Rationale for Renewal

The Imperatives Behind a New Big City-Provincial Partnership

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This discussion paper is part of the Canada West Foundation's ***Western Cities Project,*** a multi-year research and public consultation project focused on identifying the policy challenges facing western Canada's big cities, and best practices in resolving such policy challenges. Through the Canada West Foundation's emphasis on citizen engagement, the ***Western Cities Project*** promotes public awareness of the growing importance of cities to the economic, social, and cultural lives of western Canadians. The project, which began in 2000, includes the following research components:

- **Urban Water Management**
- **Urban Infrastructure**
- **Urban Finance**
- **Urban Regions**
- **Urban Growth and Affordable Housing**
- **Municipalities in Federalism**
- **Urban Arts and Culture**
- **Urban Aboriginal People**

To learn more about the ***Western Cities Project,*** please visit the Canada West Foundation web site (www.cwf.ca).

Rationale for Renewal is a discussion paper intended to synthesize previous Canada West Foundation research, particularly as it applies to making the case for a new partnership between big cities and their respective provincial governments. As such, the paper draws on previous commentary produced under the Foundation's *Western Cities Project,* including *Framing a Fiscal Fix-Up (2002), Big City Revenue Sources (2002), A Capital Question (2003), No Time to be Timid (2004), Foundations for Prosperity (2004),* and *Straight Talk (2004).* This discussion paper also draws on relevant research included in presentations made by Canada West Foundation staff at numerous conferences and events hosted by governments, various Canadian and provincial tax associations, and urban and rural municipal organizations across Canada.

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EXECUTIVE SUMMARY

BACKGROUND

The rise of the information economy, coupled with expanded global trade and increased international economic competition, has vaulted big cities to a level of importance that renders archaic the intergovernmental debates of the past. Recent discussions of the "urban agenda" further highlight the need to shift the conventional intergovernmental focus of Canadian politics from federal-provincial relations to provincial-municipal relations. Existing provincial-municipal relationships are rooted in legislative models developed during the 19th Century, when Canada was still a rural society. However, the world has changed, and will continue to change. It is time to begin a comprehensive exploration of how big cities fit into the political fabric of Canada in the 21st Century.

RATIONALE FOR RENEWAL

Rationale for Renewal: The Imperatives Behind a New Big City-Provincial Partnership begins this exploration by outlining the basic principles that ought to guide a renewed relationship between big cities and their provincial governments. The study goes on to set out the detailed rationale behind these principles and the reasons for re-working the current relationship into a true *partnership.* This exploration takes place within the context of the West's six big cities – Vancouver, Edmonton, Calgary, Regina, Saskatoon, and Winnipeg.

THE DESTINATION: SUSTAINABILITY

In many ways, western Canada's big cities appear to be managing well – the urban environment works and levels of citizen satisfaction are generally high. However, managing well today is no guarantee that Canada's big cities will manage to do well in the future. More importantly, simply coping is not enough. The sustainability of big cities has come into question on many fronts – demographically, fiscally, economically, environmentally, and socially. *In short, the status quo is inadequate.* Without change, our big cities will not be sustainable. *Rationale for Renewal* asserts that the current legal, fiscal, and governance relationship between provinces and big western Canadian cities does not allow the latter to address current or future challenges. Failure to create a new partnership may entail lost opportunities as well.

THE ROADMAP: A NEW BIG CITY-PROVINCIAL PARTNERSHIP

What is necessary for sustainable solutions to growing urban challenges? *Rationale for Renewal* calls for a new partnership between big cities and their provincial governments. This partnership is built around three separate but related cornerstones: 1) consultation and consensus-building; 2) increased local autonomy and accountability for exercising that autonomy; and 3) a new fiscal framework.

1. CONSULTATION AND CONSENSUS-BUILDING

The Problem: Improved consultation and consensus-building between big cities and the provinces is a vital first step. Currently, most provinces have no formal statutory requirements in their *Municipal Government Acts (MGAs)* or their various city charters to consult with big cities on matters that directly impact them.

The Action to Take: In a new big city-provincial partnership, provinces would seek out the expertise of big cities on major initiatives and provide them with "a seat at the table" when provincial decisions affecting them are being made.

The Rationale: Consultation and consensus-building are basic to any partnership. They would do much to reduce intergovernmental friction, lead to more predictability in the policy environment, enhance the legitimacy of provincial government policy initiatives, and provide better tools for handling the inevitability of policy interdependence.

2. LOCAL AUTONOMY AND ACCOUNTABILITY

The Problem: All municipalities are creatures of the province. Every province structures its formal relationship with its municipalities through some type of enabling legislation. With respect to the local decision-making power of our big cities, these enabling acts have two shortfalls. First, they tend to treat all municipalities the same. Second, current municipal enabling legislation can be quite prescriptive. Both impact negatively on local decision-making and the accountability of local government.

The Action to Take: The idea behind this cornerstone is to allow a province's big cities more latitude with respect to matters already within their jurisdiction — to loosen the provincial reins. Big cities would be free to make more decisions on their own, and to be held accountable by local citizens for those decisions. Provincial oversight of big cities would convert from the current approach of "command and control" to an approach marked by expanded opportunities for provincial-municipal communication and reporting on local decisions that have been made.

The Rationale: Increased local autonomy and accountability would lead to better and more flexible decision-making attuned to community interests and needs. Room for policy experimentation would be enhanced, but within a framework that would strengthen the capacity of local communities to hold their municipal governments accountable. Greater accountability, coupled with new fiscal resources and tax tools, would give big cities the capacity they need to address an expanding and increasingly complex policy agenda.

3. A NEW FISCAL FRAMEWORK

The Problem: Western Canada's big cities are too dependent on only one tax source — the property tax. The property tax is highly inelastic, and often fails to keep pace with population or economic growth. The lack of diversity in municipal tax tools is meeting up with several demographic trends (e.g., rapid growth in metro-adjacent areas) and governance challenges (e.g., providing more "people" oriented services as opposed to "property" services) to severely press big city finances.

The Action to Take: The purpose of this cornerstone is to intentionally diversify the tax system of big cities by supplementing the property tax with a range of other local taxes, and where appropriate, supplementing this with city-provincial tax revenue-sharing.

The Rationale: A more balanced tax regime would allow big cities to better accommodate rapid population growth and also manage the fiscal disequivalence issues that arise from current patterns of urban growth. A new tax regime would draw a tighter link to the types of "people" services that many big cities now provide. Fiscally, a more diverse set of tax tools balances the disadvantages of the property tax while allowing the cities to retain the advantages. Economically, a more diverse set of tax tools would allow big cities to make progress on other aspects of economic advantage, such as repairing aging infrastructure systems and constructing new infrastructure.

Rationale for Renewal points out that a new provincial-municipal partnership is as much in the interest of provincial governments as it is in the interests of the big cities. Indeed, meeting the big city agenda is essential if provincial and even national policy goals are to be met. The report also notes that a new partnership for the big cities does not preclude a new partnership for municipalities more broadly defined. In fact, the cornerstones used to build the new partnership for big cities could serve quite well as the cornerstones for a broader process of renewal, a proposition that will explored by a forthcoming Canada West Foundation report entitled *Apples and Oranges? Urban Size and the Municipal-Provincial Relationship.*

At the same time, however, it is imperative to move quickly on the big city relationship, and to use that momentum to then address the larger provincial-municipal relationship. *Rationale for Renewal* concludes by stressing the unparalleled opportunity for western Canadian leadership. If we can get the provincial-municipal relationship right for big cities in western Canada, this new partnership could well serve as a national template.

INTRODUCTION

For the past 40 years, intergovernmental relations in Canada have been marked by a continual and consistent effort to re-work the federal-provincial relationship. This effort, culminating in two failed attempts to amend the Canadian Constitution, has met with limited success. But while we were thusly preoccupied, the world around us moved on. The rise of the information economy, coupled with vastly expanded global trade and international economic competition, has vaulted big cities to a level of importance that increasingly renders archaic the intergovernmental debates of the past.

Today's big cities have become the engines of economic growth – the locus of provincial, regional, and national wealth creation. They have also become the magnets for population growth, emerging as virtual cauldrons of cultural and ethnic diversity, and social complexity. These are very basic yet powerful trends, and they present Canadians with new challenges and opportunities. Meeting these challenges and taking full advantage of the opportunities is critical – the race for our future economic prospects, and our provincial and national quality of life, is being run on the streets of our big cities. It is time, therefore, to turn to an exploration of how big cities fit into the political fabric of Canada in the 21st Century.

To date, this exploration has been tentative at best. Not only is the national discussion on urban Canada just starting to unfold, much of that discussion revolves around the federal-municipal connection as opposed to the provincial-municipal interface. While the federal-municipal tie is no doubt important, it is dwarfed by the provincial-municipal relationship. After all, it is the provinces that have responsibility for municipalities under section 92 (8) and (16) of the *Constitution Act,* 1982. Further, much of the current debate tends to lump all types of municipalities together – both large and small – rather than focusing on the role of Canada's big cities.

To stimulate public consideration of a new intergovernmental focus, the Canada West Foundation published *Foundations for Prosperity* in September 2004. That paper highlighted some key elements of what a new financial partnership between big cities and a provincial government might look like. *Rationale for Renewal* returns to this subject and is designed to clearly press the case for a new big city-provincial partnership.

In particular, *Rationale for Renewal* seeks to answer two basic yet very important questions:

- *What does a new partnership between big cities and the provinces entail? What would it look like? What basic elements of the current relationship need to change?*
- *What are the reasons for re-thinking the relationship between big cities and the provinces? In other words, why are these changes necessary? What concerns would a new partnership address and how would this benefit big cities, the provinces, and Canadians?*

The thesis behind *Rationale for Renewal* is that times have changed, bringing new challenges and opportunities for big cities and provinces. At the same time, the legal, financial, and governmental arrangements defining the current relationship remain largely the same, and they are ill-suited to meeting the challenges or securing the opportunities. Put simply, the status quo is inadequate and will not lead to the right results for big cities. Further, because challenges are typically accompanied by attendant opportunities, propping up the status quo relationship implies a squandering of future prospects.

To be sure, the road toward a new partnership is strewn with barriers. Yet, negotiating a path is crucial if big cities are to thrive politically, excel economically, and win the struggle for sustainability – whether that is conceived demographically, environmentally, economically, or socially. As a first step, we need to re-focus our energies. We need to move beyond the stale debates of the past and begin seriously considering the role being played by big cities in the governance of provinces and the nation as a whole, and where, how, and why that role needs to be strengthened. If Canada's star is to rise in the 21st Century, it is our big cities that will take us there.

To date, much of the Canada West Foundation's urban policy research, analysis, and commentary has been retrospective. We have been peering into the rearview mirror trying to better understand the "urban scenery" growing alongside a road we have been travelling for some time already. We need to turn our eyes off the mirror and look beyond the windshield. We need to settle on a direction in which to continue the urban journey. With this discussion paper, the Foundation sketches out a roadmap and explains the reasons for a new route. We hope to move discussion forward by defining what success looks like for our big cities, and more important, how we get there.

THE URBAN DESTINATION: Sustainable Big Cities

Sustainability is a popular buzzword in public policy circles. Like all buzzwords, the term is thrown out so often it runs the risk of losing meaning. Yet, the concept of sustainability does describe our final urban destination, and it provides a general frame for the broader rationale behind a new big city-provincial partnership. If past Canada West Foundation research tells us anything at all, it is that big cities are not winning the sustainability war on many fronts – whether we consider them demographically, fiscally, economically, environmentally, or socially.

For some, this contention appears to fly in the face of Canada's urban experience. Do not our big cities offer a good standard of living and quality of life compared to many others around the globe? Are Canada's big cities not well managed and administered? Certainly our big cities can take their place among the best in the world, can't they?

Calgary provides a good example. Alberta's southern big city is growing rapidly — almost one quarter of a million people have moved to Calgary in the last decade alone. Calgary is a dynamic city seen to offer a high quality of life. The city is not only an international player in the oil and gas industry, it appears to be quite successful in competing for capital and labour – it has one of the youngest and most highly skilled workforces in the country. Calgary also serves as a centre of innovation and is one of the most technologically "wired" cities in the world. By all accounts, Calgary seems to managing superbly. Other big cities across the West can point out similar advantages, if not even stronger ones. *So what is the problem?*

To begin with, appearances can be deceiving. Consider fiscal sustainability. A budget deficit is clearly visible in the form of a negative number on a government's income and expenditure statement. Unlike a clearly visible budget deficit, big cities are suffering from "hidden" deficits. Two examples immediately come to mind. First is the presence of municipal infrastructure "deficits." In 2003 alone, the six big cities in western Canada (i.e., Vancouver, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg) postponed over half a billion dollars worth of required infrastructure improvements and additions because of a lack of funding (Vander Ploeg 2003). Second, there is also the matter of property tax revenue "deficits." In the six big western cities, property tax revenues have failed to keep pace with population growth or inflation throughout the 1990s. The property tax relies on a narrow tax base often requiring a deliberate political decision to increase the tax rate to ensure adequate revenue. Raising the property tax rate always runs into considerable opposition, and evidence is mounting that our big cities are slowly starving for want of adequate revenues. Not only have real per capita property tax revenues been falling for all six big cities in western Canada since the early 1990s, but property tax revenues today, relative to total personal disposable incomes, are among the lowest they have ever been in the last 40 years (Vander Ploeg 2004a). In addition, per capita operating and capital grants for most big cities have yet to recover to levels received prior to the federal and provincial fiscal belt-tightening of the 1990s. All of these trends speak to a lack of fiscal sustainability in our big cities that is not readily apparent to the casual observer.

Second, it does not logically follow that coping today means coping in the future. Consider current demographic trends. Our big cities continue to draw the great bulk of population growth in the country, and so far they have managed to absorb it. But rapidly expanding populations in the face of revenues that fail to keep pace continues to press municipal services and infrastructure. This cannot be sustained in perpetuity. In short, a big city managing well today is no guarantee for that same city doing so in the future.

Third, the issue here should not be cast in simple terms of merely "coping" – it is about building sustainable big cities with a bright and prosperous future considering a range of quality of life factors. While some may be satisfied with our big cities limping along, getting off our laurels and working to build the best cities in North America – if not the world – provides a more inspiring vision.

In the first few years of the 21st Century, Canada has managed to record successes – balanced budgets, consistent year over year increases in GDP, low inflation, and significant expansion of exports to both existing and new markets. But growth and prosperity bring their own dangers – with complacency not the least among them. With oil hovering around $70 a barrel, it is not surprising that cities like Calgary and Edmonton, for example, appear to be doing well. But sustainability is about building resilience into our big cities on a "go-forward" basis. In the mind's eye of our big cities, there is a sense of crisis that has sharpened their outlook. Others may not share this sense. Yet it is during the "good" times when we can afford to take time and gauge whether we are "getting things right." Prosperity today is no reason to lay back. Rather, it is a time to reflect and seek out future opportunities.

It is here where the biggest question comes into view. Does the current legal, fiscal, and governance relationship between provinces and their big cities maximize the ability to take advantage of future opportunities and build our economic prospects? Or, is the current set of financial tools available to big cities and the legislative environment in which they operate working against better economic capacity and limiting our prospects in the years ahead?

It is important to understand that Canada's traditional comparative economic advantage has always revolved around ready access to an abundance of natural resources, an ample supply of, and reasonable costs for, medium-skilled labour, relatively cheap sources of energy, and proximity to the US market. These conditions favoured the building of a resource and manufacturing-based economy. But this is giving way – significant manufacturing activity has gone offshore and most of it will not soon return. As a result, "higher-ordered" producer services and activities that spin around knowledge and skills (e.g., idea generation and knowledge transfer, product engineering and design, prototype construction and testing), as well as the service industries that support those activities (e.g., financing, marketing, advertising), are becoming much more important (Beyers 1999).

Increasingly, the opportunities for our future economic success are tying in with the new global and knowledge-based information economy. In this economy, comparative advantage shifts to the big cities, which are home to the young, educated, and highly skilled workers demanded by this type of economy, as well as the capital, investment, and entrepreneurs that drive it. Big cities are not only the locus of research, development, and innovation, they also serve as the gateways to global trade.

Our big cities are critical to ensuring the overall prosperity of provinces, geographic regions, and the nation as a whole, and their importance will only grow. Our big cities are no longer just a place in which more and more of us live, they have become national assets and a key component of current and future comparative advantage. As the economy becomes increasingly tied to knowledge and highly skilled labour, and as the world becomes more interconnected globally, *local* conditions become more important. To compete internationally, Canada needs a high quality of life in its biggest cities to both attract and retain those who create and work in *"footloose"* industries – industries that can locate virtually anywhere in the world to do almost anything.

In many ways, international success starts at home, and a consensus is emerging in the policy community that bold steps are needed now to maximize the potential of our big cities to serve as a source of sustainable comparative advantage in the 21st Century. While compiling a detailed list of items that describe a sustainable big city is outside the scope of this effort, several factors do come to mind. At a minimum, sustainable big cities:

- *Have consistent levels and patterns of manageable urban population growth;*
- *Have a diverse and advanced economy with a highly-skilled workforce and numerous economic opportunities;*
- *Have an atmosphere and environment that are highly livable, affordable, safe, culturally vibrant, and socially-conscious;*
- *Are environmentally sensitive and responsible;*
- *Offer a quality package of municipal public services and infrastructure at an affordable price;*
- *Are economically competitive and offer a reasonable cost of living relative to incomes and conducting business;*
- *Are well-managed, appropriately and adequately financed, maintain a high quality of life, offer continually rising living standards, and effectively meet changing needs, new challenges, and local concerns and aspirations.*

SUMMARY: The current legal, legislative, and fiscal relationship between big cities and the provinces is not up to the economic and sustainability challenges of the present or the future. While it is impossible to predict that future with precise clarity, many are warning of a real threat that Canada's big cities will be more than literally left out in the cold. Economic success today, and even more so in the future, will require many things, and among them are sustainable, well-financed, and world-class big cities that attract and retain the best and the brightest. Future success means building big cities that can meet high expectations and lofty aspirations, as well as effectively and efficiently delivering a high quality package of municipal services and good quality infrastructure at an affordable price. Yet, Canada's big cities face a number of challenges in this regard. To meet these challenges and better position big cities for success in the future, a new big city-provincial partnership is needed.

ROADMAP TO THE DESTINATION: A New Partnership

Sustainability is more than a definition or a list of specific descriptors. Sustainability is also about *process.* Sustainability in the urban context is best achieved when it is locally determined and community-driven. A new partnership would drive big cities toward sustainable solutions to urban challenges by allowing them the freedom to experiment, and by unleashing their innovative capacity and expertise.

Urban sustainability cannot be maximized without a new intergovernmental dynamic between big cities and their respective provincial governments. This was the underlying argument behind the recommendations in *Foundations for Prosperity (see sidebar discussion on page 9).* Observers of the current relationship often note that it spins around an axis where provinces traditionally act as a senior level of government and big cities act as junior levels of government. From the urban perspective, a more apt description would be provinces acting as a separate order of government with municipalities acting as administrative units of that government. A new partnership between big cities and the provinces evolves beyond this traditional connection and reflects new economic, political, and social realities.

A defining feature of this new partnership is how it will create better and more positive conditions for big cities and the provinces to work in concert – *to partner* – in delivering public services to citizens, achieving economic, environmental, fiscal, and social sustainability, and creating a positive and constructive environment where individuals, entrepreneurs, business, and both big cities and provinces can pursue and meet their goals and objectives.

What is being suggested here is not merely a *changed relationship* between big cities and provinces, or even a new or different relationship. What is in view is a *partnership.* This partnership would enable big cities to better respond to the challenges they face, and also allow them to exert more control over their own destiny. A new partnership would see a province's big cities becoming better participants in sharing the responsibilities of providing public services to citizens. A new partnership would also allow big cities to better support and help implement critical provincial initiatives.

SUMMARY: As big cities can attest – and provinces also admit – the term *relationship* can very much imply a one-way street. Not so with a *partnership.* What is suggested, therefore, is a deliberate and highly conscious move away from what often appears to be a unilateral and relatively one-sided relationship to a bilateral partnership. In the end, this new big city-provincial partnership is all about allowing big cities to not only flourish in an increasingly competitive economic environment, but to also become more demographically, fiscally and socially sustainable. The new partnership is also very much about big cities better supporting provincial policy initiatives and becoming full participants in sharing the burden of political and economic leadership.

THE THREE CORNERSTONES OF A NEW PARTNERSHIP

The foundation of a new big city-provincial partnership rests squarely on a shared commitment to three separate, but related, cornerstones. Each of these individual cornerstones contains two elements. The first cornerstone envisions a formal mechanism for *consultation* and *consensus-building (CC).* The second cornerstone sees the partners committing themselves to increased local *autonomy* and *accountability* for exercising that autonomy *(AA).* The final cornerstone is a new *fiscal framework* between big cities and the provinces *(FF).* This new partnership is not inherently difficult to understand, and the *CC-AA-FF* formula provides a handy reference and reminder.

1. CC: Consultation and Consensus-Building

A new big city-provincial partnership creates a place at the policy table for the interests and concerns of a province's big cities, which then feed into provincial decision-making processes and procedures. A properly functioning partnership never allows one partner to unilaterally make decisions that will directly affect the other partner. Effective partnerships are more than one partner simply notifying the other partner that a decision is a *fait accompli* and they must simply "live with it." Decisions that will directly impact the big cities, decisions in areas of shared responsibility, and decisions to amend the enabling legislation for big cities are three specific areas where consultation and the building of consensus between both partners would be most beneficial. But, this cornerstone could also be expanded to other policy areas as well.

PRINCIPLES FOR A NEW PARTNERSHIP

Several provincial, national, and international organizations have worked to develop the basic principles behind local self government. Many of these principles speak to the three cornerstones of consultation and consensus-building, autonomy and accountability, and a new fiscal framework. One set of principles was adopted in 1993 by the *International Union of Local Authorities (IULA)* meeting in Toronto. The *IULA* serves as a global voice of cities, and several of their principles were adopted by the *Federation of Canadian Municipalities (FCM)* in 1998. The *Council of Europe (COE),* comprised of 46 European member countries, adopted several local government principles in 1985. Although distinct from the *European Union (EU),* membership in the Council typically precedes full membership in the *EU.* Closer to home, the *Union of British Columbia Municipalities (UBCM)* developed a *Local Government Charter of Rights* in 1993, elements of which were eventually reflected in British Columbia's 2003 *Community Charter* legislation.

