Financing Canadian Municipalities

Enid Slack
Institute on Municipal Finance and Governance
Munk School of Global Affairs
University of Toronto

South African Study Tour, Toronto
June 8, 2010
Outline of Presentation

- Background on municipal finance in Canada
- Special case of education
- Fiscal challenges facing municipalities
- Financing infrastructure
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 10 provincial governments, 3 territorial governments and about 4,000 municipal governments
Background on the Canadian Constitution

- Federal government: makes laws with respect to immigration, unemployment insurance, trade and commerce, national defence, native 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 the Province

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

- Unconditional transfers: per capita and equalization

- Conditional transfers: mainly for social services (Ontario), transportation (roads and transit), and environment (water, sewer, solid waste)
Role of the Federal Government

- Provides some limited transfers to municipalities, including:
  - gas tax transfer
  - infrastructure grants
  - homelessness grants
  - economic stimulus grants
Municipal Government Structure

- Single tier: each municipality is responsible for all municipal services
- Two tier: upper tier (region or county) is responsible for area-wide services; lower tier (cities, towns, villages) are responsible for local services
- Inter-municipal agreements especially among single tiers and lower tiers
Municipal Expenditures and Revenues in Canada

- Expenditures and revenues in 2007
- Revenue trends from 1988 to 2007

Source of data: Statistics Canada, CANSIM Table 385-0024 - Local general government revenue and expenditures, current and capital accounts, year ending December 31.
Distribution of Municipal Expenditures, Canada, 2007

- General government services: 10%
- Protection: 16%
- Transportation: 20%
- Health: 3%
- Social Services: 9%
- Education: 0%
- Recreation and Culture: 13%
- Environment: 18%
- Resource conservation: 2%
- Housing: 4%
- Regional Planning: 2%
- Debt charges: 3%
- Other expenditures: 0%
- Housing: 4%
- Transportation: 20%
Municipal Functions

- Municipalities in all provinces provide:
  - Water and sewers
  - Roads and streets
  - Solid waste collection/disposal
  - Parks and recreation
  - Planning
  - Policing (except territories and not all municipalities in every province)
  - Fire protection (not all municipalities)
Municipal Functions

- Municipalities in some provinces are also responsible for:
  - Courts of law
  - Public transit
  - Health services (small expenditures)
  - Social expenditures (but not generally social assistance)
  - Housing
  - Tourism and promotion
Mandatory versus Discretionary Services

- All municipalities provide services regardless of whether they are mandatory.
- What is mandatory varies by size of municipality within provinces (e.g. policing).
- Standards of service are the issue (e.g. water, sewers, fire, waste disposal, building inspection, day care, housing for the elderly).
- Standards have increased over the last 10 years; provincial funding has not.
Figure 3: Distribution of Municipal Revenues, Canada, 2007
Figure 2: Major Municipal Government Revenues by Source, Constant Dollars per Capita, 1988-2007

- Property tax
- User fees
- Unconditional transfers
- Conditional transfers
Other Municipal Revenues in Selected Provinces

- Land transfer tax
- Amusement taxes
- Hotel taxes
- Poll tax
- Development charges
- Vehicle registration tax
- Revenue sharing (income tax, fuel tax, VLT/casino revenues, fine revenues)
- Provincial fuel tax sharing
Table 3: Conditional Grants as a Proportion of Total Grants, by Province in Canada, 2007

<table>
<thead>
<tr>
<th>Province</th>
<th>Municipal only</th>
<th>Municipal and Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>65.1%</td>
<td>97.6%</td>
</tr>
<tr>
<td>Alberta</td>
<td>96.9%</td>
<td>99.3%</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>56.2%</td>
<td>90.2%</td>
</tr>
<tr>
<td>Manitoba</td>
<td>47.4%</td>
<td>84.1%</td>
</tr>
<tr>
<td>Ontario</td>
<td>88.2%</td>
<td>94.4%</td>
</tr>
<tr>
<td>Quebec</td>
<td>83.7%</td>
<td>97.1%</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>44.4%</td>
<td>46.9%</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>66.6%</td>
<td>93.7%</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>77.2%</td>
<td>95.6%</td>
</tr>
<tr>
<td>Newfoundland and Labrador</td>
<td>84.3%</td>
<td>97.3%</td>
</tr>
<tr>
<td>Canada (incl. northern territories)</td>
<td>85.2%</td>
<td>95.4%</td>
</tr>
</tbody>
</table>

Note: School boards in New Brunswick are administered by the provincial government.
Figure 5: Composition of Provincial Specific Purpose Transfers, Canada without Ontario, 1988-2007

Note: 1999 numbers include $1.9 billion debt forgiveness from the BC government for municipal hospitals.
Special Case of Education

- In most provinces, elementary and secondary education is delivered by local school boards.
- School boards are funded wholly, or in part, by the provincial government.
- Provincial governments levy property taxes in 8 of 10 provinces.
- Provincial property taxes are only dedicated to education in 5 provinces.
Figure 3: School Board Expenditures and Major Revenues per capita constant dollars, Canada, 1988-2007

- Provincial transfers
- Property taxes
- Expenditures
Fiscal Challenges Facing Large Municipalities

- Offloading services to local governments
- Need to be internationally competitive
- Higher costs associated with urban sprawl
- Impact of economic recession
- 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 have been achieved at the expense of the overall health of municipalities:
  - The state of municipal infrastructure (water, sewers, roads, recreational facilities, etc.)
  - The quality of service delivery (e.g. performance measures)
  - Infrastructure and services are difficult to measure
Municipal Infrastructure Deficit

- Estimates of infrastructure deficit for Canadian cities range from $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 a consensus that there is a substantial infrastructure deficit in Canada’s cities
Financing Infrastructure

- Property taxes
- User fees
- Development charges and exactions*
- Federal and provincial grants
- Borrowing*
- Tax increment financing districts*
- Public-private partnerships

* To be discussed in presentation
Development Charges

- In many provinces, municipalities levy development charges (lot levies) to cover growth-related capital costs associated with new development (or redevelopment)
- Covers cost of off-site infrastructure (e.g. highways, sewer lines, etc.)
- New growth pays for itself and is not a burden on existing taxpayers
- If levied on a development by development basis, development charges can lead to efficient land use decisions
Borrowing

- Canadian municipalities can only borrow for capital expenditures
- Repayment comes from operating revenues (property taxes, user fees)
- Can only issue general obligation bonds
- Provincial borrowing guidelines
- Pooling of debt through provincial financing authorities (lowers costs)
Tax Increment Financing (TIFs)

- Used to revitalize blighted areas in downtown core
- Limited use in Canada to date
- Designate TIF area and then earmark future growth in property taxes to pay for infrastructure investments
- Borrow (issue TIF bonds) on the basis of anticipated increased property tax revenues