



# Non-Tax Revenues in Municipal Government in Canada

Presentation to the Delegation from the  
People's Republic of China

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- Conduct independent research
- Spark and inform public debate
- Engage the academic and policy communities

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# Recent Publications

*More Tax Sources for Canada's Largest Cities: Why, What, and How?*, by Harry Kitchen and Enid Slack

*Good Governance at the Local Level: Meaning and Measurement*, by Zack Taylor

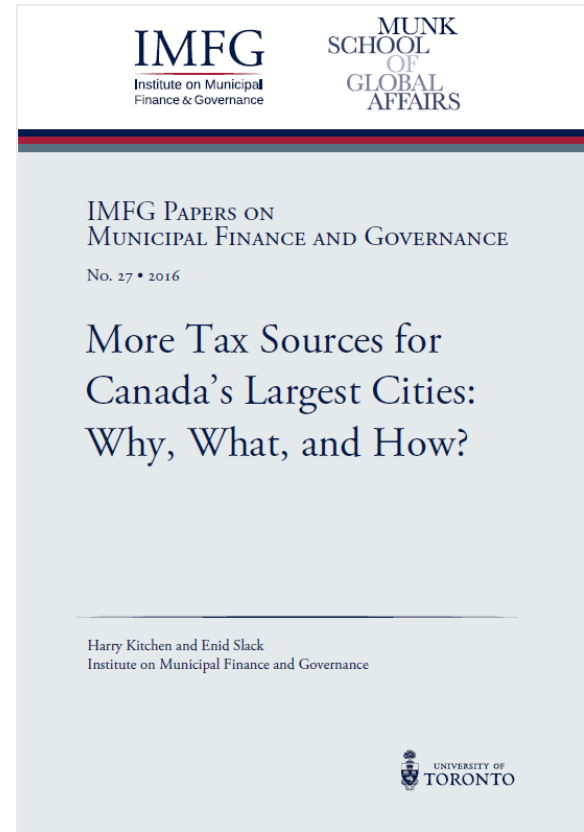
*Cities, Data, and Digital Innovation*, by Mark Kleinman

*Cost Overruns on Infrastructure Projects: Patterns, Causes, and Cures*, by Matti Siemiatycki

*Municipal Employee Pension Plans in Canada: An Overview*, by Bob Baldwin

*A Good Crisis: Canadian Municipal Credit Conditions After the Lehman Brothers Bankruptcy*, by Kyle Hanniman

And more...



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# Outline of Presentation

- Background on municipal government in Canada
- Matching revenues to expenditures
- Non-tax revenue sources
  - User fees
  - Land value capture
  - Development charges
  - Intergovernmental transfers
  - Municipal borrowing
  - Public-private partnerships

# 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 3,750 municipal governments in Canada

# Background on the Canadian Constitution (cont'd)

- The Federal government makes laws with respect to immigration, unemployment insurance, trade and commerce, national defence, indigenous 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 provincial governments with respect to local governments

- Create or dissolve municipalities, e.g. Toronto amalgamation
- Provincial legislation determines municipal responsibilities and what taxes municipalities can levy; rules on user fees
- From time to time, the division of responsibilities between provincial and local governments are reviewed and changes are made (e.g. local services realignment in Ontario in 1998)
- Provincial governments set standards for service provision (including non-mandated services)



