Municipal Relations with the Federal and Provincial Governments:

A Fiscal Perspective

by

Melville L McMillan
Department of Economics
University of Alberta
Edmonton T6G 2H4

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INTRODUCTION

Municipal governments have received more than the usual amount of attention during the past decade. Some significant reshuffling of provincial-municipal responsibilities, for which Ontario stands out, and some high profile amalgamations (notably involving Toronto, Halifax and Montreal) have attracted media and public attention. Somewhat in their shadow, more modest changes have also occurred (e.g., Nova Scotia) and, in addition, many studies have investigated options for the organization, responsibilities and financing of municipal government.[*] Also, various provinces have revised their municipal government legislation to liberalize municipal authority often by granting municipalities 'natural person' powers.[2]

From another perspective, municipalities, and especially the cities, have been the focus of examinations by various public policy centres. For several years now, the Canada West Foundation has been engaged in its major Western Cities Project.[3] Previous to that, the Institute for Research on Public Policy undertook a project on city-regions (Hobson and St Hilaire, 1997). Contributions have come from the C D Howe Institute (Kitchen, 2000; Slack, 2002) and the TD Bank Financial Group (2002). In its latest 'territorial review' of Canada, the OECD includes major sections addressing urban and metropolitan issues (OECD, 2002). The Canadian Tax Foundation recently published a series of papers as a symposium on municipal finance and governance reform (Canadian Tax Foundation, 2002). The Canadian Policy Research Networks undertook a group of studies focussing on the federal government's role in cities.[4] Complementing these independent works, the federal government established the Prime Minister's Caucus Task Force on Urban Issues which reported in November 2002. To round out these highlights of the evidence, there have been a number of conferences on municipal issues of which this one and the Institute for Public Economics' 'Paying for Cities' conference are among the most recent.

Why this surge of interest and activity in municipal, and especially urban municipal, affairs? Perhaps an underlying cause is a sense that municipalities are not living up to expectations or to their potential. Looked at from a somewhat different perspective, perhaps there is a feeling that municipal governments are becoming less able to achieve their goals and meet the needs of their residents. The validity of either of these speculations could be debated.

Those recently addressing municipal issues regularly motivate their discussions with reference three major factors -- urbanization, global competitiveness, and the fiscal squeeze. Canada is becoming a more urban nation. About 63 percent of the population now lives in one of the 18 Census Metropolitan Areas. Because urban municipal governments impact more upon their residents' lives than their rural counterparts, urbanization could be an important contributor to the growing profile of municipal government. However, as Robert Young (2002) points out, only 37.8 percent of the population live in the C-5 cities of Toronto, Montreal, Vancouver, Calgary and Winnipeg, and so, one needs to be cautious (electoral balance aside) about the support for major transfers or concessions from federal and provincial governments for solving city problems.

Globalization receives the obligatory nod. There is widespread reference to cities as the engines of growth and the necessity of viable cities for the nation's competitiveness. Without doubt, the functionality and livability of cities is critical but, to a very large extent, they always has been for both local reasons as well as for domestic and international competitiveness. While growing internationalization probably increases the competitive exposure of all municipalities marginally, only a few major cities in the country are likely to find the competitive pressure markedly increased. Even then, the determinants of their international competitive positions are by far dominated by provincial and national policies. Still, internationalization adds some impetus to the need for effective and responsive local government.

Much mention is made to a fiscal squeeze on municipal government. There is frequent reference to 'down loading' by the provincial, and even the federal, government although that down loading is often not well defined. Particularly in the face of new expenditure responsibilities or the perception of expanding local needs, municipalities feel unduly constrained by their reliance on a single major tax, the property tax.

To these three factors, I will add a fourth, which I will refer to as the lack of voice. By this I refer to the municipalities' concern that they are not engaged, or properly engaged, even when they are affected by the decisions and actions of the provincial and federal governments. The upper tiers of government change funding arrangements, initiate or terminate programs involving the municipalities, or independently pursue their own activities but having local ramifications without (appropriate) consultation and coordination. Such results are vexing to the municipalities.

Because much of the concern over municipal government relates to fiscal matters, the objective of this paper is to examine municipal governments' fiscal situation and, particularly, their intergovernmental fiscal relations. The main directions are to outline what is, to identify the forces shaping the structure, and to explore what might be. Studies of the municipalities' circumstances and their relationships with other governments identify numerous issues or relationships needing attention. The main portion of the paper begins by outlining those issues because they are revealing and because they provide a platform for analysing later the directions and scope of possible reform. The fiscal picture follows and included there is a search for evidence of the seriousness of the municipal fiscal problem. Drawing upon the theory of fiscal federalism, criteria for assessing fiscal arrangements are outlined and then are then utilized to reflect back upon the current arrangements and the intergovernmental issues previously identified. Various suggestions have been advanced as to how municipal finances and intergovernmental fiscal relations might be reformed. A number of those are outlined and assessed. Discussion and conclusions completes the paper. For a summary look ahead, this analysis suggests that the future of municipalities will largely be in their own hands but their strength and dexterity could be improved.

MUNICIPAL (LARGELY URBAN) ISSUES

The issues identified in the discussion tend to break down largely to (broadly) intergovernmental relations, to fiscal matters, and to concerns about autonomy. Numerous studies have noted concerns that I place here into the intergovernmental relations category.[5] The predominant items appearing on those lists are Aboriginal people, immigrants and their settlement, and affordable housing. With extraordinary situations relating to (at least) health, housing, employment, justice and culture and with their extensive migration from traditional areas to (especially) the urban environment, Aboriginal people have become a greater concern for municipal governments. This concern is greatest in many of the cities in western Canada where the concentration of Aboriginal people in the cities is largest and their problems serious. Lags and slippage in the response to these developments by both the federal and the provincial governments have left municipalities directly exposed to and sharing the problems of the Aboriginal community.

Immigrants settle in cities. In fact, almost half of new immigrants choose Toronto and another quarter settle in either Vancouver or Montreal. Despite good education and skills, recent immigrants face high levels of unemployment and poverty. Problems with settlement and successful integration into the community bring them to local attention.

The diminished supply of new affordable housing and the growing demand puts many households in difficult situations. Homelessness is a related consequence and one that, because of its visibility, becomes a local concern thrust upon municipal governments. While these issues are not primarily municipal responsibilities, they have local consequences, they draw local attention, and many actions to redress them are locally directed and are best addressed at a small local scale. Hence, municipal governments reflect a concern and feel a need to be involved even when the federal and provincial governments have the major responsibilities and the appropriate resources. Thus, the need for effective intergovernmental relations and, in part, ensuring an appropriate voice for municipal government.

Fiscal matters have been a continuing concern of municipal governments.[6] This issue typically focuses on fiscal capacity and on fiscal arrangements with other governments. The variability and uncertainty of intergovernmental transfers irk municipalities. Under recently growing pressures to rely upon their own revenues and to meet the costs of down loaded responsibilities, municipalities feel even more constrained by their limitation to a single major source of taxation, the property tax. Recently, the need for greatly expanded infrastructure investments is seen as required to tackle a growing 'infrastructure deficit' and, notably, to meet the needs for expanded public transportation systems.

In changing circumstances, municipalities see a need for more autonomy. That is, if they are to cope with broadening responsibilities or, at least, the expanding concerns they see on their doorsteps, they see a need for a clearer definition of roles and/or more flexibility in what and how they can address those issues. As 'creatures of the provinces' the legislation and the interpretation of that legislation has been quite restrictive.

THE FISCAL PICTURE

AN OVERVIEW

Consider first Canada's government sector and the municipal role within it. Table 1 reports expenditures for the three levels of government as a percentage of gross national expenditure for selected years from 1965. There are a number of interesting features to note. Government (in total) has become relatively larger -- from representing about one-quarter of GNE in 1965 to just under one-half before declining to about two-fifths. Expenditures of both the federal and provincial governments have grown (while that of the local sector has remained relatively constant). The size of the federal government, however, declined relatively since 1985 leaving the federal share of GNE at 18.2 percent, somewhat larger than its 14.9 percent in 1965. The fiscal role of the provincial government has grown the most -- from 11 percent to 20.3 percent of GNE -- as particularly health care and education (provincial) responsibilities have grown. The magnitude of all governments relative to GNE has declined since 1995. This development is the result of a resurgence of the economy which increases the denominator of the ratio and government expenditure restraint.

Table 1

The impact of fiscal restraint is demonstrated in Table 2 which shows the budget balances (deficits and surpluses) of the federal and provincial governments from their 1988-89 fiscal year. Deficits grew in both until the early to mid-1990s and then declined and eventually changed to surpluses with a combination of expenditure restraint (sometimes even cuts) and revenue growth. One mechanism for controlling expenditures by the individual governments was to reduce transfers to other governments.[7] Both the federal and provincial governments did this. The federal government, notably with the replacement of the Established Program Financing (EPF) and the Canada Assistance Plan (CAP) with the Canada Health and Social Transfer (CHST), cut its transfers to the provinces and territories from $29.8 billion in 1995-96 to $24.6 in one year (from 1995-96 to 1996-97). In parallel, the provinces reduced transfers to municipal governments from about $10 billion annually to about $8 billion and largely held transfers to school districts constant.[8] (Federal to provincial transfers have since recovered but not so the provincial to municipal transfers.) The local school and municipal authorities make no parallel transfers so have no similar recourse. As shall become more apparent below, the reductions in transfers to the municipal governments have had a substantial impact on their fiscal situation.

Table 2

An noted above, the relative magnitude of local government has been fairly constant. Expenditures by local government represented 7.8 percent of GNE in 1965 and 8.0 percent in 2000 (Table 1). Local government is made up of general purpose local authorities (municipalities) and local school authorities (school districts).[9, 10] Attention here is on the municipalities. Unfortunately, separate

data for municipal and school authorities are not available prior to 1988. In 1988, municipal expenditures amounted to 4.5 percent of GNE and in 2000 they account for 4.3 percent. Despite the slightly lower percentage, per capita real (GDP deflator adjusted) dollar expenditures by municipal governments increased 15 percent over this period.

The per capita levels and percentage distribution of municipal expenditures for 2001 are shown in Table 3. The range of per capita municipal expenditures is large -- from a low of $378 in Prince Edward Island to $1948 in Ontario. The (population weighted) average for Canada is $1545. The provinces tend divide into two groups. For Quebec and the provinces further west, per capita expenditures are relatively high (above $1050) while in Atlantic Canada, those expenditures tend to lower (below $1050). Nova Scotia defines the upper end in Atlantic Canada because its municipal governments, unlike elsewhere, contribute significantly (14.2 percent of municipal expenditures) to schooling and, at 4.5 percent, still finances more than the norm of social services although that share has dropped dramatically (from 23.3 percent in 1988) and with a final reduction to occur in 2003. Ontario municipalities are the highest spenders because one-quarter of their outlays go to fund social services. Otherwise, the Ontario outlay would be second to that in Alberta. Among the other provinces, the average share of expenditures going to social services is under one percent. Ontario has had a tradition of placing somewhat more expenditure responsibilities on its municipalities than other provinces but the local government "reforms" introduced during the 1990s exacerbated that burden. The province assumed full responsibility for funding schools (with new provincial property taxes to contribute to the cost) and, in exchange with the local level, shifted a variety of responsibilities (notably all social housing costs, the costs of maintaining previously provincial highways and half of the cost of land ambulances) to the municipal governments.[11] This reassignment of responsibilities to the municipalities, particularly the social services component, contrasts with the prevailing pattern and is contrary to "best practices" recommended by students of fiscal federalism. There will be occasion to reflect more on this below.

Table 3

Social services in Ontario and education outlays in Nova Scotia address the major anomalies in Table 2. To this, only the low share of protection costs in Newfoundland and Labrador might be added. Otherwise, the patterns are quite homogeneous. The major expenditure areas are protection (e.g., fire and policing), transportation, environment (water and sewerage services, solid waste management and recycling), plus recreation and culture. Together with general services (municipal administration), these categories account for over 85 percent of municipal outlays. Debt servicing costs averaged five percent in 2001 but ranged from 1.7 to 11.1 percent. Unlike the federal and provincial governments, municipalities cannot borrow for operating purposes but only for capital expenditures.

A perspective on the revenue side of the municipal accounts is provided by Table 4. Naturally, per capita revenues correspond closely to expenditures so it is the revenue sources that are of most interest. There are two major sources of revenues -- those from own sources and those from intergovernmental transfers. Transfers, or grants, accounted for 17 percent in 2001 and own-source revenues for 83 percent. Property and related taxes are the main source (63 percent overall) of own

revenue and representing, across Canada, 52.2 percent of total revenue. Property and related taxes consist of real property taxes and property related taxes. Real property taxes provide, on average, 41.9 percent of total revenue. The difference between the two primarily consists of business taxes, grants in lieu of taxes from other governments and their agencies, lot levies and special assessments (usually for specific improvements). Business taxes are not collected in British Columbia, Ontario, New Brunswick and Prince Edward Island. In fact, municipalities in Prince Edward have almost no property related taxes and rely on the real property tax. Property and related taxes vary considerable in relative importance -- from 44.4 to 73.7 percent in Alberta and Nova Scotia respectively. Due to the pattern of interprovincial revenues, there is somewhat less variation in the actual dollar amounts per capita collected. Revenues from the sale of goods and services, or user charges, is the next most important item representing almost one-quarter of total revenue. Thus, property and related taxes and user charges account for about 90 percent of own-source revenue and 75 percent of total revenue. Investment income is a more modest (4.9 percent across Canada) but still important source, especially for municipalities in Alberta, British Columbia and Manitoba. This revenue largely comes from utility ownership. While own-source revenue averages 83 percent of the total, and municipal governments in most provinces are close to the average, it ranges from about 74 to 94 percent. Newfoundland is at the low end and Nova Scotia and British Columbia set the upper level.

Table 4

As the importance of own-source revenue varies, so does the contribution of intergovernmental transfers. Municipalities in British Columbia and Nova Scotia receive only about six percent of their revenue from grants, those in Newfoundland get about one-quarter of their total.[12] Overall, grants provide 17 percent of revenue. Intergovernmental transfers essentially mean provincial to municipal transfers. The federal grants represent no more than 2.9 percent of total revenue in any province and averages 0.4 percent of total revenue (or about 2.4 percent of aggregate transfers to municipalities) for all Canada. All federal transfers are designated for specific (expenditure) purposes. Provincial transfers may be general purpose (i.e., unconditional) or specific purpose. Specific purpose grants dominate, 14.2 versus 2.4 overall, and in all provinces but New Brunswick, Nova Scotia and Prince Edward Island.

