	•	e			•
Pangnirtung			•	•	•	e			•
Pond Inlet		•	•	•	•	e			•
Sanikiluaq			•	•	•	•			•
Baker Lake	•			•	•	•			•
Chesterfield Inlet				•	•	•			•
Coral Harbour		•	•	•	•	•			•
Eskimo Point			•	•	•	•			•
Rankin Inlet		e	e	•	•	•			•
Repulse Bay	•	•		•	•	•			•
Whale Cove		•		•	•	•			•
Cambri dge Bay		•				•			•
Coppermine		•	•			•			•
Gjoa Haven		•	•	•		•			•
Holman		•	•	•		•			•
Pelly Bay		•	•	•		•			•
Spence Bay		•	•			•			•
Aklavik	•	e	e	•	0	•			•
Fort Franklin		•		•		•			•
Fort Norman				•		•			•
Norman Wells						•			•
Tuktoyaktuk	•					•			•
Rae Edzo			•			•			•
<b>Assessed Settlements</b>									
Nanisivik			0						•
Resolute Bay				•	0	•			•
Arctic Red River		•	0	0	0	•			•
Fort Good Hope			0	•	0	•			•
Fort McPherson			0	•	0	•			•
Paulatuk		•		•	0	•			•
Sachs Harbour		•					•		•
Enterprise									•
Fort Providence			•						•
<b>Other Unorganized</b>									
Grise Fiord		•		0	0	•	•	•	•
Bathurst Inlet		•		0	0	•	•	•	•
Bay Chimo		•		0	0	•	•	•	•
Colville Lake		•		0	0	•	•	•	•
Detah	•			0	0	•	•	•	•
Fort Liard			•						•
Fort Resolution			•	0	0	•	•	•	•
Jean Marie River	•		•	0	0	•	•	•	•
Kakisa Lake	•		•	0	0	•	•	•	•
Lac La Martre	•		•	0	0	•	•	•	•
Nahanni Butte			•	0	0	•	•	•	•
Paradise Gardens			•	0	0	•	•	•	•
Rae Lakes	•		•	0	0	•	•	•	•
Reliance			•	0	0	•	•	•	•
Snare Lakes			•	0	0	•	•	•	•
Snowdrift	•		•	0	0	•	•	•	•
Trout Lake			•	0	0	•	•	•	•
Tungsten			•	0	0	•	•	•	•
Wrigley			•	0	0	•	•	•	•
Misc. outlying	0		0	0	0	•	•	•	•

0 = Est.

5. ARE THERE AREAS OF THE N.W.T. FOR WHICH  
PROPERTY TAXATION IS INAPPROPRIATE? (Cont'd)

The third deterrent to a sound property tax system relates to the limited development of some communities. Unincorporated communities normally do not have the local decision-making and administrative framework to deal with property taxation and local government. Very small **communities** (for example, those with a population of less than one hundred persons) would rarely have the range and quality of local services found in larger centres and, hence, property taxes payable to the **G.N.W.T.** are less justifiable, based on a "benefits received" criterion. Many of these communities are below the basic level of service, since their small size does not justify many of the facilities and programs provided in larger communities. Excluding the former from the payment of the nominal property taxes being collected elsewhere could be considered reasonable on these grounds.

The final consideration relates to land claims, property ownership, political development questions and the cultural background and attitudes of the local populace. This is clearly a very complex issue and we can only "flag" it herein for further consideration.

Based on these criteria, approximately one half of the communities in the Territories do not appear to be well-suited to property taxation. These include:

Hamlets:	Arctic Bay
	Broughton Island
	<b>Clyde</b> River
	Hall Beach
	<b>Igloodik</b>
	Lake <b>Harbour</b>
	Pond Inlet
	Chesterfield Inlet
	Repulse Bay
	Whale Cove
	<b>Holman</b>
	<b>Pelly</b> Bay
	Fort Franklin
	Fort Norman

4

5. ARE THERE AREAS OF THE N.W.T. FOR WHICH  
PROPERTY TAXATION IS INAPPROPRIATE? (Cont'd)

Settlements:	Fort Good Hope Paulatuk Sachs Harbour
Other Unorganized:	Grise Fiord Bathurst Inlet Bay Chimo Colville Lake Detah Jean Marie River Kakis Lake Lac La Martre Nahanni Butte Paradise Gardens Rae Lakes Reliance Snare Lakes Snowdrift Trout Lake Wrigley

