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# Funding Municipal Infrastructure in Canada: Challenges and Opportunities

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# Infrastructure Matters

“To separate the economy of a city from its infrastructure is like asking how the human body would function in the absence of its skeleton and cardiovascular and nervous systems”

- Christopher Kennedy, *The Evolution of Great World Cities: Urban Wealth and Economic Growth*

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# Funding Infrastructure in Canada

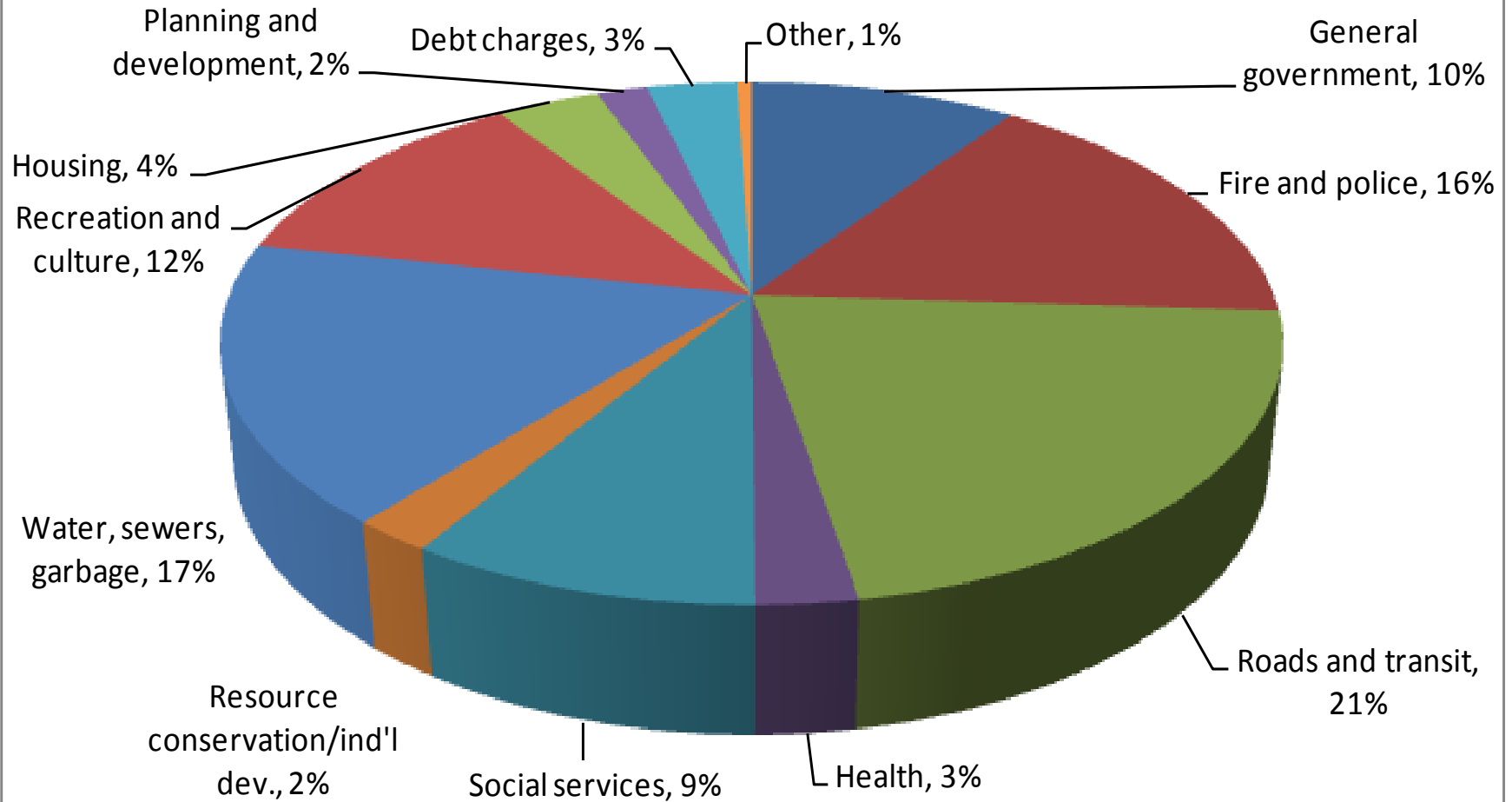
- Trends in municipal finance in Canada
- Fiscal challenges facing municipalities and what it means for infrastructure
- Traditional and non-traditional ways to finance infrastructure

