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A PROPOSAL FOR PROPERTY TAX GROWTH-SHARING

Alberta

PROVINCIAL-MUNICIPAL
FINANCE COUNCIL

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LETTER OF TRANSMITTAL

December 1, 1976

Honourable Dick Johnston, Chairman
Provincial-Municipal Finance Council
127 Legislative Building
Edmonton, Alberta

Dear Mr. Johnston:

The Research Staff of the Provincial-Municipal Finance Council, in June 1975, was given the responsibility of reviewing and recommending a program for the Province of Alberta that would provide for an equitable distribution of property tax assessment accruing from capital investment in the Province.

A great deal of background statistical data was compiled for a comprehensive report. Our staff is grateful to the members of the Assessment Equalization Board and of the Assessment Services Division of Municipal Affairs. Special acknowledgement is due to Katherine C. Lyall of the John Hopkins University in Maryland and Gene Kanff of the Metropolitan Council of St. Paul, Minnesota for the information they provided on base-sharing programs in Maryland and in Minneapolis-St. Paul.

I have the honour to transmit, herewith, the report and recommendations.

Yours truly,

Ross L. Ellis.

Ross L. Ellis
Executive Director

A PROPOSAL FOR

PROPERTY TAX GROWTH-SHARING

An Investigation of Inter-Municipal Sharing of Commercial-Industrial Property Tax Assessment Growth in Alberta

PROVINCIAL-MUNICIPAL FINANCE COUNCIL
December 1, 1976

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I Introduction and Background

1. The principles and rationale of inter-municipal property tax base-sharing are sound and reasonable. However, a program of sharing all commercial-industrial assessment (including existing assessment) among all municipalities in the Province is not a viable proposal. Therefore, a program of growth-sharing, which would involve the sharing of a portion of future commercial-industrial growth, is proposed.

II The Case for Commercial-Industrial Growth-Sharing in Alberta

2. At the present time, there exists among the municipalities of Alberta a considerable range in fiscal capacity as measured by equalized assessment per capita.

3. The analysis of the anticipated location of future major developments indicates that, unless a sharing program is implemented, the fiscal capacity disparity will increase substantially.

4. The amount of commercial and industrial assessment growth anticipated indicates that a growth-sharing program would enable a considerable equalization of assessment benefits and would enable a lessening in the range of municipal fiscal capacities.

III A Commercial-Industrial Growth-Sharing Proposal for Alberta

5. The proposal involves the province-wide sharing among municipalities of 50% of the growth in commercial and industrial assessment.

6. Land assessment, regardless of its classification, would not be included for sharing, but arrangements could be made for including the sharing of growth in mainline pipe and power assessment, Alberta Government Telephones assessment, grant-in-lieu property assessment and railway line assessment.

7. The assessment growth would be measured each year from a set base year. The growth in the value of new properties, that is, properties not existing for the base year assessment, would be equivalent to the full assessed value of the new property. For

properties existing for the base year, only the amount by which the total assessed value exceeds the base year value would be considered as growth. An increase in the assessed value of an existing property which results from changes in assessment rates or procedures or from a general assessment, rather than from any physical expansion, would not be considered growth.

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I INTRODUCTION AND BACKGROUND

The basic concept examined in this report is the sharing among municipalities of a portion of commercial-industrial tax base growth. Programs involving this concept have been introduced in the Minneapolis-St. Paul Metropolitan Area and recently have been proposed for the State of Maryland. In this report, the basics of these programs have been adapted and applied to Alberta enabling an analysis of the probable effect and feasibility of such programs if implemented in this Province. Before examining and describing the programs, it would be worthwhile to review the underlying principles and rationale which have led to this consideration of inter-municipal sharing.

The Rationale for Inter-Municipal Sharing in Alberta

Most inter-municipal sharing programs have tended to concentrate upon alleviating the problems and inequities associated with the industrial assessment base.[1] It has long been recognized that the particular location of an industrial establishment can create problems for nearby municipalities. A severe benefit-cost distortion can be caused, in that the municipality that receives the tax base benefits of the industry (the site municipality) may not be the one which suffers the most cost in terms of servicing the industry and its employees. It is recognized that for a municipality to have a healthy tax base it requires a substantial amount of non-residential assessment. The benefits of a large non-residential property tax base generally exceed the servicing costs incurred, particularly over the long run; the same is not true of a residential tax base. The desire of municipalities to acquire the industrial or non-residential base can result in unhealthy competition among municipalities, ill-considered annexation

[1] Industrial assessment includes pipe and power assessment, machinery and equipment assessment, as well as those lands, buildings and improvements classed as industrial assessment.

procedures and improper development and land-use planning. Furthermore, industry in Alberta is based primarily on natural resources exploitation (oil, gas, coal). It is felt that the assessment benefits of this economic activity should not accrue only to the municipality which happens to have exploitable natural resources within its boundaries, but should be shared in some manner with less fortunate municipalities.

