

# ON THE WAY TO --- FISCAL AUTONOMY ---

Alternative sources of revenue to property taxes  
for the municipalities in Québec

Report produced for the Institut de politiques alternatives de Montréal  
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# CONTENT SUMMARY

## INTRODUCTION

4

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4	<b>The essential role of cities</b>
4	A competition at the global scale
5	Cities: economic drivers of nations
6	New responsibilities, same fiscal tools
8	<b>Municipal taxation in Québec and Canada</b>
8	The Constitution and the “creatures of the provinces”
10	The dependence on property tax and its impacts on urban development
11	The challenges of a reform of municipal taxation powers

## ALTERNATIVE REVENUE SOURCES TO PROPERTY TAXES

12

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12	<b>On the way to fiscal autonomy: diversifying local revenue sources</b>
14	<b>Potential local taxes</b>
14	Income taxes
15	Sales taxes
16	Excise taxes
17	Other taxes
18	<b>Intergovernmental transfers and grants</b>
19	<b>Other sources of revenue</b>
19	User fees
19	Development charges
20	Public-private partnerships
21	A greater access to borrowing

22	Criteria for restructuring municipal taxation
22	The city-state status and some international examples
23	Municipal charters of Canadian provinces and of American cities
23	A new pact at the heart of the realities of big cities

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# INTRODUCTION

The debate on the fiscal health of cities has been around for some time now. The matter was already being discussed in the 1950s and 60s, notably through the Tremblay commission (1953-1956) and the Bélanger commission (1963-1965).<sup>1</sup> Nowadays, cities are still advocating for new revenue sources in order to meet the ever-growing costs associated to their increasing responsibilities. For the purpose of partaking in the dialogue around municipal finances, this report explores revenue tools of local governments in countries all over the world. From the perspective that municipalities of Québec are dependent on property tax in an economically unsustainable way, alternatives will be presented to offer a greater funding diversity.

First, the contemporary role of municipalities in Québec and Canada, as well as their present fiscal structures, are portrayed to justify the need of a greater mix of revenue sources available to them. Subsequently, examples of taxes and other tools adopted by several cities around the world are outlined. For each, an overview of their opportunities and weaknesses is presented. Finally, since municipalities in Québec have little liberty in deciding their fiscal framework, different restructuring models already enforced elsewhere or proposed by cities are summarized.

## THE ESSENTIAL ROLE OF CITIES

### A competition at the global scale

*“Ever since the World Trade Organization (WTO) Agreements, the opening of economic borders has minimized the nations’ influence on trade rules and on protectionist measures. Cities and communities are found to be more exposed at the forefront of global competition.”<sup>2</sup>*

In an era of globalization, cities find themselves at the heart of international competition. Among other things, a constant pressure exists to attract new investments from innovative companies and a talented workforce. Municipalities seek to distinguish themselves by promoting their local uniqueness world-wide.<sup>3</sup> They stand out by demonstrating avant-gardism in the economical, social, cultural and environmental realms.

Some governments of Nations around the world confer paramount importance to the competitive role of their cities. For instance, according to the second report of the 2001 European commission on economic and social cohesion, the leverage from investing in infrastructure and human capital on productivity and competitive advantages within urban areas was already acknowledged.<sup>4</sup>

<sup>1</sup> Saint-Pierre, Diane. 1994. *L'Évolution Municipale Du Québec Des Régions: Un Bilan Historique*. Sainte-Foy: Union des municipalités régionales de comté et des municipalités locales du Québec.

<sup>2</sup> Union des municipalités du Québec. Translated by Stéphanie Gagnon-Laberge. 2012. *Livre Blanc Municipal: L'avenir a Un Lieu*. Union des municipalités du Québec.

<sup>3</sup> Ville de Montréal & Ville de Québec. 2014. *Un Nouveau Pacte Pour Les Grandes Villes Du Québec*. <http://ville.montreal.qc.ca/>.

<sup>4</sup> Federation of Canadian Municipalities. 2001. *Early Warning: Will Canadian Cities Compete?*. <http://www.fcm.ca/>.

Municipalities in the United States have access to several various federal programs to help them finance infrastructures, to better compete on a global scale. If we combine access to these sources of income with federal programs, such as TEA-21, which allows US cities to have more than 100 billion for transport infrastructures, it is obvious that Canadian municipalities quickly lose all competitive advantage.<sup>5</sup>

In a discussion paper cosigned by the City of Montréal and the City of Québec, it is asserted that recognizing the importance of cities in the heightened global

competition is often not translated into practice. According to them, cities are not at the heart of the concerns of the federal government and of most provincial governments, federal political parties or those in Québec.<sup>6</sup>

If Canada and its provinces aspire to become a model of quality of life across the globe, a political climate based on collaboration between the various levels of government and the municipalities is essential. If all work to foster a mutual mindset is done in true cooperation, it will be possible to achieve common goals.

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### Cities: economic drivers of nations

#### MONTRÉAL



#### QUÉBEC CITY



As reported by Kitchen and Slack, major cities of the world play an increasing role in the economic development of nations.<sup>7</sup> Toronto, Montréal and Vancouver are generating more than half of the national production of the provinces in which they find themselves.<sup>8</sup> The cities of Montréal and Québec are responsible for a little more than 60% of the gross domestic product of the province.

Municipalities bear an important function in the economy by encouraging the creation of jobs with the local services they offer. Expenditures adding up to 16 billion dollars triggered employment in fields such as culture, construction, engineering and more.<sup>9</sup> Major cities bring in a diverse and qualified labor force. They are at the center of research, advantaged by the numerous universities established at their core.

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Source Ville de Montréal & Ville de Québec. 2014. *Un Nouveau Pacte Pour Les Grandes Villes Du Québec*. <http://ville.montreal.qc.ca/>.

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<sup>5</sup> Federation of Canadian Municipalities. 2006. *Nos Villes, Notre Futur: La Question Du Déséquilibre Fiscal Dans Les Villes Canadiennes, Aujourd'hui*. <http://www.fcm.ca/>.

<sup>6</sup> Ibid., 3

<sup>7</sup> Kitchen, Harry M. & Slack, Enid. 2003. *Special Study: New Finance Options for Municipal Governments*. Canadian Tax Journal. 51(6).

<sup>8</sup> Ibid., 3

<sup>9</sup> Ibid., 2

Agglomeration economies, higher productivity levels and clusters of headquarters are all characteristics of large cities. Municipalities impact their local economy through the urban planning strategies that they develop in which private investments are stimulated and guidance is provided for industries so that they can choose an ideal location to establish themselves. Finally, municipal investments in infrastructure can foster economic growth amongst local industries by reducing their operating costs.<sup>10</sup> In the Province of Québec, municipalities are responsible for 58 % of the value of public infrastructure.<sup>11</sup>

In the report of Montréal and Québec, big cities consist not only of a place of residence for a substantial proportion of the population but are the essence of innovation.<sup>12</sup> Several countries across Europe have recognized the value of empowering their cities so as to foster creativity.<sup>13</sup> Municipal authorities possess expertise relevant to their respective region, an advantage for the economic development within their jurisdiction. The different levels of government must work in unity concerning the economic strategies of cities to allow for important benefits for the economy.

