Fiscal Imbalance: The Case for Cities

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In the recent federal election, the Conservative Party made a commitment to address the fiscal imbalance in Canada and, in particular, to include municipalities along with the federal and provincial/territorial governments in discussions to resolve the fiscal imbalance. Although the debate over fiscal imbalance at the federal-provincial/territorial level has been well documented,[1] much less has been written about the extent of a fiscal imbalance at the municipal level. What does fiscal imbalance mean at the municipal level? Are the issues the same as the federal-provincial/territorial issues? Do municipalities have sufficient revenue-raising capacity to sustain their expenditure responsibilities? Can they raise their existing revenues (largely property taxes and user fees) to meet their expenditure requirements?

The purpose of this paper is to explore the nature and extent of the fiscal imbalance at the municipal level in Canada. The first part of the paper sets the overall context by briefly reviewing the elements of the fiscal imbalance debate at the federal-provincial/territorial level. The second part provides some background on the trends in municipal finance in Canada over the last 15 years and compares municipal revenue-raising tools to those in other OECD countries. The third part identifies the fiscal challenges faced by Canadian municipalities. The fourth part discusses whether Canadian municipalities are fiscally sustainable and whether they could make policy choices that would reduce the fiscal imbalance. The final part suggests areas for further discussion and research.

1. Setting the Context: The Fiscal Imbalance Debate

There are two aspects to fiscal imbalance: horizontal and vertical. A horizontal fiscal imbalance is said to exist when "provinces/territories differ in their fiscal capacity to provide similar levels of public services to their citizens at similar rates of taxation" (Standing Committee on Finance 2005: 19). A vertical fiscal imbalance exists when "the fiscal capacity of one order of government is insufficient to sustain its spending responsibilities while the fiscal capacity of another order of government is greater than is needed to sustain its spending obligations, while both orders of government provide public services to the same taxpayer" (Standing Committee on Finance 2005: 19). Although both aspects are important, this paper focuses on vertical fiscal imbalance.

[1] For a summary of the debate, see Lazar et al. (2004) and the Standing Committee on Finance (2005).

The current debate in Canada between the federal and provincial/territorial governments over the vertical fiscal imbalance centres on whether it exists and, if it does, whether it is an “enduring feature of the division of taxing and spending powers in the Canadian federation or whether it reflects a policy choice” on the part of provincial governments (Lazar et al. 2004: 142). Provincial governments have been arguing for some time that there is a vertical fiscal imbalance between the federal and provincial/territorial governments that needs to be corrected. They argue that the federal government has revenue-raising capabilities that exceed its expenditure requirements whereas the provinces have insufficient revenue-raising capabilities to meet their constitutional obligations, especially with respect to health care, education and social services. Moreover, the provinces argue that the cost of delivering these provincial programs is rising more rapidly than the cost of federal programs at the same time that provincial revenues are growing more slowly than federal revenues.

The federal government, for its part, argues that provincial governments have access to the same tax bases as the federal government (mainly income and sales taxes). Provinces can set their own rates and face no formal constraint on their ability to raise revenue. Indeed, the federal government argues that virtually all provinces have chosen to reduce taxes in recent years suggesting that the provinces believe that they have sufficient revenues to meet their expenditure demands.

Both the federal and provincial governments have the right to levy taxes on all of the major tax bases and they do so. The problem of vertical fiscal imbalance arises, in part, because both orders of government believe that there are effective limits to taxation and they behave accordingly (Lazar et al. 2004: 155). If the overall tax burden is perceived to be at or above that limit, then having the power to tax is not very helpful from a political or economic perspective if it is not desirable to raise those taxes.[2] According to this argument, vertical fiscal imbalance can still exist even if all governments have the power to tax.

It is not the intent of this paper to enter the debate over whether there is a vertical fiscal imbalance between the federal and provincial/territorial governments in Canada. Rather, it is to consider how this debate can be applied to the fiscal imbalance at the municipal government level. As will be shown below, municipalities in Canada have been facing increasing expenditure pressures for a variety of reasons and, at the same time, they have seen no diversification in their revenue-raising tools. They rely largely on property taxes, user fees, and intergovernmental transfers to meet their expenditure needs and the property tax is considered to be a strikingly inelastic tax – it does not grow with the economy in the same way as income and sales taxes. Although it is difficult to measure the extent of fiscal imbalance at the municipal level (as will be discussed below), there is widespread agreement that municipalities do not have sufficient revenue-raising tools to meet their expenditure responsibilities.[3] The remainder of this paper

[2] Since tax bases are more mobile across provincial borders than they are across national borders, for example, the ability of provincial governments to tax is less than that of the federal government. Mobility is even greater across municipal borders.

