CITY OF **VANCOUVER** **A10**

CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	June 10, 2008
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Meeting Date:	June 24, 2008

TO:	Vancouver City Council
FROM:	General Manager of Business Planning and Services
SUBJECT:	Municipal Fiscal Imbalance

RECOMMENDATION

A. THAT Council receive this report for INFORMATION.

B. THAT Council request that the Union of BC Municipalities establish a Commission made up of impartial experts in the field of municipal finance and policy, to deliver a set of practical, implementable solutions to the municipal fiscal imbalance issue in British Columbia by Spring 2009, and that the City offer the participation of the Director of Business Planning and Services in this process.

CITY MANAGER'S COMMENTS

Over the past decade, it has become increasingly clear that the fiscal structure of Canadian municipalities is not sustainable. This is not a simple story of senior government downloading. The municipal fiscal imbalance has come about in large part because the role of local governments has changed substantially over time, in terms of the types of services we provide, and the complexities of delivering even just our core services.

Factors contributing to the municipal fiscal imbalance include changing social environments, expensive regulatory standards, greater urbanisation, as well as senior government downloading.

Because municipalities are required to maintain balanced operating budgets, to borrow within defined constraints, and have limited leeway to raise property taxes each year, a superficial analysis of the numbers does not immediately demonstrate that there is a problem. However, a deeper assessment shows that local governments are increasingly stretched financially, and that this shows up in areas such as curtailed capital programs, lack of proper infrastructure maintenance, diminishing service levels, insufficient scope of services, and workforce attraction/retention issues.

A great number of studies have already been conducted to show that the welfare of Canada depends on the welfare of its cities, and that there exists serious, systemic issues with how Canadian municipalities are able to finance their operations. These studies demonstrate credibly and consistently that the municipal fiscal imbalance does exist, and the information in this current Council report supports this.

It is now time to move past defining the problem, to determining the right solution for BC. A real, lasting solution will involve partnership among BC municipalities, and with the federal and provincial governments. The solution extends beyond just creating the right financial structure for cities, to clarifying roles and responsibilities among levels of government, in the face of expanding municipal responsibilities and overlapping jurisdictions.

The Union of BC Municipalities is the ideal vehicle to facilitate a cooperative approach to developing the solution, and staff strongly recommends that the UBCM be requested to lead this process in a timely manner.

COUNCIL POLICY

Over recent years, Council has passed several motions concerning the *municipal fiscal imbalance*, the term used to describe the fact that in Canada, local governments do not have sufficient access to funding, relative to their spending needs, as compared to the provincial and federal governments. (This is sometimes also referred to as the *vertical fiscal imbalance*.)

On June 12, 2007, Council approved a resolution that the provincial Minister of Public Safety and Solicitor General be asked to reinstate the compensatory funding to the City, to offset the City for the cost of VPD’s participation in policing in the Port of Vancouver.

On November 15, 2007, Council approved a motion regarding the municipal fiscal imbalance, calling for the Province of British Columbia to take steps in their upcoming budget to address the municipal fiscal imbalance by reinstating a stable revenue-sharing program with municipalities.

On January 29, 2008, Council approved a motion that the City of Vancouver request that the Federal Government, Province of BC and the Union of BC Municipalities work together to develop an equitable police funding program for all British Columbia municipalities. The full text of these resolutions is found in Appendix A of this report.

In addition to these Council resolutions, the Mayor has imparted the City's position to the provincial and federal governments in several recent communications, including his June 2007 written submission to the Standing Senate Committee on National Finance (as input into their *Second Interim Report on the Committee's Study of the Fiscal Balance between the Different Levels of Government in Canada*), his September 2007 federal pre-budget submission to the Government of Canada Minister of Finance, and his November 2007 provincial pre-budget submission to the Provincial Minister of Finance.

PURPOSE

This report responds to the motion approved by Council on January 29, 2008, requesting that staff report back with a set of specific pieces of information concerning the municipal fiscal imbalance issue:

> *WHEREAS this Council has passed a motion requesting the provincial government to bring back the transfer payments that ended in 1997;*
>
> *AND WHEREAS a campaign to restore fiscal balance between municipalities and senior levels of government needs to be focused, coordinated and sustained;*
>
> *THEREFORE BE IT RESOLVED THAT staff report back on:*

- *the fiscal implications of reinstating pre-1997 levels of provincial transfer payments adjusted to present day cost-of-living;*
- *the current annual costs to the City of Vancouver of financing services that have traditionally been the responsibility of provincial and federal governments, including:*
    - *social housing,*
    - *child care,*
    - *mental health treatment,*
    - *drug policy, and*
    - *port police.*
- *recent rates of federal transfers to BC compared to the recent rate of provincial transfers to Vancouver;*

- *the current status of efforts at the local, provincial and national level to address the Municipal Fiscal Imbalance;*
- *inequities in contributions from City of Vancouver taxpayers to provincial revenues through school taxes.*

BACKGROUND

A vertical fiscal imbalance exists when the "… *fiscal capacity of one order of government is insufficient to sustain its spending responsibilities while the fiscal capacity of another order of government is greater than is needed to sustain its spending obligations, while both orders of government provide public services to the same taxpayer*." (Source: *Fiscal Imbalance: The Case for Cities*, by Enid Slack, June 2006).

Municipal governments in BC were originally mandated and designed to deliver basic services to property and citizens. Over the years, local government services have expanded to extend far beyond these basics, into areas such as immigrant settlement, affordable housing, preparation for large-scale emergencies, childcare, and, compliance with increasingly stringent senior government regulation in a wide range of areas. In addition to these non-traditional service areas, many of the traditional municipal services, for example policing and social planning, have become significantly more complex and costly to deliver.

There are a variety of reasons behind this expansion of both the scope and scale of local government services. These include a more complex and challenging social structure that has accompanied an increasingly urbanised way of life in Canada, the direct and indirect consequences of senior governments withdrawing from certain service areas, a tendency in recent years for senior governments to embrace regulation over service delivery as a means of achieving policy objectives, and the need to have local input or control over the delivery of certain types of services.

The challenge for local governments is that municipal revenues have not grown in step with the cost of these responsibilities. According to the Federation of Canadian Municipalities (FCM), as of 2006, of every tax dollar collected in Canada, 50 cents go to the federal government, 42 cents go to provincial and territorial governments, and only eight cents go to municipal governments.

DISCUSSION

A. THE CURRENT FINANCIAL STRUCTURE OF CITIES IN BC

Though the roles and responsibilities of cities in BC has changed over the years, the funding model has remained more or less static. The significant majority of cities' funding comes from property taxation, and the balance from user fees (e.g., for recreation services, street parking, development permit and rezonings, and water, sewer and solid waste services), development cost charges, and some senior government transfers.

In BC, the only taxing powers municipalities have is the property tax, as compared to the provincial government's much wider span of taxing authorities, including sales taxes (the provincial sales tax, hotel room tax, motor fuel tax, tobacco tax and the carbon tax), personal and corporate income taxes, property taxes (rural property tax, property transfer tax and property school taxes), and natural resource taxes.

Property taxes are a relatively stable funding source for local governments, and are a highly transparent and accountable form of taxation. However, unlike consumption taxes and income taxes, property taxes are not directly linked to either benefits received or ability to pay, nor do they link directly to economic growth.

While property taxes allow for a stable and predictable revenue source for local governments, individual taxpayers do not enjoy the same level of control over or predictability of property taxes as they do with consumption or income taxes. This is because while Council controls the growth in the overall tax levy, market property values are used to allocate the levy among individual taxpayers. So, as the value of an individual property varies from year-to-year, so do the taxes on that property. Most often, it is changes in market value that account for large year-over-year increases in property taxes, as opposed to any element directly in Council's control.

While there is no theoretical limit on how much property tax a municipality can collect, there is a practical limit, in terms of the impacts on local taxpayers. The recently-published report of the City's Property Tax Policy Review Commission demonstrated clearly that the volatility, and in some cases the overall levels of property taxes, are an issue for a subset of residential and non-residential taxpayers.

In BC, property tax impacts on local taxpayers are exacerbated by the fact that municipalities collect property taxes on behalf of various other taxing authorities. In Vancouver, approximately half the property taxes collected by the City of Vancouver are used for municipal purposes; the other half are remitted to various other taxing authorities (in 2007, 38% for provincial school taxes, 9% for Translink, 1% for the BC Assessment Authority, 1% for the Greater Vancouver Regional District, and less than 1% for the Municipal Finance Authority).