Thus, municipal government represents somewhat over four percent of GNE and about 10 percent of total government expenditure. Local expenditures are, with rare exceptions, to provide services benefiting local residents (notably, fire and police protection, roads and public transport, water and waste management, and recreation and cultural services). Municipal government relies on own-source revenues for over 80 percent of revenues. Own-source revenues essentially mean property and property related taxes and user charges and fees. Transfers, which are almost entirely provincial transfers, now account for 17 percent of total revenue (down from 23 percent in 1988). Those transfers are predominately conditional. This section only sketches the main features of municipal government today. Readers interested in more detail might refer to Kitchen (2003). Readers should also be aware that while much of the concern expressed about the municipal situation is being focussed on cities, there is no uniform and compatible source of data for different classes of municipalities

comparable to the Statistics Canada Financial Management Series data utilized for this paper.

A FISCAL SQUEEZE?

As already noted, considerable concern has been expressed about Canadian municipalities, and cities especially, being squeezed fiscally between down loaded responsibilities, rising expectations and a slowly growing tax and revenue base. This issue is examined in this section. Initially, national data only is considered but then a subnational perspective is taken which proves more revealing.

A National Perspective

The declining importance of intergovernmental transfers to municipalities during the past decade has been mentioned. This feature is revealed more fully here in Figure 1 which shows federal and provincial transfers to the municipalities as a percentage of expenditures from 1988 to 2001. Note the decline in the contribution of transfers after 1995 and again at the turn of the century. Between 1988 and 2001, transfers fell from 22.4 to 16.6 percent of expenditures. The actual impact is somewhat greater because transfers had amounted to about 25 percent of expenditures during the first half of the 1990s. Details are found in Table 5.

Figure 1

Table 5

While transfers declined since 1988, so have the debt charges paid by municipalities. This too is shown in Figure 1 and Table 5. Debt charges fell rather continuously from 1988 to 2001 from 9.5 to 5.0 percent of expenditures. To a large extent, the 5.8 percentage point drop in transfers was offset by the 4.5 percent drop in debt expenses. Hence, unlike some other governments, the municipal governments realized no fiscal dividend from declining interest rates and possibly lower debt.[13]

Are there obviously consequences of these and other developments for municipal expenditures? Table 6 reports the expenditures of Canadian municipalities over the 1988-2001 period in absolute and relative amounts and the major series are plotted in Figure 2. Municipal expenditures as a percentage of GDP was 4.54 percent in 1988, rose above five percent in the first half of the 1990s and then retreated reaching 4.4 percent in 2001. Note that the increase in this series (and many other considered) is due to the slow growth in GDP during the economic funk of the (especially) first half of the 1990s. To illustrate, see how the rise and fall of this series parallels the rise and fall of the unemployment rate series in table 6. Slow GDP grow depressed the denominator of the ratio. Fortunately, the initial and the final years of the study period are both periods of relative economic prosperity and so comparable.

The main point of interest in this sequence is that municipal expenditures in 2001 are comparable if not slightly smaller share of GDP than in 1988. If municipalities have been burdened by down loading and if they responded by spending to meet those new responsibilities, one might have expected the share to have become larger. Similarly, expenditures as a share of personal income show

a similar pattern and end up at essentially the same levels at the end as at the beginning of the period analysed.

Because it is program expenditures that matter to residents and it is program expenditures which are being down loaded, one might expect to see better any consequences on municipal expenditures by looking at program expenditures alone.[14] Looking at program expenditures as a percentage of GDP and personal income, the resulting pattern is similar. The percentage levels at the end of the series is comparable to those at the beginning although there may be a slight increase.

Another way to see if the expenditure burden on municipal government has risen is to review municipal program expenditures as a percentage of consolidated provincial and local program expenditures. That is, has the municipal share of subnational program expenditures increased? Here again, there is no obvious evidence of a larger municipal burden. The municipal percentage was 16.1 percent in 1988 and is 16.3 percent in 2001 and there has been relatively little variation in that percentage over the years.

Generally speaking, it appears that municipal expenditures have kept abreast, but really only abreast, of national output, incomes, and other (provincial and school board) expenditures over the 1988-2001 period. The municipal expenditure burden does not seem to have increased. At the same time, note that real (inflation adjusted) per capita municipal total expenditures have risen about 15 percent from $1262 to 1453.[15]

What has been happening on the revenue side of the municipal picture? As a result of diminished transfers, own-source revenues increased from 76.9 to 83 percent of total revenue. Not surprisingly, own-source revenue increased between 1988 and 2001 as a share of both GDP and personal income but it increased modestly -- from 3.40 to 3.58 percent of GDP and from 4.15 to 4.47 percent of personal income (Table 7). These are 5.3 percent and 7.7 percent increases respectively. In the case of the revenues, it is interesting to assess them also as a percentage of personal disposable income (PDI) because people essentially pay local taxes out of their income net of federal and provincial income taxes. Using personal disposable income provides a better perspective on how households may perceive the burden of municipal taxes. As a percentage of personal disposable income, own-source revenues increased from 5.27 percent to 5.87 percent, an 11.4 percent increase over the 14 years. Part of the rising burden of municipal own revenue in this context results from a decade of no growth in disposable incomes. It took a decade to regain the personal disposable incomes achieved at the end of the 1980s. The improvement at the turn of the century reflected the resurgence of the economy and tax reductions by the federal and many provincial governments.

Table 7

The increase in own revenues primarily came from increased real property taxes. Real property taxes rose from 32.2 to 41.9 percent of total revenue -- a 9.7 percentage point change representing a 30.1 percent increase in the real property tax share (Table 8). Meanwhile, property related taxes

(development levies, special assessments, grants-in-lieu of property taxes, and business taxes) grew little over the period and declined from 16.2 to 10.3 percent of total revenue. Sales, fees, and charges increased from 20 to 23 percent, the only other major category to show an increase. Other own revenue declined. The trends of the components of municipal revenues are seen clearly in Figure 3. The contribution of transfers declines by 6 percentage points and that is closely matched by the decline of property related taxes. There is a contribution from sales, etc. but the real burden of making up the difference has fallen on the real property tax.

Table 8

Figure 3

The magnitude of the property tax increase occurring between 1988 and 2001 is seen more completely in Table 9. There it is shown that real property taxes have increased 26.8 percent as a percentage of GDP, 30.6 percent as a percentage of personal income and 33.9 percent as a percentage of personal disposable income. These numbers represent substantial increases in what is often regarded as a less popular tax. The nominal per capita real property tax almost doubled during those years and the constant (1992) dollar per capita tax rose from \$418 to \$544 or by 30.1 percent.

A number of observations and tentative conclusions can be made from this analysis of the 1988 to 2001 period. Transfers to municipalities were reduced to two-thirds of their peak. This erosion is the clearest case of down loading. Fortunately for the municipalities, lower debt service costs softened the blow although the amount was not entirely adequate and the timing was not coincident. The municipalities managed to maintain total and program expenditures relative to GDP and personal income and program expenditures as a share of consolidated provincial and local expenditures. Hence, municipal expenditures stayed abreast of other subnational government spending. Real per capita expenditures even rose by about 15 percent. Any new expenditure responsibilities that have been down loaded to the municipalities over this period do not show up in an obvious way in the relative magnitudes of municipal expenditures at this aggregative level. This observation is not to deny their existence. However, many of down loads may be small individually and perhaps even in aggregate, they may affect budget allocation more than the overall magnitude, and much of the impact may be in capital spending (the infrastructure deficit) for which there is not good information at the municipal level. From the aggregate expenditure side, there is not substantial evidence of a fiscal squeeze adversely impacting Canadian municipal governments.

The obvious impacts of recent developments affecting Canadian municipal government has been on the revenue side. Clearly, own-source revenues had to increase as transfers declined. Thus, the main down loading or decentralization resulting seems to have been on the revenue collection side (i.e., the financing of municipal government). Thanks in part to the reduced debt service costs, the increase burden on municipal taxpayers has been relatively modest although it still amounted to 11.4 percent increase in its share of personal disposable income. The real burden of increasing own-source revenues fell to the real property tax which, as a percentage of GDP, increased 26.8 percent between 1988 and

2001 and, as a percentage of PDI, increased 33.9 percent. The shift to real property tax allowed the relative contributions of property related taxes and other own revenues to decline. The squeeze on municipal government over the past decade or more appears to be primarily on the revenue side as they have been required to raise property taxes (and, to a lesser extent, user charges) to support a larger share of municipal expenditures from their own sources.

It is common to hear complaints about the inelasticity of the property tax. Indeed, property tax revenues do not automatically increase with property values (unlike income and sales tax revenues) lag new developments which demand infrastructure investments in advance. However, the success of real property taxes to increase over the study period relative to GDP, personal income, and personal disposable income, even during a period dominated by slow or no real income growth, suggests that the tax can be fairly elastic when needed. The movement to market value assessments as the property tax base and the trend to annual market value adjustments makes the property tax more elastic in that an adjustment to the tax rate may not be needed to increase the revenues. Still, the property tax is for many people a more obvious tax than many other, often larger, taxes. Also, the move to development charges has helped to alleviate the problems of infrastructure financing.

Despite the relative recent success in maintaining municipal expenditures through property tax increases, one might wonder whether Canadians are pushing the limits of the property tax and perhaps this contributes to the calls for municipal fiscal reforms. Municipal governments are not alone in their use of this tax. In the few provinces where school boards still have significant taxing power, they share the property tax base. Notably, the provinces which have recently 'provincialized' school financing have also actually or in effect provincialized the (what was the local) school property tax. School property taxes in many provinces can amount to as much as municipal taxes and, where school financing has been provincialized, the taxpayer (unlike for municipal taxes) sees no direct local benefit. The combined burden of the school and municipal property taxes is large. Table 10 shows consolidated provincial and local property taxes as a percentage of personal disposable income. The levels in the 1990s well exceeded five percent and there have returned to the levels of the 1960s which put stress on local school financing and prompted the large expansion of provincial grants in support of schooling which reformed school financing during the years when the baby boomers reached school age. That funding reform led to notable reductions in the overall property tax burden. Those lower levels are again behind us and one might wonder whether the return of may might be critical levels of property tax burdens will press for further reform. Perhaps economic growth and growing PDI will lessen the pressure. However, a logic change in the circumstances would be for the relevant provinces to reduce their property taxes and fund schooling entirely out of general revenues leaving the property tax field entirely to municipal government.

A Sub-national Perspective

Nationally aggregated data can be helpful but, because municipal affairs are provincial policy, they can mask as much as they reveal. Hence, it is also useful to consider a more provincial or, at least, Sub-national perspective. A province by province review exceeds the mandate but it is useful to focus

to some extent on Ontario because it has followed a rather different approach with its municipalities and also in its most recent reforms. Hence, Table 11 presents a series of municipal fiscal characteristics for Ontario and for the rest of Canada excluding Ontario over the 1988 to 2001 period. To supplement that data with some information for the other provinces, Table 12 provides largely parallel information by province for the years 1988 and 2001 only. Together, the information in these tables affords some perspective on municipal fiscal situations at the subnational level.

Table 11

Table 12

The initial two columns in Table 11 compare transfers as a percentage of municipal expenditures for Ontario and for the rest of the country. For Ontario, transfers amounted to 31.4 percent of expenditures in 1988, 36.8 in 1994 and 20.3 in 2001. For Canada without Ontario, the corresponding figures are 15.8, 15.4 and 13.2 percent which suggests a much more stable pattern of transfers outside Ontario. That conclusion would be false. In fact, as indicated in Table 12, grants in all other provinces but Quebec have been reduced much like those in Ontario. In Quebec, however, transfers to municipalities increased by 75 percent over this period. The magnitude of the Quebec grants offsets, in the aggregate, the reductions in the other eight provinces and leaves the total transfers for the group excluding Ontario relatively stable. In this case, it is Quebec which is the anomaly.

Debt charges as a percentage of municipal expenditures did fall in all provinces but Manitoba where they essentially remained constant (Table 12).

Municipal program expenditures as a percentage of consolidated provincial and local expenditures are larger in Ontario than in any other province and that pattern was maintained throughout the period. In fact, Ontario is the only province in which municipal program expenditures rose (from 22.7 to 25.5 percent) as a share of consolidated provincial and local expenditures. Elsewhere, but for New Brunswick, the municipal portion actually fell; from 15.7 percent in 1988 to 14.1 percent in 2001. This result suggests that in most provinces, any down loading of responsibilities did not (at least yet) lead to a relatively larger municipal sector.

The trends in own-source municipal revenue as a percentage of personal disposable income also differ between Ontario and elsewhere. In Ontario, the own-source revenue burden with respect to PDI rose from 5.01 percent to 6.62 percent between 1988 and 2001. In the other provinces, the percentage rose (as in Ontario) when the economy was in its doldrums but, with economic recovery, fell back to previous levels (thanks partly to a sizable reduction in Quebec). In contrast, Ontario's percentage shot up by over a percentage point after 1997 with Ontario's local government reforms. Among the individual provinces, the pattern is mixed. The relative burden of own-source revenues fell not only in Quebec (where transfers rose) but also in Alberta and Saskatchewan, was constant in Manitoba, and rose (an average of about 0.6 percentage points) in five provinces between 1988 and 2001. Ontario's 1.6 percentage point increase over this same period started from a high level,

exceeded all other changes, and leaves Ontario distinctly higher on this account. The relative own source burden in the other provinces ranges from 34 to 92 percent, and averages 68 percent, of the burden in Ontario.

Real property taxes have been the source of the increased municipal own revenues. Again, Ontario is distinct. Real property taxes as a percentage of PDI rose in Ontario from 2.14 to 3.52 percent between 1988 and 2001 with the big jump occurring after 1997. In Canada without Ontario, that percentage rose from 2.25 to 2.57 percent. Elsewhere, real property taxes as a percentage of PDI rose at lease somewhat in all provinces. The average 0.35 percentage point increase in the other provinces contrasts with the 1.38 percentage point increase in Ontario. The municipal real property tax burden relative to PDI is high in Ontario. That burden in other provinces ranges from 43 to 89 percent and averages 65 percent of Ontario's.

