



# Understanding the Fiscal Environment for Cities

Presentation for Toronto Urban Fellows  
20 June, 2013

Enid Slack & André Côté  
Institute on Municipal Finance and Governance  
Munk School of Global Affairs

**IMFG**  
Institute on Municipal  
Finance & Governance

*at the*

**MUNK**  
SCHOOL  
OF  
GLOBAL  
AFFAIRS



UNIVERSITY OF  
TORONTO

# Outline of Presentation

- ❑ The role & activities of the IMFG
  
- ❑ Background on municipal finance in Ontario & Canada
  
- ❑ Profiling some of IMFG's research:
  - Fiscal health of large Ontario cities
  - Impact of Toronto amalgamation
  - Affordable housing in Ontario

# INSTITUTE ON MUNICIPAL FINANCE AND GOVERNANCE

# Institute on Municipal Finance and Governance (IMFG)

Established in December 2004 as a research hub and think tank at U of T to:

- ❑ provide independent research on municipal finance and governance issues
- ❑ elevate the public debate on municipal finance issues
- ❑ interest graduate and post-graduate students in municipal finance and governance

# IMFG's Activities

## □ Research

- IMFG Papers on Municipal Finance and Governance
- Perspectives & Forum paper series
- Presentations in Canada & abroad (Helsinki, Durban, Tokyo ...)

## □ The fiscal health of large Canadian cities

- Conference on fiscal health of cities

## □ Recent Events

- Toronto City Manager Annual Address on the city's fiscal health
- Borrowing and Financing series
- "Moving Our Region" transportation finance series
- "Shared Spaces" funding libraries and parks series

# IMFG's Activities (cont'd)

- ❑ Graduate Scholarships
  - IMFG fellowship
  - Sandy and Blanche van Ginkel scholarship
  
- ❑ Post-doctoral fellowship
  
- ❑ Visiting fellows (Hungary, Brazil, India, Norway)
  
- ❑ Communications (website, e-newsletters, etc.)

# BACKGROUND ON MUNICIPAL FINANCE IN ONTARIO & CANADA

# Canadian Cities -- A Nice Place to Live

- ❑ Canadian cities perform well in international comparisons in terms of quality of life and other social and cultural indicators
- ❑ But they perform less well on economic indicators (OECD study on Toronto)
- ❑ Is the 'good life' in Canada's big cities sustainable? Can they maintain the level and quality of services and finance new programs?



# Canadian Cities -- A Nice Place to Live

To keep on performing well, cities need:

- ❑ Adequate resources and especially revenue-raising tools to match expenditure responsibilities
- ❑ Local autonomy to make choices
- ❑ Good local governance structure

# Background on the Canadian Constitution

- ❑ 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 about 4,000 municipal governments in Canada

# Background on the Canadian Constitution (con't)

- ❑ The Federal government makes laws with respect to immigration, unemployment insurance, trade and commerce, national defence, native affairs, and criminal law.
- ❑ Provincial governments control regional and local affairs including education, health, social services, property rights, administration of justice, local public works, and municipal institutions.
- ❑ Some responsibilities are shared between the federal and provincial governments such as immigration, agriculture, and pensions.

# 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

# Role of the Province (con't)

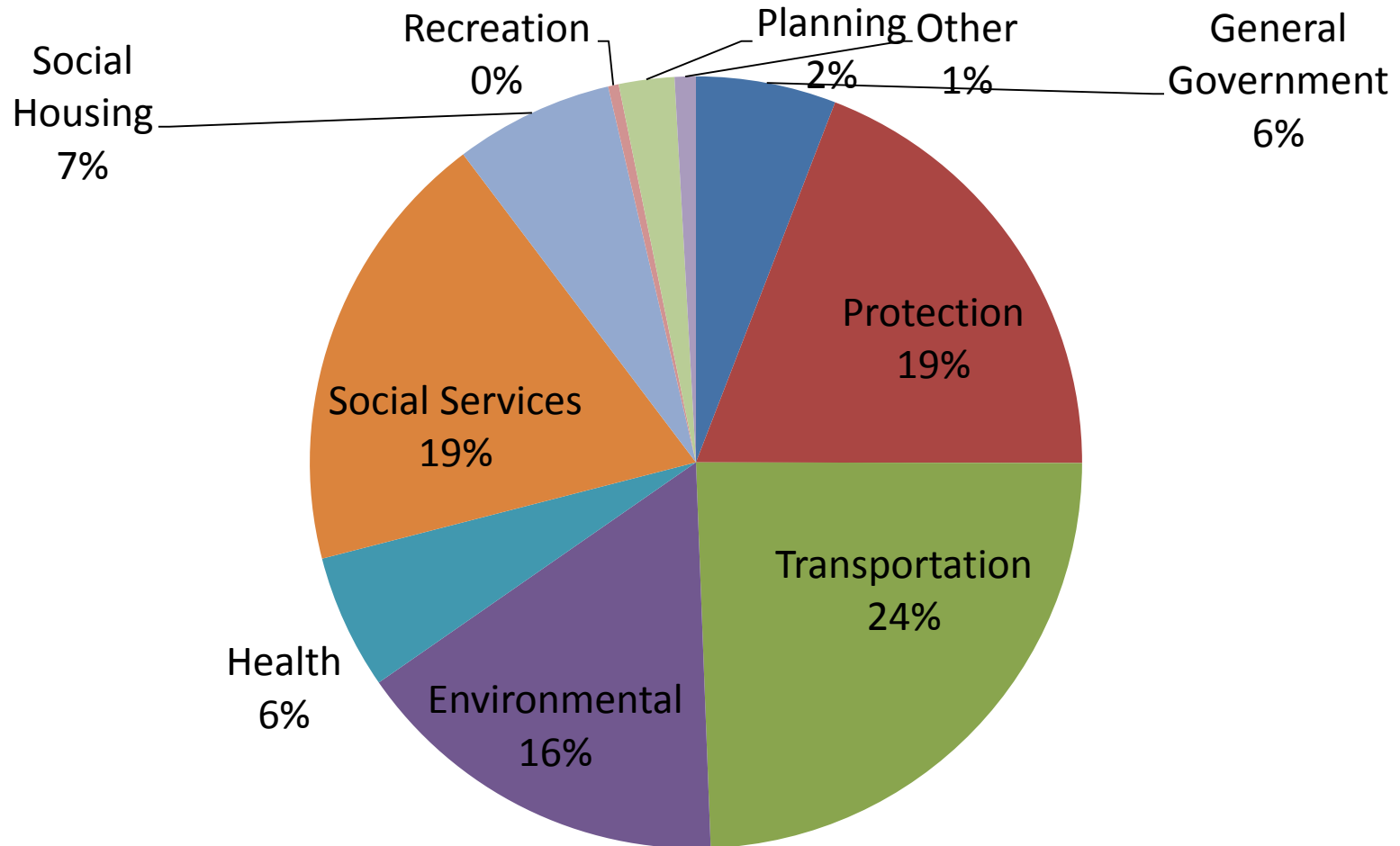
- ❑ Municipal borrowing is restricted by the province (but not in Toronto)
- ❑ Unconditional transfers: based on formulas
- ❑ Conditional transfers: mainly for social services, transportation, environment

