A CHOICE BETWEEN INVESTING IN CANADA'S CITIES OR DISINVESTING IN CANADA'S FUTURE

TD Economics

Special Report

April 22, 2002

TD Bank Financial Group

A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future: Executive Summary

In a series of speeches in 2001 and early 2002, A. Charles Baillie, TD Bank Financial Group Chairman and CEO, put forward an ambitious goal for Canadians – to surpass the U.S. standard of living within 15 years. Mr. Baillie noted that the fortunes of our cities will be critical in meeting this challenge. While acknowledging that Canada's cities are held in high regard around the world, he noted that many are showing signs of strain. To contribute to a national discussion on this issue, Mr. Baillie asked TD Economics to undertake a study of Canadian cities.

Canada as Urban Country

Two-thirds of Canada's population, employment and real output are located in 27 Census Metropolitan Areas (CMAs) – very large urban areas possessing a minimum of 100,000 inhabitants. Although the rate of *urbanization* has remained fairly steady over the past half century, it is being overtaken by *suburbanization*, as individuals and businesses flee deteriorating conditions in downtown cores for the lower costs and relative serenity of the suburbs. This has spawned problems – from urban sprawl to shrinking municipal coffers – that threaten the vitality of our cities.

How do We Compare Internationally?

Any city that aspires to greatness must be internationally competitive. But, great world cities have always been more than just economic powers. They have also been centres for the arts, creativity and innovation – a reminder that quality of life and living standards are tightly linked.

Canada's cities have much to offer, including a highly skilled and diverse work force, geographical proximity to the large U.S. market, and a competitive cost base. However, beneath the surface, there are worrisome signs. Much of the cost advantage stems from the falling value of the Canadian dollar. Canadian cities lagged behind U.S. cities in employment growth in the 1990s. And, on a purchasing power parity basis, real per capita disposable income in Canada is a mere 70 per cent of the U.S. level.

Long on Urban Challenges, Short on Funds

Given the multiplicity of challenges facing Canadian cities today, a new way of thinking is required – one that puts the affairs of cities front and centre on Canada's economic and policy radar screens. In many cities, the infrastructure is eroding. Social housing, water systems, sewers, roads and public transit systems all require re-investment, but cash-strapped municipalities are in no position to deliver. Between 1995 and 2001, local government revenues edged up by only 14 per cent – a fraction of the gains of 38 per cent and 30 per cent reaped at the federal and provincial levels. This has left cities singularly ill-equipped to cope with the responsibilities being downloaded to them.

Municipalities' power to raise and spend revenue is limited to what is granted to them in provincial legislation. This has engendered a heavy reliance on property taxes, which are inherently flawed as an instrument for funding cities' long-term needs. Based as they are on assessable property values, property taxes are only weakly related to ability to pay – which constrains governments' ability to raise tax rates to boost revenue. There is also no guarantee that property values will rise in tandem with the cost of cities' programs and services. And, commercial property taxes impede competitiveness.

In recent years, U.S. and European governments have launched a drive to revitalize their major cities, which Canadians have watched with interest. The stellar performance of the U.S. economy throughout the 1990s was a key factor in boosting local government revenues there. But, U.S. cities and European cities have had more help from senior levels of government, they have benefited from access to a wide variety of financing options not available to Canadian municipalities, and they have done a better job of enlisting private sector support. Valuable lessons for Canada – but, caution is warranted, especially with respect to some of the financing tools that have become popular in U.S. municipalities, many of which amount to little more than "beggar thy neighbour" subsidies.

Municipalities Need to Fix Some Things Themselves

Canadian municipalities can make strides within existing mandates. Property tax systems could be more closely aligned with the costs of delivering services. In many cities, there is over-taxation of commercial properties relative to residential properties, downtown properties relative to suburban properties, and rental housing relative to owner-occupied housing. Correcting these distortions could attract new business into downtown areas and curb urban sprawl, making the provision of public transit more economical and encouraging the construction of low-cost housing. Better use could be made of user fees, bringing them closer in line the marginal cost of service provision; waste management, water and urban private transport are candidates for this. Cities also need more flexible labour contracts, to facilitate the contracting out of services to the private sector, when stringent cost and standards tests are met.

In some cases, cities lack the authority to reform property taxes or to apply user fees and development charges in ways they see fit. Provincial governments should loosen the shackles, and change legislation and regulations that impede municipalities from leveraging private sector capital and expertise. Public-private partnerships – a key tool for this – are often operated via Crown corporations, yet cities face constraints in creating these entities.

Municipalities Need Access to New Sources of Funds

Municipal reforms will not negate the need for Canadian cities to gain access to new funding sources. These sources must meet the criteria of reliability, accountability, transparency, administrative simplicity, efficiency and equity. Federal and provincial grants could play a valuable role in helping cities close the infrastructure gap that rapid downloading has opened up. But, even fixed, multi-year grants are not appropriate for financing cities' ongoing needs, because they leave municipal governments at the mercy of shifting federal and provincial priorities. They also fail the accountability test, in that funds are raised by one level of government, but spent by another.

What cities really need is access to an ongoing revenue source. Transferring a portion of federal-provincial revenues is one option, but it doesn't resolve the accountability problem – and it is not necessarily more reliable than a grant, since federal and provincial governments can alter the arrangement at will. The best alternative – one that satisfies the imperatives of reliability and accountability – is for municipalities to piggy-back off existing federal or provincial taxes. A final option is to give municipalities the power to design and administer their own tax, but while this gets high marks for accountability and reliability, it would be expensive and cumbersome to operate.

As important as the decision about the degree of autonomy to grant Canadian cities in their revenue-raising efforts is the decision about the type of tax they should employ. In the United States and Europe, some cities levy their own personal income tax. But, personal capital income is difficult to tax locally, and huge inequities are created when personal and corporate income tax systems are not integrated. Capturing corporate income at the local level is even more difficult, and risks driving firms to shift income, and likely their businesses, elsewhere. Consequently, an income tax – whether personal or corporate, or some combination thereof – is not a good choice.

An excise or sales tax would be superior on the grounds of efficiency – although, a potential difficulty with a sales tax is that municipalities might piggy-back off provincial sales tax regimes, many of which tax inputs heavily. The problem with this is that businesses generally pass input taxes on to consumers by marking up prices at each stage of the production process. The tax effect on prices becomes magnified for consumers and gets embedded in export prices, hurting our competitiveness.

Risks of a Higher Tax Burden Must be Mitigated

Any option to provide cities with greater funding runs the risk of raising the already-high total tax burden on Canadians. Some advocates argue that grants or revenue transfers are the best guard against this, but this is far from clear. If one level of government (say, the municipality) increases its spending, other levels of government will have to cut spending, increase taxes or accept a deterioration in their budget balances. A better solution is for federal and provincial governments to commit to reducing taxes to create room for municipalities – in effect, providing a tax point transfer. And, there is a compelling logic to this. Federal and provincial governments have downloaded programs and services to municipalities, so they would be doing less with less, while the latter would be doing more with more.

The Private Sector Needs to be More Involved

Governments can encourage increased private sector involvement in municipal initiatives by creating opportunities for businesses to earn commercial rates of return on projects – for example, through public-private partnerships. But, the private sector's responsibility should go beyond providing investment capital where there is a profit to be made. The bottom line is that we are *all* stakeholders in our nation's future – consumers and businesses alike. Our cities are a vital part of that future, and we must work together to ensure their health and prosperity. *Without robust and vibrant cities, we will not achieve the goal of beating the U.S. standard of living within 15 years.*

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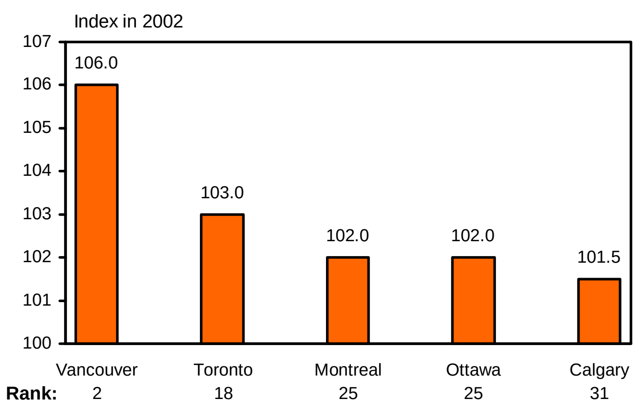
A CHOICE BETWEEN INVESTING IN CANADA'S CITIES OR DISINVESTING IN CANADA'S FUTURE

In February 2001, TD Bank Financial Group CEO and Chairman Charles Baillie put forward an ambitious goal for Canadians. In a speech to the Canadian Club, he suggested that Canada should aspire to *surpass* the U.S. standard of living within 15 years by actively pursuing a number of key strategies – including further reducing the national debt, achieving a more competitive tax system, and increasing investment in research and development and education and training. Mr. Baillie expanded upon these ideas in two follow-up speeches. In December 2001, he addressed the opportunities for Canada in a global context, stressing the benefits of free trade and the need for the business sector to develop the attitude that it can compete on an international scale. And, in March 2002, TD's Chairman elaborated on the integral role of the private sector in meeting this national objective. These speeches dealt primarily with the policies of the federal and provincial governments and the responsibilities of the nation's corporations, but in his March address, Mr. Baillie also highlighted the critical importance of cities in the national equation.

Until recently, the role of Canada's cities was often overlooked in discussions of nation-wide challenges. However, it is becoming overwhelmingly apparent that the long-term performance of the Canadian economy and Canadian living standards will hinge on the fortunes of our cities. Urban communities account for roughly four-fifths of Canada's population and economic activity – a staggering share that is likely to rise even further down the road. Home to the bulk of skilled workers, post-secondary institutions, and investment capital, cities will continue to lead Canada's charge into the new economy. Moreover, freer trade means that Canada's cities will need to move beyond merely building strong relationships with each other at the regional and national level – increasingly, they must be prepared to deal with other countries. In effect, Canada's urban areas are transforming themselves into *city-region states*.

Around the globe, Canada's cities are held in high regard. Year after year, international surveys such as the

WORLD-WIDE QUALITY OF LIFE SURVEY*



* Cities are ranked against New York as the base city, which scores 100
Survey covering 215 cities around the world
Source: William M. Mercer, TD Economics

Contents

CITIES REIGN SUPREME

- Vancouver accounts for 53 per cent of B.C.GDP
- Calgary and Edmonton combined account for 64 per cent of Alberta GDP
- Winnipeg accounts for 64 per cent of Manitoba GDP
- Toronto accounts for 44 per cent of Ontario GDP
- Montreal accounts for 50 per cent of Quebec GDP
- Halifax accounts for 48 per cent of Nova Scotia GDP

Source: Conference Board of Canada, Statistics Canada

annual quality of life survey released by William M. Mercer, the consulting firm, rank Canada's urban centres high up on the leaderboard of the world's best places to live, offering solid job prospects, a clean environment, fairly low poverty rates, and a high level of services[1]. But, while all might appear well on the surface, the picture underneath is not so bright. Just as governments in the United States and Europe have been taking measures to revitalize their cities, Canadian cities are beginning to show severe signs of strain after decades of rapid economic and population growth[2]. In many cities, water systems, sewers, and public transportation all require massive new investment, but cash-strapped municipalities – who have been asked to take over a growing number of responsibilities from the federal and provincial governments in recent years – are in no position to deliver. If Canadians want to maintain their present quality of life, let alone surpass the U.S. standard of living, they cannot afford to ignore these troubling developments any longer.

