

International Forum on Federalism in Mexico

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Municipalities in Canadian Federalism: Challenges and Innovations

International Forum on Federalism in Mexico: Local and Global Challenges

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INTRODUCTION

Thank you for the opportunity to speak with you today. As I am sure you are all aware, there is a growing body of research and argumentation that strongly suggests that cities – and by this I mean the large urban areas in each country – are perhaps the most important social and economic entities in developed countries. This is a result of two phenomena:

- **Urbanization.**
 - As more and more people come to live in urban areas, cities are increasingly the place where economic activity takes place, and the place where citizens experience their day to day lives. Quality of life in a country is in large part reflective of quality of life in the cities.
- **Globalization.**
 - Globalization enhances the economic importance of cities. Most people are well aware that the basis of the “new economy” is large cities. What is less well-appreciated is that fact that even the “old economy” is growing ever more dependent upon cities, due to globalization-related developments in telecommunications and the growing need for cities – rather than states or countries – to be globally competitive.
 - Ironically, globalization also increases the social importance of cities, as local communities grow evermore relevant to individuals. This process, known as “glocalization”, is receiving increasing attention in research communities

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Because of the combined effects of urbanization and globalization, a strong argument can be made that the health of a national and state or provincial economy, as well as the quality of life in that nation or state, are **dependent** on the economy and quality of life in the large urban areas. Simply put, one ignores the wellbeing of the cities at his peril.

The question then becomes, **what systems and approaches best ensure that the wellbeing of urban areas is protected and promoted?** Are there best practices, or for that matter, worst practices, in how countries approach their cities?

CANADA’S EXPERIENCE

What I would like to do in my presentation today is draw some lessons from Canada’s experience of municipal governments within a federal system. I should stress some important contextual caveats, however.

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- Canada is a very large landmass with a relatively small population, and a population that is very geographically dispersed.

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- Canada's population is estimated to be 30.4 million – not much above the estimated Mexico City metro area population of 26 million.
- Of those 30 million Canadians, over one in two live in a city larger than 100,000 residents, and Canada is rapidly becoming a much more urbanized country.

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- Canada's largest city, Toronto, has an estimated population of 4.6 million. Thus the term "big city" has a very different meaning in Canada than it does in Mexico or the United States.

With these caveats in place, I would like to note five examples of municipal challenges faced in Canada – challenges that may also be faced on a daily level by Mexican municipal governments. I will also sketch in some examples of how Canadian governments have attempted to deal with these challenges in innovative ways.

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LACK OF LOCAL AUTONOMY

The first challenge facing Canadian municipal governments is a general lack of autonomy. In Canada, municipalities are neither constitutionally recognized nor given any specific powers or responsibilities. Instead, "Municipal Institutions in the Province" are assigned as one of a number of provincial responsibilities. [s.98(8)]

Now, the fact that municipalities are not constitutionally recognized does not predetermine the role of municipal governments in the larger federal system. The same constitutional arrangement can result in very different approaches to municipal government, as our comparative research on Australia, the United States and Canada demonstrates.

In Canada, the lack of constitutional recognition has evolved into a system where municipal governments lack local autonomy. Provinces retain the discretionary power to make binding decisions on local governments, and local governments have no options for recourse. For example, in a number of provinces, the provincial governments chose to force adjoining municipalities to amalgamate, despite municipal government and public opposition to the amalgamations, and despite ample research evidence that demonstrates that amalgamation is a poor structural approach. Due to the lack of local autonomy, municipal governments have no choice but to accept the top-down imposition of changes to their structure, to their finances, or to their responsibilities.

Municipal governments have attempted to deal with this challenge in a number of ways, with limited success. First, mayors and municipal government associations have attempted to be very vocal when their autonomy is threatened. The advantage of this is that it raises public awareness of the issue; the disadvantage is that it can create a negative impression of "whining mayors," forever complaining about their lot in life. A second strategy has been the promotion of the "charter city" idea, which would allow cities greater autonomy in their areas of responsibility. This idea has been slowly emerging in public debate, and one province - British Columbia – intends to move forward on this issue in the next year. The third solution, employed by provincial governments rather than municipalities, has been local government reform. A number of provinces, including Alberta and Saskatchewan, have conducted reviews of local government responsibilities and attempted to modernize legislation.

Overall, there remains a lot of work to be done in the area of local autonomy, and this continues to be an ongoing challenge for Canada's big cities.

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SENIOR GOVERNMENT OFF/DOWN-LOADING

A second challenge facing municipal governments in Canada is senior government offloading or downloading of responsibilities. As the home to the majority of Canadians, municipal governments are faced with extensive de facto residual responsibilities. If senior governments fail to adequately address policy issues in their domain, local governments are left to address the policy gap. Examples include homelessness and housing. In addition, due to the lack of local autonomy, provincial governments are able to download responsibilities to municipal governments as they see fit. Because growing local responsibilities have not necessarily been accompanied by increased power, finance and authority, municipalities across the country are increasingly concerned about their ability to meet these responsibilities within the current framework.

Municipal governments have attempted to address the issue of new responsibilities as best they can, but in doing so they can add to their own fiscal strains. One approach has been through tri-partite agreements between the federal, provincial and municipal governments, typically with the municipal government assuming the leadership role. Examples include the City of Vancouver's efforts to deal with drug problems in the city's core, and the City of Calgary's large homeless shelter, which opened in October of this year.

