


Report of Dr. Adam Shortt  
Investigating the Financial Condition  
of the  
City of Victoria, B.C.



Hometown  
LOCAL  
HISTORY

The logo features a stylized map with a star and the numbers 11 and 100, representing local history.



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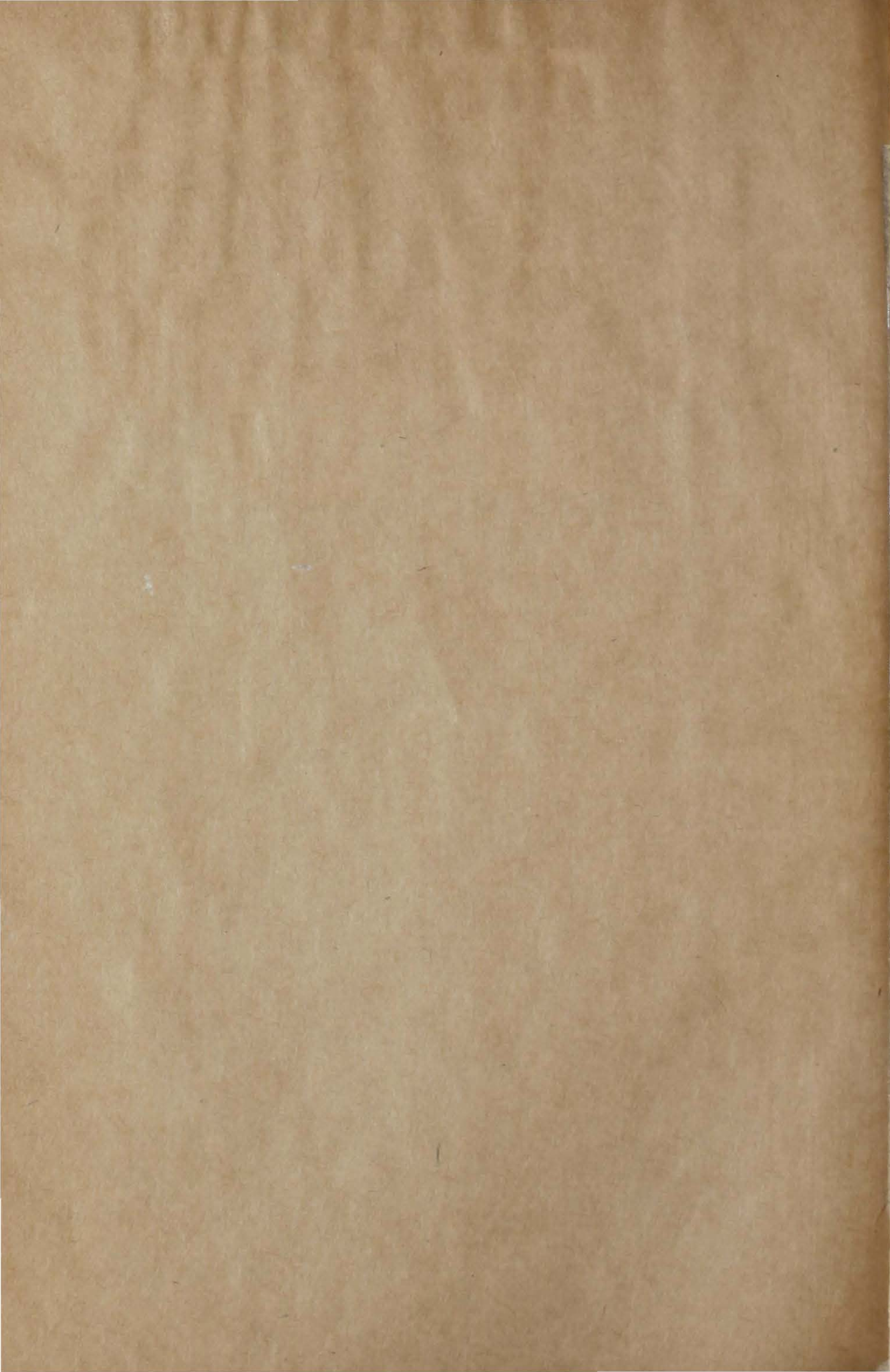
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Shortt, Adam.

Report of Dr. Adam Shortt, investigating 1922



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## CORRECTION

In Dr. Adam Shortt's Report, on page 52, appears the following statement:—

“Nor need it prevent the collection where specially convenient, of certain fees and charges by other branches of the municipal service, such as the Engineering and Police Departments, but all such collections should be turned over to the City Treasury and all disbursements should be made by orders on the Treasury from the other Departments. Needless to say, this again would not interfere with the granting of special advances covering chiefly petty expenditures, to be accounted for periodically to the Treasury. The practice, however of allowing various sections of the municipal service to collect and disburse within their own branches, simply turning over to the Treasury the surplus of receipts, or calling on it for the surplus of expenditure, is essentially vicious, destroying responsibility and preventing a proper presentation of the financial affairs of the City.”

The above statement is absolutely incorrect. The whole of the revenue of the City is collected in the Treasury, except that of the Water Works, which is collected in that office, and turned over to the Treasury every morning.

The only other Departments collecting their own revenue are the Police, the Market and the Pound, and these only because it is very inconvenient, if not impossible, to collect them in the City Hall, but in no case do any of these Departments pay their expenditures out of these collections. It has never been done since the City was incorporated, neither has it ever been suggested that such a system should be followed.

All accounts, even if for 10c only, are vouched for by the Department, passed by the Finance Committee, initialled by the Comptroller, and finally paid by the Treasurer. Even the accounts of the School Board, which is not really a Department of the City, are treated in the same way.

JAS. L. RAYMUR,

Comptroller.

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# REPORT

OF

DR. ADAM SHORTT

Investigating

The Financial Condition

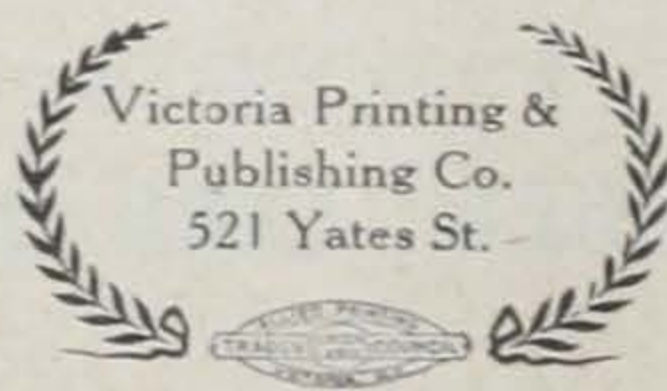
of the

City of Victoria, B. C.



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Nineteen Hundred and Twenty-Two





# Report on the Civic Finances of The City of Victoria, B. C.

## INTRODUCTION

1. The financial condition of the City of Victoria, which it shares with so many other Cities of Western Canada, and the special sacrifices in the way of increased taxation which the citizens are called upon to make for the next decade or so, have arisen out of a combination of most unfortunate circumstances. Among these are to be found an attitude of mind characteristic of people in the younger parts of the world who imagine themselves as living under quite new and advanced conditions, more or less emancipated from the difficulties, dangers and handicaps of the backward and unenlightened economic regions. This encourages a very general disregard of the often repeated civic and other experiences in the older parts of the country, and seems to justify a lack of knowledge and appreciation of well established principles of taxation and civic finances. At any rate, we recognize from a survey of the route followed towards the present financial outlook, so little admired, that there was a cheerful ignoring of all past experience, and a failure to understand the conditions in which the City stood, or the economic forces which were operating and whither they were driving. When, however, the natural consequences of the policy and practice adopted began to be revealed, the majority of the civic authorities were averse to change the policy or alter the drift of events. Most of the study given to the situation was in the direction of devising ways and means for quieting the apprehensions of the public, and indeed of the City Council itself, as to the radical mistakes which had been made, and the consequences which were resulting. Then, under the all-justifying excuse of war conditions, the evil day of final reckoning was postponed from year to year, and the litany of each successive Council seemed to be "Give peace in our time, O Lord."

2. To understand the situation in which the City now finds itself, and to intelligently discuss practicable remedies for the mistakes and misfortunes which have resulted, it is necessary to take an economic survey of the conditions and circumstances of the City for the past ten years at least.

### Local Improvements Extravagant

3. One may preface this sketch with the general conclusion, arrived at from such a survey, that fundamentally the financial resources of Victoria

are sound enough, and the general management by the citizens of their private affairs seems to be eminently sound and conservative. As regards civic affairs, however, a combination of unfortunate circumstances and a lack of intelligent and farsighted official courage has brought the City finances, for the time being, into a rather serious situation which must be frankly faced and resolutely dealt with. In the past, and particularly during the period from 1910 to 1913, civic expenditures in certain lines, especially in the way of local improvements, had been quite extravagant for a City of somewhat less than 40,000 people. While, in the face of the extensive obligations which had been incurred, the taxation imposed was quite inadequate, and considerably below that levied in many Eastern cities whose obligations were much more moderate, and the ratepayers more able to bear them. Since 1911, however, when most of the financial difficulties of Victoria have been developed, the tax burden has been concentrated almost entirely on one element in the community, namely, the land owners, and that quite without any regard to their individual abilities to pay. The result has been that a tax levy, which would have been quite moderate if distributed over the general financial resources of the citizens, proved very burdensome when concentrated on one only of these resources, more particularly when coupled with the excessive local improvement taxes in important sections of the City.

#### **Moratorium Improperly Used**

4. Before the Great War broke out in 1914, land values were already rapidly receding from the very high level to which general speculation had raised them during the previous few years. The increasing inability of land alone to meet the ordinary civic taxes, much less to provide for interest and sinking funds on the very large bonded debt incurred by the City during the speculative period, was ignored through the unfortunate policy, all too common among Western Cities, of declaring a partial moratorium, nominally in the interest of the soldiers, but, in practice, gradually extended to cover virtually all arrears of taxes. Meantime a more serious moratorium affected the civic consciousness as to the dangers of an ultimate financial crisis which was steadily developing. The heavily increasing taxes on land alone were concealed from general observation by the excessive assessment valuation of lands as compared with their market value. Moreover, tax arrears were regularly entered among the assets of the City, at their full face value, so that the annual statements presented to the citizens indicated that the civic finances were always in a quite solvent condition, even presenting a substantial surplus. In the meantime the actual deficits, created by the non-payment of taxes, were quietly met at the expense of the sinking funds.

5. The basal feature of the financial difficulties of the present time was the enormous increase in the civic debt incurred in the years 1910 and 1911, the expenditure of which was made chiefly in 1911 and 1912. The capital expenditure of these two years amounted to \$7,711,059, of which local improvements alone were responsible for \$4,731,308, most of which, with

the interest charges, was to be paid off in equal instalments during the next ten years.

### Single Tax Discussed

6. It might be asked, why the advocates of the single tax on land as distinguished from improvements, introduced in 1911, did not make more effort to meet some fair proportion of the enormous outlays which were being made in 1911 and 1912, from the taxes on land while its values were increasing so rapidly, and such enormous profits were being reaped from its sale, instead of laying the whole of the burden upon the future, when, as experience might suggest, these profits would be greatly reduced, if not converted into negative quantities. A survey of the facts and of the accepted doctrine on taxation, which they conceived themselves to be putting into operation, will fairly answer this question and prove their attitude to have been not at all unreasonable, had their analysis of the facts been in any measure correct. It was claimed by the author of the gospel of single tax and his disciples, that the practical application of this doctrine must of necessity result in a permanent and steadily expanding condition of prosperity for all the possessors of wealth other than land. Wage-earners were also to find increasing demand for their services at higher wages, with shorter hours and improved conditions generally. Even the holders of land would not suffer any real hardships, since the increasing annual rental value of their lands, contributed by the community in general, would, as a matter of course, automatically furnish them with ample means with which to pay the single tax on land. They would simply be the channels through which a part of the annual value created by the community would be returned to it. Hence, once the system was fully in operation, the land tax would fully provide for not only all civic, but for all provincial and national requirements. While the system was in its initial stages, therefore, it was only fair that those who were to reap the immense advantages of the later periods should largely meet the expenditures required for civic improvements to be enjoyed by them in periods of increasing prosperity.

7. It might be said, however, that at least those who shared in the great increase of land values during the height of the boom, should have paid heavier taxes, more particularly the successful speculators in land, who, in virtue of their success in unloading their holdings on others were to escape for the future the only tax which could reach them. These land profits, in their new forms of capital investments in buildings, stocks and bonds, or the profits from other business ventures, would henceforth be guaranteed exemption from all taxation.

### • Boom Period

8. To raise such a question, however, is to assume that there was a boom in 1910-11-12, when these speculations were so profitable. But the people of those days, and especially the disciples of Mr. Henry George, would not admit that there was a boom. There was great prosperity, of course, but that was simply the natural result, as had been so often foretold, of the reduction of taxation upon improvements, a reduction which had been pro-

gressing from 25 per cent. to 50 and 75 per cent. and was finally made complete in 1911. The results were exactly what had been predicted, and they were being proclaimed all over the continent and ultimately all over the world, as a final and indisputable practical demonstration in the Western Cities of Canada of the reality of the claims of the single tax. To admit, therefore, that there was anything in the nature of a boom would have been to admit that other causes than the reduction and final abolition of taxes on improvements were operating to increase prosperity. If, then, prosperity had been brought about in 1910 or 1911 or 1912 when complete single tax was introduced in Vancouver and Victoria, what must not be expected to be the degree of prosperity which should inevitably follow during an indefinite period of years to come. Why stop to specially tax the profits of the speculators of those years, merely because they were large as compared with the meagre returns of past years, for, when compared with the returns of a decade hence, say in 1921 or 1922, they would appear as paltry as those of the decade before in comparison with the profits of 1911?

#### **Mayor Morley's Report of 1911**

9. That this was the attitude of the general public at this time, as also the attitude of the great majority of their representatives in the Council, those familiar with the attitude of the time will recall. But for the benefit of those who are not familiar with the convictions and arguments which induced the introduction of the single tax system in 1911, we may refer to the Annual Report of the Mayor of Victoria at the close of the year 1911. After referring to the fact that "the expansion of 1911 has far exceeded the anticipations of the most sanguine of Victoria's citizens," he refers to the "well established conviction that Victoria is fairly started on an ever-increasing tide of development and prosperity." Evidence of permanent prosperity was found even in the crowding of the City by the thousands who were flocking in to assist in the expenditure of the seven and a half millions of freshly borrowed capital, which the City Council had secured, and which the citizens of 1922 and 1923 were to pay off with such ease; not to mention the additional millions which private investors were spending in commercial buildings, private residences, etc. "The best proof," says the Mayor, "of stability of growth is shown by the fact, that, although the building record of 1911 is double that of 1910, it is next to impossible to find a vacant house, store or office, or hotel accommodation in the City." The citizens of Victoria, whose convictions were thus expressed by their Mayor, were far from conscious of any boom conditions in 1911. They were simply entering upon the initial stages of that far greater and eminently more permanent prosperity which the author of "Progress and Poverty" had personally guaranteed to those who accepted his gospel and followed his directions. Thus the Mayor and Council, facing the long vista of progress without poverty which was opening up before Victoria and other Western Municipalities, were far from alarmed over the initial expenditures ushering in this happy period. The Mayor thus continues, "while there has never been a time in the history of the City when its citizens have had more just cause for pride and mutual

congratulation on the general prosperity and great progress of the future, so there has never been a time when it was so necessary to keep level heads and to plan sanely and wisely." We learn as we proceed that the sanity and wisdom called for at the time were to be expended in disposing of those hoary iniquities, the British Columbia Electric, in all its ramifications, especially the recent "infamous Jordan River Agreement," as also the telephone system, and apparently, if possible, the admission of the railroads to the City along Store Street and Blanshard Avenue. The taking over by the City of the British Columbia Electric and the telephone system was the solution suggested in their cases, and the few additional millions of debt involved in these proposals would be a mere trifle for the fortunate citizens of the future, who were being bequeathed a system of permanent and definitely increasing prosperity without taxation, except on land, and of which the prosperity of the time was but a mere prophecy.

10. Such was the attitude and convictions of those who more than doubled the City's capital debt in two years, while they levied on themselves a tax rate of only twenty mills on the dollar, and that on a rate of assessment practically no more than that of 1920. We can understand their assurance that instead of entailing heavy burdens on the future they were letting off their successors very lightly. That assurance is voiced in the Mayor's report, as follows:

11. "From 1913, with proper management of the City's affairs, there should be a gradual lessening of the general tax rate in proportion as the existing assessed values and revenue continue to increase, as by that time the City will have met all or nearly all the large initial expenditures for the water works, sewerage, paving, lighting, City Hall, High School, etc., leaving only the routine extension of improvements and maintenance to be met for some years to come."

#### A Blunder—Not a Crime

12. Evidently, in the attitude of those who are chiefly responsible for the present unfortunate position of the finances of the City, there was neither carelessness nor indifference towards the interests of the citizens to whom they bequeathed such heavy burdens of debt, and such an inadequate system of taxation to meet them. Benevolence, not malevolence, dictated their actions. Not commiseration, but congratulation, characterized their attitude towards their successors. They are chargeable merely with ignorance of elementary economic conditions, not with culpable determination to shirk existing responsibilities, or to bleed their successors for their own temporary advantage. Theirs was a blunder, not a crime. Unfortunately, however, in their consequences blunders are frequently more disastrous than crimes.

