
Measuring the Fiscal Health of Urban Local Governments in Canada

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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

Outline of Presentation

- Definition of fiscal sustainability/health
- Measures:
 - Fiscal indicators
 - Projections of future tax rates
- Case study of Toronto
- Problems with measures of fiscal sustainability in the Canadian context
- Other indicators – performance based measures

Fiscal Sustainability

- “Sustainability” has three distinct quantifiable aspects:
 - the level of revenues (however defined)
 - the level of expenditures (however defined)
 - the difference between the two (the deficit)

Fiscal Sustainability

- Two distinct dimensions of sustainability need to be considered:
 - the *static* dimension – the relation of the levels
 - the *dynamic* dimension – the relation of the growth rates of the two sides of the budget

Fiscal Sustainability

- In the municipal context, the fiscal “needs” of Canadian cities (assumed to be driven by demographics) exceed their revenue “prospects” (the potential yield of the real property tax)
- But, provincial legislation in Canada prohibits municipalities from incurring a deficit in their operating budgets -- operating expenditures are simply not allowed to exceed operating revenues

Measures of Fiscal Sustainability

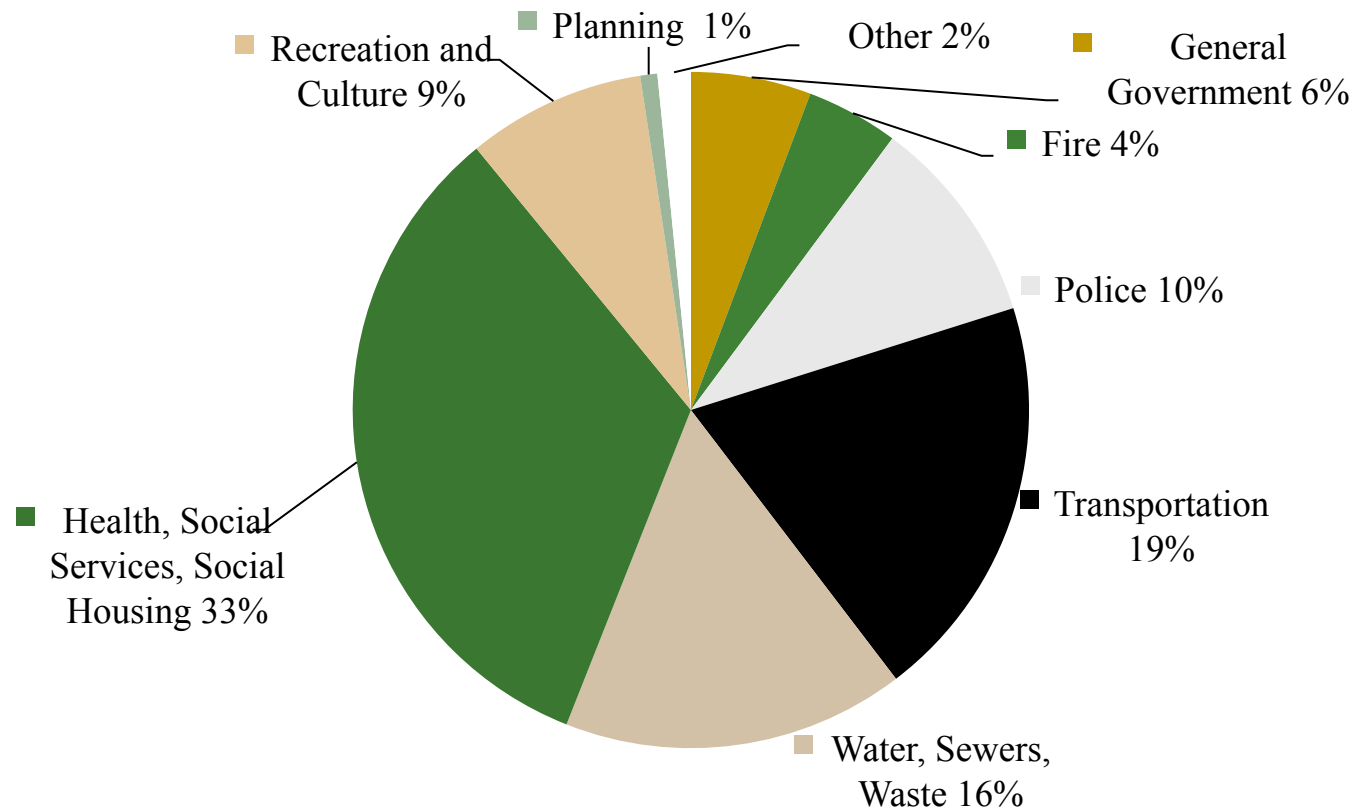
- Two approaches to assessing fiscal sustainability:
 - Fiscal indicators
 - Projection of what tax rates might be in the future based on past trends in expenditures, other (non-tax) revenues, and the tax base