B. CURRENT REVENUE SHARING

Currently, the City of Vancouver receives the funding from senior governments, from several sources:

- TRAFFIC FINE REVENUES: The City receives a share of the net provincial traffic fine revenues, based on each participating municipalities' share of total policing costs. These revenues are used to defray the City's cost of providing policing services, in the range of $12.6 million to $14.0 million in each of the past three years.

- GAMING REVENUES: The City receives a share of gaming revenues collected annually by the provincial government. Vancouver's share has been between $5.4 million and $6.0 million annually, over the past seven years.
- TRANSLINK: Translink currently provides the City with approximately $3 million a year to offset operating, maintenance and rehabilitation of City streets that belong to the Translink Major Road Network. Strictly speaking, funding from Translink is a *regional* funding source, but is included here since Translink receives significant funding from the Federal Gas Tax Fund.
- INFRASTRUCTURE FUNDING: The City receives one-off funding for infrastructure projects from a variety of sources. For example, between 2003 and 2006, the City received $18 million from the Canada/BC Infrastructure Program for sewer reconstruction projects.
- ONE-OFF INITIATIVE FUNDING: From time to time, the City may receive one-time funding for specific initiatives. The most recent example of this is a $10 million allocation from the provincial government announced in April 2008, to the City's *Great Beginnings: Old Streets, New Pride* program. This funding will be applied to the revitalisation of the downtown eastside neighbourhoods. There are some smaller examples of one-off grant funding received by the City, such as Joint Emergency Preparedness Program (JEPP) grants.

The Gas Tax Fund

In 2005, the Government of Canada allocated a share of the federal gas tax to Canadian municipalities, to finance infrastructure spending. Allocations to British Columbia municipalities totalled $636 million between 2006 and 2010. The September 2005 *Gas Tax Agreement*, signed by the Government of Canada, the Province of BC and the Union of BC Municipalities (UBCM), set out the annual allocation amount to the UBCM, and defined the delivery mechanisms. In 2005, the Greater Vancouver Regional District (now Metro Vancouver), opted to allocate GVRD's share of the federal gas tax revenue to Translink, to be applied to regional transportation initiatives. As a result, Metro Vancouver municipalities do not receive any of this funding.

In their 2008 budget, the federal government made a commitment to make the Gas Tax Fund permanent. In March 2008, the federal and provincial governments and the UBCM signed a four-year extension to the Gas Tax Funding Agreement, to be in place from 2011 to 2014. This Extension Agreement is subject to the parties completing a joint program evaluation by March 2009.

C. THE MUNICIPAL FISCAL IMBALANCE

The issue of fiscal imbalance among the three levels of government in Canada has been widely discussed and debated over recent years, among elected officials, think tanks, advocacy groups, private industry, and in the media. The following is a small sampling of recent publications addressing the specific issue of the municipal fiscal imbalance.

- A briefing published in January 2008 by the Conference Board of Canada, titled "*Implement Sustainable Funding for Canada's Cities*," notes that several studies undertaken by the Conference Board of Canada over recent years have concluded that "*… under current conditions, [Canadian] cities are unable to provide the services for which they are responsible while at the same time securing a level of infrastructure sufficient to meet current demands and accommodate future growth*." The author calls for the creation of new permanent fiscal capacity for Canadian cities via access to sales tax revenues, and for the provinces to take the lead on implementing this change.

- A November 2007 report for the Federation of Canadian Municipalities ("*Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure*," by Saeed Mirza, Professor of Civil Engineering and Applied Mechanics at McGill University) concludes that over the past twenty years, municipalities have been caught in a fiscal squeeze that has forced the deferment of infrastructure investment, to the point where the Canadian "municipal infrastructure deficit" -- the funding required to maintain and/or replace existing infrastructure -- is an estimated $123 billion. The author estimates that at the time of his report publication, in addition to this funding required to maintain current infrastructure, Canadian municipalities require $115 billion in *new* infrastructure investment to accommodate growth and changing needs.

- A June 2006 report from the Federation of Canadian Municipalities, "*Building Prosperity from the Ground Up: Restoring Municipal Fiscal Balance*," describes in detail the scope and scale of the fiscal imbalance issue, and makes six recommendations to address the issue: clarify roles and responsibilities among levels of government, develop a long-term plan to eliminate the infrastructure deficit, diversify municipal revenue tools, focus on an integrated approach to rural and northern development, invest in public transit, and, change municipal practices with respect to planning for growth, pricing services and generating revenues.

- A June 2006 paper authored by Enid Slack of the Institute on Municipal Finance and Governance at the University of Toronto Munk Centre for International Studies, "*Fiscal Imbalance: The Case for Cities*," defines the nature and the extent of the fiscal imbalance at the municipal level in Canada. The author asserts that because local governments are required to balance their operating budgets and constrain their borrowing, Canadian municipalities appear to be financially healthier than they in fact are. She concludes that that the fiscal challenges facing municipalities show up not through operating budget deficits or excessive borrowing, but rather through infrastructure deficits and/or inadequate service provision.

- A 2002 report published by TD Economics (of the TD Bank Financial Group) titled, "*A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future*," identified Canadian local governments' heavy reliance on property tax as seriously problematic for the future of Canada, in terms of competitiveness and quality of life. The author called for a “tax point transfer,” in which federal and/or provincial governments create committed tax room for municipalities, preferably using sales or excise taxes, with no net impact on taxpayers.

This handful of reports and their conclusions are representative of a much larger set of papers and reports on this topic that have been published in recent years (see Appendix E).

D. PUBLIC ATTITUDES ABOUT THE FISCAL IMBALANCE

The results of a recent survey conducted by the Federation of Canadian Municipalities (FCM), released in April 2008, show significant public awareness of this issue, and support for enhancing the financial strength of municipalities. The survey results show:

> *… [that Canadians] believe municipal governments do not have the resources they need to meet the challenges facing them, and they want the federal government to play a major role in fixing the problem. … [The poll] found that Canadians believe their municipal governments are under-funded in relation to the services they provide to their communities. However, they do not see raising property taxes or reducing municipal services as ways to fix the problem. Most believe provincial and federal governments should provide the additional funds.*
>
> *The poll shows Canadians overwhelmingly want the federal government to provide greater financial support to municipal governments. More than 90 per cent say the federal government should help municipal governments deal with infrastructure issues, a view shared across the country, including in Quebec and Alberta.*
>
> *They are so concerned about municipal under-funding that they would have preferred the federal government kept the GST at 6 per cent and used the funds to help municipalities. A strong majority (67 per cent) want to see the federal surplus used for spending on areas requiring additional funding.*

E. PRE-1997 PROVINCIAL TRANSFER PAYMENTS

Until 1997, the provincial government had a significant revenue-sharing program for municipalities. Each year, a revenue-sharing pool was created, made up of shares of various taxes collected by the Province (see Table 1). In November 1997, this revenue sharing was abruptly halted, and the associated revenues to the City dropped from $20.5 million in 1996 to $5.8 million in 1997. In the face of this unforeseen $15 million shortfall, City Council was challenged to balance the City’s operating budget in that year. After an extensive public consultation process, Council opted for a combined solution made up of a significant property tax increase, accompanied by some service cuts.

Council has asked that staff estimate the financial implications for the City of Vancouver, if this provincial transfer payment regime were to be reinstated and adjusted to present-day levels. The provincial revenue-sharing pool for municipalities was comprised of revenues based on a share of the following provincial revenues:

- personal income tax revenues,
- corporate income tax revenues,
- social service tax (PST) revenues,
- fuel tax revenues,
- provincial resource tax revenues (comprised of natural gas royalties, energy and mineral revenues, forests, and other natural resource revenues).

Table 1 shows that in 1993, the provincial revenue-sharing pool for municipalities was $353 million. Approximately 62% of this pool was distributed as conditional grants, and 38% unconditional grants. Vancouver consistently received approximately $20 - $21 million in unconditional grants through the mid-1990s.

If the pre-1997 revenue-sharing formula were still in place today, it is estimated that the City of Vancouver would have received $44 million in provincial unconditional funding in 2007, assuming:

- the same shares of the same provincial revenues were contributed to the provincial revenue-sharing pool for municipalities,
- the same share of the total revenue-sharing pool was allocated to unconditional grants (38%), and
- the unconditional grants were allocated among BC municipalities on the basis of population.