PART I

CANADA AS URBAN COUNTRY

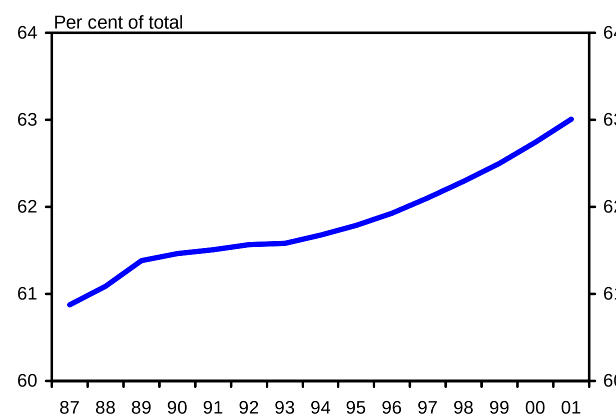
While an estimated 79 per cent of Canadians live in "urban" areas that comprise at least 10,000 people, the vast majority reside in large cities referred to as census metropolitan areas (CMAs). Statistics Canada defines a CMA as a very large urban area that possesses a minimum of 100,000 inhabitants, along with adjacent regions that have a high degree of "social and economic integration with the urban core." Canada's 27 CMAs now make up roughly two-thirds of the nation's total population, employment and real output. Even more eye-opening is the heavy concentration of the total metropolitan population in a few major cities. In 2001, the seven largest CMAs – Toronto, Montreal, Vancouver, Ottawa-Hull, Calgary, Edmonton and Winnipeg – accounted for about 45 per cent of the Canadian total.

For the most part, the rate of *urbanization* has remained fairly steady in Canada over the past half century. In the early 1900s, Canada's population – which then stood at about 6 million people – lived mainly on farms and in villages. But, by the early 1960s, roughly 48 per cent of the total population resided in large metropolitan areas, a share that would rise to about 56 per cent by 1971. And, although the CMA population share stagnated in the 1970s – at about 55 per cent – the uphill trend resumed in full force in the 1980s and 1990s, bringing the share in 2001 to 63 per cent.

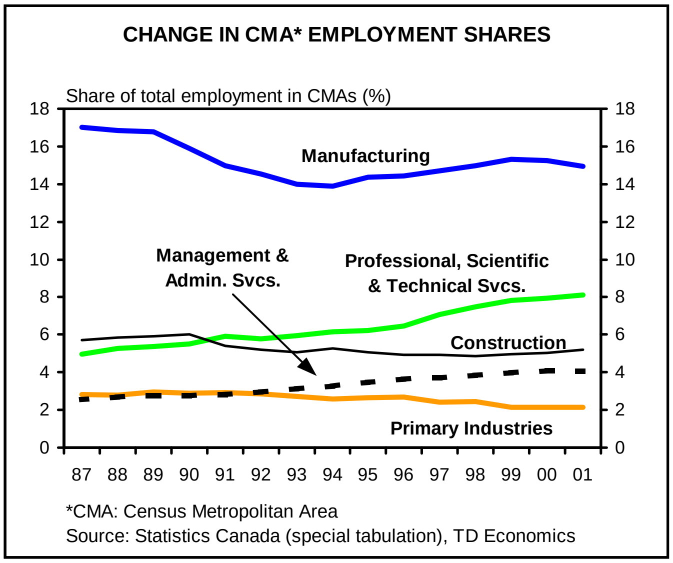
Urbanization goes hand-in-hand with a shift in Canada's economic base[3]

The increasing clout of the cities over the past half century has occurred in lockstep with a change in the industrial base of the Canadian economy – from one heavily geared towards resources, including farming, to one oriented towards services. The industrial age, which took root in the 19th century and which was characterized by an emphasis on mass production, continued into the second half of the 20th century. Factories chose to locate prima-

CMA* SHARE OF CANADIAN POPULATION



* Census Metropolitan Area
Source: Statistics Canada, TD Economics



rily in urban markets, to take advantage of the deep pools of labour and the large consumer base situated there.

The impact of the energy shock temporarily arrested the long-term trend towards greater urbanization in the 1970s. During this period, sky-high prices for energy and non-energy commodities drove investment in the direction of rural communities, spurring job creation in the primary industries. At the same time, many businesses, facing rising input prices and mounting competitive pressures associated with the onset of globalization, opted to re-locate to lower-cost outlying regions.

The end of the early-1980s recession marked a resumption of the flow of people and jobs back to the cities. And, although factory employment certainly rebounded impressively during the subsequent 1980s expansion, the service sector – which already accounted for more than two-thirds of total urban employment – re-affirmed its position as the major urban job machine during the decade. Service-sector employment creation in the 1980s was fueled by the rapid expansion of the government sector, as well as by rising demand for business and consumer services.

Free trade powered urbanization in the 1990s

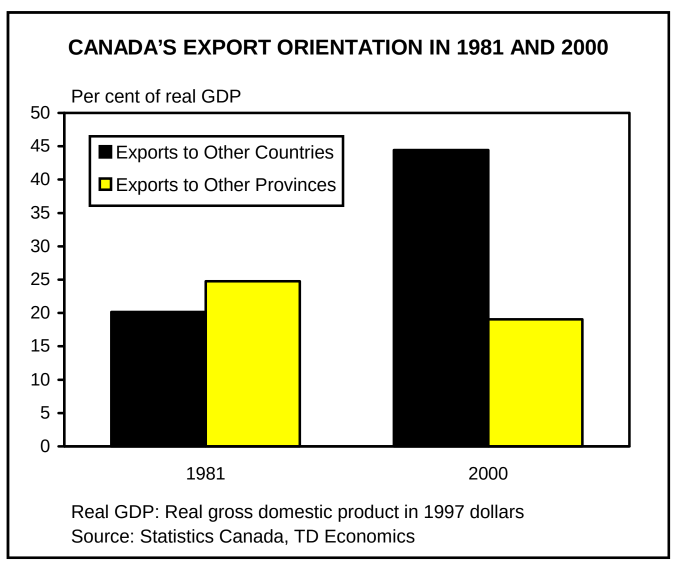
The shape of cities has continued to change dramatically since the beginning of the 1990s, as globalization accelerated and the "new economy" rolled into the spotlight. The adoption of the Canada-U.S. Free Trade Agreement (FTA) in 1989 and the North American Free Trade Agreement (NAFTA) in 1994 ignited a surge in export-oriented manufacturing and related services, which, in turn, gave a particularly strong boost to city economies located within a stone's throw of the U.S. border. The growth in trade with the United States since these deals were signed has been stunning. The ratio of Canadian international exports to interprovincial exports – which was approximately 1:1 twenty years ago – now stands at 2:1.

While service industries in the private sector flourished in cities during the 1990s, the same could not be said for public services. The actions taken by federal and provincial governments in the early-to-mid 1990s to eliminate their deficits resulted in a significant downsizing of public payrolls. However, cities did benefit throughout the decade from heavy inflows of rural migrants who had lost or left jobs in the agriculture, logging, and mining industries, as a result of declining commodity prices or productivity improvements within the resource sector.

ICT sector born and raised in the cities

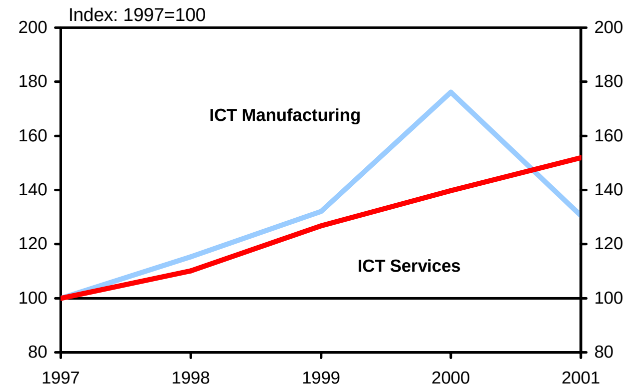
The most significant development of the 1990s was the rapid emergence of the "new economy", which has proved to be a major boon to city economies. Most cities in Canada now boast a strong presence in one or all of the industries comprising the information and communications technology (ICT) sector – more specifically, goods and service industries in the domain of computers, software, and telecommunications. And, although some IT manufacturing companies are currently struggling, their counterparts in the IT services sector have barely missed a step, and the sector overall continues to make up a significant share of economic growth in the urban areas.

There was speculation early on that the development of the ICT sector would provide a fillip to rural areas –



since individuals and businesses would be able to carry out business tasks from virtually anywhere. Certainly, the increasingly widespread *use* of ICT products and services has given individuals more flexibility to operate their businesses from their own homes in rural locations. But, on the *production* side, the urban regions have been the clear winners, especially in the suburbs and the bordering communities of cities. Networks of related industries (often referred to as "clusters") have formed in these areas to take advantage of the close proximity of clients, suppliers and the large pool of labour. At the same time, ICT companies have set up shop near downtown city cores to reap the benefits of the amenities they offer, including a young, diverse, and well-educated workforce, as well as a broad array of business services and leisure activities. So, while the ICT revolution has resulted in a small shift in economic activity away from the downtown core in recent years, the extent of the shift has been more muted than some had predicted.

GROWTH IN CANADA'S ICT* SECTOR



*Information and Communications Technology
Source: Statistics Canada, TD Economics

Cities offer a young, diverse and well-educated workforce

The strong lure of the labour pool available in Canada's cities does not apply just to the ICT sector, but to any industry requiring skilled workers. Cities offer unparalleled access to a young, well-educated and innovative workforce:

- The **skills gap** between individuals in urban and rural areas is wide, and it has continued to increase in recent decades. Currently, 55 per cent of individuals in CMAs have a university degree or post-secondary diploma, compared with 44 per cent in non-CMA regions. This represents a significant widening of the gap from that recorded in 1980, when the shares were 27 per cent and 20 per cent, respectively.
- Job opportunities in the cities have continued to attract **young workers** from rural areas over the past few decades, as evidenced by a more-than-proportionate jump in the urban share of individuals aged 25-34 years. In addition, with a similar spike seen in the 0-14 year age category, the urban share of the 25-34 year-old cohort is set to continue rising steadily in the years ahead. Other age groups – including those at the oldest end of the spectrum – have also seen their urban shares rise.
- Cities also offer employers a **diverse workforce**. Canada's large urban centres contain among the broadest ethnic mixes in the world, spurred by a sizeable net inflow of international migrants in recent years. The rate of net international immigration outpaced the growth of the natural population in Canada over the past 5-year period – the first time this has happened since the Second World War – and the concentration of new immigrants residing in Canada's four largest CMAs is stunning. In 1999, approximately 75 per cent of immigrants called Toronto, Montreal, Vancouver or Ottawa their home.