The Case of Toronto

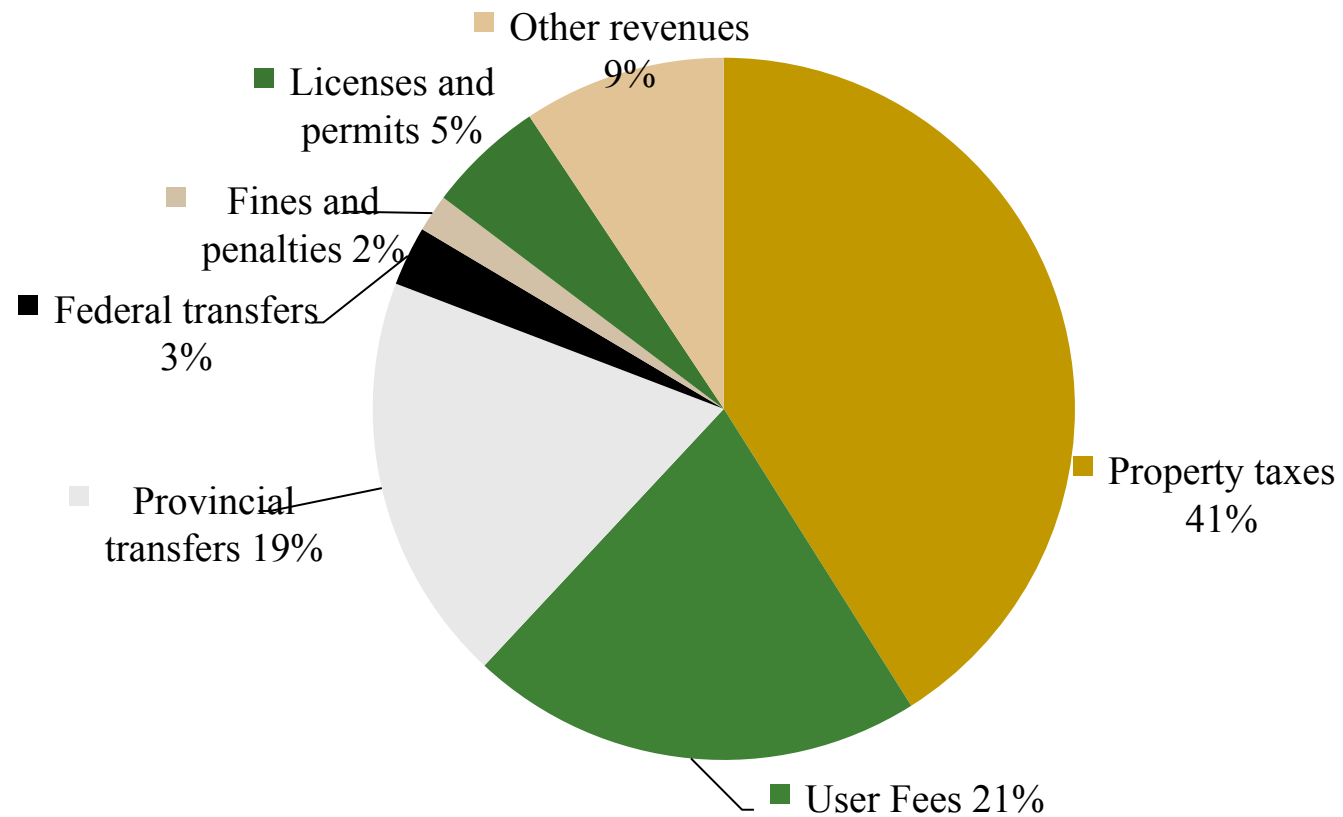


	Toronto	Census Metropolitan Area
Population	2,651,717	5,509,874
Land area (km ²)	630	5,903
Population density	4,209	933
GDP (\$billions)	133	267
Labor force (#)	1,447,520	3,074,770
Unemployment rate (%)	7.87	6.81
Per capita income (\$)	35,549	35,974
Average price of resale single detached house (\$)	529,148	462,747

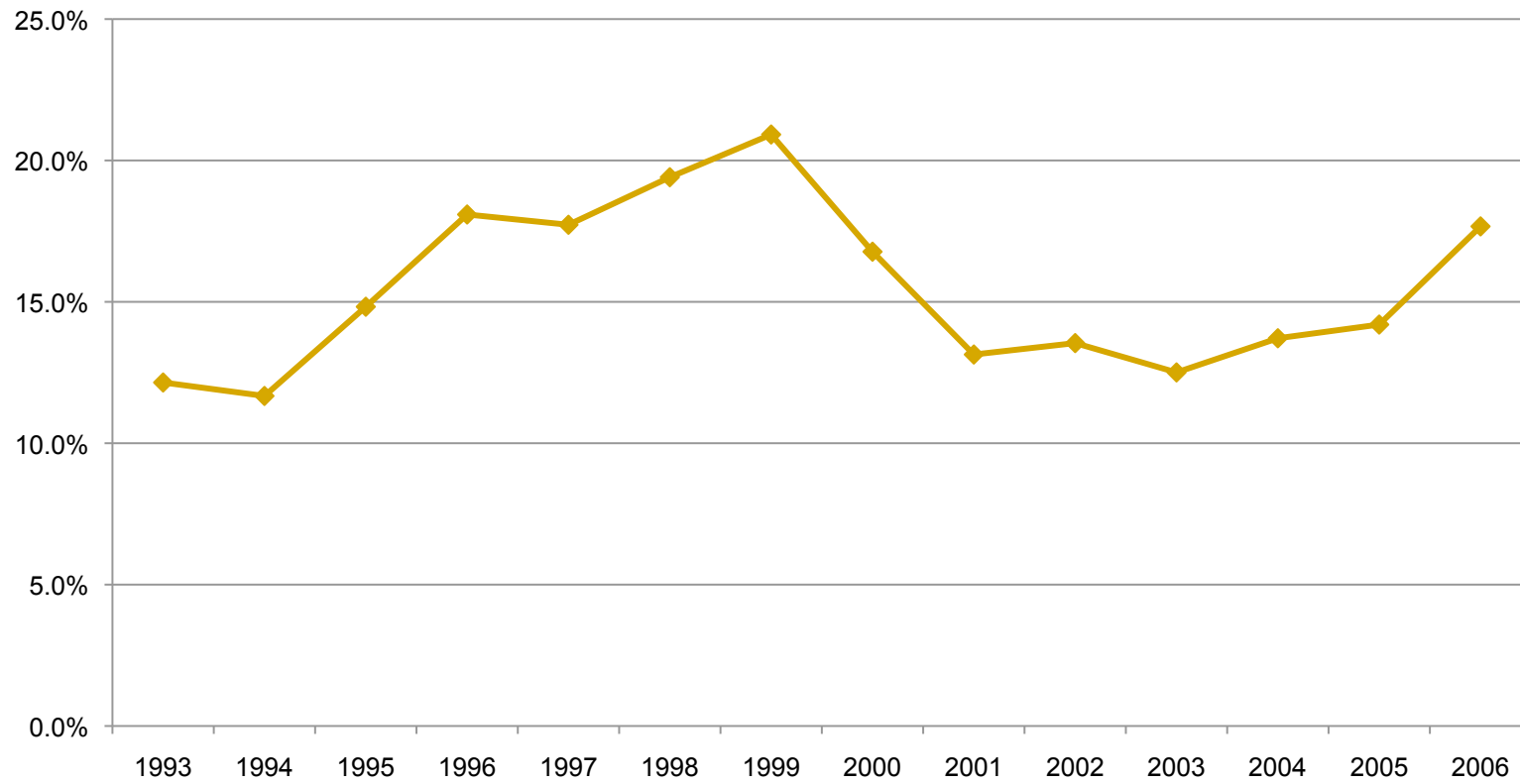
Distribution of Operating Expenditures, Toronto, 2006