1. CC: Consultation and Consensus

International Union of Local Authorities (IULA),
World Wide Declaration of Local Self-Government, June 1993:

"Local authorities shall have a reasonable and effective share in decision-making by other levels of government which has local implications." *(Article 3, Section 6)*

"Changes in local authority boundaries shall only be made by law and after consultation of the local community or communities concerned, including by means of a referendum where this is permitted by statute." *(Article 4, Section 2)*

"The right of local authorities to participate, in an appropriate manner, in framing the rules governing the general apportionment of redistributed resources shall be expressly recognised." *(Article 8, Section 6)*

Council of Europe (COE),
European Charter of Self Government, 1985:

"Local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly." *(Article 4, Section 6)*

"Changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute." *(Article 5)*

"Local authorities shall be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them." *(Article 9, Section 6).*

Union of British Columbia Municipalities (UBCM),
Local Government Charter of Rights, 1993:

"The Local Government Bill of Rights would recognize that the Province and local governments were partners in providing essential services to the public and include a commitment to consultation and cooperation, including the rights of local governments to guaranteed access to provincial decision-making, consultation on all matters affecting local government, an amending formula for local government legislation, joint decision-making in areas of shared responsibility, negotiation of conflicts, and ensuring local government jurisdiction is respected by provincial ministries, Crown Corporations, and agencies." *(Article D)*

2. AA: Autonomy and Accountability

International Union of Local Authorities (IULA),
World Wide Declaration of Local Self-Government, June 1993:

"Local authorities shall have a general right to act on their own initiative with regard to any matter which is not exclusively assigned to any other authority nor specifically excluded from the competence of local government." *(Article 3, Section 2)*

"Powers given to local authorities shall normally be full and exclusive. In so far as a central or regional authority is empowered by the constitution or by statue to intervene in matters for which responsibility is shared with local authorities, the latter shall retain the right to take initiatives and make decisions." *(Article 3, Section 4)*

"Where powers are delegated to them by a central or regional authority, local authorities shall be given discretion to adapt the implementation of legislation to local conditions." *(Article 3, Section 5)*

"Procedures for the supervision of local authorities shall be instituted only by the constitution or by statute. The supervision of local authorities shall normally aim only at ensuring compliance with the law." *(Article 7, Sections 1 and 2)*

Council of Europe (COE),
European Charter of Self Government, 1985:

"Local authorities shall, within the limits of the law, have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority." *(Article 4, Section 2)*

"Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy." *(Article 4, Section 3)*

"Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by the law." *(Article 4, Section 4)*

"Where powers are delegated to them by a central or regional authority, local authorities shall, insofar as possible, be allowed discretion in adapting their exercise to local conditions." *(Article 4, Section 5)*

"Any administrative supervision of the activities of the local authorities shall normally aim only at ensuring compliance with the law and with constitutional principles ..." *(Article 8, Section 2)*

Union of British Columbia Municipalities (UBCM), Local Government Charter of Rights, 1993:

"The Province would recognize local government as an order of government and be committed to maintaining a legislative framework to allow local governments full authority to meet community needs. The basic role of the provincial government and provincial legislation would be to enable local governments to meet community needs rather than supervising the way they do this..." *(Article A)*

"The Province would provide to local government in legislation, responsibility to manage all areas of community life except those areas that it or the federal government has occupied or specifically reserved. The Province would agree to respect areas of local government jurisdiction to the extent of provincial interest." *(Article B)*

3. <u>FF</u>: The Fiscal Framework

International Union of Local Authorities (IULA), World Wide Declaration of Local Self-Government, June 1993:

"Local authorities shall be entitled to adequate financial resources of their own, distinct from those of other levels of government, and to dispose freely of such revenue within the framework of their powers." *(Article 8, Section 1)*

"The allocation of resources to local authorities shall be in reasonable proportion to the tasks assumed by them. These resources shall be of a regular and recurring nature so as to permit uninterrupted public services and adequate financial planning. Any transfer of new responsibilities shall be accompanied by an allocation of the financial resources required for their fulfillment." *(Article 8, Section 2)*

"Taxes which local authorities shall be entitled to levy, or of which they receive a guaranteed share, shall be of a sufficiently general, buoyant, and flexible nature to enable them to keep pace with their responsibilities." *(Article 8, Section 4)*

"The provision of block grants, which are not earmarked for the financing of specific projects or services, shall be promoted. The provision of grants shall not justify any undue intervention in the policies pursued by local authorities within their own jurisdiction." *(Article 8, Section 7)*

Council of Europe (COE), European Charter of Self Government, 1985:

"Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers." *(Article 9, Section 1)*

"Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law." *(Article 9, Section 2)*

"The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks." *(Article 9, Section 4)*

"As far as possible, grants to local authorities shall not be earmarked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction." *(Article 9, Section 7).*

Union of British Columbia Municipalities (UBCM), Local Government Charter of Rights, 1993:

"A Local Government Bill of Rights would recognize that local government must be provided areas of taxation and revenue authority requisite to its responsibility. It would also ensure that when the Province wished local governments to take on new responsibilities they would be provided additional revenue sources." *(Article C)*

SOURCE: *International World Wide Declaration of Local Self-Government, International Union of Local Authorities (IULA), 1993; European Charter of Local Self Government, Council of Europe, 1985; Local Government Charter of Rights, Union of British Columbia Municipalities (UBCM), 1993.*

2. AA: Autonomy and Accountability

A new big city-provincial partnership must be predicated upon a deeply-held commitment to, and respect for, local autonomy and accountability for exercising that autonomy. With respect to this cornerstone, three items must be noted. First, it should be clearly understood that this is *not* about expanding the legal or legislative authority of big cities to encroach upon areas of provincial jurisdiction. Rather, this cornerstone is all about ensuring that big cities have the authority to decide, and the legislative freedom and independence of action to deal with, those matters *already* under their purview. Second, a critical element of this cornerstone is ensuring that big city governments are held *publicly* and *democratically* accountable for those decisions and actions. Finally, this cornerstone also speaks to other orders of government respecting and abiding by local government authority in those areas for which the big cities are responsible.

3. FF: A New Fiscal Framework

A new big city-provincial partnership also means a new fiscal framework where big cities have access to a wider range of tax tools and provincial tax revenue-sharing to deliver the public services that are being demanded by the local citizenry, or mandated to the city by the province. A properly functioning partnership does not have one partner requiring the other to carry out responsibilities for which that partner is insufficiently equipped – lacking the fiscal wherewithal to accomplish the task. Rather, a partnership has both parties working diligently in their areas of responsibility, both possessing authority to utilize the proper set of tools and resources, and both being held accountable for employing those tools and resources.

In many ways, the current debate over urban Canada has become quite narrowly focused on providing big cities with expanded financial resources. To be sure, this is certainly required. But while additional funding is *part* of the solution, it alone is not *the* solution. The new partnership in view here is not just about the fiscal issues, it is also about structural and governance concerns. Provinces simply providing more money is not only an unimpressive vision for the future, it alone cannot solve the sustainability challenge or empower the big cities with the tools they need to economically compete. This holds regardless of the amount of "fiscal candy" handed out. In sum, the matter cannot be reduced to just "another interest group" whining for more federal or provincial tax dollars.

SUMMARY: To ensure sustainable and economically vibrant big cities that provide a high quality of life, a new big city-provincial partnership is needed. This new partnership takes us beyond big cities always coming "cap-in-hand" to the province by putting in place three cornerstones: 1) a commitment to consultation and consensus-building; 2) enhanced local autonomy and accountability; and 3) a new fiscal framework. A new partnership has three broad areas in view – big city powers, governance, and financial resources. It is insufficient to change one or even two alone. All three cornerstones must be firmly placed at the foundation of a new partnership if that partnership is to have any real or lasting effect.

FOUNDATIONS FOR PROSPERITY

In September 2004, the Canada West Foundation published a discussion paper entitled *Foundations for Prosperity: Creating a Sustainable Provincial-Municipal Partnership to Meet the Infrastructure Challenge of Alberta's 2nd Century.* The paper made five recommendations to the Government of Alberta regarding a provincial-municipal infrastructure debt that could reach upwards of $6 billion. Implicit behind the recommendations are the three elements of a new big city-provincial partnership outlined in this paper:

- Albertans and their governments commit to eliminating the municipal infrastructure debt and its causes by 2015.
  (Cornerstone 1: Consultation and Consensus)
- An Alberta Municipal Infrastructure Council be established to focus and drive the commitment.
  (Cornerstone 1: Consultation and Consensus)
- By June 2005, the Alberta Municipal Infrastructure Council identify the optimal mix of infrastructure funding instruments drawn from three options: 1) A new set of tax tools for municipal governments; 2) A legislated framework for provincial revenue-sharing with municipal governments; and 3) A phased provincial withdrawal from the education property tax.
  (Cornerstones 2 and 3: Autonomy, Accountability, and a new Fiscal Framework)
- The Government of Alberta, in partnership with municipal governments, take the lead in establishing the principles and mechanisms for the Government of Canada's potential engagement in municipal infrastructure funding.
  (Cornerstone 1: Consultation and Consensus)
- These new funding instruments be given legislative effect by December 2005.
  (Implementation of Cornerstones 1, 2, and 3)

SOURCE: *Foundations for Prosperity, Canada West Foundation, 2004.*

TWO IMPORTANT CAVEATS

Before moving to the rationale behind a new big city-provincial partnership, it is first important to note that the arguments in this discussion paper intentionally speak to the West's six big cities – Vancouver, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg. This is not meant to imply that it is only the big cities that need a new partnership – all municipalities, along with national and provincial urban and rural municipal associations, have long criticized the lack of formal statutory requirements for consultation, legislative restrictions on local decision-making authority, and long-standing provincial limitations on local taxing powers to provide the services being demanded by citizens.

In fact, the broader relationship between provinces and all types of municipalities has been strained for some time – marked by suspicion and an adversarial tone as opposed to a spirit of partnership in public service. Because there remain significant interdependencies between provinces and municipalities with respect to many service spheres, the broader relationship between provinces and all municipalities likely needs repair if a more cooperative atmosphere is to prevail.

While the broader provincial-municipal relationship is important, big cities are the focus of this report – the demographic and economic importance of the West's big cities makes them the obvious place to start in terms of constructing a new partnership with the provinces. The degree to which the arguments in this report apply to other municipalities will be explored in the forthcoming Canada West Foundation research study entitled *Apples and Oranges? Urban Size and the Municipal-Provincial Relationship.*

Second, we are very mindful that a singular focus on a new partnership between big cities and the provinces gives rise to other questions outside the scope of this effort. For example, the boundaries of many of today's big cities do not always correspond with what is a much larger city-region. Is there a role to be played by outlying municipalities that surround a big city in a new big city-provincial partnership? If so, what is that role? While these questions are important, they detract from the primary purpose of this study. As such, they are arguably better left for another day.

A NEW PARTNERSHIP: Broad Themes

The quest for urban sustainability, the strengthening of economic competitiveness, and keeping the door open to future opportunities is our final urban destination. Together, these form a hardy frame on which to hang the larger rationale for a new big city-provincial partnership, and as one proceeds through the detailed reasoning behind each cornerstone, these themes continually emerge. But there are three other themes as well – themes that also help pull together the more specific arguments.

1) *We need to concede that the world has changed, and it will continue to change.*

The existing relationship between provinces and municipalities is largely based upon assumptions and presuppositions that go back well over a century. In many ways, these assumptions no longer work – invalidated by time, circumstance, and happenstance. Prior to Confederation in 1867, Upper and Lower Canada were united by the 1841 *Act of Union,* which provided the two colonies with responsible government. One of the major pieces of legislation to emerge at that time was the *Baldwin Act* of 1849, which established the role, function, and structure of municipalities. A defining feature of the *Baldwin Act* was its prescriptive nature – it outlined precisely and specifically what municipalities could and could not do. While the *British North America (BNA) Act* of 1867 gave provinces jurisdiction over local government affairs, most provincial statutes enabling local governments still derive their essence from the older *Baldwin Act.*

Since the mid-1800s Canada has evolved politically, economically, demographically, and socially, but our big cities are stuck in a 150 year old "time warp." For example, the basics of the current provincial-municipal relationship hark back to a time when Canada was a rural nation – in 1867, only 20% of Canadians lived in urban areas. Today, over 80% of Canadians are urban in at least some sense of the word, and two-thirds live in one of 27 large urban areas.

To be sure, recognition of this one simple fact alone is an insufficient basis upon which to argue for the altering of the basic provincial-municipal connection. But other evidence of a changing world is rapidly accumulating as well. What is more, much of that evidence is just the tip of a much bigger iceberg floating underneath the urban surface.

THE RISE OF THE MODERN CITISTATE?

In reference to their growing importance as economic drivers and determiners of social health and quality of life, today's big cities are increasingly referred to as "citistates." The notion of the modern citistate was coined in the early 1990s by the *Citistates Group* – a US-based network of journalists and civic leaders focusing on how to build competitive, equitable, and sustainable 21st Century cities. The following excerpts (paraphrased from the *Citistates Group's* web site) summarizes the group's views regarding the importance of large city-regions, and why "getting them right" is so critical.

"**Citi•state** – *sitistate* – n. A region consisting of one or more historical central cities surrounded by cities and towns which have a shared identification, function as a single zone for trade, commerce, and communication, and are characterized by social, economic, and environmental dependence. *[Hist.* Similar to city states of antiquity (e.g., Athens, Rome, Carthage) or medieval times (e.g., the Hanseatic League) except that modern citistates engage in instant electronic communication and capital transfer and are the chief recipients of world population growth.]"

Throughout the 1990s, the rapid flowering of the Internet and the digital revolution accelerated economic expansion and triggered more global commerce. Both of these trends have vastly increased the importance of cities. The challenge of the 21st Century is to harness these forces. To compete in the new global economy, cities are becoming citistates. They are mobilizing all their skills to protect themselves – to grow smarter, protect their air and water, achieve more social equity, and offer the highest quality of life possible. It is only with these tools that cities can secure the skilled workforce they need to excel in an increasingly competitive world marketplace.

A citistate is not defined by political boundaries. Rather, it is organic. A citistate is simply a reality – a labour market, a commuter shed, a broadcast area, the circulation area of the lead newspaper. A citistate is what the economy does. The world's modern citistates are great metropolises – New York, Tokyo, Paris, Hong Kong, Los Angeles, and their competitors spread around the globe from Chicago to Singapore. Every metro area that is set apart geographically – whether Houston or Calgary, Denver or Boise, Saskatoon or Fargo – qualifies as a citistate.

The concept of the modern citistate may have made little sense under the old debates and paradigms of the past, largely defined by political boundaries – federal, provincial, and local. But, citistates have emerged as the centrepiece of a new political and economic paradigm – one that is global, regional, and closely tied to the concept of neighbourhood. Increasingly, citistates are becoming the focus of how our world is organizing itself.

SOURCE: *Paraphrased by CWF from the Citistates Group. (For more information, visit www.citistates.com.)*

2) The special circumstances and unique role of big cities must be recognized and addressed.

There are obvious differences between big cities and small towns, villages, and rural municipalities. While less intuitive, there are also differences between big cities and more moderately-sized cities. At first glance, the differences here appear less clear since both types of cities can experience similar issues and pressures. But the sheer size, scope, and complexity of big city issues does distinguish them. Further, even if the two types of cities share similar issues, it does not logically follow that the answers to those issues are the same. There are even distinctions to draw between individual big cities themselves. Cities are complex entities – no two are the same either in character or needs, and needs often differ between big cities at different points in time. In short, there is obvious differentiation between urban and rural, but also differentiation within the urban category as well.

The reality is we really have four types of urban centres – the *marginally* urban (e.g., small towns and villages that often appear more rural than urban), the *somewhat* urban (e.g., medium-sized towns and small cities), the *very urban* (e.g., medium to larger-sized cities), and the *hyper-urban* (e.g., big cities surrounded by a metro area, and whose reach extends far past the city limits to impact entire provinces, regions, and even the nation as a whole).

In the end, all municipalities do not share the same *de facto* reality. Yet, they tend to share much the same *de jure* status. A real flaw in the current provincial approach to municipal affairs is the desire to drive sameness. A new big city-provincial partnership is all about finding a way to bring the *de jure* status of big cities in sync with the *de facto* reality – what some are now calling an age of the emerging modern *citistate (see sidebar discussion).*

3) Western Canadians have an unparalleled opportunity to take the lead on a critically important policy issue.

Western Canada has the reputation of being one of the most innovative regions in Canada when it comes to devising public policy. This also holds with respect to accommodating the new urban reality. The western provinces have not entirely lent a deaf ear – tentative steps have been taken on the three cornerstones of a new big city-provincial partnership. For example, the new

Community Charter in British Columbia recognizes municipalities as a distinct order of government – the only province in Canada to do so – and also includes a commitment for provincial-municipal consultation on matters affecting local governments as well as the amending of local government enabling legislation.

The four western provinces have also amended their municipal enabling legislation to provide for increased local autonomy. As already noted, the traditional way of organizing municipal governments and enunciating their powers is to enact a statute (typically called a *Municipal Act* or *Municipal Government Act)* that details the specific areas in which municipalities may enact local bylaws. This is the traditional *"Baldwin Model."* All western provinces have abandoned this prescriptive method and have moved to a *"spheres of jurisdiction"* approach where local governments have the right and responsibility to operate in broad policy areas rather than specifically enumerated areas (Lidstone 2004).

Three of the four western provinces – British Columbia, Alberta, and Saskatchewan – have gone even further by granting municipalities *"natural person powers."* This endows municipalities with the same legal status as a corporation, and allows them more latitude than under the traditional granting of conditional corporate powers (Lidstone 2004). Municipalities in these provinces can now employ a wider variety of policy tools such as establishing subsidiary corporations, creating nonprofit organizations to deliver services, and entering into public-private partnerships (PPPs or P-3s).

A number of big cities in the West also enjoy a somewhat separate formal existence from other municipalities. For many years, the City of Vancouver was the only big city in the West with any formal special status (the *Vancouver Charter* has been in play since 1953). But in 2002, the province of Manitoba implemented the *Winnipeg Charter,* which provides separate enabling legislation for that city, and thus, almost 80% of Manitoba's urban population.

With respect to taxing authority, western Canadian municipalities are still limited to the property tax. Only Manitoba municipalities have access to any other significant taxing authority, including selective sales taxes on lodging, restaurant meals, liquor, and a land transfer tax. However, there has been more movement with respect to provincial tax revenue-sharing. In Manitoba, the province has always shared 2.2% of its personal income tax revenue and 1.0% of its corporate income tax revenue with municipalities, but it now shares a portion of provincial video lottery terminal (VLT) revenue as well. In 2000, the province of Alberta began sharing 5¢ per litre of its 10¢ provincial fuel tax on each litre sold in Edmonton and Calgary. In British Columbia, Vancouver receives 10% of casino profits generated in the city and the province has also committed to sharing 75% of traffic fine revenues. The Vancouver area regional transit system – *Translink* – is funded in part by a provincial fuel tax as well as a portion of the general provincial sales tax on parking. The fuel tax generated $252.3 million for *Translink* in 2004 alone.

The western provinces should be congratulated on these initial steps. Not only have the changes sparked interest and attention across the country, the changes demonstrate at least tacit recognition of the need for a new big city-provincial partnership. But more needs to be done. No province has sufficiently implemented all three cornerstones of a new big city-provincial partnership.

Alberta, Saskatchewan, and Manitoba still have no formal consultation provisions within their MGAs – consultation is sporadic and *ad hoc.* Recent changes do provide for more autonomy, but only formally and theoretically – not only was the *"spheres of jurisdiction"* approach challenged in the courts, but some point out that the practical implications have really been quite limited *(see sidebar discussion on page 13).* While Vancouver and Winnipeg have their own charters, there is no distinction drawn for the two big cities in Alberta, and Saskatoon and Regina are lumped in with a number of other cities in Saskatchewan's new *Cities Act (2002).* Finally, all municipalities in the West face significant restrictions on their authority to raise tax revenue. While municipalities in Manitoba can formally diversify their tax system, provincial approval is still required. With the exception of Manitoba, the most elastic and economically buoyant taxes are generally excluded in any of the recently improved provincial tax revenue-sharing formulas, and the two big cities in Saskatchewan currently have no tax revenue-sharing at all.

Access to the proper set of tax tools is required if any increased autonomy and local accountability are to be realized. Although the Alberta MGA – the first to employ a *"spheres of jurisdiction"* approach – was touted as the arrival of a new municipal world, it has not really delivered. To be sure, the new *"spheres of jurisdiction"* approach has cleared up processes and procedures. The old paradigm held that municipalities could only do what they were allowed to do. Now, there is a new paradigm where municipalities are more free to do what they both need and want to do within broad areas of authority. This change, while positive, falters on increased accountability and autonomy if only because the revenue-raising capacity of municipalities remains tightly controlled, regulated, and limited to the property tax.

In western Canada, the cornerstones of a new partnership have been identified and even leveled at the base of the foundation. But, they need to be cemented into place. Herein lies the opportunity. The slogan *"The West Wants In!"* has long identified the West's historical aspirations for political, electoral, and institutional reform, as well as securing a national voice. But today, it is very much ideas, innovation, and creativity that drive success and position leadership. The western provinces have here an opportunity to create their own national voice not by waiting for Ottawa to act or the other provinces to listen, but by continuing the drive to renew the provincial-municipal relationship, and signing on to a new big city-provincial partnership. The opportunity here is very much about making western Canada the best governed region in the country, the best positioned for future economic success, and the region with the highest standard of living, the highest quality of life, and the most vibrant big cities. In this way, the West can revolutionize Canada – but it does so by making fresh policy choices at home, knowing that if we succeed the rest of the country will follow. On the issue of provincial-municipal relations, the baton has been handed to the West. Instead of dropping it or even handing it back, we need to run with it.

SUMMARY: Consultation and consensus, enhanced autonomy and accountability, and a new fiscal framework each have their own unique and detailed rationale. The difficulty is not in uncovering specific arguments – the reasons for change are many. Rather, the difficulty comes in ordering the points to form an over-riding argument that is easily understood and that can carry the burden of proof for change. This burden of proof is met when considering the overwhelming impact of the specific arguments taken as a whole. Running through these more detailed arguments are several unifying themes, including the need for sustainability, the link between big cities and future economic potential, the fact that the world has changed presenting big cities with unique challenges, and moving ahead now confers national leadership upon the West. In short, there is not just one reason for change – not just one argument to be made. While skeptics can always discount specific arguments, this does not seriously weaken the force of the larger rationale.

RECENT LEGISLATIVE CHANGE AND ITS IMPACT

The jury has yet to issue a verdict on the overall impact of recent amendments to municipal enabling legislation. Some are optimistic, while others remain skeptical. In 2002, Dr. Edward Lesage of the University of Alberta and Dr. Joseph Garcea of the University of Saskatchewan delivered a paper entitled *Canadian Municipal Reforms: An Overview and Preliminary Assessment* at the "*Cutting Edge of Change*" conference at the University of New England. According to Lesage and Garcea, many of the changes may amount to little more than window-dressing:

"While these innovations represent a departure from past practice, they have not amounted to a radical augmentation of municipal powers, or a radical transformation in the relative powers of municipal governments and their respective provincial governments. Municipal governments continue to have relatively circumscribed governance and management powers..."

"We cannot declare that municipal governments have much more capacity than they had prior to the reforms despite all that has been undertaken. Laments of problematical structures and problematical alignments of functions, finances, and powers are still heard..."

"Regardless of whether such realignment was actually achieved, there is little to suggest that any of the reforms have had a major effect on the traditional nature of the provincial-municipal relationship either in terms of its form or in terms of its dynamics. The basic form of the provincial-municipal relationship is not substantially different today than it was a decade before. The fundamental nature of the 'superior-subordinate' relationship between municipal governments and their respective provincial governments is still essentially unchanged..."

SOURCE: *Canadian Municipal Reforms: Overview and Preliminary Assessment by Edward C. Lesage and Joseph Garcea.*

CC: WHY CONSULTATION AND CONSENSUS DECISIONS?

1. THE PROBLEM

Currently, most provinces have no formal statutory requirements in their *Municipal Government Acts (MGAs)* or their various city charters to consult with local government on changes either to municipal enabling legislation or on other matters that directly impact big cities *(see sidebar discussion on page 14)*. In western Canada, the BC *Community Charter* is perhaps the only exception to this broader rule. While provinces and big cities can always engage in *ad hoc* consultation efforts, the historical record on this is spotty at best.