# Role of Federal Government

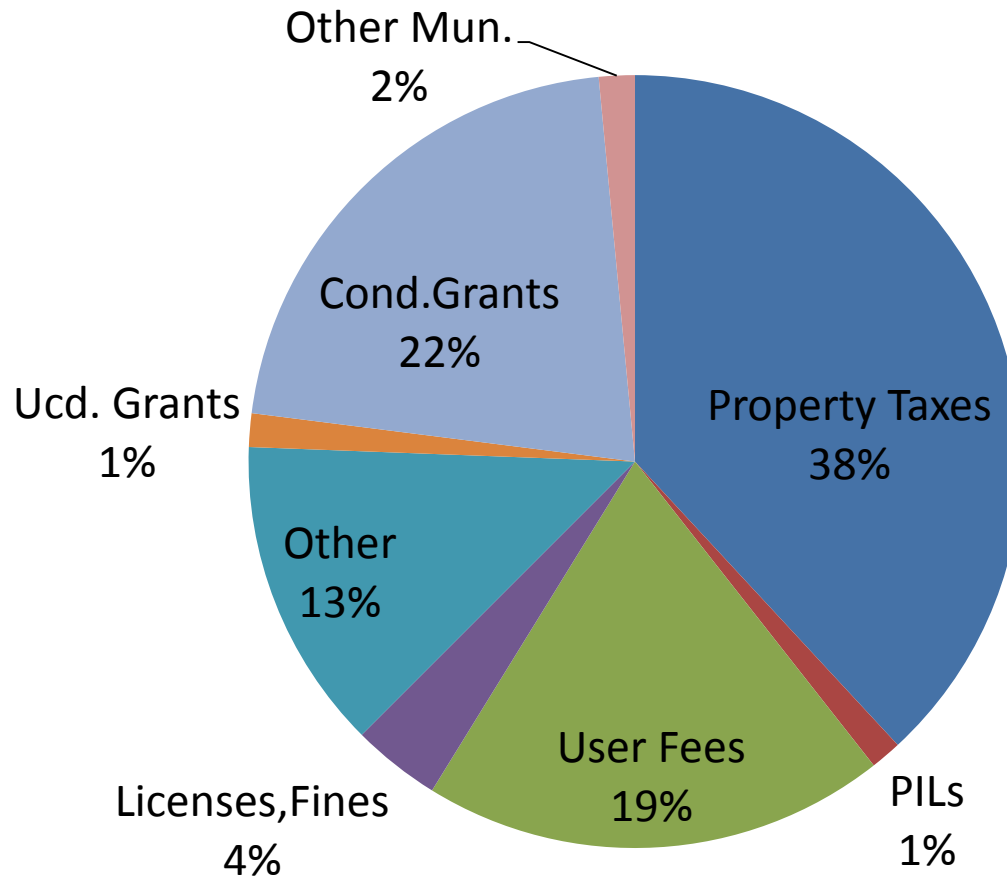
Provides some limited transfers to municipalities, including:

- Gas tax transfer
- Infrastructure grants
- Homelessness grants
- Economic stimulus grants

# Municipal Expenditures, Ontario 2011



# Municipal Revenues, Ontario, 2011





# Fiscal Challenges Facing Large Municipalities

- ❑ Offloading services to local governments
- ❑ Need to be internationally competitive
- ❑ Higher costs associated with urban sprawl
- ❑ No diversification of revenue sources

# FISCAL HEALTH OF LARGE ONTARIO CITIES

# Municipalities in the Study

30 municipalities in the sample (plus 6 Regions):

- ❑ 13 Single Tiers
- ❑ 17 Lower Tiers

The largest municipalities:

- ❑ 75,000 (Sault Ste. Marie) to 2.8 million (Toronto)
- ❑ North, south, east ,west

Main data source: financial information returns

# Measures and Methods: Financial Condition

- ❑ Financial Management (financial condition)
  - Sustainability
  - Flexibility
  - Vulnerability
  
- ❑ Credit ratings
  
- ❑ Fiscal distress
  
- ❑ Transfer payments

# Measures of Fiscal Health

## 2000-2011

- ❑ Basic Indicators derived for the municipalities in the sample measured in 2002 constant dollars.
  
- ❑ Operating Revenues
  - Own-source revenues/total revenues
  - Transfers/total revenues
  - Tax per capita

# Measures of Fiscal Health

## Expenditures

- Total operating expenditures per capita
- Total capital expenditures per capita
- Capital expenditures/operating expenditures

## Debt Indicators

- Total debt burden per capita
- Debt charges per capita
- Debt charges /operating expenditures
- Debt charges/own-source revenues (25% provincial borrowing limit)

## Fiscal Indicators

- Debt to tax ratio
- Taxes receivable as a per cent of current taxes levied

## State of Capital Assets

- Net book value as % of capital cost

# What do the indicators tell us?

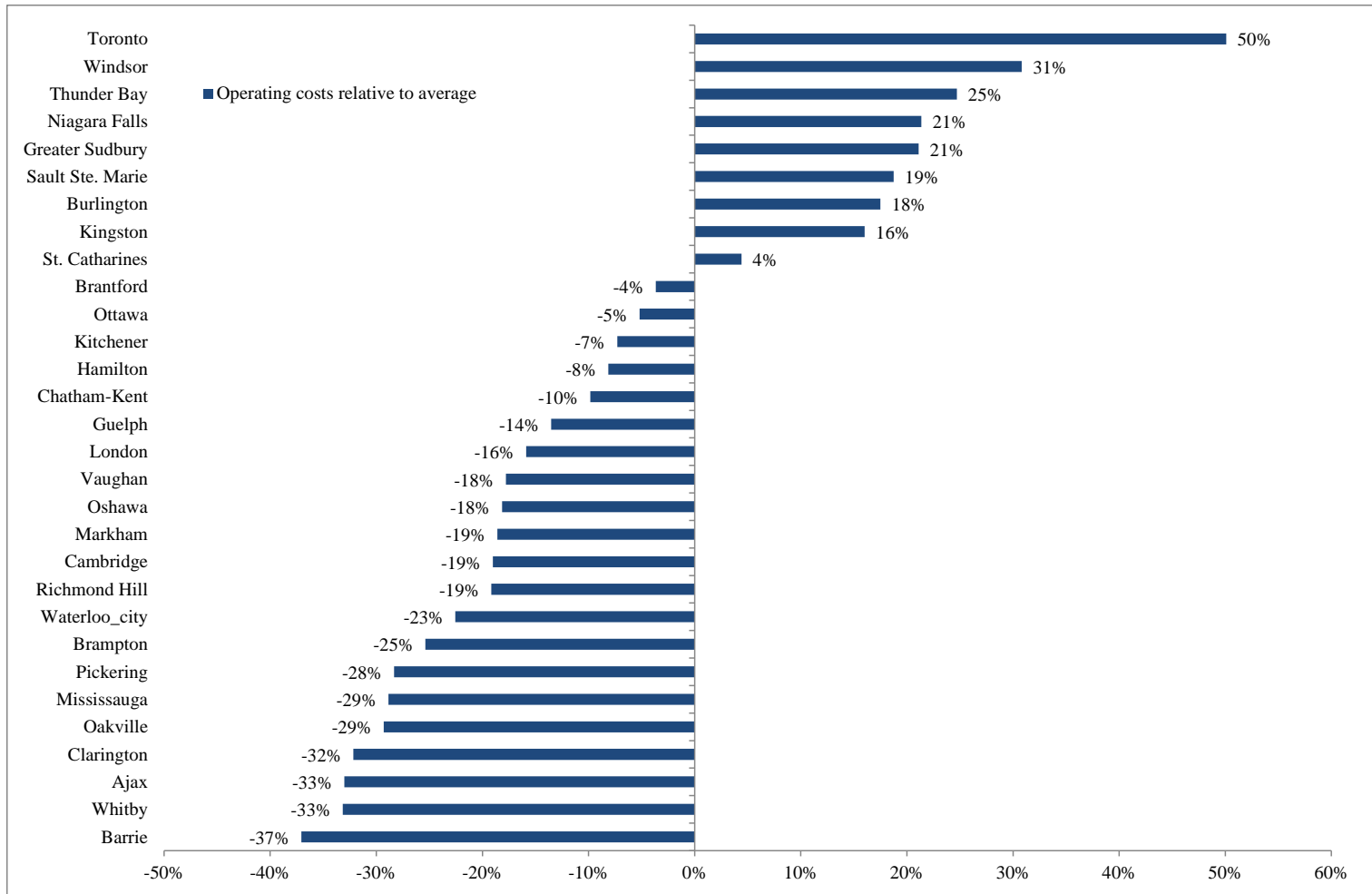
- ❑ GTA municipalities (except Toronto) have lower taxes per capita, less grant dependency, lower operating expenditures per capita and lower debt/tax ratios, greater capacity to invest in capital
- ❑ Property tax base has been stable through the recession; tax effort remarkably stable; some weakness in tax collection in particular municipalities
- ❑ Some evidence of under-spending on capital up until 2006 but federal and provincial gas tax funding plus low interest rates have encouraged infrastructure spending
- ❑ Risk of over-borrowing is low; debt-related measures confirm conservative approach to borrowing

