

# Provincial-Local Equalization in Canada: Time for a Change?

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Provincial-municipal equalization is essential to ensure that all residents of a province can access a reasonably comparable level of municipal services at reasonably comparable tax rates. This paper reviews the current state of provincial-municipal equalization transfers in Canada and suggests issues that need to be considered to improve their design.

Read the full paper: <https://uoft.me/Equalization>

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## Issues:

How will the grant amount be determined from year to year in order to ensure municipalities receive stable and predictable funding that grows over time?

Which municipalities are eligible for equalization? A formula that recognizes both municipal fiscal capacity and expenditure needs would provide an objective way to determine eligibility.

What variables are used to determine allocations? As much as possible, grant formulas should not include variables that can be influenced by municipalities.

How will fiscal capacity be measured? Options include the property tax base, other taxes or fees, or other economic or income-based variables.

How will fiscal need be measured? One challenge is that actual expenditures do not necessarily reflect fiscal need because they can reflect differences in preferences, and possibly inefficiencies.

Will transitional funding be needed to ensure that no municipality is worse off, even if need and fiscal capacity change?