CONSULTATION IN WESTERN PROVINCIAL MUNICIPAL ENABLING LEGISLATION

In 2004, the *Federation of Canadian Municipalities (FCM)* commissioned a study to review provincial municipal government statutes across Canada. Of the six criteria employed in this evaluation, three spoke to issues of consultation: 1) consultation on policy matters affecting local government; 2) consultation on amendments to local government enabling legislation; and 3) joint decision-making in areas of shared responsibility. This analysis of the provincial legislation affecting big western Canadian cities revealed the following:

1) Consultation on Matters Affecting Local Government:

- *British Columbia (Community Charter, 2003):* The minister must consult with municipalities on any changes to provincial grants. Any amalgamation of municipalities cannot be undertaken without a vote in each municipality. The minister and the *Union of British Columbia Municipalities (UBCM)* may make an agreement to consult on any matter, and if the *UBCM* requests, the minister must negotiate an arrangement and make reasonable efforts to reach agreement on the matter. Here, municipalities may seek enforcement of such obligations in court. A dispute resolution provision is also in place.
- *Alberta (Municipal Government Act, 2000):* The Act provides for no formal consultation, but states that the province may consult with respect to a change in a municipality's status. The Act stipulates the province must notify, but not consult, regarding amalgamation or dissolution of a municipality.
- *Saskatchewan (The Cities Act, 2002):* The Act provides for no formal consultation, but a consultative forum has been established, and the minister must consult with municipal councils before altering municipal boundaries.
- *Winnipeg (City of Winnipeg Charter, 2002):* The Act provides for no formal consultation, but the province traditionally consults on some matters. There is ongoing discussion on this issue with respect to a second phase for the Charter.

2) Consultation on Amendments to Enabling Legislation:

- *British Columbia (Community Charter, 2003):* Before the province proposes an amendment, it must consult with the *UBCM* by providing information on the changes and allowing *UBCM* time to consider the changes and make submissions. The minister is to consider and respond to these submissions.
- *Alberta (Municipal Government Act, 2000):* The Act provides for no formal consultation, but the province is consulting with municipal associations on an amendment management plan. There is a "Memorandum of Understanding" with Calgary and Edmonton.
- *Saskatchewan (The Cities Act, 2002):* The Act provides for no formal consultation, but cities could arguably employ the consultative forum that has been established for purposes of input into any changes to the province's municipal enabling legislation.
- *Winnipeg (City of Winnipeg Charter, 2002):* The Winnipeg Charter was developed in provincial-municipal partnership. The next phase is to be undertaken on the same basis. This may imply a *de facto* precedent for a consultative approach to future amendments.

3) Joint Decision-making in Areas of Shared Responsibility:

- Joint decision-making in areas of shared responsibility was recently informed by the Supreme Court in *Spraytech v. Hudson, 2001*. In this case, the town of Hudson, Quebec banned the use of certain pesticides in town limits. The Court ruled that even though the federal and provincial governments had passed legislation on pesticide manufacture and usage, the town was still within its rights to pass a by-law banning pesticides as long as the by-law did not conflict with the federal or provincial legislation.
- *British Columbia (Community Charter, 2003):* The Act includes five areas of concurrent responsibility where joint decision-making is possible. These areas include health, building standards, environment, wildlife, and soil removal or deposit. The Act also codifies the principles outlined in *Spraytech v. Hudson*.
- *Alberta (Municipal Government Act, 2000): Spraytech v. Hudson* currently applies to municipalities in Alberta.
- *Saskatchewan (The Cities Act, 2002): Spraytech v. Hudson* currently applies to municipalities in Saskatchewan.
- *Winnipeg (City of Winnipeg Charter, 2002): Spraytech v. Hudson* currently applies to municipalities in Manitoba, including Winnipeg.

SOURCE: *Assessment of the Municipal Acts of the Provinces and Territories, Donald Lidstone, 2004.*

Yet, if there is one brute fact about all federal countries, it is that the actions and decisions of one order of government often impact other governments. The idea behind this critical cornerstone of a new big city-provincial partnership is to formalize consultation as a springboard to better government. Not only is this cornerstone dedicated to achieving better coordination of provincial-municipal services and programs, it is very much about including those actors who are closest to the issues of long-term sustainability and emerging economic opportunities.

2. THE ACTION TO TAKE

Regarding this cornerstone, there are two questions that need to be decided. First, what form should consultation between big cities and their respective provinces take? In other words, what kind of consultation is envisioned? In probing this question, one becomes immediately aware of a wide spectrum of choices, from simply soliciting views that can be ignored to full-blown joint decision-making where each partner exercises a veto. On the one hand, a new partnership must logically extend beyond mere consultation to incorporate some form of joint decision-making, particularly on changes to municipal enabling legislation and other important issues that directly affect big cities. But on the other hand, there are clear limits of practicality here. Common sense tells us that opposition from one interest alone should not stall decisions indefinitely. The key, then, is finding a way to open the door to the many benefits that consultation provides, while avoiding the potential problem of legislative gridlock.

What is needed here is the middle ground. Provinces would seek out the expertise of big cities when major initiatives are being crafted and the big cities would have “a seat at the table” when important decisions affecting them are being decided. This allows for the building of consensus – decisions that may not always entirely please, but decisions with which everyone can better live regardless of the degree of opposition initially expressed about those decisions. When provincial policies that impact on big cities are debated and discussed, “a seat at the table” serves as a vehicle for big cities to constructively *influence* a final decision, but never to unilaterally *direct* it or even *prevent* it. There is a big difference between the two. In short, the middle ground approach “squares the circle” by going beyond mere consultation but stopping well short of granting big cities a veto. At a minimum, this approach rids big cities of a recurring irritant and a constant complaint – being continually surprised by provincial actions. At a maximum, this approach can effectively tap the expertise of big cities and lead to better public policy.

A “seat at the table” is all about process. It fashions legislative outcomes that are perceived as being more fair simply because the concerns, priorities, and knowledge of the partners have been discussed and factored into decision-making. If both partners sense their views are being considered, it makes decisions easier to live with even if one disagrees with them.

The second question is more difficult to answer. How can consultation and consensus decision-making be legislatively prescribed? Constitutionally, the provinces are under no obligation to consult with anyone – nothing can bind a legislature acting in its sphere of authority. Thus, any commitment on this matter short of a constitutional guarantee will always be dependent on the good will of the province – a provincial government may commit to consultation today, but if the political winds begin blowing differently, that commitment could fall by the wayside. Writing consultation into enabling legislation may give it more staying power, but in the end, the entire matter is very dependent on intent and motive. What is needed, then, is a political recognition on the part of the provinces that consultation and consensus is a better *modus operandi.* Provinces that avoid consulting with big cities do so at their peril, and may be missing opportunities to develop policies and programs that better speak to the issues and also address certain nuances of which they may be unaware. In getting to this point, provinces need to understand the benefits that consultation and consensus decision-making offer.

3. THE RATIONALE

1) Consultation, coordination, and consensus are basic to any partnership, and would do much to remove the spirit of negativity that often pervades the current relationship: Provincial and federal governments both develop policy on social and economic issues, and their actions often have a significant impact upon big cities. In a partnership, provincial decisions (whether made alone or in tandem with the federal government) should not come as a complete surprise to big cities, who are then simply left to deal with the fallout. By removing the element of surprise, big cities will be better able to effectively and efficiently prepare themselves for new decisions and directions if only because they have had a measure of input. The 1990s are littered with examples of federal and provincial “policy grenades” that could have been avoided, or at least ameliorated. They include federal and provincial downloading (i.e., intentionally delegating responsibility for a policy area to big cities) and offloading (i.e., simply vacating a policy field). More recent examples include an attempt by the province of Alberta to reduce the fuel tax revenue-sharing agreement with the Cities of Calgary and Edmonton. A commitment to consult, to seek consensus, and build decisions around a shared sense of purpose would do much to remove the negativity surrounding current relations between big cities and their respective provincial governments.

2) Consultation leads to more predictability in the policy environment: Compared to the federal or provincial governments, planning horizons for big cities are relatively long, particularly with respect to such matters as land use issues, environmental remediation, and major infrastructure projects. A lack of consultation can render such long-term planning irrelevant, and snap provincial decisions that take off in new directions can leave big cities "flat-footed." As such, consultation and coordination of policies and decisions make government planning more effective and efficient. It removes the element of surprise by putting an end to *ad hoc* decision-making.

3) Consultation and consensus decision-making give a huge legitimacy boost to provincial government action: In the last 20 years, governments have begun to understand that major policy initiatives undertaken without consultation will often become targets of significant opposition, and doom themselves to failure. Governments now consult regularly with stakeholders, and even the public at large. Such efforts in the past range from large scale public consultation (e.g., economic summits, constitutional conferences) to efforts that are more limited in scope (e.g., pre-budget conferences). Consultation and consensus decision-making ensure a "buy-in" from the start and bring huge leaps in legitimacy of action that can short-circuit political opposition. Provinces need to realize that there is a benefit waiting here for them. Consensus decision-making recognizes the value of engagement – from local communities, a broad group of stakeholders, and even the public at large.

4) Consultation and consensus decision-making recognize the high degree of interdependence between big cities and the provinces, and seek to better manage that interdependence: Many previous discussions around provincial-municipal relationships were based on the implicit assumption that both governments genuinely understand their respective roles and responsibilities, and that these could be sorted out. Examples of such provincial-municipal initiatives include the *"Who Does What"* initiative in Ontario and the *"Roles, Responsibilities, and Resources"* initiative in Alberta. While the intent behind these initiatives is laudable, the numerous responsibilities that cross political jurisdictions and the high degree of interdependence between big cities and the provinces makes it very difficult – nigh impossible – to create government "silos" operating in "water-tight" areas of responsibility. As noted by many, such initiatives have not traditionally met with success (Kitchen 2000). Consultation, coordination, and consensus decision-making recognize this interdependence and do not seek to undo it according to some unrealizable ideal. Rather, they seek to manage the interdependent nature of the big city-provincial relationship. Even if sorting out the myriad public duties between big cities and the provinces were possible, it still holds true that action by one government affects other governments, even if the responsibilities involved are entirely different. For example, an action in social services policy at the provincial level can directly affect the costs of municipal policing.

5) Consultation, coordination, and consensus-building are arguably much more critical for big cities simply because the degree of interdependence with the province is greater, and the linkages more complex: Here is a basic political difference between big cities and other types of urban or rural municipalities. Big cities do not simply offer more of the same services than other urban municipalities, they offer a much wider range of services as well. A higher degree of interdependence is fuelled by the fact that big cities are required to play a significant role in a number of provincially-mandated areas. Examples include:

- *Health and safety:* Big cities house the most advanced medical care available and are typically home to a province's regional hospitals and university medical facilities. In the past, many also owned and operated their own hospitals, and today, some big cities still participate in funding them. Most big cities provide a range of community health programs and are also engaged in ambulance and paramedic services. Big cities and provinces jointly provide for public safety, emergency and disaster preparedness, search and rescue, and community health and wellness.

- *Education:* Big cities are typically home to a province's largest colleges and universities, trade and vocational schools, centres of excellence, and research parks and facilities. Quality of life in our big cities is no small factor in drawing the nation's best and brightest, and also top-notch international minds, to attend a province's post-secondary institutions and contribute to building its skilled labour force. Many big cities are also directly engaged in education-related services from providing pre-school and play-school programs, to after school care and even hot lunch programs.

- *Social services:* Many of Canada's socio-economic challenges (e.g., immigration and immigrant settlement, urban Aboriginals, poverty, homelessness, affordable housing) and social problems (e.g., illicit drug-use, prostitution, crime, gang violence), land squarely in our largest urban centres. As a result, big cities naturally have a much higher level of concern with these kinds of issues and any federal or provincial response – or lack of response – to them. Further, big cities typically deliver a number of community-based social services that are not delivered by smaller municipalities, whether providing affordable housing programs, operating public housing corporations, granting public funds to nonprofit organizations, or running hospices, homeless shelters, and drop-in centres. Our big cities have become quite concerned with general poverty mitigation and social equity issues for a number of reasons. The presence of such issues clearly hits on quality of life, and any failure to address them carries financial ramifications that ripple throughout the entire operation at city hall.

- *Transportation:* Big cities are critical components of the provincial transportation network. They often house international airports, and own and operate their own municipal airports as well. The big cities provide a wide range of public transit, from traditional busing to light rail to specialized transit for the handicapped. Big cities are the all-important hubs of transportation – housing critical rail links and the majority of warehousing – and thus play no small role in the export sector that drives Canada's economic prosperity and our standard of living. When assessing whether or not to set up shop in a particular city, businesses report that access to quality transportation systems is a top consideration. One 1997 study found that the second most important location factor, after the costs of labour, was highway accessibility (BDO Dunwoody and Associates 1998).

- *Utilities and telecommunications:* Big cities are also central to the emerging global knowledge economy, owning and operating systems and facilities that aid in the storage, transportation, and exporting of ideas and information. Big cities have always been heavily involved in modern communications either by, for example, owning their own telecommunications systems and fibre-optic networks, or operating their own electrical transmission and distribution systems.

- *Environment:* In the last 20 to 30 years, Canadians have joined others across the globe in becoming increasingly concerned with issues of environmental integrity. The footprint of a big city on the surrounding natural environment means a heightened sensitivity to environmental concerns, especially since it is the big cities that are drawing the greatest bulk of population growth and the pollution issues that accompany it. Issues such as environmental remediation and hazardous waste management are huge concerns for big cities. Big cities are also becoming the leaders on new environmental technologies such as alternative fuels and advanced transit technology (e.g., light rail powered by wind-generated electricity in Calgary and buses using canola-based oils to supplement diesel fuel in Saskatoon). Growing public concern and the innovations that are already occurring in our big cities mean that tighter and more complex links on environmental issues will have to be established with the provinces in the future. This is especially the case since it is suspected by many that our big cities will be the focus for implementing Ottawa's commitment to the Kyoto protocol.

SUMMARY: A new commitment to consultation, coordination, and consensus-building is vital and recognizes that many of the concerns facing our big cities have a clear provincial connection (e.g., provincial responsibility for transportation and the lack of funding for municipal transportation infrastructure). It also recognizes that many of the issues facing our big cities have their roots in much broader socio-economic causes that are not related to the historical core function of municipalities. The effects of these socio-economic challenges flow over to the big cities and run down their streets, impacting policing, public safety and protection, fire service and ambulance, community social services, and even recreational and facility planning.

For example, the City of Regina reports that up to 40% of all municipal fire calls and 50% of all police calls are in inner-city neighbourhoods suffering from social problems. If provinces are unaware of these issues or cannot see fit to act, should big cities simply stand by and wait? Is that the right approach? Does that strengthen urban quality of life or help us build world-class and competitive big cities? Consultation and consensus-building provide a process for big cities and the province to seek answers together, partnering to take on these challenges in a coordinated fashion that hopefully leads to better results.

AA: WHY AUTONOMY AND ACCOUNTABILITY?

1. THE PROBLEM

All municipalities, big cities included, are creatures of the province – every province structures its formal relationship with its municipalities through some type of enabling legislation. With respect to the local decision-making power of our big cities, these enabling acts have two fundamental shortfalls. First, they tend to treat all municipalities the same – a real flaw in the current system of provincial interest in municipal affairs is the desire to drive "sameness." Second, provincial MGAs can be quite prescriptive, outlining both what a municipality can and cannot do, and how they are to do it. The degree to which this occurs differs between provinces, but the reality cannot be denied that municipalities still operate in a highly regulated environment, even with regards to matters that are quite local in nature.

2. THE ACTION TO TAKE

The idea behind this cornerstone is to allow a province's big cities more latitude with respect to matters already within their jurisdiction – to loosen the provincial reins. This cornerstone not only acknowledges the differences between various municipalities, it also recognizes the inherent value of local government control.

From a big city perspective, this cornerstone envisions two actions. First, a province's big cities would no longer be subject to the same legislative provisions and/or restrictions governing rural and smaller urban municipalities. Separate enabling legislation – whether a city charter or a special governance act – would set out the parameters wherein the big cities operate. Second, provincial oversight of big cities would convert from the current approach of "command and control" to an approach marked by expanded opportunities for provincial-municipal communication and municipal reporting to the province.

Clearly, much of this cornerstone revolves around the notions of *responsibility* and *accountability.* It is important to note that local autonomy is not being unleashed here without a measure of corresponding accountability. Currently, municipalities are among the most accountable of governments – they operate under *"dual accountability."* Big cities are responsible to their citizens through regular elections *and* to the province by abiding with the MGA and other provincial statutes. In *Foundations for Prosperity,* the Canada West Foundation suggested the creation of a *Provincial-Municipal Council* as one possible way to preserve the provincial interest in municipal affairs and also allow for regular reporting on matters such as the usage of unconditional grants. This cornerstone, then, envisions more autonomous big cities that are accountable, but that accountability has been modified – the provincial interest is no longer carried out through "command and control" tactics via enabling legislation but through regular city-provincial communications, reporting, and even auditing.

Change on this front can occur on two levels – the *formal* and the *informal.* As already noted, there has been movement regarding the formal aspect simply by virtue of recent changes to western provincial MGAs. But the informal – the practical and day-to-day workings of the big city-provincial relationship – is even more

SYSTEMIC URBAN FINANCE REFORM

In *Framing a Fiscal Fix-Up (2002)* and again in *No Time to be Timid (2004),* the Canada West Foundation recommended to big cities a five point plan to better position themselves for financial and competitive success. The five options include:

- *A stronger focus on core priorities or better squaring current urban responsibilities with appropriate fiscal resources;*
- *Where possible, move away from the centralized financing of services and begin correctly pricing municipal services;*
- *Improve effectiveness and efficiency through alternative or competitive service delivery;*
- *Implement new approaches such as public-private partnerships; and*
- *Secure new tax tools and the freedom to innovate.*

These five options serve as a comprehensive agenda for municipal finance reform, and thus, should be pursued as a package. The Foundation has always stressed three aspects with regard to this reform agenda. First, none of the five items can be accomplished without at least a modicum of increased local autonomy and accountability. Second, none of the five items can be moved ahead without provincial involvement and a re-ordering of the current big city-provincial relationship. Third, the benefits of each component, and the attractiveness of the agenda as a whole, enjoy a general and fairly wide-spread consensus among the urban policy community.

SOURCE: *Canada West Foundation (Framing a Fiscal Fix-Up, 2002 and No Time to be Timid, 2004).*

important. The administration of provincial grants provides a good example. Since the early 1990s, unconditional operating grants were reduced dramatically. For most big western cities, the bulk of their operating and capital grants are now conditional, and must be used for purposes and projects that the province has approved. So while MGAs formally offer big cities more independence of action, the irony is that the granting system is more tightly controlled than before. The concern here is not only about providing big cities with a formal measure of independence or recognition as a separate order of government – it is also about the general provincial attitude as it hits on the more practical day-to-day issues.

3. THE RATIONALE

1) Increased autonomy and local accountability modify and adapt the provincial interest in urban affairs to fit new circumstances: Currently, the provincial interest in urban affairs is largely based upon the 1849 *Baldwin* model – provincial powers over municipalities are reserved and protected through a set of commands and controls. That is an outdated paradigm. The real provincial interest today lies in ensuring that its big cities thrive – that they are working well on their own to compete with other city-regions the world over. The new provincial interest reflects a deep-seated concern for the health of the province's big cities by freeing them to do what they do best. Provinces also need to realize that the best form of accountability is *direct* democratic accountability of the city itself to its citizens, not an *indirect* and somewhat muddled accountability funneled through the provincial government.

The nature of the provincial interest has arguably changed, and the way it is maintained and even furthered needs to change as well. The idea is not to replace the provincial interest in municipal affairs, but to ensure it is properly maintained in light of new realities. The *fact* of provincial responsibility is not the issue here. Rather, the issue is about *how* that responsibility is carried out and whether it precludes local control and actions, fosters inertia, or stifles local initiative. Provinces need to restrain the urge to move in and correct every alleged problem facing big cities. Rather, provinces should establish a system of general controls and mechanisms for reporting that address the critical need to maintain healthy big cities while avoiding the urge always to step in. To be sure, this is very much a subjective question, and striking the appropriate balance may prove elusive. But, the issue needs to be resolved.

2) Local decision-making is simply better decision-making: This cornerstone very much reflects the *"small is beautiful"* thesis of noted economist E.J. Schumacher, who states that:

> *"It is an injustice and at the same time a grave evil and a disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do."*
> *(Lidstone 2004).*

This is the *subsidiarity* principle – the idea that decision-making should defer to that level of government that is able to deal with the issue and that is closest to the people. Increased autonomy recognizes that community-based decision-making is gaining respect the world over as a better way to organize political life. Just as the family is the basic organizational unit in the human social sphere, so communities are the basic organizational unit in the political sphere. In short, things tend to work better coming from the "bottom-up" rather than from the "top-down."

It is foundational to understand that smaller groups of citizens are best served when their unique preferences are accommodated, rather than imposing *"one-size-fits-all"* approaches that ignore local nuances. Further, local decision-making is more accessible and closer to citizens, municipalities better understand the *"ins and outs"* of the local issues and citizen preferences, and given the chance and opportunity, they can usually be more creative in dealing with them. Municipal autonomy also leads to more legitimate decision-making, and more credible and accountable local government. Not only does it satisfy the needs and wants of local citizens, but it increases the efficiency and effectiveness of government. At the same time, it allows for more transparent government since the governing unit is smaller and easier to access. In sum, there is inherent value in local control. As poll after poll often demonstrate, citizens are more likely to trust their municipal government over and above their provincial and federal counterparts.

3) Increased autonomy and local accountability provide more flexibility to respond to current challenges, emerging ones, and even unknown future challenges: Municipalities, including big cities, are generally a very nimble order of government – able to react to issues more quickly than other governments. In the last decade, the world has changed dramatically. The pace of this change – whether technological, economic, or societal – will continue to accelerate. Big cities need the flexibility to respond to these changes, particularly when the next batch of changes is impossible to identify. Even in their restrictive environment, big cities have demonstrated a unique capacity to adapt and re-position themselves quickly to respond to emerging issues before they become intractable problems. This unique attribute should be strengthened. Under the current policy regime, big cities are often waiting on the choices of other orders of government, and federal and provincial interests do not always match with those of the big cities. Autonomy moves big cities to where they can consider their own interests, decide how to accommodate them, and then be held accountable for their decisions.

4) Increased autonomy and accountability for big cities respect the fact that their desire, capacity, and ability to govern themselves more freely is not always shared by other municipalities: In years past, provincial governments oversaw broad swaths of municipal responsibilities (e.g., planning, financing) to ensure that all municipalities were *"doing things right."* However, as big cities have grown, they have developed their own research capacity and expertise. Today's big cities are sophisticated and well-managed entities with highly skilled and professional administrations. Yet, the provinces appear unable or unwilling to let go.

This state of affairs is not shared by all municipalities. Smaller centres may lack the research capacity, the human resources, and the professional expertise to strike out on their own. Smaller municipalities may still want to rely on the province for advice, direction, and guidance, but big cities should not have to. In other words, the status quo of current provincial involvement may still be appropriate for small towns and cities that desire a "fall back" onto the province through a more prescriptive approach. But not so a province's big cities. A new big city-provincial partnership would endow big cities with the sufficient freedom of action to address their own local issues in their own unique way by applying locally determined, creative, and innovative solutions to local needs, recognizing fully that this approach may not work for other municipalities.

