

A CHOICE BETWEEN INVESTING IN CANADA'S CITIES OR DISINVESTING IN CANADA'S FUTURE

Presentation by

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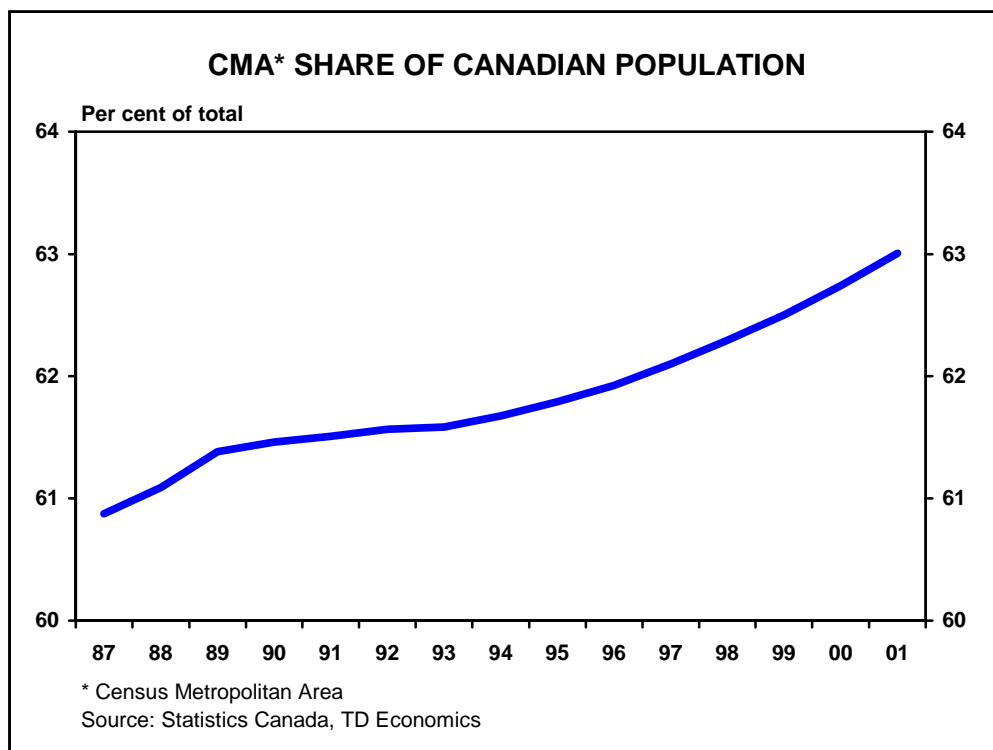
to the

**Union of B.C. Municipalities
Whistler, British Columbia
September 24, 2002**

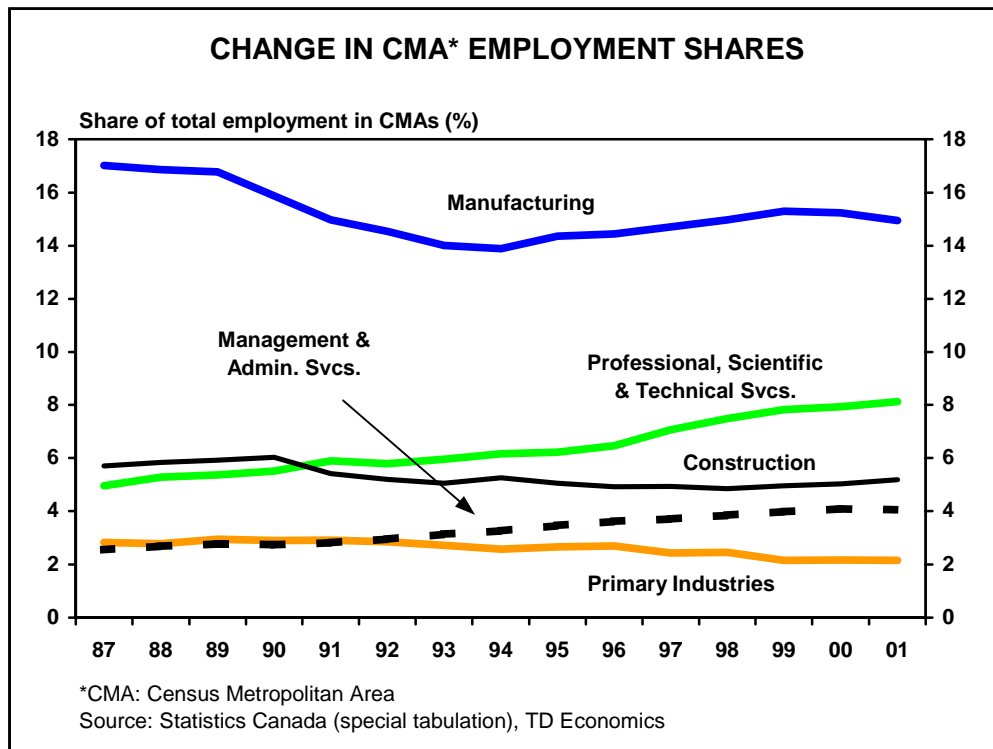
CITIES REIGN SUPREME IN CANADA'S ECONOMY

