

TRENDS IN MUNICIPAL FINANCE ACROSS CANADA
1983-1990

Prepared by

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1. Introduction

This report is a follow-up to the ICURR report "Trends in Municipal Finance Across Canada, 1985-1989", which was produced in 1991 for the annual meeting of Ministers of Municipal Affairs.

During the 1980s, a number of trends in municipal finance in Canada have become evident. The most significant trends since 1983 are reviewed in this report. Many of the factors that underlie these trends and which will continue to affect the finances of our municipalities are beyond the control of municipalities, and indeed beyond the control of provincial governments.

The budgets of the federal government continue to have a major impact on municipal finances. The most recent federal budgets cut transfer payments to the provinces and territories. This in turn resulted in cuts in transfer payments to municipalities by provinces and territories. The impact is felt particularly by municipalities in those provinces that are highly dependent on transfer payments. The impact of the federal budget was also felt where the federal government decided to close down major facilities or where it reduced payments-in-lieu.

There are many differences in both the level and type of responsibilities that municipalities have across Canada and in the degree of control exercised by the provinces or territories that created them. This variation is illustrated in the table below.

The provision of some services are partly a municipal responsibility in virtually all provinces and territories. These services include fire and police protection, parks and recreation and water and sewer treatment. On the other hand, municipalities share responsibilities for health and social services in only a few provinces. The most complete range of responsibilities is found in Ontario, Manitoba, Saskatchewan and Alberta. The most limited range is found in Prince Edward Island. Nonetheless, some very clear trends are evident and there are several common issues facing municipalities across Canada.

Through examination of broadly similar indicators, this report analyzes these trends over the time period of 1983 to 1990. Section 2 highlights the level and type of support by federal and provincial governments. Issues of municipal powers versus increasing provincial control are discussed in

Section 3. In Section 4, the changing composition of municipal revenues is analyzed. Section 5 examines the role that the provinces and territories play in redistribution of the burden of municipal taxes, including resource equalization grants to municipalities and tax relief provided directly to ratepayers.