# Is There a Fiscal Gap?

- ❑ The study sought to measure whether there was a fiscal gap across the municipalities
- ❑ The Method: derive an expenditure need equation and revenue-raising measures for the 30 municipalities
- ❑ The Result: a relative measure based on the sample rather than an absolute measure for each municipality



# Expenditure Need



# Measure of Fiscal Gap

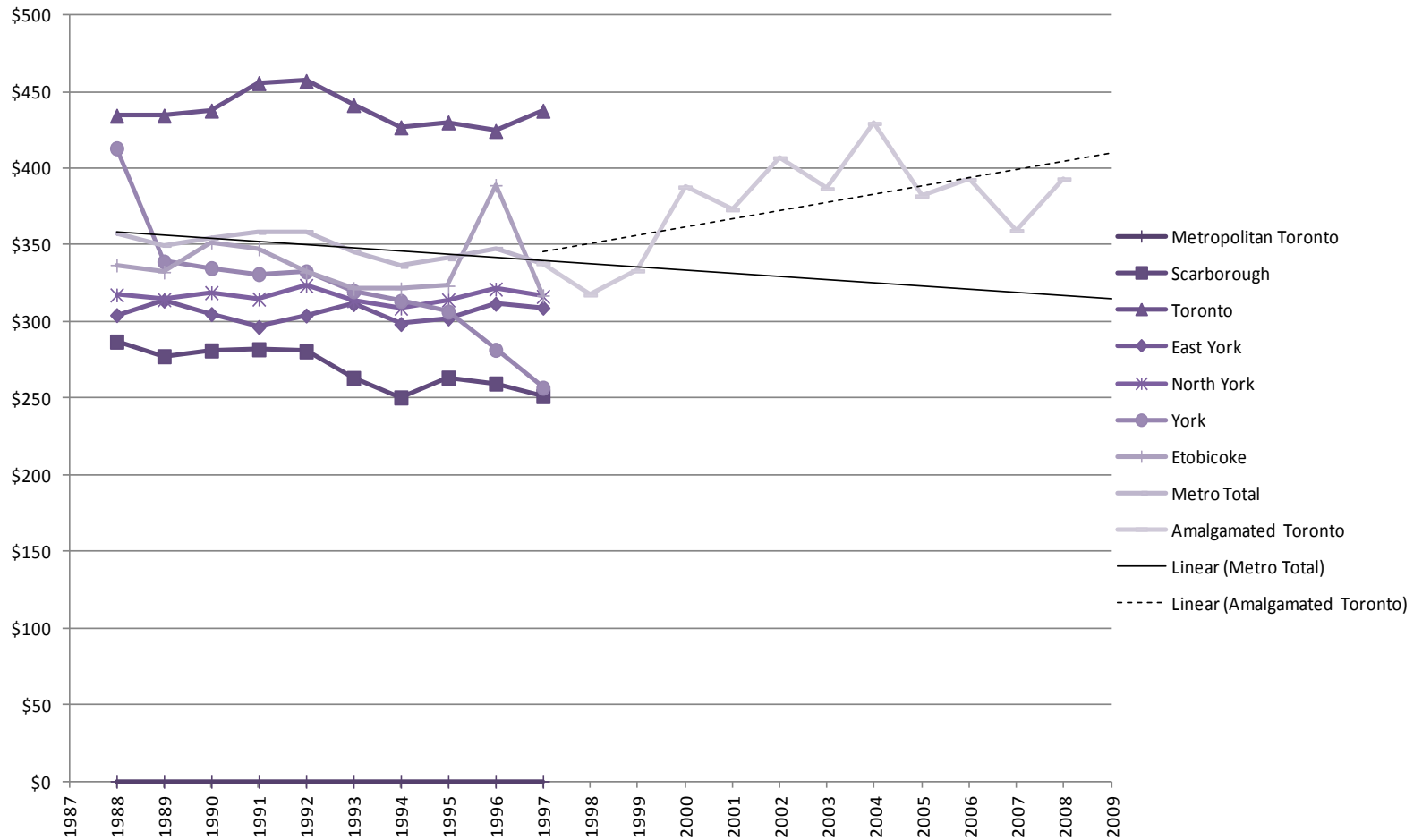
Measure of Fiscal Health						
	Revenue	Expenditure	Relative			
	Raising Capacity	Need	Capacity - Need	Fiscal Health	Rank	
Oakville	2,461	1,562	899	1,473	1	
Vaughan	2,356	1,816	540	1,114	2	
Mississauga	2,078	1,571	507	1,081	3	
Pickering	1,590	1,583	7	581	4	
Markham	1,765	1,798	-34	540	5	
Richmond Hill	1,725	1,786	-60	514	6	
Barrie	1,329	1,390	-61	513	7	
Toronto	3,246	3,315	-69	505	8	
Whitby	1,348	1,476	-129	445	9	
Cambridge	1,620	1,789	-169	405	10	
Guelph	1,723	1,910	-187	387	11	
Ajax	1,205	1,480	-274	300	12	
Brampton	1,371	1,648	-277	297	13	
Ottawa	1,723	2,094	-371	203	14	
Clarington	1,109	1,499	-389	185	15	
Burlington	2,184	2,596	-412	162	16	
London	1,292	1,858	-566	8	17	
Oshawa	1,234	1,808	-574	0	18	
Hamilton	1,378	2,029	-651	-77	19	
Brantford	1,390	2,128	-738	-164	20	
Kitchener	1,209	2,048	-839	-265	21	
Chatham-Kent	1,029	1,991	-963	-389	22	
St. Catharines	1,230	2,306	-1,076	-502	23	
Kingston	1,439	2,562	-1,123	-549	24	
City of Waterloo	320	1,711	-1,391	-817	25	
Greater Sudbury	1,239	2,675	-1,437	-863	26	
Windsor	1,249	2,889	-1,641	-1,067	27	
Sault Ste. Marie	981	2,623	-1,642	-1,068	28	
Thunder Bay	1,001	2,755	-1,753	-1,179	29	
Niagara Falls	332	2,680	-2,348	-1,774	30	
<b>Average</b>	<b>1472</b>	<b>2046</b>	<b>-574</b>	<b>0</b>		
<b>Standard Deviation</b>	<b>586</b>	<b>501</b>	<b>85</b>	<b>659</b>		