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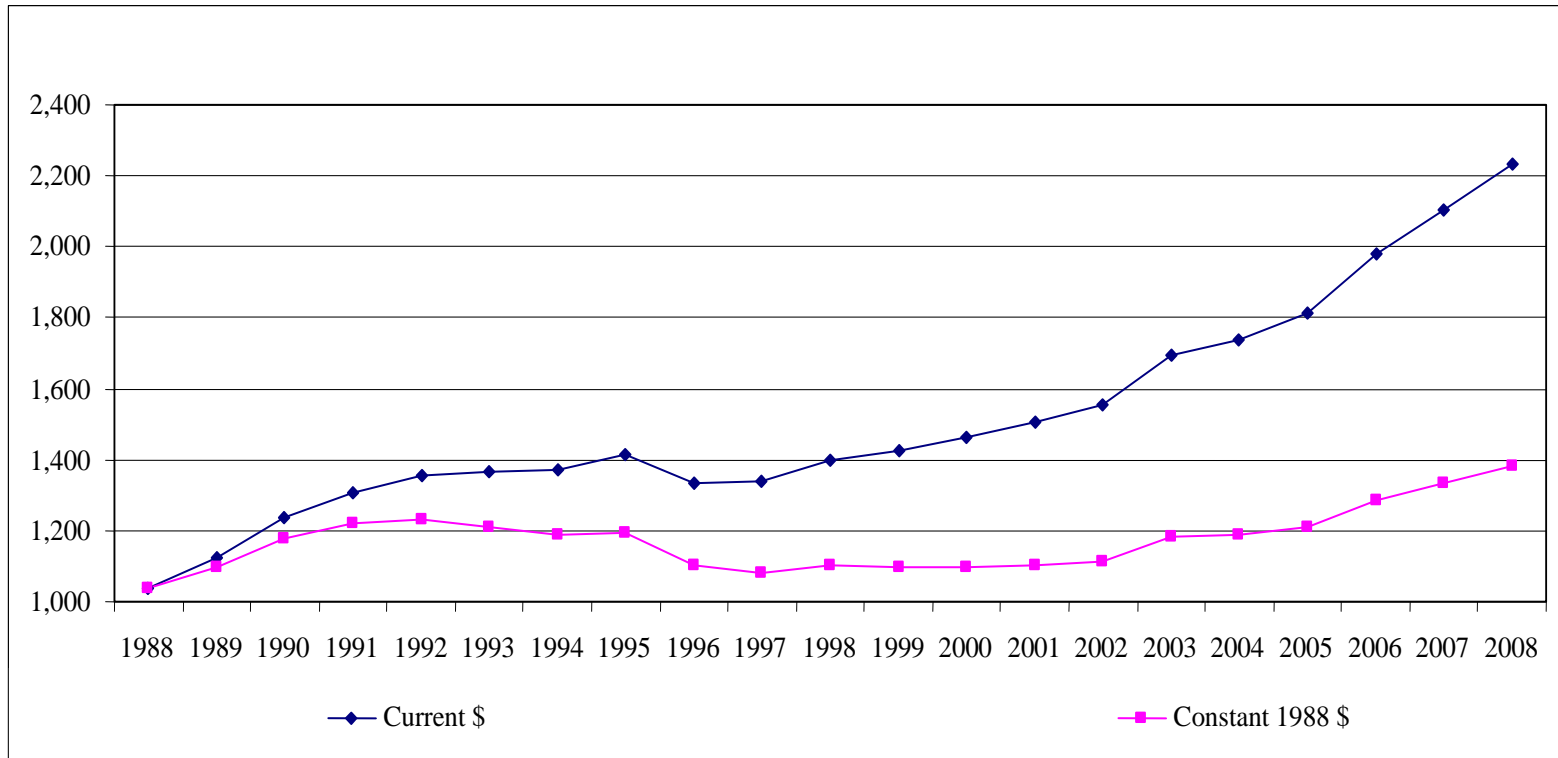
# Municipal Expenditures and Revenues in Canada

