Well-funded communities: financing and revenue alternatives

Over the past year, economic stimulus programs have given municipal governments a badly-needed injection of infrastructure funding. This funding has created tens of thousands of jobs, while helping thousands of communities repair their crumbling infrastructure.

The stimulus spending will soon end, and federal transfers for infrastructure projects are set to decline. Yet municipal governments still face an infrastructure deficit of over $120 billion. Cities and towns must also meet new demands like higher environmental standards, the challenges of climate change and more diverse social needs.

Municipalities need stable, predictable and growing revenues to deliver on their increasing responsibilities. But compared to other countries, local governments in Canada have very limited revenue-raising powers.

Although municipal governments are responsible for 58 per cent of Canada's public infrastructure, they only collect eight per cent of total tax revenues.

Most of this revenue comes from property taxes and user fees, which provide on average 75 per cent of municipal government revenues. This is far higher than other industrialized countries, where transfers from central governments and income and sales taxes provide a much larger share of local government revenues.

Local revenue-raising options

There are a number of financing and revenue alternatives available to municipalities. However, these remain limited and will not solve the municipal fiscal imbalance that persists.

- *Property-based taxes* now account for an average 53 per cent of local government revenues. On the positive side, they are relatively stable and predictable. But they don't grow with the economy, are regressive, aren't paid by those who live outside a municipality's boundaries but benefit from its services and aren't always well-matched to municipal spending.
- *User fees* on municipal services have also increased significantly in recent years and now account for approximately 22 per cent of local government revenues. However they are also regressive, falling disproportionately on people with lower incomes, and can lead to greater inequality and social exclusion.
- *Federal and provincial transfers* have been cut deeply. As a share of local government revenues, transfers dropped from an average of 26 per cent in 1996 to just 17 per cent in 2006. Transfers have increased slightly since then, but they are about to decline again, as stimulus spending ends and the federal government's cancellation of child care funding takes effect.
- *Other municipal revenue sources* include fines, development charges, hotel taxes, amusement

taxes, vehicle registration fees, congestion charges and land transfer taxes. Ontario's *City of Toronto Act* recently enabled Toronto to raise revenues from a broader range of sources. This was welcome, but is still limited because it doesn't include revenues from major tax sources such as income taxes or sales taxes.

- *Privatization and public-private partnerships (P3s)* may be tempting because they offer a quick buck through asset sales or shift the up-front costs for capital investments. However, this is a "penny-wise, pound foolish" approach. These one-time revenues and perceived savings come at a price: reduced revenues and higher costs in future years. In particular, P3s make no sense given governments can borrow at a much lower rate than private investors.

- *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, tax exempt bonds, special purpose bonds (e.g. climate or green bonds), or direct investment through public pension funds.

- *Federal and provincial revenue sharing.* Sharing of federally- or provincially-administered taxes and other revenue sources is largely limited to property and fuel taxes (at both the federal and provincial levels). However, there is room to expand this revenue sharing to other taxes, such as sales taxes, income taxes, and environmental taxes, fees and levies. Provincial revenue sharing with municipalities, for instance through an income surtax, will reverse growing inequality in Canada's tax system, especially at the municipal level. There is also broad public support for reversing a one per cent cut to the GST, provided the money was spent on local infrastructure and services.

Ultimately, Canada's cities and communities need access to sustainable and growing revenue sources through a share of federal or provincial sales and income tax revenues. CUPE strongly supports municipalities in their work for a real "new deal" on municipal financing.