



Are Canadian Municipalities Fiscally Sustainable?

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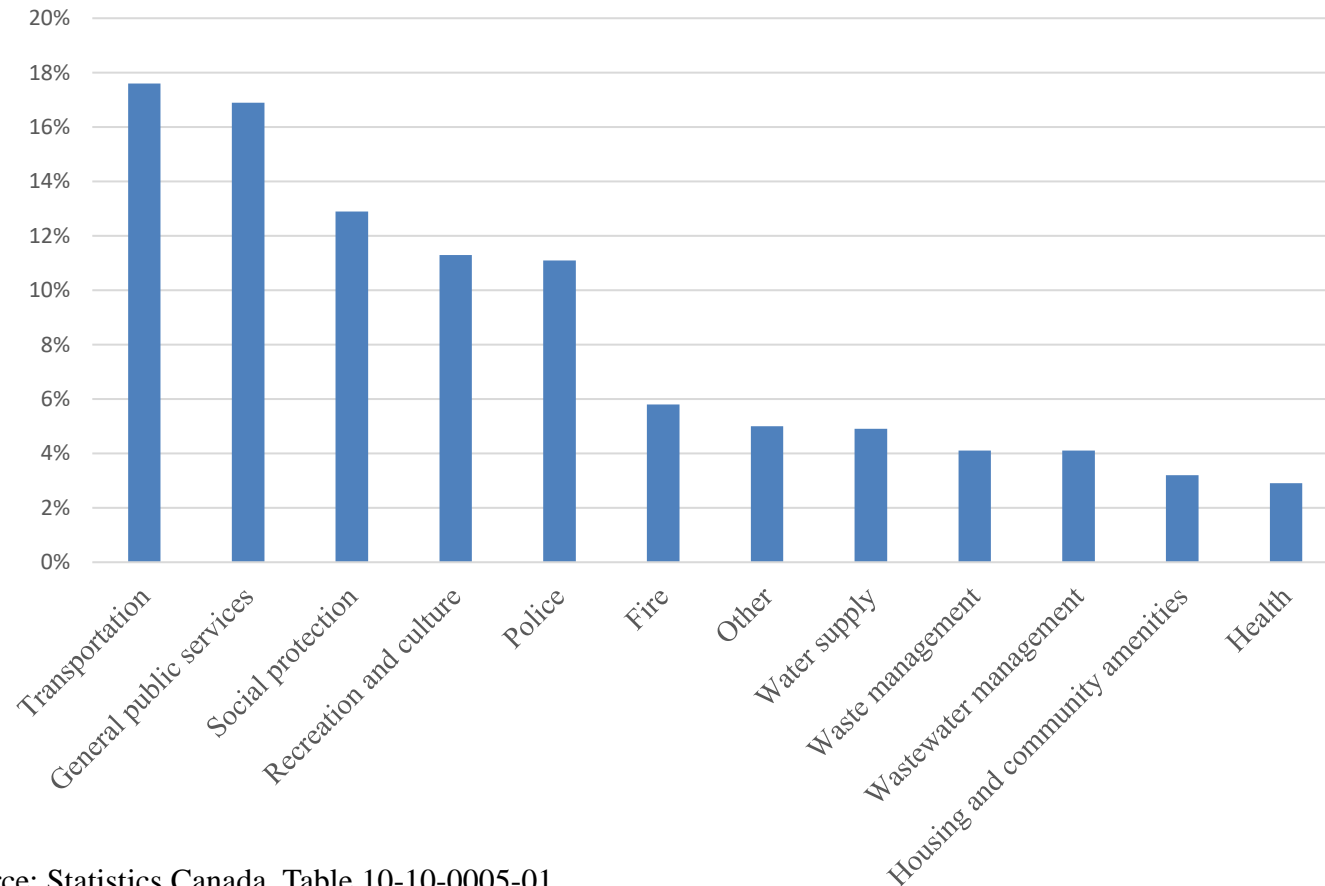
Outline of Presentation

- What is fiscal sustainability and who cares?
- Challenges for the future/impact on expenditures and revenues:
 - Aging population
 - Infrastructure deficit
 - Climate change
 - Work from home and online retail
 - Inflation and rising interest rates
- Options:
 - Re-thinking Who Does What
 - New sources of revenue
 - Regional cooperation

Who Cares about Fiscal Sustainability?