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

# Municipal Expenditures, Canada, 2008

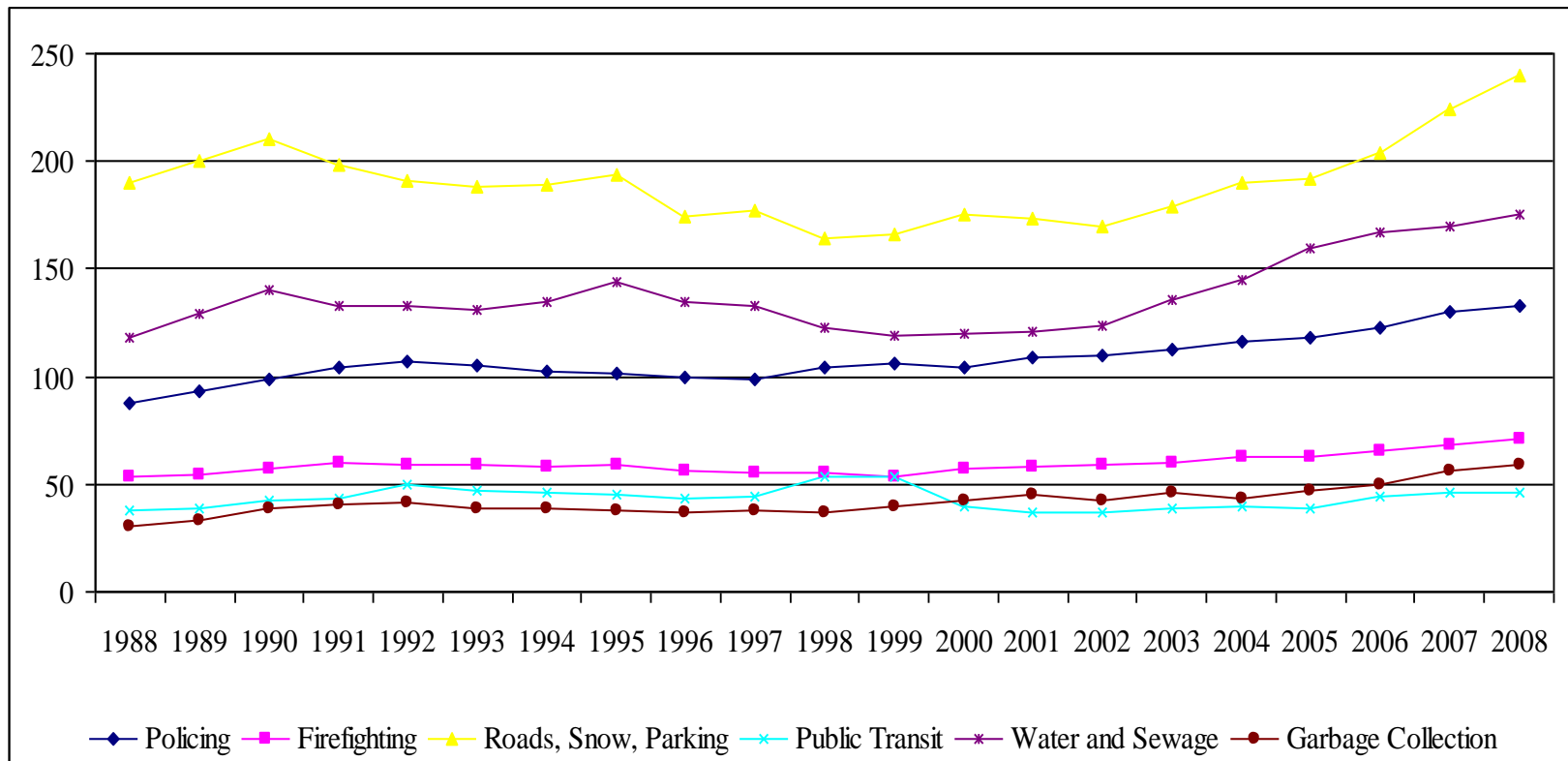


## Total Municipal Expenditures per