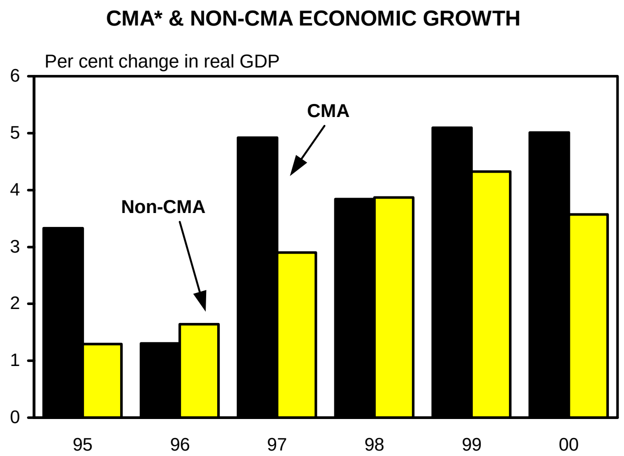
COMPARING URBAN AND NON-URBAN LABOUR FORCES

		Urban	Non-Urban
Per cent with post-secondary degree or diploma	1980	27.0	19.7
	2002*	55.2	44.2
Per cent of total population aged 25-34 years	1986	63.1	36.9
	2000	67.6	32.4
Per cent of total population of international immigrants	1986	85.7	14.3
	1999	93.7	6.3

* Forecast by FP Markets Canadian Demographics, 2002
Source: FP Markets Canadian Demographics, Statistics Canada, TD Economics

Suburbanization gains pace

The dramatic changes to Canada's economic structure over the past decade have affected not just the rural-urban divide, but also the balance of power within Canadian cities. Most important has been the increasing influence of the suburban regions vis-à-vis the city centres. Although the phenomenon of *suburbanization* began to take shape



* Census Metropolitan Area
Source: Conference Board of Canada, TD Economics

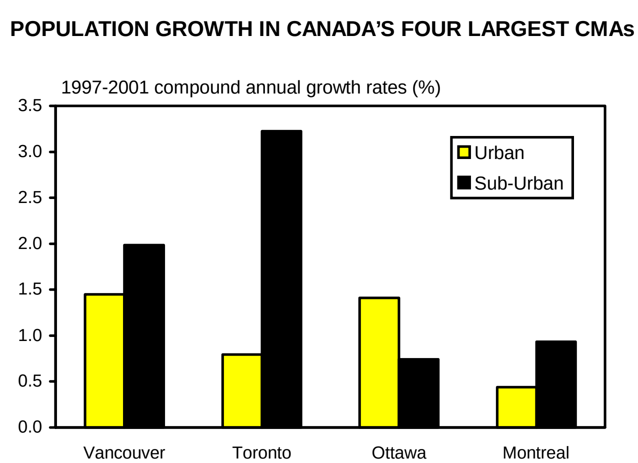
following the Second World War, it has picked up pace over the last ten years, with increasing shares of the population, as well as businesses in the retailing and manufacturing sectors, choosing to locate in the suburbs. And, as was noted earlier, this trend has been supported by the rapid growth of a number of clusters – above all, the ICT clusters outside of the central business districts (CBDs). In contrast, the CBDs themselves have largely taken on the role of being centres for financial and business services, tourism and cultural activities[4].

The 2001 Census data provided hard proof that suburbanization continued in full force over the last five years. Between 1996 and 2001, the combined population of the city centres of the four largest CMAs grew by an anaemic 0.9 per cent per year, compared with 2.3-per-cent growth per annum in the suburban and outlying areas. And, while data on movements in business locations are more difficult to get a handle on, data from the annual pubication *Financial Post 500 Companies* reveals that surburban areas have been posting faster growth in head offices than the CBDs over the past decade.

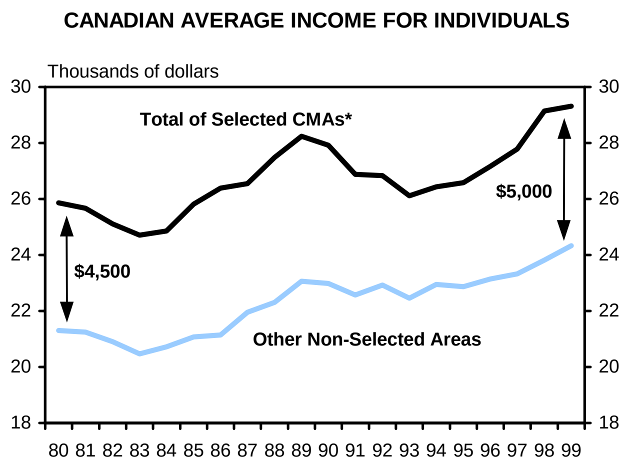
Why have firms and people elected to locate in the suburbs rather than the CBDs in the first place? They have been attracted by the fact that property taxes, housing prices, zoning restrictions, and other costs are lower in the suburban regions relative to those in the downtown. But the reason may not be purely economic in nature. It is arguable that individuals and enterprises – particularly those in the high-tech clusters – have been seeking a higher quality of life for their families and their employees by distancing themselves from the social, economic, transit and environmental problems that are perceived to plague downtown cores. With a critical mass of people shifting to the suburbs, it is hardly surprising that many retailers – especially the big box stores – have followed hard on their heels. With their vast tracts of undeveloped land, suburban and outlying areas have been more than able to accommodate this expansion.

Urban sprawl a growing problem

The sizzling growth in bedroom communities and businesses in the suburbs, and the ongoing shift outward of CMA boundaries into rural areas, have had dramatic implications for the economic and social development of Canada's cities in recent years. A vicious cycle has been launched – where movement away from the urban core places downward pressure on residential and industrial densities and tax bases, forcing municipalities to hike downtown property tax rates and other levies, which in turn prompts more urban flight. Making matters worse, stagnant or shrinking tax bases have made it difficult for downtown municipalities to address the very social problems that drove business and individuals to outlying areas in the first place. Although the amalgamation trend (i.e., Toronto, Montreal, Ottawa-Carleton, and Halifax-Dartmouth) has gone some way towards addressing urban-suburban tax disparities, some of the most rapid growth is taking place outside the amalgamated boundaries. Meanwhile, in the downtown cores, poverty and homelessness have worsened[5]. And, while the gap between average incomes in urban and rural areas has not widened greatly in



CMAs: Census Metropolitan Areas
Source: Statistics Canada (1996 and 2001 Census), TD Economics



* 15 largest Census Metropolitan Areas (CMAs) in Canada
Source: Statistics Canada, TD Economics

recent decades – the CMA average has remained about $5,000 per person higher than in the rest of Canada – income inequality between the more affluent suburban regions and the downtown cores has increased. Rounding out this bleak picture, urban sprawl has led to burgeoning transit problems right across the CMAs, as lower average population densities have made public transit uneconomical – particularly in the surburbs. This has resulted in an increased reliance on cars, with all the problems this engenders in the way of rising pollution, and higher costs for road construction and repair.

A look ahead

Although economic recessions typically deal a particularly heavy blow to cities, last year's downturn was little more than a bump in the road for Canada's major urban economies. In fact, they managed to outperform the Canadian economy as a whole, assisted by the remarkable strength of their ICT service industries and resilient consumer confidence. Looking ahead, with the bulk of new immigrants likely to make up an ever-greater share of Canada's population – and with almost all of them flocking to the CMAs – urbanization in Canada is poised to continue apace.

At the same time, however, Canada's cities face certain threats that, if left untended, could choke off economic expansion and gains in living standards down the road. But, before discussing these specific challenges, it is important to look at what constitutes a "great city", and see how Canadian cities stack up.

PART II

THE INTERNATIONAL CONTEXT

A "great" international city

There is no one definition that spells out in clear and concise terms what makes a city "great". Athens, Florence, London and Paris emerged as cultural, democratic and mercantilist centres around the time of the Middle Ages. More recently, New York, Los Angeles and Tokyo have become established as world-class cities. But, no matter when they reached their apogee, they shared one thing in common. All were much more than just economic powers; they were also centres for the arts, creativity and innovation.

Characteristics of a global city

In this era of free trade and globalized markets, there is a major benefit to being viewed as a "world" or "global" city. In his 1989 book, *New International Cities Era*, Panayotis Soldatos identifies a world city by the following traits[6]:

- it has an international exposure
- it possesses a diverse population
- it attracts factors of production (capital, labour) from outside of the city, and has firms and other economic institutions abroad
- it hosts foreign and international institutions and their representatives, such as foreign firms, banks and trade commissions
- it contains direct transportation links with foreign countries, has significantly engaged in social communications activities with foreign countries, and has a strong telecommunications network
- it has a strong base of visitor services (i.e., convention halls, hotels)
- it boasts a mass media with a presence abroad
- it hosts regular major international events
- it has a network of national, regional or local institutions with an international scope and reputation
- it has public or private institutions that have agreements of co-operation with foreign or international institutions
- it is home to a local government with the requisite administrative apparatus to conduct a city diplomacy in a systematic manner

Cities around the world vary significantly in size and in the economic, legal and financial power they possess, and very few would meet all of the above criteria. Accordingly, recent studies have focused on selected aspects of cities' roles within the broader international framework. For example, in their 1999 paper, "A Roster of World Cities", J.V. Beaverstock, R.G. Smith and P.J. Taylor ranked 122 international cities based on their presence in certain producer-services industries – namely, accounting, advertising, banking and law[7]. "Alpha" cities were those that ranked highly in all four areas, "Beta" in at least three areas, and "Gamma" in two. The authors then sub-divided these categories into three tiers, according to their relative positioning within the groupings. Among Canada's cities, Toronto qualified as a first-tier Beta city – along with San Francisco, Sydney and Zurich – and Montreal ranked as a second-tier Gamma, with the likes of Bangkok, Beijing and Rome.

But, regardless of their position in these kinds of hierarchies, all of Canada's cities must strive to be internationally competitive. Since most cities cannot realistically compete in all industries – given, say, geographic limitations – "great" cities will be those that leverage their expertise in specific areas to create the conditions for the development of powerful, export-oriented industries. Keeping tax rates low and providing relatively affordable and high-quality health care will also help to drive growth, particularly in up-and-coming cities. But, beyond that, it will be those cities that create a "buzz" – a widespread sense that they are the *only* place to be – that define the idea of "greatness" for years to come. These will be cities that provide world-class cultural and leisure activities, clean, attractive, safe and well-managed environments, and good road and transit systems – and that enjoy a competitive edge by virtue of having these attributes. *For, economic competitiveness and quality of life are inextricably intertwined.*

"Great" cities will also be those that demonstrate the vision necessary to sustain their world-class stature. In this respect, the history of Manchester, England represents something of a cautionary tale[8]. A booming manufacturing centre during the industrial age, Manchester was hard-hit in the 1950s, 1960s and 1970s, as the factory jobs that had underpinned its economy migrated to newly industrializing countries in the developing world. After three decades of stagnation, local government officials finally recognized that the manufacturing sector was not going to recapture its old form, and in the 1980s, they took steps to reverse the city's decline. Their efforts have paid off handsomely. With the aid of a comprehensive long-term strategy that promoted diversification into areas such as high technology and that focused on quality of life improvements, Manchester has begun to thrive. One of the driving forces behind the city's regeneration was the local government's success in mobilizing the resources of the U.K. government, community groups, and – most important – the private sector.

ROSTER OF WORLD CITIES

	Alpha Cities	Beta Cities	Gamma Cities
Tier 1	London New York Paris Tokyo	San Francisco Sydney Toronto Zurich	Amsterdam Boston Caracas Dallas Dusseldorf Geneva Houston Jakarta Johannesburg Melbourne Osaka Prague Santiago Taipei Washington, D.C.
Tier 2	Chicago Frankfurt Hong Kong Los Angeles Milan Singapore	Brussels Madrid Mexico City Sao Paulo	Bangkok Beijing Montreal Rome Stockholm Warsaw
Tier 3		Moscow Seoul	

Source: J.V. Beaverstock, R.G. Smith and P.J. Taylor, "A Roster of World Cities," *Cities* , vol. 16, no. 6 (1999), pp. 445-458 (the authors rank cities based on their presence in advanced producer services industries, including accounting, advertising, banking and law).