The principles outlined above have motivated the consideration and implementation of many types of sharing programs over the past years in many jurisdictions. In Alberta, section 118.1 of *The Municipal Government Act* permits municipalities to enter into arrangements to share tax revenues from a particular development in relation to the servicing costs borne by the municipalities. In 1960, legislation was proposed to share a portion of the existing and all future industrial assessment among all municipalities in the Province.[2] In the early 1970's, a program was examined to share the revenue from pipe and power and railway line assessments on a province-wide basis.[3] Both provincial programs were abandoned, and the enabling section 118.1 has been rarely implemented by municipalities themselves. The only inter-municipal sharing associated with industrial assessment is a provincially-imposed program: specially-designed ID's remit tax revenues to urban municipalities within the ID on the basis of $50 for each person and his or her dependents, provided that the person resides in the urban municipality and is employed by an industry located in the ID. The revenue is derived from a special levy on industrial properties within the ID. The program in the provincially-administered ID's appears to be operating satisfactorily, but there are no similar programs involving counties and municipal districts despite the authority granted in *The Municipal Government Act.*

In the near future, an enormous amount of capital investment is expected in Alberta primarily associated with the petrochemical industry, and requests for a further examination of sharing arrangements among municipalities have been made. It would be desirable to have a program

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[2]ALBERTA. Legislature. 1960. (See pages 26 & 27 for citation of this and other footnoted publications.)

[3]ALBERTA. Legislature. 1971; and ALBERTA. Municipal Affairs. 1971.

which would equalize the benefits of economic expansion, particularly since most major developments will be restricted to only a small number of municipalities.

Previous sharing programs suggested for Alberta involved the sharing of the existing industrial tax base and met with considerable opposition. These programs would have resulted in net losses to a few industrial-rich municipalities. The loss of an existing assessment base for any municipality would have an adverse effect with regard to present and planned development and to debt capacity and repayment factors. Therefore, although it would be desirable to have all non-residential assessment more equitably dispersed, *it is considered that a sharing program would be acceptable only if it dealt with future developments. This type of program is termed growth-sharing.*

Growth-Sharing Programs in the United States

The first major growth-sharing program proposed was in the Minneapolis-St. Paul Metropolitan Area in the State of Minnesota. The program was suggested formally in a report outlining the disparities in financing capabilities among the metropolitan municipalities.[4] Legislation was introduced, but due to court contests regarding the constitutional validity of the program, it was not enacted until 1974.[5]

The Minneapolis-St. Paul program is intended to enable all municipalities in the region to derive some tax base benefits from all non-residential growth in the Metropolitan Area. It involves the calculation of an area-wide growth pool based upon forty percent of the net increase since 1971 in commercial-industrial property valuations in each municipality. This growth pool is then redistributed. The assessment received is added to the assessment the municipality retained, and the total forms the official tax base which is used for all purposes, including debt and levy limits, school requisitions, and mill rate calculations.

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[4] MINNEAPOLIS-ST. PAUL. Metropolitan Council. 1971.

[5] MINNESOTA. Statutes. 1971.

The State of Maryland has a growth-sharing program pending approval by the State Assembly. It is somewhat different from the Minneapolis program in several aspects. The Maryland program is designed to be implemented statewide, rather than confined to a specific metropolitan region. Forty percent of the commercial-industrial assessment growth beyond the base year (as yet unspecified) remains with the site municipality while sixty percent is contributed to the growth pool. The largest difference in the program is that, unlike Minneapolis where the redistribution of the growth pool to the municipalities is in terms of assessment, the Maryland proposal suggests that a standard mill rate, derived from an average of the actual mill rates in the States, be applied to the growth pool prior to redistribution and the <u>revenue</u> generated be redistributed. The municipalities have no expansion of their local tax base under this sharing proposal but receive instead a straight money entitlement.

The Minneapolis-St. Paul program of commercial-industrial growth-sharing has received considerable attention in the United States. It is an innovative method of alleviating fiscal capacity disparities among municipalities arising from an inequitable dispersion of the non-residential property tax base, and it does not involve the contentious issue of municipal structure reform or municipal boundary changes. The Minneapolis-St. Paul program is being reviewed for possible implementation by several other states, including Maine, Michigan, and California.

Concluding Remarks

The concept of sharing <u>all</u> assessment of major developments (including existing assessment) among municipalities in the Province is not a viable proposal. It has been introduced and rejected, and there is little reason to believe such a proposal would be accepted now. However, the concept of growth-sharing as introduced in the Minneapolis-St. Paul area is worthy of consideration. There are, of course, many variations that can be examined in an Alberta context: whether industrial and commercial or only industrial growth should be shared, whether the program should be implemented on a regional scale or on a province-wide scale, what factors should be considered in a redistribution formula. The following sections of this report include an analysis and an overall assessment of the suitability and acceptability of growth-sharing in Alberta.

II THE CASE FOR COMMERCIAL-INDUSTRIAL GROWTH-SHARING IN ALBERTA

Before outlining the operation of the sharing proposal for Alberta, it should be determined whether there is (or will be) sufficient cause to implement the proposal and whether it will achieve worthwhile results. One of the main objectives is to lessen the disparity of fiscal capacity of municipalities which results from the location of major property developments. An examination of the present situation with respect to fiscal capacity is warranted as well as an examination of the amount and location of future developments.[6]

The Present Situation

The most common measure of fiscal capacity for municipalities is property assessment per capita. The first column of Table 1 shows the 1975 per capita equalized assessments for the municipalities in the Province. There is a considerable spread in the figures for the types of municipalities. It should be emphasized that these figures are averages and that there is a very wide spread among individual municipalities, even those of the same type. For example, in municipal districts there is a range of $1425 p.c. in Bonnyville #87 to $6205 p.c. in Pincher Creek #9; for improvement districts there is a spread of $896 p.c. in ID #7 to $50757 p.c. in ID #11.