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## New responsibilities, same fiscal tools

Federal and provincial governments give local authorities more and more responsibilities, without however any change to the financial tools at their disposal.<sup>14</sup> In Canada, cities and other intermunicipal bodies traditionally oversee police and fire services, public transportation, local road networks, water and sewer services, collection and disposal waste management, recreation and culture, public health, economic development and urban planning departments.<sup>15</sup>

In different Canadian cities, further obligations fall under their responsibilities, including child care, immigrant integration, support for indigenous people in urban areas and public safety.<sup>16</sup>

Increasing urbanization also created new challenges and growing demands for municipal services for cities. In 1849, less than 15% of the Canadian population was living in urban areas.<sup>17</sup> The percentage had risen to 81%

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<sup>10</sup> Ibid., 2

<sup>11</sup> Ibid., 2

<sup>12</sup> Ibid., 3

<sup>13</sup> Ibid., 4

<sup>14</sup> Ibid., 7

<sup>15</sup> Slack, Enid. 2004. *Revenue Sharing Options for Canada's Hub Cities*. A report prepared by Enid Slack Consulting Inc. for the Meeting of the Hub City Mayors.

<sup>16</sup> Federation of Canadian Municipalities. 2006. *Édifier Des Fondations Solides Pour Notre Prospérité: Rétablir L'équilibre Fiscal Municipal*. <http://www.fcm.ca/>.

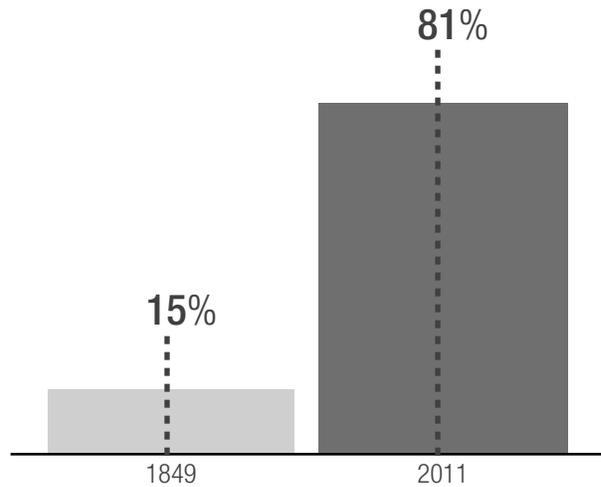
<sup>17</sup> Ibid., 4

by 2011 according to the latest Statistics Canada census.<sup>18</sup> The shift from a mostly rural population to an urban majority substantially augmented local services expenditures such as for the construction of infrastructure, the expansion of road and public transportation networks, the support of diverse social needs of the population and so on. Consequences arising from the lack of revenue for municipalities to fulfill the needed services aren't limited to the aging of infrastructure but can hinder the inhabitants' quality of life as well as affect access to affordable housing and to high-quality cultural amenities.

The environment also has its place amongst the new responsibilities of cities by the authority that they exert on local planning affairs, transportation, waste management and water treatment.<sup>19</sup> Smart growth and sustainable development are now part of the concerns of urban plans and long-term visions of municipalities and regional bodies.

Some responsibilities previously handled by the federal and provincial governments were delegated to cities without providing them adequate financial compensation or fiscal tools.<sup>20</sup> The National Assembly of Québec, as well as any other provincial legislative assembly, have the authority to amend the municipalities' obligations at any time.<sup>21</sup> The fiscal imbalance is an increasingly pressing issue amongst elected city officials.

### Evolution of the percentage of the population living in urban areas in Canada



The decentralization of public services must be counterbalanced by other levels of government. While some governments across the world focus their economic strategies on programs designated specifically for the development of cities, the new 2015 provincial fiscal pact for municipalities of Québec plans budget cuts of 300 million dollars in transfers.<sup>22</sup> The municipal officials, confident in their ability to offer services to citizens, are now facing their biggest challenge in delivering them: their fiscal authority.

<sup>18</sup> Pue, Kristen. 2013. *A "Big City Charter" for Edmonton and Calgary: Explaining the Role of Municipalities in Canada's Federal Framework*. University of Alberta. [http://ualawccsprod.srv.ualberta.ca/ccs/index.php/constitutional-issues/federalism/729-a-big-city-charter-for-edmonton-and-calgary-explaining-the-role-of-municipalities-in-canada-s-federal-framework#\\_ednref8](http://ualawccsprod.srv.ualberta.ca/ccs/index.php/constitutional-issues/federalism/729-a-big-city-charter-for-edmonton-and-calgary-explaining-the-role-of-municipalities-in-canada-s-federal-framework#_ednref8).

<sup>19</sup> Federation of Canadian Municipalities. 2011. *Bâtir Une Économie Verte Pour Le Canada: Le Rôle Des Municipalités*. <http://www.fcm.ca/>.

<sup>20</sup> Beresford, Charley, Duffy, Robert & Royer, Gaetan. 2014. *How Downloaded Costs Are Steamrolling Local Governments*. The Tye. <http://thetye.ca/Opinion/2014/09/24/Downloading-Steamrolls-Cities/>.

<sup>21</sup> Ibid., 2

<sup>22</sup> Canoe.ca. 2014. *Nouveau Pacte Fiscal: Les Coupures Dénoncées*. <http://fr.canoe.ca/infos/quebeccanada/archives/2014/11/20141105-190601.html>.

## MUNICIPAL TAXATION IN QUÉBEC AND CANADA

### The Constitution and the 'creatures of the provinces'

The Canadian Constitution divides legislative powers between the federal and provincial governments. However, from a citizen's perspective, the municipal elected officials still represent a credible form of government.<sup>23</sup> The Province of Québec inherited its political structure from England's unitary system of government, one in which municipalities depend on the central government. When the 1867 Constitution was drafted, the legislative authority over municipal affairs was attributed to provinces, following previous federal government models.<sup>24</sup> This is why, to this date, municipalities of Canada are still not officially recognized as a form of government, but are instead defined as 'creatures of the provinces'. Consequently, their fiscal tools are independently determined by each provincial government.

Today, revenue sources of municipalities of Québec and Canada mostly come from property taxes, user fees and transfers and grants from other levels of government. Yet, this has not always been the case. In 1917, Canadian provinces and cities were entitled to tax individuals' income.<sup>25</sup> Montréal even introduced, in 1935, a 2 per cent sales tax on all retail purchases, except on food and specific products bought by manufacturers. The provincial government followed the lead in 1940 by creating its

own sales tax, also setting it at a rate of 2 per cent. The Montréal sales tax continued to exist, but was henceforth administrated by the province.<sup>26</sup> From 1935 to 1942, the city also imposed a personal income tax.<sup>27</sup>

It was only toward the 1960s that the repercussions of the provincial control on the taxing powers of municipalities within Québec began to make themselves felt.<sup>28</sup> In 1965, the Québec provincial government has forbidden municipalities to collect sales tax, justified on the principle of uniformity.<sup>29</sup> The province has offset the shortfall caused by this intervention by promising to municipalities compensation of one-quarter of the total revenues from the provincial sales tax. However, this compensation fell into oblivion some 15 years later.<sup>30</sup>

The Federation of Canadian Municipalities (FCM) tried to gain official recognition of municipalities as a form of government during the rewriting of the Canadian Constitution in 1982. This request was not accepted; it was denounced that the provinces were partly responsible, taking a stand against it since they perceived a decrease of their powers.<sup>31</sup>

1917

1935

1940

1940

1942

1960

1965

1980

1982

<sup>23</sup> Trent, Peter F. 2012. *La Folie Des Grandeurs: Fusion et Défusions Sur L'île de Montréal*. Montréal: Les éditions du Septentrion.

