Can Canadian Cities Compete?

by Marni Cappe, MCIP RPP

COMING AWAY from this year's CIP-OPPI conference, I reflected on the growing awareness that Canadian planners had of climate change, economic globalization and other mega-trends that have captured the municipal agenda since the mid-1990s.

From my new vantage point at the level of national policy, however, I perceive at least one significant omission from the roster: Canadian cities are losing access to the resources they need to maintain a high quality of life. This trend not only has costs at home, but also dulls our competitive edge in the international market, where other countries, particularly the United States, are investing heavily in their cities.

Early warning

In May 2001, I completed research for the Federation of Canadian Municipalities and the National Round Table on the Economy and the Environment. "Early Warning: Will Canadian Cities Compete?" compared the legal and fiscal authorities available to municipal governments in Canada and the United States, and explored comparative infrastructure-financing mechanisms in Canada, the U.S. and Europe. The research clearly demonstrated that Canadian municipal governments have far fewer levers to attract investment, fewer tools to finance local services, and limited access to federal and provincial funds.

Most experts agree that investing in cities means investing in the nation. In Europe and the United States, all levels of government are contributing to an urban renaissance, with substantial and creative investments in their urban regions. Per capita municipal expenditures in the United States are, on average, double those in Canada—\$1,652 (U.S.) versus \$785 (U.S.)—while the average in forty-three large urban areas in Europe topped \$2,100 (U.S.). In addition, substantial investments in municipal infrastructure—transit, housing, community centres, arts and culture—are the hallmark of federal urban programs in the U.S. and Europe. The U.S. has earmarked more than \$100 billion for urban transportation; in Canada, the only comparable investment is the \$1.2 billion (U.S.) infrastructure program to cover all types of infrastructure.

Can Canadian cities compete? Do our urban regions have the necessary legal and fiscal tools?

Municipal government powers

Municipal governments are responsible for \$45 billion in physical and social infrastructure, accounting for 10 per cent of all government spending in Canada in 2000. While municipal government responsibilities have changed dramatically during the past 150 years, the constitutional framework in which municipal governments operate has not.

Municipal governments derive their authority from the provinces. The Baldwin Act (1849) defines the role, function, and structure of local authorities. In 1849, we were a nation of rural dwellers: fewer than 15 per cent of Canadians lived in urban areas at the time of the first census (1871). By 1996, our demographic geography had completely reversed, with 80 per cent living in cities.

Several provinces and territories are currently debating municipal government powers through changes in legislation. Local governments across Canada are pressing for more autonomy, closer consultation with provincial and federal governments, and greater flexibility in revenue-raising authority. British Columbia is poised to introduce legislation to enable the kind of locally developed approaches municipal governments are seeking. Canadian municipal governments want recognition and authority in line with their responsibilities.

As in Canada, local governments in the United States are created by another order of government: the state. The powers granted to the states by the Constitution—and to local governments by the states—are viewed as checks and balances on federal control. A distinguishing feature of local government in the U.S. is the power of the citizenry. In recent years, voters have sought to check the power of local government through referendums or ballot initiatives.

The basic governmental structure and powers of each American city are set forth in a charter provided by the state. Most large municipalities define the scope and manner of service delivery through home-rule charters. Greater municipal autonomy facilitates choice and enhances local accountability.

Matching resources with responsibilities

Consistent with the legal framework that positions Canadian municipalities as "creatures of the province," the fiscal framework in which municipal governments must operate is tightly controlled. Municipalities across Canada are limited in the ways they can raise and spend money. More and more, municipal governments face rising costs and/or dwindling revenues, triggered by the off-loading of provincial responsibilities, rapid growth, shrinking intergovernmental transfers, regulated caps on tax increases, and heightened expectations of their citizens.

Municipal governments in Canada depend on locally generated revenue, principally from property taxes and, secondarily, from user fees. Transfer payments and grants from federal and provincial governments contribute less than 18 per cent of total municipal revenue, significantly below averages for the United States (27 per cent) and Europe (31 per cent).

Municipal governments in the United States operate within a more permissive fiscal framework than their Canadian counterparts, and draw from a wider array of taxing powers and financing mechanisms. While local governments in the U.S. also depend on property taxes, they make greater use of sales taxes and user fees. A few states allow local income tax.

Other than wider taxing powers, municipal governments in the U.S. enjoy the advantages of their power to provide tax incentives and other means of attracting private-sector investment. Financial incentives can be powerful tools for achieving municipal objectives for development and redevelopment.