The provincial average is influenced heavily by the figures for Calgary and Edmonton because these two cities have over fifty percent of the provincial population. Nevertheless, the averages do give a general indication of the distribution of the property tax base. All of the towns, all of the villages, and eight of the ten cities (Calgary and Edmonton are the exceptions) are below the provincial average.

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[6]Fiscal capacity means the ability of a jurisdiction to raise revenues based upon a measure of its tax-producing resources.

TABLE I

	1975 Equalized Assessment $'s Per Capita	1975 Non-Residential Non-Farm Equalized Assessment $'s Per Capita
Cities (10)	2897	1091
Towns (103)	1747	595
Villages (134)	1358	556
Counties (30)	3171	1417
Municipal Districts (18)	3218	1295
Improvement Districts (18)	4473	3538
Special Areas (3)	7021	2741
Alberta*	2816	1164

*does not include summer villages or ID's 3, 4, 9, 12, 13, and 24. (see section III, page 13, of this report for further comments)

Source: Assessment Equalization Board - *Equalized Assessments for 1975*.

A case could be argued that rural areas require a larger assessment base in order to provide the necessary services in a sparsely-populated region. However, the intent here is simply to outline the distribution of the property tax base. Regardless, it is difficult to deny that an unjustifiable disparity in fiscal capacity exists when there is a range in equalized assessment per capita of $586 in the Village of Hill Spring to $50757 in ID #11.

The second column of Table I indicates that there is a close relationship between the amount of the tax base which is non-residential (including machinery and equipment, pipe and power, and commercial-industrial properties) and the level of equalized assessment.[7] Improvement districts have almost 80% of their tax base in the non-residential category compared to 40-45% for counties and municipal districts and 35-40% for the urban

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[7] The Special Areas, of which there are only three, are somewhat of an exception due to their low population and large tracts of corporately-held farmland.

municipalities. There is very little commercial assessment in the rural areas, so the non-residential, non-farm assessment in the rural municipalities is almost exclusively industrial. A comparison among individual municipalities, especially among rural municipalities of the same type, shows that there is a direct relationship between low total assessment levels and low non-residential assessment levels.

Future Industrial Assessment

At six-month intervals the Provincial Government Department of Business Development and Tourism issues a publication entitled *List of Industrial Projects*. This publication details the number, type, location, and capital value of projects proposed, under construction, and those completed in the past six months. The information can be used to assess whether or not the amount and location of future projects will aggravate the existing fiscal capacity disparity of municipalities, and whether or not the proposed program of growth-sharing will enable a relatively effective means of avoiding or reducing the disparity.[8]

Location: The capital value of projects under construction is \$3.1 billion. Sixty-five percent (\$2.0 billion) is due to the Syncrude tar sands extraction plant in the Fort McMurray area (ID #18). A further \$517 million, or 17%, is located in the Edmonton - Fort Saskatchewan region. This leaves about \$600 million or 18% for the remainder of the Province.

The combined capital value of projects proposed or under construction is \$11.1 billion.[9] Sixty percent is in the Fort McMurray area and 17% is in the Edmonton region, leaving only 23% for the remainder of the Province. From these figures it is evident that the major future investment will be located in only a few municipalities.

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[8] The source used here is the latest publication in the industrial projects series: as of 1 January 1976. The figures presented for industrial investment are to a large extent based upon projects which have been proposed by industry or the government. However, they are in no way official figures, nor do they represent projects which will definitely be constructed.

[9] The \$11.1 billion figure does not include the coal extraction project for the Ryley-Camrose area. That proposed project has been rejected.

The majority (68%) of the investment is in major petroleum and petrochemical projects which, for various economic reasons, have to be located at the petroleum source or concentrated in a confined region. This results in a provincial policy of locating many of these projects in "industrial corridors" running from the Fort McMurray area to the Edmonton and Red Deer regions. The assessment impact of this concentrated investment is further emphasized when it is noted that the capital value figures cited above do not include the extensive pipe and powerline installations which will connect the tar sands plants to the major refining and processing areas.

The provincial government has expressed a policy of encouraging the location of some industrial projects in smaller rural centers. The effect of this policy is evident from the proposed location of several agricultural processing plants, small manufacturing and forestry industries. However, due to the nature of the major projects, *it is apparent that, unless a sharing program is implemented, the majority of the future industrial assessment benefits will accrue to a relatively few, mainly rural municipalities.*

Value: Under the sharing proposal to be detailed in section III, fifty percent of assessment growth beyond a set base year would be contributed to a central pool for redistribution. To determine the potential effectiveness of the proposal, it would be worthwhile to estimate how much assessment would be accumulated in the central pool. The following analysis is restricted to an examination of industrial assessment. Under present assessment procedures, roughly 10% of the capital value of an industrial project is represented by its assessed value. The comparison of future with present assessment is based upon the 1975 industrial assessment of the entire Province of about $900 million.

Examining only those projects now under construction, the capital value of $3.1 billion would convert to $310 million assessment. If pipe and power (not included in the capital cost figures) increases to maintain its 1975 ratio of about one-third of the total industrial assessment, then, considering only projects under construction, there would be an industrial assessment increase of $460 million, or an increase of about 50% over the 1975 level. Assuming one-half of this, or

$230 million, is contributed to the central pool for sharing, the pool would contain 17% of the total industrial assessment or an amount roughly equivalent to one-quarter of the industrial assessment in 1975.