<sup>24</sup> Ibid., 23

<sup>25</sup> Ibid., 7

<sup>26</sup> Ibid., 7

<sup>27</sup> Ibid., 23

<sup>28</sup> Ibid., 23

<sup>29</sup> Ibid., 23

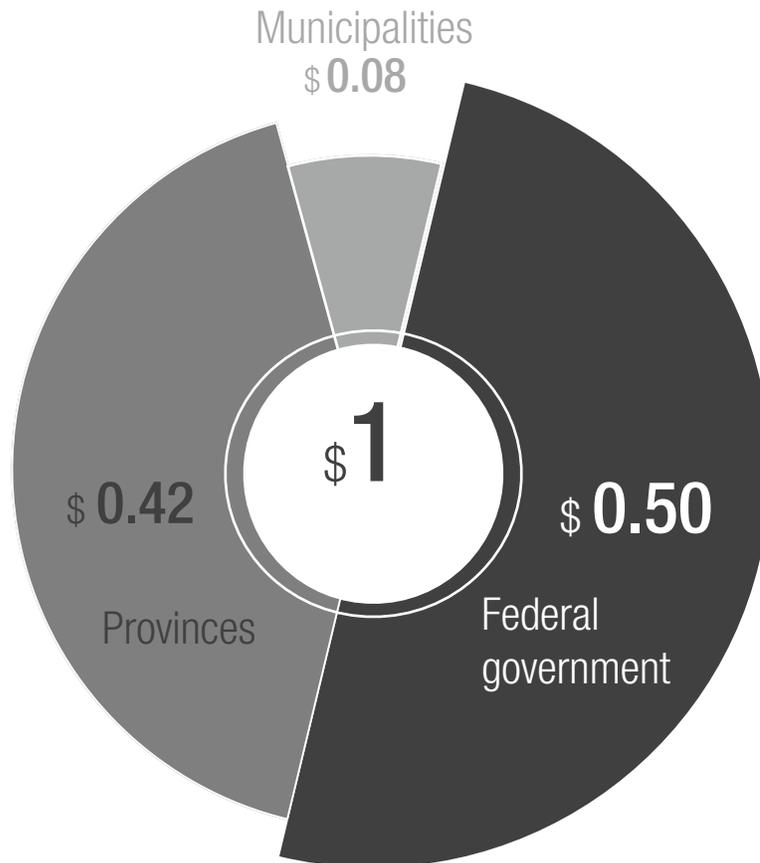
<sup>30</sup> Ibid., 23

<sup>31</sup> Ibid., 18

Municipalities are excluded from sources of revenue derived from local economic development for which they nonetheless play an important role. Indeed, the proportion of municipal income is relatively small compared to those of the federal and provincial governments. For every tax dollar collected, the federal government receives 50 cents and the provincial and territorial government receive 42 cents. This leaves only 8 cents for each tax dollar for municipal governments.<sup>32</sup>

During the municipal fiscal reform of 1980 in Québec, the province allowed municipalities to collect nearly all revenues from property taxes in exchange for the sales tax transfers.<sup>33</sup> However, the initial beneficial effects from the stability and autonomy gained from property tax revenues were short-lived. Local governments became completely dependent on this source of revenue, insufficient to meet the expenditure from their modern responsibilities.

**The share of tax revenues between the federal and provincial governments and municipalities for each Canadian tax dollar**



<sup>32</sup> Ibid., 16

<sup>33</sup> Ibid., 2

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## The dependence on property tax and its impacts on urban development

Within the context previously illustrated, where cities feel financially pressured from their increasing responsibilities and are eager to compete on the world stage, they seek to diversify revenue sources to be able to better fulfill their new obligations. On the other hand, municipalities in Québec are limited in options to do so. Their finances depend largely on property taxes and most of the time, to increase or simply maintain their income, they need to raise the rate of taxation.<sup>34</sup>

Property taxes offer several advantages that must not be overlooked, providing stable and predictable revenues. It is also visible throughout the taxpayer population. These taxes are as well less vulnerable to economic recessions and social spendings than other ones. Tax evasion is low and their administration is relatively easy.

Nevertheless, a minor tax raise will cause citizens to react strongly and negatively from the property taxes' high exposure. Whether the increase would be to counteract inflation and sustain revenues from one year to another or to gain additional funds for a specific project, property owners are concerned by their already heavy fiscal burden. Property taxes are also not very suitable to fund some local services. As claimed by the FCM, services with regard to housing, social assistance and other ones based on the redistribution of social and financial wealth would benefit more from other taxes proportionate to the citizens' capacity to pay.<sup>35</sup>

While federal and provincial revenues benefit from economic spinoffs from various economic sectors, real estate is the only activity influencing property tax revenues, the main source of income for municipalities.<sup>36</sup> Since the late 1990s, the overall economic development grew a lot faster than real estate values. Finally, property taxes are inelastic, which means that they are not influenced significantly by the economy in an area, and might in the long run be insufficient to cover the increasing costs of municipal services and infrastructure managed by big cities.<sup>37</sup>

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<sup>34</sup> Ibid., 7

<sup>35</sup> Ibid., 5

<sup>36</sup> Ibid., 5

<sup>37</sup> Slack, Enid. 2005. *Easing the Fiscal Restraints: New Revenue Tools in the City of Toronto Act*. <http://munkschool.utoronto.ca/imfg/>

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## The challenges of a reform of municipal taxation powers

### 1 ▶ Political challenges

Allowing municipalities new fiscal powers, particularly wished for by major cities in Québec, has very low chances to gain popularity amongst people with political influence since the electoral structure in Québec gives the rural regions greater voting weight than urbanized ones.<sup>38</sup> Furthermore, a tension exists between rural and urban areas, the former with their own real challenges particular to each region, viewing big cities as prosperous and fortunate places.<sup>39</sup> This friction is shaping the discourse of political parties that do not want to risk losing a significant portion of their votes. Thus, they restrain themselves from proposing strategies that could suggest a preferential treatment to cities like Montréal and Québec.<sup>40</sup> This is how, over time, a policy of regionalism evolved within the province.

### 2 ▶ Citizens' trust

Local authorities also need to hold the trust of their citizens. The need for additional revenue should not be viewed by the population as a consequence of the mismanagement of already available public funds.<sup>41</sup> With the recent Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry, this represents a significant challenge for municipal officials in obtaining public support for new fiscal tools.