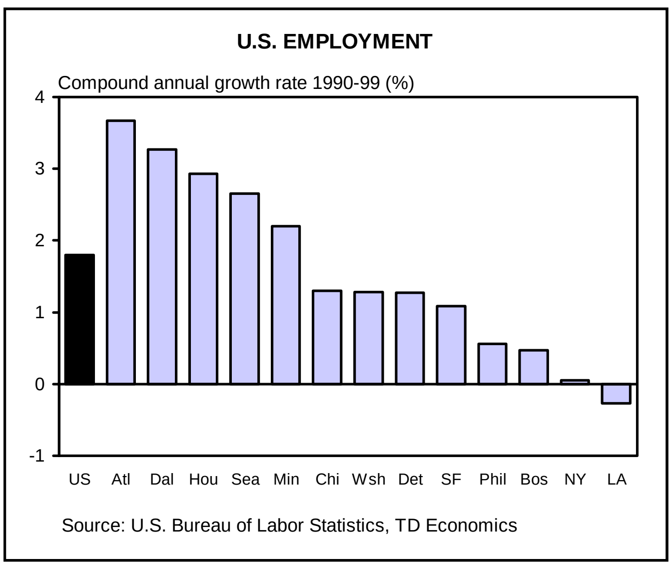
Other nations reinvesting in their cities

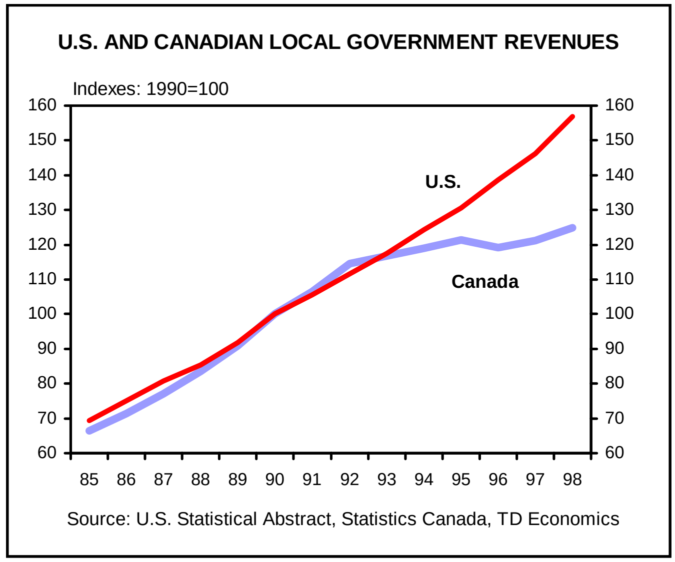
Manchester is a good example of a city that has brought itself back from the brink, but it is far from the only jurisdiction in Europe or the United States that has set its sights on reviving an aging city. Within the industrialized world, the United States has taken a particularly aggressive approach. Governments across the United States were facing a crisis 20 years ago, as their cities crumbled under the weight of the manifold pressures associated with urbanization. In many cases, heavy flight of residents and businesses to the suburbs – to a far greater degree than in Canada – left urban areas resembling a doughnut. Downtown shopping areas were boarded up, and urban municipalities were swept by an epidemic of crime and poverty, until governments could no longer ignore the deterioration.

In their efforts to come to grips with these challenges, local governments certainly benefited from the tremendous U.S. economic boom recorded over the last ten years, which saw average job growth in the metropolitan economies increase by nearly 2 per cent per year – leading to sharp growth in government tax bases. But, from New York to Boston to San Francisco, U.S. cities have also made a concerted effort to coax individuals back to the downtown area, investing in airports, roads, public transit, waterfronts, and social housing[9]. They have stopped building new superhighways through urban cores, and in some cases, taken them out. These measures have helped to stem population declines in many of the urban cores.

The U.S. approach[10]

Where is the money coming from to fund this massive city revitalization campaign? Some of it has come from rising own-source revenues, thanks to the spectacular growth in the U.S. economy over the past decade – last year notwithstanding. U.S. cities also have greater taxing powers than their Canadian counterparts, and their tax arsenal includes a heavier reliance on cyclically-sensitive revenue sources – such as sales taxes and user fees – which tend to rise in line with economic demand. And, while the recent weakening in U.S. economic growth has prompted





some jurisdictions to raise property tax rates or other tax levies, city governments have access to a whole host of revenue and financing sources not available, or not widely used, in Canada.

One source of support is the U.S. federal government. Recent administrations have passed major initiatives – for example, the Clinton-Gore *Liveable Communities for the 21st Century* – that set up a broad range of programs, including significant financial backing for transportation, the environment, and housing. The largest program is the Transportation Equity Act-21 (TEA-21), which was established in 1999. The TEA-21 has a total budget of US$217 billion, which will be spent over a six-year period on solving traffic and associated environmental problems in America's cities.

In addition to sizeable federal grants, U.S. cities are far ahead of their Canadian counterparts in the use of innovative new funding tools that encourage private-sector and philanthropic involvement in the development of large-scale projects. Three approaches that have gained popularity in recent years include tax-exempt bonds, tax-increment financing, and public-private partnerships.

1. **Tax-exempt bonds** – These debt instruments represent a cheap source of financing for a municipality. Interest income is exempt from federal and/or state tax, allowing the city to charge a lower rate of interest.
2. **Tax-increment financing (TIF)** – This measure allows a city to designate an area for improvement and then earmark any future growth in property tax revenues to pay for initial and ongoing economic development

Public-Private Partnerships

A Public-Private Partnership (PPP) is a contractual arrangement between a public agency (federal, provincial/state, or local) and a for-profit corporation for the purpose of providing public infrastructure, community facilities and related services. PPPs share the risks and rewards of a project between the public and private sectors, drawing on the special skills and assets of each to deliver the facility or service to the general public. The arrangement is distinct from privatization, in that the public sector remains actively involved with the project or program.

The main advantage of PPPs is that they enable projects to be developed and executed at a lower cost, in less time, and with less public money. However, the arrangement has some risks associated with it. As careful as governments may be to specify the terms of a contract clearly, and as assiduously as they may monitor its administration, at the end of the day, PPP financing is generally done "off-book", which means that a good deal of information is hidden from public scrutiny. Another concern is that the ultimate cost savings are not guaranteed, as the private sector partner in the arrangement must earn a return on its investment – unlike government agencies, which can operate at a loss. Still, on balance, PPPs are often worth the risk, because of the opportunity they afford to tap the unparalleled experience, expertise and economies of scale available in the private sector.

PPPs have been used widely in the United States, but are just now beginning to gain popularity in Canada. And, while they come in all shapes and sizes, one major difference in the way PPPs function in the United States relative to Canada is in the degree of political and bureaucratic involvement. Although politicians and bureaucrats are actively involved in PPPs on both sides of the border, private sector interests in the United States tend to have a more powerful voice on PPP development advisory boards, to the point that they effectively run the operation.

One award-winning example of a PPP in the United States is the long-term partnership between the city of Burlingame in California and U.S. Filter Operating Services to manage the city's wastewater treatment plant. The contractual agreement, signed back in 1972, gave the city full ownership of the facility, while U.S. Filter was made responsible for its day-to-day operations and maintenance – the first time in U.S. history that the management of a wastewater facility had ever been transferred to a non-public entity. The results to date have been extremely positive. The facility has a stellar safety record, it has been in compliance with all regulatory requirements since its inception, and its consumers pay some of the lowest sewer rates in the county.

The best-known examples of PPPs in Canada have been in the area of transportation and road development. In Ontario, construction of the Highway 407 toll road was financed by the Ontario government, while the private sector was responsible for the highway's design and ongoing maintenance. In 1999, the government sold the highway to a private-sector consortium for $3.1 billion. Other examples of PPPs at the provincial level include the Confederation Bridge linking Prince Edward Island and New Brunswick and the Colequid toll highway in Nova Scotia. Among the rarer examples of PPPs at the municipal level are incinerator and waste disposal projects in the city of Vancouver.

Source: B.C. Government, TD Economics

spending. To fund the initial costs, cities can float debt backed by the expected flow of the tax increments as security. This instrument has been especially popular as a means of raising capital for social housing.

3. **Public-private partnerships** – One notable financing arrangement that has been used to fund much of the revitalization effort in U.S. inner cities is the public-private partnership (PPP). In recent years, a number of major partnerships have been established with the private and not-for-profit sectors to support economic development in high-growth areas, such as Silicon Valley, Boston, and Cleveland, to name just a few[11]. PPPs parcel out the risk and reward of a project between the private and public sectors, and can be an effective strategy for achieving objectives that the private sector alone might not be willing to pursue. However, governments must take care to ensure that the outcomes satisfy public policy, private sector and volunteer objectives.

4. **Other incentives** – U.S. jurisdictions also make broad use of a number of other tax incentives, including a wide array of grants and tax credits aimed at encouraging individuals and companies to locate in targeted ar-

eas close to downtown cores, former industrial areas (i.e., brownfields), and low-income areas (i.e., enterprise zones). Location efficient mortgages – or federal-government-backed approval of higher mortgage loan amounts to individuals who use public transit – are also used widely.

U.S. financing tools can have pitfalls

Some of the financing methods that have become popular south of the border can be problematic. Subsidies often do not pass the test of efficiency and equity, especially in cases when "beggar thy neighbour" tax policies are applied by governments to win business away from other districts at any cost. Ideally, subsidies should be applied only in situations where a project – which would deliver enormous social benefits to a community – will not be undertaken by the private sector because the high costs exceed the return the private sector could earn.

More seriously, some instruments are fundamentally flawed. Consider the issuance of tax-exempt bonds (TEB) to finance a project. The city benefits from a lower cost of financing, but that benefit is merely equal to foregone state and federal taxes. As a result, TEBs simply represent a transfer from federal and state governments to the city. Worse still, TEBs are regressive vehicles. This is because, in competitive capital markets, the prices of these instruments are set at a level that effectively equates their after-tax yield (which in this case is the same as their before-tax yield) with the after-tax return on other competing debt instruments. Since this equilibration normally occurs at the level of the average marginal tax rate, individuals with higher-than-average marginal tax rates tend to earn a higher return on TEBs relative to competing debt instruments, while those with lower-than-average marginal rates earn a lower return – and, consequently, find the instruments unattractive. Finally, TEBs provide benefits to one sector of the population (local citizens and the city), but tap another sector for the cost (the general population, which bears the burden through lower state and federal revenues). In other words, they allow a city to compel non-residents to finance their infrastructure.

Europe also boosting private-sector involvement

As in the United States, European governments have been ramping up capital spending to revitalize their cities, with considerable support from the private sector[12]. Generous funding from the European Union – geared towards reducing regional disparities – is also being used to support re-investment. The main vehicle for infrastructure funding is the European Regional Development Fund (ERDF), whose 2000-06 budget of Euro 195 billion (US$175 billion) accounts for one-third of the EU Budget. In the U.K., local governments, which are still somewhat reliant on transfers from the central government, are turning to PPPs in greater numbers, especially since the shift towards privatization launched by the Thatcher government in the 1980s.

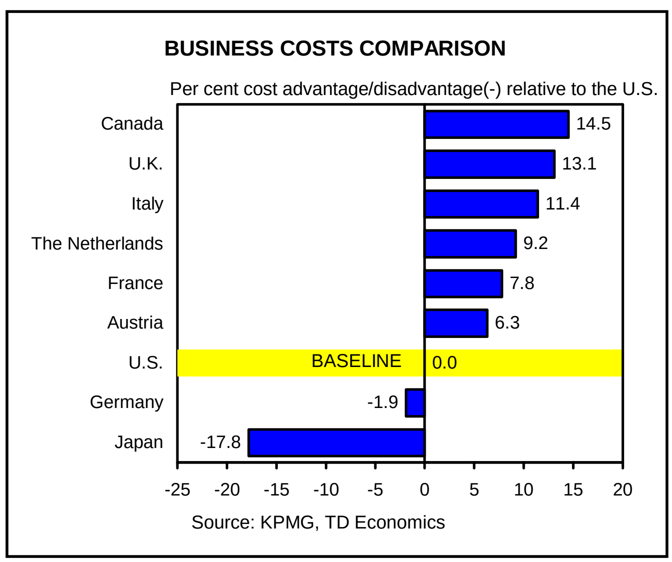
PART III

HOW CANADIAN CITIES STACK UP

Whether you poll Canadians from coast to coast or look at surveys by organizations like the United Nations, the consensus remains that the quality of life in Canada's cities remains among the highest in the world. The bottom line is that Canadian cities have not experienced anywhere near the same degree of inner-city poverty, high crime rates, and "hollowing out" seen south of the border.