5) Increased autonomy and local accountability furthers innovation and allows room for policy experimentation: A key advantage of federalism as a way of ordering political life is the presence of numerous levels of government – federal, provincial, local – that can experiment with solutions to pressing political and economic questions. A lack of governmental autonomy (e.g., excessive federal control over provinces and excessive provincial control over big cities) acts as a structural impediment to such innovation by restricting or muffling policy experimentation.

If big cities can operate in a relaxed environment, it could unleash a torrent of creative and innovative capacity. Big cities, when given freedom of action, have demonstrated again and again their ability to arrive at untried strategies. To be sure, mistakes will likely be made, but they must be free to make these mistakes, learn from them, and be held accountable for them. Big cities need the ability to succeed on their own. If our big cities are allowed to become policy laboratories, successes can be shared and even flow up to senior levels of government, which arguably have less room to experiment. Again, there are differences between big cities and smaller or medium-sized municipalities. Big cities have more services to offer (e.g., transit, social services) and the scope of these services is larger as well. Because economies of scale do not always occur in big cities (Bish 2001), they should be free to deliver those services differently in order to achieve efficiency gains. In short, there should not be one method of service delivery, or one legislative model for that matter, acting as a template for all municipalities.

6) Autonomy will unleash competition: A legislative framework that is overly restrictive removes, or at least restricts, the many benefits that can accrue from the competitive impulse. The threat of competition is what drives the private sector to improve product offerings and services, and the same also applies to products and services provided by the public sector. Big cities that are free to develop new approaches or more effective, efficient and lower cost strategies, will arguably stand a much higher chance for success. This pushes big cities to begin learning from each other. In today's competitive environment, a premium is certainly being placed on efficiency in the private sector, but efficiency must also be pursued in the public sector.

SUMMARY: The notions of local autonomy and accountability recognize that big cities have come of age. A relaxation of provincial restrictions, both formal and informal, modifies and adapts the provincial interest in municipal affairs to fit this new reality. Local decision-making is simply better decision-making, and more independence of action would provide big cities with more flexibility to respond to current challenges as well as the ones just around the corner. Autonomy and accountability for big cities not only respect their desire and ability to govern themselves – a sentiment that is not always shared by other municipalities – they also help further innovation in the public sector by making room for policy experimentation. In sum, increased autonomy and local accountability speak to improving the federal principle in Canadian public life.

FF: WHY A NEW FISCAL FRAMEWORK?

1. THE PROBLEM

Formally, there is a new paradigm emerging with respect to local autonomy and accountability. This new paradigm appears to promise big cities more freedom in exercising their own decision-making within broadly defined policy spheres, but it has yet to really deliver. The reason recent changes to municipal statutes have had so little heft is because there has been little movement on the third cornerstone of a new partnership – broader local taxing authority and access to expanded provincial tax revenue-sharing. Big cities have no financial means to activate the new-found autonomy they formally possess. In the end, real autonomy and local accountability cannot be achieved within the highly restrictive fiscal environment that big cities find themselves. *The partnership depends on all three cornerstones.*

At the same time, a bevy of other problems are also making themselves felt with respect to the fiscal arrangement in which big cities are operating. A quick review of big city finances in the West reveals more than a few disturbing trends over the last decade.

- *In western Canada's big cities, spending has not kept pace with population growth and inflation:* Taken together, the total spending of western Canada's six big cities (Vancouver, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg) increased by about $2.0 billion from 1990 to 2003. While this seems substantial, the increased revenues have not been sufficient to compensate for inflation and a growing population *(Figure 1, Charts 1 and 2).* In 1990, the six big western cities spent an average of $1,232 per capita on programs in *real 2003 dollars adjusted for inflation.* In 2003, the big cities actually spent slightly less in real per capita dollars — about $1,227 per capita. At first glance, spending on capital seems to have fared better, rising from $339 per capita (in inflation-adjusted 2003 dollars) in 1990 to $381 per capita in 2003. But capital spending from year to year is also volatile – a closer look at the 14 year period from 1990-2003 reveals that in ten of those years, the average capital spending of the six big cities was significantly lower than the 1990 amount.

- *Since the early 1990s, there has been a significant reduction in federal and provincial support for western Canada's big cities:* The six big cities collected a total of $628 million in operating and capital grants in 1990, but only $502 million in 2003. Grants were reduced from an average of $206 per capita across the six big cities in 1990 (in inflation-adjusted 2003 dollars) to $137 in 2003 – a 33% reduction *(Figure 1, Chart 3).*

- *Property tax revenue growth has been sluggish:* In 1961, local government taxes in Canada (of which 90% come from the property tax) were 4.16% of GDP. By 2000, that ratio had fallen to 3.16%. If local taxes were collected at the 4.16% ratio in 2000 rather than at the 3.16% ratio, an additional $10.6 billion in municipal and education property taxes would have been collected across Canada in 2000 alone. Western big cities have not been immune to this phenomenon. Since the mid-1980s and early 1990s, real per capita property tax revenues have fallen for each of the West's six big cities. The only possible exception to this broad trend would be Vancouver. *Figure 1, Chart 4* details the drop in real per capita municipal property taxes collected in Edmonton, whose experience is shared by virtually every other big city in the West. In 2003, the City of Edmonton was collecting $120 less in real per capita property taxes than it collected in 1986. When measured against personal disposable incomes, the amount of municipal property tax collected today in the big western cities is among the lowest levels seen at any point in the past 40 years. *Figure 1, Chart 5* shows the Edmonton experience again. If the six big western cities had collected property taxes at the average tax-to-personal-disposable-income ratio that prevailed across the 1990-2003 period, an additional $253 million would have been collected by the six big western cities in 2003 alone. This lack of growth in the property tax is severely pressuring big city budgets (Vander Ploeg 2004a).

- *Declining levels of federal and provincial support along with sluggish tax revenue growth are threatening municipal service levels and have contributed to significant infrastructure deficits:* In 2003 alone, the six big western cities reported that $564 million in high priority infrastructure projects could not proceed due to a lack of funding *(Figure 1, Chart 6).* This is a conservative estimate, and it is clear that annual shortfalls in infrastructure funding are growing. For example, the City of Edmonton estimates a $4.1 billion shortfall for the 2004-2014 period, almost $900 million more than the $3.2 billion

FIGURE 1: Troubling Fiscal Trends in the Six Big Western Canadian Cities

CHART 1: Average Real Per Capita Spending on Programs, 1990-2003

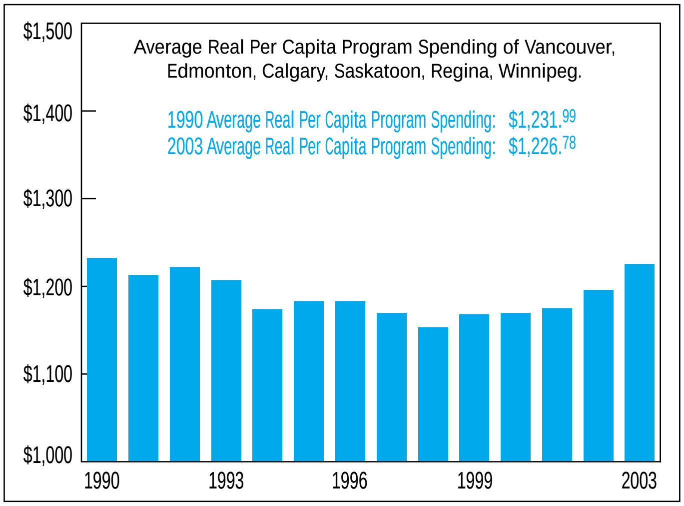


CHART 4: Real Per Capita Property Tax in Edmonton, 1960-2003

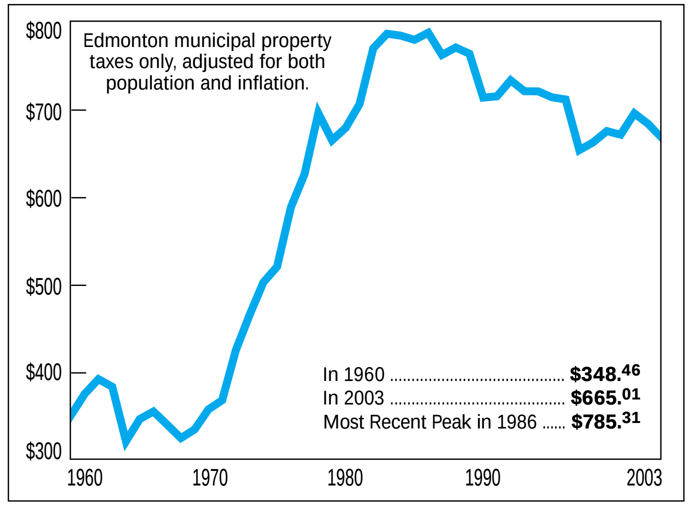


CHART 2: Average Real Per Capita Spending on Capital, 1990-2003

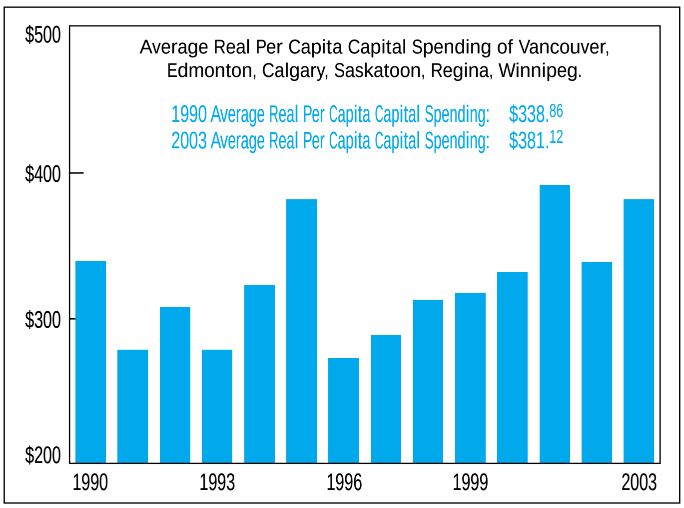


CHART 5: Property Tax in Edmonton as % of Disposable Income, 1960-2003

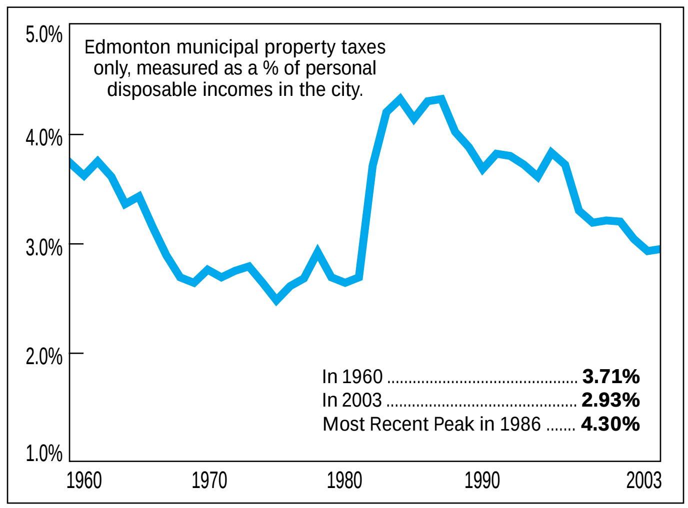


CHART 3: Average Real Per Capita Operating and Capital Grants, 1990-2003

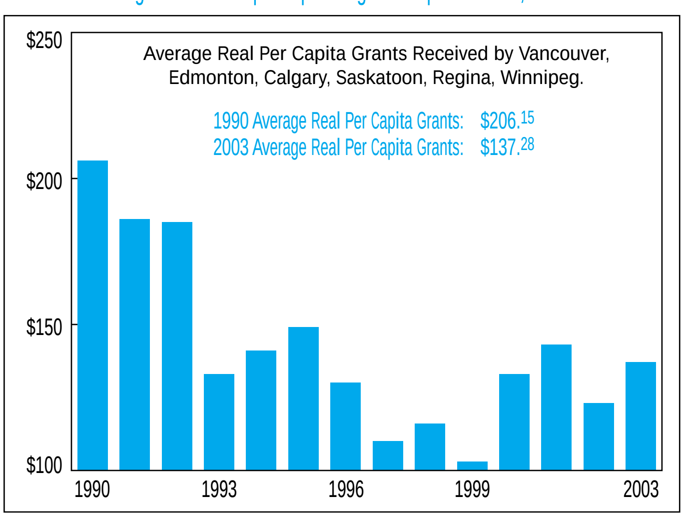


CHART 6: Annual Infrastructure Deficit Estimates, Six Big Western Cities, 2003

Reported Infrastructure Deficit for 2003		
	2003 Actual Reported	2003 Per Capita Amounts
Vancouver	$ **50.4** Million	$ **87.24** Per Capita
Edmonton	**126.5** Million	**187.31** Per Capita
Calgary	**136.1** Million	**150.44** Per Capita
Saskatoon	**31.3** Million	**146.58** Per Capita
Regina	**31.3** Million	**167.00** Per Capita
Winnipeg	**188.0** Million	**297.85** Per Capita
TOTAL	$ **563.6** Million	$ **176.66** Per Capita

Estimated Future Infrastructure Deficits (Go-Forward Basis) for Edmonton and Calgary	
Edmonton:	**$1.551** Billion or **$310.2** Million Annually (For 2003-2007)
	$4.100 Billion or **$372.7** Million Annually (For 2004-2014)
Calgary:	**$1.120** Billion or **$224.0** Million Annually (For 2003-2007)

SOURCES and NOTES: Derived by CWF from the *Annual Financial Reports* and *Capital Budgets* of the various cities (1990-2003) and Statistics Canada. The data speak to the incorporated cities only, not the CMAs.

shortfall estimated for the 2003-2013 period. The costs of failing to address the infrastructure challenge are significant, including higher operating costs for business and government, higher environmental costs and increased pollution, threats to public health and safety, lost economic potential, and the prospect of higher capital costs in the future (Vander Ploeg 2003).

Along with these fiscal challenges, big cities have a number of intense demographic, social, economic, and governance challenges that cannot be met if the existing fiscal arrangement prevails. The status quo is inadequate and will not lead to the right results – economically competitive, environmentally healthy, and socially and fiscally sustainable big cities. A new fiscal arrangement between big cities and the provinces is desperately needed, and it forms the third cornerstone of a new partnership.

2. THE ACTION TO TAKE

Canada's big cities are singularly and highly dependent on the property tax, having few other taxes at their disposal (e.g., amusement taxes, franchise fees, utility sales taxes). To be sure, the property tax is supplemented with user fees (e.g., water and sewer utility charges, transit fares, local improvement levies, development charges) and federal and provincial grants (e.g., conditional and unconditional grants for operating and capital). But, user fees have limited revenue generating capacity – they are often offset by rising costs – and federal and provincial grants are outside the control of big cities and have yet to recover to historical levels.

This lack of diversity in municipal tax tools is the key issue. The purpose of this cornerstone is to intentionally diversify the tax system of our big cities in two ways. First, the property tax is retained as a foundational or principal tax, but it is supplemented with a range of other local taxes. Appropriate examples of other local taxes in play across Europe, the US, and Asia include a small local general sales tax and selective sales taxes on fuel, lodging, restaurants, liquor, entertainment events, car rentals, and other consumables. Options also include real estate transfer taxes, motor vehicle licenses or fees, and a wider range of business tax options that more closely link to profit as opposed to property values. Second, this more diversified local tax base can then be supplemented with a range of city-provincial tax revenue-sharing (e.g., provincial personal and corporate income taxes, provincial general sales taxes, or provincial selective sales taxes).

An important caveat needs to be made at this point – one that should not be misunderstood or ignored. The primary intent of a more diverse tax structure for the big cities is *not* to dramatically increase the overall burden of taxation. Rather, the primary thrust is to change the *way* in which big cities collect their tax revenue. *What is in view here is not just how much taxes are collected, but how they are collected and from whom they are collected. The way a tax system operates is just as important as the value of the taxes collected – if not more so.*

This cornerstone is critical to a new partnership and achieving a measure of urban sustainability. It is also a prerequisite for any increased local government autonomy and enhanced democratic accountability. But ironically, it is also the most difficult cornerstone to cement into place – it is here where big cities encounter the most resistance. Yet, a changing world and the uniqueness of our big cities come clearly into view with regard to this cornerstone. As such, there are more than just a few good reasons to consider a more diverse fiscal arrangement for our big cities.

3. THE RATIONALE

a) The Demographic Rationale

1) Rapid urbanization: One of the most dramatic changes over the last century has been Canada's move from a largely rural nation to a highly urbanized one. In 1867, only 20% of Canadians lived in an urban area. Today, almost 80% of Canadians are urban in some sense of the word *(Figure 2, Chart 1)*. This general recognition, however, is just part of a much bigger picture. Not only have more Canadians become urban, but the *pace* of that urbanization has increased dramatically *(Figure 2, Chart 2)*. Since 1966, over 90% of Canada's population growth has occurred in urban areas *(Figure 2, Chart 3)*. Furthermore, the *locus* of urban population growth has clearly shifted to large metropolitan centres. It is Canada's big city-regions or large *Census Metropolitan Areas (CMAs)* that are acting as the magnets for population growth *(Figure 3, Charts 1-3)*.

Rapid growth presses municipal services and infrastructure in numerous ways. First, it leads to increasing demands for more municipal services. Second, expanding populations stress existing infrastructure systems. Third, rapid growth creates pressures for new infrastructure. Throughout the 1990s and beyond, this increase in demand was not met with accompanying

FIGURE 2: Basic Urban and Rural Population Data

CHART 1: % of Canadians Living in an Urban Area, 1871-2001

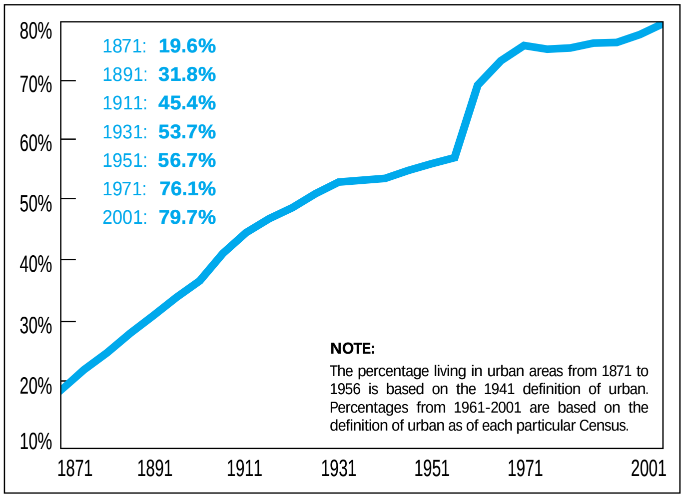


CHART 2: Urban Versus Rural Population Growth (In Millions), 1871-2001

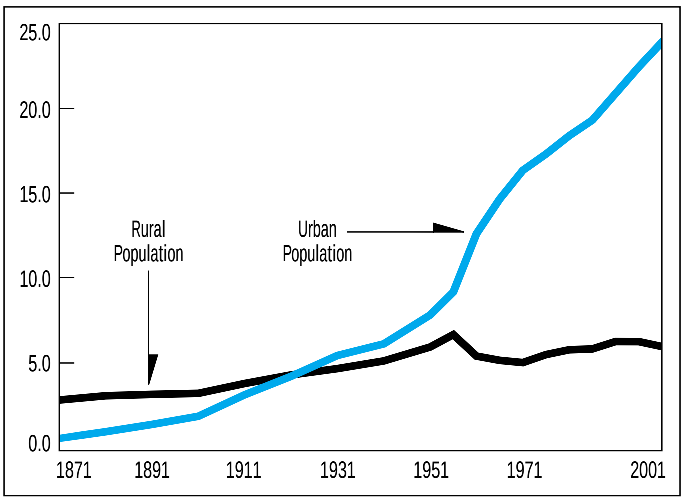
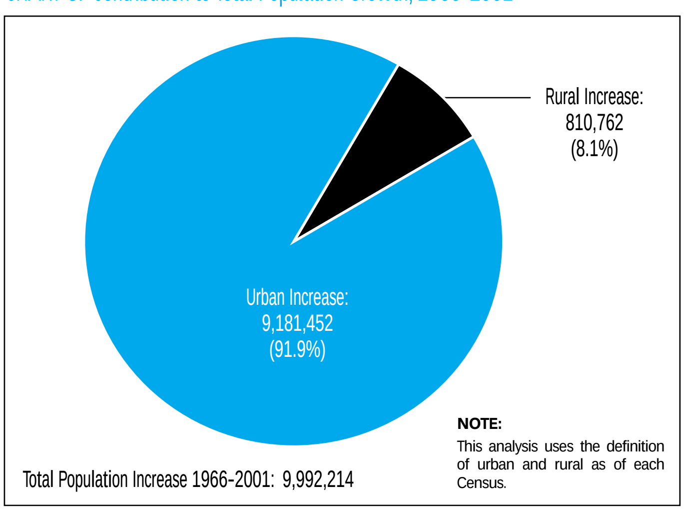


CHART 3: Contribution to Total Population Growth, 1966-2001



SOURCES: Derived by CWF from *Historical Statistics of Canada* (2nd Edition, Statistics Canada) and various Censuses (1966-2001).

FIGURE 3: Basic Data on Census Metropolitan Areas (CMAs)

CHART 1: Canadians Living in a CMA, 1966 and 2001

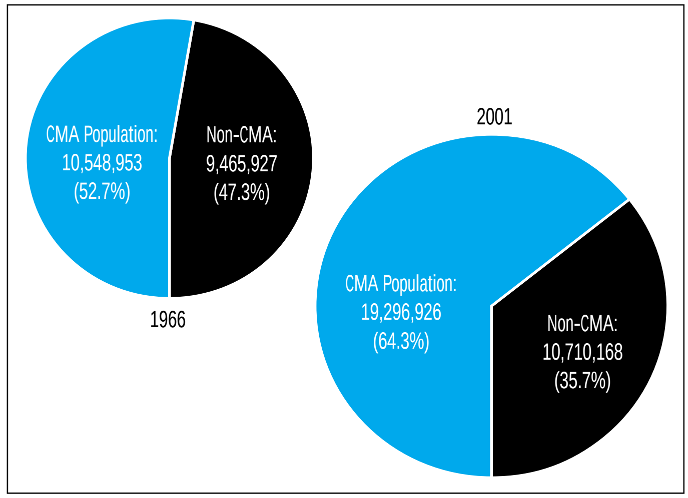


CHART 2: Growth of CMA vs. Non-CMA Populations, 1966-2001 and 1996-2001

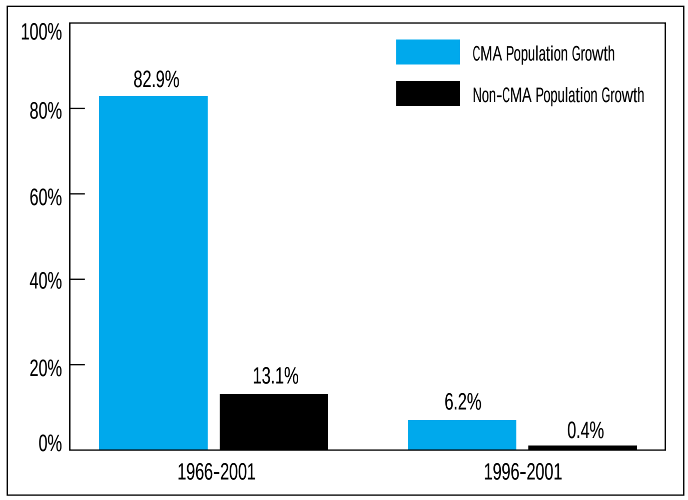
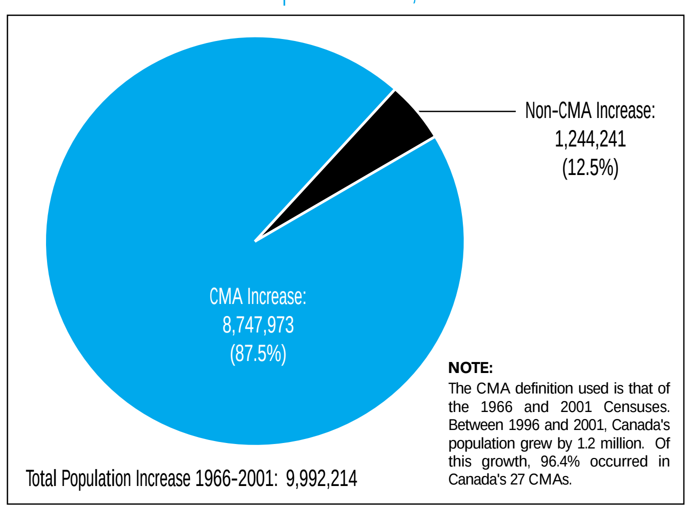


CHART 3: Contribution to Total Population Growth, 1966-2001



SOURCES: Derived by CWF from various Censuses (1966-2001).

growth in property tax revenues or federal and provincial grants. Growth in many of our big cities took place at the same time that grants were being scaled back. Big cities have not been able to cope, finding themselves in a "revenue squeeze." To be sure, a growing population is not ordinarily problematic for governments – it usually leads to economic growth and increased tax revenues. But unlike the federal and provincial governments, big cities are highly dependent on the inelastic property tax. They do not have at their disposal a diverse set of taxes to capture the increased tax revenue that normally accrues from a growing population and an expanding economy. In short, federal and provincial governments get the upsides of urban growth – the goldmine – while big cities get the downside – the shaft.