### 3 ▶ The Canadian Constitution

Under the Canadian Constitution, municipalities do not currently have the right to most of the revenue sources mentioned in this report. In order to provide municipalities with new financial rights, cities need to work in partnership with federal and provincial governments to decide on legislative amendments. Collaboration between provinces and municipalities or a modernization of the Constitution will be necessary to allow cities more tax freedoms.

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<sup>38</sup> Ibid., 3

<sup>39</sup> Ibid., 3

<sup>40</sup> Ibid., 3

<sup>41</sup> Ibid., 20

# ALTERNATIVE REVENUE SOURCES TO PROPERTY TAXES

*“A key mark of local self-government is the ability for a local authority to control its own finances.”<sup>42</sup>*

## ON THE WAY TO FISCAL AUTONOMY: DIVERSIFYING LOCAL REVENUE SOURCES

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Canadian cities are responsible for far more obligations than when the Constitution was originally drawn up. The debate on municipal tax laws is not confined to within Québec, extending to the rest of Canada as well. Major cities, notably several ones from Alberta, New Brunswick, Ontario and British Columbia, are key leaders in the discussion. A greater diversity in revenue sources would enable cities to meet the population’s modern local needs.<sup>43</sup> Additionally, municipal public authorities are the closest ones to citizens, hence better positioned to assess and provide services expected from communities.

In other parts of the world, different degrees of fiscal autonomy of local governments have been studied to determine their added value and impact. According to a study by the Commonwealth Local Government Forum (CLGD), covering several member countries of the Commonwealth, New Zealand conceded to its local public authorities greater financial autonomy.<sup>44</sup> Their flexible legislative framework allows them, in return, higher standards of transparency and accountability. Their incomes and expenses are required to be easily accessible, therefore holding local governments liable for the proper management of public funds.

Among smaller cities in the United States, approximately 77% of their tax base derives from on property taxes, whereas this percentage lowers to 56% for large cities.<sup>45</sup> This is a result of a higher proportion of revenues coming from sales and income taxes that are shared with major cities in some states.<sup>46</sup> TD Bank, the Organisation for Economic Co-operation and Development (OECD) and the FCM, all public finances experts, advocate the approach of tax revenue sharing between governments and cities.<sup>47</sup>

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<sup>42</sup> Dirie, Ilias. n.d. *Municipal Finance: Innovative Resourcing for Municipal Infrastructure and Service Provision*. Washington, DC: CLG International LLC. <http://www.clgf.org.uk/>.

<sup>43</sup> Ibid., 7

<sup>44</sup> Ibid., 42

<sup>45</sup> Slack, Enid. 2011. *Financing Large Cities and Metropolitan Areas. IMFG Papers on Municipal Finance and Governance*. (3) Institute on Municipal Finance and Governance. Munk School of Global Affairs. University of Toronto.

<sup>46</sup> Ibid., 45

<sup>47</sup> Conference Board of Canada and Union des municipalités du Québec. 2003. *The Fiscal Situation of Quebec's Municipalities*. <http://www.umq.qc.ca/>.

It is important that a greater tax autonomy of local governments does not result in increasing the total tax burdens of residents and enterprises. Additional sources of income for municipalities may raise local taxes, thus reducing their reliance on property taxes and intergovernmental transfers. Consequently, lower provincial and federal taxes would be desired.<sup>48</sup> It could be done progressively, as municipalities slowly transition to diversified revenue sources and become more independent in covering their own expenses.

The following criteria, sourced from a study by Dr Enid Slack<sup>49</sup>, can be employed to evaluate and decide on different additional revenue streams options for local governments.

### **1 Low tax base mobility**

Firstly, a tax should not be easy to evade. For example, citizens can travel from one city to another if tax rates radically differs amongst them.

### **2 Sufficient tax yield**

Secondly, revenues from a chosen tax must raise sufficient income to cover the expenses of the services that they are collected for. Ideally, the tax base should also grow at a commensurate pace to the demand in services.

### **3 Efficient and effective administration**

The administration of a tax should be done efficiently and effectively. When a tax has existing collection systems at the federal and provincial levels, it is oftentimes more beneficial to use them, since local administration is more costly relative to generated funds.

### **4 Paid by beneficiaries**

Furthermore, non-residents should not pay taxes for local services, except to compensate for the ones they use.

### **5 Transparent and visible**

It is essential that sources of revenue are visible and accessible to citizens. Local government should be accountable and transparent over their incomes and how they are spent.

### **6 Fair**

Fees and taxes should be considered fair according to the opinions of the people. They should as well account for the financial capacity of taxpayers.

### **7 Stable and predictable**

Sources of income should equally be stable over time and predictable so that local governments can more precisely anticipate their financial resources.

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<sup>48</sup> Ibid., 18

<sup>49</sup> Ibid., 15

Contrary to property taxes, income taxes do not deter real estate investments and can positively influence the homeownership rate, since it does not tax citizens' gains from their property.<sup>50</sup> It also enables cities to benefit from the growing prosperity of their local economy, with individual incomes fluctuating more sensitively than property values.<sup>51</sup> Moreover, governing bodies of large metropolitan areas are increasingly playing an active role in issues such as social, crime or urban transportation. Income taxes would be more appropriate to address such obligations than property taxes, because it is more linked to the municipal taxpayers' ability to pay.<sup>52</sup> One also has to be conscious that, even if income tax revenues will grow in good economic times, they will decrease during difficult times, usually when the demand for social services is likely to rise.

According to the OCED, income taxes accounted for the largest proportion of total local tax revenues in 11 out of 33 studied countries in 2013.<sup>53\*\*\*</sup> In Finland, Luxembourg and Sweden, they contribute to over 90% of local taxation. In Austria, Canada, Chile, Hungary, Israel, Ireland, New-Zealand, Czech Republic, United Kingdom and Slovakia, local government are not collecting income taxes.

In this paragraph, the few examples of cities having access to income taxes have been obtained from a special study on new financing options for Canadian municipalities.<sup>54</sup> The local tax rate on individual incomes

is determined autonomously by Scandinavian city and regional governments. The central government, by adding the local rates to its own, administers and collects fiscal revenues and subsequently retransmits them to local authorities. Another method can be to levy the taxes as a percentage of the amount collected by the provinces or states, as in some U.S. states, or even by the central government, as seen in Belgium. In the United States, approximately 3800 local governments collect income taxes. The majority of them are situated in Pennsylvania, but several others across 15 other states may also levy those taxes.

The FCM highlighted that, until 1999, the City of New York was taxing salaries from non-resident workers at a rate of 0.45%, using certain services provided by the city, but that are not contributing to their financing through property taxes.<sup>55</sup> The loss caused from the termination of this tax for the city was estimated at 500 million dollars over a 5 year period following its abolition.<sup>56</sup>

The Canadian federal and provincial governments could, in a similar way, add an additional line on individuals' income tax declarations corresponding to the municipal or regional tax rate. This method would reduce management costs, generally more expensive when administrated by local authorities, while permitting them a fiscal tool capturing economic growth within their jurisdiction.

