CUPE ECONOMIC BRIEF

Transfers to Municipalities Fell Billions Short in 2006 *November 2007*

The cause of the budget crises and municipal infrastructure deficit confronting local governments in Canada is clear. Federal and provincial governments severely cut transfers to local governments starting in the mid-1990s. This caused a funding shortfall that is now about $4 to $7 billion a year. The solution is also very straightforward: federal and provincial governments need to substantially restore their transfers to local governments.

Cities across Canada and especially in Ontario are under severe budget pressures. Toronto, Windsor, Hamilton, Ottawa and other municipalities are considering service or staff cuts, asset sales, privatizations, and hikes in user fees and taxes. The infrastructure deficit continues to mount and badly needed investments are being put off yet again.

Most Canadians know that our federal and provincial governments have been running large budget surpluses at the same time. What many may not know is that there is a very direct relationship between these two.

The federal government drastically cut its transfers to provinces and local governments in the mid-1990s. In turn many provinces, and particularly Ontario, further cut transfers to local governments while also forcing them to deliver a greater range of services.

If federal and provincial governments had increased their transfers as local government costs and needs since 1995, they would not be facing today's massive infrastructure deficits or severe budget pressures.

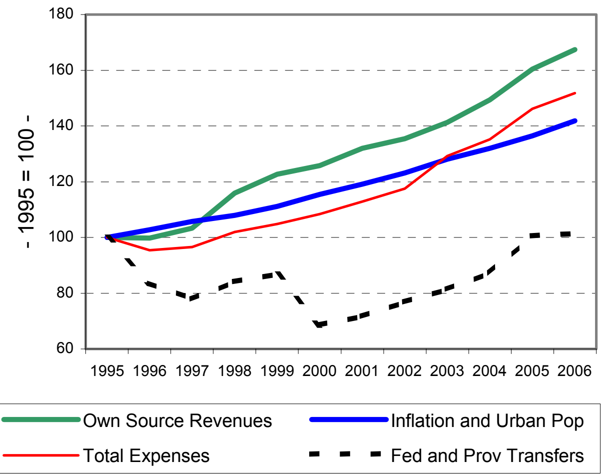
From 1995 to 2006, local government:

- Total revenues increased by 50%
- Own source revenues increased by 67%
- Property tax revenues increased by 93%
- User fee revenues increased by 76%
- Expenses increased by 52%
- Urban population and inflation rose by a combined 42%
- Federal and provincial transfers to local governments increased by only 1%

In every year from 1996 to 2005, federal and provincial transfers were lower in actual dollar terms than they were in 1995. There has been some growth in recent years, especially from the federal government, but they have only just reached the level that they were 12 years ago: $10.6 billion. As of 2006, federal and provincial transfers to local governments were still 40% lower than they were in 1995 in *real dollars per person*.

Municipal Transfer Funding Shortfall

Trends of revenues, expenses, inflation and urban population growth compared to transfers



If these transfers had increased at the same rate as municipal own-source revenues, expenses, or urban population growth and inflation, municipal governments across Canada would have revenues $4 to $7 billion higher in 2006, and a cumulative $42 to $56 billion more in revenues over the 1996 to 2006 period.

For instance, if federal and provincial transfers to local governments had grown at the same rate as:

- Local government own source revenues – they would have been $6.9 billion higher in 2006, and a cumulative $56 billion more during the 1996 to 2006 period.
- Local government expenses – they would have been $5.3 billion higher in 2006, and a cumulative $40 billion more during the 1996 to 2006 period.
- Urban population and inflation – they would have been $4.3 billion higher in 2006, and a cumulative $42.5 billion more during the 1996 to 2006 period.