TABLE 1. PROVINCIAL UNCONDITIONAL REVENUE-SHARING, 1993 AND 2007 ($ MILLIONS)

	1992/93, ACTUAL	2006/07, THEORETICAL PROJECTION
REVENUE-SHARING POOL, ALL BC MUNICIPALITIES		
Share of Personal Income Tax	$84	$138
Share of Corporate Income Tax	$33	$128
Share of Social Service Tax (PST)	$125	$283
Share of Fuel Tax	$35	$54
Share of Natural Gas Royalties	$5	$72
Share of Other Energy and Minerals Revenues	$10	$56
Share of Forests Revenues	$43	$77
Share of Other Natural Resource Revenues	$18	$20
Total Provincial Revenue-Sharing Pool	$353	$828
Provincial Revenue-Sharing Pool Distributions		
Conditional Grants (62%)	$219	$514
Unconditional Grants (38%)	$134	$314
Total	$353	$828
PROJECTED 2007 UNCONDITIONAL GRANT TO CITY OF VANCOUVER		
Vancouver as a Share of Total Population		14%
Vancouver's Share of Unconditional Grant Pool		$44

NOTES TO TABLE

1. Province of BC fiscal year ends March 31st. City of Vancouver fiscal year ends December 31st.
2. Projection of 2007 unconditional grant levels assumes the same revenue-sharing formula that was halted in 1997, and that unconditional grants are allocated among municipalities based on population shares.
3. Source of provincial revenue figures: Peter Adams, Victoria Consulting Network.
4. Source of City of Vancouver Unconditional Grant Revenue: *City of Vancouver 1996 Annual Financial Statements - Revenue Fund (Exhibit J).*
5. 2007 population figures: BC = 4.38 million, Vancouver = 611,900 (source : Metro Vancouver *Key Facts*).

F. COMPARISON OF FEDERAL VERSUS PROVINCIAL TRANSFERS

Council has asked staff to compare the recent rates of federal transfers to BC, to the recent rate of provincial transfers to Vancouver.

Canada Health Transfer (CHT) and the Canada Social Transfer (CST) programs are the two main means of transferring funding from the Government of Canada to the Province of British Columbia. These programs support specific policy areas such as health care, post-secondary education, social assistance, social services, early childhood development and childcare. In addition to these transfer programs, the federal and provincial governments enter into various specific cost-sharing programs, e.g., for health, education, housing and social service programs, transportation projects and coastal ferry services initiatives.

Table 2 shows that over the past three years:

- Cash transfers from the federal government have consistently made up approximately 16% of the total revenues of the Province of BC. If tax room transfers are also considered, this figure increases to 22% of the total revenues of the Province of BC.
- Over the same period, provincial transfers to the City of Vancouver have comprised less than 1/100th of one percent of the City's operating budget.
- Between 2006 and 2008, federal government transfers to BC have equalled an average of $1,320 per person in BC.
- Over the same period, provincial government transfers to the City of Vancouver have equalled an average of $30 per person.

TABLE 2A. MAJOR FEDERAL TRANSFERS TO THE PROVINCE OF BC, 2006 TO 2008 ($ MILLIONS)

	2005-06	2006-07	2007-08	SOURCE
A. FEDERAL TRANSFERS TO BC				
Total Tax Room Transfers				
Health and Social Transfers	$2,294	$2,411	$2,435	Source 1
Total Cash Transfers				
Health and Social Transfers	$4,037	$4,080	$4,416	Source 1
Equalisation Transfers	$590	$459	$0	Source 1
Other Cost-Shared Agreements	$976	$1,454	$1,307	Source 3
Total Cash Transfers	**$5,603**	**$5,993**	**$5,723**	
B. METRICS: FEDERAL TRANSFERS TO BC				
As a Share of Federal Revenues				
Total Federal Revenues	$222,200	$235,966	$244,510	Source 3
As a Share of Federal Revenues	2.5%	2.5%	2.3%	
As a Share of Provincial Revenues				
Total Provincial Revenues	$35,973	$38,504	$39,400	Source 2
As a Share of Provincial Revenues	16%	16%	15%	
Per Capita (not $ millions)				
BC Population	4,320,300	4,380,300	4,414,000	Source 4
Total Federal Transfers to BC per Person	$1,297	$1,368	$1,297	

TABLE 2B. MAJOR PROVINCIAL TRANSFERS TO THE CITY OF VANCOUVER, 2006 TO 2008 ($ MILLIONS)

	2006	2007	2008	SOURCE
A. PROVINCIAL TRANSFERS TO VANCOUVER				
Traffic Fine Revenue Sharing	$13	$13	$14	Source 5
Gaming Revenue	$5	$5	$6	
Total Provincial Revenue-Sharing	$18	$18	$20	
B. METRICS: PROV TRANSFERS TO COV				
As a Share of Provincial Revenues				
Total Provincial Revenues	$35,973	$38,504	$39,400	Source 2
As a Share of Provincial Revenues	0.05%	0.05%	0.00%	
As a Share of Municipal Revenues				
Total Municipal Revenues	$813,330	$847,918	$894,485	Source 5
As a Share of Municipal Revenues	0.00%	0.00%	0.00%	
Per Capita (not $ millions)				
City of Vancouver Population	606,901	611,869	616,869	Source 6
Total Provincial Transfers to COV per Person	$30	$29	$32	

NOTES TO TABLE

1. Federal and provincial governments' fiscal year ends March 31st. City of Vancouver fiscal year ends December 31st.

2. Sources:

   (1) Government of Canada Department of Finance website (www.fin.gc.ca/FEDPROV/mtpe.html#BritishColumbia).

   (2) Province of BC Budget and Fiscal Plans, 2005/06 to 2008/09.

   (3) Government of Canada Budget Plan, 2007 and 2008.

   (4) Statistics Canada.

   (5) City of Vancouver Budget Books and Budget Office.

   (6) Metro Vancouver Key Facts. 2008 population is an estimate.

3. Cash transfers are direct deposits of federal funds into the accounts of provinces and territories. Tax room transfers are reductions in federal income tax, that are made concurrently with an offsetting increase in provincial/territorial income tax.

4. Since 2006, the City has received approximately $3.5 million from Translink as a contribution toward Major Road Network operations, maintenance and rehabilitation. As a regional contribution, it is not included in the table above.

G. THE PROVINCIAL SCHOOL TAX

In 2007, the provincial government collected a total of $1.9 billion in provincial property taxes for school purposes. These revenues were used to fund approximately half of BC school district grants.

Table 3 shows that approximately 19% of provincial school property taxes were collected from Vancouver taxpayers ($368.5 million). At the same time, the Vancouver School District received approximately 10% of the total school district grants ($411.4 million). However, without an understanding of how the other half of the school district grants are funded, no meaningful conclusions can be drawn as to whether or not an inequity exists with respect to school funding.

Any further analysis of this should incorporate an evaluation as to whether Vancouver's non-residential taxpayers are disadvantaged by the fact that the Province sets a single province-wide tax rate for non-residential provincial school taxes. (School property tax residential rates are varied by jurisdiction, but non-residential rates are uniform across the province.)

TABLE 3. PROVINCIAL SCHOOL TAXES COLLECTED FROM CITY OF VANCOUVER TAXPAYERS AND PROVINCIAL GRANTS MADE TO THE VANCOUVER SCHOOL DISTRICT, 2007 ($ MILLIONS)

	FROM COV TAXPAYERS	FROM REST OF BC	TOTAL
Provincial School Property Taxes Collected	$368.5	$1,605.2	$1,973.7
Percent Shares	19%	81%	100%

	TO VSD #39	TO REST OF BC	TOTAL
2006/07 Provincial Grants Disbursed	$411.4	$3,827.7	$4,239.1
Percent Shares	10%	90%	100%

NOTES TO TABLE

1. VSD#39 is Vancouver School District No. 39, which is made up of the City of Vancouver and the University Endowment Lands.
2. School tax data: BC Ministry of Community Services, Local Government Department, "Total Taxes and Charges for All Property Classes. 2007," (www.cserv.gov.bc.ca/lgd/infra/library/Sch703_2007.xls)
3. Provincial grant data: BC Minister of Education, "Provincial Funding Amounts: 2003/04 to 2007/08 by District," (www.bced.gov.bc.ca/accountability/district/revenue).

