
The Fiscal Situation of Canadian Cities: Opportunities in the Economic Downturn?

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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
- 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
 - Canadian cities fall short on all these fronts
 - Presentation focuses on revenues and expenditures
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Outline of Presentation

- Background on municipal finance
 - Is there a municipal fiscal imbalance?
 - Fiscal challenges facing large cities
 - Will the fiscal imbalance worsen in the economic downturn?
 - What can local governments do?
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Distribution of Municipal Expenditures, Québec and Canada, 2007

	QUEBEC (%)	CANADA (%)
Transportation	23.8	20.3
Water, sewers, garbage	17.9	18.3
Fire and police	16.3	16.1
Health, social services, housing	4.4	14.8
Parks, recreation, culture	14.6	12.6
General government	12.3	10.1
Debt charges	5.5	3.3
Planning and development	2.7	2.0
Other	2.8	2.5

Distribution of Municipal Revenues, Québec and Canada, 2007

	QUEBEC (%)	CANADA (%)
Property Taxes	60.3	46.8
Other Taxes	2.8	2.5
User Fees	17.1	22.2
Provincial & Federal Grants	15.0	18.9
Investment Income	1.4	5.3
Other Revenues	3.3	4.4

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

Is There a Municipal Fiscal Imbalance?

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- 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

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 (water, sewers, roads, recreational facilities, etc.)
 - The quality of service delivery (e.g. performance measures)
 - Infrastructure and services are difficult to measure

Municipal Infrastructure Deficit

- Estimates of infrastructure deficit for Canadian cities range from \$60 to \$125 billion
- Problems with studies:
 - some cover all municipal infrastructure; others cover only specific types of infrastructure
 - some separate replacement and rehabilitation from investment needs while others do not
 - data from surveys reflect vested interest in overstating the infrastructure deficit
 - most assume no policy changes in the future (e.g. efficient user fees that will result in curbing demand).
- Nevertheless, there is a consensus that there is a substantial infrastructure deficit in Canada's cities

Will the Fiscal Imbalance Worsen in the Economic Downturn?

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- Lower property tax revenues and increase in property tax arrears; pressure to keep property taxes down
 - Reduced development-related charges
 - Increased social service costs
 - Increased federal spending on infrastructure
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Federal Spending on Infrastructure

- When will municipalities receive the money?
 - What will the money be used for? Will it be used for green infrastructure?
 - Will it create jobs and/or address the infrastructure deficit?
 - Will it encourage/require municipalities to price services correctly?
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What Can Local Governments Do?

Different Types of Services – Different Financial 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

Income tax

Transfers

What Can Local Governments Do?

- Reduce expenditures
 - But not services that will affect future economic growth; and not across-the-board cuts
- Increase property taxes
 - Expenditure cuts are more detrimental than tax increases for overall health of local economy
- Increase user fees and benefit-based taxes
 - Get the price right: user fees for garbage, roads

Concluding Comments

- Economic downturn provides opportunity to:
 - Address sources of inefficiency
 - Price services correctly
 - Promote a green agenda with the use of infrastructure funds