



Non-Tax Revenues in Municipal Government in Canada

Presentation to the Delegation from the
People's Republic of China

September 13, 2017

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IMFG | Institute on Municipal Finance and Governance

IMFG (est. 2004) is the only institute of its kind in North America, which focuses exclusively on the municipal finance and governance challenges facing cities and large city regions.

Focus

As the size and scope of responsibilities for cities expands, do local governments have the appropriate financial and governance arrangements to effectively and efficiently deliver services to residents?

Mandate

- Conduct independent research
- Spark and inform public debate
- Engage the academic and policy communities

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Recent Publications

More Tax Sources for Canada's Largest Cities: Why, What, and How?, by Harry Kitchen and Enid Slack

Good Governance at the Local Level: Meaning and Measurement, by Zack Taylor

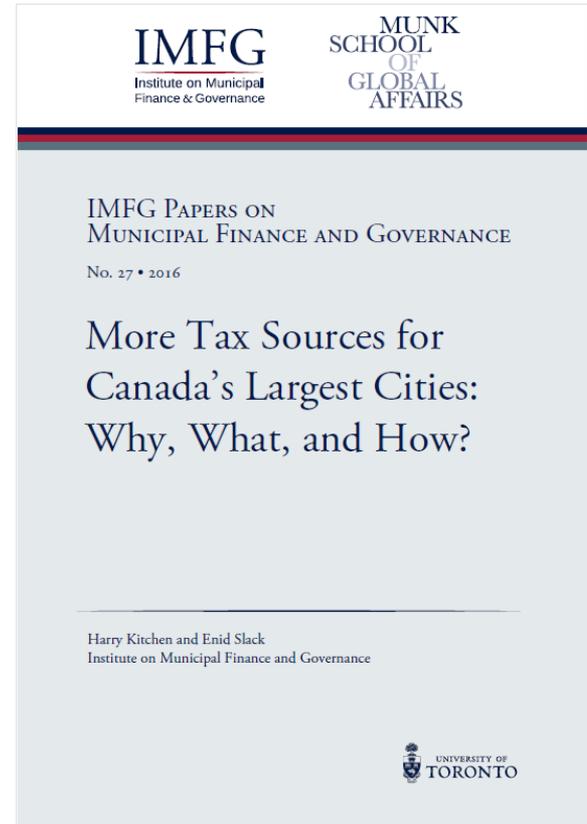
Cities, Data, and Digital Innovation, by Mark Kleinman

Cost Overruns on Infrastructure Projects: Patterns, Causes, and Cures, by Matti Siemiatycki

Municipal Employee Pension Plans in Canada: An Overview, by Bob Baldwin

A Good Crisis: Canadian Municipal Credit Conditions After the Lehman Brothers Bankruptcy, by Kyle Hanniman

And more...



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Outline of Presentation

- Background on municipal government in Canada
- Matching revenues to expenditures
- Non-tax revenue sources
 - User fees
 - Land value capture
 - Development charges
 - Intergovernmental transfers
 - Municipal borrowing
 - Public-private partnerships

Background on the Canadian Constitution

- Canada is a federation with three levels of government: federal, provincial/territorial, and municipal
- Under the Canadian Constitution, powers are divided between the federal and provincial governments
- Municipalities are not recognized in the Constitution except to the extent that they are the responsibility of provinces
- There are about 3,750 municipal governments in Canada

Background on the Canadian Constitution (cont'd)

- The Federal government makes laws with respect to immigration, unemployment insurance, trade and commerce, national defence, indigenous affairs, and criminal law.
- Provincial governments control regional and local affairs including education, health, social services, property rights, administration of justice, local public works, and municipal institutions.
- Some responsibilities are shared between the federal and provincial governments such as immigration, agriculture, and pensions.

