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N.w.t. Property Tax Review - Volume 3 - Summary And Conclusions Catalogue Number: 9-5-244

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C.N. Watson and Associates Ltd.
ECONOMISTS

N.W.T. PROPERTY TAX REVIEW

VOLUME 3

SUMMARY AND CONCLUSIONS

APRIL 1, 1986

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

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April. 14, 1986

Mr. Gary Vanderhaden
Director, Policy and Legislation
Government of the Northwest Territories
Department Local Government
YK Centre Building, 3rd Floor
P.O.Box 1320
Yellowknife, N.W.T.
XIA 2L9

Dear Sir:

Re: N.W.T. Property Tax Review

As, requested, we enclose five copies of our three volume report on the above subject. We also enclose a set of originals and supply of covers in order that additional copies may be made in Yellowknife, as required.

We believe that the recommendations and conclusions set out in the Executive Summary of Volume 3 are sound and should be implemented on a phased basis by the Government. Modifications of this nature to the property tax system are important if it is to be adapted to the unique economic and cultural circumstances which exist within the Territories.

Our firm and the others involved in the review have enjoyed working on this challenging assignment. We look forward to the possibility of doing additional work in Yellowknife, should the opportunity arise in future, and wish you and your colleagues every success in the interim.

Yours truly,

C.N. WATSON AND ASSOCIATES LTD.

C. N. Watson, C.M.C.

Enclosures

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EXECUTIVE SUMMARY

The purpose of this five month review was to evaluate the effectiveness of the property assessment system used in the N.W.T., including comparison with practices found in other Canadian jurisdictions and evaluation of the impact of possible modifications or alternatives on the Territories.

The review was undertaken by a five-firm consulting team with acknowledged expertise in municipal assessment, N.W.T. communities, assessment law, taxation and economics and municipal finance. The Study Co-ordinator was the Director, policy and Legislation, Department of Local Government.

The conclusions in this volume have evolved as part of a process which included two months' research followed by the issuance of "Volume 1 - Issues Paper" and "Volume 2 Data Base" early in January. This was followed by review sessions with numerous G.N.W.T. officials in mid and late January. Final analysis and consideration during February resulted in the drafting of this volume. The latter was discussed with G.N.W.T. officials in late March and all three documents were issued in final form in mid-April.

The major findings of the study are summarized as follows:

1. As clearly outlined in Volume 1 of this report, the property tax system in the N.W.T., as it is presently administered, fails to meet many of the basic principles and objectives of taxation. Outside of the seven tax-based municipalities, the property tax is not broadly-based and is paid by a small minority. It is not linked to the spending intentions of local government. The amount of taxation per property unit has been unchanged for two decades. A number of settlements and other development areas are not yet part of the system. The assessment process is complex and not widely understood - it is also relatively costly to administer in small, remote communities. Land assessment is difficult in the face of land claims and the limited private market. This is essential if local municipal councils' are to be in a position to make spending decisions on a fully responsible and accountable basis.

2. Despite all of these weaknesses we believe that individual communities do require a fair means of raising local revenues. As a result, we recommend that the N.W.T. property taxation system be modified and made available to more local councils as a means of raising funds for priority projects and services not eligible for funding by G.N.W.T. or the Federal Government.

3. The system of local government in the N.W.T. is comparatively very young and there is a need to provide a sound local government finance structure which communities can "grow into" in future decades. It will only be possible for communities to realize the full benefit of a local tax system in future, if they have accumulated some experience with it in the interim.

4. In the numerous small, low-income communities, where the vast majority of the population has a limited ability to pay, there still remains a clear requirement for some share of costs to be borne by residents. This is fundamental to the maturing of local government and holding everyone in the Territories responsible for contributing toward the cost of the municipal services they receive.

EXECUTIVE SUMMARY (Cent'd)

5. The recommended philosophy underlying the municipal formula funding system is that communities be provided with-up-to 100% of the funds required for providing a standard, basic level of essential municipal services. G.N.W.T. funding should be made available as a gradually diminishing percentage of expenditures beyond that level. This approach would oblige communities to raise money locally only if they wished to, and could afford to finance discretionary services. It would also encourage closer scrutiny of spending at the local level and reduce the accumulation of grant surpluses, by virtue of the fact that locally-raised funds were involved. This approach involves looking to local councils to determine, collect, expend and justify property taxes or other local revenues for their communities, as soon as the funds, the political will and the administrative competence are present.

6. There is a continuing need for the Department of Local Government to work with hamlets in matters of budgeting and local revenue generation. There is also a need, in introducing these policy recommendations, for M.L.A.'s and others to be consulted in advance of a legislative proposal, in order to avoid confrontation and to produce the most workable recommendations. It is vital that local councils understand and accept the underlying principles involved, and look on them as a challenge and an opportunity, rather than as an imposition.

7. There are a variety of means available to communities for raising their share of local operating and capital costs, including user rates, local improvement charges, lot levies, service franchises, licence fees, penalty charges, special event profits, volunteer labour, etc. - property taxation is but one approach to be pursued, although it is the most widely-used option in Canada.

8. Where there is a real desire to raise more funds from residents for community purposes, one readily available means is to expand the coverage of the user rates for water delivery, waste removal and other services. The justification for these charges is readily at hand. It is less appropriate to adopt more elaborate revenue generation schemes, such as income tax sharing or local sales tax, where the more immediate forms of revenue generation are not being fully capitalized upon.

9. We believe that it is very important that tenants, as well as owner-occupiers, throughout the N.W.T. receive a property tax bill and pay it presumably to N.W.T.H.C., if necessary with the benefit of a property tax credit on income tax or a subsidy from N.W.T.H.C. or their employer (of up to 90% of the tax bill, for example). The majority of the residents of the N.W.T. are tenants and, as a result, are excluded from an important aspect of local government. Unless they are ratepayers, they are not permitted to vote on money by-laws and do not have a full financial stake in community decision-making.

This is a problematical area to deal with in terms of:
- potential unpopularity with tenants;
- clarifying owner vs. tenant responsibilities;
- C.M.H.C. subsidy impact;
- difficulties created by tenant mobility and other administrative requirements.

EXECUTIVE SUMMARY (Cent'd)

Nevertheless, it is essential that a way be found to give all residents at least this minimal responsibility as part of financing local government. Without this change being effected, property taxation accomplishes very little in most N.W.T. communities and a tax-based operation is not feasible, because the vast majority of the real estate is publicly owned.

10. The G.N.W.T practice of maintaining the 25 mill rate (or equivalent) constant is questionable, since it produces taxes which are unrelated to the expenditures and financial requirements of individual communities. It also acclimatizes N.W.T. taxpayers to paying nominal taxes which do not grow with costs and incomes, and are ever-increasingly subsidized by the G.N.W.T. G.N.W.T. mill rates should be realigned to higher levels, on a phased basis and increased annually thereafter based on an index. It is noted that the level of property taxation imposed in tax-based municipalities such as Yellowknife and Frobisher Bay, is consistent, on a per capita basis, with levels prevailing Ontario, for example. Mill rates in most of the hamlets are equivalent to approximately 10-15% of this level.

11. Assessments should be kept "pure" in terms of their reflection of value, without modification for services provided, revenue objectives or other factors (e.g. Giant Yellowknife Mine assessment markdown). Revenue policy goals can then be pursued in terms of mill rate variances or special subsidies. It is recommended that the mine and other assessment anomolies be eliminated, with any alternative financing negotiated by the municipalities involved. Outright tax forgiveness or remission for assessed properties should not be permitted.

12. The aim is to ensure that the property tax system is applied with consistency and without exceptions. All properties (other than designated public property) should be assessed and on the same basis. All properties within designated areas should be taxed on the basis of a set of published mill rates. Residents requiring financial assistance and businesses facing economic hardship should apply for subsidies from the Housing Corporation, Economic Development and/or other suitable agencies, outside of the property tax system.

13. The major areas where the N.W.T. system of property taxation and assessment differs from practice elsewhere in Canada, are as follows:

a) A number of moderately sized communities in the N.W.T. are still unassessed, which is not common practice in most of Canada. It is recommended that these communities be assessed during the next several years.

b) The N.W.T. assesses improvements at 66-2/3% of value, whereas the majority of the Provinces surveyed use 100%. The percentage is arbitrary, but the use of a factor less than 100%, facilitates the justification for the assessment in serious recessionary periods. It also serves to encourage property development and improvement, as opposed to land-holding.

c) The N.W.T. does not use business assessment or a higher mill rate for non-residential properties, whereas most Canadian jurisdictions use both. In addition, by using outdated assessments, Ontario, in effect, assesses commercial/industrial property at a significantly higher percentage of current value, than for low density residential. It is recommended that the G.N.W.T adapt split mill rates alone and avoid the other two practices.

d) Organizationally the Chief Assessor in the N.W.T. is three levels below the Deputy Minister, whereas the norm elsewhere in Canada is for him to report directly to the Deputy Minister. It is suggested, as a compromise, that the function report to the A.D.M.

14. Figure 1 illustrates the type of mill rate relationships which are recommended for legislative determination in the N.W.T.

- Residential development would be levied two-thirds the mill rate of industrial/commerical development, with local small business and capital intensive industry levied at three-quarters of the full rate. These relationships are based on a rationale which considers ability to pay and servicing requirements;

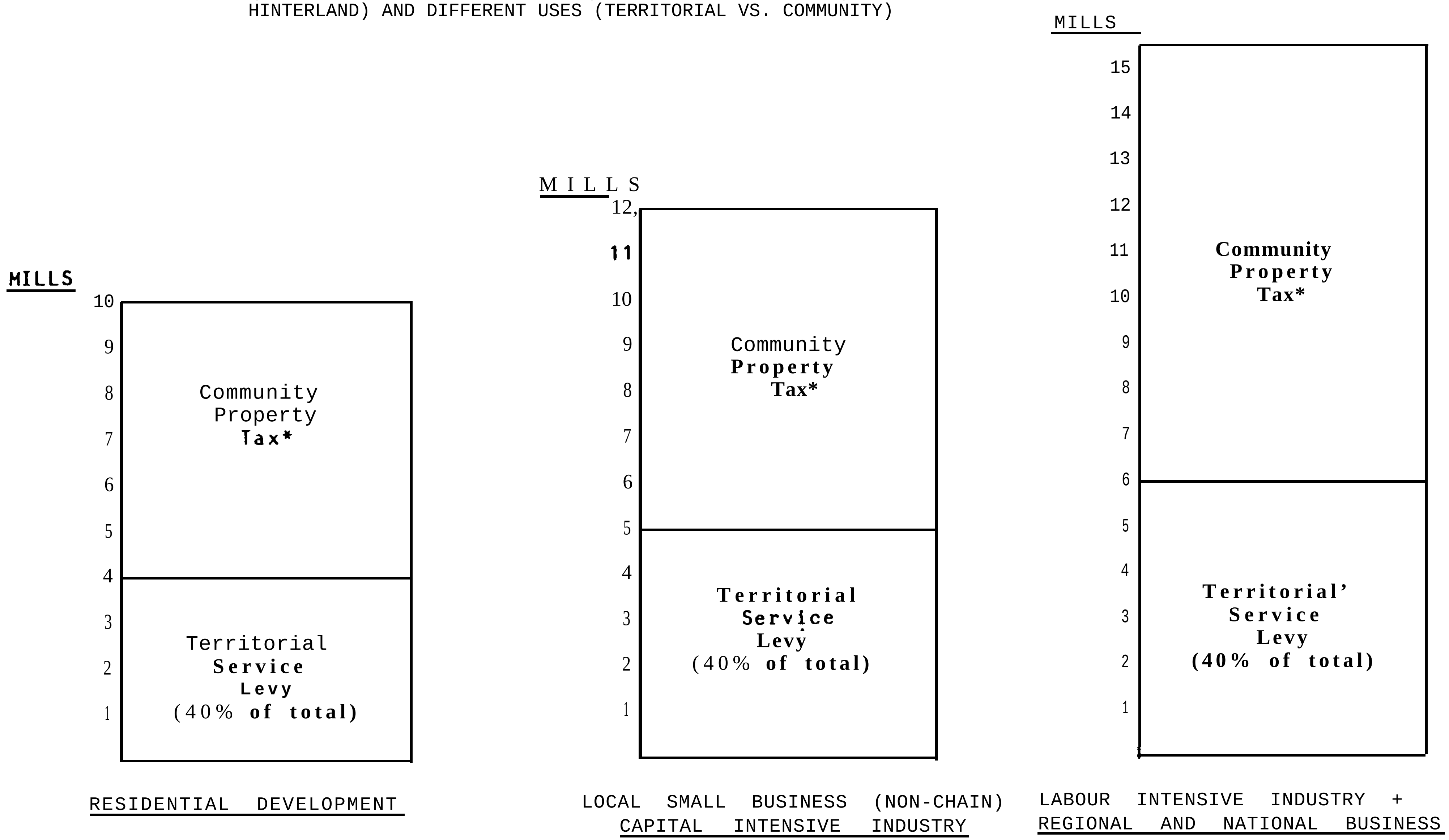
- The tax is divided into two components, the Territorial Service Levy, suggested as 40% of total, and the Community Property Tax as the balance. The latter is locally-determined in tax-based municipalities. It could even be locally-determined, collected by the G.N.W.T. and remitted to the community as part of its funding formula, prior to full tax-based status being achieved;

- Development in the hinterland would pay the Territorial Service Levy only. The lower charge is appropriate, since this development does benefit, directly or indirectly, from G.N.W.T. investment in municipal infra- structure and health, education, protection, transportation, regulatory and other services throughout the Territories, but not to the same extent as development within a community;

- Finally, development in the "community fringe" (where the majority of the employees regularly commute to a particular community), would pay the Territorial Service Levy, plus a portion (e.g. 50%) of the Community Property Tax.

15. It is necessary to establish the overall "ability to pay" for one community vs. another, as part of providing a basis for G.N.W.T. grant support. A community such as Pelly Bay with low incomes, high living costs and little local business, requires more grant support per capita for a given level of municipal service than does Yellowknife, with its size and economies of scale, diversified economic base and very high average income levels. The G.N.W.T. funding formula for communities should make provision for these fundamental differences.

FIGURE 1: EXAMPLES OF MILL RATES BASED ON 1980 ASSESSMENT BASE FOR DIFFERENT TYPES OF PROPERTY (E.G. RESIDENTIAL VS. RESOURCE) DIFFERENT LOCATIONS (COMMUNITY VS. FRINGE VS. HINTERLAND) AND DIFFERENT USES (TERRITORIAL VS. COMMUNITY)



● Developments closely linked to a community by regular commuting patterns would pay 60% of the community property tax plus the Territorial Service "Levy.

Note: Only the Territorial Service Levy would, be imposed for hinterland development not part of a community fringe.

EXECUTIVE SUMMARY (Cent'd)

16. A similar house on a similar lot in Pelly Bay and Yellowknife should be assessed at a similar value (apart from the land value premium assigned by the market to the Yellowknife location). The mill rates and property taxes can be expected to be higher in Yellowknife, however, since the level of municipal service provided is higher and the G.N.W.T. grants (per capita) are lower based on the difference in community wealth and ability to pay.

17. The present school rate, which varies from 11-48% ofthe mill rates levied by the Territories and the tax-based communities, should be incorporated into the general Territorial charge for the taxation areas and the tax-based municipalities, outside of Yellowknife. The alternative is to maintain the school charge, setting the mill rate so as to yield a fixed percentage of net expenditures by the Education Department.

18. The need to promote economic development, reduce unemployment and broaden the tax base is of fundamental and obvious importance to the N.W.T. Generally, the taxes levied should not be greater than property taxes charged for similar facilities in remote northern environments elsewhere in Canada. The taxes should also reflect the cost of municipal services provided by the G.N.W.T., the community and the business involved. Finally, they should diminish with depreciation, "moth-balling" and demolition of the facilities involved. Businesses should clearly understand the "rules of the game" relative to a clear and stable taxation and assessment system and receive credit for the contribution they are making. Businesses encountering economic hardships should be able to appeal to the Department of Economic Development for special grants. Assessments or mill rates should not be reduced on an ad hoc basis, as this can invite exceptions, pressure, and the creation of a patchwork system of property taxation.

19. In order to make the property tax system more understandable to those newly involved with it, the concept of "mill rate" should be replaced by the concept of a "percentage tax rate", which is similar but clearer.

20. Where the G.N.W.T. collects property taxes for its own purposes, the tax should be the same for an equivalent property, irrespective of the community it is located in. The basis for the assessment should be the Alberta cost manual factors, increased by a single local modifier or Northern Cost Allowance. The use of a common base year and local modifier throughout the Territories puts all assessments into a common framework. Mill rates can be adjusted by a compensating amount, in order that any assessment adjustments would have limited impact on the property tax burden. However, studies of tax incidence are required in order to establish the rate of "catch-up" which is feasible in the short term, relative to the G.N.W.T.'s freeze on Territorial mill rates during the past 19 years.

21. Land valuation is one of the weaknesses of the G.N.W.T. assessment system, as a result of a lack of market, differences between development costs and disposal prices, land claims, variances in fill requirements, etc. It is concluded that in communities such as Yellowknife, where there is an active arms-length market for land, market value should be the basis for valuation.

EXECUTIVE SUMMARY (Cent'd)

In the majority of the N.W.T. communities, where this market does not exist, the basis for valuation should be a defined formula. (These communities can be identified by regulation.) This formula should be set out in the Assessor's Manual so as to provide a clear basis for establishing the value of a given site, expressed as a percentage of the value of a standard benchmark site. Variances from the benchmark value should relate to factors such as site size, shape, topography, soil conditions, road access, sewer, water and other services, view, zoning (i.e. G.N.W.T. sells commercial land at a 100% premium over residential) neighborhood, proximity to valued facilities and other site characteristics having value in use or utility. The value assigned to the standard benchmark site, should represent an average cost required to acquire raw land and to place it in buildable condition. The average cost may be calculated for a subdivision, a community, a geographic region or the Territories as a whole. Our recommendation would be the use of averages for several broad geographic regional averages considering environmental differences such as perma-frost.

22. A longer general re-assessment cycle, in the order of ten years, is appropriate for most of the hamlets and settlements, as part of simplifying the assessment process. During this interval, the assessment roll should be updated annually, using available data concerning construction, renovation, demolition and rezoning. This approach would not unduly compromise the integrity of the assessment process. The exceptions to this ten year cycle include the tax-based municipalities and other growth centres such as Norman Wells, Tuktoyaktuk, Nanisivik, Rankin Inlet, Resolute Bay and major hinterland sites. General re-assessment conducted on a cycle of approximately four years, would be desirable in these areas. Ideally, all communities within each individual region would be reassessed in the same year, in order to maintain comparability. Assessment of the remaining settlements and unincorporated areas in the N.W.T. should be scheduled during the next several years, so as to generate additional revenues, provide consistency, experience with this form of local taxation and freedom from discrimination.

23. The question of property assessment of machinery and equipment should be examined in-depth by a G.N.W.T. assessor specializing in the resource industry. Present practice in the N.W.T., whereby fixed machinery and equipment are assessed, is consistent with practice in the Yukon, Alaska, Alberta and Ontario and is not a major issue with the local resource industry, although a review and rationalization of the system would be welcomed.

24. The foregoing should be reflected in the revised Municipal and Taxation Acts. In addition, Volume 3 makes a number of technical observations on the existing Acts.

