

# Investing in the future: Financing municipal infrastructure





FCM's 2015  
Conference and  
Trade Show

TODAY'S  
COMMUNITIES,  
TOMORROW'S  
CANADA

FCM

FEDERATION  
OF CANADIAN  
MUNICIPALITIES

FÉDÉRATION  
CANADIENNE DES  
MUNICIPALITÉS



2015

# Municipal financing: taking fairness seriously

Federation of Canadian Municipalities 2015 Conference  
Edmonton Alberta, June 6, 2015

Workshop: Investing in the Future — Financing Municipal  
Infrastructure

David Thompson, Principal  
PolicyLink Research & Consulting

# The need for municipal revenues

- \* Infrastructure gap
- \* \$0.08 per dollar nationally
- \* Downloading programs
- \* Unfunded mandates
- \* The unfunded cost burden of suburban sprawl
- \* Etc etc

# P3 magic bullet? Ontario Auditor General Report 2014

- \* “Alternative Financing and Procurement” (AFP) approach, a form of public-private partnerships (P3s) used in Ontario
  - \* Private sector provides initial financing
  - \* Province ultimately pays under contract
- \* Infrastructure Ontario relies on “value-for-money” (VFM) assessments to determine whether to use P3 or public delivery

# OAG: P3 Cost Premium \$8B

- \* Auditor General examined 74 cases where VFM said to use P3 and costs totalled \$8B more
- \* Infrastructure Ontario says \$8B more than offset by risk of potential cost overruns construction and maintenance in the public sector. However, risks overestimated:
  - \* Valuation of cost of risks was biased opinion, not based on evidence
  - \* Risks assumed transferred to private sector were not
  - \* Double-counting public risks and underestimating private risks.

# Back to reality: the need for municipal revenues

- \* P3s no panacea
- \* Need revenues, not just financing (especially if it's more expensive financing)
- \* Many revenue options

However... persistent critique of municipal revenue options: many are regressive in impact.

# A problem with regressive revenues: worsening inequality

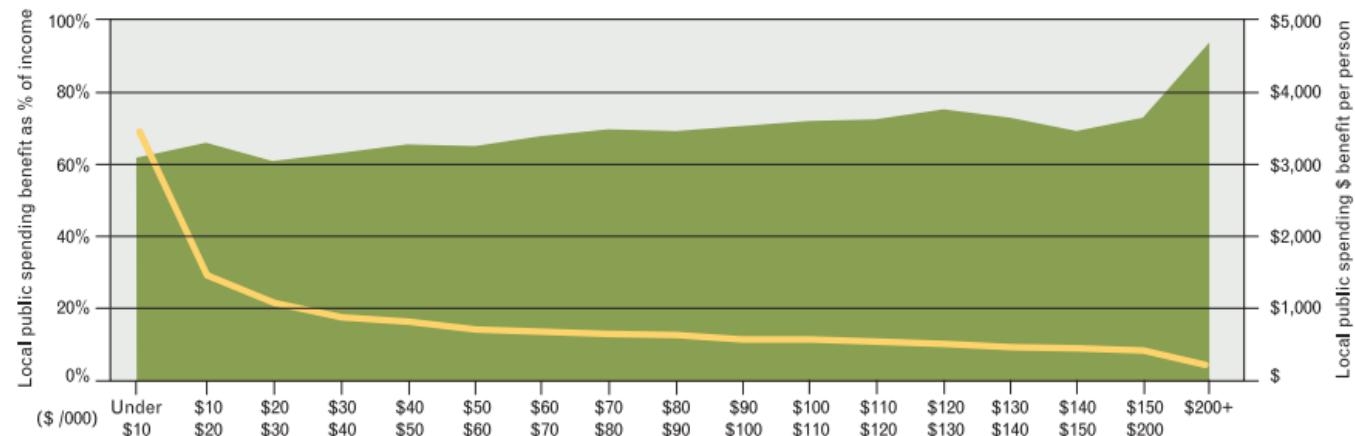
- \* Inequality associated with many problems, incl.
  - \* poor education and health outcomes
  - \* lack of trust & reduced participation in community life
  - \* higher rates of addiction and obesity
  - \* higher rates of violence and incarceration
- \* Also lower productivity, less efficiency, lower economic growth