Consolidated provincial and local data allows consideration of the total property tax burden. The series in Table 11 show Ontario's total property tax as a percentage of PDI increasing from 4.70 percent to 6.05 percent between 1988 and 2001. The changes in this sequence are less abrupt than in the municipal revenue series. Again, the overall property tax burden is notably greater in Ontario than in Canada excluding Ontario which started at 3.71 percent in 1988 and ended at 4.46 percent in 2001. Only Saskatchewan contends has a (slightly) higher consolidated property tax burden than Ontario. Across the other nine provinces, the consolidated property tax to PDI ratio ranges from 38 to 102 percent of Ontario's with an average of 70 percent.

The Sub-national data indicate that Ontario is different. It has had a relatively large municipal sector and, unlike elsewhere, that sector has grown since 1997. Since 1988, Ontario municipalities have become more reliant upon their own-revenue sources. Own-source revenue as a percentage of PDI increased in only five other provinces but the increases in them were swamped by the 1.6 percentage point increase in Ontario. The real property tax burden (as a share of PDI) has increased in all provinces but especially so in Ontario. Figure 4 shows the time paths of the own-source and real property tax burdens in Ontario and in Canada less Ontario. The sharp and significant change in Ontario is obvious. The pressure to maintain services in the face of declining grants plus the added difficulty of raising taxes and other revenues during an economic slump posed problems for municipalities throughout the country. Undoubtedly, those developments encouraged the claims and arguments of an extraordinary fiscal squeeze on municipal governments and especially on city governments. In general though, the municipal governments seem to be coping relatively well. However, the burdens put upon Ontario municipal governments and their taxpayers do appear extraordinary to the extent that it suggests that the municipal fiscal squeeze might primarily be an Ontario problem.

Figure 4

INTERGOVERNMENTAL TRANSFERS

Municipal governments receive transfers from both the federal and the provincial governments. Federal and provincial transfers as a percentage of municipal expenditures for 1988 to 2001 are plotted in Figure 5. Clearly, federal transfers are small. Even at their peak in the mid-1990s, they never exceeded 1.35 percent of expenditures ($19 per capita). In 2001, they amounted to 0.42 percent ($6.50 per capita). Federal transfers are both small and, at least recently, quite variable.

Figure 5

Although small, the federal transfers may make important contributions to particular programs. Table 13 provides some insight into that aspect. Consider initially the distribution of federal transfers among the specific expenditure categories. The federal government provides only specific purpose grants. About one-half of the transfers are directed to transportation and housing although their relative positions have been reversed between 1988 and 2001 with a major reduction in housing grants. Until the mid-1990s, housing received considerable federal money and it accounted for one-sixth of municipal spending on housing but by 2001, the federal contribution shrank to only 2.3 percent. Only for resource conservation/industrial development and the other category did federal transfers account for more than one percent of municipal outlays. Presently, the federal contribution is very minor in all areas of municipal expenditure. Still, they may be significant to certain small sub-programs not recognized at this level of aggregation.

Table 13

The provincial transfers are much greater in magnitude overall but, as seen from Figure 5, they too have declined considerably; from about 24 percent to 16 percent of municipal expenditures. Note, however, that the magnitudes and allocation of provincial grants vary considerably among the provinces. Table 14 provides information for 2001. Provincial grants amount to only about five percent of expenditures in British Columbia and Nova Scotia but about 20 percent in Ontario and Newfoundland. The per capita dollar amounts vary substantially as well -- from a low of $40 in Prince Edward Island to $389 in Ontario. While the provinces do make unconditional transfers, the conditional (or specific purpose) grants dominate in all provinces but New Brunswick and, nationally account for 13.9 percent of the 16.2 percent of municipal expenditures met through provincial transfers. That is, 86 percent of provincial transfers are designated for specific purposes.

Table 14

The distribution of provincial to municipal grants is also reported in Table 14. Here too, there is considerable variation. The distribution among expenditure categories at the national level actually does not represent the distribution in any province. Canada wide, social services receives the largest share but only because Ontario devotes almost 80 percent of its grants to this purpose. Municipalities have no social service responsibilities in many provinces and little in the other but for Ontario. Transportation is the other large national category for transfers but, while there is somewhat more homogeneity in this

case, transfers for transportation still range from 4.9 percent of conditional transfers in Nova Scotia to 75 percent in Alberta. If not similar, large variations can be found among provinces in other categories of spending -- e.g., health, environment and debt changes.

The contribution of transfers to municipal spending in the area is also of interest. Table 15 provides insight into this aspect for all Canada and individual provinces. Provincial contributions to outlays have diminished since the mid-1990s but the pattern among functions is fairly consistent. Relatively large contributions are made by grants to social services, health and housing nationally and also in many individual provinces. These are services for which municipalities typically have relatively minor responsibilities. Conservation and development might fit into this group as well. In the areas of major municipal spending, transportation stands out with a number of provinces providing transfers representing significant contributions to spending. Environment and recreation and culture get support in all provinces but the amounts vary considerably. Typically, relatively small provincial contributions (one percent or less) go towards protection outlays by municipalities. In general, provincial transfers tend to be relatively large relative to expenditures in those areas for which municipalities normally have limited responsibilities but, with the exception of transportation, of less importance for those purposes which are major municipal expenditure areas.

THE MUNICIPAL SITUATION FROM A FISCAL FEDERALISM PERSPECTIVE

Thus far, the exercise has outlined what is. Very little has been said about why it is this way, what are the positive and negative features, or how improvements might be made. To be normative, standards or criteria are needed. Work in the area of fiscal federalism by economists and political scientists offers a model useful for understanding better and for assessing intergovernmental fiscal relations. It is possible here only to highlight major features but the model is well developed and can be pursued in greater detail elsewhere.[16] These features of the fiscal federalism model form the basis of a brief assessment of the municipal situation.

The assignment problem is at the heart of fiscal federalism. The assignment problem is how to assign a) expenditure/service responsibilities and b) revenue raising and tax powers among governments. The major roles of government are often seen to be stabilization, distribution, and allocation. For reasons of small size and interjurisdictional spillovers, neither stabilization nor (re)distribution are deemed appropriate functions for municipal government. Allocation, that is using resources to provide services efficiently, however, is well suited to municipalities. Once there, the problem is to find the mix of responsibilities and funding that will realize that goal. Desirable characteristics for effective local government typically include reference to autonomy, responsiveness, accountability and a strong link between the benefits and costs of local services.[17]

EXPENDITURE RESPONSIBILITIES

Decentralization, or subsidiarity, is central to fiscal federalism. The principle is that responsibility for services should be assigned to the lowest level of government capable of providing the service effectively. When preferences or conditions vary geographically, devolution enhances efficiency plus responsiveness, autonomy and accountability in democratic environments. The presence of substantial interjurisdictional spillovers (externalities), major economies of scale and/or scope in public service provision, or large decision-making costs may act to offset the advantages of decentralization and require alternative or modified solutions.

A quick review of the services undertaken by Canadian municipalities reveals a combination, typically, well suited to local government. Protection (fire, police), transportation (roadways and streets, public transit), environment (water and sewerage, solid waste collection, disposal and recycling), recreation and culture plus general services and debt charges as well as the minor expenditure items of conservation/development and regional planning which together account for over 80 percent of municipal spending nationally, are services which provide essentially local benefits (i.e., there are limited spillovers), for which tastes vary, and for which local management and a local scale of operations are efficient. As will be addressed below, these services suit well the duties of a government limited to user charges and property taxes. An important and very interesting feature of local government in Canada that has seen considerable change in the past 20 years is the move to provincialize school finance and effectively make schooling entirely a provincial responsibility (despite the local school boards) by several more provinces.

Social expenditures by municipalities -- those for health, social services, education and housing -- are minor in most provinces. In eight provinces, they sum to four percent or less of total outlays. While municipal support for schooling makes Nova Scotia stand out, the striking anomaly in the municipal picture is Ontario where social spending represents one-third of municipal expenditures. Health and housing take their share but most, 24.7 percent, of the 33.2 percent goes to social services. As noted, local governments are not well suited to financing redistributive services. This is why social services, in particular, and social spending generally, have been progressively reduced (e.g., most recently in Nova Scotia) or essentially eliminated (in eight provinces) as a municipal responsibility. Ontario does make some concessions via transfers but those only partially offset the costs. The reshuffling of local-provincial responsibilities in Ontario during the 1990s that resulted in the expanded social spending by municipalities led to Ontario being the only province to end up with the municipal share of consolidated provincial and local program expenditure increasing over the 1988-2001 period. These Ontario changes provide the most obvious case of service responsibility down loading among the provinces. Elsewhere, but arguably excluding Quebec, down loading has been of the form of shifting added revenue-raising (funding) responsibility on to municipal governments.

REVENUE RESPONSIBILITIES

Once there is a multi-tiered structure of government, tax assignment becomes an issue. In these

circumstances, fiscal federalism recommends that the tax bases best suited for coping with the stabilization and redistribution functions are best assigned, with those responsibilities, to the senior governments. Thus, the major players, sales and income taxes, best suit the provincial and federal levels where government can run stabilizing deficits and surpluses as revenues fluctuate with economic activity and where interjurisdictional mobility is more difficult and therefore less likely to undermine redistributive programs. Taxes on immobile tax bases, notably property, are seen to be well suited to municipal government. Fees and charges levied on the beneficiaries of municipal services are also considered to be particularly suitable for municipal government. At the municipal level, because efficient resource allocation is seen to be the major objective and redistribution is not (at least is not recommended to be) a major concern, a close link between local public benefits and local public levies is strongly recommended; that is, the benefit principle should prevail. As Bird (1993, p 111) has noted, "the essential economic role of local government is to provide local residents with those public services for which they are willing to pay." To ensure clarity, the services referred to in the quote are local. Maintaining the close connection between municipal services and municipal costs requires that local residents be responsible for meeting the expenses of local services. That is, municipal governments set the tax rates and charges to be imposed on their citizens (and electorate) to finance the costs of the municipal services. Benefit related finance and local determination of local levies are fundamental criteria. Addition criteria widely cited as desirable for municipal revenue sources (and often others) are that they should be adequate, predictable, fair, visible, not exportable and easily administered.

The revenue structure of Canadian municipalities conforms rather well to the model outlined. Own source (and almost entirely locally determined[18]) revenues account for 83 percent of revenues with half of total revenues coming form property and related taxes (two-fifths specifically real property taxes) and one quarter from user charges. Lot levies and special assessments (about four percent of own-source revenues) fit well the benefit criteria and serve as a useful mechanism for financing the often large associated capital costs. More debatable is the business tax, the other major component of non-property tax property and related taxes (about three percent of own-source revenues). These taxes, plus the potentially high (relative to services) property taxes on non-residential property, pose questions about tax shifting and exporting which deviate from the benefits model (Kitchen, 2003; Kitchen and Slack, 1993). Closely related to this is a discussion as to whether and how user charges might be employed more extensively and might substitute for some property taxes especially to meet the costs of certain expenditures especially in the areas of environmental and recreational services (e.g., Dewees, 2002). It is perhaps notable that larger service charges have not figured predominately in the municipal response to the fiscal stresses of the past decade. Instead, real property taxes have increased twice as much (30 percent versus 15 percent for service charges as a percentage of revenue). The growth of municipal property taxes in absolute and relative magnitude is striking given the lagging state of the economy and incomes over much of the period, the politically inhospitable environment for tax increases in many provinces, and claims of the inelasticity of the property tax.

Interestingly, municipalities have not had revenue sources corresponding well to their major expenditure area, transportation. Indeed, roads and streets enhance property and property taxes relate to that but there is no mechanism for municipalities to allocate costs to the vehicles themselves and their

users. It is the federal and provincial governments which collect fuel taxes and the provinces which collect licence fees. To date tolls have not, overall, been an important source of transportation related revenue although they have been important for the funding of a few selected projects such as bridges and, of course, public transit.

Since 1988, increased real property taxes have been relied upon to the greatest extent to offset lower grants and meet growing expenditure requirements. It is increasingly being questioned whether the property tax in particular, and existing municipal revenue sources more generally, are adequate and appropriate to meet municipal needs. This question is particularly relevant if municipalities are being asked or are being expected to meet more social expenditures (without compensating transfers). As noted in the prior section, it is only Ontario municipalities that are being assigned more social expenditures (health, social services, education, and housing); at 33.2 percent, at least half again as much as in 1988. In only three other provinces have social expenditures risen as a share of total municipal expenditures and then an average of only 0.2 percentage points. The issue of concern, however, could well be not the expenditures that have actually increased but the need perceived at the municipal level which could very well be increasing at a much greater pace especially in areas where provincial and federal spending have been reduced.

The assumption of full financial responsibility for schooling by more provinces (e.g., Alberta, British Columbia, and Ontario) has been a feature of recent local-provincial finance. The parallelling feature is their failure to fund schooling from traditional provincial revenue sources but, instead, to convert the local school property tax to a provincial property tax. The school property tax, which is not well related to school benefits or ability to pay, made sense when a local contribution to schooling was required and the only sufficient local tax base was property. Elimination of provincial property taxes for schooling (at least on residential property) might ease municipalities' abilities to fund marginal increases in social spending from their traditional revenue sources.

INTERGOVERNMENTAL TRANSFERS

An objective and independent assignment of expenditure and revenue raising responsibilities does not ensure either an efficient or an equitable fiscal system. Hence, the likely need for intergovernmental transfers. One potential problem is that the resulting revenue capacity of a tier of government need not match expenditure responsibility. A fiscal gap may occur. This gap might be removed by some (less than ideal) reshuffling of responsibilities or revenue sources or it might be addressed by intergovernmental transfers to offset the fiscal deficiency. Transfers to eliminate fiscal gaps should come from the level(s) of government with revenue capacity exceeding their expenditure requirements and should be unconditional.

Even if fiscal capacity matches expenditure responsibilities well at the municipal level, the correspondence for individual municipalities may vary considerably resulting in fiscally advantaged and disadvantaged units. Where large differences arise, they can stand in the way of meeting both equity and efficiency objective. Consequently, grants to equalize fiscal capacities (at least to some extent) are

commonly found. These too should be unconditional.

A further reason for intergovernmental transfers is that service areas and tax burdens often fail to match perfectly jurisdictional boundaries. Interjurisdictional spillovers (or externalities) of benefits and/or taxes will result and may impede the efficient delivery of services and impair the fair allocation of costs. Intergovernmental grants can be designed to correct distortions caused by spillovers; that is, provide the proper incentives for efficient delivery and, in turn, to improve the fairness of the cost burden. Such grants are conditional (i.e., to be used for funding the spillover activity) and are often cost sharing with the share supplied reflecting the degree of externality. Conditional, or specific purpose, grants are a means of different tiers of government sharing responsibilities for services that do not fit neatly into any single level. Schooling appears to be such a responsibility. Such transfers are also one way for one level of government to (essentially) contract with another level to perform specific services.

