

# OUR CITIES, OUR FUTURE

Addressing the fiscal imbalance  
in Canada's cities today



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BIG CITY MAYORS' CAUCUS  
JUNE 2006

# FOREWORD

As the members of the Big City Mayors' Caucus (BCMC), we represent 22 of Canada's largest cities. It is in our cities where much of the wealth of our provinces, territories and the country is generated. But our ability to be initiators and incubators of economic growth and prosperity is challenged by growing fiscal constraints that can no longer be ignored by other orders of government.

Over the years, the role of cities has emerged beyond the traditional provider of services to property, to an ever-expanding provider of people services. Yet the growing importance of cities has not been matched with updated financial arrangements that are appropriate to our new role.

This is why the BCMC believes the fiscal imbalance debate must include local government: because the fiscal imbalance that exists today is between all orders of governments—municipal, provincial/territorial and federal.

We believe it is imperative that our perspective be part of the national debate on the fiscal imbalance. In preparing this paper for the Government of Canada, Canada's cities have come together to advocate for fundamental change in the way all governments work together. We are ready to work in partnership with our provincial/territorial governments and the federal government to right the fiscal imbalance and ensure our collective prosperity.

We will share our perspective with the Federation of Canadian Municipalities (FCM) so that it might provide the foundation for a comprehensive and inclusive municipal position.

The BCMC is eager to start the discussion. The future of our cities depends on it.

## MEMBERS OF THE BIG CITY MAYORS' CAUCUS

Vancouver, His Worship Mayor Sam Sullivan

Surrey, Her Worship Mayor Dianne Watts

Calgary, His Worship Mayor David Bronconnier

Edmonton, His Worship Mayor Stephen Mandel

Regina, His Worship Mayor Pat Fiocco

Saskatoon, His Worship Mayor Don Atchison

Winnipeg, His Worship Mayor Sam Katz

Brampton, Her Worship Mayor Susan Fennell

Hamilton, His Worship Mayor Larry Di Ianni

Kitchener, His Worship Mayor Carl Zehr

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Mississauga, Her Worship Mayor Hazel McCallion

Ottawa, His Worship Mayor Bob Chiarelli

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St. John's, His Worship Mayor Andy Wells

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## EXECUTIVE SUMMARY



All Canadians benefit from the economic success of our cities and the accompanying wealth they generate. To a large degree the fiscal strength of provincial/territorial and federal governments can be attributed to the strength of our cities. However, to continue reaping these benefits, our cities will require stable and adequate support from provincial/territorial and federal governments in terms of a more equitable fiscal balance.

The Government of Canada has taken a strong leadership role and initiated discussions with all orders of government—municipal, provincial/territorial and federal—on righting this fiscal imbalance. The views of municipal governments are crucial to the discussion. Municipalities are constrained by the escalating costs of service delivery and infrastructure needs incurred by expanding municipal roles far in excess of traditional responsibilities.

This paper speaks to the fact that cities are without the means to meet these growing spending responsibilities: which is the very definition of a fiscal imbalance. Funding arrangements are outdated—made for a much less urban population—and insufficient for what is now a very urban Canada.

*The fiscal imbalance impacts almost all Canadian provinces and municipalities and is a threat to the proper functioning of the Canadian federation.*

(PRIME MINISTER HARPER,  
MONTREAL, 2006)

## EXECUTIVE SUMMARY

The growth of Canadian cities is skyrocketing, and with growth comes financial pressure to deliver services and necessary infrastructure for an ever-growing population. The primary sources of revenue for cities—property taxes and user fees—do not respond to growth, and do not provide enough revenue. As a result, many cities face significant infrastructure deficits and economic, social and environmental pressures.

This paper presents recommendations to be considered by all orders of government. First, cities must have access to long-term, predictable sources of revenue that grow with the economy. Analysis of growth revenues indicates that the federal government has room to share growth revenues such as personal income tax, corporate income tax, and goods and services tax (GST).

Second, all governments must be included and able to work together to ensure that roles and responsibilities are linked with appropriate resources. There is an overlap in priorities, programs and policies between all governments. Cities are often required to deliver services that reflect the priorities of the provincial/territorial or federal governments without access to corresponding sources of revenue.

Third, to alleviate major pressures from infrastructure spending and meet the transportation objectives of all governments, it is imperative that a national transit program be created. Recent federal initiatives such as gas tax sharing, and the 2006 budget commitment for transit funds, are important first steps. Cities need a permanent arrangement.

Canada's cities are united in the belief that these recommendations will contribute to the success of all governments and the quality of life of all Canadians since the wealth generated in cities brings vast benefits to their regions and to the nation.

This paper offers practical solutions to resolve the fiscal imbalance. It affirms the strong collective voice of municipal governments united to bring stability to the relationship between cities and other orders of government.





## SECTION ONE: INTRODUCTION

*Cities, not countries, are the fundamental elements of a developing economy and have been so from the dawn of civilization.*

(FINANCIAL TIMES,  
MAY 3, LONDON, 2006)

## SECTION ONE: INTRODUCTION

*A fiscal imbalance is said to exist if one order of government does not have the means to meet its spending responsibilities.*

(SLACK, 2006)

In recent months the fiscal imbalance debate has been framed as a discussion between the federal government and the provincial/territorial governments. It is inevitable that the fiscal imbalance that exists between these orders of government cascades down to cities and communities. The clearer picture then, one that reflects Canada more inclusively, would describe the imbalance as existing between all orders of government—municipal, provincial/territorial and federal.

Federal and provincial/territorial priorities play out in the urban environment. Cities are caught on the front line between the citizens of Canada and the cause and effects of federal and provincial/territorial government policies and priorities: what other governments do eventually become municipal issues. This puts pressure on municipal governments and impacts their operating and capital budgets. The consequences filter down economically, socially and environmentally.

The federal and provincial/territorial governments have a significant fiscal advantage over municipalities: their revenues are varied, wide ranging, elastic and grow with the economy. Municipalities have very limited revenue sources. Cities have few options available other than property tax increases or user fees to address their fiscal crunch. Cities' main source of revenue, the property tax, is constrained by its inability to grow with the economy and is shared with provincial/territorial governments. A more equitable distribution of existing tax dollars—those funds that are collected from current revenue sources—is required to meet the needs of all orders of government and therefore the needs of Canadians.

The Government of Canada has demonstrated innovation in governance by inviting all orders of government—municipal, provincial/territorial and federal—to engage in the fiscal imbalance debate. The views of Canadian municipal governments are tangible and substantive. The debate provides an opportunity to examine how funding sources are generated, how they are shared between governments, and how jurisdictional disputes can be overcome to provide Canadians with the greatest investment in their quality of life for the tax dollars they pay.

The value of including municipal governments in the fiscal imbalance debate is supported by the fact that cities are where much of Canada's wealth is generated, where the majority of Canadians reside and where provincial/territorial and federal policies are implemented.

This paper offers practical solutions to resolve the fiscal imbalance that exists for municipalities. It also affirms that municipal governments have found their strong collective voice and have united to develop a plan to bring stability to the relationship between cities and all other orders of government.

**It is time for a true partnership.**



## SECTION TWO: ROLE OF CANADIAN CITIES

*Urban areas are home to 80 per cent of Canadians with two-thirds living in the 27 census metropolitan areas. Urban economies are where people live, where jobs are created and where most goods are consumed.*

(FCM, 2005a)



## SECTION TWO: ROLE OF CANADIAN CITIES

Cities are catalysts for change. They are economic engines that generate wealth and stimulate creativity. They are centres of opportunity that attract people and business from across the nation and around the world. Dynamic economic, social and demographic forces have shaped our cities and accelerated growth dramatically over the last half-century. As cities grow, the roles and responsibilities of their municipal governments have also grown in complexity and importance.