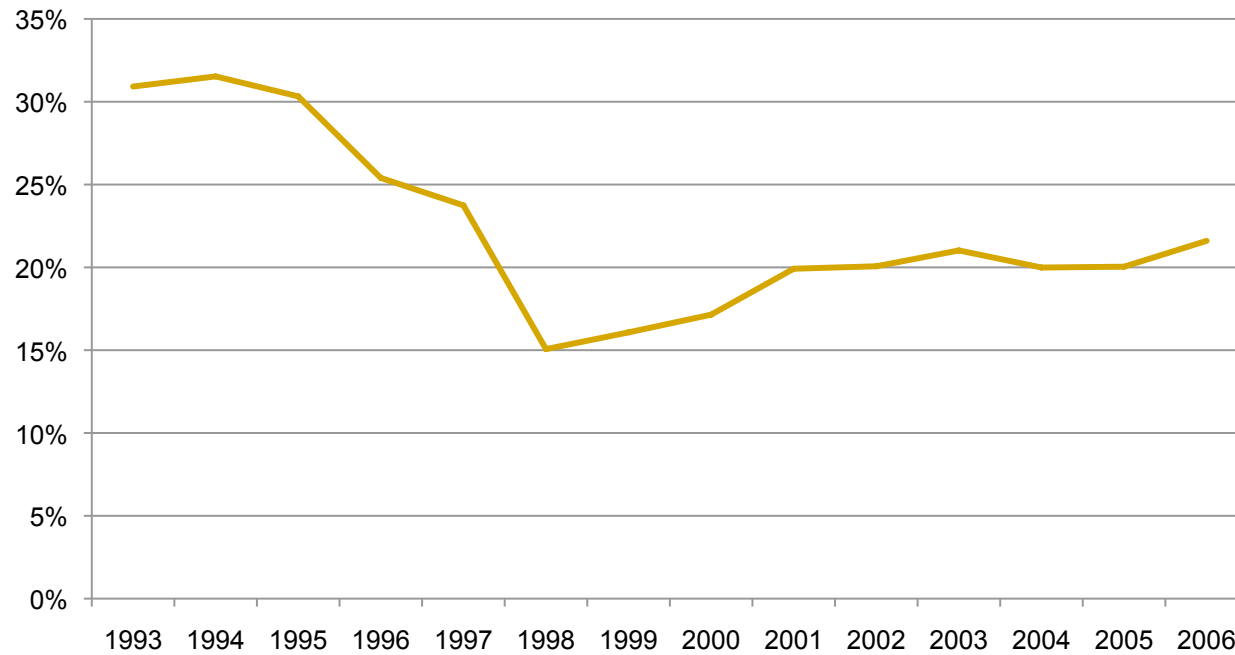
Distribution of Operating Revenues, Toronto, 2006



