MUNICIPAL COOPERATION ON ECONOMIC DEVELOPMENT: INTERNATIONAL EXPERIENCE

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OUTLINE OF PRESENTATION

- Background on municipalities and municipal finance in Canada
- Tools to encourage municipal cooperation on economic development (Canadian and US examples):
  - Description of tool
  - Example of where it is used
  - Advantages/disadvantages

BACKGROUND ON CANADA

- Canada is a federation with three levels of government: federal, provincial/territorial and municipal
- Under the Canadian Constitution, powers are divided between the federal and provincial governments
- Municipalities are not recognized in the Constitution except to the extent that they are the responsibility of provinces
- There are 10 provincial governments, 3 territorial governments and about 4,000 municipal governments

CANADA
ROLE OF THE PROVINCE

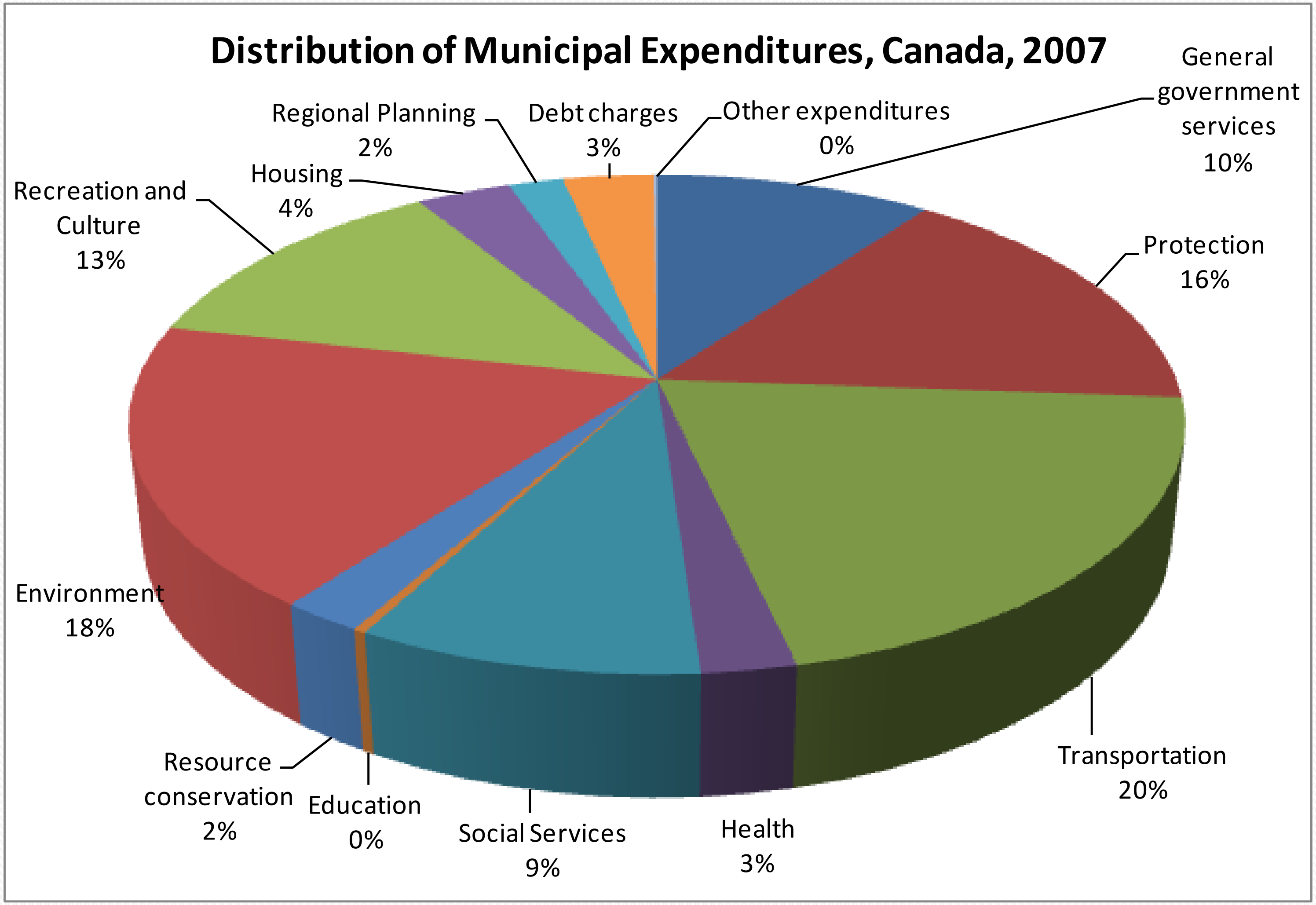
- Create or dissolve municipalities, e.g. Toronto amalgamation
- Provincial legislation determines municipal responsibilities and what taxes municipalities can levy
- Provincial governments set standards for service provision
- Municipalities cannot run an operating deficit
- Municipal borrowing is restricted
- Unconditional transfers: per capita and equalization
- Conditional transfers: mainly for social services (Ontario), transportation (roads and transit), and environment (water, sewer, solid waste)