If the projects proposed are included in this analysis, the potential of the sharing program appears considerably greater. An assumption that only one-half of the projects proposed will be completed in the forseeable future is made. Combining one-half of the proposed projects with those under construction, the capital value would be $7.1 billion which converts to $710 million assessment. Including anticipated pipe and power assessment increases, the overall increase from 1975 would be $1060 million or 118 percent. This would result in a pool for sharing of $530 million. That amount represents about three-fifths of the industrial assessment existing in 1975 and would be almost 30% of the anticipated future industrial assessment.

It should be noted that, with no existing industrial assessment being shared and with one-half of the future growth in assessment not being shared, the central pool of assessment will be forever somewhat less than 50% of the industrial assessment in the Province. The above analysis of the value of anticipated capital investments indicates that *the sharing proposal will result rather quickly in an assessment pool for sharing which should allow a considerable lessening of the fiscal capacity disparity among municipalities.* The pool will be much larger if, as is proposed, commercial assessment growth is shared along with industrial.

Future Commercial Assessment

There is no publication similar to that for industrial projects from which any reasonable estimates of commercial assessment growth can be made. Due to the economic diversification and population growth anticipated for Alberta, historical rates of commercial growth are probably not applicable. Historical ratios of commercial to industrial assessment are also invalid due to the extent of new capital investment anticipated.

From 1973 to 1976, the assessed value of commercial structures increased at a slightly higher rate than industrial structures - 32% compared to 30 percent. However, as indicated above, the growth of industrial properties will accelerate dramatically over the next few years. It is unlikely that commercial assessment will increase at the same rate as industrial, but commercial growth will be substantial and its inclusion can only enhance the potential of the growth-sharing proposal.

Conclusions

At the present time, there exists among the municipalities of Alberta a considerable range in fiscal capacity as measured by equalized assessment per capita. The present situation indicates that the disparity is due, at least in part, to the location of non-residential assessment, particularly industrial assessment in rural municipalities.

The analysis of the anticipated location of future major developments shows that, unless a sharing program is implemented, the fiscal capacity disparity resulting from plant location will increase.

The calculated amount of assessment growth indicates that a growth-sharing program would enable an equalization of non-residential assessment benefits and would enable a lessening of the range of municipal fiscal capacities. Furthermore, the growth-sharing proposal would achieve this, not by reducing the capacity of wealthy municipalities, but rather by ensuring that a portion of future assessment benefits would be shared with less fortunate municipalities. The program would ensure that all municipalities have at least some amount of assessment growth regardless of the location of future developments.

III A COMMERCIAL-INDUSTRIAL GROWTH-SHARING PROPOSAL FOR ALBERTA

In this section of the report, the commercial-industrial growth-sharing proposal is described. The program outlined is designed to be flexible to allow for necessary adjustments. There are several options which can be pursued without disrupting the basic framework. There is one brief appendix to this section (located at the back of the report). It is a summary of a statistical analysis of the possible effects of the program over the period 1973-1975. The analysis was fundamental in shaping many aspects of the suggested program, particularly the redistribution procedures.

The Basic Outline

> Each year the municipalities of Alberta would calculate the growth in commercial-industrial assessment over the values for a set base year. Fifty percent of this assessment growth would be used to form a province-wide assessment growth pool.
>
> The growth pool would be redistributed to the municipalities either in assessment dollars <u>or</u> in revenue. With assessment redistribution, the amount received from the pool would be added to the assessment the municipality retained, and the total would form the official property tax base. With revenue redistribution, the municipalities would receive monies generated by the application of a provincial standard mill rate to the growth pool assessment.
>
> The redistribution would be on a formula basis so that the poor municipalities and those adversely affected by development and growth would receive proportionately more from the pool than the wealthy and less affected municipalities.

The redistribution procedure option, and other aspects of the proposed program are examined in the remainder of this section of the report.

A Province-Wide Program

During the course of this study the relative merits and disadvantages of a regional versus a province-wide program have been examined. A regional program, as in Minneapolis-St. Paul, would have the advantage of being more adaptable to varying situations among municipalities with regard to the type and amount of assessable property to be shared. In addition, it would ensure that the sharing occurs in a distinct geographical area where economic and servicing interactions would be apparent. A regional program would also tend to promote increased co-operation among neighbouring municipalities. On the other hand, a regional program would require a clear designation of sharing regions. This would be difficult to do without creating inequities and distortions with regard to the municipalities which are to share in new developments. Regions could be determined around the major urban centers, but much of the expected assessment growth, particularly from industrial developments, will occur in remote, sparsely-populated areas of the Province where there are no groupings of municipalities.

A province-wide program would be less effective in terms of direct inter-municipal co-operation, but it would have other advantages which outweigh this factor. There would be no need to define regions, but it would still be possible to promote additional sharing among adjacent or closely-situated municipalities. (This is explained later with regard to redistribution factors.) Furthermore, a province-wide program would ensure that all new developments would be included in the sharing and that all situations of benefit-cost distortion resulting from property location would be treated at least to a minimum extent. Perhaps most importantly, the province-wide plan would permit all municipalities to achieve some assessment benefit from the economic and natural resource developments in this Province. Therefore, a *growth-sharing proposal of this report is designed as a province-wide program.*

It would involve all municipalities in the Province with the exception of summer villages; ID's 3, 4, 9, 12, 13, and 24; and the collecting school districts of Jasper and Banff. The summer villages and the ID's listed (all of which are National Parks except ID #3 which is the Military Experimental Range) have little or no permanent population and only small amounts of commercial-industrial assessment. The collecting school districts, located within ID's #9 and #12, are not municipalities as such, but serve to provide education financing for the resort towns of Banff and Jasper.