Federal and provincial governments all running surpluses

The federal and most provincial governments are now in excellent financial health. The federal government has accumulated over $105 billion in surpluses since 1997/8, including the expected $10 billion plus surplus for this year. It has also cut income taxes, corporate taxes and sales taxes by much more than that amount since 2000 – although little of this has gone to benefit lower and middle income Canadians.[1]

All Canada's provincial governments are now reporting surpluses and most have also significantly cut taxes without restoring funding to local governments. The total surplus of all the provinces is expected to be over $16 billion this year. Even Ontario posted a $2 billion+ surplus last year.

Local Government Transfer Shortfall (billions)				
If had grown at same rate as:	**2000**	**2005**	**2006**	**Cumulative 1996 - 2006**
Own Source Revenues	$ 6.04	$ 6.32	$ 6.97	$ 56.25
Expenses	$ 4.20	$ 4.81	$ 5.33	$ 40.05
Inflation and Urban Population	$ 4.95	$ 3.79	$ 4.27	$ 42.56

Calculations using Statistics Canada's *Financial Management System* database, Consumer Price Index, and Census reports. http://www.statcan.ca/english/nea-cen/data/index.htm

Local governments only have access to a very limited range of revenues. Property-based taxes and user fees account for 75% of local government revenues and over 90% of their own-source revenues. Property taxes and user fees are very regressive – falling much more heavily on lower income households – and don't grow from year to year[2].

Municipal services – including public transit, roads, bridges, water and sewer utilities, libraries, buildings, recreation and social services – are under strain and in need of substantial investment and renewal. This has led to increases in property taxes and user fees, expensive short-term repairs, cutbacks to other services and an increasing number of proposals for privatization. Ontario cities have increasingly used "one-time wonders": reserve funds, bail-outs, and asset sales in a desperate attempt to balance their books from year to year[3].

These are neither sustainable nor in the long-term interests of the public. They have resulted in a growing tax and fee burden, often on those who can least afford it, emergency repairs that are more expensive than well-planned renewal, and privatization, asset sales and public-private partnerships that will inevitably cost the public more.

The federal government's gas tax funding will provide an increase in transfers in the next few years, but this transfer reaches a maximum of $2 billion a year in 2009/10 with no further increases after that. Beyond the gas tax funding, which was promised in 2005 as part of the *New Deal for Cities and Communities*, the federal government is providing little increase in infrastructure funding on an annual basis. After 2009/10, total federal infrastructure funding is expected to increase by only 1.1% a year – even less than expected inflation.[4]

The situation is worst in Ontario thanks to the severe cuts and offloading under the Conservative government. Ontario government transfers to local governments were 13% lower in 2006 than in 1995. If these had grown at the same rate as Ontario local government own source revenues, they would be more than $6 billion higher in 2006, and $4.2 billion higher if they had increased at the same rate as their total expenses.

It is not enough for the federal government to cut taxes and tell lower levels of government to raise their own taxes. This would just lead to unproductive tax competition, avoidance, higher costs and increased inequality. A dedicated transfer is necessary.

Municipalities need access to a substantial source of revenues that grows with local government needs. The $6 billion in annual revenues raised by one cent of the GST is equivalent to the annual shortfall suffered since 1995. This is a logical revenue source to transfer, given the national scale of the problem. But provinces also need to take responsibility for providing more sustainable funding.

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1 See Marc Lee, *Eroding Tax Fairness*, Canadian Centre for Policy Alternatives, 2007. http://www.policyalternatives.ca/Reports/2007/11/ReportsStudies1752/

2 See *Restoring Municipal Fiscal Balance*, Federation of Canadian Municipalities (2006), Appendix 5, for distributional impacts of property taxes. http://www.fcm.ca/english/fiscal/fiscal.html

3 Armine Yalnizyan. *The End of Magic? From One-time Fixes to Sustainable Solutions*. Community Social Planning Council of Toronto, October 2007. http://www.socialplanningtoronto.org/EndofMagic.pdf

4 Toby Sanger. CUPE Economic Brief: *Building Canada, but not by much.* http://www.cupe.ca/economics/Building_Canada_but_