The economic rationale for transfers arises from fiscal gaps, equalization, and spillovers. Also to be recognized is the political reason(s) for intergovernmental grants. In some cases, raw political power may be a dominant motivation but a more positive view is that many such grants are a means of the granting government using conditional funding to motivate cooperation and contributions so as to stretch their own budget. Grant programs often appear to be aimed at meeting more than a single objective and so assessment is complicated.

Unconditional grants to municipalities are provided only by the provincial governments and, typically, in relatively modest amounts. For Canada as a whole, unconditional assistance averages 2.4 percent of municipal revenues with the largest relative contributions coming in Manitoba (7.9 percent) and New Brunswick (12.4 percent) (Table 4). These funds conventionally come from provincial general revenues but, in Manitoba, monies come from a well established revenue sharing program. Equalization grants are distributed by formulae on some form of equalizing basis. Often, the available funds are inadequate to meet the equalization requirements implied by the distribution mechanisms. Because it is common that some of the these funds are allocated to every municipality, the unconditional transfers may be motivated by fiscal gap closing as well as equalization objectives. Because of their modest magnitude, the provinces must see the municipal fiscal gap problem as minor, at least with respect to provincial needs.

Conditional transfers in most provinces are for transportation and environmental (water and sewerage) services. The externality element in transportation is obvious. It is also there for environment but the rationale for grants is more obtuse, especially if one takes a polluter pay perspective. Perhaps the stimulus for environment grants stems from a view that the regulator should help pay for the costs imposed. Funding is predominantly for capital projects which offers some attractions for both grantor (e.g., 'one time' outlay, recognition) and grantee (timed to help fund a lumpy expenditure) but it raises questions about the potential miss allocations between capital and operating cost. Transfers in support of debt charges, also a form of capital assistance because funds can only be borrowed for capital spending purposes, raise similar questions. Also, if the transfers are to reflect externalities, presumably

the spillovers are as much associated with ongoing operations as with capital facilities.

One of the striking features of conditional transfers is the variation in their relative contribution to municipal spending for a particular purpose. Circumstances such as variations in the division of provincial and municipal responsibility may contribute but, still, one would expect that the externalities might be relatively similar across provinces. Yet, for example, transfers for transportation meet 2.9 percent of expenditures in Ontario but 42 percent in Alberta. However, spillovers are usually not easily determined and, possibly more important, priorities can vary. Perhaps interesting is that policing, which might be thought to involve substantial externalities, has transfers making only small contribution to costs yet, for recreation, which might be thought to have local benefits, grants cover a far higher share of its costs.

Ontario's loading of significant social expenditures (particularly social services and housing) on municipalities is exceptional. This unusual arrangement could be quite workable as a responsibility sharing arrangement given the appropriate transfer programs. In Ontario's case, this would need to involve relatively generous conditional social transfers and effective equalization. Ontario's transfers in the social areas still leave the municipalities to meet half of those costs, amounting for about 16 percent of total Ontario municipal expenditures and is an amount still far exceeding the relative social expenditure in any other province. Access to taxes more amenable to financing redistribution might be an option (as in Sweden or Demark) but an effective equalization program would still be a necessary support.

Federal transfers to municipalities are small (0.4 of municipal expenditures in 2001). Those transfers are directed mostly to social housing and transportation. The recent reductions in federal grants to municipalities have resulted in the federal contribution to expenditures in any of the main areas becoming very minor. In housing, where the federal transfers had a relatively significant role as late as 1995, the 2001 contribution amounted to only 2.33 percent (down from 16 percent) but those transfers still represent by far the dominant area of the federal government's contribution.[19] Federal transfers may contribute in important ways to various sub-programs but the overall contribution has been small and declining.

The analyst would expect federal transfers to be in areas involving national externalities or areas benefiting from municipal input and cooperation in solving problems in areas of federal jurisdiction. Certainly, efforts to alleviate poverty would seem logical and this is where many recent appeals have been concentrated; that is, particularly in housing, immigrant settlement, and urban Aboriginal uplift. Although housing has been identified as a component of the federal urban strategy, the levels planned will not notably enhance the federal role. The fiscal priority of the recent and future federal strategy has, interestingly, been infrastructure.[20] While one can recognize the value of federal visibility from input into municipal projects affording broad local public benefit (as opposed to small social projects benefiting narrow groups of disadvantaged people) the national interest in and benefit from many of these investments is difficult to imagine. Appreciation of the national interest is particularly difficult when, as often in the past, municipal authorities have the broadest leeway in project selection.

OPTIONS AND PROSPECTS FOR THE FUTURE OF MUNICIPALITIES' INTERGOVERNMENTAL FISCAL RELATIONS

The prevailing concern is that Canadian municipalities are bearing a greater, and possibly unsustainable, fiscal burden and, unless corrected, that burden will have negative impacts upon the development of municipalities and especially Canadian cities. That the share of municipal expenditures met from own-source revenues is larger is without doubt. Municipalities' inability to sustain the larger burden and the potential negative implications of any such inability are less obvious. In this section, consideration is given to the prospects for the burden to be reduced by transfers or for expansion of the own-source revenue options to make the burden more manageable.

INTERGOVERNMENTAL TRANSFERS

It is difficult to hold much hope for significant fiscal relief emerging from the federal government. In part, this view emerges simply because the federal transfers are so small, about 0.4 percent of municipal expenditures. Even if federal transfers increased by 2.5 times their 2001 relative level, the addition would just cover one percent of municipal expenditures. Such an increase could, however, have very substantial impacts on specific programs such as housing or programs for urban Aboriginals. Because an increase of that magnitude would restore federal transfers to their mid-1990s peak, that might suggest such an adjustment is conceivable. Despite numerous appeals for expanding federal transfers, the report of the federal urban task force and the latest federal budget indicate some improvement over the 2001 levels but no notably resurgence of federal transfers to municipalities. The federal government faces many demands and the municipalities are a provincial responsibility.

The provinces are where the transfer money is at. It is the provinces too which imposed the most burdensome cuts in transfers to the municipalities. Those cuts were imposed when most provincial economies were listless and provinces were struggling with deficits. Both of those situations have turned around so, perhaps with provincial budgets in better conditions, the provinces will be more amenable towards restoring municipal transfers. On the other hand, health care demands are placing growing pressures on provincial treasurers.

A careful analysis of the reasons for transfers and the nature and magnitude of spillovers (and their costs) might sway provincial governments towards being somewhat more generous. A close look at the assignment and financing of social programs in Ontario should be at the head of the list. Review of grants for transportation and for environmental services might be leading candidates in most provinces because of their relative importance. On the other hand, it would appear reasonable to study transfers for policing for just the opposite reason; that is, they appear small relative to the potential externalities. One could go though the full complement. Unconditional, and notably equalization, funding is an area that a further look might provide fruitful arguments. Equalization transfers are frequently constrained to less than the amounts implied by the equalization criteria. This suggests under funding by the accepted criteria. Such arguments might find some sympathy (or, alternatively, arguments that the criteria are wrong).

The re-examination of transfers may result in a more coherent system but it may not result in a great deal more funding for municipalities. A case from the City of Edmonton may illustrate. At its

December 9, 2002 meeting, the Edmonton City Council received a report outlining inequities in the City's fiscal relationship with the province (City of Edmonton, 2002). The report identified and costed numerous activities that it argued (not unreasonably) it undertook on behalf of or bore because of the province and for which the City should receive consideration in arguing for a more fiscally sustainable relationship with the province. The total cost of these items came to $88 million. While this is a considerable sum, the interesting point is that it represented 6.3 percent of the City's total budget for the coming year. Many might have expected a larger share. Certainly, if an increase in provincial grants amounting to 6.3 percent of expenditures were to materialize (a 79 percent increase from the $111 million budgeted for), this would be a significant and welcomed improvement from the City's, or any other municipality's, perspective. Of course, the Alberta government might have some reasonable rebuttals to these claims that would modify the amount upon which an independent arbitrator might settle. Regardless, the gains from improved transfer systems might not be large in many cases.

Indirect transfers are another possibility. Ontario is introducing municipal bonds the interest on which will not be subject to provincial income tax. This tax concession on municipal debt (a tax expenditure) provides an indirect subsidy to borrowing municipalities.[21] While on the surface appealing, such bonds distort incentives to investors, induce municipalities to rely more on debt to finance capital, and they encourage the substitution of capital investment for operating costs. The federal government is, and many would say wisely, not going to provide a parallel tax concession. If the tax concession game is to be played, a more neutral concession would be to provide a refundable personal income tax credit for property taxes paid that are not now tax deductible; this is, essentially for owner-occupied residences. If both agreed, the federal and provincial governments would share the property tax burden of this group, expand the potential for increased property taxes, but require municipal governments to be accountable to their voters for stepping into the tax room provided. In effect, this introduces a form of (indirect) revenue sharing that the municipalities can influence the amount shared. How much of the cost of this concession would find its way into municipal taxes and spending as opposed to an equal cost grant from those governments would need to be explored.[22] Note, this concession would provide an additional tax concession to owner-occupied housing. It would also subsidize property taxes in comparison to other own-revenue sources and so distort that choice. Because of the distortions introduced, tax concession alternatives and not generally recommended and, so far, have not been widely accepted.

Enhanced intergovernmental transfers do not appear to offer great opportunities for reducing the present fiscal pressures on municipalities. However, unexpected and substantial improvements in the fiscal situations of the federal and (especially) the provincial governments could easily change that. If so, it could again start municipal government on another cycle of transfer volatility. Senior governments seem to be fickle friends when it comes to making providing grants. Some transfers are necessary so a well designed and appropriately funded grant system is desirable. Even then, however, changing circumstances and political perspectives are likely to ensure that some volatility in transfers persists. Politicians do not like to face burdened taxpayers' even to fund projects of their own choosing and, so, especially not to raise funds for transfers. Municipalities may have more success in resolving their fiscal problems if they advance improvements in their own-source revenues.

OWN-SOURCE REVENUES

The Property Tax

Growth in the property tax burden, obvious by the magnitude of property taxes relative to personal disposable income, has been striking and may raise the possibility of rising resistance to further increases. A large portion, about 40 percent of property taxes, are not municipal property taxes but (beyond Manitoba and Saskatchewan) are provincial property taxes primarily collected to support schooling. This situation raises the question of why are the provinces collecting property taxes (and especially for this purpose). When provinces provincialized school financing, provincializing the school property tax may have afforded a convenient transition but, given the superior and more appropriate revenue bases of the provinces, the provincial property tax (at least on residential property) should have been phased out. However, even if the provinces were to abandon general property taxes, it is unlikely that provide a tax room windfall for municipalities. While resistance may lessen, municipal taxpayers can still be expected to critically balance the benefits and costs of municipal levies.

Vehicle Related Taxes

The absence of vehicle related revenues for municipalities is striking given the importance of their transportation expenditures. This anomaly detracts from the benefit-cost linkage considered important for municipal finance. It is reasonable that municipalities have access to vehicle fuel tax revenue. Hence, some have suggested that municipalities be permitted to levy their own vehicle fuel taxes. While in some ways attractive, the logic for individual municipal fuel taxes is weaker. Vehicles are highly mobile and drivers can travel to avoid fuel taxes. Multi-jurisdictional communities afford the greatest opportunity to avoid local fuel taxes and, undoubtedly, some municipalities will find gas stations more attractive than fuel taxes. Even for large municipalities (or where regional associations of municipalities agree to cooperate) where travel costs will be larger, border problems will persist. To illustrate, near the City of Lloydminster on the Alberta-Saskatchewan border, the higher Saskatchewan fuel tax is graduated with distance from the border. Of the few places where local fuel taxes are in place in Canada (e.g., the Greater Vancouver Regional District), they are provincially determined. Because of the potential social costs of tax avoidance efforts and the distortions to business location, vehicle fuel taxes become a candidate for revenue sharing. Because the federal and provincial governments already collect fuel taxes, that could be shared or an additional (dedicated municipal tax) be collected for sharing. While administratively convenient and avoiding the noted distortions, revenue sharing poses problems of determining the appropriate amount of revenue to be raised, its distribution, potential arbitrary changes by the 'sharing' government, and a weak tax-benefit linkage. Clearly, there is a trade-off to be considered.

For a locally determined tax, a municipal vehicle registration charge is a reasonable option. Owners of vehicles live in a particular municipality and, to a large extent, use their vehicles there. Vehicle registration is linked to residence so the tax could not easily be avoided (especially if significant

fines accompanied improper registration). Commercial vehicles used primarily outside the 'home' community could be levied a representative supplementary provincial registration fee to be shared among municipalities. To minimize administration and compliance costs, the local fees should be piggy backed onto the provincial registration system.

Tolls on road use are another possibility. Tolls are suited for controlling congestion in urban areas and technology is making the use of tolls more feasible; note the recent introduction in central London, England. In fact, the British are considering developing a nation-wide road-use toll system. Toll revenue should be shared among the governments responsible for providing and maintaining the roads (much like one would think should occur with fuel taxes and registration fees).

General Sales Taxes

The municipal sales tax is another option for an expanded local tax base. That is, municipalities could be permitted to levy a general sales tax within their jurisdiction to be collected by piggy-backing it onto a provincial sales tax or the federal GST. Local general sales taxes are not uncommon in the United States but are not often found elsewhere beyond southern Europe. Municipal sales taxes can raise considerable revenue and, in part, for this reason have attracted some proponents in Canada (e.g., Kitchen, 2000, 2002; TD Bank, 2002). They account for about ten percent of local tax revenue in the United States. There are, however, numerous criticisms of local sales taxes. Because consumers are mobile, local sales taxes affect where they buy and where business locate. Hence, as with municipal fuel taxes, economic activity can be subject to fiscal distortions. Also, the sales tax base is are not uniformly distributed so access to sales taxes may disadvantage some (e.g., rural jurisdictions) but be attractive others, in part because of the potential for tax exporting. Because these social costs are rather obscure, municipal sales taxes may appear more attractive than warranted. Hence, sales taxes may be more attractive as a source of funds for revenue-sharing programs. Again, revenue-sharing has its own set of problems. The tradeoffs are not entirely clear and will differ with the particular circumstances.