Type of Assessment Included in Sharing Proposal

The proposal would involve the calculation and sharing of a portion of the growth of commercial and industrial properties. Residential and farm assessment would not be included.

Many sharing programs are designed to achieve some equalization of the benefits of industrial tax bases. The rationale of this was examined in section I of this report. The same rationale can be applied to commercial assessment. For example, company office space occupied in urban centers can be attributed directly to the development of natural resources in rural areas. Warehousing and distribution facilities established in urban centers may be intended to serve industrial developments in rural areas, and large shopping complexes may be established to service residents of a nearby municipality.

The inclusion of commercial assessment would ensure that all municipalities, in particular urban ones, would contribute at least some assessment growth for sharing. Since most industrial assessment is located in rural municipalities and most commercial assessment in urban municipalities, the sharing of both types of assessment growth rather than just industrial growth would provide a more balanced contribution from each type of municipality. Both the Minneapolis-St. Paul and Maryland programs include commercial assessment for growth-sharing, and it is suggested *that the Alberta proposal also include commercial as well as industrial assessment to ensure an equitable and maximized distribution of assessment benefits.*

Apart from excluding residential and farm and including non-residential (commercial-industrial) assessment, there are several specific types of property which require further explanation with regard to the sharing proposal.

Land Assessment: It is suggested that *all land assessment, regardless of its classification as residential, industrial, commercial,* *or whatever, not be included in the sharing proposal.* There are several reasons for this. Land values vary enormously from municipality to municipality (and even within a single municipality). If commercial-industrial land value increases were liable for growth-sharing, there would be a relatively larger contribution from municipalities where land values are high. With land excluded, the contributions would be more equitable since they would be based on a uniformly assessed value for buildings and structures only. The exclusion of land from sharing would eliminate any problems arising from land zoning changes. If land were included in sharing, all increases in lands zoned for commercial or industrial purposes would be liable for sharing. This would be inequitable particularly for those municipalities attempting to establish industrial or commercial parks. *Since it is proposed that land assessment is not to be included, it should be clearly realized that when the type of property for sharing is discussed, the reference is to buildings and structures only.*

Pipe and Power Lines: Although all power and pipelines are assessed, many municipalities, especially urban ones, do not tax this assessment directly. Instead, a franchise agreement is negotiated with the utility company whereby the municipality receives a percentage of the company's gross revenue generated within the municipality. It would be very difficult to have any sharing of the growth in pipe and power assessment from the franchise municipalities. A further consideration is that distribution lines within a municipality are largely related to the servicing of residences and other buildings, and unlike an industrial complex, cannot be regarded as an extra "bonus" to a municipality. Therefore, *it is recommended that pipe and power assessment included in the sharing proposal be restricted to the assessment growth from main lines.* Such an approach would include for sharing the assessment from major pipeline and power transmission networks, but would exclude assessment resulting from the utility servicing of a new subdivision. A restriction to main line assessment would also avoid complications as a result of franchise agreements in urban municipalities.

Alberta Government Telephone Properties: AGT is a provincial crown corporation and as such pays grants-in-lieu of taxation rather than a direct property tax. The revenue to the municipality is the same in either case. There are no franchise agreements with AGT so there would be little difficulty in including the assessment growth in a sharing program. But the amount of AGT line assessment, let alone its growth, is relatively insignificant. AGT assessment occurs in every municipality, and is primarily related to the extent of residential development. *If AGT assessment is to be included in the sharing proposal, then it is suggested that it be restricted to main lines and the major building and equipment installations.*

Government Grant-in-Lieu Properties: *Provincial and federal properties from which municipalities receive grants-in-lieu can be included in the sharing proposal.* Some of these properties, particularly those of crown (or government-owned) corporations, can have the same effect on municipalities as other major developments. Government property tends to be concentrated in a few major centers, while the services provided by government are province-wide. Government property is not a significant portion of the total tax base in the Province and the inclusion of its growth in the program would have only a slight effect. However, it would ensure that all situations of benefit-cost distortions in the location of non-residential properties would be covered. There would be little difficulty in extending the growth-sharing program to include provincial grant-in-lieu properties, but such an extension to federal properties would require an agreement from the federal government.

Railway Line Assessment: *New railway lines can be included for growth-sharing with little difficulty.* It is suggested that a careful evaluation should be undertaken to determine the amount of increased railway trackage anticipated. Some consideration should be given to a new assessment rate for railway lines, and the effect this would have upon the tax bases of municipalities wherein the present lines are located.