H. CURRENT STATUS OF EFFORTS RELATED TO THE MUNICIPAL FISCAL IMBALANCE

While there is significant policy and advocacy work going on to address the municipal fiscal imbalance across Canada, the two most significant achievements have been the recent commitment by the federal government make permanent the gas tax revenue-sharing to fund local government infrastructure, and the expanded revenue sources granted to the City of Toronto. This section provides an overview of some of the main efforts and initiatives taking place at present.

- GOVERNMENT OF CANADA GAS TAX REVENUE-SHARING: In the 2008 federal budget, the federal government committed to making the Gas Tax Fund permanent, in order to provide a stable revenue source to fund local government and transportation infrastructure.

- GOVERNMENT OF CANADA POLICY WORK: In September 2006, the Standing Senate Committee on National Finance was asked by the Senate to examine and report on issues relating to the vertical and horizontal fiscal balances among the various orders of government in Canada. In June 2007, this Committee published "*The Vertical and Municipal Fiscal Balances: Second Interim Report on the Committee's Study of the Fiscal Balance Between the Different Levels of Government in Canada.*"

- CROSS-PROVINCIAL POLICY WORK: The Council of the Federation was established by Canada's Premiers in December 2003, with the intention of promoting inter-provincial/territorial cooperation and closer ties between members of the Council, and to foster meaningful relations between governments. In May 2005, the Council of the Federation created the Advisory Panel on Fiscal Imbalance, with the mandate to look at the underlying causes of fiscal imbalance, review a full range of mechanisms to address fiscal imbalance, and make recommendations on ways to restore fiscal balance. In March 2006, this Panel published its report and recommendations.

- UNION OF BC MUNICIPALITIES (UBCM) RESOLUTIONS: Over recent years, the members of the UBCM have endorsed a large number of resolutions that are related to the municipal fiscal imbalance. At the 2007 convention, almost twenty such resolutions were endorsed, seeking shares of various provincial revenues to fund specific programs such as transportation, affordable housing, and climate change adaptation strategies, seeking greater provincial funding for detox centres, calling on the federal and provincial governments to fully restore child care funding, seeking funding for provincial programs delivered within municipal libraries, and so on.

- FEDERATION OF CANADIAN MUNICIPALITIES RESEARCH AND ADVOCACY: The FCM has been studying and making recommendations on the municipal fiscal imbalance for the past several years, and undertaking considerable advocacy efforts on this issue. With a commitment to make federal gas tax revenue-sharing permanent, the FCM is directing efforts at various other elements of this fiscal imbalance issue, such as municipal access to a share of national economic growth (e.g., through access to revenues that respond to economic and/or inflationary growth), elimination of the municipal infrastructure deficit through permanent, stable funding programs, and clarification of the roles and responsibilities of municipalities, in the face of overlapping jurisdictions and growing responsibilities.

- THE CITY OF TORONTO ACT: The *City of Toronto Act*, enacted in 2006, has provided Toronto with some new fiscal tools that provide the City of Toronto with more flexibility to raise revenue in addition to property tax, accompanied by broader powers to license and regulate businesses, and broader authority to undertake economic development opportunities. The legislation allowed Toronto to raise revenues via four categories of new taxes: sales taxes (on tobacco, alcohol and entertainment admissions), taxes on real property transfers (residential and non-residential), vehicle related taxes (road tolls, congestion charges, parking taxes and vehicle registration charges) and taxes on outdoor advertising. In October 2007, Toronto City Council approved a new Municipal Land Transfer

Tax, estimated to yield $300 million annually once implemented, and a new Personal Vehicle Tax, estimated to yield $56 million annually once implemented. Various other options remain under consideration.

- "NEW DEAL FOR CANADIAN CITIES" CAMPAIGN: At the 2004 Mayors' Summit, mayors and representatives of Canada's major hub cities agreed on a set of recommendations for stronger partnerships with the federal and provincial governments. The makings of a "new deal" were laid out in a Communiqué produced at this summit, shown in Appendix C.
- "ONE CENT NOW" CAMPAIGN: The City of Toronto has taken the lead on the "One Cent Now" campaign, that is asking the federal government to return one cent of the existing GST as a reliable and permanent source of funding for cities that grows as the economy grows.

I. COST TO CITY OF FUNDING NON-TRADITIONAL SERVICES

TYPES OF NON-TRADITIONAL COSTS

Council has asked staff to estimate the current annual costs to the City of Vancouver incurred to fund services that have traditionally been the responsibility of provincial and federal governments, including social housing, child care, mental health treatment, drug policy and port policing.

"Non-traditional" costs incurred by the City can be divided into the following five categories:

a. DIRECTLY DOWNLOADED SERVICES: These are service areas for which the City has become responsible over time, as the federal or provincial government has diminished their own responsibilities by either decreasing the services they provide, or completely withdrawing from the provision of a given service. With directly downloaded services, municipalities are explicitly mandated with responsibility for a given function.

b. INDIRECTLY DOWNLOADED SERVICES: These are service areas for which the City has assumed responsibility over time, in the absence of these services being provided by senior governments. In some instances the uptake of the responsibility and cost of these services has been insidious; changing environments and demands have led to increased costs for the City. In other cases, this uptake has been the result of explicit decisions made by City Council. For local governments, the result of both directly and indirectly downloaded services has been increased responsibility for service areas and according increases in operating and capital costs.

c. COST OF MEETING REGULATORY STANDARDS: These are the costs the City incurs to meet federal and provincial regulatory standards. As senior governments require cities to meet certain regulatory standards without providing the associated funding required, these unfunded mandates are at times in the direct control of City Council, and at others, are passed through to the City from Metro Vancouver.

d. INVESTMENT-BENEFIT MISMATCHES: These are costs the City incurs in order to invest in initiatives that are good for the local economy (often through property tax exemptions), but for which the City receives no direct incremental tax revenue in return. Whenever an investment is made that enhances economic activity, it is the senior governments who receive the associated incremental consumption and income taxes. In general terms, the stronger the local economy, the greater the general benefit associated with a stronger local economy, and the greater the incremental property taxes and development cost charges associated with new construction for the City. But because the City's property tax income does not vary with economic activity, the City receives no *direct* incremental revenue associated with such investments.

e. PROVINCIAL OR NATIONAL BENEFIT: These are costs the City incurs to build infrastructure and/or develop service delivery mechanisms that can be considered to have provincial or national benefit.

In some cases, the operating and capital costs incurred by the City to fund the non-traditional services provided by the City are easily identified. In others, they are embedded within the City's budgets and not easily identified. This section provides Council with order-of-magnitude cost estimates for some selected service areas not traditionally provided by local governments.

These cost estimates are intended to illustrate the scale of the cost to the City of providing these services, and should be viewed as preliminary estimates. Further, there are other service areas that should be included in a comprehensive assessment of the cost to the City of Vancouver of funding *all* costs not traditionally provided by the municipality.

If Council opts to pursue a permanent conditional grant funding program with the provincial and/or federal governments, staff recommends a fuller, more comprehensive effort to define and delineate these costs.

COST ESTIMATES, SELECTED SERVICE AREAS

Social Housing

Background – Social Housing

The City of Vancouver has been a partner in the development of social housing for over sixty years, and has had the primary role of providing sites to provincial and federal governments, who have had the responsibility for developing and funding the operations of the housing.

In 1993, the federal government stopped funding new social housing. Until that time, the federal government had been funding two-thirds of the cost of developing new social housing, and the provincial government, one-third. Once the federal government withdrew their participation, the provincial government carried on funding at the same level, and asked the City of Vancouver to take over responsibility for funding the remaining two-thirds of required capital funding. Since this time, the City has been providing sites to the Province at no charge, who has continued to have the responsibility for the development and operational funding of the housing.

In 2002, the Province redesigned their housing program, narrowing service from a broad range of households to only housing for the frail elderly. As a result, this new program did not address the City's housing priorities, and the City was forced to develop a number of projects with little to no senior government funding, using bonusing and development cost levies.

