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# Municipal Finance and Governance Issues in Canada and Abroad

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Enid Slack  
Institute on Municipal Finance and Governance  
Munk School of Global Affairs  
University of Toronto

February 9, 2012

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# Why Do Cities Matter?

- Cities are “engines of growth” – generators of employment, wealth, and productivity growth
- Agglomeration economies – economic advantages of close proximity; innovation in cities
- Local governments facilitate productive advantages of agglomeration through services to businesses and individuals – transit, police, water, waste collection

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# Why do municipal finance and governance matter?

- How cities are financed and governed affects both the quantity and quality of local public services and the efficiency with which they are delivered

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# Outline of Presentation

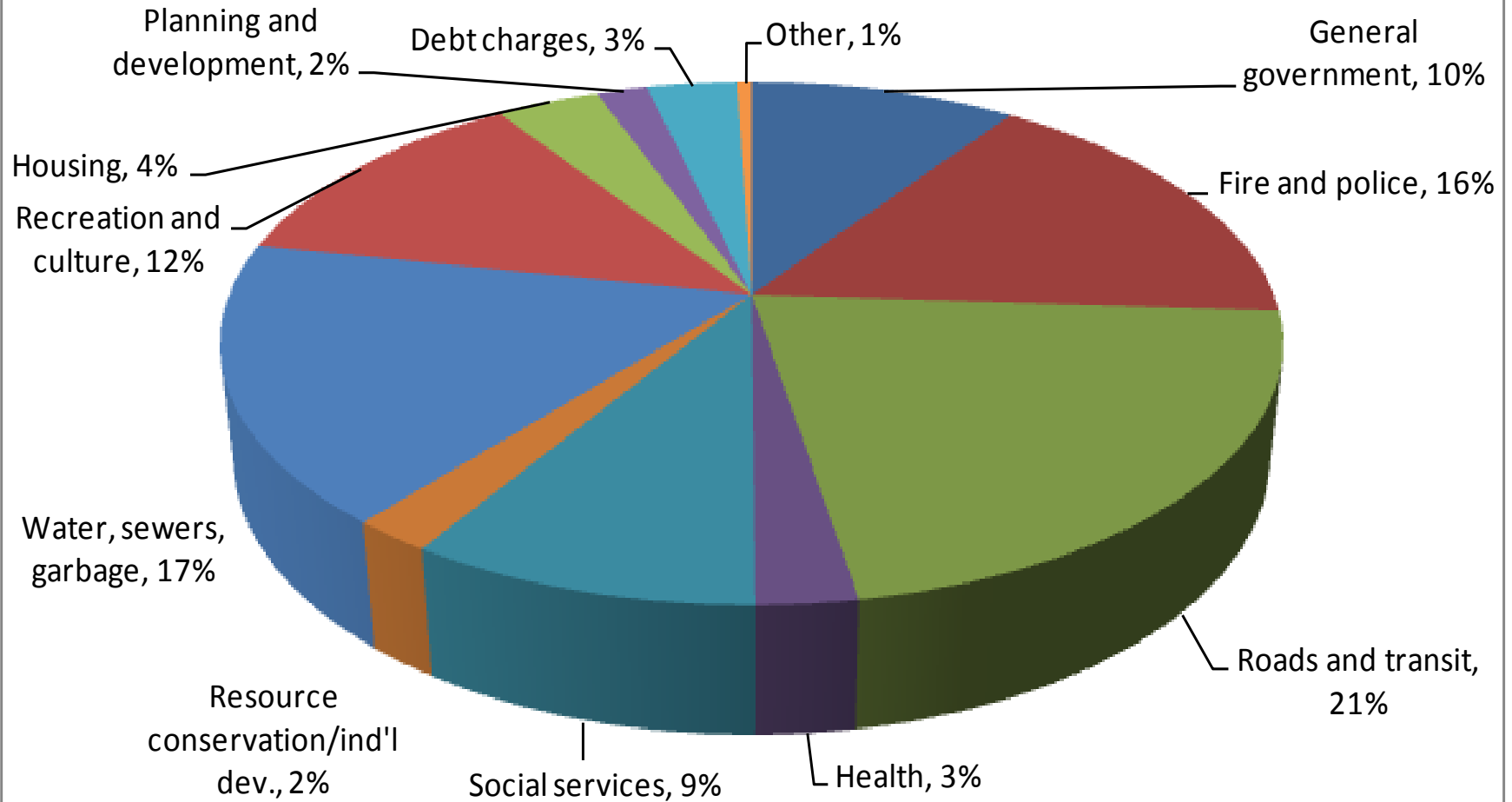
- Municipal finance
  - Policy Context – Domestic
  - Policy Context – International
  - How to choose revenue tools
- Governance
  - Why does it matter?
  - Balancing regional and local interests
  - Regional structures
- Final observations