Personal Income Taxes

Municipal personal income taxes are another option. Although frequently overlooked,[23] they are not that unusual.[24] They are the mainstay of municipal government in the Scandinavian countries but municipal governments there have extensive responsibilities and especially so in the social services area. In the United States, which more closely parallels the Canadian situation, about 3700 local governments levy local personal income taxes (versus 6500 using the sales tax) and those taxes generate 5.9 percent of local tax revenue (versus 10 percent for local sales taxes). Municipal income taxes are especially popular with cities in the United States. Canadian municipalities only lost their income tax powers with the 1941 federal-provincial tax rental agreement. At times prior to this, local income taxes in Canada exceeded the provincial income tax collections.

A municipal personal income tax is typically levied at a low flat rate on the personal income of residents. A one percent rate is not unusual. Corporate income is not taxed due largely to tax exporting problems. To capture personal income comprehensively, however, the income of professional and small

corporations may need to be included in Canada. The treatment of commuters varies and is debated. A municipal income tax offers various advantages. It can easily be piggy backed on provincial personal income taxes to minimize administrative and compliance costs. Because the tax (and the benefits it would help finance) is based on residence, it is, like the property tax (but unlike municipal sales taxes) a relatively non-distorting revenue source. The personal income tax relates better to ability-to-pay than the property tax, so in combination, with the property tax may facilitate a better matching of benefits and costs at the municipal level (especially of social programs). Unlike sales taxes, neither rural or urban municipalities are disadvantaged by access to this revenue source. Also, like the property and sales taxes, it is a visible tax which economists, concerned about accountability, might appreciate more than municipal politicians. On the negative side, a municipal income tax would (like a municipal fuel or sales tax) add a third tax authority to a shared tax base. Also, it might have some marginal adverse incentive effects on income earners. Again, there are tradeoffs to consider.

SUMMARY AND CONCLUSIONS

Municipal government has recently been in the public eye. Many parties have expressed concern about the state of our local, and especially our urban, environments and about the capability of municipal government to cope with those issues. The result is frequently a call for assistance from federal and/or provincial government. Given that municipal governments are 'creature of the provinces,' calls upon the provinces are especially predictable and relevant. The provinces determine what municipal government do, how they can do it, and how they are financed. Unfortunately, the unavailability of nationally comparable data by municipality type prevents analysis by municipal class but many of the concerns and issues are not unique to urban communities. Hence, this analysis focussed on municipal intergovernmental fiscal relations. This conclusion, first, summarizes the main features of municipal finance today and recent developments prompting (in part) the expressed concerns and, second, reviews possible future directions.

THE FISCAL PICTURE

Municipal governments in Canada supply and finance services benefiting their own local residents. Transportation, protection, environment and recreation stand out as major responsibilities. The magnitude of the overall responsibilities varies being somewhat smaller than average in Atlantic Canada, somewhat larger in Ontario, and intermediate in the other provinces. Over 80 percent of the costs of municipal services come from own-source (i.e., locally raised) revenues, property and property related taxes and user charges. This assignment of responsibilities and revenue sources conforms quite well with the recommendations of fiscal federalism analysis. For the most part, functions are decentralized to an appropriate level and there is a strong benefit-cost at the municipal level. Intergovernmental transfers account, on average in 2001, for 17 percent of municipal funding. Provincial transfers dominate representing 16.6 percent while federal transfers account for 0.4 percent. Conceptually, grants are primarily to provide the proper incentives to correct for interjurisdictional spillovers that would otherwise distort programs at the municipal level, to provide funds to close fiscal gaps, to fund equalizing transfers and to facilitate responsibility sharing. Transfers to municipalities are

predominately, 85 percent, for specific purposes suggesting that they are intended to correct for externalities. Although these funds are directed primarily at expenditure areas with which spillovers can be associated (e.g., transportation), one of the widely discussed topics in local public economics is the suitability of transfers.

Over the past decade, municipal government has been pressured by a fiscal squeeze. Most notable has been the sharp reduction in transfers by both the provincial and federal governments, from about 25 percent to 16.6 percent of municipal expenditures, as those governments imposed fiscal restraints to reduce or eliminate deficits and did so by shifting a part of their costs onto the municipalities. Reductions of a large magnitude occurred in all provinces but Quebec where transfers actually increased as a portion of municipal budgets. Fortunately for the municipalities, reduced interest rates contributed to a continuous fall in their debt service charges from 9.5 percent in 1988 to five percent in 2001. While this offset and may have eased the burden of the decline in grants, the combination meant that municipal government, unlike the federal and provincial governments, enjoyed no fiscal dividend from falling interest rates.

The down loading of responsibilities has been a widespread complaint of and concern for the municipal sector. Without doubt, added revenue raising responsibilities have been shifted, or down loaded, onto Canadian municipalities. Although widely spoken of, evidence of notable down loading on the expenditure side is much more muted. Between 1988 and 2001, municipal total expenditure as a percentage of GDP, municipal program expenditure as a percentage of GDP, and municipal programs expenditure as a percentage of consolidated provincial and local program expenditure has hardly changed. (The values for 1988 and 2001 for these ratios are 4.54 vs 4.40, 4.11 vs 4.19, and 16.1 vs 16.3 respectively.) Meanwhile, municipal real dollar per capita expenditures have increased 15 percent (from $1262 to $1453) over this period. This evidence does not necessarily demonstrate the absence of expenditure down loading, but it does demonstrate that, to the extent that it occurred and to the extent that municipal government has responded, it has not resulted in the growth of municipal government relative to the economy or relative to the Sub-national, and notably the provincial, government sector.

Developments on the revenue side are more substantial. The reduction in intergovernmental grants meant an increase in the importance of own-source revenues for municipalities. Own-source revenue increased in the municipal budgets and rose somewhat (from 3.4 to 3.6 between 1988 and 2001) relative to GDP. More interesting is the shift among sources of own revenue. While user charges have become more important, the increase in real property taxes has been dramatic; especially for (and perhaps surprising to some) an 'inelastic' and relatively unpopular tax in an inhospitable fiscal environment. Between 1988 and 2001, real property taxes increased from 32.2 to 41.9 percent of municipal revenues -- an increase of 30 percent when total own revenues rose only 7.9 percent. The burden of the property tax has moved in parallel. Over this period, municipal property taxes as a percentage of GDP rose almost 27 percent (from 1.42 to 1.80 percent) and as a percentage of personal disposable income (PDI) by almost 34 percent (from 2.21 to 2.96 percent).

The potential implications of this increase in the municipal property tax burden are only seen in the context of the total property tax burden which includes, besides the municipal taxes, also property taxes levied by school boards and provincial governments. Altogether, the aggregate property tax reached 5.6 and 5.7 percent of PDI during much of the 1990s. Canadians had not experienced this level of property taxation since the 1960s when the baby boomers arrived at school and the burdens of which, it can be argued, prompted huge increases in provincial grants for schooling (and reducing the property tax burden to about four percent of PDI by the 1980s) and substantially reformed school finance for a generation. One might legitimately ponder whether the recent proliferation of concern about municipal finance may have been promoted by the escalating and high property tax burdens of the 1990s and whether new or further pressures for reforms to relieve the property tax burden will emerge or be stayed by the gains of the recent economic recovery.

A sub-national perspective offers further insights. Ontario stands out from the other provinces and, due to its size, developments there drive (perhaps distort) the national figures. As a result of the late 1990s reassignment of provincial and local responsibilities there, Ontario is the only province for which municipal program expenditures increased as a percentage of consolidated provincial and local program expenditures. That is, municipal government increased in relative size only in Ontario. As a result, while own-source revenue started and ended the 1988 to 2001 period at about the same level relative to PDI in the other provinces, the own-source revenue burden increased in Ontario from 5.01 to 6.62 percent. Also, while the real property tax burden rose elsewhere, Ontario shifted to a new, higher plateau after 1998. As a percentage of PDI, real property taxes increased from 2.14 to 3.52 percent from 1988 to 2001 while the average of the other provinces was from 2.25 to 2.57 percent. Furthermore, consolidated provincial and local property taxes as a percentage of PDI went from 4.70 to 6.05 percent in Ontario but, on average, from 3.71 to only 4.46 percent elsewhere. These data suggest that municipalities in Ontario have experienced a substantial fiscal squeeze from both the expenditure side and the revenue side. In the other provinces, the municipal expenditures have diminished relatively (but for being constant in New Brunswick) rather than increased and their property tax burdens have increased much more modestly. While increased reliance on the property tax is without doubt burdensome almost everywhere, one is prone to wonder whether the municipal fiscal squeeze is primarily an Ontario problem.

FUTURE DIRECTIONS

Conventional Transfers

Reduced transfers have been the source of much of the municipalities' recent fiscal difficulties. Is there much likelihood of relief from this same source now that the federal and most provincial governments have their fiscal houses in order? Perhaps, but there are many obstacles. In part because the scope for federal interaction with the municipalities is limited, it is a minor player in the grants program (federal transfers amounting to only 0.4 percent of municipal revenues in 2001) that even a quantum change in its grants, while always welcomed by municipalities, will not have a major impact on municipal budgets. Yet, federal transfers have contributed significantly to the spending on particular programs; social housing, in particular. Hence, the federal role is potentially important in specific program areas. Naturally, several areas for which appeals for further federal attention -- immigrant settlement, Aboriginal improvements, and social housing -- are all for programs for which there is a large senior government responsibility although local input and delivery can be valuable. Even if advocates funding and collaborative expectations were realized, the impact on the total municipal budget would not be large, perhaps hardly noticeable in aggregate, although the impacts within the specific areas could be substantial.

Changes in the larger provincial transfers could be expected to have a more significant impact on municipalities. Careful review of the rationale for, levels of, and potential costs and benefits of the various provincial transfer programs might provide sound arguments for expanded transfers. Even here, one illustration suggested that the resulting quantities might not be that large. However, the attitudes and fiscal positions of provincial governments are likely to be strong determinants of receptivity to any arguments.

Sustainability of the Status Quo and Some Direct Implications

If the prospects for a reinstatement of the conventional transfers is somewhat bleak, can municipalities function effectively under the current situation with the heavier reliance on the property tax. Economic recovery has raised personal incomes and, in combination with federal and sometimes provincial income tax cuts, has raised PDI which is diminishing the relative burden of the property tax. Whether this softening will suffice is yet to be determined. The prospects here look more positive outside of Ontario where the property tax burden is lower. Ontario, however, could benefit from rethinking its recent assignment of additional responsibilities, and especially the social expenditure component, to its municipalities. Provincial (re)assumption of most of those tasks seem logical and would result in Ontario conforming much more closely to the models found in other provinces. There are reasons that social expenditures by municipalities are almost zero elsewhere. In the absence of a reassignment, greater provincial support for municipal social spending could be a workable option.

An option for reducing the property tax burden in many provinces is to reduce provincial property taxes. In several, the provincial property tax emerged with the provincialization of school

finances. With access to superior alternatives at the provincial level for financing schools, a provincial property tax (at least on residences) could be eliminated without any increase in the overall tax burden even at the provincial government level. (A problem, however, is that such a move might imply higher provincial income taxes, a tax about which provincial governments appear particularly sensitive.) Reduction or elimination of provincial property taxes would leave the property tax, a tax well suited for municipal government, the domain of municipal government. The municipalities, however, would still need to convince their taxpayers that additional municipal levies are warranted.

Some Less Conventional Options

A large share of municipal expenditures are for vehicle transportation but municipal government lacks the mechanisms to charge or tax vehicles or their use. Some have suggested that municipalities be granted the authority to levy municipal fuel taxes. This is conceivable but the potential cost of economic distortions (border problems), especially in multi-jurisdictional environments, could make this unattractive. Similarly, some have suggested the power to impose municipal sales taxes. Again, although such taxes are found in some other countries (notably the United States), customer mobility creates potential economic distortions the costs of which have not been determined or considered. Because of the border problems, fuel and sales taxes are better suited for revenue sharing. Revenue sharing, however, puts control of the revenue (and its distribution) in the hands of the sharing government. Municipal government might be reluctant to endorse this option given the recent experience with transfers while the sharing governments might want municipal government to take (greater) responsibility for the taxes from which they benefit.

There are other taxes the may be better suited to municipal government. Individual municipalities could set a municipal vehicle registration fee that for administration and compliance reasons could easily be collected with the provincial licence charge. A municipal personal income tax surcharge on the provincial/federal income tax is another option but with greater revenue potential. Both these are residence based and so, because residence is less mobile than consumption, less subject to distortion than taxes based on sales.

FINAL OBSERVATIONS

Municipalities are 'creatures of the provinces.' Hence, everything that they do has the potential of becoming an intergovernmental issue. In times of fiscal stress at all levels of government, such as over the past decade, the fiscal flux at the municipal level creates many intergovernmental fiscal problems. The province is naturally the first place to look for solutions. However, the federal government has imposed its share of complications and it too needs to share in the solution. While the federal government typically plays a small role in municipal finances, it could open up avenues to both small and large solutions. An example of the latter might be by simply offering to collect municipal personal income taxes via its federal income tax system.[25] Doing so would throw the door open to municipal and provincial discussion of a potentially significant alternative revenue source.

This discussion has been deficient in several respects. For one, the fiscal problems of municipalities may well differ among municipalities. It has not been possible to address those differences here. At the same time, it is important remember to recognize that differences do exist and also that possible solutions may not be universally applicable and may not work well differentially. Also a problem is that capital and operating budgets have not been separated. Municipalities are responsible for the bulk of total government infrastructure investment and it is often argued that they suffer an infrastructure deficit. Hence, municipal capital warrants further attention. In addition, and related to the capital element, the assessment of specific programs could be revealing.

Finally, there are many dimensions to municipal intergovernmental fiscal issues. Money matters but it is not the only consideration. Provincial and federal governments often act unilaterally and with little consultation in, for example, changing transfers, shifting responsibilities or taking actions impacting upon municipalities. Sometimes, the budget implications may be modest but performance and satisfaction can be much enhanced by collaboration and participation. Insight to how senior governments might better play the intergovernmental relations game come from a variety of sources, for example, Berdahl (2002) and Seidle (2002).

Endnotes

*. The author thanks Harry Kitchen and the Public Institutions Division of Statistics Canada for providing data. He also thanks Junaid Jahangir for research assistance.

1. Distinct from these developments, but not to be overlooked, are the changes in school finance (i.e., the provincialization of school finance) and school district amalgamations that have occurred in parallel (e.g., Alberta. British Columbia and Ontario).

2. For a good overview of developments see Kitchen (2003) and, especially with respect to changing powers, Garca and LeSage (forthcoming).

