Early Warning: Will Canadian Cities Compete?

A Comparative Overview of Municipal Government in Canada, the United States and Europe

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By:
Federation of
Canadian Municipalities

The Federation of Canadian Municipalities
24 Clarence Street
Ottawa, Ontario K1N 5P3

For more information please contact
Marni Cappe, Senior Policy Advisor, FCM
(613)241-5221, ext. 247

Meg Ogden, Policy Advisor, National Round Table on
the Environment and the Economy, (613)995-7519

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Executive Summary

Introduction

This paper was prepared for the National Round Table on the Environment and the Economy to set the stage for discussions on the competitiveness of Canadian cities within a global context. Specifically, the purpose of the research is to compare legislative and fiscal powers of the U.S. and Canadian municipal governments as well as financing mechanisms for infrastructure, including a look at European examples.

The scope of this project allows for a scan of what's happening in Canada, the U.S., and Europe. The richness of information available, combined with the heightened interest in cities around the globe, suggests further research is warranted to understand fully how municipal governments work in each of the many provinces, states and countries touched by this study.

1 Legal Framework: Municipal Government in Canada

Canadian municipal governments are responsible for $43 billion of physical and social infrastructure, accounting for one in every nine dollars of government spending in Canada (1999). While the responsibilities of municipal government have changed dramatically during the past 150 years, the constitutional framework within which municipal governments must govern has not changed at all. Provinces prescribe the legal and fiscal authorities available to municipal governments, typically through a detailed list of powers.

Several provinces and territories are engaged in the debate on municipal government through recent or proposed changes in legislation. A common theme is emerging, with local governments across Canada pressing for more autonomy and more flexibility in revenue-raising authority. In some provinces such as British Columbia and Newfoundland and Labrador, proposed changes in legislation signal a shift towards the kind of locally-developed approaches municipal governments are seeking. In short, Canadian municipal governments want recognition and authority in line with their responsibilities.

2 Legal Framework: Municipal Government in the United States

Like Canada, all local governments in the United States are created by another order of government; in this case, the state. The powers granted to the states under the Constitution –and through the states to local government – are viewed as a check and balance on federal control. A distinguishing feature of local government in the U.S. is the power of the citizenry. In recent years, voters have sought to check the power of local government through referenda or ballot initiatives, (used in about half the states) and of course, direct elections.

The basic governmental structure and the basic powers of each city are set forth in a charter provided by the state. Some municipal governments in the United States derive their authorities directly from state constitutions and are governed by general law charters. However, the majority of large municipalities are governed by charters in a form of government called home rule. In this case, each city drafts and amends its own charter to establish the scope and manner of service delivery to its residents. A home rule city may regulate local matters without interference from the state legislature, provided an action is not expressly prohibited by the state.

3 Fiscal Authority: Municipal Government in Canada

The fiscal framework within which municipal governments in Canada operate is tightly controlled through provincial legislation and regulations. Although variations exist among provinces, municipal governments across Canada are quite limited in the ways they can raise and spend money. More and more, municipal governments face increasing costs and/or dwindling revenues, triggered by some or all of the following: offloading of provincial responsibilities, rapid growth, shrinking inter-governmental transfers, regulated caps on tax increases, and heightened expectations from their citizens.

Municipal revenues in Canada come from taxes, user fees, grants and transfer payments from federal or provincial governments (including payment-in-lieu-of-taxes), investments, and miscellaneous fees from licenses, amusement taxes, permits, and fines. With few exceptions, provinces have limited municipal taxing powers to property taxes, which account for the single largest source of revenue. Transfer payments and grants, contributing 18.7% of total municipal revenue, are significantly below averages recorded in the United States (27%) and Europe (31%).

4 Fiscal Authority: Municipal Government in the United States

Municipal governments in the United States operate within a more permissive fiscal framework than their Canadian counterparts. Like Canada, municipal governments in the U.S. rely on property taxes as the single largest revenue source. Unlike Canada, municipal governments in the U.S. draw from a much wider array of financing mechanisms. On the other hand, municipal governments in the U.S. are more reliant on user fees and sales taxes, with a small number of states allowing individual local income tax.

One need only compare Census data from 1996 to appreciate the difference:

1996	Canada	U.S.
Property taxes as a share of all municipal revenue	49.5%	21%
Other taxes as a share of municipal revenue	1%	13.5%
User fees as a share	20.2%	32.6%

Other than wider taxing powers, municipal governments in the U.S. enjoy additional advantages in their power to provide tax incentives to attract private sector investment. At the same time, financial incentives can be a powerful tool to achieve municipal objectives for development and redevelopment.

Without doubt, the fiscal toolkit available to municipal governments in the U.S. offers more choices than those available to their Canadian counterparts. Nonetheless, current debates on urban issues in the United States appear equally focused on matters financial.

The fiscal issues in the United States are not simply about the sources of revenue available to municipal government, but more specifically, about the failure of the property tax base to support inner cities. Increasing reliance on other forms of taxation, such as sales taxes or commuter taxes, stems in part from the need to obtain revenue from non-resident beneficiaries of municipal government service. This preoccupation may well be the next big issue for Canada's largest urban areas. The Federation of Canadian Municipalities, in its March 2001 Quality of Life report, emphasized the growing income gap between our wealthiest and poorest urban citizens.

"The main concern of municipal governments is their capacity to finance, predictably and responsibly, the increasing functions and responsibilities they are being given, either by statute or public expectation. Municipal governments must change the way they finance their operations so that they can meet their growing responsibilities ensure accountability, and develop their capacity to play an even more positive, productive and responsive role in Canada's political system."

Federation of Canadian Municipalities

MUNICIPAL AUTHORITY: USA and CANADA

	USA	CANADA
Property tax	✔	✔
Sales tax	✔	
Hotel/motel tax	✔	*
Business tax	✔	
Fuel tax	✔	*
License fees	✔	✔
Income tax: individual and corporate	✔	
Development charges	✔	✔
Tax-exempt municipal bonds	✔	
Tax incentives	✔	
Grants to corporations	✔	
Borrow money	✔	✔

**indicates rare instances of this type of authority*

5 Comparative Overview of Financing Mechanisms for Infrastructure in Canada, the United States, and Europe

What Canada is Doing

A scan of municipal budget presentations across Canada reveals a common and growing preoccupation with how to finance infrastructure. Whether the city is fast-growing, like Ottawa or Calgary, or stable like Winnipeg, municipal officials emphasize the need for funding solutions to allow for such basic improvements as: more roads, better transit, modern water systems, and rehabilitated sewers. For the most part, municipal governments are the majority or sole funder of these major public works.

Once a foundation for funding large capital projects, infrastructure grants in Canada are now too small and too sporadic to provide an effective and reliable revenue source. Building on the 1994 Infrastructure Program, the Government of Canada launched a new version in 1999 with $2.1 billion for municipal infrastructure. Priority funding is set aside for "green municipal infrastructure". In addition, several provinces have specific programs to support infrastructure projects.

What the U.S. is Doing

Significant investment in U.S. cities during the past decade has been stimulated in large measure by federal and state programs that leverage private sector investment in infrastructure. On average, more than $263 million per year has been invested in the downtowns and waterfronts of ten U.S. cities during the past decade; roughly five time the rate of investment in the City of Toronto. Direct contributions by local governments come from the types of funding mechanisms described for Canadian municipal governments: user fees, general revenue, borrowing, etc. However, U.S. municipal governments take advantage of a much wider range of flexible financing arrangements to achieve strong public-private partnerships. These include, among others, tax abatements, tax-exempt municipal bonds, local sales tax and income tax credits or exemptions, access to state revolving funds for clean water, and state infrastructure banks for transportation.

Financing mechanisms available to Canadian municipal governments generally include:

General Financing – generated through tax revenues and may include borrowing for tax-supported capital expenditures

- **Reserves – funds transferred from current operations of the municipality or funds set aside for specific capital projects**
- **Debt issuance – funds borrowed for infra structure projects generally in accordance with borrowing limits set by the province.**
- **Development charges – charges for growth-related capital costs**
- **Developer funding – capital expenditures funded by private sector developers and are usually cost-shared**
- **Local improvements and surcharges – funds collected directly from benefitting users and used for targetted projects in communities**
- **User fees – monies collected as services are consumed**
- **Grants – provincial or federal commitment of funds for specific capital purposes**

The single largest infrastructure investment program in the U.S is the Transportation Equity Act for the 21st Century (TEA-21). Innovation is a hallmark of the TEA-21 legislation, fostering ways to allow for flexibility and leveraging of federal resources for private sector participation. State infrastructure banks, direct credit assistance, joint development of transit assets are examples.

Investments in water and wastewater infrastructure in the U.S. are principally achieved through state clean water and drinking water loan programs or revolving funds. Traditional grant programs of the 70s and 80s have been replaced, effecting a shift to local governments and private funding sources. Because the new loan program offers long-term funding for water quality and wastewater construction activities, local governments and states have generally supported the change.

A variety of flexible tools are available, allowing states to issue bonds, and offer loans for water and wastewater systems at below-market interest rates. Assistance to disadvantaged communities may come in the form of negative interest rate loans, or principal forgiveness.

New York has succeeded in leveraging $460 million in loans while receiving only $200 million in federal grants for water infrastructure.

Infrastructure is more than just pipes, roads, and buses. In the United States, more than 250 funding programs are available to finance urban redevelopment and affordable housing through the Department of Housing and Urban Development. One of the largest is the Community Development Block Grant, including a series of initiatives such as brownfields and other tax incentives, loan guarantees, and funds earmarked for small cities.

What Europe is Doing

Much like Canada and the United States, infrastructure investment in Europe comes from a variety of sources, including national and local governments, and private-public partnerships. Recent trends in many countries have seen more decentralisation of service provision, and a breaking away from a "top-down" model of government. Growing recognition of the importance of cities as centres of value creation and employment underpin this trend.

Investment in European cities is significantly enhanced by European funds aimed at reducing regional disparities within the European Union (EU). Generally, all countries in the EU include regions or cities where need for EU funding can be demonstrated. The primary vehicle for infrastructure funding is the European Regional Development Fund (ERDF) whose 2000-2006 budget of Euro 195 billion (approximately $175 billion US) accounts for fully one-third of the EU budget. Projects eligible for ERDF funding must demonstrate the availability of matching funds from within the host country (whether from the local or national government, private sector, Lottery funds etc.).

Just over half of ERDF funding is targetted for transport in 2000. In general, national contributions to public transportation are significant. Within the European G-7 countries, national governments fund 15-30% of all operating costs, and 30-100% for capital expenditures on public transportation.

The six-year TEA-21 program, initiated in 1999, allocated over $100 billion for urban transportation. By contrast, the Government of Canada's six-year infrastructure program allocates $2 billion CDN ($1.2b US) for all types of infrastructure – water and wastewater systems, transportation, housing, etc.

Just under one-third of the ERDF funding on infrastructure is dedicated to environment and water projects. The European Union has placed special emphasis on environmental standards, and in many cases, European funding supports multiple environmental objectives. Creative partnerships support large-scale environmental projects in European countries. Anchored by substantial funding from the EU, environmental infrastructure projects can attract funding from private partners, non-government organizations, and of course, national and local governments.

Above all, European funding to municipal governments supports sustainable development in the broadest sense: environmental, social, and economic. The Second Report on Economic and Social Cohesion to the European Commission underscores the importance of investment in cities. The report finds that the ERDF and other European funds increased the competitiveness and productivity of urban regions by supporting investment in infrastructure and human capital. Assistance is an effective means of mobilizing private capital as well as loans, especially from the European Investment Bank.

One of the innovative financing techniques in France is the national Transport Contribution tax – a special tax which finances the investment and operation of urban public transport in cities with a population of more than 30,000. The tax (called the Versement de Transport) is paid to the local Urban Transport Authority by all employers with more than nine employees and is fixed at 1.75% of wage.

6 Conclusion

Research has uncovered a treasure chest of fiscal tools and national and supra-national grants available to municipal governments in the United States and Europe. Municipal governments in Canada are heavily reliant on locally-generated revenues, have fewer levers to attract investment, and scant access to federal and provincial funds. What is clear is that U.S. and European municipal governments benefit from mechanisms that are not typically available, or not as widely available, to their Canadian counterparts. For example:

- legal authority for local self-government, available to U.S. municipal governments through Home Rule Charters
- fiscal authority to engage in public-private partnerships through such mechanisms as municipal permission to hold a mortgage
- access to growth taxes, such as a sales tax, commonly used in the U.S.; or local income taxes, as imposed in Europe and in the U.S.
- opportunities to leverage private sector investment through direct tax incentives
- access to permanent lending programs for infrastructure, such as infrastructure banks and revolving funds

Introduction

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The scope of this project allows for a scan of what's happening in Canada, the U.S., and Europe. The richness of information available, combined with the heightened interest in cities around the globe, suggests further research is warranted to understand fully how municipal governments work in each of the many provinces, states and countries touched by this study.

1 Legal Framework: Municipal Government in Canada

Canadian municipal governments in 2001 are responsible for billions of dollars worth of physical and social infrastructure including public transit, water and wastewater treatment plants, police, fire, and ambulance services, social housing, airports, libraries, and the list goes on. In 1999, municipal governments spent more than $43 billion to serve their citizens, equivalent to one in every nine dollars of government spending in Canada. While the responsibilities of local government have changed dramatically during the past 150 years, the constitutional framework within which municipal governments must govern has not changed at all.

In Canada, municipal governments derive their authority from the provinces. The role, function, and structure of local authorities are defined in the 1849 Baldwin Act. When the Baldwin Act was enacted, local governments were preoccupied with the issues of the day; notably, drunkenness and profanity, the running of cattle or poultry in public places, itinerant salesman, the repair of roads, and the prevention or abatement of charivaries,[1] noises and nuisances.[i] At that time, we were a nation of rural dwellers – fewer than 15% of Canadians lived in an urban area. By 1996, our demographic geography had completely reversed with nearly 80% of Canadians living in cities.[ii]

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[1] Charivari, according to the Shorter Oxford English Dictionary, Means: "A serenade of rough music, made with kettles, pans, teatrays, etc., used in France, in derision of incongruous marriages (1735)."

1.1 Canadian Constitution

In Canada, constitutional recognition of municipal institutions as a form of government does not exist. Instead, municipal governments are created through provincial statute, and may take responsibility for only those powers the province wishes to grant. Section 92(8) of the Constitution Act 1867 (formerly, the British North America Act) gives the provinces exclusive control over municipal institutions in the Province.[iii] In most provinces, the powers of municipal government are defined in provincial legislation, which includes not only Municipal Act(s) but many other statutes and regulations. The Association of Municipalities of Ontario estimates that 150 pieces of legislation govern the operation of municipal government in Ontario. In some provinces, such as British Columbia, Manitoba and New Brunswick, special Acts create unique powers for certain municipal governments through Charters. The Cities of Vancouver, Saint John, and Winnipeg are governed by their Charters, which generally confer additional powers and duties not given to other municipal governments.[iv]

The federal government has historically dealt with municipal governments through tri-paritite arrangements involving the provinces. Bi-lateral negotiations between federal and municipal governments happen rarely. Nevertheless, federal government programs and policies can influence how municipal governments carry out their business and set priorities. One need only consider the effects on our cities of immigration policy, off-reserve aboriginal policy, or cuts to social housing. Examples abound.