Role of provincial governments with respect to local governments

- Create or dissolve municipalities, e.g. Toronto amalgamation
- Provincial legislation determines municipal responsibilities and what taxes municipalities can levy; rules on user fees
- From time to time, the division of responsibilities between provincial and local governments are reviewed and changes are made (e.g. local services realignment in Ontario in 1998)
- Provincial governments set standards for service provision (including non-mandated services)

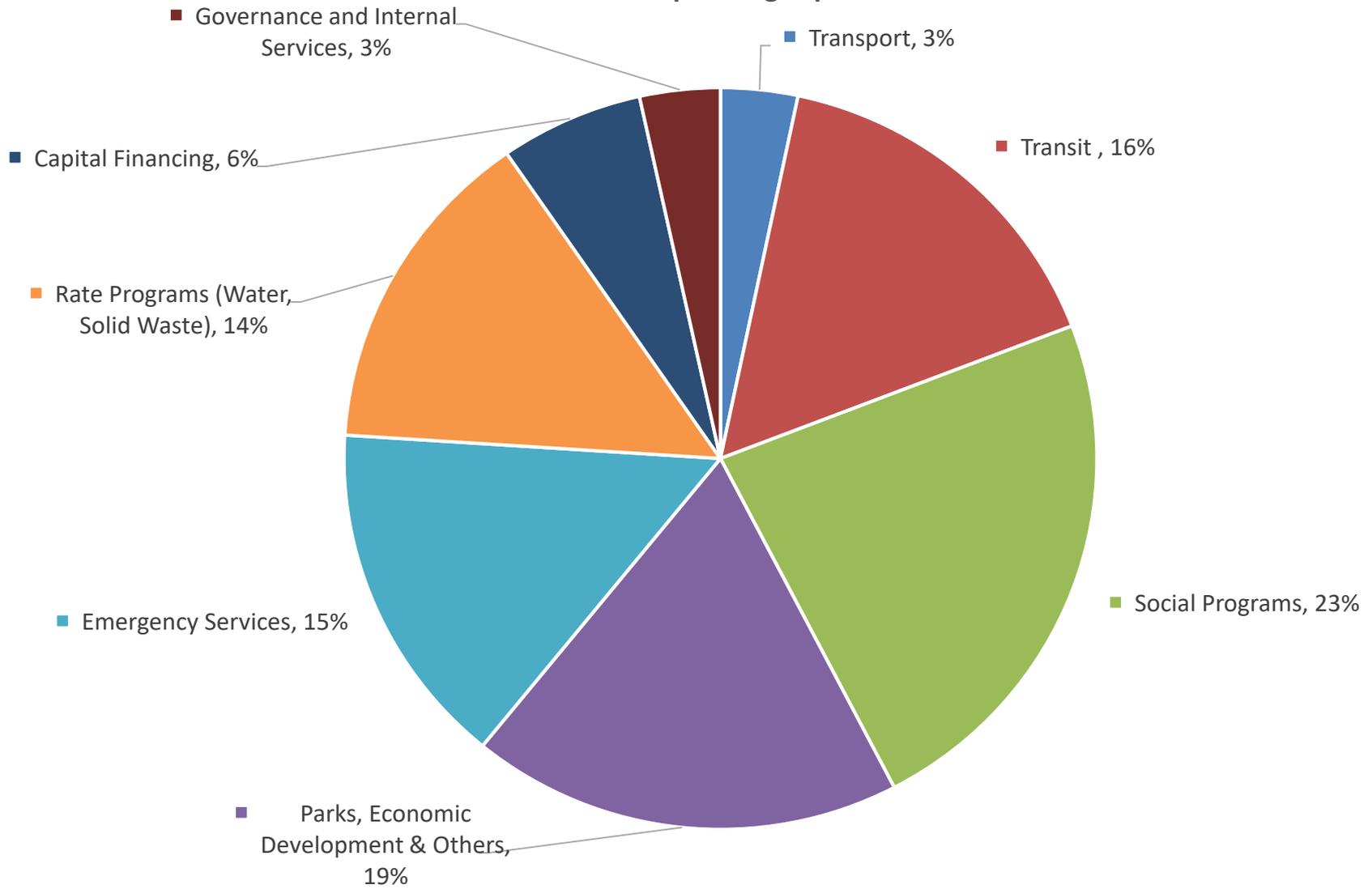
Role of provincial governments with respect to local governments (cont'd)

- Dictate that municipalities cannot run an operating deficit
- Municipal borrowing for capital is restricted by the province (but not in Toronto, which has its own legislation)
- Unconditional transfers: based on formulas reflecting fiscal capacity and need
- Conditional transfers: mainly for social services, transportation, environment (usually on a cost-shared basis)