25. It is important that the Department of Local Government compile and regularly publish more management and program review information relative to assessment and property taxation as suggested in the report. Much of this information can be computerized and integrated with related work already being done. The Department is currently adapting its computer system for this purpose.

EXECUTIVE SUMMARY (Cont'd)

26. Largely as a result of the "local modifier factor" used, tax rates are inexplicably high in Norman Wells, Nanisivik and Arctic Red River and low in Holman Island, Fort Providence and Fort McPherson. Modifications should be considered for the assessments or mill rates involved.

27. The organization of the Assessment Office should be realigned as follows:

   a) Creation of three groups: operations, research and training and support services, with the-Chief Assessor reporting at a senior level such as the Assistant Deputy Minister. The latter is consistent with practice in the provinces and the sensitivity and importance of the legislated assessment function.

   b) The Operations group should be organized on a regional basis, with "line" operations responsibility for all assessments, including scheduling and quality control. Staff are appropriately located in Hay River and possibly Inuvik field offices, in addition to the Yellowknife Headquarters.

   c) The research and training section should focus on policy and procedures, training and providing specialized expertise in several difficult and high value assessment areas, namely mines, oil and gas, land and public facilities. These staff should operate as functional specialists in a matrix relationship to the line assessors.

   d) Support services should focus on expanding computerized systems, the security and completeness of central assessment files and records, and reconciliation of assessment rolls and tax billings.

   e) Each of the three areas should be headed up by a Manager, thereby providing additional "career path" opportunities for staff the Department is seeking to retain and providing management support and potential successors for the Chief Assessor.

   f) Staff requirements for Assessment are in the order of 22 persons, if basic functions are to be covered.

28. The G.N.W.T. has examined the question of property taxation and local government finance on numerous occasions during the past decade. However, the system used remains fundamentally unchanged. We believe that the time has come for a number of basic improvements and modifications to be made.

ACKNOWLEDGEMENTS

The consultants would like to extend their appreciation to Mr. Gary Vanderhaden, Director, Policy and Legislation, Department of Local Government, who acted as Study Co-ordinator and provided very valuable guidance and assistance throughout this four month review. Mr. John Hodgson, Manager of Assessment, whose operation was, directly and indirectly, the subject of this review, was most co-operative and helpful as we familiarized ourselves with assessment practice in the N.W.T.

We are also very appreciative of the time that N.W.T. Ministers spent with us in discussing property taxation issues, including the Ministers of Local Government, Finance and Social Services.

Finally, senior staff in the Departments of Local Government, Finance, "Justice and Economic Development, along with the municipal and association representatives we met with, and Assessment Directors across Canada provided a great deal of useful information and perspectives in the course of this very interesting study.

1. INTRODUCTION

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1.1 Terms of Reference

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 N.W.T. 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."

1. INTRODUCTION (Cent'd)

1.1 Terms of Reference (Cent'd)

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)."

This review was undertaken, in part, to ensure that the assessment system being employed in the N.W.T. continues to be responsive to the major resource-based opportunities being pursued in the Territories. The system must also respond to the need to continue to foster and build sound municipal governments and to the environmental and cultural differences which exist in the Territories and, in many cases, call for approaches which are uniquely suited to these differences.

1. INTRODUCTION (Cent'd)

1.2 Previous Property Tax-Related Studies

This review follows on a number of property-tax related studies conducted by the G.N.W.T. 1977-1985. These include:

"Local Finance Study in Hamlets and Settlements" September, 1977, which concluded that there may be alternatives to the property tax with potential for generating small amounts of revenue. Ultimate choice among these alternatives would hinge on "... social, political, economic, administrative and legal issues".

"Responsibilty and Local Revenue", January, 1979 concluded that property taxation is the most practical revenue source for senior municipalities. When supplemented by a property users' tax it is also applicable to communities where there are few direct property taxpayers. It was suggested that 25% of the tax proceeds be discretionary, with 75% applied against local operating budgets.

"Constitutional Development in the Northwest Territories", January 1980, noted that 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; nevertheless, it was concluded that the objective for local councils should be the assumption of authority and responsibility for resource allocation and accountability for raising revenues and establishing the overall community budget level.

The solution recommended was the provision of general purpose funds through block transfers on the basis of a formula, supplemented by locally-raised revenues, in order that local councils would be forced to make spending decisions within the resources available. In order to avoid disincentives, the amount of locally-raised revenues should not affect the block transfers.

It was thought that this approach, together with the extension of property taxation to all communities, would eliminate the current distinction between tax-based and non tax-based communities.

In preference to a property users' tax, this study recommended the use of premiurn utility charges for above-average consumption,in order to avoid causing hardship for those least able to bear the burden of increased taxes.

1. INTRODUCTION (Cent'd)

1.2 Previous Property Tax-Related Studies (Cent'd)

- "Municipal Funding Working Group Interim Report", July, 1983, concluded that the preferable alternative was to 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.

- "Municipal Revenue Generation, Options Paper", January, 1984 noted that general agreement had been reached on criticisms of the property tax system but the income tax option was unsuitable for implementation for the foreseeable future. The report reviewed 20 local revenue options, most of which were already used or could be introduced when the new legislation was passed. These included property taxes, property users' tax, municipal sales tax, special flat rate levies, liquor/tobacco excise taxes, amusement tax, business licenses, road/vehicle licenses, liquor permits, development permits, franchise permits, municipal service fees, recreation fees, rentals and leases, ambulance fees, library fees, fines, land leases and sales, contracts and cable T.V.

- "Municipal Service Rates", March 1985 examined the problem of unpredictable and sometimes significant increases in municipal service charges for water and sewerage within many hamlets. The recommended solution involved charging commercial users 0.4$ per litre and 0.2$ per litre to residents. Government users would pay full economic rates.

- "Revenue Initiatives Study", June 1985 identified a variety of additional tax revenue sources in the Territories, including higher income taxes, sales taxes, payroll taxes, etc. Relative to property taxes it observed that the occupancy tax and flat rate levy have the advantage of broadening the tax base and making some of the cost of local services more explicit to local residents. It recommended that property taxation should be maintained throughout the Territories as a legitimate and significant form of taxation which can support local governments directly; tax rates should be maintained and updated at similar levels throughout the Territories, considering the level of services provided; although property taxes may not be well- -suited to education finance, there is no apparent reason why G.N.W.T. should abandon this portion of its property taxation.

1. INTRODUCTION (Cent'd)

1.3 Study Approach

The N.W.T. Property Tax Review was conducted over the November 1985 - March 1986 period by C.N. Watson and Associates Ltd. in association with the four firms/ individuals noted below. Research trips were made to Yellowknife by the consultant in early November, mid-November and early December followed by the issuance of:

"Volume 1 - Issues Paper"
and "Volume 2 - Data Base"

in early January, 1986. These reports reflected the research input of Yellowknife-based Fee Yee Consulting Ltd. and the assessment research of Mr. F.H. Finnis, M.B.E., F.I.M.A., Local Government Consultant. Input to the reports and a review of them was provided by Dr. John Bossons, Professor of Economics, University of Toronto and Chernos, Conway and Hutchinson, Barristers and Solicitors. The information contained in the reports was obtained from G.N.W.T. data and documents and interviews with officials in Local Government, Finance and Justice as well as other municipal and provincial officials across Canada.

These reports were reviewed with the Minister of Local Government and a number of Local Government and other officials in mid-January. As a result, a much briefer discussion paper was prepared, discussed and revised at that time. The consultant was involved in another series of discussions on the report in late January, this time involving Ministerial and/or Deputy Ministerial officials in four different departments.

Using this input, the third and final component of the review was prepared ("Volume 3, Summary and Conclusions"). It was submitted to the client in draft form at the end of February and reflected the insights obtained throughout the study and resulted in a number of very significant refinements and modifications to the interim conclusions of mid January. Meetings were held in late March in order to obtain comments on the draft from officials in Local Government, Finance and Justice and the three documents were finalized early in April.

2. THE N.W.T.'S CURRENT SYSTEM OF PROPERTY TAXATION

2. THE N.W.T.'S CURRENT SYSTEM OF PROPERTY TAXATION

2.1 The N.W.T. Municipal Environment

The population of the Territories, as of December 1984, was 50,454. 50% of this population and 68% of the employed labour force in the Territories, resided in the seven tax-based municipalities of Frobisher Bay, Inuvik, Fort Simpson, Fort Smith, Hay River, Pine Point and Yellowknife. Yellowknife, with a population of 10,884 is the largest municipality in the N.W.T. by a substantial margin. These municipalities are relatively mature, having been established during the 1963-1974 period.

The N.W.T. contains 29 hamlets which have a total population of 18,583 persons or 37% of the total for the Territories. The largest hamlets are Rae Edzo, Rankin Inlet and Eskimo Point, with populations in the l,OUO-1,500 person range. Even Norman Wells and Tuktoyaktuk which have strong and growing economic bases are both still below the 1000 person level. The vast majority of the hamlets are populated in the 250-800 person range. Hamlets have been formed at the rate of one or more per year since Rae Edzo was formed in 197U, and this process continues.

The balance of the N.W.T. population - 6,378 people - reside in 28 settlements and unorganized areas. Most of this population is to be found in the larger settlements, which are hamlet-sized, including Fort McPherson, Fort Providence, Fort Good Hope, Fort Resolution, Fort Liard, Tungsten, Lac La Martre, Nanisivik and Snowdrift.

Living costs are extremely high in the Territories and four of the tax-based communities are 15-29% above 1983 costs in Edmonton. Fort Simpson is 30-39% above, Inuvik is 40-49% above and Frobisher Bay is 50-59% above 1982 Montreal costs.

Most of the hamlets are 6U-79% beyond Winnipeg, Edmonton, or Montreal price levels, although several (Gjoa Haven, Holman Island, Pelly Bay and Spence Bay) are 90-139% beyond Edmonton price levels. Prices are most favorable in Rae Edzo (+30-39%) and Eskimo Point (+40-49%).

The unorganized communities follow a similar pattern, ranging from a less than 15% differential in Tungsten and a 15-29% differential in Fort Liard to a 90-99% differential in Grise Fiord and Sachs Harbour.

Costs are highest in Kitikmeot (97% above Edmonton's) while in the other Regions, the average is 49-65%.

2. THE N.W.T.'S CURRENT SYSTEM OF PROPERTY TAXATION

2.1 The N.W.T. Municipal Environment (Cent'd)

Total municipal expenditures in the tax-based municipalities in 1984, ranged from $750-950/capita in Inuvik, Fort Smith, Hay River and Yellowknife, to $1,19(I in Pine Point, $1,467 in Frobisher Bay and $3,151 in Fort Simpson.

In the case of the hamlets, spending averaged $1,813 per capita in 1984, ranging from $975/capita in Cambridge Bay and approximately $1,200/capita in Cape Dorset, Coppermine, Aklavik and Fort Franklin to $3,000-$5,000/ capita in Pelly Bay, Lake Harbour, Chesterfield Inlet and Whale Cove. 1984 spending information is unavailable for the settlements and unorganized areas. Municipal spending in the tax-based municipalities amounted to a total of $27,297,000 in 1984, with $33,634,000 expended in the hamlets.

Property taxes, local improvement charges and payments in lieu of taxation, represented 43-60% of municipal expenditures in the case of Inuvik, Fort Smith, Hay River, Pine Point and Yellowknife. In Frobisher Bay, the tax share was 34% and in Fort Simpson, 10%.

In the hamlets, where spending per capita was considerably higher and the tax base generally much less wealthy, municipal property taxes and payments in lieu represented less than 1.5% of municipal expenditures in 22 of the 29 localities. Norman Wells stands out at 17.7% with Rankin Inlet and Tuktoyaktuk at 5-6%. Rae Edzo was not assessed or property-taxed in 1984.

It is noted that the tax-based communities realized an overall surplus of $433,000 in 1984, while the hamlets generated a total surplus of $2,872,000 from revenues provided almost exclusively by the Territories.

The Municipal Act defines a "municipality" to be a city, town, village or hamlet. To move from the status of an unincorporated settlement to that of a municipality, a twenty-five adult resident petition is required, together with the agreement of the Commissioner and a three month notice and appeals process. Movement from hamlet to village to town to city occurs at the Commissioner's discretion as population moves from the 500 person level to the 1,000 level and ultimately to the 6,000 person level. Taxable land assessment is expected to be at least $3,000 per capita in the case of a city.

2. THE N.W.T.'S CURRENT SYSTEM OF PROPERTY TAXATION

2.2 Property Taxation

Table 1 and Figure 1 summarize 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 municipal purposes. 38.8% of the taxes were billed by the remaining six tax-based municipalities for their own purposes 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.

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 (at 25 mills on a 1963 base), whereas mill rates have gradually increased within the tax-based communities in line with spending requirements. More significantly, most new development has occurred within the tax-based municipalities, 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.

Tables 2 and 3 break these 1984 tax figures down into their primary sources.[1] In the seven tax-based municipalities, only 23% of the taxes are paid by the N.W.T.H.C., the Federal Government and Crown corporations such as the NCPC and the CBC. This

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[1] Note that the figures in Table 2 differ slightly from the figures in Table 1. Table 1 was prepared based on municipally-provided information and is understood to be correct. Table 2 was prepared by G.N.W.T. and is only an estimate.

TABLE 1

TOTAL 1985 PROPERTY TAXES
(INCLUDING PAYMENTS IN LIEU)
BILLED WITHIN THE N.W.T.

		%
GNWT Share		
Headquarters Roll	841,000	5.0
School Rates in the Six Tax-Based Municipalities	1,089,028	6.5
Property and School Taxes in Taxation Areas	1,267,973	7.6
Sub-total	3,198,001	19.1
Tax Based Municipalities' Share		
Frobisher Bay	1,764,715	10.5
Inuvik	1,326,951	7.9
Fort Simpson	361,593	2.2
Fort Smith	996,340	5.9
Hay River	1,069,035	6.4
Pine Point	971,436	5.8
Yellowknife	4,782,507	28.6
	11,272,937	67.3
Yellowknife School Board's Share	2,275,297	13.6
TOTAL	$16,746,235	100.0

Source: Volume 2

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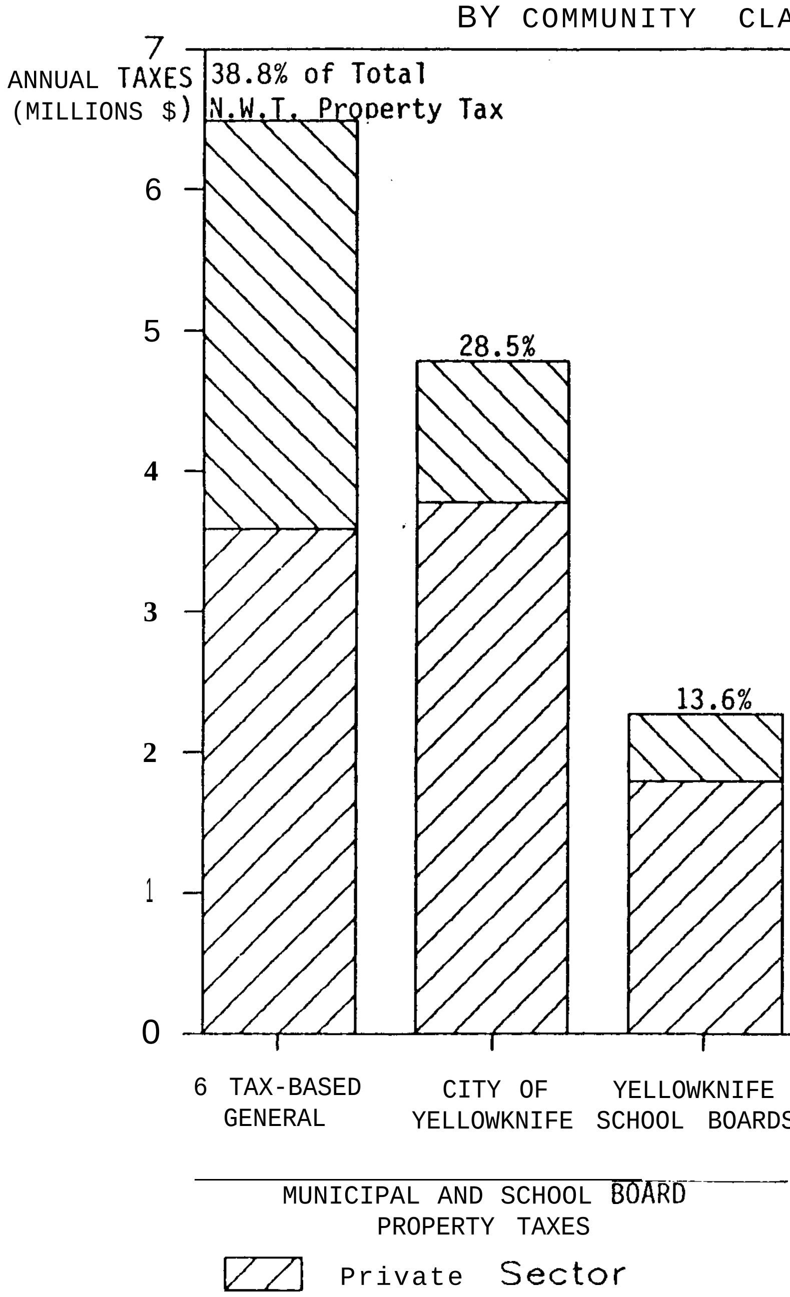
1985 PROPERTY T

BY COMMUNITY CLA



SOURCE : Volume 1

TABLE 2

1985 PROPERTY TAXES BILLED (FOR GENERAL PURPOSES) WITHIN THE SEVEN TAX-BASED COMMUNITIES

	FROBISHER BAY	INUVIK	FORT SIMPSON	FORT SMITH	HAY RIVER	PINE POINT	YELLOWKNIFE[1]	TOTAL	%
NWT HOUSING CORP.	271,752	115,810	18,698	47,324	16,052	16,217	211,412	703,325	
FEDERAL P.I.L.	256,334	356,297	108,685	117,280	103,783	11,569	605,074	1,559,022	
TERRITORIAL	533,195	195,414	71,642	298,037	198,064	114,388	852,143	2,269,483	
NCPC (& CBC)	25,649	35,236	3,138	6,717	8	3,241	104,371	178,960	
TAXABLE	677,187	633,461	157,006	524,074	769,640	842,172	5,599,088	9,202,634	
TOTAL	1,764,717	1,336,224	365,769	993,432	1,087,547	987,587	7,378,148	13,913,424	
MAJOR TAXABLE INCL.	Frobisher Devpts. Hillside Housing Co-op Hudsons Bay Bradley Air Telesat Arctic Resources Baffin Constrn.	Finto Enterprises Northern Transp.C Imperial Oil Perma Devpts. GBH Holdings Galda SF Hutton Properties Eskimo Inn	Ruperts Lend Trading Maroda Enterprises Keen Industries Interprovincial Pipeline NWT Holdings	BDB Properties Husky Rentals Ft. Smith Housing Authority Pelican Rapids Dav Gauthier Apts. Roman Cath. Episcopal	Northern Transp.C Imperial Oil Shell CNR Gulf Texaco Arctic Transp. Ltd Hay River Housing Authority Freshwater Fish Corp. Keridge Holdings	Pine Point Mines[2]	Cominco Con Giant Yellowknife P. Pocklington Apt Yellowknife Inn Explorer Inn Polar Pandas Commercial Reliance Offices Ruperts Trading Hudsons Bay Co. Yellowknife Housing Auth. McTaggart Offices Solar Const. Offices		

1 Includes school rates, which are used within the municipal jurisdiction.

2 The mine itself represents 54% of total taxable assessment and owns the majority of the housing in the Town.

SOURCE : GNWT Assessment Rolls for 1985 Purposes.