13. Had the war broken out in 1912, instead of two years later, notwithstanding the demonstrable blunders in the financial administration of the City Councils from 1909 to 1911, and especially in the latter year, it might have been possible to persuade the unsophisticated in economic matters that the unfortunate consequences of the civic policies of those years were

in some way due to the War, just as many of them were persuaded that the growing prosperity of the boom period was due to the progressive introduction of the single tax system. Unfortunately for this attempt, however, the war did not break out until the latter half of 1914, and its first effect was beneficial, in giving immediate relief to a rapidly increasing wave of economic reaction and unemployment, which threatened very serious consequences for the following winter. The reaction during 1913 and 1914 had nothing whatever to do with the war, but occurred in the very teeth of that assurance of gradually increasing prosperity which the single tax was guaranteed to produce. As a matter of fact, of course, the single tax produced neither the prosperity of the boom, nor the reaction thereafter. What it was chiefly responsible for was the spirit of ignorant optimism with reference to the indefinite continuation of the prosperity of the boom and the consequent recklessness with reference to the incurring of civic debts throughout the Western Municipalities, far beyond the capacity of the land-holding citizens to meet even the annual interest charges and other indispensable civic requirements, not to mention the still heavier charges of local improvements. On the other hand, what the war did, during its operation at least, was not to reduce the capacity of the citizens to meet their normal civic obligations, but, by preventing the enforcement of tax collections, on an inadequate basis of taxation, to permit of the continuation of such an incompetent system by concealing its defects and permitting the accumulation of tax arrears until the close of the war. The tax sales since held have demonstrated beyond question the utter incapacity of the system of land taxes to meet the normal civic requirements, and have thus precipitated a financial crisis which, without any original occasion for it, has placed the City of Victoria, in common with many other Western Cities, in a financial position which will require very unpalatable but entirely unavoidable sacrifices on the part of the citizens to dispose of, and thus restore the City to a safe and sane condition of civic finance.

### **Unearned Increment Tax**

14. There are very special economic reasons why land is not a sound basis for exclusive taxation, or a readily available basis for financial securities. As a single basis for taxation it lacks that very essential requirement, continuous ability to pay, as also the next most essential element, fairness and equality in the treatment of tax-paying citizens. On the other hand, at certain periods and under special conditions of the land market as during a period of civic expansion, commonly known as a boom period, nothing is more appropriate for adequate taxation, or more equitable when properly taxed than the exceptional profits on the purchase and sale of lands. But these periods of exceptional profit are, as a matter of repeated experience, of short duration, and therefore the process of taxation must also be capable of rapid and effective operation. After such a speculative period the reaction destroys all profits on land transfers, and the land loses the essential tax quality of ability to pay. But the single tax on land as a basis for annual levies is entirely unsuited to deal with those special bursts of

large speculative profits, succeeded by rapidly receding values and stagnation in the land market. As illustrated in the City of Victoria itself, during the height of the boom in land values, when the City ought to have shared in the land speculation to the extent of many millions, the civic authorities were congratulating themselves and the citizens on being able to keep the rate down to twenty mills on the dollar on an assessment far below existing market rates. They obtained, in consequence, a very moderate aggregate revenue in the face of an expenditure of staggering proportions, which increased the City's debt 115 per cent. in two years. Then, when the ability to pay had practically vanished from land values, the rate of taxation was nearly doubled, even on a highly inflated assessment, which was fully three times the market value of the land. And yet, as we have seen, relying on the single tax doctrines these blunders were committed with a clear conscience.

### **Land Limited in Quantity**

15. But there is nothing mysterious or exceptional in these facts. They simply reflect the ordinary economic processes which invariably operate, in the case of land, in all parts of the world where there is a free market for it. The basal facts in the case are:—

(a) The supply of land in any given locality, as in a city or town, while not a fixed amount, is a definitely limited quantity at any given period. Hence, when the competition for it becomes keen, since the supply cannot be increased, it tends to rise rapidly in value, and this very rise in value stimulates the desire to purchase, on the part of speculators who have no personal use for the land, but simply seek to make a profit on the turnover while the special demand lasts.

(b) Since land, unlike most other forms of wealth, even the most permanent buildings, is never consumed, it therefore never diminishes in quantity. When the period of special demand and speculative inflation of values is over, the total amount remains to glut the limited market which succeeds, and as it cannot be transferred or disposed of in any other market, the result is that land almost ceases to have any present value such value as remains to it being contingent on what prospect there may be of a subsequent period of expansion, with, in the background, a possible recurrence of another boom.

### **Land—Community Values**

16. I have said that the supply of land in connection with a given centre or municipality is not a fixed quantity; this is due to the fact that the quantity of land available at any given period depends upon several conditions which vary between periods. Chief of these are the facilities for transportation, public or private. Thus, the amount of land available for residential or manufacturing purposes, for instance, has very greatly increased from this cause within the past century, and doubtless will be still further extended in the future. But at any given time the quantity is limited by the conditions which render it available at that period. Again,

even within the area available for a civic centre there is no single market for all the land tributary to it. There is rather a series of markets, the supplies for which are commonly quite distinct from each other. Thus, there are several markets for residential property, which only slightly compete with each other, being specially conditioned by the social grade of the citizens and their capacity, financial and otherwise, to make use of them or to reach them conveniently. These markets, again, except for the dwellers in the heart of the City, have little connection with the market for commercial purposes, wholesale or retail, or for office buildings, or for manufacturing purposes, or transportation uses, etc. Again, the land markets for residential purposes, for retail trade, and public utilities of a purely local nature, are conditioned almost entirely by the requirements of special sections of the community. While the demand for land for wholesale and manufacturing uses is not conditioned by the local community merely, but by the opportunities and requirements of indefinitely larger communities extending over indefinitely expansible areas, even to the ends of the earth. Incidentally, one sees what becomes of the stock phrase of the single tax doctrine, that the community which contributes the value to land is entitled to take this value in the shape of taxation. What are the limits of such a community—or communities—and how can their claims be made practicable? Finally, the great distinction between land, as a quantity available for any of these special markets, and all other forms of wealth, is that practically all these other forms, from the most permanent buildings to the most perishable articles of food, are subject to decay and renewal. Hence the supply is always in process of running out and must be renewed. Even, therefore, in the most stagnant or unexpanding community a glut in the market is only temporary. Demand overtakes supply and prices and values are once more established on a profitable basis. In the case of land, however, as we have seen, the quantity never diminishes. A glut once established remains until a considerable expansion takes place, for a small demand finds so many sellers that the price has little or no chance to rise. If, however, there is no special forcing of land sales during the period of slight expansion, such expansion as there is may take care of the few urgent sales without breaking the market. But if there is any general condition forcing land on the market, the price will inevitably break, land values will become demoralized, and the general market rate will fall to exceptionally low levels. Here, then, we have the secret of the apparent anomaly, that while land is the most permanent basis of all other values and is the most indestructible of all forms of wealth, it is the most unsteady, the most unreliable of all forms of economic wealth. It is the most subject to highly inflated values in times of exceptional demand in speculative dealings, and the most subject to a rapid and very great loss of market value during periods of stagnation in land requirements. Otherwise, an unexpanding community may be quite prosperous, with most other values being maintained at a good general level. These peculiarities of land have been well recognized for a very long time by those acquainted with primary economic conditions. It has been for a century at least the fundamental feature in



all sound banking legislation, that banks shall not issue notes or make loans on the basis of the security of land, while they are freely permitted to make loans, and therefor to maintain their credit and secure their notes by advances on the most perishable articles of commerce.

17. Applying to the financial condition of Victoria these fundamental and even elementary economic principles based on extensive experience, we may observe, that land alone, however permanent it may be as a physical basis for all wealth, and however certain to return to an active market value at recurring periods of general expansion, is the most unreliable basis for the chief annual revenue of the City. Even during those limited periods of expansion and exceptionally high prices, the single tax on land does not perceptibly affect the successful speculator. Indeed, he has every reason to favor this form of taxation, because he passes the land through his hands so rapidly that the annual levy either does not reach him at all or does so very slightly. At that stage of the taxation process the assessment is far below the rates at which he is selling, and the rate of taxation is usually very low as compared with what it will be when the land has passed from him to his victims. Moreover, as the successful speculator generally employs the great gains which he makes in investments with a more or less permanent valuation and return, the single tax on land allows him to enjoy the profits of his speculation virtually immune from taxation.

18. Two classes of investors in land, however, are permanently caught by the single tax, and these are:—

(a) The unsuccessful speculators in land, who are usually late arrivals and commonly amateurs in this line of business, and hence not aware that they should get out in time;

(b) And far the most numerous class—those who held land previous to the boom period, or have bought with the object of establishing homes for themselves with the accompaniment of a garden, towards which most laudable purpose the climate and situation of Victoria are so favorable.

19. But, as in so many cases after the boom, the reaction which arrests the construction of buildings leads to the unemployment of many of those who depended almost entirely on the construction of local improvements and other Public Works, or the erection of the numerous buildings called for by the temporary increase of population and the mercantile establishments catering to the exceptionally brisk trade arising from the same temporary causes, as also the office buildings whose inmates were tributary to the prosperity incidental to the expenditure of so many borrowed millions, on both public and private account. The unsuccessful speculators, having transferred most of their available funds to the successful ones, having little to sustain them on a falling market, find assessments and tax rates going up as market values come down. They face the prospect of losing all their investments, or trying to hold on, if they have any funds still available, until another upward trend in real estate arrives. The holder of real estate from before the boom, and for whom the boom meant little more than added

expenditure without any reserve, must rely on what resources other than land he may be fortunate enough to possess to meet the increasing taxes on his land. Those who purchased land at speculative rates as a basis for a home with a garden may or may not have erected on it a modest house before the reaction in values and the uncertainty of permanent income arrested their progress. But, in any case, they find the high assessment for lands, and especially for local improvements, causing any land other than that covered by their house to be a most expensive luxury; while all suffer from the heavy financial burdens laid upon the City as the result of excessive borrowings and expenditures.

### **Benefited Classes Through Land Taxation**

20. Two classes, however, relatively benefit for a time at least from the single tax on land. These are the usually wealthy owners of expensive residences, whose exemption on their improvements is commonly much greater than the increased taxation on their lands, and the owners and occupiers of the more expensive stores, office buildings, and business structures generally, where the buildings cover practically the whole of the land and in value considerably exceed the land. Experience in the Eastern Cities under the business tax indicates, with some special exceptions of course, that profits derived from the businesses, commercial, professional or other, carried on in these buildings, are in fair proportion to the size and cost of the buildings, and therefore the greater the profits or incomes the less the taxation where land alone is taxed. Finally, there is that large and miscellaneous element of the population which lives in more or less crowded sections of the City, in lodgings or rented rooms and flats, without lands or gardens, as also those of the wealthy classes who live in apartment houses in the better sections of the City, and which houses occupy, as a rule, practically all the land connected with them, their inmates depending for light and air, trees and flowers, upon the heavily taxed lands and gardens of their neighbors.

21. Broadly, the general result is that, apart from the wealthy elements of the community who own the expensive residences and the larger and more costly business premises in the heart of the City, the great majority of those who benefit from the single tax are those who have the least stake in the City and the least permanent interest in either its present financial embarrassment or future prospects under the return of better conditions.

22. It follows from the peculiar nature of the economic qualities and relations of land that, when it is not in active demand, since its quantity remains undiminished and the market is continually over-stocked if sales are forced the consequence is an indefinite fall in market value, checked only by speculative purchases for future profit. Where, therefore, the tax is levied upon land, or it is subject to interest on mortgage, the tax or the interest must be paid, not out of the land, but out of the income or other assets of the holder of the land. The statement, therefore, that the community contributes to land a steady value which may be realized in the form of an annual rental

value, and which is available for taxation, is entirely erroneous. If such were actually the case, the millions of assessed value of land which the City of Victoria now holds as the result of tax sales, would enable the City to obtain the whole of the rental value contributed by the community, and thus prove very profitable to the City. As a simple matter of fact, however, these enormous and increasing holdings yield practically nothing to the City. Such net rental returns as the City does derive from the millions of assessed value held by it amounts to about \$3,000, and is entirely derived from the rent of improvements on the land taken over by the City; although, as a matter of principle, the City has no claim on these since improvements have been entirely exempt from taxation. Since, therefore, virtually no rent is obtained from practically the whole of the unused land, as well as much of the land bearing improvements, whatever taxes are paid on these are paid out of incomes, or such resources other than the land itself, which are at the disposal of the holders of these lands. The land tax, therefore, is very largely a tax upon incomes, improvements, or general property, all of which are professed to be exempt from taxation under the single tax on land. Not only, therefore, does the tax upon land ignore the principle of ability to pay, but by indirectly levying the land tax upon incomes and other resources, it ignores also the ability to pay in relation to these secondary resources; because the taxes thus levied have no equitable relation to the incomes or other resources of the persons who happen to hold lands. An equitable tax on incomes or general property should be proportioned to the said incomes and property. Under the so-called land tax, however, all equitable distribution of the tax is ignored, it being levied in no proportion to the ability to pay, but in proportion only to the holdings of land, which under the conditions indicated, furnish no means of payment.

23. It finally comes down to this, that all those who cannot afford to pay the taxes on their land, whatever their other resources, or who find it unprofitable to do so, are forced to dispose of the whole or part of their land in order to meet their taxes and recover, if possible, some small portion of the capital invested in the land. But when they attempt to dispose of their lands, either with or without improvements on them, they find, as has been indicated, that the market breaks indefinitely, and they are forced at best to make great sacrifices of their property to meet even the most moderate obligations. In so many other cases, however, they discover that they cannot sell their real estate, or their equity in it where it may be under mortgage, for even the tax obligations against it; hence they are forced to altogether abandon it to the City. The City then attempts to get its claims out of it by putting it up to public sale, and discovers that much the greater part of it will not sell for even the tax claims against it, whereupon the City is constrained to take it over. In doing so, the City further discovers that, not only does it not possess as land any of the rental value supposed to be contributed by the community, but that it ceases to have any taxable value. The City is even deprived of the comforting delusion of continuing to build up arrears of taxes and compound interest with which to offset in

its annual statement of assets and liabilities, the annual interest on maturing loans, or the deficiencies of the sinking fund which ought to be accumulating to meet them, or the increasing advances from the Bank in anticipation of the annual taxes, of which some 24 or 25 per cent. will not be paid.

### Glutted Land Market

24. At every tax sale, the progressive glutting of a declining market for real estate continually reduces values, not only for the properties offered by the City, but for all the properties of private individuals with which the City offerings compete. But the crowning absurdity of all, and the final demonstration of the utter inability of land alone to furnish an adequate and equitable basis for taxation, is the fact that the City will not accept the logical consequences of its own principles, by admitting as the basis of the assessment of lands the market values which its own public tax sales establish. By an Act of the Legislature, the total assessment of the land in the City was fixed at a purely arbitrary amount, below which it was not to fall, this amount being \$45,000,000.

25. Unfortunately, when the City was required to hold its first tax sales in 1919, a very striking contrast was revealed between the assessed values of the properties put up for sale and the amounts realized in the open market by even those few which brought the upset price, consisting of the City's claims against the land. There was also revealed, however, the very inequitable relative valuation, even on the basis of the inflated rates of assessment, when compared with the relative prices realized at the actual sales. We may take a few samples at random:—

The Assessed Values of the Properties	Prices at Which These Were Sold
\$ 4,050.00	\$ 536.00
4,660.00	282.00
15,460.00	1,681.00
25,240.00	2,291.00
2,200.00	84.00
3,150.00	151.00
1,450.00	74.00
600.00	76.00
1,900.00	137.00
1,500.00	150.00
1,210.00	202.00
450.00	91.00
800.00	92.00
850.00	137.00
700.00	214.00
400.00	88.00
450.00	51.00
290.00	110.00
300.00	40.00

26. The first six of these had improvements on them and the remainder none. From these we observe, first, the excessively high assessment valuation as compared with actual market values; and, secondly, the very inequitable amounts at which individual properties are assessed as compared with each other. One might suppose that when the City was willing to sell the property at these rates at a public sale it could hardly assess them at more than the market rates, but such was the absurd position into which the City's taxation system had drifted, that these inflated assessments had to be continued as the basis for taxing the lots, otherwise the rate of taxation would be so high as to alarm the citizens and impair the credit of the City abroad. Thus a special clause, Section 20, was inserted in the Relief Act for 1921, declaring that, "Notwithstanding anything contained in the provisions of the 'Municipal Act,' or of any other Act, the consideration or purchase price named in any conveyance, agreement for sale, or other instrument by which lands or land and improvements the fee of which is in the Municipality have been sold or disposed of by the Corporation, shall not be deemed to be the actual value of such land or land and improvements for the purpose of assessment and taxation thereof, and shall not form the basis of, or affect in any way whatever the value of any other land or land and improvements within the Municipality for assessment and taxation purposes; and the foregoing provisions of this Section shall relate back to and be deemed to have been in force and effect from and after the first day of January, 1921." In practically all municipalities where the taxation system is on a normal and reasonable basis the assessment of land is invariably somewhat under the current market rate, and it is a common arrangement in the United States to meet complaints as to over-assessment, that anyone is at liberty to transfer his land to the municipality at the assessed rate and to be paid for it on that valuation. One can imagine how happy the owners of land in Victoria would be to dispose of their lands at three to five times what they will bring in the open market.

