



URBAN GROWTH, CITIES AND FINANCING

Presentation by

Don Drummond

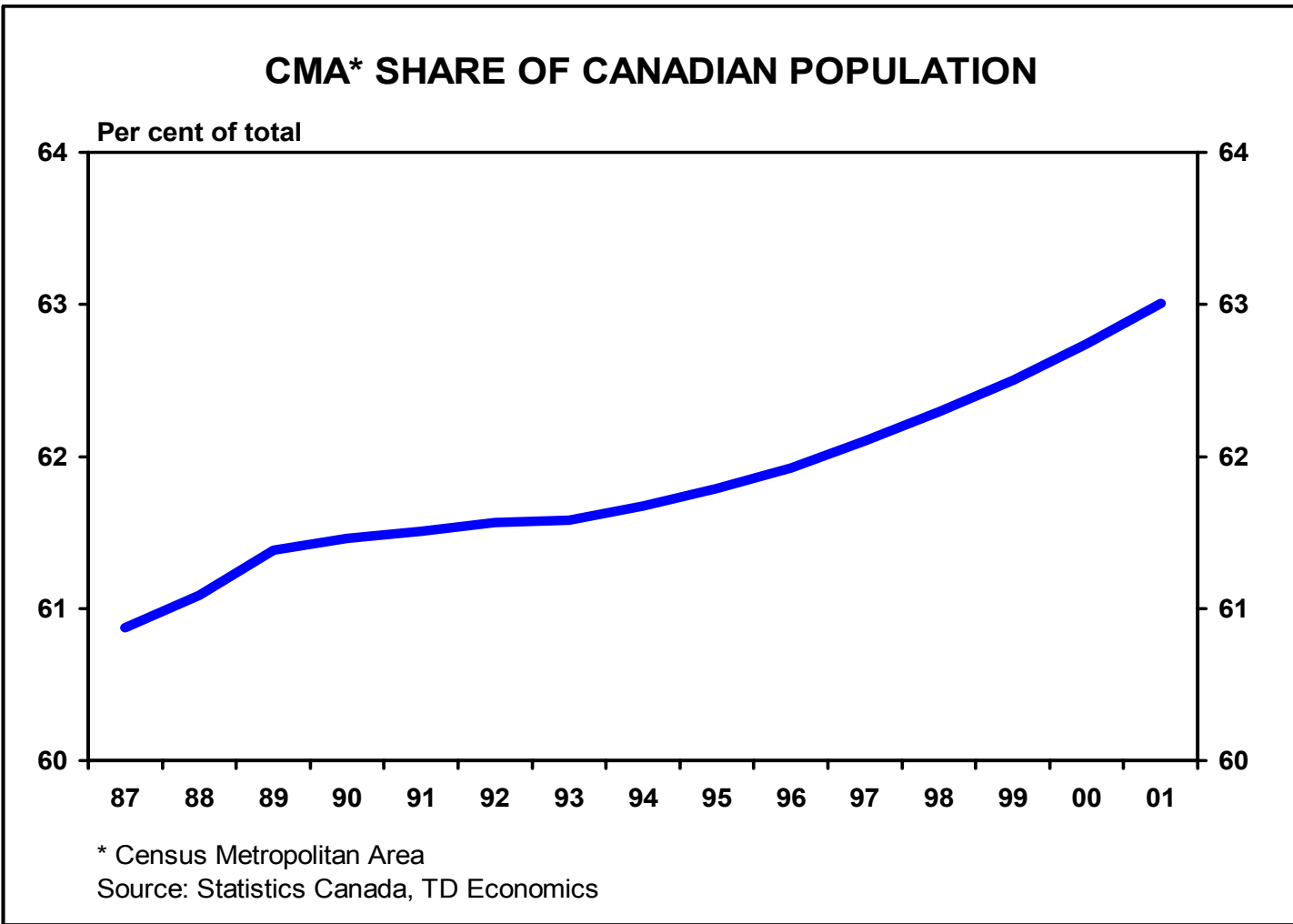
Senior Vice President and Chief Economist

TD Bank Financial Group

- Vancouver and Victoria: 60 per cent of B.C. GDP
- Calgary and Edmonton combined: 64 per cent of Alberta GDP
- Winnipeg: 64 per cent of Manitoba GDP
- Toronto: 44 per cent of Ontario GDP
- Montreal: 50 per cent of Quebec GDP
- Halifax: 48 per cent of Nova Scotia GDP