Since this time, the City has continued to purchase sites using development cost levies for replacement housing, and to offer these sites to the provincial government. In Fall 2007, the Province agreed to develop twelve sites into approximately 1,200 supportive housing units on City-owned land. In addition to providing the land at a nominal leasing fee, the City has agreed to waive property taxes on these twelve sites, projected to cost the City an estimated $1 million per year. This proposal is detailed in a Memorandum of Understanding between the Province of BC and the City.

Cost Estimates – Social Housing

The Director of the Housing Centre prepared the cost estimates in this section, to illustrate the scope of the City's commitment to social and affordable housing.

- LAND CONTRIBUTIONS: This preliminary estimate is based on new projects funded since 2002, including Woodward's, 65 East Hastings, 1321 Richards, 337 West Pender, 980 Main St. and the approximately 1,200 units funded under the City/Province Supportive and Social Housing Partnership. These projects cumulatively yield a total of approximately 1,700 housing units on sites that the City is providing at no cost. The average gross size of these units is typically 500 square feet. A reasonable estimate of the market value of the sites would be $100 per buildable square foot, yielding a land cost per unit of $50,000. So the City's investment in these 1,700 units is calculated as 1,700 units x $50,000/unit = $85 million.
- RENOVATIONS: The City has also committed to contribute $5 million towards the renovation of the 596 single-resident occupancy units the Province bought in Spring 2007.
- SOUTHEAST FALSE CREEK: The City has contributed 250 units of affordable housing in the Southeast False Creek Olympic Athletes' Village. The value of this investment

is land worth $33 million, plus a $32 million contribution to the cost of construction of these units, for a total of $65 million.

- ONGOING OPERATING COSTS: In addition to the capital investments described above, the City has spent between $1.5 million and $2.0 million per year in operating costs associated with affordable housing (see Appendix D for details).
- TAX EXEMPTIONS: In December 2007, Council approved property tax exemptions for twelve supportive housing sites to be developed through the City/Province Social and Supportive Housing Partnership. The value of these property tax exemptions is estimated to be $1 million per year, and the present value of these tax exemptions is estimated to be $20 million.

In summary, since the end of 2002 to present, the City has invested approximately $155 million in social and affordable housing, plus another $3 million per year in ongoing operating costs. These investments respond to a range of initiatives including the City's Homeless Action Plan, Supportive Housing Plan, and Housing Plan for the Downtown Eastside, as well as to the Premier's Task Force on Homelessness, Mental Health and Addictions, the proposed Streetohome Partnership and Foundation, Housing Matters BC, and to the intergovernmental commitment to an inclusive 2010 Winter Games.

TABLE 4. CITY COSTS ASSOCIATED WITH SOCIAL/AFFORDABLE HOUSING, SINCE 2002

	APPROXIMATE VALUE
CAPITAL COSTS	
Land Contributions	$85 million
Single-Resident Occupancy Renovations	$5 million
SEFC Athletes' Village Contributions	$65 million
Total, Capital Costs	**$155 million**
OPERATING COSTS	
Tax Exemptions	$1 million
Ongoing Operating Costs (Appendix D)	$2 million
Total, Operating Costs	**$3 million**

NOTES TO TABLE

1. The City incurs significant costs associated with non-market housing lodge operations, but these are funded through provincial offsets, are therefore not included in Appendix D.

Child Care

Background – Child Care

Child care is a key element in the recruitment and retention of a strong labour force, is linked to increased school readiness, and has an influence in reducing the impact of poverty on early childhood development. A significant majority of new jobs are located in Canada's large cities, which creates a significant need for appropriate child care in urban centres. The economic and social benefits of child care extend provincially and nationally, and though child care has not traditionally been part of the municipal mandate, the City has been involved in child care since the early 1990s.

Over recent years, licensed child care programs in Vancouver have been negatively impacted by reductions in senior-government subsidies and operating funding grants. Despite this being clearly outside of the City's traditional mandate, Council has at times stepped in to provide assistance to avoid program closures, and to maintain the limited supply of licensed group care in the city.

Cost Estimates – Child Care

Fees paid by parents fund 75% to 85% of child care operating costs in BC. The City's contribution to child care in terms of operating support has historically been focused on high-need areas for specific services not typically funded by parent fees and/or provincial grants, such as food supplement programs and affordable fee subsidies.

Across Canada, there is limited capital funding available to create new child care spaces. While BC's capital grant programs will provide up to $500,000 per organisation for the creation of new child care spaces, this is for the most part inadequate in Vancouver, in the face of the local cost of construction and land acquisition.

The City has opted to use community amenity contributions (CACs) and development cost levies (DCLs) to fund the creation of new child care spaces, leveraging provincial funding and non-profit fundraising wherever possible.

TABLE 5. CITY COSTS ASSOCIATED WITH CHILD CARE, SINCE 2006

	APPROXIMATE VALUE
CAPITAL COSTS	
2006-2008 Capital Plan Allocation	$4.9 million
2009-2011 Draft Capital Plan Allocation	$3.1 million
Total, Capital Costs	**$8.0 million**
OPERATING COSTS	
Ongoing Operating Costs (Appendix D)	$1.4 million
Total, Operating Costs	**$1.4 million**

NOTES TO TABLE

1. Capital spending for child care is funded through a combination of capital from revenues, development cost levies, and community amenity contributions.

Mental Health and Drug Addiction

Background – Mental Health and Drug Addiction

It is not within the mandate of the City to provide mental health treatment services. However, insufficiently funded mental health services at the senior-government level has meant that the City incurs substantially greater costs within its traditional lines of business, as the result of mentally ill and addicted populations within our jurisdiction. It has also led to ever-increasing pressure on City Council to address these issues at the local level.

Cost Estimates – Mental Health and Drug Addiction

In each of the last five years, the City has spent between $700,000 and $1 million in operating costs associated with drug addiction programs (Appendix D). In addition to this, there are costs associated with mental health and addiction that are embedded within departmental budgets:

- POLICING: The VPD has conservatively estimated that police time spent dealing with incidents in which a person's mental illness is a factor in police attendance is equivalent to ninety full-time officers, at an annual cost of $9 million per year (*Lost in Transition: How a Lack of Capacity in the Mental Health System is Failing Vancouver's Mentally Ill and Draining Police Resources,* January 2008).
- FIRE AND RESUE SERVICES: While the Vancouver Fire and Rescue Services Department (VF&RS) has not undertaken a comparable study, a recent analysis shows that the majority of calls responded to by the VF&RS are for medical purposes, and that these medical calls are disproportionately concentrated in the downtown eastside neighbourhoods. VF&RS staff conclude that between January 2005 and June 2006, 72% of all calls were in response to a medical or motor vehicle incident. VF&RS staff have assessed anecdotally that a significant portion of these calls involve one or more people with mental health issues, though a quantitative analysis of this has not been undertaken.
- STREET CLEANING: The City Engineer estimates that a disproportionate share of the City's total street cleaning budget is allocated to the downtown eastside neighbourhoods. The City currently spends 18% of the annual street cleaning budget on the Downtown Eastside (approximately $1.4 million), while the neighbourhood represents less than one percent of all City streets.

TABLE 6. CITY COSTS ASSOCIATED WITH MENTAL HEALTH AND DRUG ADDICTION, SINCE 2006

	APPROXIMATE VALUE
OPERATING COSTS	
VPD Costs	$9 million
VF&RS Costs	n/a
Street Cleaning Costs	n/a
Ongoing Operating Costs (Appendix D)	$1 million
Total, Operating Costs	**> $10 million**

NOTES TO TABLE

1. An analysis of Vancouver Fire and Rescue Services and of street cleaning costs associated with mental health and drug addiction is not available at the time of this report's publication.

Port Policing

Background – Port Policing

Until 1997, the Port was policed by the Ports Canada Police, an independent federally-funded police force. In 1997, the City of Vancouver agreed to take over the responsibility of policing the Port. Council approved the addition of one Sergeant and fourteen Constable positions, to provide twenty-four hour preventative patrols, initial and follow-up investigations, and community-based policing for the port community.

To partially compensate for these new costs to the City, the Port Corporation provided funding totalling $4.0 million between 1997 and 2004, per agreements established between the Port Corporation, Ministry of Attorney General and the City. This funding offset approximately 60% of the incremental costs incurred by the City over this period that were associated with the assumption of port policing responsibilities.

Cost Estimates – Port Policing

This funding arrangement expired in 2004, and has not been renewed. The total operating funding for the VPD marine unit is currently $1.7 million per year, which includes the salary and benefits for sixteen members, operating costs for the marine facilities at the port, and operating costs and financing for the police boats.