### **Declining Values of Land**

27. Apart from the effect of loading the City with unsaleable and non-revenue producing real estate, the general effect on values of the process of taking over increasing quantities of property each year has been, as follows:

On the tax sales of 1915 there was realized about 50 per cent. of the assessed value of the lots.

On the tax sales of 1919 there was realized about 35.6 per cent. of the assessed value of the lots.

On the tax sales of 1920 there was realized about 25 per cent. of the assessed value of the lots.

On the tax sales of 1921 there was realized about 11.3 per cent. of the assessed value of the lots.

28. But in the year 1921 the average proportion of the City's claims against the real estate taken over was 21.7 per cent. of its assessed value.

which means that the City would lose about one-half of the claims against these lots if they brought even as good prices as the portions sold. But if these lots also had been put to a forced sale they would undoubtedly have broken the market much more severely, hence much more than one-half of the City's claims would have been lost. From all points of view, therefore, the taking over of the lots by the City, even at public sales, is very bad policy, and should be avoided if at all possible. It involves the following, among other consequences: It reduces by the amount of the real estate taken over, the total amount available for taxation, without any corresponding revenue coming to the City, except the mere trifle derived from the rental of the improvements confiscated with the land, after the expenses of keeping these in repair are deducted. It leads to the delusion that a higher percentage of the taxes levied is being paid in successive years, when, as a matter of fact, a lower percentage is being paid. In the Comptroller's Report of 1921 it is reported that 76.47 per cent. of the taxes levied had been paid, whereas in 1919 only 75 per cent. had been paid. But in 1920 and 1921 a very considerable proportion of the lands on which the taxes were not collected had passed into the possession of the City. This should have reduced very considerably the proportion of unpaid taxes, but in fact it was reduced by less than 1½ per cent., which means that the non-taxpayers, instead of being reduced are being increased. In other words, those who can continue to finance their taxes out of their incomes and other resources are steadily diminishing.

29. Another delusion is that not only are the tax levies being better met, but that the arrears of taxes are being paid off, since, in each successive year, the taxes in arrears are considerably diminishing, chiefly because the City is taking over the real estate against which these arrears are charged, and hence the arrears are no longer returned in that shape. But in taking over lands, with or without improvements, the City is not receiving the arrears of taxes, except in the case of the small proportion of the lands which are sold and the money actually received. To determine whether the arrears are diminishing, it is necessary to add to the arrears which still exist the amounts of the claims which the City has against the lands which it has taken over at the tax sales and still holds. The total of tax arrears outstanding for both the general taxes and local improvements are, as follows: (The amounts for each year are arrived at by deducting from the previous year the amounts of arrears paid up and adding each year the amount of the additional arrears for that year.)

	Tax Arrears Against Lots Held by Citizens	Tax Arrears on Real Estate Taken Over by the City	Total Arrears
1917.....	\$3,057,616	.....	\$3,057,616
1918.....	2,514,256	.....	2,514,256
1919.....	1,950,594	\$ 747,367	2 697,961
1920.....	1,919,852	1,800,451	3,720,303
1921.....	1,616,628	1,930,853	3,547,481

30. Some of the land represented by the \$1,930,853 of claims may yet be redeemed within the year 1922, but, on the other hand, what remains unredeemed and unsold each year represents holdings on which the inevitable losses of the City are steadily increasing, as the selling value of the land is diminished, while the charges against it are also increasing. Moreover, the lands taken over by the City are those on which the percentage of arrears, compared with assessed value, is highest. It is true that the charges cease to be added when the City takes over the property, but the charges for the debt rate, the school rate, local improvement rate, chargeable to the land, as distinguished from the rate for current expenditure, must either continue to be charged against the land if taken over by the City, or these additional charges must be added to the general tax rate as an additional burden on the lands which are still in the hands of private holders. With this increase of the tax rate, whether partially disguised by inflated assessment valuations or not, these extra taxes on a diminishing field for taxation, must drive additional ratepayers into arrears, as also prevent those already in arrears from the possibility of recovery, and this again still further reduces the remainder of the tax-paying property, forcing additional tax sales.

31. The reaction of all this upon the public and general prosperity of the City must be obvious even to those who are disposed to congratulate themselves that, because they hold little land in proportion to their other property, they are largely escaping the heavy financial burdens which are falling upon their unfortunate neighbors, the holders of the land. Apart from the confiscation of increasing quantities of improvements, all forms of property which have any relation to permanent local interests must inevitably suffer, both in the decline in capital value and the returns in profits. If taxes continue to be levied regardless of the ability to pay on the part of those taxes, a financial crisis is ultimately unavoidable. In the end resort must be had to those sources of income which can be actually drawn upon. Then, however, the burden must be exceptionally heavy, while the ability to pay is relatively diminished. Thus the period of escape from a legitimate share in the financial obligations of the City will prove in the end to have been quite unprofitable. What, therefore, is urgently called for at the present time, even late as it is, is the restoration of a sound financial condition and a more equitable distribution of the normal burdens of taxation.

#### **Financial Difficulties Chiefly Speculative**

32. As we have seen, the foundation of the financial difficulties of Victoria, as of other municipalities in British Columbia, was laid in the speculative boom in lots of 10 years ago. Also the greater part of the City's debt and the chief burdens laid upon the lands of private individuals was due to the local improvements undertaken at that time. It is further evident that the annual local improvement rates charged against the land, when added to the regular tax levy, in itself quite moderate, is the cause of the accumulation of so many arrears of taxes, with the consequent reversion of so much real estate to the City. Our survey of conditions has shown also that the

circumstances under which land will bear a considerable burden of taxation are those under which there is a more or less substantial increase in the value of land, implying a considerable demand for it.

#### **Land Tax Should Be Adequate**

33. It is plain that the period of the greatest demand for land and of the most rapid increase in values is also the period of the greatest demand for local improvements and the heavy financing which these require. The opportunity, therefore, to levy the largest contribution from increasing land values coincides entirely with the period of greatest demand for local improvements. They are both incidental to the rapid expansion of the municipality. An adequate tax on increasing land values should, therefore, be able to very largely provide the necessary funds for the local improvements especially required under those conditions. But an annual tax levy, whether on single tax principles or even on a broader basis, will not meet the requirements of such a situation.

34. The slow process of assessment one year and collection the next is entirely inadequate to meet the special requirements of such a period. The assessments invariably drag so far behind actual selling prices that the speculators themselves are commonly the chief complainants as to this backwardness, since the contrast presented is a damper upon their prices. The successful speculator has little to lose but much to gain from rapidly increasing assessments. He is in and out of his deals a dozen times before even the most prompt assessment levy reaches him once.

#### **Assessments Low and Rates Inadequate 1909-1914**

35. A reference to the actual conditions of Victoria will show that during the time of the boom, from 1909 to the middle of 1912, when the big profits were made, the assessment was quite low compared with what it was when the collapse was in process and tax arrears began to develop. The average assessment for the three years, 1909, 1910 and 1911, was \$30,255,051, while the average for the next three years of reaction, 1912, 1913 and 1914, was \$83,314,303. On the other hand the rate of taxation was very low, especially when we consider the narrow basis on which it was levied, being 24 mills in 1911, 21 mills in 1912, and 20 mills in 1913. Thus in the year of greatest inflation, 1911, the total tax on land, including all frontage or service taxes, was \$930,150, whereas for the last three years, 1919, 1920 and 1921, the similar taxes have been 50 per cent greater on an almost stagnant land market. Thus, in the year 1911, when speculators were reaping their greatest harvest and the heaviest expenditure was incurred although the greater part of it was actually disbursed the following year, a very moderate tax was levied. Not until 1914 was the peak of assessment in taxation reached, when the most successful speculators had passed on the burden to their victims, the unsuccessful speculators and those seeking to establish homes. The latter, however, having naturally transferred most of their fluid wealth to the successful speculators, were not in a position to bear easily the heavy subsequent taxation, and in most cases the still heavier local improvement



taxes. At the same time the value of their land purchased at the height of the boom was rapidly dwindling away. So rapidly and so completely, in fact, that the assessments could not follow it without exposing the absurdity of the single land tax, owing to the extravagant rates which would require to be levied. To take a case in point, the assessed value of land in 1920 was \$46,108,278, but we find from the public tax sales of land which took place that year that the market rate was practically only 25 per cent. of the assessed valuation. The assessed value of the land therefore should not have been more than \$11,527,069, and if the net levy on land alone for that year was \$1,198 885, the tax rate on actual values would have been 104 mills on the dollar. But this was too awkward for public opinion.

36. On the other hand, considering the rates at which sales were actually made on the open market in 1911, the assessable value of the land was at least twice what it was placed at in that year, or \$93,000,000, it being still assessed at over \$89,000,000 in 1914 when values had very greatly fallen. On that assessment the tax rate would have been only 12 mills on the dollar instead of 24. This illustrates several points—first, it is an additional proof that the land tax does not reach the speculator. Second, that it does reach, in a very drastic form both his victims and the ordinary citizen with a garden or some air spaces around his home. Third, that land value as the sole or chief basis for taxation is most unreliable and inequitable in operation.

37. But, while the ordinary process of the annual tax levy is quite futile as a means of enabling the municipality to derive a fair and equitable share from the enormous profits on land sales at the time of a correspondingly exceptional civic expenditure, it is highly desirable that some system should be provided to secure for the municipality an adequate share in the profits. This must be provided, however, in advance of any speculative movement to enable the City to obtain the funds required for special expenditures, without transferring practically the whole of the burden to the citizens in their least opulent condition.

#### **Unearned Increment Should Be Taxed, or Land-Profit Taxation**

38. Such a system is not very difficult to provide. In the first place, it should be quite distinct from the annual tax levy required to provide for the normal civic expenditures through good times and bad. It should be capable of acting automatically and as rapidly as the speculative movement itself, rising and falling with the profits made on the various land dealings, but not interfering with those who take no part in the speculative movement, although the increase in assessment will naturally affect their normal annual taxes. To accomplish this design, all that is necessary is to add to the present registration of land transfers the price at which the transfers take place, distinguishing land values and improvements. This will show (a) the profits which have been made since the last transfer, and (b) the period of time within which the profit was secured. Then all that remains is to fix a graduated system of taxation for the profits made. This rate of taxation will increase, not in mere proportion to profits, but progressively in pro-

portion to the largeness of the profits, and will also increase in proportion to the shortness of the time within which the profit is made. Only profits which exceed 10 per cent. within the period of one year need be considered. Those below that range will be adequately dealt with by the annual tax levy. The profits over 10 per cent. made within a year would be subject to these special taxes. To take a possible example: Profits made within a year, of from 11 to 25 per cent. might be taxed 5 per cent; those between 26 and 50 per cent., at 10 per cent.; between 51 and 75 per cent., at 20 per cent.; between 76 and 100 per cent., at 30 per cent.; from 101 to 150 per cent., at 50 per cent.; from 151 to 200 per cent. at 60 per cent.; from 201 to 300 and upwards, at 75 per cent. If, however, the transfers should take place within six months from the last purchase, each of these rates would be increased one fourth; if within three months they might be increased one-third, and if within a month profits of 50 per cent. and over might be increased one-half. If, however, the transfers take place at a period over one year, then for an additional one to three months the rates should be decreased by one-fourth; for an additional three to six months, decreased by one-third; for an additional six months to twelve months, decreased one-half; for a period between one and two years, decreased one-half, and two-thirds for a period of two years and upwards. Collusion in making false returns as to the sale price is not to be feared, as the reporting of a lower price would be to the detriment of the purchaser at the next transfer, and reporting a higher price would be to the detriment of the seller as increasing his taxes. This special tax would be paid through the purchaser, by simply requiring him to pay over to the City its share of the purchase price, and to the seller the remainder of the purchase price. Agreements of sale should be rendered invalid except where registered.

39. It is obvious that this method of taxing land profits would turn in a very large revenue when sales were brisk and prices rising, while still leaving very attractive profits for the land dealers. At the same time it would naturally check the extravagant gains which inflame the speculative market and temporarily carry the expansion of municipalities and the introduction of costly local improvements during the boom period, beyond all reasonable balance. Through such a method alone can the large and expensive improvements, unavoidably incidental to the rapid expansion of a modern City, be made in a manner the most natural and least burdensome for the future.

40. When the speculative wave of expansion has subsided and conditions return to a normal, or even for a time a stagnant condition, the income from this special source practically ceases for a period at least. But such a period is one during which expensive local improvements and other heavy outlays also practically cease. Then the annual tax levy, if equitably distributed over the field of ability to pay among the general body of the citizens, will quite take care of the legitimate expenses of the civic administration without any necessary accumulation of tax arrears or the undue absorption of the annual revenue in excessive debt charges. But, again, it must be noted that this comparatively simple though effective machinery

for especially taxing high speculative property must be provided in advance of the inevitably short period during which the rapid expansion in values takes place. Otherwise the opportunity will be lost and another collapse in values, with another heavy debt burden will have to be faced for many regretful years to come.

### Local Improvement Taxation

41. Such a system not having been provided, and there being a very modest annual revenue collected during the years of great land profits, practically all of the enormous expenditures of the two or three years of the boom were loaded upon the shoulders of the future land-owning section of the community without reference to their capacity to pay. The whole burden of the local improvements, the capital and interest charges being divided into ten equal annual payments, also fell, for the most part, upon a still more limited section of the land-owning and taxpaying community. The interest and sinking fund contributions had also to be provided, chiefly from the same taxpayers. The general taxes included increased charges for education, fire and police protection, hospitals and other services for the comfort and convenience of the general body of the citizens, but having little or no connection with land. Land, however, began to rapidly fall in value just as the obligations on it increased. The natural result, as we have seen, coupled with the effects of the attitude towards taxpayers during the war, was to develop a steadily increasing amount of tax arrears, without any effort to deal with the causes of this situation, it being assumed, apparently, that when the war was over these matters would very generally right themselves. Time has abundantly proved that such was not to be the case—that indeed matters grew steadily worse. Even when a final resort was had to tax sales, the unpleasant discovery was made that only in cases where the taxes were very light in proportion to the total value of the property, could the market price of the land, with such improvements as it bore, satisfy the tax charges against it. Only in a few rare cases, and to a very slight extent was anything obtained to represent the equity of the owner, or any other claims against the property. In the great majority of cases, however, the highest prices obtainable at the tax sales would not cover the City's claims for taxes. Hence the City had to take over the property. As we have seen, the situation has not materially improved. The total assessment of the taxable property is now placed at \$38,789,258, while the assessed value of the land taken over by the City and still held by it amounts to at least \$5,066,075. Thus between one-seventh and one-eighth of the taxable property of the City has been removed from the tax collector's list, having passed into the hands of the City. This being so, one would naturally expect the taxes on the remainder to be pretty fully paid up. We find, however, that during the past year the proportion of taxes collected increased by less than 1½ per cent., the increase being from 75 per cent. in 1919 and 1920 to only 76.47 per cent. for the year 1921; showing that the previously taxpaying properties are falling into arrears almost as rapidly as the non-taxpaying properties are being removed from the collector's books. It is

natural that a steadily increasing tax rate should accompany the annual reduction of assessable properties, and this has a corresponding effect in forcing an increasing number of properties to fall into arrears.

42. Such being the situation, the most important practical question before the City Council and citizens of Victoria is—what measures must be adopted to arrest if possible the steady drift towards a serious financial crisis, and to place the City's finances upon a stable basis with some reasonable prospect of recovery when the next general movement towards economic prosperity sets in?

### **Policy Suggested: Taxation Broadened**

43. Two new lines of policy are rather obviously suggested and are here strongly recommended in face of the facts and conditions, as they now stand. First, the system of taxation must be considerably broadened and the sources of civic revenue brought more fully into line with the ability to pay on an equitable basis. Second, something effective must be attempted towards a real and not merely an apparent improvement in the annual tax collections, and to prevent the demoralizing effects of the steady reversion of real estate to the possession of the City through tax sales. These reverted lands cease to be revenue producing, but by constantly glutting the real estate market they must indefinitely retard a general economic recovery of the City, in harmony with the recovery of the country in general.

44. Taking up the first proposition,—to render the system of taxation sufficiently productive, two sources are naturally indicated as reasonable and equitable bases for taxation. These are real estate and income. Real estate, including land and improvements, is peculiarly associated with civic requirements and thus, in a fair proportion, is a legitimate basis for municipal taxation. The construction of streets and sidewalks, the furnishing of sewers and drains, and to a certain extent the supply of water, are all incidental to the bringing of the land into use and accessibility. On the other hand, the furnishing of fire and police protection, street cleaning and lighting, and a share of the expenditures for sewers, water supply and sanitary equipment, are chiefly connected with the buildings and other so-called improvements erected upon the land. Finally, the expenditures on schools, hospitals, parks, and a considerable share of the outlay on some of the other services, as street paving, cleaning and lighting, water supply and police protection, are chargeable to the citizens in general, regardless of their ownership of land and buildings. The income also which the citizen enjoys as a result of his personal services, the contribution of his wealth to industries or other economic operations, or as a loan for civic, provincial or national requirements, all of which is related to the general social and economic structure which we call the community, affords another fit and proper basis for taxation. That the income of individuals, especially in modern times, is not so exclusively associated with the civic services and opportunities as the two factors of real estate, goes without saying.

