



# Municipal Finance: Pressures and Potential Policy Solutions for Canadian Cities in the Time of COVID-19

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# Presentation

- COVID-19 has challenged cities across the country like never before
- Were Canadian cities facing a fiscal crisis before COVID-19?
- What has been the impact of COVID-19?
- Are cities facing a fiscal crisis now ... and in the future?
- What can be done?

# Municipal Fiscal Health Before COVID-19

- Operating budgets balanced (required by law)
- Borrowing for capital within provincial limits
- Expenditures increasing at about the rate of inflation
- Property taxes per capita increasing less than inflation

BUT...

# Problems on the Horizon

- Fiscal health at expense of overall health - deteriorating services and infrastructure
- Decline in business tax base arising from changing employment landscape:
  - Move from manufacturing to service economy with an emphasis on knowledge-based jobs
  - Many manufacturing plants are being replaced by warehouses and distribution centres
  - Traditional office spaces have become obsolete as more people work from home
  - Reduced demand for retail spaces because of online shopping

# Impact of COVID-19 on Municipal Finances

- Impact of COVID-19 depends on five factors (OECD):
  - Expenditure responsibilities
  - Revenue sources
  - Fiscal flexibility
  - Fiscal health
  - Scope and efficiency of federal and provincial policies
- Impact is not the same everywhere

# Impact of COVID-19 on Municipal Expenditures

- Public health
- Emergency services
- Child care for first responders
- Food security
- Social distancing on transit
  
- Transit and roads
- Garbage collection and disposal
- Parks, recreation and libraries ...
  
- More cleaning of municipal facilities
- Provision of PPEs to staff
- IT costs for staff working from home

# Impact of COVID-19 on Municipal Expenditures: Potential Reductions

- Municipal facilities closed (e.g. libraries, recreation centres)
- Cuts in professional development costs
- Cuts in travel
- Cuts in hiring for non-essential services

# Impact of COVID-19 on Revenues

- Property tax and fee deferrals (temporary loss of revenues)
- Potential longer term loss on business property taxes (permanent)
- Loss of penalty and interest income (permanent)
- Reduction in user fees especially transit fares (permanent)
- Lower development charge revenues (temporary)
- Provincial transfers the same or more (no loss of revenues)
- Land transfer taxes (increase?)



# Fiscal Flexibility

- Ability of municipalities to absorb stress
- Capacity to adjust expenditures and revenues
- Diversity of revenues

# Fiscal Health

- Size of reserves
- Borrowing capacity
- Deferred capital investments

# Federal Response

- Fast tracked gas tax transfer for infrastructure
- \$2 billion for municipalities; \$1.8 billion matching funds with provinces for transit



Source: [https://en.wikipedia.org/wiki/Centre\\_Block](https://en.wikipedia.org/wiki/Centre_Block)

# Provincial Response

- Change borrowing rules (e.g. BC) to allow for more borrowing for longer time period
- Operating loans for municipalities (e.g. Nova Scotia)
- Grants and subsidies for 2020
- Deferred payment or reduction (e.g. Ontario) of provincial property taxes



Source: <http://bitly.ws/9Ixy>

# Municipal Response

- Different responses in different places
- More short term borrowing (within provincial limits)
- Dipping into capital reserves
- Deferring capital programs
- Cutting programs and staff



Source: [https://en.wikipedia.org/wiki/Edmonton\\_City\\_Hall](https://en.wikipedia.org/wiki/Edmonton_City_Hall)