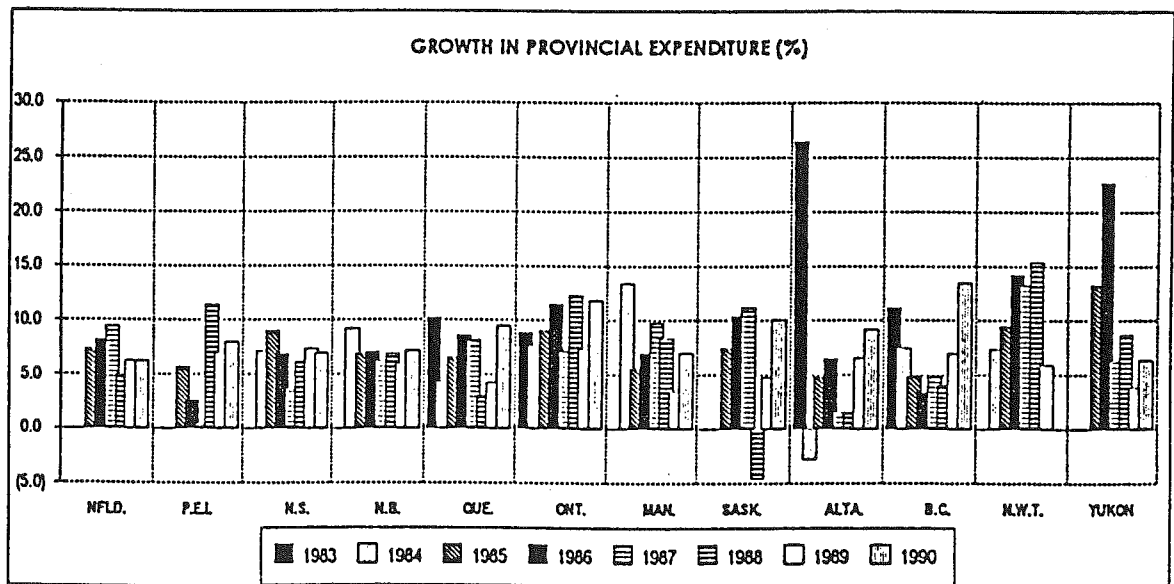
MUNICIPAL FUNCTIONS AND SERVICES

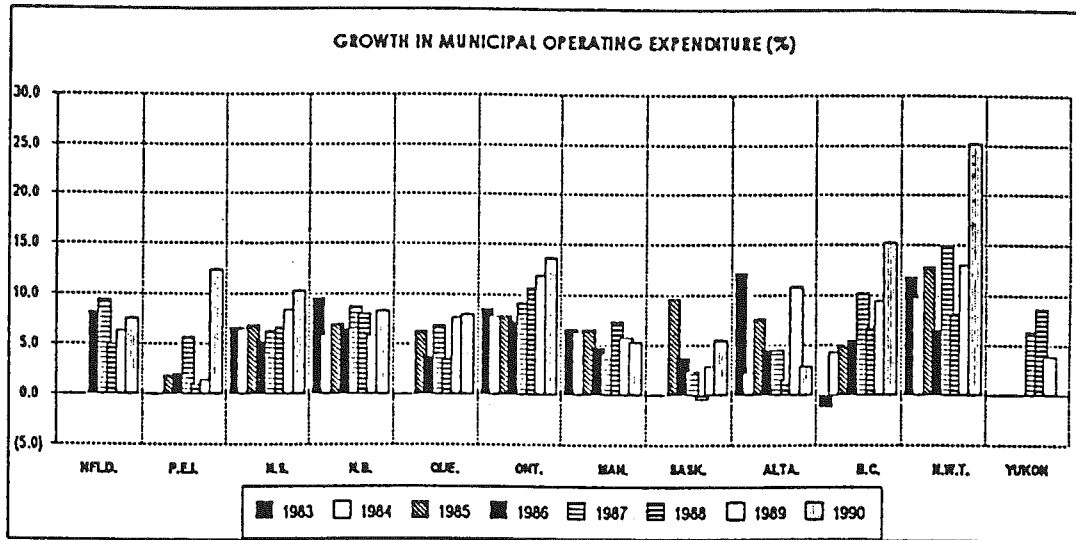
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2. Transfer Payments

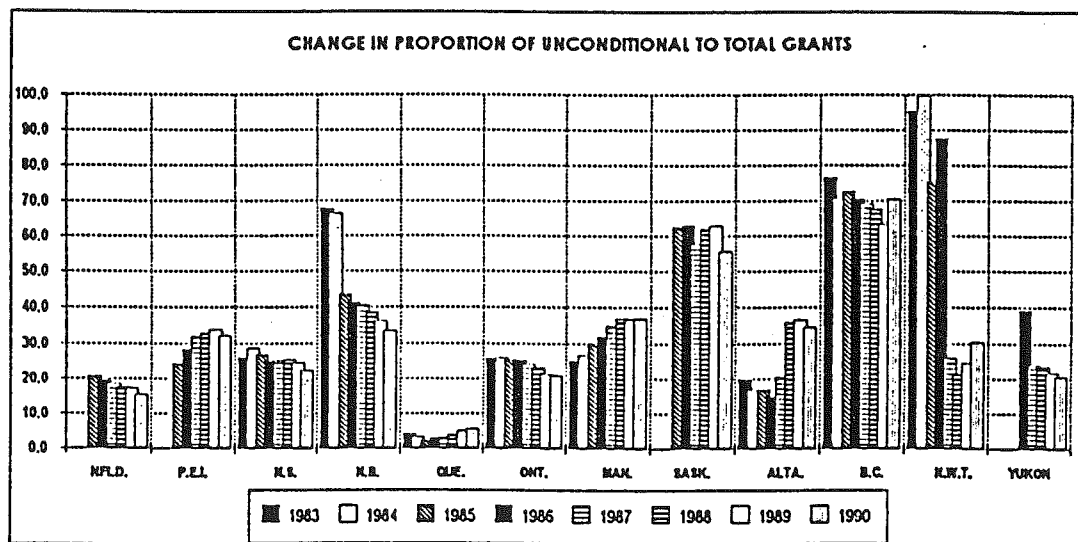
Transfer payments from federal and provincial governments are an important source of revenue for municipal governments across Canada, although it is a source of revenue whose share is declining. Transfers include grants and payments-in-lieu of taxes (PILs). PILs are closely related to property tax and are roughly equivalent to the taxes the private sector would pay on property that is occupied by governments. PILs are discussed in Section 4. Grants are broadly placed into two categories: unconditional or revenue sharing grants and conditional grants. The latter usually subsidize the cost of activities which provincial or territorial governments want to encourage or to make sure that funds are used for a specific purpose.