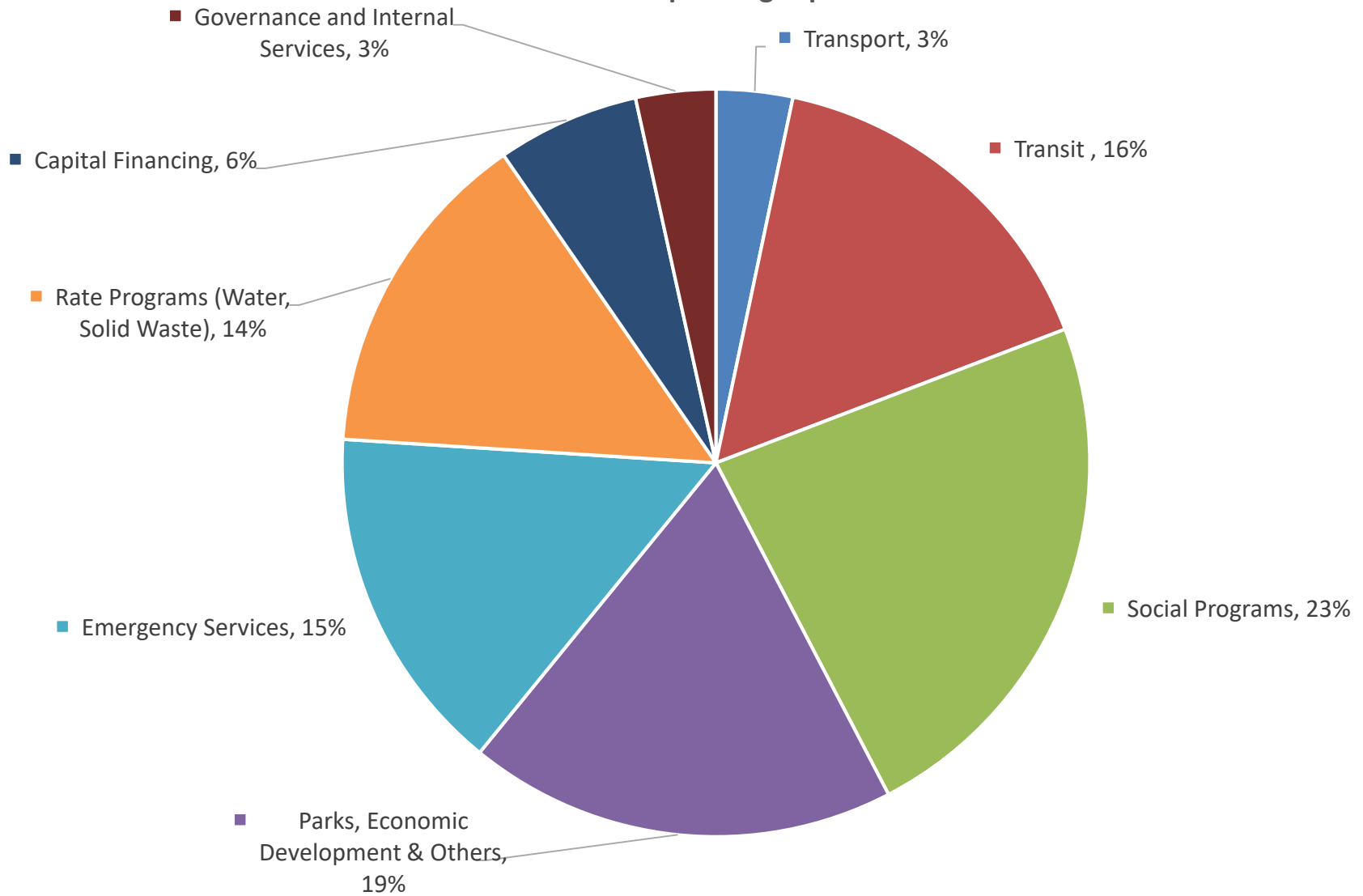
# Role of provincial governments with respect to local governments (cont'd)

- Dictate that municipalities cannot run an operating deficit
- Municipal borrowing for capital is restricted by the province (but not in Toronto, which has its own legislation)
- Unconditional transfers: based on formulas reflecting fiscal capacity and need
- Conditional transfers: mainly for social services, transportation, environment (usually on a cost-shared basis)