Other situations which have only marginal property tax potential, at best, include:

Hamlets:	Sanikilauq Baker Lake Coral Harbour Esquimaux Point Gjoa Haven Spence Bay
Settlements:	Arctic Red River Enterprise
Unorganized Communities:	Fort Liard Fort Resolution

5. ARE THERE AREAS OF THE N.W.T. FOR WHICH  
PROPERTY TAXATION IS INAPPROPRIATE? (Cont'd)

The list which remains includes:

The seven tax-based municipalities

Hamlets such as Cape Dorset, Pangnirtung, Rankin Inlet, Cambridge Bay, Coppermine, Aklavik, Norman Wells and Tuktoyaktuk

Settlements such as Nanisivik, Resolute Bay, Fort McPherson, and Fort Providence

Unorganized communities such as Tungsten.

6. WHAT ARE THE IMPLICATIONS OF USING ALTERNATIVES IN THESE AREAS?



## 6. WHAT ARE THE IMPLICATIONS OF USING ALTERNATIVES IN THESE AREAS?

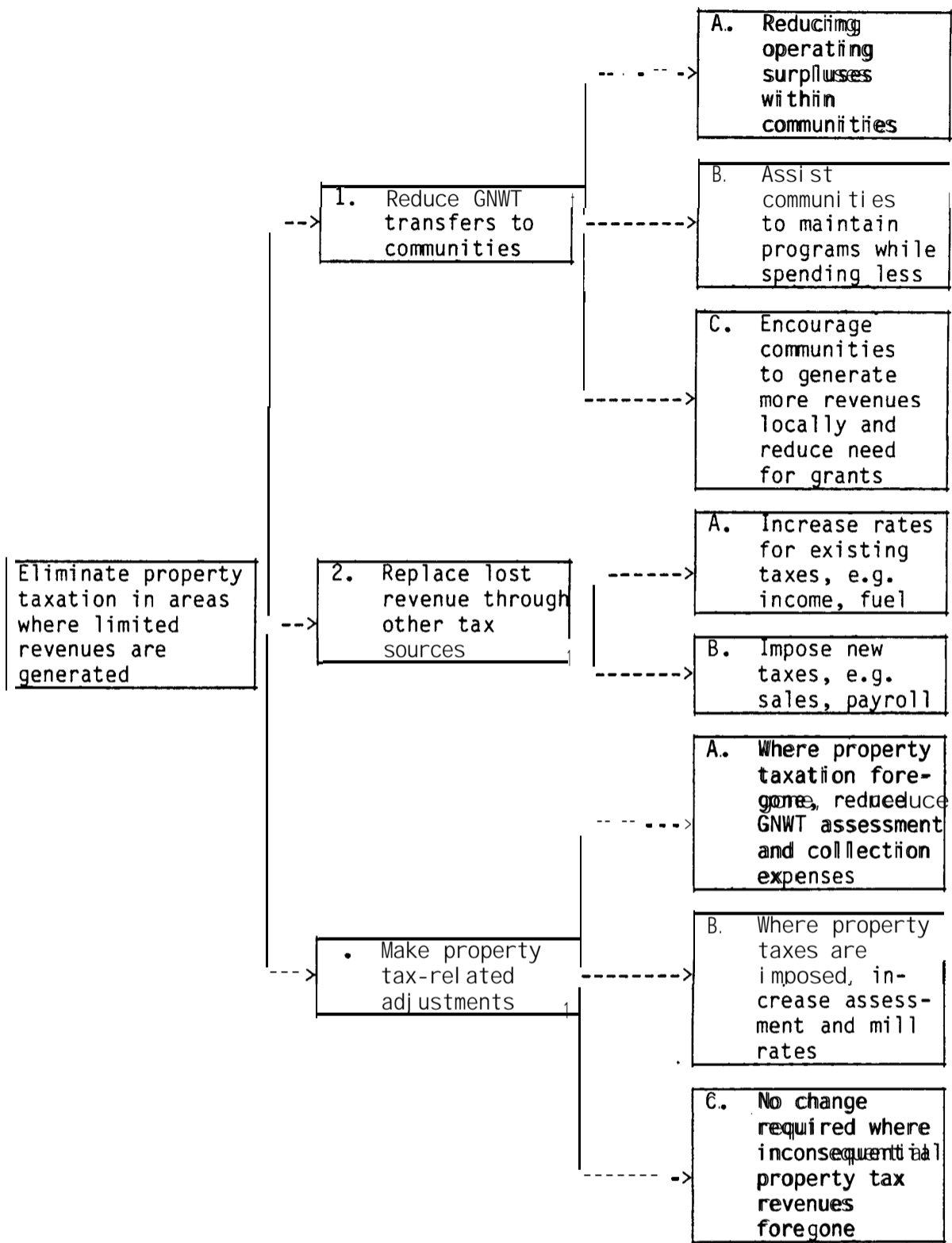
As indicated in Figure 5, there are a variety of means which could be used by G.N.W.T. and/or the hamlets and settlements involved, to replace revenues lost, where property taxes are no longer imposed. Based on page 10-7 of Volume 2, the revenue to be recovered amounts to less than one million dollars. If the N.W.T.H.C. reciprocal transfer payments are eliminated through negotiation, the figure is closer to \$500,000.