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<sup>50</sup> Ibid., 7

<sup>51</sup> Ibid., 7

<sup>52</sup> Slack, Enid. 2011. *Financing Large Cities and Metropolitan Areas*. IMFG Papers on Municipal Finance and Governance. (3) Institute on Municipal Finance and Governance. Munk School of Global Affairs. University of Toronto.

<sup>53</sup> OECD. 2013. *OECD Revenue Statistics*. <http://stats.oecd.org>

<sup>54</sup> Ibid., 7

<sup>55</sup> Ibid., 4

<sup>56</sup> Ibid., 4

In a report completed in 1993 by a working group, chaired by Claude Pichette, attempting to find solutions to several problems in Montréal and its metropolitan area, one of the recommendations was that the major city and other large ones within the same province receive part of the Québec sales tax.<sup>57</sup> This proposition was justified by the opportunities for these cities to offset the services used by visitors and commuters who are not paying property taxes and take advantage of local economic activities.<sup>58</sup> Sales taxes are often associated with the reasoning that they allow local services to be financed by those who use them. This differs from property taxes where services are supported solely by homeowners based on the value of their property.<sup>59</sup>

The following sales taxes' drawbacks have nonetheless to be taken into account. First of all, unnecessary competition over consumer markets could form between adjacent communities if a variation exists in their sales tax rates. Individuals can thus easily transit from one city to the next to make their purchases to avoid higher taxes. One approach to this problem is to introduce a sales tax throughout economic regions to help reduce the adverse effects of intermunicipal competition.<sup>60</sup>

Municipal and regional governments could use existing taxation systems at the provincial or federal levels to save on high administration costs that would be caused if sales taxes were managed locally.<sup>61</sup> A low rate, such as one or two per cent, would suffice as a tool to grant municipalities more flexibility in choosing their fiscal framework and allowing them a source of revenues proportionate to growth in economic activities.<sup>62</sup>

Several cities from different countries levy sales taxes, including in Hungary, Netherlands, Korea, Spain, Portugal and Austria, and amounts to more than 10% of local government revenues in some of them.<sup>63</sup> <sup>64</sup> In the United States, 33 states are redistributing a percentage of their sales tax revenue, ranging between 0.25 to 0.50 per cent, to cities within their territory.<sup>65</sup> <sup>66</sup> In Virginia and California, all of their cities are receiving a portion of the sales taxes whereas, in other states, only a few cities do.

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<sup>57</sup> Quesnel, Louise. n.d. *La Vie Locale et Régionale: L'année Politique Au Québec 1993-1994*. Les Presses de l'Université de Montréal. <http://pum.montreal.ca/>.

<sup>58</sup> Ibid., 7

<sup>59</sup> Ibid., 23

<sup>60</sup> Ibid., 52

<sup>61</sup> Ibid., 52

<sup>62</sup> Ibid., 52

<sup>63</sup> Ibid., 7

<sup>64</sup> Ibid., 53

<sup>65</sup> Ibid., 15

<sup>66</sup> Ibid., 7

Excise taxes apply when purchasing specific items. Common examples are taxes on tobacco, alcohol, hotel rooms, meals, energy resources, such as gas, and on other products that can be regarded as luxury products. The goal is generally to try to reduce their consumption. Taxes are set as a percentage of a product's market value or as a flat rate per unit. They are frequently collected by central, federal and provincial governments through their sales taxes, of which a portion of them is then shared with cities.<sup>67</sup> For instance, Berlin levies a tax on beer. In Canada, there are no municipalities currently collecting taxes on tobacco or alcohol, even in the Province of Manitoba, where they hold the power to do so locally.

### **1** Taxes on hotel rooms and meals

Local taxes on hotel rooms and meals are usually created so that visitors and commuters contribute to the municipal services that they use either daily or temporarily. These comprise, but are not limited to, fire and police departments, public transportation, local road networks. Additionally, these taxes are tied to the financial means of individuals. On the other hand, if they are too high, they can encourage visitors and travellers to choose hotels and restaurants in surrounding municipalities where they'll find less expensive options.

In British Columbia, cities and metropolitan regions can obtain the province's authorization to levy a tax, up to 2% of the cost of accommodation. It is collected by the provincial government and returned to the cities and municipalities for the purpose of being invested to promote local tourism.<sup>68</sup> Cities from 43 American states are charging taxes on hotel rooms and, from 27 states, on meals. The Greater Toronto Hotel Association adds 3% on the accommodation cost in order to promote tourism within the area. There are therefore alternative methods to enable cities to raise funds needed for tourism development. In some cases, however, voluntary contributions by the private sector cannot serve to pay for municipal services and infrastructure used by travellers but, rather, solely for investments in the tourism industry.

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<sup>67</sup> Ibid., 15

<sup>68</sup> Ministry of Finance. 2014. *Provincial Sales Tax Bulletin*. Province of British Columbia. <http://www.sbr.gov.bc.ca/>.

## 2 Fuel taxes

Fuel tax is the most lucrative, as well as easy and inexpensive to administer, of all taxes related to vehicles.<sup>69</sup> Since provincial and federal collecting systems are already in place for it, cities are usually using them. However, this tax can also create similar competition as sales taxes do if fuel prices fluctuate too much in cities close to one another. This is why it is recommended to fix tax rates at the regional scale.<sup>70</sup> Income generated from fuel tax are often invested in local road networks and public transportation.

Several states from the United States are sharing with cities the revenue earned from this tax. In Canada, a similar situation can be observed between provinces and local governments. For instance, the regional transport authority of the Greater Victoria area in British Columbia has the right to collect 3.5 cents from every litre of gasoline.<sup>71</sup> Trans-Link, the regional transport authority of the greater Vancouver area, levies up to 3 cents per litre.<sup>72</sup> In Montréal, the Agence Métropolitaine de Transport (AMT) receives 0.030 ¢ per litre on the fuel tax purchased within the metropolitan area and assigns half of its revenues to affiliated transit authorities, one of them being the Société de Transport de Montréal (STM).<sup>73</sup>

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### Other taxes

According to the OECD, local governments of France, Italy and Turkey have secured more than 10% of their revenues from 'other taxes', mainly collected from entreprises.<sup>74 75</sup> Transport authorities located in France are allowed to set a special tax, known as the 'transport contribution', to finance infrastructure and operations of the public transport system. This tax, which varies from 0.55 to 1.75 per cent, is paid by employers on the overall remuneration of their employees.<sup>76</sup> The rate depends on the number of inhabitants of the town or city in which the company is based and the nature of public transport facilities serving the community. This tax was introduced in the desire in having public and private employers participate with regards to indirect benefits generated par the existence of urban transportation networks (home-work trips) and to develop public transport by funding part of their investments.<sup>77</sup>

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<sup>69</sup> Ibid., 52

<sup>70</sup> Ibid., 52

<sup>71</sup> Province of British Columbia. 1996. *Motor Fuel Tax Law*. Victoria: Queen's Printer.

<sup>72</sup> Province of British Columbia. 1998. *South Coast British Columbia Transportation Authority Act*. Victoria: Queen's Printer.

<sup>73</sup> Agence métropolitaine de transport. 2014. *Budget D'exploitation 2015*. <https://www.amt.qc.ca/>.