Capita, Canada, 1988-2008, Current and Constant (1988) Dollars



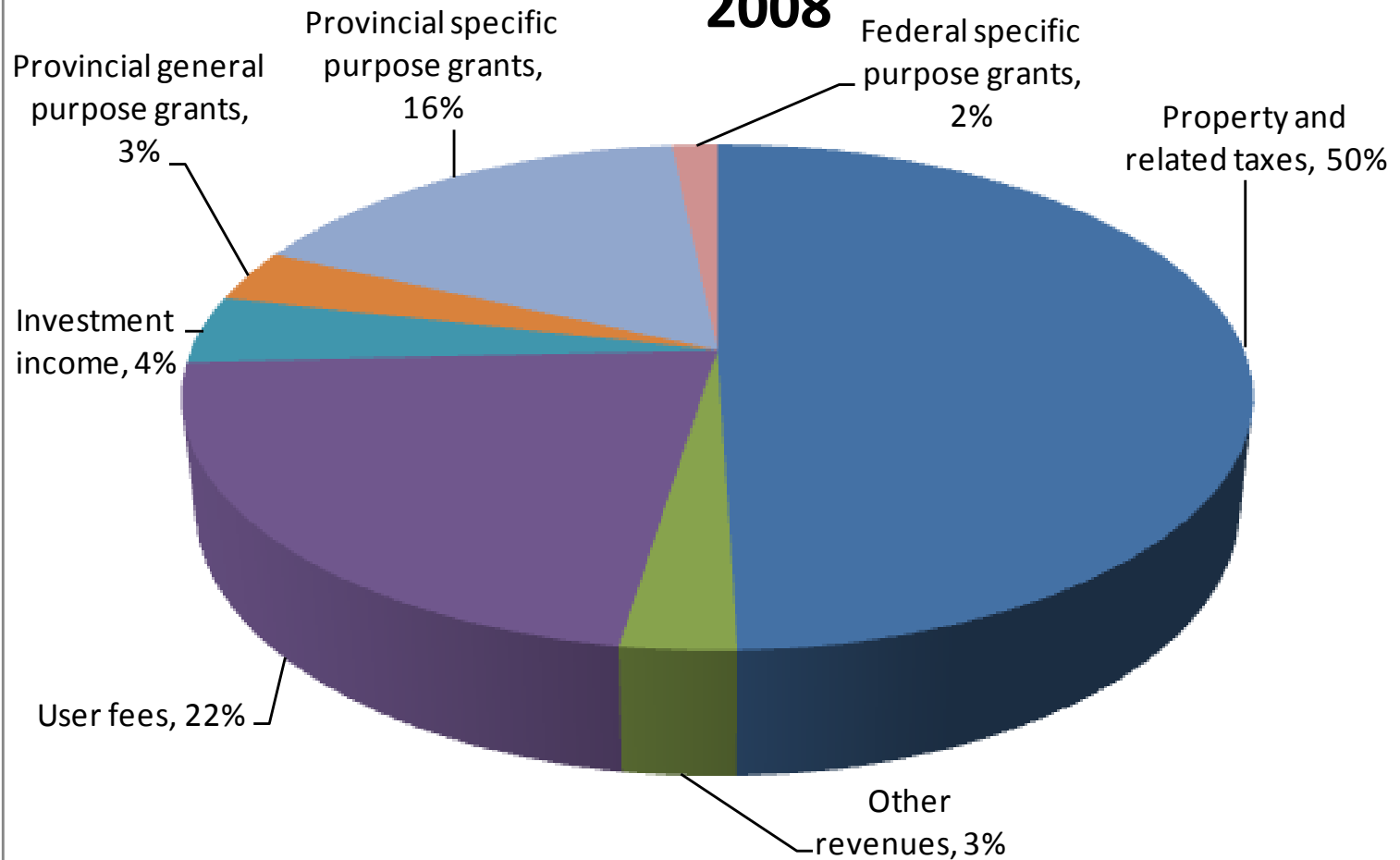
Source: Statistics Canada, National Economic Accounts, CANSIM Table 385-0024.

