
Municipal Finance in Canada

Enid Slack
Institute on Municipal Finance and Governance
Munk Centre for International Studies
University of Toronto

Presentation to Chinese Delegation
Toronto, March 19, 2007

Outline

- Background on the Canadian Constitution
- Municipal expenditures
- Municipal revenues
- Role of provincial and federal governments
- Provincial-municipal unconditional grant formulas
- Provincial-municipal revenue sharing

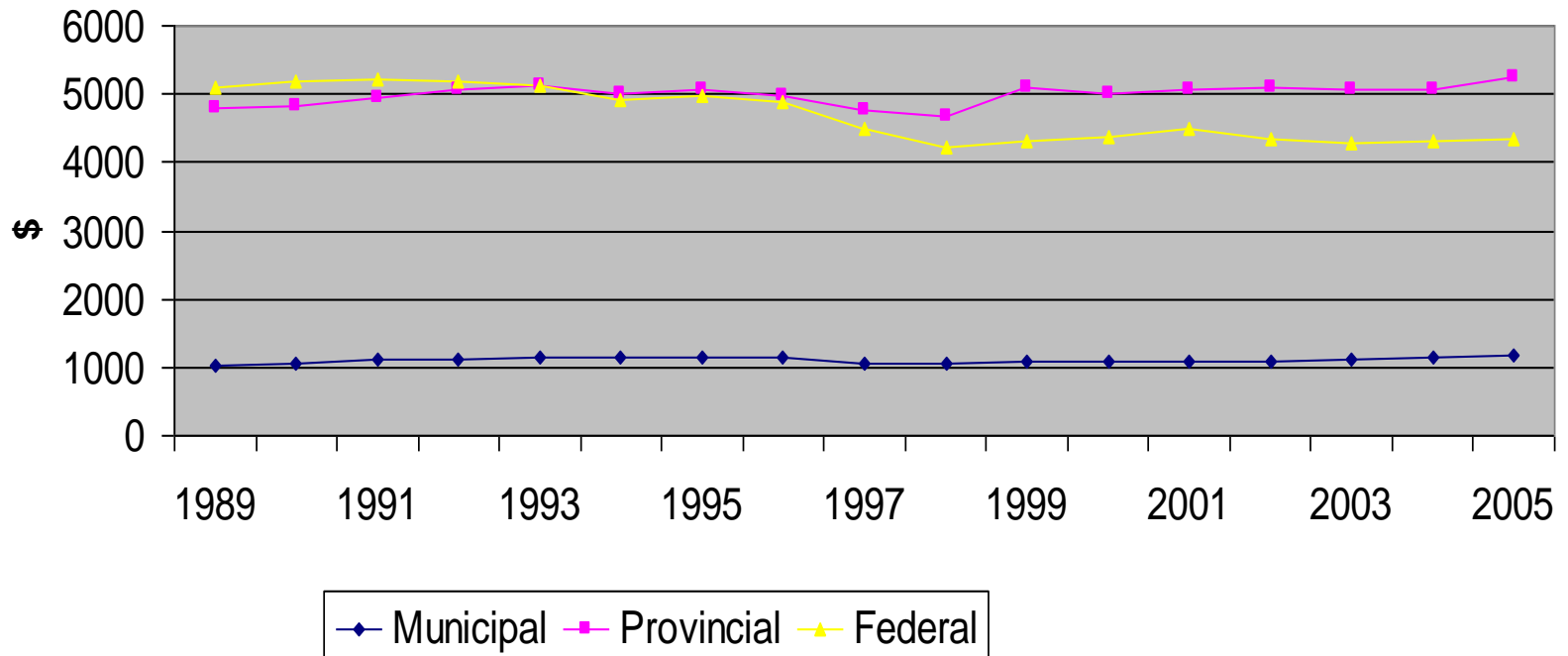
Background on the Canadian Constitution

- Canada is a federation with three levels of government: federal, provincial 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

- The federal government maintains the "peace, order and good government" of the whole country by making laws with respect to immigration, unemployment insurance, trade and commerce, national defence, native affairs, and criminal law.
 - Provincial governments are empowered to 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.
-

