



Panel on Property Tax Reform and the Environment Opens Annual CGO Conference in Ottawa

By Dr. Mason Gaffney

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Panel on Property Tax Reform and the Environment Opens Annual CGO Conference in Ottawa

Canadian host Frank Peddle introduced a distinguished panel at the October 11 opening day of the annual conference of the Council of Geogist Organizations. Addressing the topics were Economics professor Dr. Mason Gaffney; journalist and author James Kunstler; Western Canada real estate appraiser Steve Rickard; and Alex

Cullen who is a councilor in the Regional municipality of Ottawa-Carleton, Ontario.

Economics and pollution.

Mason Gaffney, professor of Economics at the University of Southern California-Riverside, addressed economics and the environment, and specifically non-point pollution. Explaining that non-point pollution is that which comes from non-point sources (dust wind-blown from pesticide treated fields, watershed runoff etc.), he noted this is pollution which you can't meter or put a price on. The damages are spread unequally over other nonpoint receptors.

Thus economists arrived at a green tax, a surrogate tax on input proportionally on landowners. Thus fertilizers, highway salt, pesticides, etc. would bear the tax. The problem is that such taxes overlook the locational element

in the pollution, and imposing the tax on fertilizers and pesticides can have the unintended consequence of forcing use of more lands and spreading the problem more widely.

One more problem of imposing excise taxes on pesticides, for example, is bootleggers who resort to the underground economy. When the black market becomes the respectable market, there is pressure to eliminate regulations, and a resultant consequence of bailing out owners of stocks on hand (i.e., Chlordane when contaminated milk brought about its ban.)

Another problem of taxing surrogates is that it fails to distinguish among the individual applicators, taxing the most careful for the sins of the least careful.

Guidance from Entomology professors cannot be relied on since many

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apply for grants from pesticide compa-



Gaffney

nies and consult for them. Gaffney cited a 1978 book, The Pesticide Conspiracy, by Vanderbosch.

When everything else in the system works properly, the case

for proper pricing of inputs is most persuasive, but land markets are mucked up by land speculation and absentee ownership. There is also massive regulatory failure because the rent of land depends on prices charged for public utilities, availability of transportation, gasoline tax, level of tolls and other things. If those are uneconomically done, then the price of land is not a good index to highest and best use of land in overall social sense.

It is grading of land preceding construction that is that source of nonpoint pollution. The alternative, which helps curb new cuts and fills associated with urban sprawl, is to substitute intensive development of existing sites, where land is already platted and graded. Nonpoint pollution runoff to water pollutes with BOD contaminants (biological oxygen demand). Fish suffocate from bacteria, nitrogen, phosphates, pesticides, toxins, ammonia, salt, sodium chloride that end up in rivers. Aquifers are contaminated as water percolates underground. This underground contamination is especially serious in Western United States, particularly California which relies on water from the Colorado River.

An example of how the Federal government has contributed to saline runoff is a Bureau of Reclamation project in a valley in Arizona, from which runoff flows into the Colorado River,

which then eventually runs into Mexico. The saline content of water that goes to Mexico is limited by international treaty. The political solution 15-20 years ago was the North American Water and Power Alliance proposal signed on to by some 20 U.S. Senators to take water from Alaska's Yukon River, and carry it through British Columbia, Canada, then the states of Washington, Oregon, and down to San Diego, California at a cost of \$100 billion. Water conservation is a better alternative.

In 1981 Pat Choate expressed in his book, America in Ruins, that our national infrastructure is depreciating away. Central cities are diverting enormous amounts of their capital to the dollar consuming task of tapping new lands, extending new highways, power lines and water and sewer lines.

Alternatives are water rate charges that increase with elevation to which to be pumped, and a renewal oriented property tax policy particularly in central cities. An additional proposal has been made by a creative Kansas City lawyer, Robert Freilich, for tiered zoning. It would involve concentric circles based on intensity of use and land values and impose costs of receiving city services in relationship to the cost of extending those services.

Urban environment and civic reaction. Home from Nowhere and Geography from Nowhere author and New York Times journalist James Kunstler shared some of the conclusions he has come to regarding how we value the dwelling place of our civilization. A lot of ordinary people as they go about their lives and daily business sense that something is wrong, that there is no sense of community. Driving down boulevards of commerce, people are visually overwhelmed by ugliness and spiritual hostility of fry pits, lube joints, parking lagoons, plas-

tictownhouses, and an uproar of signs.