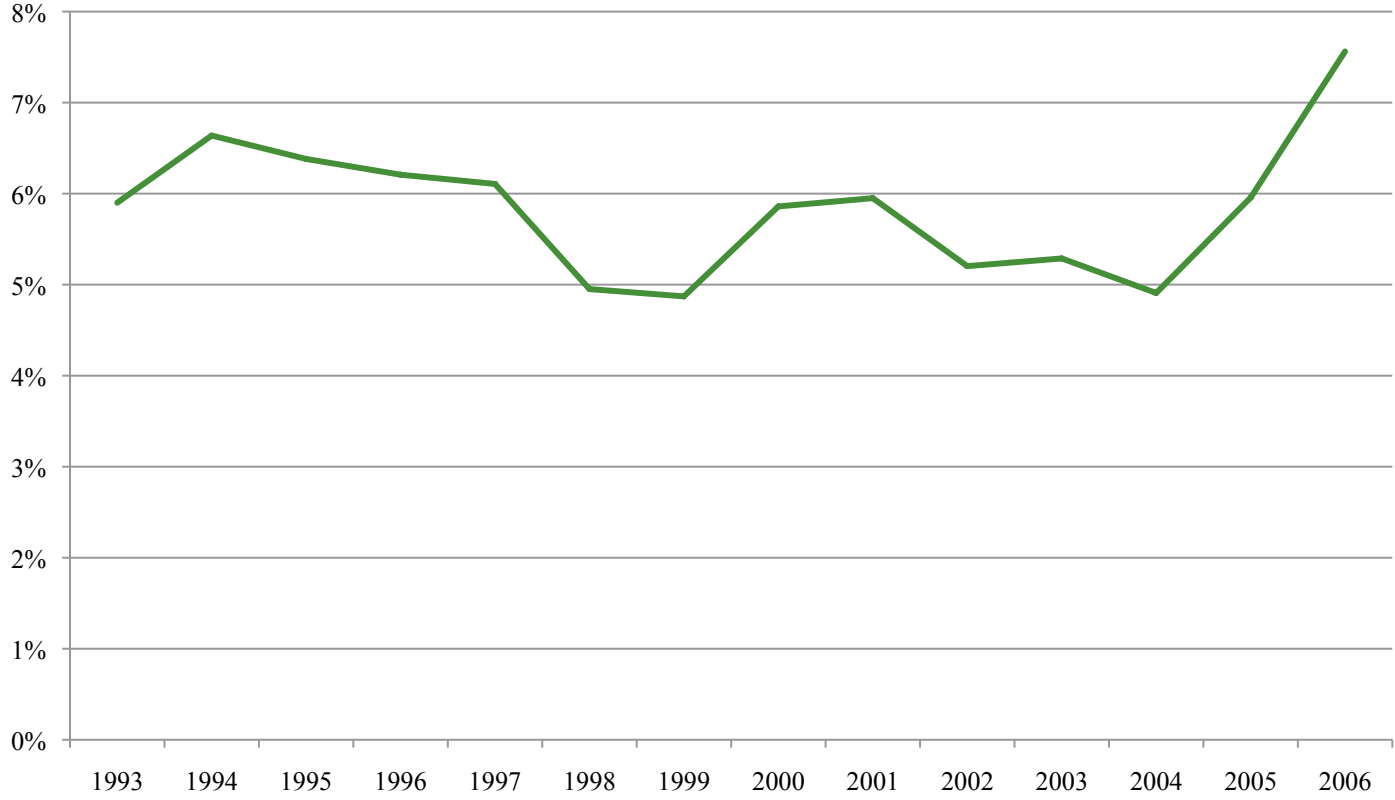
Ratio of Capital to Operating Expenditures, Toronto, 1993 to 2006



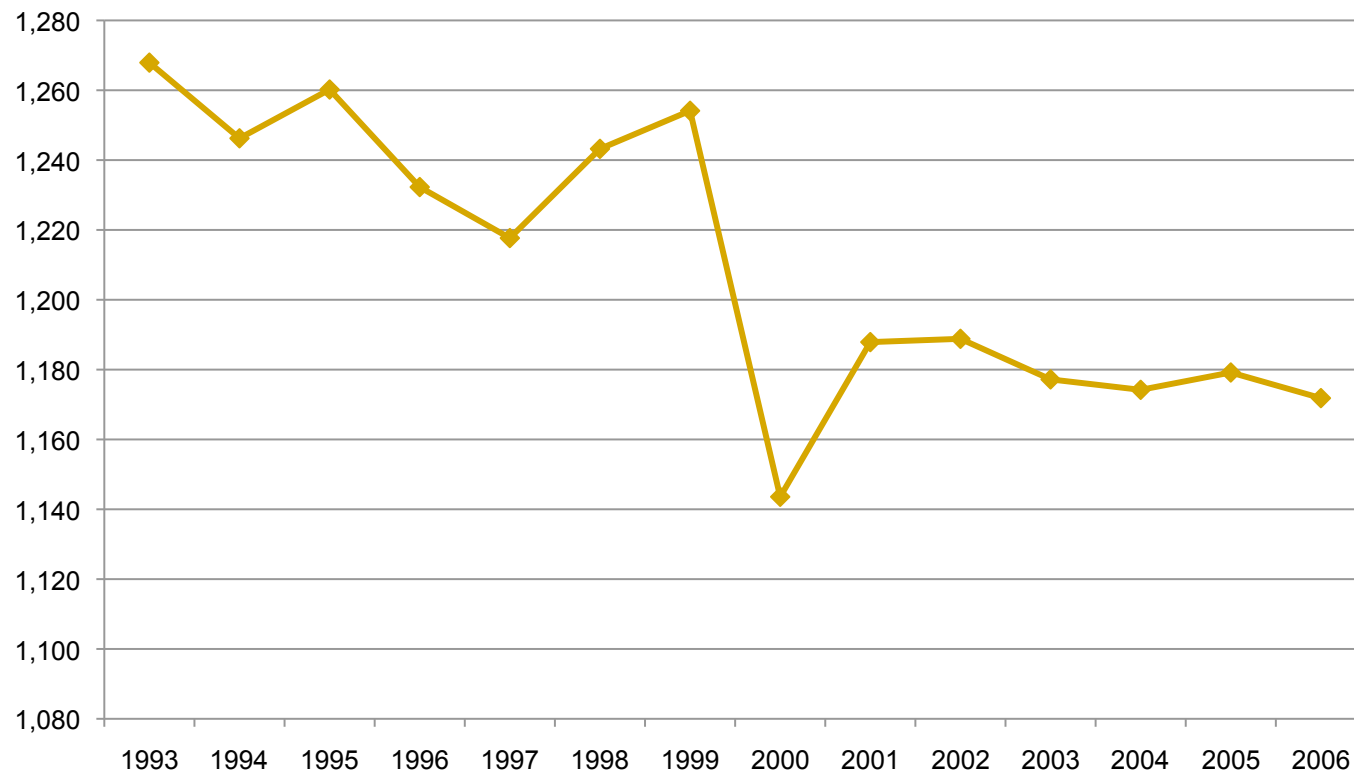
Grants as a Percentage of Operating Revenues, Toronto, 1993 to 2006