A Comparison of Municipal Authority Tools

	United States	Canada
Property tax	■	■
Sales tax	■	
Hotel/motel tax	■	□
Business tax	■	
Fuel tax	■	□
License fees	■	■
Income tax	■	
Development charges	■	■
Tax-exempt municipal bonds	■	
Tax incentives	■	
Grants to corporations	■	
Borrowing money	■	■

■ = Power to use the tool indicated
□ = Rare instances of this authority

Financing pipelines and lifelines

A scan of municipal budget presentations across Canada reveals a common and growing preoccupation with financing infrastructure. Whether the city is fast-growing, like Ottawa or Calgary, or stable like Winnipeg, municipal officials emphasize the need to fund improvement of such basic systems as roads, transit, water, and sewage. For the most part, municipal governments are the major funders of these public works.

Once a source for large capital projects, provincial and federal infrastructure grants in Canada are now too small and sporadic to provide a reliable revenue source. The infrastructure that supports our communities is essential to their economic and environmental health. Cities across Canada are calling on federal and provincial governments to reinvest a portion of the revenues generated by urban regions to assure their continuing competitiveness.

In the United States, significant investment in cities during the past decade has been stimulated in large measure by federal and state programs that leverage private-sector investment in infrastructure. An average of more than \$263 million per year has been invested over the last decade in the downtowns and waterfronts of ten U.S. cities—roughly five times the rate of investment in Toronto. Municipal governments in the U.S. can achieve strong public-private partnerships by taking advantage of a wide range of flexible financing arrangements.

The most striking difference in infrastructure funding reflects the commitment of the federal government. The single largest infrastructure investment program in the U.S is the Transportation Equity Act for the Twenty-First Century (TEA-21). The TEA-21 legislation facilitates flexibility and leveraging of federal resources for private-sector participation. Innovative examples include state infrastructure banks, direct credit assistance, and joint development of transit assets.

Investments in water and waste-water infrastructure in the U.S. are principally achieved through state clean-water loan programs or revolving funds. Traditional grant programs of the seventies and eighties have been replaced with a shift to local governments and private funding sources. Because the new loan program offers long-term funding for water quality and waste-water construction activities, local governments and states have generally supported the change. Flexible tools allow states to issue bonds and offer loans for water and waste-water systems at below-market interest rates. Assistance to disadvantaged communities may come in the form of negative-interest-rate loans or principal forgiveness.

Infrastructure is more than just pipes, roads, and buses. More than 250 funding programs run by the U.S. Department of Housing and Urban Development can finance urban redevelopment and affordable housing. One of the largest is the Community Development Block Grant, which includes a series of initiatives such as tax incentives, loan guarantees, and funds earmarked for small cities.

What does all this mean?

Research has uncovered a treasure chest of fiscal tools and national grants available to American municipal governments. Municipal governments in the U.S. clearly benefit from mechanisms that leverage public money. Creative combinations of grants, loans, and tax incentives have allowed an integrated approach to resolving urban problems. Such opportunities are not as widely available to Canadian cities.

Successful cities are those where people and goods can be transported, where clean water is always available, where citizens of all ages and incomes can obtain community services and housing—in other words, where physical and social infrastructure is well-maintained and provided where and when it is needed. Municipal governments need options to finance their growing responsibilities and to continue meeting the expectations of their residents.

As we come to a better understanding of the links between investment in cities, quality of life, and global competitiveness, we may conclude that Canadian cities are on the verge of losing their competitive edge. As community planners, we have an obligation to ensure that the transformation of our urban regions supports the quality of life that Canadians have come to expect.

Summary

As we come to a better understanding of the links between investment in cities, quality of life, and global competitiveness, it is becoming clearer that Canadian cities are on the verge of losing their competitive edge. Recent research indicates that municipal governments in Canada have far fewer levers to attract investment, fewer tools to finance local services, and limited access to federal and provincial funds. In the United States, cities have access to a fiscal tool kit that includes wide taxing powers and a broad array of government grants, loans, and tax incentives.

Sommaire

Une analyse des rapports entre l'investissement dans les centres urbains, la qualité de vie et la compétitivité à l'échelle mondiale permet d'établir que les villes canadiennes sont en train de perdre leur avantage concurrentiel. Des enquêtes récentes ont révélé que les municipalités canadiennes ont peu de moyens pour attirer l'investissement, d'outils pour financer les services régionaux et d'accès aux fonds fédéraux et provinciaux. Aux États-Unis, les villes ont accès à un ensemble de mesures fiscales, tels un pouvoir de taxation important et un grand choix de prêts, de subventions et d'incitatifs fiscaux.

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