The highway itself is clogged with cars. In the last three to four generations we have managed to turn our everyday world into a giant automobile slum. Our towns and cities are only automobile storage depots that contain other things, maybe a mall. We register this as ugliness.

It is my belief that this ugliness is really only a surface expression of deeper problems that go to the very issue of our character as a people and the nature of our culture as a civilization. The eyesore highway strip represents an economically and socially catastrophic, ecologically devastating, spiritually degrading pattern. Particularly since the end of World War II, we have managed to fill our land with things unworthy of our affection. In the process of doing this, we have accomplished the feat of throwing our civic life into the garbage can.

Historically Americans have had a low regard for this thing called the public realm. It is the tissue that binds together the property in our everyday world. The public realm is the connectedness that binds ourselves together. But only extraordinary places in North America, unlike Europe, have a courthouse square or a village green. Our low regard for the public realm in America is unfortunate because it is the physical manifestation of public good. The public realm finally becomes degraded to the extent that people incorporated as a municipality or town are no longer able to think about the public realm and public good. Civic life takes place within the public realm that we have achieved; it refers to our interaction with other people.

There is an important distinction between citizens and consumers. Over the past 40 years our language of public discourse has become degraded. After

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we ceased to think of ourselves as citizens, we mutated into consumers. Consumers don't have responsibilities or obligations other than their need to eat cheese doodles.

Our notion now of civic art is pathetic. Look at the 1904 firehouses and the care in embellishing the buildings, honoring the public realm dwelt in and in which we are citizens. It matters that our city halls look like wholesale beverage distribution warehouse. It matters that our junior high schools look like insecticide factories. It matters that our new hotel looks like a medium security prison. These structures and constructions dishonor the public realm. As they dishonor their institutional roles in our lives, and by their very design, they make civic life impossible. We have gold plated our highways and automobile infrastructure for the last 50 years. One impoverished every other form of public building in North America.

In Home from Nowhere, I have written a chapter about Georgists and have asserted that our system of property taxes is a pathogenic factor contributing to geography from nowhere. Property taxes reward people who maintain slums and sprawl. We tend to forget that the city was and is a social experiment. We must have water and sewer systems for health reasons, but that didn't exist before 1870. Our frantic attempt to cover the cost of running these and their debt has led to a lot of self-defeating behavior. Many of our efforts to cope with them have produced unintended consequences and brought about the abandonment of cities by the middle class.

(Editor's note: *Home from Nowhere*, by James Kunstler, was published in 1996 by Simon & Schuster, NYC)

Assessment changes in Western Canada. Steve Rickard is president of Rickard Real Estate Advisers, based in Calgary, Alberta, which has six offices across Western Canada. His appraisal business evaluates property largely for mortgage purposes, to establish value for estate purposes, and to help people lower their property taxes. Last year was their best business year in the past 15 years because of assessment problems existing in the Canadian provinces of British Columbia, Alberta, Manitoba, and Saskatchewan. He credited Henry George School director Gerry Shaw of Calgary for his Georgist insights, and commented the problems faced by assessors in Western Canada offers opportunities for Georgists.

Previously assessments had been based on depreciated

replacement cost analysis—how many, how big, how much worth. The difficulty is the calculation for what the depreciation should be. Complications involve non-assessibles and exemptions. Depreciation is the difference between the typical cost and the market value as of the same day. These include normal physical wear and tear and also abnormal depreciation which largely is economic obsolescence. Most of the Rickard firm's time is spent pointing out to assessors using rate schedules, and not personal knowledge about



Peddle, Kunstler, Rickard, Cullen

property values in the real world, that their calculations have not given rise to fair and equitable assessments.

During the 1970s, under Assessment Commissioner Ted Gwartney, market value became the operating standard for most of the assessments in the province of British Columbia. However, after Gwartney left, that province began to have difficulties because of the assessments to sales ratio value. In the mid-1980s there was a 20% province-wide reduction in order to bring assessments in line with market value. If land only, not improvements, had been taxed, that situation could have been avoided. Gwartney instituted a computer assisted mass appraisal (CAMA) system, which greatly reduced the cost for preparing parcel assessments. Not long ago Rickard with an associate was able to acquire information about all of the assessments, land and buildings, in downtown Vancouver for \$1,000. A number of favorable and significant legal decisions have come from B.C., and the litigation system is showing the way toward a more fair and equitable assessment system.