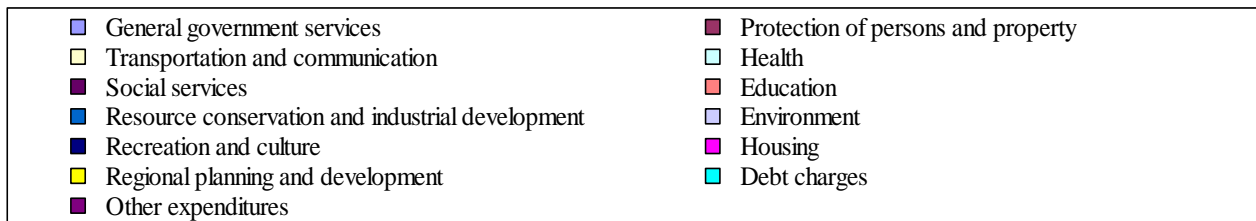
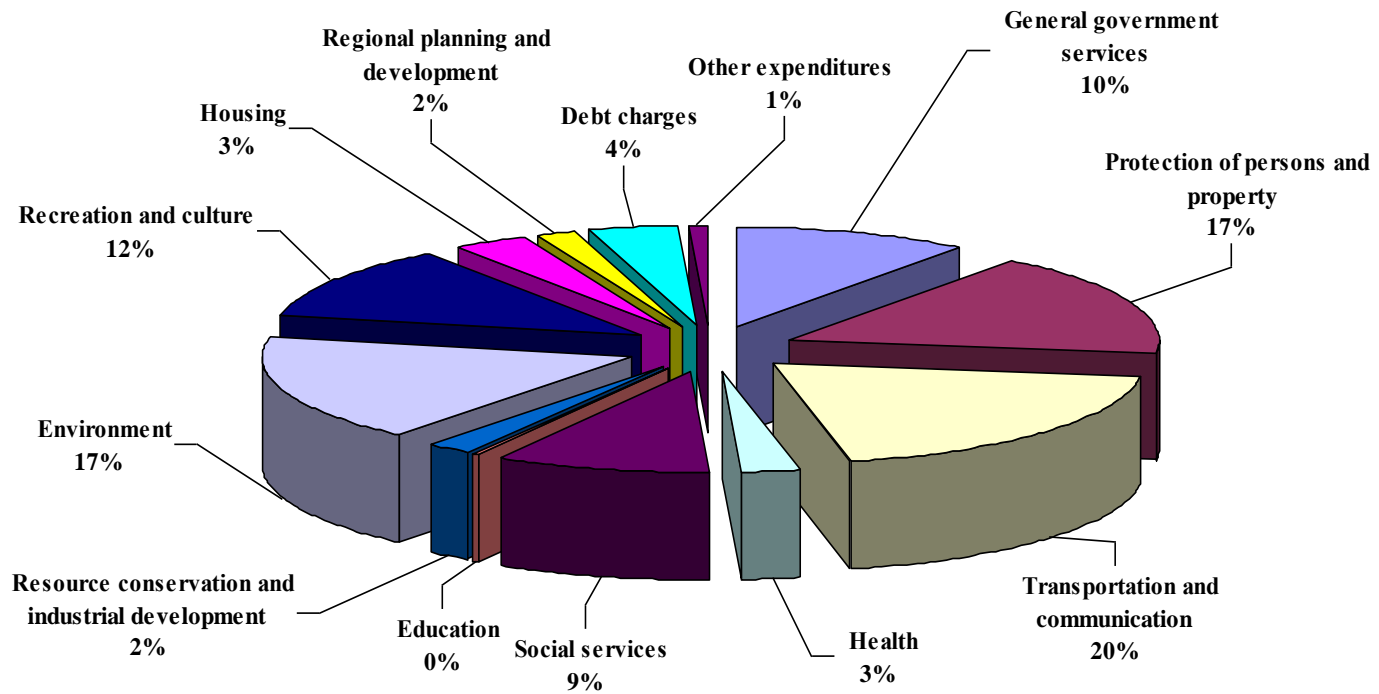
Federal, Provincial and Municipal Government Expenditure,
Constant Dollars per Capita, 1989-2005