CANADA
ROLE OF THE FEDERAL GOVERNMENT

- Provides some limited transfers to municipalities, including:
  - gas tax transfer
  - infrastructure grants
  - homelessness grants
  - economic stimulus grants

Canada

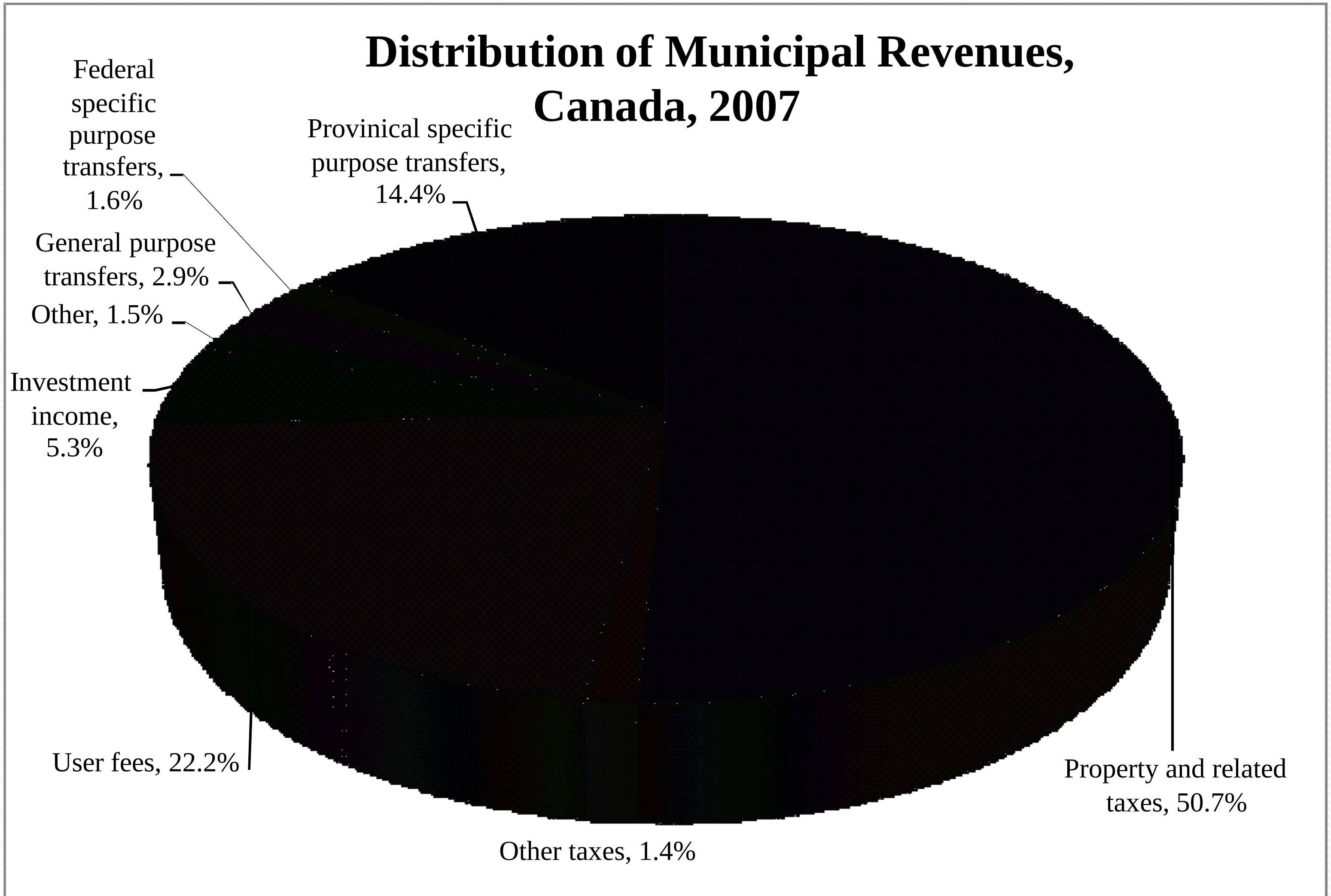
CANADA
MUNICIPAL EXPENDITURES AND REVENUES



Source of data: Statistics Canada, CANSIM Table 385-0024 Local General Government revenue and expenditures, current and capital accounts, year ending December 31.

CANADA

MUNICIPAL EXPENDITURES AND REVENUES



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TOOLS TO ENCOURAGE MUNICIPAL COOPERATION

- Tax base sharing
- Pooling borrowing
- Inter-municipal agreements/cost sharing
- Development charges
- Special purpose bodies
- Conditional transfers
- Public-private partnerships