3. For example see Berdahl (2002) which draws from many of those studies.

4. See Seidle (2002) for an overview.

5. For examp le, refer to studies from the Canadian Policy Research Networks and the Canada West Foundation. See Seidle (2002 and Berdahl (2001, 2002) for overviews.

6. The Federation of Canadian Municipalities and its provincial counterparts have long been active in pressing this issue with the federal and provincial governments. For other recent assessments see, for example, Kitchen (2000), TD Bank (2002), and Vander Ploeg (2001, 2002a,b).

7. Transfers typically account for between 15 and 20 percent of the expenditures of the federal and the provincial governments.

8. Total transfers made by provincial governments have been effectively constant after 1994 at about $31 billion. Hence, (overall) the local school authorities, the other major recipient of provincial transfers, experienced restraint more so than actual nominal reductions.

9. In addition to the municipal administrations, local general purpose government also include the associated autonomous organizations, boards, commissions and funds.

10. School authorities have experienced substantial change during this 35 year period. In 1965, the standard structure was that the local school districts raised a significant portion of the revenues that they spend from local property taxes which supplemented grants from the provincial governments. Today, only Saskatchewan and Manitoba conform to this model. In the other provinces, the province is fully (or almost entirely) responsible for school funding and the school districts have no (or very little) taxing power and funding responsibility. The loss of school districts revenue raising ability raised doubt about their status as a local government. That loss effectively renders the school authorities to local elected agents of the provincial governments. See Kitchen (2000) for further discussion.

11. For details, see, for example, Kitchen (2003).

12. Transfers in Prince Edward Island also are relatively small, 7.2 percent of total revenue, but

municipal expenditures there are low.

13. The distribution of the relief in debt charges between interest costs and reduced debt load is not known. Information on debt is reported for the local government sector but not for municipal government separately.

14. Program expenditures are expenditures less debt servicing costs; that is, expenditures directly on services (programs) for the community.

15. Nominal dollars are adjusted using the GDP price index. There is no price index for municipal government expenditure but the GDP index seems more appropriate than the Consumers' Price Index and it also approximates the index for (total) government current expenditures.

16. Most undergraduate public economics texts have a chapter on fiscal federalism (e.g., Rosen, et al., 2002) and the original work of Oates (1972) is valuable. References directed more to local government include Bird (1993) and McMillan (forthcoming a, b).

17. An alternative formation of these points is i) decentralized decision making, ii) local autonomy, iii) effective provision, iv) interjurisdictional and interpersonal equity, and v) adequate resources.

18. The leading exception are federal and provincial government grants-in-lieu of property taxes which are included under own source property and related taxes.

19. Of interest is the fact that, despite the fluctuations in federal funding, consolidated federal, provincial and local expenditures for housing held quite stable at close to one percent of consolidated expenditures throughout the 1988-2001 period.

20. See, for example, OECD (2002) and the Prime Minister's Caucus Task Force (2002).

21. See Kitchen (2002) and McMillan (2002) for some discussion.

22. For somewhat more discussion see McMillan (2002).

23. Note Vander Ploeg (2002a,b). Also, the TD Bank (2002) report cavalierly dismisses municipal income taxes with a reference to the inappropriate municipal taxation of corporate income.

24. See Kitchen (2002) and McMillan (forthcoming a and b) for discussions of local income taxes.

25. Collecting a municipal sales tax via the GST could be rather more complicated.

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Table 1. Federal, Provincial and Local Government Expenditures as a Percentage of Gross National Expenditure, Selected Years[a]

<table>
<tr><th rowspan="2">Years</th><th rowspan="2">Federal</th><th rowspan="2">Provincial</th><th colspan="2">Local</th><th rowspan="2">Total Government[b]</th></tr>
<tr><th>Municipal</th><th>School boards</th></tr>
<tr><td>1965</td><td>14.9</td><td>11.0</td><td colspan="2">7.8</td><td>26.6</td></tr>
<tr><td>1975</td><td>20.8</td><td>18.4</td><td colspan="2">8.5</td><td>38.8</td></tr>
<tr><td>1985</td><td>24.0</td><td>21.5</td><td colspan="2">8.0</td><td>45.9</td></tr>
<tr><td>1988</td><td>-</td><td>-</td><td>4.54</td><td>3.74</td><td></td></tr>
<tr><td>1995</td><td>22.6</td><td>23.3</td><td colspan="2">9.0</td><td>47.7</td></tr>
<tr><td></td><td></td><td></td><td>5.11</td><td>4.78</td><td></td></tr>
<tr><td>2000</td><td>18.2</td><td>20.3</td><td colspan="2">7.3</td><td></td></tr>
<tr><td></td><td></td><td></td><td>4.26</td><td>3.05</td><td>40.5</td></tr>
</table>

Notes: [a]. Adapted from Kitchen (2002, p 16) with municipal and school board separation calculated by the author. Local data are only separated into municipal (i.e. local general government) and school board data since 1988.

[b]. Because of the non-exclusionary accounting for intergovernmental transfers, the individual percentages cannot be summed to achieve this total.

Table 2. Budget Balance and Intergovernmental Transfers of the Federal Government and Provincial and Territorial Governments, Billion of Dollars, 1988 - 2001.

	Federal Budgetary Balance[a]	Provincial & Territorial Budget Balance[a]	Federal Cash Transfers to Provinces & Territories[a]	Provincial Transfers to Municipalities[b]
	(BILLIONS OF DOLLARS)			
1988-89	-28.8	-5.3	23.8	6.2
1989-90	-28.9	-4.3	24.7	6.7
1990-91	-32.0	-10.0	26.3	7.5
1991-92	-34.3	-22.5	26.4	8.7
1992-93	-41.0	-24.8	29.6	9.7
1993-94	-42.0	-20.2	28.2	9.6
1994-95	-37.5	-15.7	29.5	10.0
1995-96	-28.6	-11.9	29.8	10.5
1996-97	-8.9	-7.9	24.6	8.8
1997-98	3.8	-3.8	23.7	8.2
1998-99	3.1	-2.2	26.2	8.9
1999-00	12.7	2.7	26.9	9.5
2000-2001	18.1	12.0	29.3	7.5
2001-2002	8.9	-0.3	33.1	8.0

Notes: [a]. From Canada Department of Finance, Fiscal Reference Tables, 2002.
[b]. Statistics Canada, Public Sector Statistics, Financial Management Systems Basis, Catalogue No. 68-212 various years, and parallel data from the Public Institutions Division.

Table 3. Level and Allocation of Municipal Government Expenditures by Province and for Canada, 2001[a]

	Nfld	PEI	NS	NB	Que	Ont	Man	Sask	Alta	B.C.	Canada
DOLLARS											
Per Capita Expenditure	767	378	1020	865	1284	1948	1091	1141	1581	1284	1545
Percent Allocation											
PERCENT											
General services	16.2	12.9	10.4	11.1	12.2	8.9	13.6	12.4	12.2	10.0	10.4
Protection	4.7	23.1	21.1	21.0	16.7	13.4	19.7	17.6	14.3	18.8	15.1
Transportation	28.6	21.5	16.9	20.2	27.2	18.1	23.4	31.7	28.3	16.5	21.4
Health	0.1	0.1	0.1	0.4	0.2	3.5	2.2	0.6	1.5	1.8	2.2
Social services	0.2	0.0 [b]	4.5	0	1.4	24.7	0.3	0.5	1.5	0.2	12.5
Education	0.1	0	14.2	0.0 [b]	0.1	0.0 [b]	0.0 [b]	0.0 [b]	0.3	0.0 [b]	0.3
Conservation & development	0.7	1.7	0.8	2.4	2.8	1.6	2.4	3.6	3.4	1.4	2.1
Environment	22.1	12.7	16.8	25.3	12.0	13.3	17.4	15.4	13.9	20.4	14.4
Recreation & culture	14.5	21.9	10.7	12.6	12.4	8.7	9.4	14.2	13.7	19.5	11.5
Housing	0.6	0	0.2	0.3	2.9	5.0	0.4	0.4	0.7	0.6	3.2
Regional planning	1.2	2.3	1.5	2.0	2.5	0.1	2.3	1.7	3	2.3	1.3
Debt charges	11.1	3.7	3.7	4.2	9.4	2.3	8.5	1.7	7.1	6.3	5
Other	0.0 [b]	0.0 [b]	0.0 [b]	0.2	0.0 [b]	0.2	0.4	0.1	0.0 [b]	2.2	0.4
Total[c]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: [a]. Data from Statistics Canada, Public Institutions Division.

[b]. Negligible (less than 0.05 percent).

[c]. May not sum exactly due to rounding.

Table 4. Level and Allocation of Municipal Government Revenues by Province and for Canada, 2001[a]

	Nfld	PEI	NS	NB	Que	Ont	Man	Sask	Alta	B.C.	Canada
					DOLLARS						
Per Capita Revenue	704	437	1013	839	1293	1914	1120	1062	1739	1137	1513
Percent Source											
					PERCENT						
Own-source revenue											
Property and related taxes	54.3	62.3	73.7	55.1	64.3	48.3	46.7	54.3	44.4	53.0	52.2
(real property)	(36.3)	(61.2)	(58.0)	(47.7)	(44.2)	(42.2)	(35.3)	(45.4)	(31.6)	(46.3)	(41.9)
Consumption taxes	0.1	0	0	0	0	0	1.4	3.6	0	0.2	0.1
Other taxes	1.0	0.5	0.1	0.5	0.3	1.3	1.1	0.8	1.6	2.4	1.2
Sales of goods & services[b]	16.4	26.9	16.4	25.3	16.5	23.9	23.4	24.3	26.1	29.3	23.0
Investment income	1.9	1.6	3.5	1.0	2.0	4.1	8.0	4.4	10.3	8.5	4.9
Other	0.6	1.5	0.2	0.5	2.3	1.7	0.8	1.0	1.6	0.6	1.6
Total own source[c]	74.3	92.8	94.0	82.4	85.5	79.3	81.5	88.5	84.1	94.2	83.0
Transfers											
General purpose	6.3	3.3	2.7	12.4	1.9	2.3	7.9	4.6	0.9	1.1	2.4
Specific purpose	19.4	3.9	3.3	5.2	12.6	18.3	10.6	6.9	15.0	4.7	14.6
federal	2.9	0.3	0.5	1.0	0.2	0.3	1.1	2.1	0.5	0.5	0.4
provincial	16.5	3.6	2.8	4.2	12.4	18	9.5	4.9	14.5	4.3	14.2
Total transfers[b]	25.7	7.2	6.0	17.6	14.5	20.7	18.5	11.5	15.9	5.8	17.0
Total revenue[b]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: [a]. Data from Statistics Canada, Public Institutions Division.
[b]. Includes user fees, charges, etc.
c. May not sum exactly due to rounding.

Table 5. Intergovernment Transfers and Debt Charges as a Percentage of Canadian Municipal Expenditures, 1988-2001[a]

	Transfers[b]	Debt Charges
1988	22.4	9.5
1989	21.9	9.0
1990	22.0	8.6
1991	23.7	8.4
1992	25.3	8.4
1993	24.6	8.6
1994	25.1	8.0
1995	25.5	7.8
1996	22.3	7.9
1997	20.5	7.3
1998	21.0	6.6
1999	22.1	6.1
2000	16.6	5.5
2001	16.6	5.0

Notes: [a]. Source as in Table 2.
[b]. Federal plus provincial transfers.

Table 6. Trends in Canadian Municipal Expenditures, 1988-2001[a]

	Total Expenditure (billions of dollars)	Total Expenditure as a Percentage of		Program Expenditure (billions of dollars)	Program Expenditure as a Percentage of		Municipal Program Expenditures as a Percentage of Consolidate Provincial and Local Program Expenditure	Unemploy-ment Rate	Per Capita Municipal Expenditures (dollars)	Real Per Capita Municipal Expenditures[b] (dollars)
		GDP	Personal Income		GDP	Personal Income				
1988	27.85	4.54	5.54	25.19	4.11	5.01	16.1	7.8	1039	1262
1989	30.60	4.65	5.60	27.84	4.23	5.10	16.2	7.5	1121	1302
1990	34.29	5.04	5.85	31.35	4.61	5.34	16.8	8.1	1238	1394
1991	36.70	5.35	6.06	33.62	4.90	5.55	16.6	10.3	1309	1431
1992	38.39	5.48	6.18	35.17	5.02	5.67	15.7	11.2	1353	1459
1993	39.17	5.39	6.19	35.81	4.92	5.66	15.7	11.4	1365	1452
1994	39.83	5.12	6.16	36.63	4.75	5.67	15.8	10.4	1372	1443
1995	41.42	5.11	6.16	38.20	4.71	5.68	16.8	9.4	1411	1452
1996	39.53	4.72	5.75	36.42	4.35	5.30	15.7	9.6	1332	1348
1997	40.01	4.53	5.59	39.71	4.20	5.55	16.9	9.1	1334	1334
1998	42.25	4.62	5.65	39.44	4.31	5.27	16.0	8.3	1397	1404
1999	43.19	4.40	5.51	40.57	4.14	5.18	15.9	7.6	1415	1397
2000	45.34	4.26	5.40	42.85	4.02	5.11	15.8	6.8	1472	1399
2001	48.07	4.40	5.51	45.75	4.19	5.24	16.3	7.2	1545	1453

Notes:

[a]. Municipal (and consolidated provincial and local) government data are from the same sources as Table 2. GDP, Personal income, the GDP price index and the unemployment rate are from Statistics Canada, *Canadian Economic Observer*: Historical Statistical Supplement, 2001/02, Catalogue No. 11-210-X1B

[b]. Deflated using the GDP price index.