⇒ The growth of grants in all provinces and territories has been consistently lower than the growth in municipal spending. Grants to municipalities have generally fallen as a proportion of provincial budgets over the period under review. This is evidenced by a lower growth in grants when compared to provincial and territorial expenditures. In some provinces, notably Saskatchewan and Alberta, grants have even fallen in absolute dollars in some years.





⇒ There has been a gradual trend away from unconditional grants towards conditional grants over the period under review, with Prince Edward Island, Manitoba, Alberta and Quebec being the exceptions. It appears that in times of budget restraint, provincial governments want to ensure that grant dollars address provincial as well as municipal priorities.



⇒ The ratio of unconditional grants to total provincial and territorial grants varies significantly. For the period under review, Quebec had the lowest ratio of unconditional grants. This is not surprising given its provision of tax room to municipalities. Nova Scotia, Ontario, the

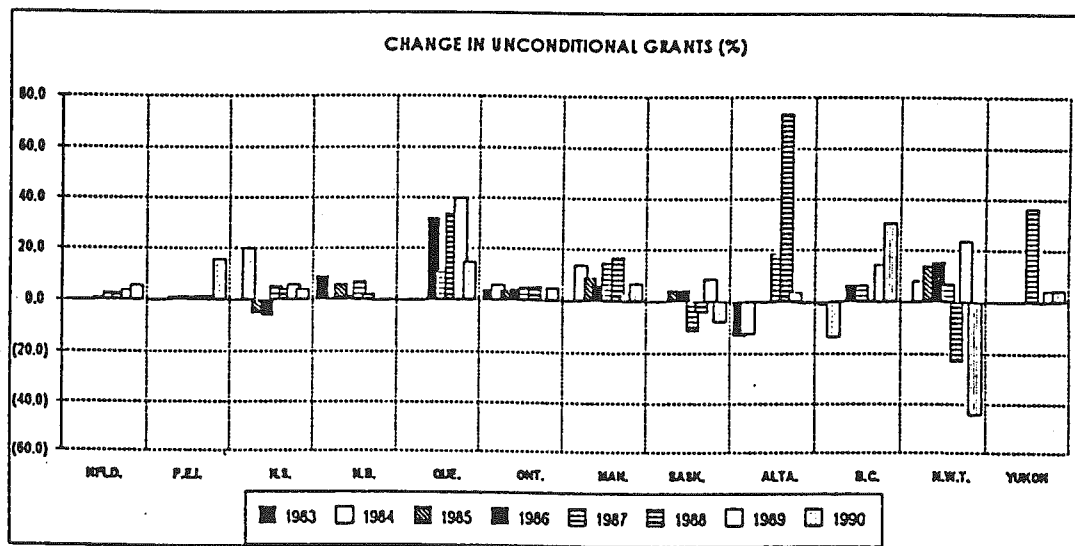
Yukon and the Northwest Territories provided about one quarter of grants to municipalities as unconditional. New Brunswick, British Columbia and Saskatchewan gave a higher proportion of grants in unconditional form than the others.

3. Municipal Authority and Provincial Control

At present, the degree of devolution of responsibility to Canadian municipalities runs the full spectrum from significant authority to a high degree of provincial control. Control is exercised in two main ways. First, conditional grants generally carry with them a high degree of special requirements and regulation. For example, in Ontario, to qualify for a cost sharing grant for a sewer system, municipalities are obliged to not only to build the system, but also to build it according to precise Ministry of Environment standards, including inspections during construction.

The second and stronger mechanism is through provincial Municipal Acts and other legislation, which impose minimum acceptable standards such as the amount and type of borrowing that can be done. In addition, if provincial or territorial legislation does not explicitly permit an activity, then municipalities must not undertake it.