One potential source of funds to the G.N.W.T. is through reduced community funding. For example, operating surpluses within the hamlets in 1984/85 totalled \$2,872,000, which suggests that there may be some room for trimming formula funding allocations.

Local governments in the N.W.T. spend at an extremely high per capita rate, largely because of added costs of remoteness, limited size and environmental conditions; however, further spending economies are no doubt possible in some cases.

The January 9/84 Options Paper (p. 2-17 to 2-20) identified numerous approaches to increasing local revenues. Franchise permits, higher business license fees, higher development permits and lot levies for off-site capital works, reduced subsidies on municipal sewer and water service fees, more business-like pricing of contracts undertaken by the community and leasing of surplus community assets, all represent reasonable and practical approaches to generating funds locally. Many N.W.T. studies have given favorable consideration to a flat, per capita poll tax and, in addition, local fund-raising for special projects, labour in lieu of taxes and much higher utility rates for above-average usage, are all approaches which could be put in place by the G.N.W.T., working with communities eager to acquire more autonomy and accountability. The income involved can be readily replaced in this way without the need to resort to more complicated local income or sales tax schemes.

FIGURE 5  
 ALTERNATIVE MEANS OF GENERATING GNWT REVENUES  
 (OR EQUIVALENT) WHERE PROPERTY TAXES ARE NO LONGER IMPOSED



6. WHAT ARE THE IMPLICATIONS OF USING ALTERNATIVES IN THESE AREAS? (Cont'd)

In the alternative, the G.N.W.T. could introduce small rate increases in existing taxes (income, fuel, tobacco, liquor) in order to replace any property tax revenues foregone. Or it could impose a new form of tax such as payroll tax (for "fly-in" workers), sales tax, or paid-up corporate capital tax.

Another approach would be to trim G.N.W.T. assessment, collection and related staff and expenditures. This would be feasible as a substantial portion of the assessment task could be eliminated and would serve to minimize the net revenue loss. The staff involved could possibly be reallocated to other, more profitable areas of (property) taxation, although staff turnover in this area tends to be quite high.

In taxation areas where property taxes are worthwhile, G.N.W.T. could significantly increase revenues. This could be achieved through altered assessment practice and/or increased mill rates. This would yield a more reasonable tax contribution in the more economically advanced communities toward providing and operating the very expensive local services involved. This is quite applicable to resource developments such as mines which have finite lifetimes and extensive community needs for employees.

Even if none of these actions were taken, the property tax loss in many of the hamlets is small enough to be of limited consequence to G.N.W.T. revenues. (Overall, property taxes represent just under 1% of total G. N.W.T. revenues and the Hamlet taxes which may be foregone represent only a few percent of total property taxes).