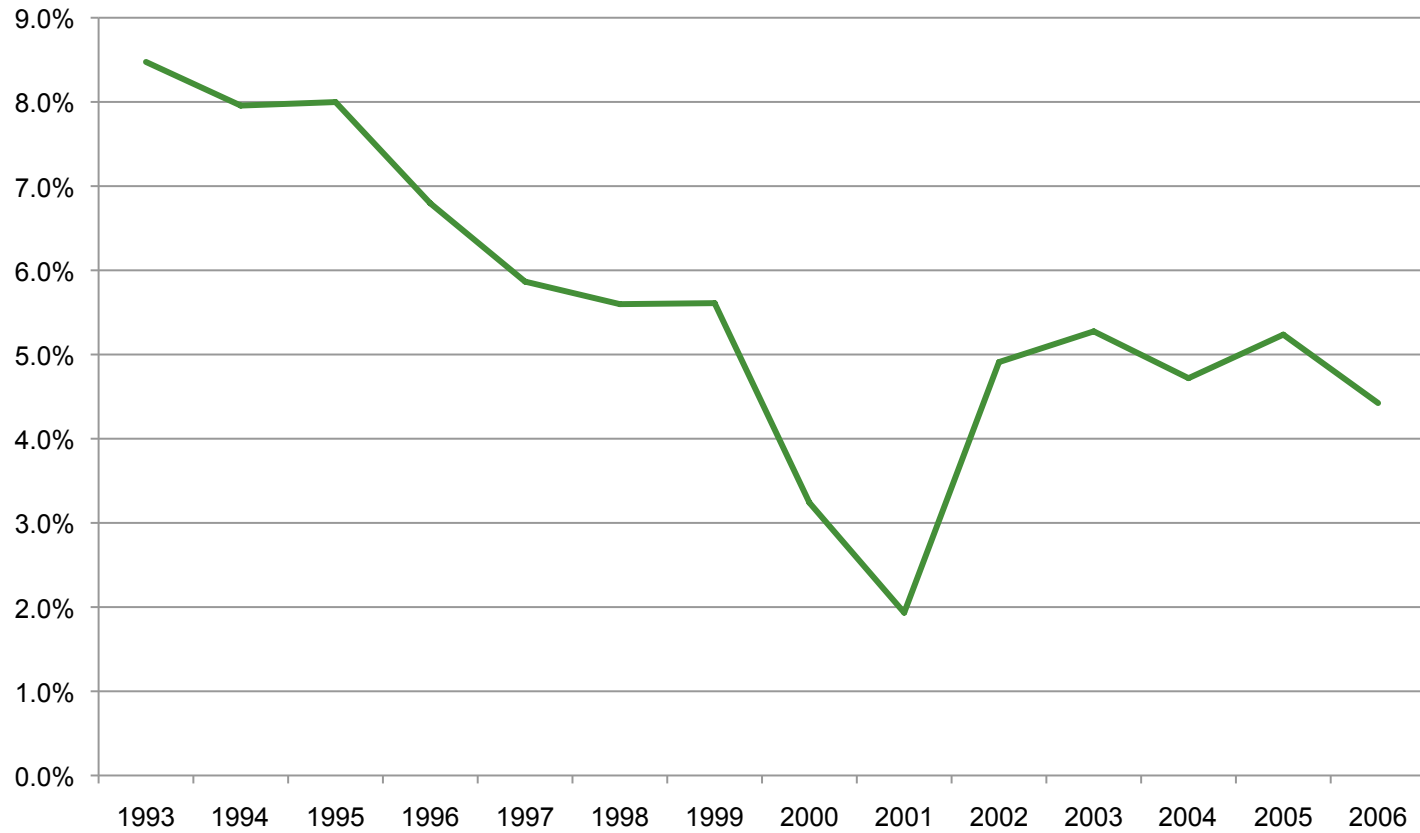
**Debt Charges as a Percent of Own-Source Revenues,
Toronto, 1993-2006**