2) Current patterns of urban growth: The pattern of urban population growth – *how* big cities are growing – is of even more concern. A good portion of urban growth today occurs in *metro-adjacent areas* – urban and rural municipalities on the fringe surrounding our big cities. For example, almost two-thirds of Canada's CMAs have more than one-quarter of their population residing outside the anchor city *(Figure 4, Chart 1)*. Almost half of Canada's CMAs have more than 75% of their total population growth between 1996 and 2001 occurring in metro-adjacent areas as opposed to the anchor city *(Figure 4, Chart 2)*. Almost 90% of Canada's CMAs have their metro-adjacent areas growing at a faster rate than the anchor city, and out of 27 CMAs in Canada, there are only three exceptions to this broad pattern – Ottawa, Abbotsford, and Halifax *(Figure 4, Charts 3 and 4)*.

Such issues of *"urban fragmentation"* and *"donut growth"* affect both faster and slower growing big cities. For example, some city-regions with more modest growth rates actually have the population of the anchor city in decline while the periphery continues to experience positive growth. Further, every big city, regardless of the rate of population growth, acts as a regional centre providing services and infrastructure to all types of outside visitors whether they be commuters, truckers, tourists, conventioneers, or business travellers.

All of this meets up with a lack of diversity in municipal tax tools to severely press big city finances – the property tax cannot capture revenue from outsiders who can nonetheless impose a significant load on municipal services and infrastructure while living elsewhere and paying property taxes elsewhere. Increasingly, the burden of sustaining big city services and the underlying municipal infrastructure is landing on local taxpayers as opposed to all those who actually use the services and infrastructure. To be sure, peripheral growth and visits by outsiders do stimulate the local economy, but this economic stimulus does not always result in additional property tax revenue to city hall, particularly as far as the residential property tax is concerned.

Part of the economic rationale behind provincial operating and capital grants was to help offset such problems with *"free-riding"* and *"fiscal disequivalence."* However, grants have been dramatically scaled back, and if provinces are unable or even unwilling to equalize these costs adequately, there are only two options remaining. First, a city-region can be amalgamated. This has been the standard Canadian response (e.g., Winnipeg, Toronto, Ottawa, Montreal, Halifax). While amalgamation addresses the fiscal disequivalence issue, it often runs into stiff public opposition, and for good reason. Amalgamation involves a loss of local control, it often bids up the costs of municipal services, and it also stifles the impulse for creativity and competition between various municipalities in the city-region.

A second, and much more creative and innovative option, is to allow big cities a more diverse tax system that enables them to equalize these externalities themselves. For example, a small local general sales tax or selective sales taxes on specific items are better able to capture tax revenue from all users of municipal services and infrastructure regardless of where they live. Some selective sales taxes (e.g., restaurants, car rentals, lodging) intentionally target outside visitors.

A lack of diversity in big city tax sources, reduced operating and capital grants, and current patterns of urban growth mean the financial burden of providing big city services and infrastructure is increasingly landing on local property taxpayers. Simply hiking property taxes in an effort to maintain services and provide more infrastructure is not an option. This may lead people to "vote with their feet," creating an even greater exodus toward the periphery, shrinking the tax base, and requiring even more punitive taxation in the future. It is hardly a solution. Rather, a vicious circle is created.

3) Urban sprawl continues to press big city finances: Canada's big cities continue to struggle with the effects of urban sprawl, which increases the cost of services from roads and street lighting to pumping water and removing waste, not to mention the increased demand for municipal infrastructure such as

FIGURE 4: Fragmentation in Canada's Census Metropolitan Areas (CMAs)

CHART 1: Population of Anchor Cities as a % of Various CMAs, 2001

Victoria 23.7%	St. John's 57.4%	London 77.8%
Vancouver 27.5%	Windsor 67.7%	Abbotsford 78.4%
Oshawa 46.9%	Edmonton 71.0%	Saskatoon 87.1%
Sherbrooke 49.4%	Kitchener 72.6%	Thunder Bay 89.4%
Trois-Rivieres 50.6%	Ottawa 72.8%	Winnipeg 92.3%
Toronto 53.0%	Hamilton 74.0%	Calgary 92.4%
Montreal 53.2%	Chicoutimi 74.1%	Regina 92.5%
St. Catharines 55.2%	Quebec City 74.4%	Sudbury 99.8%
St. John 56.8%	Kingston 77.8%	Halifax 99.9%

Average of the 27 Canadian CMAs: **Anchor Cities Average 69.2% of CMA**
Average of the 8 Western CMAs: **Anchor Cities Average 70.6% of CMA**

CHART 2: Contribution of Non-Anchor Areas to CMA Population Change, 1996-2001

Regina 255.75%	Oshawa 82.97%	Hamilton 40.93%
St. John's 243.07%	Vancouver 79.61%	Edmonton 33.82%
Sherbrooke 120.51%	Toronto 77.08%	Kitchener 33.25%
Sudbury 101.00%	Winnipeg 74.48%	London 31.66%
Thunder Bay 99.76%	Trois-Rivieres 71.62%	Kingston 31.17%
St. Catharines 96.92%	Quebec City 66.31%	Ottawa 18.49%
St. John 93.59%	Montreal 62.70%	Calgary 14.63%
Victoria 91.85%	Saskatoon 54.04%	Abbotsford 7.62%
Chicoutimi 85.46%	Windsor 49.17%	Halifax - 0.27%

Average of the 27 Canadian CMAs: **74.71%**
Average of the 8 Western CMAs: **76.48%**

CHART 3: % Change of Anchor Cities as a Proportion of the CMA, 1996-2001

Oshawa -6.13%	Hamilton -1.22%	Chicoutimi -0.52%
Toronto -5.28%	Calgary -1.18%	London -0.46%
Sherbrooke -3.86%	St. Catharines -1.15%	Winnipeg -0.45%
Vancouver -2.14%	Montreal -0.89%	Thunder Bay -0.43%
St. John's -2.06%	Quebec City -0.88%	Kingston -0.18%
Windsor -1.80%	Regina -0.77%	Sudbury -0.08%
Victoria -1.62%	Trois-Rivieres -0.72%	Halifax +0.01%
St. John -1.54%	Kitchener -0.66%	Ottawa +0.79%
Saskatoon -1.46%	Edmonton -0.59%	Abbotsford +1.45%

Average of the 27 Canadian CMAs: **Anchor Cities Fell by 1.25%**
Average of the 8 Western CMAs: **Anchor Cities Fell by 0.85%**

CHART 4: Growth Rates of Anchor Cities and the Rest of the CMA, 1996-2001

	Anchor Growth	Other CMA Growth	Difference
Sudbury	- 6.12%	+ 35.46%	+ 41.58
Calgary	+ 14.42%	+ 35.45%	+ 21.03
Oshawa	+ 3.49%	+ 16.99%	+ 13.50
Toronto	+ 4.03%	+ 17.20%	+ 13.17
Saskatoon	+ 1.63%	+ 14.62%	+ 12.99
Regina	- 1.21%	+ 10.02%	+ 11.23
Sherbrooke	- 1.13%	+ 7.02%	+ 8.15
Winnipeg	+ 0.17%	+ 6.41%	+ 6.24
Windsor	+ 5.42%	+ 11.62%	+ 6.20
Hamilton	+ 4.80%	+ 9.95%	+ 5.15
St. John's	- 2.70%	+ 2.25%	+ 4.95
Thunder Bay	- 4.09%	- 0.09%	+ 4.00
Quebec City	+ 0.73%	+ 4.30%	+ 3.57
St. John	- 3.91%	- 0.36%	+ 3.55
Vancouver	+ 6.16%	+ 9.38%	+ 3.22
St. Catharines	+ 0.07%	+ 2.71%	+ 2.64
Kitchener	+ 7.48%	+ 10.11%	+ 2.63
Edmonton	+ 8.08%	+ 10.33%	+ 2.25
London	+ 3.34%	+ 5.54%	+ 2.20
Victoria	+ 0.84%	+ 3.03%	+ 2.19
Chicoutimi	- 3.94%	- 1.96%	+ 1.98
Montreal	+ 2.09%	+ 4.06%	+ 1.97
Trois-Rivieres	- 2.46%	- 1.01%	+ 1.45
Kingston	+ 1.41%	+ 2.26%	+ 0.85
Ottawa	+ 7.34%	+ 4.33%	- 3.01
Abbotsford	+ 9.54%	+ 2.67%	- 6.87
Halifax	+ 4.74%	- 37.39%	- 42.13

Average of the 27 Canadian CMAs: **Average Difference of + 4.62**
Average of the 8 Western CMAs: **Average Difference of + 6.53**

CHART 5: Number of Municipalities in Census Metropolitan Areas (CMAs), 2001

Montreal 81	Sherbrooke 15	London 7
Vancouver 39	Ottawa 13	Abbotsford 5
Edmonton 35	St. John's 13	Kitchener 5
Quebec City 33	Winnipeg 11	Windsor 5
Saskatoon 24	Chicoutimi 10	Kingston 4
Toronto 24	St. Catharines 10	Halifax 4
Victoria 23	Trois-Rivieres 10	Hamilton 3
Regina 17	Calgary 9	Oshawa 3
St. John 17	Thunder Bay 8	Sudbury 3

Average of the 27 Canadian CMAs: **16.1 Municipalities per CMA**
Average of the 8 Western CMAs: **20.4 Municipalities per CMA**

SOURCES and NOTES: Derived by CWF from the 1996 and 2001 Censuses. The CMA definition used is that in play in 1996 and 2001, which may differ slightly. Note that in Chart 3, the change in the anchor city as a proportion of the CMA between 1996 and 2001 is expressed as the percentage difference, while in Chart 4 the difference is only the percentage point spread between the two growth rates.

roadways and expanded transit. But most big cities lack effective tools to contain this fiscally and environmentally destructive growth pattern. The drivers of urban sprawl are many, and include relatively cheap land on the periphery, current zoning practices, the relatively low cost of automobile transportation, rising living standards, and the preferences of individual homeowners. But one factor that is often ignored is the role the property tax may be playing (Slack 2002).

For example, residential properties closer to the city core are usually more expensive and carry higher assessed values, thus generating higher effective rates of property taxation than similar properties in the suburbs. Yet, the costs of providing municipal services and their attendant infrastructure to suburban properties are arguably higher (Vander Ploeg 2004b). When properties of similar type are assessed the same regardless of the costs of service provision, a system of cross-subsidization is created – those living "close-in" are called upon to help cover the costs for those living "far-out." In effect, the link between the taxes paid and the costs of municipal services and infrastructure is broken, and this reinforces sprawl. A more diverse tax system may allow issues of cross-subsidization to be better managed and also give big cities more opportunities to contain urban sprawl.

4) Getting it right is especially important for the West: It is important to note that all of the demographic trends above are hitting big cities in western Canada with more force than big cities in the rest of the country. First, population growth in the West clearly outpaces that of the rest of Canada. From 1966 to 2001, the West's population expanded by 70.9% compared to 42.5% for the rest of the country *(Figure 5, Chart 1).* Second, the pace of urbanization in the West has been phenomenal. Total growth of western urban areas from 1966 to 2001 was 102.4% compared to 49.7% in the rest of Canada *(Figure 5, Chart 1).* Furthermore, 97.1% of the West's population increase over that period was in urban areas, compared to 88.8% in the rest of the country *(Figure 5, Chart 2).* The proportion of urban westerners has increased from 67.2% in 1966 to 79.6% in 2001 *(Figure 5, Chart 3).* Third, population growth in the large western Canadian CMAs has been particularly robust. From 1966 to 2001, the western CMAs (Victoria, Vancouver, Abbotsford, Edmonton, Calgary, Saskatoon, Regina, Winnipeg) have grown by 109.9% compared to 74.2% for CMAs in the rest of Canada *(Figure 5, Chart 5).* In fact, five of the ten fastest growing CMAs in Canada since 1966 are in the West, and the three fastest growing Canadian CMAs are all in western Canada.

Finally, issues of metropolitan fragmentation are also making themselves felt. For example, the average number of municipalities in a Canadian CMA is sixteen. Five of the West's eight CMAs are above this average, while only four of the remaining nineteen CMAs in the rest of Canada are above the average *(Figure 4, Chart 5).* Victoria and Vancouver have the smallest anchor city populations of all CMAs in the country (23.7% and 27.5% respectively), while Calgary, Saskatoon, and Regina have some of the highest growth rates in their metro-adjacent areas relative to the anchor cities *(Figure 4, Chart 4).*

SUMMARY: Considering the demographic pressures, if there is one region in Canada that needs to take action with respect to creating a new fiscal framework for big cities, it is western Canada. Diversifying the tax system for the West's big cities would allow us to create a new dynamic that may avert some of the mistakes of the past made in other areas of the country and right across North America. In short, *"getting it right"* is huge for western Canada.

b) The Governance Rationale

1) Big city responsibilities have expanded: In the past, municipal responsibilities were generally limited to such things as maintaining local roadways, streets, and sidewalks, curbing public drunkenness and profanity, and controlling the running of cattle and wild animals, itinerant salesmen, and things like general noise and nuisances. But since the first provincial-municipal relationships were constructed in the mid-1800s, municipal responsibilities have expanded dramatically.

For example, today's big cities own telecommunications systems, fibre-optic networks, electrical transmission utilities, water and wastewater treatment plants, and airports. Big cities operate community welfare systems, public housing facilities, hospices, hostels, homeless shelters, and help run hot lunch and after school care programs, forensic laboratories, recreational facilities, concert halls, art galleries, and museums. Big cities also engage in the treatment of drug addiction and other medical and mental illnesses, as well as economic development, hazardous waste remediation, environmental cleanups, and search and rescue. Big cities are also working on alternative fuel and energy technology as well as advanced transit systems, and are competing on the world stage to host the *Olympics,* the *Pan-American Games,* the *Commonwealth Games* and *World Expositions.* The list goes on.

FIGURE 5: Western Canadian Demographic Trends Compared to the Rest of Canada

CHART 1: Urban-Rural Growth Rates, West and Rest of Canada, 1966-2001

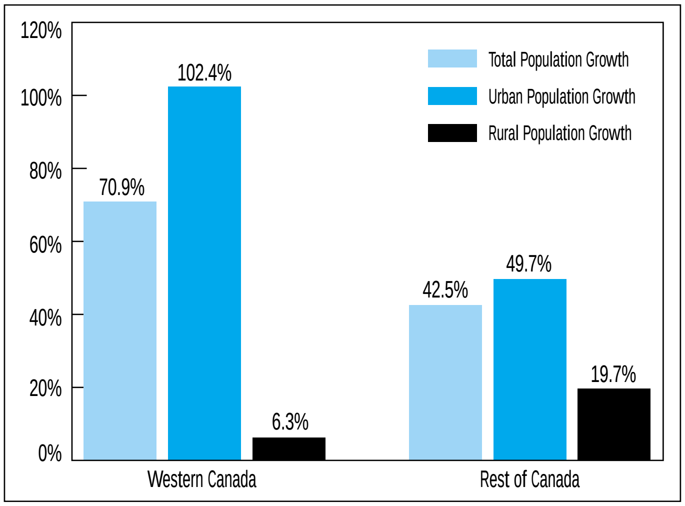


CHART 4: CMA Contribution to Total Population Growth, 1966-2001

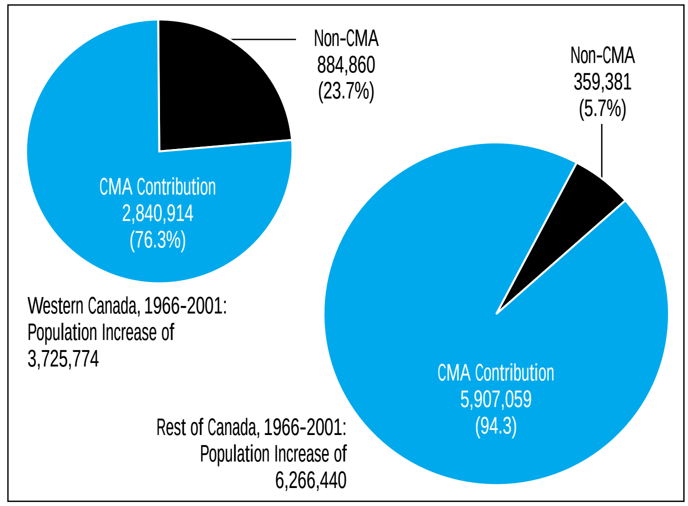


CHART 2: Urban-Rural Contribution to Total Population Growth, 1966-2001

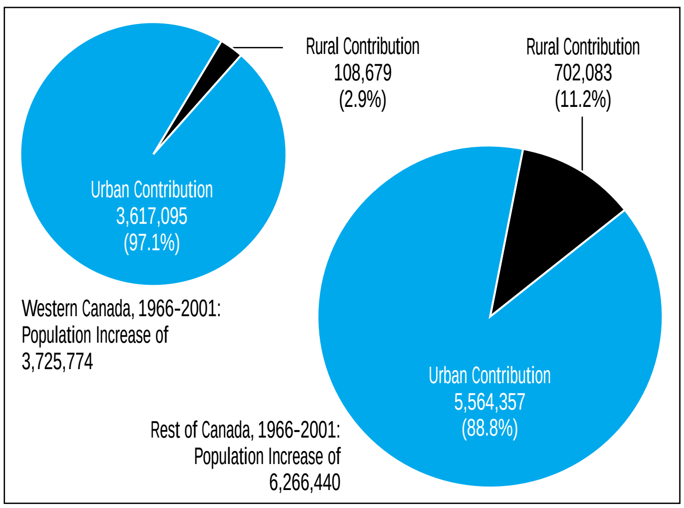


CHART 5: CMA Growth, West and Rest of Canada, 1966-2001 and 1996-2001

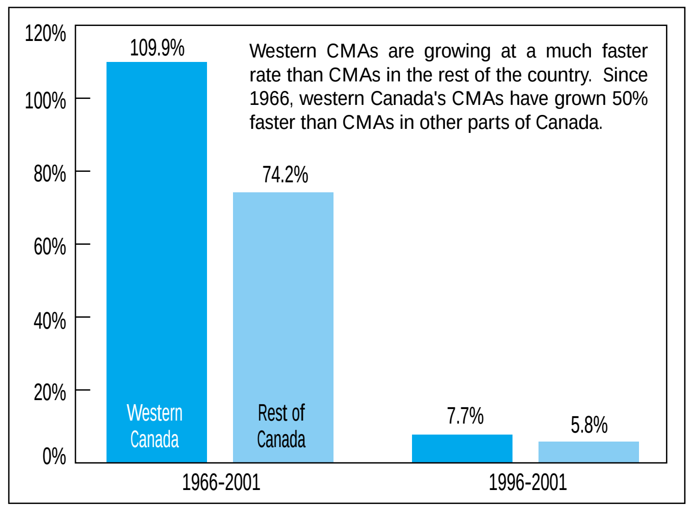


CHART 3: Urban-Rural Profile, West and Rest of Canada, 1966 and 2001

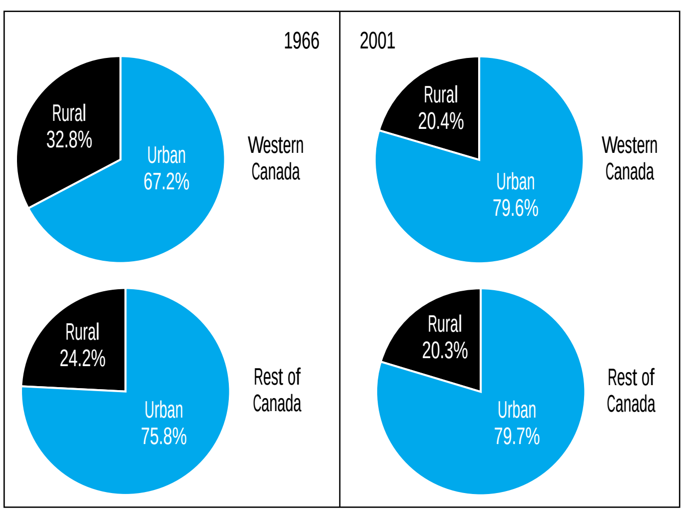
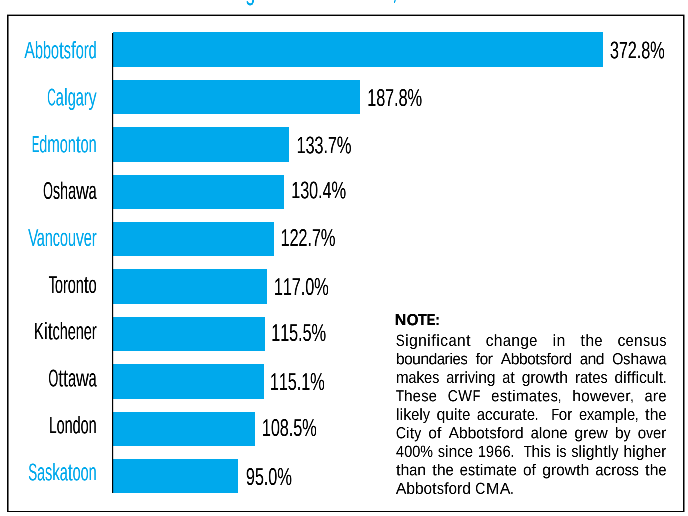


CHART 6: Ten Fastest Growing CMAs in Canada, 1966-2001



SOURCES and NOTES: Derived by CWF from various Censuses (1966-2001). The definition of urban and rural, and CMA boundaries, differ between Census periods. Western Canada refers to BC, AB, SK, and MB.