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1985 TAXES BILLED BY NWT IN TAXATION AREAS
(Hamlets and Settlements)

COMMUNITY	TOTAL TAXES	NWT HOUSING CORP.	FEDERAL	NCPC/ CBC	TAXABLE Largest Taxpayers	TAXABLE Other
Hamlets					$	
Arctic Bay	12,875	7,213	2,612	266	Hudsons Bay 1,305	1,478
Broughton Island	9,8(J7	6,842	1,3611	156	Hudsons Bay 680; Tulugak Co-op 312	456
Cape Dorset	18,600	10,664	1,875	475	W.B. Eskimo Co-op 1,603; Hudsons Bay 1,314	2,669
Clyde River	11,666	7,321	2,738	116	Hudsons Bay 1,040	451
Hall Beach	13,181	7,222	4,906	22	Hudsons Bay 680	351
Igloolik	21,483	13,498	4,419	975	Hudsons Bay 535; Igloolik Co-op 631	1,424
Lake Harbour	7,446	4,525	1,456	106	Hudsons Bay 5U4; Inuit N.P. Housing 520	336
Pangnirtung	20,969	11,381	4,446	465	Hudsons Bay 1,765; Peyton 815; Telesat 625	1,472
Pond Inlet	21,727	14,489	1,889	684	Hudsons Bay 2,498; Telesat 583	1,583
Sanikiluaq	15,475	7,795	5,313	0	Mitiq. Co-op 906; Hudsons Bay 822	640
Baker Lake	30,385	12,877	11,481	709	Hudsons Bay 1,568; Iglu Hotel 1,315; Sigyamuit 530	1,905
Chesterfield Inle	7,865	5,112	1,290	700	Hudsons Bay 215; Pitsivlak Co-op 155	393
Coral Harbour	21,613	7,623	11,721	284	Hudsons Bay 700; Telesat 543	743
Eskimo Point	33,399	21,427	5,34(I	1,533	Hudsons Bay 880; Telesat 613	3,607
Rankin Inlet	100,457	57,425	5,862	2,871	Hudsons Bay 1,762; Sanajiit 4,843	27,694
Repulse Bay	12,6118	7,367	3,487	170	Hudsons Bay 680; Navjat Co-op 373	531
Whale Cove	7,221	3,272	3,217	147	Telesat 288	297
Cambridge Bay	54,533	23,090	18,327	2,069	Ikal. Co-op 1,067; F.Ross 4,024	5,956
Coppermine	32,855	17,594	9,124	971	Hudsons Bay 1,479; Kerry Horn 1,158	2,530
Gjoa Haven	23,577	14,860	6,357	432	Hudsons Bay 1,014	915
Holman	10,870	6,122	2,757	160	Hudsons 8ay 554	1,276
Pelly Bay	10,464	6,110	3,013	230	Koomiut Co-op 833	279
Spence Bay	16,007	11,140	2,146	789	Hudsons 8ay 983,	949
Aklavik	27,607	13,326	4,974	566	Imperial Oil 2,443	6,298
Fort Franklin	14,511	5,085	7,046	542	Dene Corp. 514	1,324
Fort Norman	12,286	4,259	4,846	188	Hudsons Bay 509	2,485
Norman Wells	256,925	5,034	37,807	609	Esso 111,853; Norwel 18,032	83,590
Tuktoyaktuk	136,027	18,542	12,352	800	Oome 36,397; Beaudri 20,113; Arct c Trans. 4,167	43,656
Assessed Settlement						
Nanisivik	120,968	4,423	7,397	0	Nanisivik Mines 108,' 90	957
Resolute Bay	79,207	4,38U	36,264	2,423	Esso 23,728; Telesat 1,795; Narwha 2,37U	8,246
Arctic Red River	9,684	2,217	3,122	223	CNR 2,559	1,563
Fort Good Hope	12,198	2,778	5,915	577	Hudsons Bay 642; RC Episcopal 500	1,785
Fort McPherson	22,711	9,248	4,348	705	TETLIT Co-op 47U; Hudsons Bay 715	7,224
Paulatuk	5,739	3,552	1,209	122	N/A	856
Sachs Harbour	6,415	3,2(I6	2,230	4U7	N/A	572
Enterprise	21,568	0	0	0	Superior Equip. 2,838; Quyta 700	18,031
Fort Providence	20,255	3,658*	6,930	44	Snowshoe Inn 3,270; Northland Ut. 813	5,539
TOTAL FOR THE 37 COMMUNITIES	$1,261,184	$364,677	249,576	$21,536	Largest Tax. $385,333	$240,061

* Fort Providence Housing Association.

SOURCE: GNWT Assessment Rolls for 1985 Purposes

2.2 Property Taxation (Cent'd)

compares with 50% in the case of the 37 assessed hamlets and settlements.

16% of the property taxes collected in the tax-based municipalities are collected from the G.N.W.T., whereas none is paid in the case of the hamlets and settlements, since it is the G.N.W.T. that is collecting and spending the tax monies. Expansion of those municipalities which are "tax-based" would, therefore, increase the G.N.W.T. tax liability on its own properties.

Of the $625,000 in property taxes collected from the private sector in the hamlets and settlements, $427,000 comes from Norman Wells, Tuktoyaktuk and Nanisivik.

The Municipal Act sets out a variety of sources of revenue which may be used by municipalities. These include:

- business tax based on assessment of up to one half of the standard assessment;

- fees to be charged for business licenses;

- garbage collection and disposal and water supply charges to be paid out of general municipal revenue and/or by the owners and occupants of the affected lands;

- local improvement works for roads, sidewalks, sewers, waterworks, etc., once again paid by benefittiny owners and/or general funds;

- different tax rates for residential and non-residential property;

- a community service charge of up to $25/capita/year on every adult occupant who has been employed in the municipality and is not liable for local property taxes;

- a school mill rate not to exceed 20 mills;

- property taxes to be payable by October 31 of each year.

Under the Taxation Act, which applies to hamlets and taxation areas, other than the tax-based municipalities, it is noted that:

2. THE N.W.T.'S CURRENT SYSTEM OF PROPERTY TAXATION

2.2 Property Taxation (Cent'd)

- Each year the Commissioner levies taxes on the assessed value of all real property liable to taxation at such uniform rate per dollar as is necessary to raise revenues sufficient to meet the estimated expenditures for the Territories for the year, s.50(1). That is, in the case of a hamlet, revenue sufficient to meet the capital and operation and maintenance expenditures of the hamlet for the year plus an education tax at such uniform rate per dollar, not in excess of twenty mills, as determined by the Commissioner; s.50(2)

In determining the rate of tax to be levied, the Commissioner is to make allowance for other anticipated revenue receipts, the probable amount of real property taxes that may not be collected, the cost of the collection system, and the amount necessary to defray the expenses of the public service (including deficits carried forward) for the Territories for the year; s.50(4).

In fact, mill rates have been maintained at a constant level in the N.W.T. for more than a decade and the aforementioned policy has not been followed.

2.3 Property Assessment

Land and improvements are assessed separately. Improvements assessment is calculated using replacement cost factors in the 1967 Alberta Assessment Manual, which are based on 1963 Edmonton costs. These values are then increased to the municipality's assessment base year. Depreciation is applied, where necessary, using factors contained in the manual. The improvements value for assessment purposes is then calculated at 66.6% of the depreciated value. All buildings and permanent fixtures are valued, exclusive of personal property or amenities such as trees, lawns, landscaping, residential fences, walks, or driveways.

Recently, the Assessment Division has begun to use the revised 1984 Alberta Assessment manual which contains 1983 Edmonton replacement cost data.

In the case of the hamlets and settlements as well as Frobisher Bay and Fort Smith, a local modifier is applied to adjust Edmonton costs to those of the locality involved. The other five tax-based municipalities are assessed according to Edmonton costs. The local modifier reflects the difference in construction costs between Edmonton and each particular N.W.T. community, thereby producing a local replacement cost . The local modifiers are normally developed at the time of a general assessment and are revised at the time of a reassessment.

The Norman Wells pipeline, for example, was assessed with the rate per kilometre from the Alberta Manual, times the pipeline length within the N.W.T., a Northern cost allowance of 130%, the 66.6% "Commissioner's Factor" referenced above, less a 25% (upfront) depreciation factor, also based on Alberta practice. A similar approach is employed to the assessment of other non-residential properties, using modified straight-line depreciation and local modifiers, where applicable.

Land is assessed in two different ways. Within the tax-based municipalities (excluding Frobisher Bay) where there is a market for land sales, the assessment is based on sales of vacant land. Elsewhere, there is a lack of bonafide land sales, since the majority of the land is leased from the Crown. In these cases, the assessment is based on a "development cost" approach.

2.3 Property Assessment (Cent'd)

Calculation of the development cost may include the following: legal fees (title/surveys); wages of G.N.W.T. staff; consultant fees; land purchase (where applicable); roads and fill; and accrued interest re financing of the project. Water and sewer costs are treated as local improvements and would be added to the land value where applicable. Local conditions such as zoning, traffic, topography and services and/or view can also serve to alter basic land value.

The report "Handbook of Land Assessment" sets out the calculation of the development costs for each community for 1980-81. The assessed communities have been divided into four areas. A development cost has been calculated for each of the N.W.T. land assembly communities in each area, with the average cost utilized in communities with no program. The results are summarized below:

Area	Total No. of Communities	No. of Land Assembly Corn.	Range of Dev. Costs For Land in Assessed Communities ($/sq.m.)	Average Applied to Other Areas ($/sq.m.)
Baffin	8	3	9.52-17.46	14.14
Coastal Area	20	6	10.33-22.73	17.10
MacKenzie Area	16	2*	12.42-20.83	16.63
N.W.T. Highway Area	10	1*	12.42	12.42

*Rae-Edzo is included in both areas.

The rate for land assessment in Frobisher Bay was calculated on the same basis at $27.55/sq. m.

Reference is not made to the use of different rates for residential, commercial and other types of land use.

The Assessment Division has recently drafted an updated "Handbook of Land Assessment" which is intended for use commencing in 1986. This manual has a different assessment for standard lots in each particular community.

The Municipal Act sets out a number of assessment rules, including:

2. THE N.W.T.'S CURRENT SYSTEM OF PROPERTY TAXATION

2.3 Property Assessment (Cent'd)

- all lands within a municipality are subject to taxation except crown or territorial lands, municipal lands, schools, hospitals, churches, cemeteries, mining claims and recreational societies;

- every occupant of crown or territorial lands (other than officials) is liable for assessment and taxation but may be exempt from taxation where virtually no municipal services or benefits are provided;

- all lands in a municipality are to be assessed each year in accordance with Municipal Act standards and Commissioner's regulations;

- in the absence of prescribed standards and methods, the assessor is to determine "fair actual value" with reference to the fair actual value of other improvements in the same area;

- land value should be based on locational considerations, soil quality, profitability of potential use, drainage project benefits and other considerations;

- land used for residential purposes by its owner/ dependents shall be assessed for same, despite higher zoning being in place;

- improvements on non-assessable land shall be assessed against the person with title or exclusive use thereof;

- the assessment roll is to show separate assessments for land and buildings;

- assessment rates for pole lines, cables, towers, poles and wires used for electrical and communications purposes are prescribed at $440/kilometre. Railway tracks within a municipality and pipeline assessments are also prescribed;

- the assessor shall forward the general assessment roll to council not later than December 1 each year. The roll is open to public inspection for 30 days from the date of notice;

2.3 Property Assessment (Cent'd)

- The Court of Revision may not vary an assessment if it bears a fair and just relation to the value at which other lands in the municipality are assessed, although it may order re-assessment of the municipality or any portion thereof;

- the Commissioner may divide any municipality into zones for assessment and taxation purposes, increasing or reducing the assessed value of all lands in any such zone by a uniform percentage (e.g. 62.5% for Giant Yellowknife and Cominco in Yellowknife and 55% for Cominco in Pine Point).

The Taxation Act, which applies to hamlets and taxation areas other than the tax-based municipalities, contains a number of different requirements, including:

- the Commissioner may order that the whole or any part of the assessment roll for the previous year be adopted as the assessment roll;

- the Court of Revision shall not vary an assessment value if it bears a fair and just relation to the value at which other real property in the Territories is assessed.

The Commissioner's regulations prescribe that improvements to lands in municipalities are to be assessed at 66-2/3% of fair market value. Any improvements subject to general assessment are to be based on the 1979 Alberta Assessment Manual or the 1977 Manual in several cases (although this, in fact, has not happened).

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.1 Introduction

This chapter contains a brief description of approaches used for property assessment and taxation in other jurisdictions including the Yukon Territory, the State of Alaska, the four Western Provinces and Ontario. The information is based on a mail survey of the Assessment Departments in each jurisdiction, carried out as part of this study. A sample questionnaire is included in Volume 2, Data Base. Responses were verified and supplemented by telephone follow-up and, in the case of Alberta (whose manuals are used by N.W.T.), by personal interview. In addition, three reports from the Canadian Tax Foundation were used: "Property Assessment in Canada" (1979) by F.H. Finnis, and "Provincial & Municipal Finances, 1983" and "Local Government Finance in Canada" (1984) by H.M. Kitchen.

The sections on each jurisdiction are organized in each case, around several practices and issues considered of particular relevance to the N.W.T. situation. The Property Assessment section considers where appropriate:

- organization and reporting responsibility
- assessment manual (valuation year, etc.)
- land and building assessment practices
- staffing and cost information (northern jurisdiction only)
- assessment rates for pipelines, railways and transmission lines
- assessment practices for forest and mining lands
- problematical aspects of assessment and taxation system in the jurisdiction (identified by the Department).

The Property Taxation section is organized as follows:

- "taxation authority
- business tax
- variable mill rates
- tax rates in areas outside local jurisdiction
- annual tax revenues for pipelines, railways and transmission lines.

3.2 Property Assessment

3.2.1 Yukon

In the Yukon, property assessment is the responsibility of the Assessment Branch of the Territorial Government. All surveyed property in the Territory is assessed and taxed. Yukon contains eight incorporated communities; the remaining area is administered by the Territorial Government.

The Assessment Branch is headed by a Manager who reports to a Director. He, in turn, reports to a Deputy Minister.

Under the legislation, a complete general reassessment of each property should be made each year. In practise, each property is inspected every five years and adjusted by factors in each ensuing year to bring the assessment to market value.

Similar to N.W.T., the Yukon uses Alberta Assessment Manuals, with the rates for Edmonton factored annually to represent Whitehorse current replacement costs. All improvements are assessed on this basis; there is no differentiation by community, as in N.W.T. Prior to 1986, the Territory used the 1979 Alberta Manual which was based on 1977 replacement costs. In 1986, the 1984 Alberta Manual will be used (1983 replacement costs).

Land in the Yukon is assessed at current market value. Where no recent sales have occurred in remote communities, land values are determined by the development cost method (i.e. replacement cost of existing infrastructure). The use of the development cost approach is similar to that used in N.W.T. However, in the Yukon, a much larger share of the communities have a private market for land and accordingly, the development cost approach is not used as extensively. Further, most of the Yukon communities are accessible by road which reduces the magnitude of the development costs as compared to N.W.T. The relationship of assessed values for land between Whitehorse and outlying communities is generally the normal downward gradient found in the Provinces.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.2 Property Assessment (Cent'd)

3.2.1 Yukon (Cent'd)

Improvements (including machinery) are assessed based on adjusted replacement costs using the Alberta manuals as described above. They are recorded in the assessment roll at 100% of value.

The Yukon Assessment Branch jurisdiction includes approximately 18,300 parcels. The office is staffed by eight persons (one staff member per .3(JO parcels). Cost of operating the branch for the year ending March, 1986 amounts to $19.56 per parcel .

For transmission pipelines, the Assessment and Taxation Ordinance sets the rate of assessment for a 12 inch oil pipeline at $77,700 per mile and for a gas pipeline at $84,400 per mile. Railways are assessed at $22,000 per mile and power transmission lines at $8,300 per mile. These assessment rates have not changed since 1981 but are considered to reflect 1985 Whitehorse replacement costs.

Forest and mining lands are not assessed or taxed unless there is a surface deposition (title, lease, etc.) in place or a permanent building on-site. The land is assessed at market value and buildings using Whitehorse replacement costs as set out above. Legislation prohibits special tax agreements.

The Yukon Assessment Branch identified difficulties in valuing specialized government buildings using the Alberta Manual as a current problem. The Yukon's share of building stock which is government-owned is much higher than in Alberta and consequently, the Manual-is not considered to provide sufficient detail in this area. In addition, native resistance to property taxation on their traditional lands is a major problem facing the Branch. They also note some difficulty in meeting the current reassessment schedule and are exploring an increase in staff or computerization.

3.2 Property Assessment (Cent'd)

3.2.2 Alaska

The State* is divided into 11 organized boroughs and unified home rule municipalities (districts or regions) with 26 organized cities (hamlets) located within the boroughs. There are also 121 cities outside the boroughs. The boroughs and twelve of the cities have general municipal responsibilities including area-wide education, property assessment and taxation and planning and zoning. The remaining fourteen cities in the organized boroughs have limited taxing powers with no educational responsibilities. All other areas have no educational responsibilities.

Only boroughs and cities have the authority to collect property taxes. Of the 34 first class and home rule cities, ten (29%) do not elect to levy property taxes, while only three (3%) of the 112 second class cities do so. All of the boroughs levy taxes. A total of 119 municipalities do not use property taxes.

Each municipality which elects to levy a property tax is responsible for its own assessment rolls (with the exception of oil and gas properties which the State assesses). This may be achieved by employing staff or contracting out. The role of the Office of the State Assessor is limited to the development of equalization factors.

The revaluation cycle for each municipality is decided by the local governing body and adopted by ordinance. All jurisdictions have annual cycles except three, which are on a two year cycle.

The State Property Appraisal Manual is used by about half the property taxing jurisdictions in Alaska. The remaining municipalities use manuals or other systems they prefer to the state manual. The state manual was last updated by the State in 1977. Each municipality which uses-it does its own local update annually.

*Information on Alaska local taxation system from "Alaska Taxable" report, (January 1985) and questionnaire.

3.2 Property Assessment (Cent'd)

3.2.2 Alaska (Cent'd)

All of the boroughs with the exception of one are assessed by local assessors. The remaining borough and all cities are assessed by contract to private appraisers. 1984 costs per parcel for municipalities handling their own assessment varied from $17.77 to $807.93 in the far northern borough. The average figure was $26.46. Costs for those municipalities using private appraisal services varied from $8.41 per parcel to $35.60, with an average of $16.33. The latter figures may not include an allowance for costs incurred by supervising staff of the municipalities. In total, Alaska-municipalities spent $6.8 million on assessment services in 1984. The State has a total population of approximately 550,0 persons.