Unlike Canada's other orders of government, municipalities experience the downside of urban growth: increased expenditure pressure without increased funding. As cities grow, new infrastructure demands and quality service expectations force municipalities to make capital and operating expenditures without capturing an equitable share of the tax revenue benefits that accompany such growth: those benefits are retained by the provincial/territorial and federal governments.

### Trends shaping cities

- A post World War II rise in immigration had significant impacts on the growth of cities during the late 1940s early 1950s.
- Changes in the industrial base of the Canadian economy saw a move from an economy heavily geared towards resources, including farming, to one more oriented towards services. As a result, factories chose to locate primarily in urban markets to take advantage of their deep pools of labour and large consumer base.
- With the collapse of prices for agricultural commodities, rural residents migrated to urban centres.
- In the 1980s the service sector, which already accounted for more than two-thirds of total employment, reaffirmed its position with the rapid expansion of the government sector and rising demand for business and consumer services.
- At the beginning of the 1990s globalization and NAFTA ignited a surge in export oriented manufacturing and related services, which in turn gave a particularly strong boost to city economies located near the U.S. border.

## SECTION TWO: ROLE OF CANADIAN CITIES



Municipal, provincial/territorial and federal roles and responsibilities are not static and often intersect. Cities provide Canadians with far more than the basic services they were traditionally responsible for.

*Historically, the purpose of municipal government was to provide local services such as the maintenance of streets, water and sanitation, parks, garbage collection and some social services. The role of the municipality was to provide services that benefit local residents and that could be funded from locally generated revenue.*

(KITCHEN, 2000)

Municipal roles have evolved to include services oriented to people and income redistribution such as immigration and settlement services, affordable housing and homelessness, urban Aboriginals and child care services. Cities have also seen an expansion in their responsibilities to include economic development, emergency preparedness, public security, cultural and recreational facilities, environmental protection and cleanup, alternative fuel and energy technologies, higher standards in clean water and air.

## SECTION TWO: ROLE OF CANADIAN CITIES

Cities are key players in the implementation of all governments' priorities and policies. Cities are direct providers and advocates of such national and regional priorities as transportation, public safety, social services, housing and immigration settlement services to name just a few. Because municipal governments are familiar, visible and accessible to Canadians, their organizational structures allow them to act locally in realizing the objectives of all orders of government.

The priorities of other governments are viewed through an urban lens because 80 per cent of Canadians live in metropolitan areas. In such an urban country the vital role played by municipal governments must be acknowledged. It's time for all orders of government to work in partnership to achieve joint priorities, and to develop and apply complementary policies with far greater success and at far less cost to taxpayers.

*Today's governments are highly interconnected, and separating responsibilities can be next to impossible given the complexity and number of functions that are shared.*

(VANDER PLOEG, 2005)



## SECTION TWO: ROLE OF CANADIAN CITIES

**Transportation**

- Moving people and goods effectively affects the economic and social well-being of cities. Urban transit is a key component of a comprehensive multi-modal transport policy.
- There is a general interest in achieving more sustainable transportation and less dependence on the automobile, with emphasis on the following types of policy goals:
  - fewer and shorter motorized trips;
  - a higher proportion of all vehicular trips by public transportation;
  - substitution of walking and cycling for private auto trips;
  - greater energy-efficiency and reduced emissions of greenhouse gases and other pollutants;
  - more widespread accessibility for the disabled and seniors; and
  - more cost-efficient delivery of transit services.
- All governments agree on the importance of moving goods and services more efficiently across the country, and within regions, for economic development.
- If urban residents do not have access to a good transit system they take to the roads and contribute to the gridlock that impedes the efficient movement of goods and services within and between regions.

*The funding challenge is greater still for large scale components of the transportation system that are not financially self-supporting, such as highways, urban and inter-regional transit, urban roads and border crossings and routes that lead to them. Significant and sustained investments must be made in these vital components of the transportation system if they are to fulfill the economic, social and environmental expectations that Canadians ascribe to them.*

(COUNCIL OF THE FEDERATION, 2005)

**Public safety and security**

- If provincial/territorial and federal governments want to meet their public safety, security and border objectives, cities are a critical partner.
- Public safety and security are broad priorities for the country, yet most public safety and security issues happen in cities.
  - If there is a terrorist threat, it is likely to take place in a city.
  - If there is a pandemic outbreak, it will likely take place in a highly populated area such as a city.
- Border issues are also increasingly urban issues, as borders are evolving to include international airports and city depots where goods are inspected before they are shipped internationally.



## SECTION TWO: ROLE OF CANADIAN CITIES

### Immigration

- Newcomers to Canada tend to endure a long process of settlement and adaptation to their new home and community.
- Cities help provide a welcoming environment through settlement services, support systems and language training.

### Environment

- Achieving clean air and clean water policy objectives are directly linked to cities.
- Municipal decisions about planning, economic development, transportation and sanitation have a profound impact on environmental quality.

While there are opportunities to collaborate and meet joint objectives between all orders of government, the challenge is ensuring that municipal governments have the resources to play their part in addressing provincial/territorial and federal government priorities.

Municipal governments believe it is short sighted to download the implementation of a provincial/territorial or federal policy/program to a municipality without first including them in the consultation process, and without ensuring that necessary resources are available. Without such consultation and resource support, the ability to deliver the desired outcome is compromised. This reality exists today in every city because of this non-inclusive approach. It is not sustainable and causes repercussions that translate into quality of life issues for Canadians. Areas of responsibility and funding need to be addressed in the context of the fiscal imbalance debate.



## SECTION TWO: ROLE OF CANADIAN CITIES

As the following table illustrates, the roles and responsibilities of all orders of government overlap. All governments are active in urban areas. The fiscal imbalance discussions provide an opportunity for all governments to work together to ensure that quality services are provided to Canadians efficiently and without duplication.

## CURRENT ROLES AND RESPONSIBILITIES IN CANADA

	Federal	Provincial	Municipal
Municipal streets and roads			✓
Water and wastewater			✓
Waste and recycling services			✓
Parks and recreation			✓
Emergency medical services			✓
Fire protection			✓
Public transit			✓
Municipal planning			✓
Public libraries			✓
Emergency preparedness	✓	✓	✓
Arts and culture facilities/events	✓	✓	✓
Economic development	✓	✓	✓
Hydro services		✓	✓
Municipal licensing (animal, building, business)			✓
Parking			✓
Bylaw Enforcement		✓	✓

(BCMC, 2006)

## SECTION TWO: ROLE OF CANADIAN CITIES

### CURRENT ROLES AND RESPONSIBILITIES IN CANADA

	Federal	Provincial	Municipal **
Money and banking	✓		
International and interprovincial/territorial trade	✓		
Airlines and railways	✓		
Telecommunications and broadcasting	✓		
Foreign affairs and international assistance	✓		
Defence and veterans affairs	✓		
Border security	✓		✓
Employment insurance	✓		
Criminal law	✓		
Fiscal equalization	✓		
Indirect taxation	✓	✓	
Direct taxation	✓	✓	✓
Pensions and income support * (in some jurisdictions, municipalities provide income support)	✓	✓	✓*
Aboriginal peoples	✓	✓	✓
Immigration	✓	✓	✓
Public Health	✓	✓	✓
Industry	✓	✓	✓
Environment	✓	✓	✓
Policing	✓	✓	✓
Transportation infrastructure	✓	✓	✓
Housing	✓	✓	✓
Post-secondary education, training and research	✓	✓	
Agriculture	✓	✓	
Primary and secondary education		✓	
Health care * (in some jurisdictions, municipalities provide dental care/home care/nursing support)		✓	✓*
Municipal institutions		✓	✓
Social assistance and social services		✓	✓
Administration of justice		✓	✓
Natural resources		✓	