Thus, the revenue loss implications of eliminating property taxation in many of the hamlets and settlements does not pose a significant problem. The primary area of concern relates to the creation of a N.W.T. tax system which is equitable and consistent. It must not discriminate unfairly against taxpayers in one community which imposes property taxation versus those in another which does not. This can be done satisfactorily by making property taxation

6. WHAT ARE THE IMPLICATIONS OF USING ALTERNATIVES IN THESE AREAS? (Cont'd)

a revenue of the local community, rather than a G.N.W.T. revenue. The G.N.W.T. funding formula would be established so as to provide a standard but basic level of service in all communities. Advances beyond that level could only occur through locally-generated revenues, of which property tax is one approach. There is *no* discrimination if a resident in a property-taxed community receives services beyond the basic level, which his local council has decided to tax for and provide; whereas, in a neighboring community, property taxes are not levied and the higher level of services is not provided.

Similar, there is no inconsistency if two communities provide identical service levels, in one case funded through property taxes and, in the other, through higher user or utility rates, poll taxes or other means.

This line of reasoning places considerable emphasis on having a G.N.W.T. funding formula which is fair and objective, responsive to differing local conditions, yet applied without variance and undue political influence.

Questions arise as to the most appropriate means of dealing with the exceptions:

- a) the poor **community** which is willing to impose local charges, but does not have the economic base to justify the effort.
- b) the community which receives a major windfall revenue gain as a result of a resource discovery or public investment decision.
- c) the dormitory **community** which accommodates workers and families at a mine or other development, outside of its boundaries or taxation jurisdiction.
- d) the "fly-in" mine which is not provided with any normal community services.

6. WHAT ARE THE IMPLICATIONS OF USING ALTERNATIVES IN THESE AREAS? (Cont'd)

In order to deal with situations a) and b), the use of a resource equalization grant as part of the **G.N.W.T.** funding formula would be appropriate. This approach, which is used in the tax-based communities, could be made universal throughout the Territories. However, rather than using property assessment as the basis for the grant, a factor such as composite income would be more relevant (to measure ability to pay) and easily obtained (based on Federal data published annually). The grant would operate so as to place poorer communities in the upper end of the **G.N.W.T.** funding range representing a basic service level and richer communities at the lower end of that range, on the theory that the **latter** have the ability to upgrade services without imposing an onerous local tax burden.

The question of the dormitory community, or on a broader level, a whole region which is impacted to varying degrees by a pipeline, for example, is more difficult to deal with. The question relates to the circumstances under which a nearby community or region, rather than **G.N.W.T.**, has claim to potential tax revenues. Where a significant percentage of the employees working at the resource property, reside in one community, the right to property tax the facility could be extended to that community. This is particularly appropriate where the resource places development and financial requirements on existing community residents.

Where more than one community is affected, and to varying degrees, it may be appropriate to assign the potential revenues to the region, although the vastness of the **N.W.T.** regions involved, dilutes the local impact of so doing. The alternative, in the case of major facilities such as the Norman Wells pipeline, would be to establish an impact area which would benefit from the tax increase. Or finally, the assessment could be left with the **G.N.W.T.**, possibly with the provision that the annual rate of increase in the municipal formula funding arrangement be improved throughout the **N.W.T.**

6. WHAT ARE THE IMPLICATIONS OF USING ALTERNATIVES IN THESE AREAS? (Cont'd)

The fourth situation raised in item d) related to the "fly-in" type of property not receiving normal community services. There certainly is wide precedent for taxing properties of this nature, such as pipelines. In addition, although services may not necessarily be provided on-site by any particular community or the G.N.W.T., the enterprise is undoubtedly benefiting from residences, supplies, amenities, labour, airports, health, protection or commercial services provided in the N.W.T. It should bear a reasonable share of the cost of providing those services and the related infrastructure, particularly when N.W.T. costs are so high. The stimulation of employment in the Territories is of the highest importance and taxes should not be imposed to the detriment of that goal. However, we have found no evidence to suggest that significant problems are being created in that regard.

7. ARE THERE AREAS OF THE N.W.T.  
FOR WHICH PROPERTY TAXATION IS  
APPROPRIATE?

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WHICH PROPERTY TAXATION IS APPROPRIATE?