### Income Tax Recommended

45. Under modern conditions income is a fair basis for taxation, wherever the individual or his possessions share in the protection, opportunities and facilities afforded by public bodies supported by taxation. If the interests of the individual are so extensive and varied that they are carried on and rendered possible under many different forms of Government, then, barring the outbreak of war or other reversions to barbarism, it is perfectly reasonable that such an individual should contribute income or other taxes to all these varied forms of government.

46. Such a fact in itself does not constitute any objectionable form of double, treble or multiple taxation. The real objection on these grounds depends upon an inequitable levy upon those portions of a person's wealth which have no real relation, personal or economic, to the jurisdiction under which it is taxed. But this involves a special consideration of the alleged cases in question, and can be intelligently discussed only over the head of concrete cases in their actual relations. The principle, however, of paying income or other taxes to various public bodies, whether within one's own country or beyond it, is as sound as that of paying any other obligations of a legitimate nature which one has voluntarily incurred. It is perfectly true, of course, that the paying of portions of one's income in taxes whether to one or several forms of Government, reduces one's resources for other purposes, and will be avoided if possible. When, however, the citizens, by their extravagant expenditures in the past, permit, or even insure the levying of taxation to such an exceptional amount as deprives themselves or their successors of quite unusual percentages of their income or property, it will undoubtedly militate against the attractiveness of that municipality as a place of residence or centre for the investment of funds for ordinary profit. This, however, is not a criticism of an otherwise equitable system of taxation; it is simply a criticism, a very effective condemnation indeed, of the policy responsible for the accumulation of an excessive debt, accompanied, as is probable, by a wholly inadequate system of taxation employed to deal with it. The fact, therefore, that the income tax is employed by both the Provincial and Federal Governments to raise revenue is no reason why it should not be employed also to raise a substantial portion of a municipal revenue.

47. All taxes ultimately come out of one's revenue and the only practical question is as to the adjustment of one's revenue to meet a portion at least of such taxes by dividing the burden with others. This is simply a question of the incidence of taxation. All that need be said here as to the incidence of taxation is to point out that the opportunity, or lack of opportunity for passing on the burden of taxation to others depends almost entirely on the economic condition of the community at the time. If trade is brisk and properties of all kinds, including land, are in demand, the taxes on property or income can be more or less effectively transmitted to others through increasing sale prices, wages, or other remuneration for services. But when trade is dull and properties not readily saleable, or when services are not

in demand, it is correspondingly difficult for those on whom a tax immediately falls to pass it on to others. The incidence of taxation therefore is no uniform or stable economic factor which, once properly estimated at any given time, may be trusted to operate in the same manner indefinitely.

48. The chief practical objection to an income tax for municipal purposes, in cases where that form of taxation has not been established, is the necessity of setting up a new organization for the adequate determination of the relative incomes of the different classes of the community. Some of these can be determined very readily, as in the case of incomes on a salary basis, or from the interest on investments and public securities, dividends from companies and corporations whose business transactions are necessarily matters of more or less public record, but it is much more difficult to determine the incomes of private traders or from professional fees, special commissions, etc., etc. But where all these matters have been more or less accurately determined by Provincial and Federal Departments, either independently or in co-operation, it should not be difficult for municipalities representing one of the three essential forms of Government in a country such as ours, to avail themselves of the information and experience already gained, and thus to operate the income tax at least as efficiently as do the other forms of Government.

#### **Legislation Required**

49. The introduction of the income tax as a factor in municipal revenue is already common to all the Canadian Provinces, except British Columbia and Prince Edward Island. It would require, of course, the sanction of the Provincial Government, and would of necessity be open to all the municipalities of British Columbia. It should not be difficult to convince the Provincial Government and the Legislature of the essential soundness of the principle and policy of frankly recognizing income as a legitimate basis of taxation for municipalities instead of, as at present, disguising it under other forms in which its application is shown to be inadequate and inequitable. The income tax would, of course, take the place of the present business and professional license tax, whose inadequacy is the only excuse for its inequity. It is said to be justified on the basis of the privilege of conducting a business or a profession within a municipality, and thus sharing the facilities and protection afforded for doing so. But this will not bear close scrutiny. If the license fee is not really a tax, but only a consideration based on privilege, then it is very arbitrarily limited and should be extended to all other elements in the community who enjoy similar privileges. But if it is a revenue tax, and the recent changes in it are entirely in that direction, then it is most inadequate and inequitable. The substitution for it of a frankly recognized income tax is the only honest and dignified method of dealing with the subject.

#### **Abolition of Licenses and Property Tax**

50. The establishment of a municipal income tax should also lead to the abolition of that other primitive imposition, the general property tax. In

the earlier days of taxation in America the general property of the citizens presented the most obvious basis for taxation. For many years the property of nearly every individual consisted of physical possessions in his immediate neighborhood, together with small and easily ascertainable investments, usually in the form of local mortgages. Under those conditions a general property tax especially with a low rate of levy, was not seriously objectionable or inequitable. Under modern conditions, however, the possessions of individuals, even for domestic use, but more particularly in connection with the conduct of business, whether in manufacturing industry, commercial trade, some form of public utility, or capital investment, must of necessity vary very greatly in proportion to the profits derived at any given time, and even more so according as trade is brisk or stagnant. A phase of this is the contrast between the permanent nature of the property in certain investments, and the constantly changing character of other property, as also the very meagre nature of the property involved in other forms of business, such as agencies and commission services, as well as professional lines, and other occupations where most of the equipment is of a purely personal or indefinite character. Again, conditions very greatly vary among these, and even in the same line as between different conditions of trade and prosperity. In consequence, the general property tax is commonly found to be one of the most difficult to properly assess and one of the most inequitable in its operation and incidence. The result has been that in most enlightened communities this tax has been quite discarded, and some form of income tax substituted for it, the real question being, not how much physical property one owns, but what income is derived from it. The Canadian Provinces were fortunate in having discarded this tax even before Confederation. Though firmly entrenched, from long custom and habit, in the majority of the States of the American Union, down to the beginning of this century, the investigations, discussions and educational efforts of the National Tax Association of the United States have resulted in the very general discarding of this very clumsy and unequal form of taxation.

### **Special Taxes on the Consumption of Liquors and Tobacco and Automobiles Advised**

51. Certain special and specific taxes levied on the possession or consumption of various forms of complete or very general luxuries, such as taxes on the consumption of liquors and tobaccos, the frequenting of places of amusement, or the rapidly extending use of automobiles, involving greatly increased outlays on roads and streets, are legitimate bases for raising revenues, depending so largely as they do on purely voluntary outlays. Being, however, for the most part, voluntary, and applying to very special features of economic life, they do not constitute the chief permanent grounds of taxation, which affect the vital economic interests of the citizens who bear the chief fiscal burdens of the community.

52. If the City of Victoria is permitted to adopt a sufficiently broad basis of taxation, the possibility of recovery from its present financial embarrass-

ment is assured. In the meantime the chief requisite is to restore as far as possible the complete collection of the annual tax levy. As has been indicated nothing is really gained by attempts to reduce the arrears of taxation by general land sales. This results in only an apparent reduction of arrears, by rendering the City the chief defaulter, instead of the previous owners. It must also tend to a further reduction in the collection of taxes for the current year. In other words, those who cannot pay both the current taxes and their arrears will attempt to pay the arrears to save their property for the time being, and leave the current taxes unpaid until at least they become delinquent.

53. Those who can pay neither arrears nor current taxes must of course lose their property, and as most of it is acquired by the City, both the arrears and the current taxes still remain unpaid. But the loss to the City does not end there, because it is forced to pay interest on borrowed money to take the place of the unpaid taxes, while the other charges are also rolling up against the property. If, therefore, simply the annual interest charges could be collected from the owners, and if also the current taxes could be collected, it would be much more profitable for the City to allow the land to remain in the hands of the owners until there was some considerable recovery in the real estate market. This would occur in accordance with the general improvement in the economic condition of the country as a whole, which is certain to result in the future as in the past, present symptoms being quite in harmony with those of previous periods. Nothing, however, will more effectively prevent such recovery, in any given City, than the surfeiting of a weak real estate market with annual civic tax sales, with the permanent menace in the future of millions of land and property in the possession of the City awaiting the first symptoms of a revival in the real estate market. It is true that in the Victoria Relief Act of 1918, an extension of time was granted to those who wished to avail themselves of it for the payment of the arrears of taxes which had accumulated up to that time. The conditions were that the arrears should be consolidated into a single amount, the payment of which was to be extended over ten years in ten annual instalments, together with an annual charge of 6 per cent. on the unpaid balance. These instalments, however, had to be met in addition to the annual tax levy and the proportion of local improvement rates. Had the brief post-war boom continued, the comparatively slight relief which this plan afforded might have enabled most of those who took advantage of it to recover their property. But this was impossible for those whose taxes had fallen into arrears, not because tax collection had been remiss, but because they were beyond the capacity of their incomes from other sources than land. The continued fall in the real estate market and the general economic reaction in 1920 caused the burden, even in its modified form, to be too heavy for many of them. Hence the annual instalments on the consolidated arrears have, to a certain extent, been falling into arrears again, thus increasing the City's financial embarrassment and augmenting the tax sales with their unfortunate results.



54. It is worth while considering just what has been the actual result for the City and the citizens of the operation of the tax sales up to the present. It appears that the tax sale of 1915 was a very partial one. The property taken over by the City and still held in 1915, amounted to only \$11,291. The property taken over by the City at the tax sale of 1919, covering the arrears from 1915 to 1917, amounted to \$733,552.54. The assessed value of this was apparently about double that amount, taking the portions given by the City Land Commissioner.

55. According to the report of the City Comptroller in 1920, of the amount which came into the possession of the City in 1919, sales had been made up to December, 1920, to the extent of \$128,050 of assessed value, the amount received for which was \$45,620.87, or 35.63 per cent. of the assessed value. If, therefore, the selling price of land disposed of by the City was about 35½ per cent. of its assessed value, while the whole amount taken over was 50 per cent. of its full value, every portion sold at the lower percentage must leave the prices to be realized by the remainder at a steadily increasing proportion above 50 per cent. of the assessed value, in order to realize that amount on the average. In other words, whether at the tax sales or in the case of the sales made after the property passes into the hands of the City, the cream of the property is being disposed of, and the losses to be incurred by the City with the final disposal of the properties left on its hands, will involve an increasingly serious deficit.

#### **Tax Sales Inadvisable**

56. If we take the results of the tax sales for 1920 and 1921 we shall see how this is working out. Taking the City Comptroller's report for 1920, we find that, of the \$733,552 worth of lots taken over in 1919, the City still retained \$697 188 worth. These figures, however, represent not the assessed value, but simply the City's claims against them. At the tax sale of 1920 the amount which passed to the public, the assessed value of which was \$321,800, brought only \$80,213, or virtually 25 per cent. (24.92 to be exact) of the assessed value, instead of 35½ for what was disposed of from the 1919 properties. The City was thus forced to take over the remaining amount at \$2,663,270 of assessed value, for claims amounting to \$1,100,296, an average of only 41.3 per cent., showing at how much lower a claim basis the City is forced to take over the land in order to protect its rights. And yet the margin between the City's average claim percentage and the market prices of the real estate sold for taxes has increased from below 15 per cent. to 16.3 per cent.

57. Coming to the report of the City Comptroller for 1921, we find that, of the amount of real estate taken over in 1920, lands, representing the City's claims to the extent of \$181 888, had been either redeemed or sold, leaving a total amount in the possession of the City of \$1,608,574 of claims. During that year, at the tax sale in October, the City had to take over further properties whose assessed value amounted to \$1,491,170. Yet at the tax sale in October property to the assessed value of \$391,880 had been sold to

the public for \$43,255, representing a percentage of only 11.3 of the assessed value. To protect itself the City had taken over properties of the assessed value of \$1,491,170, representing claims amounting to only \$325,558, or 21.83 per cent., which is still a margin of 10 per cent., or nearly double the market price.

58. As the matter stands at present, then, according to the report of the Comptroller for 1921, the City now actually owns property taken over for claims amounting to \$1,608,574, and a further amount taken over at the last tax sale, representing claims of \$322,278, some of which, however, may be redeemed before passing completely into the hands of the City at the close of the current year. These amounts total \$1,930,853, which thus represent not assessed value but claims of the City against the property.

59. As the greater part of the property held at \$1,608,574 represents 41.3 per cent. of the assessed value of the property, we may safely assume the whole to represent 45 per cent. of the assessed value of the property. Thus the assessed value of the \$1,608,574 of property held under City claims would amount to \$3,574,609, and the assessed value of that taken over last October, as given in the report of 1921, is \$1,491,466, which gives the total assessed value of the property held by the City as \$5,066,075. As the great majority of this property is land, it may be safely taken that, on the basis of the City's assessment of land of the previous year at \$45,230,886, that portion taken over by the City for taxes, as well as that still held by it, amounts to practically 10 per cent. of the assessment valuation of the City. As this is not paying taxes it is quite obvious that the City tax rate must be increased in like proportion without any extra revenue being derived by the City.

60. Notwithstanding the properties taken over for tax arrears, and representing such arrears to the extent of \$1,930,853, new tax arrears are accumulating every year, owing to the burden of the single land tax and the raising of the rates. The arrears for 1921 amounted to \$1,616,628, made up as follows, according to a special statement furnished by the City Treasurer:—

	1920	1921	Total
General taxes .....	\$156,804.32	\$234,045.00	\$390,849.32
Local improvement arrears .....	188,856.69	88,529.00	277,386.00
	<hr/>	<hr/>	<hr/>
Total.....	\$345,661.01	\$322,574.00	\$668,235.32
Remainder of the consolidated arrears, as payable in annual instalments .....			948,393.00
			<hr/>
			\$1,616,628.32
Add to this, property already held by the City for tax arrears			1,930,853.00
			<hr/>
			\$3,547,481.32

61. The lands charged with arrears of 1920, amounting to \$345,661, will be sold for taxes in the autumn of this year, 1922.

62. The total amount of arrears consolidated under the Act of 1918 amounted to \$1,622,839. Those who were apparently able to pay their arrears, but had allowed them to accumulate during the war, instead of extending their payments over 10 years at 6 per cent. interest, commuted their payments to the extent of \$148,675. There is also to be deducted \$67,095, representing lands taken over by the City at tax sales. The amount paid in of the annual instalments amounts to \$446,327.39, allowing \$1,118.40 for refunds on tax sale cancellations. There remains \$948,393 still to be paid in at the end of 1921. Of this amount, however, a considerable sum has already fallen into arrears to the extent of \$186,388.61. The usual notice has been sent to the owners of the lots on which these arrears have accumulated, that unless they are paid up before the end of September the lots will be added to those in arrears for current or local improvement taxes to be sold at that time.

63. The number of lots in arrears for taxes at the present time amounts to 7,724, made up as follows:—

Number of lots in arrears for taxes of 1920.....	1,672
Number of lots in arrears for taxes of 1921.....	3,481
From consolidated arrears up to 1921.....	2,571
	7,724
Total .....	7,724

64. Of these, the first and last numbers, or 4,243 lots, are liable to come up for tax sale in 1922. In the earlier tax sales the number of lots involved, in proportion to the amount of tax arrears, was much smaller. Up to 1920, representing the tax arrears to 1918, the number of lots taken over by the City amounted to 673, and the arrears of taxes on these amounted to \$859,371. This would indicate that the larger and more valuable properties were being sacrificed in the earlier period, while the number of citizens affected was comparatively small. Now, however, the number of lots in proportion to the total arrears is rapidly increasing, indicating that the smaller individual holders are being affected and as their incomes and funds from other sources than land are becoming exhausted, they must see their property sacrificed.

65. From such a brief survey of the effects of forced tax sales on a restricted basis of taxation, during a period of declining land values and general business depression, it is evident that the results are disastrous to the City as well as to the citizens. It increasingly reduces the basis of income for the City, and even with the utmost economy, must increase the tax rate and burden on the property. One striking feature, as we have seen, is the steadily declining amount of tax arrears, in proportion to the assessed value of the property, which is sufficient to force increasing numbers of citizens to sacrifice their property at the annual tax sales. For the same reason, a very small percentage of arrears, in proportion to assessment, renders it necessary for the City to buy in properties on account of the steadily declining market rate for real estate. The very scarcity of funds which

renders it necessary for many holders to sacrifice their properties, renders it difficult to find others who can purchase the property. Even those with sufficient capital to invest in lands, are deterred from buying real estate at the tax sales because of the vanishing prospect of selling it again at any profit, especially in view of the perpetual glutting and depreciation of the real estate market by the ever recurring tax sales. Moreover, the property, when purchased, has to bear not only the general and increasing tax burden, but must bear it, not on the market value of the property, but on a highly inflated assessment value, amounting in 1921 to nine times the market value of the property as purchased.

66. Obviously the system of indiscriminately enforcing tax sales on a falling market has been of much injury to the financial prospects of the City as a Corporation, while, as indicated, the taking over by the City of the lots whose taxes are in arrears, and the removal of them from the non-taxpaying list, does not materially reduce the percentage of unpaid taxes, so rapidly do the new arrears of taxes develop. It would appear that the only efficient method of reducing the arrears of taxation in that line of policy would be to take over the land of all those who have not unlimited wealth in other forms with which to pay their land taxes. Plainly, some other method must be devised for dealing with the steadily increasing arrears of taxation.