The duties and responsibilities of our big cities have clearly evolved in the face of a legislative and fiscal structure that has not drastically changed from the model put in place in the mid-1800s. Just as big cities have grown in size, importance, and complexity, so have the issues with which they must contend.

2) Many of these new responsibilities are directed toward "people" services as opposed to "property" services: The responsibility of local government used to go to the property line only – they did streets, sidewalks, lighting, water, sewer, and garbage. Traditionally, municipal government existed in order to facilitate local decision-making, provide services to property, and address local needs (UBCM 2001). The role of local government was to provide services that benefit local residents and could be funded from locally-generated revenues (Kitchen 2000). But in many ways, this is no longer the case. Big cities have become responsible for a number of non-traditional municipal functions that possess a strong social element (e.g., immigrants and issues of immigration settlement, drug abuse, crime) or possess clear income redistributive qualities (e.g., poverty mitigation, community social services, urban Aboriginals, homelessness, affordable housing). Most of Canada's social challenges land squarely in big cities, and they are finding themselves increasingly involved in people-oriented services that used to be the purview of federal and provincial governments.

At the same time, there exists a fundamental mismatch between these newer forms of municipal expenditure and the type of tax big cities have at their disposal. To be sure, the property tax may be adequate to fund a range of basic services to *property,* but it is ill-suited to address services to *people* that may also require a redistribution of income. The reason is that the property tax base is very narrow. Social issues unrelated to property services are better handled by other forms of taxation with a broader tax base, whether that is the personal or corporate income tax or a broad-based general sales tax.

Again, there are two options for a resolution. First, big cities and the provinces can engage in a process of disentanglement, much like the *"Who Does What"* initiative in Ontario or the *"Roles, Responsibilities, and Resources" (3-Rs)* discussion occurring in Alberta. Many urban analysts articulate the position that big cities should avoid engaging in "people" services or activities that have strong social or income redistributive aspects, focusing instead on the traditional municipal role and their core competency. This argument correctly recognizes that big city governments cannot "be all things to all people," and while many concerns can certainly be tagged as "urban issues," it does not logically follow that local governments should be responsible for them, especially given the limited tax tools at their disposal. A strong stand on this has been taken by several urban municipal associations (AUMA 2001a, UBCM 2001, SUMA 1999, UNSM 1998).

A more limited focus on core responsibilities helps close the structural fiscal gap that inevitably builds whenever financial resources are unable to meet expenditures that are spread over a wide range of activities. A more clear definition of roles and responsibilities also enhances accountability – if big cities can distance themselves from what is arguably a very confusing web of functions, they would find themselves better able to sidestep pressure to expand their expenditures.

Disentanglement is a first logical option. But, it may be easier said than done. Today's governments are highly interconnected, and separating responsibilities can be next to impossible given the complexity and sheer number of functions that are shared. For example, identifying the line of demarcation separating health from welfare and welfare from social housing is not at all easy. And, distinguishing between services that are inherently local in nature and those that are not is next to impossible (Tindal 2000). Further, many citizens do not limit the role of municipal government to simply providing local services to property – city hall is often seen as an institution and ally that helps uphold and communicate concerns in other policy areas unrelated to local services. For example, citizens may call on municipal officials to actively press provincial governments regarding the number of medical doctors or teachers in the city (SUMA 1999, AUMA 2001b).

If a functional disengagement is not possible, some have argued that big cities should simply restrict their activities in the social realm to non-financial involvement, or even unilaterally withdraw. But if other orders of government refuse to pick up the slack, big cities will be left with the social and economic fallout – the spectre of a steadily increasing set of urban problems that no government is willing to address. The presence of significant urban challenges that consistently fail to be addressed by any order of government will not contribute to the attractiveness or quality of urban life in western Canada's big cities (Vander Ploeg 2002a). Rather, this approach sets us on a course of urban decay. The attendant effects of this policy response take us in the opposite direction of sustainability – our ultimate destination.

A better alternative that offers more potential is to match these new civic social responsibilities with different sources of tax revenue – creating a new fiscal framework. With this approach, all the benefits of the evolving expertise of big cities and their proximity to these issues are retained at the same time that their current responsibilities are better squared with appropriate financial resources. If disentanglement is not an option and our big cities are required to offer numerous services to "people" as well as "property," then a new fiscal framework remains the only viable alternative.

3) Powerful forces are driving the expansion of big city responsibilities: Mapping out all of the reasons why big city responsibilities have changed is outside the scope of this effort, but focusing on a few of them does help us get a handle on the proper policy response.

- Roles and responsibilities have changed in light of rapid urbanization. Urban areas allow populations to concentrate, and make possible the delivery of a wide range of services. Thus, citizens have high expectations of big cities. As urban centres grow in size, citizens begin increasing their demands for new, expanded, and upgraded services – services for which they do not want to pay property taxes or for which the property tax is ill-suited.

- Urban centres have always attracted the great bulk of our social challenges. The rise of the welfare state and increased urban migration have intensified this reality.

- Technology has played no small role. The responsibilities of today's modern governments were never envisioned in the mid-1800s. Further, big cities are home to innovation and research – where technology hits the ground running.

- Big cities suffer from their own success. They have generally done a good job, and this is also recognized by citizens. Thus, they demand more and more from big cities, even if the services could or should be provided by other orders of government. Big cities, being visible and easy to access, are often expected to answer all questions about all issues.

- When new issues arise, it is often unclear which order of government is responsible. So, it lands at the closest order of government - city hall. This is simply a function of the fact that big cities are close to the people. Big cities should not always be the ones handling these issues, but if other governments are unwilling to pick up the ball, then big cities come under intense pressure to deal with emerging issues.

- Big cities have had to cope with decentralization. This includes *downloading* (i.e., the intentional imposition of new mandates without additional revenues to fulfill them, such as affordable housing), *offloading* (i.e., federal and provincial governments simply vacating a policy field and leaving big cities to deal with it, again with no revenue sources), or federal and provincial reluctance to address new issues as they arise, leaving them to the big cities (e.g., a growing urban Aboriginal population). Decentralization, whether intentional or unintentional, has allowed big cities to come under intense pressure to widen their sphere of activity while remaining in a restrictive fiscal environment.

Undoing this set of powerful forces driving the expansion of big city responsibilities is next to impossible. Furthermore, the twin principles of local autonomy and accountability imply that big cities should have the capacity to engage in a policy area when it is being demanded by local citizens. If big cities fail to respond to emerging concerns, and action by other governments is not readily forthcoming, problems will simply remain unresolved.

In the end, big cities should be allowed to respond to local concerns and issues – that is the purpose of local government. With regard to many issues, either the federal or provincial orders of government need to step up to the plate, or big cities need the tools to get on with the job. The current fiscal regime has not changed much from the past, but the responsibilities of our big cities certainly have. This mismatch has evolved over time and for a number of reasons. The challenge now is finding a way to get the square peg of financial resources into the round hole of governmental responsibilities. The way to do this is through a new fiscal framework.

4) New tax tools are also needed to ensure better governmental accountability: Whenever the responsibility for raising revenue is separated from the responsibility for expenditure, public accountability is lost. This situation exists right across the Canadian federation. The current debate over public health care provides clear evidence – the federal government collects the great bulk of tax revenue in Canada and then grants it back to the provinces. In the process, accountability is muddled. Who knows where to point the finger for a growing health care "crisis?" More importantly, who is responsible for "fixing" it?

Much the same applies to the current provincial-municipal fiscal relationship. More direct control to generate local revenues would provide big cities with more accountability to citizens, and increase the public's confidence that the dollars are being well spent. Only *locally* raised taxes and *locally* decided government expenditures can ensure the highest level of public accountability. All of this hits on the *"benefits model"* of local government – the appropriate role for local government is to provide a range of goods and services to citizens who want them (i.e., vote for them) and are willing to pay for them (i.e., through paying taxes). Currently, big cities rely only on the property tax and this is supplemented with funds granted by the provinces and the federal government. In the exchange, accountability is reduced. To the extent possible, locally decided expenditures should be covered through locally generated revenues, and this requires a re-jigging of the municipal tax system.

5) Tax revenue-sharing is an option, but it should be reserved only for income-related taxes: To date, the federal government and most provinces have sought to address big city financing issues through the sharing of specific tax revenues (e.g., fuel taxes). While this addresses the funding shortfall and ensures better predictability by tying transfers to a specific tax, it works against accountability by again divorcing the government doing the taxing from the one doing the spending. At the same time, there are a range of taxes – especially personal and corporate income taxes – that cannot be levied at the local level without creating significant economic distortions simply because of the ease with which they can be avoided or "exported." Tax revenue-sharing should thus be considered only for income-related taxes. Accountability has traditionally been safeguarded by attaching conditions to such transfers, but this reduces autonomy and can distort local decision-making. To help shore up accountability for shared tax dollars, a reporting mechanism, such as the "council" suggested in *Foundations for Prosperity,* would be more appropriate (Gibbins 2004).

SUMMARY: Concerns surrounding municipal governance issues, particularly the expansion of the role of municipal government, form a powerful argument against the current *lack of diversity* in municipal tax sources. Today's big cities are simply too dependent on one type of tax, and it is unreasonable to expect one tax alone to carry the entire burden of financing such a wide range of responsibilities. Since a functional disengagement will likely remain elusive, a new fiscal framework remains the only viable option.

c) The Fiscal Rationale

Canada is one of five western democratic countries within the *Organisation of Economic Cooperation and Development (OECD)* whose municipalities are the most reliant on property taxes as their primary source of financing (Smith 1996, MacDonald 2002). While the property tax offers a number of unique fiscal advantages as a locally-based tax, these advantages are also accompanied by a number of disadvantages. There is nothing unique in this – such is the case with any tax.

The best way to demonstrate the fiscal rationale for a new set of urban tax tools is to simply highlight the advantages of the property tax and then detail the disadvantages. With this analysis, it becomes quite clear that the challenge of constructing a new fiscal framework for our big cities is finding a way to retain the beneficial aspects of the property tax while softening or balancing the disadvantages. In the end, this can only be done by supplementing the property tax with a range of other taxes.

Top Ten ADVANTAGES of the Property Tax

1) A dedicated local tax: Generally speaking, the property tax is understood as the reserve of local governments, which tends to limit intergovernmental competition for tax room. This, coupled with the relatively straightforward computation and collection of the tax, has led to a modicum of historical support and appreciation for the purposes behind the tax.

2) Property tax rates are set locally: Unlike the property tax in many other jurisdictions – especially in the US – municipal tax rates in Canada tend to be determined locally without a provincially legislated ceiling or rate cap. In large city-regions, freedom to set tax rates locally helps foster independence. It also allows for choice and competition between municipalities within a city-region – driving them to be responsive to the needs, aspirations, and desires of citizens.

3) Usage of property tax revenues are generally unrestricted: In Canada, usage of the revenue produced by the property tax is largely unrestricted. This, combined with the freedom to set property tax rates, allows citizens and their civic leaders to settle on a bundle of services and infrastructure for an amount of taxes that the community is collectively willing to pay.

4) A good fit with the "benefits principle" of taxation: In theory, the property tax is equitable if only because all property owners pay for the benefits that accrue from the services and infrastructure financed by the tax.

5) The property tax tends to tie well to the traditional core purpose behind local government: Many of the services and much of the infrastructure offered by big cities are directed to property. The provision of various municipal services and infrastructure can often increase property values leading to additional tax revenue that helps maintain those services and expand infrastructure. Thus, there are a number of linkages here that make the property tax quite appropriate in the local context.

6) An immobile tax base: Because properties cannot get up and move and non-payment of the tax jeopardizes property ownership, the property tax is hard to duck. This leads to reasonable levels of tax compliance and relatively solid rates of tax collection.

7) A stable tax base: As a tax base, property values tend to exhibit low volatility despite happenings in the broader economy. The assessed value of property is generally better insulated against economic shocks than most other tax bases, which can become depressed during an economic downturn.

8) Stable and predictable revenues: If property values and the assessment base are relatively healthy, the property tax tends to produce a very important advantage in the form of reliable and stable revenue flows. In other words, the property tax is relatively *inelastic* – revenues do not surge in response to economic growth nor do they flat line or collapse during recession.

9) A highly visible tax: Unlike a tax embedded in the price of a good or service, property taxes are clearly stated on a tax bill that accompanies a formal notice of assessment. Many taxpayers are unaware of the amount of sales or income tax they pay, but know to the penny their property tax liability. Paying the tax in installments blurs the visibility, but it never fully recedes out of view.

10) An accountable and transparent tax: Visibility automatically leads to accountability, both in how the tax is employed and any move to increase the tax rate. The property tax is perhaps one of the most transparent taxes going – every percentage point change is subject to intense public debate and media scrutiny.

Top Ten DISADVANTAGES of the Property Tax

1) Historical appeal of the property tax as a local tax is weakening: Increasingly complex assessment practices and provincialization of the education property tax are threatening the local nature of the property tax. Further, taxpayers do not always distinguish between the *municipal* and *education* tax levy, which gives the impression that the costs of municipal services are too high. Big cities often work to limit their property tax increases only to see the vacated tax room swallowed by other authorities. In some big cities, education property tax revenue needs to be forwarded even if arrears or tax appeals have prevented collection of the full levy. This cuts into the tax revenues received at city hall.

2) Setting tax rates locally is not all it could be: Assessment practices, many of which are determined by provincial legislation, can be just as important to overall revenues as the tax rate. Provinces often stipulate the various property classes as well as the portion of actual property valuation that is taxable. Prescribed exemption of some properties presents another limitation, and revenue-in-lieu of tax cannot be directly controlled. Big cities are not as free with the property tax as many would like to believe.

3) The "benefits principle" does not always apply: Many big city services do not link to individual properties, being more regional in nature. Further, the tax payable does not always reflect the variable costs of providing services to different properties and it is not uniformly applied – there is discrimination in assessed values, and differential tax rates often apply to different classes of property. This has opened the property tax up to the charges that it violates basic principles of fairness and equity, rewards urban sprawl, and artificially increases both the demand for, and the costs of, services and infrastructure. In addition, there are the thorny problems of "free-riding" and "fiscal disequivalence" that arise from the tax's inability to capture revenues from outsiders who do not contribute to the residential property tax base upon which many big city services and infrastructure depend.

4) Unlike other taxes, there is no completely objective measure of the property tax base: Property values are estimated through a process of assessment, which can be labour intensive, expensive, and open to dispute. Assessment can often be more art than science, and even experienced appraisers can disagree on the value of the same property. This can result in under-assessment and under-taxation, which affects the equitable distribution of the tax and exposes big cities to appeals. A high number of appeals can affect revenue stability from year to year, undercutting a key advantage of the tax. In some big cities, it is not unheard of to have 10% of the commercial assessment base under dispute.

5) The property tax is unrelated to ability to pay and is inherently regressive: A good proxy for wealth is income or consumption, and taxes based on these tend to score well in terms of equity and fairness, and thus, ability to pay. But the property tax does not link directly to incomes earned or spent. It relates to income only indirectly via the value of a capital asset that is owned. This asset may or may not reflect ability to pay. As such, the property tax can present a significant burden to those with low or fixed incomes. Many contend that the property tax is inherently regressive by nature – the property tax takes a much larger percentage of income from those who can least afford it relative to those with higher incomes. While this is perhaps the general rule of thumb, the degree of regressivity also depends on the type of property in question, the assessment practices in place, and the availability of tax credits, deferrals, exemptions, reductions, or refunds. As such, the significance of this disadvantage likely depends on local circumstances. In general, the jury is still out on the issue, although most tend to believe the tax is regressive at low income levels, proportionate for those in the middle, and progressive at higher levels of income.

6) Property tax revenues can lag behind population growth: The full revenue effect of the property tax is often delayed until new development and property construction are completed. Yet, a good portion of municipal services and infrastructure required to accommodate increased population growth may be needed well in advance of receiving any property tax revenue generated from that growth. To be sure, this may simply be a short-term cash flow problem, and the extent and magnitude of any "lag time" is unclear. But, some still maintain it can be problematic under certain circumstances.

7) The property tax base tends to expand slowly: The revenue generated by any tax is a direct function of the *size* of the tax base, the *value* of that base, and the *tax rate* that is applied. For the property tax, the base is the total assessed value of real property. This is a narrow tax base that links directly to only one aspect of the economy – real estate. This tax base expands only slowly, and often at a rate less than inflation. In addition, increases in the value of the tax base are captured only when a reassessment occurs, and this tends to happen infrequently unless a big city follows a practice of market value assessment that is updated annually. Because the property tax base tends to expand slowly and the full increase in the value of the tax base is not always factored into the tax equation, many big cities find themselves having to increase the *tax rate* simply to compensate for inflation, never mind securing increased revenue in real dollar terms (City of Regina 2001, UNSM 2001). In the media and the minds of the public, this is a tax increase. But what is conveniently forgotten is that a portion of this so-called "increase" is accounted for by inflation, and is likely offset by increases in incomes as well (Loreto and Price 1990).

8) Sluggish revenue growth: The high visibility of the property tax combined with the need to continually adjust the tax rate places big cities at a significant disadvantage relative to both federal and provincial governments. Fearing public backlash, many civic leaders are hesitant to adjust the property tax rate to ensure sufficient revenue growth – it is viewed as a tax increase (McCready 1984). As long as the economy continues expanding, revenues from personal income taxes and sales taxes automatically increase without touching the tax rate. The base of a sales tax, for example, increases annually as more goods are purchased. The value of the base increases with the value of the goods and services sold. The tax rate always captures the effects of inflation, which are reflected in the prices of the goods or services consumed. Big cities, singularly dependent on the property tax, are not afforded this luxury. Ensuring adequate revenue growth that reflects growth in the overall economy takes more than just political debate – it takes steely resolve.

9) Sluggish revenue growth is a double-whammy: Slow revenue growth not only creates a fiscal gap between revenues and growing demands for services and infrastructure, it also limits the ability of big cities to debt-finance capital expenditures. When revenues expand at a reasonable pace, some of that growth can be leveraged with modest amounts of debt without increasing the interest burden to the operating budget. If revenues grow slowly, the interest that accompanies any increase in debt consumes more and more operating revenue, squeezing out other priorities. Given the size of big city infrastructure deficits, this is no small consideration.

10) An over-reliance on the property tax could actually constitute a hidden disincentive for infrastructure investment: Based on a preliminary analysis of the *Canada Infrastructure Works Program (CIWP),* for every $1.00 spent on infrastructure, up to 44¢ was eventually returned to the three orders of government in tax revenue. The federal government received 22¢, provinces received 17¢, but cities only 5¢ (Manitoba Heavy Construction Association 1998). Certainly, only the federal government has the ability of full fiscal recapture since incomes and other economic activity resulting from infrastructure investment can spill over outside a municipality or a province. But federal and provincial tax regimes are also more diverse, which helps recapture a portion of the increase in aggregate demand that infrastructure investment produces. While it is far from proven, one wonders whether big cities would be more inclined to invest in infrastructure if they had a more diverse tax system that allowed them to better recapture a portion of the returns generated by such investments.

SUMMARY: While the property tax has tended to work well for big cities in the past, it has increasingly come under fire as an outdated tax ill-suited for their needs today. The momentum of urbanization, steadily increasing demands for local services and infrastructure, and the ill-defined structure of municipal functions are often blamed for municipal budget difficulties, but the most important factor is simply the limited growth potential or *inelasticity* of municipal revenues. This is a direct result of the limited revenue sources open to the big cities – the lack of diversity in revenue sources as exhibited by a heavy reliance on only one tax – the property tax. To be sure, many of the disadvantages of the property tax are simply the flip-side of the advantages, and that is true of any tax. For example, an elastic tax that automatically generates a vibrant and growing stream of revenue cannot at the same time act as an inelastic tax that produces predictable and stable revenues over the long-term. Thus, addressing the disadvantages of the property tax while ensuring that the advantages are retained is a powerful argument for better tax diversity within Canada's big cities. Only then can the pros and cons of a single tax be balanced. A more diverse tax system for our big cities would ensure better revenue growth by allowing them to capture a fair portion of the activity occurring within the local economy, and this would accrue from naturally occurring economic expansion as opposed to making the very difficult political decision of increasing the property tax rate. A more diverse tax system and better revenue growth would also allow big cities to better leverage infrastructure investment with debt financing.

d) The Economic Rationale

1) Strengthening Economic Advantage: Throughout the 1990s, provinces expended significant effort on tax reform and lowering their total tax take as a way to create economic advantage (e.g., the *Alberta Advantage).* In many ways, this explains the general provincial reluctance to allow big cities any expanded taxation authority – the fear is that big cities will increase taxes radically, laying waste to provincial economic competitiveness. But such fears are unfounded. First, some provinces have placed an inordinate emphasis on the role that taxation plays. The fact is, economic advantage is not singularly driven by low taxes. For example, the state of Mississippi has some of the lowest taxes in the US, while California has some of the highest. Yet, per capita GDP and personal incomes are both higher in California. Economic advantage is secured through numerous and varied career opportunities, incomes commensurate with the cost of living, a thriving environment for business, research, and entrepreneurship, abundant and affordable opportunities for education, access to quality health care, a young, educated, and highly skilled workforce, environmental sustainability and integrity, natural capital, and thriving urban centres that offer the prospect of a high standard of living and quality of life.

Taxes are only one piece of a much larger picture, and they may not even be the most important piece. Businesses that choose one locale over another to either start-up or relocate do so for a number of reasons. While taxes are surely a consideration, so are other things such as the state of the local transportation infrastructure, access to a good highway network, a pool of skilled-labour, and the labour-productivity-ratio (the costs of labour relative to what it produces). Access to venture capital is also critical.

Second, when comparing tax levels, the focus always tends to turn toward those jurisdictions with the highest or lowest taxes – high tax equals "bad" and low tax equals "good." But this analysis oversimplifies matters. The real question is all about what services are being provided for the taxes that are being paid, whether those services and their attendant taxes strengthen or weaken economic advantage, and whether taxpayers themselves believe they are getting good value for their tax dollar.

Finally, it is naive in the extreme to assume that big city officials are oblivious to the fact that there is only one taxpayer. In fact, history demonstrates the reverse. Between 1961 and 2000, the total taxes paid by Canadians to all orders of government grew by some $375 billion. Only 8.5% of this increase accrued from increases in property taxes (Vander Ploeg 2004a). Because up to half of all property taxes are actually used for provincial education as opposed to municipal purposes, municipal property taxes likely account for less than one nickel out of every additional tax dollar paid by Canadians since the early 1960s.

In many ways, the taxation issue has been wildly overstated, and further, the municipal tax component is so small as to be virtually irrelevant. In 2003, the City of Calgary levied about $828 million in taxes, the bulk of which were residential and business property taxes. Yet, the total taxes collected by all orders of government in Calgary in 2003 were about $14 billion (Vander Ploeg 2004a). The City of Calgary could essentially *double* its tax take to $1.7 billion and the average total tax bill would rise by less than 6%. And, what civic politician in their right mind would even contemplate such wanton recklessness? Like all politicians, civic officials too must regularly face the taxpaying electorate through the ballot box. And, even if a new fiscal framework were to lead to slightly higher taxes, it is big city officials who will have to defend that increase and also be held accountable for it.

In the end, provincial economic advantage is not enhanced by singularly focusing on low taxes to the exclusion of all other factors. Economic advantage is not about reducing taxes, gutting programs and services, and leaving municipal infrastructure to crumble. Rather, economic advantage is all about opportunity in a much broader sense – job and career opportunities, educational opportunities, etc. In today's economy, it is also very much about well-operated and well-financed urban centres that offer a high quality of life and the best possible public services at an affordable price.