In 1985, the seven tax-based municipalities generated \$14,637,000 in property taxes, which appears to be the third richest public revenue source in the Territories, next to contributions from Canada (\$398,557,000) and Income Taxes (\$43,985,000).

This is a very significant tax base which is in place, functioning quite successfully by all reports and should be furthered. Concerns have been expressed about some of the tax-based communities, including a significant financial shortfall in Fort Simpson, a precarious assessment base in Pine Point and a paucity of private taxpayers in Frobisher Bay. These problems are real but they do not diminish the viability of property taxation as a source of revenue for the municipalities involved. Fort Simpson's problem is not simply a property tax deficiency (it billed \$420,000 in taxes in 1985, including payments in lieu). Its financial problems could be overcome by fine-tuning its budget and/or the funding formulas and equalization grants.

Pine Point's precarious position relative to the possible mine closing affects its future ability to generate local revenues of any sort, whether property taxation, income tax, sales tax, user charges, etc.

This situation is a fact of life in a resource community and does not reduce the applicability of property taxation.

The issue in Frobisher Bay concerning tax coverage can be dealt with locally via a poll tax, property users' tax or the like, if the situation is creating strong feelings about a potential inequity.

Similar comments may be made about communities such as Norman Wells, Tuktoyaktuk, Nanisivik, Rankin Inlet and Tungsten.



7. ARE THERE AREAS OF THE N.W.T. FOR  
WHICH PROPERTY TAXATION IS APPROPRIATE? (Cont'd)

The remaining communities offer some property tax potential, with local attitudes representing an important factor in the decision to move toward a form of tax-based status. These communities include: Cape Dorset, Pangnirtung, Cambridge Bay, Coppermine, Aklavik, Fort McPherson and Fort Providence.

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8. HOW CAN THE N.W.T. SYSTEM OF LOCAL  
GOVERNMENT FINANCE BE IMPROVED  
IN THESE AREAS?

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GOVERNMENT FINANCE BE IMPROVED IN THESE AREAS?

Our work to date has revealed a variety of questions and concerns about assessment-related procedures in the Territories. These are briefly summarized below as a basis for further **discussion**:\*

- 8.1 Basis for special assessment reductions for Giant Yellowknife, Cominco and Pine Point mines.
- 8.2 Reason for treating industrial and resource assessment the same as residential assessment regarding mill rates, lack of business assessment and land valuation.
- 8.3 Concern with the split responsibility for tax billings, collections and accounting, although better accountability can be achieved through improved reporting systems.
- 8.4 G.N.W.T. assessment rolls for the tax-based communities are not fully reconciled to those billed by the tax-based municipalities, and this reconciliation should be part of the system.
- 8.5 Similarly, the summary of assessment and taxes billed should reconcile with figures which go into the Territorial accounts.
- 8.6 G.N.W.T. assessment files for a random sample of major resource properties were incomplete and poorly organized. properties as

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\*It should be noted that we found John Hodgson and his Assessment staff to be very helpful in our research work. We appreciate the difficulties involved with the high turnover rate in senior and other staff in recent years and offer the following observations in a constructive manner.

8. HOW CAN THE N.W.T. SYSTEM OF LOCAL  
GOVERNMENT FINANCE BE IMPROVED IN THESE AREAS?

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important as Giant Yellowknife and the Nani Sivik Mine should receive priority and special attention.

- 8.7 Assessment information relative to the Headquarters Roll is incomplete and difficult to access. Given the major resource assessments about to come in the roll, the applicable maps, calculations, inventories, assessor's notes, files and management summaries should be better organized.
- 8.8 There is a real lack of policy and management-type information of the type assembled in Volume 2. Appropriate formats should be set and updated annually for comparative purposes. There is a real lack of historical data for assessment, annual reports, etc.
- 8.9 There is a need to prepare an Assessment Manual which explains and illustrates the assessment **practises** used **in** a clear and complete fashion. The manuals which exist are becoming dated and do not fulfill this function.
- 8.10 Time limits are not provided for the **Commissioner** (section 20, Taxation Act), and for the Council (section 229, Municipal Act) respectively in which to conduct their review of the Assessment Roll. Assessment practice where it is a fundamental part of the annual budgetary process of a municipality requires explicit time limits. This is a more important consideration in the tax-based communities under the Municipal Act.