# Impact of COVID-19 on Municipalities: Long Term Uncertainty

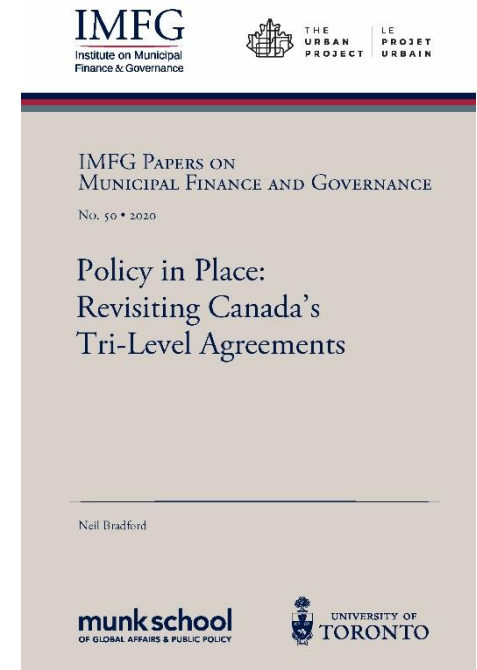
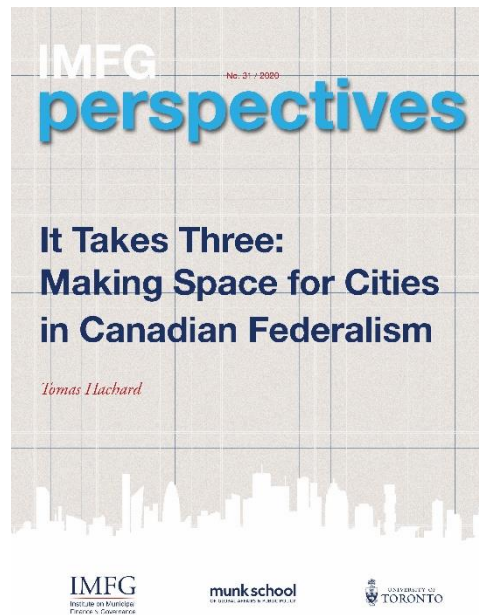
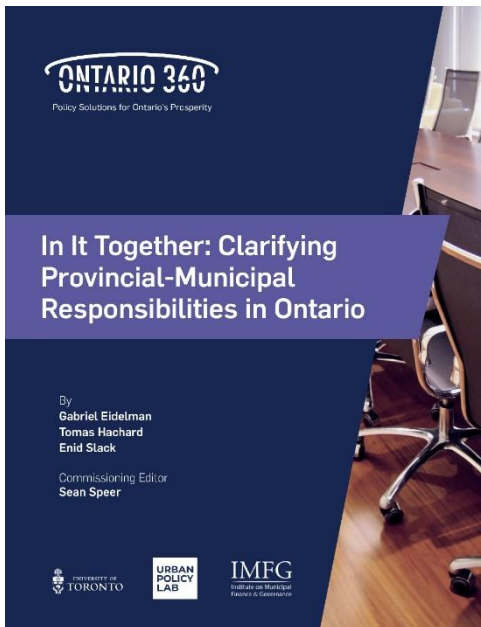
- Will people move to the suburbs or rural areas?
- Will riders get back on public transit or will automobile use increase?
- Will the transformation to digital services (municipal services, health care, education, courts, shopping, the arts) expand?
- What will happen to real estate prices and the property tax base?
- Will business closure and storefront vacancies increase? If so, how will the commercial property tax be affected?

# COVID-19: Opportunity to Do Things Better

- Build back green – e.g. re-thinking transportation to include street widening, bike lanes, rapid bus lanes, etc.; is it time for road tolls?
- Address inequality – e.g. more affordable housing; more child care spaces; reduced fares on transit for low-income individuals
- Go digital – example of digital transformation in financial operations – fewer errors; less processing time; ability to focus on high value activities



