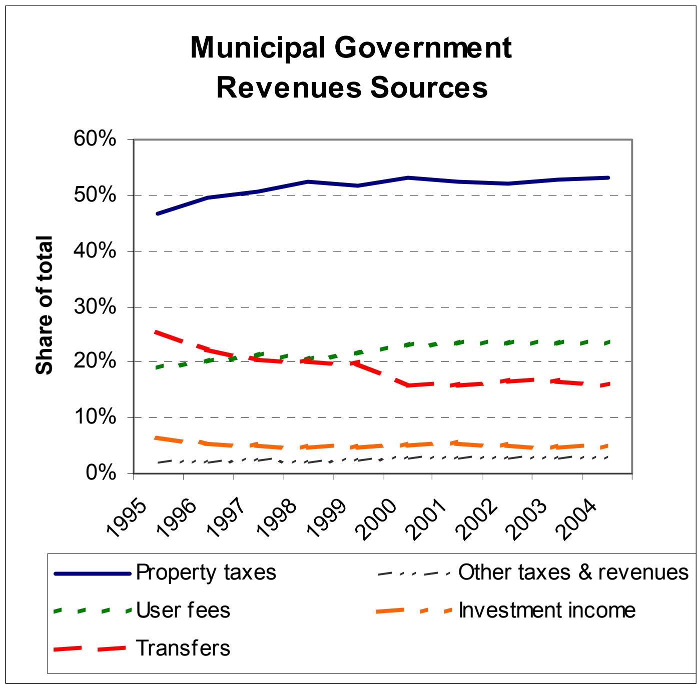
Rebuilding Strong Communities

New Revenue Sources for Cities and Communities

The Canadian Union of Public Employees represents over 150,000 employees of municipal governments across Canada. We work hard to provide quality public services that are the foundation for building strong and vibrant communities. Local governments need reliable and growing revenues to provide quality public services.

Canadian municipalities have become increasingly dependent on property taxes and user fees for their revenues. Over 76% of municipal revenues came from property taxes and user fees in 2004, up ten percentage points from 66% in 1995[1].

Over the same period, the contribution of federal and provincial transfers to municipal revenues dropped ten percentage points from 26% down to 16% by 2004. These trends were particularly severe in Ontario, but were also strong in other provinces.



Current Revenue Sources

Municipalities in other countries have access to a wider range of revenue and tax streams than Canadian municipalities do. In particular, municipalities in most European countries and in many US states gain considerable revenues from income and sales taxes.

1 Statistics Canada System of National Economic Accounts, Local general government revenue and expenditures, CANSIM table 385-0004.

- Property taxes and user fees are not related to residents' ability to pay and are very regressive. The property tax burden as a share of income is on average three times higher on lower income households than it is on higher income households[2].

Property tax and user fee revenues are inelastic: they don't grow automatically as do income or sales taxes. Property tax assessment systems have also been beset by a number of problems in different provinces. In addition, a heavy reliance on property taxes perversely encourages urban sprawl as a way for municipalities to increase their revenues, which leads to greater costs down the line.

Growing Responsibilities

At the same time, municipalities have had to take on increased responsibilities due to[3]:

- Direct downloading of responsibilities from provinces, such as social services and housing in Ontario.
- Reduced transfers to municipalities for specific programs.
- Federal and provincial cuts to different programs, such as immigrant settlement, recreation, housing, which has meant that municipalities have had to fill the void with their own programming.
- Higher standards and expectations mandated on municipalities without adequate funding, particularly in the areas of the environment, health and security.
- Growing demand for quality public services from residents and businesses that want an improved quality of life.
- Accelerating costs associated with urban sprawl and congestion.

The Real 'Fiscal Imbalance'

The Canadian Union of Public Employees has advocated for increased federal funding to provinces, municipalities and other organizations to develop strong national public programs and services. This is the best way to provide all Canadians with good quality and comparable – but locally relevant – services, no matter where they live.

Together with the Federation of Canadian Municipalities, CUPE has pushed for the federal government to:

- Increase funding for municipal public infrastructure.
- Restore funding to the Canada Social Transfer, based on a set of common principles.
- Support a national child care program.

