Municipal Finance and Governance Issues in Canada and Abroad

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Why Do Cities Matter?

- Cities are “engines of growth” – generators of employment, wealth, and productivity growth
- Agglomeration economies – economic advantages of close proximity; innovation in cities
- Local governments facilitate productive advantages of agglomeration through services to businesses and individuals – transit, police, water, waste collection
Why do municipal finance and governance matter?

- How cities are financed and governed affects both the quantity and quality of local public services and the efficiency with which they are delivered.
Outline of Presentation

- Municipal finance
  - Policy Context – Domestic
  - Policy Context – International
  - How to choose revenue tools

- Governance
  - Why does it matter?
  - Balancing regional and local interests
  - Regional structures

- Final observations
Policy Context -- Domestic

- Municipal expenditures
- Municipal revenues
- Role of the province
- Fiscal challenges
- Fiscal health of cities
Municipal Expenditures, Canada, 2008

- General government, 10%
- Fire and police, 16%
- Roads and transit, 21%
- Health, 3%
- Social services, 9%
- Resource conservation/ind'l dev., 2%
- Social services, 9%
- Planning and development, 2%
- Debt charges, 3%
- Other, 1%
- Water, sewers, garbage, 17%
- Housing, 4%
- Recreation and culture, 12%
- Roads and transit, 21%
- General government, 10%
- Fire and police, 16%
Sources of Municipal Revenue, Canada, 2008

- Property and related taxes, 50%
- Other revenues, 3%
- User fees, 22%
- Investment income, 4%
- Provincial general purpose grants, 3%
- Provincial specific purpose grants, 16%
- Federal specific purpose grants, 2%
- Other revenues, 3%
- Sources of Municipal Revenue, Canada, 2008
Policy Context Domestic – Role of the Province

- Create or dissolve municipalities, e.g. Toronto amalgamation

- Provincial legislation determines municipal responsibilities and what taxes municipalities can levy

- Provincial governments set standards for service provision (including non-mandated services)

- Municipalities cannot run an operating deficit

- Municipal borrowing is restricted
Policy Context Domestic -- Fiscal Challenges Facing Large Municipalities

- Offloading services to local governments
- Need to be internationally competitive
- Deterioration of Infrastructure in older cities
- Higher costs associated with urban sprawl
- No diversification of revenue sources
Is There a Municipal Fiscal Imbalance?

- 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 been achieved at the expense of the *overall* health of municipalities:
  - The state of municipal infrastructure (transit, roads, water, sewers, recreational facilities, etc.)
  - The quality of service delivery
  - Infrastructure deficit -- $125 billion?
The Policy Context – International

- Recognition that cities are important to economic growth

- Many cities have more revenue tools than Canadian cities

- Federal governments more involved in cities in other federal countries
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<thead>
<tr>
<th>Toronto</th>
<th>Berlin</th>
<th>New York</th>
<th>London</th>
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<tbody>
<tr>
<td><strong>Local taxes:</strong></td>
<td><strong>Land taxes and tax shares:</strong></td>
<td><strong>Local taxes:</strong></td>
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<tr>
<td>Property tax</td>
<td>Share of corporate income tax</td>
<td>General property tax</td>
<td>Council tax (residential property tax)</td>
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<td>Land transfer tax</td>
<td>Share of capital income tax</td>
<td>General sales tax</td>
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<td>Vehicle registration tax (repealed</td>
<td>Real estate transfer tax</td>
<td>Personal income tax</td>
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<td>in 2011)</td>
<td>Motor vehicle tax</td>
<td>General corporation tax</td>
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<td>Billboard tax</td>
<td>Inheritance tax</td>
<td>Commercial occupancy tax</td>
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<td><strong>Land plus local shares:</strong></td>
<td>Tax on betting and lotteries</td>
<td>Banking corporation tax</td>
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<td>Personal income tax</td>
<td>Fire protection tax</td>
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<td>Business tax</td>
<td>Beer tax</td>
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<td>Real estate tax</td>
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<td>Entertainment tax</td>
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<td>Dog tax</td>
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<td>Cigarette tax</td>
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<td>Second home tax</td>
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<td>Hotel tax</td>
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Federal Involvement in Cities in Other Federal Countries

- Australia: Federal minister for local government; Infrastructure Australia; Major Cities Unit
- Brazil: Local governments in the Constitution
- Switzerland: Article in constitution assigns role to federal government to address specific problems of cities and metro areas; federal support for infrastructure; promotes inter-municipal cooperation
- India: Federal government provides funds for infrastructure development
## Different Services – Different Revenue

### Tools

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<th>Private</th>
<th>Public</th>
<th>Redistributive</th>
<th>Spillovers</th>
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<td>Water</td>
<td>Police</td>
<td>Social assist.</td>
<td>Roads/transit</td>
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<td>Sewers</td>
<td>Fire</td>
<td>Social housing</td>
<td>Culture</td>
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<td>Garbage</td>
<td>Local parks</td>
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<td>Social assistance</td>
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<td>Transit</td>
<td>Street lights</td>
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### Revenue Sources

- User fees
- Property tax
- Income tax
- Sales tax
- Transfers
Why does governance matter?

- Institutions of metropolitan governance are important because they affect decisions about:
  - quantity and quality of services
  - efficiency with which services are delivered
  - whether costs are shared throughout the metropolitan area in a fair and efficient way
  - citizen access to government
  - government accountability to citizens
Why does governance matter?

- Metropolitan governance matters for service delivery:
  - Transportation: Need to coordinate transportation across municipal boundaries; need to ensure access to employment and services; need to coordinate transportation and regional land use
  - Water: Need to determine where treatment facilities will be located
  - Solid waste: Need to determine where garbage disposal sites will be located
  - Policing: Need to fight crime across municipal boundaries
  - Social services, health and education: Need to decide on level of expenditures and how to share costs
Fragmented metropolitan governance

- Most metropolitan areas characterized by many small, fragmented local governments
- Geographic boundaries rarely coincide with economic region
- Overlapping special purpose districts responsible for specific services (e.g. electricity or water)
- Inter-municipal cooperation
Balancing regional and local interests: Criteria to evaluate governance models

- Efficiency
  - Ability to achieve economies of scale
  - Ability to reduce negative spillovers (externalities) across local boundaries

- Equity: ability to share costs and benefits of services fairly across the metropolitan area

- Accessibility and accountability for decision-making

- Local responsiveness/competition
Regional Structures

1. Metropolitan Government
   ✓ e.g. Cape Town, South Africa

2. Two-Tier Government
   ✓ e.g. Barcelona
   ✓ e.g. Metro Vancouver

3. Strong Role for Provincial/State government
   ✓ e.g. Australia

4. Regional Planning Authorities
   ✓ e.g. Metropolitan Planning Organizations (e.g. United States)
Final Observations

- An effective system of governance for the entire metropolitan region is needed to ensure that services are delivered efficiently and costs are shared fairly.

- Voluntary cooperation is the most popular regional governance structure—does it provide the regional foundation for metropolitan issues?

- If there is a regional government structure, need community or neighborhood councils to engage citizens and encourage participatory democracy.
Final Observations

- Metropolitan areas need fiscal autonomy; mix of taxes

- Role for state government – coordinate service delivery; ensure fair sharing of costs across region; ensure sufficient resources

- Role for federal government – resources directed to making metropolitan areas internationally competitive