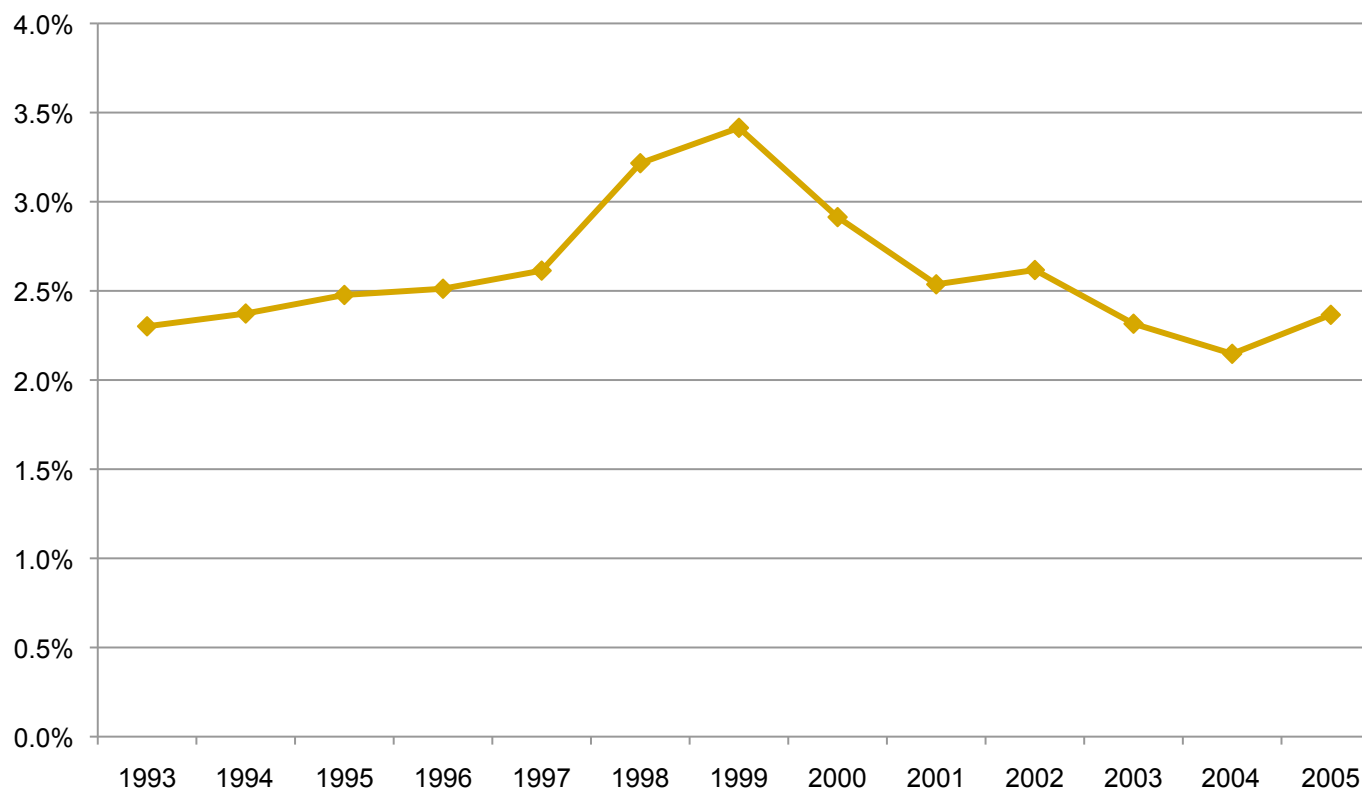
Property Taxes per Capita in Real Dollars, Toronto, 1993 to 2007



Tax Arrears as a Percent of Tax Levy, Toronto, 1993 to 2006



Own-Source Revenue Relative to Taxable Assessment, Toronto, 1993 to 2005



Fiscal Condition of Canadian Cities

- The fiscal condition of Canadian cities as measured by fiscal indicators looks good:
 - ❑ No operating deficits
 - ❑ Decreased dependence on provincial grants
 - ❑ Modest borrowing for capital
 - ❑ Modest increase in property taxes
 - ❑ Low tax arrears

Fiscal Condition of Canadian Cities

- And yet, the fiscal pressure is rising as a result of:
 - Downloading
 - Pressure to be competitive
 - Costs of sprawl

- Are these indicators the best measures of fiscal health?

Fiscal Sustainability: Tax Projections

- What would happen to property taxes in the Toronto region if past trends and current practices in municipal finance continued for the next 30 years?
- Projections assume that there will be no policy changes over the next thirty years (e.g. with respect to level and nature of the services, how property taxes are levied, the extent to which user fees are applied, etc.)

Assumptions for Tax Projections

- Expenditures per capita increase at the same rate as they have in the recent past
- Non-tax revenues per capita increase at the same rate as they have in the past
- Residential tax base per capita increases at the same rate as population
- Non-residential tax base increases at the same rate as employment

Problems with Assumptions

- Assumptions don't reflect that fiscal sustainability depends on the interaction of demographic, economic, and social trends and on how political institutions reflect and react to those trends
- Expenditure needs depend on sensitivity of local funding responsibilities to economic trends, number of seniors and children relative to the total population, extent of poverty and homelessness, etc.

Problems with Assumptions

- Expenditures should be disaggregated by function (roads, policing, transit, etc.)
- Need a more detailed analysis of determinants of each expenditure category e.g. police expenditures might be projected on the basis of population size, population density, demographics, crime rates, income levels, etc.