# What Can be Done?



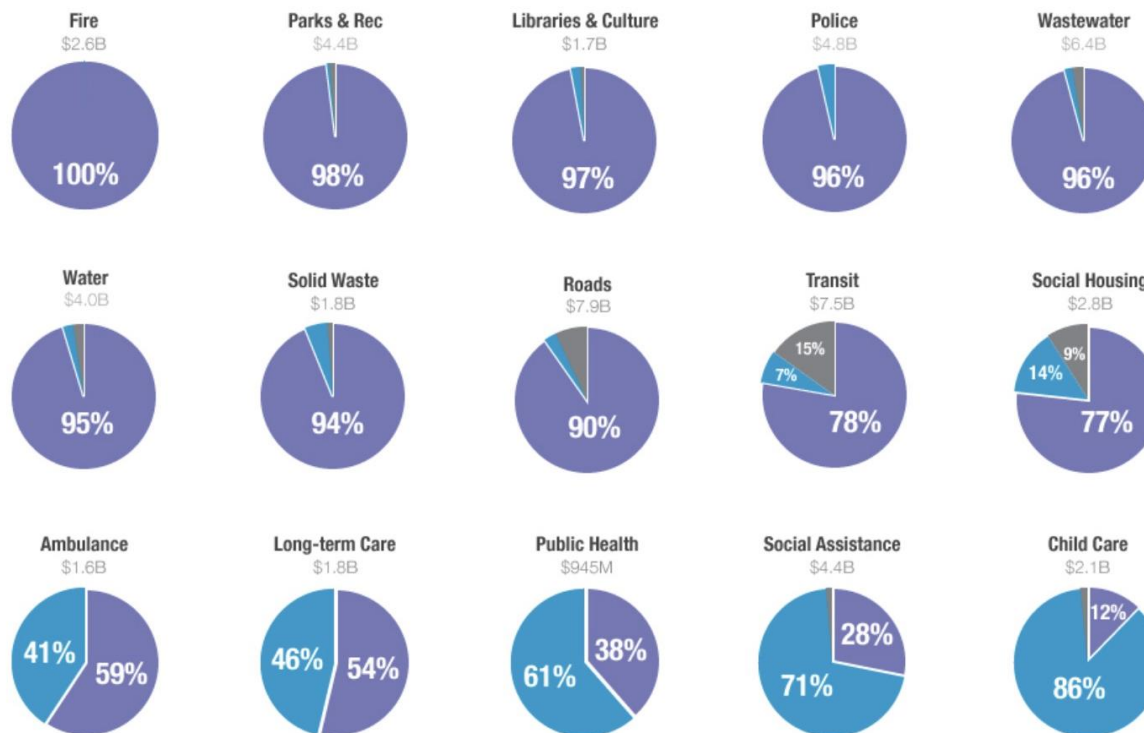


# Time to Re-visit Who Does What

- COVID-19 showed that municipalities are on the front lines when it comes to delivering services
- Also shows that they don't have sufficient resources
- Federal and provincial governments have come to the rescue but is it enough and does it strengthen municipal fiscal health in the long run?
- Time to clarify provincial-municipal responsibilities: who does what and how to pay for it

# Who Funds What?

Share funded by **Municipal Revenues**, **Provincial Transfers**, and **Federal Transfers** in 2018  
Sorted by municipal share



Source: Compiled from Ontario Ministry of Municipal Affairs, Financial Information Return.  
Note: Excludes unconditional transfers.

# Report Recommendations

1. Take a collaborative approach
2. Follow the pay-for-say principle and avoid unfunded mandates
3. Consider local revenue capacity
4. Respect local and regional differences
5. Look forward, not backward
6. Start with health and social services

# Tri-lateral Collaboration

- Formalize the trilateral relations that were part of funding agreements in response to COVID-19
- Municipalities need to be directly involved in negotiations and agreements on issues that affect them e.g. infrastructure, immigration, public health
- Municipalities need to have “a seat at the table”

# Final Comments

- Canadian cities were in fairly good financial shape, on average, before the pandemic
- The impact of the pandemic has been different in different places but has hit the large cities (with major transit systems) the most
- Pandemic has highlighted the cracks in the federal fiscal structure
- Time to re-consider who does what; time for more formal trilateral collaboration