



# Financing Cities in the 21<sup>st</sup> Century

Presentation to the Regional Planning Speakers Series  
Edmonton  
October 21, 2014

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*“ As it was our origin, the city now appears to be our destiny. It is where creativity is unleashed, community solidified, and citizenship realized. If we are to be rescued, the city rather than the nation-state must be the agent of change.”*

Benjamin Barber, *If Mayors Ruled the World* (2013)



# Cities are engines of growth

- Cities are important drivers of productivity, innovation, and economic growth
- Need for “hard” services (water, sewers, and roads) and “soft” services (cultural facilities, parks, and libraries) to attract skilled workers
- Cities that fail to provide these services will lose their economic advantage
- Challenge is to raise revenues to deliver high quality public services



# Cities need more fiscal autonomy

- Less dependence on transfers: more stable and predictable revenues
- Mix of taxes: flexibility to respond to changing economic circumstances
- Ability to set tax rates: more responsible and more accountable to taxpayers



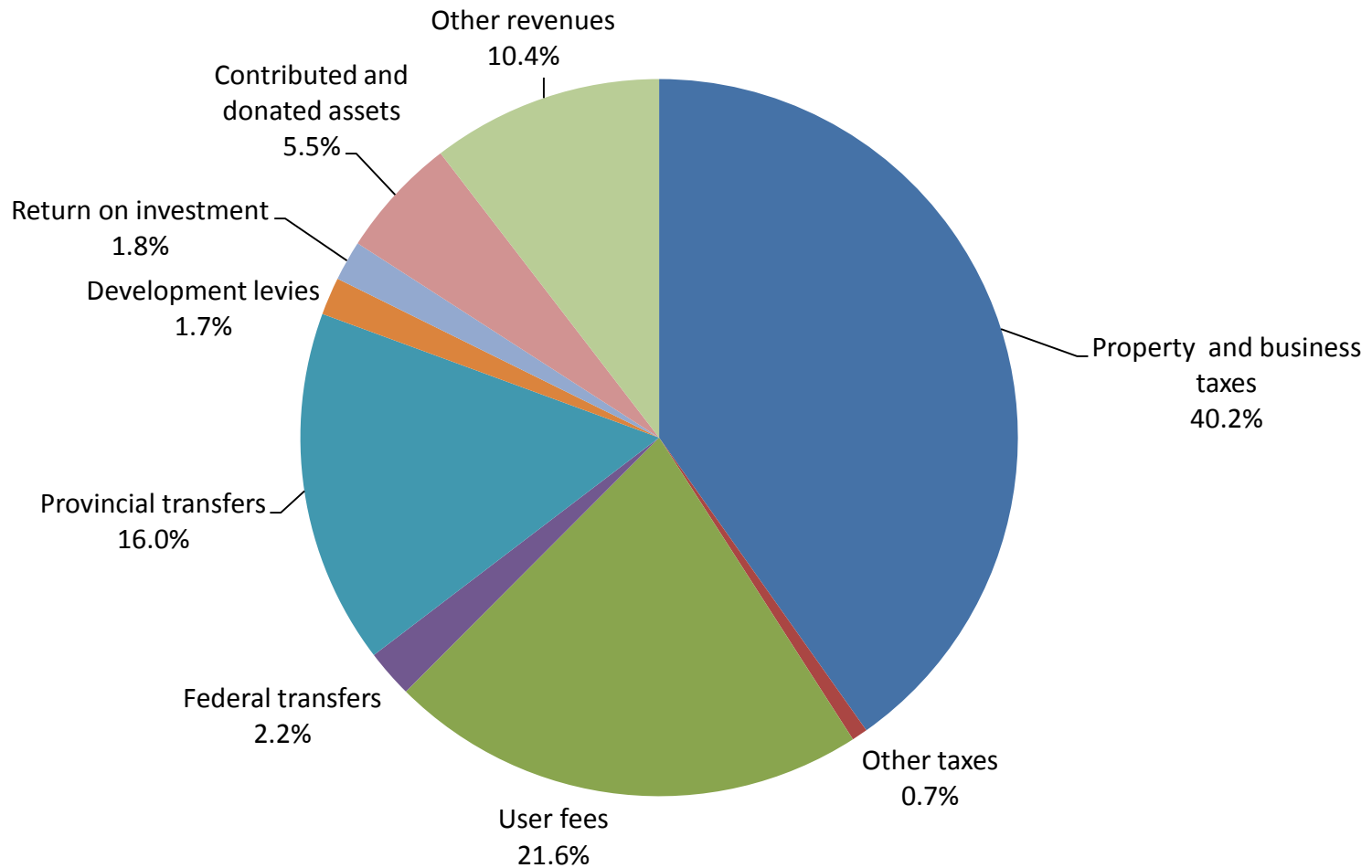
# Financing Cities in the 21<sup>st</sup> Century: Outline of Presentation

