

Opinion: Municipalities are richer than they say

Cities need to control their spending

BY LAURA JONES AND QUEENIE WONG, SPECIAL TO THE VANCOUVER SUN FEBRUARY 24, 2014

In advance of the big city mayors caucus this week, local government leaders are again trying to build a believable case 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. Governments claim they are cash-strapped and do not receive their fair share of tax revenue from Canadians's pockets. Their common premise is they receive only eight cents of every tax dollar. **The eight-cent idea has so much traction 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 receive almost double that amount, or about 15 cents of every dollar 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 receiving 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 from their spending and support their case for more revenue is the fact 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 increased from \$48 billion in 1990 to \$54 billion in 2000, even while transfers declined, because local governments increased property taxes and fees to cover 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 receiving a pile of new money to spend on infrastructure. **Tens of billions of dollars have been promised for the next 10 years as part of the**

New Building Canada Plan. This looks pretty generous, especially when you consider 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 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 the population in Canada's municipalities has grown by 12 per cent **since 2000, inflation-adjusted spending during 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 out-pacing 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 hard-working 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.

*Laura Jones is executive vice president and Queenie Wong is senior research analyst, at the **Canadian Federation of Independent Business.** The new report, *Municipalities are Richer than They Think*, can be found at www.cfib.ca.*

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