Railways are state-owned in Alaska and therefore exempt from taxation. Pipelines are assessed using a combination of the income approach and the replacement cost approach. There is no set formula as to the weight attached to each valuation. It is a judgement factor as to which is based on the best information. The calculation of replacement cost does consider the high construction costs in the north. Further, the assessments are reviewed annually and depreciation is applied to the replacement cost va I ues.

Municipalities in Alaska have a number of tax powers' other than property taxes. Boroughs may levy sales taxes "not exceeding six percent on sales or rents and on services". Cities within boroughs may also do so under certain circumstances. Personal property is also assessed.

The most northerly jurisdiction for assessment purposes in Alaska is the North Slope Borough which comprises 88,000 square miles along the northern coast. It accounts for well over half the land area in Borough jurisdictions. In 1984, four assessors were employed. The total number of parcels involved was 1,034, creating a staff per parcel ratio of 1 to 260. As noted above, the cost per parcel was $808. However, the total 1984 assessment in the area exceeded $12 billion

3.2 Property Assessment (Cent'd)

3.2.2 Alaska (Cent'd)

which accounted for approximately one-third of the total assessed property value in the State as follows:

	1984 $000,000		
	ALL MUNICI-PALITIES	NORTH SLOPE BOROUGH	% OF TOTAL
Residential Property Value	12,213	46	0.4
Vacant Property Value	3,570	6	0.2
Commercial Property Value	3,922	301	7.7
Personal Property Value	2,782	182	6.5
Oil and Gas Property Value	14,574	11,733	80.6
TOTAL	37,061	12,268	33.1

It should be noted that oil and gas assessment represents over 80% of total property assessment in Alaska in 1984.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.2 Property Assessment (Cent'd)

3.2.3 British Columbia

Assessment in British Columbia is carried out by an independent Provincial authority. The director is responsible to a Board (appointed by Cabinet) , which, in turn, reports to the Minister of Finance. The Authority carries out all assessment activity in the Province. The Assessment Authority is authorized to levy all municipalities and the Provincial Surveyor of Taxes for unorganized areas to fund its costs of operation, over and above the Provincial grant. The authority has two divisions: field operations and field support services.

Assessment at current market value for all B.C. properties commenced in 1978. In 1983, legislation changed the timing of reassessments to biennially, with reinspection of property every four years. All communities in the Province are assessed.

The Assessment Manual used in B.C. is based on values in the year prior to valuation. The B.C. system is based on the Marshall & Swift Manual. Similar to the Alberta manual (which is used in N.W.T.), this manual values "a unit in place". It is used in all areas and is fully computerized, facilitating the reassessment process. The system produces assessment rolls and accommodates property inventory data. Through a terminal access system, it allows each office to store, maintain and manipulate information as required. Computerized appraisal analysis systems are currently being installed.

Equalization is not necessary since all costs are modified to correspond to local conditions and assessment is updated biennially.

Land is assessed based on market value determined through vacant land sales or, if necessary, land residuals. There are sufficient sales in remote areas to permit this approach. Improvements are assessed at 100% of depreciated replacement cost. The cost manual is modified to represent local conditions (i.e. local construction costs).

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.2 Property Assessment (Cent'd)

3.2.3 British Columbia (Cent'd)

For depreciation on industrial buildings, the economic viability of the building is considered, unlike other jurisdictions where only the physical condition of the building is considered.

Machinery has also been assessed, although it is being phased out. In 1985, an exemption of $50,000 applied. By 1987, it will be removed completely. Taxation revenue from machinery assessment amounted to only about 3% of the total and consequently, is not expected to have a significant impact.

In B.C., the assessment base for general (municipal) purposes differs slightly from that used for schools and hospitals. The land assessment is similar but the definition of improvements varies slightly.

The Province is divided into 23 assessment areas of which the two most northern are the Northwest (#25) and the Peace River (#27). The divisions are approximately 51,000 square miles and 136,000 square miles, respectively. The Northwest has 19 Assessment employees serving 41,800 parcels (1 employee per 2200 parcels). Peace River has 20 Assessment employees servicing 49,500 parcels (1 employee per 2500 parcels). In addition, administrative and support services (including computerization) are supplied from head office. Assessment cost per parcel (1985 budyet) was $23.77 in the Northwest and $21.80 in Peace River.

The current B.C. assessment rates for a 12" diameter oil and gas pipeline are $117,200 and $155,400 per mile, respectively. The maximum assessment rate for a rail line (Class A) is $118,800 per mile.

Pipeline values are depreciated based on the annual through-put determined from a report submitted by the company. For instance, if a pipe is 36" in diameter, but only utilized to the capacity of a 30" pipe, the assessment would be reduced to that of a 30" pipe in the next year. No other depreciation factor is used, since pipelines must be maintained in excellent condition.

3.2 Property Assessment (Cent'd)

3.2.3 British Columbia (Cent'd)

Power transmission lines are assessed at cost and, in municipalities, distribution lines are taxed at 1% of gross revenue.

Mines are not assessed for minerals or underground works. As mentioned above, machinery and equipment assessment will be phased out. The Tumbler Ridge coal mine in the Fort St. John area (land and buildings only) is assessed at $199,506,000 (excluding exemptions mainly for pollution control equipment).

3.2 Property Assessment (Cent'd)

3.2.4 Alberta

The Provincial Assessment Standards Branch in Alberta is headed by an Assistant Deputy Minister who is the Chief Provincial Assessor. He reports to a Deputy Minister who, in turn, reports to the Minister of Municipal Affairs.

Assessment and taxation in Alberta are the responsibility of the local municipalities, although the Province does contract to provide these services in most municipalities except the major cities. In the past, private appraisal firms have been used by some jurisdictions but their use is declining. The Province does have the authority to review all assessments and order dismissal of an assessor if required. There are no unassessed communities in Alberta.

A general reassessment for each municipality must be undertaken every seven years based on legislative requirements. However, this schedule has not been met, particularly in the Improvement Districts.

A new valuation manual has been prepared by the Provincial Assessment Standards Branch and is in use for the first time in 1986. The manual is known as the 1984 manual and uses 1983 Edmonton replacement costs. The previous manual was published in 1979 and used 1977 replacement costs. The new manual will not necessarily be used by every municipality in the Province since assessment is a local responsibility. The previous manual was not used universally.

N.W.T. uses Alberta Assessment Manuals to assess properties in the Territories. The Edmonton replacement costs figures are adjusted for local conditions based on factors produced by the N.W.T. Assessment Branch. The Territory currently uses the 1984 Alberta Manual. Prior to 1986, an older Alberta Manual was used based on 1963 Edmonton replacement costs (1967 Manual). The 1979 Alberta Manual was never used in the N.W.T.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.2 Property Assessment (Cent'd)

3.2.4 Alberta (Cent'd)

Adjustments to update the valuation figures included in the Alberta Manual to any particular year may be made using annual factors produced by the Alberta Assessment Branch.

Land Is assessed at 65% of value in the assessment year. In more remote sections of the Province where no market data is available, comparisons are made to areas where data is available.

Improvements defined as buildings, fixtures, machinery and equipment and mobile home units are assessed using adjusted Edmonton replacement costs (adjusted for year of reassessment). No adjustment is made for local conditions (i.e. higher construction costs in the north). Assessment on improvements is included in the rolls at 65% of total value under the new manual. Previously, it was 66-2/3%. Machinery and equipment is assessed but is included in the rolls at 50% of value.

The northern jurisdiction administered by the Alberta Assessment Branch contains four Improvement Districts and covers 76,000 square miles. The Peace River office has a staff of 19, responsible for assessment of 48,400 parcels (1 staff per 2,500 parcels). Three reassessments were completed by this office in 1984, involving 10,100 parcels. Cost per parcel was $13.47 for the reassessments only.

Assessment rates for pipelines, power transmission lines and railways vary by size and municipality, depending on which Assessment Manual is being used. As an example, the Norman Wells pipeline located in Improvement District 23 is assessed at approximately $47,2011 per mile.

Pipeline assessment includes a 25% immediate and once in a lifetime depreciation reduction. The one-time depreciation approach is used for ease of administration and to provide municipalities with some stability in their assessment bases. Since repairs and upgrading are completed on pipelines in segments ranging from 50 feet to

3.2 Property Assessment (Cent'd)

3.2.4 Alberta (Cent'd)

several miles, the administrative problems in adjusting assessment for the 92,000 miles of pipelines in the Province would be considerable.

Sixty-five percent of the remainder (after depreciation) is calculated as a usage factor for new pipelines in full use. A base year modifier is then applied to convert the pipeline value to the same year as the remainder of the assessment base.

The schedule of pipeline assessment rates was developed based on a sample situation which incorporated costs for highway, river and railway crossings, populated and open areas, laying the pipe, landscaping, etc. The same schedule of assessment rates is used throughout the Province, regardless of construction costs.

Assessment of land was identified by the Alberta Assessment Standards Branch as a problematical aspect of their system. Reliable information on market value is not easy to obtain in some areas.

3.2 Property Assessment (Cont 'd)

3.2.5 Saskatchewan

Assessment in Saskatchewan is the responsibility of municipalities for the four centres over 25,000 population. The Saskatchewan Assessment Authority handles assessment in the remainder of the Province and provides some assessment services (at cost') to two of the four larger centres. The Authority also supervises civic staff for general reassessments.

The Saskatchewan Assessment Authority is headed by an executive director who reports directly to a Cabinet Minister.

Under current legislation, a complete revaluation of properties must be conducted at least every 10 years. There has been some difficulty meeting this schedule but most properties are now within this requirement. The most recent reassessment cycle began in 1976 and was projected for completion in December, 1985.

Saskatchewan's current assessment manuals were first used in 1976 and are based on 1965 values. Prior to the current round of reassessment, the four largest municipalities were not obligated to use the same procedures and consequently had different assessment base years. The Authority is developing a new assessment manual which will be based on 1985 values. It is expected to be published in two years.

Residential land in urban areas is valued according to an indexing system which reflects the size of the community, the services available and the distance to major urban centres. The starting point is the value of the "best" land in Regina and Saskatoon. Remote parcels are valued by a formula which is primarily based on the distance to an urban municipality and the population of that municipality. Department officials indicate the index system works well with two exceptions: recreational communities with low permanent population (but high land values) and small bedroom communities in proximity to the two major urban areas.

3.2 Property Assessment (Cent'd)

3.2.5 Saskatchewan (Cent'd)

Improvements (buildings and structures) are valued at depreciated replacement costs based on 1965 level of values. Assessment is set at no more than 60% of value. The normal percentage is 50%.

Saskatchewan's northern jurisdiction for assessment purposes covers 260,000 square kilometres (approximately 40% of the Province's land area) and has a total of 15,000 assessed parcels. The Authority averages three person years of field time to service it (1 staff member per 5,000 parcels). Preparation of the roll itself, is done by municipal officials. The annual cost is estimated at $10-$13 per parcel (for Assessment Authority staff only).

In the north, there are some small recreation communities which may not have been assessed. However, these should be completed in 1986 as part of a review of all recreational leases in the northern area of the Province.

Properties in unincorporated areas in the north are expected to be reassessed in 1986. They are currently at 1947 value levels.

The Province has no pipelines or railways in the northern sections. Privately owned power transmission lines are assessed by special franchise agreement.

Mining company lands are assessed at a 1965 level of value similar to other properties. Machinerv for mines only is assessed" at 100% of 1965 value.

The Saskatchewan Assessment Authority identified land valuation as an area of concern. The current approach is based on an index system as described above. The Authority would like to move to a market related system but recognizes that there will be difficulties in implementing this in the north. The manual currently under preparation is expected to continue use of the index system. In' addition, difficulty in meeting the legislated reassessment cycle was mentioned as a concern.

3.2 Property Assessment (Cent'd)

3.2.5 Saskatchewan (Cent'd)

In 1984, the Government of Saskatchewan established the Local Government Finance Commission which was given a mandate to investigate assessment principles and processes and the property tax structure among other responsibilities. The recommendations of the Commission were published in September, 1985; Cabinet is still considering them. The ones of most relevance to the N.W.T. situation are as follows:

In order to help ensure that large and potentially disruptive shifts in tax burdens do not take place, the Commission recommends:

That reassessments be done more frequently than in the past. A 5 to 7 year cycle of reassessments would be more reasonable than the current 10 year requirement.

That provision be made to permit municipalities to decide, in consultation with school divisions, to phase in assessment values that have increased by large amounts due to a general reassessment.

That between general reassessments, there be periodic adjustments in relative assessed land values where substantial shifts in land use and values are taking place, due to the pattern of commercial and residential development.

- That "pick-ups" or assessment maintenance be done diligently between general reassessments.

The Commission has concluded that the practice of using a market analysis to determine the value of the best land in the various communities and then appraising each parcel of land within the community in relation to that best land, is fundamentally sound.

3.2 Property Assessment (Cent'd)

3.2.5 Saskatchewan (Cent'd)

- The Commission recommends that research being done by the Assessment Authority regarding the possibility of using a minimum value equal to the cost of infrastructure services provided by the municipality to determine land values in small urban municipalities, be completed and analyzed before initiating the next general 'reassessment.

- The Commission recommends that a study be done on the possibility of using proximity to larger communities and the degree of growth or decline of the community as major factors determining land values in smaller communities where market transactions may be limited.

- The Commission questions the justification of the business tax and has concluded that a further review of options to either eliminate or reform business assessments is required.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.2 Property Assessment (Cent'd)

3.2.6 Manitoba

Assessment is the responsibility of the Provincial Government for all of Manitoba with the exception of the City of Winnipeg. The City is responsible for its own assessment, operating under regulations prescribed by the Provincial Municipal Assessor. The full cost of the functions and operations branch of the Provincial Assessment Department is charged back to the municipalities receiving the service.

The Assessment Department is headed by the Provincial Municipal Assessor who reports to a Deputy Minister.

In Manitoba, separate assessment rolls are prepared for real property (land and building valued separately), personal property and business assessments. Persons owning assessable property must provide information on the property requested by the assessor.

Legislation permits the assessment rolls to be adopted for a period of four years with full reassessment occurring thereafter (with the exception of Winnipeg which is on a three year cycle). In practise, however, the average reassessment cycle is approximately nine years.

Prior to 1986, the assessment manual used was based on 1975 valuations. The new manual used this year has been prepared on 1984 costs. Buildings are valued using depreciated replacement costs, verified and adjusted (where necessary) using sales data. Land values are determined from property sales analysis. If no sales data is available, values are determined relative to other similar communities where data is available. Land is assessed at full value with buildings assessed at two-thirds of their value.

The Thompson district is the most northerly of the ten assessment areas administered by the Department. It covers more than 50% of the Province's land area. The district has 13,400 parcels, covered by an assessment office staff of five employees (one staff member per 2,700 parcels). Cost of operating the office for the year ending March, 1985 amounted to $13.83 per parcel.

3.2 Property Assessment (Cent'd)

3.2.6 Manitoba (Cent'd)

Reassessment cycles in the Thompson District average every six years compared to the Provincial average of nine years. There are a number of communities in Northern Manitoba which have not been assessed since the community, itself, must initiate the process.

For transmission pipelines, the Municipal Act sets out a schedule of rates. For example, the assessment rate for a 12 inch pipeline is $6,16(J per mile. Similarly, for railways, the Act sets the rate at $2,000 per mile in rural areas. Pipeline assessment rates have not been updated for 11 years and railway rates for 35 years. Power transmission lines are Provincially owned and exempt from assessment.

Machinery is not assessed in the northern jurisdiction. However, municipalities may pass bylaws to do so as part of personal property.

Manitoba does not assess forest and mining lands. The companies involved have, to date, entered into agreements with the Province concerning fees for stumpage and/or mineral rights.

The Manitoba Assessment Department identified their most serious concern as the low ratio between assessed property value and market value. They are considering increasing assessment valuations to a more current valuation level within three years.

3.2 Property Assessment (Cent'd)

3.2.7 Ontario

Assessment in the Province of Ontario is the responsibility of the Ministry of Revenue. The Property Assessment Program is headed by an Assistant Deputy Minister who, in turn, reports to the Minister through the Deputy Minister.

All areas of Ontario are assessed with the exception of Crown lands and Indian Reserves.

The Province took over the complete assessment function from municipalities in 1970 with the objective of establishing a fair and equitable system based on market value of properties. However, since that time, the legislature has delayed implementation of market value assessment due to public reaction concerning the resultant shift in taxation among various property classes. This would be particularly significant for residential properties in Metro Toronto. Due to this implementation freeze, there is no standard number of years for which an assessment roll may be adopted.

In 1977, the Province of Ontario established a Royal Commission on the Reform of Property Taxation, known as the Blair Commission. The Commission confirmed the use of market value assessment and recommended its implementation for the 1978 tax year. This recommendation was not implemented due to the opposition described above. Other recommendations of the Commission of relevance to N.W.T. are listed below. None have been implemented.

- That real property liable to assessment include land and any building or other structure on it including only such machinery and equipment as is a part of such a building or structure and is used or required primarily for the functional operation of the building or structure or to make it more habitable, and include those foundations as are used in the support of the building or structure only.

- That residential property together with a reasonable amount of land be subject to taxable assessment at 50 percent of its market value.

3.2 Property Assessment (Cent'd)

3.2.7 Ontario (Cent'd)

- That all real property owned by a railway, including railway buildings and other similar structures, but not including bridges, be assessed at and taxed on 100 percent of its market value.

- That rates applied per foot of length of pipe line be reviewed and revised each two years, coinciding with the return of assessment rolls, so that these rates may reflect the relative change in the market value of other real property.

- That the present practice of levying different mill rates on residential and commercial properties be discontinued.

- That there continue to be a business assessment; and that the business tax be levied upon the occupant of real property who conducts ' therein an activity with a view to profit as defined; and that the business assessment be computed at a percentage of the market value of that real property.

- That a single business assessment rate at 50 percent be applied to the market value of real property.

The Assessment Branch currently has two re-assessment programs. Both are voluntary and only proceed at the request of the municipality. They are as follows:

- Section 70 - Under this section, all properties are assessed at full market value. Once a municipality chooses this approach, it must continue to use it. At present, 143 municipalities (17%) are assessed at full market value.

- Section 63 - Under this section, assessed values are equalized within classes. There is, however, no attempt to change the distribution of taxes" between the five major property classes. 449 municipalities (54%) are currently assessed under this program. There is a proposal by the Minister of Revenue to make this program compulsory.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.2 Property Assessment (Cent'd)

3.2.7 Ontario (Cent'd)

The latest Ontario Assessment manual is based on 1969 values and applies universally. An updated manual based on 1980 values is being field tested and will be implemented in 1986. Values can be updated to any year using factors in their computer model. 1985 reassessments were done on a 1980 base year; 1986 reassessments will be completed on a 1984 base year.

The Department puts out two handbooks describing their operations. The first, "A Guide to the Assessment Act", was prepared to "facilitate referencing of leading court decisions and interpretation of the Assessment Act". The second, "Assessment Program Policy Manual" was designed for use by staff "to ensure the consistent application of policies and procedures respecting the valuation of real property for assessment purposes". Both handbooks are loose-leaf and are periodically updated.

Land, improvements, machinery and equipment are assessed at full value of the particular year of the municipality's assessment base. Improvements are valued based on replacement cost. If the municipality has not been reassessed under Sections 63 or 70, the assessment base valuation year would normally be in the 1940's. For grant and apportionment purposes, the Department produces equalization factors (using nine different property classes) to bring each municipality to a common assessment base year.