- Which revenues?
- Getting the prices right



# Which Revenues?

# Distribution of Municipal Revenues, Alberta, 2012





# The Property Tax- Is It Good Enough?

- Property is immovable
- Based on benefits received
- Local autonomy
- Visible/accountable
- Inelastic (not according to Dahlby and McMillan)
- Volatile for individual taxpayers
- Arbitrariness of tax base





# The Property Tax- Is It Enough?

- Canadian municipalities are generally fiscally healthy
  - Balanced operating budgets
  - Modest tax increases
  - Modest debt load
- Has fiscal health of Canadian municipalities been at the expense of their overall health?
  - What has happened to the state of the infrastructure?

# Other Municipal Taxes in Selected Provinces

- Land transfer tax
- Amusement taxes
- Hotel taxes
- Poll tax
- Vehicle registration tax
- Billboard tax
- Revenue sharing  
(income tax, fuel tax,  
VLT/casino revenues,  
fine revenues)



London	Paris	Berlin	New York
Council tax	Property tax on developed land	State taxes:	Real Estate Taxes
	Property tax on undeveloped land	Wealth tax	Payments in Lieu of Taxes (for property tax)
<b>Frankfurt</b>	Residence tax	Inheritance tax	
Property tax	Local economic contribution (on business premises and business value added)	Real estate transfer tax	Sales and Use Taxes:
Estate tax	Tax on refuse/garbage collection	Motor vehicle tax	General Sales
Business tax on income	Front walk sweeping tax	Racing and betting tax	Cigarette
Municipal share of sales tax	Parking fees	Beer tax	Commercial Motor Vehicle
Community share of sales tax	Electricity consumption tax	Fire protection tax	Mortgage
	Real estate taxes (e.g. land transfer tax)		Stock Transfer
Other taxes, including gaming taxes and dog taxes			
Key allocations made by the federal government		Local Taxes:	Auto Use
Land transfer tax allocation		Tax on land	
Trade tax allocation	<b>Tokyo</b>	Business tax	
	Metropolitan inhabitant tax on individuals, corporations, interest income	Trade tax allocation	Income Taxes:
<b>Madrid</b>	Enterprise tax on individuals and corporations	Entertainment tax	Personal Income
Property tax	Real property acquisition tax	Dog license fee	General Corporation
Business tax	Golf links tax	Second home tax	Financial Corporation
Vehicle tax	Automobile acquisition tax		Unincorporated Business Income
Tax on construction	Light-oil (gas-oil) delivery tax	State share of national taxes:	Personal Income (Non-Resident City Employees)
Tax on land value increase	Automobile tax	Wage tax	Utility
	Mine-lot tax	Assessed income tax	
Shared taxes:	Fixed assets tax	Non-assessed tax on earnings	Other Taxes:
Personal income tax	Special tax on land holding	Interest income tax	Hotel Room Occupancy
Value added tax	Hunter tax	Corporation	Commercial Rent
Excise taxes	Establishment tax	VAT	Horse Race Admissions
	Urban planning tax	Import VAT	Conveyance of Real Property
	Accommodation tax	Other	Beer and Liquor Excise
			Taxi Medallion Transfer
	Shared taxes:	Local share of state taxes:	Surcharge on Liquor Licences
	Local consumption tax	VAT	Refunds of Other Taxes
	Metropolitan tobacco tax	Wage and income tax	Off-Track Betting Surtax
	Local transfer taxes	Withholding	



## DIFFERENT SERVICES – DIFFERENT REVENUE TOOLS

### **Private**

Water  
Sewers  
Garbage  
Transit

### **Public**

Police  
Fire  
Local parks  
Street lights

### **Redistributive**

Social assistance  
Social housing

### **Spillovers**

Roads/transit  
Culture  
Social assistance



**User fees**



**Property tax  
Sales tax**



**Income tax**



**Intergovernmental  
Transfers**



# DIFFERENT INFRASTRUCTURE – DIFFERENT FISCAL TOOLS

## Taxes



short asset life  
(police cars,  
computers)