TABLE 7. CITY COSTS ASSOCIATED WITH PORT POLICING, SINCE 2006

	APPROXIMATE VALUE
OPERATING COSTS	
Total Operating Costs, VPD Marine Unit	$1.7 million
Total, Operating Costs	**$1.7 million**

NOTES TO TABLE

1. Operating costs include financing for capital costs associated with the police boats.

Other Costs

There are a number of service areas in addition to those listed above that should be considered in the context of assessing the municipal fiscal imbalance. These include:

- social planning costs other than those discussed in this report, such as community service grants disbursed annually by the City,
- certain elements of the work done by the Community Services Group,
- some of the programming delivered in City facilities such as libraries, community centres and neighbourhood houses, e.g., literacy and immigrant settlement,
- heritage revitalisation incentives provided by the City, in the absence of federal incentives,
- policing work that is done by the VPD on behalf of the provincial or federal governments (the May 2008 FCM report, *Towards Equity and Efficiency in Policing*, estimates that between ten and thirty percent of municipal police forces' time is spent enforcing federal laws and/or delivering federal mandates),
- various specialised police, fire and emergency work, such as Urban Search and Rescue, Hazmat, fire boats servicing the ports,
- City initiatives that respond to the federal mandate for supporting arts and culture,
- large, one-off public works projects that are undertaken in response to senior government regulation (e.g., water filtration, solid waste management and liquid waste management), or to manage regional/provincial needs (e.g., transportation),
- costs of meeting increased senior government regulation (as an example, it is estimated that the recently-introduced carbon tax will cost the City an average of $700,000 per year, over the next six years), and
- a variety of property tax exemptions made by the City, as contributions to various projects and initiatives.

J. MOVING TOWARD A SOLUTION

In Recommendation B of this report, staff recommends that the City work with the Union of BC Municipalities to facilitate a cooperative approach to establishing a Commission made up of impartial experts in the field of municipal finance and policy, charged with the task of delivering a set of practical, implementable solutions to the municipal fiscal imbalance issue in British Columbia.

A comprehensive, long-term solution to the municipal fiscal imbalance in British Columbia should incorporate the following elements.

- A CLARIFICATION OF ROLES AND RESPONSIBILITIES: In order to create effective partnerships, there is an immediate need for the clarification of the respective roles and responsibilities of the federal, provincial and municipal governments, with respect to the funding and delivery of various services.
- MEANINGFUL INFORMATION CHANNELS: Local governments need to be able to provide meaningful information and feedback to senior governments concerning those service areas for which they are not responsible, but in which they are directly involved. For certain service areas, there needs to be ways for local governments to have input without shouldering the full cost and/or service delivery responsibility.
- THE APPROPRIATE FINANCIAL STRUCTURE: Local governments need to have access to the right mix of revenue tools, that will allow them to adequately fund their core businesses in a responsible, sustainable fashion.
- EFFICIENT AND EFFECTIVE SERVICE DELIVERY: Municipalities must continue to strive to deliver the best value to their taxpayers, maximising the efficiency and effectiveness of their service delivery.

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

CONCLUSION

The City of Vancouver has traditionally been a fiscally strong and healthy organisation. This report demonstrates that, like other Canadian cities, Vancouver is increasingly challenged to meet the demands associated with services that have not traditionally been part of the municipal mandate.

In order to meet the demands associated with providing infrastructure and services to maintain a growing, world-class city, staff recommends that the City work with the Union of BC Municipalities to develop a partnership structure with the senior governments, that will serve as a stable and lasting solution to the growing municipal fiscal imbalance issues in British Columbia.

* * * * *

APPENDIX A

RECENT COUNCIL MOTIONS ON THE MUNICIPAL FISCAL IMBALANCE

JANUARY 29, 2008 COUNCIL MOTION ON EQUITABLE POLICE FUNDING

WHEREAS on Monday, November 26th, the City of Abbotsford unanimously endorsed a motion calling upon the provincial government to address the issue of equitable police funding for all British Columbia municipalities;

AND WHEREAS Abbotsford Council requests support from all local governments with policing services provided by non-RCMP forces;

AND WHEREAS the City of Vancouver strongly supports the Province of British Columbia in its position that traditional cost sharing formulas from the Federal government need to be updated to reflect the ever-increasing complexity and challenges of police work;

AND WHEREAS with federal and provincial fiscal position greatly improved, it would be appropriate to reconsider this approach;

AND WHEREAS compared to growing provincial and federal surpluses, municipalities across Canada are struggling and changes in social safety nets and senior government funding have placed an ever-growing strain on police forces throughout British Columbia to deal with issues related to gangs, organized crime, addiction, mental health, domestic violence, and a host of other challenges;

AND WHEREAS where senior levels of government are able to reduce taxes, the burden on municipal taxpayers is growing as municipalities take on increasing responsibilities in social housing, child care, arts and culture, social services, transportation and regional policing;

AND WHEREAS to meet these increased service demands and growing infrastructure deficits, municipalities have been left with little choice but to increase property and business taxes and user fees;

AND WHEREAS other revenue sources available to municipalities cannot fill the gap between growing costs to service our citizens and a sustainable level of property taxation, and municipal revenues have not kept up with federal and provincial growth;

AND WHEREAS at the same time, payments from the Provincial and Federal Governments now comprise a smaller portion of the overall revenues of many municipalities; this decline is in contrast to the rate of federal transfer payments to British Columbia;

AND WHEREAS since 2001, our province has benefited from billions of dollars of increases in federal transfer payments (CHST and Equalization entitlements) and in 2008-09, the federal payments to British Columbia are likely to increase even more;

AND WHEREAS for over 50 years, a serious and unjustifiable inequity has existed in many British Columbia communities related to the funding of police resources;

AND WHEREAS the existing Federal/Provincial Agreement entitled "Provincial Police Services Agreement" provides RCMP services to most small towns and rural areas, as well as offering many larger municipalities RCMP policing through the "Municipal Policing Agreement". These agreements provide communities a contribution of federal funds of between 10%-30% depending on the size of the municipality towards policing costs;

AND WHEREAS 12 municipalities in the Province which collectively are home to over 1.2 million British Columbia residents, local policing is provided by a municipal police force instead of the RCMP. This results in the entire cost of local policing falling to the local taxpayer with no funding subsidy. For these communities, policing costs are without exception the single largest annual cost to the local taxpayer;

AND WHEREAS the City of Vancouver believes there must be a level playing field for cost sharing of police services between the Federal/Provincial Governments and all British Columbia communities;

AND WHEREAS the City of Vancouver believes that the senior levels of government should contribute to adequate resources for the higher costs of policing all international points of entry to British Columbia, including airports, borders, and coastlines;

AND WHEREAS the City of Vancouver believes that all provincially mandated systems, including PRIME, should be fully funded by senior government;

AND WHEREAS the City of Vancouver believes that all British Columbia communities, be they RCMP or municipal forces, will benefit from standardized performance measurements and accountabilities. The City believes that all Union of British Columbia Municipalities should be consulted on the development of these important measurements and that a single Provincial set of standards be developed for all police services;

AND WHEREAS the City of Vancouver believes that Federal/Provincial cost sharing formulas for the creation, upgrading, and expansion of all police facilities must be developed for all communities in British Columbia;

THEREFORE BE IT RESOLVED THAT the City of Vancouver request the Federal Government, Province of British Columbia and Union of British Columbia Municipalities to urgently address the issue of equitable police funding by developing an equitable funding program for all British Columbia municipalities.

AND BE IT FURTHER RESOLVED THAT Mayor Sullivan, as Chair of the Vancouver Police Board present a copy of this motion, to the Vancouver Police Board along with a request to endorse this call for equitable funding.

NOVEMBER 15, 2007 COUNCIL MOTION ON FISCAL IMBALANCE

WHEREAS on Friday, October 26th Metro Vancouver unanimously endorsed a motion calling upon the provincial government to address the municipal fiscal imbalance;

AND WHEREAS prior to 1997, the Revenue Sharing Act provided for a sharing of provincial revenues with municipal governments on an unconditional basis.

AND WHEREAS a share of provincial sales tax, corporate income tax and resource revenues was transferred annually to municipalities.

AND WHEREAS in 1997, the previous Provincial Government eliminated these transfers, forcing municipalities to increase their reliance on property taxes.

