

Subject: A simple lesson in comparing municipal taxes.

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Your Worship & Members of Council,

Some municipal elected officials are under the mistaken impression that comparing taxes with other municipalities for a home with a nominal assessed value (say \$400,000), is a good measure of the efficiency/effectiveness of financial governance. I will relate a tale of two communities to illustrate why this is wrong.

One upon a time there were two neighbouring municipalities, call them A & B. Both communities were of comparable size, population, and number of homes. All the homes in both communities were dominantly single family homes on large lots. Both municipalities had effective and efficient governance. They both provided comparable community services, such as water, fire and police protection, kept their roads in good shape, and provided similar recreational and other amenities.

The difference was that in one community (A) most of the homes were priced at \$800,000 while in the other community (B) they were priced on average at only \$400,000. However, the taxes collected from each home in both communities were very similar. This was because the services provided were comparable and of equal efficiency and the overall budgets of A and B were almost identical. The cost of the services had little to do with the average home price. The tax rate however, that is the mill rate, which is the tax per \$1000 of assessed value, was only half in the community with expensive home (A). The taxes on a \$400,000 in A was thus only half that of a \$400,000 home in B. However it is clearly false to conclude that the community with the lower tax rate (A) was doing a better job. What counts is how much it cost to deliver the same services to a home.

The lesson in all this is that to compare taxes from one municipality to another one should look at the cost to provide like services to a typical home – that is, the tax amount per average residential unit and not compare the tax on the same priced home in different municipalities.

Finally, some may wonder why the homes in A cost twice the price of those in B – well the answer is simple – the homes in A are on the other side of the river!

Yours truly,

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