## Selected Municipal Government Expenditures per Capita, Canada, 1988-2008, Constant (1988) Dollars



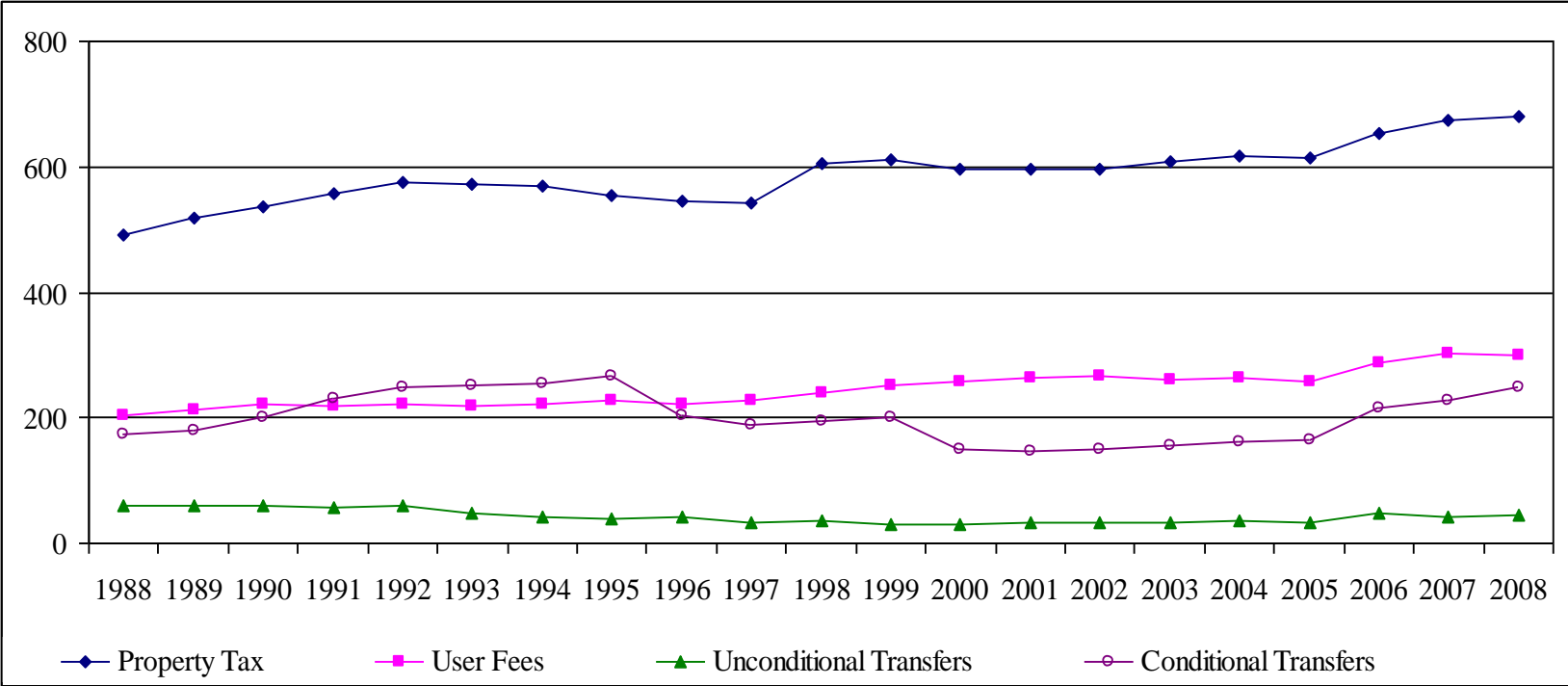
Source: Statistics Canada, National Economic Accounts, CANSIM Table 385-0024.