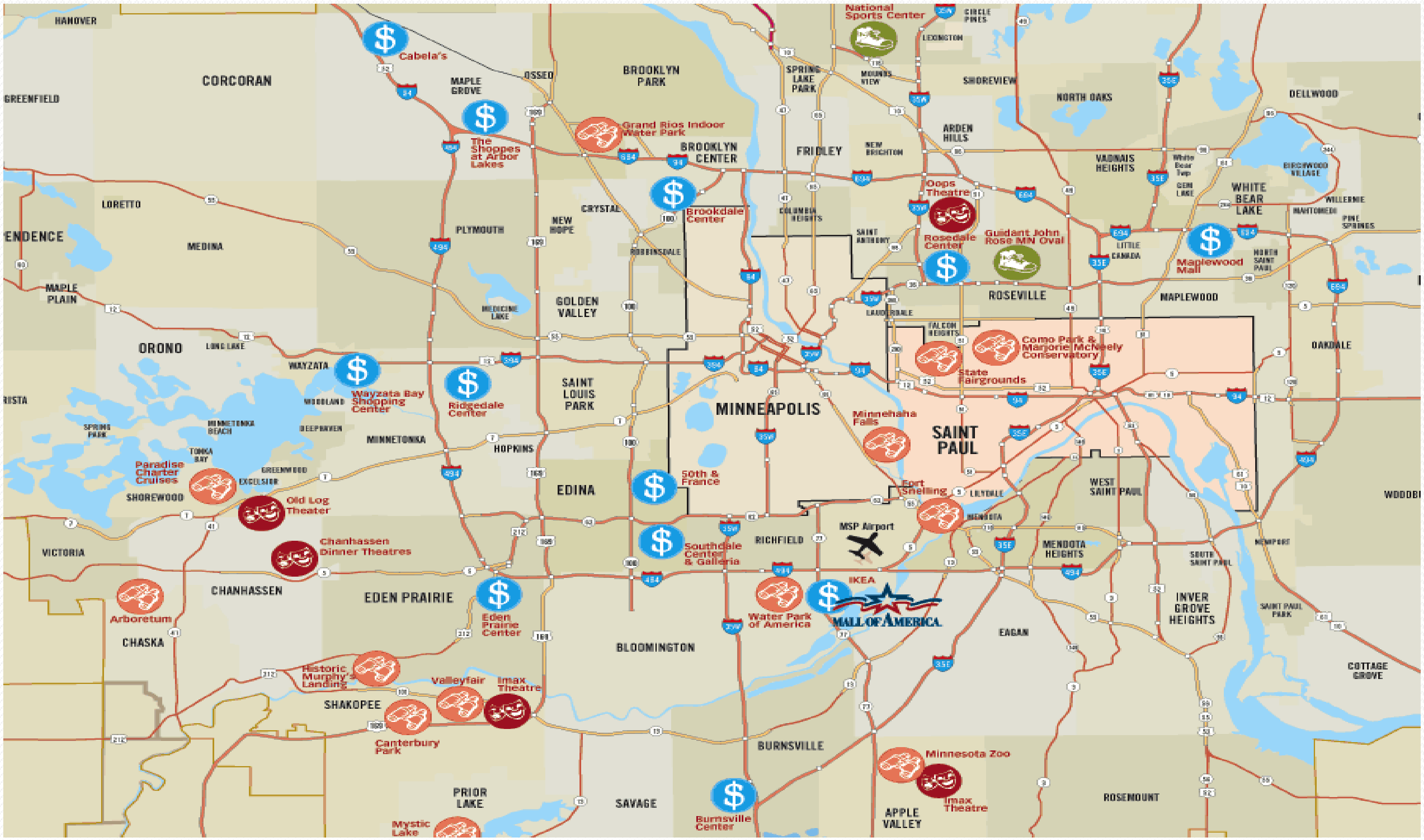
TAX BASE SHARING

WHAT IS IT?

- Sharing of growth in the tax base
- Each municipality contributes a portion of its tax base to a regional pool
  - % of base or % of growth in the base
  - all types of taxes or just some
- Each municipality receives money from the pool based on a set of criteria
  - tax capacity
  - service costs

TAX BASE SHARING

MINNEAPOLIS-ST.PAUL, US



TAX BASE SHARING

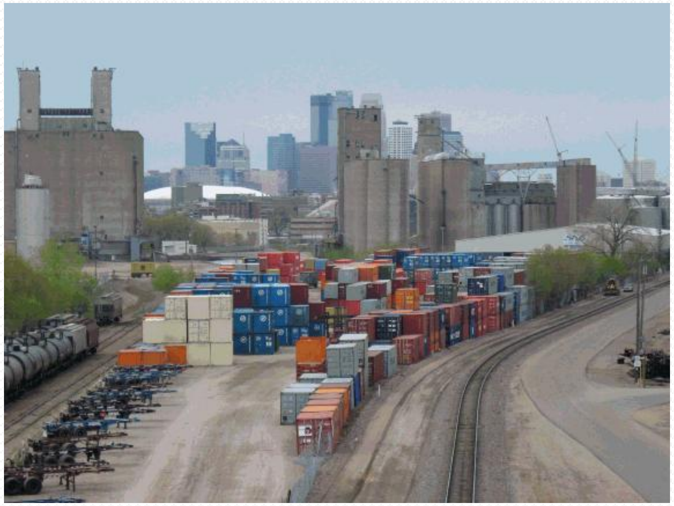
MINNEAPOLIS-ST.PAUL, US

- 2.8 million people
- 2 central cities; 7 counties; 143 cities; 43 townships; 48 school districts
- Minnesota Fiscal Disparities Act passed in 1971 to address increasing property tax rates, tax base and rate disparities, and inter-jurisdictional competition for development
- Opposition to the bill in the courts
- Tax base sharing finally went into effect in 1975

TAX BASE SHARING

HOW DOES IT WORK IN MINNEAPOLIS-St. PAUL?