# The trend in inequality

- \* Inequality growing
  - \* “Income inequality in Canada has increased over the past 20 years.”
  - \* “The richest group of Canadians increased its share of total national income between 1993 and 2008, while the poorest group lost share. Middle-income Canadians also lost share.”
- \*Source for this
  - \*CCPA?
  - \*No → Conference Board of Canada

# Governments can tackle inequality

- \* Regulation, e.g. minimum wage
- \* Fiscal changes:
  - \*change spending
  - \*change revenue system



Source: Mackenzie & Shillington (2009)

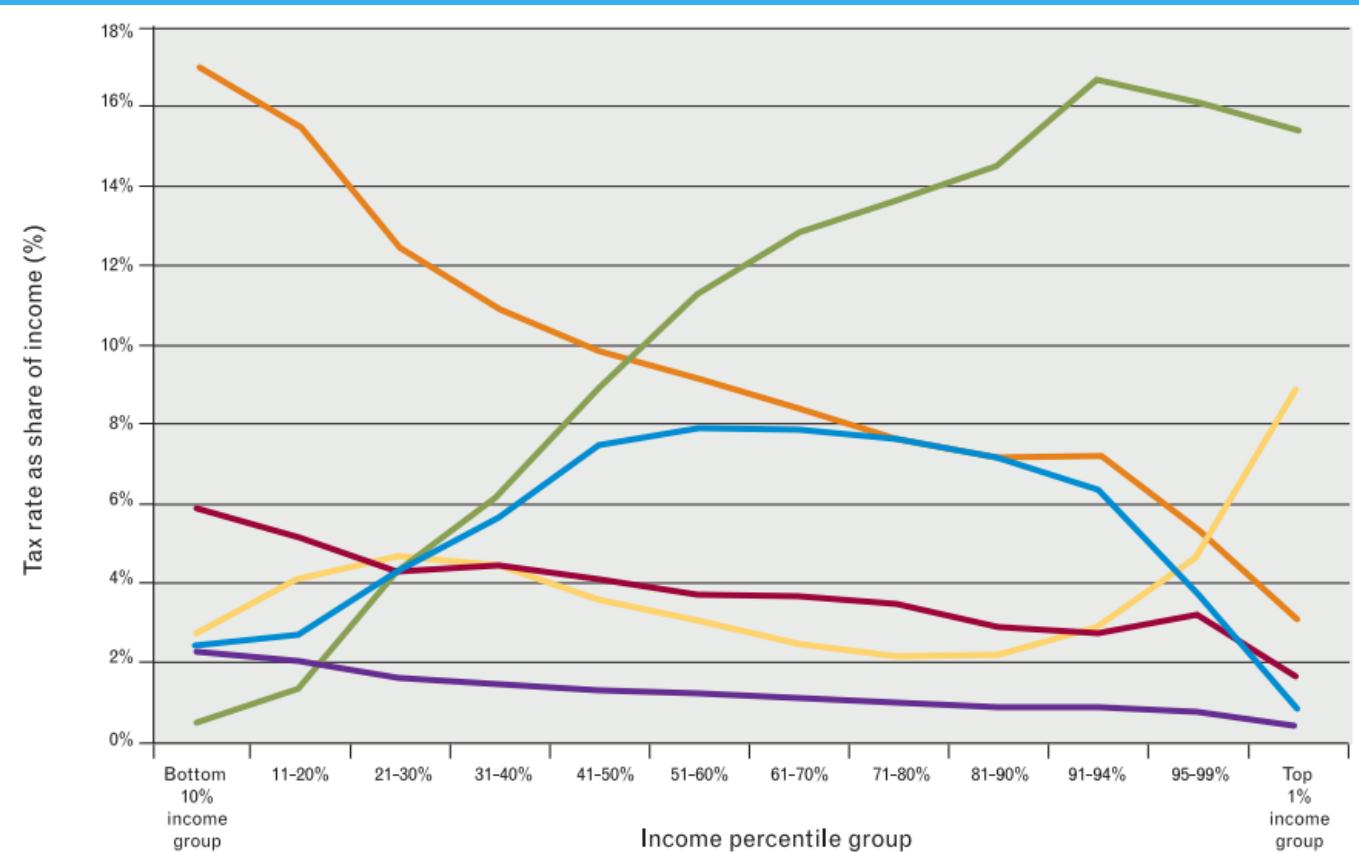
Dollars of local public spending per capita (right axis)

Public spending as a percentage of income (left axis)