AND WHEREAS with the federal and provincial fiscal position greatly improved, it would be appropriate to reconsider this approach.

AND WHEREAS this program could make over $300 million available annually to municipalities in the province and approximately $40 million for Vancouver;

AND WHEREAS compared to growing provincial and federal surpluses, municipalities across Canada are struggling.

AND WHEREAS where senior levels of governments are able to reduce taxes, the burden on municipal taxpayers is growing as municipalities take on increasing responsibilities in social housing, child care, arts and culture, social services, transportation and regional policing.

AND WHEREAS to meet these increased service demands and a growing infrastructure deficit, municipalities have been left with little choice but to increase property and business taxes and user fees.

AND WHEREAS other revenue sources available to municipalities cannot fill the gap between growing costs to service our citizens and a sustainable level of property taxation.

AND WHEREAS municipal revenues have not kept up with federal and provincial growth.

AND WHEREAS at the same time, payments from the Provincial and Federal Governments now comprise a smaller portion of the overall revenues of many municipalities.

AND WHEREAS this decline is in contrast to the rate of federal transfer payments to British Columbia.

AND WHEREAS since 2001, our province has benefited from billions of dollars of increases in federal transfer payments (CHST and Equalization entitlements).

AND WHEREAS in 2008-09, the federal payments to British Columbia are likely to increase even more.

THEREFORE BE IT RESOLVED THAT the Mayor and Council request the Province of BC take steps in their upcoming budget to address the Municipal Fiscal Imbalance by reinstating a *revenue sharing program with municipalities - and that these revenues be stable over time and;*

BE IT FURTHER RESOLVED THAT a copy of this motion be distributed to all municipalities across B.C.; and THAT the City of Vancouver's upcoming Budget 2008 consultations with the public include information regarding the Municipal Fiscal Imbalance.

JUNE 12, 2007 COUNCIL MOTION ON VANCOUVER PORT POLICING COSTS

WHEREAS:

- *The Federal Government is responsible for the security and policing provisions of all of Canada's Ports;*
- *The "make-up funding" for Vancouver's additional policing requirements expired on July 1, 2004;*
- *The funding of $350,000 per year, that is paid by the Vancouver Port Authority to the Solicitor General, relates to policing operations directed at intelligence and security within the Port of Vancouver and is not specifically designated for Vancouver;*
- *The Port of Vancouver enjoys a collaborative, on-site presence with the Vancouver Police Department, that includes a partnership with CBSA, RCMP and the Coast Guard; and*
- *The Vancouver Port Authority recommends that policing services are best handled by the police of local jurisdiction and the RCMP, as these police forces possess the capacity and personnel to better manage criminal intelligence and emergency response than would a stand-alone port police force;*

THEREFORE IT BE RESOLVED THAT Vancouver City Council ask the Mayor to request the Minister of Public Safety and Solicitor General, the Honourable Stockwell Day, to reinstate the compensatory funding for the Vancouver Police, as a critical element to effective policing in the Port of Vancouver.

APPENDIX B

THE MUNICIPAL FISCAL IMBALANCE BY THE NUMBERS
PUBLISHED BY THE FEDERATION OF CANADIAN MUNICIPALITIES
Source: www.fcm.ca

Trends in Municipal Finance

- 8 cents – amount of revenue collected by municipal government for every tax dollar collected in Canada (the federal government collects 50 cents, while the provinces collect 42 cents).
- Municipal government – between 1988 and 2004, annual per capita growth in municipal expenditures was 0.9 percent, while revenue grew by 0.7 percent.
- Provincial/Territorial government – between 1988 and 2004, annual per capita growth in provincial/territorial expenditures was 0.6 percent, while revenue grew by 0.8 percent.
- Federal government – between 1988 and 2004, annual per capita decline in federal expenditures was 0.9 percent, while revenue grew by 0.6 percent.

Trends in Fiscal Transfers

- 3.7 percent – annual per capita decline in transfers from provincial/territorial governments to municipal governments between 1988 and 2004.
- Since 1988, provincial/territorial transfers as a percentage of municipal revenue have declined by 1.4 percent annually.
- Transfers dropped from 22.9 percent of municipal revenue in 1988 to 15.9 percent in 2004, a 31 percent decrease in real terms.

Growth in Municipal Revenues and Expenditures

- Since 1988, the property tax has grown from 48.6 to 53.3 percent of municipal revenues.
- Property tax revenue has being growing at twice the rate of total municipal revenue growth (1.4 vs. 0.7 percent, respectively).
- Expenditures for housing, health and social services have increased from 11.2 percent to 16.4 percent of municipal expenditures, a 46 percent increase in real terms.

Limits of the Property Tax

- The property tax is highly regressive.

- The poorest 20 percent of the population paid 9.62 percent of their gross income on property taxes in 2003, versus 1.95 percent for the wealthiest 20 percent of the population.
- In contrast, the poorest 20 percent of the population paid 4.1 percent of their gross income in income tax, versus 25.8 percent paid by the wealthiest 20 percent of the population.

Apportioning Canada's Capital Stock

- Since 1961, the municipal portion of the national capital stock increased by nearly 70 percent, from 30.9 percent of all capital, to 52.4 percent of all capital.
- In contrast, the federal portion of the national capital stock decreased from 23.9 percent to 6.8 percent.

Declining Infrastructure Investments

- Between 1955 and 1977, new investment in infrastructure grew by 4.8 percent annually.
- Between 1978 and 2000, new investment in infrastructure grew by only 0.1 percent annually.
- Between 2001 and 2003, new investment in infrastructure grew by 7.5 percent annually. However, this was primarily for new infrastructure, which grew by 11 percent over the period, not for replacement of existing infrastructure.

Aging Infrastructure

- Since 1976, the average age of the municipal capital stock rose from 13.7 years to 16.2 years in 2000.
- Over the same time period, the life expectancy of municipal infrastructure declined from 34 years to 30 years.

Estimating the Size of the Infrastructure Deficit

- The generally accepted figure is $60 billion, but estimates vary widely.
- The Canadian Society of Civil Engineering considers set the deficit at $57 billion in 2002.
- In a 2003 article, M. Saeed Mirza and Murtaza Haider said that the infrastructure gap stood at $125 billion.
- TD Economics estimated in 2002 that the deficit was growing by roughly $2 billion per year.

Effects on Canada's Economy

- Statistics Canada estimates that a one-dollar net increase in public capital stock generates approximately 17 cents on average in private-sector cost savings.
- For the transportation sector, each dollar invested in transportation infrastructure is projected to generate a saving of more than 40 cents.
- It is estimated that the loss from congestion and shipment delays in the Greater Toronto Area alone totals $2 billion annually.

The Revenue Imperative

- Owing to an aging population and a decrease in demand for new housing, overall growth in property tax revenue is expected to increase at most by 2.5 percent annually over the next 20 years.
- At the same time, municipal operating expenditures are expected to grow by 3 percent annually (1 percent population growth and 2 percent inflation) over the next 20 years.
- To maintain the existing capital stock and accommodate infrastructure demands created by population growth, total investment would have to rise by 4.5 percent annually over the next 20 years.
- This does not include the eliminating the estimated $60 billion infrastructure rehabilitation backlog.

APPENDIX C

COMMUNIQUE ON THE "NEW DEAL FOR CANADIAN CITIES" CAMPAIGN

Communiqué: Canada Needs Competitive Hub Cities

Canada's Major Hub Cities: Vancouver, Edmonton, Calgary, Regina, Winnipeg, Toronto, Ottawa, Montreal, Quebec City and Halifax are dynamic centres of economic, social and cultural development.

These cities and their regions generate 50% of Canada's GDP.

These cities are Canada's signature to the world. They are home to 88% of Canada's recent immigrants, a majority of Canada's Métis and First Nations people, and host to almost all of the foreign consular presence in Canada. The success of Canada's major hub cities is important for all Canadians:

The wealth generated in Canada's major hub cities underpins the high quality of life deserved by all Canadians. In a highly competitive global economy, Canada's future prosperity will be determined in the nation's major hub cities.

Canada's major hub cities face a common challenge:

Canada's major hub cities do not have the fiscal resources and provincial legislative tools needed to fulfil their responsibilities. The environmental sustainability and quality of life in these cities -- and the nation's economic competitiveness -- depend on overcoming this challenge. Our objective is not to increase the overall tax burden of Canadians. Rather, it is to ensure that Canadian cities retain a fair share of the existing tax revenues their communities generate.