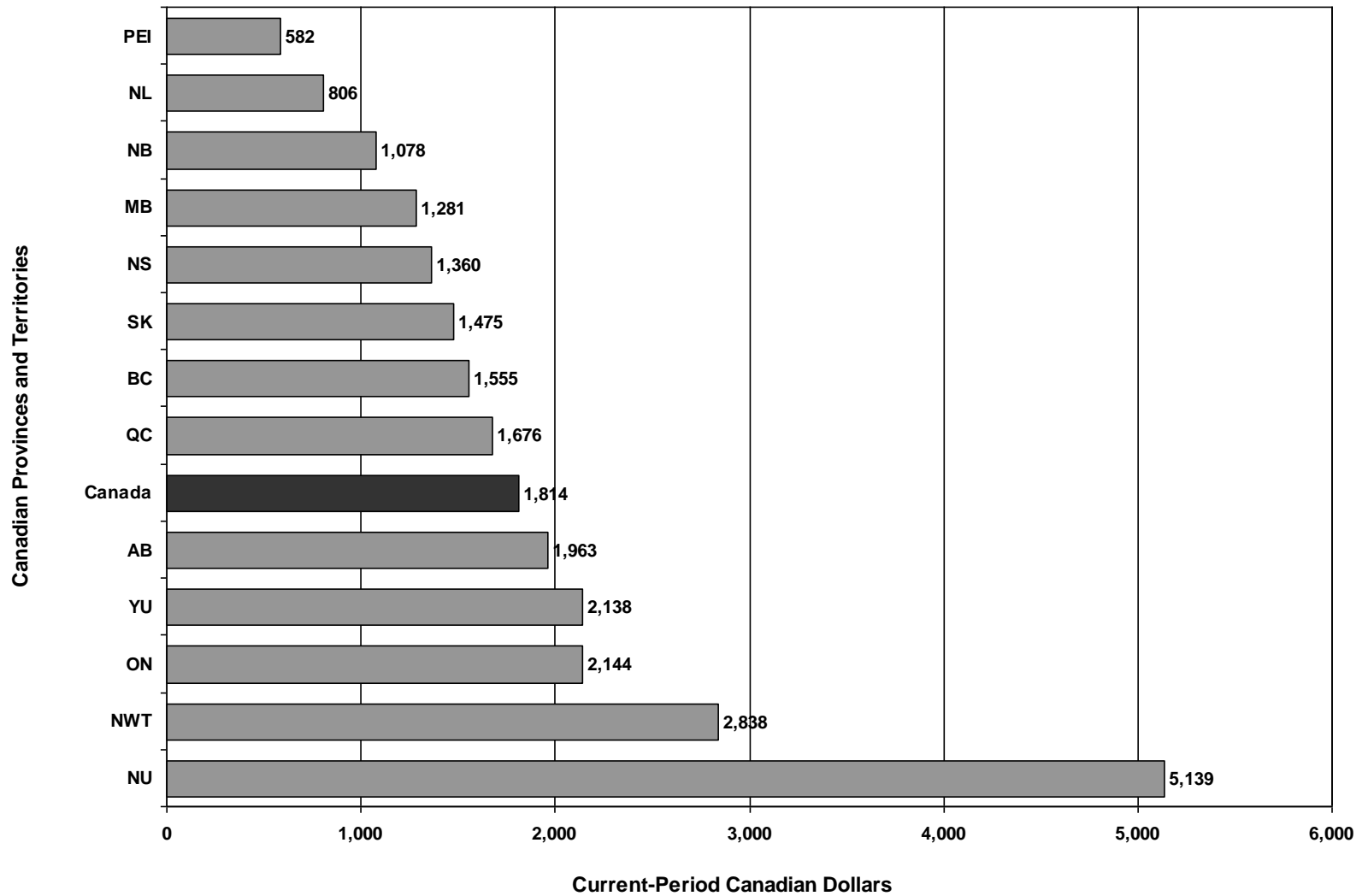
Municipal Expenditures

- Largest expenditures on transportation, protection (fire and police) and environment (water, sewers, solid waste)
- Variation by province/territory from \$582 per capita in PEI to \$2,144 in Ontario