Alberta encountered problems as they moved from a cost based system to a market value system. The assessment system had been in chaos, and the courts of appeal said the market value standard was necessary, but Alberta was

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placing too much emphasis on cost. Consequently, Alberta, Saskatchewan and Manitoba are now being driven toward the more fair basis of equitable market value assessments.

In Saskatchewan, assessment legislation using market value has been promulgated, but unfortunately they outlawed the use of the income approach. So commercial property is barred from using a form of vacancy loss as calculation of lost value.

Manitoba's problems stem from assessment appeals on residential property being heard before commercial property. At the end of the cycle there were as many as three years backlog of appeals. Interest accrued brought a \$54 million cost overrun to the \$70 million estimated budget for rebates for commercial taxes.

Politicians have created a form of compromise in phasing in property assessment changes. Portioning of assessments occurs in a class-like direction. There are now 11 classes, 11 mill rates in Manitoba. There are 8 classes in British Columbia. Alberta has 3 classes. Saskatchewan has just deregulated the process and allowed municipalities to set their own tax, their own mill rate, and their own portionings.

The number of Alberta's condo units has escalated from 10,000 at the beginning of the decade to 30,000. If people can understand the concept of condominium land title registration, they should be able to understand the Georgist concept. The condo board of directors decides on maintenance on the building shared by a number of individual unit owners. The condominium is operated through condo fees which are collected monthly.

The politics of the property tax.

Alex Cullen was an economist who is now a politician, active in property tax reform. He serves as a councillor representing the

Regional municipality of Ottawa-Carleton.

The property tax is a major problem in Ottawa-Carleton. Ottawa being the Ontario capital, there are many levels of government, including provincial, regional, 11 municipalities, and 5 school boards. Only the last three levy property taxes, and the 700,000 population community receives \$1 billion annually from that source. Ottawa-Carleton is second only to Victoria in the number of resident senior citizens. Retired now and with a change from the income level they had when working, they find it difficult to pay property taxes so they can remain in their home. One-fifth of the welfare program in Ontario is paid for by the property tax. When the economic cycle goes down and welfare goes up, there is an inordinate pressure on the property tax. Is it also appropriate to fund education, which is seen as a public good, on the property tax?

There are historical inequities in the management of the property tax system. Apartment buildings or multi-residential buildings are taxed at over twice the amount on single family residences. A condominium across the street pays less per square foot for the same services. There is also a business occupancy tax on top of the property tax.

A few years ago in Ottawa-Carleton, a market value reassessment was done to update assessments and to come to one assessment base for 11 municipalities. The assessors went back to look at the real estate sales and put in some fudge factors and came up with formulas. People down the street saw their taxes go up. People somewhere else in the community saw their taxes go down. This caused some competing values. Residential communities downtown are wanted, because otherwise after 4 PM there are empty canyons in downtown. Those sites would be a prime location for a hotel, never mind that the zoning is not in place for that. But the

residential communities are paying higher taxes because their land is valued much higher.

The Byward Market, with many small businesses, is in an older part of the city. The farmers market is there. But it is now trendy, and market values went up under market value reassessment, making it harder for the independent small business to maintain a business there. We benefit from their activity and will lose a fundamental characteristic of the Byward Market, but have a competing value toward only large stores being able to operate there.

Ottawa-Carleton is one of the fastest growing communities in North America, and urban sprawl is a major issue. The costs of urban sprawl do not immediately appear before politicians as a tax issue. However, once (utilities) pipe and roads are installed, and services are provided, clearly low density sprawl is more costly. We do have development charges, lot levies, as a means by which we recover the upfront cost of extending infrastructure to the new suburban areas. Developers say it is cheaper to build in greenfields, given the current policies. However, the homes built bring in people who generate demand for the soft services the developer did not provide — libraries, community centers — so there is not a direct link of cause and effect on municipal services as a result of tax policies on land.

The community pressures to lower lot levies, but they don't see that the property tax will increase if lot levies are lowered. Some of us say let's make these lot levies fully cost recoverable and site specific. In areas where it is more expensive to provide these services, more should be paid. Low density sprawl makes it hard to provide cost effective public transit. The connection between effective use of land taxes and public services is not obvious to the voters.