### **Reverted Land Policy**

67. First, as to the reverted lands now in the possession of the City. Unfortunately those lands taken for arrears of taxation, which would most naturally respond to a more practical line of treatment, are just those which have passed beyond the control of both the owners and the City Council. These are the lands against which the most moderate arrears of taxes had accumulated, and are almost the only lands which were sold at the tax sales. The next most desirable were disposed of by the City at private sales, leaving those which are most difficult of redemption, owing to the large claims against them or the less desirable for other reasons, in the hands of the City, and which are now those chiefly available for treatment by any other method. Still, a considerable portion of them may be saved from complete capital loss to the owners and complete revenue loss to the City.

68. As we have seen, the plan adopted in 1918 for consolidating the arrears of taxes and permitting the owners of the land to pay them off, with interest in ten annual instalments, has worked not too badly in the case of those who had other sources from which to make the annual payments and redeem the lands within the time specified, or to commute the annual instalments in one payment. It is evident, however, that the prolonged stagnation of land values and the continued further depreciation of them by extensive tax sales are practically exhausting the other resources of the owners of these lands, thus developing further arrears in their regular annual taxes and new arrears on the consolidated annual payments, with the recurrence of the same troubles.

### Postponement of Taxes

69. If the option had been permitted, in such cases, of postponing the payment of the capital sum of the consolidation until the revival of at least some moderate prosperity, on condition simply of meeting the interest charges of the City and the annual tax levy, on a more equitable basis of taxation, the result would undoubtedly be more to the advantage of the City in the long run. It would have prevented most of the second reversion of the lands to the City, with the loss of both the ordinary annual tax and the expenses of carrying the land. In proposing, therefore, a new remedial measure along similar lines it will be necessary to avoid these mistakes. The chief object which must be kept in view in any new proposals must be to encourage the owners, whose properties have reverted to the City for tax arrears, to resume them and thus render them once more tributary to the annual revenue, and to prevent others from falling into arrears and reverting to the City, while at the same time preventing the City from incurring additional expense in carrying the whole load of tax arrears.

70. In the first place, much of the original burden of taxation, once the enormous expenditure which gave rise to it was incurred, was rendered unduly oppressive by the shortness of the period—ten years—within which the whole of the outlay for local improvements was to be repaid. The burden was the more oppressive, inasmuch as the period of ten years coincided with the war period, including the present reaction after the brief peace boom. Most of the local improvements which were the occasion of these heavy outlays, if reasonably kept in surface repair, will not require to be renewed for another 20 to 30 or even 35 years. Hence, where any special end is to be served, such as that of relieving the financial embarrassment of the City, the time during which the remaining payments or the accumulated arrears are to be met may well be extended. The period of extension should not be too long to fall well within the assured life of these improvements, and yet sufficiently long to cover the return to a normal condition of prosperity and restored land values. In the meantime, every encouragement should be given to those who are able to meet in full the annual general taxes and their due proportion of the capital sum and interest for local improvements. The others also should be encouraged to pay off as soon as possible the capital sum and interest on previous arrears of taxes.

71. On the other hand, where there is actual necessity for it, the payment of the capital sums for local improvements and arrears of taxes should not be insisted upon at any special periods, provided the interest charges, which the City has to meet in carrying these arrears are duly paid, as well as the current annual taxes of the City. If this can be secured for the greater portion of the properties which have fallen into arrears in the past, and additional properties prevented from falling into arrears in the future, matters will have been so far stabilized that the City may avoid an increase of civic debt, and thus be in a position to await the assured future recovery of values without the risk of a serious crisis in the interval.

### Plan Suggested

72. To accomplish this it is recommended that the City should undertake the issue of serial debentures for 15 years to cover such capitalized amount of tax arrears as may be called for under the following conditions:—

(a) In the case of lots, with or without improvements, which have passed into the possession of the City through tax sales, and were not redeemed within the period of one year thereafter, and are still in the possession of the City, the owners at the time of the tax sale should be permitted to resume the property, on condition that the owners shall pay the annual interest charges on the capitalized amount of the arrears of taxes and of the annual instalments prescribed for local improvements, as also the future annual tax levies on the property.

(b) In the case of the lands, with or without improvements, which are at present in arrears for general taxes or local improvement instalments for 1921, and which have not yet passed into the permanent possession of the City, the owners may avail themselves of the foregoing conditions for capitalizing such arrears of taxes and local improvement charges, under the same conditions as to payment of interest on the capitalized amount and the payment of the regular annual taxes for each successive year.

(c) Any proportion of the capitalized amount of the tax arrears may be paid over to the City at any time or times within the period of 15 years from the legal adoption of this arrangement, but the whole of the capitalized tax arrears then remaining unpaid shall become due and payable at the end of the said period of 15 years.

(d) Inasmuch as the arrears of taxes and other charges, which led to the forced sales of properties, consisted very largely in arrears of the annual instalments for local improvements and as the attempt was made to collect the whole cost of the local improvements in too short a period, it is recommended that, not only should the opportunity be given to extend the period for the payment of the tax arrears to 15 years, but, if required by the owners, the remaining amount due for local improvements should be likewise extended over the same period of 15 years from the time of adopting the general plan.

73. The object of the last recommendation is to prevent a second reversion of the property, due to the remaining instalments on the original 10-year plan proving to be too heavy to be met before the period of financial stringency has passed. Naturally, those who can afford to continue the payment of the original instalments will not take advantage of this privilege, as it would not be profitable to incur the extra interest charges required to extend the period of payment.

74. While the plan here proposed should encourage the resumption of many at least, if not the majority of the lots, which have passed into the hands of the City, it must be frankly recognized that, under both past and present conditions it will not remedy all the unfortunate consequences which have resulted from the mistakes and misfortunes of the past.

75. As already indicated, those portions of the real estate which were brought to public sale for arrears of taxes, and disposed of either at the tax sale or after passing into the possession of the City, were just the properties which would have been most readily resumed by the owners and the most certain to have afforded them in time a margin of return over and above the tax claims, when the real estate market had reverted to more normal conditions under returning prosperity. But these having been disposed of beyond recall, what remains to be resumed by the original owners, however desirable much of it may be either in itself or for its prospective value, is not so attractive at present from a pecuniary point of view, on account of the heavy charges against it for general taxes and local improvements. Still, much of this, though not at present readily saleable, will undoubtedly prove to be quite valuable property at a later period, if only the owners are enabled to retain it without heavy capital outlay in the immediate present to meet the accumulated arrears of taxation and local improvement charges.

#### **Accumulation of Taxes Too Great for Redemption**

76. There are many cases, however, as is evident from a survey of the detailed records in the City Treasurer's Office, of arrears which have accumulated against individual properties, in which the amount of the arrears is so great that neither the original owners nor any prospective purchasers would be willing to take over the property on condition of assuming these obligations in addition to the annual interest charges and annual tax levy, no matter how long was the period allowed within which to pay the capital sum represented by the arrears. Such properties, therefore, will undoubtedly remain in the possession of the City, while the annual interest charges and annual taxes, and the additional instalments for local improvements will continue to be lost to the City Treasury. These losses will far more than annul any future recovery in land values, short of another highly speculative boom, which cannot be definitely reckoned upon.

77. It is quite obvious that a considerable proportion of the property at present held by the City as the result of tax sales, whether disposed of at present or in the future, must involve very serious losses for the City. It is a very practical question, therefore, as to what policy the City should adopt with a view to bringing back to an interest and tax-paying basis those lands against which such heavy arrears stand that there is no prospect of their resumption by the former owners, or their sale to others.

#### **Local Improvement Commissioners' Work Well Done**

78. In the case of the extravagant charges incurred in the widening of City streets, and in the case of the heavy payments required on account of local improvements, Commissioners were appointed to revise these charges. Their duty was performed very efficiently and intelligently. As the result of their sound recommendations the City has had to assume practically the whole of the cost of the street widening, as well as a very substantial reduction made in the annual charges for local improvements. In the case of

the local improvements, the proportion charged to the adjoining properties was exceptionally high, as compared with the proportion charged in Eastern Municipalities, where long experience has developed a fair and equitable basis as between the City and the owners of adjoining properties. Exceptional cases, it is true, require exceptional treatment, but the prevailing Eastern proportion as, for instance, in the City of Ottawa, is that of three-fifths for the owners and two-fifths for the City. In the case of Victoria, as with several other Western Cities, the proportion charged to the original owners of the property, especially during the boom period, when the greater part of the expenditures in question were incurred, was very much higher. Down to 1909, the division of local improvement outlays between the property owners and the City was about two-thirds for the owners and one-third for the City. In 1914 the amount of local improvement borrowings had amounted to \$5,933 318, of which the share of the City was \$1,350,805, and that of the property owners was \$4,582,513, or 77.2 per cent. of a very exceptionally large outlay. In some of the most heavily burdened portions of the City, so anxious were the speculative subdividers to get their attractively improved property on the market, that they were quite willing to saddle their prospective customers with the whole cost of the local improvements, the amount of which was not revealed to the new owners until some considerable time after the lots had passed into their possession. The civic authorities, on their part, some of them being considerably interested in the sale of the newly improved properties, had little hesitation in incurring very heavy obligations, the repayment of which, it was claimed, would not fall upon the City, which was acting merely as agent of the property owners in expending the money and collecting from individual owners their assigned proportions. Had the City, in these cases, borne its proper share of the local improvements, it is safe to say that they would not have been so rashly undertaken, and the greater part of the present financial embarrassment, involving both the City and the new land owners, would probably have been avoided because the local improvement obligations are those which obviously forced so many lots into heavy arrears, so heavy, indeed, as to bring them to the tax sales, and through them into the possession of the City.

79. In looking over the lists of these properties in the records of the City Treasurer, it was very obvious that the local improvement arrears, with their accumulated interest charges, far exceeded the ordinary tax arrears with their charges. It was further observed that after the readjustment recommended by the special Commissioners, the situation had become quite tolerable. Since, however, these reductions had not been applicable to the previous local improvement charges, these arrears in full still standing against the properties, their redemption or sale was rendered very improbable.

80. This is the chief difficulty which will deter so many of the previous owners of the lots which have passed into the possession of the City from taking advantage of the new proposals to redeem their property and bring



it back to a taxpaying and interest-bearing basis. As in the great majority of such properties, these difficulties are not likely to be relieved in the course of time, for, as already observed, the prospective rise in land values, in harmony with other values, is very unlikely to be equivalent to the loss of the yearly tax and interest charges which are accumulating in the meantime. I am, therefore constrained to suggest that this matter should be seriously considered by the Mayor and Council with a view to a further revision, by the same or similar Commissioners, of the heavy arrears of local improvement instalments, with a view to their reduction to such limits as will permit of the resumption of the lands by the former owners, or their sale to other parties, and thus bring to an end the accumulating losses which are at present facing the City Treasury through augmenting charges and loss of revenue.

81. In a great many of these cases it is not a question of **possible** loss to the City; it is simply a matter of fact that heavy losses are at present taking place. They are disguised from both the civic authorities and the people at large by the entry of all the arrears, but without interest charges, up to the time of their passing into the hands of the City at the tax sales, as assets of the City at their full face value. As such they are set over against the liabilities of the City, of whose full face value there is no question. After the property passes into the possession of the City, the City accounting completely ignores both the previous interest charges and the annual accumulating losses.

82. These, then, are some of the actual conditions which, if not effectively dealt with, must prevent the success of the proposed plan for bringing as much as possible of the City's reverted and still reverting lands back into the position of living assets, self-sustaining as regards a reasonable proportion of their past obligations, and revenue producing as regards the civic taxation.

#### **Past Mistakes Largely Prevent Re-assumption of Properties**

83. In tracing the consequences of past mistakes in the conduct of the City's finances, one is necessarily confronted with the continuing effects of some of these mistakes and their consequences, especially during the depression in land values. Thus we find that, though the owners of the majority of the City land and properties have managed to meet the difficulties of the past yet a large aggregate amount of arrears continues to be developed in the case of new properties. These almost maintain the same total percentage of unpaid taxes, notwithstanding the prompt annual removal to the civic tax morgue of the properties in arrears the previous year.

84. One of the conditions which seems to have prevented so many persons from retaining their lands at the time of the tax sales, or during the year of grace allowed thereafter, is that which requires the whole of the purchase money to be paid at the time of the sale or redemption. Thus, whether present owners or prospective purchasers, only those who have command of ready money can take advantage of the opportunities afforded. Under

these conditions, and considering the increasing stringency of the money market for the past two years, one is not surprised to find the steadily lowering values to which properties must sink before they find purchasers at the tax sales. The fall to 25 per cent. of the assessed value of the properties sold in 1920 was continued to 11.3 per cent. in 1921. On the other hand, the prices realized by the City at private sales of the property taken over showed a higher proportion. But in the latter cases we find that only 25 per cent. of the purchase price is required to be paid at once, while the payment of the remainder is extended over five years. Doubtless the object of this difference in treatment is to prevent the taxpayers who are able to pay from taking advantage of such an opportunity to prolong their payments. But so far as there are taxpayers so inclined, it is not a profitable transaction for a person with money, as the interest on the remaining instalments quite dispose of the profit. Even if it were desirable, for other reasons, to secure time for payment, it is only necessary to accomplish the return of the property to the original owner at two steps instead of one, by allowing it to pass to the City at the tax sale and then purchasing from the City at private sale.

#### Tax Sale Costs

L. R. O. ....	\$2,303.12
Labor .....	998.30
Stamps .....	305.00
Sundries .....	375.33
	\$3,981.75

#### Concessions to Delinquent Taxpayers Suggested But Not Specified

85. In any case, however, where it is so very desirable for the civic finances that a continual reversion of property to the possession of the City should be checked, and if possible entirely prevented, it is surely expedient to grant to the original owners at least a similar concession to that allowed to others, who may indeed be acting for either the original owners or for themselves. In 1921, according to the Comptroller's report for that year, it cost the City \$5,000 to conduct the tax sale, and the proceeds of the sale amounted to \$45,000. Even the initial cost, therefore, was one-ninth of the proceeds, and the subsequent cost in loss of revenue and accumulating charges will be an indefinitely large amount. It is evident that the tax sale, which is commonly an effective instrument in municipalities where the market values for real estate are at least equal to assessed values and will invariably bring more than any ordinary tax arrears, yet, under the conditions which at present prevail in Victoria and other Western municipalities, is almost as disastrous for the City treasury as it is for the private citizen's purse. At the same time, it must be admitted that, to provide in advance for concessions to prospective tax arrears seems to invite a general non-payment of taxes. The concessions, therefore, must be of such a nature as to render it distinctly unprofitable for those who can possibly pay their taxes to avoid

or postpone doing so. For this reason the claims of the City for arrears must be reduced to their lowest reasonable terms, and then rendered sufficiently unprofitable to carry as to induce the owners to keep up the payment of the current taxes and redeem the arrears as soon as possible. In the meantime, while the property is not readily saleable, it is much more profitable to the civic treasury to have the owner in possession of it than the City. The problem, it is granted, is beset with difficulties whatever temporary solution is proposed; and, therefore, inevitably the choice lies between evils. But the evils which result from general tax sales are greater, in both their immediate and ultimate effects, than those which are likely to result from such concessions as will encourage the private owners to hold the properties until either they are able to recover, or other private parties can be found to take their places and redeem the obligations against the property. In addition, therefore, to the recommendation made with reference to the treatment of lands which have actually reverted to the City, either temporarily or permanently, on account of arrears of taxes and local improvement charges the above counsel is offered, with the object of preventing, as far as possible, future reversions of property, while the present depression in land values prevails.

#### Monthly Payment of Taxes Recommended

86. Another closely allied aspect of this complex situation presents itself and gives rise to a further recommendation as to the process of collecting the taxes. We have already seen that the **number** of lots falling into arrears is steadily increasing in proportion to the aggregate amount of arrears. The detailed returns, in the hands of the City Treasurer, of the lots in arrears for the past year, 1921, show long lists of properties ranging in assessed values from \$250 to \$600 or \$800. Most of those in this class, which were purchased at the last tax sale, realized not more than one-fifth to one-eighth of the assessed value. Taking 15 properties in succession on the lists of the City Treasurer, each assessed at \$300 or less, which had been purchased at the tax sale of 1921, it is found that their total assessed value amounted to \$3,960, while the total sale price was \$578, or 14.6 per cent. of the assessed value. In the case of 13 out of the 15 properties, the tax arrears against them ranged from \$32 to \$42, the other two having arrears of \$49.00 and \$64.00. As these are typical of hundreds of other cases, it is rather obvious that they were possessed by citizens of very moderate incomes, who found that when they had to raise this amount at one, or at best two periods in the year, they could not manage to do so. Had the collection of these very moderate amounts been extended over twelve monthly payments, ranging in the thirteen cases referred to from \$2.67 to \$3.50 per month, they would probably have been paid without any great trouble. That the owners would at least have been anxious to pay the taxes, may be safely inferred from the fact that they had paid them for years past, and in finally sacrificing the properties they were losing, not only the original price of them, but all that they had previously paid in annual taxes, and possibly in improvement assessments.