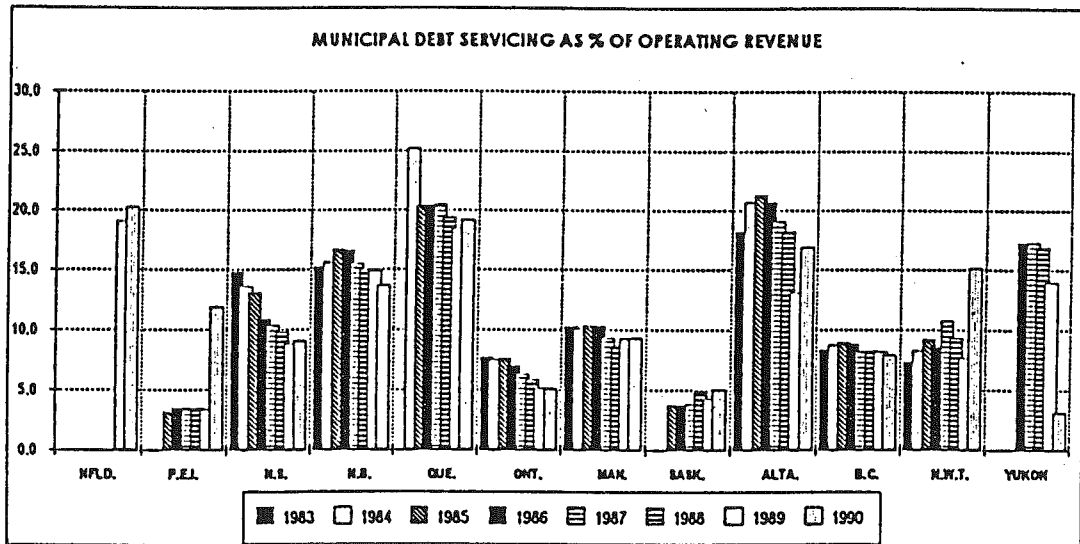
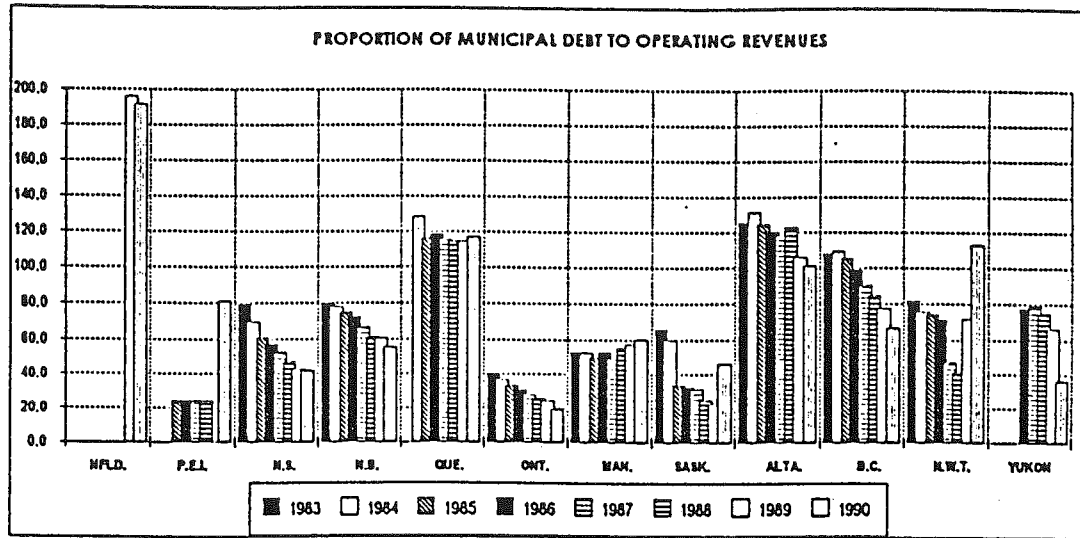
- ⇒ Quebec, with its few conditional grants and lower degree of regulatory control is at one end of the control spectrum and Nova Scotia, which requires the submission of all budgets and reviews all bylaws passed by municipalities is at the other end.
- ⇒ Although the variation in the growth of unconditional grants is significant through time and among the provinces, it is difficult to diagnose a general trend across Canadian municipalities.



4. Changing Sources of Finance

In all provinces and territories, without exception, municipalities have placed an increased reliance on property taxes over the period studied. User fees, on the other hand, have remained almost constant as a proportion of total revenues in the provinces and municipalities which use them.

