

---

# The Fiscal Situation of Canadian Cities: Opportunities in the Economic Downturn?

---

Presentation to ASDEQ  
Montréal, Québec  
May 6, 2009

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

---

# 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
- Presentation focuses on revenues and expenditures

---

# Outline of Presentation

- Background on municipal finance
  - Is there a municipal fiscal imbalance?
  - Fiscal challenges facing large cities
  - Will the fiscal imbalance worsen in the economic downturn?
  - What can local governments do?
-

# Distribution of Municipal Expenditures, Québec and Canada, 2007

|                                  | <b>QUEBEC<br/>(%)</b> | <b>CANADA<br/>(%)</b> |
|----------------------------------|-----------------------|-----------------------|
| Transportation                   | 23.8                  | 20.3                  |
| Water, sewers, garbage           | 17.9                  | 18.3                  |
| Fire and police                  | 16.3                  | 16.1                  |
| Health, social services, housing | 4.4                   | 14.8                  |
| Parks, recreation, culture       | 14.6                  | 12.6                  |
| General government               | 12.3                  | 10.1                  |
| Debt charges                     | 5.5                   | 3.3                   |
| Planning and development         | 2.7                   | 2.0                   |
| Other                            | 2.8                   | 2.5                   |

# Distribution of Municipal Revenues, Québec and Canada, 2007

|                             | <b>QUEBEC</b><br>(%) | <b>CANADA</b><br>(%) |
|-----------------------------|----------------------|----------------------|
| Property Taxes              | 60.3                 | 46.8                 |
| Other Taxes                 | 2.8                  | 2.5                  |
| User Fees                   | 17.1                 | 22.2                 |
| Provincial & Federal Grants | 15.0                 | 18.9                 |
| Investment Income           | 1.4                  | 5.3                  |
| Other Revenues              | 3.3                  | 4.4                  |

---

# Fiscal Challenges Facing Large Municipalities

- Offloading services to local governments
- Need to be internationally competitive
- Higher costs associated with urban sprawl
- No diversification of revenue sources

---

# Is There a Municipal Fiscal Imbalance?



---

# 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 be 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

---

# Will the Fiscal Imbalance Worsen in the Economic Downturn?

---

# Will the Fiscal Imbalance Worsen in the Economic Downturn?

- Lower property tax revenues and increase in property tax arrears; pressure to keep property taxes down
  - Reduced development-related charges
  - Increased social service costs
  - Increased federal spending on infrastructure
-

---

# Federal Spending on Infrastructure

- When will municipalities receive the money?
  - What will the money be used for? Will it be used for green infrastructure?
  - Will it create jobs and/or address the infrastructure deficit?
  - Will it encourage/require municipalities to price services correctly?
-

---

# What Can Local Governments Do?

# Different Types of Services – Different Financial Tools

## **Private**

Water

Sewers

Garbage

Transit

## **Public**

Police

Fire

Local parks

Street lights

## **Redistributive**

Social assist.

Social housing

## **Spillovers**

Roads/transit

Culture

Social assistance



**User fees**

**Property tax**

**Income tax**

**Transfers**

---



---

# What Can Local Governments Do?

- Reduce expenditures
  - But not services that will affect future economic growth; and not across-the-board cuts
- Increase property taxes
  - Expenditure cuts are more detrimental than tax increases for overall health of local economy
- Increase user fees and benefit-based taxes
  - Get the price right: user fees for garbage, roads

---

# Concluding Comments

- Economic downturn provides opportunity to:
  - Address sources of inefficiency
  - Price services correctly
  - Promote a green agenda with the use of infrastructure funds