87. As a means, therefore, of probably saving hundreds of lots from further sacrifice at tax sales, and as a means of encouraging the resumption of lots already sacrificed but still in the City's possession, it is recommended that in future the City taxes be declared due and payable at the beginning of the fiscal year, but that the taxpayers may pay their taxes monthly through the fiscal year, without any extra charges. Those for whom it is chiefly a matter of personal convenience as to when they pay their taxes in full, will probably continue to discharge them at one payment at the beginning of the fiscal year. The general body of the citizens, however, will undoubtedly prefer the payment of their taxes as a monthly charge, to be taken into account with their other monthly or weekly charges, and as having a prior claim upon their incomes to all other charges which are not equally urgent or vital. The importance of the municipal tax as regards the daily life of the citizen, will be correspondingly emphasized and his interest in civic affairs and their economical administration should be greatly stimulated by the constant recurrence of the civic payment. The tax demand will no longer present itself as an annual nightmare of such proportions as to render it doubtful of liquidation from an already depleted revenue, and therefore threatening, and in some cases finally accomplishing the sacrifice of the property.

88. The change from an annual to a semi-annual tax collection has been adopted in many Eastern municipalities, and in the more populous districts of London, England, a recent reduction to quarterly payments has been effected, with most beneficial and acceptable results. The public utility corporations also, such as those supplying gas, electricity, telephone service, etc., have been gradually increasing the number of payments, until practically all of those in the East have adopted monthly collections, with entirely beneficial results as to facility for payment and consequent maximum collection of revenue.

89. In addition to an undoubted improvement in the payment of taxes, and consequent prevention of the accumulation of arrears, such an arrangement would practically abolish the very onerous system of borrowing from the bank to meet current expenditures, pending the collection of taxes at the end of the year. For the past year the interest charges on these revenue advances from the bank, amounted to \$59,196. Very little of this saving would be required to provide any extra clerical assistance in the monthly collection of the taxes. Already the City of Victoria has adopted this method in the collection of water rates, although in most Eastern municipalities the water rates are collected at the same period, or periods, as the general taxes. The Victoria civic authorities, I am sure, would not advocate, as a more efficient method for the collection of these rates, a return to the annual payment for water supplies.

#### **Change in Period of Fiscal Year Recommended**

90. In order to render practicable the system of collecting civic taxes in monthly instalments, and to accomplish other improvements in the admin-

istration of the City's affairs, a change in the period of the fiscal year is also recommended. It is quite obvious, in most municipalities, that where, as has been the prevailing custom in the past, the financial year of the municipalities is made to coincide exactly with the annual aldermanic term of office, the result is that, especially where a considerable proportion of the Council consists of new members, one or two months are consumed in preliminary discussions, some of which are very useful and informing, but much of it more or less futile, and all of it time-consuming. In the meantime, before financial provision is actually made for the expenses of the current year, the civic expenditures are being met on the basis of the estimates and provisions of the past year, and which cannot be materially disturbed when the budget for the current year is actually prepared and passed, in, say, the third month of the year. Now, it would be much better to frankly recognize this practically unavoidable situation, namely that the expenditure of, say, the first three months of the year must be conditioned by the arrangements made and the processes in operation in the previous year. Under a reasonable change of the fiscal year, the Mayor and Council would be in a position to discuss more intelligently the actual requirements of the City for three-quarters of the current calendar year and one-quarter of the following year. It is much better that the new Council should determine the financial policy and the revenue provisions for it, for a whole year rather than for only three-quarters of a year. In any case, of course, if special or unforeseen circumstances arose to justify a modification of the normal arrangements for the fiscal year, such changes can be effected by the Council which adopted the budget and fixed the rate of taxation, as also by the succeeding Council for the first three months of their term.

91. It is only necessary to draw attention, in passing, to the fact that when changes take place in the Provincial or Dominion Legislatures after an election, the budgets passed by the outgoing Governments continue to operate until the new Government have determined their policy and embodied it in a new budget. The same takes place from year to year where no immediate change in the personnel of the House, or of the Government, occurs. The preparation of a budget which would not come into operation, either in the collection or expenditure of revenue, until it is fully considered and definitely adopted, has advantages from almost every point of view; but especially from the point of view of the collection and expenditure of the revenue. Among other advantages, it permits of the operation of the proposed plan of declaring the taxes due and payable at the beginning of the fiscal year for which the Council has to provide. It also permits of the collection of the taxes monthly, thus providing, as indicated for the current expenditures throughout the fiscal year and avoiding the heavy expenses of bank borrowings.

92. It may be of some interest to know that, since developing this proposal in connection with the situation in Victoria and which is of general interest to all municipalities, a somewhat similar proposition has been made in the Legislature of Ontario, to meet increasing difficulties in the present

system, and it is likely to be more fully considered at the next Session of the Legislature.

93. It is probable, in view of the practical conditions involved, that to fix the beginning of the fiscal year with the month of April would be most convenient for all requirements. The only difficulty which has been suggested is in connection with the preparation and sending out of tax bills, in order to provide for the collection of the first instalment of taxes. This difficulty, so far as it exists, is incidental to the present system of semi-annual collections in May and November in most of the cities of Ontario. In Ottawa I find no special difficulty is experienced in getting out the tax notices within a short period. Everything possible is prepared in advance, and then an extra staff of young women is employed for the mechanical work of filling out and mailing the lists.

### Annual Finance Report

94. In dealing with the question of the municipal budget, several additional observations seem to be called for in connection with the civic finances. The method of preparing and presenting the annual finance reports to the City evidently admits of very great improvement, especially from the point of view of a proper accounting system. The presentation of the chief economic or financial features, or the setting out of the City's affairs, should be in such form, and with such essential explanations as to be understood by the ordinary intelligent citizen endeavoring to get a clear view of the revenue and expenditure of the City with its ultimate resources and liabilities.

95. It is observable that the City Auditor in his report for 1920, made numerous criticisms as to the conditions of the books and accounts of the Corporation. He did not furnish any details or clarify the situation to any great extent while he attributes to overwork, in dealing with the details of the office, the inability he had experienced in getting the information which he desired. This may account for the very vague reference he makes to the defects of the system of keeping the records and presenting the results. It must be admitted that very little light is thrown on the situation and very indefinite suggestions made as to future improvements. It is understood that the auditor had in course of preparation a number of more or less detailed recommendations for the improvement of the system of accounting and of the presentation of the results. Unfortunately, however, he died before this task could be completed, and the new auditors, not having had an opportunity to investigate the system in detail, present a frankly non-committal, very brief, and very general report for the year 1921.

96. It was not of course possible, during the brief period at my disposal, to go very fully into the accounting system which prevails at the City Hall, and I do not propose to make an auditor's report on the City's finances. Judging, however, from the reports as presented by the Comptroller's Department, and presumed to be for the general information of the public, I cannot but agree, in substance, with the statement of the previous auditor, Mr. J. S. Floyd, that "the system of accountancy in force is not in accord

with the present-day requirements, is unnecessarily intricate, and does not really reveal the financial standing of the Corporation at all times."

### Accounting Methods

97. As I understand an adequate system of accountancy, as distinguished from a mere system of book-keeping, it consists in such an arrangement of the facts or raw material presented by a proper system of book-keeping, as will afford not only the essential facts connected with the City's finances, but such an explanation of them, and, where necessary, of their connection with the other facts and conditions of the civic revenue and expenditure, investments, resources, and liabilities as will afford a clear understanding as to what disposal was made, alike of the capital sums borrowed by the City, and of the annual revenues raised by it. There must be also an account from year to year of the subsequent fate of the capital investments, the amount of annual revenue absorbed by them for maintenance, extension, or renewal; also a clear account of the annual expenditure, the nature and extent of the obligations discharged, and how they are related to, or share in the expenditure or returns from other civic enterprises and services. It involves also such an account of public utilities, as water works, electric light and power, street cleaning or lighting, etc., where charges for these services are made independently of the tax levies, as will show clearly how far these charges meet the interest on the capital outlay, the annual expenditures for operation, and allowances for depreciation or renewal. It involves, in fact, a clear statement, capable of being understood by the average intelligent citizen, of the amounts and sources of the civic revenue and borrowings, and with an account of the services on which these are expended. Where these services are rendered indirectly through capitalized expenditure, as on streets, public buildings such as schools, equipment such as fire engines, or public utilities producing a partial revenue, such as water works, it should be shown how much of the capital expenditure is being lost or depreciated in the process of service, and how far the capital invested in it is being returned with the actual, not theoretical, life of the plant, and thus how far the capital debt invested is disposed of before further debt is incurred to take its place, etc. Such accounting would furnish what is essential to a knowledge of how the civic business is being administered and what the citizens are getting for the revenue they contribute and the obligations which they assume.

98. Judged from this point of view, the information furnished in the annual reports of Victoria is very inadequately presented, and though all of it may be accurate enough in the individual items, yet the terms under which they are presented are not clear and definite, but leave one in doubt both as to the range and content of the terms. In many cases also, the statements are only fragmentary, and one is left in doubt as to where the complimentary facts may be found, or whether they can be found at all; and yet without them little knowledge is conveyed.

99. Nothing is more easily presented in a shape to be thoroughly understood than the nature and condition of the sinking funds which are provided

to meet the bonded indebtedness as it falls due. Yet one need only mention the excitement and confusion when it was discovered that these funds were seriously in arrears, and had been going behind steadily for some years past. The actual book-keeping of the Treasury Department was not at fault. There had been no falsifying of the accounts and no dishonesty on the part of the officials; and yet there had been a wholly illegal diversion of funds in a fairly open manner, as far as the primary record was concerned. The public accounting, however, for proper presentation of the civic affairs to the citizens, was so inadequate and unenlightening that the general mass of the citizens appear to have been quite unconscious of the actual state of affairs in one of the simplest features of municipal accounting. One can understand, therefore, how hopelessly the citizens were at sea in the comprehension of matters which required clear and exact presentation, and adequate explanation of the numerous correlated facts, to bring out many of the most essential, though not obvious, features of civic finance.

100. It is probably quite true that scarcely one citizen in a hundred takes the trouble to examine carefully the City's annual reports. A still smaller proportion make any serious effort to discover from the statements contained in the report, what is the actual financial condition of the City or of any of its special services. The indifference of individual citizens to their collective interests is, of course, the chief weakness of democracy. But this is only another imperative reason why the small minority, who are willing to take the trouble of acquainting themselves with the City's affairs, should be encouraged to do so, by finding that the official reports afford them the necessary information and explanations to gain an intelligent understanding of the City's activities and financial condition.

101. It must be admitted, that much of the misleading presentation of civic details is due, not so much to special defects in the accounting systems of individual municipalities, as to a highly artificial and conventionalized system of reputed accounting, which prevails in municipal financial statements in general. In special cases, what may be a perfectly legitimate presentation of certain facts regarding Eastern municipalities, becomes a very inaccurate and misleading statement in the case of many Western municipalities, including Victoria.

#### **Arrears of Taxes**

102. If, for instance, we take the first table in the last annual report of Victoria, 1921, the statement, namely, of assets and liabilities, it must be very reassuring to the average citizen who does not worry himself about details, but who may have heard some disturbing rumors as to financial difficulties and increasing tax rates, to find that the City has a clear surplus of assets over liabilities to the comforting amount of \$2,861,558. As regards the table of liabilities, we find that, while there might be some discussion as to some items which ought or ought not to be included in that statement, yet every one of the factors given is a real plain hundred-cents-on-the-dollar obligation, which cannot be reduced by any process of manipulation. When we turn to the larger field of assets, however, we are soon met by entries



which at once start very important questions and doubts. The first item of importance is the uncollected taxes, beginning with the general tax arrears of the current year 1921, amounting to the substantial sum of \$234,045, and the local improvement assessments of the same year amounting to \$88,529, or together, \$322,574. Now, in an Eastern municipality where the assessed value of the land is practically nowhere above its market value, and where the arrears of taxes are always well within the market value of the land securing them, it is quite legitimate accounting to enter the tax arrears as an asset at substantially their face value. But, in the presence of the actual facts, as developed in the last ten years in Victoria, where market value before this year's reduction in assessment was about one-ninth of the assessed value, and even yet is between one-seventh and one-eighth of the assessed value, and where only a modest percentage of the properties put up for tax arrears will sell for the tax claims against them, it is the merest fiction to set down even the current year's tax arrears at the full value of the taxes. It is quite true that before these arrears pass into delinquent arrears and thus come up for the tax sale, a certain proportion of them will be paid. There was, however, a difference of only \$1,200 between the tax arrears of 1920 and the delinquent taxes of 1921, on a total of \$346,814. The largest proportion of collections will be made through the tax sales. The delinquent taxes in 1920 amounted to \$428,978. Of these there passed to the City at the tax sale in 1921 property representing taxes to the amount of \$322,278, showing that \$106,700 worth had been either redeemed before the tax sale, or sold at it. A still further amount will be disposed of through subsequent private sales. Experience shows, however, that after the more desirable lots have been disposed of, the majority of the property still remains with the City, and as they represent those claims for taxes which rise, many of them, far above any immediate market value, every sale which takes place renders the remainder more and more certain to prove a loss to the City. Even the very good prospect of land values rising again in the future is not particularly reassuring as to the sale of a great many of the lots remaining in the possession of the City, and the longer the City holds them the greater the charges against them become. The policy which the City should have adopted, in view of the argument as to returning values for land, should have been to hold the most readily saleable lands, once they came into the possession of the City. It is obvious that the charges against them would be the lightest to carry, and with returning values the City would have obtained a sufficient margin of profit on their sale to assist, to some extent, in offsetting the inevitable losses on those bearing the heaviest arrears and other charges.

103. In any case, to set down in a table of assets, without a single qualification, the whole of the tax arrears and lands in the City's possession, at the full value of their obligations to the City, is equivalent to the practice of a banker carrying at their full liability value the notes of customers who are plainly unable to meet their obligations without heavy loss to the bank. In neither case is it a justification to claim that it being impossible to say

just how much loss is to be incurred, the claims must be entered in the meantime at their full value. When this occurs in the case of a bank, the officials are brought to trial. When it occurs in the case of a municipality, it is met with a shrug of the shoulders and the remark that, "it is customary."

104. In connection with the listing of the tax arrears as assets, one naturally supposes that the amount includes the charges for interest and costs, but on inquiry one finds that these charges are not included, although there is nothing in the statement to indicate this. Neither is there anywhere a statement of the annual accumulated losses incurred by the City, owing to unpaid taxes on the properties taken over by it. Before they are taken over, however, the unpaid taxes are set down as accumulating assets at full par value.

105. Similar remarks from the point of view of accounting apply to the delinquent taxes, which are those in arrears for a year and upwards, and which then pass to the tax sales.

106. There is somewhat more justification for including instalments still due on the consolidated arrears of taxes, although, as already noted, a considerable amount of these rehabilitated arrears are again passing into arrears and have come up at the tax sales at the end of the year.

107. The total amount of assets consisting of tax arrears amounted, for 1921, to \$1,616,628. For 1920 the amount was \$1,919,852, from which it might be inferred that the total of the tax arrears has been reduced to the extent of \$300,000. When we turn, however, to the properties taken over by the City at the tax sales, we find that in 1920 the arrears charged against them amounted to \$1,800,462, while in 1921 the arrears against what was then held amounted to \$1,930,853, showing that about one-half of the reduction in the tax arrears between 1920 and 1921, had reappeared to swell the claims against the properties taken over by the City. Moreover these claims of \$1,930,853 represent, for the most part, what is left of the real property after all the best or cheapest properties originally in arrears had been redeemed. Thus the total amount of claims, good bad and indifferent, but mostly after the cream of the property has been disposed of, amounting to \$3,547,481, is set down in the assets of the City without a dollar of abatement or a word of explanation, as offsetting a corresponding amount of liabilities, every dollar of which is valid to the last cent.

### **Analysis of Assets and Liabilities**

108. Many items in the column of assets require special accounting explanations to render them intelligible, even to well-informed citizens, but few of these explanations are given. One large item of \$1,473,897 is put down simply as "debentures unsold." But, neither among the assets, nor in the statements (a) and (b) attached to the report, which give the lists of debentures issued and the purposes for which they are issued, under the heads of "general purpose debentures" and "local improvement debentures," is any clue given as to the purpose or purposes for which these unsold

debentures were issued, or whether they were offered for sale and not disposed of, or were being withheld from sale until the funds were required. By a careful following of clues as to the dates of issue given for some of them, and the numbers of the by-laws in other cases, one may arrive at a probability as to the purposes to be served and the reasons for their being unsold. But no citizen should be expected to engage in detective work of this kind to discover the nature of such an important item.

109. All the assets already referred to, including the three and one-half millions of tax arrears, are classified as active assets and amount altogether to \$6,105,260. The accumulated sinking funds are not included under this head, but are entered separately as "Reserve."