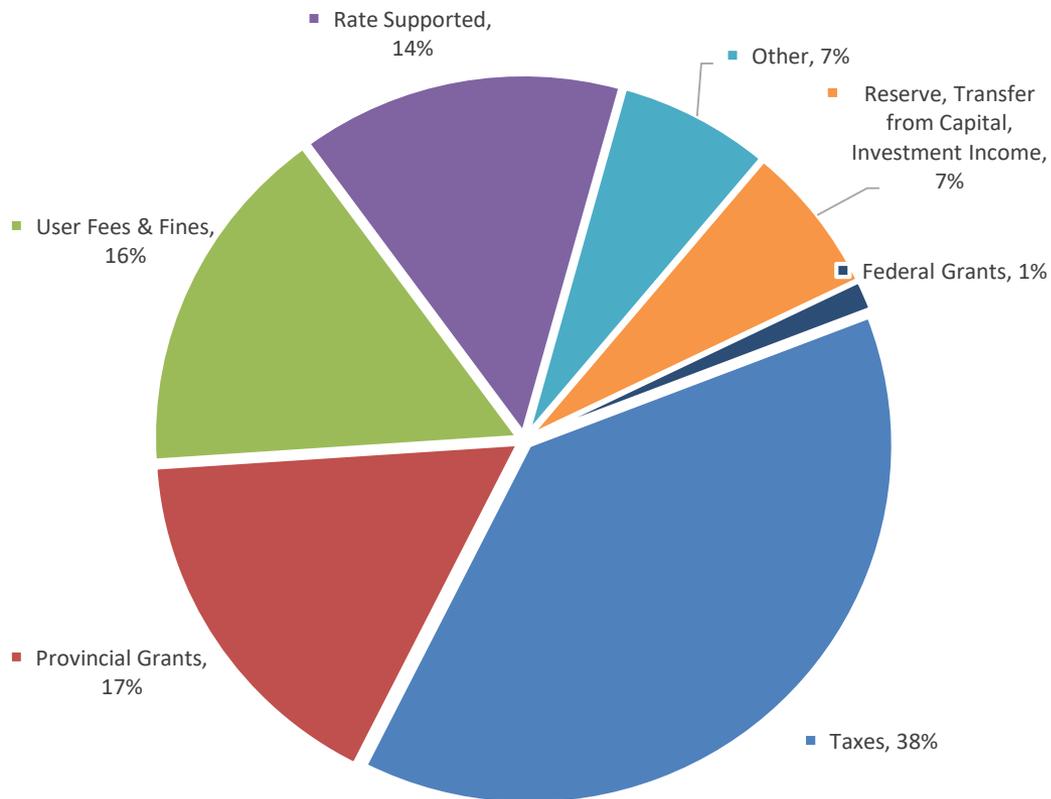
Major services funded by local governments

<p>General government administration</p>	<p>Health</p> <ul style="list-style-type: none"> • Public health • Ambulance service (Ontario only)
<p>Protection</p> <ul style="list-style-type: none"> • Fire • Police • Emergency planning 	<p>Social services (Ontario only)</p> <ul style="list-style-type: none"> • Welfare assistance • Day care services and children's assistance • Homes for the aged • Social housing
<p>Roads</p> <ul style="list-style-type: none"> • Local roads • Sidewalks • Streetlights • Parking 	<p>Recreation and culture</p> <ul style="list-style-type: none"> • Community parks and recreation programs • Local libraries • Community centres, theatres, auditoriums • Convention facilities
<p>Public transit</p>	
<p>Environment</p> <ul style="list-style-type: none"> • Water supply and distribution • Sewage collection and treatment • Solid waste management 	<p>Planning and development</p> <ul style="list-style-type: none"> • Local planning, zoning, severances, approvals • Local economic development

