QUALITY PUBLIC SERVICES YOU CAN COUNT ON

Municipal financing and fair taxes

Canadian cities and towns face unprecedented pressure and demand for investment in infrastructure, social services, immigrant settlement, housing, public transit and child care services. But municipalities are limited in their ability to generate revenue and face significant barriers meeting these critical needs.

Municipalities are responsible for construction, operations and maintenance for 53 per cent of our nation's public infrastructure, but collect just eight cents of every tax dollar paid in Canada. At the same time, downloading, cutbacks and neglect for social services by upper levels of government are increasing pressures and costs in other areas.

This leaves municipalities highly dependent on the taxes and fees they are allowed to collect—such as property taxes and user fees—while struggling with a more than $120 billion infrastructure deficit. As a result, Canadians have some of the highest rates of property tax in the world, with reliance on property taxes twice the OECD average. In contrast, most European and American cities rely much more on income and sales taxes.

Transfers from federal and provincial governments help, but they leave municipalities dependent on the goodwill and support of other governments. The federal government's commitment to a ten year long-term infrastructure plan in its 2013 Budget is certainly welcome, but the New Building Canada Fund pushes municipalities into public-private partnerships (P3s), which result in higher long-term costs. Federal and provincial transfers are provided largely for capital investments and they don't address increasing pressures on operations and maintenance.

Privatization and P3s may be tempting for municipalities because they either offer a quick buck through asset sales or lower up-front costs for capital investments. But P3s lock governments into much more expensive deals that heap debt onto future years. This is a "penny-wise, pound foolish" approach because these revenues and savings come at a major cost: reduced revenues and higher costs in future years. In particular, they make no sense when governments can borrow at a much lower rate than private investors. If municipalities engage in P3s, they will face much higher ongoing costs in the future. P3s don't reduce costs: they just delay and inflate costs for future years.

Municipalities need more diverse and growing revenue sources to address the infrastructure deficit, deal with their growing responsibilities and pay for adequate operations and maintenance.

Municipal officials must also consider the distributive impact of their revenue sources on different income groups and households in their communities. Canada's tax system has become increasingly unfair and has contributed to a growing gap between top incomes and the rest of society. User fees, property taxes and sales taxes are generally regressive. Because lower income households pay a higher share of their income in these taxes, they increase inequality more than use of other progressive taxes and revenues, such as income taxes. As a result, these types of taxes—and particularly user fee charges or taxes—can encounter greater public opposition.

While virtually all municipalities in Canada rely heavily on property taxes for most of their revenues, different provinces also provide municipalities with access to other revenue sources in addition to fees for services, licenses, permits and fines (see below). Some provinces also provide municipalities with specific revenue sharing, tax sharing and regional fuel surtaxes.

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In many cases, municipalities are not taking advantage of revenue tools they already have available: they could generate additional revenues and prevent cuts while enhancing services for their residents.

However, the revenues associated with many of these are generally less than what could be raised through broader-based sales and incomes taxes, which are available to municipalities in other countries. As a result, there's interest and pressure building for provinces to provide municipalities with access to additional broader-based dedicated revenue sources.

Municipalities need access to sustainable and growing revenue sources through a share of federal or provincial tax revenues. CUPE supports municipalities in their quest for a better deal on municipal revenue options and will be engaged with further research, discussions and advocacy on this issue.

Municipal revenue and funding sources beyond property taxes, transfers and grants

User fees have increased significantly in recent years and now account for approximately 22 per cent of local government revenues. However, user fees disproportionately affect lower-income people and can lead to greater inequality and social exclusion. They can also be administratively expensive to collect and are often not a very effective way of managing consumption.

Other municipal revenue sources in some provinces include land transfer taxes, amusement or sin taxes, hotel taxes, poll taxes, road pricing and tolls, development charges, area/improvement/parcel taxes and a variety of other taxes and charges. While some of these revenues are beneficial most do not generate significant revenues.

Revenue sharing of other federal and provincial revenue sources, such as sales taxes, income taxes or environmental taxes could easily be expanded. To reverse growing inequality provincial governments could allow municipalities to share revenue from new progressive taxes, such as high-income surtaxes.

Improved public borrowing alternatives can provide municipal governments with new and lower cost sources of financing. These include pooling borrowing power through municipal financing authorities (active in many provinces) or crown corporations, special purpose bonds (i.e. climate or green bonds), or direct investment through public pension funds.

CUPE has commissioned research on progressive municipal revenue options, and has developed a guide on these issues. ***Building better communities: A fair funding toolkit for Canada's cities and towns*** is a user-friendly guide to the state of municipal finances and revenue-generating options, with a focus on fairness and equity. ***Funding a better future: Progressive revenue sources for Canada's cities and towns*** is a forthcoming research paper on the importance of progressive municipal revenue sources in building the long-term fiscal and social health of our communities.

Both are available at cupe.ca/communities

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