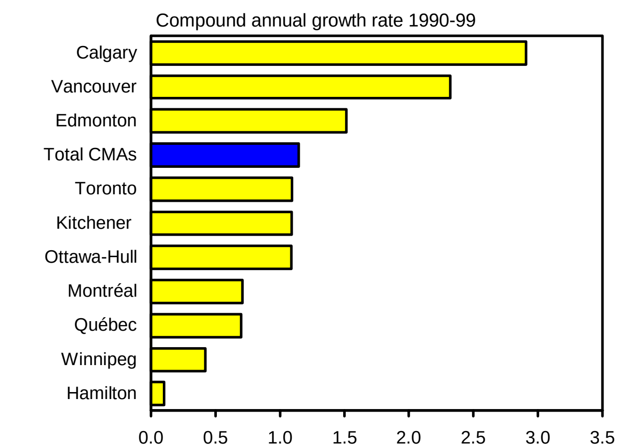
Canadian cities cost-competitive, but at what cost?

From a business perspective, there are many reasons for optimism. Not only do Canada's cities possess highly-skilled and diverse work forces, but their geographical proximity to the large U.S. market greatly facilitates cross-border trade. And, Canadians can take pride in two recently-released international studies – one by KPMG Consulting[13], and another by U.S.-based John Boyd and Associates[14] – that ranked Canadian cities high on the charts of the least costly places to do business.



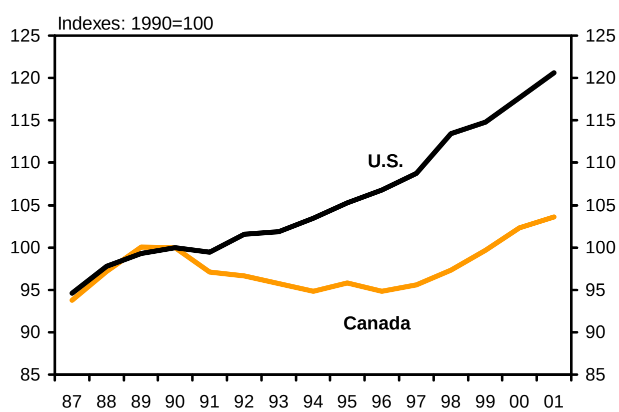
However, a closer examination of the findings of these competitiveness studies reveals a darker side. Specifically, much of the cost advantage Canadian cities enjoy is the direct result of the falling value of our dollar – which reflects economic weakness and lower incomes, rather than strength. And, figures show in clear-cut terms that the economies of Canadian cities have indeed lagged behind those of U.S. cities by a significant margin over the past decade. Despite the strong job creation posted in Canada's CMAs since 1997, average job creation in the 1990s as a whole – at 1.2 per cent per year – pales in comparison to the 1.8-per-cent rate of employment growth recorded in U.S metropolitan areas over the same period. Meanwhile, Canadian urban unemployment rates remain well above comparable U.S. rates. As a result, living standards in Canada (as measured by real personal disposable income per capita) virtually stagnated in the 1990s – in sharp contrast to the hefty gain of roughly 20 per cent posted south of the border. This has opened up an ever-wider gap in absolute terms. In order to compare levels of real personal disposable income per capita across countries, it is necessary to convert national data from local currency units into a single base currency – which, for this two-country comparison, will be the U.S. dollar. The conversion is generally done at purchasing power parity (PPP) exchange rates, which reflect the number of units of a country's currency required to buy the same basket of goods and services in the domestic market as one U.S. dollar would buy in the United States. Using the OECD's estimated PPP rate for Canada of 82.6 U.S. cents – which, if anything, biases the results in Canada's favour, given that our dollar is currently worth around 63 U.S. cents – real per capita disposable income per person in Canada now stands at a mere 70 per cent of the U.S. level.

EMPLOYMENT GROWTH IN CANADA'S 10 LARGEST CMAs*



* Census Metropolitan Area; Source: Statistics Canada, TD Economics

REAL PERSONAL DISPOSABLE INCOME (PDI) PER CAPITA CANADA vs. U.S.



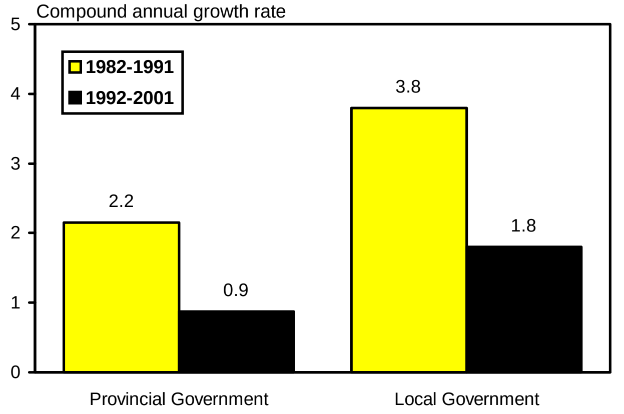
Source: Statistics Canada, Macroeconomic Advisors, U.S. Bureau of Economic Analysis, TD Economics

Other indicators also suggest that the quality of life in Canada's urban areas has already begun to slip. Although the number of homeless is virtually impossible to measure accurately, increased traffic flows at homeless shelters and food banks point to a worsening problem. Moreover, in a study by the Canadian Council on Social Development, the proportion of Canadians living below the low-income cut-off (i.e., the level of income below which Statistics Canada deems an individual to be in straitened circumstances) actually increased between 1990 and 1999[15]. On a more positive note, welfare rolls have declined considerably in Canada's urban areas since 1995, although it is hard to ascertain how many of the individuals on welfare rolls actually moved into the workforce. In some provinces, declining welfare caseloads were partly triggered by changes in eligibility requirements.

City infrastructure needs replacing

Another significant threat to the quality of life in Canada's urban areas is the erosion of city infrastructure. Until recently, the relative youth of Canadian cities meant that the pressure on Canadian governments to re-invest in infrastructure was relatively modest compared to that faced by their U.S. and European counterparts. But, it is becoming evident to most Canadians that their cities are showing distinct signs of strain. Merely maintaining existing roads, bridges, transit systems and other types of infrastructure is not enough – modernization is also required. At the same time, with no national housing strat-

GROWTH IN REAL FIXED CAPITAL INVESTMENT PER CAPITA



Source: Statistics Canada, TD Economics

egy in place since the mid-1980s, the shortage of social housing has been increasing, contributing to the problem of homelessness in Canadian inner-cities.

While determining exact infrastructure needs is no easy task, the Association of Consulting Engineers of Canada (ACEC) estimated that the total municipal infrastructure shortfall in Canada is at least C$44 billion, of which C$17 billion is attributable to under-investment in roads and highways. TD Economics estimates that the total infrastructure shortfall is growing by about C$2 billion per year. Other tallies have also been released for more specific investment requirements. The Canadian Urban Transit Association estimates that C$9.2 billion over five years is required for capital investment in public transit. And, a June 1999 report by the Federation of Canadian Municipalities found that municipalities will need 500,000 more rental housing units over the next 10 years[16].

Cutbacks to post-secondary education worrisome

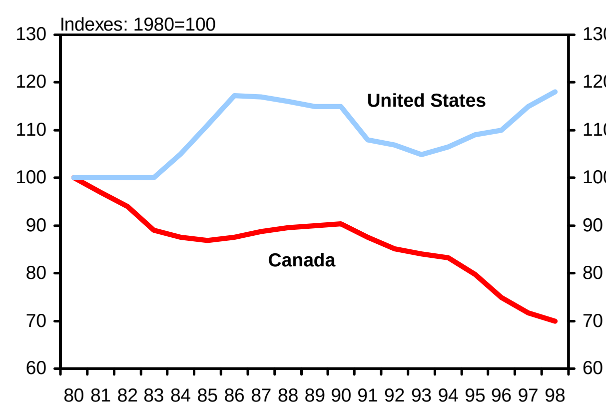
Bricks and mortar are not the only form of investment required in Canada's cities. Substantial new funding for post-secondary education is vital for cities' longer-term health. The bulk of Canada's colleges and universities are located in cities. Not only are these institutions major employers and land developers in urban centres, but they also produce the supply of knowledge workers that will drive the city economies in the 21st century. And, they are incubators for research, both that funded by public money and that undertaken in partnership with the private sector.

Despite tuition fee increases and recent efforts by federal and provincial governments to restore research funding and operating grants to universities and colleges, these institutions are still reeling from 20 years of cutbacks. In fact, in the U.S., real government spending on public universities increased by 20 per cent per student over the last twenty years, compared to a 30-per-cent drop in Canada over the same period[17]. And, statistics on innovation and commercialization in Canadian universities compared to those in the U.S. tell an equally disturbing tale. Industry Canada estimates that U.S. universities do 14 times as much research as their Canadian counterparts, and receive 49 times as much licensing income.

Canadian cities awaken to challenges

It is not that Canada's municipalities have turned a blind eye to the challenges they face. In fact, most municipalities have devised long-term economic development, social and environmental strategies that aim to address many of these issues – above all, the imperative of revitalizing and cleaning up the downtown core. Some cities have sought to promote economic development by identifying their strengths and establishing marketing groups to target these areas and tout the advantages of investing in the city. Cities have also started to work together to develop one unified voice through a number of groups – including the C5 (which includes the mayors of Vancouver, Calgary, Winnipeg, Toronto and Montreal), the Federation of Canadian Municipalities (FCM), the Canadian Urban Institute, the Canada West Foundation, and a number of city boards of trade.

CHANGE IN GOVERNMENT SPENDING PER STUDENT ON HIGHER EDUCATION: CANADA AND U.S.



Source: British Columbia government (original source: Association of Universities and Colleges of Canada, Trends 1999), TD Economics

PART IV

CITIES GASPING FOR AIR

So far, the debate about the plight of Canada's cities has focused primarily on the need to arm them with more sources of funding. But, while this is certainly a legitimate argument, it only tells part of the story. In order to generate useful policy proposals for Canada's cities, it is important first to understand the broader environment in which they operate.

No constitutional recognition of cities

The Canadian constitution deems municipalities to be creations of the provinces, and as such, to have no independent status of their own[18]. Accordingly, municipalities' power to spend and raise revenues is limited to what is granted to them in provincial legislation. Although cities have been given more room to manoeuvre in recent years, provinces still keep a very tight rein on municipal legislative and tax powers. Even in areas where cities do enjoy a modicum of authority – such as in the use of property taxes, development charges and user fees – provincial governments have the right to impose restrictions on what goods and services can be taxed and at what rate, as well as to take away powers they had previously granted. This lack of independent authority goes a long way toward explaining why local governments in Canada have access to so much narrower a range of financing options than their U.S. counterparts.

Comparison of U.S. and Canadian municipal governments

In both Canada and the United States, local governments are under the full jurisdiction of provincial or state governments. U.S. municipal governments tend to have more autonomy than local governments in Canada, with the scope of their authority specified in a charter provided by the state (referred to as "home rule"). In some U.S. states, municipalities' powers are actually protected in the state constitution. In Canada, by contrast, the range of local governments' authority is defined by provincial government legislation – although some provinces (British Columbia, Manitoba, Quebec and New Brunswick) have introduced charters that confer additional or city-specific powers on their cities.

Broadly speaking, local governments in the United States provide much the same set of services as their Canadian counterparts – including police, fire protection, garbage collection, building and maintenance infrastructure, regulating land use, public water and sewer systems. However, they do so in the context of a very different financing structure. U.S. local governments generate about two-thirds of their own revenue, with the remainder of their funding coming from federal and state grants. The comparative figure for own-source revenues in Canada is about 71 per cent. As the accompanying table shows, local governments in Canada make greater use of property taxes, while U.S. municipalities rely more heavily on user fees and sales taxes. In some U.S. states, local governments can levy income taxes.