# Conclusions on Fiscal Health

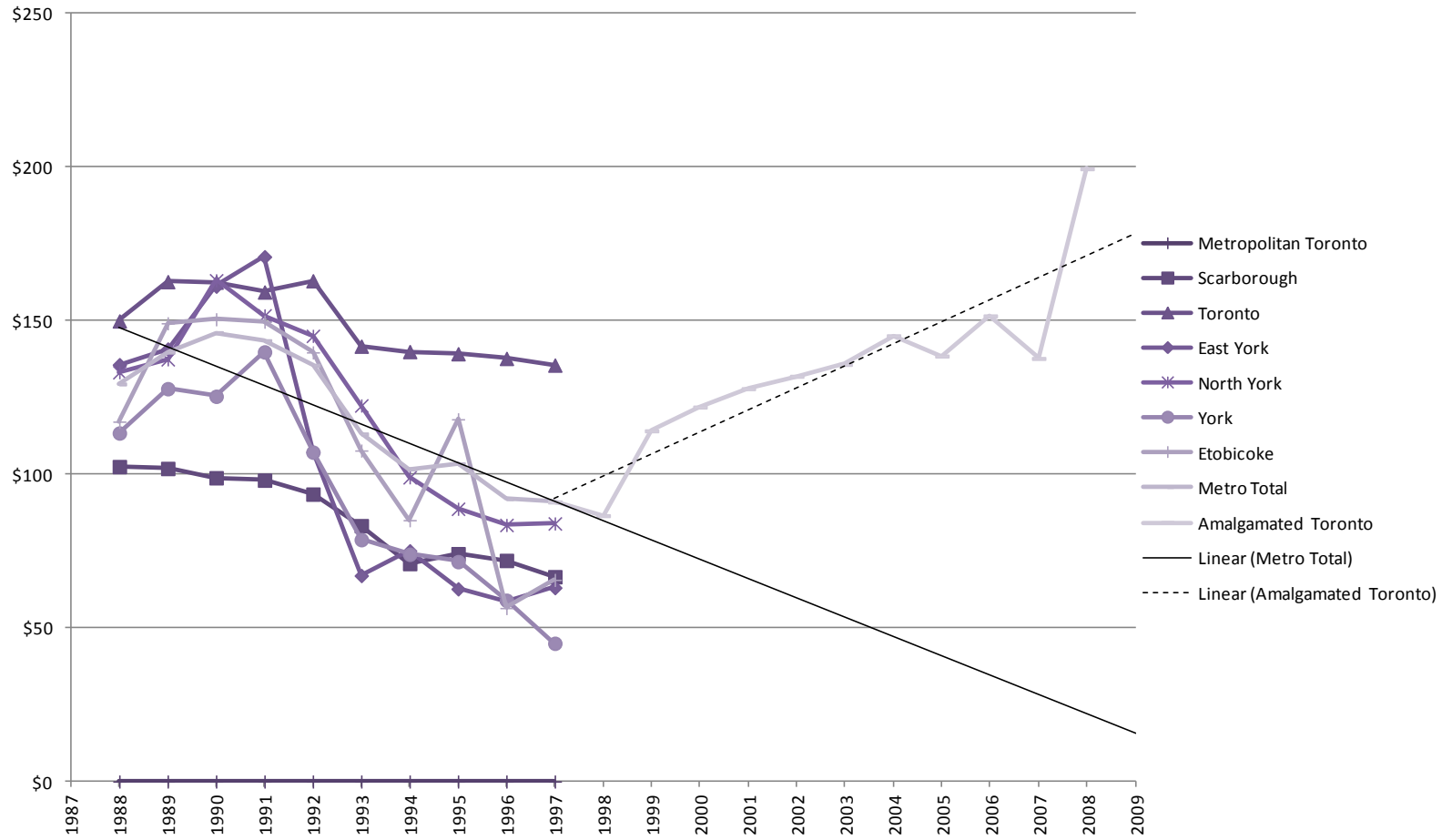
- ❑ Ontario municipalities have managed their finances conservatively
- ❑ Concerns for municipalities with declining tax bases outside the GTA
- ❑ Cannot tell whether infrastructure is deteriorating and quality of service is affected
- ❑ Municipalities could be fiscally health but face significant infrastructure challenges

# IMPACT OF TORONTO AMALGAMATION

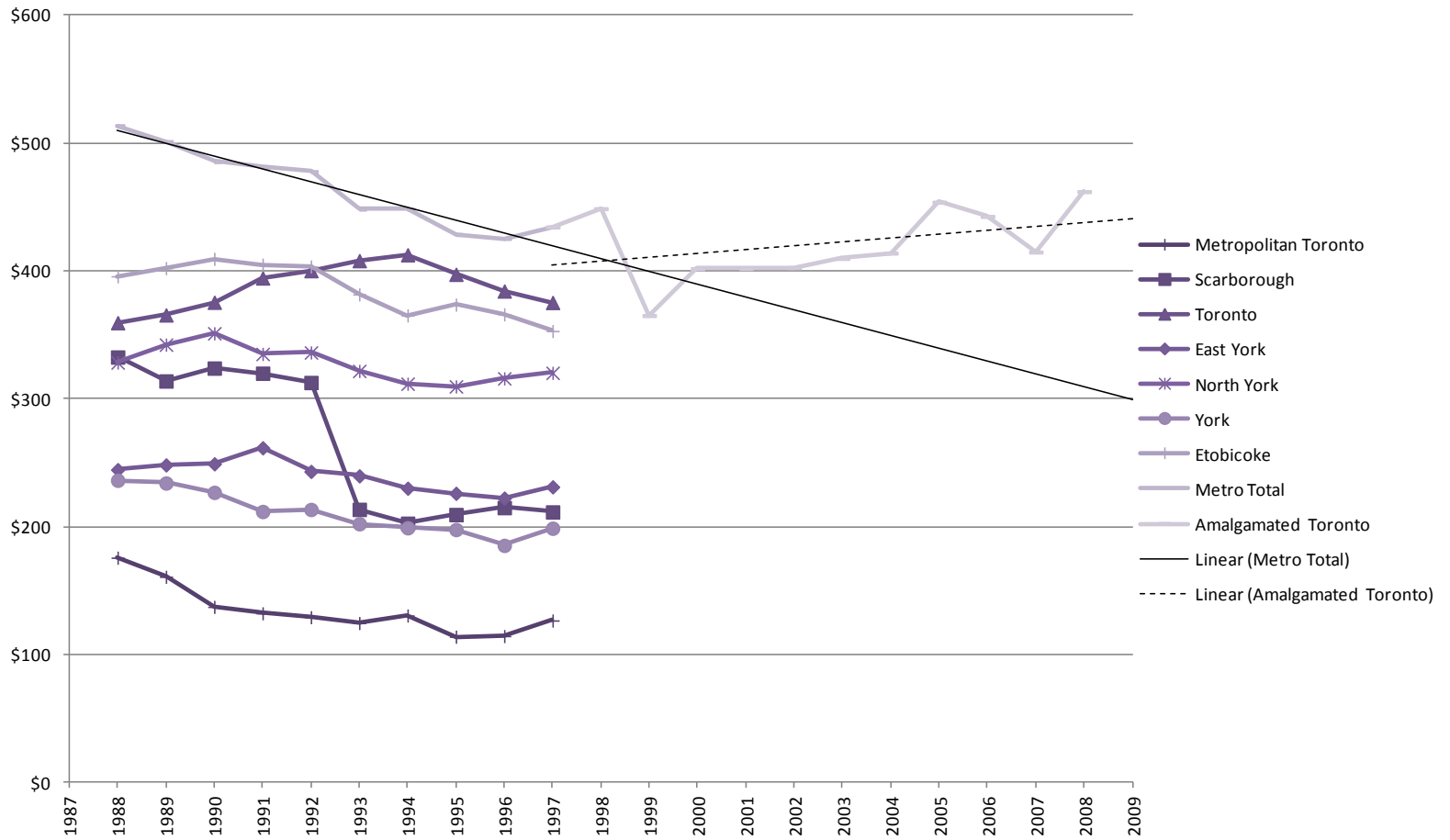
**Figure 1: Fire Expenditures Per Household - 1988-2008**