- 40% of growth in commercial/industrial tax base since 1971 goes into a region-wide pool
- Area-wide tax base is redistributed on the basis of population and market value of all property in the community compared to the metro average (e.g. if a community is below the average market value, they receive a larger share of the pool)
- Commercial/industrial property taxed at local rate and area-wide rate; area-wide rate reduces differences across the region



TAX BASE SHARING
WHAT ARE THE ADVANTAGES?

- Way for communities to share in community's growth
- Reduces competition for tax base
- Does not alter structure of local governments or remove local control over tax rates and collection
- Encourages regional cooperation

POOLING MUNICIPAL BORROWING:

HOW DOES IT WORK?

- Cost of borrowing may be high for smaller municipalities
- Pooling of municipal debt is one way to lower the costs of borrowing
- A central or provincial/state authority can sell the larger, combined issue on the national bond market at a lower cost than can some individual municipalities

BC MUNICIPAL FINANCE AUTHORITY, CANADA

- Created in 1970 by provincial legislation (Municipal Finance Authority Act)
- Pools borrowing and investment needs of communities through a collective structure
- Provides long and short term financing, investment management, leasing and other financial services to communities and public institutions
- Individual municipalities borrow and repay regional district
- Joint and several obligation

BC MUNICIPAL FINANCE AUTHORITY, CANADA

- MFA is owned by the municipalities – 35-member Authority comprises elected officials appointed by the boards in each of the regional districts
- Independently rated by rating agencies
- High credit rating/low borrowing costs

MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA

POOLING MUNICIPAL BORROWING: WHAT ARE THE ADVANTAGES?

- Lower borrowing costs as a result of pooling local government debt issues
  - Municipal finance authority substitutes one contract with an underwriter for separate contracts between each borrower and debt issuer
  - It can economize on transactions costs because it issues debentures more frequently than most individual municipal borrowers
- Borrowing authority can exercise greater degree of flexibility over issue terms and costs to municipal clients

INTER-MUNICIPAL AGREEMENTS/COST-SHARING

WHAT IS IT?

- Two or more municipalities share the costs of a service
- One municipality contracts service to another municipality
- Two or more municipalities share a function (e.g. legal counsel, planner)

COST SHARING

YORK REGION, CANADA

- Fire departments share thermal imaging equipment
- One municipality contracts building services to another municipality when workload is heavy
- One municipality contracts out development of parks and recreation facilities and programs
- One municipality contracts transit services from another municipality

COST SHARING

YORK REGION, CANADA

- Municipalities participate in joint purchasing e.g. computers, office supplies
- Shared use of in-house legal counsel
- Shared use of planner

VICTORIA, CANADA

- Inter-municipal business licensing

COST SHARING

WHAT ARE THE ADVANTANGES?

- Potential for cost saving
- Ability to deal with peak and non-peak periods
- Access to improved levels of expertise
- Maintains local autonomy but … who is accountable if something goes wrong?

DEVELOPMENT CHARGES

WHAT ARE THEY?

- Charge per lot or per hectare to cover the growth-related capital cost associated with new development
- Covers cost of off-site infrastructure (e.g. highways, sewer lines, etc.)
- Applicable to new growth and sometimes redevelopment
- Needs to be levied on region-wide basis for region-wide services (e.g. water and sewage treatment, major roadways)

DEVELOPMENT CHARGES
CANADIAN MUNICIPALITIES

- Widely used by growing municipalities in several provinces
- Levied on residential and non-residential properties
- Need to forecast growth-related capital costs over 10-year period
- Can differentiate charge by type of property (e.g. houses versus apartments) and by neighborhood (e.g. high cost of services versus low cost)

DEVELOPMENT CHARGES

WHAT ARE THE ADVANTAGES?

- New growth pays for itself and is not a burden on existing taxpayers
- If levied on a development by development basis, development charges can lead to efficient land use decisions but not if charge is uniform
- Can developers borrow as cheaply as municipalities?