Problems with Assumptions

- Non-tax revenues should reflect the extent to which municipalities are permitted to and do make use of user fees and other revenues
- Size of property tax base should reflect both economic trends and tax rates (e.g. an increase in tax rates might discourage investment and reduce the size of the tax base)

Projection Results

- Under a business-as-usual scenario, residential property tax rates would increase, on average, by only about 1 percent per year (about 37 percent from 2001 to 2031)
- Non-residential property tax rates would increase by 1.2 percent per year on average (more than 40 percent from 2001 to 2031)

Figure 6: Change in Actual and Projected Residential Property Tax Rates (relative to 1990)

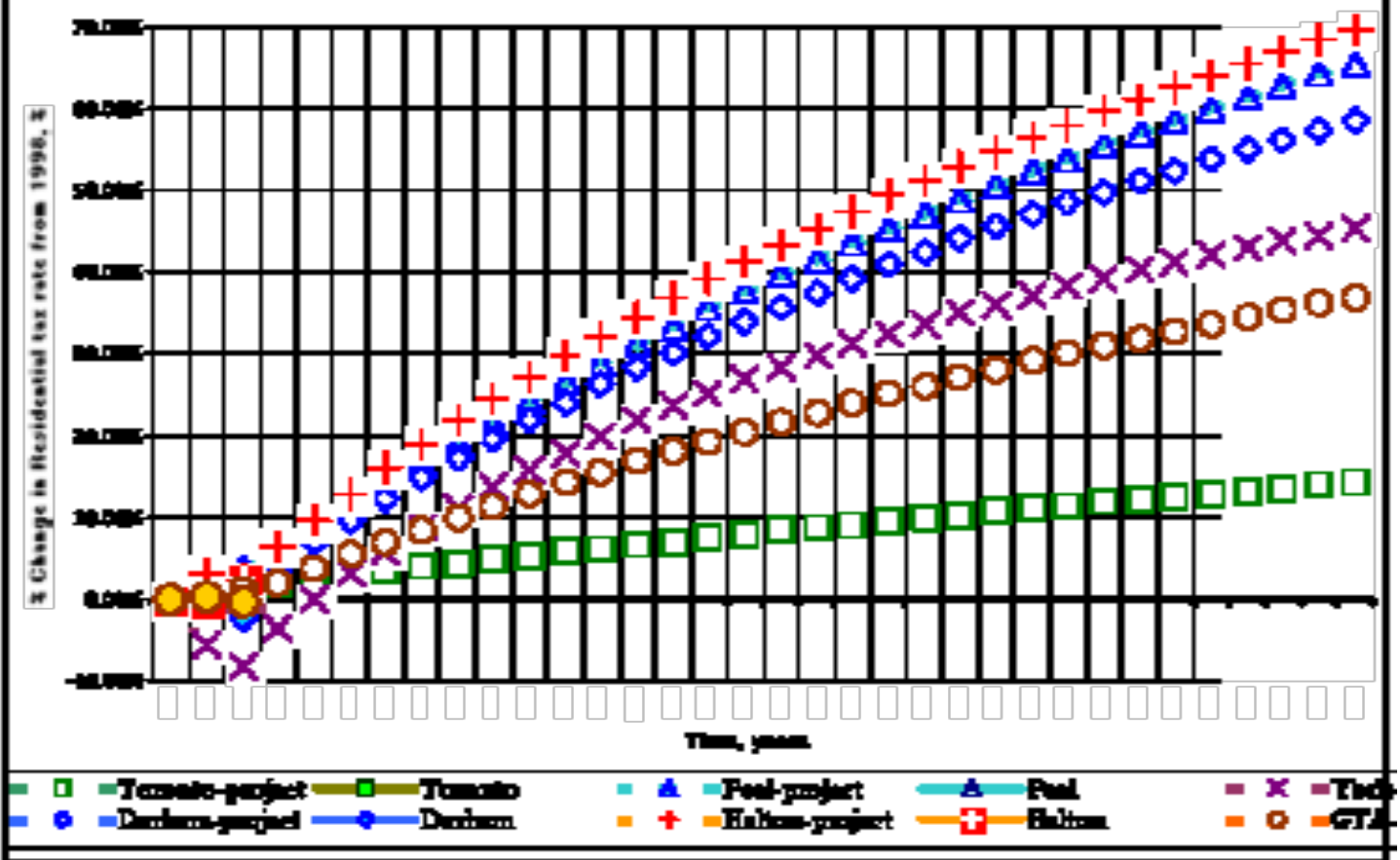
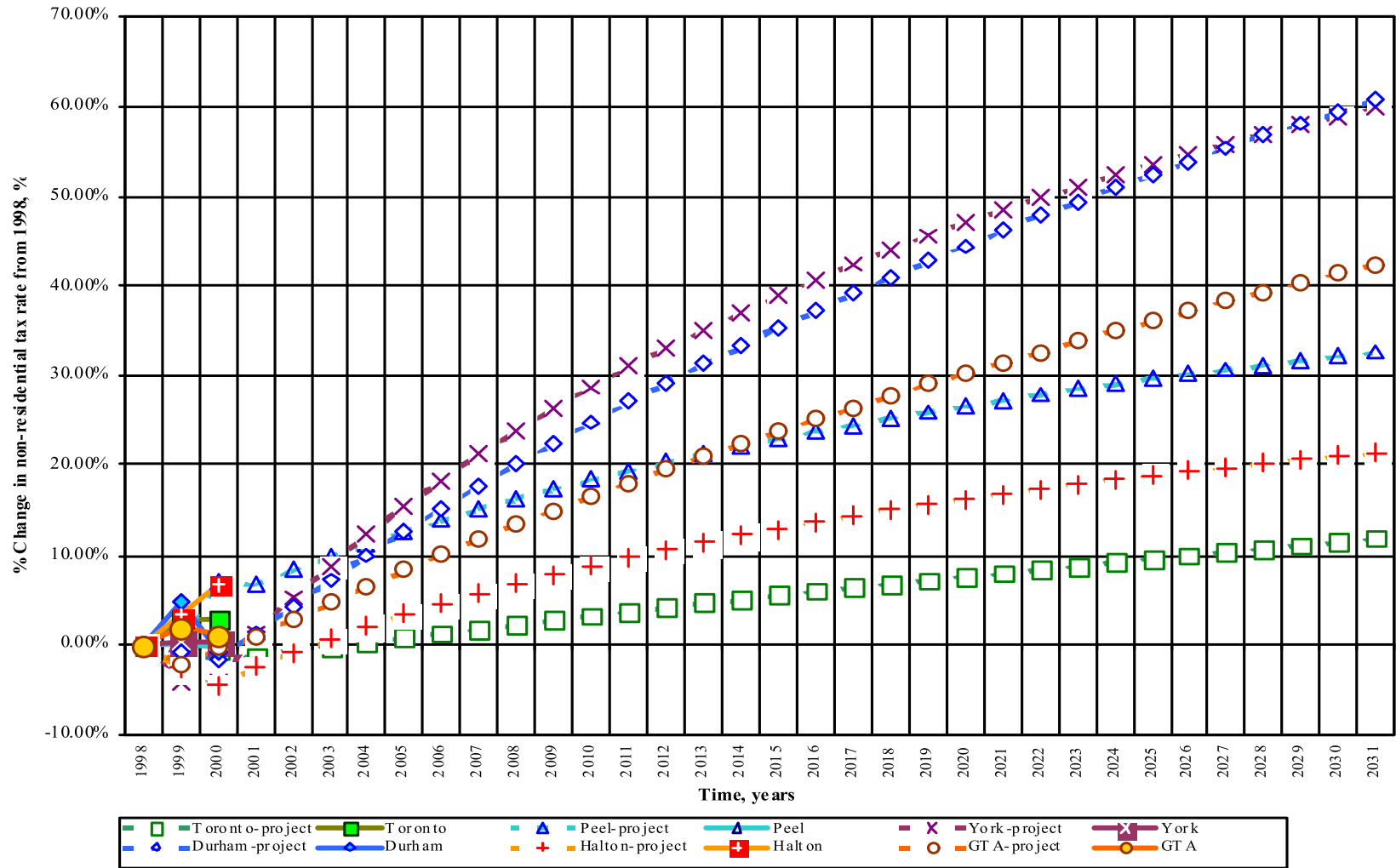