MUNICIPAL REVENUE SOURCES
CANADA VS. U.S.
Shares of Total Revenue

	Canada	U.S.
Own Source		
Property Tax	49.5	21.0
User Fees	20.2	32.6
Other own source	1.3	13.5
Transfers from federal government	1.3	3.3
Transfers from state/province	21.0	23.4
Other sources	6.6	6.0

Source: Federation of Canadian Municipalities: "Early Warning: Will Canadian Cities Compete?", May 2001

On the spending side, variations exist because of jurisdictional differences across levels of government. U.S. local governments devote a larger share of their budgets to health care and education, while Canadian municipalities allocate a greater proportion to infrastructure. However, even after adjusting for differences in the services provided, the Federation of Canadian Municipalities estimated that per capita municipal government expenditure in Canada totalled US$785 in 1997 – less than half the US$1,652 spent in the United States.

Source: Federation of Canadian Municipalities

Provinces giving cities more flexibility[19]

In recent years, provincial governments have started to grant cities additional administrative and legislative powers, either through legislated amendments to their municipal acts or through the passage of city charters (Vancouver, Winnipeg, Montreal and Saint John fall into this latter category).

- In 1998, **British Columbia's** provincial government passed Bill 31, which increased municipal autonomy and which recognized that "local government is an independent, responsible and accountable order of government." In April 2002, the provincial government is expected to release a White Paper with draft legislation for a new Community Charter that will apply to all of B.C.'s cities. The charter will enhance municipal governments' policy flexibility and provide them with sweeping access to new revenue-raising sources.

- In 1994, **Alberta** was the first provincial government to give its cities "natural person" powers (NPP), unless otherwise specified by provincial legislation. NPP powers give councils the same authority and flexibility as persons or corporations in carrying out a variety of activities, such as entering into agreements like public-private partnerships, or acquiring land and equipment.

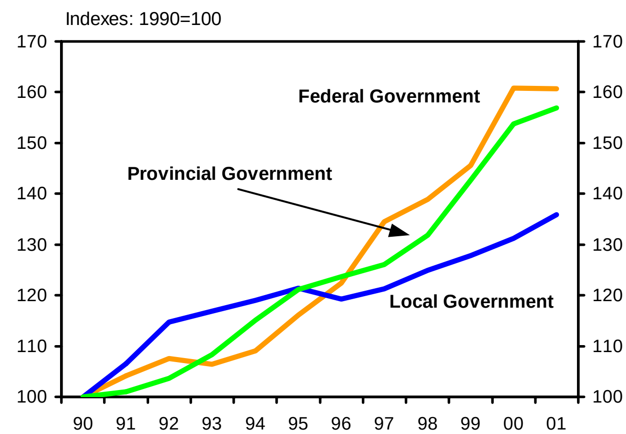
- In 2001, **Ontario** passed a new Municipal Act, which grants 10 spheres of authority to municipalities, and which bestows limited natural person powers upon them, unless otherwise specified by provincial legislation.

- In 2000, **Newfoundland and Labrador** enacted a new Municipalities Act, which some have deemed to be one of the most modern and innovative pieces of legislation governing municipal affairs in Canada. The Act promised to increase municipalities' authority in the areas of taxation, administration and financial management.

Cities getting squeezed from all sides

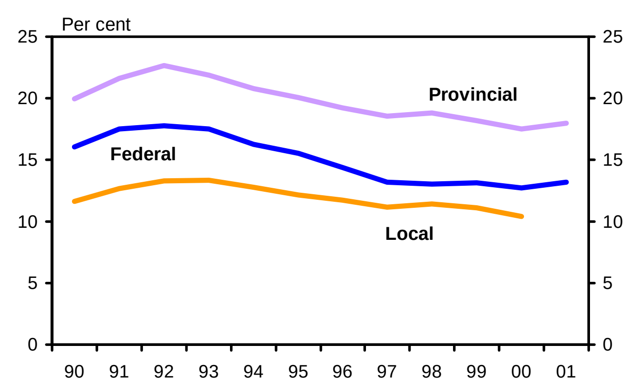
The facts on revenue growth across all levels of Canadian government speak loudly. Between 1995 and 2001, local government revenues edged up by a total of only 14 per cent. This was only a fraction of the gains of 38 per cent and 30 per cent reaped at the federal and provincial levels, respectively, and actually represented a drop in real per capita terms. This paltry increase in the municipal take is largely attributable to cities' heavy reliance on the property tax – a revenue source that tends to grow only gradually over time. At the same time, grants to the cities have fallen prey to cutbacks made by the federal and provincial governments in their quest to improve their fiscal positions.

CANADA'S GOVERNMENT REVENUES



Source: Statistics Canada (National Accounts), TD Economics

GOVERNMENT PROGRAM SPENDING
Shares of Gross Domestic Product*



*Fed. and prov. shares of Canadian GDP, local shares of total CMA GDP
Source: Statistics Canada, Conference Board of Canada, TD Economics

Downloading takes a heavy toll

Weak revenue growth has not been the only headache for cities. Federal and provincial governments have also been downloading services to cities in a number of areas, including transit and social services[20]. In and of itself, the idea of decentralizing decision-making authority and program and service delivery makes sense in many cases. Admittedly, there are some exceptions. For example, the high degree of population mobility within a province may make it difficult for local governments to provide social assistance effectively. Still, on balance, the needs of Canadians vary greatly across the country, and local governments are in a better position than their federal and provincial counterparts to identify and meet the unique needs of their citizens – especially in areas like local transit. What has made the recent process of downloading so disruptive is the rapidity with which it has been conducted. While the distribution of responsibilities between different levels of government should be reviewed on a regular basis to ensure that it continues to meet the test of efficiency, stability also has its virtues. Rapid change elicits finger-pointing, as the level of government assuming responsibility often isn't set up to deliver in the near term.

Furthermore, if this devolution of roles and responsibilities is not accompanied by increased access to funding and greater flexibility in program and service delivery, the system will surely break down. And to a large extent, this appears to have been the experience of many of Canada's municipalities since the mid-1990s. Hit by the double-whammy of weak revenue growth and downloading of services, it is hardly surprising that municipal governments have had to run up debt, defer infrastructure projects, draw down reserves, sell assets and cut services in order to stay afloat[21,22].

Property tax not right for the job

The property tax is inherently flawed as a source of funding for cities' growing needs. First, it is based on assessable property values, and hence, has only a weak relation to ability to pay. Second, its regressive nature means it is a poor match for funding in the area of income redistribution, a responsibility that is increasingly being laid at the door of municipal governments as the provinces have moved to download responsibilities in the area of social-services delivery. Third, the commercial property portion of the tax impedes competitiveness. And fourth, there may be extended periods during which property values do not rise in tandem with the cost of cities' programs and services.

Key areas of downloading to cities

Federal to municipal:

- municipal airports
- local ports
- local harbours

Provincial to municipal:

- transit, child care
- social housing , social assistance
- ferries, selected airports
- property tax assessment

Regional downloading

The varying impact of federal and provincial downloading is evident from a comparison of the shares of total spending different municipalities allocate to the services they now provide.

- **Ontario's** cities have had to pick up a big portion of spending on social services, although the provincial government created some offsetting tax room in the residential education property tax base.
- City government spending on social services is also higher than the national average in **Manitoba.**

  Nova Scotia's cities have also shouldered much more of the education bill, whereas education remains a provincial responsibility virtually everywhere else in the country.
- Cities' share of total spending on transportation is considerably higher than the national average in **Saskatchewan** and **Alberta.**

Source: Federation of Canadian Municipalities, TD Economics

Awareness of the problem is growing at the provincial and federal levels

On a more encouraging note, federal and provincial governments are becoming increasingly sympathetic to the fiscal woes of the cities. At the provincial level, a number of governments – in British Columbia, Alberta, Manitoba, and Quebec – have established special funding arrangements with their cities[23]. Increases in infrastructure spending have been more the rule than the exception in provincial budgets over the past few years, of which the lion's share has been earmarked at cities. Moreover, there have been some promising reforms of municipal property taxes, which have often been led by provincial governments. Lastly, in the case of Vancouver and Winnipeg, trilateral funding arrangements between federal, provincial, and local governments have been reached to work with communities and businesses in the cities to support sustainable development.

Sharing the pie

- **B.C.** assigns a share of its provincial retail sales tax to municipalities.
- Greater **Vancouver's** Transportation Authority is partially funded by an 11-cent-per-litre gas tax. This tax rate is set by the province.
- **Calgary and Edmonton** receive 5 cents per litre of the province's fuel tax. However, in its latest budget for the 2002-03 fiscal year, the provincial government in Alberta unilaterally reduced this share to 1.2 cents. Initially, the cut was to be effective immediately, but it has since been postponed to March 2003.
- **Manitoba** allocates revenues worth two percentage points of the personal income tax and one percentage point of the corporate income tax to its cities in the form of a per capita grant.
- **Montreal's** Agence Métropolitaine de Transport (AMT) is partially funded by a 1.5-cent-litre gas tax and a $30-per-car registration fee.
- Municipalities in **Nova Scotia** and **Quebec** all have the authority to levy a land transfer tax on the value of transferred property.

The federal government has also stepped in, introducing three infrastructure initiatives over the past several years totalling more than $6 billion in federal spending, of which the lion's share has been earmarked for projects in cities. The latest offer, in the December 2001 budget, made the most explicit mention of municipalities to date. The original plan, as it was announced in December, was to establish a Strategic Infrastructure Foundation with an endowment of at least C$2 billion. The foundation was to be run at arm's length from the federal government and was to work with provincial and municipal governments to provide shared-cost assistance for large infrastructure projects such as highways, urban transportation, convention centres and sewage treatment. (It was subsequently announced that the initiative would be operated as conventional government spending rather than through a Foundation.) Moreover, in June 2000, the federal government established two "Green Municipal" Investment Funds with a total initial investment of C$125 million, an amount that was doubled to C$250 million in the December 2001 budget. These funds will provide financial support to projects that help to improve the environmental efficiency and cost-effectiveness of municipal infrastructure.

PART V

REQUIRED IN CANADA – AN ALL-OUT OFFENSIVE ON BEHALF OF OUR CITIES

TD Economics' policy prescriptions

If Canadians have any hope of raising their living standards above U.S. levels over the next 15 years, then the status quo is not an option. A new way of thinking is urgently required – one that puts the affairs of cities front and centre on Canada's economic and policy radar screen. New and more flexible sources of funding will certainly be a vital component of any new deal. But, without giving cities a commensurate increase in policy-making flexibility, the system will surely fail. At the same time, cities must do their part to advance this process, by improving policy design and governance within the current framework.

The suggestion that Canada's cities be given increased decision-making authority may provoke some resistance. There is a general perception that municipal governments in Canada lack the expertise and institutional resources to manage their enhanced responsibilities. Indeed, there is a widespread view that the structure of our municipal political system is fundamentally flawed. The absence of organized political parties – and, in many cases, of a separate, executive branch of government responsible for formulating policy – encourages city councillors to put the needs of their own wards ahead of those of the city, undermining the consistency of policy approaches over time.

Some of these charges are valid, and reforms may well be warranted. But, we would argue that this argument should be flipped on its head – that, instead of despairing that our municipal governments are ill-equipped to deal with the responsibilities they now confront, we should be more confident of their ability to rise to the challenge. As local governments begin to grapple with the multiple new roles thrust upon them, they will develop the expertise and sophistication they need to carry out these tasks. And, as municipal institutions become more exciting places to work, they will attract an ever greater number of bright, ambitious and capable people, eager to answer this new call to service. The transition may not always be smooth – transitions seldom are – but it is vital that municipal governments be up to the task, since they are in a much better position to deal with the challenges facing cities than either the federal or provincial governments.