## SECTION THREE: ECONOMICS OF CITIES

*High quality infrastructure has a pervasive and long-lasting impact on the economy—it is critical in encouraging private sector investment, for improving Canada's ability to attract foreign investment and boosting international trade.*

(CANADIAN CHAMBER OF  
COMMERCE, 2006)



## SECTION THREE: ECONOMICS OF CITIES

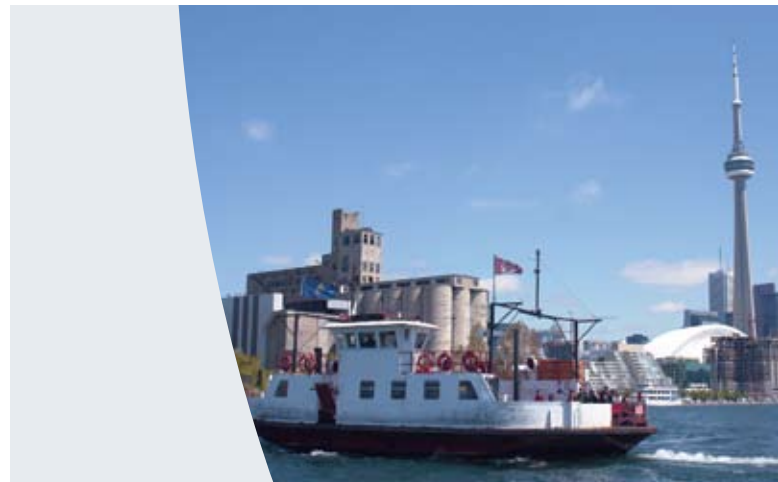
Business is attracted to urban centres because of the critical investments cities make in infrastructure and quality of life features. Cities disproportionately house substantial assets including a highly skilled workforce, research institutes, universities and teaching hospitals.

*Canada's quality of life and economic competitiveness depend in part on having reliable, efficient infrastructure that is provided in large part by the municipal, provincial/territorial and federal governments.*

(GOVERNMENT OF CANADA, 2006a)

Investing in infrastructure contributes to the national economy by supporting the needs of businesses, contributing to the movement of goods and services and creating jobs. Additionally capital investment has a direct effect on the competitiveness of Canadian businesses. For example, a \$1 increase in the net capital stock generates about \$0.17 of cost-saving producer benefits for the business sector.

(STATISTICS CANADA #11F0027 #017)



## SECTION THREE: ECONOMICS OF CITIES

## CASE STUDY:

**Cities: provide transit infrastructure**

Transit provision is a \$3.2 billion business, Canadian Urban Transit Association (CUTA), excluding capital expenditure, economic spin-offs, the economic benefits of congestion reduction, worker mobility and improved health and safety.

Transit provision has broad implications for the economy: from supply and operations, to research and development. Employment in transit-related jobs is valued at \$2.1 billion across the nation.

Transit and transportation investments are essential to the very success of Canadian businesses. Moving goods and services within cities, between regions and across the country is integral to the quality of life for all citizens.

Congestion in Toronto, Montreal, Ottawa and the Greater Vancouver Region increases the price of goods and services by \$300 million per year.

*Considering that municipalities own 50% of public infrastructure assets and that municipal roads and highways represent 90% of the national road and highway network, it is essential that all orders of government work together now to address these challenges.*

(TD BANK, 2004)

## CASE STUDY:

**Cities: provide recreation infrastructure**

Cities are often forced to under-invest in recreation facilities and infrastructure, given their limited finances and the high costs associated with their traditional responsibilities for roads, water and wastewater infrastructure. Canadians have come to expect and demand amenities such as parks, green spaces, libraries, arenas and playing fields. Such amenities add to the appeal of an urban centre and attract new businesses and skilled workers.

While cities struggle to provide even basic recreation services and infrastructure, there is growing evidence that recreation is integral to the social development of children and youth. The Canadian Parks and Recreation Association (2004) notes that participation in quality recreation opportunities enables children to:

- develop skills and competencies
- be exposed to program leaders and positive role models
- achieve better emotional and physical health
- improve self esteem, academic performance peer and family relationships
- acquire pro-social values and develop life skills such as leadership, decision-making and problem solving
- form healthy habits that transform to their adult lives
- participate and take part in their community; and
- have fun, learn new skills and be with friends.

## SECTION THREE: ECONOMICS OF CITIES

### CITIES: MAGNETS FOR COMMERCE AND INDUSTRY

#### Employment hubs

Larger urban centres generate new employment wealth in excess of what is traditionally expected given their population base. Average annual rates of employment growth are also considerably higher in larger cities than elsewhere. Employment growth in cities tends to be more stable in terms of year-to-year fluctuations.

*[Between 2001 and 2004], more than 70% of all new jobs in Canada were created within ten large metropolitan areas: Halifax, Montreal, Ottawa/Gatineau, Toronto, Hamilton, Winnipeg, Saskatoon, Calgary, Edmonton and Vancouver. Three cities alone accounted for nearly half of all employment growth in the country: Vancouver, Toronto and Montreal.*

(FCM, 2005a)

Cities also offer a young, diverse and well-educated work force. The skills gap between individuals in urban and rural areas has widened in recent decades and continues to increase. Currently, 55% of individuals in Census Metropolitan Areas (CMAs) have a university degree or post secondary diploma, compared with 44% in non-CMA regions.

(K & L CONSULTING, 2003 AND CITY OF CALGARY, 2006)

Job opportunities in cities continue to attract young workers. City labour forces are more heavily weighted in the 25-44 year age-group than labour forces in the rest of Canada.

#### Attracting immigration

Cities are the overwhelming destination of choice for immigrants. Newcomers tend to migrate where solid economic opportunities and built-in ethnic community ties pre-exist. On average, the largest urban centres in each province, receive two-thirds of all immigrants to that province.

The large influx of workers in the 25-44 year age group include both skilled immigrants and Canadian workers migrating from other provinces and rural areas to economically vibrant urban centres. In 2004, 60% of all immigrants came to Canada with a trade certificate, non-university diploma, bachelor's degree, master's degree or doctorate.

(K & L CONSULTING, 2003 AND CITY OF CALGARY, 2006)

Canadian cities are competing with international cities for capital and skilled labour. To remain competitive they must provide many of the quality of place features and services that make a city globally competitive such as efficient transportation systems, serviced lands, public safety, potable water, recreation facilities and a culturally diverse and socially tolerant environment.

The fiscal imbalance discussion will influence the continued international competitiveness of Canada's cities.

*In 1996, the Calgary economy generated 24% of all new jobs in Canada, even though the city contained less than 3% of the population.*

(K & L CONSULTING, 2003)

## SECTION THREE: ECONOMICS OF CITIES

## CITIES: CLUSTERS OF INNOVATION AND ECONOMIC INITIATIVES

**Competitive economies**

Cities recognize the importance of economic development strategies to the success of their local economy. Many have developed initiatives, partnerships and programs to support local businesses, develop economic clusters and attract new investment. While these are not traditional roles for cities, the value in making these investments is substantial to local, provincial/territorial and national economies.

A city's prosperity is linked to its competitiveness, which in turn, depends on productivity. Competitiveness arises in clusters—geographic concentrations of interconnected companies and institutions in a particular field that both cooperate and compete. (PORTER, 1997)

The Government of Canada has acknowledged that clusters accelerate the pace of innovation, attract investment, stimulate job creation and generate wealth (2003). The wealth generated by clusters is shared between all governments through tax revenues.

Municipal governments are best equipped to promote cluster development and innovation within their jurisdictions. Their infrastructure, services and quality of place features are important considerations for many businesses to locate in cities. The result of municipal investment and engagement is a strong entrepreneurial base of networked and interdependent firms.