Increasingly, municipal governments are becoming frustrated by the paternalistic system within which they are forced to operate, particularly as the federal and provincial governments continue to offload major responsibilities (but not funding) to local governments. The search is on for an appropriate way to modernize the framework for local government.

1.2 What's Happening in Selected Provinces

Most provinces and territories are engaged in the debate on municipal government through recent or proposed changes in legislation. These include Alberta, Ontario, British Columbia, Newfoundland, Manitoba, Nova Scotia, New Brunswick, and the Yukon. In Saskatchewan, the Minister of Municipal Affairs, Culture and Housing initiated a Task Force on Municipal Legislative Renewal to identify improvements to municipal governance and examine municipal issues.

The following describes the approach of four provinces in defining municipal powers and the relationship between provincial and local governments.

> **"Cities are now the level at which federal and provincial policy initiatives are implemented, including welfare, training, immigration-settlement services, and social housing. Unfortunately, cities have little political, economic, or fiscal manoeuvrability – a reality that conflicts with their growing importance in the global economy."**
>
> *Anne Golden,*
> *Globe and Mail March 13, 2001*

1.2.1 Alberta

The province of Alberta adopted the Municipal Government Act in 1994, which gives municipal governments "natural person" powers and broadly enables them to exercise a wide range of permissive powers. The significance of the Alberta Act is two-fold:

1. "Natural person" powers enable municipal governments to behave like persons, allowing them, among other things, the freedom to contract; the capacity to seek profit; the ability to give grants and bonuses; and the ability to use taxation as an instrument of policy, etc. Business corporations in Canada also enjoy "natural person" powers. The effect of this power is to greatly enhance opportunities for local self-government, for example, by enabling municipal governments to enter more effectively into private-public partnerships, and to provide certain incentives to businesses in order to achieve municipal objectives (affordable housing, for example).

2. Powers of local government are defined broadly, in contrast to statutes of other provinces that prescribe powers in great detail (often referred to as the "laundry list" approach).

The Government of Alberta describes the Municipal Government Act as follows:

"The introduction of natural person powers provides council with a great deal of flexibility in terms of how the municipality is organized and administered, what services are provided, and how those services are delivered. The power to pass bylaws is stated in general terms to give broad authority to councils and to respect their right to govern the municipality in the way that the council considers appropriate within the jurisdiction provided under the Municipal Government Act or any other enactment."[v]

Although the Alberta statute is generally viewed as among the most progressive in Canada, critics argue that it does not amount to a fundamental change of the Alberta Constitution and many powers still require provincial approvals. For example, no commitment is made to consulting municipal governments on future changes. [vi]

1.2.2 British Columbia

Significant reform to British Columbia's Municipal Act has been taking place since 1998. Most notably, the Municipal Act was changed to incorporate a "bill of rights" for municipalities based on nine principles established by the provincial government and the Union of British Columbia Municipalities (UBCM). A Recognition Protocol was agreed to, establishing local government as an "independent, responsible and accountable order of government". The Act was renamed the Local Government Act in June 2000.

Further amendments came into force in 1999 and 2000 expanding municipal powers in such areas as : [vii]

- facilitating public-private partnerships
- giving more flexible revenue-raising authority
- giving broad service powers to regional districts
- eliminating the mandatory component of official community plans
- providing general authority for local governments to create administrative commissions to manage local government property and operate services

The Charter for the City of Vancouver dates back more than one hundred years. For the most part, the Charter governs the City's operations, limited by a few selected provisions from the Local Government Act. One of the special provisions in the Charter gives Vancouver Council control over development and ownership of public areas within its boundaries, compared to other municipalities where public areas belong to the Province.[viii]

New legislation for a "Community Charter for British Columbia" is widely expected to come into force early next year. The Community Charter will confer even broader powers for all municipal governments in British Columbia and is likely to be even more flexible than the current City of Vancouver Charter.

1.2.3 Newfoundland and Labrador

The Government of Newfoundland and Labrador proposed a new Municipalities Act in May 1999.[ix] The Act appears to be responsive to the growing needs of municipal governments, promising to increase the scope of municipal autonomy in the areas of taxation, administration and financial management. New and expanded authorities in the areas of service delivery and municipal controls are also included. The proposed legislation removes many of the restrictive provisions of the current Act.

The proposed Act has, in fact, been heralded by many as one of the most modern in Municipal acts in Canada, offering more opportunity for flexibility and autonomy within a framework of municipal self-government. Provision is made for the Government of Newfoundland to consult with the mayor of a city before the province enacts, or amends legislation or makes regulations or policies that affect the city. The Act has not yet come into effect.

1.2.4 Ontario

All Ontario municipal governments are governed primarily by the Municipal Act, although dozens of other statutes and regulations also dictate what Ontario municipal governments may or may not do. The current Municipal Act confers specific authority for each power to be exercised by a municipality (the "laundry list approach"). Changes to the Municipal Act were introduced most recently in 1998 and are still under consideration as draft legislation. The government has promised to make the new Act more flexible, less prescriptive, more comprehensive and understandable. Initial drafts suggest the government has fallen wide of the mark; instead trading in one set of prescriptive requirements for another.

While promising to provide "natural person powers", the draft legislation limits the extent of such powers and further entrenches a significant level of provincial regulatory power over municipal governments. For example, one proposed change states that by regulation, the provincial Cabinet may limit municipal power to engage in commercial activities that represent inappropriate competition with private commercial activities.

The former Region of Ottawa-Carleton (now the City of Ottawa) concluded that the "natural person powers" proposed in the draft Act, combined with the limits imposed on those powers, would be of no significant assistance to Ottawa-Carleton. Specific limitations include: no new authority to impose fees and charges; no power to incorporate or acquire an interest in a security of a corporation. Additional concerns were raised about other types of restrictions that could significantly affect the operations of the municipal waste management, recycling, sewage and industrial waste disposal programs.[xi]

1.3 What Do Municipal Governments in Canada Want?

In short, Canadian municipal governments want recognition and authority in line with their responsibilities. Home to 80% of Canadians, cities through their municipal governments represent the bedrock of Canadian democracy. Municipal councils are the legislators closest to the people, and more and more, are providing the public services and works that meet citizens' needs.

The Federation of Canadian Municipalities representing more than 1,000 municipal governments has adopted the Worldwide Declaration of Local Self-government, which rests on four key principles: [xii]

- The principle of local self-government shall be recognized in the Constitution or in the basic legislation concerning the government structures of the country.
- Local self-government denotes the right and the duty of local authorities to regulate and manage public affairs under their own responsibility and in the interests of the population.
- Public responsibilities shall be exercised by those basic units of local government that are closest to the citizen.
- Local authorities shall have a general right to act on their own initiative with regard to any matter that is not exclusively assigned to any other authority nor specifically excluded from the competence of local government.

The Union of British Columbia Municipalities has drawn out five key elements from this Worldwide Declaration, identifying minimum criteria to be included in any statute conferring local self-government. Specifically, it must provide for:

1. consultation on matters affecting local government
2. an amending formula for local government legislation
3. joint decision-making powers in areas of shared responsibility
4. provincial compliance with municipal regulations
5. delegation of adequate powers, including adequate financial resources to carry out delegated functions.

In a presentation to the Federation of Canadian Municipalities Annual Conference in 1999, Donald Lidstone uses these criteria as a type of performance measure to determine whether existing or proposed provincial legislation give effective legal recognition to local self-government. He concludes that even in provinces with the most progressive legislation, the Canadian legal framework inadequately supports local self-government.[xiii]

Individually, some municipal governments such as Toronto are pursuing options for more independence and authority, in pursuit of status as Charter City.

2 Legal Framework: Municipal Government in the United States

Like Canada, all local governments in the U.S. are created by another order of government; in this case, the state. The powers granted to the states under the Constitution – and through the states to local government – are viewed as a check and balance on federal control. A distinguishing feature of local government in the U.S. is the power of the citizenry. In recent years, voters have sought to check the power of local government through referenda or ballot initiatives, (used in about half the states) and of course, direct elections. Californians are notable for having set the benchmark for citizen power. In 1978, they approved Proposition 13, which capped local property tax rates and imposed limits on assessed property values. Through a sequence of other propositions, California now requires two-thirds approval of all voters for most local revenue-raising activities, including taxes, fees, and charges.[xiv]

The basic governmental structure and the basic powers of each city are set forth in a charter provided by the state.

Some municipal governments in the United States derive their authorities directly from state constitutions and are governed by general law charters (West Virginia is an example). However, the majority of large municipalities are governed by charters in a form of government called home rule. In this case, each city may determine for itself how it should be organized and what functions it should perform. A home rule city drafts and amends its own charter to establish the scope and manner of service delivery to its residents. In other words, a home rule city may regulate local matters without interference from the state legislature, provided an action is not expressly prohibited by the state.

Many municipal governments in the U.S. continue to seek home rule status in order to gain enhanced discretionary powers, described as follows:

- freedom to experiment with creative solutions and to adapt quickly to change without seeking state approval
- fiscal authority to determine revenue sources, set tax rates, borrow funds, and other activities
- flexibility to allow for local responses within a diverse society

In 1875, Missouri was the first state to adopt the municipal home rule clause in its own constitution.[xvi] Since that time, states with the most populous urban areas have followed suit; for example, New York, Pennsylvania, Texas, California, Ohio, Massachusetts, Florida, and Washington, among others. In certain states such as Texas, municipalities must reach a population threshold (5,000) in order to have their own charter. Of the 298 municipalities in Texas with populations above 5,000, 284 are home rule cities.[xvii] In other states, such as Rhode Island, all cities and towns have the option of home rule.

The limitations to municipal self-government under home rule come generally from state's interpretations of "local matters"– the domain within which municipal governments exercise autonomy. Disputes must be settled by the courts. Municipal governments will also confront limits to their authority when their actions are deemed to conflict with the "general authority" of the state. The state of Ohio provides an interesting case study.

2.1 Case Study: Home Rule in Ohio

In Ohio, municipal corporations have home rule powers, which cannot be interfered with by the General Assembly (state legislature) unless the Constitution sanctions such interference. Specifically, the Ohio Constitution states:

"Municipalities shall have authority to exercise all powers of local self-government, and to adopt and enforce within their limits such local police, sanitary and other similar regulations, as are not in conflict with general laws." [xviii]This includes the authority to own and operate public utilities. (Unlike other municipal services, the authority regarding public utilities enables the municipality to operate beyond its borders.)

"Police, sanitary, and other powers", which may be subject to limitations from the state government, include a broad range of functions relating to safety, public health, morals, and general welfare of society. The types of municipal regulation run the familiar gamut of zoning, animal control, licensing, etc. The state's general laws do not, on the other hand, restrict the power of "local self-government".

Courts are left to interpret the intent of "local self-government" and generally have identified the following matters as central to the concept: internal organization and administration, control, use and sale of public property, and regulation of municipal streets. Matters beyond the scope of local self-government generally relate to issues with impact beyond the territory of the municipal corporation; for example, annexation.[2]

No clear guidelines exist to define the areas of conflict between municipal laws and "general laws" (of the state). Again, courts are left to interpret. However, it is generally accepted that the test for determining whether a municipal ordinance is in conflict with a state law is whether the ordinance permits or licenses that which a (state) statute forbids and prohibits, and vice versa. An example of a municipal-state conflict is the case in which the Court upheld a state statute requiring municipal corporations to fluoridate their water supplies. The City of Canton argued unsuccessfully that fluoridation was a local matter.

In the state of Ohio, municipal powers may be limited further by other sections in the Constitution, such as those limiting a municipality's power to tax and incur debt. Such limitations are commonly found in other states. In California, the determination of the property tax rate is set at one per cent of market value. Both the definition of the property tax base and the tax rate are out of local control. In this case, the limitation is imposed by voter-enacted initiatives, which California municipal governments are bound by state law to implement.[xix]

[2] Interestingly, in Texas, certain municipalities are given the authority to annex territory beyond their borders. The Charter for the City of San Antonio expressly gives the City "power to fix and change the bounds and limits of the City and to provide for the extension of the said limits and the annexation of additional territory lying adjacent to the City with or without the consent of the territory and the inhabitants thereof annexed." Charter of the City of San Antonio, Article I, Section 3, as amended May 3, 1997.

2.2 Local Self-Government in Washington

An important principle of local self-government is put into practice in the State of Washington; namely the requirement for fiscal resources to support the introduction of newly mandated municipal services.

Legislation in Washington requires the State to reimburse local governments fully when state legislation results in local governments providing either new services to the general public or an increase in services. The State is not legally prohibited from enacting legislation that imposes additional costs on a local government. However, should the State enact such legislation without reimbursement for the resulting costs, the State incurs liability.[xx]

The legislation in Washington supports one of the key principles of local self-government supported by the Federation of Canadian Municipalities. Specifically, municipal governments have the right and the duty to regulate and manage public affairs under their own responsibility, including the financial resources to carry out these duties. An important criterion used to assess this principle is whether municipal governments are provided with adequate financial resources to carry out functions delegated by other orders of government. By this measure, the State of Washington exceeds the minimum requirement.

3 Fiscal Authority: Municipal Government in Canada

Consistent with the legal framework which positions Canadian municipalities as "creatures of the province", the fiscal framework within which municipal governments operate is tightly controlled. The authority to spend and the ability to raise revenue derive from provincial legislation and regulations. Although variations exist among provinces, municipal governments across Canada are quite limited in the ways they can raise and spend money. More and more, municipal governments face increasing costs and/or dwindling revenues, triggered by some or all of the following: offloading of provincial responsibilities, rapid growth, shrinking inter-governmental transfers, regulated caps on tax increases, and heightened expectations from their citizens.

3.1 Revenue Sources

Municipal revenues in Canada come from taxes, user fees, grants and transfer payments (including payment-in-lieu-of-taxes), investments, and miscellaneous fees from licenses, amusement taxes, permits, and fines. (Table 1). With few exceptions, provinces have limited municipal taxing powers to property taxes, which account for the single largest source of revenue. In 1999, property taxes accounted for nearly 55% of all municipal revenues, rising significantly from its 46% share in 1995. At the same time, contributions from provincial and federal governments fell, accounting for only 16% and 0.5% of municipal revenue respectively by 1999.

Transfer payments and grants are significantly below averages recorded in the United States and Europe, as illustrated in Table 2. Most strikingly, combined transfers from state and federal governments in the U.S. accounted for 27% of all municipal revenues; the comparable contribution in Europe is 31%. In Canada, the provincial-federal share is 18.7%.

In the five-year period beginning in 1995, total revenues to local government in Canada increased only 6%. During this same period, revenues to the federal government increased by 21% and to provincial governments by 13%. With urban population growth rising by about 6% over this period, Canada's municipal governments were barely keeping pace.