[3] See, for example, TD Economics (2004), Kitchen and Slack (2003) and Vander Ploeg (2004).

evaluates whether Canadian municipalities are fiscally sustainable and the extent to which they can solve their own fiscal problems.

2. Trends in Municipal Finance in Canada and Other Countries

Trends in municipal finance over the last 15 years show that municipal spending has been increasing steadily but that the revenue-raising tools available to municipal governments have not changed. Over the period from 1988 to 2003, expenditures per capita in constant dollars increased by 8.8 percent. Total municipal expenditures in Canada in 2003 were almost $51 billion or $1,606 per capita on average across the country. Expenditures per capita ranged from $552 in Prince Edward Island to over $2,000 in Ontario.[4] The high Ontario expenditures are driven in part by the significant proportion of social service and social housing costs that are paid for at the local level in that province.

Table 1 shows the relative importance of expenditures by function for 1988 and 2003. The distribution of expenditures was roughly the same as in 1988, with the exception of social services in Ontario which were considerably less in 1988. The largest expenditures throughout the period were for transportation (roads and transit) followed by protection (police and fire), environment (water, sewers, and solid waste), and social services. Over the 15-year period, protection expenditures, expenditures on recreation and culture, and environmental expenditures increased as a proportion of total expenditures whereas expenditures on transportation, general administration, regional planning, and debt charges fell.

Table 2 compares the distribution of municipal revenues for 1988 and 2003. Property taxes were the largest source of revenue to municipalities in 2003, as they were in 1988. As a percentage of total revenues, property taxes have increased somewhat. User fees have also increased over the last 15 years. Grants (mainly from provincial governments), however, have decreased significantly over the period. Overall, however, the sources of revenue for municipal governments have stayed roughly the same over the period.

In terms of tax revenue at the local level, Canadian municipalities largely rely on the property tax. In some provinces, municipalities are also able to levy selective sales taxes such as taxes on hotel/motel occupancy but these taxes account for only a small part of local revenues. Cities in other parts of the world, however, have access to other tax revenue sources such as income, sales, and selective sales taxes. Table 3 shows the distribution of local tax revenues by type of tax for eight federal countries (countries with a central government, state or provincial governments, and local governments) and 21 unitary countries (countries with only central and local governments).

Income taxes are very important in four of the federal countries (Austria, Belgium, Germany, and Switzerland) and seven unitary countries (Denmark, Finland, Iceland, Luxembourg, Norway, Poland, and Sweden). In some of these countries, the local income tax is piggybacked onto the

[4] Per capita municipal expenditures are actually highest in Nunavut and the Northwest Territories because of the high transportation and heating costs in the north as well as the inability to achieve economies of scale in small and remote communities.

tax levied by the federal or provincial/state government. In other countries, local governments administer their own income tax. In the United States, 16 states permit municipalities to collect

Table 1: Distribution of Municipal Expenditures by Category, Canada, 1988 and 2003

	1988	2003
General Administration	9.9	9.1
Protection	14.8	16.7
Transportation	22.3	18.9
Health	2.0	2.7
Social Services	7.4	10.6
Education	0.4	0.4
Resource Conservation	2.1	2.0
Environment	14.6	16.5
Recreation/Culture	11.6	12.3
Housing	1.8	4.2
Regional Planning	2.1	1.7
Debt Charges	9.5	4.4
Other	1.6	0.4
TOTAL EXPENDITURES	100.0	100.0

Source: Statistics Canada, CANSIM, table 385-0004

Table 2: Distribution of Municipal Revenue Sources, Canada 1988 and 2003

Revenues	1988	2003
Property Taxes	48.6	53.2
Other Taxes	1.4	1.4
User Fees	20.0	23.4
Investment Income	6.0	4.5
Other	1.1	1.5
Total Own-Source Revenue	77.1	84.0
Unconditional Grants	5.8	3.0
Conditional Grants	17.1	13.0
- Federal	0.7	1.4
- Provincial	16.4	11.6
Total Grants	22.9	16.0
TOTAL REVENUE	100.0	100.0