Composition of Total Expenditure by Local General Government, Canada (2005)



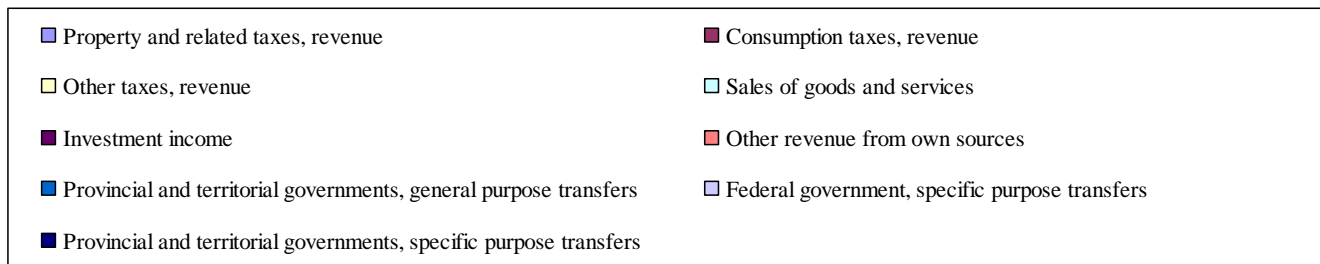
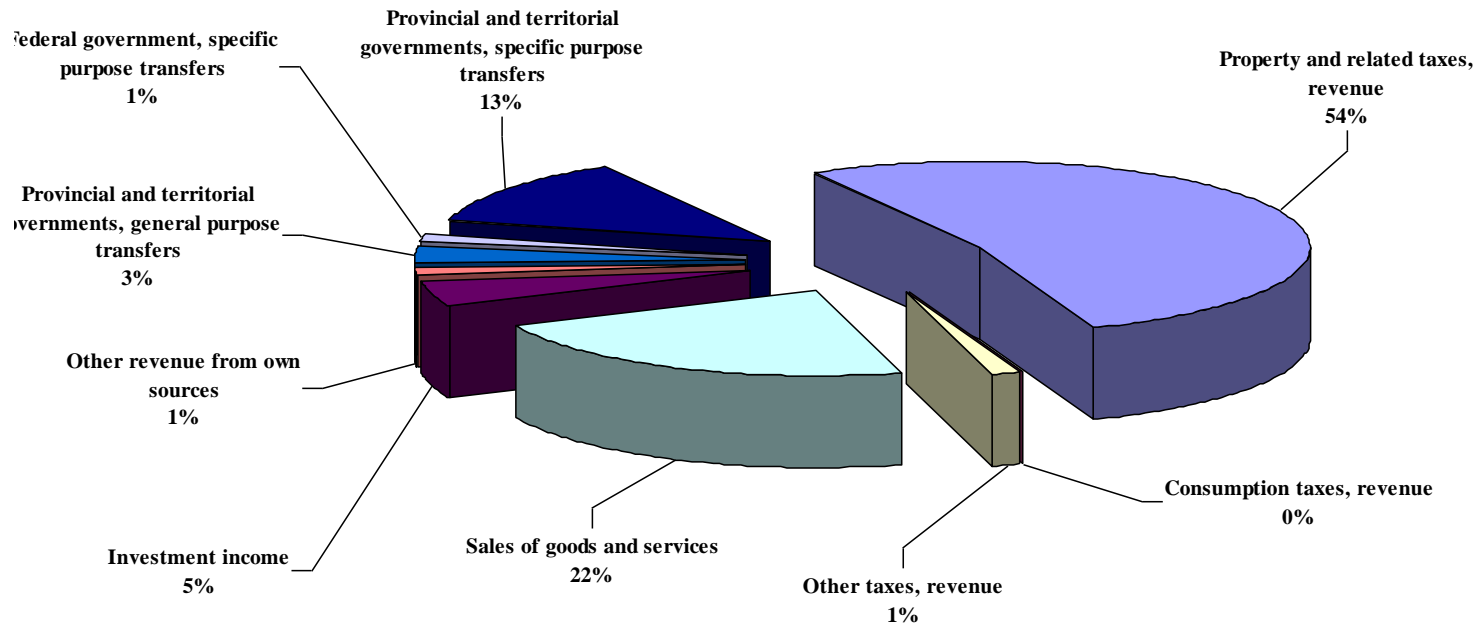
Per Capita Total Expenditure, Local General Government, (2005)



