

Op-Ed: Municipalities are richer than they think

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In advance of the Big City Mayors' Caucus this week, local government leaders are once again trying to build a believable case that they urgently need more money from federal and provincial governments. The "infrastructure deficit" campaign has now shifted to a "housing crunch" campaign.

Asking for more money has become a municipal reflex. Local governments claim they are cash-strapped and do not receive their fair share of tax revenue from Canadians' pockets. Their common premise is that they get only eight cents of every tax dollar. The eight-cent idea has so much traction that many observers take it as fact and use it to frame every discussion on municipal finances.

Eight cents is misleading because it represents only taxes directly collected by municipalities. When user fees and transfers are taken into account, local governments actually receive almost double that amount, or around 15 cents of every dollar that government collects.

But the eight-cent strategy is smart, distracting focus away from excessive spending. It also taps into the strong human desire for fairness. It seems as wrong as an older sibling getting a bigger piece of cake. But does fairness really dictate equal pieces of cake (tax revenue) for each level of government?

The different levels of government have different responsibilities. Health care, education, old age security, guaranteed income supplements, defence, welfare and child protection are the responsibilities of senior levels of government. These programs are complicated and costly to deliver; health care alone consumes about a third of provincial budgets. Municipalities also have important core responsibilities including roads, garbage, sewers, police and firefighting. But, for the most part, these are more straightforward and less expensive.

Another idea that municipalities use to distract attention away from their spending and support their case for more revenue is the fact that transfer payments from senior levels of government were cut during the 1990s.

It's true; transfers did decrease significantly during the 1990s — from a high of \$15 billion in 1994 to a low of \$8 billion in 2000. But here is the missing part of the story: Total municipal revenue actually increased from \$48 billion in 1990 to \$54 billion in 2000, even while transfers went down, because local governments increased property taxes and fees to make up the difference.

(All numbers are inflation adjusted using 2008 dollars).

This makes the municipal "infrastructure deficit" argument very weak and could explain the shift to the "housing crunch" rhetoric now in vogue. If revenues did not decline during the 1990s, why did local governments fail to properly invest in their infrastructure?

Putting this inconvenient question aside, municipalities are now getting a pile of new money to spend on infrastructure. Tens of billions of dollars have been promised over the next 10 years as part of the New Building Canada Plan. This looks pretty generous, especially when you consider that transfers from senior levels of government were already at a high-water mark of \$16 billion a year in 2008, the latest year for which we have data.

But municipalities are not saying “thank you.” They once again have their hands out. This time they want more money for social housing.

Instead of asking for more money, municipalities need to start controlling their spending. Consider that while population in Canada’s municipalities has grown by 12 per cent since 2000, inflation-adjusted spending over the same period has exploded by 55 per cent. These are the national numbers, but whether you are talking about Vancouver, Calgary, Toronto, Ottawa or Montreal, the profile is similar, with inflation-adjusted spending growth far outpacing increases in population. Municipalities that don’t fit this profile are the exception, and should be applauded.

The eight-cent myth, the “infrastructure deficit” and the “housing crunch” are all seductive justifications for irresponsible spending that hurts hardworking taxpayers. It’s not sustainable. It’s time for municipal leaders to start accepting accountability for their spending and for senior governments to stop pandering to their predictable demands for more money.

There is only so much cake to go around.

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