- ⇒ Grants from provincial, territorial and federal governments have declined as a proportion of operating revenues. This is, in part, a result of cutbacks in transfer payments by the federal government. As well, the growth in grants from the provincial and territorial governments has not kept pace with municipal spending.
- ⇒ Notwithstanding the steadily increasing reliance on property taxes across Canada, property tax as a percentage of gross domestic product has not changed significantly from 1983 to 1990.
- ⇒ PILs, as noted previously, are payments made by federal, provincial and territorial, and in some cases upper tier municipal governments to the tax collecting level of local government. In Quebec, between 10 and 12 percent of the operating revenue of municipalities was derived from this source of revenue during the late 1980s. By contrast, in Ontario, PILs accounted for less than 4 percent of revenues and in Nova Scotia and Saskatchewan they accounted for between 6 and 7 percent.
- ⇒ Municipalities in Canada are either prohibited or discouraged from having operating deficits. However, on the capital side, borrowing is a key financing mechanism. Indeed, while excessive borrowing is not favoured, borrowing for projects with a long-term useful life, ensures a more rational implementation of capital projects. However, in most provinces municipal debt has fallen in importance as a source of financing. High interest rates throughout the 1980s have clearly been a deterrent to long-term borrowing for capital projects, a trend that may change because of falling interest rates in the early 1990s. Therefore, debt services as a percentage of operating revenue has fallen since 1983 in most provinces.



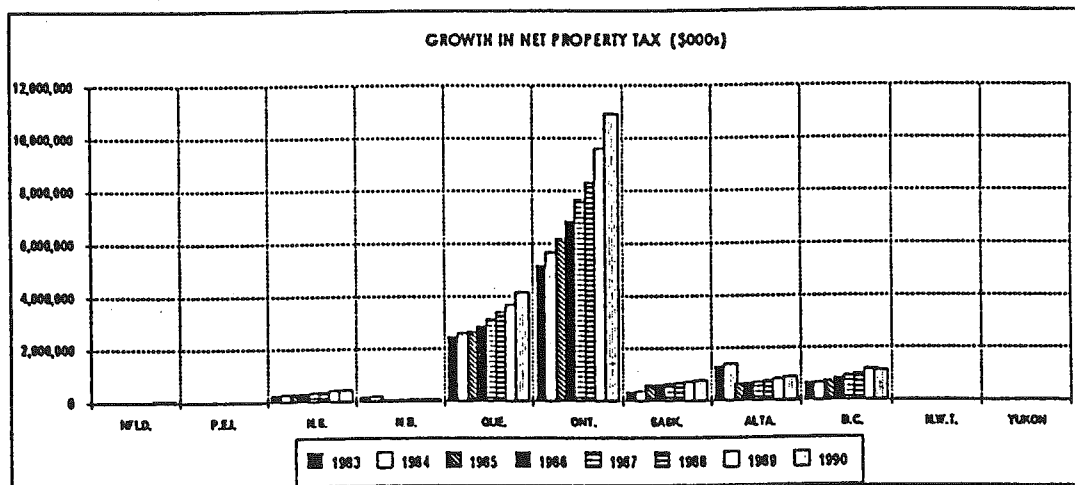
Similarly, the ratio of debt to operating revenues has fallen in all provinces. In terms of debt per capita, one half of the provinces and territories experienced increases, and one half had decreases. The levels of debt vary significantly among provinces. It should be noted that there are difficulties in making precise comparisons because in some provinces, like Alberta, some of the debt is related to utilities and it is self-liquidating—repaid through user charges rather than taxes.