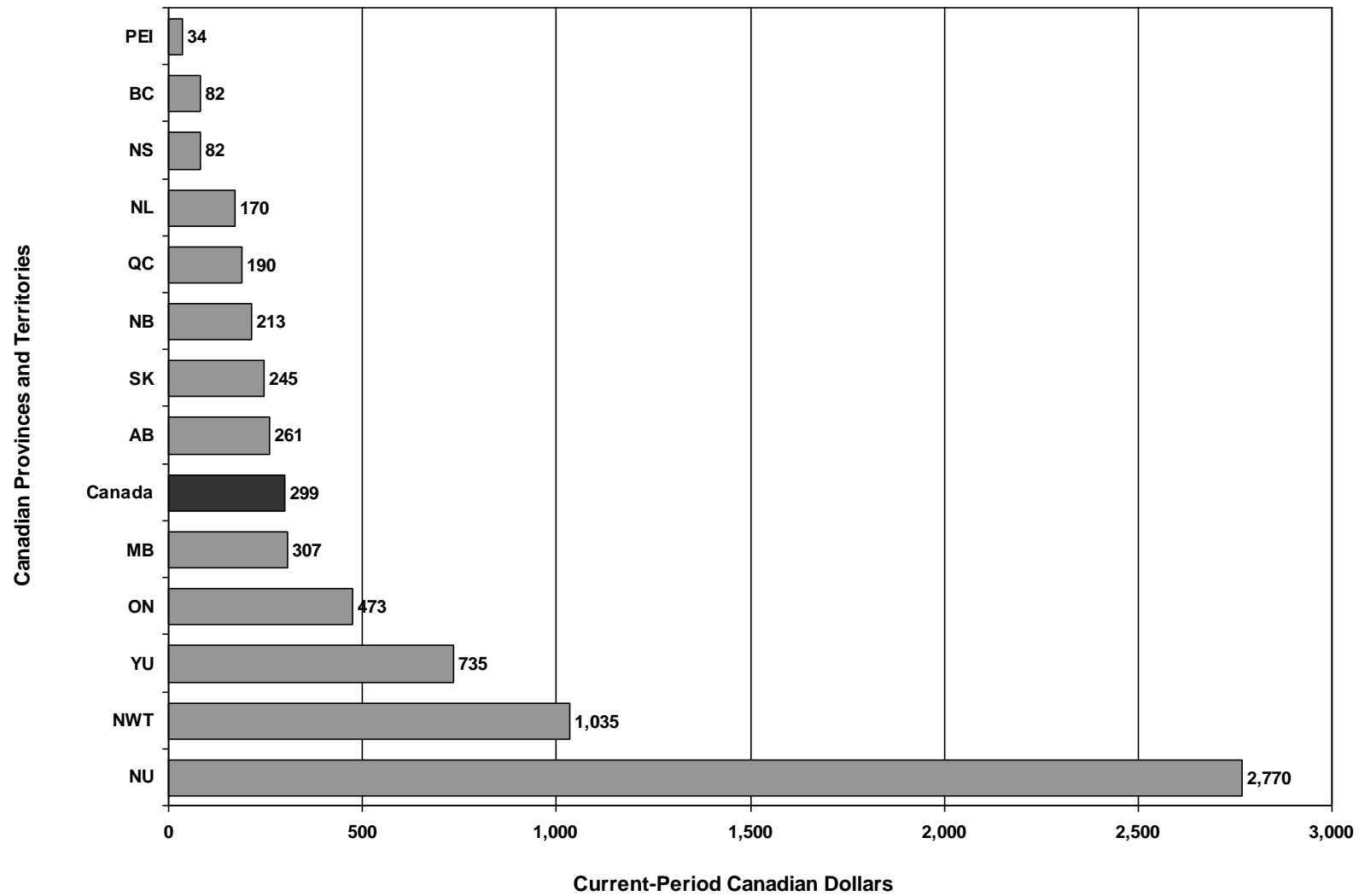
Municipal Revenues

- Main source of revenue is property tax followed by user fees and provincial transfers
- Most transfers are conditional (specific purpose) transfers