# Four revenue options and their relative progressivity

- \* Four options:
  - \* Income taxes
  - \* Sales taxes that are less regressive
  - \* User fees that are less regressive
  - \* Property taxes that are less regressive
- \* Chosen for:
  - \* importance as existing municipal revenues
  - \* prominence in discussions of new revenue options
  - \* potential for making the overall revenue system more or less progressive

# Income taxes



Source: Lee (2007)

- Personal income tax
- Property tax
- Corporate income tax
- Other provincial taxes and fees
- Commodity tax
- Payroll taxes

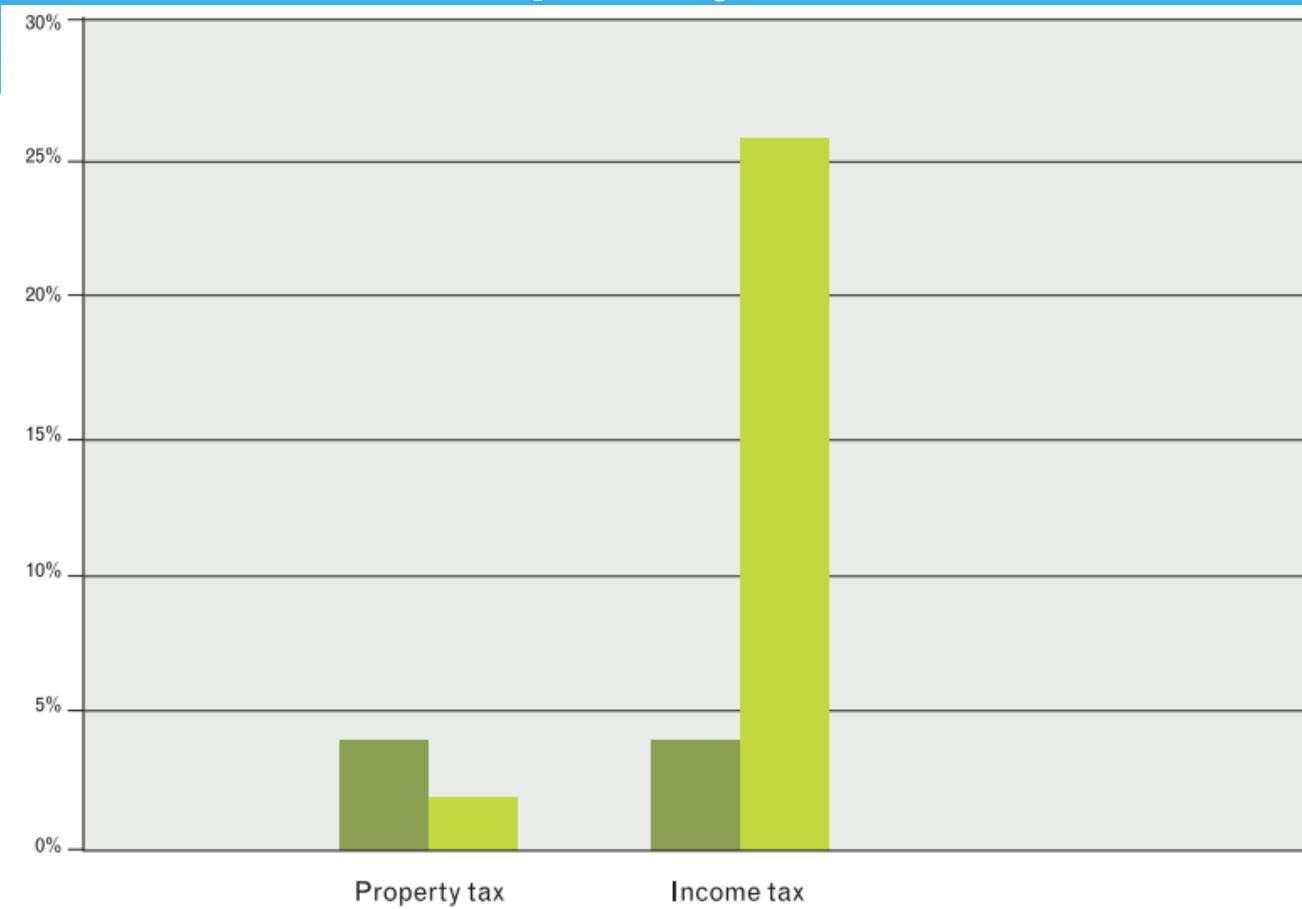
# Income taxes

- \* Municipalities in Canada currently cannot levy an income tax. Options:
  - \* give municipalities direct access to income taxes
    - \*can control rates
    - \*higher administrative costs and policy competition
  - \* a share of provincial tax revenues
    - \*e.g. Manitoba, other countries
    - \*existing transfers to limited extent

