

WREB Submission to Task Force on Education Funding – November 2000

Preamble

Established in 1903, the Winnipeg Real Estate Board is the longest running board in the country. It is a professional and industry association representing over 1200 real estate brokers, salespeople, appraisers and financial members active in the local real estate market. In 1999, there were in excess of 10,000 Multiple Listing Service (MLS) sales totaling over \$890 million in dollar volume transacted through the Winnipeg Real Estate Board. Members, especially from our Commercial Division, were also involved in a considerable number of exclusive listing sales and leases, which are in addition to the MLS sales activity.

As REALTORS®, we are at the front-line of property owners' concerns be they residential, business or investment. This is no more readily apparent than when an out-of-towner comes to Winnipeg with a fresh pair of eyes and starts asking questions about our marketplace and city. Invariably, property taxes come up and besides the eyes being wide open the jaw drops. Winnipeg with its combination of three sets of property taxes – municipal, special school tax levy and education support levy – is at the top of the heap in Canada when it comes to property taxes. They are excessive to say the least and it is no joking matter when you have many Winnipeg homeowners paying monthly property tax bills equivalent to someone's mortgage. Where is it going to stop? The status quo is no longer acceptable. Rising property taxes are not sustainable and something has to be done. We cannot stress enough how urgent a problem this is!

In a property tax poll conducted by the Board prior to the 1999 provincial election, residents in the SE quadrant of Winnipeg placed property taxes as the most pressing issue facing Winnipeg today. Health and crime were tied as being the second most important issue in this area but were well back in ranking. Interestingly enough, this area of the city is comprised of newer developments with younger, more mobile and higher income households. These are the same individuals and families our industry looks forward to doing future business with and are also the same ones the City of Winnipeg or the Province of Manitoba for that matter need to attract to keep the synergies they bring to the City and economy.

This same survey also revealed that overall respondents with household incomes \$60,000 or more were more likely to zero in on property taxes as a key issue. These findings must be taken as a strong wake up call to not only the City of Winnipeg that municipal taxes must be reduced but to the Province of Manitoba and local school boards that school taxes are unsustainable. The gap between Winnipeg's property taxes and cities like Calgary is huge and that hurts Winnipeg and Manitoba's ability to attract business and investment here. Finally, by a slight majority, the 1999 survey revealed support for removal of the special education levy off property owners.

In terms of real estate values, our market has remained quite static within the City of Winnipeg for a number of years despite better economic times. In 1996, when real estate sales were booming across the country, major markets were up an average of 31% while the best Winnipeg could do was finish up 13%. We know from an extensive Winnipeg Real Estate News survey we conducted back in 1992 that property taxes are a determining factor for many Winnipeggers whether they buy a home. If we were to do the same survey this year, we believe it would be that much stronger in stating the impact of property taxes. The attached chart comparing two MLS areas – Lindenwoods and East St. Paul – shows how a lower property tax makes a difference in average price increases. In a relatively short period of time, East St. Paul has vaulted ahead of a well-planned upscale development in Winnipeg. A direct comparison of two similar houses that sold this year in these areas is very telling. There is a difference in price of almost \$50,000. Note: We realize school taxes in East St. Paul are similar to Winnipeg residences in the River East School Division. This chart is used to show the impact of higher property taxes on MLS® area average prices.

On the other end of the scale, a number of Winnipeg inner city communities are in serious decline and suffering a great loss in assessment value. Is the City of Winnipeg going to have to increase the mill rate to make up the losses? Do you believe residents in communities such as Lindenwoods are going to stand for another serious escalation in property taxes? It will not happen. More homeowners and businesses will leave the city permanently.

The reality for REALTORS® is that property taxes must be reduced or our Winnipeg market will continue to see no discernible increases in value and certainly no increase in sales activity despite a strong local economy. We believe property taxes are a real deterrent to Winnipeg's competitiveness and an increasingly burdensome problem for Winnipeg homeowners. Over 20,000 of Winnipeg homeowners are over 65. Many of them are on fixed pensions and are unable to absorb the increasing costs of property taxation. With one of the tightest rental markets in years due to other factors not pertinent to this submission, it is likely a number of them will have no reasonable alternative but to try to hold onto their home and cut back on important essentials to make ends meet.