- Largest conditional transfers are for transportation, environment (water, sewers), and social services (in Ontario)

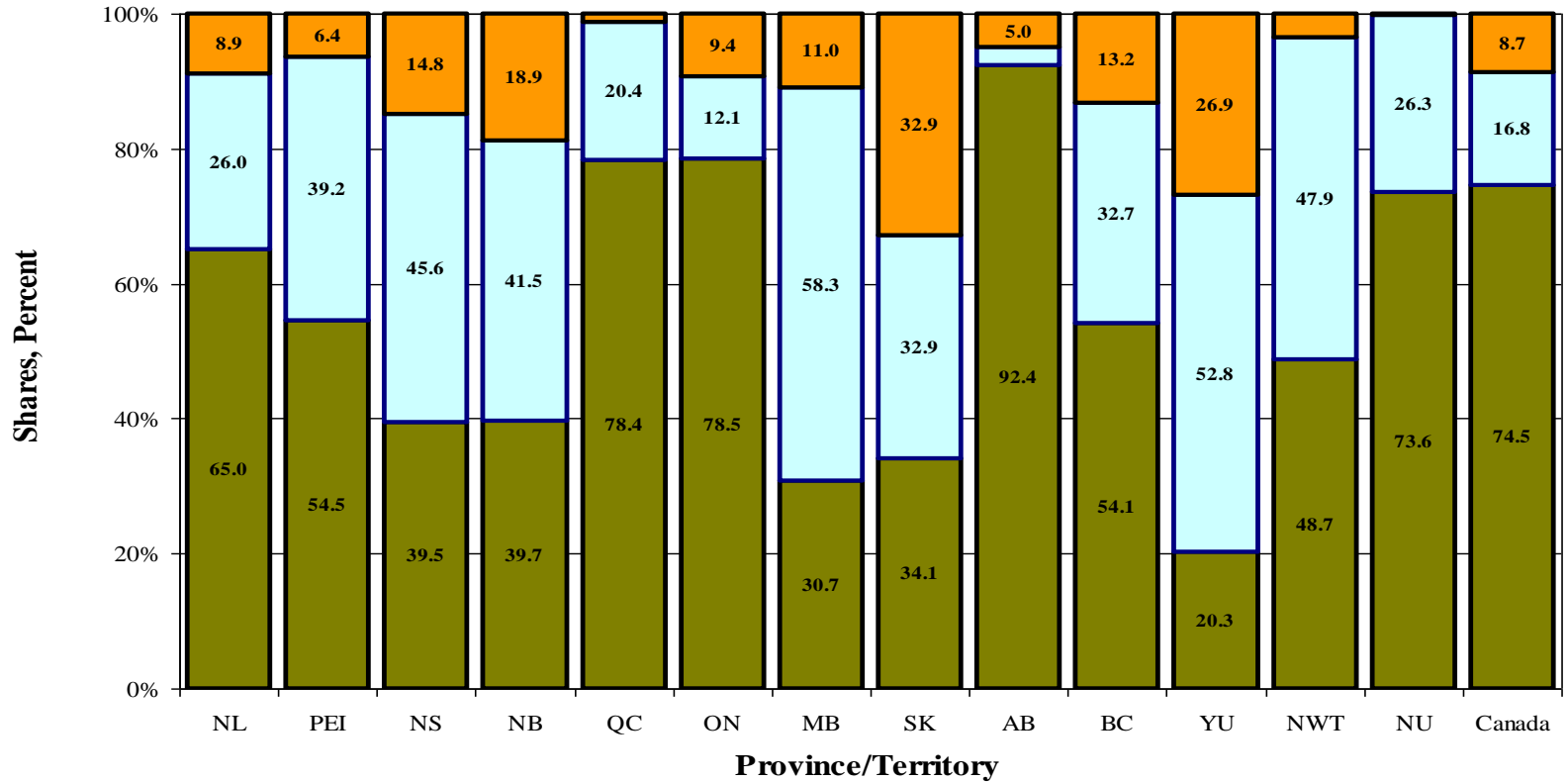
Composition of Revenue by Local General Government, Canada (2005)



