Time for an adult conversation about taxes.

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Earlier this year while cleaning out some old files I found my property tax assessment from 1993. I had just received my 2022 assessment, and my economist's "spidy" sense tingled. This mental itch kicks in when we economists compare costs and prices over time – we automatically adjust for inflation.

My 2022 property tax bill seemed too low. Once I licked the tip of my pencil and performed complex calculations, I was right! My property tax has risen by 46% over this thirty-year period while general inflation has increased by 67%. Time to do some investigation.

According to the City of Winnipeg's Multi-year Budget (2020 – 2023), presented to Council in 2019, for the past two decades Winnipeg has pursued a deliberate policy of first freezing property taxes then initiating low annual increases. During the tenure of Glenn Murray, many expressed concerns that Winnipeg's property tax was "uncompetitive." The thinking at the time was that high property taxes discouraged population growth and business investment.

So, over the twenty-year period 1998 – 2019, Winnipeg slashed its mill rate, the charge per $1000 in property value, from about $33 to $13. By shifting the financial burden of running the city to various fees, reducing debt financing, allocating less to capital (infrastructure), cutting spending, and taking a dividend from the water utility, the city has been able to cobble together diverse revenues to compensate for a declining contribution from taxes.

Currently Winnipeg has the lowest average municipal taxes out of 12 major cities. Compared to this benchmark group, Winnipeg also has low tax revenues from commercial and industrial properties. Consequently, this revenue constraint means our investment per capita in urban capital has fallen precipitously and is now near the bottom of the comparison group.

Many fiscal challenges confront the next city council but two are worth highlighting

First, the low tax revenue has created a structural deficit. The projected growth in revenues from taxes and fees, will not cover future costs, especially investments in crucial infrastructure. If tax increases are off the table, two options exist – debt financing, which council has rejected or relying on provincial and federal support. The recent announcement that Winnipeg will receive financial support from the federal and provincial governments for the $550 million second phase of the North End sewage plant upgrade illustrates this.

Now, even were the city to increase its property tax, major infrastructure upgrades will always require support from the province and Ottawa. The point is that Winnipeg applied for sewage plant upgrade support almost three years ago, and much more work remains. Costs for the present project have risen due to expansion of scope and the current inflationary environment. We may not be able to go back to senior governments for major cash infusions anytime soon. Our fiscal future looks bleak.

Second, are the rising costs of operation. Like all large organizations, salaries comprise the major expense for the city. Protective services, police and fire especially account for an increasing share of the budget steadily outpacing the costs of other municipal workers.

Another cost driver is road repair and construction. We all complain about our poor roads and our two seasons – winter and construction. The reality is that road maintenance consumes an ever-increasing share of the capital budget. However, this expenditure resembles running in place … we never get ahead.

Prior councils have avoided debt financing under the idea that this represents fiscal prudence. Debt financing works when the investments lead to lower costs and increased productivity. But even were council to change its heart on debt financing, the moment may have passed as rising interest rates compromise this source of funds.

For the past two decades anyone running for mayor or council avoids any hint we need to raise revenues, through property tax increases, or restarting an impact fee on development. This is foolishness. It is time that mayoral candidates treated the voters to an adult conversation on how we are going to finance our future. No virtue exists in penny pinching if we fail to maintain core functions. Winnipeg will lose its competitive edge to other cities that are making serious investments that underpin urban quality of life. Quite simply, property taxes must increase, and by a lot.