URBANIZATION CONTINUES APACE





IMMIGRANTS GOING TO ONLY A FEW CITIES

CANADIAN IMMIGRATION Per cent of total by destination

	1986-87	1998-99
CMAs *	85.7	93.7
Non-CMAs	14.3	6.3
4 Largest CMAs	63.1	75.8
Toronto	32.6	40.8
Montreal	15.9	13.5
Vancouver	8.6	18.0
Ottawa-Hull	6.0	3.5

* Census Metropolitan Area

Source: Statistics Canada, TD Economics



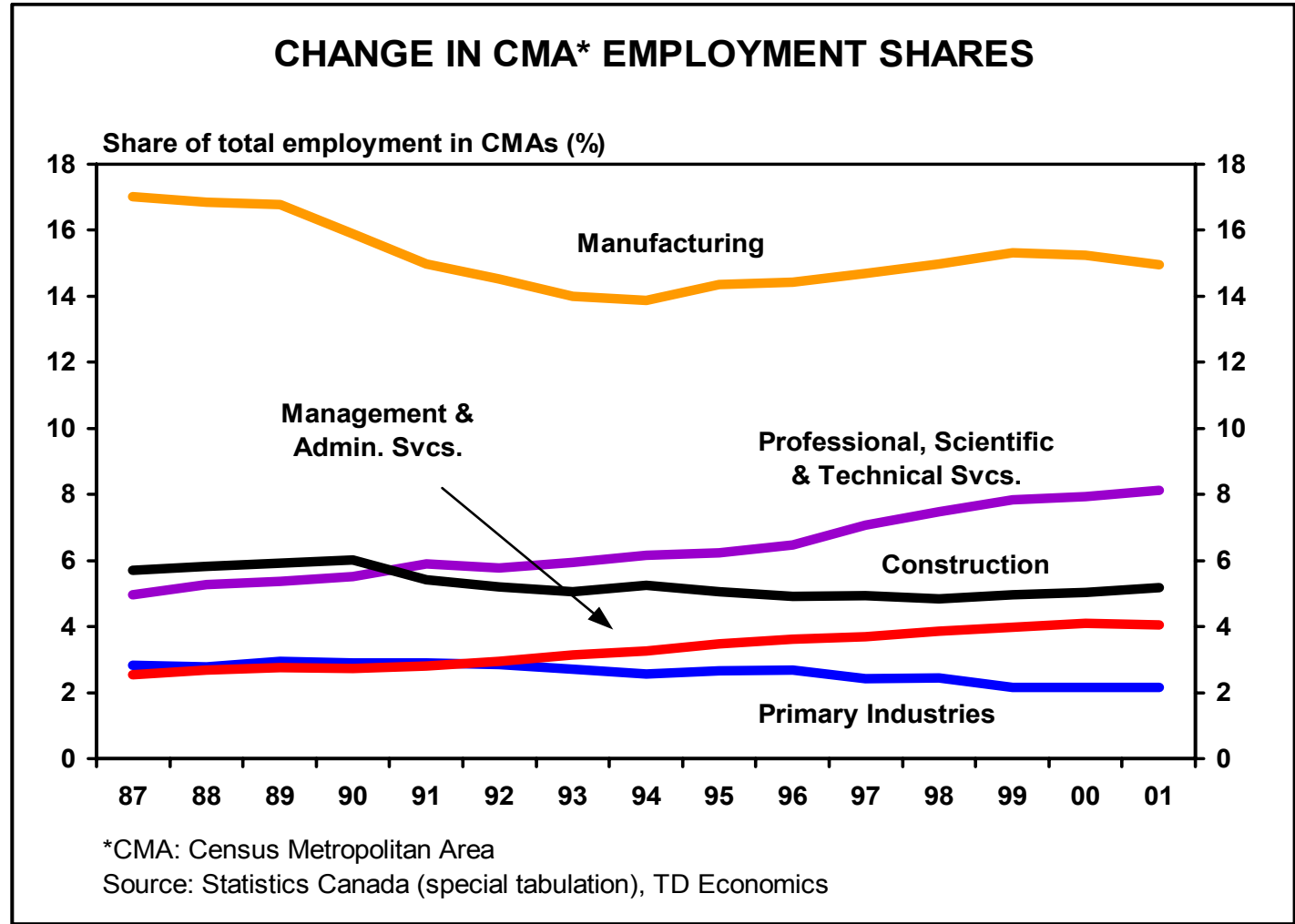
CITIES OFFER A WELL-EDUCATED, YOUNG AND DIVERSE WORKFORCE

COMPARING URBAN AND NON-URBAN LABOUR FORCES

		Urban	Non-Urban
Per cent with post-secondary degree or diploma	1980	27.0	19.7
	2002*	43.6	34.8
Per cent of total population aged 25-34 years	1986	63.1	36.9
	2000	67.6	32.4