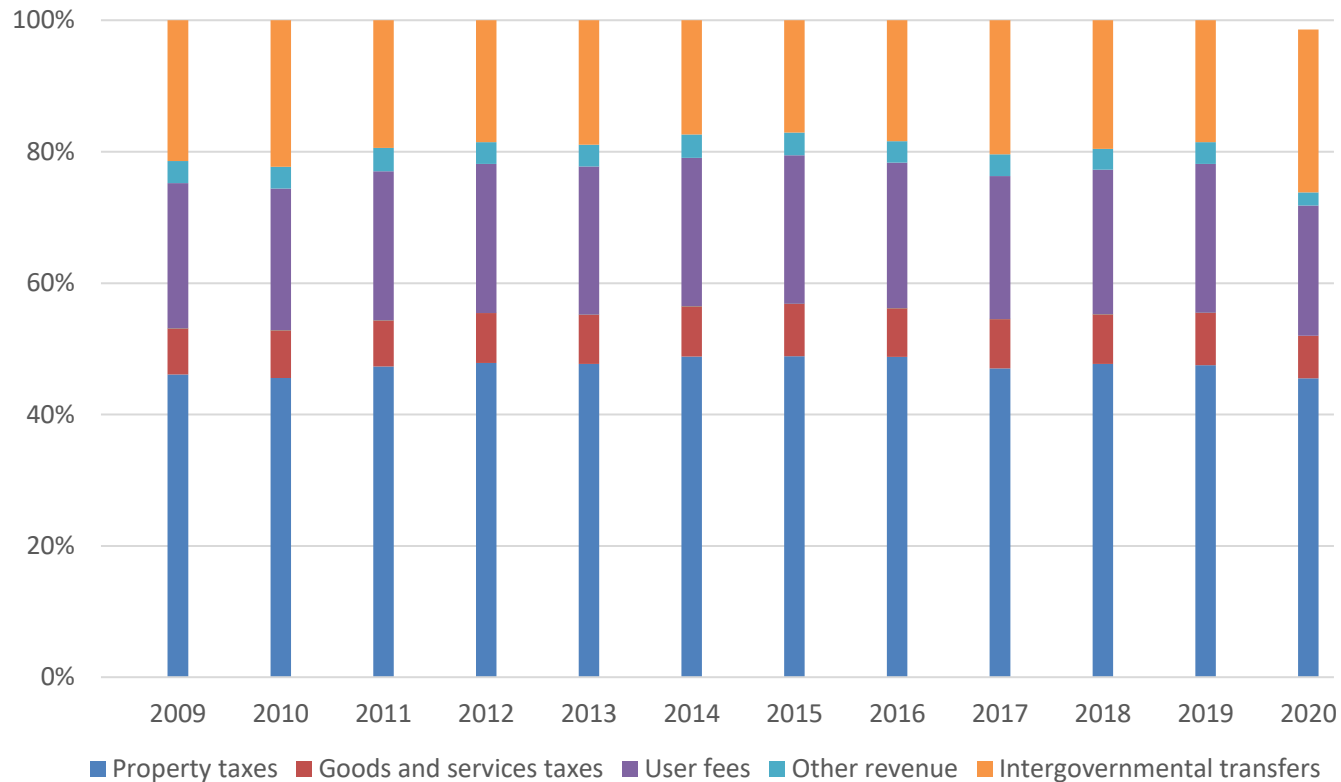
- Citizens
- Local governments
- Provincial governments
- Federal government
- Bond holders

