Municipal finances under pressure: Time for a Real Deal

Canada's cities and communities are under growing financial pressure:

- Local governments have very limited revenue-raising powers, relying on property-based taxes and user fees for over 75 per cent of their revenue.
- Transfer payments from federal and provincial governments have dropped to 17 per cent of local government revenues, down from 26 per cent in 1996.
- Downloading, new responsibilities and urban sprawl have increased demands, while existing infrastructure deteriorates.
- Municipalities are now responsible for about 58 per cent of Canada's public infrastructure assets – up from 30 per cent in 1961, while the federal government's share has dwindled from 33 per cent to 12 per cent.
- The municipal infrastructure deficit now tops $123 billion, with another $115 billion required for new infrastructure needs.

Federal and provincial cuts in income, business and sales taxes, combined with inadequate municipal funding, have forced local governments to cut services or raise property taxes and user fees. These are regressive ways to raise revenues, as they are not based on ability to pay. Lower-income families pay five times more in property taxes as a share of their income than higher-income property owners. Property tax revenues are also ill-suited to the growing responsibilities that local communities are expected to meet.

Communities dependent on manufacturing, resource and export-based industries have been especially hard-hit. The loss of hundreds of thousands of decently-paid jobs puts even more pressure on local finances just as the need for services increases.

Starving local governments of revenue is bad for the economy and bad for business. Statistics Canada analysis confirms that every dollar invested in public infrastructure – such as roads, bridges, schools, hospitals, water systems, waste disposal, recreation and community facilities, utilities and public transit – saves businesses an average 17 cents a year, far above average rates of return for private investment or borrowing. This rate of return would be even higher if it included the broad social and environmental benefits that come from investing in public infrastructure and services.

Shrinking transfers, growing needs

Federal transfers for infrastructure are insufficient. They are projected to grow by only 1.1 per cent a year from 2009-10 onwards – less than the projected rate of inflation. The fuel tax transfer is not indexed, leaving its real value per person to erode by about three per cent a year. By 2018, its value will have shrunk by a quarter.

The municipal transfer shortfall is almost $7 billion a year. As a recent poll commissioned by the Federation of Canadian Municipalities shows, over 80 per cent of Canadians believe:

- Federal and provincial governments should increase funding to local governments to finance infrastructure improvements.
- Municipal governments should have access to revenue sources beyond property taxes.

The poll showed Canadians want federal surpluses to fund increased spending and investments - not tax cuts. There's also strong support for increasing the GST back to six per cent, if all the revenues were invested in local infrastructure.

Instead, the federal government is promoting public-private partnerships for municipal infrastructure, through the Building Canada program. Yet this form of privatization doesn't represent a new source of revenue. P3s cost the public more, increasing risks and reducing accountability, while diminishing control and quality.

Climate change and rising energy prices are also increasing costs and demands on local governments. Investments are needed to reduce emissions, retrofit buildings, improve public transit, and develop more environmentally-friendly communities. As the Hurricane Katrina disaster showed, funding and planning are needed to *adapt* physical infrastructure and community services to the harsh realities of climate change.

These investments will pay off in energy savings, more viable and sustainable communities, new 'green' jobs and other economic benefits.

Time for a Real Deal

The Canadian Union of Public Employees strongly supports local governments in their push for a Real Deal, one that gives municipalities' access to new revenue sources and reduces downloading:

- Cities and communities need long-term and predictable sources of revenue that are raised based on ability to pay and that grow with the economy.
- Transferring one cent of the GST would meet the funding shortfall that local governments face – and revenues would grow with the economy.
- At an absolute minimum, the fuel tax transfer should be indexed to inflation and population growth.
- New revenue sources should be based on ability to pay and not lead to tax competition through local rate setting.
- Provide full federal and provincial funding to support responsibility for services, such as child care, social housing and social assistance, and/or upload these responsibilities.
- Full federal funding for a national transit strategy and funding for a national joint action plan on housing and homelessness.

May 2008

:cope491