3.1.1 Taxes

Property tax refers to an annual tax on "real property" (land and buildings). The base of the property tax is the assessed value of the property, calculated as some percentage of market value. Tax rates are set by municipal governments, although provincial regulations do exist which effectively limit municipal authority in this regard. For example, in 1998, the Government of Ontario imposed mandatory limits on reform-related property tax increases for certain classes of property. In the 1999 budget, the Province made a commitment to maintain limits on property tax increases beyond 2000 to ensure a manageable transition from the former (outdated) property assessment system to the new system.[xxii]

Table 1 Local General Government Revenue Canada

	1995	% of total	1999	% of total
TOTAL REVENUE	$41,133,761,000	100%	$43,705,581,000	100%
OWN SOURCE REVENUE	30,582,415,000	74.5	35,547,385,000	81.3
- Property & related taxes	19,158,680,000	46.5	23,726,398,000	54.2
- Consumption tax	51,119,000	0.1	55,022,000	0.1
- Other taxes	368,840,000	1.0	463,435,000	1.0
- Sales of goods & services*	7,887,476,000	19.2	8,876,002,000	20.3
- Investment income	2,691,690,000	6.5	1,960,240,000	4.5
- Other own source	424,610,000	1.0	466,288,000	1.1
TRANSFERS	10,551,346,000	25.7	8,158,196,000	18.7
- General purpose	1,358,395,000	3.3	969,577,000	2.2
- Specific purpose	9,192,951,000	22.3	7,188,619,000	16.4
- From federal government	560,015,000	1.4	211,543,000	0.5
- From provincial government	8,632,936,000	20.1	6,977,076,000	16.0

Source: Statistics Canada, CANSIM, Matrix 7093. *** includes user fees, license and permit fees**

As the linchpin of municipal finance in Canada, the property tax is an important but inflexible source of revenue for municipal governments. Economists generally agree that the property tax is an appropriate way to fund municipal services which benefit all, but on the other hand, is a poor tool to finance income redistribution programs, such as social housing. Furthermore, the property tax is highly visible and thus difficult to increase when municipal governments require more revenue.

The Canadian Constitution restricts provinces and, therefore, municipal governments to direct taxation. Compared to other jurisdictions, Canadian municipal governments have few options when it comes to local taxation. Examples of sources other than property taxes follow:

- Hotel and motel occupancy tax is corrected in Vancouver. This is also enabled by legislation in Manitoba.
- Business taxes (occupancy) are mandatory in Winnipeg and optional elsewhere.
- Gasoline taxes are collected by the Greater Vancouver Transportation Authority, but the tax rate is set by the province. Fuel tax revenue is also available to support transit operations in Victoria, Montreal, and Calgary.

Municipal income taxes, visitor or commuter taxes, and sales taxes are popular in the U.S. and in Europe.[3] Municipal governments in Canada cannot levy such taxes. However, in Manitoba, the province allocates a small percentage of provincial income tax revenues to municipal governments.[4] This serves as an additional revenue source, but does not enhance the municipality's power to raise its own revenue.

[3] Some form of local income tax exists in approximately half of the countries that are members of the Organisation for Economic Co-operation and Development. (Harry Kitchen, "Municipal Finance in a New Fiscal Environment", C.D. Howe Institute Commentary, November 2000.

[4] Per capita unconditional grants in Manitoba are based on part on the revenue generated from 2 percentage points of the provincial personal income tax and 1 percentage point of the provincial corporate income tax. (Harry Kitchen, Ibid, p.19)

3.1.2 Government transfers and grants

Transfer payments and grants to municipal governments constitute a declining share of revenue. In all regions, provincial contributions provide the bulk of grants and transfers, while the federal government provides significantly less (principally through payment-in-lieu of property taxes). Intergovernmental grants most commonly are "conditional", attached to specific projects and often requiring matching municipal funds. While providing an important source of revenue to municipal governments, conditional grants tend to direct municipal spending in a way which reduces the autonomy and flexibility of local governments.[xxiii] Funds available for short-term programs, such as those most commonly available, can distort the priorities of local government. A further risk is the possibility of cancellation if sufficient guarantees are not in place to ensure funds continue throughout the life of the project.

The depth of cuts to municipal governments is underscored by the following summary from the Association of Municipalities of Ontario (Municipal Councillor's Guide 2000):

> What a difference a decade makes! The Ontario Grant Reforms Committee of the late 1970s had identified almost 90 different grant programs... The number of different grant programs had reached 100 by the end of the 1980s. Today, apart from the possibility of temporary transitional funding, and occasional special financial assistance, municipalities receive essentially one annual grant, the Community Reinvestment Fund (grants to smaller municipalities).

Similar concerns have been documented by the Union of British Columbia Municipalities, highlighting the deep cuts in transfer payments to municipal governments between 1996 and 1999. General fund transfer payments were reduced from $209 million in 1996 to $90 million only three years later. Again, most of these funds will be paid to the smallest municipalities.[xxiv]

3.1.3 User Fees

User fees are imposed for a variety of municipal services, such as water, public transit, parking, parks and recreation programs, and waste disposal. User fees not only provide a revenue source but may also serve to discourage wasteful behaviour. In theory, user fees have the potential to offer the same efficiency advantages as private sector prices. In reality, most public services are under-priced; the most notable example is water. In setting user fees, municipal governments must take into account equity issues to ensure that low-income residents have access to services such as transit, or recreational programming.

The main difference between a fee and a tax is that a fee is for a particular service or use of a public asset and may not be used to add to general revenues. In practice, municipal governments may face limitations on the types of services for which a user fee may be charged. For example, the Municipal Act of Ontario enables the Minister to impose conditions and limits on the powers of a municipality with respect to the fees that can be charged. This is similarly true for licensing – another, albeit smaller, revenue source for municipal governments.

3.1.4 Other Revenues

Other sources of revenue available to municipal governments in Canada include: licensing and permit fees, fines and penalties, investment income, development charges, and special capital levies, such as local improvements. Altogether, such revenue sources account for a small share of total municipal revenue, and as described above, may be subject to limitations prescribed in provincial legislation. The possible exception is revenue from development charges, generated from developers contributing to growth-related capital costs for infrastructure. Only municipalities experiencing rapid growth could expect to garner significant revenue from this type of charge.

The Association of Municipalities of Ontario notes that while development charges may be a "significant" revenue source, changes in the Development Charges Act have reduced the scope of services and facilities for which municipal governments could impose charges. No longer may charges be set to cover the capital costs of hospitals, waste management services, parkland acquisition and cultural or entertainment centres.[xxv]

Table 2 Municipal Revenue Sources (Proportional) 1996 Canada, USA, and Europe

	Own Source		Transfers from national government	Transfers from state/province	Other
	Local taxation	User fees			
CANADA	50.8%	20.2%	1.3%	17.3%	6.6%
Toronto	49.0	22.0	1.0	17.0	7.0
Calgary	50.2	38.4	0.7	2.2	7.9
Winnipeg	73.0	8.8	10.4 combined		8.2
Halifax	71.0	18.0	4.0	2.0	5.0
St. John's	60.5	16.6	2.3	23.4	10.5
UNITED STATES	34.5	32.6	3.3	4.5	6.0
New York	36.9	15.5	3.8	29.4	14.5
Atlanta	33.3	41.6	3.6	13.2	10.
Seattle	31.3	48.4	2.2	7.6	10.
Cleveland	35.5	38.2	9.3	9.4	7.6
EUROPE	28.0	19.2	31.1	n.a	20.5
Copenhagen	57.3	19.7	20.9	n.a	2.0
Madrid	39.7	14.3	39.4	n.a	6.6
Dublin	37.7	32.0	21.4	n.a	8.9
Liverpool	24.2	50.1	29.9	n.a	0.1
Marseilles	41.0	11.7	25.6	n.a	21.7

NOTES ON TABLE:

- Various accounting mechanisms are used in different countries.
- Local taxation is from all sources, including property, fuel, hotel/motel, income etc.
- In Canada and the US, "other" may includes investment income, fines, penalties. In Europe, it may also include: loans, balances on operating expenditures, capital transfers, but most commonly refers to sale of assets.
- Data on 4 Canadian cities is based on budget documents for 2001
- Data for Europe reflects the mean values from 43 cities, Urban Audit

Sources:
- Statistics Canada, "Local general government revenue and expenditure" 1996,
- 2000 & 2001 Budget documents: Toronto, Halifax, Winnipeg Calgary, St. John's
- U.S, Census Bureau, "Summary of State and Local Government Finances by Level of Government, 1996-1997
- European Commission, Directorate General for Regional Policy, Urban Audit, "Municipal Budget", 1997

3.2 Spending and borrowing limits

Municipal governments can borrow for capital projects only, in contrast to the authority of both the federal and provincial orders of government with unrestricted access to borrowing for operating and capital expenditures. Municipal governments are further constrained by requirements prohibiting municipal deficits. Since municipal governments must pay debt through their operating budgets and "break even" every year, they must be careful to ensure capital borrowing does not interfere with their ability to deliver basic services and meet minimum debt repayments. Like other borrowers, municipal governments must take into the account the effects of their debt load on the city's bond rating.

3.3 Expenditures

As with revenue sources, local government expenditure responsibilities are tightly controlled. Variations exist across Canada, but generally municipal governments are spending money on a core set of local government functions related to transportation, environmental services, police and fire, recreation and culture, and general administration. Ontario and Manitoba are the only two provinces where spending on social services accounts for a sizeable share of municipal expenditures. In all provinces, expenditures on health are primarily borne by the province with relatively small expenditures made by local governments on public health and prevention programs.

As noted in Table 3, expenditures on transportation, environmental services, and protection account for more than half of all municipal expenditures (1997) except Ontario, where social service funding is the largest single expense. In all provinces, municipal expenditures on recreation and culture accounted for between 10 - 18%. Debt charges, (interest on money borrowed for capital projects), vary from a high of almost 20% of total spending in Newfoundland to less than 1% in the Yukon and Northwest Territories.

It should also be noted that since 1997, Ontario municipal governments have assumed full responsibility for social housing costs, leading to further shifts in the distribution of spending and placing an additional income-redistribution program on the property tax base.

Table 3 - Distribution (in percent) of Municipal Government Expenditures by Province and Territory, 1997

MUNICIPAL SERVICES	Nfld.	Prince Edward	Nova Scotia	New Bruns.	Quebec	Ontario	Manitoba	Sask.	Alberta	British Columbia	Yukon	Northwest Territories	Canada
General Administration	15.1	12.1	6.0	9.5	11.9	8.7	12.4	13.6	10.9	8.6	19.2	16.7	10.0
Protection	8.8	24.5	14.8	24.5	16.8	15.6	15.9	16.3	14.4	18.1	8.0	4.4	16.1
Transportation	24.3	20.7	18.9	22.0	23.0	18.5	20.0	29.9	28.5	13.7	31.9	15.1	20.4
Health	0.0	0.0	0.1	0.2	0.1	2.7	2.4	1.0	1.5	3.8	0.3	4.5	1.9
Social Services	0.1	0.0	8.4	0.0	0.8	22.8	7.7	0.8	1.8	0.2	0.0	4.7	10.5
Education	0.0	0.0	13.7	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Resource Conservation	0.3	0.6	2.8	2.3	1.8	2.0	2.0	5.9	2.1	1.4	1.3	0.4	2.0
Environment	18.8	23.3	17.7	21.1	16.5	12.7	17.3	13.7	13.2	22.2	19.0	30.6	15.4
Recreation/Culture	12.2	13.3	9.5	13.5	11.2	10.1	11.6	13.6	12.9	17.8	16.2	16.8	11.9
Housing	0.5	0.0	0.7	0.3	3.5	1.4	0.2	0.2	0.4	0.7	0.0	3.2	1.6
Regional Planning	0.8	0.7	3.4	1.4	2.0	1.1	1.6	1.4	2.3	1.9	2.3	1.3	1.6
Debt Charges	19.1	4.6	3.8	5.2	12.1	3.8	8.7	2.8	11.0	10.5	1.3	1.8	7.7
Other	0.0	0.2	0.2	0.0	0.1	0.6	0.2	0.9	0.9	1.2	0.3	0.7	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Harry Kitchen, "Municipalities: Service Responsibilities Issues and Governing Structure", 1999, calculated from Statistics Canada, Financial Management Systems data, 1998.

3.4 The Challenge Ahead

The Federation of Canadian Municipalities sets the stage for the challenge ahead:

> The main concern of municipal governments is their capacity to finance, predictably and responsibly, the increasing functions and responsibilities they are being given, either by statute or public expectation. Municipal governments must change the way they finance their operations so that they can meet their growing responsibilities, ensure accountability, and develop their capacity to play an even more positive, productive and responsive role in Canada's political system.

4 Fiscal Authority: Municipal Government in the United States

Municipal governments in the United States operate within a more permissive fiscal framework than their Canadian counterparts. Like Canada, municipal governments in the U.S. rely on property taxes as the single largest revenue source. Unlike Canada, municipal governments in the U.S. draw from a much wider array of financing mechanisms.

One need only compare Census data from 1996 to appreciate the difference:

1996	Canada	U.S.
Property taxes as a share of all municipal revenue	49.5%	21%
Other taxes as a share of municipal revenue	1%	13.5%
User fees as a share	20.2%	32.6%

On the other hand, municipal governments in the U.S. are more reliant on user fees, which account for about 33% of all revenue sources, compared to 20% for their Canadian counterparts. Locally adopted sales taxes are the second-most popular form of taxes collected by municipal governments in the United States, accounting for about 5% of all local government revenues. A small number of states allow individual local income tax.[xxviii]

New York City offers an interesting example of a municipality with a highly diversified tax system. About 60 percent of local taxes comes from income and sales taxes. Until 1999, New York City used a unique tax to gain revenue from non-resident commuters. The "commuter tax" was levied at a rate of 0.45% on NY City income earned by non-residents. The repeal of the tax is estimated to cost the City $500 million over the next five years.[xxix]

On average, U.S. municipal governments raise about two-thirds of their own revenue, with the remainder of funding obtained from a variety of sources including federal and state grants. Canadian municipal governments raise somewhat more, with about 71% of revenues locally generated.

Table 2 in Section 3 provides additional information on revenue sources in Canada and the U.S. and includes comparable data from selected European centres.

Table 4 outlines the range of financial instruments available to municipal governments in both countries, highlighting the U.S. authorities for expanded taxing capabilities, less restrictive borrowing opportunities, and the ability to provide tax incentives to encourage certain investments.[5]

[5] The parameters of this Study did not permit a state-by-state review of regulations and authorities. The information is based on a general literature review and indicates the most commonly practiced forms of revenue-raising in the U.S.