Recommendations

1. In no uncertain terms, WREB cannot stress enough how crucial it is for this task force to recognize the Province must reduce its reliance on property taxes to pay for education. School taxes are now reaching 50% of Winnipeg property owners' entire property tax bill. Where is it stated that the mere fact someone happens to own real property that they are able to pay an increasing portion of education costs in the Province? Education costs bear little relationship to real property. The whole system of education taxation on property owners is patently unfair and needs to be addressed.

In fact, we have heard Manitoba is the only Province in Canada where homeowners pay two education taxes, one to school boards and another to the Province.

2. WREB firmly believes all education costs should be funded by the Province through general revenues, not on the backs of property owners. There must be a plan put in place now for the Province to begin vacating property-based taxation as a means of paying for education. It is our understanding only Manitoba and Saskatchewan rely heavily on property taxes to pay for education. Other provinces are making it much more equitable by taking back the responsibility of 100 per cent funding of education. At a bare minimum, the Board calls for the removal of the Provincial education support levy from residential property. If school board taxes continue to be levied on property, then the responsibility for the collection of them should be transferred from the City to the school divisions and/or the Province.

It is our belief as well that a more affordable property tax regime in Winnipeg and Manitoba will attract more business investment and definitely create an increase in real estate activity. More real estate construction and sales will bring in additional revenues to the Province, which will help offset the loss of revenue gained from property taxation.

3. The Board believes your task force needs to consider a complete overhaul of the Province's education funding formula. Tinkering with it will not do. Similar to what some of the major reviews have shown with City of Winnipeg operations and expenditures and even with the Province's health care delivery model, the same has to be done with the entire cost of operating the Province's education system. How efficient and effective is the multitude of school boards (57) throughout the Province and City in controlling expenditures? Is there not another model that can work better from both a service delivery point of view and to control the escalating costs of education? If school boards remain in a new model, consolidation of school board administration must be addressed.

Are school administrators seriously looking at contracting out services as well as partnerships or amalgamations with other boards? Can there not be some standards set across the Province for what should be expected as a normal range of costs for the various components of education delivery? Why is it that a school division's cost per pupil in rural Manitoba can be as low as \$504 per pupil where one in Winnipeg is as high as \$1000 per pupil? Are wages and benefits in line with the private sector? Are effective cost controls in place and are school divisions looking at innovative ways of providing better education at less cost? Finally, what about looking more to user fees to pay for education?

Summary

WREB has no real expertise to speak on how your task force should change the education funding formula other than to emphatically state it must be done in a way that relieves the increasing property tax burden on homeowners. There must be a

commitment by the Provincial Government to affordable property taxation and we hope your deliberations will prove successful in pointing the way to achieve a much fairer and more equitable property tax situation in Winnipeg and Manitoba.

COMPARISON OF MLS AREAS 1M AND 3P

| MLS AREA 1M (Inside Winnipeg) | | | | |
|--|-----------|-----------|-----------|-----------|
| Year | 1997 | 1998 | 1999 | YTD 2000* |
| Average Sale Price | \$179,573 | \$175,726 | \$183,066 | \$184,800 |
| * YTD 2000 is from January 1, 2000 to October 31, 2000 | | | | |

| MLS AREA 3P (Outside Winnipeg) | | | | |
|--|-----------|-----------|-----------|-----------|
| Year | 1997 | 1998 | 1999 | YTD 2000* |
| Average Sale Price | \$164,347 | \$177,841 | \$203,899 | \$208,332 |
| * YTD 2000 is from January 1, 2000 to October 31, 2000 | | | | |

To illustrate why the average price of homes in the upscale MLS area outside Winnipeg is climbing rapidly and the upper end MLS area in Winnipeg is staying relatively static, we compared two similar houses that sold in these respective MLS areas this year.

They were three bedroom executive homes just over 2,000 square feet and approximately 10 years old. They only real significant difference was that the lot outside Winnipeg was much larger. Total property taxes for the Winnipeg home was \$5,300 while the home outside Winnipeg was \$3,000. The selling prices for these homes contrast sharply. The home outside Winnipeg sold for \$223,000 while the one in Winnipeg was only able to attain a final selling price of \$175,000.

While anecdotal evidence is sometimes suspect, this example clearly shows how property taxes impact prices of similar home. It really becomes a case here of basic economics. The monthly payments for both homes are quite similar with the major difference being the purchaser of the more

expensive home outside Winnipeg is building equity while the one in Winnipeg is paying much more of the cost of the home as a direct, unrecoverable expense. The dramatically lower property taxes in the MLS area outside Winnipeg gives the purchaser far more buying power to take on higher equity month payments.