Per Capita Total Transfers to Local General Government (2005)

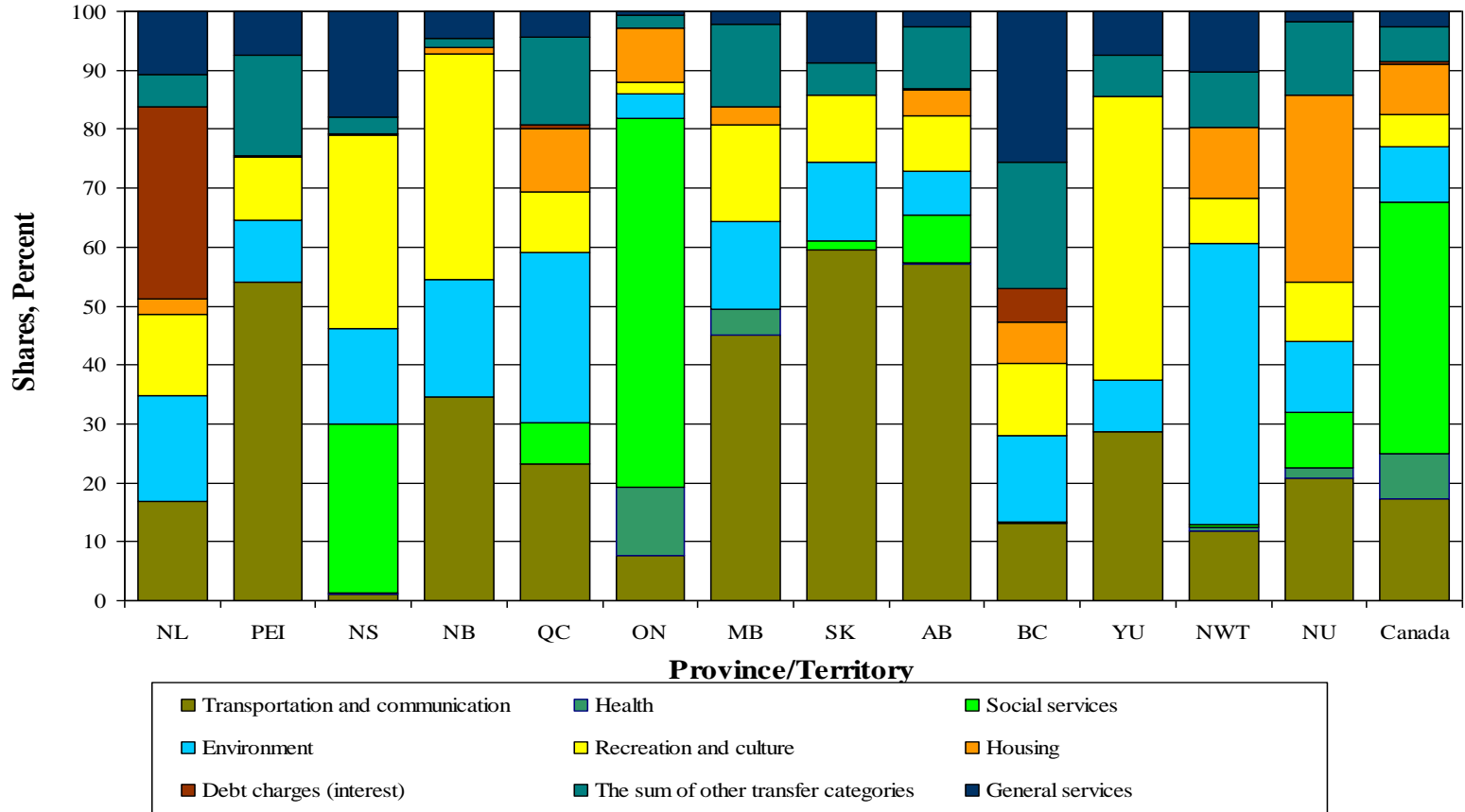


Composition of Total Transfers to Municipal Government, by Province/Territory, 2005