<sup>74</sup> Ibid., 53

<sup>75</sup> Kitchen, Harry. 2004. *Local Taxation in Selected Countries: A Comparative Examination*. Department of Economics. Trent University. <http://www.queensu.ca/>.

<sup>76</sup> Ministère de l'Écologie, du Développement durable et de l'Énergie. n.d. *Le Versement Transport*. France. Accessed December 20, 2014. <http://www.developpement-durable.gouv.fr/>.

<sup>77</sup> Ibid., 76

*"[I]t is critical to local fiscal discipline that the amount of revenue from intergovernmental transfers be predetermined, and not subject to political re-negotiation during the budgetary year."*<sup>78</sup>

A substantial share of local government revenues are sourced from intergovernmental transfers and grants. They help diminish the gap between local government expenses and revenues (vertical fiscal imbalance) and to standardize the quality of municipal services offered across a nation.<sup>79</sup> Equally, some infrastructure has externalities extending beyond the boundaries of one or many municipalities. In such cases, it may prove necessary to turn to intergovernmental grants and transfers to provide fundings. Hence, it would be quite unlikely to see intergovernmental transfers disappear in the near future.

There exist three types of intergovernmental transfers: provincial transfers dedicated to specific programs, federal transfers dedicated to specific programs and general provincial transfers (not dedicated to specific programs). Most of the time though, they fall into the first two categories and have to be used for explicit purposes. For example, certain transfers must be invested by cities in cultural institutions, parks and transportation. Unconditional transfers can be spent freely on priorities identified by municipalities or serve to reduce local taxes.

The magnitude of transfers given to municipalities is sometimes calculated from formulas based, for example on the number of residents. They contrast with other revenue sharing options, such as when a percentage of a tax is given back to the municipalities respectively according to how much of it was collected in each. Formulas are necessary to prevent financial disparities

between municipalities and to ensure that they each have access to similar funding for their services. On the other hand, they might adversely affect the commitment of cities' elected officials in the quality of local services.<sup>80</sup> This might lead to municipal authorities blaming insufficient funds from grants and transfers of other levels of government when municipal services are suffering. If local governments benefited from a greater diversity of financial tools and raised a greater share of the revenues necessary to cover their expenses, they would find themselves more accountable in their funds' management practices and less reliant on transfers and grants.

Several governments have designed grants programs to encourage cities to invest in their development. A case in point of such a platform is the Community Development Block Grant in the United States, which provides financial incentive to big cities and urban communities. They can use these grants to fund sustainable development projects, to improve housing conditions or to boost economic development opportunities for middle and low income individuals.<sup>81</sup>

Similar initiatives should be conceived to forge municipalities with stronger sustainable policies. Grants could support urban regions, where most of the Canadian population is concentrated, in promoting objectives of reducing greenhouse gas emissions. As a matter of fact, local public authorities in Canada have a direct or indirect control on more than 45% of the output of greenhouse gases.<sup>82</sup>

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<sup>78</sup> Bird, Richard M. *Setting the Stage: Municipal and Intergovernmental Finance*. dans Mila Freire et Richard Stren. 2000. *The Challenge of Urban Government: Policies and Practices*. Washington, DC: World Bank.

<sup>79</sup> Ibid., 42

<sup>80</sup> Ibid., 4

<sup>81</sup> U.S. Department of Housing and Urban Development. n.d. *Community Development Block Grant Program - CDBG*. Accessed December 22, 2014. <http://portal.hud.gov/>.

<sup>82</sup> Ibid., 19

## OTHER SOURCES OF REVENUE

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### User fees

Following the user-pay principle, user fees are relatively more linked to the residents and municipal service users' financial capacity. Despite this advantage, all services should not be financed this way. It is best advised not to for what economists refer to as 'public goods'.<sup>83</sup> A few examples are public security, public spaces and street lighting. It can be difficult to draw the line between which services should be paid for by user fees and those which should not.

Road toll financing is an example of user fee. Its use is increasingly popular ever since technological improvements have eliminated the congestion caused by previous manual collection systems. They are present in numerous cities around the world, as seen in Singapore, London, Vancouver and Oslo. They sometimes are chosen as a solution to traffic problems, adjusting tolls according to the type of vehicle, the time and day. In Singapore, motorcycles pay less to have access to the road network and there are no fees for all vehicles during weeknights and weekends. Citizens have an incentive to opt for public transport or car-sharing during rush-hour traffic and could reduce pollution from motor vehicles. From an environmental perspective, profits generated by road tolls can be invested in public transit and other environmentally friendly modes of transportation. This is illustrated in the United States, where 25% of the 130 million dollars raised from road tolls were spent in public transportation and 5% in sustainable development initiatives.<sup>84</sup>

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### Development charges

Development charges are initial fees charged to developers when constructing new buildings in order for a city to cover the costs of the addition and the extension of infrastructure.<sup>85</sup> They are based on the principle that growth should pay for itself and should not place a rising burden on existing taxpayers.<sup>86</sup> Development charges can also contribute to sustainable development of urban regions. By adjusting the costs in relation to where a new construction is taking place, it becomes a possible tool to try to influence and contain urban sprawl.<sup>87</sup>

In 2012, 201 Ontario municipalities adopted a law on development charges. In Ottawa, the costs vary for determined zones (inside or outside of a greenbelt) and for different building types (detached single family home or according to the number of units per dwelling). Effective on October 1st, 2014, the lowest rate was \$7,382 and could go up to \$30,362. Fees for a non-residential structure are based on both the building's footprint and on the type of business it is built for (industrial or non-industrial) and vary between \$7.47 to \$19.55 per square foot.<sup>88</sup>

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<sup>83</sup> Sancton, Andrew. 2011. *Canadian Local Government: An Urban Perspective*. Don Mills, Ont: Oxford University Press, Canada.

<sup>84</sup> Ibid., 15

<sup>85</sup> Ville d'Ottawa. n.d. *Redevances D'aménagement*. Accessed December 28, 2014. <http://ottawa.ca/fr/hotel-de-ville/urbanisme-et-amenagement/amenagement-dune-propriete/redevances-damenagement-0>.

<sup>86</sup> Ibid., 52

<sup>87</sup> Ibid., 52

<sup>88</sup> Ibid., 85

## Public-private partnerships

Public-private partnerships (PPP) are agreements between public bodies and private-sector stakeholders in which the latter are responsible for services or infrastructure traditionally provided by governments. Their popularity is increasing in Canada, mostly because of the borrowing limits imposed on local governments by other governmental levels.<sup>89</sup> PPPs are financed by private-sector actors and governments pay them following the initial arrangements, generally through tax revenues or user fees. They are commonly used at the municipal level for services such as waste collection, public transit and waste water treatment.<sup>90</sup>

If governments require that they remain owners of the infrastructure or continue to provide services after a certain amount of time, it is possible to prevent the privatization of public goods and services paid by the citizens.<sup>91</sup> The expertise of private enterprise involved in PPPs can be attractive for local governments if they feel like they lack experience and knowledge to complete certain projects. They are sometimes used to try to find lower prices. They are a tool for cities attempting to acquire new infrastructure in a more efficient way and to transfer part of the risks to the private sector by leaving them the task of financing projects.