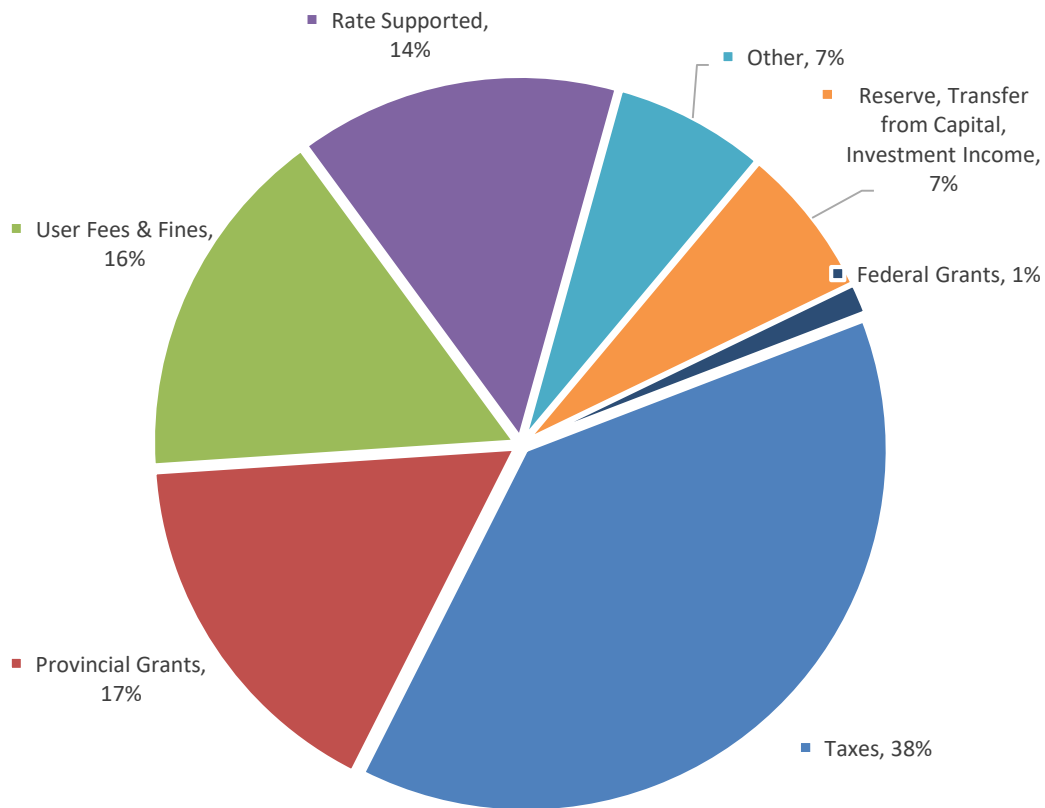
# Major services funded by local governments

<p><b>General government administration</b></p>	<p><b>Health</b></p> <ul style="list-style-type: none"> <li>• Public health</li> <li>• Ambulance service (Ontario only)</li> </ul>
<p><b>Protection</b></p> <ul style="list-style-type: none"> <li>• Fire</li> <li>• Police</li> <li>• Emergency planning</li> </ul>	<p><b>Social services (Ontario only)</b></p> <ul style="list-style-type: none"> <li>• Welfare assistance</li> <li>• Day care services and children's assistance</li> <li>• Homes for the aged</li> <li>• Social housing</li> </ul>
<p><b>Roads</b></p> <ul style="list-style-type: none"> <li>• Local roads</li> <li>• Sidewalks</li> <li>• Streetlights</li> <li>• Parking</li> </ul>	<p><b>Recreation and culture</b></p> <ul style="list-style-type: none"> <li>• Community parks and recreation programs</li> <li>• Local libraries</li> <li>• Community centres, theatres, auditoriums</li> <li>• Convention facilities</li> </ul>
<p><b>Public transit</b></p>	
<p><b>Environment</b></p> <ul style="list-style-type: none"> <li>• Water supply and distribution</li> <li>• Sewage collection and treatment</li> <li>• Solid waste management</li> </ul>	<p><b>Planning and development</b></p> <ul style="list-style-type: none"> <li>• Local planning, zoning, severances, approvals</li> <li>• Local economic development</li> </ul>