While clusters are fostered in cities, their success is contingent on the cooperation and partnership among all governments. There are many examples in big cities where this type of collaboration is taking place.

The following example from the Montreal Metropolitan Community (CMM) is demonstrative of the innovation and partnership that is taking place in cities across Canada:

The Montreal Metropolitan Community has identified 15 clusters and categorized them into four categories:

- competitive clusters (aerospace, life sciences, information technologies, and textiles and clothing)
- visibility clusters (culture, tourism, cinema and services)
- emerging technology clusters (nanotechnologies, advanced materials, and environmental technologies)
- manufacturing clusters (energy, bio-food, petrochemicals and plastics, metallurgy and paper and wood products)

These clusters accounted for 1.3 million or 79% of the jobs in the region in 2001.

The CMM, the Government of Quebec, the Government of Canada and the private sector are investing a total of \$6 million per year to finance the creation of industrial cluster initiatives as well as value-added projects to make these clusters and the metropolitan region more competitive internationally. (OECD 2004 & CMM 2005)

All cities represented in the Big City Mayors' Caucus host a diversity of clusters and industrial sectors. Many are working with their federal and provincial/territorial partners to ensure their economies are successful and to foster innovation. The fiscal imbalance discussion is central to the ongoing success of these clusters. The municipal role in cluster development has the potential to be enhanced by the sharing of revenues that grow with the economy, investments in transit and transportation and by increased partnership and dialogue between all orders of government.



## SECTION THREE: ECONOMICS OF CITIES

### CITIES: THE BUCKS START HERE

The efforts of cities to attract investment and skilled workers have paid off in terms of generating wealth to support the national economy of Canada. In 2003 the 27 CMAs accounted for two-thirds of Canada's Gross Domestic Product (GDP). Big cities also account for large shares of their provincial/territorial GDPs. For example:

- Halifax accounts for 47% of Nova Scotia's GDP
- Montreal region accounts for 51.5% of Quebec's GDP
- Winnipeg accounts for 65.5% of Manitoba's GDP
- Vancouver accounts for 57% of British Columbia's GDP (FCM, 2005a)
- Edmonton and Calgary combined account for 64.5% of Alberta's GDP (CONFERENCE BOARD OF CANADA, 2006)
- St. John's accounts for 47% of Newfoundland and Labrador's GDP (GOVERNMENT OF NEWFOUNDLAND AND LABRADOR AND CITY OF ST. JOHN'S, 2005); and
- The Toronto Census Metropolitan Area (in which the BCMA cities of Toronto, Brampton and Mississauga are included) accounts for 49.2% of Ontario's GDP. (STATISTICS CANADA, 2005)

Cities are the centres where wealth is created for the nation at-large. However, the majority of tax dollars generated in cities flow directly from cities to the provincial/territorial and federal governments.

Cities need a larger proportion of the wealth they generate to be reinvested back into their operational and capital budgets so they can continue to attract investment, which in turn, will continue to generate wealth for the entire nation.

### Wealth generated in cities

The following examples demonstrate the significant wealth generated in Canada's largest cities and how that wealth is shared with other orders of government given the current fiscal arrangements:

- In 2004, the federal government collected \$20.5 billion from Toronto residents, businesses and organizations, while spending \$13.9 billion. Federal revenue exceeded spending by 47 per cent, or \$6.6 billion. In fact, federal revenues have exceeded expenditures in the City every year since 1981. (TORONTO BOARD OF TRADE, 2006)
- In 2002, the latest year for which data are available, the citizens of Calgary sent \$4.6 billion more in taxes and other payments to Ottawa than they received in various benefits from the federal government. (K & L SPATIAL ECONOMICS, 2005)
- The City of London estimated that citizens in 2005, citizens in London sent approximately \$400 million more in taxes to the federal government than they received back in benefits.
- In 2001, citizens in Winnipeg paid \$7.0 billion in taxes to all three orders of government. Of this amount the federal government received 50.3%, the province of Manitoba received 42.7% and the City of Winnipeg received 6.8%.
- Between 1999-2002, the citizens of Calgary, Edmonton, Toronto, London, Montreal and Halifax together sent \$51 billion more in taxes and other payments to Ottawa than they received in benefits from the federal government. In 2002 alone, these six cities sent \$11.8 billion more in taxes to Ottawa than received.

## SECTION THREE: ECONOMICS OF CITIES

HOSTING: WEIGHING  
THE COST AND RETURN

When cities weigh the risks and advantages of pursuing wealth-generating opportunities, such as high profile sporting events, the associated costs of hosting such events may be too high.

Cities often consider making bids to hold major cultural or sporting events that have the potential to generate millions of dollars for the local economy, but the revenue generated is often realized in the form of goods and services taxes imposed on the sale of items to event delegates. Those taxes go to provincial/territorial and federal governments. Local governments pay for the services and infrastructure that support such events, yet receive little or no revenue in return for their investment.

The Globe and Mail captured Vancouver Mayor Sam Sullivan's frustration in this regard on April 26, 2006, when it stated:

*...the Mayor said he doesn't think it is right that Vancouver will not derive any revenue from the 10,000 delegate strong World Urban Forum conference being held here this summer. All the taxes collected on goods and services purchased by delegates goes to the province and Ottawa.*

If municipal governments received a fair share of tax-generated revenue, sales taxes as one example, the incentive to attract such events would increase: cities would be motivated to strategize and facilitate events that would provide more revenue for all orders of governments and enhance the quality of life for citizens.

## CASE STUDY

**Canadian sport tourism alliance**

Economic Impact Assessment of hosting IIHF Junior Hockey Championship in Kamloops, Kelowna & Vancouver Dec 26-Jan 5, 2006:

- events generated approximately \$41 million in economic activity in British Columbia
- these totals resulted from \$22.8 million in combined operations, capital and visitor spending
- the event contributed over \$21.7 million to the province's GDP
- \$8.1 million was paid in salaries and wages, supporting 275 jobs
- total tax revenue generated was \$4.6 million
  - \$2.0 million went to the federal government
  - \$2.0 million went to the provincial/territorial government
  - \$564,000 to municipal governments

## SECTION THREE: ECONOMICS OF CITIES

### CITIES: CREATING A DESIRED QUALITY OF LIFE

Municipal governments are aware of the value of quality of place features in attracting the talent and investment needed for their cities to grow and prosper. Unfortunately, given their restricted revenue sources and the high costs associated with some of the more traditional municipal government responsibilities, local investment in important quality of place features is often times minimal or non-existent. This is detrimental to the overall economic success of a city.

Canadians value their access to affordable housing, social services, education, health care, entertainment and culture, and the natural environment. All cities strive to meet these expectations and create communities of choice.

According to a 2003 KPMG study of corporations in the United States, quality of life indicators were important key business environment factors. It was also important that a city had low crime, good access to health facilities, access to affordable housing and educational facilities.

*City governments provide services, and have an important role to play in attracting and retaining business. The provision of local services affects the quality of life, and influences where workers choose to live and where business will locate. The quality of the education system, cultural and recreation facilities, safety, transportation and the range of housing choices are also important factors.*

(KITCHEN, 2003)



## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE

*Accountability and clarity  
of roles and responsibilities  
require that each order of  
government have access to the  
revenue required to fulfill its  
roles and responsibilities.*

(GOVERNMENT OF CANADA, 2006b)

## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE

Provincial/territorial and federal government revenues are dependent on the success of city economies. Yet cities are faced with governance models and fiscal tools that are outdated for many of the urban issues that they are confronted with. It is in the best interest of all orders of government to safeguard municipally-generated revenues and to facilitate increasing those revenues to ensure they continue to meet all government objectives and meet the expectations of the public for service delivery.