Compared to large urban centres in the US, Europe and elsewhere, Canada's major hub cities:

- have fewer sources of revenue and are overly dependent on property taxes
- receive less financial assistance from other orders of government, and
- have limited legislative tools

Canada's major hub cities need to be better equipped to compete on the nation's behalf in the global marketplace.

The mayors of Vancouver, Edmonton, Regina, Winnipeg, Toronto, Ottawa, Montreal, Quebec City, and Halifax call on the Federal and Provincial governments to strengthen Canada's competitiveness in partnership with Canada's cities.

The 2004 Throne Speech and Federal budget should:

1. Rebate 100% of the GST paid by municipalities and their agencies.

This action would reduce the federal tax burden on municipalities by $525 million a year. Federal and provincial governments do not pay sales taxes. As partners, neither should municipal governments. In addition to a full GST rebate, relief from provincial sales taxes is needed.

2. Accelerate investment in urban infrastructure through existing programs.

Two billion dollars are promised by the Federal Government over the next 10 years through the Strategic Infrastructure Fund. Availability of this funding should be accelerated to 2004, while new frameworks to provide adequate, stable, long-term funding for infrastructure, transit and transportation are negotiated.

2005 Federal Budget:

By the end of 2004, new partnership agreements should:

3. Provide cities with a new net revenue source, based on the user-pay principle, of five cents per litre from the existing federal fuel excise tax.

This measure would generate net new revenues of $2.5 billion a year for Canadian municipalities dedicated to infrastructure, transportation and transit.

4. Allow cities to address their priorities and invest in economic growth by retaining a share of locally-generated tax revenues that grow with the economy, such as:

- a share of federal and provincial sales tax revenue - a share of income tax revenue

5. Match or exceed the average level of US and Western European governments' investment in municipal transit and transportation infrastructure:

Canada cannot remain the only G7 country without a national transit investment program.

6. Involve major hub cities as partners in Federal and Provincial policy, program and budget deliberations on issues that have a direct impact on major urban centres.

7. Introduce flexibility and improve the delivery and supply of existing affordable housing programs to focus on serving the needs of Canadians.

8. Make regulatory changes to support cities. For example:

- Amending the federal Income Tax Act to make employer-provided transit passes a tax-exempt benefit, which would help reduce gridlock.

- Converting the Commercial Heritage Properties Incentive Fund to a tax credit program.

Embracing these proposals and a new spirit of partnership will:

- Allow Canadian cities to close the infrastructure gap and address local priorities, and

- Support the fiscal position of Provincial and Federal governments, who will benefit from expanded economic activity.

The mayors of Vancouver, Edmonton, Regina, Winnipeg, Toronto, Ottawa, Montreal, Quebec City, and Halifax will help the Federal and Provincial governments deliver a New Deal for Canada's cities. We will:

1. Participate in a new National Forum on Economic Growth to be held in Montreal in the spring of 2004

- The FCM Big City Mayors will participate.
- Federal and Provincial governments will be invited.

2. Ensure our staff work closely together, sharing best practices and research.

3. Help local residents and business understand how municipal finance and legislative arrangements (established by the Federal and Provincial governments) impact the quality of life and competitiveness of their city.

4. Meet again in Toronto in the fall of 2004.

Source: City of Toronto website, http://wx.toronto.ca/inter/it/newsrel.nsf/0/3af32689bf17ab7985256e24007a253a?OpenDocument

APPENDIX D

CITY OF VANCOUVER OPERATING COST ESTIMATE DETAILS
Source: City of Vancouver Budgets Office

TABLE A. SOCIAL/AFFORDABLE HOUSING, OPERATING COSTS ($000)

	2004	2005	2006	2007	2008
Housing Centre	$714.2	$811.3	$875.3	$955.6	$1,004.1
Tenant Assistance Program	$113.6	$120.1	$122.6	$137.0	$142.9
Homeless Action Plan	$0.0	$100.0	$74.6	$168.6	$0.0
Supportive Housing	$0.0	$0.0	$300.0	$296.1	$0.0
Carnegie Centre Outreach Program	$300.0	$300.0	$270.0	$360.0	$277.6
Community Services Rent Subsidies	$67.0	$63.5	$63.5	$63.5	$63.5
Total	**$1,194.8**	**$1,394.9**	**$1,705.9**	**$1,980.8**	**$1,488.1**

TABLE B.CHILD CARE, OPERATING COSTS ($000)

	2004	2005	2006	2007	2008
Child Care / Youth Support	$257.0	$246.0	$252.0	$261.0	$275.0
Hastings Child Care	$0.0	$21.0	$0.0	$0.0	$0.0
Child Youth Advocate	$150.0	$230.0	$22.6	$0.0	$0.0
Child Care Protocol Report	$0.0	$14.0	$0.0	$41.0	$0.0
Child Care Development	$0.0	$85.0	$85.0	$85.0	$0.0
Child Care Grants	$886.4	$1,054.2	$1,070.3	$1,096.8	$1,115.2
Total	**$1,293.4**	**$1,650.2**	**$1,429.9**	**$1,483.8**	**$1,390.2**

TABLE C. DRUG POLICY, OPERATING COSTS ($000)

	2004	2005	2006	2007	2008
Drug Policy Program	$301.1	$609.6	$504.2	$337.2	$351.5
Life Skill Rehab Program	$131.7	$125.2	$127.8	$132.2	$136.0
Life Skill Rehab Volunteers	$102.1	$106.6	$113.0	$117.1	$120.5
Life Skill Rehab Kitchen	$229.6	$247.9	$248.7	$307.6	$342.1
Total	**$764.5**	**$1,089.3**	**$993.6**	**$894.1**	**$950.1**

Source: City of Vancouver Budget Office

APPENDIX E

LISTING OF SELECTED PUBLICATIONS ON THE MUNICIPAL FISCAL IMBALANCE

TITLE	PUBLISHED	AUTHOR(S)
Financing Local Government	August 1989	Union of BC Municipalities and the BC Ministry of Municipal Affairs, Recreation and Culture
Revenue Sharing Options for Canada's Hub Cities	September 2004	Enid Slack Consulting Inc., for the Meeting of the Hub City Mayors
Measuring Toronto's Fiscal Capacity: An Executive Summary	May 2005	The Conference Board of Canada, for the City of Toronto
Large Cities Under Stress: Challenges and Opportunities	March 2006	Enid Slack, Larry Bourne and Heath Priston, for the Government of Canada External Advisory Committee on Cities
Reconciling the Irreconcilable: Addressing Canada's Fiscal Imbalance	March 2006	The Council of the Federation, Advisory Panel on Fiscal Imbalance
Fiscal Imbalance: The Case for Cities	June 2006	Enid Slack, Institute on Municipal Finance and Governance at the Munk Centre for International Studies
Our Cities, Our Future: Addressing the Fiscal Imbalance in Canada's Cities	June 2006	Federation of Canadian Municipalities Big Cities' Mayors Caucus
Building Prosperity from the Ground Up: Restoring Municipal Fiscal Balance	June 2006	Federation of Canadian Municipalities
New Tools for New Times: A Sourcebook for the Financing, Funding and Delivery of Urban Infrastructure	September 2006	Canada West Foundation
Mission Possible: Successful Canadian Cities	January 2007	Conference Board of Canada
Assessment of Potential New Tax Measures Under the City of Toronto Act, 2006	March 2007	Hemson Consulting Ltd.
The Vertical and Municipal Fiscal Balances: Second Interim Report on the Committee's Study of the Fiscal Balance Between the Different Levels of Government in Canada	June 2007	Standing Senate Committee on National Finance
Implement Sustainable Funding for Canada's Cities	January 2008	Conference Board of Canada (Anne Golden, Glen Hodgson and Mario Lefebvre)
Lost in Transition: How a Lack of Capacity in the Mental Health System is Failing Vancouver's Mentally Ill and Draining Police Resources	February 2008	Detective Fiona Wilson-Bates, for the Vancouver Police Board and Chief Constable Jim Chu
Towards Equity and Efficiency in Policing: A Report on Policing Roles, Responsibilities and Resources in Canada	May 2008	Federation of Canadian Municipalities