2) Current administration of the property tax cross-subsidizes services and infrastructure, leading to inefficiencies, waste, and artificially increased demands for more services and infrastructure: As already noted, Canada's big cities are highly dependent on the property tax, and administration of the tax does not always reflect the variable costs of servicing different properties. But differential effective tax rates also exist between certain classes of properties whether they are "close-in" or in the suburbs. For example, it is generally conceded that multi-family residential properties are taxed at higher effective rates than single-family residential properties, and commercial and industrial properties are taxed at higher effective rates than all types of residential properties (Kitchen and Slack 1993, UNSM 2001, Kitchen 2000). None of this constitutes a direct link between the taxes paid and the municipal services and infrastructure consumed.

Certain taxpayers then – simply by virtue of the type of property they own – are subsidizing other taxpayers who get a "free" ride. Individuals who consume fewer municipal services, or for whom the costs of providing those services are lower, end up subsidizing those who consume more services or for whom the services are more expensive to provide. This can result in waste, perverse economic incentives, cross-subsidization that redistributes incomes and benefits, and increased consumption, higher total costs, and artificial demands for more infrastructure and services (Groot 1995). If the real nature of this redistribution were known, many would find it unacceptable (Kitchen 1993). Taxing lower income residents of a multi-family complex at a higher effective rate so that the relatively affluent owners of single-family homes can play "subsidized" golf in the suburbs and drive on city roads for "free" does nothing to promote the efficient provision of services, not to mention its perverse redistribution of incomes and benefits.

All of the above presents a compelling reason for municipal property tax reform. While big cities might consider reforming the tax, such a move would be difficult as well as intensely unpopular politically – any attempt at municipal tax reform could upset the current pattern of "winners" and "losers." Furthermore, the current system of property taxation has been established in Canada for well over a century. It is well entrenched and has gained general – if somewhat reluctant – acceptance as a means to finance municipal services. Not only are the current administration mechanisms in place, but property owners expect to pay property tax. As such, a new fiscal framework that opens the door to different avenues of taxation may be the best way of lessening dependence on the property tax and limiting some of its more negative effects.

3) The property tax is a capital tax: It is important to understand that the property tax is actually a capital tax that targets savings and investment – the very fuel that drives the engine of economic growth, innovation, and increased productivity. Most economists argue that capital taxes are among some of the worst taxes possible (Clemens 2002). In *A Capital Question (2003)* and again in *No Time to be Timid (2004)* the Canada West Foundation pointed out that Canada has one of the highest rates of consumption in the OECD and one of the lowest rates of savings and investment, well behind Japan, Australia, France, Germany, and Italy. It is hard to ignore the effect that tax policy may be playing here, and even the potential role of the property tax in this regard. Again, re-jigging the municipal tax system with an increased focus on consumption-based taxes (i.e., general or selective sales taxes) may help bring our tax system better into line with our American, European, and southeast Asian competitors, as well as stimulate additional savings and investment as opposed to consumption.

4) The property tax makes less sense in the new economy: In many ways, the property tax does not always seem to provide a good fit for the commercial and industrial sector – the size of a property or building does not always bear a direct relation to the level of economic activity taking place, the tax is unrelated to profit and thus constitutes a fixed input cost for business, and in some big cities, all of this is aggravated by a special business property tax applied over and above the general property tax. In addition, the transition to a knowledge-based information economy may be weakening the traditional link between property ownership and wealth creation – no longer is property a key to creating wealth or income. Evidence of this new trend comes from many big cities who report a declining commercial and industrial property tax base. As such, existing businesses may well be called upon to bear even more of the burden in the future since it will be politically difficult to increase the portion covered by residential taxpayers. The current share of property taxes paid by businesses – generally disproportionate to the services and infrastructure they use – could well rise, leading to even greater concerns with issues of cross-subsidization.

5) An over-reliance on the property tax likely constitutes a competitive disadvantage: Ultimately, the matter of fiscal tools comes down to whether or not big cities in western Canada face a competitive disadvantage vis-à-vis other cities around the globe by virtue of their heavy dependence on the property tax. While any such conclusion would require a more detailed analysis than can be provided here, the lack of diversity in the set of tax tools open to western Canadian big cities is enough to at least crack the window open on the competitiveness issue. First, economic theory would suggest that western Canada's big cities do face a competitive disadvantage – one that is exacerbated by current patterns of population growth - merely because of their heavy reliance on the property tax. It is difficult to argue that western

A NEW FISCAL FRAMEWORK: Relevant Quotations

"Like most municipalities these days, Edmonton's rapidly escalating expenses cannot be expected to be matched by similar increases in grants and supplementary revenue sources…In the long-run, Edmonton must obtain a more flexible and progressive tax source than property; one which more suitably represents a sharing of revenues being generated within the local and provincial economies…"

Introduction to the 1974 Annual Report for the City of Edmonton

"Municipalities' power to raise and spend revenue is limited to what is granted to them in provincial legislation. This has engendered a heavy reliance on property taxes, which are inherently flawed as an instrument for funding cities' long-term needs."

TD Bank in A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future, April 22, 2002.

"It's time to rebalance this equation and give the cities their due…"

Canadian Taxpayers Federation, December 15, 2000.

"As a former mayor, it would be hypocritical of me to say municipalities ought not to have the ability to raise revenues or more options because I made that case when I was mayor. I made that case to a special legislative committee. As a matter of fact, I was the mayor who proposed the hotel room tax…The province thought it was such a good idea that they took it."

Alberta Premier Ralph Klein, National Post, March 13, 2002.

"I think that there does have to be a new deal for municipalities…I would like to think that there is a way of getting municipalities more revenue other than just property tax…There's lots of options…You can look to the south to see what municipalities are able to do south of the border."

Former Ontario Premier Ernie Eves, Globe and Mail, February 25, 2003.

"I recognize that these challenges can't be overcome by property tax alone but that's exactly what has been happening. You are the front lines and you need more backup. We need to come up with a new deal…The problem is the revenue sources available to municipalities are narrow and small."

Prime Minister Paul Martin, Calgary Herald, June 1, 2002.

"If any tax could have been eliminated by adverse criticism, the general property tax should have been eliminated long ago. One searches in vain for one of its friends to defend it intelligently…Should some prosecuting attorney drag the tax as a culprit before a bar of justice, he would be embarrassed by the abundance of expert evidence against it…Yet, the tax persists."

Jens P. Jenson in Property Taxation in the United States, University of Chicago Press, 1931.

Canadian big cities benefit from this singular dependence, if only because property taxes can lag population and economic growth, and more importantly, they are the tax tool least able to capture revenue from non-residents who can nonetheless impose a significant load on municipal services and infrastructure.

Again, it is important to understand the competitive benefits that accrue from a diversity of tax tools. No single tax is entirely fair or neutral with regard to investment patterns, economic distortions, business inputs, and business location decisions. Nor is every tax equally suited to generating a predictable, stable, and growing stream of revenue. No single tax source is equally suited to compensating for the costs of inflation, capturing local economic growth, or controlling the problems of "free-riding" and "fiscal disequivalence" that inevitably result from more and more people filling the beltways around our biggest cities (Vander Ploeg 2002b).

The demographic, governance, and fiscal challenges confronting western Canada's big cities constitute a powerful argument for employing a range of tax tools and revenue levers, where the advantages and disadvantages of one tax are offset by the advantages and disadvantages of other taxes (Kitchen 2000). It is unreasonable to expect one tax alone to carry the burden of financing a big city. Sales taxes, particularly when applied to a broad base, are much better tools for capturing revenue from outsiders, for example. In many ways, they provide a good fit to the circumstances of today's large metros, but they are simply not brought into play in western Canadian big cities.

In contrast, most of western Canada's competitor cities – whether in Europe, Asia, or the US – have access to a more diverse set of tax tools. For example, a local income tax is the principal tax source for cities in Sweden. German cities have access to corporate income tax revenue as well as 15% of all personal income tax revenues. Cities in Japan have access to over 17 different types of taxes. US cities tend to be more dependent on sales taxes (Vander Ploeg 2002a). For example, Seattle levies a wide variety of sales taxes *(see Figure 6, Charts 1-3)*. Denver can levy virtually any type of tax it desires – with voter approval – other than income taxes. This produces a dramatically different tax revenue profile than western Canada's big cities, higher rates of tax revenue growth, and more funds to invest in infrastructure *(Figure 6, Charts 4-6)*. In short, there is no law of the universe that big cities must be restricted to the property tax. There are good reasons to lower our dependence on the property tax and augment it with other tax sources.

e) The Political Rationale

Traction for a new fiscal framework comes from a powerful moral argument that flows from a coalition comprised of lower and modest income groups, business leaders, and environmentalists. Traditionally, these groups have often possessed conflicting goals, but their interests converge in a very unique way when it comes to questions of urban finance.

1) Low and modest income individuals: Typically, lower and modest income individuals reside in multi-family dwellings while middle and upper income individuals own single-family dwellings. Multi-family dwellings typically carry higher effective tax rates. Lower and moderate income groups also tend to live in belt-line areas surrounding the central core. Delivering municipal services to these areas is less expensive than delivering the same services to far-flung suburbs. Since many big city services (e.g., water and sewer) employ "average-cost" pricing, lower and moderate income groups arguably subsidize the cost of services to the suburbs. Furthermore, middle and upper income property owners also tend to use more big city services (e.g., large lawns to water and longer commutes).

In addition, much tax-supported capital infrastructure (e.g., road construction, streetlights, sidewalks) directly benefits new construction in the suburbs, but not areas closer to the core. Through a system of centralized financing using the property tax, lower and moderate income groups may be subsidizing suburban development. To be sure, subsidization effects flow in the other direction as well. Yet, many do sense a "Robin Hood" effect working in reverse here. This serves as a powerful incentive for lower and moderate income groups to join a coalition for change.

2) The business community: Business leaders would also be interested in a coalition for change. Under the general property tax, businesses tend to pay higher effective property tax rates than residential property owners, and many big cities also have in place an additional business property tax based on the annual rental value of business and commercial properties. Whether these property taxes are borne by business in the form of lower profits, employees in the form of lower wages, or consumers in the form of higher prices, depends on the nature of the market and the products under consideration, but regardless of whether businesses can "export" such taxes, a reduction would be welcomed if only because these taxes are unrelated to profit or even gross sales.

FIGURE 6: Comparison of Municipal Tax Tools in Edmonton, Calgary, Denver, and Seattle

CHART 1: Financial Tools Open to Calgary and Edmonton, Alberta

Local Taxes in Play:	Tax-Sharing:
Property Tax Business Tax (Property-based) Franchise and Utility Taxes	Provincial Fuel Tax
Other Taxes Not Currently in Use:	**Other Revenue Sources:**
	Federal Grants Provincial Grants User Fees Investment Income Licenses, Permits, Fines

CHART 2: Financial Tools Open to Denver, Colorado

Local Taxes in Play:	Tax-Sharing:
Property Tax Franchise and Utility Taxes General Retail Sales Tax Sales Tax on Lodging Sales Tax on Restaurants/Alcohol Sales Tax on Off-sales of Alcohol Sales Tax on Vehicle Rentals Sales Tax on Aviation Fuel Sales Tax on Entertainment Events Employee Head Tax Auto Ownership Tax	State Fuel Tax State Tobacco Tax State Vehicle Registration Tax State Lottery Revenue Tax
Other Taxes Not Currently in Use:	**Other Revenue Sources:**
Real Estate Transfer Tax Most any tax except income taxes	Federal Grants State Grants User Fees Investment Interest Licenses, Permits, Fines

CHART 3: Financial Tools Open to Seattle, Washington

Local Taxes in Play:	Tax-Sharing:
Property Tax Franchise and Utility Taxes General Retail Sales Tax Sales Tax on Entertainment Events Sales Tax on Gambling Sales Tax on Restaurants, Bars, Pubs Sales Tax on Car Rentals Gross Receipts Business Tax Motor Vehicle Excise Tax Real Estate Excise Tax	State Liquor Tax State Fuel Tax State Lodging Tax State Insurance Premium Tax State General Retail Sales Tax State Leasehold Excise Tax State Hazardous Waste Tax State Utility Tax State Timber Tax State Solid Waste Tax
Other Taxes Not Currently in Use:	**Other Revenue Sources:**
Employee Head Tax Various Types of Business Taxes Head Tax (or Poll Tax)	Federal Grants State Grants User Fees Investment Income Licenses, Permits, Fines

CHART 4: Edmonton, AB and Denver, CO Tax Revenue Profile, 2000

DENVER, Colorado

Total Municipal Tax Revenue is Comprised of:

General Retail Sales Tax	**63.5%**
Property Tax	**21.1%**
Employment Head Tax	**6.4%**
Selective Sales Tax on Hotels and Lodging	**4.7%**
Franchise and Utility Taxes	**3.1%**
All Other Taxes	**1.2%**

EDMONTON, Alberta

Total Municipal Tax Revenue is Comprised of:

Property Tax (General Residential and Commercial)	**71.8%**
Property Tax (Square Footage Business Tax)	**16.9%**
Property Tax (Local Improvement Taxes)	**5.1%**
Franchise and Utility Taxes	**5.6%**
All Other Taxes	**0.6%**

CHART 5: Growth in Per Capita Taxes Collected, Edmonton and Denver, 1990-2000

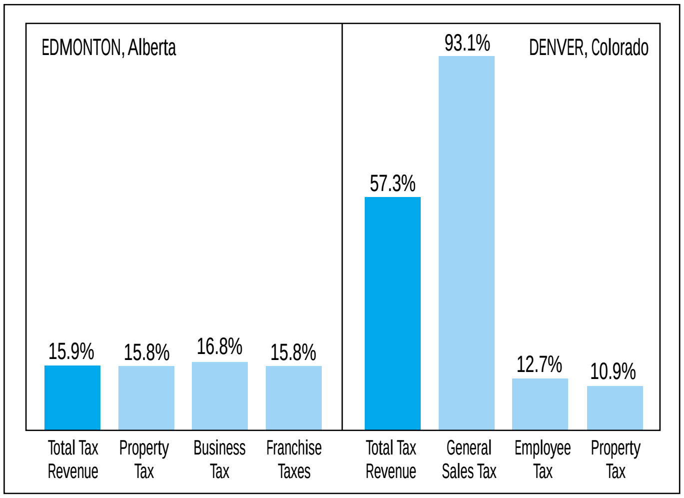
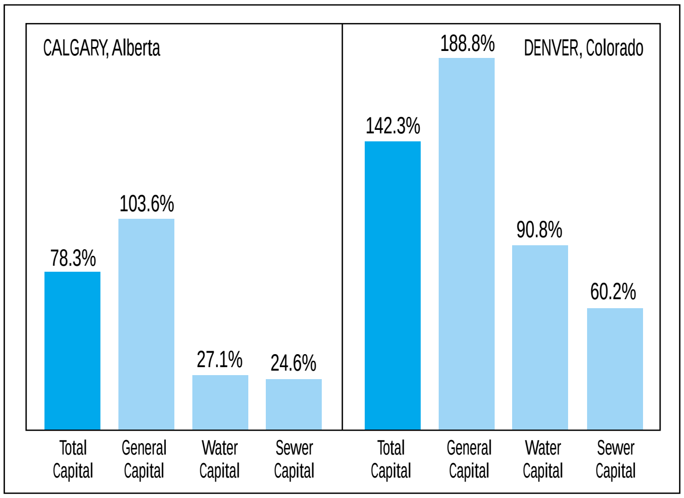


CHART 6: Growth in Per Capita Capital Spending, Calgary and Denver, 1990-2000



SOURCES and NOTES: Derived by CWF from the *Annual Financial Reports* of the Cities of Edmonton and Calgary (1990-2003) and the *Consolidated Annual Financial Reports* of the Cities of Seattle and Denver. Additional data was secured from the local government electronic financial databases maintained by the States of Washington and Colorado.

3) The environmental lobby: Environmentalists round out the coalition pressing for change. Issues such as urban sprawl and the over-consumption of municipal services generate very real ecological costs – wasting of water, excess sewage, high volumes of garbage, and air pollution produced by the daily commute.

In an article in the *Globe and Mail* (April 4, 2001) former Mayor of Toronto David Crombie explains that a unique coalition is driving urban change in the United States:

> *"The ideas behind smart growth were not new. What was new was the emergence of unusual coalitions of interests. Suddenly, the Sierra Club, the National Association of Home Builders, and the Urban Land Institute found themselves using much the same language and promoting some of the same goals."*

SUMMARY: The current uni-dimensional character of municipal tax systems does not necessarily work to the advantage of many individuals or organizations within urban society. Such groups include low and moderate income citizens, business, and environmentalists. An interesting political coalition can be built that would favour balancing off the property tax with other forms of taxation. As pressures increasingly come to bear, these groups may become even more vocal on their own. Acting now allows political leaders to get ahead of the wave.

f) The Big City Rationale

The distinct pressures facing big cities are again drawn into focus when considering this cornerstone of a new big city-provincial partnership. Smaller urban centres are very different when it comes to the rationale for a more balanced tax system. The expansion of big city tax tools should not be read to imply that this is something that will necessarily work in all urban centres.

1) Demographic considerations: The number of people concentrated in the West's big cities provides a critical mass for using revenue tools that go beyond the property tax. Smaller cities may lack this critical mass. Further, it is big cities where new tax tools help answer a growing fiscal disequivalence problem brought on by a "donut" growth pattern.

2) Governance considerations: Smaller and medium-sized urban centres do not always offer the same types of services, and they may also have a lower level of expectation for the same services (e.g., busing versus light rail transit). Big cities have more services to offer, and the scope of similar services is larger. Smaller cities also do not have the same large scale social issues as big cities. This clearly sets the two urban types apart – smaller cities deliver more of their services to property, while big cities provide services to property and to people. Regarding infrastructure, many of the big cities are also much older than the smaller cities, and as such, have older infrastructure as well. Across a city-region, this can intensify existing issues of fiscal disequivalence.

3) Fiscal considerations: Fiscally, smaller centres may lack the tax base to effectively use different tax tools. While the finances of smaller centres may also be pressed, the answer is likely different. Here, property tax reliance would better be offset by provincial grants, with those grants tied to some formula for tax revenue-sharing with the province.

4) Economic considerations: As noted earlier, cross-subsidization of municipal services and urban sprawl also come into play. New tax tools may help alleviate these problems, which are critically important to big cities – the cost disparities in a municipality stretching across three kilometers are not the same as those for a big city stretching across 30 kilometers.

SUMMARY: There is a compelling fiscal rationale for allowing big cities access to a more diverse set of tax tools. A more balanced tax regime would allow big cities to better accommodate rapid population growth and also manage the fiscal disequivalence issues that arise from current patterns of urban growth. A new tax regime is necessary in drawing a tighter link to the types of "people" services that many big cities are now being required to provide. Fiscally, a more diverse set of tax tools balances the disadvantages of the property tax while allowing big cities to retain the advantages. Economically, a more diverse set of tax tools would allow big cities to make progress on other aspects of economic advantage, such as repairing aging infrastructure systems and constructing new components. In many ways, a new fiscal framework is needed to activate the other cornerstones of a new big city-provincial partnership, particularly the autonomy and accountability cornerstone. A new fiscal framework would help big cities build greater self-reliance, increase electoral accountability, and allow more community control.

HOW DO PROVINCES BENEFIT FROM A NEW PARTNERSHIP?

As already noted, cementing a new big city-provincial partnership provides an unparalleled opportunity for western provinces to once again demonstrate leadership on the national stage. But there are many other benefits to the provinces as well. In the current debate over the "urban agenda," it is merely assumed that the big cities are standing to benefit at the expense of provincial governments. But this is not so – the provinces also stand to gain from a new partnership.

1) A new partnership shifts political accountability: A new partnership is intended to move the locus of responsibility for civic actions from the province to where it belongs – city hall. Autonomy and increased taxation authority are not being requested in the absence of accountability – the new partnership does not see big cities having more taxing authority without direct democratic accountability for using that authority. Under the current relationship, there is a lot of provincial downside. For example, the provinces collect the taxes (and sometimes even increase them) to then make grants to the big cities that further their agenda and interests. Not only does this muddle accountability, but it also makes the provinces somewhat accountable for decisions and actions over which they have limited control. A new partnership puts the big cities in the position of introducing news taxes or raising taxes, and then being held to account politically for those decisions.

2) A new partnership frees the province: A new partnership empowering big cities with more autonomy, accountability, and increased taxation authority would free provinces to focus their energies and resources on their core responsibilities without having to worry about the big cities. Anywhere from 75% to 80% of a provincial budget is dedicated to health care, education, and social services. These three areas form the core responsibilities of provinces today. At the same time, each area is being increasingly confronted with future sustainability challenges. A new partnership would better enable a province to focus on its primary responsibilities.

3) A new partnership is critical to provincial plans for economic development: The state of a province's biggest cities – whether fiscally, environmentally, or socially – should be of primary importance to any province. As we have seen, in the new

AVOIDING A SCANDALOUS DOUBLE STANDARD

The new partnership sought by big cities should be well understood by the provinces, who have a similar experience relative to the federal government, particularly as it relates to fairness, sustainability, and the need for potential reforms to public health care. Provinces should realize that there are numerous similarities between the municipal autonomy debate and the federal-provincial debate over health policy. What the provinces are arguing for is essentially the same as the arguments from the big cities.

For example, Ottawa sets standards for public health care via the *Canada Health Act*, and insists that these standards be followed, or federal funding for health will stop flowing. When the Act was first agreed upon in the early 1960s, costs were shared 50-50. However, the federal contribution has slipped to 15%, leaving the provinces to carry 85% of the costs, but with little say over the standards of service. Naturally, the provinces "balk and squawk" at this, and rightly so.

The issue here is very much about "pay for say." The provincial argument is quite compelling – if Ottawa cannot see fit to fulfill its responsibilities on rising health care costs, should the provinces be compelled to abide by the *Canada Health Act?*

The same logic also applies to the current provincial-municipal relationship. Provinces restrict the big cities, set standards, and even mandate services, but do not allow sufficient freedom to raise revenues, or provide additional funding or financial compensation. To be sure, provinces have the legal and constitutional authority to delegate responsibilities to big cities without the appropriate fiscal means, but doing so exposes a highly visible and hypocritical double standard.

A new partnership would reverse this situation – it would be a highly visible means of demonstrating to the federal government that the provinces are "getting their own house in order" and implying that Ottawa should be doing the same. From a provincial perspective, a new big city-provincial partnership really amounts to a much larger strategy of driving forward momentum for change at the federal-provincial level as well. With respect to health care, there is no effective partnership to deliver services to citizens. At the same time the provinces are aggrieved, the federal government appears unwilling to make the necessary moves to create a more positive partnership recognizing that the world is moving on. Other nations (e.g., Sweden) have managed to reform health care, but Canada's political inertia, its institutions, and its current pattern of intergovernmental relations often prevent movement. A new big city-provincial partnership provides provinces with the moral high ground in stimulating federal-provincial change.

economy, it is the big cities that drive economic success. The future economic prospects of provinces, regions, and the entire nation rest with big cities, and how well they can compete in the international community and the global marketplace. If provinces are to succeed with their plans for economic development, then it is imperative that they enable their big cities to succeed. Arguably, the provinces have more at stake here than even the big cities themselves. All of a province's core responsibilities — health care, education, the social safety net – depend on a growing economy in order to be sustainable. In today's economy, comparative advantage is switching from natural resources to the health and vitality of big cities. Provinces will find it increasingly difficult to raise the revenues they need to sustain their own activities if the big cities begin to flounder in mediocrity.