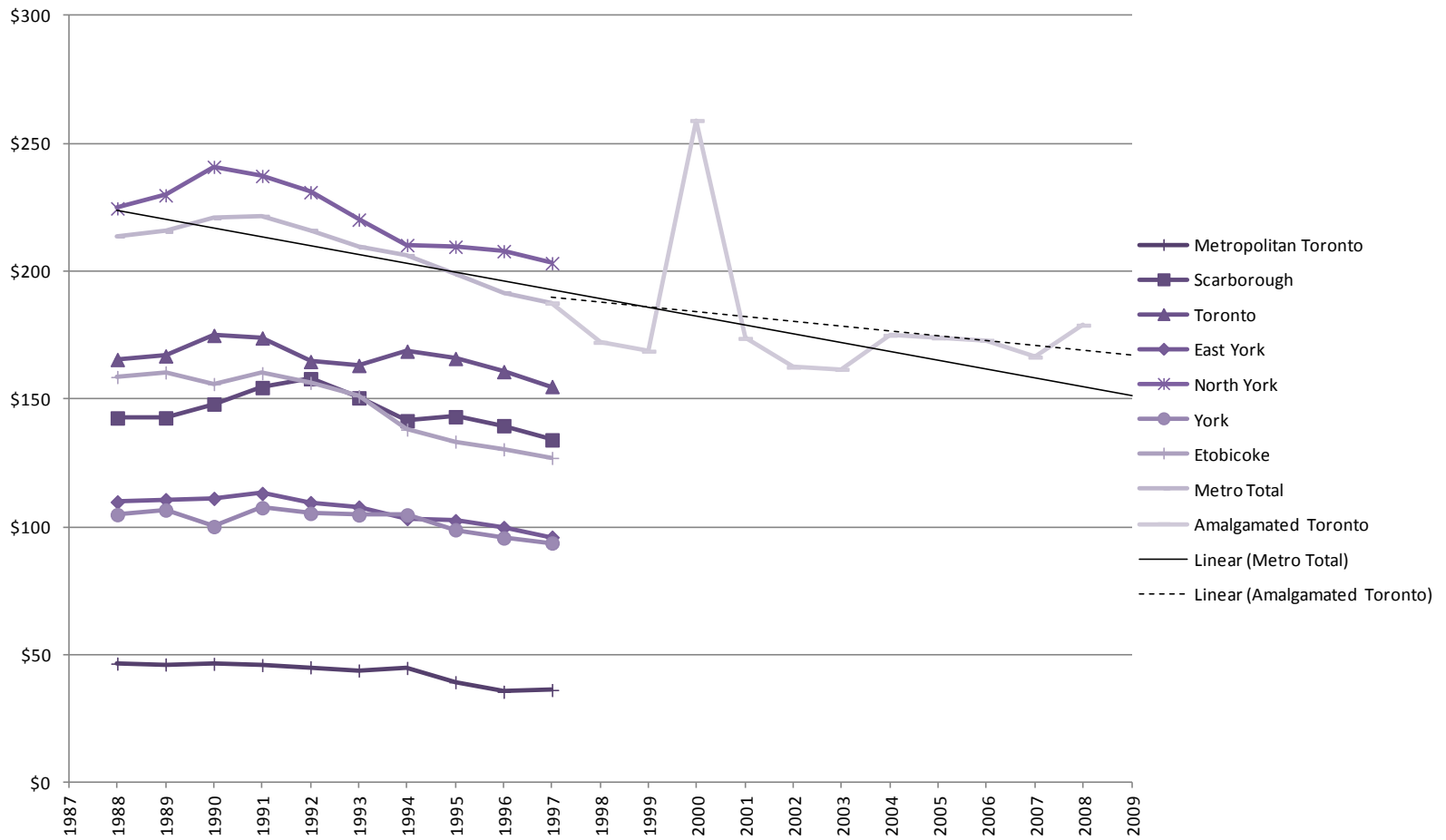
**Figure 2: Garbage Collection Expenditures Per Household - 1988-2008**



**Figure 3: Parks & Recreation Expenditures Per Household - 1988-2008**



**Figure 4: Libraries Expenditures Per Household - 1988-2008**

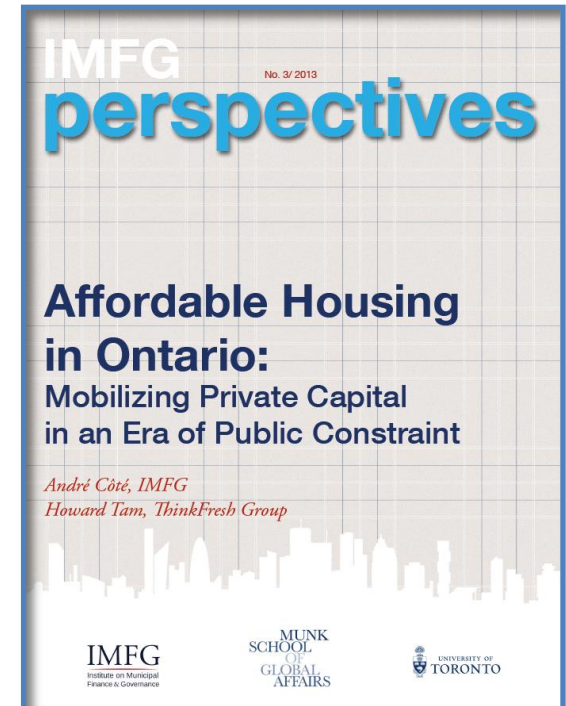




# AFFORDABLE HOUSING IN ONTARIO

# IMFG's Affordable Housing Project

- ❑ IMFG's focus on broader fiscal challenge housing poses for Toronto
- ❑ Convened public, private & non-profit sector representatives, in a neutral space, to try to advance the affordable housing discussion
- ❑ The paper was a 'primer' to frame the discussion



# The Context

- ❑ What is the purpose of affordable housing?
- ❑ The housing universe in Ontario
- ❑ Toronto and broader provincial lens
- ❑ The question the paper poses is:

*How do you create the conditions for greater private participation in affordable housing in Ontario?*

But why the need for greater private participation...?