Despite presenting themselves as an alternative to conventional credit, PPPs are not always a win-win situation for both parties. They are not, in and of themselves, an additional source of revenue for cities.<sup>92</sup> Long term obligations for local governments to pay for the PPPs can consume a considerable portion of future revenues and decrease the flexibility of spending them in more pressing needs.<sup>93</sup> Finally, the accountability of public bodies when services are taken over by private enterprises becomes blurred.<sup>94</sup>

Caution should therefore be exercised whilst drafting the specifications of the PPPs and to take into consideration other possible solutions to finance public infrastructure and services so that benefits for citizens are maximized. PPPs are very controversial and it cannot be said that they are a true solution to the real problem of vertical fiscal imbalance: the lack of revenue sources for local public services.

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<sup>89</sup> Ibid., 4

<sup>90</sup> PPP Canada. 2014. *Annual Report 2013-2014*. <http://www.p3canada.ca/>.

<sup>91</sup> Ibid., 52

<sup>92</sup> Hamel, Pierre J. 2007. *Les Partenariats Public-Privé (PPP) et Les Municipalités: Au-Delà Des Principes, Un Bref Survol Des Pratiques*. Institut national de la recherche scientifique (INRS) Urbanisation, Culture et Société. <http://www.uccs.inrs.ca/>.

<sup>93</sup> Ibid., 92

<sup>94</sup> Ibid., 92

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## A greater access to borrowing

The funding of large infrastructure should rely on local sources and often in the form of loans. However, municipalities in Québec are required to produce budgets that should not forecast any deficit and must clear past debts. They need to respect credit limits according to the laws of the province and obtain approval for any new borrowings.<sup>95</sup> The ability to use loans to fund infrastructure is justified by their usage extended over a long period of time<sup>96</sup> and their initial costs sometimes unaffordable. By permitting cities to borrow, they can benefit faster from the advantages of large infrastructure, for example, a public water treatment plant or cultural institutions, that allow them to make their mark in an international environment.<sup>97</sup> Municipalities have a good credit rating and, in most cases, it is more financially and transparent to citizens to borrow capital instead of having recourse to PPPs. One has to be careful and keep in mind that if too many debts are incurred, future expenses to pay them back might be too high and affect negatively the provision or quality of all the other local services.

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<sup>95</sup> Ministère des Affaires municipales et de l'Occupation du territoire. 2014. *Le Financement et La Fiscalité Des Organismes Municipaux Au Québec*. Gouvernement du Québec. <http://www.mamrot.gouv.qc.ca/>.

<sup>96</sup> Ibid., 52

<sup>97</sup> Ibid., 52

# MODELS FOR RESTRUCTURING MUNICIPAL TAXATION IN THE PROVINCE OF QUEBEC

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## Criteria for restructuring municipal taxation

The criteria below were defined as a result of research programs on local governments. They would be particularly instructive should a municipal fiscal framework reform or a new agreement between cities and provinces happen:<sup>98</sup>

- › Clear division of the responsibilities between the levels of governments
- › Freedom for municipalities to adapt their revenues according to their financial needs
- › Sensible, rigorous and democratic systems and procedures for the management of municipal public funds
- › Optimal and efficient administration and collection systems between the different governments and municipalities
- › Efficient, predictable, fixed and sufficient intergovernmental transfers
- › The development of diversified sources of revenue for local governments

The three main elements to take into consideration when defining fiscal structures of governments are revenues, expenditures and transfers. In all cases, an equilibrium between local and provincial powers is needed to ensure the quality of municipal services. Why, then, is it that municipal elected officials and administrations cannot have similar rights and tools to manage effectively and better than any other level of government the local concerns specific to each region? The municipal authorities' competencies in the management of local affairs must be acknowledged by the provincial and federal governments and tapped to provide the best services possible to citizens.

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## The city-state status and some international examples

Agreements between big cities and other level of governments are possible in which the former can gain a city-state status, allowing them equal responsibilities and powers as a state or province. The metropolitan government of Tokyo has more taxation powers than other cities in Japan due to its additional prefecture (equivalent to provincial) status. In Germany, Berlin, Bremen and Hamburg also enjoy greater taxation rights. Yet, one needs to keep in mind that they take care of a greater range of responsibilities, such as education, security and social policies.

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<sup>98</sup> Ibid., 42

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## Municipal charters of Canadian provinces and of American cities

Several major cities in the United States have obtained a 'home rule' (local autonomy) status, permitting them larger obligations and powers.<sup>99</sup> This special recognition is in the form of a charter between a city and a state, allowing the former autonomy in overseeing local affairs.<sup>100</sup> In Canada, many cities and metropolitan areas enjoy comparable legislative frameworks throughout specific charters replacing general municipal regulatory acts. These agreements between a municipality or metropolitan authority in which the province governing it in grants supplementary power and a special status, recognize the unique needs of cities and municipalities.

For instance, Vancouver has further taxation and borrowing powers, according to its own charter, than other cities under the British Columbia Municipal Act.<sup>101</sup> In Alberta, the Municipal Government Act attributed to municipalities the powers of a natural person, except when limited by the law, and gives them a governmental authority. The Government of Ontario has, for its part, recognized in 2006 broader and autonomous powers to the City of Toronto.<sup>102</sup> In a report from the Union of Quebec Municipalities (UMQ) produced in 2012, a proposition was suggested, among others things, a new charter to amend current municipal tax laws.<sup>103</sup> The UMQ adopted an innovative approach by positioning sustainable development at the heart of its tax proposals. The union encourages charging fees for some services, including water and energy supply, in order to motivate citizens and businesses to embrace environmentally sound habits.<sup>104</sup>

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## A new pact at the heart of the realities of big cities

In a document from the cities of Montréal and Québec, they proposed a new fiscal pact with the provincial government. First of all, they wish for the province to understand the importance and particular needs of cities. They hope that such a step would result in a growing collaboration from the federal and provincial government bodies with cities in the decision-making process, instead of simply imposing on them their choices in a top-down approach.

Moreover, they request changes departing from policies advantaging rural areas. One method would be to create a specific authority for large cities or to allow certain institutions to follow economic boundaries centred on cities instead of existing regions. For example, municipalities of Brossard and Boucherville from the south shore region, even if a significant proportion of workers commute daily to Montréal and would be more concerned by the employment needs of the agglomeration of Montréal, rather than with other cities of their region, like Sorel or Bromont, with which they currently plan their labour force need.

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<sup>99</sup> Ibid., 4

<sup>100</sup> Ibid., 4

<sup>101</sup> Province of British Columbia. 1953. *Vancouver Charter*. Victoria: Queen's Printer.

<sup>102</sup> Ibid., 2

<sup>103</sup> Ibid., 2

<sup>104</sup> Ibid., 2

Thirdly, both cities aim for a new status acknowledging their field of competence in which they can autonomously take decisions. A logical step toward this would be a redefinition of the mission of large cities and the respective areas of jurisdictions of the province and cities. This clarification is also recommended by the FCM in a report completed in 2006. A strong partnership concept is present in Europe where several cities take over state and local government roles. They are granted more responsibilities as well as similar fiscal tools than other levels of governments. For example, this is the case in France for the cities of Bordeaux, Lyon and Marseilles. In the United States, a few metropolises, namely New York, Boston and Chicago, play important roles in education. Sometimes, they are also engaged in economic negotiations. Chicago is even responsible for the management of its airports.