- Vancouver and Victoria: 60 per cent of B.C. GDP
- Calgary and Edmonton combined: 64 per cent of Alberta GDP
- Winnipeg: 64 per cent of Manitoba GDP
- Toronto: 44 per cent of Ontario GDP
- Montreal: 50 per cent of Quebec GDP
- Halifax: 48 per cent of Nova Scotia GDP

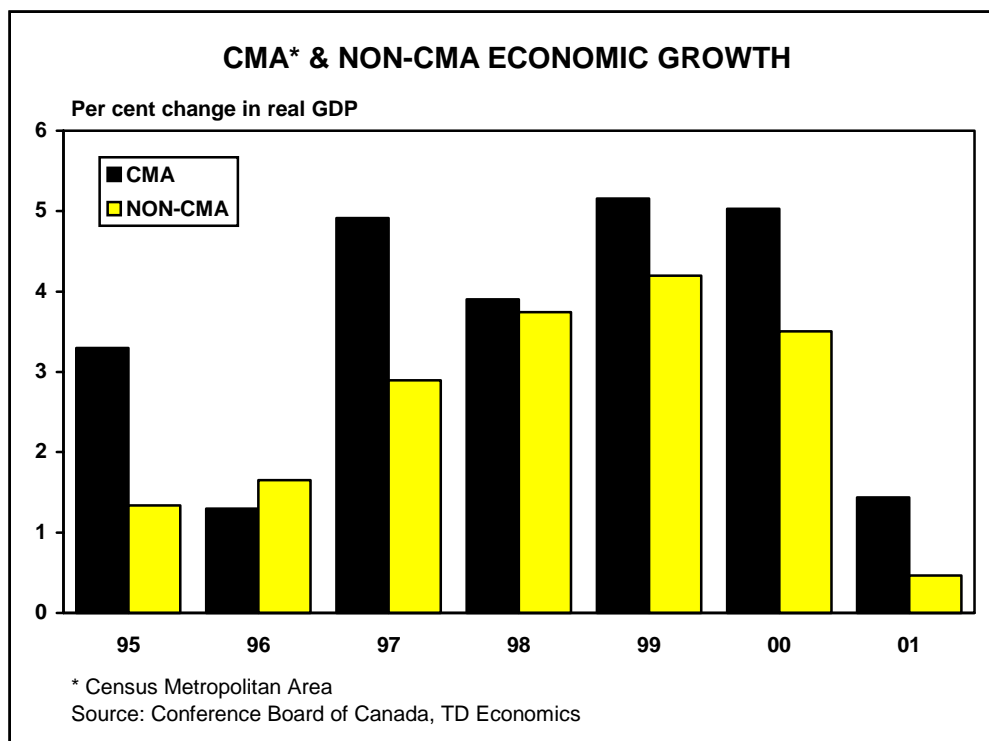
URBANIZATION CONTINUES APACE



“NEW ECONOMY” BURGEONING IN THE CITIES ...