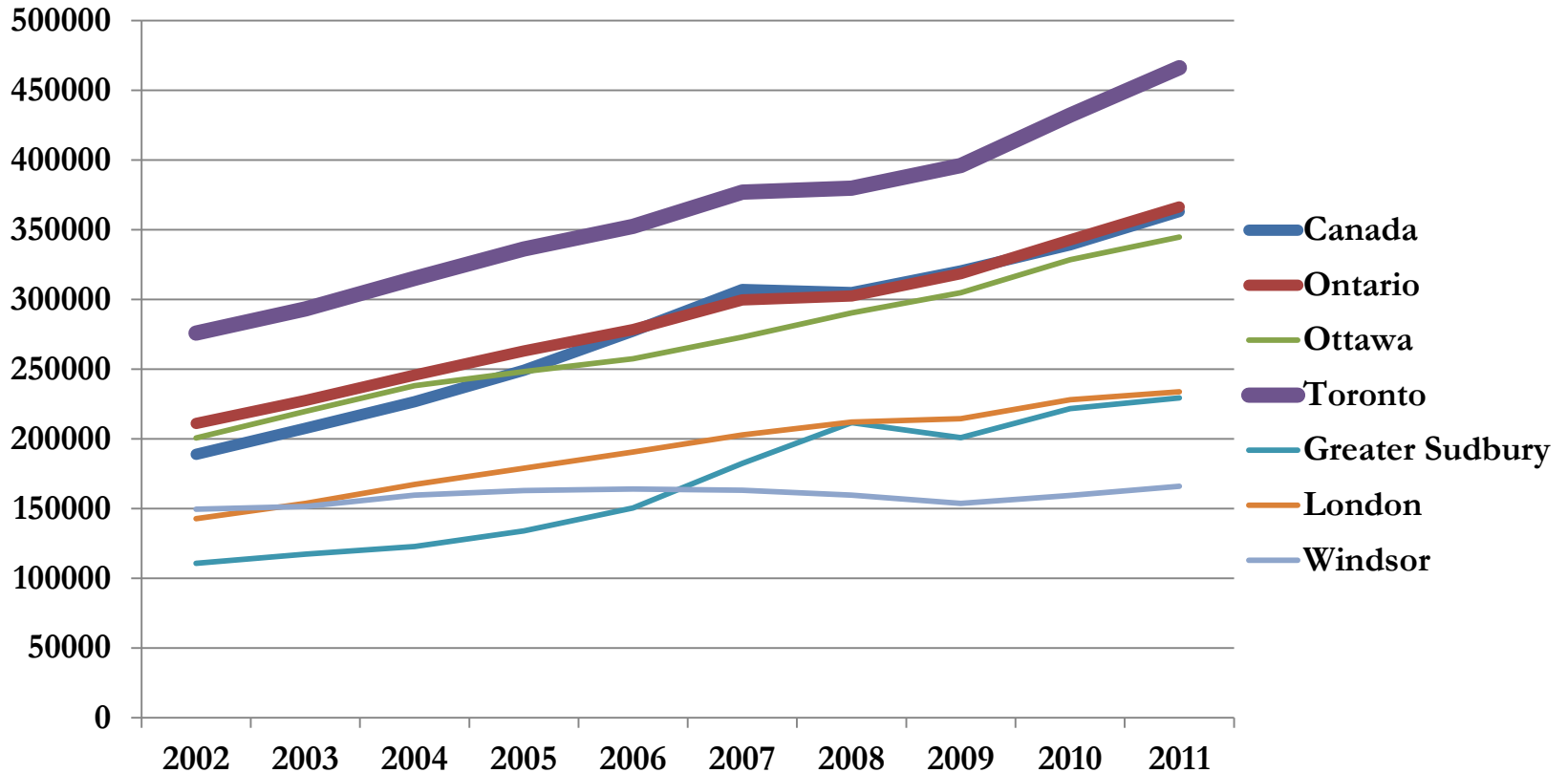
# The Shifting Landscape

## Three major factors

1. Housing affordability has been worsening for many households
  - ❑ House prices and rents have raced ahead
  - ❑ Incomes have not been rising for most
  - ❑ Households have taken on much more debt
  - ❑ Nearly 20% of Toronto CMA households in 'core housing need'
  - ❑ A condo boom but little new purpose-built rental development

# House prices (and rents) race ahead...

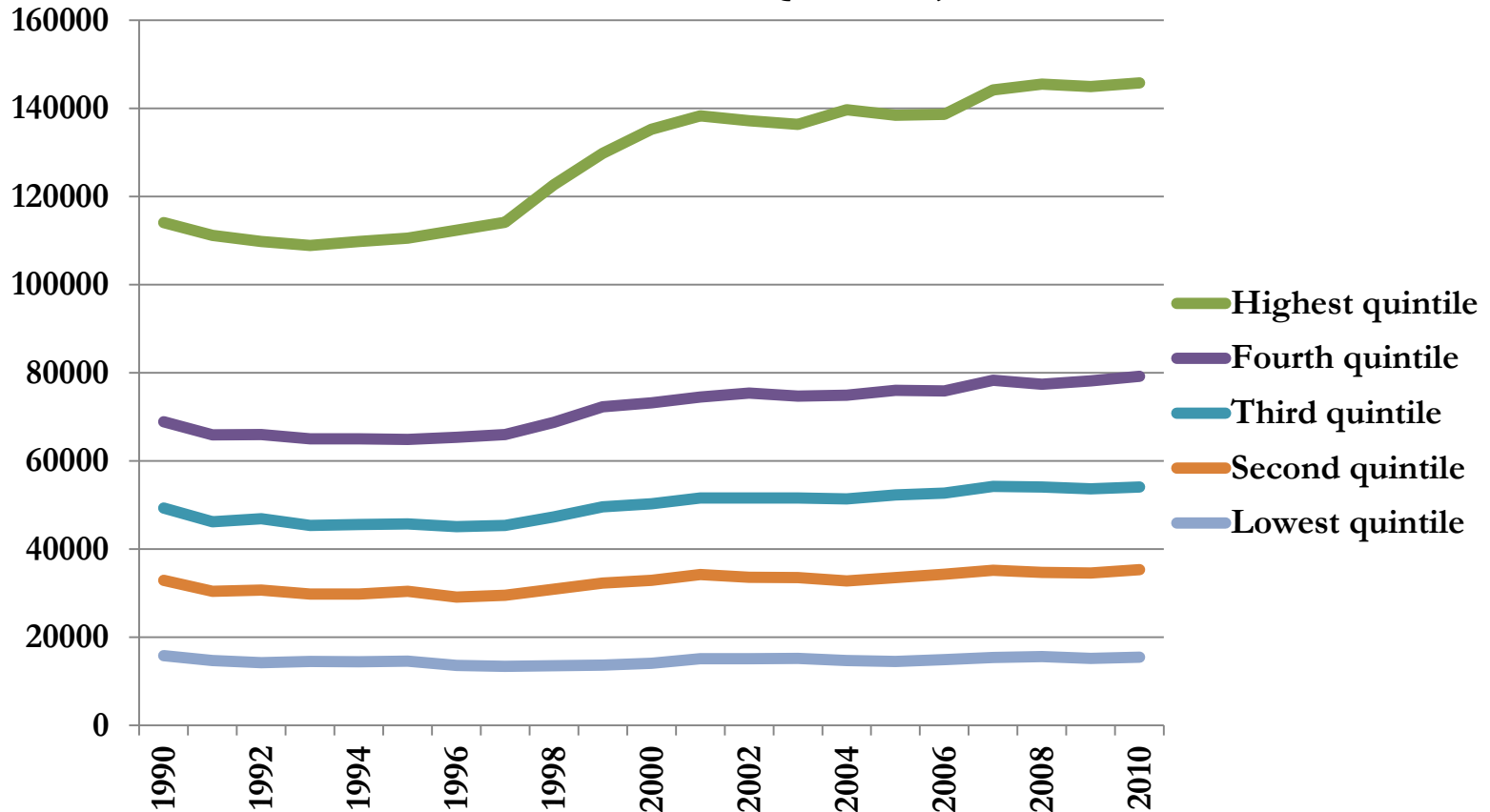
MLS® Average Residential Price, \$



Source: CMHC, CREA (MLS)