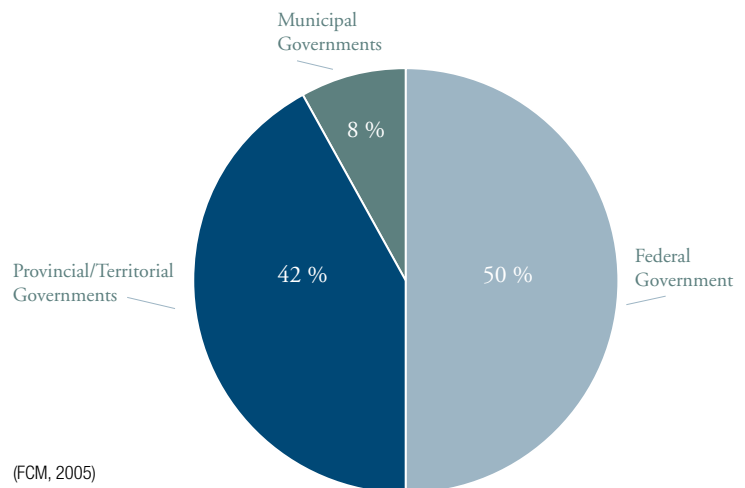
As a city grows in size, increased demands are placed on both the operating and capital sides of the municipal budget. Provincial/territorial legislation requires municipal governments to have balanced operating budgets and prohibits them from borrowing money and assuming debt for operating expenditures. They can, however, borrow for capital projects, but the principal and interest to pay down these debts must come from subsequent operating budgets.

Since municipal governments must, by law, balance their operating budgets and do not have access to growth taxes, the only avenues open to them are to increase property taxes and user fees, leverage limited other own-source revenues, or by default and without recourse, allow the deterioration of municipal services and infrastructure.

But municipal governments are in a double bind. Not only do they receive a disproportionately small share of all taxes paid by Canadians, the growth of the municipal slice of the tax pie barely keeps up with inflation while the provincial/territorial and federal taxes grow much more quickly. If municipalities are to be sustainable, they must have access to revenue that responds to growth-related pressures.

- Provincial/territorial and federal governments have enjoyed an average 25 per cent increase in their revenues from 1996 to 2001.
- Municipalities have experienced only an average 14 per cent increase in revenues during that period. (FCM, 2005)

The arrangement for funding municipalities is antiquated for the urban reality that is now Canada. With most Canadians now living in urban centres this funding arrangement must be modernized. As well, the limited funding sources available to municipalities must change.



Municipal governments receive less than 10 per cent of existing tax revenues.



## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE



*The Canadian constitution considers municipalities to be creatures of the provinces/territories. As such, municipal governing structures are created by provincial/territorial statutes, and their powers, expenditure responsibilities, and access to revenue sources are all ultimately out of their control.*

(TD ECONOMICS, 2002 AND KITCHEN, 2004)

### CITIES: SHARING THE WEALTH

The constraining fiscal environment in which cities currently operate raises serious concerns about whether cities can continue to provide the services that people want at a reasonable tax rate. A city's power to raise and spend revenue is limited to what is granted to them in provincial/territorial legislation. Cities rely primarily on property taxes, user fees and intergovernmental grants to finance service provisions. Canadian cities are highly and almost singularly dependent upon property taxes. In fact, property tax accounts for 92.7% of all local tax revenues collected by cities.

(T.D. ECONOMICS, 2004)

*Capital expenditures are related to long-term improvements in the city such as expanding public transit, building and improving roadways, constructing and upgrading public facilities including parks, and acquisition of new lands.*

(VAN PLOEG, 2002b)

## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE

In contrast to the limited revenues available to Canadian municipalities, the provincial/territorial and federal governments have access to multiple revenue sources. This diversity of revenue sources, combined with the revenue-generating potential of these sources, give these other orders of government a significant fiscal advantage.

Government of Canada revenues	Provincial Government revenues	Municipal revenues
<ul style="list-style-type: none"> <li>- income tax</li> <li>- sales tax (GST)</li> <li>- Employment Insurance (EI)</li> <li>- Canada Pension Plan (CPP) contributions</li> <li>- corporate taxes</li> <li>- duty and excise taxes</li> <li>- liquor</li> <li>- other</li> </ul>	<ul style="list-style-type: none"> <li>- provincial income tax</li> <li>- Sales tax</li> <li>- property tax</li> <li>- corporate tax</li> <li>- gasoline and tobacco tax</li> <li>- gambling revenues</li> <li>- resource royalties</li> <li>- federal transfers</li> <li>- liquor</li> <li>- other</li> </ul>	<ul style="list-style-type: none"> <li>- property tax</li> <li>- business tax</li> <li>- user fees</li> <li>- intergovernmental grants</li> </ul>

### The disadvantage of property tax revenue reliance

There are many reasons why property tax revenues are inherently flawed as a source of funding for cities' growing needs.

First, the property tax is based on assessed property values that have a weak relation to ability to pay. Consequently, it is a poor match for funding in the area of income redistribution services, such as social services and housing.

Second, the property tax is an inelastic source of revenue since the tax base does not increase automatically as the economy grows. Since the tax base links directly to only one aspect of the economy—real estate sometimes increases at less than the rate of overall economic growth.

Third, the high commercial portion of property tax decreases the competitiveness of cities in attracting businesses. Some economists also point out that property tax is a tax on capital.

Fourth, raising property tax rates above those of adjacent areas can lead to “suburban flight”, thus reducing a city's tax base and leading to urban sprawl problems.

Fifth, property taxes are not correlated to income, therefore the ability to extract revenue from property tax owners is constrained.

Finally, there is significant public resistance to property tax increases because the property tax is highly visible. Increases in property taxes therefore have politically acceptable limits, even if a portion of the increase is accounted for by inflation.

## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE



Not only are cities at a disadvantage when it comes to comparing their few revenue tools with those available to other Canadian governments, but the disadvantage hinders their ability to compete with other cities internationally. Cities in the United States and Europe have access to other revenue sources such as income, sales and selective sales taxes. In the U.S. 16 states permit municipal governments to collect local income taxes. (SLACK, 2005) Couple the access to these revenue sources with federal programs such as TEA-21 that provide U.S. cities with access to over \$100 billion for transportation infrastructure, and Canadian municipalities quickly lose any competitive advantage. (FCM, 2005)

If Canadian cities want to succeed in attracting business and investment and provincial/territorial and federal governments want to benefit from the subsequent wealth generated, Canadian cities need similar access to revenues that grow with the economy and transportation infrastructure programs that their U.S. and European competitors enjoy.

The following table further illustrates the revenue sources that other cities world-wide have access to. While municipalities in a few countries like Australia and the United Kingdom are completely dependent on property taxes, the majority of other cities internationally have access to a diversity of revenue sources.

*The fiscal stresses facing big cities point more in the direction of a revenue problem than a spending problem.*

(VANDER PLOEG, 2004)

## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE

### DISTRIBUTION OF LOCAL TAX REVENUES BY TYPE OF TAX – 2002

Countries	Income	Property	Sales				Other taxes
			General taxes	Specific goods and services	Taxes on use etc.	Total sales	
FEDERAL							
Australia	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Austria	56.0	10.0	23.6	3.8	1.7	29.1	4.9
Belgium	86.4	0.0	1.6	7.4	4.3	13.3	0.3
Canada	0.0	91.5	0.2	0.0	1.8	2.0	6.5
Germany	75.8	17.7	5.4	0.5	0.5	6.4	0.3
Mexico	0.1	89.5	0.0	1.9	0.5	2.4	7.9
Switzerland	83.2	16.6	0.0	0.2	0.1	0.3	0.0
United States	5.2	72.6	11.4	5.0	5.8	22.2	0.0
UNITARY							
France	0.0	53.2	0.0	7.5	3.4	10.9	35.9
Italy	21.6	13.6	2.5	12.9	7.6	23.0	41.8
Japan	44.6	33.0	7.3	8.3	5.7	21.3	1.0
Korea	12.4	51.9	0.0	14.3	5.8	20.1	15.6
Norway	88.0	9.4	0.0	0.0	2.5	2.5	0.0
Sweden	100.0	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	0.0	100.0	0.0	0.0	0.0	0.0	0.0

(SLACK, 2005)

Competing cities on the global stage have multiple fiscal tools with which to grow wealth.