8. HOW CAN THE N.W.T. SYSTEM OF LOCAL  
GOVERNMENT FINANCE BE IMPROVED IN THESE AREAS?

- 8.11 The striking of a mill rate by a municipal community is an important aspect of local self government. If a community is not to determine its expenditure level and then take responsibility for raising these funds on the rateable property within the community, an important reason for taxation based on the value of real property is lost.
- 8.12 The Acts appear to make no provisions dealing with supplementary realty assessment for construction completed during the currency of a tax year. Nor is the question of at what point an assessment becomes taxable, dealt with in any detail.
- 8.13 Significant collection effort is being expended to collect very small amounts of taxes in a number of cases.
- 8.14 S.56(1) of the Taxation Act indicates that taxes are due on June 1 and s.56(3) calls for interest to be charged on unpaid amounts as of September 1. Our understanding is that interest is not, in fact, charged until January 1. Municipal taxes do not appear to be payable until October 31.
- 8.15 Concern re the apparent inaccessibility of hamlet assessment rolls other than for 30 days annually.
- 8.16 Regulation 173 called for the application of a wholesale factor to uprate the old 1963 costs to represent 1977 Edmonton costs. This wholesale uprating by a single factor for whole classifications of property merely continues and magnifies any inequities involved in the old assessment and encourages assessors to bring in revised assessments without full inspections of all properties.

8. HOW CAN THE N.W.T. SYSTEM OF LOCAL  
GOVERNMENT FINANCE BE IMPROVED IN THESE AREAS?

- 8.17 From the figures provided in "City of Yellowknife General Reassessment, 1983", it appears that the assessor has relied entirely on vacant land sales to establish land values without recourse to calculating land residuals. This approach is very suitable for determining land values for apartment buildings and large commercial buildings; the very class of property which has such extraordinarily low land assessments in this study. The rentals are capitalized and the depreciated building value is deducted, leaving the land value as a residual.
- 8.18 It may be argued that the average development costs which are used as the basis for calculating land assessment should be applied uniformly in the remote areas of the Territories, rather than using the four different regions in the "Handbook of Land Assessment". Thus, as one travels farther and farther north with attendant added costs or where circumstances such as bad terrain add to survey fees, or where legal fees are more than usual, the communities that happen to suffer these added initial costs are not taxed on them for eternity.
- 8.19 Assessment policy relative to considering land claims and assessments on unowned properties is unclear.
- 8.20 Question as to whether it is, appropriate to assess machinery, particularly in the case of a mine such as Giant Yellowknife which has been operating for decades and where the cost and depreciation calculations are becoming increasingly complex and theoretical.
- 8.21 A large number of communities are scheduled for the six year reassessment during the next few years. Is the Assessment Division staffed to meet the demand?

8. HOW CAN THE N.W.T. SYSTEM OF LOCAL  
GOVERNMENT FINANCE BE IMPROVED IN THESE AREAS?

- 8.22 Question re the blending of replacement cost and market value assessment (latter in tax-based). It may be questionable practice to use full replacement cost for pipelines, for example.
- 8.23 It may be desirable to have all communities onto the same assessment base year, so that tax and assessment comparisons are facilitated.

9. IS PROPERTY TAXATION AN APPROPRIATE  
MEANS OF FINANCING SCHOOL COSTS  
IN THE N. W. T. ?



9. IS PROPERTY TAXATION AN APPROPRIATE MEANS OF  
FINANCING SCHOOL COSTS IN THE N.W.T. ?

In 1985 property tax billings for school purposes in the N.W.T. amounted to a total of \$4,377,000, made up of the following three components:

		<u>%</u>
Taxation Areas (Hamlets, Settlements & HQ Rol 1 )	\$1,012,300	23.1
<b>Yellowknife</b> School Boards	2,275,297	52.0
Remaining Six Tax-Based Municipalities	<u>1,089,028</u>	<u>24.9</u>
	\$4,376,625	100.0