# Sources of Municipal Revenue, Canada, 2008





## Major Municipal Revenues by Source, Constant (1988) Dollars per Capita, 1988-2008



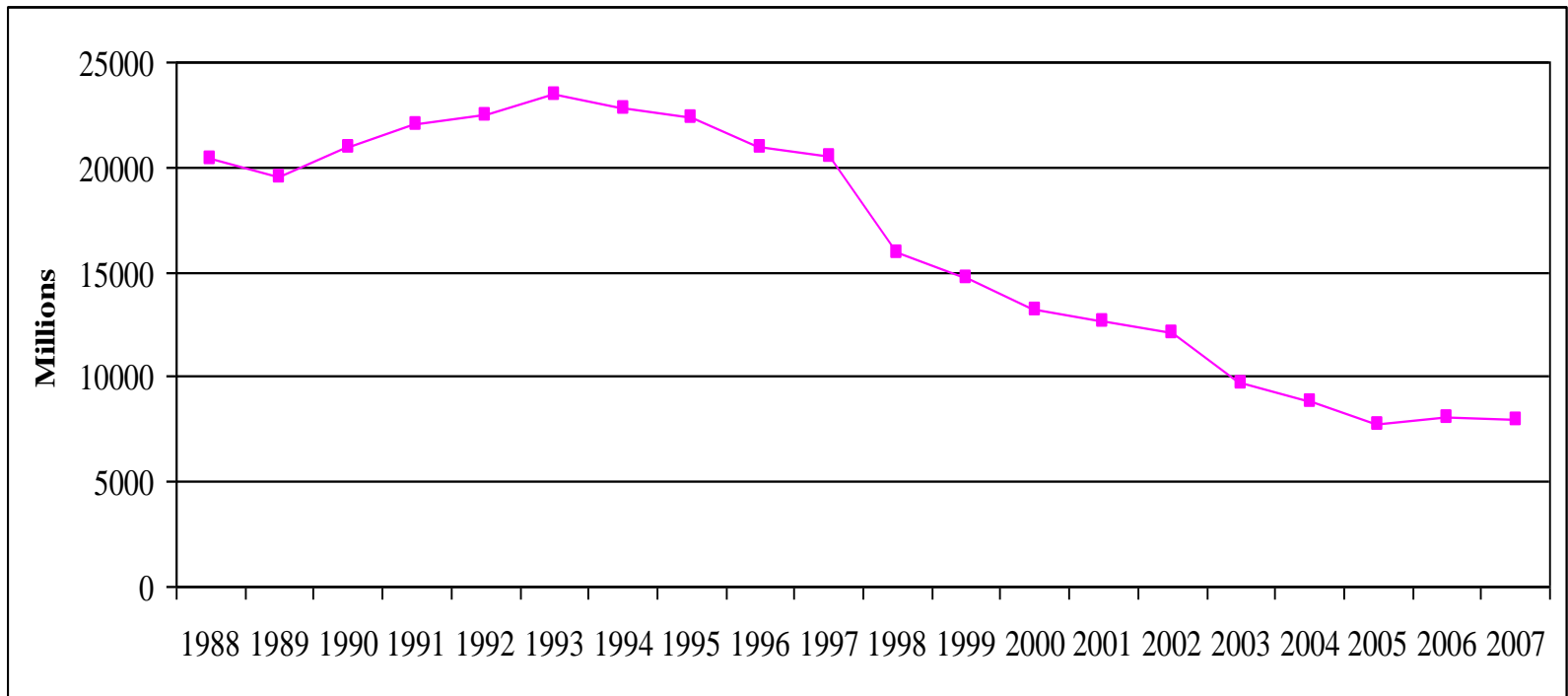
Source: Statistics Canada, National Economic Accounts, CANSIM Table 385-0024.

# Other Municipal Revenues in Selected Provinces

- Land transfer tax
- Amusement taxes
- Hotel taxes
- Poll tax
- Vehicle registration tax
- Revenue sharing (income tax, sales tax, fuel tax, casino revenues, fine revenues)



## Net Financial Debt for Local Governments (Municipalities and School Boards), Canada, 1988-2007



Source: Statistics Canada, CANSIM Table 385-0014

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# Fiscal Challenges Facing Municipalities

- Federal and provincial offloading
  - Need to be internationally competitive
  - High costs associated with sprawl
  - Impact of economic downturn
  - No diversification of revenue sources
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# Is There a Municipal Fiscal Imbalance?