Distribution of Municipal Expenditures, Canada, 2020



Source: Statistics Canada, Table 10-10-0005-01

Distribution of Municipal Revenues, Canada, 2009-2020



Source: Statistics Canada, Table 10-10-0020-01

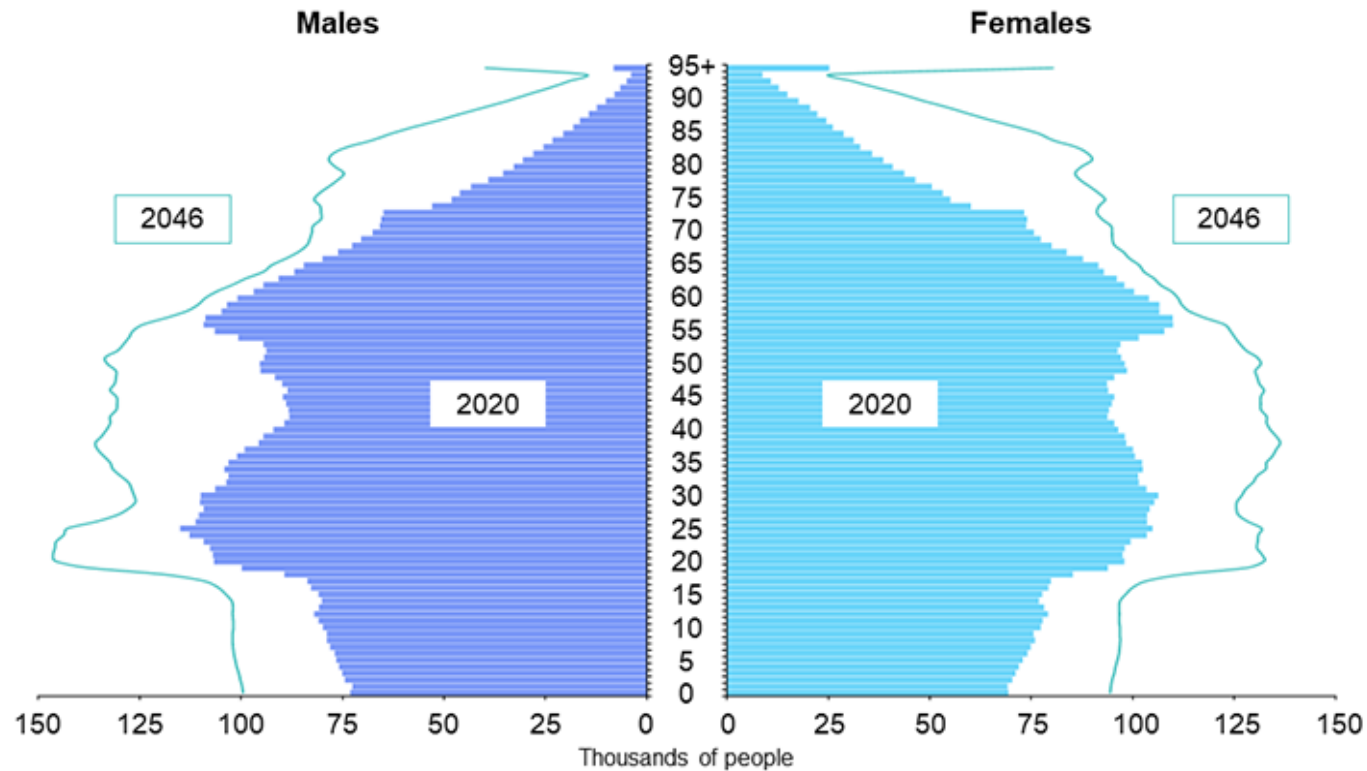
Municipal Fiscal Health Before COVID-19

- 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 at or less than inflation

BUT...

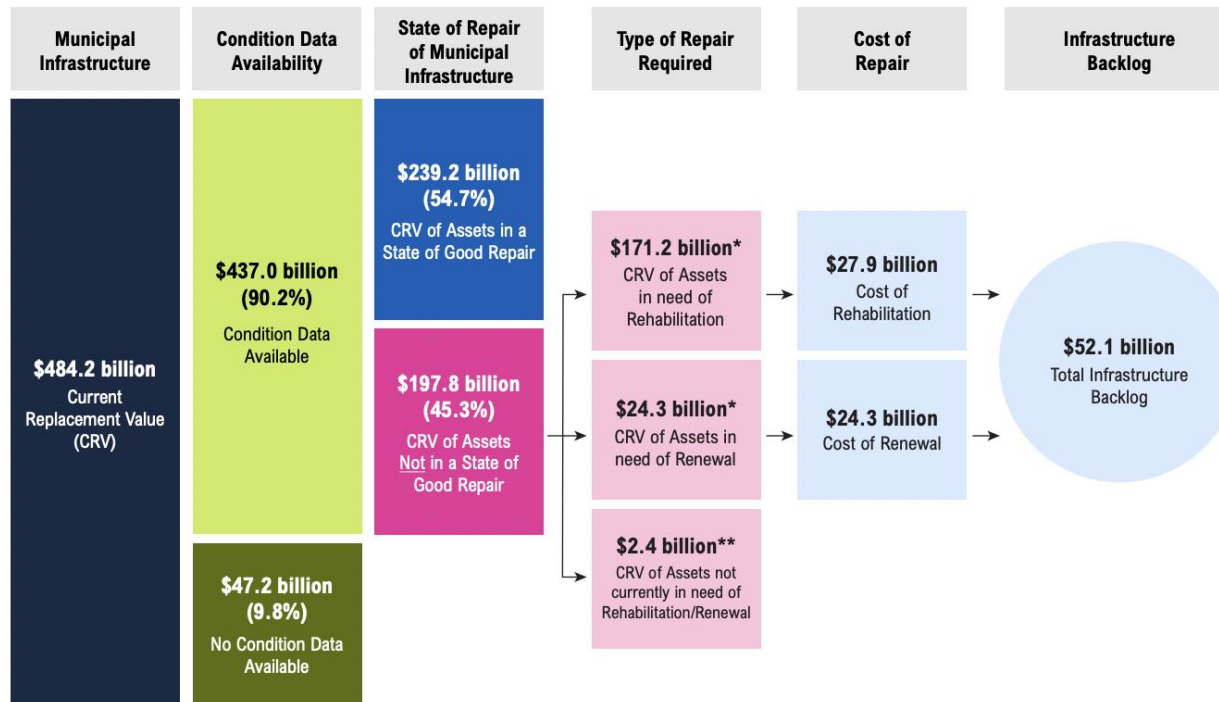
- Fiscal health at expense of overall health - deteriorating services and infrastructure ... and then COVID-19