Figure 9: Change in Actual and Projected Non-Residential Property Tax (relative to 1998)



Projection Results

- Projected property tax rate increases are not very significant
- Result is not surprising -- it is an extrapolation of past trends and municipalities did not increase property taxes dramatically in the past
- Don't know how much property taxes can be increased before significant behavioural changes affect the tax base and/or expenditure needs

Problems with Measures of Fiscal Sustainability in Canadian Context

- Canadian cities are constitutionally “creatures” of the provinces. This means that the Province:
 - ❑ Can create or destroy municipalities
 - ❑ Determine municipal responsibilities and what taxes municipalities can levy
 - ❑ Set standards for service provision
 - ❑ Determine that municipalities cannot run an operating deficit
 - ❑ Restrict municipal borrowing

Problems with Measures of Fiscal Sustainability in Canadian Context

- Municipalities have little flexibility on expenditures or revenues
- By mandating the fiscal balance, the province is suppressing the symptoms of ill health
- If there is a problem, how do we show it? -- not by the difference between expenditures and revenues

Problems with Measures of Fiscal Sustainability in Canadian Context

- Fiscal health may have been achieved at the expense of overall urban health and hence an increasing drag on performance:
 - Deteriorating infrastructure
 - Reduced service delivery

Infrastructure Deficit

- Estimates of infrastructure deficit: \$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 an emerging consensus that there is a substantial infrastructure deficit in Canada's cities

Other Indicators -- Performance Measures

- Provincial government in Ontario requires municipalities to report annually on 44 performance measures in 12 service areas
- Measures:
 - Efficiency – cost per unit of service
 - Customer service – quality of service delivered
 - Community impact – outcomes in relation to intended purpose

Performance Measures - Examples

- Violent crime per 1,000 population
 - Percentage of paved lane kilometers where condition is rated as good to very good
 - Number of sewer main backups per 100 kilometers of sewer line in the year
 - Percentage of wastewater estimated to have by-passed treatment
 - Number of water main breaks per 100 kilometers of water main pipe in a year
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Performance Measures - Examples

- Number of complaints received in a year concerning the collection of solid waste and recycled materials per 1,000 households
- Percentage of residential solid waste diverted
- Participant hours for recreation programs per 1,000 persons
- Hectares of open space per 1,000 persons
- Operating costs for a variety of services

Concluding Comments

- Fiscal sustainability is not a useful concept in context of Canadian cities because cities are required to balance operating budgets and they face capital borrowing restrictions
- Overall health has less to do with balancing the budget than with how well services are being provided and the state of municipal infrastructure

Concluding Comments

- To assess sustainability, need systematic studies of the state of infrastructure (and investment required for rehabilitation), measures of service delivery and how it has changed (benchmarking/performance measures), surveys of citizens