... HELPING THEIR ECONOMIES TO OUTPERFORM

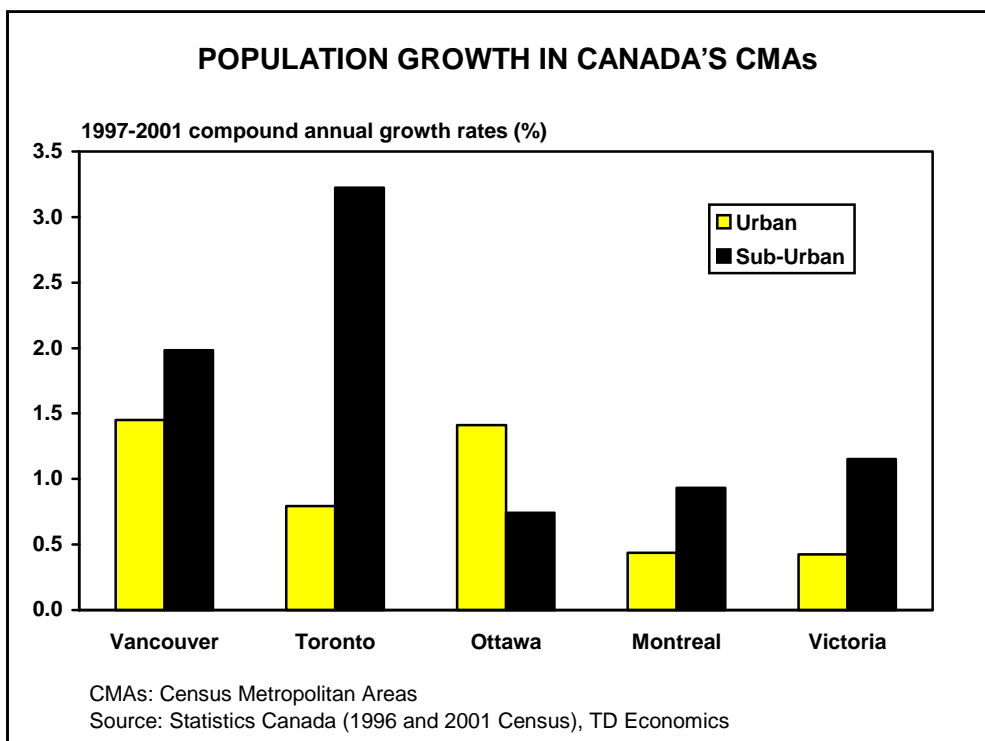


CITIES OFFER A WELL-EDUCATED, YOUNG AND DIVERSE WORKFORCE

COMPARING URBAN AND NON-URBAN LABOUR FORCES			
		Urban	Non-Urban
Per cent with post-secondary degree or diploma	1980	27.0	19.7
	2002*	43.6	34.8
Per cent of total population aged 25-34 years	1986	63.1	36.9
	2000	67.6	32.4
Per cent of total population of international immigrants	1986	85.7	14.3
	1999	93.7	6.3

* Forecast by FP Markets Canadian Demographics, 2002
Source: FP Markets Canadian Demographics, Statistics Canada, TD Economics

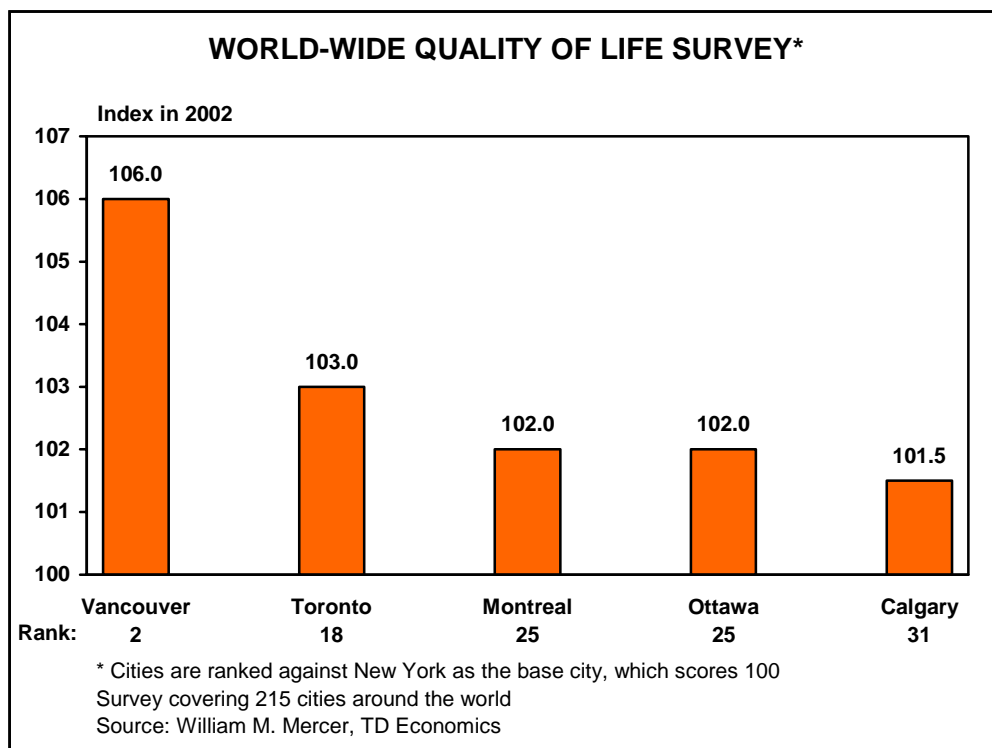
INCREASING TREND TOWARDS SUBURBANIZATION



CITIES TAKING ON THE WORLD

- Successful “global” cities more than just an economic power
- Toronto, Montreal considered global cities
- Leverage expertise in specific areas
- Cities must create “a buzz”
- Demonstrate vision

CANADIAN CITIES ARE GOOD PLACES TO LIVE



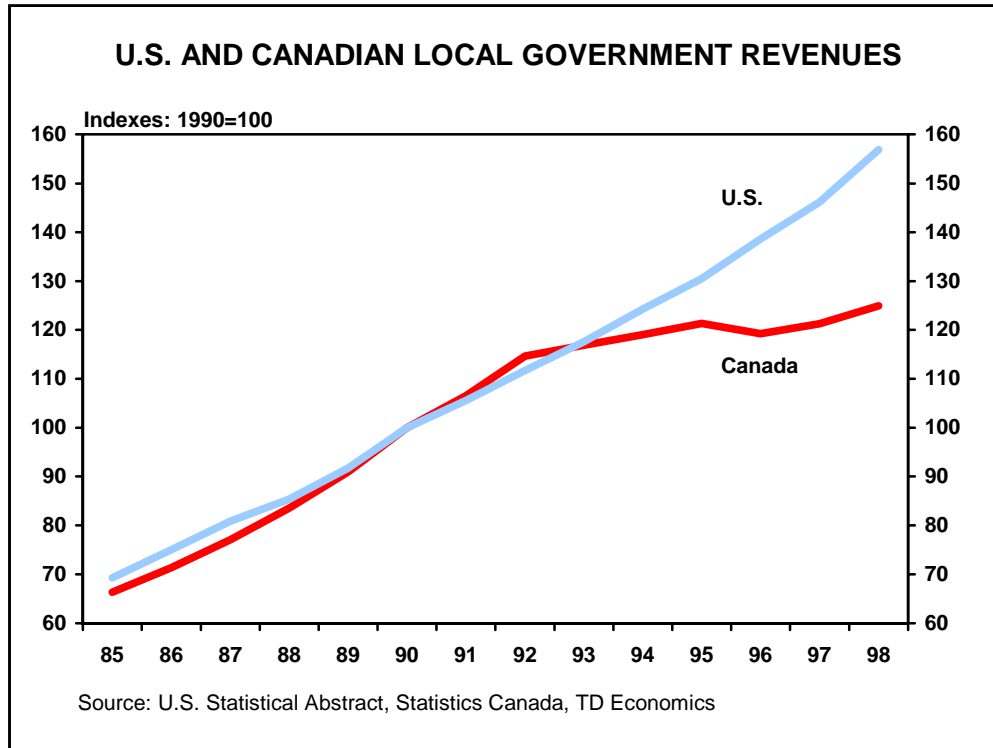
U.S. CITIES ENJOYING A RENAISSANCE ...