Finally, Montréal and Québec are hoping that the fiscal imbalance of cities will soon be investigated, taking into account urban realities. For instance, Montréal is truly different from the rest of Québec municipalities by its demographic and ethnic composition and the needs that follow from it. The deterioration of infrastructure and the lack of financing for public transit are yet other arguments for additional revenue sources. The increasing and diversifying responsibilities of large cities won't be fulfilled without greater fiscal flexibility and autonomy for local governments.

## CONCLUSION AND AFTERTHOUGHTS

*“Vertical imbalance causes severe financial problems for local government, exacerbated by the increasing reduction in central government transfers combined with the lack of assignment of new revenue sources and restricted autonomy to adjust the present sources.”<sup>105</sup>*

By exploring the current roles of cities, to compete in the age of globalisation and to promote economic development, they are also given more and more obligations. The fiscal framework, unchanged for many decades now, as well as budget cuts, are putting additional financial pressures on municipalities in Québec. They are thus asking for sources of revenue in order to diminish their dependence on property taxes and to better meet their new duties. An overview of local taxes and other types of revenue collected in cities across Canada and the rest of the world opens new horizons toward more financial autonomy for Québec municipalities. Several reform models are providing means for attaining such objectives. Local sources of revenue should be selected insightfully, whilst always keeping in mind that each municipality has distinctive challenges, responsibilities and needs. By doing so, falling into the trap of copy-pasting existing fiscal frameworks from elsewhere can be avoided.

Curiously, it seems like changing the Constitution is not a very popular idea among those defending greater fiscal autonomy for Canadian cities. Would it be necessary to change the Canadian constitution so that they can obtain more freedom in their taxation powers? The constitutions of certain countries part of the Commonwealth include formal recognition of the local governments' functions and powers.<sup>105</sup> However, in a report from the FCM on vertical fiscal imbalance, this option is not mentioned.<sup>106</sup> The UMQ is of the opinion that, even if they do not enjoy constitutional recognition, Canadian municipalities have nevertheless managed to gain more autonomy and to develop a relationship of co-operation with the provinces governing them.<sup>107</sup> Is this really the case? Do municipalities feel the same way?

On the other side, it is worth reflecting on the fact that if cities would have greater taxation powers and flexibility in their financing tools, would they use them. Would they prefer to continue receiving intergovernmental transfers and avoiding the burden of being accountable for the raising and management of their own revenues? As seen in Manitoba, the City of Winnipeg has the authority to levy a tax on hotel rooms, alcohol sales and transfers of immovables, but do not use them.<sup>108</sup> Some African local governments are choosing instead to leave it to other governments to take care of responsibilities and fundings.<sup>109</sup>

Even so, these reflections should not restrain municipalities from seeking a higher level of financial autonomy to ensure they are adapted to local needs and services. In the eventuality that municipalities are provided with additional taxation powers, how to best make sure that the priorities of citizens are being respected by local authorities and that the power does not become concentrated in the hands of a single mayor or a few elected officials? A new world of opportunities could be opened up for more democratic approaches, enabling citizen participation. The adoption of participatory municipal budgets is a great example originating from Porto Alegre, in Brazil, in which residents are called upon to vote on a portion of the budget. This practice has recently gained more attention ever since the mayor of Paris used it during the drafting of the 2015 budget.

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<sup>105</sup> *Ibid.*, 42

<sup>106</sup> *Ibid.*, 16

<sup>107</sup> *Ibid.*, 2

<sup>108</sup> *Ibid.*, 7

<sup>109</sup> *Ibid.*, 42

# ANNEX A: BILL 53, FOR A BETTER TORONTO?

Some Canadian cities tried to obtain more authority to administer the affairs of their own communities. The Bill 53 example, set in Toronto, is interesting when looking at negotiations for new taxation powers between provinces and municipalities. This annex present an overview of the legislation and its consequences on the City of Toronto.

In May 2005, through a report by Toronto and the Province of Ontario, they proposed important changes in the legislative powers of the city, suggesting that it should levy taxes on hotel rooms and on parking.<sup>110</sup> They served as a basis for Bill 53, in order to create a 'Stronger Toronto for a Stronger Ontario'. Within the political sphere, the new municipal act, finalized in December 2005, was boasted as forward-looking and innovative.<sup>111</sup> The city aspired to increased legislative authority and autonomy in the local activities. Toronto gained through the new act the right to levy taxes on alcohol, tobacco and entertainment. It also earned the right to intervene in local matters, as long as they do not fall explicitly under the responsibilities of the provincial government, and the authorization to fund longterm projects through the use of tax increment financing.<sup>112 113</sup>

It seems, though, that the new act did not empower the city to reach the initial objectives. Toronto did not receive access to what could have been important sources of revenue, such as income taxes. The capital raised by the new taxes has been estimated at 50 million dollars, representing less than 1% of the municipal budget of approximately 7 billion.<sup>114</sup> Furthermore, Toronto has inherited from its new municipal governing laws supplementary responsibilities concerning social assistance and housing programs.<sup>115</sup> Toronto still has no access to financial resources to support the expenditure needs of its growing obligations.

Toronto still received more legislative powers with the adoption of Bill 53 than under the previous municipal act of 2001, governing all the other municipalities in Ontario as well. A few months later, Bill 130 amended the 2001 act to give to the rest of the municipalities almost every right given to Toronto in 2005.<sup>116</sup> Well, it mustn't have made a big difference, since it was observed that 90% of the content of the new Toronto act was copied word for word from the 2001 act.<sup>117</sup> The province still holds the right to modify any legislation governing the 'creatures of the province' at any moment. Will municipalities ever be entitled to an official constitutional recognition conceding them new financial tools necessary to resolve the vertical fiscal imbalance?

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<sup>110</sup> Boudreau, Julie-Anne, Keil, Roger & Young, Douglas. 2009. *Changing Toronto: Governing Urban Neoliberalism*. University of Toronto Press.

<sup>111</sup> Ibid., 111

<sup>112</sup> Sutcliffe, John B.. 2007. *Local Government in a Multi-level Setting: Lessons From England and Ontario*. *Regional & Federal Studies*, 17(2).

<sup>113</sup> Winfield, Mark. 2006. *Building Sustainable Urban Communities in Ontario: A Provincial Progress Report*. Pembina Institute.

<sup>114</sup> Ibid., 111

<sup>115</sup> Schabas, Jake. 2011. *The Impact of Legislative Reforms to Canadian Federalism on Toronto's Ability to Rescue Poverty*. *Berkeley Planning Journal*, 24(1).

<sup>116</sup> Burda, Cherise. 2009. *Getting Tough on Urban Sprawl: Solutions to meet Ontario climate change targets*. Toronto: The Pembina Institute.

<sup>117</sup> Ibid., 111