

Cities and Communities

Recovery and Restructuring

With the economic recovery gaining a bit of momentum, there is a temptation to scale down infrastructure stimulus spending, work out who is going to pay for the costs of the rescue package, but then otherwise go back to business-as-usual.

That would be a grave mistake.

Before the economic and financial crisis hit, Canada already had major economic problems:

- Our economic productivity was stagnant and falling: we're working harder and longer, but producing and gaining less for our efforts.
- Real wages and incomes barely increased in the past quarter century. More people were working, but otherwise most of the benefits of economic growth went to higher corporate profits and to the rich. The working poor and middle classes were being overworked and squeezed at both ends.

Thanks to a growing economy and booming resource sector, the fiscal situation of the federal and provincial governments was much

improved, while business taxes and income tax rates on higher incomes had been cut.

However, this came at a cost.

Cuts in transfers to municipalities and down-loading of responsibilities led to the municipal infrastructure deficit rising to over \$120 billion and pushed property tax rates in some provinces to among the highest in the world.

Unfortunately, property taxes are also very regressive: lower income households pay a much higher share of their income in property taxes (or property taxes through their rent) than do higher-income households.

Unlike in other countries, Canadian municipalities are severely restricted in how they can raise the revenues they need to fund their operations. They can't levy income or sales taxes, and are largely restricted to using property taxes and user fees, which provide over 75% of their own-source revenues. In comparison, most major cities in the U.S. levy income and/or sales taxes, and many European countries also rely heavily on income taxes. Municipalities in other countries also obtain a larger share of their revenues through transfers from upper levels of government.

Transfers from federal and provincial governments in Canada had provided approximately 26% of the revenues of local governments during the early 1990s. After 1995, these transfers were severely cut by the federal government, but more significantly by provincial governments that had their own transfers from the federal government slashed. By the year 2000, federal and provincial transfers provided only 16% of local government revenues.

Local governments across Canada — and especially in Ontario — ended up hiking property taxes, increasing user fees and service charges, cutting back on public services, and delaying their investments in, and maintenance of, public and community infrastructure.

Transfers to local governments continued to be squeezed even while federal and provincial governments ran surpluses and cut tax rates on upper incomes and on businesses.

Property taxes, especially in Ontario, were increased significantly, while the municipal infrastructure deficit grew larger and larger, rising to \$123 billion by 2006.

Following much pressure, and incidents of bridges collapsing, federal and provincial increased their transfers to local governments in recent years, through the gas tax fund, infrastructure funding, and more recently stimulus funding. However, the proportion of local government revenue that these transfers provide still falls far short of the levels that prevailed prior to 1996. And, unfortunately, federal government infrastructure funding and transfers to municipalities are set to decline after 2010.

This shortfall in transfers to local governments has added up to a cumulative \$50 billion from 1996 on — including \$3.4 billion as recently as 2008 — compared to what they would have received if transfers had been maintained at 26% of their revenues.

There is no question that local governments, with their rising populations and increased responsibilities, need access to a different and

growing source of revenues. But what sort of revenue should it be and where should the funding come from?

There is a growing mismatch between the source of most municipal revenues — property taxes and user fees — and the municipal services that are provided. Although some services that municipalities provide are property-based — such as fire protection — an increasing share of the services that they provide are not property based, and are better matched to income or consumption-type taxes.

The Ontario government provided the City of Toronto with a number of broader taxation powers through the *City of Toronto Act*, but these were restricted to limited and narrow areas, lack the ability to raise a lot of revenue, and have largely regressive impacts. In addition, taxes that can be set by individual municipalities can easily lead to either leakage of economic activity or negative tax competition between municipalities.

The Manitoba government has a better approach. Through the *Building Manitoba Fund*, the province provides municipalities with 4.15% of the province's personal and corporate income tax revenues, and a share of its gas and diesel tax revenues. These amounted to about 8% of local government revenues in Manitoba, compared to the City of Toronto's new taxation powers, which provided only 2% of the city's revenues in 2008.