Table 4 - Municipal Fiscal Authority: USA and Canada

	Canada	U.S.
Property tax	✔	✔
Sales tax		✔
Hotel/motel tax	*	✔
Business tax		✔
Fuel tax	*	✔
License fees	✔	✔
Income tax: individual and corporate		✔
Development charges	✔	✔
Tax-exempt municipal bonds		✔
Tax incentives		✔
Grants to corporations		✔
Borrow money	✔	✔
** Indicates rare instances of this type of authority*		

4.1 Tax Incentives – the Washington, D.C. example

Other than wider taxing powers, municipal governments in the U.S. enjoy additional advantages in their power to provide tax incentives to attract private sector investment. While not always creating new revenue, such incentives may have the effect of alleviating municipal expenditures by attracting private investment. At the same time, financial incentives can be a powerful tool to achieve municipal objectives for development and redevelopment.

A summary of new federal tax incentives made available for the District of Columbia provides an interesting window on this fiscal tool. Washington, D.C. is one of 87 urban areas designated as an empowerment zone (or otherwise called an enterprise community).[6] As such, the city is eligible for grants and tax incentives, and as a specially-designated empowerment zone, is also eligible for the following enhancements approved in 1997:

- Brownfields Tax Incentive – Businesses operating in areas of D.C. with poverty rates of 20% or more will be able to deduct environmental cleanup expenses in the year these expenses are incurred. Current law otherwise prohibits such deductions.
- Special tax-exempt bonds promote commercial investment.
- Public school renovation tax credits are also available.

Incentives to businesses to locate in D.C. include:

- A tax credit of up to $3,000 per employee to businesses in areas with poverty rates of 20% of more for wages paid to any D.C. resident. Such an incentive offers the additional benefit of job creation for local residents.
- Tax-exempt financing, giving the D.C. local government authority to issue enterprise zone facility bonds for businesses operating in areas with poverty rates of 20% or more.[xxx]

[6] Empowerment zones (EZ) apply to designated low-income areas. In urban areas, EZ districts are characterized by poverty rates in excess of 36% and unemployment rates of 14%. Typically they are inner cities which have experienced middle class flight, high crime rates, and job exodus.

4.2 Innovative Options

A variety of other programs are available to municipal governments in the United States. Many of these are grants or loans for infrastructure funding and will be discussed in the following section. However, the list below identifies a range of opportunities to encourage urban development and redevelopment. They are unparalleled in Canada:

- **Community Empowerment Fund/CEF Trust.** Funding combined from two sources totals $750 million to ensure local governments have the public capital they need to support critical business investment and job creation projects in distressed communities. Special priority goes to "welfare-to-work targeted job creation", and connecting central cities to areas of regional economic growth. The CEF Trust will pave the way for a fully private secondary market for economic development loans to emerge.
- **Better America Bonds.** $700 million in tax credits over five years to support a new financing tool for State and local governments to clean up abandoned industrial sites, preserve green space, create or restore urban parks and protect water quality. The initiative is designed to generate $9.5 billion in bond authority over five years.
- **BusinessLINC.** A new partnership between the Federal Government and America's business community to encourage large businesses to work with small business entrepreneurs in central cities and rural areas.
- **Low-Income Housing Tax Credit.** $1.7 billion is available to increase the cap on the housing tax credits, thus enabling the credit to create an additional 150,000 to 180,000 new rental housing units over the next five years.
- **New Markets Tax Credit.** A new tax credit announced in fiscal year 2000 is available to help spur $6 billion in private investment for business growth in low and moderate income communities.

The Select Atlanta Homeownership Alliance aims at dramatically increasing home ownership opportunities while positively impacting transportation, the environment. economic development, and job creation. By enticing families to select living within the City of Atlanta, the Alliance hopes to reduce sprawl and the legendary traffic congestion it creates. The Alliance is a partnership of the City, business, and non-profit organizations. The Alliance is using a number of innovative approaches to ensure that this investment is targeted in "smart" ways. The Employer Assisted Mortgage Program encourages Atlanta businesses to promote homeownership near employment sites, encouraging workforce development, neighborhood revitalization, and reducing traffic congestion. Of the new units that are planned, many will be built adjacent to or near transit stations; these are anticipated to become the catalyst for other developments.

The Council for Investment in the New American City

4.3 Expenditures

Municipal governments in the U.S. are responsible for providing a broad range of services, much like their Canadian counterparts. Although the assignment of functions varies by state, local governments have been said to play the role of "service provider of last resort", required to provide shelter to the homeless or child welfare services to troubled families.[xxxii] Service responsibilities tend to be greater in central cities than in most suburban municipalities. A likely reason is the high number of low-income citizens in central cities, who are eligible for public welfare and public health programs.

Most municipal governments in the U.S. provide the same basic services as those in Canada: police and fire protection, collection of garbage, building and maintaining infrastructure, providing recreational and cultural facilities, regulating land use, managing public water and sewer systems, etc. However, variations which do exist account for significant differences in how municipal dollars are spent. For example, many U.S. municipal governments contribute to municipal hospitals and publicly-funded health care for its poorest residents. Health dollars account for over 19% of municipal expenditures in the U.S., compared to less than 2% in Canada. Similarly, local government contribution to education means that 13% of municipal budgets goes towards education. In Canada, provincial governments are primarily responsible; the education share of a municipal budget is less than 1%. On the other hand, Canadian municipal governments tend to spend more on infrastructure, which consumes about 36% of the annual budget. The comparable U.S. share is 28%.

Per capita expenditures by municipal government are significantly higher in the U.S. (1996) than in Canada (1997) even when taking into account the exchange rate. The following comparison between the two countries has factored in some but not all of the differences in service provision, such as education (dollars spent by local school district authorities in the U.S. are excluded). The estimates below may be viewed as a reasonable indicator.

Per capita municipal government expenditures	
Canada	$ 785 U.S.
United States	$1,652 U.S.

4.4 Fiscal Issues in Urban America

Without doubt, the fiscal toolkit available to municipal governments in the U.S. offers more choices than those available to their Canadian counterparts. Nonetheless, current debates on urban issues in the United States appear equally focused on matters financial. The League of California Cities identifies the reform of the state-local fiscal relationship as a top priority. The renowned Brookings Institution has launched a metropolitan initiative to examine the extent to which federal and state spending programs, tax expenditures, regulations and administrative actions are impacting metropolitan areas. The U.S. Conference of Mayors, along with the Mortgage Bankers Association of America, has established a Council for Investment in the New American City.

However, this same preoccupation which consumes Canadian municipal leaders stems from a somewhat different root in the United States. The primary focus is on the disparities which exist between cities and suburbs, noting that the wealthy (property) tax base is largely unavailable to U.S. cities. American metropolitan areas are far more fragmented than those of Canada, contributing to the urban-suburban dichotomy. For example, the Chicago metropolitan area contains 262 separate general-purpose governments; including school districts and special districts, the number rises to 1,200 different geo-political bodies.[xxxiii]

The fiscal issues in the United States therefore are not simply about the sources of revenue available, but more specifically, about the failure of the property tax base to support inner cities. Increasing reliance on other forms of taxation, such as sales taxes or commuter taxes, stems in part from the need to obtain revenue from non-resident beneficiaries of municipal government service. This preoccupation may well be the next big issue for Canada's largest urban areas. The Federation of Canadian Municipalities, in its March 2001 Quality of Life report, emphasized the growing income gap between our wealthiest and poorest urban citizens.

5 Comparative Overview of Financing Mechanisms for Infrastructure in Canada, the United States, and Europe:

A scan of municipal budget presentations across Canada reveals a common and growing preoccupation with how to finance infrastructure. Whether the city is fast-growing, like Ottawa or Calgary, or stable like Winnipeg, municipal officials emphasize the need for funding solutions to allow for such basic improvements as: more roads, better transit, modern water systems, and rehabilitated sewers. The Association of Consulting Engineers of Canada reports that the municipal infrastructure deficit was estimated to be $12 billion in 1984; twelve years later, that figure had more than tripled to $44 billion.[xxxiv]

Traditional sources of funding infrastructure have come from provincial grants matched by municipal revenues. For the most part, government funds have dried up. For example, only three provinces continue to provide support for public transit: British Columbia, Alberta, and Québec. The combined effort of these provinces amounts to only 5% of the cost of operating transit and of its capital needs. By contrast, combined state and federal funds in the U.S account for 25% of operating and 54% of capital spending on public transportation.[xxxv] Canadian municipal governments are seeking solutions.

The infrastructure that supports our communities is essential to their economic and environmental health. A February 2001 study undertaken for the City of Ottawa highlights the importance of municipal infrastructure to the local, provincial and national economies:

> Economic activity and economic growth in the City of Ottawa generate significant tax revenues for all levels of government – local, provincial, and federal. The City of Ottawa believes that with economic growth comes added responsibility – in particular, that at the local level, growth triggers the need for a variety of additional infrastructure improvements to support new employment and the related population increase. The City of Ottawa advocates that in order to provide required infrastructure and to maintain the competitive positioning of the City to support future growth, a requirement is needed of the Ontario and Federal governments to reinvest back into Ottawa a portion of the revenues generated by Ottawa's economic growth.[xxxvi]

The views expressed by Ottawa are echoed across Canada.

> **"Canada's cities, and in particular its metropolitan regions, generate the vast majority of the country's wealth and cultural life, and are without question the engines of this country. But Canada is not providing a suitable habitat for the kind of creative, vital cities so critical to Canadian life. I'm concerned that Canadian larger, economically vibrant cities don't have the powers or resources they need to meet the challenges before them".**
> ***Jane Jacobs, March 2001***
>
> **"We have 67% of the population of Manitoba. Our share of provincial revenues is not even one-third."**
> ***Anonymous official, commenting for the "Western Cities" Project.***
>
> **"The City of Toronto is in a financial squeeze that threatens its international position. The City's infrastructure is aging. New infrastructure to keep the City competitive will also require huge investments. The time is right to commence a dialogue with the provincial and federal governments about the need for a new relationship between Toronto and the other orders of government."**
> ***June 2000 Report from the Office of the CAO***

It is against this backdrop that the following scan of infrastructure financing mechanisms in Canada, the United States, and Europe is presented.

5.1 Financing Infrastructure: What Canada is Doing

In Canada, municipal governments are generally responsible for basic infrastructure services including roads, transit, water, and wastewater services. For the most part, municipal governments are the majority or sole funder of these major public works. Typically, capital budgets include expenditures for rehabilitation (roads, bridges, sewer lines, community centres, etc.) and new projects to accommodate growth (new roads, new transit facilities, etc).

Financing mechanisms available to Canadian municipal governments generally include:

- General Financing – generated through tax revenues and may include borrowing for tax-supported capital expenditures. This approach is also referred to as "pay-as-you-go." Municipal governments like Calgary and Edmonton rely on "pay-as-you-go" to make the single largest contribution to capital works.

- Reserves – funds transferred from current operations of the municipality or funds set aside for specific capital projects.

- Debt issuance – funds borrowed for infrastructure projects generally in accordance with borrowing limits set by the province. In the province of Québec, provincial approval is required for municipal borrowing. In Alberta, a provincial regulation specifies the total indebtedness and level of debt service, although Calgary and Edmonton are granted special provisions.

- Development charges – charges for growth-related capital costs. This is a widely used financing tool in fast-growing municipalities, particularly in Ontario. Provincial legislation prescribes the types of infrastructure that may be funded by development charges as well as regulating the fee structure.

- Developer funding – capital expenditures funded by private sector developers and are usually cost-shared. In many provinces, legislation governing municipal finance imposes strict limitations which can impede effective public-private partnerships. However, the City of Edmonton earmarked 3.9% of its 2000 capital program to be financed by this approach.[xxvii]

- Local improvements and surcharges – funds collected directly from benefitting users and used for targetted projects in communities. A typical approach is to impose a frontage charge as a special mill rate on local taxable assessment.

- User fees – monies collected as services are consumed. This is commonly applied to services such as transit (fare box), recreation programs, and water usage. Funding derived from user fees typically do not cover a municipality's costs of operating and maintaining the service. For example, the average transit system in Canada covers 62% of its operating costs from fare revenue.

- Grants – provincial or federal commitment of funds for specific capital purposes. Once a foundation for funding large capital projects, infrastructure grants in Canada are now too small and too sporadic to provide an effective and reliable revenue source. Building on the 1994 Infrastructure Program, the government of Canada launched a new version in 1999 with priority funding for "green municipal infrastructure".

Between 1994 and 1997, $2.4 billion of federal money leveraged $8.3 billion in 17,000 infrastructure projects across Canada. Examples include :

- **Upgrading of water-sewer systems; and new recycling facility in Yellowknife**
- **Construction of community arts centre in Coquitlam**
- **Neighbourhood rehabilitation in Edmonton**
- **Residential street reconstruction in Winnipeg**
- **Construction of Western Beaches Tunnel in Toronto**
- **Construction of convention centre in Québec**
- **Installation of storm sewers in Neguac, NB**
- **Installation of water and sewer in Conception Bay**

Now, "Infrastructure Canada" is the most comprehensive infrastructure program involving a tri-lateral partnership with provincial and municipal governments as equal partners. Appendix 1 provides details. More recently, the Minister responsible for CMHC announced support for new affordable housing, amounting to $170 million each year for four years. Together, these two programs account for the federal government's principal commitment to local government.

In addition, several provinces have programs to support infrastructure, including the following:

- Ontario SuperBuild Fund – the government's five-year $20 billion infrastructure initiative, available not only to municipal projects, but also to colleges and universities, hospitals, courthouses, etc.

- Alberta transportation grant – funding provided through a formula based on fuel tax rebates. This replaces the Provincial Basic Capital Grant.

- Newfoundland - $20 million for the Municipal Capital Works Program cost-shared with municipal governments for strategic investments in infrastructure; and special project funding enabling, for example, the development of the St. John's Civic Centre in 1999.

- Saskatchewan – Urban Revenue Sharing Grants are unconditional funds granted on a per capita basis. Special targetted programs include: Northern Water and Sewer Assistance Program; Transit Assistance for the Disabled Program; Urban Parks Program funding,

- British Columbia – Regional Growth Strategy Planning Grant provides funding support to regional districts in the preparation and implementation of growth strate gies (matching funds.) The Water and Sewer Infrastructure Planning Grant is a small grant ($10,000) to local governments to study the feasibility, costs, and technology of local sewer, water, groundwater or stormwater drainage.

- Manitoba - $183 million is earmarked for transportation infrastructure in the 2001 budget; the Winnipeg Development Agreement pools provincial, federal, and municipal dollars ($75 million) towards three priorities, including transportation improvements.

- Québec – A $30/year surcharge on the provincial vehicle registration fee provides dedicated funding for transit in Montréal.

- New Brunswick – Environmental Trust Fund available to municipalites and other organizations to support environmental projects aimed at : environmental protection, restoration, conservation, sustainable development, education or beautification.