Machinery and Equipment: This assessment category (considered part of the industrial classification) should definitely be included in the program. However, it would be advisable to eliminate the problem resulting from section 93 (16) of *The Municipal Government Act* whereby a municipality may exempt machinery and equipment from property taxation. The municipality then may levy a business tax on the property. Only some cities follow the exemption procedure, but *it would be preferable that machinery and equipment be assessed and taxed uniformly across the Province to avoid complications in the sharing proposal.*

The Measurement of Assessment Growth

The sharing proposal is designed to operate from a set base year. The assessment in every municipality should be established by the end of January of that year, and all assessment growth would be measured from that base. Properties existing and assessed for the base year would not be liable to sharing. All new properties and any increase in the total assessed value of existing properties resulting from additions or improvements to the structure would be considered growth, a portion of which would be shared. *The assessment growth would be measured each year from the set base year.*

New Properties: Properties not existing for the base year assessment would be termed new properties. *The calculated growth for a new property would be equivalent to its full assessed value.* The growth of new properties is, in effect, measured from a base year value of zero.

Existing Properties: Assuming no changes in assessment procedures occur, the growth of properties existing in the base year would be equivalent to their value at the time of calculation minus their value for the base year. Many properties, particularly industrial properties, are subject to an annual depreciation allowance on the assessment. The growth calculated for an existing property would be a net growth, that is, the growth would be equal to the value of new additions minus the depreciation on the existing facility since the base year. *Only the amount by which the total assessed value of an existing property exceeds its value in the base year would be considered as growth.*

Changes in Assessment Rates and Procedures: *An increase in the assessed value of an existing property which results from changes in assessment rates or procedures or from a general assessment, rather than from any physical expansion, would not be considered as growth.* To allow proper calculations, it would be necessary to convert the set base year values of all existing properties so that they correspond with any new assessment rates and procedures. This would necessitate the compilation of an accurate record of all properties existing for the base year assessment. Changes in assessment rates and procedures would have no effect on the growth measurement for new properties, since, regardless of assessment practices, the base year value is zero.

Portion of Growth to be Shared

The recommended portion of commercial-industrial assessment growth to be contributed to a central pool for province-wide redistribution is fifty percent. The selection of any percentage is necessarily arbitrary because it is impossible to determine accurately the servicing costs incurred by the site municipality for a particular development. The percentage contribution chosen should be uniform for all municipalities involved. It also should be high enough to provide a growth pool that is of sufficient size to be worth administering, but not so high that there is no benefit to the site municipality of having development within its boundaries. With a 50-50 split the site municipality receives directly the tax base advantage of fifty percent of any assessment growth plus, indirectly, its share of the growth pool. The share may or may not be larger than the amount of growth contributed depending upon redistribution procedures.

It could be argued that the fifty percent contribution is too high, that the site municipality should have more consideration for servicing costs of the property. It also could be argued that it is too low, that some properties, particularly industrial or pipe and power properties, receive very little in the way of services from the site municipality. For commercial properties, a good argument could be made for a lower percentage growth contribution since they require more servicing than many industrial properties. However, a variable percentage could cause problems with regard to classification of property. A standard percentage contribution for all shared properties and from all municipalities is preferable in terms of administrative ease, and a properly designed redistribution formula should be able to avoid obvious inequities.

Pooling of Assessment Growth

The first year following the establishment of the base year, and in each subsequent year, growth calculations would be performed for all non-residential properties in all participating municipalities. Each municipality would contribute fifty percent of the assessment growth within its boundaries to a central provincial pool. The pool would be calculated in terms of assessment dollars and its size would be the sum of all the contributions from the municipalities.

Redistribution of Growth Pool

As described in the basic outline of the proposal, *there are two possible methods of redistribution of the growth pool - either in terms of assessment dollars or in terms of tax revenue.*

Under the first method, each municipality would be notified of the amount of assessment dollars from the growth pool to which it would be entitled. The assessment assigned to a recipient municipality would be treated by that municipality as its own assessment, that is, it would be used in calculating the local mill rate and in determining debt capacity and repayment factors. In addition, the assessment would be used in calculating the municipality's equalized assessment for provincial transfers and school requisition purposes. The local school boards would be able then to benefit from the increased tax base of the municipality. The municipal tax base would be comprised of five main components: 1) all residential and farm property, 2) all land assessment, 3) all non-residential (commercial-industrial) property existing for the base year, 4) fifty percent of the increase in non-residential buildings and structures from the base year, and 5) the municipality's assigned share of the growth pool. As the growth-sharing program progressed, the fifth component of the tax base would become increasingly important.

Under the second redistribution method, each municipality would be assigned an amount of tax revenue generated by the application of a predetermined mill rate to the growth pool assessment. There would be no direct expansion of the local assessment under the revenue distribution form of growth-sharing.

Factors in Redistribution Formula: Regardless of which method of redistribution is employed, *a redistribution formula would be designed to provide a relatively larger portion of the growth pool to the municipalities experiencing the greatest need.* Factors which could be used in the formula include population, equalized assessment per capita, non-residential equalized assessment per capita, tax effort, and operating expenditure levels. The formula would contain one or more such factors as an indication of municipal need.

From the statistical analysis, several examples were found where a poorer municipality that experienced substantial growth would have lost some assessment through the sharing program in the initial years of operation. This apparent inequity would be eliminated in later years as the size of the growth pool increased; however, it would be advisable to incorporate a factor in the redistribution formula to reduce the inequity from the start. Therefore, *it is recommended that the redistribution be designed so that municipalities which are below the average per capita equalized assessment for that type of municipality receive at least as much from the growth pool as they contributed.*

It is also recommended that special consideration be given to municipalities which are suffering adverse impact from development occurring outside their boundaries. The most obvious example of this is Fort McMurray but there will be others in a similar situation. These municipalities could be designated as within "an area of influence" of a particular development. This designation would entitle these municipalities to receive directly 10% (or any other percentage deemed appropriate) of the assessment growth from the specific development. The remaining 40% (remember 50% of the growth remains with the site municipality) would become part of the growth pool and would be distributed province-wide. The specially-designated municipalities would be entitled to their calculated share of the total pool.