5. Property Tax

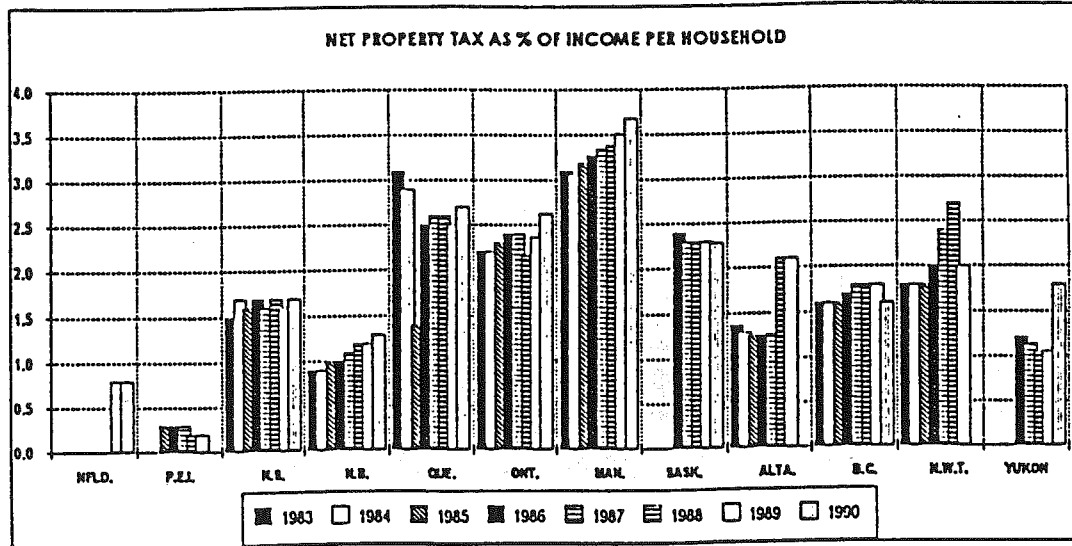
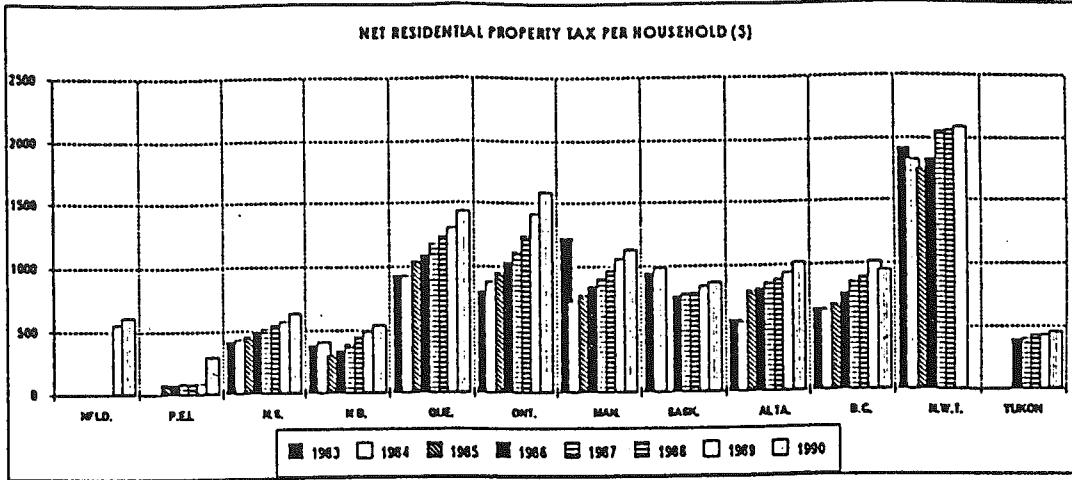
Across Canada, some provinces and territories have concerned themselves with the redistribution of the property tax burden. In those provinces, there has been a desire to protect people least able to pay their property taxes through a variety of tax credits and tax grants provided by the province directly to local ratepayers and residential tenants.

Most provinces also perceive property taxes to impose an unfair burden on farms and therefore, through exemptions, tax rebates and special assessment provisions, have legislated property tax relief for farmers. Saskatchewan has also provided relief from business tax for small businesses. Many provinces, through resource equalization, using both unconditional and conditional grants, are attempting to ensure that all municipalities can provide a standard set of services without a high property tax burden on their residents.

⇒ The growth in net property tax (without education) is particularly in Ontario and Quebec is an indication of how municipal governments have become reliant on the property tax as a significant source of revenue.



Trends in Municipal Finance Across Canada, 1983-1990



6. Future Directions

Both differences and similarities in municipal finance matters have been observed across Canada throughout the 1980s. The provinces and territories will be facing similar finance policy issues in the 1990s and could immensely benefit from sharing ideas and research. Some possible areas of research include:

1. a more detailed review of the overall provincial-municipal division of responsibility and tax sources, comparing all the provinces and territories and studying the issue of people services versus property services and the financing of both;
2. the development of a national database on municipal finance including indicators at disaggregated levels of municipal government;
3. an investigation of municipal finance techniques that can be used in rapidly growing municipalities to fund new infrastructure and growth related needs;
4. an applied research program to examine specific issues of municipal finances such as: "Is the pay-as-you-go technique of capital funding valid with long term borrowing rates at 7-8%?"; The use of municipal reserve funds to undertake long term municipal capital projects and more importantly to replace existing infrastructure.