In general, valuation of land does not present problems, since approximately 10% of Ontario's properties sell each year. In very remote areas, however, the assessor might assign only a nominal value to the land if they could not determine a value through sales. This occurs particularly with leased land.

The northern jurisdiction of the Province consists of five districts. In total, these districts have 467,000 parcels, handled by a staff of 265 (1 staff per 1800 parcels). The assessment cost on a per parcel basis was $21.50 (1985/86).

3.2 Property Assessment (Cent'd)

3.2.7 Ontario (Cent'd)

Ministry officials did not indicate any particular difficulties in completing assessments in the northern sections of the province vs. the south. They stressed the need to keep experienced managers in the north and have now established a 3 year rotation system to accomplish this.

In the municipally unorganized northern sections of the Province, assessment and taxation rates and procedures are set out in the Provincial Land" Tax Act. Minimum rates for land assessments are set out in that Act ($4 an acre for land and $2 an acre for rock). The current assessments in the unorganized areas have not been updated since before the Provincial takeover of the Assessment function in 1970.

The assessment rates for pipelines, power transmission lines and rail lines are set out in the Assessment Program Policy Manual and are implemented by regulation. These rates will be updated when the new manual (mentioned previously) is published.

For pipelines, the assessment rate per mile (1980 values) for a 12 inch pipe would be $102,000 for an oil transmission pipe and $110,000 for a gas pipeline in organized areas. Under the Provincial Land Tax Act (in unorganized areas), the oil pipeline would be assessed at $45,000 a mile and the gas pipeline at $49,000 a mile. The latter rates were increased significantly (over three times) in 1982.

For a power transmission line, the Province assesses land only, since both Bell Telephone and Ontario Hydro make direct payments to municipalities for their transmission lines. The assessment rates for land are based on values of abutting properties.

Valuation of rail lines is also set based on surrounding land values which, of course, are affected by land use.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.2 Property Assessment (Cent'd)

3.2.7 Ontario (Cent'd)

Ontario does not assess trees or orchards. If forestry land is privately owned, it is assessed strictly on the value of the land. If a company has timber rights on Crown land, it is not assessed. If the land is leased from the Crown (i.e. access is restricted), it is assessed as if it were privately owned.

The Provincial Assessment Branch identified several areas where it considered improvements could be made to the system, including: a more equitable way of dealing with exemptions; changes in the business tax system; the need for regular reassessment; and the continuing need for information programs.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.3 Property Taxation

3.3.1 Yukon

The tax system in the Yukon is based on Territory-wide rates applied to all properties for school purposes. A general rate is set by incorporated communities and in unincorporated areas, the Territory provides all services and sets the general rate. Yukon has no local school boards. Consequently, there are no supplementary school levies.

Business taxes are not permitted under the current legislation.

Communities and the Territory are free to set variable tax rates for different classes of properties. There is no restriction on the number of tax rates or the differentials between them. Whitehorse has variable tax rates as does the Territorial school tax levy.

Taxes outside of incorporated municipalities are levied and collected by the Yukon Government. They are expressed as a percent of assessment rather than a mill rate. This was recommended by a 1980 Royal Commission on assessment and taxation to make the system more understandable.

The general tax levy in unincorporated communities is established by criteria that measure type and level of service provided by the government in each community. There are three rates - 0.73%, 0.60% and 0.51%. The latter applies to hinterland development such as pipelines, etc. The tax rate established outside of communities is arbitrary. It reflects a rate based on historical levels-and is somewhat lower than the rate used in unincorporated communities.

The school tax levy is set to recover 11-1/2 percent of the Department of Education's operating and maintenance budget in each year. The assessment total of all the municipalities and the Government of Yukon is included in the education levy calculation. The 1985 school tax rates were 0.21% for non-residential development and 0.35% for residential development. The school levy does increase with departmental budget increases.

3.3 Property Taxation (Cent'd)

3.3.1 Yukon (Cent'd)

Based on the assessment figures included in Section 3.2.1, the 1985 tax levy on a 12 inch oil pipeline would be $559 per mile, and for a gas pipeline, $608 per mile. Railways would be taxed at $158 per mile and transmission power lines at $60 per mile.

3.3 Property Taxation (Cent'd)

3.3.2 Alaska

Municipal structure in Alaska consists of regional boroughs which cover about 40% of the state and three types of cities: first and second class and home rule. Municipal taxing power in the state is generally considerably broader than in Canadian municipalities as follows:

- Boroughs, First Class and Home Rule Cities - Full property tax powers on real and personal property-assessment as well as sales tax not exceeding 6 percent on sales and rents. The maximum mill' rate is 30 mills except to pay off bonds. In addition, a mill rate no higher than the property tax mill rate (to a maximum of 20 mills) may be levied on oil and gas assessment.

- Second Class Cities - Property taxes on real and personal property are limited to 5 mills of the assessed value except to pay off bonds. Second class cities may only levy taxes if approved by voters.

In unorganized areas, the State collects property taxes on oil and gas assessment at a rate of 20 mills.

The State Constitution does not permit municipalities to levy business taxes. A variable mill rate was instituted by one municipality. However, this is currently before the Courts.

The total property and sales tax revenue collected by Alaska municipalities in 1984 was:

	1984 $000	%
Residential	126,262	21.1
Vacant	28,501	4.8
Commercial	110,152	18.4
Personal Property	59,049	9.8
Oil & Gas	242,208	40.4
Sales Tax	33,096	5.5
TOTAL	599,268	100.0

The largest single component of municipal tax revenue (40%) is from the oil and gas sector in Alaska municipalities.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.3 Property Taxation (Cent'd)

3.3.3 British Columbia

All municipalities in the Province are authorized to levy taxes for their own purposes. School districts may levy taxes on residential properties. In addition, B.C. levies taxes for Provincial purposes in unorganized areas and for school purposes in all areas of the Province.

Business taxation is optional but only a small number of municipalities use it. Vancouver abandoned it in 1984. The rate of business tax levied must be uniform for all types of business.

Variable mill rates are permitted at the option of the municipality.

1985 taxation revenues on a per mile basis for oil and gas pipelines using the Provincial mill rate (24.914 mills*) for the unorganized district of Area #27 would be $2,900 and $3,900 respectively. Taxes on the rail line would be $3,000 per mile (maximum}. 1985 revenues for the Tumbler Ridge coal mine in the Fort John area (see Section 3.2.3) was $4,675,024 based on a mill rate of 23.4330 mills.

*General - 4.6; Schools - 19.145; Hospitals - 1.169

3.3 Property Taxation (Cent'd)

3.3.4 Alberta

The property tax base in Alberta is used to raise funds for general municipal purposes and for school purposes. The school mill rate is divided into two components: an amount determined by the Province on the total residential and non-residential assessment (equalized) and a supplementary local levy. In addition, there is a hospital mill rate in some areas.

Business taxes are optional for municipalities in Alberta. They are used by Calgary and Edmonton and a small share of the remaining municipalities. The basis for business assessment is generally gross rental value of the premises for all businesses. Pipelines are exempt from business taxes.

Variable mill rates are permitted. There is no limit on the number of categories but all residential ones must be lower than non-residential ones. These are used in Calgary and Edmonton.

The Province collects taxes and administers services in the four Improvement Districts (I.D.) in the Peace River area. The estimated 1986 mill rate for I.D. 23 is 22.3 mills (including municipal at 5.5, Provincial school at 4.3, Supplementary school at 12.2 and Hospital at 0.3). On this basis, the 1986 taxes for the Norman Wells pipeline would be $1,053 per mile.

3. PROPERTY TAXATION APPROACHES USED ELSEWHERE

3.3 Property Taxation (Cent'd)

3.3.5 Saskatchewan

Tax collection in Saskatchewan is the responsibility of urban and rural municipalities with the Province responsible for collection in the northern area. Land, buildings and improvement are taxable but, with the exception of-mines, machinery is not.

Business tax is mandatory in Saskatchewan. For all communities except Saskatoon, business assessment is calculated on the occupied floor space method. The basis for this method is the calculation of average rates of return for each type of business, converted to square footage, adjusted according to amenities in the community. The rate for a given type of business is the same within each community. For most businesses, rates may not exceed $20 per square foot in municipalities and $8 in northern areas. In Saskatoon, a rental value method of business assessment is used which does vary the assessment for the same type of business within the City.

Mines are exempt from business taxes with the exception of their office areas.

All forms of assessment are taxed at a uniform mill rate within each jurisdiction. There is no variable mill rate.

Municipal mill rates in unincorporated areas in the north are set by the Province at a relatively low rate which is not related to the cost of services. The rate has remained stable for at least the past four years at 15 mills calculated on an assessment base at 1947 value levels.

There is also a school mill rate set by the school divisions in the area. The rate is uniform for unincorporated areas and, in 1985, it was 83 mills (on 1947 values). The school rate has increased at a rate of 4 to 5% annually.

3.3. Property Taxation (Cent'd)

3.3.6 Manitoba

Municipalities in Manitoba are author"ized to levy taxes on all lands, which under the definition in the Act, includes buildings and fixtures. Mines and minerals are excluded however. In addition, personal property defined as stocks, shares, gas distribution system, machinery and production equipment may be taxed, if the municipality includes them in a business tax bylaw. They are assessed at their value as personal property and taxed at a maximum rate of the general municipal mill rate.

Business tax is generally imposed by all municipalities in the Province, although it is only mandatory in Winnipeg. The business tax is set at a percentage of rental value, which is calculated on an equitable and comparable basis, rather than actual rent paid. The maximum rate outside of Winnipeg is 15% of rental value, with the Winnipeg maximum at 20%.

In the northern part of the Province, the Ministry of Northern Affairs acts as a municipality in certain circumstances. The Ministry has not authorized the collection of business tax in this area.

Municipal mill rates do not vary by type of Property within a municipal jurisdiction. However, the standard Province wide school levy does have a differential mill rate between residential/farm and other, set by legislation. The non-residential rate was 81.7 mills in 1985. This is based on equalized assessments (equalized to previous year values).

In the northern parts of the Province (outside of municipal jurisdiction), the Department of Northern Affairs levies a standard mill rate of 15.5 mills on all properties assessed in their jurisdiction in addition to the school levy of 81.7 mills. For a 12 inch pipeline, the annual tax would be $600 per mile and for a railway line, $195 per mile (maximum). The general-mill rate has not been increased in recent years.

3.3 Property Taxation (Cent'd)

3.3.7 Ontario

In Southern Ontario, mill rates are levied by three agencies: the local municipality, the regional or County municipality (for area-wide services such as roads, social services, planning, etc.) and the area-wide school board. In the organized municipalities of Northern Ontario, there is no regional level of government, although there may be an area-wide levy for a special service such as homes for the aged.

In a municipally unorganized area of Ontario, the Province levies a Provincial land tax of 15 mills. This rate has not changed since the 1950's. If a property is within the jurisdiction of a school board but not a municipality, the school board mill rate plus the 15 mills is levied (in separate tax bills). In addition, there could also be a tax levy from a local roads board and a local services board, although it would be unusual for a property to be taxed under all four of these jurisdictions. The mill rate in unorganized areas does not relate to costs to service those areas. The minimum tax bill under the Provincial Land Tax Act is $6; approximately 25% of the 85,000 properties on the role pay this minimum tax. The average tax bill is about $20 in this area.

Business tax in Ontario is compulsory with the exception of properties where the Provincial land tax is collected. Business assessment is set at statutory percentages of realty assessment. The percentages range from 25% for parking lots to 140% for distillers. The majority of businesses are in the 30-60% range. The mill rate applied to business assessment is the same as that used for realty assessment. The Federal government refuses to pay grant-in-lieu on business assessment.

Ontario has legislated variable mill rates by which residential and farm properties are taxed at 85% of the rate by which' industrial and commercial properties are taxed. This is used for both municipal and school taxation.

3.3 Property Taxation (Cent 'd)

3.3.7 Ontario (Cent'd)

The 1985 general tax levy for a 12" pipeline outside of an unorganized municipality (based on the assessment rates set out in Section 3.2.7) is $675 for an oil pipeline and $735 for a gas pipeline.

4. EVALUATION AND RECOMMENDATIONS

4. EVALUATION AND RECOMMENDATIONS

4.1 Property Taxation Principles and Evaluation

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; the system should be defensible to the public and on legal appeal.

2. Worthwhile -yielding significant revenues, based on limited administration costs and compliance measures.

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 economic growth.

5. Justifiable - visible and clearly linked to the service benefits received by individual taxpayers.

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 - responsive to the needs of growth centres or special projects and to the changes produced by inflation.

8. Responsible - building on the N.W.T.'s local government experience and its long term program to encourage the growth of mature municipal governments.

9. Allocative - assisting the fair distribution of costs to the particular individuals, companies and government departments which have local installations and residences and are benefiting from the services provided.

4. EVALUATION AND RECOMMENDATIONS

4.1 Property Taxation Principles and Evaluation (Cent'd)

The property tax system in the Territories, as it is presently administered, fails to meet a number of these objectives. Outside of the seven tax-based municipalities, the property tax is not broadly-based and is paid by a small minority. It is not linked to the spending intentions of local government. The amount of taxation per property unit has been unchanged for two decades. A number of settlements and other development areas are not yet part of the system. The assessment process is complex and not widely understood - it is also relatively costly to administer in small, remote communities. Land assessment is difficult in the face of land claims and the limited private market.

As a result, Volume 1 of this study explored the idea of restricting the use-of proper taxation to particular N.W.T. communities. However, in the course of completing the study we have concluded that there are a variety of ways of improving the present system. We have concluded that it is more appropriate to institute these improvements, than it is to abandon property taxation throughout many areas of the N.W.T. The economic and cultural environment complicates almost any approach to local government finance, but the desirability of having a uniform system in place as one means of raising funds for local purposes, and the work done to date in the area of property taxation, should not be ignored.

For example, to make the system more broadly-based, the tax could be collected from <u>occupants</u> rather than exclusively from owners. This would expose all residents to the property tax, rather than simply owner-occupants. There are, of course, implications for those receiving low-income housing subsidies, but the subsidy on their-property tax could be graduated with income and separated from the overall housing subsidy. This modification is unlikely to generate a significant increase in net property taxation (after netting out property taxes paid by the public sector). It is, however, a much more fair and equitable system. The majority of the residents of the N.W.T. are tenants and, as a result, are excluded from an important aspect of local government. Unless they are ratepayers, they are not permitted to vote on money by-laws and do not have a full financial stake in community decision-making.

4. EVALUATION AND RECOMMENDATIONS

4.1 Property Taxation Principles and Evaluation (Cent'd)

This is a problematical area to deal with in terms of:
- potential unpopularity with tenants;
- clarifying owner vs. tenant responsibilities;
- subsidy and administrative requirements.

Nevertheless, it is essential that a way be found to give all residents at least this minimal responsibility as part of financing local government.

To make the tax locally administered, the G.N.W.T.'s 25 mill system could be gradually phased out, with assistance provided to individual hamlets and assessed settlements in becoming involved in setting their own mill rates as part of the budgeting process. This would require integration with a sound formula funding arrangement in order to avoid providing hamlets with another transfer payment (in the form of property taxes), on top of what they presently receive.

To make property taxation more worthwhile, hamlets could be gradually encouraged to increase mill rates, thereby covering a larger share of local expenditures. This would also narrow the tax gap between the tax-based municipalities and the hamlets, making the system appear more fair. This would be encouraged if the G.N.W.T. increased the territorial mill rate on a regular basis, in the interim. The most useful incentive, however, would be the creation of a formula funding system which provided the unavoidable <u>need</u> for communities to raise more money locally, <u>consistent with their means and spending intentions</u>.

The property taxation system could be geared to tax-payers' ability to pay by using split mill rates -- higher mill rates for businesses and lower rates for housing. Where "ability to pay" problems exist, these could be addressed through housing subsidies or grants such as the senior citizens or homeowners program, or incentives paid by the Department of Economic Development.

The system would tend to become more flexible, in terms of regularizing mill rate increases, if it were administered locally, rather than by the Territories. This would also introduce local community pressures in maximizing enforceability and building on local government experience.

4. EVALUATION AND RECOMMENDATIONS

4.1 Property Taxation Principles and Evaluation (Cent'd)

The system would be made fairer if, within each class of property, an identical property received the same assessment throughout the Territories, or at least throughout the region involved. This assumes that each region could be assessed on the same base year and with the same local modifier. Greater equity would also be introduced into the system if mill rates were varied for urban, urban fringe and hinterland situations to reflect the reductions in service levels involved as one moves outside of developed areas.

The justification for the tax would be more apparent if it were determined by, paid to, expended by, and justified by, the local council, rather than the Department of Finance in Yellowknife.

The tax would provide greater assistance in properly allocating cost shares if it were gradually increased from 1-2% of the cost of municipal services, as is currently the case in most hamlets, to a significantly higher level, consistent with local affordability.

Finally, it is noted that a number of communities within the Territories are presently not assessed and there are apparently no established plans to change this situation. The question arises as to the rationale behind assessing virtually all of the outlying lodges and isolated resource and other properties in the Territories, while failing to assess communities with 200+ person populations, such as:

- Fort Liard
- Fort Resolution
- Lac La Martre
- Rae Lakes
- Snowdrift

In fact, it may be asked why, given the broad coverage of property taxation in the N.W.T., <u>any</u> community should not be property assessed. Practice in the N.W.T. contrasts sharply with the situation in the Yukon, B.C., Alberta and Ontario where all properties are assessed and taxed (with minor exceptions such as Crown land, Indian Reserves, etc.). Saskatchewan is in a similar situation, although there are a few small northern recreational communities which have not been assessed; this is expected to occur in 1986. In Manitoba, there are a number of northern communities which are not assessed and taxed. Current legislation requires that the community, itself, must request assessment.

4. EVALUATION AND RECOMMENDATIONS

4.1 Property Taxation Principles and Evaluation (Cent'd)

An approach involving partial assessment raises questions of discrimination and issues concerning the basis for omitting or excluding a community or development from property assessment. If there are long term municipal development and other benefits to assessment in one community, then they presumably also apply to another. Also, consistency is a very important aspect of tax policy.

On the other hand, the assessment process is relatively expensive and community reaction can sometimes be hostile to it. Large portions of the N.W.T. are currently under land claims negotiations. The question arises as to the circumstances under which property assessment is warranted or not warranted. The following guidelines present an integrated approach, consistent with the continued use of property taxation:

- if a hamlet requests a move to a system where property taxation is used as part of a revised formula funding approach (similar to the system used in the tax-based municipalities), then G.N.W.T. should provide assessment and tax billing services to support this local initiative. Most hamlets probably do not yet have the administrative stability and capability to assume this function; however, this involves a long-term program;

  if a hamlet does not wish to become. "tax-based"[1], as outlined above, then it should continue to be assessed and taxed by the G.N.W.T. This approach would facilitate a subsequent move to a more independent municipal status and would ensure that everyone in the community made an equitable but limited contribution, in the interim, to the cost of municipal services;

  all "settlements and unincorporated areas should be property-taxed (with a schedule established for the phase-in of new areas) for the reasons mentioned above;

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1 This term is used simply to refer toalocal jurisdiction which finances a portion of its spending requirements via locally-raised property taxation. It is considered that the majority of N.W.T. hamlets and communities could potentially be in this category.