#### Types of taxes

- Income taxes include individual and corporate income taxes.
- Property taxes include taxes on property including recurring taxes on net wealth.
- General sales taxes includes VAT, sales tax and other general goods and services taxes.
- Specific taxes includes special taxes on goods and services that are not taxed under a general sales tax, such as fuel and hotel taxes.
- Taxes on use includes taxes levied on the use of goods or permission to use goods and not the goods themselves, such as pollution taxes.
- Other taxes includes taxes on net wealth, taxes at death, and residual taxes, mainly on business.

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### CITIES: COPING WITH THE CONSEQUENCES—BUT BARELY

Over the last few decades, expenditure pressures on cities have increased significantly with little change in their revenue sources. This can be attributed to a number of significant events such as spending cuts and off-loading by the other two orders of government, urban growth, and increasing social pressures.

#### Off-loading

At the same time that provincial/territorial and federal governments were decreasing spending, they off-loaded the responsibility for a number of services to municipalities in many areas. The key responsibilities downloaded from the federal government included municipal airports, local ports and harbours, social housing, public safety and emergency preparedness, transit, and immigration settlement. These new responsibilities placed a great deal of pressure on municipalities to “be all things to all people.” (VAN PLOEG, 2005)

Unfortunately, these new responsibilities were not accompanied by increased access to funding or greater flexibility in program and service delivery. (TD ECONOMICS, 2002)

Cities were left to fill the void with expanded responsibilities. The Canadian public had high expectations; they demanded the same level and delivery of services.

*The federal and provincial/territorial governments’ efforts to balance their budgets are often achieved at the expense of municipalities.*

(VAN PLOEG, 2002b)

#### Unfunded mandates

Provincial/territorial and federal requirements have mandated that cities must meet certain requirements (for example, water quality standards) often without providing the funds to meet those requirements (these are known as “unfunded mandates”). In all of these cases of off-loading, pressure has been placed on municipalities to increase expenditures and revenues. (SLACK, 2006)



## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE

### Urban growth

Urban growth often results in higher costs due to a city's expanding footprint which increases pressure on municipal services and infrastructure in a number of ways.

First, growth leads to an increase in demand for municipal services. Second, expanding populations stress existing infrastructure systems. Third, the rapid growth creates pressure for new infrastructure. (VAN PLOEG, 2005)

Cities also act as hubs for regional services and infrastructure in terms of transportation networks, cultural services and recreational facilities to name only a few. However, cities are unable to capture revenues from visitors using urban-based regional services or infrastructure. The increasing burden placed upon existing city services and infrastructure by surrounding regions unfairly translates to a skewed arrangement whereby local taxpayers cover the costs for upgrades and retrofits to facilities, rather than all users—urban or regional—contributing to the costs.

These events, combined with a fiscal environment of cut-backs and off-loading, have left cities with an aging and deteriorating infrastructure system as well as a no-option revenue squeeze.

### Social pressures

Since cities are the closest order of government to Canadians, they have come under intense pressures to deal with emerging social, environmental, economic and cultural pressures. Municipalities have little choice when it comes to such pressing social issues as homelessness, immigration, and settlement services, drug abuse and crime. When other orders of government fail to provide adequate funding or supports to assist municipalities with these social obligations, cities are left with both the social and economic consequences. An example of this relates to the federal Employment Insurance program. When the EI program fails to meet the needs of some Canadians, in jurisdictions where municipalities provide income support, the flawed federal program directly impacts municipal budgets.

These powerful forces further exacerbate the expansion of municipal government responsibilities. It is imperative that the response comes from all orders of government—municipal, provincial/territorial and federal—working together and investing as one to meet the major challenges facing our cities.

## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE

Municipal governments are clearly feeling budgetary pressures on both the expenditure and revenue side, placing serious limitations on the ability of municipal governments to meet the needs of their citizens. In the last two decades, cities have had to delay investments in both hard and soft infrastructure (e.g. transportation, roads, water, sewers, recreational facilities, community services, etc.) due to a lack of resources.

### Hard infrastructure needs

Municipalities have been under-investing in infrastructure because of fiscal constraints. A number of cities have attempted to measure the magnitude of this infrastructure gap or deficit:

- The City of Calgary currently has a shortfall, or infrastructure gap, of \$5.4 billion over the next ten years.
- The City of Toronto has a combined operating and capital annual funding shortfall of \$1.1 billion and this situation will worsen unless The City of Toronto is able to generate significant growth from its revenue base or from new revenue sources. (CONFERENCE BOARD OF CANADA, 2005)
- The City of Edmonton's 2006-2015 Long Range Financial Plan (LRFP) estimates \$8.6 billion is needed over 10 years to accommodate growth and rehabilitation. The funded portion of the LRFP is close to \$4.8 billion, the unfunded portion, or 'the infrastructure gap,' is approximately \$3.8 billion. This persistent capital-funding shortfall means that the City has been deferring maintenance on existing infrastructure assets and delaying the construction of new assets.
- The City of London's 10 year capital plan indicates a funding shortfall of \$181 million, without including water or sewer needs.

### Transit needs

With respect to national transit infrastructure, CUTA estimates that in the next five years (2006-10) \$20.7 billion needs to be invested to renew and expand transit services. They also estimate that of the 56% of required expansion, only one third can be funded with existing funds.

*The Metropolitan Montreal Community net long-term debt will reach \$14.9 billion by the year 2020 if its fiscal situation does not change. Additional pressures from operating deficits will reach \$1.1 billion. The region also estimates it will need \$11 billion to renew and expand transit services during that period.*

(CONFERENCE BOARD OF CANADA, 2004)

### Social infrastructure needs

Cities experienced significant cuts to the social assistance systems in the mid 1990s. The reduction of income supports is universally seen as one of the main reasons for high poverty rates and the growing income gap. (ARUNDEL, ET AL, 2003)

Poverty, in turn, is one of the contributors to the rising rates of homelessness in our cities. While municipalities are committed to addressing homelessness within their mandates, resources and ability, there are no quick solutions. It is a complex issue requiring shared involvement from all orders of government, as well as the private and non-profit sectors.

Canada's system of national transfer payments and progressive taxation plays an important role in reducing inequities. Over recent years, provincial/territorial and federal funding cuts to social policies and programs have had a significant negative impact in areas such as income supports,

## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE

affordable housing, employment, education, and recreation. For example, The City of London estimated in 2003 that it had an \$80 million provincial/territorial municipal fiscal gap in relation to the delivery of social services programs. (CITY OF LONDON, 2005)

### Environmental challenges

As communities experience growth, they face the challenge of doing so in a way that protects the natural environment while ensuring that the prosperity and quality of life enjoyed today is available to future generations. (FCM, 2005b)

Cities respond by expanding investment in areas like solid waste management, public transit and wastewater treatment, and by implementing policy measures to encourage individual and household behaviour regarding housing choice, commuting patterns, waste disposal and resource consumption. These measures place considerable financial pressure on cities.