# But most people's incomes have not been rising...

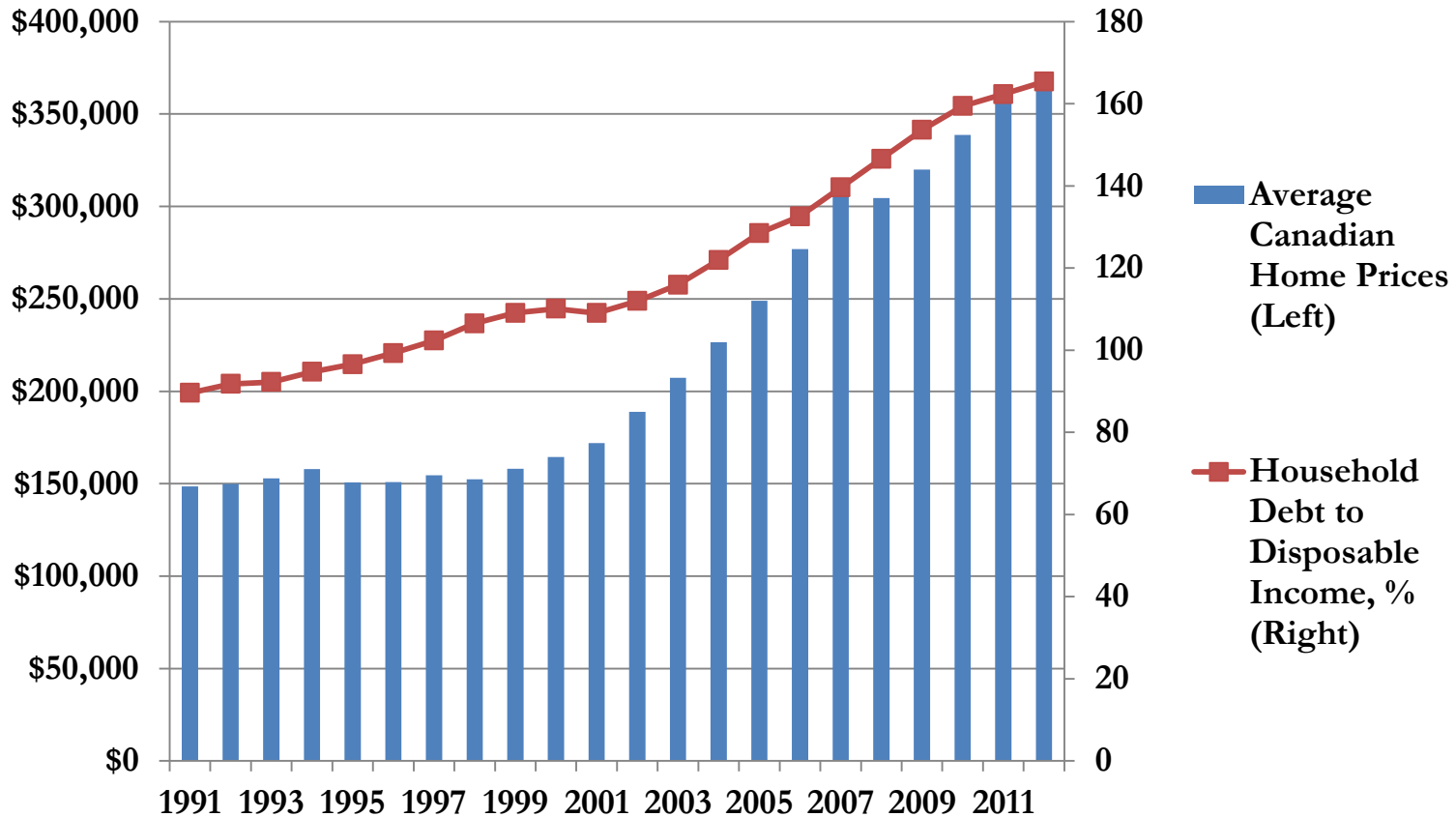
## Ontario After-Tax Income Quintiles, 2010 Constant \$



Source: Statistics Canada CANSIM Table 202-0703

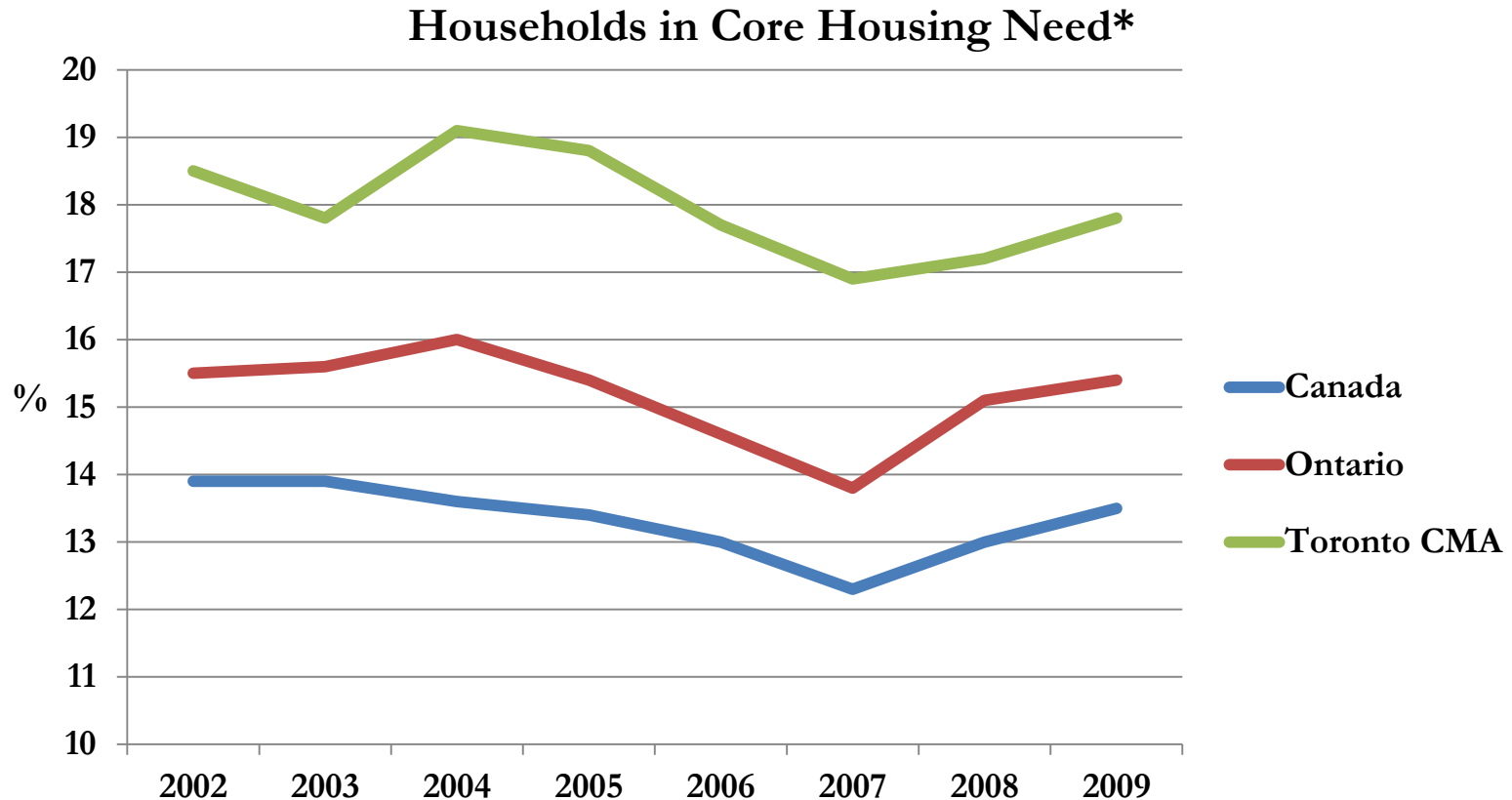
# Household debt levels have spiked...

