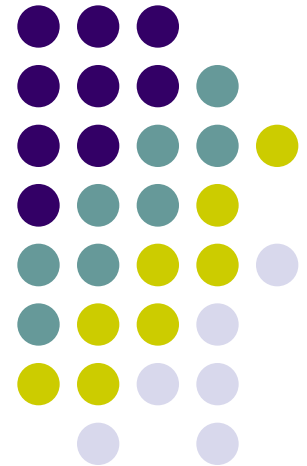


PAYING FOR LOCAL GOVERNMENT SERVICES: OLD AND NEW APPROACHES

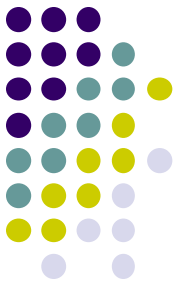


Enid Slack
Institute on Municipal Finance and Governance
Munk School of Global Affairs, University of Toronto

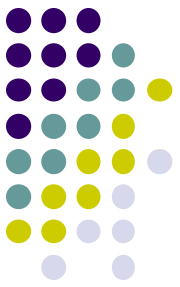
Presentation to IPTI Conference
São Paulo, Brazil
August 22, 2012



OUTLINE OF PRESENTATION



- How do you pay for services?
- What is a local tax?
- What is a good local tax?
- How do you pay for infrastructure?



Benefit Model

- Role of local government to provide goods and services
- Those who pay fees or taxes to finance local government expenditures should also be those who benefit from those expenditures
- Application of benefit model depends on nature of services

DIFFERENT SERVICES – DIFFERENT REVENUE TOOLS



Private

Water
Sewers
Garbage
Transit

Public

Police
Fire
Local parks
Street lights

Redistributive

Social assistance
Social housing

Spillovers

Roads/transit
Culture
Social assistance



User fees



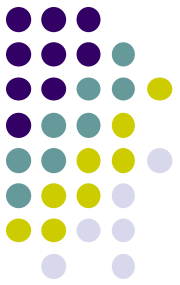
Property tax
Sales tax



Income tax

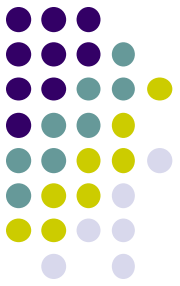


Intergovernmental
Transfers



What is a “Local” Tax?

- A local tax is one where the local government:
 - determines whether the tax is imposed
 - determines the tax base
 - sets the tax rate**
 - collects the revenue and enforces the tax
 - receives the revenue



What is a “Good” Local Tax?

- Immobile tax base
- Adequate, stable and predictable tax yield
- Difficult to export
- Visible and accountable
- Fair
- Minimize harmful inter-municipal competition
- Easy to administer and collect

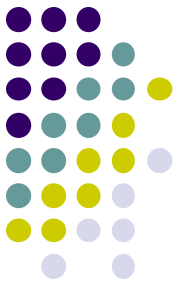
Not all criteria can be met at the same time

Property Tax



- Property is immobile
- Benefit principle
- Visible and accountable
- Local autonomy
- Regressive?

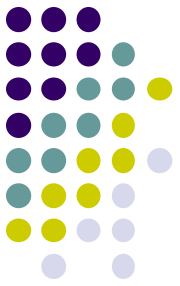
Property Tax



- Distortions
- Inelastic
- Volatile (not stable and predictable)
- Tendency to over-tax business properties
- Costly to administer
- Unpopular!!

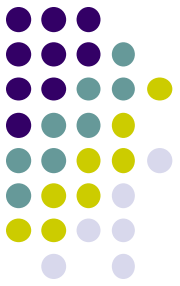
Personal Income Tax

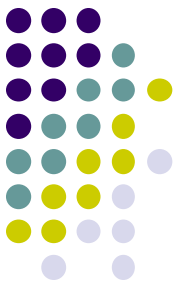
- Elastic
- Potential to tax commuters
- Ability to pay and benefits received
- Administrative costs low if piggyback onto existing system
- Competition with central government
- Potential for inter-municipal tax competition
- May create need for equalization



General Sales Tax

- Visible on each transaction
- Elastic
- Taxes benefits enjoyed by commuters and visitors
- Low administrative costs if piggybacked
- Regressive
- Competition with central government
- Potential for inter-municipal competition





Excise Taxes

- E.g. fuel tax; vehicle registration tax
- Benefit principle
- Can affect consumer behavior e.g. vehicle taxes reduce automobile use
- Economic distortions – small base so rates may be high; high rates increase potential for evasion

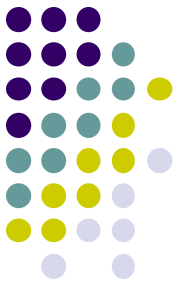




International Experience

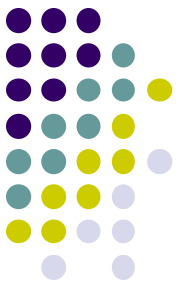
- No uniform approach across countries
- Property taxes: Australia, Canada, Ireland, Mexico, New Zealand, UK, US ...
- Income taxes: Belgium, Switzerland, Denmark, Finland, Norway, Sweden ...
- Sales taxes: Austria, US, Czech Republic, Greece, Italy, Japan, Korea, Spain ...

A Mix of Taxes

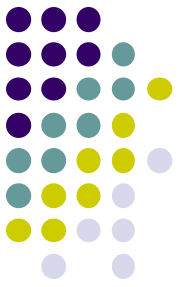


- Increases revenue elasticity
- Allows local governments to be more responsive to citizens
- One tax may create distortions offset by a mix of taxes

How do you pay for infrastructure?