Balancing environmental health and economic growth is one of the central challenges facing cities, requiring a coordinated response by all orders of government. (FCM, 2005b)

## SOCIAL CONSIDERATIONS

### Poverty

- The income gap between the richest and poorest Canadians is growing. In 2000, the richest 10 per cent of urban Canadian families had after-tax incomes 5.5 times that of the poorest 10 per cent.
- As a result, many individuals and families are facing stagnant or declining incomes and rapidly increasing costs of living—pushing them further to the margins of society and potential homelessness. (FCM, 2005b)

### Affordable housing and homelessness

- In 2001 one in four Canadians spent more than 30% of their income on housing needs.
- Nearly 40 per cent of renters experienced affordability problems in CMAs and just under 20 per cent spent more than half their income on rent. (FCM, 2005b)
- Housing costs in cities are increasing. (FCM, 2005b)
- Homelessness is a serious and increasing issue in Canadian cities. For example, Calgary's biannual count of homeless people has increased from 615 in 1996 to 2,600 in 2004.

## SECTION FOUR: ADDRESSING THE MUNICIPAL FISCAL IMBALANCE

### Immigrant settlement

- Immigration will account for 75 per cent of Canada's net population growth by 2011 and 100 per cent by 2025. (FCM 2005)
- Urban areas are home to 90 per cent of all immigrants. (STATISTICS CANADA, 2001)
- Labour market barriers such as lack of skills recognition, language, etc., result in significant unemployment and underemployment among immigrants. Many are living in poverty. (FCM, 2005b)
- Cities provide practical and much-needed services to immigrants on a day-to-day basis in the areas of public health, affordable housing, community and recreation services. (FCM, 2005b)

### Addressing the needs of urban Aboriginal peoples

- More than half of all Aboriginal peoples live off reserve. (FCM, 2005b)
- Barriers to employment, culturally specific social programs and services such as education, housing and childcare impede the success of Aboriginal people in urban centres. (FCM, 2005b)

### Parks, recreation, and arts and culture

- Due to fiscal constraint municipalities are under-investing in parks, recreation, and arts and culture programming.
- Ongoing investments are needed in green spaces, playing fields, community centres and libraries, to improve quality of life.

### Crime prevention

- Many cities today are facing increasing knife, gun, and gang violence.
- The violence is occurring in marginalized communities where individuals have not had access to adequate employment opportunities, housing choices, childcare or social services.
- Major investments are needed in social infrastructure and youth engagement initiatives as tools for crime prevention, in addition to increased policing resources.

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### Environmental needs

#### Water

- Canadians are heavy consumers of water. Where it takes about 80 litres of water per day per person to sustain a minimum quality of life, an average Canadian household uses 343 litres of water per person per day.
- Maintaining water quality requires protection of the source and a reduction in use.
- Jurisdictional responsibility for water is complex and often shared.

#### Air

- Air quality is a major concern for large urban centres.
- Ground-level ozone, a major component of urban smog, is one of the more serious air quality problems.
- Fossil fuels are the primary source of greenhouse-gas emissions. Gridlock and a reliance on automotive transportation are significant contributors to poor air quality and increased greenhouse gas emissions.

#### Brownfields

- Brownfields represent an important economic loss to municipalities. If a site is sufficiently contaminated, the clean-up cost may be greater than the owner may be able to pay. The owner also faces the risk of being held liable for remediation of the site under current environmental regulations. This results in lost property tax revenues for municipalities and, in some cases, loss of potential economic activity due to the perceived blight of some sites.
- Brownfields redevelopment presents many advantages over development of greenfields, because most are already connected to existing infrastructure. This reduces infrastructure costs and discourages urban sprawl. Redeveloping abandoned sites can also revitalize neighbourhoods.
- Municipalities face challenges with *joint and several* liability when they redevelop a brownfield site.



## SECTION FIVE: RECOMMENDATIONS

*This new government will take a new approach. It is committed to building a better federation in which governments come together to help Canadians realize their potential. To this end, the Government will respond to concerns about the fiscal imbalance and will work to ensure fiscal arrangements in which all governments have access to the resources they need to meet their responsibilities.*

(GOVERNMENT OF CANADA, 2006a)



## SECTION FIVE: RECOMMENDATIONS

Addressing the fiscal imbalance in cities requires the involvement of all orders of government. There is no single action that any one government can take on its own to rebalance the municipal, provincial/territorial and federal fiscal relationship. Further, given the diversity of cities, no single solution will work for all cities. Therefore, solutions must be developed collaboratively, taking into consideration the unique circumstances many cities face, and applied practically for the greatest benefit.

Cities need to diversify their revenue sources beyond property taxes and user fees. With more revenue sources at their disposal, cities will have the fiscal capacity to maintain their infrastructure and provide the municipal services for which they are responsible. For those areas of shared responsibility, cities need appropriate financial resources to accompany these joint mandates. Cities also need the ability to contribute to the policy decisions of other governments where there is a municipal impact.

The following recommendations are presented for consideration by all governments—municipal, provincial/territorial and federal—so they may enter into discussions to resolve the fiscal imbalance.

### RECOMMENDATIONS

1. **Share revenues that grow with the economy.**
2. **Re-align roles and responsibilities with appropriate financial resources.**
3. **Establish a national transit program.**

### 1. SHARE REVENUES THAT GROW WITH THE ECONOMY

To address the challenge of financing the delivery of urban services that respond to our Canadian lifestyle, cities require access to revenues that grow with the economy. Federal and provincial/territorial governments have access to several revenue sources that grow with the economy, such as personal and corporate income taxes and sales taxes, which are stable and predictable.

Cities need a permanent share of growth-responsive taxes. All governments need to discuss which revenue sources, or combination of sources, could best be shared with cities. Given the stability and growth rates of certain taxes, as well as their relationship to the economic performance of cities and the national economy, some taxes could provide a solid revenue base which, when shared with cities, would have a beneficial impact for all governments.

Cities clearly need access to sources of revenue that grow with the economy. The fiscal imbalance discussions provide the venue for all governments in partnership to determine the appropriate mechanisms to achieve this objective.

The following table shows the growth potential of three specific federal revenue sources as a reflection of their ability to provide that solid base which would allow revenue sharing with cities.

SECTION FIVE: RECOMMENDATIONS

SUMMARY OF FORECAST RESULTS

Forecasted growth in Government of Canada’s revenues (1997\$)

This table projects the growth potential of three key revenue sources, over the next twenty years:

	2006 Adjusted Levels, (Billions 1997\$)	Average Annual Growth Rate (1996-2005)	Forecasted Annual Growth Rate (2006-2025)	Forecasted Growth Rate Next 20 years
Personal Income Tax	\$ 103	3.9%	3.1%	77%
Corporate Income Tax	\$ 28	8.3%	2.9%	67%
Goods and Services Tax	\$ 30	3.9%	2.6%	61%

(CITY OF EDMONTON, 2006)

Personal income tax

- Personal income tax revenues have by far the largest tax base of \$103 billion and the strongest projected growth rate of all three at 77%.

Goods and Services Tax (GST)

- GST has a very large revenue base of \$30 billion and a projected growth rate of 61%.

Corporate income tax

- Corporate income tax has a very large revenue base of \$28 billion and a projected growth rate of 67%.

Based on the growth potential of these sources, the following table illustrates, as an example, the potential for sharing these revenues with cities.

Potential revenue sharing with cities

	1 Per Cent of Total Shared with Cities	5 Per Cent of Total Shared with Cities
Personal Income Tax	\$ 1.4 billion	\$ 7.1 billion
Corporate Income Tax	\$ 373 million	\$1.9 billion
Goods and Services Tax	\$ 393 million	\$2.0 billion

(CITY OF EDMONTON, 2006)

*A Conference Board of Canada study commissioned by the Council of the Federation forecasts that federal fiscal surpluses have the potential to increase from \$10.2 billion in 2005-2006, to \$23.7 billion in 2024-25*

(COUNCIL OF THE FEDERATION, 2006).