- Facing crisis 20 years ago
- Benefited from economic boom
- Coaxing individuals back to downtowns by investing
- Large increase in federal grants to cities
- Innovative new funding tools
 - Public-private partnerships
 - Tax exempt bonds
 - Tax increment financing
- Europe also boosting private-sector involvement

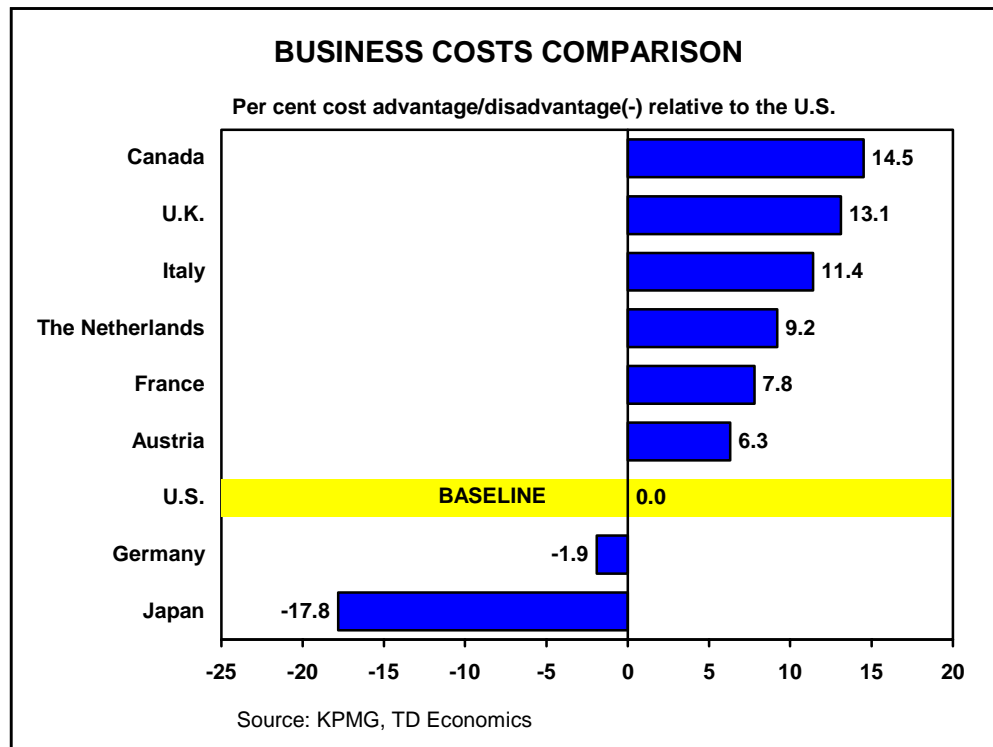
... HELPED BY ACCESS TO MORE REVENUE SOURCES

MUNICIPAL REVENUE SOURCES		
CANADA VS. U.S.		
Shares of Total Revenue		
	Canada	U.S.
<u>Own Source</u>		
Property Tax	49.5	21.0
User Fees	20.2	32.6
Other own source	1.3	13.5
Transfers from federal government	1.3	3.3
Transfers from state/province	21.0	23.4
Other sources	6.6	6.0
Source: Federation of Canadian Municipalities: "Early Warning: Will Canadian Cities Compete?", May 2001		