Age Pyramid of Ontario's Population, 2020 and 2046



Sources: Statistics Canada for 2020, and Ontario Ministry of Finance projections.

Figure 1-1: Municipal infrastructure, the state of repair and the infrastructure backlog, 2020



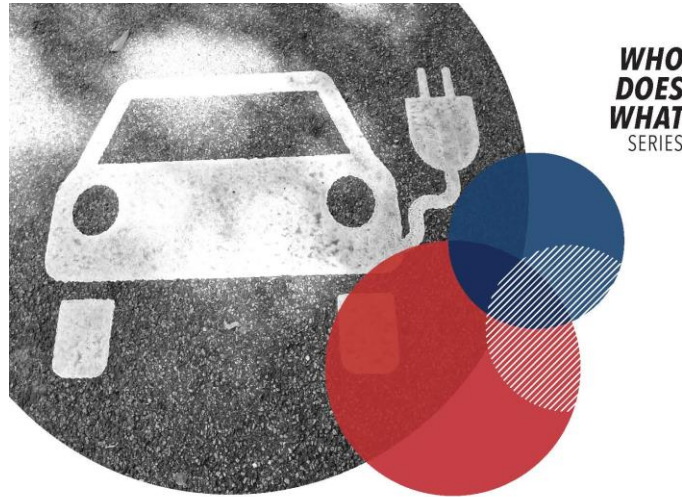
Notes: The estimates presented under the state of repair of municipal infrastructure, type of repair required, cost of repair and infrastructure backlog are the average values from the FAO's Monte Carlo analysis.

* Rehabilitation is the repair of all or part of an asset, extending its life beyond that of the original asset, without adding to its capacity, functionality or performance. Renewal is the replacement of an existing asset, resulting in a new or as-new asset with an equivalent capacity, functionality and performance as the original asset. Renewal is different from rehabilitation, as renewal rebuilds the entire asset.

** This box represents older assets that will be left to deteriorate for several years before being completely replaced.

Source: FAO analysis of municipal data as detailed in Appendix D.

Source: *Municipal Infrastructure: A Review of Ontario's Municipal Infrastructure and an Assessment of the State of Repair*, Financial Accountability Office of Ontario, 2021.