Source: Statistics Canada, CANSIM, table 385-0004

Table 3: Distribution of Local Tax Revenues by Type of Tax in Selected OECD Countries, 2002 (%)

Countries	Income	Property	Sales				Other taxes
			General taxes	Specific goods and services	Taxes on use etc.	Total Sales	
Federal							
Australia	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Austria	56.0	10.0	23.6	3.8	1.7	29.1	4.9
Belgium	86.4	0.0	1.6	7.4	4.3	13.3	0.3
Canada	0.0	91.5	0.2	0.0	1.8	2.0	6.5
Germany	75.8	17.7	5.4	0.5	0.5	6.4	0.3
Mexico	0.1	89.5	0.0	1.9	0.5	2.4	7.9
Switzerland	83.2	16.6	0.0	0.2	0.1	0.3	0.0
United States	5.2	72.6	11.4	5.0	5.8	22.2	0.0
Unitary							
Denmark	93.1	6.8	0.0	0.1	0.0	0.1	0.0
Finland	95.2	4.6	0.0	0.0	0.0	0.0	0.1
France	0.0	53.2	0.0	7.5	3.4	10.9	35.9
Greece	0.0	67.8	3.5	25.7	3.0	32.2	0.0
Hungary	0.7	22.5	71.3	0.9	4.2	76.4	0.3
Iceland	79.5	13.1	7.4	0.0	0.0	7.4	0.0
Ireland	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Italy	21.6	13.6	2.5	12.9	7.6	23.0	41.8
Japan	44.6	33.0	7.3	8.3	5.7	21.3	1.0
Korea	12.4	51.9	0.0	14.3	5.8	20.1	15.6
Luxembourg	93.4	5.2	0.0	1.0	0.2	1.2	0.3
Netherlands	0.0	56.6	0.0	1.5	41.9	43.4	0.0
New Zealand	0.0	90.3	0.0	1.2	8.5	9.7	0.0
Norway	88.0	9.4	0.0	0.0	2.5	2.5	0.0
Poland	75.4	23.4	0.0	0.0	1.2	1.2	0.0
Portugal	21.1	47.0	0.0	0.0	0.0	0.0	0.0
Slovak Republic	54.1	22.0	0.0	17.9	6.0	23.9	0.0
Spain	25.2	24.3	23.8	17.4	8.1	49.3	1.1
Sweden	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Turkey	35.1	12.5	37.1	4.3	1.5	42.9	9.4
United Kingdom	0.0	100.0	0.0	0.0	0.0	0.0	0.0

Notes:

1. Income taxes include individual and corporate income taxes.
2. Property taxes include taxes on property including recurring taxes on net wealth.
3. General sales tax includes VAT, sales tax and other general taxes on goods and services
4. Specific taxes on goods & services include special taxes on goods and services that are not taxed under a general sales tax (e.g. fuel, hotel, and motel taxes).
5. Taxes on use include taxes levied on the use of goods or permission to use goods and not the goods themselves (e.g. pollution taxes)
6. Other taxes include taxes on net wealth, taxes at death, and residual taxes mainly on business.

Source: Organisation for Economic Co-operation and Development, *Revenue Statistics* 1965-2003 (Paris: OECD, 2004), Tables 136 and 138

local income taxes.[5] Local income taxes make up more than 10 percent of local tax revenues in only five states (Maryland, Kentucky, Ohio, Pennsylvania, and New York) and the District of Columbia, however. Only eight states in the U.S. authorize local governments to impose taxes on corporate income: Kentucky, Missouri, Michigan, New York, Ohio, Oregon, Tennessee, and West Virginia (Brunori 2003: 98).

Property taxes accounted for more than 90 percent of local government tax revenues in Australia, Canada, Ireland, New Zealand, and the United Kingdom (see Table 3).[6] With the exception of

[5] For a comparison of expenditure responsibilities and revenue sources in selected U.S. and Canadian cities, see Slack (2003).

Belgium and Sweden, local governments in each of the countries listed in Table 3 levy property taxes.

General sales taxes are not as widely used by cities around the world as are income and property taxes. Local governments make extensive use of a general sales tax in Austria, Hungary, Spain, Turkey, and the U.S. In the U.S., local governments in 31 states and the District of Columbia levy general sales taxes (Kitchen and Slack 2003).