Table 7. Absolute and Relative Levels of Own-Source Revenues of Canadian Municipalities, 1988-2001[a]

	Own-Source Revenue	Total Revenue	Own-Source Revenue as a Percentage of			Own-Source Revenue Per Capita	Disposable Income Per Capita[b]	Constant Dollar Disposable Income Per Capita[c]
			GDP	Personal Income	Personal Disposable Income			
	(BILLIONS OF DOLLARS)		(PERCENT)			(DOLLARS)	(DOLLARS)	(1992 DOLLARS)
1988	20.84	27.07	3.40	4.15	5.27	777	14,748	17,391
1989	23.23	29.92	3.53	4.25	5.37	851	15,861	17,821
1990	25.10	32.64	3.69	4.88	5.49	906	16,512	17,698
1991	26.27	34.96	3.83	4.34	5.56	937	16,857	17,114
1992	27.61	37.31	3.94	4.23	5.71	973	17,034	17,034
1993	28.28	37.91	3.89	4.47	5.71	985	17,244	16,939
1994	29.31	39.29	3.80	4.53	5.84	1009	17,278	16,939
1995	30.58	41.13	3.77	4.55	5.89	1042	17,701	16,987
1996	30.51	39.34	3.65	4.44	5.78	1028	17,787	16,796
1997	31.61	39.83	3.58	4.42	5.79	1054	18,213	16,927
1998	35.45	44.33	3.87	4.74	6.23	1172	18,803	17,314
1999	37.66	47.20	3.84	4.81	6.31	1234	19,557	17,699
2000	39.19	46.71	3.68	4.67	6.15	1273	20,710	18,247
2001	39.06	47.06	3.58	4.47	5.87	1259	21,405	18,389
Percentage Point Change 2001 minus 1988			+0.18	+0.32	+0.60			
Percentage Change in Relative Magnitudes 1988 to 2001			+5.3	+7.7	+11.4			

Notes: [a]. Source same as for Table 2.

[b]. Personal disposable income is taken from the *Canadian Economic Observer* , Historical Statistical Supplement, 2001/02.

[c]. Adjusted using the Consumer Price Index from the same source in note b.

Table 8. The Relative Contributions to Total Revenue of Canadian Municipalities, 1988-2001[a]

	Own-Source Revenues						Transfers	Total[b]
	Total Own Source[b]	Property and Related Taxes			Sales Charges, Fees	Other Own Revenues		
		Total P & RT	Real Property Taxes	Property Related Taxes				
(PERCENT)								
1988	76.9	48.4	32.2	16.2	20.0	8.5	23.0	100.0
1989	77.6	48.3	32.4	15.9	19.9	9.4	22.4	100.0
1990	76.9	47.8	32.5	15.3	19.8	9.3	23.1	100.0
1991	75.1	48.1	33.1	14.9	18.9	8.1	24.9	100.0
1992	74.0	48.1	34.2	13.9	18.5	7.4	26.0	100.0
1993	74.6	48.8	34.9	13.9	18.6	7.2	25.4	100.0
1994	74.6	48.5	34.6	13.8	18.8	7.3	25.4	100.0
1995	74.3	46.6	33.8	12.8	19.2	8.6	25.7	100.0
1996	77.5	49.7	36.3	13.4	20.2	7.7	22.4	100.0
1997	79.4	50.6	36.9	13.7	21.3	7.5	20.6	100.0
1998	79.9	52.3	41.2	11.1	20.6	7.0	20.0	100.0
1999	79.8	51.5	40.5	11.0	21.1	7.2	20.3	100.0
2000	83.9	52.4	41.3	11.1	23.4	8.0	16.1	100.0
2001	83.0	52.2	41.9	10.3	23.0	7.8	17.0	100.0
Percentage point change 2001 minus 1988	+6.1	+3.8	+9.7	-5.9	+3.0	-0.7	-6.0	--
Percentage change 1988 to 2001	+7.9	7.9	+30.1	-36.4	+15.0	-8.2	-26.1	--

Notes: [a]. Calculated from sources cited in Table 2.
[b]. May not sum exactly due to rounding.

Table 9. Absolute and Relative Levels of Real Property Taxes of Canadian Municipalities, 1988-2001[a]

	Real Property Taxes	Real Property Taxes as a Percentage of			Real Property Tax Per Capita	Constant Dollars Real Property Tax Per Capita[c]
		GDP	Personal Income	Personal Disposable Income[b]		
	(BILLIONS OF DOLLARS)		(PERCENT)		(DOLLARS)	(1992 DOLLARS)
1988	8.72	1.42	1.73	2.21	325	418
1989	9.69	1.47	1.77	2.24	355	399
1990	10.61	1.56	1.81	2.32	383	411
1991	11.59	1.69	1.91	2.45	413	419
1992	12.77	1.82	2.06	2.64	450	450
1993	13.24	1.82	2.09	2.67	461	453
1994	13.61	1.77	2.11	2.71	469	460
1995	13.89	1.71	2.07	2.67	473	454
1996	14.29	1.71	2.08	2.71	481	454
1997	14.70	1.67	2.05	2.69	490	455
1998	18.27	2.00	2.44	3.21	604	559
1999	19.12	1.95	2.44	3.20	627	567
2000	19.27	1.81	2.30	3.02	626	551
2001	19.71	1.80	2.26	2.96	633	544
Percentage Point Change 2001 minus 1988		+0.38	+0.53	+0.75		
Percentage Change in Relative Magnitudes 1988 to 2001		+26.8 %	+30.6 %	+33.9 %		

Note: [a]. Source is same as Table 2.
[b, c]. Same as in Table 7.

Table 10. Real Property Taxes as a Percentage of Personal Disposable Income, Selected Years[a]

	Consolidated Provincial and Local	Municipal[b]
1947	3.1	
1953	3.7	
1961	5.4	
1971	5.7	
1981	4.0	
1988	4.1	2.21
1991	4.7	2.45
1994	5.7	2.71
1998	5.7	3.21
1999	5.5	3.20
2000	5.3	3.02
2001	5.1	2.96

Notes: [a]. Kitchen and McMillan (1988), Historical Statistics of Canada (1983) and data from the Public Institutions Division of Statistics Canada.

[b]. Unavailable prior to 1988

Table 11. Municipal Fiscal Features of Ontario and Canada less Ontario, 1988 - 2001[a, b]

	Transfers as a Percentage of Municipal Expenditures		Municipal Program Expenditures as a Percentage of Consolidated Provincial and Local Program Expenditures		Own-Source Revenue as a Percentage of Personal Disposable Income		Real Property Taxes as a Percentage of Personal Disposable Income		Consolidated Provincial and Local Real Property Taxes as a Percentage of Personal Disposable Income	
	Ontario	Canada less Ontario	Ontario	Canada less Ontario	Ontario	Canada less Ontario	Ontario	Canada less Ontario	Ontario	Canada less Ontario
(PERCENT)										
1988	31.4	15.8	22.7	15.7	5.01	5.46	2.14	2.25	4.70	3.71
1989	30.0	15.9	22.4	16.0	5.21	5.48	2.20	2.27	4.93	3.65
1990	30.2	15.6	23.5	16.3	5.41	5.54	2.35	2.30	5.30	3.89
1991	33.9	15.1	23.7	15.6	5.41	5.66	2.47	2.44	6.15	4.03
1992	36.3	16.1	24.2	14.1	5.45	5.89	2.60	2.67	5.94	4.34
1993	36.1	15.0	22.9	14.8	5.46	5.89	2.63	2.71	6.56	4.91
1994	36.8	15.4	24.9	15.3	5.57	6.03	2.62	2.78	6.62	5.09
1995	36.7	16.5	23.5	15.8	5.55	6.11	2.57	2.74	6.50	4.86
1996	31.9	15.1	22.1	15.6	5.49	5.97	2.58	2.79	6.56	4.90
1997	29.0	14.1	22.0	17.5	5.47	6.00	2.51	2.81	6.54	4.93
1998	29.3	13.9	24.1	14.8	6.58	5.99	3.84	2.78	6.79	4.88
1999	23.3	21.0 [c]	24.4	14.3	6.89	5.91	3.83	2.77	6.62	4.81
2000	20.3	13.1	24.5	14.0	6.73	5.73	3.55	2.65	6.12	4.69
2001	20.3	13.2	25.5	14.1	6.62	5.34	3.52	2.57	6.05	4.46

Notes: [a]. Sources as previously noted.
[b]. Consolidated provincial and local figures are for the provincial fiscal years 1988-89. etc.
[c]. This large figure results from an exceptionally large single year transfer by the B.C. provincial government to its municipalities for health purposes

Table 12. Selected Municipal Fiscal Features by Province, 1988 and 2001 [a, b]

	Transfers as a Percentage of Expenditures		Debt Charges as a Percentage of Expenditures		Municipal Program Expenditures as a Percentage of Consolidated Provincial and Local Program Expenditures		Own-Source Revenue as a Percentage of Personal Disposable Income		Real Property Taxes as a Percentage of Personal Disposable Income		Consolidated Provincial and Local Real Property Taxes as a Percentage of Personal Disposable Income	
	1988	2001	1988	2001	1988	2001	1988	2001	1988	2001	1988	2001
	(PERCENT)						(PERCENT)					
British Columbia	15.0	5.2	15.2	6.3	15.5	15.1	4.75	5.18	2.23	2.55	4.77	4.64
Alberta	21.4	17.5	17.4	7.1	17.0	15.8	6.51	6.10	1.78	2.89	4.05	4.39
Saskatchewan	18.5	10.7	3.9	1.6	14.7	13.4	5.31	5.10	2.57	2.62	5.31	6.16
Manitoba	25.8	19.0	8.4	8.5	15.9	12.7	4.54	4.53	1.88	1.96	5.10	4.89
Ontario	31.4	20.3	4.9	2.3	22.7	25.5	5.01	6.62	2.14	3.52	4.70	6.05
Quebec	8.0	14.0	14.1	9.4	16.2	13.8	6.29	5.61	2.69	2.90	2.99	4.53
New Brunswick	36.0	17.1	9.7	4.2	11.3	11.4	2.75	3.65	1.44	2.11	2.95	4.32
Nova Scotia	24.8	5.9	5.5	3.7	18.3	14.8	4.67	5.05	2.75	3.12	2.75	3.39
Prince Edward Island	12.5	8.3	7.6	3.7	5.0	4.6	1.57	2.26	0.90	1.51	2.42	3.41
Newfoundland and Labrador	36.1	23.6	17.4	11.1	10.1	8.2	2.57 [c]	3.07	1.20 [c]	1.50	1.33	2.32
Canada	22.4	16.6	9.5	5.0	16.1	16.3	5.27	5.87	2.21	2.96	4.1	5.1

Notes: [a, b]. See Table 11.
[c]. 1989 data.

Table 13. Federal Specific Purpose Transfers to Canadian Municipalities, 1988, 1995 and 2001.[a]

Category	Distribution Across Categories			Percent of Category Expenditure		
	1988	1995	2001	1988	1995	2001
(PERCENT)						
General Services	1.9	4.5	3.5	0.13	0.63	0.14
Protection	1.4	2.8	4.6	0.07	0.27	0.13
Transportation	16.8	30.2	31.1	0.53	2.01	0.61
Health	0.3	0.5	0.5	0.09	0.33	0.10
Social Services	5.6	5.7	8.3	0.53	0.61	0.28
Resource Conservation / Industrial Development	2.7	2.1	8.3	0.09	1.49	1.69
Environment	8.5	20.7	10.5	0.04	1.81	0.31
Recreation and Culture	10.6	13.7	10.0	0.63	1.59	0.36
Housing	44.8	16.3	18.0	17.77	15.89	2.33
Regional Planning and Development	2.4	1.0	2.2	0.82	0.85	0.70
Other	4.9	2.3	3.0	2.21	4.73	3.44
Total	100.0	100.0	100.0	0.70	1.35	0.42
(DOLLARS)						
Total Dollars Per Capita	7.24	19.08	6.50			

Note: [a]. Calculated from sources in Table 2.

Table 14. Provincial and Territorial Specific Purpose and Unconditional Transfers to Municipalities, Canada and by Province, 2001[a]

	Canada	Nfld	PEI	NS	NB	Que	Ont	Man	Sask	Alta	B.C.
						(PERCENT)					
Distribution of Specific Purpose Transfers											
General services	1.6	9.1	3.7	7.8	8.6	2.0	0.7	9.3	5.0	2.8	2.7
Protection	1.0	2.3	2.7	7.9	1.3	1.1	0.8	2.6	4.0	0.4	3.6
Transportation	18.1	6.6	67.1	4.9	26.2	31.5	3.0	38.9	38.2	75.0	12.8
Health	6.0	0	0	2.1	0.1	1.5	8.3	5.2	0.1	0.1	11.0
Social services	50.9	0	0	0.8	0	10.5	78.5	0.0	3.7	5.1	0.9
Conservation & development	1.7	0.0 [b]	13.8	0.3	5.7	3.3	0.8	5.1	10.4	3.7	1.5
Environment	6.4	14.2	0.3	18.7	27.1	18.6	2.1	11.1	15.1	3.0	15.0
Recreation & culture	4.5	22.2	11.9	55.2	26.0	9.1	1.1	17.4	22.3	7.3	7.1
Housing	4.2	1.5	0	0	2.8	4.0	4.7	3.5	0.0 [b]	0.8	2.0
Regional planning	0.5	1.1	0.5	0.0 [b]	0.2	1.7	0.0 [b]	0.6	0.2	0.3	0.9
Debt charges	4.1	42.7	0.0 [b]	1.5	1.8	12.4	0	0	0.1	1.7	42.0
Other	0.9	0.2	0	0.7	0	4.2	0	6.3	0.9	0	0.2
Total[c]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Provincial and Territorial Transfers											
Percentage of Total Expenditure						(PERCENT)					
Specific Purpose	13.9	15.2	4.1	2.8	4.1	12.0	17.7	9.7	4.5	16.0	3.8
Unconditional	2.3	5.8	3.8	2.6	12.1	1.8	2.3	8.1	4.3	1.0	0.9
Total	16.2	21.0	7.9	5.4	16.2	13.8	20.0	17.8	8.8	17.0	4.7
Dollars Per Capita						(DOLLARS)					
Specific Purpose	214	116	16	29	35	161	345	106	52	253	49
Unconditional	36	44	14	28	104	24	44	89	49	15	12
Total	250	160	40	57	139	185	389	195	101	268	61

Notes: [a]. Calculated from sources noted in Table 2.

[b].Value less than 0.05

[c]. May not sum exactly due to rounding.