Provincial and territorial governments, specific purpose transfers
 Provincial and territorial governments, general purpose transfers
 Federal government, specific purpose transfers

**Composition of Total Specific Purpose Transfers
to Municipal Governments, by Province/Territory, 2005**



Role of Federal Government

- Provides some limited transfers to municipalities, including:
 - transfer based on gas tax revenues
 - infrastructure grants
 - homelessness grants

Role of the Province

- Create or destroy municipalities
- Provincial legislation determines municipal responsibilities and what taxes municipalities can levy
- Provincial governments set standards for service provision
- Municipalities cannot run an operating deficit
- Municipal borrowing is restricted

Role of the Province

- Conditional transfers: main ones for transportation, environment, and social services (in Ontario)
- Unconditional transfers: based on formulas

Provincial-Municipal Unconditional Grant Formulas

- Unconditional grants account for less than 20% of all provincial-municipal grants
- Some form of equalization grant is used in most provinces
- Equalization grants are sometimes based on fiscal capacity (measured by the size of the tax base); sometimes also based on expenditure needs; sometimes municipalities are grouped by type or size

General Model for Equalization

$$GR_i = (E/POP)^* POP_i - t^* B_i$$

Where:

GR_i = grant to jurisdiction i

$(E/POP)^*$ = standard (average) expenditures per capita

POP_i = population in jurisdiction i

t^* = standard (average) tax rate

B_i = tax base in jurisdiction i

Examples of Unconditional Grants -- Ontario

- Ontario Municipal Partnership Fund provides funding to 88% of municipalities in the province under:
 - ❑ Social programs grant
 - ❑ Equalization grant
 - ❑ Northern and rural communities grant
 - ❑ Police services grant

Examples of Unconditional Grants -- Ontario

- Social programs grant: provides funding to assist municipalities with limited property assessment to support share of social programs
- Equalization grant: provides funding to municipalities with limited property assessment

Examples of Unconditional Grants -- Ontario

- Northern and rural communities grant: provides funding to these communities to recognize unique challenges
- Police services grant: provides funding to rural communities to support policing costs

Examples of Unconditional Grants -- New Brunswick

- Unconditional grant formula designed to enable each municipality (regardless of the size of its tax base) to:
 - provide an average level of service (when compared to other municipalities)
 - without levying a tax rate that is higher than the average

Examples of Unconditional Grants -- New Brunswick

- Municipalities are divided into 6 groups based on characteristics, expenditure pressures, service requirements
- Expenditure need is measured by average per capita expenditures in each group
- Fiscal capacity is measured by the tax base of each municipality multiplied by an average tax rate for the group
- A weighting factor is incorporated into the formula to reflect specific characteristics of a municipality such as population density
- A threshold tax rate ensures individual municipalities don't set an unreasonably low tax rate

Provincial-Municipal Revenue Sharing

- Some provinces share their revenues with municipalities, usually on a per capita basis
- Manitoba is the only province that shares income tax revenues with municipalities on a per capita basis; also shares fuel taxes, video lottery terminal and casino revenues, and provincial fine revenues
- Some other provinces share fuel tax revenues (e.g. BC and Ontario)

Provincial-Municipal Revenue Sharing -- Manitoba

- Province shares with municipalities:
 - ❑ 4.15% of provincial income taxes (personal and corporate)
 - ❑ 2 cents/litre of provincial gasoline tax revenue
 - ❑ 1 cent/litre of provincial diesel fuel tax
 - ❑ 10% of video lottery terminal revenues
 - ❑ 100% of provincial fine revenues for municipalities which provide own policing