## Canadian Home Prices and Household Debt



Source: Canadian Real Estate Association, Statistics Canada

# Nearly 20% of Toronto households in need...



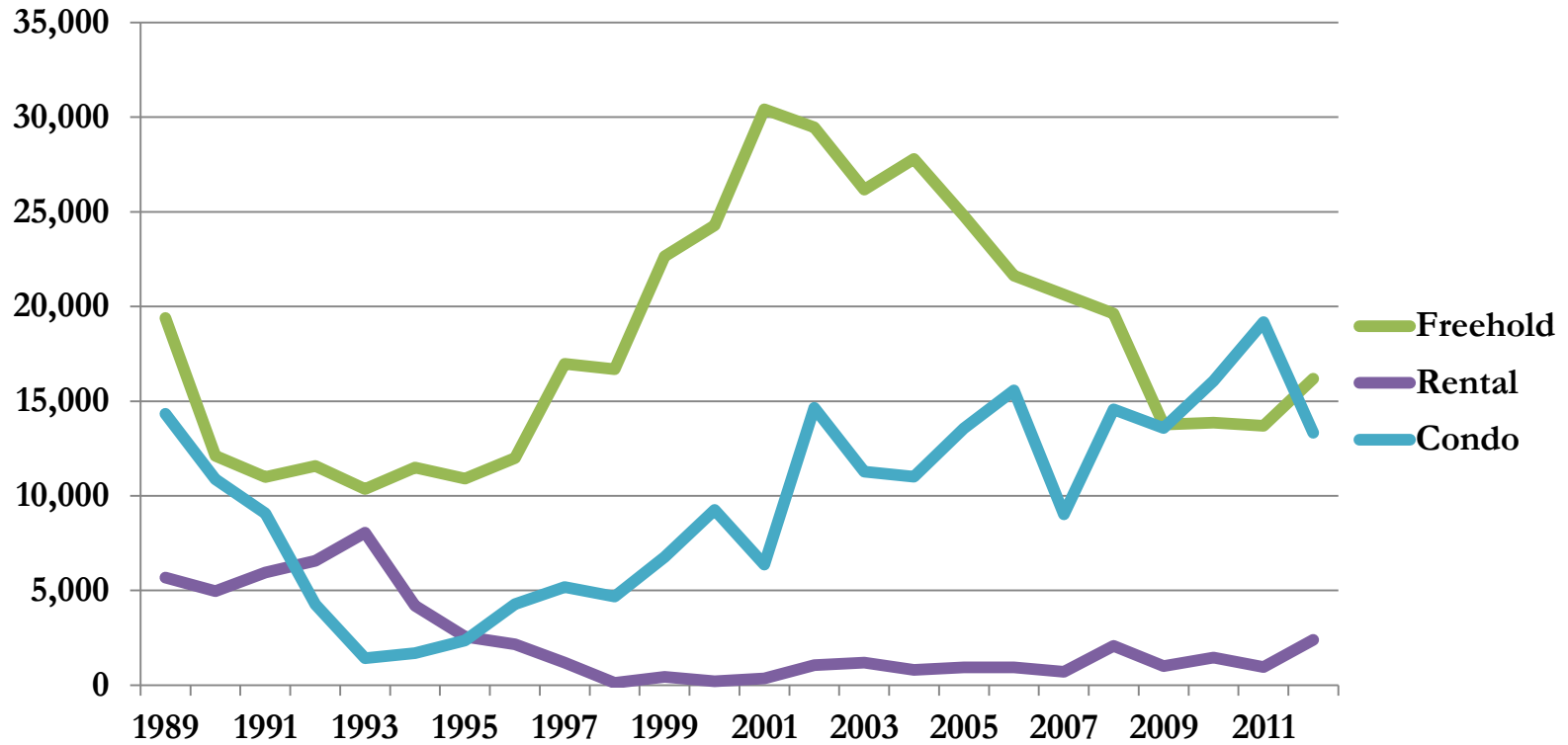
Source: Canada Mortgage and Housing Corporation

\*Factors in affordability based on the 30% household income measure, suitability based on size and number of occupants, and adequacy based on state-of-repair, as well as availability of alternative housing.



# A condo boom but little new rental supply

## Toronto CMA\* Housing Completions



Source: Canada Mortgage and Housing Corporation

\*Roughly analogous to GTA, minus Burlington, Oshawa, Barrie and some smaller municipalities.

# The Shifting Landscape (con't)

2. Struggling social housing providers – and little new supply
  - ❑ Toronto's repair backlog of ~\$750M and rising
  - ❑ Few new units built in recent years
  - ❑ Over 150,000 households on wait-lists across the province
  
3. Limited scope for big new fed-prov investments
  - ❑ Long-term trend: withdrawal from social housing field
  - ❑ Focus on time-limited grants (IAH extended in Budget 2013)
  - ❑ Drummond: for Ontario to address their budget crisis, a “sharp degree of fiscal restraint [is needed] over the next few years.”

The moral of the story? *The old model is fading, and new models and sources of investment are needed*

# What can we learn from Other Countries?

- ❑ Similar housing affordability issues and budget constraints
  
- ❑ Trying different models to attract private investment
  
- ❑ Using different tools to mobilize private players
  - US Low-Income Housing Tax Credit Model
  - Australian National Affordable Rental Scheme
  - UK austerity and the growing role for private investment

# Mobilizing private capital

- There are plenty of options, many in City reports, to:
  - Build new affordable housing (e.g. reduce land costs, inclusionary housing models, better use tools like S37)
  - Attract investment into the social housing sector (e.g. mortgage refinancing, Social Housing Capital Fund, social finance)
  - Improve incentives to maintain private rental (e.g. TAF financing for energy retrofits, rent dispute flexibility for landlords)
  
- Some private partnership success factors
  - There must be a business case!
  - Investor certainty through fair and consistent tax and planning policies
  - Affordable housing P3 models offer plenty of potential
  - Time and space to build relationships and test/pilot new ideas

# Conclusions

- ❑ Toronto can't wait on other orders of government
  - Focus on leveraging the assets and tools Toronto has
  - Many options to pursue in 2012 housing reports
  
- ❑ Need to present housing as a 'win' to the Province
  - An opening to re-engage on the housing file
  - About creating enabling conditions, not major new funding ask
  
- ❑ Deepen relationships with private and non-profit players
  - Private interests aligning
  - Create spaces for discussion, analysis and experimentation (e.g. piloting initiatives)

# The IMFG's Research Agenda for 2013-14

A busy year ahead!

- ❑ *Fiscal health of big Canadian cities* research stream
- ❑ *Big Data* and city finances
- ❑ *Big City, Big Ideas* speaker series
- ❑ Toronto City Manager Annual Address
- ❑ Post-Doctoral and Graduate Fellowship talks
- ❑ Papers coming on:
  - ❑ municipal finance in Montreal
  - ❑ land value capture tools
  - ❑ municipal borrowing
  - ❑ local ABCCs
  - ❑ municipal ethics and accountability