5.2 Financing Infrastructure: What the U.S. is Doing

Joe Berridge's landmark study, "Re-investing in Toronto: What the Competition is Doing" notes that most U.S. cities are engaged in heavily capitalized re-investment programs, particularly in their downtowns or along their waterfronts. Approximately $263 million on average has been spent annually over the past decade in ten representative U.S. cities; roughly five times the investment in the City of Toronto."[xxxviii]

> "What is clear is that Toronto is investing at about one-fifth the rate of its competitor cities....
> To a very significant extent, Toronto has defined itself as not being an American city but being the kinder, gentler city that works. I never thought in my lifetime the tables might be turned." *Joe Berridge*

Where is the money coming from? For the largest projects, about half of the financing comes from the private sector, often philanthropic foundations. The public sector share is overwhelmingly supported by federal government grants and innovative financing programs to leverage private funding or to facilitate borrowing by local governments. In addition, state governments may provide grants or loans to municipal governments to carry out infrastructure projects in line with state priorities.

Direct contributions by local governments come from the types of funding mechanisms described for Canadian municipal governments: user fees, general revenue, borrowing, etc. However, U.S. municipal governments take advantage of a much wider range of flexible financing instruments to achieve strong public-private partnerships. These include, among others, tax abatements, tax-exempt municipal bonds, local sales tax and income tax credits or exemptions, access to state revolving funds for clean water, and state infrastructure banks for transportation.

Certain financial instruments are also effective in improving the efficient use of infrastructure, as is the case with tax-exempt employer-provided transit benefits. In San Francisco, transit usage increased 31% among participating employees.

The most striking difference between Canadian and U.S. infrastructure funding mechanisms is defined by the Federal government commitment. Appendix 2 provides an overview of highlights from the 2000 U.S. budget describing initiatives geared to cities and suburbs. The following subsections illustrate not only the financial commitment but also the supporting policy commitment enabling state and local governments to seek innovative and flexible solutions.

[7] Transportation funding is also available through other programs; for example the Dept. Of Commerce funds grants for public works and economic development. Grants for transit planning and research are also available through the Federal Transit Administration.

The City of Chicago is at the forefront of a number of efforts to restore the desirability of city living. One such innovative program is the Location Efficient Mortgage CM (LEM), a product that allows a portion of the potential saving from the use of public transportation to be used as additional borrower income in qualifying for a mortgage for homes in densely populated communities with efficient transit service. A product of a partnership between local and federal governments and non-profit organizations, the LEM is an example of Chicago's commitment to decreasing traffic congestion and pollution, increasing homeownership opportunities and encouraging the use of public transportation.

Investment in the New American City

5.2.1 Transportation Financing in the U.S.

The single largest infrastructure investment program in the U.S is the Transportation Equity Act for the 21st Century (TEA-21).[7] TEA-21, as the successor to the "Intermodal Surface Transportation Efficiency Act ", continues a long-standing federal commitment to public transportation funding. In 1988, for example, federal contributions accounted for 65% of all capital funds and just over 10% of all public funds for operating public transportation.

The six-year TEA-21 program, initiated in 1999, allocated a total of $217 billion for highways, transit, rail, and special projects, such as ferry boats, historic covered bridges etc. More than half (over $100 billion) is available for urban roads, bridges, transit, and light rail. By contrast, the Government of Canada's six-year infrastructure program allocates $2 billion CDN ($1.2b US) for all types of infrastructure – water and wastewater systems, transportation, housing, etc. In other words, the U.S. government is investing in urban transportation at more than 100 times the rate of the Canadian government.

TEA-21 was designed to incorporate the principles of:

- Flexibility based on guidance rather than rules
- Partnerships as the key to success, whether public-public, or public-private
- Outcome-focused
- Continuity, building on the success of the previous program
- Connectivity, reflecting the need for seamless intermodal connections

More than 75 programs make up the TEA-21 funding universe. Appendix 3 describes those which support local government transportation programs. A look at a selected few illustrates the relevance of such initiatives to the Canadian context.

Transit and Light Rail

More than $41 billion is allocated for transit programs (approximately $6.9 billion annually), including the new clean fuels program designed to support global warming initiatives. Funds may be used to acquire or lease clean fuel buses and facilities. Basic transit funding is available through area formula grants, with the majority of the $18 billion targeted to urban areas with a population over 50,000. Federal funding is not to exceed 80%. Urbanized Area Formula grants were also a feature of ISTEA, the predecessor program. Capital investment grants totalling $18b supplement the basic transit funding for acquisitions of buses, and for design of construction of transit rights-of-ways and systems.

An innovative feature of TEA-21 is the transit benefit tax, enabled by amendments to the Internal Revenue Code. The change helps level the playing field between parking benefits and transit or vanpool benefits. Both are now treated equally.

A new program was created to fund light density rail line projects, with funding for capital improvements and rehabilitation of rail line structures.

Innovative Financing

Innovative financing initiatives are a hallmark of the TEA-21 legislation, fostering ways to leverage federal resources for private sector participation in the delivery of surface transportation. Such initiatives are designed to increase flexibility (particularly with regard to non-Federal matching requirements) and program effectiveness. Flexibility also means state and local governments may transfer funds from traditional highway programs to transit.

Significant state and federal funding support for public transportation has enabled U.S. cities to rely less on the fare box. 41% of all operating costs are covered by fares compared to 62% in Canada.

Canadian Urban Transit Association, March 2001

Direct Credit is a new program enabling the federal Department of Transportation to provide credit assistance on flexible terms directly to public-private sponsors of major transportation projects. In turn, this establishes access to capital markets. Direct loans, loan guarantees, and lines of credit are supported, up to 33 percent of project costs.

A new pilot project for **State Infrastructure Banks** was created under TEA-21, to be applied initially in California, Florida, Missouri, and Rhode Island. At least five more states have since been included. The purpose is to assist locally and regionally significant projects that have access to dedicated revenue streams, but need flexible financial assistance to expedite project development and implementation. Loans are generally made to local agencies seeking to close gaps in available project funding.[xli]

Joint development of transit assets allows for flexibility, particularly to encourage transit-supportive development through the Government's "Livable Communities Initiative". Grantees can lease air rights above a transit station, or transfer the interest in one property to another to enable the private development or other use of the property.

Toll revenue credits allow revenues from public roads and bridges to count towards matching funds for federal grants for other modes of transportation, such as transit.

Santa Clara Transit Authority used federal capital funds to improve a park&ride lot and provide a bus facility, at the same time seeking regulatory flexibility to use excess land next to the light rail station for transit and housing joint development. This investment would attract a private developer to build the housing development with a potential to generate $200,000 to 300,000 in lease revenues annually for the transit district.

Canadian Urban Transit Association, March 2001

5.2.2 Environmental Infrastructure in the U.S.

Investments in wastewater infrastructure were purely local until 1972 when the first U.S. grants were established under amendments to the Clean Water Act. In addition to adding new grants through the 70s and 80s, the federal government amended legislation creating new regulations for strict mandatory water quality requirements. Prior to 1987 amendments to the Act, federal assistance for wastewater treatment was a 55% grant contribution to overall project cost, with the state and local governments responsible for the 45% share.

The traditional grant program was replaced with one that provides federal grants to capitalize state clean water loan programs or revolving funds. (CWSRF) The burden shifted once again to local governments and private sources. Because the new loan program offers long-term funding for water quality and wastewater construction activities, local governments and states generally supported the change. Nonetheless, it means local communities are responsible for 100% of the costs.

The CWSRF has funded projects such as wastewater treatment plants, combined sewer overflow projects, septic systems, and brownfield remediation. The program provides loans at interest rates that range between zero and market rate. States may also choose to supplement with other types of assistance, such as refinancing of existing debt and guarantees. While the $18 billion program has succeeded in leveraging $30 billion in total assistance, the need nationwide is daunting. A survey has suggested more than $140 billion will be needed for wastewater treatment and related facilities over the next 20 years.[xlii]

Special Purpose Grants are available for municipal governments in need who cannot support their wastewater projects on the basis of SRF funds alone. The number of municipal governments that qualify for such funding rose from eight in 1994 to 237 in 2001. About 13% of total funds has gone to earmarked projects.[xliii]

A similar pattern of federal involvement occurred with respect to drinking water. Federal requirements were established under the 1974 Safe Drinking Water Act and strengthened by amendments over the next decades. Federal funding for drinking water was relatively modest until 1996, when the program to fund state revolving funds (SRF) for water supply was established. Similar to the Clean Water Revolving Funds, the Drinking Water SRFs serve as a source of long-term funding which must be repaid. Eligible project categories include treatment; installation or replacement of water mains; rehabilitation of wells; installation or improvement of storage facilities; creation of new systems.

A variety of flexible tools are available, allowing states to offer loans to water systems at below-market interest rates. States can also issue bonds to leverage its program. For example, New York has succeeded in leveraging $460 million in loans while receiving only $200 million in federal grants. Additional flexibility is introduced to enable enhanced assistance to disadvantaged communities through such mechanisms as principal forgiveness, negative interest rate loans, etc.

5.2.3 Other Infrastructure Programs in the U.S.

Infrastructure is more than just pipes, roads, and buses. The cultural and social infrastructure of a municipality is about affordable housing, convention centres, recreational complexes, opera houses, and so on. In the United States, a number of funding programs exist to finance affordable housing, urban redevelopment, and economic development.

In particular, communities with high rates of poverty constitute a special focus for much of these funds. One of the largest is the Community Development Block Grant, comprised of a series of initiatives which together account for the eighth largest federal grant program in the U.S. These include :

- Entitlement communities eligible for tax incentives and performance grants to fund sidewalks, housing, and local roads
- Brownfields tax incentives
- Loan guarantees
- Small cities program

A wide range of urban improvement projects may be eligible under this program as long as they benefit low and moderate income families and meet urgent community development needs.

The federal Department of Housing and Urban Development (HUD) supports more than 250 programs geared towards low and moderate income households. HOME is the largest block grant to state and local governments. In the 2000 budget $1.6 billion was allocated to enable site acquisition, rehabilitation, and creation of rental or ownership housing; $25 million to fund large-scale homeownership projects; and $625 million for innovative and comprehensive solutions to distressed public housing projects. (See Appendix 2)

5.3 Financing Infrastructure: What Europe is Doing

Much like Canada and the United States, infrastructure investment in Europe comes from a variety of sources, including national and local governments, and private-public partnerships. Recent trends in many countries have seen more decentralisation of service provision, and a breaking away from a "top-down" model of government. Growing recognition of the importance of cities as centres of value creation and employment underpin this trend.

However, in some countries like the U.K., local governments' role in infrastructure funding is decreasing while private-public partnerships are on the rise. In part, this is attributed to the strict limits imposed on local government borrowing and spending on capital projects. At the same time, the national U.K. government is responsible for major expenditures on transport. Water-related infrastructure was privatized in the 1980s.

Contributions by local government to municipal projects vary greatly among countries, and within countries, by cities. The Urban Audit prepared by the Regional Directorate of the European Union records per capita municipal spending by city.[xlvii] In 1996, per capita municipal expenditure in Dublin averaged less than one-ninth the expenditure in Helsinki at Euro 5965, and only one-fifteenth that of Copenhagen.[8] The European average of 43 municipal governments was Euro 2420 (about $2100 US). By comparison, per capita expenditures by municipal governments in Canada averaged $785 (U.S.) and in the United States, averaged $1,652.

Investment in European cities is significantly enhanced by European funds aimed at reducing regional disparities within the European Union (EU). Generally, all countries in the EU include regions or cities where need for EU funding can be demonstrated. The primary vehicle for infrastructure funding is the European Regional Development Fund (ERDF) whose 2000-2006 budget of Euro 195 billion (approximately $175 billion US) accounts for fully one-third of the EU budget. Projects eligible for ERDF funding must demonstrate the availability of matching funds from within the host country (whether from the local or national government, private sector, Lottery funds etc.). Between 1996 and 1998, member states contributed 40% on average to the costs of ERDF-funded projects.

[8] Municipal responsibilities also differ among European cities; thereby contributing to the expenditure differential. Dublin, for example, has limited autonomy in running the city due to the strong centralised system of national government. Local authorities in Finland, on the other hand, enjoy strong local powers with extensive responsibilities and discretion, including electricity, district heating, day care, health care, environmental protection, etc.

Additional sources of funding come from:

- the Cohesion Fund with an additional Euro 18 billion (2000-6) supporting investment in environment and transport in the four least prosperous member states: Spain, Greece, Ireland, and Portugal.
- ISPA, infrastructure funding for ten countries[9] qualifying for pre-accession to the EU amounting to Euro 7.28 billion in 2000-6.
- European Investment Bank (EIB) assisting regional development through loans for individual projects, amounting to more than Euro 66 billion between 1994-1999. 83% of the loans went to financing infrastructure projects in transport, telecommunications, and energy.

Appendix 4 provides detailed information on the funding programs.

5.4 Transportation Funding – Europe

The European Commission's Second Report on Economic and Social Cohesion, released in January 2001, notes that "transport infrastructure, in particular, plays an important role in reducing regional disparities and improving the competitiveness of regions." The report goes on to note that while particular means of transport have been privatised over recent years (high-speed rail; motorways), the cost of investment in basic infrastructure remains too high to be covered by the private sector. Just over half of ERDF funding is targetted for transport in 2000-6 – roughly the same share spent between 1994 and 1999.

Madrid motorway ring road

Total cost: euro 165 million
EU contribution: 140 million

Like most other capitals, Madrid has its share of traffic jams and pollution. The need for a motorway ring toad became urgent so as to reduce the impact of transit traffic on residential areas, reduce exhaust fumes in the city centre, cut journey times and improve road safety in town. The new ring road – the M40 – has facilitated communications between regions.

Inforegio

[9] These are Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia.

In 1985, the City of Nantes (pop. 500,000) became the first city in France with a new tramway, which has since become the backbone of the public transport system. 44% of all public transport trips are made by light rail. The new tram service runs for more than 20 hours per day and the off-peak wait time is only 7.5 minutes. In its first year, the tram attracted 8 million passengers. Ten years later in 1995, 37 million passengers rode the tram. The Nantes light rail system was financed from:

- **Municipal funds**
- **National Transport tax (30%)**
- **Government grants (rolling stock)**
- **Loans**

Source: European Academy of the Urban Environment

In general, national contributions to public transportation are significant. Within the European G-7 countries, national governments fund 15-30% of all operating costs, and 30-100% for capital expenditures on public transportation.[xlix]

An example of **tax-supported financing** exists in France, where the organization and financing of urban public transport is the responsibility of the local government.
A municipality has either its own Urban Transport Organization Authority or it is a member of a group of municipalities which have a common authority. An Urban Transport Organization Authority is concerned with building and financing new or existing infrastructure. This Authority controls the public transport network, which is either a mixed economy public enterprise or a private company.

One of the innovative financing techniques in France is the National Transport Contribution tax – a special tax which finances the investment and operation of urban public transport in cities with a population of more than 30,000. The tax (called the Versement de Transport) is paid to the local Urban Transport Authority by all employers with more than nine employees and is fixed at 1.75% of wage.

A **user pay** based system may be found in the Norwegian example of a toll ring road in Oslo. Electronic toll stations register the traffic on access roads to the city centre. While the initial objective was exclusively financial, the project has generated collateral benefits by stimulating other modes of travel and improving the quality of life in the central city. The toll system, in fact, was developed to raise revenues to support other modes of transport. Out of a revenue of $130 million US per year, 25% is spent on public transport and 5% on cycle paths. $70 million is raised by the tolls, with the rest coming from public funds. The public road administration was responsible for initial implementation of the project. Now, a private financing organization, of which the City of Oslo is the main shareholder, is responsible for managing the Toll Ring Road.