Local governments in many countries levy taxes on specific goods and services (excise taxes). This is an important source of revenue in only a few countries, however: Greece, Italy, Korea, the Slovak Republic, and Spain. The two main selective sales taxes imposed by local governments in the U.S. are taxes on hotel/motel occupancy (allowed in 43 states) and meals (allowed in 27 states). Some local governments also tax tobacco products, fuel, liquor, and real estate transfers. Local governments in some countries levy other taxes such as taxes on business. The greatest reliance on other taxes can be found in France, Italy, and Korea.

3. Fiscal Challenges Facing Municipalities

Many commentators have expressed concern about the current fiscal condition of Canadian municipalities and have questioned whether they will be able to provide the services that people want at reasonable tax rates in the future (TD Economics 2004, Kitchen and Slack 2003, and Vander Ploeg 2004). These concerns originate from a series of recent events that have had an important impact on the municipal fiscal environment.

First, the "offloading" of services by the federal and provincial governments has meant increased responsibilities for municipalities throughout the country. In some cases, federal and provincial governments have shifted expenditure responsibilities directly to municipalities (such as social services and social housing in Ontario, for example). In other cases, offloading has meant that provincial governments have reduced transfers to municipalities (see Table 2) and, in effect, increased municipal funding requirements. In still other cases, offloading has meant that federal and provincial governments have downsized their own responsibilities in areas such as immigration settlement at the federal level and education in some provinces. Municipalities, in most of these cases, have felt the need to fill the void left by other governments. Finally, federal and provincial requirements have mandated that cities meet certain requirements (for example, water quality standards) without providing the funds to meet those requirements (these are known as "unfunded mandates"). In all of these cases of offloading, pressure has been placed on municipalities to increase expenditures (and revenues).

Second, Canada's future is increasingly linked to the fortunes of its large cities and city-regions where employment, wealth, and productivity growth are generated. Our success as a country depends critically on the success of our cities. In the new global environment, cities have to compete in the international marketplace to attract business and skilled labour. To do this, they

[6] Note that Table 3 calculates the property tax (and other taxes) as a proportion of total local tax revenues. Table 2 calculates the property tax as a percentage of total local revenues including other own-source revenues and intergovernmental grants.

not only have to provide sophisticated transportation and communications infrastructure but they also have to deliver services that enhance the quality of life in their communities (Slack, Bourne and Gertler 2003). These services include, for example, parks, recreational and cultural facilities, social services, public health services, and police protection. The need to provide this wide range of services has put added pressure on municipal finances.

Third, municipalities that are facing rapid growth are also, in many cases, experiencing the higher costs associated with urban sprawl. The literature on the costs of sprawl in both Canada and the U.S. suggests that infrastructure and service costs are higher in sprawl developments than compact developments (Slack 2002). As an example, the Greater Toronto Area (GTA) Task Force estimated that a more compact and efficient development pattern in that region could save an estimated $12.2 billion in capital costs over the next 25 years or roughly 22 percent of the projected $55 billion capital investment required to sustain current development patterns. The higher cost of sprawl places financial pressures on growing municipalities.

Fourth, at the same time that municipalities are facing and will continue to face increased pressures on the expenditure side of their budget, there has been no parallel diversification of their revenue sources. To a large extent, municipal revenues have not kept pace with the rapidly changing expenditure needs of municipalities. Unlike many other cities around the world, municipalities in Canada continue to rely primarily on property taxes and user fees to finance service provision. As noted earlier, property taxes do not increase directly with growth in the economy as do other taxes such as income and sales.

4. Are Canadian Municipalities Fiscally Sustainable?

In light of this new fiscal environment, municipal finance experts are questioning the fiscal sustainability of Canadian cities -- their continued ability to meet expenditure requirements with existing sources of revenue.[7] And yet, because of the available data to assess fiscal sustainability, it is often difficult to prove that Canadian cities are fiscally unsustainable. Over the past decade, for example, municipalities have not run deficits in their operating budgets because they are not permitted to do so under provincial legislation. Few municipalities, if any, have borrowed excessively to pay for capital expenditures because the amount of borrowing is also constrained by provincial governments. Few municipalities have raised property taxes significantly; few have run up large tax arrears. Overall, municipalities in Canada have also become less reliant on provincial grants. From a fiscal perspective, Canadian municipalities appear to be quite healthy.