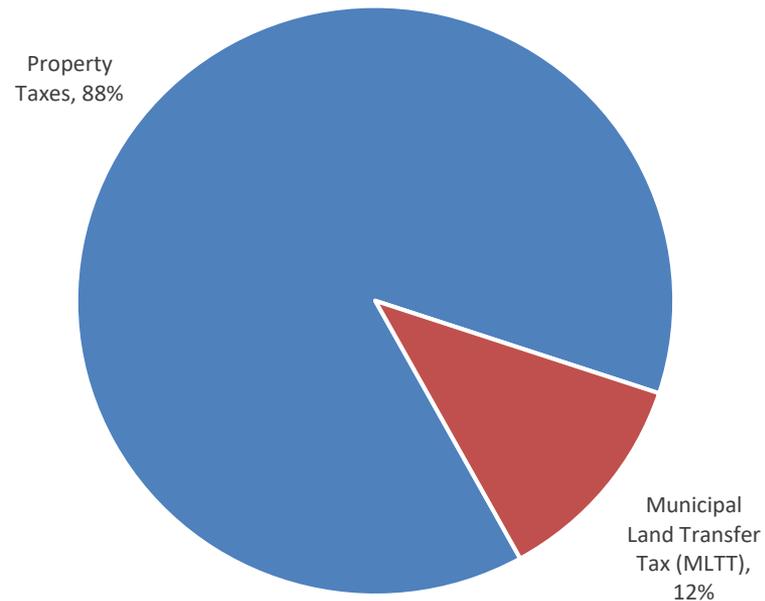
Toronto: Operating Expenses



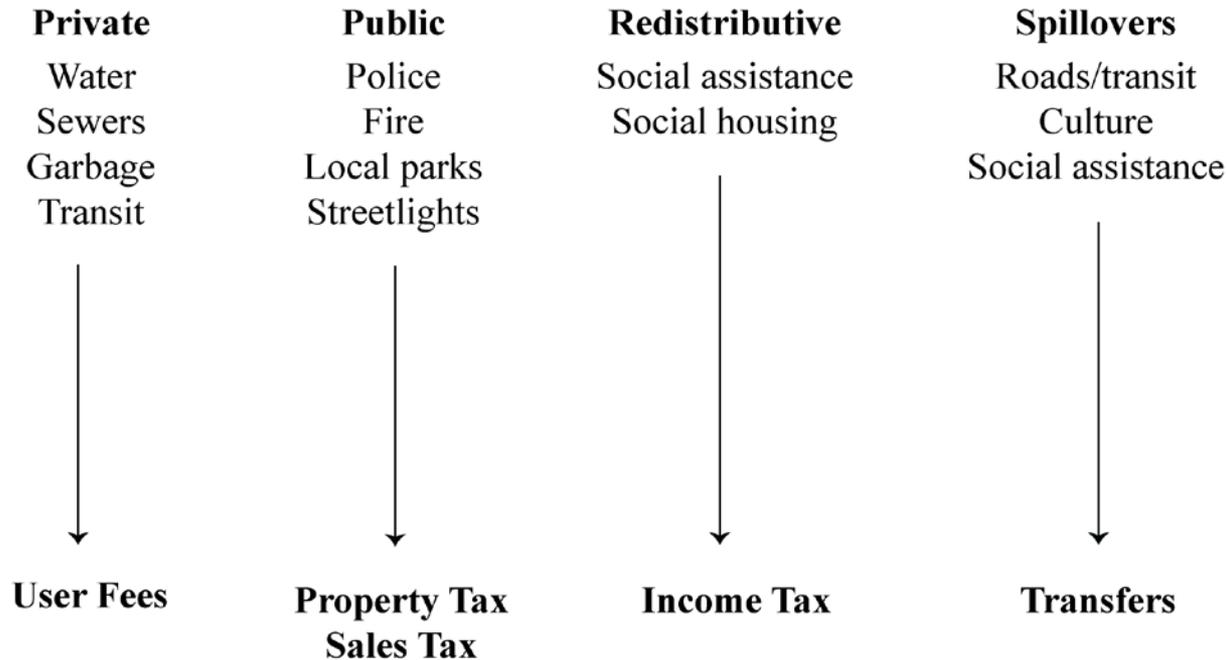
Toronto: Operating Revenues



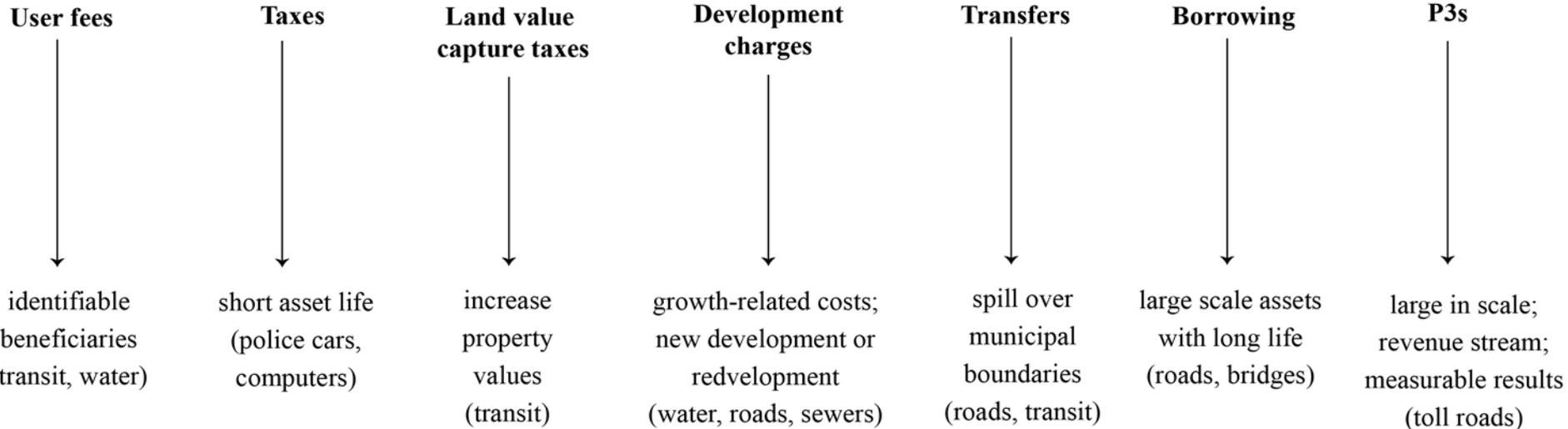
Toronto: Tax Revenue Breakdown



Different services – Different revenue sources



Different infrastructure – Different fiscal tools



User Fees

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

User fees bring in revenues and alter economic decisions

- Properly designed fees enable citizens to make efficient decisions about how much of a service to consume and governments to make efficient decisions about how much of the service to provide
- Under-pricing (or not charging) leads to:
 - over-consumption and demands to build more under-priced infrastructure
 - redistribution of income that is not what is otherwise expected or desired – rich benefit more than the poor
- Regressivity can be addressed e.g. lifeline rates for water

User Fees

- Roads – few municipalities levy tolls
- Transit – high recovery rates in Toronto
- Street parking – under-priced
- Solid waste collection and disposal – sometimes based on volume (e.g. bag tags)
- Water and waste water – full cost recovery
- Stormwater management – a few examples of pricing according to surface area
- Homes for the aged – geared to income

Land value capture is on the rise

- Recoup some or all of the unearned increment in land values arising from:
 - public investment
 - change in regulations (e.g. increased density, building height)
- Rationale: at least some of the resulting increase in land value arising from infrastructure investment should be captured by governments to pay for it

How do we capture land value?

- Betterment levies/special assessments (e.g. special assessments for sidewalks in Toronto; supplementary business property tax in London to help pay for transit – Crossrail)
- Tax increment financing (e.g. to redevelop areas in need of revitalization in Chicago)
- Sale of building rights (e.g. density bonusing in Toronto; community amenity contributions in Vancouver; CEPACs in São Paulo)

Development charges are used to pay for growth

- Charge on developers to cover the growth-related capital costs associated with new development (or redevelopment)
- Off-site infrastructure (e.g. major roads, trunk water sewer lines, water treatment plants, etc.)
- Growth pays for itself and is not a burden on existing taxpayers
- Impact on land use

Intergovernmental transfers: rationale

- Spillovers – some services spill over municipal boundaries – no incentive to provide what is needed
- Equalization – some local governments are unable to provide an adequate level of services at reasonable tax rates
 - costs may be higher
 - needs may be greater
 - tax base may be smaller