In many cases, European funding supports **multiple environmental objectives**. For example, Dublin authorities identified a need to improve traffic flow in the urban area of Greater Dublin. With assistance from the European Union (nearly two-thirds funding), an interlinked network of corridors will be reserved for a quality bus service. Pedestrian precincts and 60 km of cycle tracks were laid out and traffic has been organized to give priority to cyclists. In addition, several bicycle parks have been built in the city centre, at stations, along the principal roads into the city, at the university, and at park entrances.

5.5 Environmental Infrastructure Funding – Europe

Just under one-third of the ERDF funding on infrastructure is dedicated to environment and water projects, up from the 25% share spent in the 1994-99 period. The European Union has placed special emphasis on environmental standards in its commitment to sustainable cities. This has become particularly important in the case of the European countries seeking entry to the EU, where it has been noted that applicant countries face much greater environmental problems than the present member States, regarding water pollution, waste management, and air pollution. Program funding allows EU assistance up to 75% of public costs.

The water quality upgrading project in Brest was started by the Brest Urban Joint Authorities as part of an aggressive water treatment program. More than 4 state departments, 3 regional governments, 2 public boards; private partners and others are involved in funding and carrying out the project. EU funding accounts for about one-fourth of phase 1.

Local Sustainability Case Study, ICLEI

In countries such as Ireland, the provision of water and wastewater services is the responsibility of the local authorities. At the national level, the Department of the Environment and Local Government plays a major role in ensuring necessary funding is available. Furthermore, strategic environmental and economic objectives for the development of water and sewerage infrastructure are identified in

Ireland's National Development Plan. The largest source of funding comes from the EU Cohesion Fund (60%) which funds projects at a rate of 80-85% of the costs approved by the Commission. Supplemental funding comes from the ERDF and the national government. Sixty-one major projects were slated for the 1997-98 period, with a focus on increasing the number of residents connected to sewers. In 1997, 68% were connected to sewers.

Creative partnerships support large-scale environmental projects in European countries. Anchored by substantial funding from the EU, environmental infrastructure projects can attract funding from private partners, non-government organizations, and of course, national and local governments.

5.6 Other Infrastructure Projects – Europe

Above all, European funding to municipal governments supports sustainable development in the broadest sense: environmental, social, and economic. Within this framework, ERDF Funds and Cohesion Funds are available for a wide range of urban development and redevelopment projects. Social and cultural infrastructure is well-supported by programs such as "Interreg III", "Urban II" and "Objective 1" and "Objective 2" Regions. Generally, urban areas are eligible if they are:

- Within regions whose development is lagging behind; (Objective 1)
- Areas undergoing economic and social conversion; ie. – industrial restructuring areas; (Objective 2)
- Urban areas with more than 100,000 population and suffering from high rates of unemployment, a decaying urban fabric, poor housing and a lack of social facilities. (Urban II and Interreg III)

In addition to transport and environmental infrastructure, eligible projects must meet one or more priorities for investment in:

- education and health
- regeneration of industrial sites and depressed urban areas
- strengthening research and development capacities of regions
- creating lasting jobs
- strengthening the "spirit of enterprise" including tourism and local employment initiatives
- operational strategies for territorial development

Some Urban Regeneration Projects:

1. **Emscher Park, Germany – 7 master plans developed to achieve the ecological and urban renewal of the northern Ruhr District. Housing, recreation, cultural activities, land scape and recovery of watercourses are addressed. Co-financing: EU, national government**

2. **Bilbao, Spain – economic and environmental revival of the neighbourhood around Otxarkoaga. 50% funding from ERDF funds**

3. **Alexandroupolis, Greece – project to address economic problems by creating an International Networking City: with environmental improvements at the port, a new multi-media natural history museum, a refurbished historic building to establish an international information centre. 75% ERDF funding**

4. **Nord-Pas-de-Calais, France – project "Neptune" focuses on redeveloping land formerly used by the port and naval dock yards, creating new development opportunities, encouraging diversification of activities, creating a traffic plan. 50-50 public-private funds. ERDF contributes 22%.**

Inforegio, Phase II Urban Pilot Projects Summary

5.7 European Infrastructure Funding – Interesting Outcomes

The Second Report on Economic and Social Cohesion to the European Commission provides insight into the results of European funding. Significantly, the report finds that the ERDF and Cohesion Funds increased the competitiveness and productivity of urban regions by supporting investment in infrastructure and human capital. "Structural intervention" tackles the root causes of regional imbalance and is aimed at strengthening the factors which provide the basis for sustained growth, such as improving transport systems, improving the environment, and strengthening education systems.

Other positive socio-economic measures were also highlighted:

- One in six firms that located in Objective 1 regions were recipients, directly or indirectly, of European fund support. More than 300,000 new jobs were created.
- The difference in per capita income between Objective 1 regions and the EU average narrowed by one-sixth in ten years. Within this general trend, certain regions such as Ireland, outperformed the average.
- Assistance is an effective means of mobilizing private capital as well as loans, especially from the European Investment Bank. Major investment projects in Greece underscore this finding.
- The principle of partnership has enabled local elected representatives, NGOs, and other associations to be more involved in decision-making.

6 Conclusion

What does all this mean? Research has uncovered a treasure chest of fiscal tools and national and supra-national grants available to municipal governments in the United States and Europe. Municipal governments in Canada have many fewer levers to attract investment, and scant access to federal and provincial funds. Permanent funding sources for infrastructure do not exist outside of locally generated revenue. More options are needed in order for municipal governments in Canada to carry out their growing responsibilities and to continue meeting the expectations of their residents. Canadians, who overwhelmingly are urban-dwellers, have come to expect and deserve a high quality of life.

The combination of government grants and fiscal enablers, such as tax incentives or municipal bonds, can generate a powerful tool kit for local government. What is clear is that U.S. and European municipal governments benefit from mechanisms that allow public money to be leveraged. Creative combinations of grants, loans, and tax incentives have allowed for a more integrated approach to resolving urban problems in the U.S. and Europe (eg– higher transit use and more affordable housing). Such mechanisms come from a variety of opportunities that are not typically available, or not as widely available, to their Canadian counterparts.

For example:

- legal authority for local self-government, available to U.S. municipal governments through Home Rule Charters
- fiscal authority to engage in public-private partnerships through such mechanisms as municipal permission to hold a mortgage
- access to growth, such as a sales tax, which underpins much of the locally-generated revenue in New York City; or local income taxes, as imposed in Europe and in the U.S.
- opportunities to leverage private sector investment, through direct tax incentives (tax-exempt municipal bonds in the U.S.) or through national fiscal policy (France's Transport Contribution tax)
- access to permanent lending programs for infrastructure, such as state-run Infrastructure Banks for transportation, and Clean Water/Drinking Water Revolving Funds widely available in the U.S.

Most experts agree that investing in cities means investing in the nation. In countries around the world, urban regions generate the majority of wealth. Successful cities are those where people and goods can be transported, where clean water is always available, where citizens of all ages and incomes can access community facilities when housing is affordable; in other words, where infrastructure is well-maintained and provided where and when needed.

In order to better understand the links between investment in cities, quality of life, and global competitiveness, further research is needed. This Study has established a platform from which the following additional issues spring:

- what is the relationship between quality of life and global competitiveness?
- what are the indicators to measure the competitiveness of cities?
- which financial mechanisms are most effective in Canadian cities, taking into account provincial variations and the different models of metropolitan government?
- what more can we learn from the European examples, where preliminary research comparing different cities has begun to show linkages between infrastructure investment and economic growth?

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[xxvii]Federation of Canadian Municipalities Annual Conference, Policy Statement on Municipal Finance, June 2000.

[xxviii]David Berman, Op.Cit.

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[xxxii]Howard Chernick and Andrew Reschovsky, Op. Cit., p.11

[xxxiii]Howard Chernick and Andrew Reschovsky, Op.Cit. p. 3

[xxxiv]Association of Consulting Engineers of Canada,“ Ìnfrastructure Works!”, pre-budget submission to the House of Commons, November 1999.

[xxxv]American Public Transportation Association, Funding Sources Table, 1999.

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APPENDICES

APPENDIX 1

Infrastructure Canada Program

The federal government has committed $2.65 billion over six years to projects that support clean air and water, transportation and affordable housing. As an initiative of the FY2000 budget, the Infrastructure Canada program is a new program with a focus on "green infrastructure". Previous infrastructure programs (Canada Works) were in place in 1994 and 1997. The federal budget announcement stresses equal participation by the three orders of government in a "creative and fiscally-responsible, multi-year plan to improve national highways and municipal infrastructure in cities and rural communities across Canada."

To date, agreements on the national infrastructure program have been signed with all ten provinces and the Yukon. Agreements are expected very soon in the Northwest Territories and Nunavut.

Program Objectives

The purpose of Infrastructure Canada is to improve the quality of life in Canadian communities through investments in local government infrastructure. Specifically, investments will:

- Enhance the quality of the environment;
- Support long-term economic growth
- Improve community infrastructure
- Build 21st century infrastructure through encouraging the use of best practices and technologies

Priorities

The first priority of the Program is green municipal infrastructure for projects such as water systems, sewage treatment plants, water metering equipment, or building retrofits to improve energy efficiency. It is estimated that at least 47% of the $2 billion federal investment will be directed to green infrastructure, although targets for each province vary. For example, British Columbia's Agreement calls for a minimum of 75% of program funding for green infrastructure projects. In Ontario, the comparable target is 40%.

The second priority is for investment in community infrastructure such as: cultural and recreational facilities, infrastructure supporting tourism, local transportation, high speed Internet access for local public institutions, rural and remote telecommunications, and affordable housing.

In most provinces, agreements further stipulate a minimum funding target for rural communities.

Funding Levels

Of the $2.65-billion, $0.6 billion has been set aside for provincial highways, allowing $2.1 billion for municipal infrastructure. Funding will be allocated over six years as follows:

- $100 million in fiscal year 2000-2001, after agreements have been reached with the provinces and territories.
- $350 million will be available in 2001-2.
- Improve community infrastructure
- $550 million per year will be spent in the final four years as follows: $400 million for municipal infrastructure in urban and rural communities, and up to $150 million per year (to a total of $600 million) in bi-partite (federal and provincial/territorial) highway infrastructure projects.

Partnership agreements with Provinces will generate the following investments, based on one-third share from each of three orders of government:

British Columbia	$800 million
Alberta	$513 million
Saskatchewan	$170 million
Manitoba	$180 million
Ontario	$2.04 billion
Québec	$1.56 billion
Nova Scotia	$195 million
New Brunswick	$163 million
Prince Edward Island	$38 million
Newfoundland	$153.7 million
Yukon	$5 million

Infrastructure Canada and the FCM Green Municipal Funds

Two programs introduced in June 2000 are complementary to the Infrastructure Canada program:

- **Green Municipal Investment Fund (GMIF):** $100 million revolving fund to provide interest-bearing loans and loan guarantees, for up to 15 % of eligible costs or in excep tional cases, up to 25 %, and to lever private sector financing where value for money is demonstrated.
- **Green Municipal Enabling Fund (GMEF):** $25 million over five years to provide grants to municipal governments, or their project partners, for up to 50% of the eligible costs of feasibility studies.

The two Funds are part of the federal government's $700 million investments in climate change, clean air, and other green technologies. In a landmark agreement, the Government of Canada has entered into an agreement with the Federation of Canadian Municipalities to manage the funds.

It is expected that these programs will improve the environmental efficiency and cost-effectiveness of municipal infrastructure by:

- Improving the energy efficiency of municipal office buildings and water/wastewater treatment centres
- Supporting renewable energy projects
- Increasing the percentage of waste diverted from landfills
- Supporting conversion of transit vehicles to operate on more sustainable fuels

For more information

The Treasury Board of Canada Secretariat has created an Infrastructure Canada website. The site features responses to frequently asked questions and a "Projects" section that will provide detailed information about specific initiatives once they are underway.

APPENDIX 2

The U.S. Administration's FY2000 Budget Highlights For Cities and Suburban Communities

The Administration's FY2000 budget includes a range of initiatives to capitalize on today's favorable conditions for tapping new markets, to anchor the positive trends in central cities, and to help cities, suburbs and metropolitan regions address remaining challenges.

U.S. Department Of Housing And Urban Development

America's Private Investment Companies (APIC). $37 million in credit subsidy to cover the cost of providing Federal guarantees on $1 billion in private loans made through APICs. These loans will leverage an additional $500 million in private equity capital for new private investment companies that invest in large-scale businesses and distressed areas.

Community Empowerment Fund/CEF Trust. Combine $125 million in Economic Development Initiative grants with an estimated $625 million in Section 108 guaranteed private loans to ensure local governments have the public capital they need to support critical business investment and job creation projects in distressed communities, with special priority going to Welfare-to-Work Targeted Job Creation and connecting central cities to areas of regional economic growth. The CEF Trust will receive up to $25 million to pool loans and pave the way for a fully private secondary market for economic development loans to emerge.

Empowerment Zone and Enterprise Community (EZ/EC) Initiative. Provide guaranteed funding for 10 years for a total commitment of $1.6 billion for EZs and ECs, including $50 million for a Regional Empowerment Zone Initiative.

Community Development Block Grants (CDBG). $4.775 billion for this highly flexible tool for assisting cities, towns and States to meet local community development priorities and objectives.

Brownfields Redevelopment. $50 million to redevelop abandoned and underused commercial and industrial sites in partnership with the U.S. Environmental Protection Agency.

Regional Connections. $50 million in FY2000 to fund partnerships to develop and implement locally-driven smarter growth strategies across jurisdictional lines.

Redevelopment of Abandoned Buildings Initiative. $50 million in competitive grants to local governments to remove abandoned buildings and promote new development.

HOME Investment Partnership Program (HOME). $1.6 billion to work through local governments to finance the construction and rehabilitation of multifamily rental housing, provide tenant based assistance, improve housing for current owners, and assist new homebuyers through acquisition, construction and rehabilitation.

Homeownership Zones. $25 million as a set-aside in the CDBG program to fund large scale homeownership projects in targeted areas.

100,000 Vouchers/Section 8 Rental Assistance for Needy Families. $10.6 billion in new budget authority for HUD to renew existing Section 8 assistance contracts covering 2.4 million rental units, and $580 million in increased funding for 100,000 new Section 8 vouchers for extremely-low-income frail elderly (15,000 vouchers), the homeless (18,000 vouchers), welfare-to-work (25,000 vouchers), and housing authorities (42,000 vouchers) to help ease lengthy Section 8 waiting lists throughout the country.

HOPE VI and Public Housing. $625 million for innovative and comprehensive HOPE VI approaches to address the problems of severely distressed public housing. In addition, $3 billion in operating funds and $2.55 billion in capital funds for approximately 3,200 public housing authorities with 1.2 million units under their management.