The Municipal Role In **CLIMATE POLICY**

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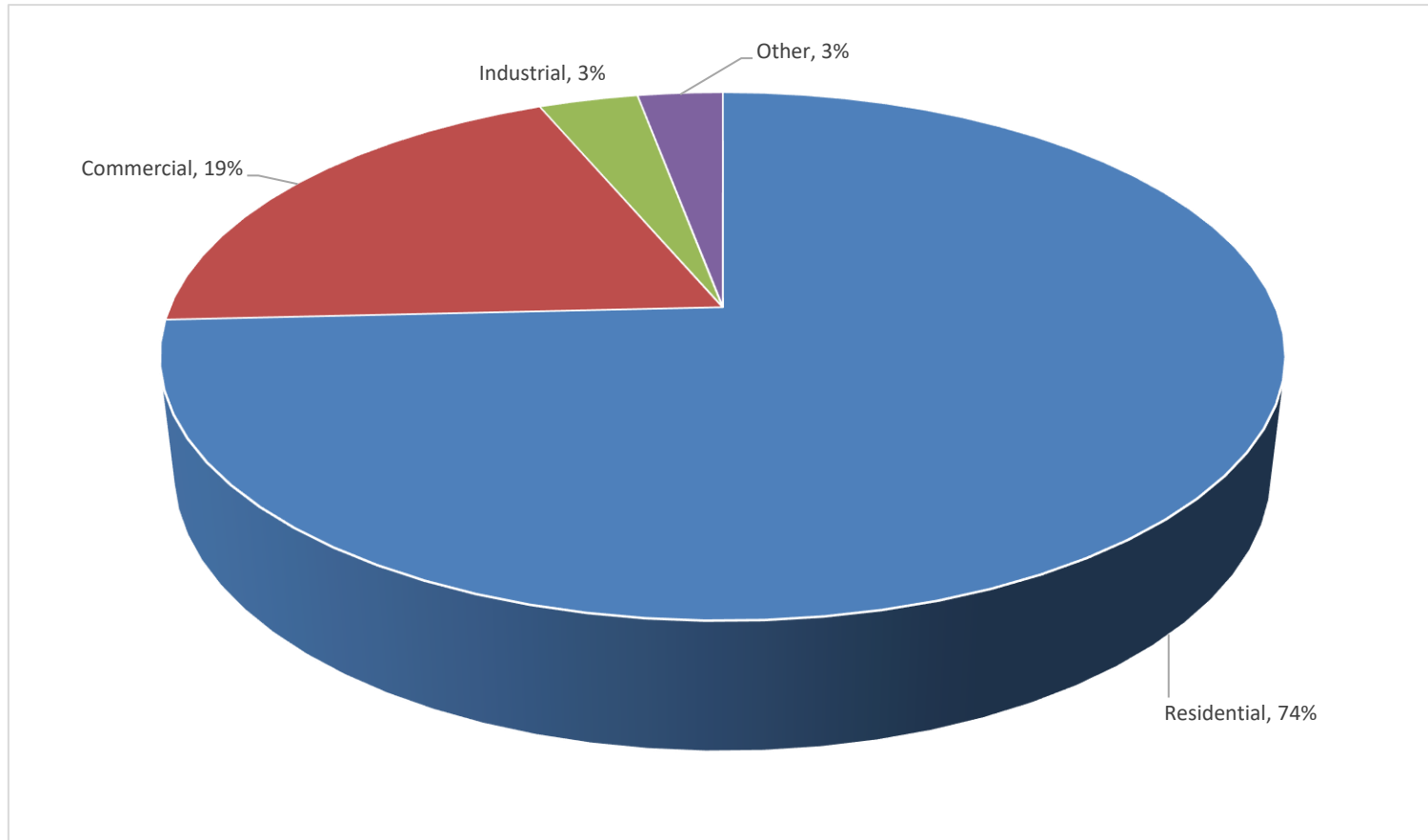
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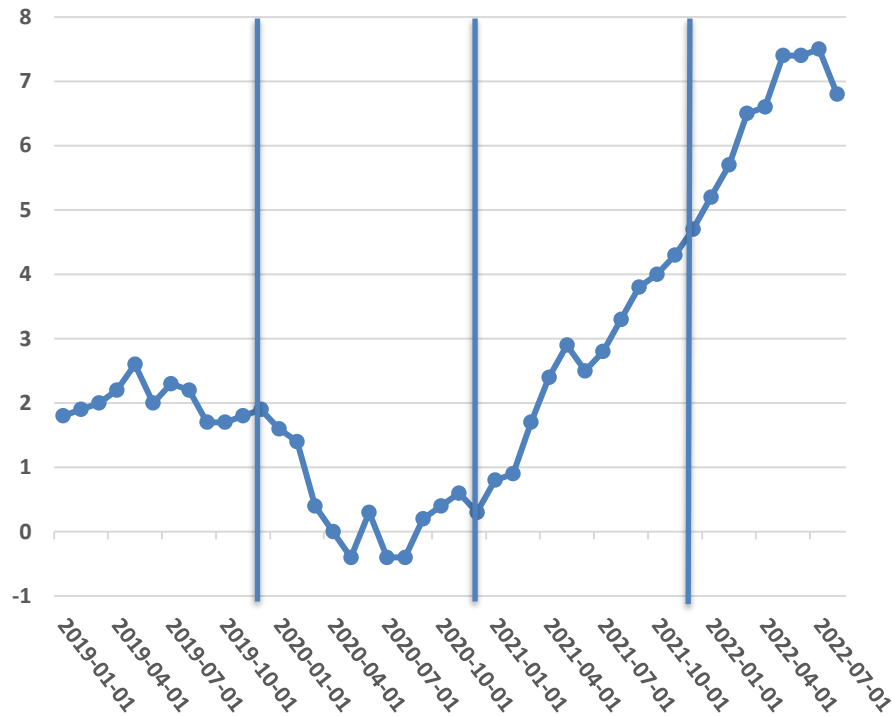
Municipal Property Tax Revenues in Ontario by Property Type, 2020