4. EVALUATION AND RECOMMENDATIONS

4.1 Property Taxation Principles and Evaluation (Cent'd)

- the condition underlying this arrangement would be that the improvements to the property taxation system recommended herein, be instituted on a scheduled basis. Continuance of the present system without change, is not recommended.

Continued public relations is required to acquaint residents with the full extent of their local service costs and the very small percentage of these costs which is, in fact, recovered from individual users and residents. There is a continuing need for the Department of Local Government to work with hamlets in matters of budgeting and local revenue generation. There is also a need, in introducing these policy recommendations, for M.L.A.'s to be consulted in" advance of a legislative proposal, in order to avoid confrontation and to produce the most workable recommendations. We think it is particularly appropriate that the M.L.A.'s be actively involved as local government programs such as this one are contemplated, revised and introduced. It is vital that local councils' understand and accept the underlying principles involved and look on them as a challenge and an opportunity, rather than an imposition. Concerted effort should be extended by the G.N.W.T. to facilitate this process.

4. EVALUATION AND RECOMMENDATIONS

4.2 Alternative Revenue Sources

The municipal objectives outlined in Section 4-1 can be realized through a restructured form of property taxation or, alternatively, via other means of raising local revenues. Property taxation is a widely-used source of municipal financing in Canada, but it is far from being the only source, or even the only significant source. Small municipalities across Canada regularly fund special capital works through development charges, fund raising, profit on special events or local volunteer labour. Operating costs are financed via user charges, such as water and sewer rates based on consumption, garbage collection and waste disposal rates, arena and recreation facility rentals, area rates for services such as streetlights and charges for parking, wharf usage, etc. Some municipal services are run through volunteers (e.g. firefighters) or make use of donated goods (e.g. libraries). General municipal income is earned in a variety of areas, including tax penalties, municipal service franchises, business licensing and profit from special events such as dances, bingo games or canteen operations.

The approach taken to user rates in the N.W.T. appears to follow the same general pattern taken for property taxes - the bulk of the charges are paid by government with most of the locals not participating. Even where they do, the rate charged is heavily subsidized. In our view, if there is a real desire to raise more funds locally for municipal purposes, the most readily available means is to expand the coverage of the user rates for water delivery, waste removal and other services. The justification for the charge is readily at hand and apparent to everyone involved. We see this as preferable to arguing for more elaborate revenue-generating schemes such as local sales tax or income tax sharing, when the more direct and obvious forms of revenue generation, such as user rates, are not being fully capitalized upon.

What would appear to be required is for the municipalities to accept clear revenue responsibility for elements of their financial affairs. Only when they are fully committed and motivated in this area, will the fundamental goals relating to responsibility and autonomy be achieved. We believe that the most readily available means of achieving this end is through an appropriate formula funding system which requires the generation of increased funds by community residents, based on the commitment of municipalities and communities to make such a system work.

4. EVALUATION AND RECOMMENDATIONS

4.3 Areas of Departure from General Practice

The following tables summarize the findings of our survey of assessment and taxation practice in other jurisdictions (outlined in Chapter 3) and compare key elements to the current situation in N.W.T. Table 4 deals with assessment practice, Table 5 with taxation practice, and Table 6 compares rates of taxation for pipelines, railways and power lines.

Conclusions concerning N.W.T. assessment practice vs. other jurisdictions are set out below:

- Reporting Authority - The N.W.T. administrative arrangement is identical to the Yukon but varies significantly from the Provinces. Three report to a Deputy Minister, one to a Minister and one to an independent board.

- Extent of Assessment/Taxation Area - In N.W.T., a number of small communities are not assessed. This is somewhat consistent with the situation in Manitoba, but varies significantly from B.C., Alberta, Saskatchewan and Ontario where virtually all properties are assessed.

- Provincial/Territorial/State Role in Assessment - N.W.T.'s complete authority is similar to that of three of the' jurisdictions (B.C., Yukon, Ontario). Saskatchewan and Manitoba also play significant roles in assessment. In Alberta and Alaska, assessment is the responsibility of the municipalities.

- Legislated Reassessment Cycle - N.W.T.'s 6 year cycle ranks in the middle range for timing between assessment revaluations. Yukon, Alaska, B.C. and Manitoba have shorter cycles (1 to 4 years) with Alberta at 7 years and Saskatchewan at 10 years. Ontario has no legislated cycle.

- Year of Valuation of Most Recent Manual - N.W.T. now uses the 1984 Alberta manual based on 1983 values. Compared to the other jurisdictions, the manual used in N.W.T. is up-to-date, in line with manuals used in four others. The Saskatchewan manual uses 1965 values and Alaska, 1977 values.

- Land Valuation Techniques - N.W.T.'s use of a development cost calculation for areas with no active market' is consistent with practice in the Yukon. The situation does not occur in the other jurisdictions, for the most part.

ASSESSMENT PRACTICE I

JURISDICTION	REPORTING AUTHORITY	EXTENT OF ASSESSMENT/ TAXATION AREA	PROVINCIAL/ ROLE
Northwest Territories	Manager (reporting to Director)	-a number of small communities not assessed	-complete jurisdic
Yukon	Manager (reporting to Director)	-all surveyed property assessed and taxed	-complete jurisdic
Alaska	N.A.	-option of municipality - less than 20$ are assessed and taxed -other revenue sources available	-State prepares eq manual (optional) -municipalities re assessment
British Columbia	Executive Director (reporting to Independent board)	-all properties assessed and taxed	-complete Jurisdic
Alberta	Chief Provincial Assessor (reporting to Deputy Minister)	-all properties assessed and taxed	-responsibility of -Province contract many municipalit. -rev laws all asse
Saskatchewan	Executive Director (reporting to Minister)	-all properties assessed & taxad with exception of a few small Northern retreat ional communities to be completed this year	-Provincial respon municipalities ex
Manitoba	Provincial Municipal Assessor (reporting to Deputy Minister)	-number of communities in Ninth not assessed since community must initiate process	-Provincial respon Winnipeg
Ontario	Assistant Deputy Minister (reporting to Deputy Minister)	-all properties assessed and taxed	-complete jurisdic

TAXATION PRACTICE IN N.W.T. A

JURISDICTION	BUSINESS ASSESSMENT & TAXATION
Northwest Territories	No - Optional
Yukon	No
Alaska	No
British Columbia	Yes - Optional
Alberta	Yes - Optional
Saskatchewan	Yes - Mandatory
Manitoba	Yes - Optional except for Winnipeg
Ontario	Yes - Mandatory

4. EVALUATION AND RECOMMENDATIONS

4.3 Areas of Departure from General Practice (Cent'd)

- % of Valuation Used in Assessment Rolls - N.W.T.'s practice of using 100% value for land is used by every other jurisdiction except Alberta, which uses 65%. For improvements, N.W.T.'s practice of using 66-2/3%, is generally consistent with only three of the seven other jurisdictions (Alberta, Saskatchewan and Manitoba). The remainder use 100%.

- Machinery - Machinery is assessed in a minimum of four of the seven jurisdictions surveyed as well as N.W.T. Three of the four include 100% of value on the rolls, while N.W.T. uses 66-2/3%.

Conclusions concerning N.W.T. taxation practice are set out below:

- Business Taxes - N.W.T.'s practice of not using business assessment and taxes is consistent only with two of the seven jurisdictions (Yukon and Alaska). Of the remaining five, business taxes are mandatory in two and optional in three.

- Variable Mill Rates - Variable mill rates are the norm, although in three of the five jurisdictions, it is a municipal option (similar to N.W.T.) In two jurisdictions, variable mill rates are not permitted.

- School Mill Rates - Similar to N.W.T., almost all jurisdictions charge school mill rates. The exception is areas of Ontario outside of a school board district.

- Tax Rates - Current taxes on a pipeline of comparable size and remote location to the Norman Wells pipeline are in the $560-675 range in Manitoba, Ontario and the Yukon, the $1,050 range in Northern Alberta and $2,900 in Northern B.C. Railway taxation is similar in the N.W.T. to taxes in the Yukon and Manitoba and lower than British Columbia.

4. EVALUATION AND RECDMMENDATIONS

4.4 Role in Encouraging Municipal Maturity

The most important rationale for property taxation in the N.W.T. hamlets is that it involves raising revenues locally. This participation in municipal cost-sharing, permits the exercise of local authority in determining spending priorities and encourages accountability by local councils to the taxpayers who are contributing. This is a particularly fundamental and important goal, particularly when one considers that the N.W.T. does not have well-established traditions in these areas. The majority of the hamlets were formed during the past 15 years and require assistance and structuring if they are to evolve into mature municipal operations. Local revenue-generation, including property taxation, is seen as an important part of the sound structure which the G.N.W.T. should be providing.

One major difficulty with the present approach to property taxation used in the Territories is that, outside of the Fort Smith Region, 94% of the housing is publicly owned and most of the remaining 6% is owned by business and other corporations. This means that only a very small minority of the population (probably 1-2%) actually receives a property tax notice. A number of these taxes are in arrears and, of the balance, 50% rebates are issued to homeowners under a G.N.W.T. program. 1800 homeowners resident in the seven tax-based municipalities participated in this rebate program in 1985. On the other hand, only 70 households were involved in the program in all 37 of the hamlets and assessed settlements. This is a clear indication of the fact that property taxation outside of the tax-based municipalities, parts of the Fort Smith Region and several other economically active municipalities, is simply not a functioning part of the local economy in any significant way. The tax is being paid by the N.W.T. Housing Corporation, by the Federal Government as a payment in lieu, by a few crown corporations and by the local Hudson's Bay Store, Co-op and religious order (for homes owned). With very few exceptions, the tax is not being directed toward, or paid by, more than a few of the 50-200 households living in each of these 37 communities.

We believe that if property taxation is to fulfill its potential in terms of helping N.W.T. municipal government to become responsibility and autonomous, then it is important that the incidence of the tax is, in fact, spread over a broad base. If it is paid largely by senior levels of government, it becomes simply another transfer payment and is not set up to encourage the degree of local participation which is required to make it effective.

4.4 Role in Encouraging Municipal Maturity (Cent 'd)

One approach to broadening the tax base would be to tax, directly or indirectly, the occupants or users of property, rather than the owners (i.e. government). This could be achieved through legislation requiring the direct taxation of occupants or the pass-through of the taxes from owners to occupants.

The difficulty with this approach is that many N.W.T. communities are distinguished by having the highest living costs in Canada, together with very limited incomes and economic bases. The financial capability of these residents to pay property taxes or any other taxes, is limited. Housing and other basics are already being provided on a highly subsidized basis, in many cases with user contributions paid out of incomes which are also subsidized. However, if the objective is to encourage fiscal responsibility at the local level as an end in itself, with or without any eventual movement from subsidies to true financial independence, then property taxation can play a potentially useful role. The requirement, however, is that virtually all residents be subject to the tax, in proportion to the value of the real estate which they occupy.

This approach would also have the advantage of reducing friction between tax-based and non tax-based residents. This arises because, to some, hamlet residents are seen not to be making a reasonable contribution to the cost of their municipal services. A more broadly-based property tax system, together with one which better equalizes tax burdens , would provide a fairer system for those living throughout the Territories. The formula funding system should minimize the differences between tax-based and non tax-based funding, making them matters of different percentages of cost, rather than different formulas altogether.

The taxes involved must, of course, also be established on the basis of each individual's ability to pay and the relative quality of the municipal services which are (or are not) being provided to him. In reaching this conclusion, we are also mindful of the need to adopt a ' long-term perspective to a very young system of government in the Territories, so that a sound tax structure is in place which the Territories can "grow into" in future years and decades. It will be much easier for communities to realize the full benefit of property taxation in future, if they have accumulated some experience with it in the interim.

4. EVALUATION AND RECOMMENDATIONS

4.5 Municipal Formula Funding

The terms of reference for this property tax review do not embrace detailed consideration of municipal spending patterns and funding arrangements provided by the G.N.W.T.; however, property taxation is but one component of local government finance and cannot be viewed in isolation.

It is generally agreed that all municipalities and hamlets in the N.W.T. should be responsible for funding a percentage of their annual expenditures from locally raised revenues. This local involvement in cost sharing, in turn, permits local authority to be exercised in determining spending priorities and encourages local accountability to be demanded by the ratepayers who are contributing directly to community undertakings.

The size of that local funding percentage should be determined in two ways. For capital spending, the local community must finance any works not provided through the G.N.W.T.'s (proposed) new capital grants program. For operating expenditures, the percentage to be funded in each case, should be based on a formula which addresses the local community's ability to pay. The cost sharing percentage> in each case, would apply to community spending plans beyond the cost of providing a very clearly defined basic level of service based on standard costs. The community would be required to expend these basic funds for the designated purposes, as verified by an annual audit. Cost sharing would be required for the "soft services" which can be regarded as discretionary.

Ability to pay, relates most directly to income levels, including government subsidies, the local cost of living index and the amount of non-residential assessment involved.

In the poorer communities, where the vast majority of the population has a limited ability to pay, there still remains a clear requirement for some share of costs to be borne locally. This is fundamental to the maturing of local government and holds everyone in the Territories responsible for contributing toward the cost of the municipal services they receive. This contribution should be consistent with the varying levels of service provided, as well with ability to pay, as discussed above.

4. EVALUATION AND RECOMMENDATIONS

4.5 Municipal Formula Funding (Cent'd)

A contribution is consistent with the level of service provided, if it is calculated as a percentage of the cost of providing those services. That is, a low level of service will normally require a low level of spending to provide and vice versa. If spending level and service level do not correspond because of inefficient administration, local cost-sharing will provide an incentive for the problem to be rectified. Accordingly, local councils will be made more accountable to the electorate.

If spending level and service level do not correspond because of factors such as access, remoteness, weather, etc. These can be allowed in the funding formula, via the cost of living index mentioned above. That is, the more remote and high cost communities would receive a higher percentage of their community spending as a G.N.W.T. contribution, in order to place all communities into a similar cost environment.

Under this system, communities such as Yellowknife, which have high income levels .($15,912/capita in 1982) and relatively low cost of living differentials compared to Edmonton, would be responsible for raising a significant portion of their annual spending. On the other hand, communities such as Pelly Bay and Spence Bay which have quite low income averages ($4,000/capita in 1982) and high cost of living differentials, would be responsible for raising a much smaller portion of their annual spending directly from their residents.

However, in all cases, the inhabitants of local communities would be expected to contribute directly toward local servicing costs and that contribution would be in terms of their ability to pay and the benefits they receive, which are the fundamental underlying principles of public finance in Canada.

One problem with locally-raised revenues at the present time, is that in many hamlets, the vast majority of the revenue is generated by N.W.T.H.C. , G.N.W.T. and Federal operations and installations. Thus, the local revenue system is not broadly-based and affects only a small minority of the residents. This is particularly true of property taxes and water supply and waste removal rates. In the case of property taxes, the vast majority of the population lives in rent-geared-to-income public housing

4.5 Municipal Formula Funding (Cent'd)

and doesn't pay the tax directly or indirectly. This is also the case with much of the privately-owned housing, the cost of which is absorbed by major employers (mines, oil companies, Hudson's Bay Company, etc.).

Much of the water supply and waste removal costs are recovered locally, but once again, the large public sector and the premium rates levied upon it, generates the vast majority of the income involved.

In order to address this situation, it is necessary, to include all government revenues (whether provided as grants, property taxes or user charges) in calculating the non-local share. In this way, the share which is to be borne by the local community must, in fact, come from those living in the community and not simply as a transfer payment from Yellowknife or Ottawa.

There are a variety of means available to the local communities for raising their share of local operating and capital costs. These include fund raising, occupant user charges for most municipal services, service franchising, business licensing and use of accumulated surpluses. In communities which have significant privately-owned real estate resources, property taxation represents a very effective means of generating local funds. In communities where the public sector predominates, the funds which can be generated locally via property taxation are more limited unless the tax can be successfully transferred to property occupants, rather than property owners alone. In the interim, other supplementary revenue options will probably be required, in order to generate the local funding contribution needed to balance the municipal budget.

In communities where the ability to pay is extremely limited, the financial contribution which is required must be reduced accordingly. However, supplementary contributions in the form of volunteer labour should be considered in these instances.

4. EVALUATION AND RECOMMENDATIONS

4.6 Taxation for School Purposes

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:

		Per Capita	%
- Taxation Areas (Hamlets, Settlements & HQ Roll	$1,012,300	$50	23.1
- Yellowknife School Boards	2,275,297	$209	52.0
- Remaining Six Tax-Based Municipalities	1,089,028	$75	24.9
	$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 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 tax-based municipalities, the school share of total property taxes 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. However, this may not be important, given the Consolidated Revenue Fund operation. Of greater significance is the fact that the Department of

4. EVALUATION AND RECOMMENDATIONS

4.6 Taxation' for School Purposes (Cent'd)

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".

Several other factors should be considered in examining the potential role of property taxation in school funding.

First, the practice of levying for school costs is used, almost universally in the Canadian jurisdictions surveyed. In several cases, the school component of the mill rate is well above 50% of the total.

Second, the situation in the N.W.T. may be unique if the native organizations, who represent a substantial percentage of the population, take the position that they are entitled to education at no cost, as a form of aboriginal right. This does not appear to have been advanced as a major issue to date, but could conceivably be precipitated by land claims negotiations, escalating mill rates, coupled with a broadening of the taxpayer base through the inclusion of occupants, rather than simply owners.

Third, 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.

Finally, the school rate in Yellowknife represents approximately one third of the taxes levied - in the order of $500/year on a standard three bedroom bungalow. This is a substantial amount to pay for the privilege of exercising a measure of control over the operations of the local school board. It is important that some consistency be maintained between this situation and the cost of education to residents living elsewhere in the Territories.

Two basic courses of action are available. The first involves maintaining the school rate in its present form. It could be strengthened and made more education-directed by allocating the tax proceeds to the Department of Education and by setting each year's mill rate so as to recover a set percentage (say 10%) of the net cost of education which the Territories must finance. This course of action would be most feasible

4.6 Taxation for School Purposes (Cent'd)

as the G.N.W.T. gradually moves in the direction of devolving control of schools to local boards, on a wide scale.

The second alternative, and the favoured one, is to meld the school rate and the general rate together for the Taxation Areas. In the tax-based municipalities (outside of Yellowknife), the school component could be reformulated as a "Territorial" levy, with the understanding that it is to cover a share of the whole range of services provided by the G.N.W.T. The Yellowknife school system could be maintained as an anomoly, since it is a different arrangement and is functional. In order to be consistent, it may be desirable to include a Territorial component in the Yellowknife mill rates, with a corresponding offset in the local school rate.

4.7 Impact on Economic Development

As noted in "Local Finance Study in Hamlets and Settlements" September 1977, 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.

The need to promote economic development, reduce unemployment and broaden the tax base, is of fundamental and obvious importance in the N.W.T. To help achieve this the Department of Economic Development is interested in making tax concessions to experimental or "incubator" industries and to resource developments and businesses in a precarious economic position. Similarly, in seeking to attract foreign investment and make deals which will benefit the Territories economically, it is useful to have the ability to make tax concessions. However, in the case of property taxation, it is concluded that any such concessions should be made on a special rebate or grant arrangement through the Economic Development budget, on an individual project by project, year by year basis. This incentive grant approach is suggested in preference to a system where some assessments are artificially reduced and not determined in the same manner as all other valuations. Similarly, the reduction of mill rates based on factors other than service levels provided, municipal spending needs or Territory-wide policy, should be discouraged, as it can invite exceptions, pressure, abuse and the creation of a patchwork system of property taxation.