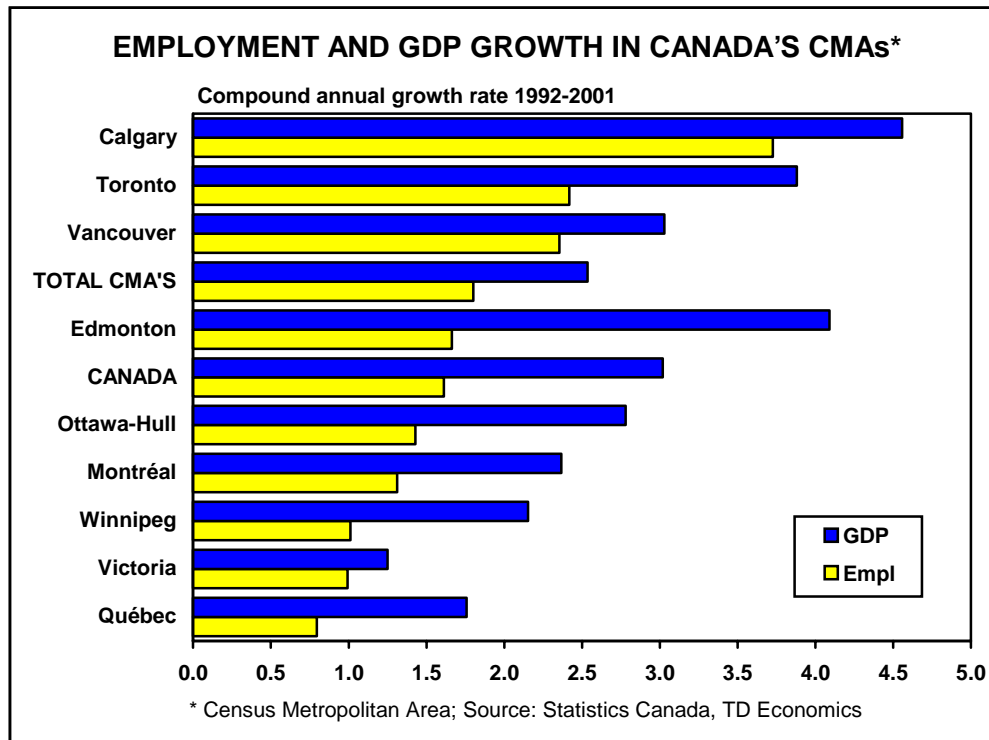
U.S. CITIES IN BETTER POSITION TO TACKLE CHALLENGES



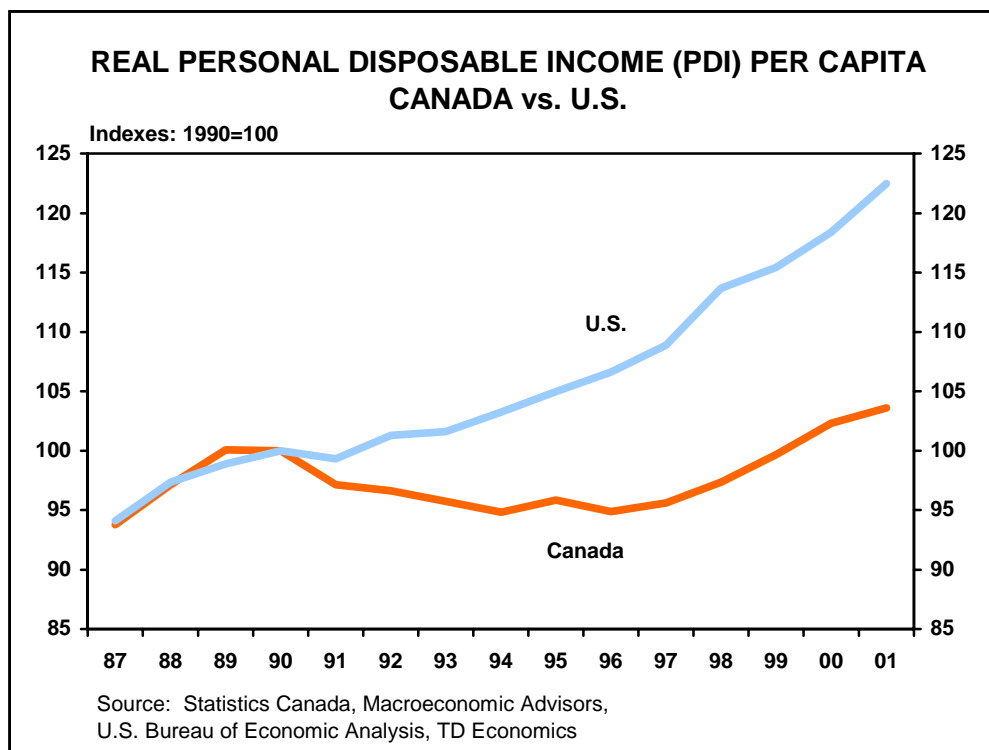
CANADIAN CITIES ENJOY COST ADVANTAGE



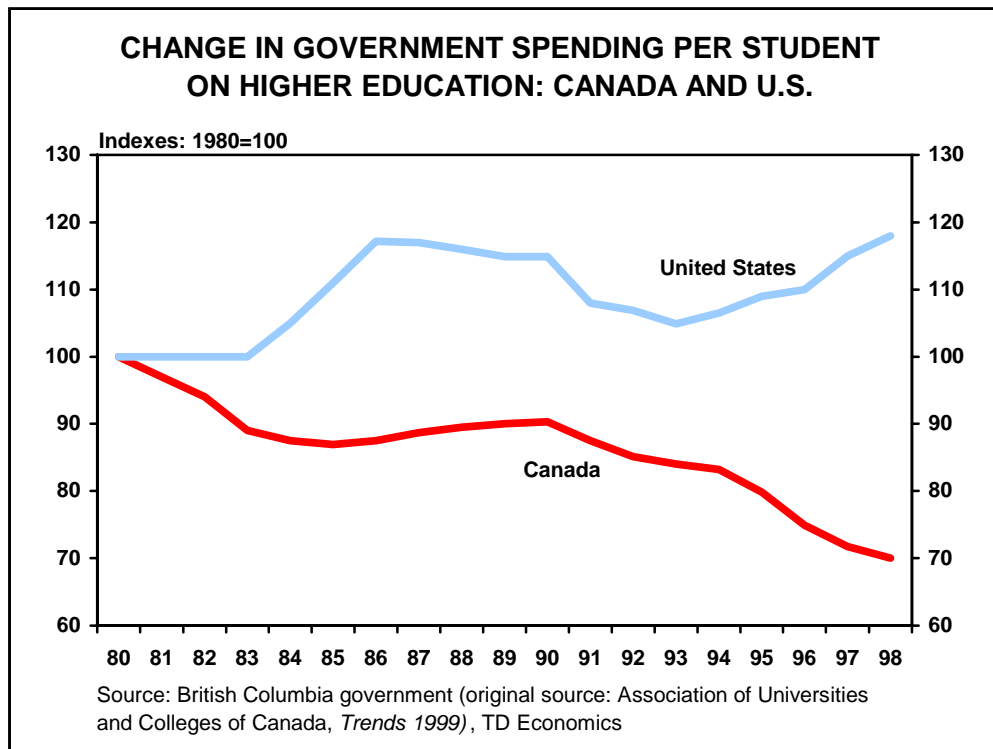
MOST CITY ECONOMIES STRUGGLED IN 1990s



GAP IN U.S. - CANADA LIVING STANDARD INCREASING



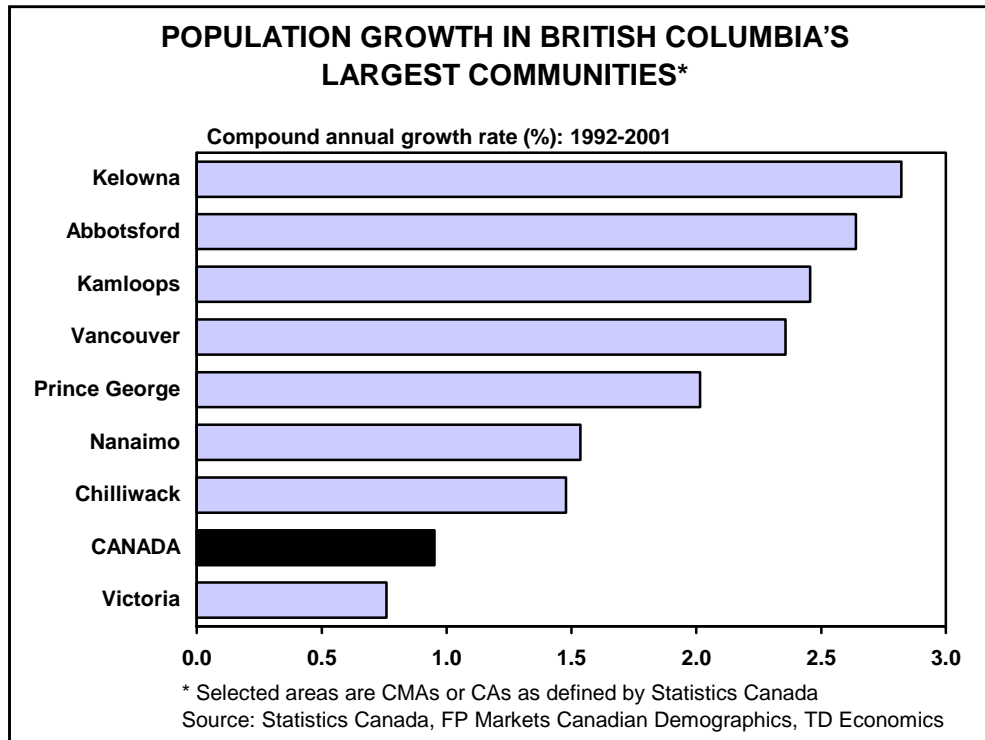
CANADIAN UNIVERSITIES HURTING FROM EDUCATION CUTS



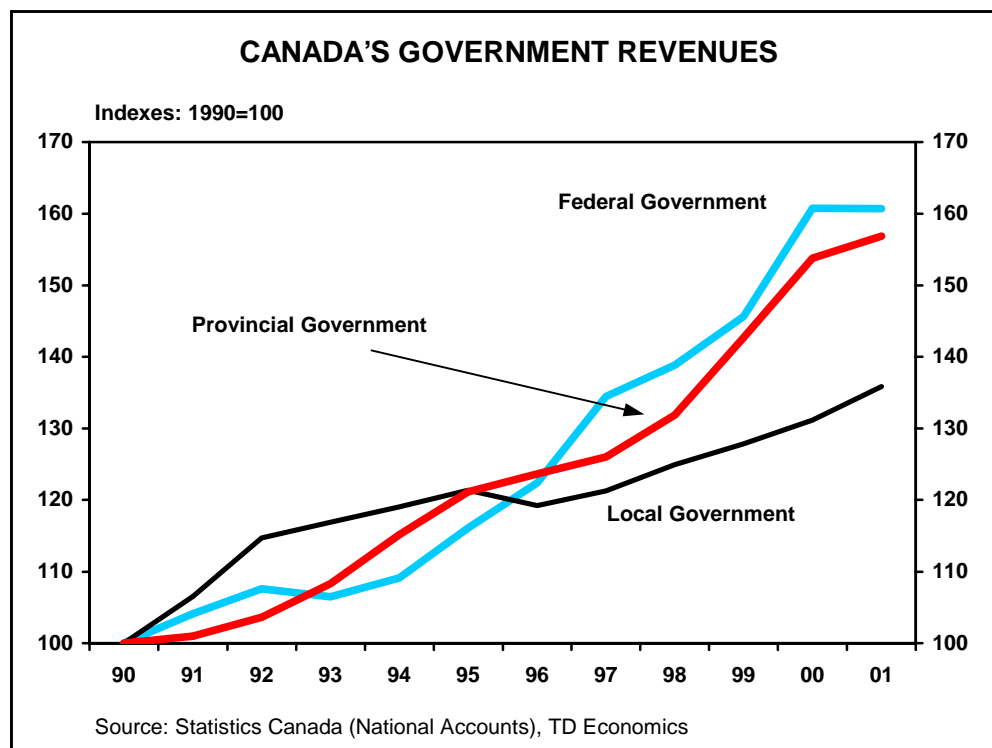
CANADA'S CITIES IN DESPERATE NEED OF NEW INFRASTRUCTURE

- Association of Consulting Engineers (ACEC) estimates infrastructure shortfall of \$44 billion
- Shortfall growing by about \$2 billion per year
- Canadian Urban Transit Association estimates \$9.2 billion needed for public transit over five years
- Federation of Municipalities estimates rental housing needs of 500,000 units over ten years

DEMANDS ON PUBLIC INFRASTRUCTURE HAVE INCREASED PARTICULARLY RAPIDLY IN B.C.



LOCAL GOVERNMENT REVENUES HAVE ONLY CREEPED AHEAD