It may be, however, that municipal accounting practices do not tell the whole story. The overall health of our municipalities has less to do with balancing their budgets, which they are required to do by law in any event, than with the adequacy of the services that are being provided and the current state of municipal infrastructure. If municipal governments in Canada appear fiscally healthy because they have under-invested in services and infrastructure essential to their economic health (transportation, roads, sewers, recreational facilities, for example), the seeds of

[7] The definition of “expenditure requirements” is controversial because there is no agreement on the standard to which services should be provided.

a serious future crisis may already be sown in terms of the overall health of our municipalities. This prospect does not bode well for the future well-being of our municipalities – or, by extension, for the country as a whole.
Unlike fiscal measures, the state of service delivery and infrastructure are both difficult to measure and are thus often ignored in the debate over fiscal imbalance. A number of Canadian studies have attempted to measure the magnitude of the “infrastructure gap” or “infrastructure deficit” and they have come up with wide ranging estimates.[8] Unfortunately, it is difficult to draw firm conclusions from these studies because some cover all municipal infrastructure while others cover only specific types of infrastructure such as water and sewers; some separate replacement and rehabilitation from investment needs while others do not; many obtain their data from surveys of people who may have a vested interest in over-stating the infrastructure deficit; and most assume no policy changes in the future such as charging efficient user fees that will result in curbing demand. Nevertheless, there is an emerging consensus that there is a substantial infrastructure deficit in Canada’s cities, especially in its larger cities, and that this deficit is becoming a serious competitive disadvantage for those cities and for the country as a whole (see, for example, TD Economics 2004).

Some authors have argued that municipalities in most provinces simply need to raise property taxes (on residential properties but not on commercial and industrial properties) and user fees to solve the imbalance (Mintz and Roberts 2006).[9] This argument is similar to the one used by the federal government to support the position that there is no fiscal imbalance between the federal and provincial/territorial governments. There is some truth to this argument at the municipal level – residential property taxes have not increased dramatically over the last 20 years and user fees could probably be expanded to include a few more services.[10] Correct pricing, in many cases, would also result in reduced demand for services and infrastructure and remove some of the pressure on expenditures. Some municipalities could borrow more to pay for infrastructure. Nevertheless, all of these measures are still likely to fall short of meeting existing expenditure requirements (Courchene 2005).

More importantly, the ability of municipalities to increase taxes and user fees is different than the ability of federal or provincial governments to increase their revenues for at least two different reasons. First, municipalities are constrained by provincial governments in terms of the services that they are mandated to deliver, on the one hand, and the restrictions on revenues they are permitted to levy, on the other hand. Second, the unique characteristics of the property tax make it more difficult to increase than income and sales taxes.

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[8] For a detailed description and evaluation of the numerous studies that have attempted to estimate the infrastructure gap in Canada, see Kitchen (2003).

[9] Mintz and Roberts (2006) note two important exceptions to this recommendation, however: Alberta where municipal user fees are relatively high and Ontario where the cost of social services is shared with municipalities. In those two provinces, the authors recommend consideration of a new tax on earned income.

[10] Unfortunately, there has been no research done in Canada on the question of whether individual municipalities could raise property taxes further and not lose tax base. Interesting work along these lines has been done for four U.S. cities by Haughwout, Inman, Craig and Luce (2004).

Under Section 92 of the Constitution, "Municipal Institutions in the Province" are under exclusive jurisdiction of the province. In reality, this provision means that provincial governments establish the very existence of local governments and their geographic boundaries; mandate most of the expenditure responsibilities of municipalities and, in many cases, minimum standards for local service provision; determine the revenues they can raise; set rules for levying the property tax; further shape and direct municipal expenditures through grant programs; prohibit municipalities from incurring a deficit in their operating budgets and determine the extent to which municipalities are allowed to borrow to meet capital requirements. At one level, what this high degree of provincial control means is that there simply cannot be any "fiscal crisis" at the local level because municipal governments are strictly held to balanced budgets for operating purposes and because borrowing to meet capital expenditures is constrained by provincial regulations. At another level, however, it means that municipal governments do not have complete autonomy in setting their own tax policy and are constrained from solving their own fiscal problems.

The main source of revenue to municipalities is the property tax which has characteristics that make it different from other taxes. As noted earlier, the property tax is an inelastic tax. It is inelastic because property values do not grow as quickly as do incomes and sales during a period of economic growth. Even when they do grow as quickly, there is usually a lag between assessed values and market values in many jurisdictions so that it takes time for the tax base to catch up to the actual growth.[11] The ability to raise revenues from residential property taxes may be further limited in the future because it is anticipated that the tax base will not continue to grow as quickly as it has in the past. An aging population will mean a drop in housing starts, downsizing, and limited growth in housing prices (The Conference Board of Canada 2004). The ability to increase tax revenues from non-residential property is limited because the property tax already over-taxes this sector in most municipalities when compared to residential properties and to the services it receives (Kitchen and Slack 1993; Mintz and Roberts 2006).