DIFFERENT INFRASTRUCTURE – DIFFERENT FISCAL TOOLS



Taxes

User fees

Borrowing



short asset life
(police cars,
computers)

identifiable beneficiaries
(transit, water)

large scale assets
with long life
(roads, bridges)

DIFFERENT INFRASTRUCTURE – DIFFERENT FISCAL TOOLS



Development charges



Growth-related costs;
new development or
redevelopment
(water, roads, sewers)

P3s



large in scale;
revenue stream;
measurable results
(toll roads)

Land value capture
taxes



increase property values
(transit)

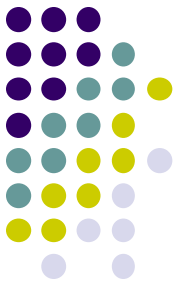


Development Charges

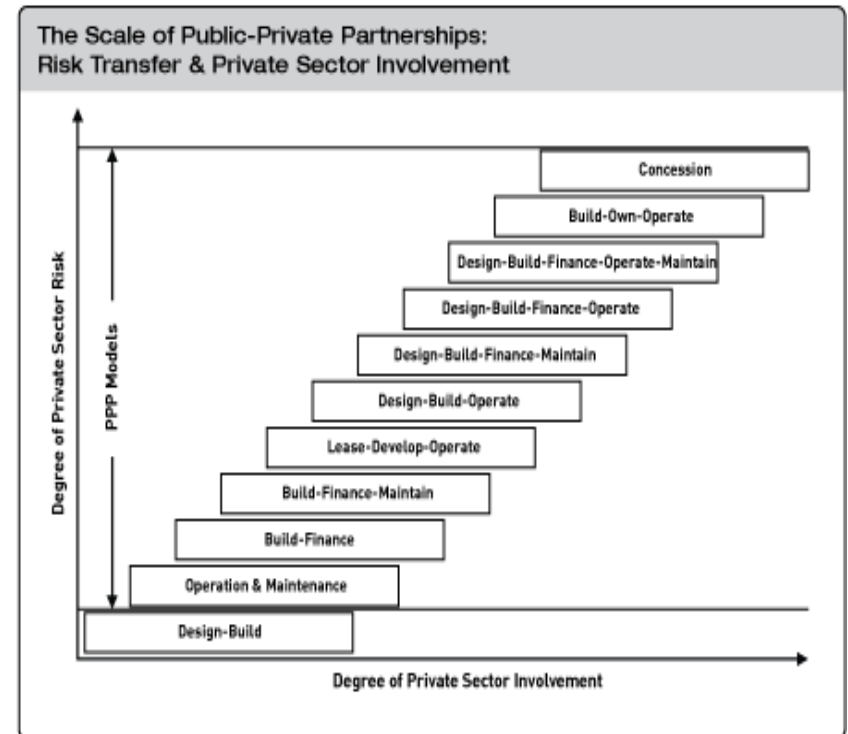
- One-time levy on developers to cover the growth-related capital cost associated with new development
- Off-site infrastructure (e.g. highways, sewer lines, etc.)
- Growth pays for itself
- Can differentiate charge by type of property (e.g. houses versus apartments) and by location



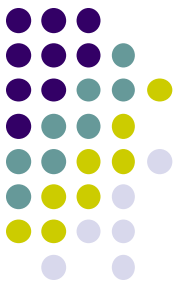
Public-Private Partnerships



- Private sector role can vary
- Private sector expertise and experience
- Competition can lower municipal costs
- But:
 - Potential loss of control for public sector
 - Private borrowing costs may be greater than public
 - Need realistic allocation of risk between public and private sector

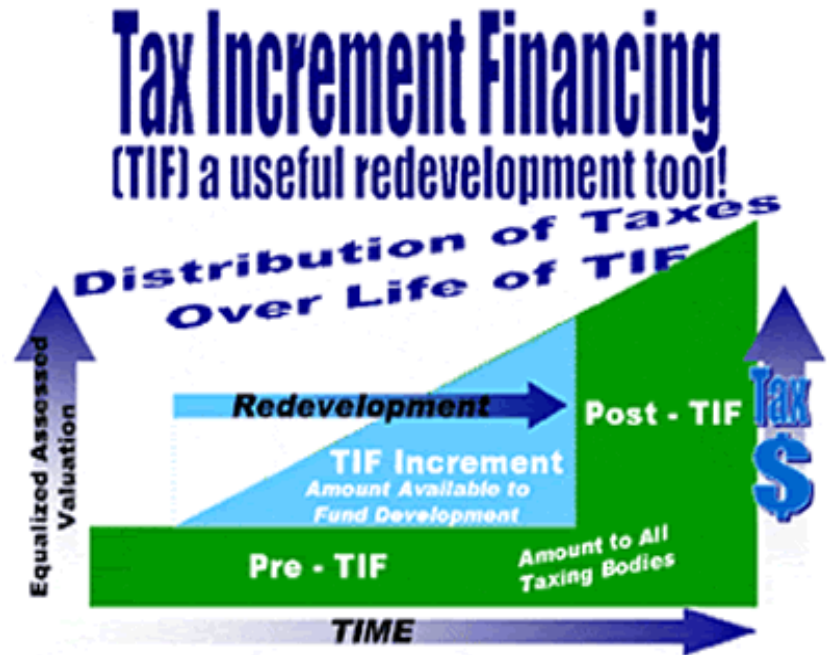


The Canadian Council for Public-Private Partnerships



Land Value Capture

- Increase in land value resulting from public investment is recouped by public sector for public purposes
- Used in Latin America; Tax increment financing (TIF) used widely in US jurisdictions
- What if forecast revenues not generated?



Concluding Comments



- Those who benefit from expenditures should pay taxes/fees
- User fees for services where beneficiaries identified; local taxes for services with collective benefits
- Local tax rate setting
- Mix of taxes
- Range of tools for infrastructure