This amount represents 26% of total property taxes billed in the N.W.T., despite the fact that the **school** mill rate in the taxation areas represent 48% of total (12 mills out of 25). This is because mill rates in the seven **tax-based** municipalities for general purposes have risen in line with annual budgetary requirements, whereas **school** rates have remained frozen at the equivalent of 12 **mills** on a 1963 assessment base. The only tax-based municipality still on a 1963 assessment base is Hay River, where the school rate is 11.7 mills. The rates have fallen to the equivalent of 12 mills, in line with reassessment in the other municipalities (except for **Yellowknife**). As a result, the following mill rate relationship exists:

	<u>%</u>	<u>%</u>	<u>%</u>
	General	School	Total
<b>Inuvik</b>	80.9 "	19.1	100
<b>Frobisher Bay</b>	88.8	11.2	100
Hay River	74.4	25.6	100
Pine Point	85.4	14.6	100
Fort Simpson	83.0	17.0	100
Fort Smith	81.8-83.3	16.7-18.2	100
<b>Yellowknife</b>	65.6-68.0	32.0-34.4	100

9. IS PROPERTY TAXATION AN APPROPRIATE MEANS OF  
FINANCING SCHOOL COSTS IN THE N.W.T.? (Cont'd)

The situation in Yellowknife is unique in the Territories, where two local boards exist and receive a portion of their funds (20.7% in 1985, in the case of the public board) through locally-generated property taxes. This subjects school mill rates in Yellowknife to similar budgetary pressures to those existing for general purpose expenditures in the tax-based communities. This has resulted in **Yellowknife's** school mill rate maintaining a larger share of the City's overall mill rate.

In the other six municipalities, the school share has fallen steadily from 48% to 11-19% and will continue to decline, if the system remains unchanged. This means that the real value of the funds generated for school purposes has declined substantially over the period.

This situation is of limited or no significance to the provision of education in the Territories in that the funds are not, in fact, earmarked or directed for school use. The Main Estimates document credits the operating income involved against the assessment function in the Department of Local Government and not against Education. This may not be important, given the Consolidated Revenue Fund operation, however. Of greater significance is the fact that the Department of Education spent \$86,000,000 in 1983/84, with revenues (primarily from transfer payments) of \$8,000,000. Thus, the school funds raised via property taxes in the Territories represented only 5.6% of this operating "deficit".

The question arises as to whether there is any real purpose served, outside of **Yellowknife**, in having **G.N.W.T.** collect property taxes for education purposes. \$2,100,000 in revenues are involved and this amount should grow significantly as pipeline, artificial island and other assessment becomes taxable. These are significant amounts of money which could be dealt with in a variety of ways:

9. IS PROPERTY TAXATION AN APPROPRIATE MEANS OF  
FINANCING SCHOOL COSTS IN THE N. W. T. ? (Cent' d)

- a) Maintained, through the status quo.
- b) Increased, by **annually** escalating the mill rates **involved**.
- c) Allocated to the local communities as additional tax room.
- d) Eliminated.
- e) Maintained or increased, but as part of the general mill rate, rather than the education rate.

Our preference is alternative (b), for the following reasons:

- There are numerous precedents across Canada for collecting property taxes for education purposes. In Ontario, for example, they represent 50% of total.
- Education represents one justification for the property' taxes levied in the Territories and it may be unwise, particularly relative to hinterland resource development, to act so as to deny this **requirement**.
- If the School Board and taxation system is to be continued in Yellowknife, because it is functioning acceptably, it is appropriate to be consistent throughout the **N.W.T.** This would involve continuing to include a property tax component elsewhere - and at an increasing rate, in line with costs and budget-based mill rates.

9. IS PROPERTY TAXATION AN APPROPRIATE MEANS OF  
FINANCING SCHOOL COSTS IN THE N. W. T. ? (Cont' d)

- Since 48% of the property taxes in hamlets and settlements are for school purposes, it may be appropriate to require communities where property taxation is no longer to be used, to raise an equivalent amount of money through other means (poll tax, tuition fees, etc.), if consistency and equity is to be maintained throughout the Territories.
- Eliminating the tax or providing it as tax room to the communities would represent an unnecessary concession by G.N.W.T., which would not serve any real purpose.

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