KEY AREAS OF DOWNLOADING TO CITIES

Federal to municipal:

- municipal airports
- local ports
- local harbours

Provincial to municipal:

- transit, child care
- social housing, social assistance
- ferries, selected airports
- property tax assessment

REGIONAL DOWNLOADING

Cities responsibilities vary by province:

- **Ontario:** cities pick up big portion of social services; got tax room on residential education part.
- **Manitoba:** above average burden for social services.
- **Nova Scotia:** more of the education bill.
- **Saskatchewan and Alberta:** high share of transportation.

SOME PROVINCES BEGINNING TO PROVIDE MONEY TO CITIES

- **B.C.:** share of provincial retail sales tax to municipalities.
- Greater **Vancouver's** Transportation Authority: partially funded by an 11-cent-per-litre gas tax. Tax rate set by province.
- **Victoria** : a 2.5-cent-per litre gas tax is collected for transit
- **Calgary and Edmonton:** receive 5 cents per litre of province's fuel tax. Latest budget reduced this share to 1.2 cents. Cut postponed to March 2003.
- **Manitoba:** allocates revenues worth two percentage points of personal income tax and one percentage point of corporate income tax to its cities in form of per capita grant.
- **Montreal's** Agence Métropolitaine de Transport (AMT): partially funded by a 1.5-cent-per-litre gas tax and a \$30-per-car registration fee.
- Municipalities in **Nova Scotia** and **Quebec:** have authority to levy a land transfer tax on the value of transferred property.

REFORMS MUST BEGIN AT HOME

- Reform tax systems
 - property taxes
 - reset user fees and development charges more in line with cost of related service
 - more use of user fees

- Fix up regulations
 - land planning strategies could be improved
 - implementation often flawed

- Better delivery of services
 - take advantage of economies of scale
 - more engagement of private sector
 - restrictive labour contracts a barrier