Increased federal transfers provided by the previous government through the *New Deal for Cities and*

2 Boris Palameta and Ian Macreadie, 2005. "Property taxes relative to income." *Perspectives on Labour and Income* (Statistics Canada, Catalogue no. 75-001-XIE), March 2005. Online edition.
3 Enid Slack (2006). "Fiscal Imbalance: The Case for Cities", University of Toronto, March 13, 2006.

Communities are a positive step, but the transfers need to be made permanent. Even when it is fully phased in, it will only amount to about 3% of the total municipal revenues. The annual $2 billion will barely meet the growing infrastructure gap and much less, eliminate it within a generation. This transfer – based on a per litre tax share – will not increase as fast as income or sales taxes.

Unfortunately, the current federal government appears intent on withdrawing federal funding support to provinces and municipalities for housing and homelessness, child care and other social programs.

This is not because of a lack of money: before the last budget, the federal government was expected to have $75 billion available in surplus over the next five years. Most provincial governments are also in relatively good fiscal shape: all except Ontario and PEI have had surplus last year and even those are quickly disappearing. Most provinces also cut taxes in their budgets this year. It is the municipal governments that appear to be suffering the most from any “fiscal imbalance”.

While the current federal government has signalled that it is planning to cut support for many programs of importance to local governments, it is, at least encouraging that the federal government will include municipalities in upcoming discussions on the issue of *Restoring Fiscal Balance in Canada.*

In this context, it is important that municipal governments have access to increased revenue sources that are appropriate, economically efficient, grow at a stable rate and are flexible.

New Revenue Sources for Municipalities

New revenue sources should be matched with areas where program responsibilities are growing. Property taxes may be an appropriate source of revenue for services related to property, such as fire and police protection. As municipalities take greater responsibility for social services and other services that benefit people, they should be funded by other revenue sources that are based on more progressive sources than property taxes or user fees, such as income or sales taxes.

Human capital, rather than land, is increasingly becoming the engine of economic growth. Municipal governments need to provide more services to improve the quality of life in our communities, and enhance and attract skilled workers. Revenue sources should reflect this.

Program spending and transfer payments at national and provincial levels are particularly appropriate, as people become more mobile and as the benefits of programs, such as environmental impacts, are increasingly regional, national, or global in scope.

New revenue sources should also be efficient to collect and administer – and not serve to encourage economically inefficient behaviour, such as tax avoidance. Local rate setting of income taxes would not only complicate tax collection and administration, it would also lead to significant levels of local tax competition and avoidance, neither of which are efficient from an economic perspective. Tax competition and avoidance could also further increase inequality with the creation of affluent tax havens and ghettoes of social exclusion at the local level.

Municipalities need access to revenue sources that grow at a stable rate. While transfers and grants can provide a stable source of revenues, they are provided at the year-to-year discretion of the federal and provincial governments and have too often been cut, leaving local governments in the lurch. Municipalities need to be provided with stable multi-year or permanent transfers.

Income taxes have the benefit of growing in line with the economy, but they are also subjected to cyclical swings. There could be even more severe variations in tax revenues if the tax base is determined locally during times of regional or local economic hardship.

Increasing local income tax rates during these times of increased need and diminished ability to pay would not be a popular political or wise economic measure. This should be of particular concern to municipal governments, with the 'no deficit', a fiscal rule under which they are obliged to operate. There is a good precedent for income tax sharing without local rate setting in the federal government's tax sharing agreements with First Nation governments. Even more stability could be provided if tax point transfers were provided on a multi-year average basis.

Flexibility Required

Municipal governments should also have flexibility in the types of new fiscal arrangements developed with federal and provincial governments. Different cities have different needs and capabilities. For example, large cities such as Montreal, Toronto and Vancouver have diverse needs in relation to immigrant settlement and have the capability to deliver programs in this area. Municipalities should be able to draw down funding and take responsibility for their own programming where they have the needs and capabilities, while other municipalities should be able to opt-in to federal or provincial levels programming in these areas.

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