The local government revenue problem isn't restricted to one or two provinces: it's a national problem that requires national solutions. This funding also needs to be matched with increased transparency and accountability to prevent the highly partisan channeling of funds that has occurred. It should be connected to national strategic planning involving local governments on key concerns: climate change mitigation and adaptation, planning of our national transportation infrastructure, and improvements to social services. Otherwise, what was an ambitious New Deal for Cities will continue to decay into a "Backroom Deal for Suburbs."

This planning should be coordinated by a new Department of Communities that would be responsible for federal infrastructure funding, with a mandate to coordinate national priorities reflecting the needs of diverse communities. The federal government can also help to rebuild communities from the ground up, by providing support to Community Development Corporations and Neighbourhood Renewal Corporations.

A number of pressing needs dominate now:

Community Recession Relief Fund

As government funding has been scaled back, local community and social service organizations have become increasingly dependent on private sources of revenue, such as charitable contributions from foundations, businesses, individuals, and investment income. These revenues have fallen as a result of the economic downturn, just as the demand for the services that these organizations provide has increased.

Federal and provincial government stimulus funding has gone largely to infrastructure and housing construction, support to business, and actions to stimulate spending. Little support has been provided to “social infrastructure” or to help the vulnerable.

Many of these organizations are already laying off staff and cutting programs, and some may be forced to close their doors, just when more people need their help and services. If increased support is not provided, we are likely to see a rise in homelessness, overcrowding of shelters, deteriorating health conditions, and ultimately increased long-term costs for society.

The AFB allocates \$1 billion for a *Community Recession Relief Fund*, with support to go to community-based public and not-for profit agencies serving vulnerable people, settlement and homeless programs, consistent with what the Toronto-based *Recession Relief Coalition* is calling for. This will provide short-term support for public and private non-profit agencies and organizations, to be cost-shared with prov-

inces, municipalities, or other levels of government. The funding will prevent spending cuts to agencies serving vulnerable people, and increase funding to social development and settlement programs. Funding will also go to employment development organizations that provide broad-based support to the unemployed.

- Cost: \$1 billion funded in 2010–11 budget year, but it can be drawn down in both 2010–11 and 2011–12.

Sustainable funding for cities and communities

Stimulus spending has provided a much-needed injection of funding for cities and communities. But this funding is short-term and the same problems of underfunding will recur when the stimulus funding ends in March 2011. The real value of the gas tax transfer will decline, an infrastructure deficit will remain, and the cost of maintaining infrastructure will increase. After the last recession, municipalities were hard hit, with cuts to transfers compounded by offloading of responsibilities. These problems still haven't been fixed.

The federal gas tax funding that was provided as part of the New Deal for Cities and Communities in 2005 was a major and positive advance. This funding, however, is now frozen at \$2 billion a year and will increasingly lose its value in future years.

The AFB will index the federal gas tax, to keep up with inflation and urban population growth, by a rate of 3% a year.

- Cost: \$60 million extra 2010–11; \$122 million 2011–12; \$185 million 2012–13.

At the same time, it is essential that we transform our cities and communities. The greatest economic and environmental challenge facing us in the coming decades is the urgency of climate change.

We need not only to adapt to the inevitable climate change that is now occurring, but also work to prevent further damaging climate change. The latter will require not just achieving greater energy efficiency with the buildings and infrastructure that we now have, but it will also involve a major transformation of how our communities operate. Our cities and communities are in the front lines in this transformation. By creating more dense low carbon communities, achieving greater energy efficiency, and investing more in public transportation infrastructure, we can both make our communities more environmentally and financially sustainable and healthier.

This will lead to long-term savings, but it will require substantial up-front investments. To achieve this goal, the AFB will provide cities

and communities with annual funding equivalent to the revenues from one cent of the GST (~\$6 billion a year) for a *green community transformation fund*, starting January 1, 2011, as the stimulus funding winds down.

Funding through this initiative will be provided for environmentally sustainable municipal infrastructure and programs, and will be contingent on the communities completing an integrated sustainable community plan, with public participation. Funding will be restricted to projects owned and operated by the community through the public sector. Funding will also involve a high level of transparency, and accountability requirements.

- Cost: ~\$6 billion a year, to be funded with a one cent increase in the GST.