110. The streets, bridges, sidewalks, etc., details of which are given in schedule 2, are set down as passive assets, to the extent of \$2,911,540. The local improvements, of which no details are given, are also set down as passive assets, to the extent of \$7,122,405, making altogether under this head somewhat more than ten millions. When one turns to schedule 2, we find that the asset of \$2,911,540 is arrived at in a somewhat peculiar manner. Instead of attempting to place a physical value on the streets, bridges, sewers, sea walls, and, curiously enough, the Jubilee Hospital, a simple statement is given of the debentures which were issued to produce these public services, and which amount altogether to \$3,305,319. As a natural offset to this is placed that proportion of the sinking fund which has been actually accumulated towards meeting these debentures, and which amounts to \$393,778. This being deducted from the total cost leaves the remaining liability of \$2,911,540, and this being arbitrarily labelled "the present value to the Corporation," is set down as an asset. It would appear from this that the value of the **liabilities** as **assets** depends on how much or how little of them have been provided with a sinking fund. If the sinking fund is large the liability is small, and its value as an asset is equally small. But if the sinking fund has not been kept up and is therefore relatively small, the value of the liability as an asset is correspondingly great. This is surely the **reductio ad absurdum** of this method of accounting.

111. Leaving aside the absurd inclusion of the unredeemed liabilities for the public services mentioned, in the column of assets, one finds the statement in schedule 2, which furnishes the basis for this, to be altogether commendable, as both useful and informing. The entries there show exactly what should be exhibited, namely, what these various structures cost and how much has been provided for their repayment. All that can be set over against the list of bonded debt liabilities, is not a list of fictitious assets, but a list of the various objects and structures and purposes for which the liabilities were incurred, showing how much each one cost, and how far, and within what time provision has been made for repayment. Only public utilities in which capital has been invested, and for whose products or services special rates are charged independently of the taxes, can be properly regarded as commercial or financial civic assets, and then only to the extent to which they do return such proceeds. So far as they are operated at a loss they

are unremunerative charges upon the City's resources, and of the same nature as streets, bridges, sewers, parks, etc., for which no direct remuneration is received but which are entirely to be supported from the annual tax revenues of the City. From these same revenues the capital sums invested in them, and represented by the City's bonded indebtedness, must be met by appropriate annual charges to be placed in the sinking fund, or the debentures arranged as serials must be paid off annually, within a certain definite term. Not one of these properties from which no revenue is derived, can be set down as a financial asset to offset actual liabilities, because neither do they furnish a revenue to be accumulated for the payment of the liability, nor can they be disposed of to provide a capital sum for the same purpose. One has only to imagine what would be the condition of the City of Victoria if its school-houses were to be seized and sold to meet defaulted payments on the bonded debt. In a city deprived of its schools, such buildings, if put upon the market, would be practically worthless, because under such circumstances the economic condition of the City would be in chaos. The real assets, therefore, to be set over against the City's liabilities are not, with the exceptions noted, the structures and services procured by the expenditure of the moneys borrowed. The real assets are the pocketbooks of the citizens, to be drawn upon by process of taxation, and if that fails then something in the nature of a receivership must be established and the resources of the private citizens must be drawn upon so long as there are any private citizens with resources remaining within the municipality.

112. The other item under "passive assets," amounting to \$7,122,405, and representing local improvements, is equally absurd in its treatment as an asset and for the reasons which have just been given. The next department of assets as offsetting the City's liabilities is labelled "fixed assets." These are set forth with some detail in Schedule 3, the first section in which gives the values of the individual schools, distinguishing lands and buildings. These values are apparently determined without any relation to market values, but simply by reference to the debentures issued to pay for them. Thus the debenture debt for school buildings, as given in the debenture statement (a) is \$1,391,928, while the valuation of the schools, as given in Schedule 3 is \$1,398,655. In this case, however, as distinguished from the "passive assets," the value of the property is not given as the difference between the total cost of it and the amount of the sinking fund which has accumulated to meet the outstanding debentures. The asset consists of the total cost independently of the sinking fund. Here again, however, while it is very desirable to know exactly how much the schools cost and how much has been provided to meet the debentures outstanding against them, the schools themselves represent no commercial asset which can be counted upon in the remotest way to meet the liabilities for their construction. The only conceivable case in which the schools could be put on the market would be as buildings abandoned for school purposes, when new and more commodious and more costly buildings had been erected to replace them. But the price obtained for an abandoned school would not go far either to meet

its original cost or to provide for the erection of a new school, and would therefore be very far from justifying its entry, during its actual service as a school, as an asset at the full cost of its construction.

113. It is unnecessary to prolong the analysis of the assets which are set down as offsetting or balancing liabilities. Only a few of them can be properly employed in that capacity. Others are impossible of conversion into financial assets, while still others are themselves only additional liabilities involving heavy annual expenditures. This method of accounting for liabilities, however, is opened to the further objection, that it prevents the proper treatment of the liabilities, as well as the alleged assets, with a view to the intelligible information of the citizens. In other words, it prevents the setting over against the liabilities, the services for which they were incurred and expended, the amount absorbed by each, the amount of repayment provided in each case, and the consequent unpaid liability which still remains to be met, and what provision is made for meeting it. In all cases, however, the only substantial and ultimate assets, as ensuring the payment of the capital liabilities, are the revenues of the City, from which are appropriated, as a primary charge, the annual contributions to the sinking funds, or the annual payment of serial bonds.

114. In the case of such public utilities as a water works, a street railway, or a power plant, where either the whole or a large portion of the liabilities represented in the investment, the interest charges, and the annual cost of operation, are supposed to be provided for, on a commercial basis, by the charges made for the services rendered, each public utility should be treated separately and the accounting presented on the basis of a private corporation. The services required by the City itself should be treated on the same basis as those required by private citizens or private corporations. Where there is a surplus of revenue over expenditure, capital and annual, it represents a profit to the City, to be applied as may be determined by previous by-law, or as desired by the Council. Where there is a deficit, on the same basis, it will be charged as an obligation against the resources of the City. Under such a method of accounting, there will be a clear understanding of the financial position of every commercial enterprise in which the City has invested, and the profit or loss which has resulted.

115. The foregoing criticism of the present method of presenting municipal financial statements, under the guise of assets and liabilities, applies, as has been said, not only to Victoria, but to municipal systems in general, though the peculiar conditions in which most of the Western municipalities find themselves renders the futility and deception of the system particularly obvious.

116. Turning to the two other general financial statements given, the first under the joint head of "receipts and disbursements," and the other under "revenue and expenditure," we find further evidence, more particularly applicable to Victoria, of quite good book-keeping but very inadequate accounting and consequent lack of enlightenment; in fact, in some cases,

the insurance of confusion for those who attempt to learn the true financial position of the City.

### Receipts and Revenues

117. Under both receipts and revenues are first given the taxes and rates. Under receipts, however, there are also included the local improvement assessments and percentage additions, whereas under revenue the two latter are given separately. In comparing the two statements, we find that the revenue from the general tax rate is \$291,891, while the receipts from the same tax rate are \$223,035. Similarly in the case of the debt rate and school rate, there is considerable discrepancy between revenue and receipts. No word of explanation is given as to this, but those familiar with the situation from outside sources may infer that the revenue represents what ought to have been received if the taxes were paid in full, while the receipts represent simply what was actually collected, the difference furnishing the basis for the arrears of taxes for the year. The percentage of difference between revenue and receipts is uniform for the first three rates—the general, the debt and the school rate, and amounts to 23.5 per cent. The gap between revenue and receipts varies considerably for the remainder of the items. When worked out, the results are as follows:—

Water frontage rate .....	32 per cent.
Boulevard rate .....	33.4 per cent.
Cluster light rate .....	35.6 per cent.
Sewer rentals and tax rate .....	26.6 per cent.

118. The discrepancy between revenue and receipts in the case of local improvement assessments is very striking, amounting to no less than 42.3 per cent. even after so many previous tax sales had cleared the decks of past arrears up to the end of 1920. This proves that even yet the local improvement charges constitute the core of Victoria's financial troubles, and emphasizes the representation which has been made for an extension of time for the payment of these assessments. As already remarked however, none of these facts are brought out, neither in connection with the details of receipts and revenues, nor elsewhere in the report.

119. Among other anomalies presented by a comparison between the statements of revenue and receipts, is one connected with the treatment of the school rates and water rates as matters of revenue. After being duly entered in the revenue table, they are immediately deducted from it to be credited to the School Board and Water Works. There is not, however, any good reason for deducting these from the general revenue account in that manner. In the first place these are not the only items in the revenue table relating to schools and water works which were handed over to these Boards, but the others are not deducted from revenue. Hence the treatment of such items is quite inconsistent and must create confusion. On the other hand, there are large revenue items in connection with both these Departments, which are not given in the table of revenues, whether to be immediately deducted or not. The chief features, in the case of the schools, are the grant

from the Government of \$93,333, and a number of items grouped in the table of receipts as "sundries," amounting to \$22,070. In the case of the water works there are the meter rates and rents, which are surely as eligible for mention in the revenue system as sewer rents and similar items. But the confusion, from the point of view of accounting, is further increased from the fact that the entries and deductions do not correspond. The revenues for schools and water works, which are first included in the revenue statement and then immediately deducted from it, before the additions are made, are, in the first entries, the revenues which ought to be received from these rates, but which were not received, to the extent of 23.5 per cent., in the case of schools, and 32 per cent., in the case of the water frontage rates, yet in the deduction credited to the School Board and water works it is not the percentage of these rates as received which were handed over, but the whole assessed rate, whether collected or not. In other words, the revenue which ought to have been derived from the school rate was \$458,742 but the revenue which was actually derived was only \$350,526, a reduction of 23.5 per cent. Yet what is actually handed over to the School Board is the full \$458,742. Similarly, with the water frontage rate, the revenue, which ought to have been \$17,790, was actually only \$12,088, or a reduction of 32 per cent. Yet, from the total tax receipts, the whole \$17,790 is actually handed over. The result is that, out of the depleted receipts of the general rate and the debt rate, the difference between the possible revenue and the actual receipts from the school and water rates is further deducted. Thus the statements regarding these matters, in both the revenue and receipt entries are quite misleading in several important respects. The Treasury officials may have various more or less plausible explanations to make as to these entries, but there can be no question as to the misleading effects they are sure to produce, and that is unavoidable evidence of defective accounting.

### **Tax Sale Purchases**

120. Another curious and quite unexplained deduction from the revenue from taxes and rates is an item of \$161,286 under the head of "tax sale purchases." This looks like an attempt to somehow balance up the theoretic revenue and the actual receipts, by reducing the theoretic revenue by the amount realized from the tax sales, which resulted from the arrears due to the non-payment of the theoretic revenue. But, if this were the object, the local improvement assessment should have been included in the total to be reduced, as this assessment gives rise to a large portion of the gap between possible revenue and actual receipts. However, the deduction of tax sale purchases is inadequate, for it omits the amount of the tax sales to the public, since the lands taken over for arrears are disposed of in either of these two ways,—the cash returns are obtained for what are sold, and the City's purchases account for those which are not sold. Even here, however, the figures will not agree, for the tax sale purchases referred to represent the arrears of two years previous, after becoming delinquent. They are certainly not the uncollected part of the revenue for 1921. The deducting, therefore, of this

item from the revenue returns of 1921, before adding them up, must result in the hopeless confusion of the whole return, as well as the mixing up of the two different principles on which these tables are normally constructed.

121. But, if there is imperfect or misleading information furnished with reference to what ought to be so simple and direct a matter as the taxes and rates, one will hardly look for clearness and consistency in the presentation of the revenues and receipts with reference to more difficult and complex matters. Incidentally, we find that there is quite a list of receipts for which there are no corresponding items in the revenue account. Most of these are connected with the arrears of taxation in one form or other. Thus arrears of tax rates, etc., from 1920, delinquent tax rates, etc., commuted payments and taxes paid on account, all figure in the receipts of the year, but no corresponding items in any shape appear in the revenue statement, not even under miscellaneous receipts. At the same time other entries connected with tax arrears are made.

### Interest Charges and Receipts

122. Further confusion results from the revenues and receipts statements, under the heading of "interest." Here again the distinction ought to be simple enough, namely, under "revenue" should appear the full interest charges on arrears, etc., which ought to be received, and under "receipts" the amount of this interest which actually was received, thus enabling the citizens to realize how this feature of the revenue was working out in practice. The first entry under this common heading evidently refers to the same thing, because the amount realized is almost exactly the same, although a purely gratuitous ground for confusion is introduced in naming the item "general taxes" under revenue, and "arrears and delinquent taxes" under receipts. The next item, under "interest," corresponds exactly in amount and name as interest on "local improvement assessments." The next, though slightly varied from "capital sum" to "capital sum payments," is also plain enough. Incidentally, under this item we find that the interest due was \$73,627, while the interest paid was only \$44,376. The next item under the heading "interest" in the revenue table is "tax sale," \$36,251, and the corresponding item under the same heading in the table of receipts is "general interest," \$7,619. These of course can hardly have any special relation to each other, but there is nowhere a revenue entry under "general interest," nor anything that will at all correspond with it. In the table of receipts there is a heading "tax sale, 1921," but this has only one item dealing with "accrued interest" to the amount of \$6,744, and this can hardly represent all that was collected from the tax sale interest of \$36,251; but no explanation is afforded. Again, under revenue there is a separate item, "tax sale costs and expenses," \$18,767; while, under receipts, this same heading is included under the tax sale of 1921, and the amount is \$2,562, which might indeed represent all that was collected of the \$18,767 from the last sale, and, if so the remainder of the expenses of over \$16,000 should pass over among other charges against the lots taken over by the City at this tax sale. It would be interesting to know, though of course no means for



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doing so are afforded, whether such extra losses on the part of the City are sought to be recovered in any proportion, when even the best of the lots are subsequently sold at private sale, or whether only that part of the arrears charged against them at the time of their being taken over by the City is considered in fixing the upset or minimum price.

123. It is unnecessary to follow up the details of this subject of inadequate accounting, as it would swell the report to undue proportions. Sufficient detail has been furnished to indicate that, as hitherto presented, the financial statements of the City do not permit even those citizens who take a special interest in its affairs to obtain any clear or satisfactory idea of just how the finances of the City stand.

124. The analysis of typical features of the City's financial statements and the observations made in this connection are not to be taken as a special criticism of the officials of the Treasury Department. They are presented simply as samples of the defective methods of presenting financial statements, which have long prevailed in the great majority of municipalities. This is true not only of Canada but of the United States. In the latter country, however, matters are being rapidly remedied.

125. The confusing and misleading effects of these inadequate methods are of course greatly increased where municipalities have drifted into financial difficulties, as in Western Canada. The result is that, just when it is most essential that the citizens should be able to comprehend the exact condition of their civic finances, alike from the presentation of the details of their own City and from a comparison of similar features in other municipalities, that is the time when they are least able to do so for lack of adequate and intelligible information regarding their own affairs, as well as from a lack of uniformity in statement as between the different municipalities.

#### **Recasting of Accounting System Suggested**

126. The remedy for such a situation undoubtedly involves a recasting of the whole system of accounting, and the adoption, in connection with this, of a uniform method for the presentation and publication of municipal reports. It is essential that an adequate and uniform system of municipal accounting should be adopted in each Province at least; but very desirable also that this uniformity should extend to the whole Dominion, and, as far as practicable, be in harmony with the best practice in countries, such as Great Britain and the United States, whose municipal problems are akin to our own. To secure such a system of accounting, even for the Province of British Columbia, would involve careful co-operation between well-qualified representatives from the municipalities and from some of the larger financial or other economic corporations, together with officials of the Provincial Government familiar with municipal accounting. However urgent this may be, it will doubtless involve some time in its accomplishment, it being very essential that, to have any real and permanent value, the work must be thoroughly done. In the meantime, therefore, it is recommended that some of the more misleading features in the annual report be readjusted and some

brief but adequate explanations appended to the financial tables by the treasury officials, in consultation with the auditors, as will enable a citizen of average intelligence and ordinary business knowledge, not only to comprehend the individual items as presented, but to understand their essential relations to the others with which they are more particularly connected as conditioned or conditioning. It must be understood, however, that this can be only a temporary and partial remedy, pending a thoroughly digested system of accounting, specially applicable to municipal finance to be worked out and adopted as a basis for uniform municipal accounting throughout the Province at least.

### **Reorganization of Finance Department**

127. As regards the organization of the Financial Department of the City of Victoria; on comparing it with that of several other Canadian Cities of two or three times its population, one cannot avoid the conclusion that, while the numbers employed are not excessive, yet the organization is not as effective as it might be. The best practice and experience in such matters indicates that the Finance Department should have but one executive head responsible to the Council, through the Finance Committee, for all the branches of revenue and expenditure. This, of course, will not prevent the more important sub-departments, as those dealing with the assessment, collection, book-keeping and disbursement, from being assigned to competent chiefs, to be allowed that considerable share of initiative and responsibility which is essential to all good work. Nor need it prevent the collection, where specially convenient, of certain fees and charges by other branches of the municipal service, such as the Engineering and Police Departments, but all such collections should be turned over to the civic Treasury, and all disbursements should be made by orders on the Treasury from the other departments. Needless to say, this again would not interfere with the granting of special advances covering chiefly petty expenditures, to be accounted for periodically to the Treasury. The practice, however, of allowing various sections of the municipal service to collect and disburse within their own branches, simply turning over to the Treasury the surplus of receipts, or calling on it for the surplus of expenditure, is essentially vicious, destroying responsibility and preventing a proper presentation of the financial affairs of the City.

### **Municipal Accounting System in Province Should Be Uniform**

128. A better and more intelligible system of accounting, especially on a uniform basis throughout the Province, will do much towards improving the knowledge of the citizens as to their civic affairs. But, as experience has so abundantly proved, it is very difficult to prevent the majority of the citizens, and consequently the City Council, from being carried away by temporary bursts of extravagance, or from adopting, without sufficient consideration, impracticable schemes of finance. Unfortunately, under such conditions, fateful resolutions may be adopted and most important decisions taken in a very brief period with most inadequate information or enquiry.