# Sales taxes

- \* Add to provincial sales taxes
- \* General tax, or specific taxes (e.g. luxury and sin taxes)
- \* Regressive impact, but allows progressive spending
- \* Federal GST cut would have made 80% of Canadians better off had it gone to local public services

# Property taxes



Source: Federation of Canadian Municipalities (2008d)

■ Bottom 20 per cent income quintile

■ Top 20 per cent income quintile

# Property taxes

- \* Tax paid = market value x tax rate
- \* Reduce multi-family dwelling tax rates
  - \* Currently often higher than single family dwelling
- \* Adopt progressive property tax rates
  - \* E.g. Singapore
- \* Shift toward more land transfer tax (higher rates for higher values, targets speculators)
- \* Personal income tax credits (flat credit amount, phase out for higher incomes)
- \* Increase business property tax differential (reduces revenue and economic leakage)

# User fees

- \* The other main category of municipal revenues
- \* Regressive
  - \* often structured as poll tax (\$/person or \$/household - worse than flat tax)
- \* Restructure it based on consumption levels
  - \* higher income people consume more, so fairer
  - \* lifeline price (zero cost for basic personal consumption), rebates, low-income credits, etc
  - \* also greener (e.g. water consumption)

# Preference

Citizens (voters) like:

- \* Education
- \* Health care
- \* Environment
- \* Libraries
- \* Recreation centres
- \* Transit, roads
- \* Support for the arts
- \* and more.

*"Taxes are the price we pay for civilization"*

\* Oliver Wendell Holmes Jr.

# But will Canadians support municipal taxation?

## National support for municipal taxation (2012)

Preference	Per cent
Increase taxes to enhance or expand services	22
Increase taxes to maintain services at current level	32
Cut services to maintain current tax level	22
Cut services to reduce taxes	11

Source: Ipsos Reid, 2012

# Canadians support progressive taxation

- \* 83%: increase income taxes on highest income earners
- \* 88%: the rich should pay more taxes
- \* 89%: an additional tax on family income over \$1 million per year
- \* IMF, OECD and others - reform tax system
  - \* close loopholes
  - \* eliminate tax breaks for fossil fuel companies
  - \* increase taxes on finance sector
  - \* wealth tax
  - \* more progressive income taxes

# A fairness screen for municipal revenue options

- \* REFORMS
  - \* Use progressive sources (e.g. income tax) to displace regressive.
  - \* Tie rates to income, wealth, consumption of luxuries, or other similar factors.
  - \* Exempt basic consumption levels of essential goods and services.
  - \* Tax behaviours or goods with harmful environmental or social impacts, rather than those with benefits.
  - \* Use income-based exemptions, rebates and credits to reduce regressive impacts.
  - \* In addition to analyzing new revenue options, existing revenue sources should be analyzed for their relative progressive or regressive impact.
  - \* Consider impact of spending enabled by new or expanded revenues

# Conclusion: it can be done

- \* Need for municipal revenues
- \* Need to them to be fairer – more progressive
- \* Canadians support local taxes, and progressive taxes
- \* Impossible things have happened
  - \* Four-minute mile
  - \* A man on the moon
  - \* Apartheid is over
  - \* Nenshi in Calgary, Iveson in Edmonton, Notley in the Alberta Legislature
- \* We can have a (more) progressive municipal revenue system



FCM's 2015  
Conference and  
Trade Show

TODAY'S  
COMMUNITIES,  
TOMORROW'S  
CANADA

FCM

FEDERATION  
OF CANADIAN  
MUNICIPALITIES

FÉDÉRATION  
CANADIENNE DES  
MUNICIPALITÉS



2015

# Municipal financing: taking fairness seriously

Federation of Canadian Municipalities 2015 Conference  
Edmonton Alberta, June 6, 2015

Workshop: Investing in the Future — Financing Municipal  
Infrastructure

David Thompson, Principal  
PolicyLink Research & Consulting

# [cupe.ca/municipalities](http://cupe.ca/municipalities)



**CUPE**