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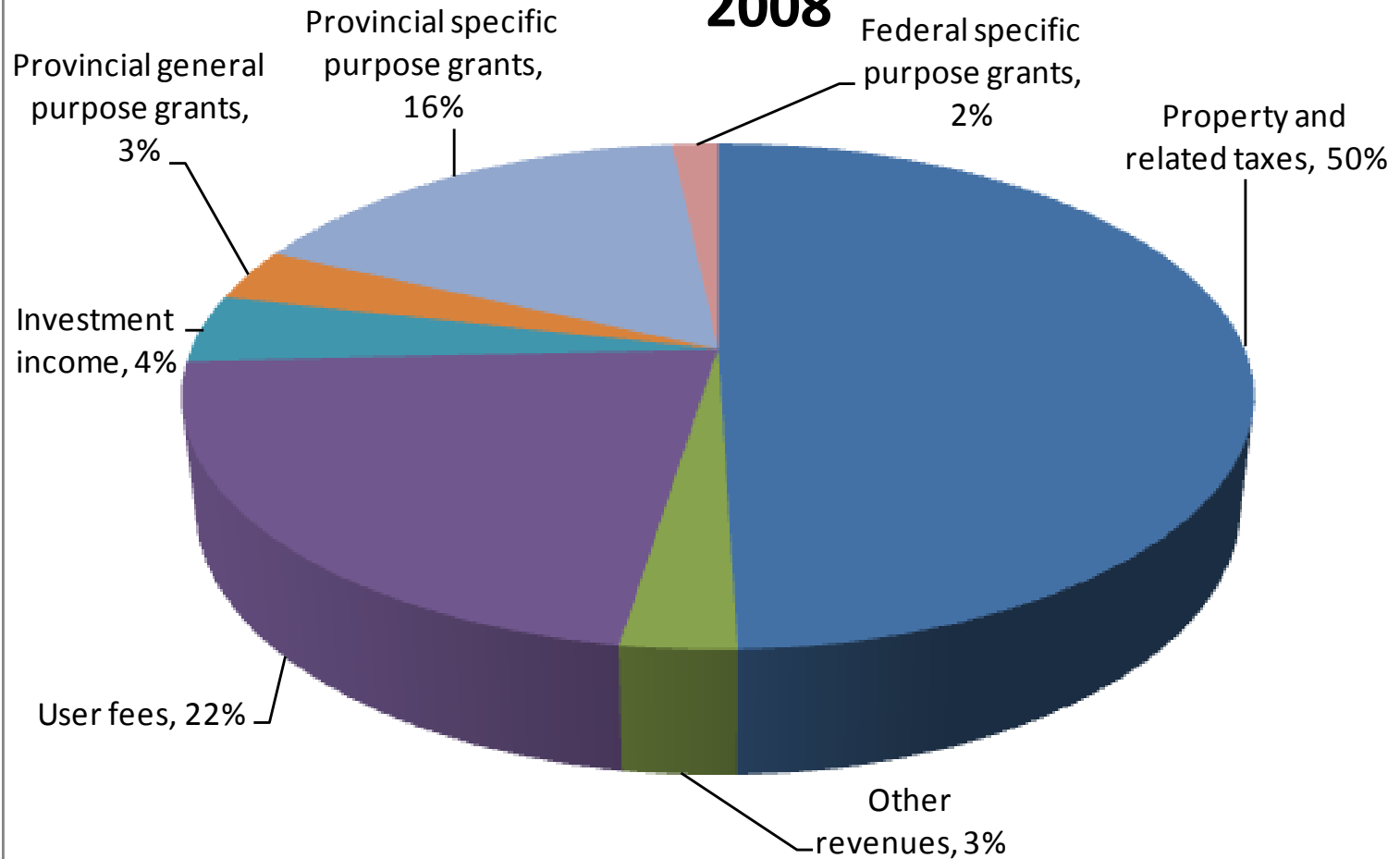
# Policy Context -- Domestic

- Municipal expenditures
- Municipal revenues
- Role of the province
- Fiscal challenges
- Fiscal health of cities

# Municipal Expenditures, Canada, 2008



# Sources of Municipal Revenue, Canada, 2008



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# Policy Context Domestic – 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 (including non-mandated services)
- Municipalities cannot run an operating deficit
- Municipal borrowing is restricted



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# Policy Context Domestic -- Fiscal Challenges Facing Large Municipalities

- Offloading services to local governments
  - Need to be internationally competitive
  - Deterioration of Infrastructure in older cities
  - Higher costs associated with urban sprawl
  - No diversification of revenue sources
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# Is There a Municipal Fiscal Imbalance?