A maturing of the municipal political structure and the potentially broader view encouraged through amalgamation and regional authorities will not undermine the case for a strong provincial role. Balancing the needs of downtown cores and suburbs, as well as co-ordinating policies with areas beyond the municipalities, will still require clear planning principles from provincial governments.

Reform begins at home

Even if the federal and provincial levels of government elect to grant cities new power-sharing and/or financing arrangements, this is unlikely to happen overnight. In the meantime, municipal governments from coast to coast must take a long, hard look at their own operations and ask themselves whether they are making the best possible use of their limited tool set. The short answer is likely to be 'no'. In many cases, municipal tax systems need reforming, regulatory environments are far from optimal, and services could be delivered more cost-effectively. These are just a few of the changes that local governments could make to get their own houses in order.

1. Tax systems need reforming

Tax systems should strive as much as possible to be equitable and efficient. And, while restrictive provincial legislation limits the extent to which municipalities can implement tax reforms, there are things local governments could do to improve the situation, on both fronts. In many cases, property tax systems promote costly urban sprawl. Research by the C.D. Howe Institute and others has shown that many Canadian cities over-tax commercial properties relative to residential properties, metro commercial properties relative to suburban commercial properties, and high-density residential properties relative to low-density suburban properties[24]. This asymmetric tax treatment drives businesses and people out of the downtown core, contributing to urban sprawl. There are also instances of rental apartments being over-taxed vis-à-vis owner-occupied multiple-unit buildings. This has the effect of discouraging construction of rental units, pushing down rental vacancy rates and contributing to the problem of homelessness.

The same studies also reveal that municipal user fees and development charges are frequently set at levels below the marginal cost of delivering the related service. What's more, many services that could be financed with such levies often bear no charges at all. For example, urban traffic congestion ranks high among the concerns of citizens in virtually every major city in Canada. Yet, cities have made little effort to impose user fees on non-public transit – either for the purpose of raising revenue, or as a means of curtailing traffic. In Singapore, the government has successfully used new technologies to impose tolls on traffic in cities' downtown cores. The same technology is available in Canada, but governments have been slow to exploit the opportunities it offers. This is a pity, because charging private automobile users for the full cost of travel within cities also has important implications for public transit. The main argument for subsidizing public transit – which is still the practice in most large cities – is to make it a cheaper for individuals than private automobile use. But, with more complete costing of private transit use, there would be less of a case for subsiziding public transit. City budgets would reap a double benefit that could go to funding needs or reducing taxes.

Canadian municipalities have been similarly reluctant to move toward full-cost pricing of water or toward the imposition of user fees on waste management. In fairness, municipalities' decisions about user fees and development charges – like so many of their other activities – have been constrained by a lack of authority. Nonetheless, there is room for cities to make better use of both of these types of levies, while being cognizant of any potential social inequity that could arise.

2. Regulations need fixing up

In some jurisdictions, there could be a greater focus on land-planning strategies – in particular, as they relate to municipalities' transportation needs. Current approaches to city land planning should be reviewed in the context of how successfully they contribute to the goal of raising urban densities, especially outside the downtown core. By keeping more individuals and businesses near the downtown core, cities will benefit from being able to deliver services, including transit, at a lower cost. Even for cities that have devised ambitious plans for land use, it is all too often the case that the implementation of the strategy is flawed – partly because of pressure from developers, who, for example, tend to prefer projects that involve building on previously undeveloped land in suburban or rural areas ("greenfields") over projects in already-established urban areas ("infill" sites).

3. Better delivery of services required

Restrictive provincial legislation does not preclude cities from reviewing their own operations to identify services that the private sector could deliver as well or better, at a lower cost. For instance, there may be situations where cities could co-operate more closely with neighbouring areas to develop effective region-wide strategies, thus taking advantage of economies of scale. And, while provincial legislation continues to restrict privatization and the use of public-private partnerships, there may be opportunities for cities to "contract out" more services. In some cases, restrictive labour contracts are as much of a barrier as provincial laws to adopting alternative service delivery methods. Cities need to address this issue.

Give the cities more authority

If cities are to find creative ways of implementing the above-mentioned strategies creatively, they will need additional freedom in the form of enhanced legislative and administrative powers – and, that will require an attitudinal transformation before anything else. Local governments must shed their traditional posture of subservience, the product of years of being the most junior level of government. And, federal and provincial governments must cease regarding municipalities as the "low man on the totem pole". Armed with this new perspective, all levels of government could begin to lay the groundwork for a number of key reforms. Provincial governments could begin by removing the shackles on property taxes, user fees and development charges. They could also give municipal governments more flexibility to leverage the capital and expertise of the private sector. In this regard, the recent actions by some provinces to grant "natural person" powers to municipalities are a step in the right direction. Other provinces should follow suit, and with less restrictive legislation. This would enable cities to enter more freely into public-private partnerships, or to privatize services in areas where their citizens could benefit.

In Canada, a fairly typical route to privatizing a service is to begin by creating a Crown corporation. Crown corporations are also often the vehicle for government involvement in public-private partnerships. Yet, in many cases across Canada, cities require specific legislative authority from the provincial government to create such a corporation. This process, with its long delays, is an impediment to the growth of privatization and public-private partnerships at the municipal level. Municipalities also need more leeway to adopt other financial tools presently in use in the United States and Europe – like tax-increment financing – to provide more private-sector incentives in return for local improvements.

New funding arrangements for muncipalities needed

A third and vital component of TD Economics' proposal involves providing cities with access to new sources of funds. The fiscal challenges facing cities are twofold. First, they must close the large infrastructure gap that has opened up in recent years, as federal and provincial governments downloaded responsibilities, without granting cities a parallel increase in their revenue-raising capabilities. Second, cities must secure access to a stable and reliable revenue source to fund their ongoing activities.

Given their current straits, cities are unlikely to turn up their noses at any form of additional financial support. However, not all revenue sources are created equally. Indeed, upon closer examination, it is clear that some should be ruled out from the outset. The new funding sources that would be most desirable on a long-term basis are those that pass the tests of reliability, accountability, transparency, administrative simplicity, efficiency, and equity. (For a definition of each of these concepts, please see the text box at the top of the next page).

Criteria for New Funding Sources

- **Reliability -** is this revenue source likely to grow sufficiently to cover the rising costs of service delivery, and without risk of interruption?
- **Accountability** – is the same political entity responsible for administering both the spending and the associated funding?
- **Transparency** – is there a good match between who society believes should bear the burden of a tax, and who ultimately bears it?
- **Administrative simplicity** – would the new revenue source be relatively easy and inexpensive to establish and administer?
- **Efficiency** – does the tax prevent the most efficient allocation of resources?
- **Equity** – is the revenue source fair, either by matching beneficiaries with those bearing the burden or by levying taxes based on the ability to pay?

1. Grants from federal and provincial governments

An option favoured by many advocates for cities is to have the federal and provincial governments increase grants to their municipalities. We believe that grants can be a useful tool for addressing cities' existing infrastructure gap. In fact, a legitimate argument can be made that federal and provincial governments have an obligation to provide one-time grants to municipalities to help fill the financial hole created by downloading. However, as an instrument to deal with cities' ongoing financing needs, grants fail miserably – above all, because they leave municipal governments at the mercy of the shifting priorities of federal and provincial politicians and bureaucrats. If federal and provincial governments were willing to shore up any new grants with firm, multi-year funding commitments, that would address the problem of reliability. But, it wouldn't solve another major problem with grants – namely, a lack of accountability. Under a grant arrangement, the federal and provincial governments raise the money for the grants, but the cities disburse the funds. This weak connection between those who benefit from the spending and those who bear the cost for it raises the familiar concern about taxation without representation. Finally, grants fail the test of efficiency. To the extent that municipal governments can rely on funding from other levels of government, this eases the pressure on them to deliver services in the most cost-effective way possible. Cities are more likely to be disciplined in their spending choices if they have to raise the funds for these expenditures directly from their own constituents.

2. Revenue arrangements for cities

A better alternative to grants would be to give cities access to an ongoing source of revenue. This could be carried out in a number of ways, including (a) transferring a portion of federal or provincial tax revenues or receipts to local governments; (b) allowing municipalities to levy their own tax within existing federal or provincial structures; or, (c) giving cities free rein to design and administer their own tax system. We rank these various alternatives in the table on page 23.

a) Transfer of portion of federal or provincial government revenues

The federal or provincial governments could hand over a share of the receipts from a tax in their own arsenal (i.e., personal income tax, excise tax, or sales tax) to municipalities. Although an arrangement of this sort is effectively a grant, there is one important distinction that makes it more attractive. In contrast to outright grants, this form of revenue sharing is funded by a specific revenue source, whereby the cities' take would fluctuate "one-for-one" with changes in incoming revenue stream. As such, it is both less likely to become a drain on federal and provincial finances in difficult economic times – and, it is more likely to provide a reliable source of funding than an outright grant, which is funded by an unspecified source. However, the reliability is far from sacrosant, as was demonstrated in Alberta earlier this year, when the provincial government unexpectedly and unilaterally proposed to slash the share of the fuel tax it allocates to the cities.

Recently, there has been a groundswell of support for the idea of having federal and provincial governments share a portion of the gasoline excise taxes they collect with municipal governments. The rationale is that this would link car usage directly with transit needs and rising urban pollution. However, the argument is only superficially compelling. Provincial and federal excise taxes were not designed with transportation financing needs in mind, so the efficiency argument loses some of its muscle. Moreover, these taxes are levied on the *volume* of consumption,

NEW FUNDING ARRANGEMENTS FOR MUNICIPALITIES

OPTION		PROS	CONS	RANKING
1. GRANTS	• Grants from federal and provincial governments	• inexpensive to administer	• no accountability • unreliable • overall tax burden would rise	**1**
2. REVENUE ARRANGEMENTS FOR CITIES	a) Transfer of portion of federal or provincial government revenues	• inexpensive to administer • sufficient growth if tax is ad-valorem	• no accountability • can be unreliable • overall tax burden would rise	**2**
	b) Municipal tax within existing federal or provincial structures i. Municipalities piggy-back off an existing federal or provincial tax • must have the same tax base • tax to be collected by an existing entity (like the CCRA) • city cannot set the tax rate unilaterally	• excellent accountability • sufficient growth • inexpensive to administer	• excellent accountability	**3**
	ii. Same as (i) above (i.e., municipalities still piggy-back off an existing federal or provincial tax), but cities **CAN** set the tax rate unilaterally • still must have the same tax base • tax still to be collected by an existing entity (like the CCRA)	• excellent accountability • power to meet revenue needs • inexpensive to administer • more flexibility for revenue generation than piggy-backing	• more reliable than piggy-backing (i) but less reliable than giving cities free rein to set their own taxes (c)	**4**
	c) Cities given free rein to levy their own tax • city can set its own tax rate unilaterally • city can set its own tax base • tax may or may not be collected locally	• excellent accountability • power to meet revenue needs • excellent reliability	• expensive to administer • complex • overall tax burden would likely rise	**0**

*Rating is from 0 to 4, where 0 signifies least desirable and 4 signifies most desirable. Source: TD Economics which tends to grow slowly over time. A tax that is based on the value of consumption (ad-valorem) or an income tax would be better candidates, because the revenues they generate would be more likely to rise in tandem with cities' financing needs.