Calculation of a Standard Growth Pool Mill Rate

With a redistribution of assessment dollars, the municipality would use the assessment it receives to calculate its local mill rate.

Once a municipality has set its mill rate it would be entitled to receive revenue from the growth pool equal to an amount that the rate would generate from the shared assessment received. *The total amount of revenue to which each municipality is entitled would be applied to the growth pool assessment to obtain the standard mill rate.* The same procedure could be applied to obtain a standard supplementary education mill rate and a school foundation mill rate (calculated on the basis of equalized assessment).[10]

No calculations were performed in the statistical analysis to determine what the standard mill rate would be, mainly because it was impossible to say whether a municipality that gained extra assessment through sharing would lower its mill rate or increase its expenditures. Regardless, each municipality would be allowed to set its own rate.

There is a possibility that municipalities receiving substantial amounts of assessment through sharing could set, with the split mill rate system, a high rate for the non-residential properties and keep the residential rate low. However, the non-residential rate that is set would apply not only to the growth pool share but also to any non-residential assessment within the municipality that is not liable to sharing (that is, assessment existing prior to the base year and 50% of any increase beyond that year). This should be a sufficient deterrent to setting very high non-residential rates, even if the portion of non-residential assessment received through sharing far exceeds the amount the municipality retained. If the difference between the residential and non-residential mill rates appears to be too large, a limit could be set for that difference.

With the tax revenue redistribution method, the standard mill rate applied to the growth pool would be derived from an average of the mill rates levied in the previous year.

Business Taxation: A municipality would levy business taxes against the full assessed business value of properties within its boundaries

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[10] Where there are two or more school divisions within a municipality, each school division would be entitled to requisition on a portion of the municipality's growth pool share which is equal to the portion of that municipality's tax base actually located within the school division.

regardless of the sharing program. Business assessment is based on measures of square footage or rental value and is not related to property tax assessment. In short, *the growth-sharing program would have no effect at all on business assessment and taxation*.[11]

Concluding Remarks

It is not the intention here to explain in detail the complete operation of the growth-sharing proposal since the specifics of the program will have to be adapted depending upon the assessment included and upon the method of redistribution used. Such matters as the billing and collection of taxes from properties liable to growth-sharing, the inclusion of supplementary assessment of improvements, the effect upon school boards and divisions, and the method of growth and redistribution calculations are administrative details which can be finalized once the principles and basic outline of the proposal are accepted.

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[11] The problem associated with property tax exemption for machinery and equipment in some urban municipalities that levy a business tax is presently under review and should be resolved prior to implementation of growth-sharing.

IV COMMENTARY ON GROWTH-SHARING

Growth-sharing is a relatively new and untested method of using the property tax system to recognize the increasing economic, servicing, and planning interactions among municipalities. It is also a means of equalizing the benefits of expansion of the industrial and commercial property tax base, and of strengthening the fiscal health of all municipalities. It is expected that there will be many comments and criticisms of the growth-sharing proposal, and that is, of course, necessary and desirable. It may be useful to examine such criticisms that were made of the program first introduced in the St. Paul-Minneapolis area of the United States.[12] These comments deal with the metropolitan region program enacted there, but many are relevant to growth-sharing programs in general. In fact, some of these very criticisms have been raised by Alberta municipal officials during discussions of the growth-sharing proposal for this Province.

One comment is that the program would take away tax base unfairly from those municipalities that have gone to great lengths to plan for non-residential developments. However, the zoning of land for such purposes is no guarantee that the development will occur, and the land could remain vacant for a number of years. No one can predict accurately when and where commercial-industrial developments will take place and despite all the best-laid plans, a municipality could obtain nothing. A growth-sharing program would be like an "insurance policy" for all local government. Instead of the present situation where a municipality either gains the total benefit or no benefit, growth-sharing would provide at least some benefit to all.

Concern has been expressed that the proposal would be inequitable, in that municipalities expecting non-residential developments would have to share a portion, while other municipalities would not lose any non-residential assessment that they already have. However, the analysis of future growth

[12] Most of these are from WEAVER. 1975.

(see section II) indicates that the majority of development will occur in a few municipalities only. The main point to be emphasized is that growth-sharing must be viewed in the long-run. It is designed to even the peaks and valleys in non-residential growth among municipalities. A municipality that contributes more than it receives in one year may receive, in the very next year, more than it contributes. Only a few municipalities will be experiencing a steady and substantial growth within their boundaries, and growth-sharing is designed to assist the vast majority that will not.

Another criticism is that municipalities would no longer want to attract industrial and commercial development since 50% of the growth would be liable for sharing. However, the municipality would still receive directly the other 50% of the tax base benefit plus its share of the assessment growth in all other municipalities, and that share would become increasingly larger each year regardless of the development within its own boundaries. In any case, it is doubtful that municipalities can do anything substantial to attract commercial-industrial developments to locate within their boundaries. Special tax and assessment advantages to property owners are expressly disallowed by Section 426 of *The Municipal Government Act,* and the location of a development is more likely to be affected by economic and market considerations, as well as provincial government policy (such as industrial corridors), than by competition among local jurisdictions.