## SECTION FIVE: RECOMMENDATIONS

The benefits of sharing growth revenues with cities on a permanent basis are multiple and far reaching:

- Cities would have a permanent, stable, predictable source of revenue that grows with the economy to allow them to invest in infrastructure.
- Access to additional revenue sources would allow Canadian cities to keep pace with their competitors in the U.S. and Europe that have access to multiple revenue sources.
- Increased investments in city services, infrastructure and quality of place features would help attract and retain investment in cities, which would increase wealth generated in cities and shared with all governments.

It is essential to the future and ongoing success of cities that they have a share of those elastic revenues that grow with the economy. Discussion of this essential opportunity is possible in the context of fiscal imbalance. While revenues can be shared with cities in various ways, municipal, provincial/territorial and federal governments need to work together to identify the long-term best options for all governments.

**Revenue sharing among governments must be based on principles to ensure the goals of such a fiscal arrangement are being met. For cities, there are three fundamental principles which must frame the fiscal imbalance discussion:**

Adequate: The shared revenues should be sufficient to meet expenditure needs and changing fiscal circumstances.

Reliable and responsive to growth: The revenue source should grow sufficiently to cover the rising costs of services without risk of interruption.

Strategic: Programs should meet key priorities to advance governments' common objectives.

Cities acknowledge that other governments will also have principles that they will bring to the discussions. Indeed, the federal government recently identified five:

- accountability through clarity of roles and responsibilities;
- fiscal responsibility and budget transparency;
- predictable, long-term fiscal arrangements;
- a competitive and efficient economic union; and
- effective collaborative management of the federation.

(GOVERNMENT OF CANADA, 2006b)

## SECTION FIVE: RECOMMENDATIONS

2. RE-ALIGN ROLES  
AND RESPONSIBILITIES  
WITH APPROPRIATE  
FINANCIAL RESOURCES

Given that there are several areas where policy and programs from all governments overlap, there is the need to work together to re-align roles and responsibilities with the appropriate financial resources.

Identifying clear roles, responsibilities and resources is essential to ensure that the services all governments provide to Canadians are delivered with quality and efficiency. Working together will ensure that the expertise of each government meaningfully informs policy and program development and implementation.

*To ensure that Canadians get value for their governments' investments in infrastructure, social services, policing—there is a need to ensure greater accountability and transparency in relation to those investments, including a need for clarity in respective roles and responsibilities of all governments, as well as active collaboration and coordination of their investments.*

(GOVERNMENT OF CANADA, 2006b)

In the context of the fiscal imbalance discussions, all governments must identify areas of policy and program overlap and begin coordinating efforts. For cities it is imperative that they are treated with respect and consulted in all areas of program and policy development that have the potential to affect them. Additionally any discussions must include consideration for funding joint mandates.

3. ESTABLISH A NATIONAL  
TRANSIT PROGRAM

To meet the expectations and needs of Canadians and businesses with respect to mobility, a national transit program needs to be a priority for all orders of government. Congestion in cities affects the economy through losses in productivity and higher transportation costs. It harms the health of Canadians by increasing air pollution and diminishes their quality of life since gridlock means that people lose precious time with their families.

The creation of a national transit program is essential to the economic success of this country. The Government of Canada has already taken positive steps to make significant investment in transit infrastructure, such as recent transit funding announcements and sharing of gas tax revenues. These first steps are a sound beginning to creating a permanent national transit program.

Canada is the only G-8 country without a national transportation program. This is affecting its global competitiveness. A separate transit-specific program is required to provide permanent long term funding for large-scale transit infrastructure projects such as rapid transit.

*Canadians share a vision of their transportation system. They want it to be a foundation for economic growth and provide a high quality of life for all Canadians—and they want it to sustain a healthy environment.*

(COUNCIL OF THE FEDERATION, 2005)

## SECTION FIVE: RECOMMENDATIONS

It has been estimated that in the next few years \$23 billion needs to be invested in transit infrastructure to meet growing pressures. The magnitude of this need calls for a national transit infrastructure program. This is necessary since while most cities can cover approximately 80% of their rehabilitation and replacement costs, many can only cover 3% of expansion and growth related costs.

*It is understandable that many cities struggle with expansion of their transit systems when the cost of building one kilometer of subway track is approximately \$160 million.*

(MRC, 2002)

It is often difficult for cities to justify investing in major transit projects that are not financially self-supporting. The only way to meet the demand for transit investments is by accessing funds made available through a national program.

While the need for transit infrastructure is critical for cities, the operating and maintenance costs also need to be taken into consideration. New infrastructure often results in additional employees to operate and maintain the transit. CUTA estimated in 2001 that if all required transit investments were made annual operating costs would increase by 40% to approximately \$4.11 billion. Cities would not be able to pay for the full cost of this increase. (MRC, 2002)

Inherent in the consideration of a national transit strategy is the role of a commuter and intercity rail passenger programs. Investing in rail can be a cost-effective solution to increase the safe movement of large numbers of people while relieving automobile congestion and gridlock. Within urbanized regions, conventional and high-speed rail can be viable additions to city, intercity, and regional integrated transportation systems.







## SECTION SIX: MOVING FORWARD

*The argument that 'provinces that run deficits have only to cut services or raise taxes' ignores the negative impact on the country's economic health, on the adequacy and accessibility of public services, and on national cohesion.*

(COUNCIL OF THE  
FEDERATION, 2006)



## SECTION SIX: MOVING FORWARD

The cities of Canada are engines of economic growth and centres of innovation, education and cultural diversity. They are gateways through which Canada competes on the global stage. Municipal governments are optimistic and planning for continued success. They play a major role in generating Canada's wealth and their collective experiences are crucial to informing a substantive discussion on righting the fiscal imbalance that exists between all orders of government—municipal, provincial/territorial and federal.

Canada's cities have evolved. They are diverse, complex and vital; they are growing at unprecedented rates. But their prosperity does not come unencumbered. With it comes a unique set of challenges arising from disproportionately positive circumstances. High growth municipalities need investment in new infrastructure, services and amenities to attract businesses, industry and the highly skilled workers needed to help fuel economic success and remain globally competitive. In reality, many cities are under-investing in much needed infrastructure and cutting back on services to meet ever-increasing financial pressures in both operating and capital budgets.

The funding arrangements imposed by the provincial/territorial and federal governments are outdated and insufficient to meet the skyrocketing costs related to infrastructure and service delivery. Cities are constrained by the limited funding options open to them. It is an untenable situation that if left unresolved, will diminish the quality of life for the majority of Canadians. Together, Canada's cities are advocating for change.

The required change is for the modernization of intergovernmental relationships so they better reflect the fiscal realities of the 21st century. These relationships need to evolve to give cities more legislative autonomy and adequate resources to meet their responsibilities and attract investment and growth.

Progress is being made. Discussions are ongoing in many provinces/territories to update legislation to enhance municipal powers and to adjust for the expanding role of cities. The Government of Canada's invitation to cities to participate in the fiscal imbalance debate further indicates that these relationships are starting to evolve. These inclusive discussions provide an opportunity to build on the current and ongoing initiatives of provincial/territorial and municipal governments to include the critical element of sharing fiscal resources.

All governments working in partnership and sharing the existing pool of tax dollars in a more equitable manner is the only way the fiscal imbalance in cities can be remedied and the overall economy can grow stronger.

The cities of the third millennium are economic powerhouses with capable leadership. Strong governance of local jurisdictions has created stability, competitiveness and prosperity for provincial/territorial and federal governments. That cities have prospered given the multiple constraints under which they operate, further legitimizes their role in the national discussion.

Canada's cities have united to bring stability to their relationship with all other orders of government. They are ready to work in partnership to create respectful, made-in-Canada solutions that move the nation forward. Cities are prepared to find local solutions whenever possible, and to participate in establishing long-term solutions that work in concert with provincial/territorial and federal governments for the benefit of all Canadians.

## SECTION SEVEN: REFERENCES



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