Continuum-of-Care Homeless Assistance. $1.13 billion to help localities address homelessness through initiatives that help people with a full range of needs, from emergency shelter to preparing for jobs and moving to permanent housing.

Housing for Older Americans. $750 million for programs including the Section 202 elderly housing program, enabling it to expand housing available for unserved elderly by an estimated 5,790 new units.

YouthBuild. $75 million to offer disadvantaged young adults the opportunity for an education and employment skills by rehabilitating and building housing in their communities for low-income and homeless people.

U.S. Department Of The Treasury

New Markets Tax Credit. A new tax credit to help spur $6 billion in private investment for business growth in low- and moderate-income communities.

Community Development Financial Institutions (CDFI) Fund. $125 million, a $30 million increase, for community development banks, credit unions, venture capital funds, microenterprise loan funds and similar institutions which help to finance home mortgages, community facilities, commercial development, small businesses, housing and related development in low-income areas.

BusinessLINC. A new partnership between the Federal Government and America's business community to encourage large businesses to work with small business owners and entrepreneurs, especially in central cities and rural areas.

Low-Income Housing Tax Credit. $1.7 billion over 5 years to increase the cap on the housing tax credits and restore their value to 1986 levels, thus enabling the credit to create an additional 150,000 to 180,000 new rental housing units over the next 5 years.

U.S. Department Of Justice

21st Century Policing Initiative. $1.28 billion initiative to fight crime, put more police on the street, increase the number of community prosecutors, and help State and local enforcement agencies use new crime-fighting technologies.

U.S. Department Of Transportation

Community Transportation Choices. $6.1 billion for public transit, $2.4 billion to implement innovative community-based transportation programs, and $1.8 billion to help communities with congestion and traffic problems meet the requirements of the Clean Air Act.

Job Access and Reverse Commute Program. $150 million to help communities implement new or expanded transportation services to help low-income people get to work.

U.S. Small Business Administration

SBICs Targeted to New Markets and New Markets Venture Capital Firms. Create small business investment companies (SBICs) to provide equity and debt capital to small businesses in low and moderate income areas. NMVCs would target smaller start-ups with capital as well as technical assistance.

Microenterprise Lending and Technical Assistance. $83 million – a 159-percent increase – for a range of programs that provide access to capital, financial services, and training to entrepreneurs who are traditionally bypassed by the mainstream financial sector.

U.S. Environmental Protection Agency

Better America Bonds. $700 million in tax credits over 5 years to support a new financing tool for State and local governments to clean up abandoned industrial sites, preserve green space, create or restore urban parks and protect water quality. The initiative is designed to generate $9.5 billion in bond authority over 5 years and is administered jointly with the Department of the Treasury.

U.S. Department Of The Interior

Lands Legacy Initiative. $1 billion to protect and preserve the natural environment, including full funding for the Land and Water Conservation Fund; open space planning grants to help State, regional, and local governments develop smart growth strategies; land conservation grants to acquire land and easements for open spaces, greenways, outdoor recreation, wildlife habitat, and coastal wetlands; and restoration of urban parks.

APPENDIX 3

TEA-21 - Transportation Equity Act for the 21st Century

Moving Americans into the 21st Century Inventory of Urban Transportation Initiatives

Roads

Surface Transportation Program (STP)

The STP provides flexible funding that may be used by States and localities for projects on any Federal-aid highway, including the NHS, bridge projects on any public road, transit capital projects, and public bus terminals and facilities. A new provision permits a portion of funds reserved for rural areas to be spent on rural minor collectors. The Act expands and clarifies STP eligibilities, such as environmental provisions (natural habitat mitigation, stormwater retrofit, and anti-icing and de-icing), programs to reduce extreme cold starts, modification of sidewalks to meet Americans with Disabilities Act (ADA) requirements, infrastructure-based intelligent transportation systems capital improvements, and privately owned intercity bus terminals and facilities. Funding flexibility features established by ISTEA are retained.

Total funding provided for the STP over the 6 years is $33.3 billion. These funds are to be distributed among the States based on each State's lane-miles of Federal-aid highways, total vehicle-miles traveled on those Federal-aid highways, and estimated contributions to the Highway Account of the HTF. A State may augment its STP funds by transferring funds from other programs. In addition, a portion of the Minimum Guarantee funds are administered as if they were STP funds.

Once the funds are distributed to the States, 10 percent is set aside for safety construction activities (i.e., hazard elimination and railway-highway crossing improvements), and 10 percent is set aside for transportation enhancements, which encompass a broad range of environmentally related activities. State suballocations, including a special rule for areas with less than 5,000 population are continued. The provision requiring States to make available obligation authority to urbanized areas of more than 200,000 population is extended, but in two 3-year increments rather than one 6-year period as in ISTEA. Of amounts reserved for rural areas, up to 15 percent may be spent on rural minor collectors.

Bridge Replacement and Rehabilitation

Continuing as a separate program with its own funding is the Bridge Replacement and Rehabilitation program. A total of $20.4 billion is authorized for this program for FYs 1998-2003 to provide assistance for eligible bridges located on any public road. The distribution formula and program requirements remain basically unchanged from previous years, except for an expansion of eligibility to cover the application of anti-icing and de-icing compositions and the installation of scour countermeasures. The program retains the setaside for off-system bridges, but eliminates the set aside for timber bridges. A total of $525 million is set aside for high-cost bridge projects with special provision to use a portion of these funds for the seismic retrofit of bridges. While a State may continue to transfer up to 50 percent of its bridge funds to NHS or STP apportionments, the amount transferred is deducted from national bridge needs for calculating apportionments in the following fiscal year.

Transit Programs

The basic structure of the Federal transit programs remains essentially the same, but several new programs and activities have been added and new features have been incorporated. The funding flexibility features first incorporated in the ISTEA and similar matching ratios to the highway programs have been retained. The definition of a capital project has been revised to include preventive maintenance, the provision of nonfixed route paratransit service, the leasing of equipment or facilities, safety equipment and facilities, facilities that incorporate community services such as daycare and health care, and transit enhancements.

TEA-21 provides $41 billion over the 6 years for transit programs, with $36 billion of this amount guaranteed. Of the total $41 billion, $29.34 billion is to come from the Mass Transit Account of the Highway Trust Fund while $11.65 billion is authorized from the General Fund. Of the amount from the General Fund, $5 billion is not included in the guaranteed funding level.

Formula Grants

The various Formula Grants programs are authorized at $19.97 billion for FYs 1998-2003. After setasides for the Rural Transportation Accessibility Incentive Program, the Clean Fuels program, and the Alaska Railroad (see "Rail" programs), the remaining funding is apportioned using three statutory formulas for urbanized areas, nonurbanized areas, and special needs of the elderly and persons with disabilities.

Rural transportation accessibility incentive program. This program provides $24.3 million for the 5-year period of FYs 1999-2003 for over-the-road bus service. The purpose of the funding is to help public and private operators finance the incremental capital and training costs of complying with the DOT's final rule on accessibility of over-the-road buses. Funding may be used for intercity fixed-route over-the-road bus service and other over-the-road service such as local fixed route, commuter, charter, and tour service. The Secretary will allocate available funding through a competitive grant selection process.

Clean fuels formula grant program. This new program supports the global warming initiative by providing an opportunity to accelerate the introduction of advanced bus propulsion technologies into the mainstream of the Nation's transit fleets. When the authorization in this formula grants account is combined with the authorization in the Capital Investment Grants account, a total of $1 billion is authorized for the Clean Fuels Formula Grant Program. Eligible projects include the purchasing or leasing of clean fuel buses and facilities, and the improvement of existing facilities to accommodate clean fuel buses. Clean fuel buses include those powered by compressed natural gas, liquefied natural gas, biodiesel fuels, batteries, alcohol-based fuels, hybrid electric, fuel cell, certain clean diesel, and other low or zero emissions technology. Available funds will be allocated among the eligible grant applications using a formula based on an area's nonattainment rating, number of buses, and bus passenger-miles.

Urbanized area formula grant program. Authorizations totaling $18.03 billion for the 6-year period are provided for the Urbanized Area Formula Grant Program (Title 49 U.S.C. Section 5307). Under this program, 91.23 percent of the funding is made available to all urbanized areas with a population of 50,000 or more. For urbanized areas with populations less than 200,000, funding may be used for either capital or operating costs at local option and without limitation. For urbanized areas with populations of 200,000 or more, the definition of "capital" has been revised to include preventive maintenance. Operating assistance for these larger areas is no longer an eligible expense. Also, for these larger areas, at least 1 percent of the funding apportioned to each area must be used for transit enhancement activities such as historic preservation, landscaping, public art, pedestrian access, bicycle access, and enhanced access for persons with disabilities.

Formula grant program for other than urbanized areas. This program receives 6.37 percent ($1.18 billion over 6 years) of the funding available for apportionment in proportion to each State's nonurbanized population. Funding may continue to be used for capital, operating, State administration, and project administration expenses. Formula grant program and loans for special needs of elderly individuals and individuals with disabilities. This program receives 2.4 percent ($456 million over 6 years) of formula funding available and is apportioned based on each State's share of population for these groups of people.

Capital Investment Grants

TEA-21 continues the current program structure of three major programs:

New starts. Total funding of $8.18 billion is authorized for FYs 1998-2003. Not less than 92 percent is to be applied to projects for final design and construction. The Secretary is to evaluate and rate New Starts projects as "highly recommended," "recommended," and "not recommended." In addition to the current report each February by the Secretary on funding recommendations, a supplemental report is now required to be submitted to Congress each August. This report is to describe the Secretary's evaluation and rating of each project that has completed alternatives analyses or preliminary engineering since the last report. In evaluating projects, the Secretary is to consider the following new factors: population density and current transit ridership in the corridor; the technical capability of the grant recipient to construct the project; and factors that reflect differences in local land, construction, and operating costs. A number of projects are identified for funding during the reauthorization period.

Fixed guideway modernization. Authorizations total $6.59 billion for this program over the 6-year period. The allocation of funding under the first four tiers has been modified slightly, but will continue to be apportioned using system-wide mileage based on data used to apportion the funding in FY 1997. Also, the number of tiers has been increased from four to seven. The funding in these three additional tiers will be apportioned based on actual route-miles and revenue vehicle-miles on segments at least 7 years old.

Bus. A total of $3.55 billion is authorized for bus and bus-related facilities over the 6-year period. A takedown of $3 million per year is authorized for the Federal Transit Administration's Bus Testing Facility in Pennsylvania for each of the 6 years of the reauthorization period. A number of bus projects are identified for funding in FYs 1999 and 2000.

Transit Benefits

The Act changes the Internal Revenue Code to help level the playing field between parking benefits and transit/vanpool benefits. The limit on nontaxable transit and vanpool benefits is increased from $65 to $100 per month for taxable years beginning after December 31, 2001. In addition, the bill allows transit and vanpool benefits to be offered in lieu of compensation payable to an employee for taxable years beginning after December 31, 1997, giving transit and vanpool benefits the same tax treatment given to parking benefits under the Taxpayer Relief Act of 1997.

Rail Programs

Magnetic Levitation Transportation Technology Deployment Program (MAGLEV)

Contract authority totaling $60 million is authorized for FYs 1999-2001 to fund nationally significant projects that will demonstrate the feasibility and safety of transportation systems employing magnetic levitation. Of this amount, $15 million will be set aside for discretionary grants for the research and development of low-speed superconductivity MAGLEV technology for public transportation in urban areas. An additional $950 million in budget authority is authorized, but must first be appropriated by Congress. STP and Congestion Mitigation and Air Quality funding may also be used. After soliciting applications for eligible projects from the States, the Secretary will select one or more projects to receive assistance for preconstruction planning activities. Upon completion of preconstruction planning activities for all selected projects, the Secretary will select one project to receive financial assistance for final design, engineering, and construction activities.

High Speed Rail Development

The existing high speed rail development program authorized by the Swift Rail Development Act is reauthorized for FYs 1998-2001 at a total of $40 million for corridor planning and $100 million for technology improvements. These authorizations are out of the General Fund and appropriations will be necessary to fund the program. This program has supported the incremental development of high speed rail in corridors around the country.

Light Density Rail Line Pilot

A new program is created to fund light density rail line pilot projects. It provides funding for capital improvements and rehabilitation of publicly and privately owned rail line structures. The program is authorized at $105 million in total for FYs 1998-2003 and these funds must be appropriated out of the General Fund. The Secretary is required to submit a report by March 31, 2003 on the importance of light density railroad networks in the States and their contribution to a multi-modal transportation system.

Special Programs

Access to jobs. The Act creates a new program for Job Access and Reverse Commute Grants. The program is funded for FYs 1999-2003 with $400 million from the Mass Transit Account. An additional $350 million from the General Fund must be appropriated before it becomes available. The twofold purpose of the program is (1) to develop transportation services designed to transport welfare recipients and low-income individuals to and from jobs, and (2) to develop transportation services for residents of urban centers and rural and suburban areas to suburban employment opportunities. Emphasis is placed on projects that use mass transportation services.

Innovative Finance

TEA-21 builds on the innovative financing initiatives begun under ISTEA to leverage Federal resources by encouraging private participation in the delivery of surface transportation infrastructure. These initiatives are intended to supplement the traditional Federal-aid grant assistance by increasing funding flexibility and program effectiveness. They establish pilot programs to test new finance mechanisms, and they extend or make permanent some of the tools already tested.

Direct Federal credit. The Act establishes a new program, under the Transportation Infrastructure Finance and Innovation Act (TIFIA), through which DOT can provide credit assistance on flexible terms directly to public-private sponsors of major surface transportation projects to assist them in gaining access to the capital markets. TIFIA provides a total of $530 million of contract authority over FYs 1999-2003, and authorizes the Secretary to collect fees from borrowers, to fund up to $10.6 billion of direct loans, loan guarantees, and lines of credit to support up to 33 percent of project costs. Eligible projects include highway and capital transit projects under Titles 23 and 49, international bridges and tunnels, intercity passenger bus and rail projects (including Amtrak and MAGLEV systems), and publicly owned intermodal freight transfer facilities on or adjacent to the NHS. Projects must cost at least $100 million or 50 percent of a State's annual apportionments (except $30 million for ITS projects) and be supported by user charges or other dedicated revenue streams. The Secretary will evaluate and select eligible projects based on a variety of factors, including national significance, creditworthiness, and private participation.

State infrastructure banks. The Act establishes a new pilot program for State infrastructure banks (SIBs) in which four States – California, Florida, Missouri, and Rhode Island – may participate. In a manner similar to the original pilot program established under the NHS Designation Act, the Secretary may enter cooperative agreements with these States allowing them to capitalize their banks with Federal-aid funds authorized and apportioned in FYs 1998-2003. Unlike the initial pilot, however, the new program:

(1) Removes the 10 percent limit on capitalization with eligible program categories.
(2) Does not require separate Highway and Transit accounts, but does require separate accounting for Interstate and Rail projects.
(3) Applies Title 23 Federal requirements to all SIB assistance, including those repayments financed from non-Federal sources.
(4) Institutes a 5-year disbursement constraint for capitalization grants. The 35 other States approved for participation in the original NHS Act pilot may continue in that program under current guidelines.