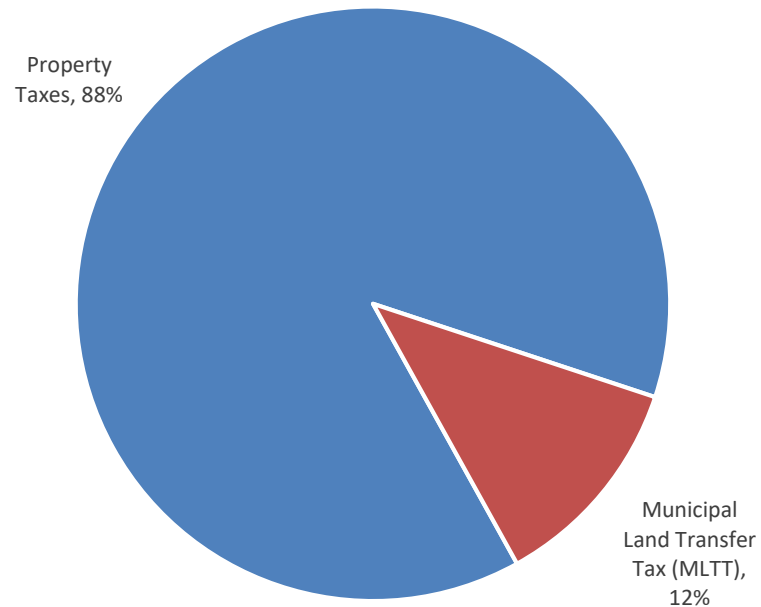
## Toronto: Operating Expenses



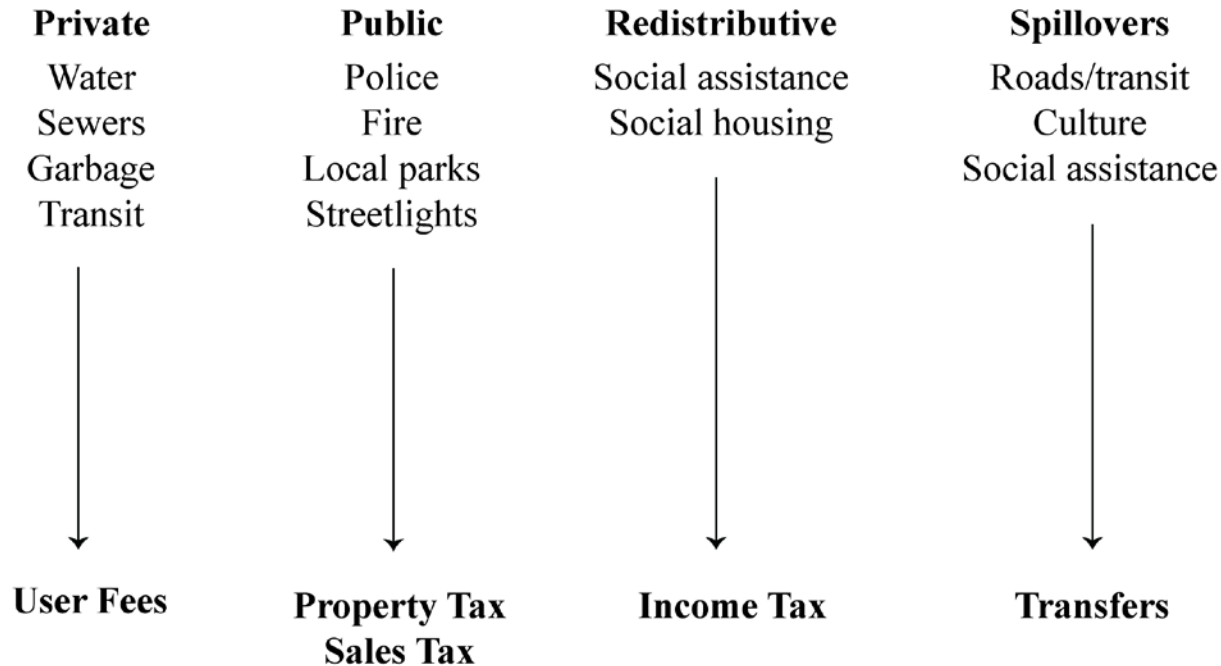
## Toronto: Operating Revenues



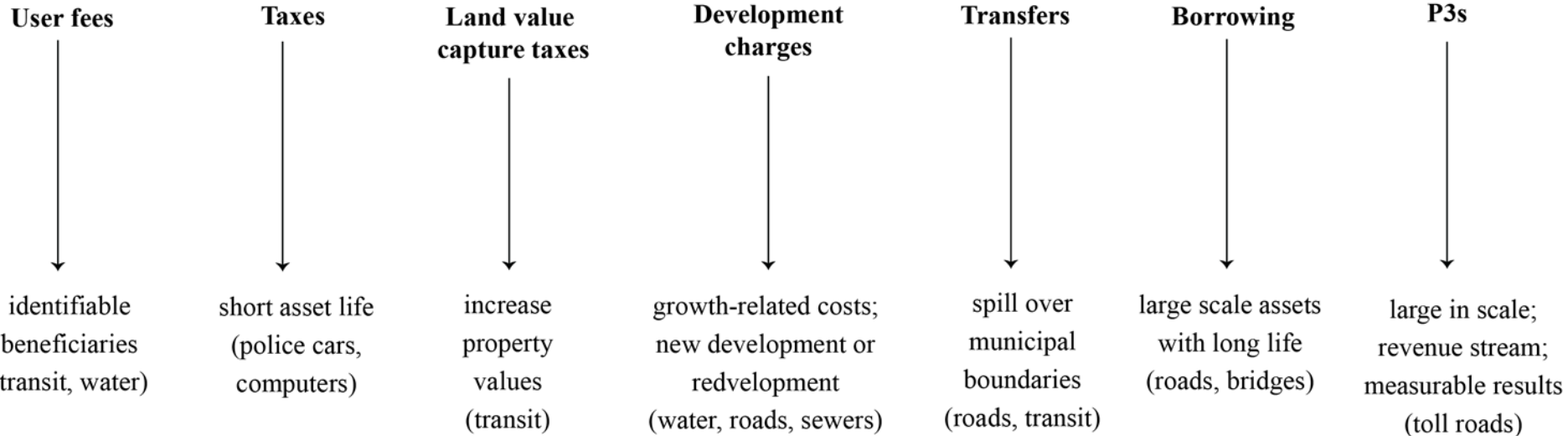
## Toronto: Tax Revenue Breakdown



# Different services – Different revenue sources



# Different infrastructure – Different fiscal tools



# User Fees

- Signals what people are willing to pay for
- Need to be able to identify the beneficiaries and exclude those who do not pay
- Appropriate for water, sewage, garbage collection and disposal, highway improvement (tolls), public transit...

# User fees bring in revenues and alter economic decisions

- Properly designed fees enable citizens to make efficient decisions about how much of a service to consume and governments to make efficient decisions about how much of the service to provide
- Under-pricing (or not charging) leads to:
  - over-consumption and demands to build more under-priced infrastructure
  - redistribution of income that is not what is otherwise expected or desired – rich benefit more than the poor
- Regressivity can be addressed e.g. lifeline rates for water



# User Fees

- Roads – few municipalities levy tolls
- Transit – high recovery rates in Toronto
- Street parking – under-priced
- Solid waste collection and disposal – sometimes based on volume (e.g. bag tags)
- Water and waste water – full cost recovery
- Stormwater management – a few examples of pricing according to surface area
- Homes for the aged – geared to income

# Land value capture is on the rise

- Recoup some or all of the unearned increment in land values arising from:
  - public investment
  - change in regulations (e.g. increased density, building height)
- Rationale: at least some of the resulting increase in land value arising from infrastructure investment should be captured by governments to pay for it

# How do we capture land value?

- Betterment levies/special assessments (e.g. special assessments for sidewalks in Toronto; supplementary business property tax in London to help pay for transit – Crossrail)
- Tax increment financing (e.g. to redevelop areas in need of revitalization in Chicago)
- Sale of building rights (e.g. density bonusing in Toronto; community amenity contributions in Vancouver; CEPACs in São Paulo)

# Development charges are used to pay for growth

- Charge on developers to cover the growth-related capital costs associated with new development (or redevelopment)
- Off-site infrastructure (e.g. major roads, trunk water sewer lines, water treatment plants, etc.)
- Growth pays for itself and is not a burden on existing taxpayers
- Impact on land use