SPECIAL PURPOSE BODIES
WHAT ARE THEY?

- Operate as a separate business entity sometimes independent of local council, sometimes under some affiliation or control by council

- Generally responsible for only one service

GREATER TORONTO MARKETING ALLIANCE (GTMA)

- Promotes Greater Toronto Area internationally; helps facilitate investment in the region
- Central source of information for businesses in the region (one point of contact)
- Public-private partnership: 29 municipalities and regions, federal and provincial government, not-for-profit corporations, private sector corporations

SPECIAL PURPOSE BODIES
ADVANTAGES AND DISADVANTAGES

- Expertise of professionals as opposed to politicians
- Can operate on a region-wide basis
- No tradeoffs among different services
- Accountability and transparency?

CONDITIONAL TRANSFERS

HOW DO THEY WORK?

- Transfers from central government for specific services – roads, transit, water, etc.
- Other conditions of funding could be imposed, e.g. need to have a metropolitan-wide body to deliver the service

TRANSPORTATION FUNDING AND MUNICIPAL PLANNING ORGANIZATIONS, US

- Intermodal Surface Transportation Efficiency Act (ISTEA in 1991 and Transportation Equity Act (TEA-21 in 1998):
  - Targeted federal aid to regional bodies -- Municipal Planning Organizations (MPOs)
  - Strengthened their role in planning and funding regional transportation systems

TRANSPORTATION FUNDING AND MUNICIPAL PLANNING ORGANIZATIONS, US

- Financial incentives and disincentives associated with the degree of cooperation in planning transportation in metro areas:
  - If localities in the region did not cooperate, reduced pool of federal money for transportation
  - If MPO failed to attain certification, federal department may withhold 20% of available funds

