by Paul Moist

Building Better Communities

Time to fund our cities and towns properly – and fairly

The numbers just don't add up.

Local communities must address increasing demands with limited revenue sources. Meanwhile, the federal government is about to score multi-billion dollar surpluses, yet continues to download responsibility for delivering services to provinces and municipalities.

Canada's cities and towns are on the front lines of the defining challenges of our times – from climate change and income inequality, to a rapidly-aging population and crumbling public assets like bridges, roads, and water treatment plants.

Municipalities also provide many of the public services we depend on every day, including clean water, waste collection, playgrounds, and public transit. Universal public services are great equalizers that help lift families out of poverty.

But, local governments lack the solid financial foundation that's needed to meet these crucial and growing responsibilities.

It's time to change the equation.

Addressing the Imbalance

With the federal government expected to register surpluses of more than $10 billion after this year, fair municipal funding is possible. The vast majority of these surpluses will come from spending cuts, with federal government spending set to drop to the lowest share of the economy it's been in over 70 years.

Instead of wasting the coming surplus on another round of expensive and regressive tax cuts that largely benefit a few and further increase inequality (such as family income splitting), the federal government should address the municipal fiscal imbalance and help municipalities meet their growing needs by providing a share of federal revenues.

Our cities and towns have limited power to raise their own revenues. Much of the financial support from other orders of government is project-specific, and doesn't support ongoing operating and maintenance expenses. It is fiscal folly to think municipalities can continue to play a central role in Canada's economic and social wellbeing without new, long-term funding sources.

Any new funding must also be *better* funding. Ending the municipal fiscal imbalance begins with a serious conversation about tax fairness at the local level. It's time for new revenues that shift costs equitably onto those who can most afford to contribute.

The need is urgent. Measured as a share of the economy, municipal government revenues are a relatively small slice of Canada's economic pie and have not kept pace with economic growth. Local government tax revenue amounted to just 2.9 percent of gross domestic product in 2013. This is more than 10 percent below the long-term average of 3.3 percent from 1981 to 2013.

Meanwhile, municipal responsibilities are growing exponentially. As one example, economist Hugh Mackenzie looked at Canada's infrastructure gap and found that local government ownership of (and, by extension, responsibility for) public infrastructure assets more than doubled from 22 percent in 1955 to 52 percent in 2011. Downloaded responsibilities for social services, immigrant settlement, policing, and other community services are also straining municipal finances.

Inadequate System – and Unfair

Unlike most other Organisation for Economic Co-operation and Development (OECD) countries, Canadian municipalities depend primarily on property taxes and user fees to deliver public services and maintain crucial infrastructure. This is inadequate, and it's unfair.

Canada has some of the highest rates of property tax in the world. And, our overreliance on this regressive tax isn't strengthening the municipal bottom line. These revenues weren't designed to support such a wide range of services and infrastructure, as well as constant growth.

Although municipal obligations are increasing, property tax revenues don't automatically grow with the economy like income and sales taxes. In contrast, most European and American cities can

PAUL MOIST is national president of the Canadian Union of Public Employees, Canada's largest union representing over 627,000 members across the country, including 183,000 municipal workers.

count on income and sales taxes for a substantial portion of their revenues.

Equally important, property taxes and user fees aren't based on ability to pay. Lower- and middle-income households pay a higher share of their income in regressive property taxes and fees than high-income earners. This imbalance contributes to income inequality, which threatens to erode the health and wellbeing of our communities.

At the federal level, money from the New Building Canada Fund hasn't flowed in time for many projects in the 2014 construction season. To make matters worse, the Conservative government has attached ideological strings to this infrastructure funding, forcing any project worth $100 million or more to be screened as a public-private partnership. The Conservative government's P3 agency decides whether it proceeds as a P3.

Imposing expensive and risky P3s on municipalities will only increase pressure on strained municipal budgets. In the United Kingdom, P3s (known there as the Private Finance Initiative), have created a debt bomb of over $500 billion – the equivalent of $20,000 per household. We risk following in the U.K.'s footsteps, as federal and provincial governments in Canada force municipalities to adopt P3s as a condition of receiving infrastructure funding.

Sustainable Revenue Options

Municipalities need sustainable revenues for operations and maintenance, not just conditional grants and capital funds. And, they should not be forced into multi-decade P3 deals that cannibalize future revenues.

Our income tax system is a progressive source of revenue. High-income earners pay a higher percentage of their income in taxes than low-income earners. However, decades of costly and unproductive tax cuts have made our tax system less fair over the past 25 years. The spending cuts that come with tax cuts have eroded public services in a one-two punch that's left most people worse off.

Increasing the top tax bracket on income over $136,000 from 29 to 35 percent would generate $6 billion annually, which could be devoted to municipalities. This would restore some fairness to our income tax system, reduce income inequality, and provide local governments with reliable revenues that grow with the economy.

Sharing just one percent of total revenues from the lowest tax bracket (on earnings up to $43,900) is another way to generate $6 billion a year for municipalities.

A one percentage point share of the federal Goods and Services Tax would provide cities and towns with more than $6.5 billion a year, increasing their fiscal capacity by five percent.

Answering this long-standing call from municipal leaders – instead of cutting the GST by one percentage point – could have funded local public services that would have left 80 per cent of Canadians better off, according to research from the Canadian Centre for Policy Alternatives' Hugh Mackenzie and Richard Shillington. These ongoing and widespread benefits would counterbalance the regressive nature of sales taxes like the GST.

Finally, transferring another five cents per litre of the federal gas tax to municipalities would mean more than $2 billion annually in reliable funding for infrastructure projects, doubling the current gas tax fund.

There are many progressive steps to be taken at the local level as well. Property taxes can be made fairer by scaling rates to rise with property value. A municipal land transfer tax can generate significant revenues, while also levying higher rates on more valuable properties. Development charges can be structured to cover the full cost of growth-related infrastructure expansion and to encourage density.

These and other solutions are explored in a new CUPE guide advocating for municipalities to have access to progressive revenue sources. *Building better communities: A fair funding toolkit for our cities and towns* looks at nine revenue-generating tools, evaluating each for its fairness, impact on local finances, and ease of use.[1] While there's no single magic bullet, there are steps we can take to finance our cities and towns in fair and sustainable ways.

For the sake of our collective future, let's add some balance and equality to the fiscal equation. MW

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1 *Building better communities: A fair funding toolkit for our cities and towns* is available at <cupe.ca/municipalities>.