All of the revenue-sharing options also suffer from the same accountability problem as grants, with citizens from outside the community paying for benefits enjoyed locally.

b) Municipal tax within existing federal or provincial tax structures

Federal and provincial governments could go a step further by providing cities with even greater access to their own funding sources. One option would be to allow municipalities to piggy back off an existing federal or provincial tax by using the same tax base and having an existing entity like the Canada Customs and Revenue Agency (CCRA) collect the receipts. Under this scenario, there are two alternatives: (i) municipalities piggy-back off an existing federal or provincial tax, with the rate-setting subject to federal or provincial control or authority. A case in point is the arrangement in Vancouver and Victoria, where regional authorities have their own gasoline tax tacked onto the provincial tax, but changes to the local rate have to be cleared by the B.C. government; or, (ii) municipalities still piggy-back off an existing federal or provincial tax, but they have the freedom to set their the rate unilaterally.

These two alternatives receive high scores for accountability and administrative simplicity. However, the first variant – where rate-setting authority remains in the hands of the federal and provincial governments – does not ensure reliability. As a result, while both options rank at the top of the pack in terms of relative attractiveness as a revenue source, the second – which gives cities the power to set their their own tax rates – commands top marks.

c) Cities given free rein to levy their own tax

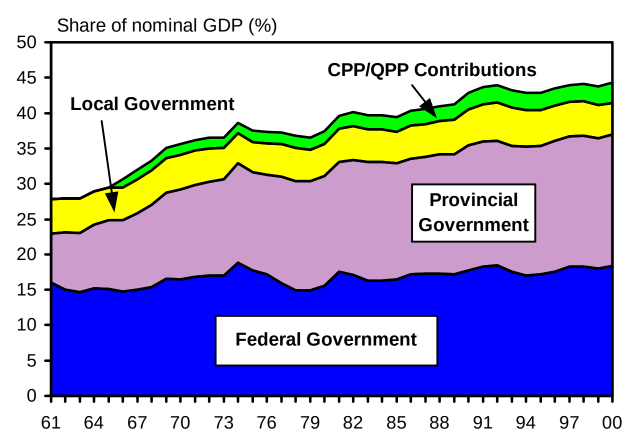
The third and final option would be to bestow upon cities the power to design and administer their own tax, including the choice of tax base and rate. The tax could be collected locally, through the provincial government, or at the national level, by the CCRA. Like a tax embedded in existing federal or provincial structures, this option has several positive attributes – namely, accountability, reliability, and the likelihood that it would provide for ample revenue growth. Unfortunately, an "independent" tax also has more than a few strikes against it. Most important, it would be complex, expensive and cumbersome to operate, especially if it were administered and collected locally. And, even if the tax were handled at the national level, that would only lessen the problem of complexity, since it would still create an additional layer of taxation.

Canadians don't need an increase in the overall tax burden

It is a commonplace to say that "there is only one taxpayer." That expression is highly relevant in this case. Canadian taxpayers are already stretched thin. Despite cuts to some federal and provincial tax rates in recent years, the ratio of total taxes to gross domestic product (GDP) in Canada has been on an almost unrelenting upward march for several decades, rising from 28 per cent of GDP in the early 1960s to 45 per cent today. That puts us in the middle of the pack among G-7 nations, but it is well above the burden in the United States. And, Canada makes particularly heavy use of income taxes (personal and corporate combined) relative to other countries.

In evaluating the options for providing additional funding to municipalities, we must consider the risk that this could increase the overall tax burden for Canadians. All other things being equal, the nod should clearly be given to schemes that mitigate this risk. Many advocates of a revenue sharing agreement, whereby the provincial and/or federal governments transfer funds to the municipalities, argue that this provides the best guard against an overall increase in the tax burden. We do not agree. If one level of government – say, the municipality – spends more money, other levels of government will have to spend less,

CANADA'S TOTAL GOVERNMENT REVENUES



All government revenues exclude intergovernmental transfers
Source: Federal govt. (*Fiscal Reference Tables* , Sept. 2001), TD Economics

or the "one taxpayer" will end up paying more. In other words, if the federal or provincial governments want to adhere to pre-existing budgetary objectives, any transfer they make to the municipalities would have to be matched by spending cuts or tax hikes of an amount equivalent to the size of the transfer. Alternatively, they could simply not cut taxes by as much as they had intended. But, the point is, there is no guarantee they will show this restraint.

If we stipulate that providing municipalities with more flexibility in accessing revenue sources threatens to increase the overall tax burden, the question becomes how to minimize this problem. The only enduring solution is for the federal and provincial governments to commit to reducing their own taxes to create the required room for municipalities. This would be tantamount to a tax point transfer from the federal and provincial governments to the municipalities – and, there is a compelling logic for this. To the degree that the federal and provincial governments have handed off responsibility for various programs and services to the municipalities, they would be doing less with less, while the municipalities would be doing more with more.

If there were no assurance that the federal and provincial governments would provide the tax room, a revenue transfer might be preferable to allowing the municipalities to access more revenue sources. However, in addition to suffering from the aforementioned lack of accountability, we would reiterate that a transfer also offers no assurance that the overall tax burden will not rise.

Comparing tax instruments

Assuming that municipalities are given enhanced powers to levy their own taxes, what would be the optimal tax for them to select? The choices include a personal and corporate income tax, an excise tax, and a sales tax.

1. City income tax unattractive

A number of U.S. and European cities have introduced a municipal income tax. If Canadian cities were to consider this option, the first thing to note is that the tax would have to be an integrated personal and corporate income tax. Otherwise, a city could find itself in the position of taxing the profits of a sole proprietor, while allowing corporations to accrue earnings tax-free – a blatant affront to the principle of equity.

Having said that, a municipal income tax that gave cit-

COMPARING TYPES OF TAXATION

OPTION		PROS	CONS	RANKING
1. CITY INCOME TAX	• Personal and corporate income tax	• excellent accountability • sufficient growth • excellent reliability • equitable	• CIT can be weak on transparency • business capital and personal capital gains difficult to tax because of high mobility • border issues	0
2. EXCISE OR SALES TAX	a) Excise taxes on gasoline, tobacco, hotels, etc.	• excellent accountability • sufficient growth • excellent reliability • equitable	• border issues	4
	b) Sales tax	• excellent accountability • sufficient growth • excellent reliability • equitable	• border issues • could be economically damaging if inputs taxed	3

*Rating is from 0 to 4, where 0 signifies least desirable and 4 signifies most desirable. Source: TD Economics ies' the power to set their own tax rate and that was embedded in a strict federal or provincial tax-collection agreement would pass the tests of accountability, simplicity, equity and reliability with flying colours. But, it also suffers from several flaws that substantially reduce its attractiveness. Both personal capital income and business income are tricky to tax at the local level, because they are so highly mobile across jurisdictions. Moreover, a corporate income tax ranks low in terms of transparency, since business taxes can be shifted from one entity to another. As a result, a city personal and corporate income tax, even if it piggy-backed off an existing federal and provincial tax, would not be a good candidate.

2. Excise or sales tax preferred

For municipalities, an excise and/or sales tax would be a far superior choice. Not only do both share all the strengths of an income tax, but they also win out in terms of efficiency – and, they have few drawbacks. Several promising excise taxes that might be explored are gasoline, alcohol, tobacco, and hotel taxes. There is a caveat with the sales tax, however. Most cities would likely piggyback off their respective provincial sales taxes. The problem with this is that a number of provincial sales taxes are highly detrimental to economic growth, because they tax inputs very heavily. Quebec and Atlantic Canada are important exceptions. Provincial governments there have harmonized their sales taxes with the value-added structure of the GST.

A more general obstacle for any new municipal tax – even the preferred excise tax – is the border problem. There is an incentive for economic activity to move just outside the geographical reach of the tax authorities, a problem that is being exacerbated by the rapid growth of e-commerce. The trend towards amalgamation of municipalities and the creation of regional authorities in many parts of the country mitigate this problem to some degree, by expanding the area within a tax could be applied. The experience of some provincial governments in lowering excise taxes progressively the closer the area is to the border is another possible remedy. In fact, looked at from another perspective, the border problem could even be seen as a plus, in that it imposes a natural constraint on how high a municipality could raise its tax rates.

Federal support without micro-management

The recommendation that cities be provided with their own tax sources does not preclude an active role for the federal government in strengthening the quality of life in Canada's cities. Almost every policy the federal government administers has an important impact on city life. There needs to be greater recognition of this. We have already discussed the importance of the federal government continuing to enhance its support for post-secondary education, especially for the critically important objective of raising the the level of research activity in Canada. Canadian cities will be among the biggest beneficiaries of these efforts. Immigration policies are also critical. In this regard, the federal government needs to do a better job of matching immigration settlement funds to the areas where the costs are being incurred. And, we should not overlook the federal government's role in the social safety net – from the Child Tax Benefit to the Guaranteed Income Supplement – which has been absolutely critical in preventing the grinding poverty that has gripped so many U.S. inner cities. In fact, it is not too far-fetched to consider the federal and provincial governments' income support programs as being part of a housing strategy. These income supports do narrow the gap between the market-based incomes of low-income individuals and families and the cost of housing.

As noted earlier, federal grants are not a desirable means of funding cities' ongoing needs – and, not just for the reasons cited previously (i.e., that they fail to meet the criteria of acocuntability and reliability). In Canada, the federal government tends to follow a "one-size-fits-all" approach, meaning that grants or revenue sharing arrangements typically are allocated on an equal per capita basis - whether a need exists in every jurisdiction or not. However, since fiscal and economic circumstances vary enormously across Canada's cities, this means that funding is not necessarily flowing to the areas that need it most. The federal government also has difficulty differentiating the form of its assistance from one area to another. Often, it will provide a certain form of support where it is badly needed, but then feel compelled to do exactly the same thing across the country, even if the needs are dramatically different in other regions. And, after all, needs are often in the eyes of the beholder. So, it is preferable that cities be given the fiscal flexibility to address their own unique, ongoing expenditure needs.

On the other hand, the federal government does have a valuable role to play on the municipal funding side, by providing cities with one-off assistance in the form of grants to help them deal with the sizeable infrastructure gaps they currently face. However, if the federal government intends to play this role effectively, it needs to make some changes to the Strategic Infrastructure Foundation initiative it announced last December. Many advocates for cities are unhappy that the federal government has reversed its original decision to set up the program as a foundation that would be run at arm's length from the government. That arrangement would have had the advantages of establishing a firm floor for the available funding and removing much of the decision-making from the political sphere. But, it had the disadvantage of weakening the accountability to Parliament for the public spending. The new arrangement, which will see the program operate as conventional government spending, addresses this latter concern. And, it needn't be at the expense of the advantages an arm's length relationship would have provided. The federal government can still secure these benefits by setting out firm, multi-year funding commitments, establishing clear rules for accessing the funds so that cities can engage in long-term planning, and making an independent Advisory Board responsible for project selection. Hopefully, a Board can guide the resource allocation to where the need is greatest, the project payoff highest, and local priorities are likely to be respected.

Engage private sector

While many of the policy changes discussed above focus on reforms at the governmental level, one key ingredient that must added to the mix to ensure success is a greater contribution by the private sector. We have already noted that governments can encourage increased private sector involvement in municipal initiatives by creating opportunities for businesses to earn commercial rates of return on projects – for example, through greater use of public-private-partnerships. But, the private sector's responsibility should run much deeper than merely providing investment capital when there is a profit to be made. Cities must work hard to get business more heavily involved in municipal activities, development planning and sharing best practices. A good model is the U.S. initiative, CEOs for Cities – which partners the private sector with municipalities and other community groups. The entrepreneurship of the private sector must be leveraged to bring cities closer to achieving their long-term goals.

Conclusion

The bottom line is that all Canadians are stakeholders in our nation's future. And, we must all recognize that cities will be at the forefront of Canada's march into the 21st century. *Without robust and vibrant cities, there is simply no hope for achieving the objective of beating the U.S. standard of living within 15 years.*

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