Table 15. Provincial and Territorial Specific Purpose Transfers
as a Percentage of Municipal Expenditures in The Specific Areas, Canada (various years) and Provinces, 2001[a]

	Canada			Nfld	PEI	NS	NB	Que	Ont	Man	Sask	Alta	B.C.
	1988	1995	2001										
	(PERCENT)												
General services	1.5	2.7	2.1	8.5	1.2	2.1	3.1	2.0	1.3	6.6	1.8	4.7	1.0
Protection	0.7	1.3	0.9	7.3	0.5	1.1	0.3	0.8	1.0	1.3	1.0	0.5	0.7
Transportation	22.5	24.0	11.7	3.5	12.9	0.8	5.3	13.9	2.9	16.2	5.5	42.3	2.9
Health	41.9	44.4	37.6	0	0	44.6	1.4	80.8	41.7	23.2	0.4	0.8	23.0
Social services	70.2	76.1	56.4	0	0	0.5	— [c]	91.0	56.1	0.1	31.4	52.1	14.5
Conservation & development	20.9	18.2	11.8	0.2	34.6	1.2	9.6	14.0	8.6	20.7	12.9	17.3	4.2
Environment	10.3	14.4	6.1	9.7	0.1	3.1	4.3	18.5	2.9	6.2	4.5	3.5	2.8
Recreation & culture	7.1	7.8	5.5	23.3	2.3	14.2	8.3	8.7	2.2	17.9	7.1	8.4	1.4
Housing	19.8	39.7	17.9	41.1	— [c]	0	33.1	16.7	16.5	80.7	0.1	19.1	13.2
Regional planning	6.4	7.2	5.2	14.1	0.8	0.0	0.5	8.2	4.5	2.6	0.6	1.6	1.6
Debt charges	13.3	11.2	11.4	58.5	0.0	1.1	1.8	15.7	0	0	0.2	3.7	25.2
Other	12.2	11.4	34.5	107.4	0	562.9	0	142.3	0	146.7	59.3	0	0.5
Total Specific Purpose as a Percentage of Total Expenditures	16.00	20.8	13.9	15.2	4.1	2.8	4.1	12.0	17.7	9.7	4.5	16.0	3.8

Notes: [a]. Calculated from the source in Table 2.
[b]. Less than 0.05
[c]. No transfer but zero municipal expenditure for this category.

Figure 1. Intergovernment Transfers and Debt Charges as a Percentage of Canadian Municipal Expenditures, 1988-2001

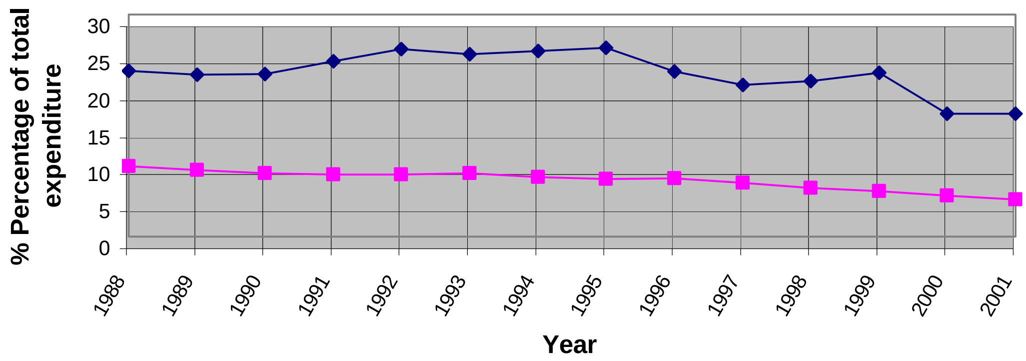

Figure 2. Trends in Canadian Municipal Expenditures, 1988-2001

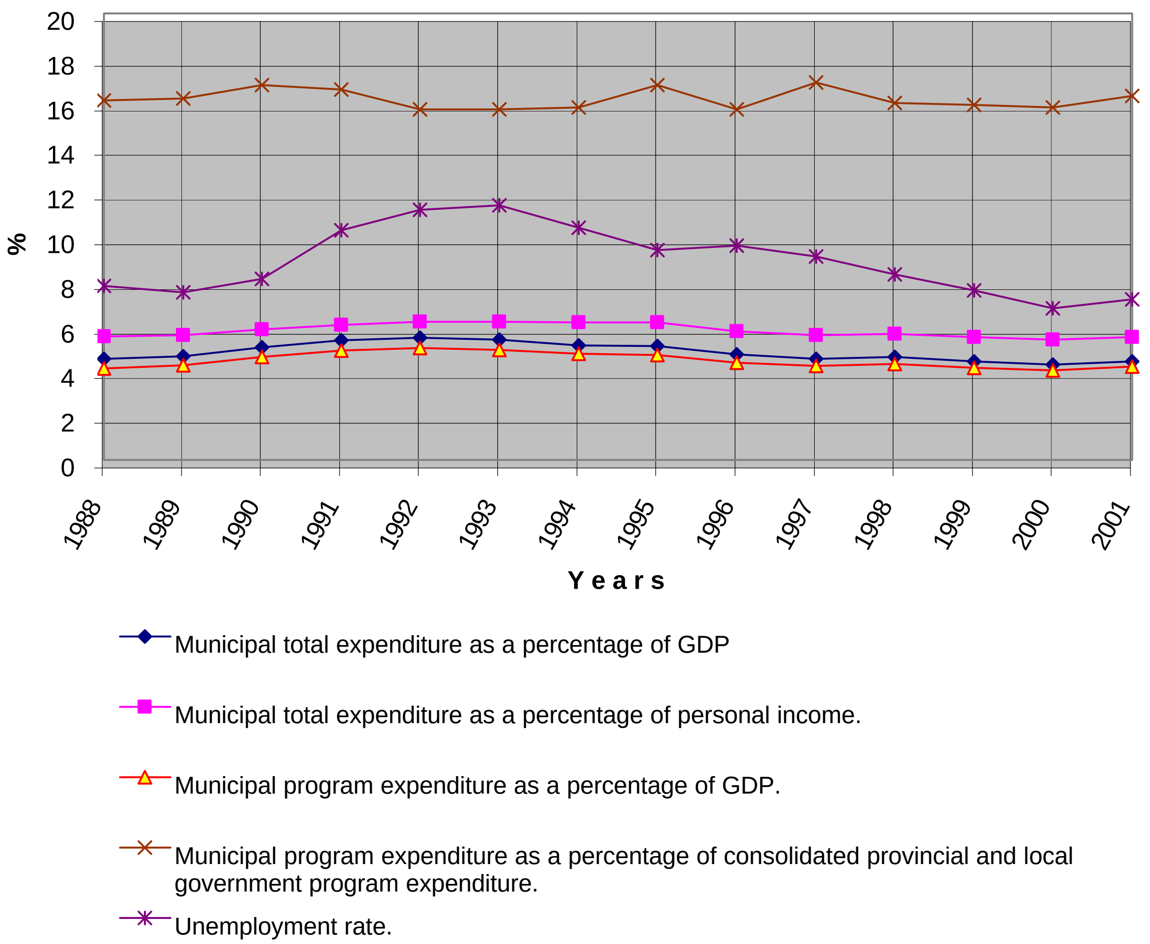

Figure 3. Contributions to Canadian Municipal Revenue

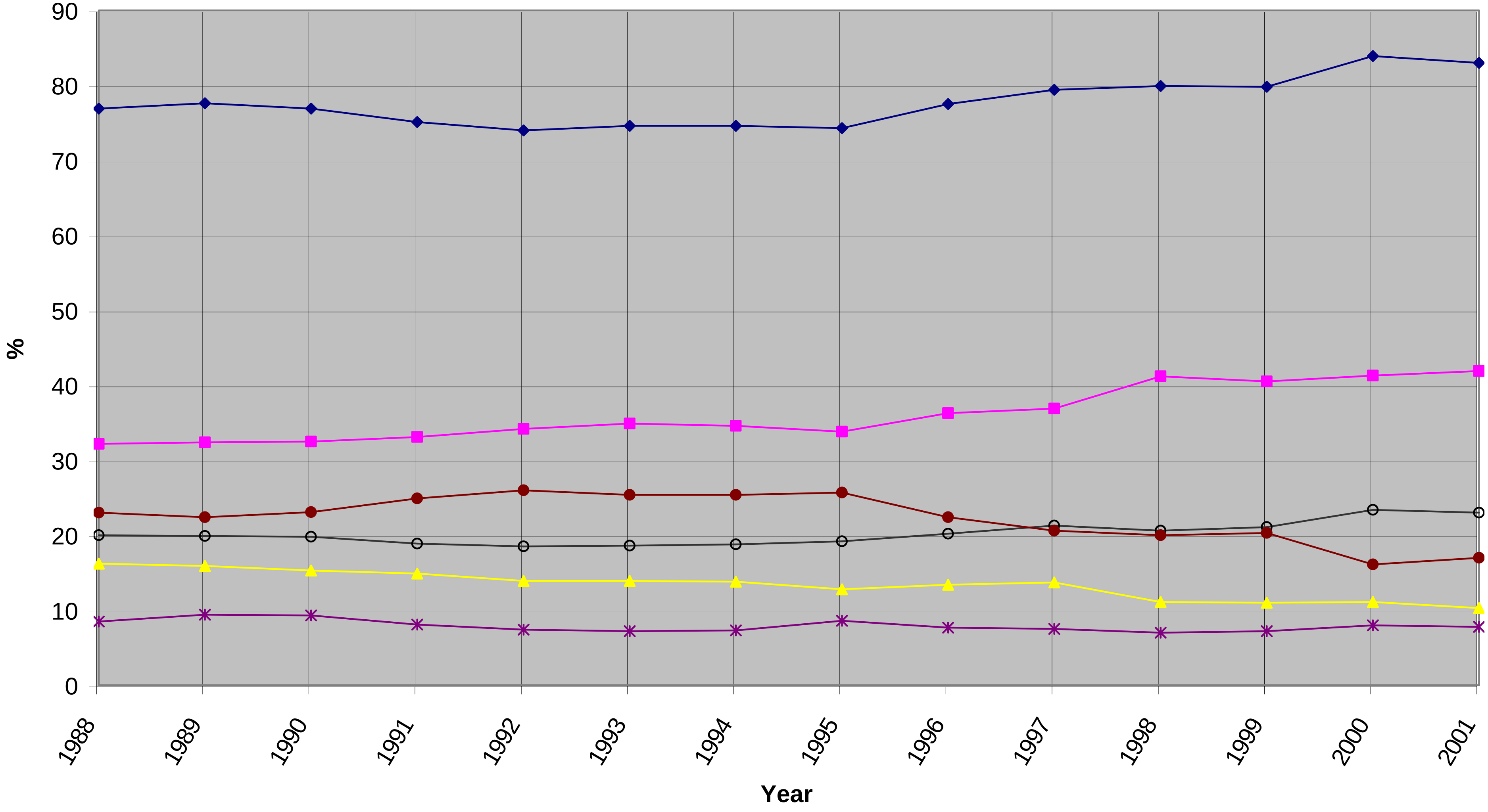

Figure 4. Own-Source Revenue and Real Property Taxes as a Percentage of Personal Disposable Income, Ontario and Canada less Ontario, 1988-2001.

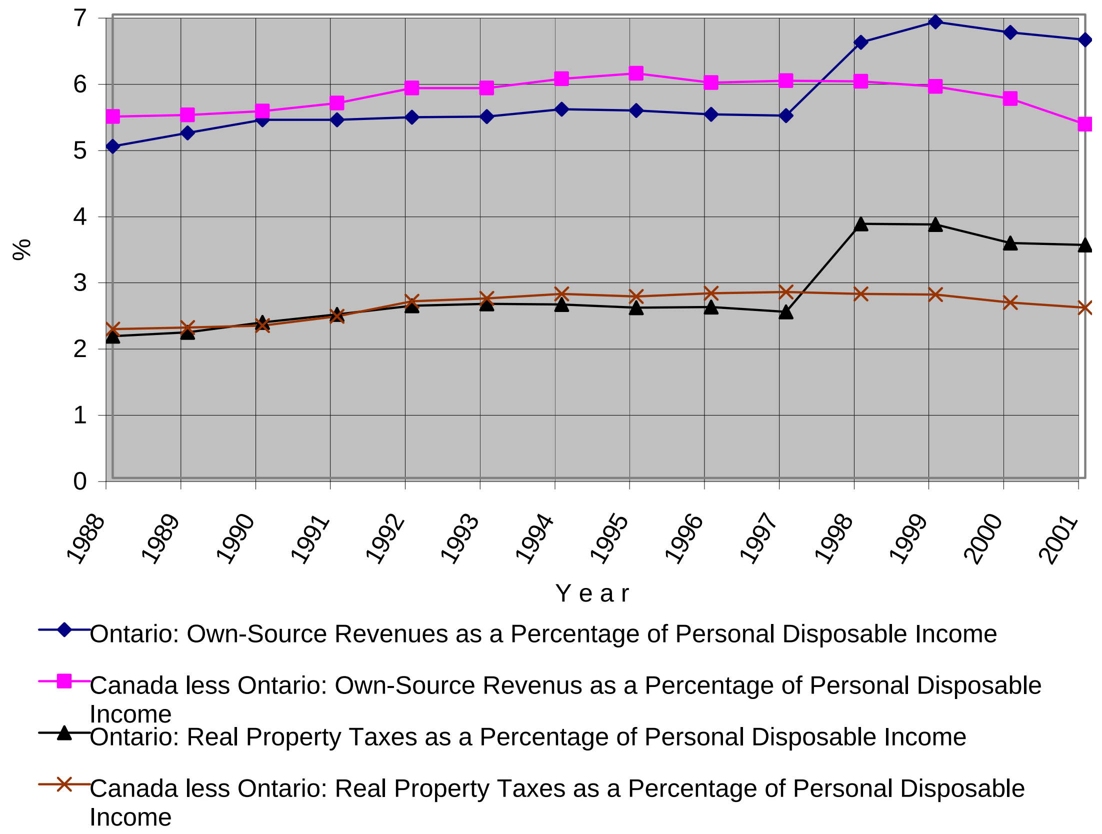

Figure 5. Transfers of Federal and Provincial Governments to Municipalities, 1988-2001.

	Federal Transfers		Provincial Transfers	
	(millions of dollars)	(percent of Expenditures)	(billions of dollars)	(percentage of Expenditures)
1988	193.9	0.70	21.66	22.36
1989	196.5	0.64	21.23	21.87
1990	191.3	0.56	21.44	22.00
1991	200.3	0.55	23.13	23.68
1992	213.8	0.56	24.72	25.28
1993	214.9	0.55	24.04	24.59
1994	326.9	0.82	24.23	25.05
1995	560.0	1.35	24.12	25.47
1996	497.5	1.26	21.06	22.32
1997	369.1	0.92	19.62	20.54
1998	293.0	0.69	20.33	21.02
1999	249.6	0.58	21.51	22.09
2000	194.8	0.43	16.17	16.60
2001	202.1	0.42	16.22	16.64

Figure 5. Transfers of Federal and Provincial Governments to Municipalities as a Percentage of Municipal Expenditures, 1988-2001