- Municipalities have done well on fiscal measures:
  - Size of 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 have been achieved at the expense of municipal overall health:
  - State of municipal infrastructure
  - Quality of service delivery
  - Infrastructure and services are difficult to measure

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# Infrastructure Financing

## 1. *Traditional*

- Taxes, User Fees, Transfers, Borrowing

## 2. *Non-traditional*

- Public-Private Partnerships (PPPs), Development Levies, Value Capture

# Taxes

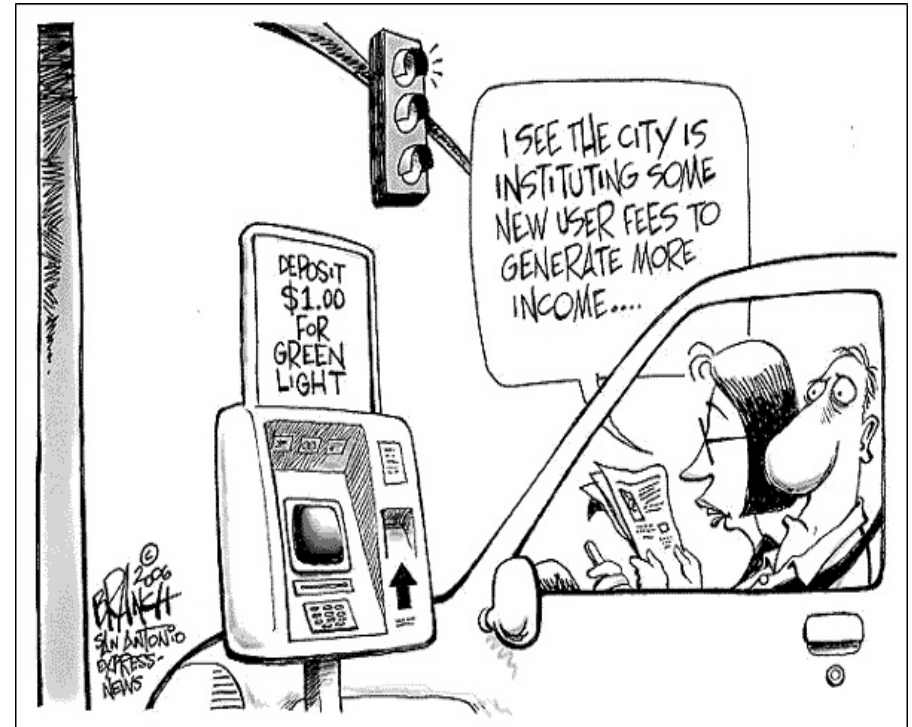
- Taxes
  - Property
  - Income
  - Sales
- Mainly used for operating expenditures





# User Fees

- Signals what people are willing to pay for
- Need to be able to identify the beneficiaries
- Appropriate for water, sewage, garbage collection, highway improvement (tolls), public transit...



# Intergovernmental Transfers

- Reflects greater revenue-raising ability of federal and provincial governments
- Distorts local decisions
- Not stable and predictable



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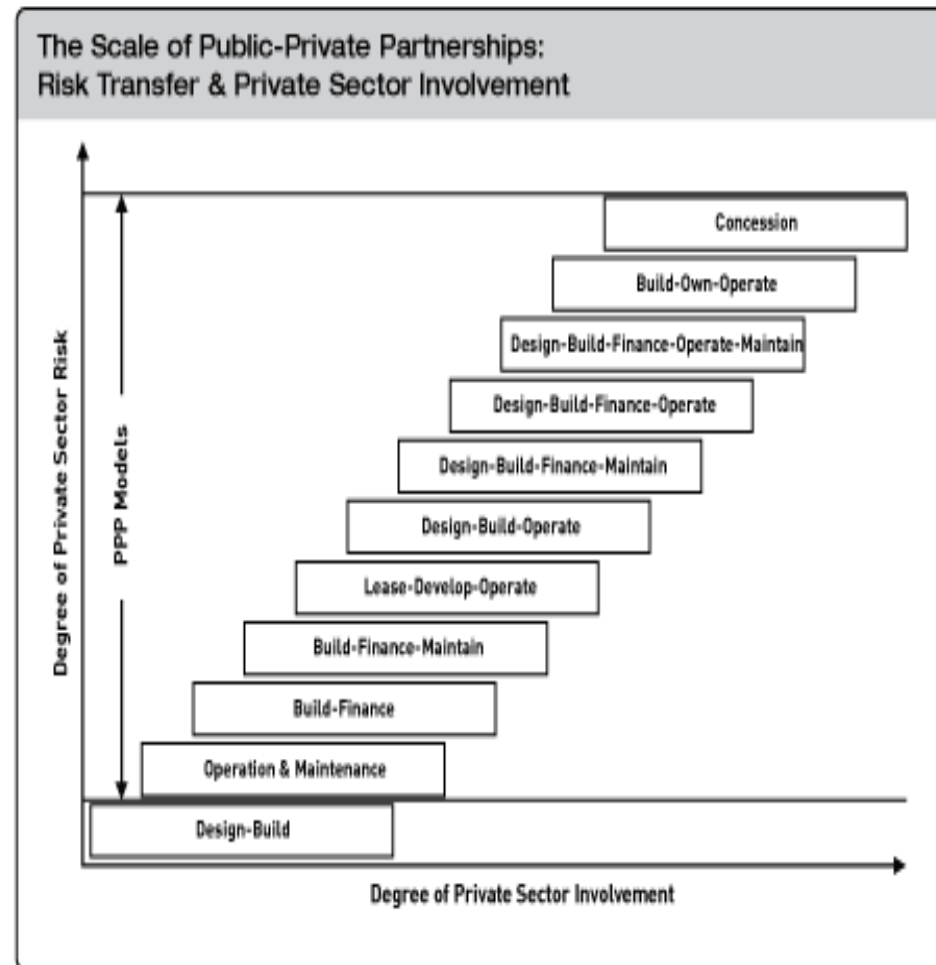
# Borrowing