Federal matching flexibility. Several provisions are included in the Act that provide greater flexibility to States, MPOs, and local governments in satisfying the non-Federal matching requirements of a project. The Act removes a former requirement that Federal match be applied to each progress payment to the State, thereby providing the Secretary with discretion in developing policies to allow the Federal match to be adjusted during the life of the project. The Act establishes an annual program-wide approval process for STP projects– in place of the quarterly project-by-project approval process– which provides the Secretary with discretion to apply the match requirement to the annual program as opposed to individual projects. The Act also provides more flexibility to States and local governments in meeting the non-Federal matching requirement by:

(1) Allowing the fair market value of land lawfully obtained by the State or local government to be applied to the non-Federal share of project costs.
(2) Allowing funds from other Federal agencies to be applied to the non-Federal share of recreational trails or transportation enhancement projects.
(3) Allowing funds appropriated to Federal land manage ment agencies or to the Federal lands highway pro gram to be applied to the non-Federal share of cer tain projects.

Tolls. For the first time, reconstruction or rehabilitation of a free Interstate highway segment and its conversion to a toll highway is allowed for three pilot projects. The purpose is to provide for the reconstruction or rehabilitation of Interstate highway corridors where improvement costs exceed available funding sources, and work cannot be advanced without the collection of tolls

Value Pricing

To promote economic efficiency in the use of highways and support congestion reduction, air quality, energy conservation, and transit productivity goals, the Act provides authorizations totaling $51 million for FYs 1999-2003 for the Value Pricing Pilot program. This program replaces the Congestion Pricing Pilot program authorized by ISTEA, and provides funding to support the costs of implementing value pricing projects included in up to 15 new State and local value pricing programs. Funding to support implementation projects can be provided for no longer than 3 years from the time a project is implemented. Funds are also provided to support pre-implementation costs, including public participation costs, pre-project planning, and others for a maximum of 3 years.

Any value pricing project under this program may involve the use of tolls on the Interstate System. The Act provides that a State may permit vehicles with fewer than two occupants to operate in high occupancy vehicle lanes if such vehicles are operating as part of a value pricing program. Potential financial effects on low-income drivers shall be considered as part of any value pricing program, and mitigation measures to correct potential adverse financial effects on low-income drivers may be included as part of the value pricing program.

APPENDIX 4

European Funds for Investment in Urban Areas

The European Regional Development Fund (ERDF)

ERDF resources are mainly used to co-finance:

- productive investment leading to the creation or maintenance of jobs;
- infrastructure;
- local development initiatives and the business activities of small and medium-sized enterprises.

In practice, all development areas are covered: transport, communication technologies, energy, the environment, research and innovation, social infrastructure, training, urban redevelopment and the conversion of industrial sites, rural development, the fishing industry, tourism and culture.

Between 2000 and 2006, these programmes will support:

- the development of the most disadvantaged regions (Objective 1);
- the conversion of regions facing structural difficulties (Objective 2);
- interregional co-operation (Interreg III);
- the sustainable development of urban areas in crisis (Urban II);
- the development of innovative strategies to support regional competitiveness (innovative actions).

Eligible Objective 1 regions generally are:

- regions whose per capita GDP is less than 75% of the Community average
- Finnish and Swedish regions covered by the former Objective 6 (development of regions with an extremely low population density
- The most remote regions (French overseas departments, the Canary islands, the Azores and Madeira)

Specifically eligible Objective 1 regions in the period 2000-2006 (Commission Decision of 1 July 1999) are as follows :

- Germany: Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhaly and Thuringia
- Greece: East Macedonia, Thrace, Central Macedonia, West Macedonia, Thessaly, Epirus, Ionian Islands, western Greece, continental Greece, Peloponnese, Attica, North Aegean, South Aegean and Crete (in other words, the whole country)
- Spain: Galicia, Principado de Asturias, Castille-Leon, Castille-La Mancha, Extremedura, Valencia, Andalusia, Murcia, Ceuta-Melilla and the Canary Islands
- France: Guadeloupe, Martinique, French Guiana and Reunion
- Italy: Campania, Apulia, Basilicata, Calabria, Sicily and Sardinia
- Ireland: Border Midlands and Western
- Austria: Burgenland
- Portugal: North, Centre, Alentejo, Algarve, Azores and Madeira
- Finland: East Finland, Central Finland (parts of) and North Finland (parts of)
- Sweden: North-Central (parts of), Central Norrland (parts of) and Upper Norrland (parts of)
- United Kingdom: South Yorkshire, West Wales and the Valleys, Cornwall and Isles of Scilly and Merseyside

Objective 2 Areas facing structural difficulties

There are four types of areas concerned: industrial, rural, urban, and areas dependent on fisheries. A total of 18% of the European population is covered by Objective 2. Each type of area must meet a certain number of criteria. The following two are relevant to urban areas:

Industrial areas

Eligible areas must meet the following three conditions:

- an unemployment rate above the Community average;
- a higher percentage of jobs in the industrial sector than the Community average;
- a decline in industrial employment.

Urban areas

Eligible areas must meet one of the following five criteria:

- a long-term unemployment rate above the Community average
- a high level of poverty
- acute environmental problems
- a high crime rate
- a low level of education

Interreg III

This is a Community initiative which aims to stimulate interregional co-operation in the EU between 2000-06. It is financed solely under the European Regional Development Fund (ERDF) In addition, loans from the European Investment Bank may also be available.

This new phase of the Interreg initiative is designed to strengthen economic and social cohesion throughout the EU, by fostering the balanced development of the continent through cross-border, trans-national and interregional co-operation. Special emphasis has been placed on integrating remote regions and those which share external borders with the candidate countries.

In the 2000-06 programming period, Interreg III C will be the mainstay for promoting all forms of co-operation among the regional and local authorities in the Union. Four frameworks for action are available to regional and local authorities and equivalent bodies:

- regional development and economic and social conversion, as foreseen under Objectives 1 and 2;
- crossborder and transnational cooperation as foreseen in Interreg III A and III B;
- urban development;
- topics covered by new innovative actions

Urban II

The new Urban initiative aims to promote the design and implementation of innovative development models for the economic and social regeneration of urban areas in crisis. It is also there to strengthen exchanges of information and experience on sustainable urban development in the European Union.

Eligible areas

Around fifty towns with 10,000 inhabitants or more may be eligible for the Urban initiative.The urban areas included may be inside or outside Objective 1 and 2 areas and must fulfil at least three of the following conditions:

- High long-term unemployment
- Low rate of economic activity
- High level of poverty and exclusion
- The need for structural adjustment due to economic and social difficulties
- High proportion of immigrants, ethnic minorities or refugees
- Low level of education, major gaps in terms of qualifications and a high rate of pupil failure
- High level of criminality and delinquency
- Unstable demographic development
- Particularly poor environmental conditions

Priorities for action

- Renovating buildings in the context of creating employ ment, integrating the local population, respecting the environment and generally improving urban life
- Local employment initiatives leading to jobs linked to the environment, culture and services. Equality between men and women will be particularly targeted.
- Improving education and training systems for those excluded
- Developing more environmentally-friendly public transport systems
- Encouraging the introduction of more efficient energy management systems and the use of renewable energy
- Developing the potential created by information society technologies in the economic, social and environmental sectors
- Each Urban programme must include measures for strengthening information exchanges and sharing experience on the regeneration of urban areas in crisis.

Financing

The Urban budget for 2000-2006 is 700 million euro. The ERDF is the only Structural Fund to finance this initiative. ERDF financial assistance may be granted for up to 75% of the total cost of the Urban programme in Objective 1 regions and up to 50% in other regions. Loans may also be made available by the European Investment Bank.

The Cohesion Fund

The Cohesion Fund is a complementary funding instrument which supports investment in the environment and in transport in the four least prosperous Member States (Spain, Greece, Ireland and Portugal). The Cohesion Fund is a new instrument for support and solidarity; it is intended to contribute to the strengthening of the economic and social cohesion of the European Union, and to help the least prosperous Member States take part in Economic and Monetary Union.

It provides financial support to individual investment projects and can contribute 80-85% of total public expenditure.

Projects must contribute to the improvement of the environment and to the development of transport infrastructure in one of the 4 eligible countries: Spain, Greece, Ireland, and Portugal.

Projects must belong to one of two categories:

1. Environment projects, i.e. projects which help to achieve the objectives of the Community's environmental policy. These objectives are defined in the Maastricht Treaty and in the 5th Environmental Action Programme as :
   - preserving, protecting and improving the quality of the environment
   - protecting human health
   - assuring prudent and rational use of natural resources.
     In accordance with the environment Directives in force, the Fund gives priority to the supply of drinking water, waste water treatment and solid waste disposal. Reforestation, erosion control and nature preservation actions are also eligible.
2. Transport infrastructure projects, i.e. projects to establish or develop transport infrastructure within the Trans-European Transport Network (TEN), or projects providing access to the TEN.

An appropriate balance must be ensured between financing for transport infrastructure projects and environment projects; the Commission has set the target of a 50-50 share-out between the two categories.

Structural Instrument for Pre-accession ISPA

An appropriate balance must be ensured between financing

In the ten candidate countries, ISPA provides direct financing for projects designed to align environmental norms with those in the EU and for projects which aim to extend transport infrastructure and links with the trans-European networks.

ISPA will concentrate on the "investment heavy" directives, i.e. – those that are costly to implement to deal with:

- The worst enviro drinking water supply
- Treatment of waste water
- Solid waste management
- Air pollution

ISPA will be implemented between 2000-2006 with a budget of Euro 7.28 billion and will support project up to 75% of total public expenditure (special allowance for 85% may be demonstrated). Before funds are approved, long-term strategies must be prepared indicating the region's proposals for compliance with EU directives on drinking water, transport policy, urban waste, air pollution, landfill, hazardous waste incineration and others.

Urban Pilot Projects

Following the success of the first phase of Urban Pilot Projects, the European Commission launched a Call for Proposals for new Urban Pilot Projects, resulting in 503 applications from 14 Member States (no applications were received from Luxembourg) by the closing date of 29 April 1996.

This round of Urban Pilot Projects addresses a wide range of urban problems, from traffic congestion and waste management to derelict buildings and economic decline. Projects tend to adopt highly integrated approaches to tackle these problems: the proposed strategies combine hard infrastructure with environmental, social and economic support measures in an attempt to promote sustainable development and promote the citizens' quality of life. Target areas and populations are clearly defined and, overall, there is a strong emphasis on community participation.

The 26 new Urban Pilot Projects were selected following a long and thorough evaluation process which involved both external experts and the Commission's services. Their total planned budget amounts to ECU 163.2 million. ERDF co-finances 40% of this budget. Cities in Objective 1 regions receive an ERDF grant of up to 75% of their total eligible budget. The co-financing level goes up to 50% for cities in Objective 2 regions, and up to 30% for cities with no Objective status.

List of Phase II Urban Pilot Projects and Financial Details

City	Objective Status	Title of Project	Total Eligible Cost (in MECU)	ERDF Subvention (in MECU)	ERDF (%)
Alexandroupolis (GR)	Obj. 1	ALEX - POLINET - International Networking City	3.382316	2.536737	75.00%
Besançon (F)	None	CHORUS - Centre Historique: Opération de Revitalisation Urbaine et Sociale (Urban and Social Revitalisation of the Historic Centre)	14.271850	3.168093	22.20%
Bilbao (E)	Obj. 2	OTXARKOAGA - Social, Economic and Environmental Revival of the Peripheral Neighbourhood of Otxarkoaga	4.962500	2.481250	50.00%
Bordeaux (F)	Obj. 2 (p)	Bordeaux les Deux Rives (The Two Banks of Bordeaux)	13.068031	3.000000	23.00%
Bremerhaven (D)	Obj. 2	Entwicklungspool Dienstleistungszentrum (Multifunctional Service Centre)	4.140000	2.070000	50.00%
Brindisi (I)	Obj. 1	PROTAGONIST - Recovery of Old Town Areas to Generate Employment and New Initiatives in the Social and Tourism Sectors	2.750000	2.062500	75.00%
Bruxelles (B)	None	RECYCLART - Renovation of the "Gare de la Chapelle"	5.950500	1.785150	30.00%
Dortmund (D)	Obj. 2	Umweltinitiative Scharnhorst (Environment Initiative Scharnhorst)	2.835548	1.388115	48.95%
Dublin (IRL)	Obj. 1	Maintaining the Historic Heart of Dublin	2.639672	1.979754	75.00%
Falun, Borlänge (S)	Obj. 2	Ecological Sustainability as a Driving Force in a Medium-Sized Urban Region	3.750000	1.875000	50.00%
Friedrichshain (D)	Obj. 1	Strategien für Friedrichshain (Strategies for Friedrichshain)	4.638769	2.191977	47.25%

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Gran Canaria (E)	Obj. 1	Proyecto Guiniguada - La Estrategia del Parque en la Rehabilitación del Paraiso (Guiniguada Project - The Park's Regeneration Strategy)	7.008086	2.705245	39.00%
Granada (E)	Obj. 1	Economic Regeneration of the Historic Centre of "El Albayzín"	6.051140	2.953897	48.82%
Graz (A)	None	e.l.m.a.s. - ein Leben mit allen Sinnen (Living with One's Senses)	7.148000	2.150000	30.00%
Helsinki (FI)	None	LASIPALATSI Film and Media Centre	9.000000	2.700000	30.00%
Huddersfield (UK)	None	Huddersfield - The Creative Town Initiative	10.299850	2.926780	28.42%
Leicester (UK)	None	Blueprint for Sustainable Development	6.479155	1.939855	29.90%
Leipzig (D)	Obj. 1	Die Weiterentwicklung des Systems der "Behutsamen Stadterneuerung" (System of "Careful Urban Renewal")	3.918831	2.939100	75.00%
León (E)	Obj. 1	BUILDING LEÓN (A Development Project for the Old City)	7.567544	3.000000	39.60%
Milan (I)	None	Servizi e tempo per gli anziani e le famiglie (Services and Time for Elderly People and Families)	3.356883	1.007065	30.00%
Naples (I)	Obj. 1	Rete di Piazze Telematiche per la Città di Napoli (Network of Telematic Squares)	4.007394	2.966750	74.00%
Randers (DK)	None	Underværket (The Wonder)	7.731677	2.246826	29.10%
Turin (I)	Obj. 2	The GATE: Living not Leaving	5.069316	2.530186	49.90%
Utrecht (NL)	None	Utrecht Museum Quarter	12.586084	2.981246	24.00%
Vila do Conde (P)	Obj. 1	Voyage à la Rose des Vents	5.066000	2.999200	59.20%
West Athens (GR)	Obj. 1	SWANS - Sustainable West Athens Novelty Scheme	4.640751	3.016488	65.00%
Total 26 Projects			**162.319897**	**63.601214**	**39.18%**