Perhaps the most important characteristic of the property tax which makes it difficult to increase, however, is its visibility. Unlike income taxes, property taxes are not withheld at source. Rather, property taxes are paid once or twice or six times a year by the property taxpayer. Unlike sales taxes which are paid as a percentage of each individual purchase, property taxes are paid in lump sums during the year. The result is taxpayers are much more aware of the total property taxes they pay each year than total income or sales taxes. Visibility is a good thing because it makes municipal politicians accountable to taxpayers. It does, however, restrict municipalities from increasing property taxes by a significant amount each year. Indeed, most municipalities are forced to reduce tax rates when property values increase so that taxes do not increase by the full

[11] Although the property tax is in many ways a good tax for municipal governments, it does have some limitations. For example, the property tax can encourage undesirable sprawl. Since the tax is a tax on property values (including land and improvements), any investment that increases the value of the property (including increases in density) will result in a higher tax (see Slack 2002). Also, the property tax is not appropriate for funding social services at the local level. Because these services redistribute income to the poor, income taxes are more appropriate to pay for social services.

amount of the increase in the tax base.[12] This type of tax reduction does not occur when incomes and sales increase. Rather, those tax revenues increase automatically when the base increases.

5. Conclusions

Fiscal imbalance is said to exist when the fiscal capacity of a government is insufficient to meet its spending responsibilities. Since municipalities in Canada are required to balance their operating budgets and the amount of borrowing they undertake for capital purposes is restricted by provincial governments, it does not appear initially that they suffer from a fiscal imbalance. Yet, the required balance has been achieved in large part by under-investing in infrastructure and service delivery. Unfortunately, the state of municipal infrastructure and the quality of services are much more difficult to quantify than are fiscal measures and so less is known about them. This lack of information does not mean, however, that municipalities are not facing a fiscal crisis.

Although there may be some room for municipalities in some provinces to increase residential property taxes and user fees, there does not appear to be sufficient room for them to solve the problems of under-investment in infrastructure and services. Moreover, the ability of municipalities to increase their revenues is different from the ability of provincial/territorial governments to increase their revenues: municipalities cannot easily increase their own-source revenues (property taxes and user fees) because of provincial restrictions on municipal revenues and because of the inelasticity and visibility of the property tax. For these reasons, the existence of a fiscal imbalance at the municipal level is less debatable than the existence of a vertical fiscal imbalance between the federal and provincial/territorial governments.

It is not the purpose of this paper to analyze solutions to the problem of fiscal imbalance at the municipal level but rather to describe the nature and extent of the imbalance. Nevertheless, some obvious ways to restore the balance between expenditure responsibilities and revenues can be suggested. These include, for example, increasing residential property taxes, user fees and borrowing, transferring responsibility for some expenditures to the provincial or federal governments ("uploading"), transferring revenue-raising power (tax room) to municipal governments (such as an income tax or selective sales taxes), and transferring funds from the federal and provincial governments to municipal governments through conditional or unconditional grants.

The appropriateness of each of these options and the implications of implementing them will be different for different municipalities and for the federal and provincial governments. Further research is needed to develop these options more fully and to test their impact. To complicate matters, the undertaking of any analysis on fiscal imbalance and on the options for reducing it requires the collection of information on the revenues and expenditures of individual

[12] A well-publicized example of the implications of municipalities not reducing property tax rates in the face of property value increases is California prior to 1978. The result was a property tax revolt and the introduction of Proposition 13. Under this proposition, assessment is increased annually by the rate of inflation or 2 percent per year (whichever is less) until the property is sold and tax rates cannot exceed 1 percent of the property's market value. In other words, the ability of municipalities in California to raise property taxes is severely limited by state legislation. A number of other states in the U.S. followed with similar legislation.

municipalities across the country on a comprehensive and consistent basis. This type of information is not currently available in Canada on a comparative basis. More data and analysis are also needed to quantify the service delivery and infrastructure gaps at the municipal level. Going forward, Canadian municipalities will have to gather the needed information and use it to present a compelling case on fiscal imbalance along with suggestions and analysis of viable options for resolving it.

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