- Appropriate for projects with long term benefits
- Pooling can lower costs
- Borrowing may crowd out current expenditures



# Public-Private Partnerships

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



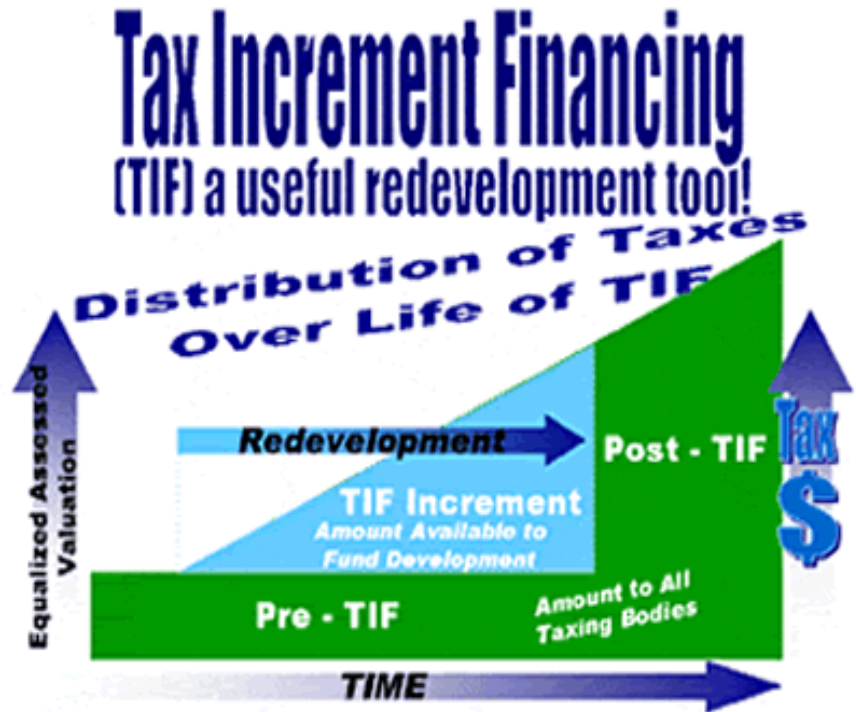
# Development Levies

- Covers growth-related capital cost associated with new development
- Off-site infrastructure (e.g. highways, sewer lines, etc.)
- Growth pays for itself
- Impact on land use



# Value Capture

- Tax increment financing (TIF) in US and parts of Canada
- TIF recoups increase in land value resulting from public investment
- Issues re: borrowing costs, impact on other tax authorities, over-estimate of increment





# Concluding Observations

- Infrastructure matters
- How we pay for infrastructure matters
  - Get the prices right
- Many different tools will be needed