The question remains as to the level of property taxes which is affordable by business and controls needed to avoid putting in place real obstacles or disincentives to growth. It may be argued that overall costs of doing business are already extremely high in the Territories and that property tax is simply one more discretionary cost which must be assumed. In this regard, the determination of mill rate levels should meet several basic tests:

- the taxes levied should be competitive with property taxes charged for similar facilities in remote northern environments elsewhere in Canada;

- the taxes should reflect, to some degree, the cost of municipal services directly emplaced by the business and the local and Territorial services received by it;

4.7 Impact on Economic Development (Cent'd)

- the taxes should diminish routinely with changes such as depreciation, shut-downs and demolition;

- businesses encountering particular economic hardships should be able to appeal to the Department of Economic Development for special grants rebating some or all of their property taxes. (It is Economic Development rather than Local Government which is in the best position to evaluate the validity of these appeals and to determine the priority of competing claims for its limited incentive funds.)

Finally, it is important that businesses, major resource companies and others, clearly understand the "rules of the game". The taxation system should be clear and stable and an assessment referral system should provide some recourse to clarifying assessments other than via formal appeal.

Also, the contribution which major employers make via the provision of infrastructure and tax dollars should be acknowledged by G.N.W.T. "

Thus, assessments should be kept "pure" in terms of their reflection of value, without modification for services provided, revenue objectives or other factors (e.g. Giant Yellowknife Mine assessment markdown). Revenue policy goals can then be pursued in terms of mill rate variances or special subsidies. It is recommended that the mine and other assessment anomolies be eliminated, with any alternative financing negotiated by the municipalities involved. Outright tax forgiveness or remission for assessed properties should not be permitted.

The aim is to ensure that the property tax system is applied with consistency and without exceptions. Al 1 properties (other than designated public property) should be assessed and on the same basis. All properties within designated areas should be taxed on the basis of a set of published mill rates.

4. EVALUATION AND RECOMMENDATIONS

4.8 Assessment Staff Organization

Staffing and organization is, of course, a critical aspect of an effective property assessment system for the Territories. The present organization (Figure 2) could benefit from a number of changes, as outlined on Figure 3. This concept arranges the Assessment Office into three different sections or divisions, as follows:

(1) Operations - This group is responsible for the actual assessment activity and is the "line" operations component. It is divided into five sub-divisions, according to the five N.W.T. Regions. Each Regional operation is staffed in proportion to the population served. This group would also be responsible for the "Headquarters Roll" function, divided among the five separate Regions.

The Operations Manager is responsible for staffing and scheduling as well as assessment quality control.

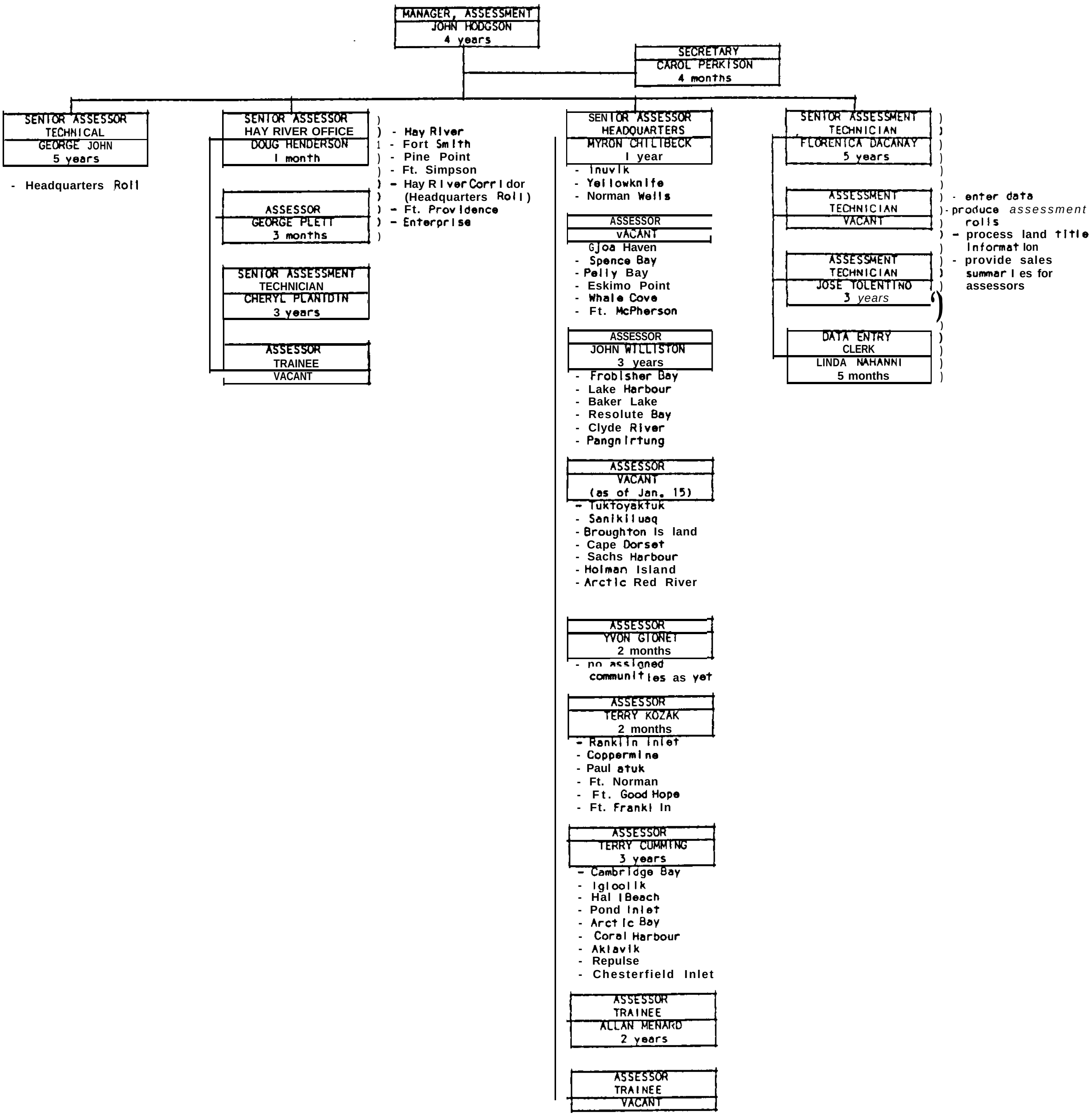
This regional approach is important if assessors are to maintain familiarity with the development and real estate circumstances which are peculiar to each part of the Territories. This objective is enhanced by the use of field offices, where practical. The Hay River office is the first such office, covering the tax-based and other municipalities south of the Lake. An Inuvik office should be established to cover the Inuvik Region, if qualified assessment staff can be maintained in that location.

The Operations group also contains a small staff of supplementary or "floater" personnel who can be assigned to assist in meeting Assessment Roll deadlines and to accelerate the completion of general reassessments in various regions. This minimizes the need to move personnel out of their assigned regions, even in critical periods or where staff vacancies exist and provides good training positions for junior staff whose experience requires rounding out.

The staff figures shown are illustrative only and may require adjustment, for example in the Fort Smith Region because of the volume of activity. The addition or deletion of communities subject to assessment will, of course, further affect staffing requirements. The head of this section would also act as Deputy Head of the Assessment Office.

FIGURE 2

ORGANIZATION CHART OF ASSESSMENT DIVISION
MUNICIPAL AFFAIRS SECTION
N.W.T. DEPARTMENT OF LOCAL GOVERNMENT



NOTE : Time figures indicate approximate length of service as of Fall, 1985
SOURCE: Assessment Division, Municipal Affairs Section,
N.W.T. Department of Local Government

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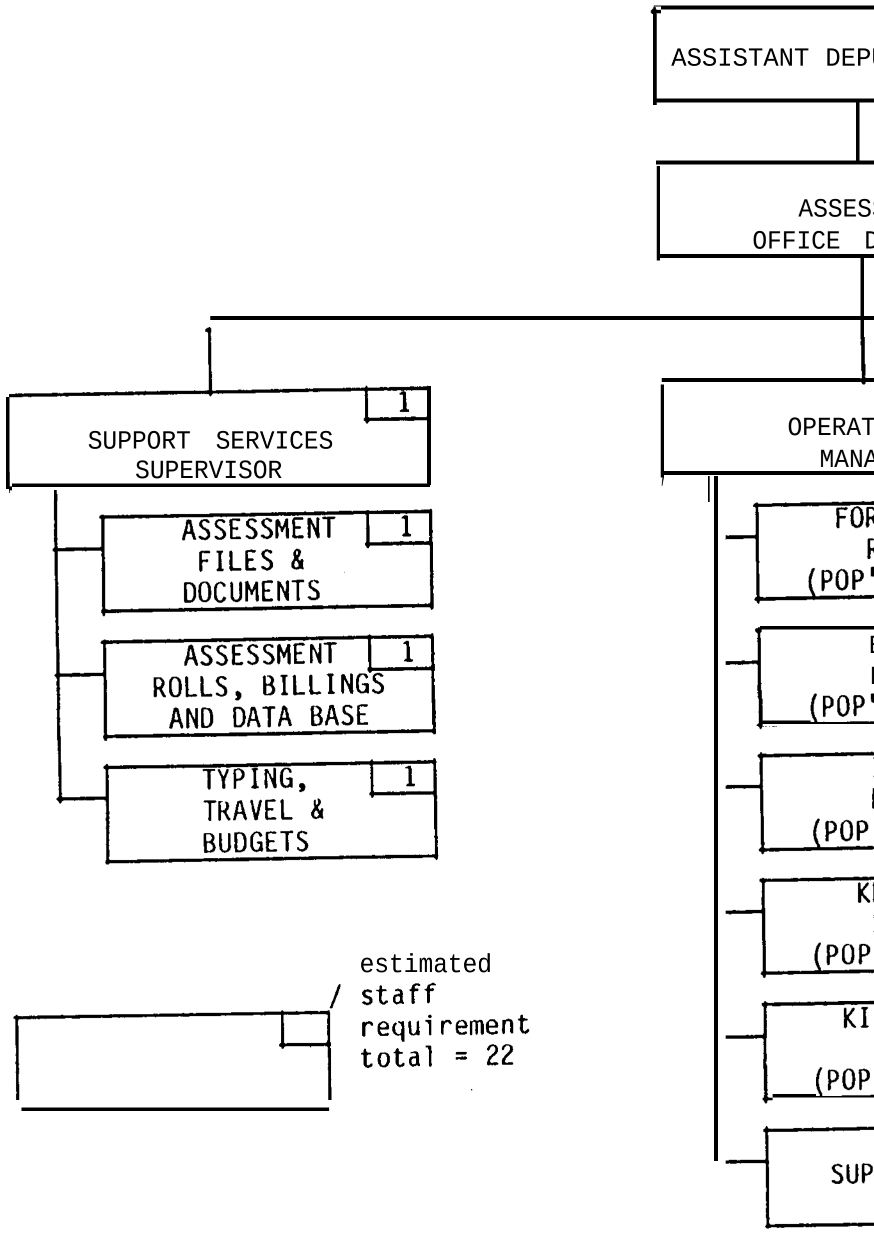
RECOMMENDED ORGANIZATION OF T



4. EVALUATION AND RECOMMENDATIONS

4.8 Assessment Staff Organization (Cent'd)

(2) Research and Training - This group would maintain internal assessment policy and procedures manuals, based on links to the Alberta and other Provincial systems. The head of the section would provide training to new and/or junior G.N.W.T. assessors.

A specialist in mine assessment would be responsible for conducting all mine assessments and for ensuring that sufficient G.N.W.T. expertise was in place relative to machinery and equipment, depreciation and related technical questions. The G.N.W.T. does not presently appear to have this expertise and the importance of mining activity in its economy suggests that this gap be filled without delay. Questions have been raised as to whether the N.W.T. should assess mine and process machinery. This issue can only be properly addressed on the basis of a detailed analysis of current practice and the impact of any charge. Present practice in the N.W.T., whereby fixed machinery and equipment are assessed, is consistent with practice in the Yukon, Alaska, Alberta and Ontario and is not a major issue with the local resource industry, although a review and rationalization of the system would be welcomed.

Similarly, an oil and gas assessment specialist would be responsible for all pipeline, exploration island and processing plant assessments and for ensuring that the G.N.W.T. was current with development in this field. Once again, oil and gas exploration and development is probably the principal form of economic activity in the N.W.T. and is potentially capable of producing vast tax revenues (e.g. oil and gas properties in Alaska generate in excess of $200,000,000 annually in taxes). It is absolutely critical that the G.N.W.T. upgrade its expertise in this field by hiring a specialist who would focus on the court cases and other developments underway in this specialized area of assessment.

Finally, a specialist in land and public facilities would concentrate on two of the thornier assessment issues in the Territories. Land is a difficult area in assessment generally, but is particularly difficult in the N.W.T. given the limited private market, substantial Crown ownership, subsidized land development programs and native land claims issues. One of his tasks would be to examine commercial land valuations in the Territories and particularly in Yellowknife. He would also examine the basis for

4.8 Assessment Staff Organization (Cent'd)

current land assessments in the N.W.T., the value shifts occurring between land and improvements and recommend the best approach to a transition to a simpler system. This individual would also be concerned with Federal payments in lieu of taxes which have been fraught with disputes and delays for years, in part because of the patented land issue. If the Territories is to maximize its property tax revenues from public sources, it is worthwhile for it to assign an assessor to focus on this particular aspect of assessment, property taxation and "grantsmanship" on a Territory-wide basis.

The Research and Training Section would be staffed with specialists relating to a significant portion of the N.W.T. property assessment base. These personnel would interact in a matrix organization with those in regional operations who are responsible for establishing assessments and assessment rolls in each case. This matrix relationship would have to evolve over time, but would enable the contribution of the functional specialist and the regional assessor to be combined. The operations group would be strengthened by these specialist advisors, just as it is helped by the support services group.

Outside specialists or consultants would be retained by this group from time to time, in that this area requiring specialized expertise is the most suitable area for "privatization" to occur. We question the appropriateness of contracting out general reassessments, given the legislated requirements, the property owners' future rights of appeal, the need to ensure consistency throughout the Territories and maintain appropriate continuity from one assessment to the next.

(3) The third group (Support Services) would provide support services to the other two, particularly to Operations. For example, it is recommended that the section head visit the British Columbia assessment office to study their quite sophisticated computerized assessment system and to explore the possible use of such an approach, with or without the involvement of B.C. personnel, software and mainframe. This group would include a person assigned to supervise the central assessment files and records. The present state of the files underlines the importance of having a supervised,

4.8 Assessment Staff Organization (Cent 'd)

controlled-access system. This problem could be solved over time as the assessment records are computerized with on-line access possible by assessors, management, the Finance Department and other authorized personnel.

A second person would be responsible for the production of the assessment rolls and the tax billings which are made from them. This individual would ensure that the G.N.W.T. rolls reconcile with the (Tax-Based) Municipal Rolls and that billings reconcile with Finance Department records. He would also ensure that comprehensive and accurate statistics were maintained on property taxation and assessment matters in the N.W.T. Ultimate responsibility for the assessment. roll function is with the Operations group, but a senior computer support clerk is required to assist and co-ordinate. The final support individual would be required to co-ordinate overall travel arrangements for the office (which are considerable), to monitor budgetary expenditures and provide typing services.

A supervisor or manager is required to head up each of these three groups, in order that their work is co-ordinated and supervised and the Assessment Manager or Director receives sufficient support so that he has time to focus on the management of this significant operation. This also would add several desirable positions to the Assessment office, thereby helping to reduce the staff turnover which has made it difficult for this operation to function.

Overall staff requirements are in the order of 22 persons, if the basic functions are to be covered. This is a comparatively modest operation compared to other assessment functions in Canada, and the Territories are of unprecedented size and complexity in terms of access, language and diversity of real property situations.

There are numerous advantages to having the G.N.W.T. conduct assessments throughout the Territories, rather than devolving this function to individual municipalities which are much too small to justify the range of assessors required and would encounter formidable recruitment and consistency problems.

4. EVALUATION AND RECOMMENDATIONS

4.8 Assessment Staff Organization (Cent'd)

The reporting relationship for the G.N.W.T. Assessment Office should be at a senior level, consistent with practice in the Provinces and with the sensitivity and importance of the legislated assessment function. Reporting at the Assistant Deputy Minister level would be appropriate and would place the Assessment Office a desirable distance from related but separate considerations involving municipal grants, reserves, budgets and political structures.

The issue arises as to whether the Assessment Office in fact belongs in the Department of Local Government or whether it would be more appropriately located within the Department of Finance (as in Ontario) or reporting to a separate board (as in British Columbia and Saskatchewan). Considering the fact that municipal government in the Territories is in the relatively early stages of development, the Local Government Department would appear to provide a logical setting for the Assessment Office. There is a synergy between its operations and the other municipal affairs activities, which is underlined by the fact that property taxation is still evolving in the Territories. However, the relationship between mill rates, assessment, tax billings and tax collections is of obvious importance and the links between Local Government and Finance should be regularized and strengthened.

4.9 Property Taxation Data Requirements

"Volume 2 Data Base" presented a variety of statistics which are of direct relevance to this particular review and to the work of the Department of Local Government, generally. We believe that it is worthwhile and indeed, important, to compile and publish data of this type annually. The following information is considered to be of particular usefulness:

- funds actually contributed by local residents in the form of property taxes, user rates, etc. as opposed to transfer payments from G.N.W.T., N.W.T.H.C., the Federal Government, and the percentage the former represent of local municipal spending;

- the percentage of assessment in each community which is classed as residential (privately owned vs. government-owned) and non-residential (institutional, commercial, mine and industrial);

- the total number of housing units in each community, by ownership and type of occupancy;

- number of additional residential and other units added to, or deleted from, the assessment roll each year;

- program budgets for the $60,000,000+ in municipal expenditures in the N.W.T., indicating the cost of providing each particular type and level of service;

- per capita spending and revenue patterns by community, with results shown in clusters;

- the communities in which significant property tax increases/decreases occur over the years;

- the difference between property tax billings and net receipts by community, including tax arrears and write-offs;

- annual property taxes on a standard 3 bedroom single-detached home in every community in the N.W.T.;

- property taxes paid annually on each of the two hundred most highly assessed properties in the N.W.T.;

- the map location of those properties appearing on the G.N.W.T. Headquarters Assessment Roll;

4. EVALUATION AND RECOMMENDATIONS

4.9 Property Taxation Data Requirements (Cent'd)

- a summary of the results of all assessment appeals;

- reconciliation of changes in tax billings from one year to the next in terms of assessment increases, mill rate changes, retroactive billings, disputed billings or billings not made, etc.;

- the percentage of homeowners receiving Homeowner Property Tax Rebates in each community;

- average improvements and land assessment within each community;

It may be time-consuming to compile this information, at the outset, but once procedures are established and computerized, the task can be handled by a small staff, or integrated into related work already being done by Local Government personnel.