# Intergovernmental transfers: rationale

- Spillovers – some services spill over municipal boundaries – no incentive to provide what is needed
- Equalization – some local governments are unable to provide an adequate level of services at reasonable tax rates
  - costs may be higher
  - needs may be greater
  - tax base may be smaller

# Intergovernmental transfers: problems

- Transfers break the link between those who benefit/those who pay
- Not stable and predictable funding
- No incentive to use proper pricing
- Conditional transfers distort local decision-making
- Accountability problems when two or more levels of government fund the same service

# Borrowing for assets with long life

- Inter-generational equity – those who enjoy the benefits over time also pay the costs
- Capital expenditures are lumpy; borrowing smooths out the costs
- Pooling borrowing can lower costs (e.g. BC Municipal Finance Authority)
- Borrowing costs may crowd out current expenditures

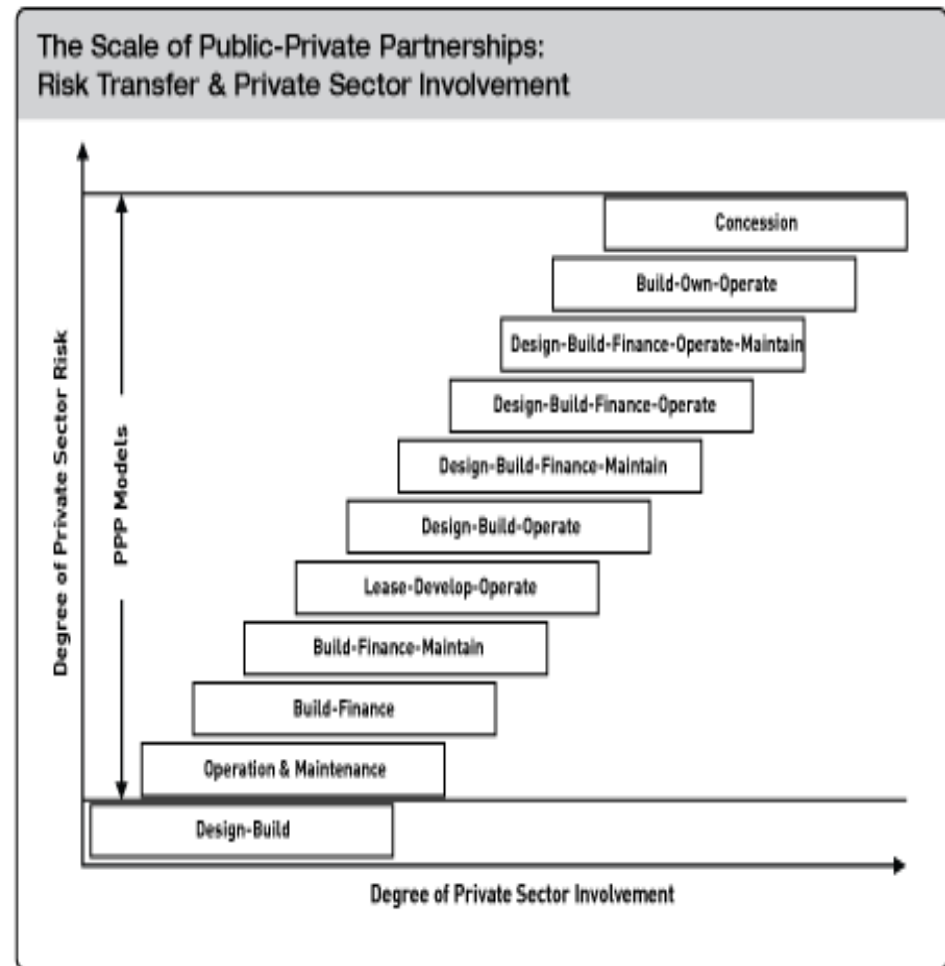
# Examples of provincial borrowing rules

- Ontario – debt service cannot exceed 25% of own-source revenues (mainly property taxes plus user fees)
- Nova Scotia – debt service cannot exceed 30% of own-source revenues
- Alberta – major cities – debt limit of two times total revenue excluding capital transfers; debt service limit of 35% of revenue



# Public-Private Partnerships

- 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



The Canadian Council for Public-Private Partnerships