Municipalities need fiscal autonomy to close infrastructure gap

By Doug Holmes

There's an adage about Canadian federalism that says the federal government has the money, the provinces have the power, and local governments have the problems.

Municipalities' challenges start with their limited taxation and financing powers. While federal and provincial governments draw revenues from income and sales taxes, which increase with a growing economy and when inflation causes prices and wages to rise, local government's largest revenue source is from property taxes, which are static – they don't increase when property values go up because they are based on mill rates.

For municipal revenues to keep pace with growth and inflation, property taxes need to be adjusted annually, which creates unpredictability and undue hardship for people since market values do not necessarily reflect rising incomes.

With understandable resistance to property tax increases, a fiscal imbalance between the three levels of government has emerged over the years. Today, for every tax dollar paid in Canada, local governments collect only 10 cents, with which they're expected to maintain two-thirds of the country's public infrastructure.

Increasingly, municipalities must go cap-in-hand to senior governments to ask for purpose-specific grants, breaking the link between local spending and local political accountability.

The federal and provincial governments have recently introduced initiatives to address housing affordability and supply, all of which have implications for local infrastructure since you can't build housing without also providing adequate roads, water and wastewater treatment, and community amenities.

Research commissioned by the Federation of Canadian Municipalities (FCM) estimates that $600 billion in municipal infrastructure upgrades are required to support the construction of 5.8 million housing units, which is the number of new homes needed to be built by 2030 to restore affordability.

Municipalities have limited options to pay for this growth. Increasing property taxes and development charges is self-defeating as it just makes homes more unaffordable.

Meanwhile, a recent report from the Canadian Centre for Economic Analysis notes the federal government is the largest beneficiary of tax revenues from newly built homes (39% federal, 37% provincial, 24% local), but only 7% of the federal government's 39% share is invested back into public infrastructure.

Even with lauded programs like the Canada Community-Building Fund and Investing in Canada Infrastructure Program, the current level of federal investment in public infrastructure is falling far short of what is needed to sustain our communities.

FCM is asking the federal government to convene provincial and municipal leaders to discuss a new funding framework to replace the current ad hoc approach to municipal infrastructure investment. At the very least, we need a stable revenue source that takes economic and population growth into account.

For their part, most provincial governments still struggle with greater federal-municipal interaction due to constitutional concerns over the division of powers. Quebec is the only province that has moved on from the idea that municipalities are "creatures of the province" and has passed legislation recognizing them as "governments of proximity", which comes with a share of sales tax.

In BC, the Community Charter recognizes municipalities as an "autonomous, responsible and accountable" order of government. That looks good on paper but, realistically, local autonomy is not possible without financial self-sufficiency. The two must go hand-in-hand.

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