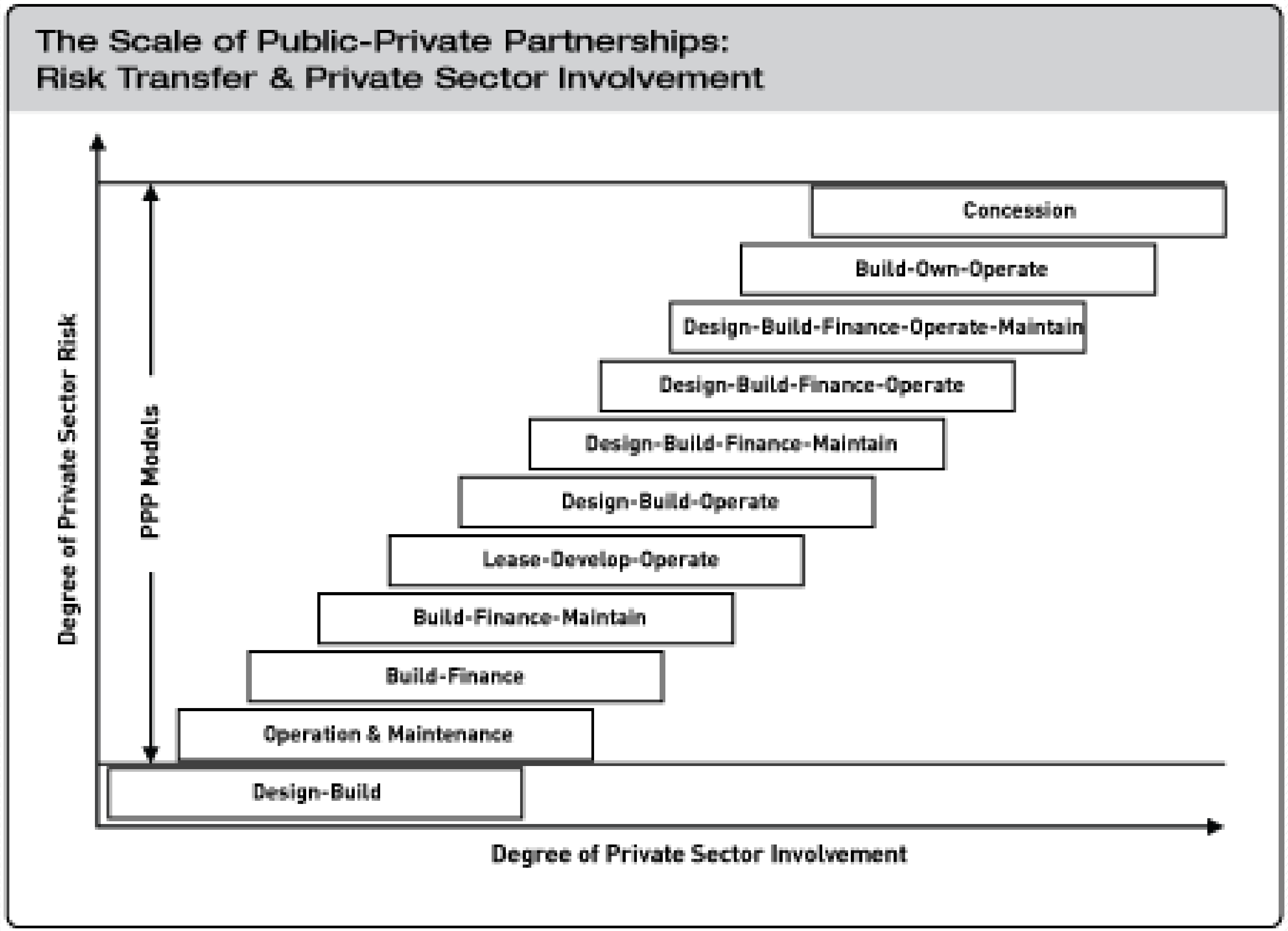
TRANSPORTATION FUNDING AND MUNICIPAL PLANNING ORGANIZATIONS, US

- MPOs moved from advisory bodies to institutions that distribute funds
- Regional transportation process turned into a comprehensive regional transportation process including all modes plus related social, economic, and environmental issues
- TEA-21 replaced by Safe, Accountable, Flexible, Efficient Transportation Equity Act, A Legacy for Users (SAFETEA - LU) in 2005

CONDITIONAL TRANSFERS
ADVANTAGES AND DISADVANTAGES

- Funding can be used to encourage municipalities to work together on a regional planning process
- Central versus local priorities
- Transfers may not be stable and predictable

PUBLIC-PRIVATE PARTNERSHIPS



The Canadian Council for Public-Private Partnerships

SPORTS AND ENTERTAINMENT FACILITY

KELOWNA, BC

- Multi-purpose, professional sports and entertainment facility; attracts major events to Kelowna
- 1998: City entered into PPP with private company to build, operate and maintain the facility

SPORTS AND ENTERTAINMENT FACILITY

KELOWNA, BC

- Partnership agreement allows private company to own and operate facility as a private business
- Arm's length relationship with the city
- City has 1,500 hours per year of facility time
- In 30 years, property and facility reverts to the City
- Partnership led to changes in provincial legislation

PUBLIC-PRIVATE PARTNERSHIPS
ADVANTAGES AND DISADVANTAGES

- New source of capital for investment
- Public sector can draw on private sector expertise
- Potential for cost savings with competition
- Potential loss of control for the public sector
- Private borrowing costs may be greater than public borrowing costs

KEY SUCCESS FACTORS

- Initial feasibility – value for money; why go to the private sector?
- Project management – designate one person with authority to negotiate with stakeholders and contract on behalf of the project sponsor
- Appropriate procurement process – depends on knowledge of project needs
- Bid evaluation – pre-qualification; consider price plus design, timing, quality of service…

KEY SUCCESS FACTORS (CONT'D)

- Subjective test – is it too good to be true?
- Structure – should be based on extent of commercial viability
- Risk allocation between public and private sector – realistic and appropriate sharing of financial and operating risk