4) A new partnership with big cities could free up provincial resources: With more autonomous and fiscally independent big cities, provinces could find themselves in a better position to help bolster smaller urban communities and rural municipalities. If big cities receive access to their own taxes and are made accountable for the use of those taxes, there may be the potential for more funding in the future for other communities or provincial priorities. For example, the cities of Regina and Saskatoon currently receive about $20 million a year from the province of Saskatchewan out of a total municipal grant system of about $44 million. With new taxes in play in Regina and Saskatoon, funding for the remaining municipalities across the province could be strengthened.

5) A new partnership allows big cities to share in the opportunities of the larger provincial economy, but also forces participation in the risks and responsibilities as well: This point is best demonstrated by the concept of tax revenue-sharing. If a big city is sustained by provincial grants and the economy tanks, the province will likely move to cut back those grants. Of course, the big cities will resist and begin to blame the province. But, if grants were replaced by local taxing authority and a diverse system of tax revenue-sharing, the big cities could not legitimately complain. A new partnership puts an end to wrangling over granting levels by replacing a "political" decision with levels of financial resources that are "economically" determined. In short, this ends big cities' financial dependence on the provinces, replacing it with a shared dependence on the state of the provincial economy. In the process, the potential for acrimony in the partnership is reduced as well.

6) Additional resources for growing socio-economic concerns would enable big cities to more effectively partner with the province: In many ways, a new partnership is all about working with the province and helping in a variety of service areas. First, a more diverse set of taxing powers better positions big cities to share in the financing of certain activities, and allows them to better participate in cost-shared initiatives and programs. This is something that many big cities are hard-pressed to do with only the property tax at their disposal. Second, big cities could be more effective partners with the province and also support provincial efforts concerning policy development with the federal government. Third, big cities have considerable expertise in many policy areas. More effective government would occur by tapping into this expertise.

There are numerous examples relevant to this point, including municipal expertise with regional service delivery, growth management strategies, and the delivery of social services. Many provinces have also committed to implementing government-wide strategic plans. For example, the Alberta government released its twenty year strategic plan *(Today's Opportunities, Tomorrow's Promise)* in 2004. There are four pillars to the plan: 1) unleashing innovation; 2) leading in learning; 3) competing in a global marketplace; and 4) making Alberta the best place to live, work, and visit. A new partnership provides big cities with the resources to support these provincial priorities. In fact, without participation from the province's big cities, can any of these pillars be achieved?

7) Not only would a new partnership lead to more effective government, it should lead to more efficient government: In some cases, both the province and the big cities are trying to address similar issues with different tool sets. For example, provinces are responsible for ensuring high quality transportation systems, but it is the big cities that practically serve as transportation hubs – most warehousing and logistics occur in the big cities. They also provide public transit. The consultation and cooperation cornerstone recognizes there are huge interdependencies here (e.g., social services, transportation, policing and justice, health) and tries to manage them to maximize efficiency. This cannot be done in an adversarial climate. Also, increased local autonomy and accountability would mean that the size of provincial government could be reduced. If things like conditional grants were ended, that would mean a reduction in "red tape" for both orders of government. The savings here could be quite substantial, even if only 3% to 5% of the total conditional granting amount was overhead for designing projects, negotiating terms, etc.

8) A new partnership leads to more legitimate decision-making and more credible provincial and local government: Consultation and consensus, accountability and autonomy, and a commitment to enhanced local taxing authority all lead to better and more effective and efficient government. Intergovernmental squabbling is more than a hobby for Canadian governments, it is a way of life. Yet, the average taxpayer is more concerned about receiving good public services for the taxes that they pay, and less concerned about which order of government actually delivers the service. To the extent that a new partnership would reduce provincial-municipal friction, both provinces and big cities stand to benefit.

9) A new partnership with the big cities puts provinces on the leading edge of the biggest political and economic change the world has seen in over a century: The last great political and economic tide was the industrial revolution of the 1800s. On the cusp of the 21st Century, the rise of the information economy, the digital revolution, international commerce, and vastly increased world trade and competition are leading to *glocalism.* This is the term used to describe the fact that as the economy becomes more international, the focus on comparative advantage shifts to local conditions. Thus, we see national political borders weakening. Maintaining the current provincial-municipal status quo amounts to nothing more than bucking some rather powerful trends – decentralization, asymmetrical federalism, the end of universality and "one-size-fits-all," opting-out provisions in national programs by designing compatible provincial alternatives, growing respect for cultural diversity, and sensitivity to local needs and aspirations.

Ten years ago, the notion of universality and symmetrical federalism – treating all provinces the same – was standard in the Canadian federal lexicon. But, the universality of social programs has virtually ended, with income-testing now in place for most social benefits. With respect to universality, health care is the last bastion, and it too is looking more wobbly as time goes by. There has also been an overt move to embrace asymmetrical federalism. Today, the federal government is signing separate protocols with individual provinces for a variety of national programs. This has occurred with respect to provincial immigration agreements, Canada Child Tax Benefit agreements, and most recently, equalization and the federal government's decision to expand the public funding of daycare.

Regardless of what one thinks about these trends or the wisdom behind them – they are likely more impersonal than we think – it is clear that Ottawa has accepted the idea that no two provinces are alike, and each is being treated differently according to regional needs and preferences. If provinces continue to defend the provincial-municipal status quo, they are being quite inconsistent. A new partnership embraces respect for diversity as a fundamental characteristic of fairness and a basis upon which to order political life in the next century. It is very much about the pluralism of big cities, just as it is the pluralism of society in general. Distinguishing big cities from other municipalities reflects a new reality, as do all other elements of the new partnership. This is being recognized the world over, including Canada. By accepting a new partnership, provinces recognize we must go further – that big cities are not just administrative units of the province, but have evolved to become actual governments with their own constituency, their own civic attachments and loyalties, and unique needs, desires, and aspirations.

10) Failure to meet the challenge of a new partnership entails a cost for the provinces: The urban agenda is picking up steam and it will not stall anytime soon. While the debate is new in Canada, it has become quite significant in both the US and Europe. Cities – both to protect themselves and to continue the competitive drive forward – will not stop asserting themselves. The past decade clearly demonstrates how much currency their issues have. If the provinces cannot see their way through a new partnership – if they stall and continually push back – big cities will do an end-run around them. This is already happening. The federal government is very "up" on the urban agenda, and they are moving to use the spending power to court the big cities. To be sure, this could well be a defensive move on the part of the federal government. Ottawa, realizing that national political borders are becoming less and less relevant, is beginning to accommodate itself to where the action is – the big cities.

But where does this leave the provinces? Frankly, the provinces are becoming increasingly isolated on the issue. This also means it will be more difficult for them to move on their own priorities (e.g., health care and education). Provinces may increasingly be seen as "out of touch" or worse yet, obstructive. Neither bodes well for the provinces as a separate order of government. For the provinces, a new partnership is very much a question of "lead" or "get out of the way."

FIGURE 7: Key Public Opinion Data

CHART 1: Public Opinion on Governmental Authority and Autonomy

FEDERAL-PROVINCIAL RELATIONSHIP (Opinions in BC, AB, SK, MB)		
2001:	Federal government has too much power	**50.9%**
	Provincial governments have too much power	**7.3%**
	Federal-provincial balance is about right	**41.8%**
2003:	Federal government should have more power	**10.4%**
	Provinces should have more power	**58.3%**
	Federal-provincial balance should stay the same	**31.3%**
PROVINCIAL-MUNICIPAL RELATIONSHIP (Opinions in BC, AB, SK, MB)		
2001:	Municipalities have too much power	**9.7%**
	Municipalities have enough power	**50.1%**
	Municipalities have too little power	**40.2%**
2003:	Local governments should have more power	**38.1%**
	Provinces should have more power	**20.0%**
	Local-provincial balance should stay the same	**41.9%**

CHART 2: Public Opinion on Governmental Fiscal Resources

ATTITUDES ON THE RESOURCES OF EACH ORDER OF GOVERNMENT (Opinions in BC, AB, SK, MB)

	Federal	Provincial	Local
Too Much Revenue	**24.9%**	**10.2%**	**3.4%**
Enough Revenue	**47.5%**	**43.5%**	**40.9%**
Too Little Revenue	**22.7%**	**43.1%**	**51.4%**
Don't Know	**4.9%**	**3.2%**	**4.3%**

THOSE WHO BELIEVE "LOCAL GOVERNMENTS HAVE TOO LITTLE REVENUE" (By Western Province)

	2003	2004	% Change
British Columbia	**44.0%**	**50.6%**	**+ 15.0%**
Alberta	**47.7%**	**48.1%**	**+ 0.8%**
Saskatchewan	**51.4%**	**58.7%**	**+ 14.2%**
Manitoba	**50.1%**	**56.9%**	**+ 13.6%**
Western Canada	**46.7%**	**51.4%**	**+ 10.1%**

CHART 3: Percent in Favour of Various Local Government Financing Options

	Cut Programs	Raise Local Taxes	Don't Know or No Answer
British Columbia	**30.9%**	**60.2%**	**8.9%**
Alberta	**31.0%**	**60.8%**	**8.2%**
Saskatchewan	**33.6%**	**55.2%**	**11.2%**
Manitoba	**33.2%**	**55.3%**	**11.5%**
Western Canada	**31.5%**	**59.3%**	**9.2%**

Transfer federal and provincial revenues to municipalities	**77.8%**
Lower costs by engaging in competitive service delivery options	**59.8%**
Cut property taxes and introduce different local taxes	**36.1%**
Increase user fees for municipal services	**33.6%**
Dedicate fuel taxes to transportation infrastructure	**82.5%**
Raise money for infrastructure through community bonds	**78.8%**
Employ tolls for new roadways and increase user fees	**40.2%**

SOURCES: All data secured from CWF's *Looking West Surveys* (2001, 2003, 2004).

SUMMARY: For the provinces, a new partnership is not something to fear. Rather, it is an opportunity that carries huge risks if it is squandered. While there is a school of political thought that provinces are becoming redundant if not irrelevant, the broader consensus is that larger political units are at risk – national governments are the ones looking for a reason to exist in a new glocalized atmosphere. Interestingly, they are also the governments most receptive to the urban agenda. Why? It gives a boost to their *raison d'etre.* At the same time, it is still big cities and provinces that provide the bulk of public services – from health care to education and social services to infrastructure. Yet, from a big city perspective, provincial governments are often neutral at best, and harmful at worst. A new partnership is an opportunity for provinces to shore up an exposed flank – ensuring that the big cities view them as a valued partner. If a new partnership fails to move ahead, the line will surely break and defections will occur as the big cities look elsewhere. A new partnership offers provinces a chance to recruit the big cities and better work in concert with them in the great game of Canadian federalism.

PUBLIC OPINION

Provinces should seriously consider a new big city-provincial partnership because the urban agenda, particularly enhanced local autonomy and access to a wider range of tax tools and revenue-sharing, has support among western Canadians. Over the last few years, the Canada West Foundation has completed some of the largest public opinion surveys ever conducted in the West (Berdahl 2001, 2003, 2004). The surveys, called *Looking West,* were conducted in 2001 (with 3,256 respondents), 2003 (with 3,202 respondents), and 2004 (with 3,200 respondents). Survey results break down into four distinct themes, including respondents' views on government powers, revenue tools, local government financing options, and the most important priority to ensure future economic prosperity.

1) Government powers: Support for increased decentralization or subsidiarity within the Canadian federation spins around two separate dimensions – the federal-provincial relationship and the provincial-municipal relationship. Regarding the federal-provincial relationship, 50.9% believe the federal government currently has too much power while only 7.3% say their province has too much power *(Figure 7, Chart 1).* Only one in ten say the federal government should have more power, while 58.3% say their province should have more power. Regarding the provincial-municipal relationship, only 9.7% felt local governments currently have too much power, while 40.2% said they currently do not have enough power. About one-fifth said the provinces should have more power than they do now in the relationship, but 38.1% say it is the local governments that should have more power. Support for increased local government autonomy is highest in BC and Alberta (40.0% and 36.4%), and only slightly lower in Saskatchewan and Manitoba (34.5% and 30.3% respectively). In short, Canadians are more likely to feel provinces need more power in the federal-provincial relationship, and are more likely to feel local governments need more power in the provincial-municipal relationship. The data indicate a solid core of support for at least some decentralization of governmental authority, delegation to smaller governmental units, and support for the notion of subsidiarity, regardless of which relationship is in view.

2) Revenue tools: There is a recognition that local governments do not have enough revenue to fulfill their current responsibilities *(Figure 7, Chart 2)*. For example, only 3.4% felt local governments have "too much revenue." That rises to 10.2% for the provinces, and 24.9% for the federal government. Fully one-quarter of Western Canadians feel that Ottawa is collecting too much money, while virtually no one believes this to be the case with their local governments. The converse is also true, as 51.4% feel that local governments have too little revenue, compared to 43.1% for the provinces and only 22.7% for the federal government. Results do not vary by province. This question was asked in both 2003 and 2004. Between the two surveys, the number of westerners who said their local governments did not have enough revenue grew. (In 2003, 46.7% said their local governments did not have enough revenue, and that moved to 51.4% in 2004).

3) Finance Options: A re-working of the fiscal relationships between federal, provincial, and local governments appears to have significant support, particularly with respect to tax revenue-sharing *(Figure 7, Chart 3)*. In fact, 77.8% of all western Canadians believe that federal and provincial governments should be sharing more tax revenue with local governments to place them on a stronger financial foundation. Further, 82.5% of western Canadians feel that fuel taxes, in particular, should be dedicated to transportation infrastructure. It is very important to note that there is not much support for local governments cutting services. Across the West, only 31.5% said local governments should cut services to relieve fiscal pressure. Twice as many (59.3%) said they would rather see their taxes increased. Interestingly, support for paying more to maintain services was highest in Alberta at 60.8% and BC at 60.2%.

4) Important issues: In the 2003 and 2004 surveys, western Canadians were presented with a list of issues and asked whether each should be a high, medium, or low priority, or not a priority at all. Not surprisingly, health care was chosen by the largest number of respondents to be a high priority in both surveys. But in the 2003 survey, retaining youth came in second, with 67.6% of respondents saying it was a high priority. In the 2004 survey, ensuring a good supply of skilled labour came in second at 70.8%. Ensuring livable cities was selected as a high priority by 52.1% of respondents in 2003. In a separate survey conducted in 2003 by the *Strategic Counsel,* 62% of all Canadians felt that municipal services and infrastructure should be a government priority. (Vander Ploeg 2004b). Moving forward on the provincial-municipal relationship is necessary if only because big cities have no small role to play in achieving progress on each of these key priority areas.

IMPLEMENTING A NEW PARTNERSHIP

With the rationale for a new big city-provincial partnership in hand, the discussion should move briefly to considering how it could be implemented. A number of alternatives are available including numerous "section by section" amendments to existing provincial municipal government acts (MGAs), a separate section in provincial MGAs for big cities, a special legislative act distinct from existing enabling legislation, a separate charter, or even a *Memorandum of Understanding (MOU)*. In the end, the particular *structure* or *form* matters less than the *intent* behind the partnership that is being established. What is most important is how the new partnership will work and how it will change the dynamics of the current relationship.

Establishing a new partnership may be tricky given old-fashioned Canadian incrementalism. As such, the first step might be limited to a commitment in principle by the big cities and their provinces on the merits of each cornerstone. When that has been reached, the specifics can be hammered out. To be sure, the process will take work and it will take time – change of this magnitude is never easy and requires more than just a little heavy lifting. More research and thoughtful consideration may be needed to move from principle to actual implementation. The Canada West Foundation's *Western Cities Project* anticipates moving into *Phase Three* in 2006, and will likely concern itself with some of these questions. For example, how have governments changed taxing authority in other jurisdictions? What consultation procedures would work best?

In constructing a new big city-provincial partnership, the stickiest point revolves around reforms to the current fiscal arrangement. While there are likely a number of ways to proceed, three alternatives are worth exploring in some detail.

1) Big cities can simply be provided the authority to levy a range of new taxes: This approach has the advantage in that it is easy to frame and understand. The downside is that it implies an increase in effective taxation, even though that increase would likely be modest relative to the average taxpayer's total tax bill. To be sure, there are reasons why an increase in municipal taxation may be warranted. For example, the existence of sizeable municipal infrastructure deficits will not likely be eliminated without taxpayers at some point picking up the cost. Also, current municipal tax loads as a percentage of GDP and personal disposable income are significantly lower than they were a decade or two ago, and thus, a modest increase may simply restore municipal tax revenues to historical levels. As noted earlier, a majority of people in the West would rather pay more property taxes than see their municipal services cut – so a modest tax increase resulting in better municipal services and desperately needed infrastructure may indeed find public support.

2) Provinces could transfer some tax room to the big cities, avoiding an increase in overall taxation: The tax structure in place for western Canada's big cities may place them at a competitive disadvantage, but a higher effective tax burden may not be the most appropriate response. To avoid this, many urban finance analysts argue for a shifting of taxes between governments. Some of this has already occurred at the federal level through the sharing of the federal fuel tax, and some provinces are going this route as well. This approach avoids the thorny problem of a tax increase but more movement here is quite limited – the federal government is under constant pressure to increase provincial transfers for health and education, and many provincial budgets are already severely stressed with some teetering on the verge of a deficit. One alternative that is often discussed is having the provinces remove education funding from the property tax, thereby freeing up tax room for municipalities. While this remains an option, it would require provinces to increase taxes elsewhere, and unless the vacated property tax room were filled in with different taxes, it simply leaves big cities dependent on an inelastic tax. In the end, the competition for scarce tax dollars is fierce. This limits the potential for a shift in tax room between governments as well as any significant expansion in tax revenue-sharing.

3) Big cities can sidestep objections over a tax increase and pressuring the budgets of other governments by sacrificing a small amount of revenue now as an investment toward better tax tools in the future: For example, a big city could commit to a significant one-time reduction in the property taxes it collects. That could then stimulate the start of negotiations with the province to secure agreement for new taxing authority for the big city, whether that be a small local general sales tax, a range of selective sales taxes, and expanded tax revenue-sharing based on some combination of personal and corporate income tax revenues or provincial sales tax revenue. To ensure a "win-win" for taxpayers, the province, and the big cities, the new tax revenue would not have to make up the entire difference in lost revenue. The short-term revenue loss in the operating budget could be covered by reducing the amount of "pay-as-you-go" dollars transferred to capital. Because many western Canadian big cities currently have relatively low amounts of tax-supported debt, some modest borrowing in the short-term could be taken on to support infrastructure until the revenue generated by the new tax tools closes the gap in the longer-term. With this approach, big cities would be offering taxpayers, as well as the province, the potential for a reduced tax load.

What could be more attractive? Big cities would make an investment in lost revenue now to secure a more diverse set of tax tools with much better revenue-generating capacity in the future. Such a scenario ultimately results in a "win-win" for everybody. Although this approach does not address the short-term and immediate fiscal needs of the big cities, it does offer the prospect of a much more sustainable future. No policy choice is ever free – all come without at least some cost. The big cities need to recognize this as well.

SUMMARY: There are a range of alternatives available to implementing a new big city-provincial partnership. The approaches employed, however, are of less importance than what a new partnership is intended to accomplish and how it will change the current relationship. Clearly, municipal fiscal reform is the one area in which traction has been the most elusive. Here, there are a number of alternatives open, any one of which would likely suit big cities. If the fiscal reforms do result in a modest increase in taxation, big cities will have to be prepared to defend, and be held accountable, for that increase. But that is not the only option. Big cities can also reduce their reliance on the property tax, secure different tax tools, and stimulate a reduction in overall taxes in the process. As such, this approach likely offers the best route forward.

CONCLUSION

Incremental changes in the provincial-municipal relationship have not satisfied the new urban reality. At the same time, it may be asking too much of a new big city-provincial partnership to resolve all the tensions surrounding the current relationship – there is no utopia this side of heaven. However, a new partnership does offer both big cities and provinces a way of working out current concerns and grievances, and instituting a better way to move forward in the future. In this sense, a new partnership is very much about establishing some forward momentum.

In many ways, the current relationship between big cities and the provinces is outdated. In and of itself, this does not presuppose a change in the relationship or the creation of a new partnership. But, the old relationship is not only outdated – there is evidence that it is simply not working. This ups the ante and forms the rationale for a new partnership in which big cities can better participate in strengthening the economic and social future of both provinces and the nation as a whole. This new partnership places a premium on consultation, coordinated action, and consensus-building. It also values local control. Most importantly, it seeks to draw a closer link between governance responsibilities and issues of taxation, as well as addressing the fiscal challenges confronting big cities. In the process, democratic and governmental accountability receive a much-needed shot in the arm.

Other big cities around the world serve as the benchmark for success. Many of these cities have a longer history than the West's big cities, and have been better able to assert themselves relative to other orders of government. Canada needs to catch-up. A broad consensus is emerging regarding the specifics of the challenges facing our big cities, and how to solve those challenges. Convergence is evidenced by commentary and research coming not only from the policy community (e.g., Canada West Foundation, CD Howe Institute, Conference Board of Canada) but also the private sector (e.g., TD Bank), provincial and national municipal associations (e.g., UBCM, AUMA, SUMA, OMA, UNSM, FCM), the media, and even the federal government. The public also senses a challenge here – even though it is more difficult to gauge its views on appropriate responses. It is time now for the provinces to move beyond lip service and begin addressing the challenge of the new urban reality. Provinces need to understand how a new partnership with big cities helps advance their own interests. In short, it is time for the provinces to begin pulling for change as well.

What if nothing happens? There are two identifiable schools of thought. The first school seems to suggest that if a new partnership is not in the cards, big cities will simply continue going cap in hand to the other orders of government. In the past, they have been moderately successful with this approach, and have recently received some injections of cash. If provinces dictate that the status quo must prevail, then big cities will likely manage to adapt and muddle through – the urban boat will keep afloat and the world will go on. Big cities are creative and will not likely sink. At the same time, this is hardly an inspiring vision for the future, and it does nothing to help build world-class cities that can compete effectively with other big cities around the world.

The other school of thought is more alarming. If healthy big cities are indeed a prerequisite to maintaining and raising standards of living, improving socio-economic equality, and providing a high quality of life, then the status quo can be seen as seriously threatening provincial and national economic and social progress. The status quo means our big cities are at the beginning of a downgrade. Features of this downgrade include decreased and deteriorating quality of local services to citizens, widening of the infrastructure deficit and debt, increased poverty and socio-economic inequalities, and a general reduction in the quality of life and attractiveness of our big cities. This starts a vicious cycle of various causes and effects. Big cities become less attractive places to live, and a host of socio-economic impacts ensue. The end result is a loss of economic competitiveness with other big cities around the world. Wealth generation will suffer and with it, provincial and national economic prospects.

It is important to understand that the risks here may be the highest for the provinces themselves. Much of what a province does – particularly as it relates to social programs such as public health care, primary, secondary, and post-secondary education, and its patchwork of social programs and activities – relies on wealth creation, the bulk of which occurs in its largest urban centres. In the current relationship, the provincial interest in municipal affairs is largely viewed through the right to command and control. But that is yesterday's concern. The provincial interest in urban affairs needs to shift – ensuring economically vibrant, fiscally sound, and socially and environmentally sustainable big cities. Failure in this respect not only jeopardizes what a province *does,* it could jeopardize why a province *even exists* in the new urban world. A new partnership secures a better future for our big cities at the same time it ensures a strong future for Canada's provinces. ■

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