- Municipalities have done well on fiscal measures:
  - Size of the operating deficit (no fiscal imbalance)
  - Amount of borrowing for capital
  - Size of reserves
  - Rate of property tax increases
  - Reliance on provincial grants
  - Extent of tax arrears

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# Is There a Municipal Fiscal Imbalance?

- *Fiscal* health may be achieved at the expense of the *overall* health of municipalities:
  - The state of municipal infrastructure (transit, roads, water, sewers, recreational facilities, etc.)
  - The quality of service delivery
  - Infrastructure deficit -- \$125 billion?

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# The Policy Context – International

- Recognition that cities are important to economic growth
- Many cities have more revenue tools than Canadian cities
- Federal governments more involved in cities in other federal countries

Toronto	Berlin	New York	London
<p><b>Local taxes:</b>  Property tax  Land transfer tax  Vehicle registration tax (repealed in 2011)  Billboard tax</p>	<p><b>Land taxes and tax shares:</b>  Share of corporate income tax  Share of capital income tax  Real estate transfer tax  Motor vehicle tax  Inheritance tax  Tax on betting and lotteries  Fire protection tax  Beer tax</p> <p><b>Land plus local shares:</b>  Personal income tax  Business tax</p> <p><b>Local taxes:</b>  Real estate tax  Entertainment tax  Dog tax  Second home tax</p>	<p><b>Local taxes:</b>  General property tax  General sales tax  Personal income tax  General corporation tax  Commercial occupancy tax  Banking corporation tax  Utility tax  Unincorporated business tax  Real property transfer tax  Mortgage recording tax  Tax audit revenues  Cigarette tax  Hotel tax</p>	<p><b>Local taxes:</b>  Council tax (residential property tax)</p>

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# Federal Involvement in Cities in Other Federal Countries

- Australia: Federal minister for local government; Infrastructure Australia; Major Cities Unit
  - Brazil: Local governments in the Constitution
  - Switzerland: Article in constitution assigns role to federal government to address specific problems of cities and metro areas; federal support for infrastructure; promotes inter-municipal cooperation
  - India: Federal government provides funds for infrastructure development
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# Different Services – Different Revenue Tools

## **Private**

Water  
Sewers  
Garbage  
Transit

## **Public**

Police  
Fire  
Local parks  
Street lights

## **Redistributive**

Social assist.  
Social housing

## **Spillovers**

Roads/transit  
Culture  
Social assistance



**User fees**



**Property tax**  
**Sales tax**



**Income tax**



**Transfers**

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# Why does governance matter?

- Institutions of metropolitan governance are important because they affect decisions about:
  - quantity and quality of services
  - efficiency with which services are delivered
  - whether costs are shared throughout the metropolitan area in a fair and efficient way
  - citizen access to government
  - government accountability to citizens



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# Why does governance matter?

- Metropolitan governance matters for service delivery:
    - Transportation: Need to coordinate transportation across municipal boundaries; need to ensure access to employment and services; need to coordinate transportation and regional land use
    - Water: Need to determine where treatment facilities will be located
    - Solid waste: Need to determine where garbage disposal sites will be located
    - Policing: Need to fight crime across municipal boundaries
    - Social services, health and education: Need to decide on level of expenditures and how to share costs
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# Fragmented metropolitan governance

- Most metropolitan areas characterized by many small, fragmented local governments
  - Geographic boundaries rarely coincide with economic region
  - Overlapping special purpose districts responsible for specific services (e.g. electricity or water)
  - Inter-municipal cooperation
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# Balancing regional and local interests: Criteria to evaluate governance models

- Efficiency
  - Ability to achieve economies of scale
  - Ability to reduce negative spillovers (externalities) across local boundaries
- Equity: ability to share costs and benefits of services fairly across the metropolitan area
- Accessibility and accountability for decision-making
- Local responsiveness/competition

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# Regional Structures

1. Metropolitan Government
  - ✓ e.g. Cape Town, South Africa
2. Two-Tier Government
  - ✓ e.g. Barcelona
  - ✓ e.g. Metro Vancouver
3. Strong Role for Provincial/State government
  - ✓ e.g. Australia
4. Regional Planning Authorities
  - ✓ e.g. Metropolitan Planning Organizations (e.g. United States)

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# Final Observations

- An effective system of governance for the entire metropolitan region is needed to ensure that services are delivered efficiently and costs are shared fairly
- Voluntary cooperation is the most popular regional governance structure— does it provide the regional foundation for metropolitan issues?
- If there is a regional government structure, need community or neighborhood councils to engage citizens and encourage participatory democracy

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# Final Observations

- Metropolitan areas need fiscal autonomy; mix of taxes
  - Role for state government – coordinate service delivery; ensure fair sharing of costs across region; ensure sufficient resources
  - Role for federal government – resources directed to making metropolitan areas internationally competitive
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