Intergovernmental transfers: problems

- Transfers break the link between those who benefit/those who pay
- Not stable and predictable funding
- No incentive to use proper pricing
- Conditional transfers distort local decision-making
- Accountability problems when two or more levels of government fund the same service

Borrowing for assets with long life

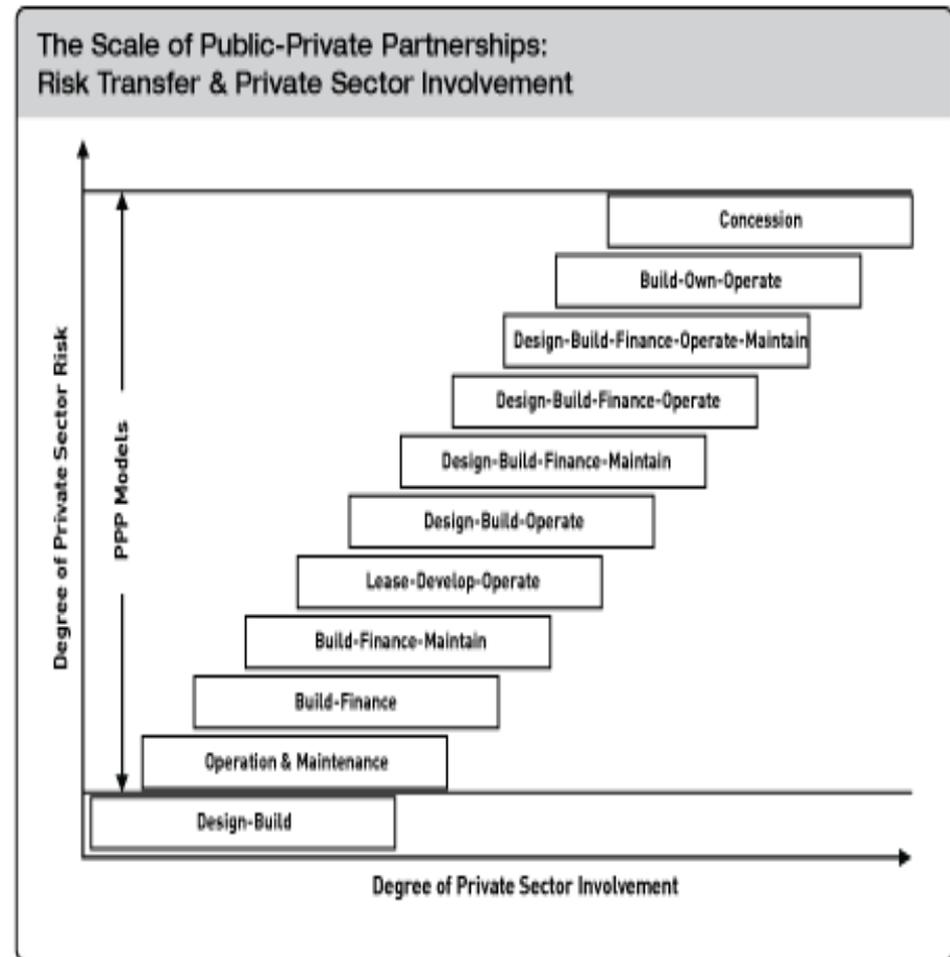
- Inter-generational equity – those who enjoy the benefits over time also pay the costs
- Capital expenditures are lumpy; borrowing smooths out the costs
- Pooling borrowing can lower costs (e.g. BC Municipal Finance Authority)
- Borrowing costs may crowd out current expenditures

Examples of provincial borrowing rules

- Ontario – debt service cannot exceed 25% of own-source revenues (mainly property taxes plus user fees)
- Nova Scotia – debt service cannot exceed 30% of own-source revenues
- Alberta – major cities – debt limit of two times total revenue excluding capital transfers; debt service limit of 35% of revenue

Public-Private Partnerships

- Public sector can draw on private sector expertise; innovation
- Potential for cost savings with competition
- Potential loss of control for the public sector
- Private borrowing costs may be greater than public borrowing costs



The Canadian Council for Public-Private Partnerships