Another approach has been municipal government demands for fiscal compensation for new responsibilities, a demand that has been met with limited success. Finally, municipal governments do have the option of refusing to take on off-loaded responsibilities, such as the provision of affordable housing, by reminding the public that the responsibility lies with senior rather than municipal governments. This approach is politically difficult, however.

LACK OF FISCAL TOOLS

Another area of challenge, an area that is likely common to municipal governments in many countries, is the lack of fiscal tools and resources. Local governments have limited access to own-source revenues, with property taxes being the primary revenue source. Property taxes are insufficient to meet local government responsibilities, and unlike sales and income taxes, property taxes do not grow significantly with and inevitably lag economic growth.

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The result is that municipal governments bear the costs of urban growth, but are unable to reap the benefits.

In addition, many cities are reliant on grants from the provincial government, grants that further reduce municipal autonomy and contribute to financial concerns. Such grants may be revoked or cancelled at any time, thereby enhancing financial uncertainty and making long-term planning very difficult, if not impossible. Also, provincial grants are usually conditional, thus reducing local control.

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It is in the fiscal tools area that we see some more successful examples of municipal innovation. First, cities have become better at employing user fees; indeed, user fees are a growing revenue source for most cities. The advantages of user fees are that they help to control the rates of consumption and supply, and provide additional revenues. Second, some cities found privatization of certain services to be beneficial. Of particular note here is the City of Edmonton, which receives considerable annual revenues from an endowment fund set up from the sale of one of its utilities, Edmonton Telephones. A third area of innovation has been revenue sharing. Some municipal governments have been able to form agreements with provincial governments to share provincial tax revenues. For example, the Cities of Calgary and Edmonton were able to secure an agreement to have some fuel taxes collected in the cities returned to the cities in the form of grants. The City of Winnipeg is the only city in Canada to have a revenue-sharing agreement for income taxes: the Province of Manitoba remits 2% of total provincial personal income tax revenue back to Winnipeg.

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NEED FOR REGIONAL COOPERATION

Fourth challenge: the need for regional cooperation. Many city-regions in Canada are comprised of a number of municipal governments, as neighboring municipalities abut each other to create a single metro area. If these municipal governments can work together, there are a number of mutual benefits, including improved economic development and global profile, cost savings in certain service areas, and improved urban planning strategies. However, cooperation among governments is not always a natural thing.

Canada has dealt with the challenges of regional cooperation. In the provinces of Alberta and Saskatchewan, emphasis has been placed on voluntary cooperation. Municipal governments are encouraged to find areas of mutual benefit, and begin to work together in a regional approach. This approach has been relatively successful. In the province of British Columbia, a regional district system has been developed. Under this system, a formal regional body exists to help coordinate regional approaches; the regional district is not a second tier of government, but rather a governance structure comprised of the member municipalities. This approach is seen by many to be a great success.

A final approach, and one that has been highly controversial, is provincially-imposed amalgamations in Ontario and Quebec. The amalgamations are contentious not only because they violate local autonomy and are opposed by the public, but also because a considerable body of research demonstrates that amalgamations are a less-desired means to achieve regional objectives. In the case of amalgamation, many researchers would argue that this provides an example of a “worst practice.”

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INFRASTRUCTURE

One last challenge to discuss is the need, due to urban growth and high usage levels, for new infrastructure and improvements to existing capital. Capital spending represents a large portion of urban spending, and the level of capital spending typically determines whether or not the city ends up in a deficit or surplus position. In Canada, there were tremendous public pressures in the 1990s to avoid debts and deficits at all costs. Many cities sought to avoid debt through new approaches to capital spending. The first has been “pay-as-you-go” financing. In essence, the cities work to build up their reserve funds, and then draw on these funds, rather than assuming more debt, to pay for capital expenditures. The problem with this approach is that it can take considerable time to build up sufficient reserves to finance capital projects – with the municipal infrastructure falling into disrepair during the waiting period. Also, it can be argued that the burden of paying for the capital is placed on one generation, while multiple generations enjoy its use.

A second approach is federal joint funding for infrastructure. In 1993, the federal government established a partnership with provincial and municipal governments to fund infrastructure projects. This provided much-needed investment in capital projects.

CONCLUSION

So, those are five examples of municipal challenges in Canada, and examples of how they have been approached. Are there any lessons from this for Mexico, for other federal countries, and even for Canada itself? I would argue that there are at least three.

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First, it is important that all governments – be they federal, provincial or state, or municipal – recognize the reality that cities do matter, and will continue to matter. Governments should be cautious to ensure that their policies benefit urban economies and quality of life, or at the very least do not cause negative impacts on the urban areas. Federal and provincial or state governments should also be careful to ensure that urban areas – and therefore urban interests – are properly represented in legislative numbers.

Second, municipal governments should have autonomy over their areas of responsibility, and the ability to reject assuming additional areas of responsibility that are off- or downloaded from senior governments.

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Similarly, if senior governments choose to reduce or discontinue action in certain policy areas, such as housing or social services, municipal governments should be cautious in bending to public pressures to assume these policy areas without adequate fiscal compensation.

Third, municipal governments require reliable fiscal tools that match their responsibilities. These should be fiscal tools that tap into a number of dimensions of the economy, and that are therefore able to fully tap into economic growth.

The most crucial point to stress is that federal systems must be sensitive to the importance of cities, and must work together for the betterment of their cities. There are numerous ways in which federal, provincial or state, and municipal governments can work together for their mutual benefit. The first step is an equal recognition that a healthy country requires healthy cities.

Thank you.

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