## User fees



identifiable beneficiaries  
(transit, water)

## Borrowing



large scale assets  
with long life  
(roads, bridges)



# DIFFERENT INFRASTRUCTURE – DIFFERENT FISCAL TOOLS

## Development charges



Growth-related costs;  
new development or  
redevelopment  
(water, roads, sewers)

## P3s



large in scale;  
revenue stream;  
measurable results  
(toll roads)

## Land value capture taxes



increase property values  
(transit)



# Linking Taxes to Expenditures

- People want to see what they are getting for their taxes
- Linking taxes and services increases public support
- Examples of ballot initiatives in the US to pay for transit



# Getting the Prices Right







# “Getting the Prices Right”

- **“The city is a distorted price system”**  
(Wilbur Thompson, *Psychology Today*, 1968)
- Incorrect pricing of urban services has been at the root of a number of urban problems... including sprawl
- Marginal cost pricing -- higher fees are charged to those far away from existing services; if use average cost, subsidizing sprawl
- Pricing services correctly results in efficient use of services as well as more efficient land use



# Getting the Prices Right: Examples

- User Fees
  - Road pricing
  - Parking levies
  - Water
  - Waste collection
- Property taxes
- Development levies

# User Fees

- Signals what people are willing to pay for
- Need to be able to identify the beneficiaries and exclude those who don't pay
- Appropriate for water, sewage, garbage collection, highway improvement (tolls), public transit...



# User Fees

- “Getting the prices right” means charging user fees that reflect the marginal cost -- the additional cost imposed by the user



# User Fees

- When users do not pay the marginal cost:
  - They overuse the system (so we think we need more roads or other infrastructure)
  - Encourages inefficient uses of land





# User Fees

- BUT user fees are not used as much as they could be and are poorly designed
  - Not popular with citizens, politicians, administrators
  - Difficult to calculate marginal cost; difficult to exclude those who don't pay
  - New technology can help (e.g. roads and parking)

# Road Pricing

- Highway users do not look at external costs (congestion and pollution); therefore over-use highways relative to what is economically efficient
- Under-pricing of auto congestion externality results in excessive dispersion – inefficiently low residential densities and sprawl



# Road Pricing

- Road toll – incentive to make efficient decisions with respect to modal choice, trip frequency, trip timing, route choice (but not driving care!)
- Examples – London, Singapore, Toronto 407
- Need alternatives e.g. bus transit in London
- Technology makes it easier
- Maybe toll new roads or HOT lanes





# Water Supply and Treatment

- Volumetric prices based on amount consumed will improve efficient use of resources and encourage conservation
- Need to vary price with time of day, season, distance from source of supply etc.
- If not, excess water consumption, excess production of sewage, over-investment in water supply and sewage treatment systems, urban sprawl ...
- Need water meters to price correctly



# Waste Collection

- Pricing waste collection and disposal is important as landfill sites are increasingly difficult to find
- If paid for out of property taxes, no incentive to reduce waste; no incentive for producers to use less packaging
- User fees based on volume or weight give consumers incentive to reduce waste through source reduction, reuse, and recycling
- Only 200 communities in Canada charge user fees for waste collection



# Parking Levies

- Free parking provides wrong incentives – to use cars and park for the day in central city
- Cruising for spaces wastes time, fuel, creates traffic congestion, accidents, pollution
  - Donald Shoup shows cars cruising for free parking contribute over 8% to total traffic
- Parking fees can vary with duration and location of parking, time of day



# Property Taxes

- Major source of municipal revenue in Alberta and across Canada
- Levied on residential, commercial and industrial properties
- Tax levied on market value of property (land and buildings)





# Property Taxes

- Some say the property tax reduces density – any investment that increases property value will increase the tax
- Others say it increases density because the tax is shifted onto consumers and leads to a reduction in the size of homes
- Property tax policy can reduce density:
  - E.g. Tax often favours single-family homes over apartments

# Development Levies

- Covers growth-related capital cost associated with new development
- Off-site infrastructure (e.g. highways, sewer lines, etc.)
- Growth pays for itself



# Development Levies

- Developers will develop at the efficient time and place if they face the full social cost of their development
- If levy differentiated by location, density, type of development – then efficient development
- A uniform charge will subsidize inefficient land uses





# Final Comments

- Cities need more local fiscal autonomy
- Need to match revenue tools with expenditure responsibilities
- Pricing services correctly creates the right incentives for efficient use of resources and efficient land use