CRITERIA FOR NEW FUNDING SOURCES

- Reliability

- Accountability

- Transparency

- Administrative simplicity

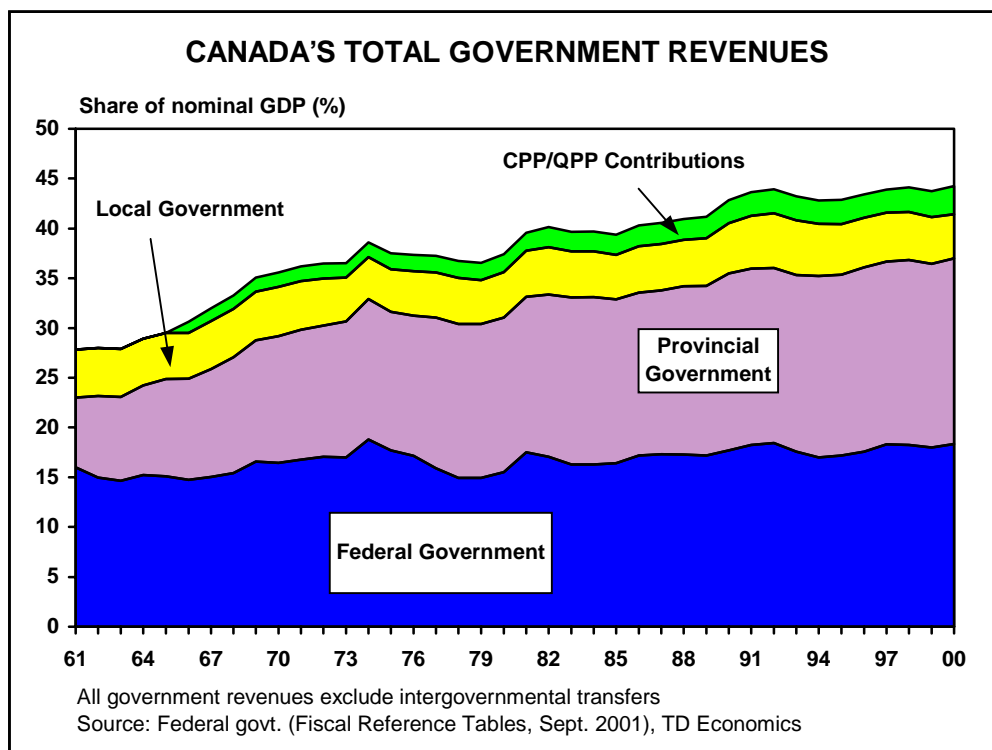
- Efficiency

- Equity

NEW REVENUE ARRANGEMENT FOR CITIES

- Loosen shackles on property taxes and user fees
- Must avoid increase in overall tax burden
- Existing provincial and federal transfers must be made more certain
- Increasing transfers is an option
- But for accountability, giving cities new taxing authority is preferable
- Federal and provincial governments must lower their taxes to create the room

INCREASE IN OVERALL TAX BURDEN MUST BE AVOIDED



ANNEX

NEW FUNDING ARRANGEMENTS FOR MUNICIPALITIES				
	OPTION	PROS	CONS	RANKING
1. GRANTS	<ul style="list-style-type: none"> • Grants from federal and provincial governments 	<ul style="list-style-type: none"> • inexpensive to administer 	<ul style="list-style-type: none"> • no accountability • unreliable • overall tax burden would rise 	1
2. REVENUE ARRANGEMENTS FOR CITIES	a) Transfer of portion of federal or provincial government revenues	<ul style="list-style-type: none"> • inexpensive to administer • sufficient growth if tax is ad-valorem 	<ul style="list-style-type: none"> • no accountability • can be unreliable • overall tax burden would rise 	2
	b) Municipal tax within existing federal or provincial structures			
	<ul style="list-style-type: none"> i. Municipalities piggy-back off an existing federal or provincial tax <ul style="list-style-type: none"> • must have the same tax base • tax to be collected by an existing entity (like the CCRA) • city cannot set the tax rate unilaterally ii. Same as (i) above (i.e., municipalities still piggy-back off an existing federal or provincial tax), but cities CAN set the tax rate unilaterally <ul style="list-style-type: none"> • still must have the same tax base • tax still to be collected by an existing entity (like the CCRA) 	<ul style="list-style-type: none"> • excellent accountability • sufficient growth • inexpensive to administer 	<ul style="list-style-type: none"> • excellent accountability 	3
<ul style="list-style-type: none"> c) Cities given free rein to levy their own tax <ul style="list-style-type: none"> • city can set its own tax rate unilaterally • city can set its own tax base • tax may or may not be collected locally 	<ul style="list-style-type: none"> • excellent accountability • power to meet revenue needs • excellent reliability 	<ul style="list-style-type: none"> • expensive to administer • complex • overall tax burden would likely rise 	0	

*Rating is from 0 to 4, where 0 signifies least desirable and 4 signifies most desirable. Source: TD Economics

COMPARING TYPES OF TAXATION

OPTION		PROS	CONS	RANKING
1. CITY INCOME TAX	<ul style="list-style-type: none"> Personal and corporate income tax 	<ul style="list-style-type: none"> excellent accountability sufficient growth excellent reliability equitable 	<ul style="list-style-type: none"> CIT can be weak on transparency business capital and personal capital gains difficult to tax because of high mobility border issues 	0
2. EXCISE OR SALES TAX	a) Excise taxes on gasoline, tobacco, hotels, etc.	<ul style="list-style-type: none"> excellent accountability sufficient growth excellent reliability equitable 	<ul style="list-style-type: none"> border issues 	4
	b) Sales tax	<ul style="list-style-type: none"> excellent accountability sufficient growth excellent reliability equitable 	<ul style="list-style-type: none"> border issues could be economically damaging if inputs taxed 	3

*Rating is from 0 to 4, where 0 signifies least desirable and 4 signifies most desirable. Source: TD Economics