Source: Ontario Municipal Financial Information Returns

Inflation and Rising Interest Rates

Inflation (%), Year-over-Year - Toronto CMA



Source: City of Toronto. (2022). *Toronto Economic Dashboard*.

Selected Government of Canada Benchmark Bond Yields (%)



Source: Bank of Canada. (2022). *Selected bond yields*.

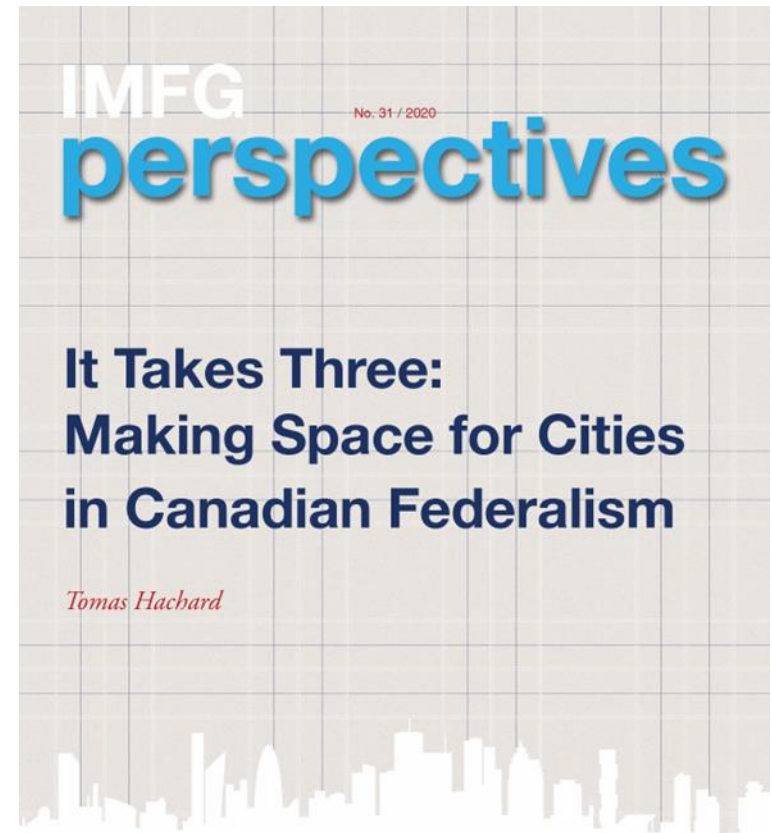
Inflation and Rising Interest Rates

“High inflation and global supply chain challenges continue to increase the cost escalation on capital project delivery. As well, a steep rise in prevailing interest rates has been increasing capital financing costs for new debt issuances. With the increasing financial pressure added to the uncertainty of the intergovernmental funding commitments, the projected spend rate continues to be impacted in 2022.”

City of Toronto Capital Variance Report for the Four Months Ended April 30, 2022

Why Review Who Does What?

- Constrained municipal finances
- Paternalism
- Poor coordination



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Other Revenue Sources

- City of Toronto Act powers
- Income or sales taxes
- Double devolution (Harcourt report)

Regional Cooperation

- Top down versus bottom up
- GTHA roundtables
- Taxes/fees coordinated across region

Final Comments

- Municipal fiscal sustainability is important
- Municipalities face many challenges – existing and new – going forward
- Need to re-think what municipalities do, how they do it, and how they pay for it