In such cases, however, especially in financial matters, the inevitable consequences resulting from such decisions may extend over a long period, bringing misery and despair to thousands of innocent persons, who were unable to comprehend the serious consequences of the measures which they in their ignorance were called upon to accept. Under such circumstances the lauded rights of self-government in a free democracy are mere words of delusion, covering the hard facts of loss and ruin due to the meeting of gullible innocence seeking profits and selfish greed seeking victims. As a matter of fact, however, an adequate knowledge of the essential features of financial operations extending over a considerable period of time, is by no means easily acquired. Hence, with the best of intentions, on the part of the public, to choose wisely, the results are too often an evidence of the utter lack of wisdom. When the full consequences are being reaped, it is commonly found that a common misfortune has overtaken both the deluder and the deluded, the victimizer and the victim. When it is too late to escape the inevitable, it is usually much regretted that some well-informed authority with power had not been able to intervene to support the counsel of the better informed minority, urging caution and a fuller knowledge before commitment to such ill-digested yet far-reaching schemes. Under rule by majority, however, the voice of the experienced and well-informed is inevitably in the minority. Hence, the important problem, in municipal matters at least, is how democratic rule by majority, so obviously beneficial where all are on a common basis of adequate knowledge, may be prevented from permitting, indeed often ensuring disaster to both public and private interests in certain vital matters requiring very special knowledge and a survey of much practical experience. Obviously this can be solved only by ensuring the revision of those vital measures, especially where prolonged financial consequences are involved, by a limited body selected for its special competence in such matters. Such a board or commission cannot very well be the organ of the municipalities themselves. It must, therefore, be selected and appointed by the Provincial Government. It may be said, indeed, that as the Provincial Government itself is based on democratic rule by majority, it is likely to be subject to the same influences as the municipalities themselves, exhibiting no higher wisdom or greater caution in incurring financial obligations. Unfortunately all this may be true enough, yet at the same time an executive government, once authorized to do so, may be able to prescribe wise rules for the conduct of a dependent government, although unable, through the influence of rule by majority in its own sphere, to follow its own advice and direction. Thus a Provincial Government would be quite capable of appointing a municipal commission or board which could effectively guard the municipalities from rashly undertaking financial obligations, quite beyond their immediate or prospective capacity for repayment without too great a strain upon the private resources of the citizens. The functions of such a municipal commission are actually discharged in a much more detailed manner, in the case of the Departments of the Imperial Government in England, under what is known as "Treasury Control." The Treasury Department revises and checks the proposed expenditures of the various

other Departments, while, beyond its executive staff, it has no expenditures of its own. This very indispensable and powerful organ is not however, regarded in Britain as destroying democratic freedom, but as most essential to its preservation.

129. When one contemplates what a properly organized municipal commission might have saved the municipalities of British Columbia a decade ago, and what a safeguard it could prove in the future, it will be understood why I recommend very strongly the appointment of such a commission as an essential feature in the proper working of the municipal system, and the preservation of its liberties, which the mistakes of the past have, for a time, so seriously curtailed. The adoption of this recommendation would involve simply an enlargement with better definition and authority of the functions of the present municipal inspector, whose services, under some difficulties, have been very greatly to the benefit of the municipalities of the Province.

### Cost of Education Increasing

130. One of the most difficult problems in connection with municipal finance throughout Canada, arises from the steady and even rapid increase in the cost of education, coupled with the fact that the municipal councils have little or no control over the budgets of the school boards, while required by law to provide from the general taxes whatever funds are declared to be required by these boards.

131. In Victoria, the school rate has, indeed, increased very rapidly during the past five years, while the general tax rate has been kept down in a very heroic manner. Thus, if we take the total tax levied on land, the school rate separately, and then the levy without the school rate, we have the following results:—

	Total Levy Mills	The School Rate Mills	The Levy Without the School Rate Mills
1917.....	23.14	2.95	20.19
1918.....	27.77	4.66	23.11
1919.....	26.85	7.6	19.25
1920.....	26.	8.6	15.4
1921.....	29.	10.15	18.85

132. Here it will be observed how rapidly the school rate has been increased as compared with the general rate for all other civic purposes. Moreover, the proportion of the total tax levy which has been collected within the year has not been above 75 per cent. of the whole, and if we allow for what is collected some time after it is due, it would not probably be above 80 per cent. But out of this 80 per cent. the whole of the school rate has been paid, the reduction of 20 per cent. on the whole levy being borne entirely by the amount for the other civic expenditures. It will be seen, then, that, while the City Council had to economize very closely, even to encroaching seriously on the sinking funds, the School Board, without any worry as to

raising the funds, has steadily increased its expenditures. Human nature being what it is, the general attitude of the Council towards the School Board is not altogether incomprehensible. On the other hand, the School Board is not without argument in defence. Without going into particulars, it is pointed out by the Board that it is not more extravagant than its neighbors in most other British Columbia cities; that, indeed, it finds it difficult to keep pace with them. It is claimed that increased expenditures have been forced upon it by the action of the teachers in virtually organizing a strike, and indeed a successful strike, for higher pay. But, even under these conditions, the Board finds it difficult to prevent their best teachers from being enticed away by offers of higher salaries from other School Boards in the Province. Hence, with every sympathy for the financial straits in which the City finds itself, the School Board professes to be helpless, even in the matter of keeping down, much less reducing, their expenditure.

133. This of course, does not satisfy the Council, which desires a constitutional change in relationship, which will give it some control over the expenditures of the School Board.

134. Before discussing this very difficult situation, which space will not permit one to enter into very fully in a report of this kind, some notice must be taken of the general tendency in this respect in various municipalities in other Provinces of the Dominion. From the municipal returns collected by the Dominion Bureau of Statistics at Ottawa, it is found that the situation complained of in Victoria is even more evident in some of the older centres of Canada. One of the most rapidly expanding features of municipal expenditure is that relating to education. Taking the latest returns, we find the proportion of the expenditure on schools, as compared with the total civic expenditure, to stand as follows, for cities of somewhat the same class as Victoria:—

**The Percentage of Total Expenditure Absorbed by Education**

Calgary .....	14.5
Edmonton .....	17.8
Halifax .....	33.6
St. John, N.B. ....	14.5
Hamilton .....	26.4
Ottawa .....	19.5
Victoria .....	18.2

135. It will thus be seen that as regards the proportion of the taxes absorbed in support of education, the Victoria School Board is not particularly extravagant. When, however, we look at the matter from the point of view of the financial condition of the City, we find that, as compared with other cities, and especially the Eastern cities, education in Victoria absorbs a much larger proportion of the revenue available for the current needs of the City than any of the Eastern cities, even where a higher proportion of the total revenue is absorbed by the school tax.

136. The financial obligations of Victoria and its defective system of taxation for the past ten years have certainly left the controllable revenue much depleted.

137. However, under all ordinary circumstances, it must be acknowledged that the attitude of the Victoria School Board is perfectly reasonable as compared with the expenditures on education in other cities of the Dominion. Their demands are by no means extravagant. Moreover, in most cities of the Dominion the basis of municipal taxation makes a much fairer and more adequate levy on the general resources of the citizens than in Victoria. Hence, as the School Board has no voice in the system of taxation, it may disclaim responsibility for the present financial condition of the City, and is technically justified in declining to make exceptional economies in its expenditure.

### **Joint Responsibility of City Council and School Board**

138. As representing, however, the same body of citizens as the City Council, the School Board can hardly ignore the very special financial difficulties in which the City as a municipality finds itself. If, therefore, a broader basis of taxation, and a more efficient system of collecting the revenue are adopted, the School Board should undertake to make economies approximately as severe as those undertaken by the City Council, in a common effort to recover from the mistakes and extravagances of the past, in which indeed, to a considerable extent, the capital expenditures on schools had a share.

139. In any case, no satisfactory solution of the difficulty is to be found in the direction of submitting the School Board and its expenditures to the ultimate control of the City Council. Both Boards are elected by the same citizens, in the same manner, and have the same authority and responsibility for their actions. If there is any defect in the system, it arises chiefly from the unfortunate defects of practical democracy, a treasure which undoubtedly, in the language of St. Paul, "we have in earthen vessels." To render an elective School Board subject ultimately to an elective Council, would be to destroy effective responsibility, which could not be securely fastened upon either body. If, therefore, the independent responsibility of the School Board is to be curtailed, it should be transferred wholly, and not partially to the City Council.

140. Both the City Council and the School Board, however, are subject to the ultimate control of the Provincial Legislature and its executive instrument, the Provincial Government. In such matters as the financial requirements of the Board, an appeal should lie from the City Council to the properly constituted Provincial Municipal Board or Commission already recommended, with a view to a revision of the financial proposals of the School Board, under the same conditions as a revision of the similar proposals of the City Council. Only such a Board, as being independent of rival claims upon a severely limited revenue, can make a fairly equitable compromise between the financial sacrifices which each must endure.

141. Apart, however, from the purely financial aspect of the difficulties between the City Council and the School Board, which are increasingly encountered throughout the Dominion, but are naturally in more acute form in the Western cities, a more fundamental issue is rising in connection with the rapidly expanding costs of education. The problem arises in connection with the fundamental question as to the essential nature of education itself. The gravest doubts are being raised as to whether much that is called for under the name of education, and in many respects the most expensive portions of it, is not either, to a large extent, unessential and therefore superfluous, or actually detrimental to a truly educational process. From another angle, the problem presents itself in this form: If the growingly expensive processes of elementary education are really so essential as claimed, then there should be a very marked difference in the intellectual development and equipment of the modern product of the schools, as compared with that of half or three-quarters of a century ago. It is rather obvious, however, that there is no such marked difference; that, indeed, from the point of view of intellectual initiative, resource, and breadth of vision, there is often claimed to be an actual decline, apparently due to the excessively close following up of the modern pupil by swarms of teachers, with thought economizing instead of thought stimulating instruments and processes. A less costly equipment especially in the number of teachers engaged, and a greater attention to stimulating personal effort on the part of the pupils themselves, ought to give more permanent results of a really educational nature. This, however, is a matter which cannot be followed up here, and is touched on simply to show that a problem deeper than the merely financial relations between the School Board and the City Council is involved in the ultimate solution.

### Intermunicipal Relations

142. Another matter incidental to both the present and future financial conditions of the City of Victoria has reference to the relations of the City to the adjoining municipalities. In so far as the single tax doctrine is concerned, where land is the sole basis of taxation, it should not be a matter of any special concern into how many independent civic jurisdictions a given area is divided. The divisions being territorial, the land tax could never be collected or expended in an area outside of the one to which it pertains. Moreover, the citizens who own no land, no matter what their wealth or poverty, or whence they come, or whither they go, will not be called upon to pay any taxes, and may therefore live within or without any civic area without raising any questions of responsibility. But under a just and adequate system of taxation, in which ability to pay and benefits received are important factors, it matters very much whether persons who are sharing in the benefits, conveniences, and services of a certain municipality are sharing also in the financial responsibilities and contributing to the municipal revenue in some proportion to the benefits received and the capacity to pay taxes. With modern facilities for transportation, in the shape of high-grade and costly streets and roads, a street car system of indefinite extension,

furnished either by a chartered company or municipal borrowings, an abundant water supply, usually partly paid for by individual charges, and partly by municipal taxation, abundant educational facilities, means of recreation, police protection, and all the minor though often costly conveniences of a modern city, many citizens, having their residences beyond the City limits, may enjoy these modern civic luxuries with little or no contribution towards either their original construction or annual upkeep. Indeed, the very facilities for transportation provided at the City's expense, and absorbing a large part of its annual revenue, permit the wealthier citizens to live beyond the reach of the civic tax collector, except possibly for office charges in the City. Thus the burden incidental to providing this means of escape from it, is left to be borne by those who cannot afford to take advantage of these means of escape, or who for other reasons cannot, or do not care to evade the civic obligations.

143. In this age of general commendation for all those who flee from the confinement of the City to the open air and the enjoyment of horticultural, or even agricultural possibilities, one would not venture to criticize even from a financial point of view, this practical realization of the "back to the land" counsel. But, under the present limitations of civic areas, it certainly produces great inequalities in taxation as between different classes of citizens. In the long run this must be detrimental to all parties, leading to the erection of artificial barriers, and unpleasant relations between members of practically the same community. In the meantime it leads to irregularities and inconveniences as between adjoining municipalities, and more particularly to the erection of shack-towns and other undesirable developments just beyond the municipal civic borders, entailing heavy expenditure at a later period, when the City boundaries are extended, in partially undoing what never should have been permitted in the first instance. The citizens of suburban municipalities, like Oak Bay and Esquimalt, naturally cherish their temporary fortunate position in being able to enjoy most of the privileges of Victoria without having to pay for them. They are naturally loath to consider the possibility of union until at least Victoria has reduced somewhat the excessive load of debt and consequent heavy taxation which it must involve. If, however, some arrangement could be made as to a financial adjustment, the union of these municipalities with Victoria is highly to be desired in the ultimate interest of all.

144. Not only, however, should these suburban municipalities be united with Victoria, but there should be promoted and encouraged the extension of the area of a Greater Victoria, within which both the actual and prospective citizens might reside with adequate protection and under proper supervision for a reasonable development of the areas around the City, in such a manner as to provide for the convenience and comfort of all without any apprehensions as to possible future developments of an objectionable character. This can be most effectively accomplished by combining with the City of Victoria the whole, or at least the greater part of the Saanich Peninsula. The whole district should then be carefully surveyed, with a view to future



developments and requirements, first in broad outline, and afterwards as need required, with more detail. Thus, for instance, the general transportation routes and highways should be planned and mapped out; also the park areas, residential areas, industrial and commercial areas, etc., with the special facilities required for each. A general plan having been adopted and confirmed, nothing specific is required to be done at the time, nor any changes to be made in existing conditions, until there is an actual demand for them. But, whatever changes are made, and whatever developments are proposed, must conform to the plan as laid down, and when occasion requires, further details should be filled in before permanent investments are made. Thus everyone will understand sufficiently accurately what the opportunities and possibilities of each section may be, and what protection is indefinitely guaranteed for any special investments which may be made in any given area. With the additional protection furnished by a competent Provincial Municipal Board, guaranteeing against undue or excessive expenditure within a limited time, or in advance of reasonable requirements, the citizens of such a larger Victoria, whether at the centre or in the outskirts of the system, or having their interest divided between them, will recognize that he is bearing his due share of the cost of maintaining the indispensable services, and that he is being aided in this in an equitable proportion by practically all others who are sharing in the civic benefits and expenditures.

#### **Citizens Should Take Greater Interest**

145. All this, however, and, indeed, all the recommendations and suggestions contained in this report depend, in a very large measure, for such benefits as may reasonably be expected to flow from them, upon an active civic interest on the part of the more influential and independent citizens, and the maintaining of that interest in a practical and vital manner. The individual citizens know that their personal affairs, whether professional, mercantile, or corporate, will inevitably suffer if not carefully followed up, even if placed in apparently competent hands. So the municipal interests of the same citizens, which have become so vital a factor in all their other interests, will suffer equally from neglect on their part. Extravagance in expenditure and carelessness in management, with inadequate or confusing information as to conditions and results, will surely wreck any enterprise, private or public. Many new clubs and institutions are arising of late years, compelled by a consciousness of the necessity for co-operation and mutual stimulation in preserving and developing the best phases of social and corporate life. Undoubtedly, these laudable motives and purposes cannot be better realized, or with greater necessity, than in connection with the municipal interests which have already become so vital to the lives and properties of every citizen, and so important from the financial point of view as to enter as deeply into the cost of one's daily life as any other indispensable factor.

146. The financial difficulties of Victoria, as in many other municipalities, have not come about through any single cause, and will not be corrected

by any single remedy. They are the results of a combination of unfortunate circumstances, aggravated by ignorance, neglect and mismanagement, all very largely permitted or encouraged by a lack of a sufficiently alert and sustained interest on the part of the majority of the citizens, including very largely those who had much at stake as also the most serviceable training and experience to have effectively dealt with the situation. Now, however, that the consequences of past neglect are being realized, the remedy cannot be effected in a very brief time, but if the citizens fully realize the situation and will set about applying the proper remedies some of which, so far as my judgment is valid, are outlined in this report, the civic programme will at least be started in the right direction, and with perseverance and competent administration, favored by improving economic conditions, should lead through to sound conditions on a better and more permanent basis than ever.

147. In closing, I wish to acknowledge in the fullest measure my obligations to the Mayor and Councillors for the facilities which were most unreservedly afforded me for my task. I have especially to acknowledge the very cordial assistance rendered and the special information so painstakingly furnished by the chief executive officials of the City, especially the Comptroller, the Treasurer and Collector, the Solicitor, the Land Commissioner, the Special Commissioners who dealt with the revision of the street widening and local improvement assessments, and the former Assessor, whose term of office covered the most important period relating to the financial difficulties. The officers of the School Board have also furnished full and useful information. I am particularly indebted also, for valuable assistance, to the Provincial Inspector of Municipalities, and the Deputy Provincial Treasurer and his assistant.

ADAM SHORTT.

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