4. EVALUATION AND RECOMMENDATIONS

4.10 Inter-Municipal Equalization of the Property Tax Burden

Section 50, subsections (1) and (2) of the Taxation Act set out the requirements for levying taxes in the hamlets and taxation areas. Taxes are to be levied "... at such uniform rate per dollar as is necessary to raise revenues sufficient to meet the estimated expenditures for the Territories for the year." This involves revenue sufficient to meet the capital and operation and maintenance expenditures of the hamlet for that year plus an education tax at an established, uniform rate per dollar, not in excess of 20 mills.

In practice, the G.N.W.T. has interpreted the above to mean that the tax rate should remain constant at 25 mills on a 1963 assessment base (13 mills for general purposes and 12 mills for school purposes). The 25 mills is factored down to an equivalent mill rate, where the assessment is based on more recent (and therefore higher) values.

This practice is questionable for two fundamental reasons:

(1) The taxes produced are unrelated to the expenditures and financial requirements of the hamlets since they are all treated uniformly, without reference to individual and local circumstances. This means that the link between hamlet spending intentions and the tax burden which should be required to underwrite these expenditures, is not in place.

(2) By maintaining the 25 mill rate constant over a 20 year period of steady inflation, means that the real value of the property tax has plummeted. Many N.W.T. taxpayers have become accustomed to paying nominal taxes which do not increase and to being heavily subsidized by the G.N.W.T. This makes the task of realigning taxes to more realistic levels and to increasing them for inflation and service level increases, much more difficult.

Even accepting the Government's intention to equalize inter-municipal property taxation burdens at 1963 levels, there is real question as to whether this goal is, in fact, being achieved. Mill rates are inexplicably high in Norman Wells, Nanisivik and Arctic Red River and low in Holman Island, Fort Providence and Fort McPherson. Property owners in these communities are paying significantly higher taxes in the former cases and lower taxes in the latter cases, relative to taxes on comparable dwellings elsewhere in the Territories.

4. EVALUATION AND RECOMMENDATIONS

4.10 Inter-Municipal Equalization of the Property Tax Burden (Cent'd)

In almost no case, is the adjusted mill rate producing the exact equivalent of the original 25 mills. In several cases, the difference is very slight (Aklavik, Cape Dorset, Lake Harbour, Chesterfield Inlet, Tuktoyaktuk), but in most other cases, differences of +10-20% are in effect. The explanation for this situation is that:

(a) Land value forms part of the calculation and while local modifiers and time adjustment factors exist for improvements, they are less well documented and presumably different, for the land component of a property. Thus, dividing the 25 mill rate by the time adjustment factor x the local modifier does not always produce a mill rate which maintains overall tax levels constant.

(b) The adjusted mill rates were, in some cases, arrived at by reference to tax comparisons for typical dwellings and other means. This method may have introduced a bias in the mill rates in some circumstances.

As a result of these factors, an equivalent piece of real property is taxed at different amounts as one moves from one hamlet to the next. The differences are quite significant in several cases, ranging up to 100% and beyond.

If the G.N.W.T. is to continue collecting property taxes for its own purposes, we believe that the tax should be the same for an equivalent property, in an equivalent location (i.e. intra community, hinterland, fringe, etc.) This is a fair and equitable approach and would be regarded as such by taxpayers. Its application involves the use of a system such as the following:

(1) Use of the Alberta Cost Manual to value improvements, with the use of a single local modifier (Northern Cost allowance) to increase those costs to average levels for the N.W.T. or Yellowknife, for example. In this way, all improvements of equivalent size, age and construction would receive an identical assessment, and not one which is inflated by, for example, the additional costs of accessing a particularly remote location. The Alberta Manual has been in use by the Territories for many years and this history, plus the proximity and availability of experienced staff in Edmonton, is beneficial.

4. EVALUATION AND RECOMMENDATIONS

4.10 Inter-Municipal Equalization of the Property Tax Burden (Cent'd)

(2) It is concluded that in communities such as Yellowknife, where there is an active arms-length market for land, market value should be the basis for valuation. In the majority of the N.W.T. communities, where this market does not exist, the basis for valuation should be a defined formula. (These communities can be defined by regulation.) This formula should be set out in the Assessor's Manual so as to provide a clear basis for establishing the value of a given site, expressed as a percentage of the value of a standard benchmark site. Variances from the benchmark value should relate to factors such as site size, shape, topography, soil conditions, road access, sewer, water and other services, view, zoning (i.e. G.N.W.T. sells commercial land at a 100% premium over residential) neighborhood, proximity to valued facilities and other site characteristics having value in use or utility. The value assigned to the standard benchmark site, should represent an average cost required to acquire raw land and to place it in buildable condition. The average cost may be calculated for a subdivision, a community, a geographic region or the Territories as a whole. Our recommendation would be the use of averages for several broad geographic regional-averages considering environmental differences such as perma-frost. This equalization of land value is consistent with the equalization of improvement values which we have recommended throughout the Territories.

(3) A mill rate* would be struck in order that each individual hamlet would yield a similar overall tax revenue on the new system, as compared to the overall taxes billed in the previous year. If this produced substantial shifts in the burden carried by individual properties, the assessment and mill rate would be left intact, but consideration would be given to providing special assistance to the taxpayer, in order to phase in the new tax rate over several years. This circumstance should not occur frequently, however, as large shifts are unlikely and the absolute dollar value is not expected to be significant, given the limited taxes being imposed.

This approach is designed to uncomplicated the system, to some degree, thereby reducing assessment costs and making it possible for the populace to participate in it more actively.

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*It is noted, in passing, that the use of a "tax percentage" rather than a "mill rate" is a more understandable concept to the average person and may warrant adoption for that reason.

4. EVALUATION AND RECOMMENDATIONS

4.11 Split Mill Rates and Assessment Premiums/Discounts

Based on ability to pay, it may be appropriate to vary the amount of property taxation levied per dollar of assessment, according to different types of land uses. This would involve major resource and other industries contributing at a higher tax rate than many of the N.W.T.'s residents who live in marginal economic circumstances. At the same time, some recognition, in the form of tax concessions, should be made where an employer provides substantial municipal infrastructure and services at his own expense (as in many of the mining communities).

Also, in terms of "benefits received", urban uses require more (subsidized) municipal services than do hinterland uses and accordingly, should be charged a higher tax rate. For example, commercial uses, which have access to a market as a result of the expensive community infrastructure provided at public expense, should assist in meeting municipal revenue shortfalls beyond the standard tax rate applied to their normally rather modest assessments and taxes. Finally, lower tax rates are more applicable to capital intensive facilities such as pipelines, than to more labour intensive facilities such as mines or processing plants. This is because the former do not generate as high a demand for resident employees, with their resultant requirement for expensive (government-subsidized) municipal services.

There are two ways of achieving this variability in tax rates. The first is to vary the mill rates imposed (split mill rates) and the second is to vary the assessment established. The latter can be achieved through assessment "mark-downs" for particular areas (as has been done for the mines in Yellowknife and Pine Point, for many years) or through the use of business assessment add-ens (as authorized under the Municipal Act, but not applied in the N.M.T.) An alternative, less direct, approach is to assess non-residential property at a higher percentage of market value, as a matter of policy (for example by using a percentage higher than the 66.6% improvements factor).

Some jurisdictions, such as Ontario, employ all three approaches - residential mill rates are set at 85% of industrial/commerci al , industrial/commercial business assessment is typically an additional 30-70% of realty assessment and in most municipalities industrial/ commercial property is assessed at a significantly higher percentage of current market value, than is low-density residential development, largely as a result of the use of outdated assessments.

4. EVALUATION AND RECOMMENDATIONS

4.11 Split Mill Rates and Assessment Premiums/Discounts (Cent'd)

In our view, it is preferable to use a single approach to differentiation in order to simplify the process and make it as understandable to everyone involved and as defensible by the government as possible.

Our preference is to keep the assessments "pure" in terms of their reflection of value, without modification. This facilitates the process of explaining the assessment system to taxpayers and justifying individual assessments in court. Any differentiation can then be focussed on mill rate variances. This conclusion, of course, places this section more within the ambit of the Department of Finance, than the Department of Local Government. It also assumes that standard mill rate differentials will ultimately be legislated, in order to minimize problems created by leaving the choice at the municipal level.

Figure 4 illustrates the type of mill rate relationships which are recommended for legislative determination in the N.W.T.

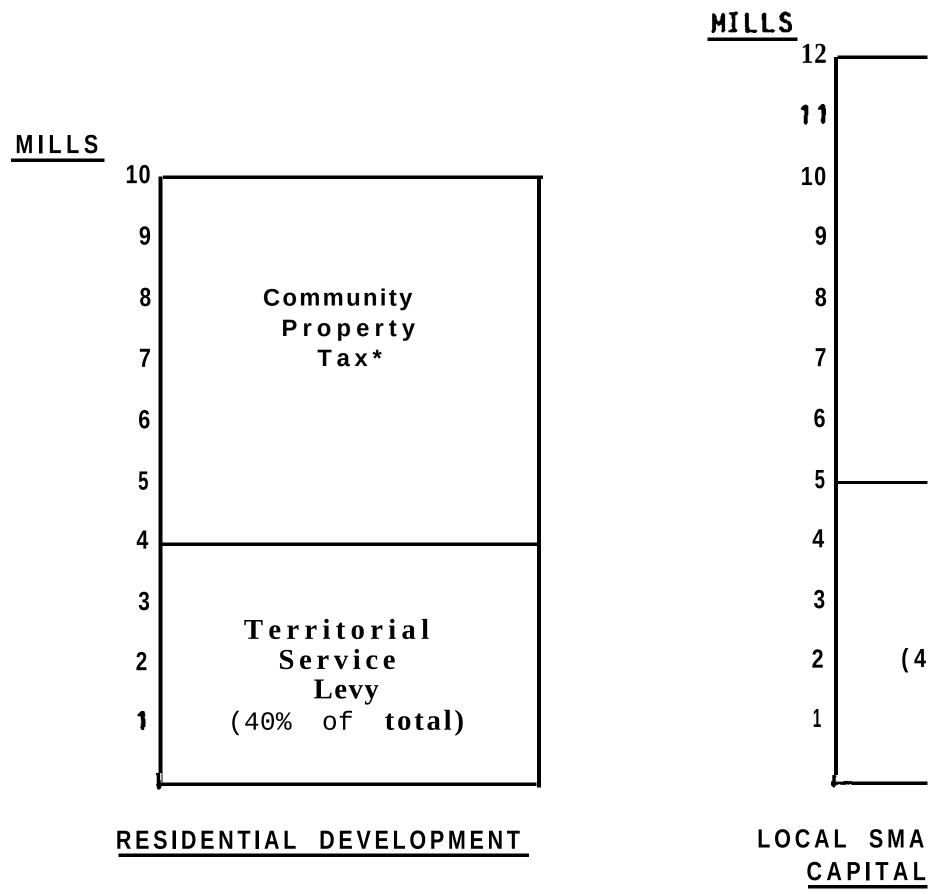
Residential development would be levied two-thirds the mill rate of industrial/commercial development, with local small business and capital intensive industry levied at three-quarters of the full rate. These relationships are based on a rationale which considers ability to pay and servicing requirements. It may be that the mill rate surcharge on industry should be much higher than these, however;

The tax is divided into two components: the Territorial Service Levy, suggested as 40% of total, and the Community Property Tax as the balance. The latter is locally-determined in tax-based municipalities. It could even be locally-determined, collected by the G.N.W.T. and remitted to the community as part of its funding formula, prior to full tax-based status being achieved;

Development in the hinterland would pay the Territorial Service Levy only. The lower charge is appropriate, since this development does benefit, directly or indirectly, from G.N.W.T. investment in municipal infrastructure and health, education, protection, transportation, regulatory and other services throughout the Territories, but not to the same extent as development within a community;

Finally, development in the "community fringe" (where the majority of the employees regularly commute to a particular community), would pay the Territorial Service Levy, plus a portion (e.g. 50%) of the Community Property Tax.

FIGURE 4: EXAMPLES OF MILL RATES BASED ON 1980 ASSE
(E.G. RESIDENTIAL vs. RESOURCE) DIFFEREN
HINTERLAND) AND DIFFERENT USES (TERRITC



*Developments closely linked to a community by regul
would pay 60% of the community property tax plus the
Note: Only the Territorial *Service* Levy would be im
not part of a community fringe.

4.11 Split Mill Rates and Assessment Premiums/Discounts (Cent'd)

A clear definition is required of "community fringe" in order to establish the basis for these mill rate differences and as a possible basis for property tax revenue sharing by any directly affected communities. This definition would presumably relate to distance, statistics as to the residence location of on-site operating personnel , and usage of local community services.

Use of this approach to mill rates, would involve full value assessment for Giant Yellowknife and Cominco Mines. It is assumed that the decline in "Headquarters Roll" mill rates resulting from this approach, would be offset by overall increases in mill rates from the 25 mill (1963) level.

4. EVALUATION AND RECOMMENDATIONS

4.12 Reassessment Schedules

According to the six year general reassessment cycle in the Act, full general assessments are on the following timetable:

1986	Norman Wells (early) Fort Smith (early) Nanisivik (overdue) Resolute Bay Enterprise (overdue)	
1987	Frobisher Bay Pine Point Arctic Bay Clyde River Hall Beach Igloolik Pangnirtung Pond Inlet Baker Lake	Coral Harbour Eskimo Point Rankin Inlet Repulse Bay Whale Cove
1988	Sanikiluaq Chesterfield Inlet Holman Island Aklavik Norman Wells Tuktoyaktuk Sachs Harbour Fort Providence	

This is a formidable list containing two-thirds of the hamlets and settlements and several of the tax-based municipalities. In addition, there is pressure to reassess early in Yellowknife, to bring new resource properties into the rolls, along with any new hamlets or other communities which should be assessed.

Travel and staff costs are high relative to the property tax revenue which can be generated in many of these communities. Also, there were only seven assessment appeals in 1984 outside of the tax-based communities, Norman Wells and Tuktoyaktuk, which does not suggest the perception of significant assessment problems.

Accordingly, it is concluded that a longer assessment cycle, in the order of ten years, is appropriate for most of the hamlets and settlements. The exceptions to this recommendation, in addition to the tax-based municipalities, would include only Norman Wells, Tuktoyaktuk, Rankin Inlet and Resolute Bay, 4.12 Reassessment Schedules (Cent'd)

which contain the vast majority of the private sector property tax assessment. Also excluded would be any major hinterland mine and other properties producing, for example, $10,000/year in taxation. General assessments for these exceptions should occur more regularly - for example on a four year cycle - in order to ensure that the value relationships are maintained as up-to-date and accurate as possible. Ideally, all communities within each region would be reassessed in the same year, in order to maintain inter-municipal comparability and understanding. If this is not feasible in the Fort Smith Region, it could be scheduled on a North of Lake - South of Lake basis.

In the interim, the time adjustment factors could be used to bring all municipalities to a 1980 base year, except for those which are being assessed based on the 1984 Manual.

Assessment of the remaining settlements and unincorporated areas in the N.W.T. should be scheduled during the next several years, so as to generate additional revenues, provide consistency, experience with this form of local taxation and freedom from discrimination.

4. EVALUATION AND RECOMMENDATIONS

4.13 Assessment and Taxation Legislation

It is noted that a G.N.W.T. review of the Municipal Act and the Taxation Act has been underway for some time and is nearing completion. The purpose of that review is to create a Property Assessment and Taxation Act, fusing into one Act, the modified provisions of the two mentioned above. Because of the existence of this ongoing project, we have tended, in this property tax review, to focus on the system of property taxation and assessment which the Territories should move toward, without detailed reference to the Acts as they stand today.

There are, however, a number of observations on the Acts which may be made, as a result of our review, including the following:

1. The distinction between a city, town, village or hamlet is based on population and assessment per capita. The significance of these municipal categories and the rationale for the qualification criteria is not clear and should be more clearly established in policy documents, if not in the legislation itself.

2. The use of user rates as a local revenue source would be encouraged if authority to pay "garbage collection and disposal and water supply charges" out of general municipal revenue, were denied.

3. Local improvement charges are quite significant only in Fort Smith and to a lesser extent in Hay River, Pine Point and Yellowknife. Territory-wide policy in this area should be examined.

4. S.211(2) of the Municipal Act concerning the exemption of the occupant from taxation where . . . . . virtually no municipal service or benefits are provided..." would appear to be inconsistent with much of the Headquarters Roll taxation.

5. The Commissioner's regulations prescribing standards and methods of assessment, levels of value to be used in determining fair actual value, etc., should be compiled in a comprehensive assessment manual which can be regularly updated and consulted.

4. EVALUATION AND RECOMMENDATIONS

4.13 Assessment and Taxation Legislation (Cent'd)

6. The prescribed rates for communications, railways and pipelines should be updated. Our copy of the Municipal Act (s.226(2)) reads $440/kilometre of each track for railways, while the Taxation Act (s.16(2)) indicates that railway tracks are to be valued at $3,750/km. No base year is specified in either case.

7. If communities are to utilize revenue forecasts in developing a sound budget for the next year, the assessment roll should be finalized at least one month before the start of their fiscal year, wherever possible.

8. The Assessment Roll should be open for public inspection on a year-round basis rather than for a 30 day period, as the Act may imply.

9. S.248(3) of the Municipal Act speaks of a fair and just relation within the individual municipality assessed, while s.37(3) of the Taxation Act speaks of a fair and just relation to the value at which other real property in the Territories is assessed. The rationale for the difference should be clarified.

10. Regarding s.260 of the Municipal Act, all valuations should be made on an identical basis and any concessions, premiums or other modifications should occur more openly through adjustments to mill rates.

11. A variety of Municipal Act measures have not been employed or at least not widely employed. For example, the use of assessment zones (s.260), different tax rates for residential and non-residential properties (s.263), business taxes (s.273(1)) and community service charges (s.283).

    Rather than providing for so many different approaches, it is preferable to move communities toward a more common and uniform approach to local government finance. Our recommendation involves the use of a system of differential mill rates and "pure", unadjusted assessment values.

12. S.293(2) of the Municipal Act calls for an October 31 property tax deadline. A phased payment schedule providing for payment earlier in the year would facilitate the cash flow position of municipalities.

13. S.20(1) of the Taxation Act does not impose a deadline on the Commissioner for the return of the corrected roll, although functionally a deadline exi sts.

4. EVALUATION AND RECOMMENDATIONS

4.13 Assessment and Taxation Legislation (Cent'd)

14. S.50(2)(4) of the Taxation Act concerning the rationale for the tax rate simply has not been operative. This is by virtue of the fact that the tax rate has remained unchanged since its inception, while hamlet expenditures have increased rapidly.

    This is a critical area and the new Act should address it carefully, providing for "tax-based" hamlets setting their own mill rates as part of their budgetary process vs. those subject to the Commissioner's rate. The latter should be increased on an accelerated basis, to a more up-to-date level and automatically increased with inflation, thereafter.

15. According to s.56(1) and s.56(3) of the Taxation Act, penalties on unpaid taxes should start to accrue as of September, l each year. However, the G.N.W.T. has been employing a date several months later. The reason for this practice is unclear.

16. The use of individual areas subject to taxation would appear to be less effective than simply designating the entire N.W.T., outside of any tax-based municipalities, as being subject to property taxation. The latter approach is more equitable because of the universality which it introduces to the system.