There is criticism that the program would remove a good portion of a municipality's tax base from its direct control and thereby weaken "local autonomy". In fact, growth-sharing is designed to strengthen local governments. It would give them direct access to a tax base which, in the long run, would lessen the need of these municipalities to rely on outside assistance from the provincial government. By equalizing to some extent tax base benefits and by strengthening the weaker units of local government, the growth-sharing program would serve to strengthen and unite the whole municipal government structure. Under the present situation, the location of industrial-commercial development within a municipality is considered a necessity to a healthy financial footing. Growth-sharing would remove that prerequisite and would allow a municipality to pursue other planning and development options.

Statements have been made that the sharing proposal is merely a "tinkering suggestion", that it will do nothing to promote the financial self-sufficiency of municipalities and that some form of "radical surgery" should be performed rather than fiddling with a "sick old system".[13] Firstly, growth-sharing is not promoted as the solution to all the financial problems of municipalities. It is not intended as a new municipal revenue source, but rather as a more rational disbursement of future assessment growth. Its benefits are not solely in terms of money to municipalities, but, as outlined above, are related to planning and development priorities as well as an equalization of benefits occurring from provincial economic growth. Secondly, the importance of the property tax for municipalities should be recognized. In 1974 the property tax in Alberta, including provincial and federal grants-in-lieu, raised about $320 million, an amount only $20 million less than the total provincial personal income tax. Certainly, there is a need to examine other matters of municipal financing, but there is an equal if not greater need to consider improvements in the major revenue source of municipalities, namely the property tax. Growth-sharing is a part of these considerations.

[13] For examples of this sentiment see editorials in THE ALBERTAN, 13 August 1975 and CALGARY HERALD, 23 August 1975.

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APPENDIX: SUMMARY OF STATISTICAL ANALYSIS

As a rudimentary test of the possible effects of the tax base growth-sharing program, a statistical analysis covering the years 1973 to 1975 was conducted. The analysis was useful in shaping the recommended design and operation of the sharing program, especially the redistribution procedures. The following is a summary of the main findings of the analysis with particular emphasis upon those which have led directly to specific recommendations in the program.

The analysis covered the years 1973-75 and was designed to assess what would have resulted if a growth-sharing program had been in effect over these years. The base year from which all growth was measured was 1973. The data required for this was very extensive and was compiled for all the municipalities in the Province. The data was organized into provincial aggregates by type of municipality and by individual municipality. Twenty-five municipalities (four cities, six towns, three villages, four counties, three municipal districts, four improvement districts and the special areas) were selected for a detailed analysis representing a wide range in terms of equalized assessment per capita, population, size and growth, and percentage breakdown of the tax base.

Variations in the types of property liable to sharing were calculated. From the provincial aggregate data it was found, as expected, that if only industrial growth was shared, the rural municipalities would be contributing a higher proportion of their tax base than the urban municipalities; if commercial was included along with industrial, then the rurals and urbans would be contributing roughly the same proportion of their tax base; in either case, the improvement districts would be contributing the highest portion.

With only the two growth periods analyzed, 1973-74 and 1973-75, it was difficult to draw any conclusions about the patterns of contributions, particularly with regard to increasing or decreasing contributions in future years from the municipalities and to the rate of increase in the size of the growth pool. However, based upon a 50% contribution of growth, 8% of the total industrial-commercial assessment in the Province was included in the growth pool within only two years and this was during a period of less growth than anticipated for the near future.

The redistribution procedure employed various measures of fiscal capacity and need to vary the redistribution from a straight per capita basis. The provincial aggregate analysis indicated that the greatest benefit of growth-sharing would occur for the smaller urban municipalities, while the rural municipalities <u>as a group</u>, particularly the improvement districts, would sustain a <u>net</u> loss (that is, they would contribute more to the pool than they would receive). On an individual municipality basis, there was considerable variation from the aggregate findings in that a poor rural municipality and a wealthy urban municipality would be affected by growth-sharing in a manner opposite from that for their type of municipality as a group. This general effect was consistent with an objective of assisting those municipalities with low equalized assessment per capita and a low proportion of non-residential tax base.

The selected municipality analysis indicated that situations could occur where a poorer municipality which experienced substantial assessment growth contributed more to the growth pool than it received, while the opposite occurred for more stable but wealthier municipalities. This situation would probably be corrected in the long-run operation of the program, but it was considered that the apparent inequity should be rectified from the start.

The statistical analysis led, at least indirectly, to the following overall design recommendations for the growth-sharing program:

1. That commercial as well as industrial assessment be included for sharing to ensure a somewhat balanced contribution from urban and rural municipalities.

2. That the 50% sharing of growth appears reasonable in terms of allowing the site municipality sufficient direct benefits while also providing a growth pool of reasonable size.

3. That the redistribution calculations employ measures of fiscal capacity, fiscal need and tax effort to alter the redistribution from a straight per capita basis and to provide additional benefit to the poorer municipalities.

4. That an "area of influence" factor be considered to benefit those municipalities suffering the greatest adverse impacts of particular developments located outside their boundaries.

5. That those municipalities below an average fiscal capacity be guaranteed each year that the amount they contribute to the pool will not exceed the amount they receive.

6. That the operation of the program requires the maintenance of an accurate and sophisticated record of all commercial-industrial assessment, and the uniform application of assessment procedures across the Province.