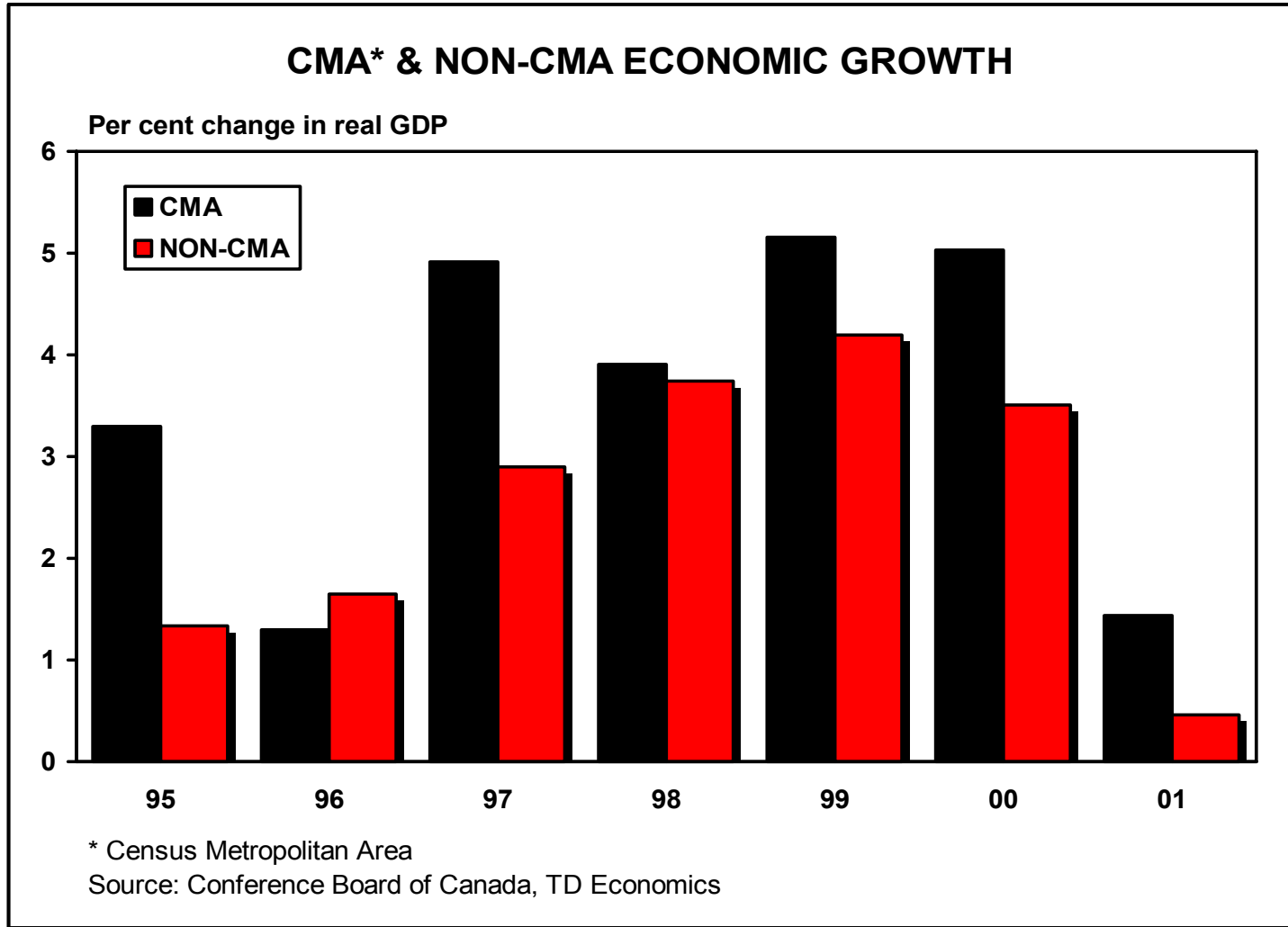
* Forecast by FP Markets Canadian Demographics, 2002
Source: FP Markets Canadian Demographics, Statistics Canada,
TD Economics

"NEW ECONOMY" BURGEONING IN THE CITIES ...



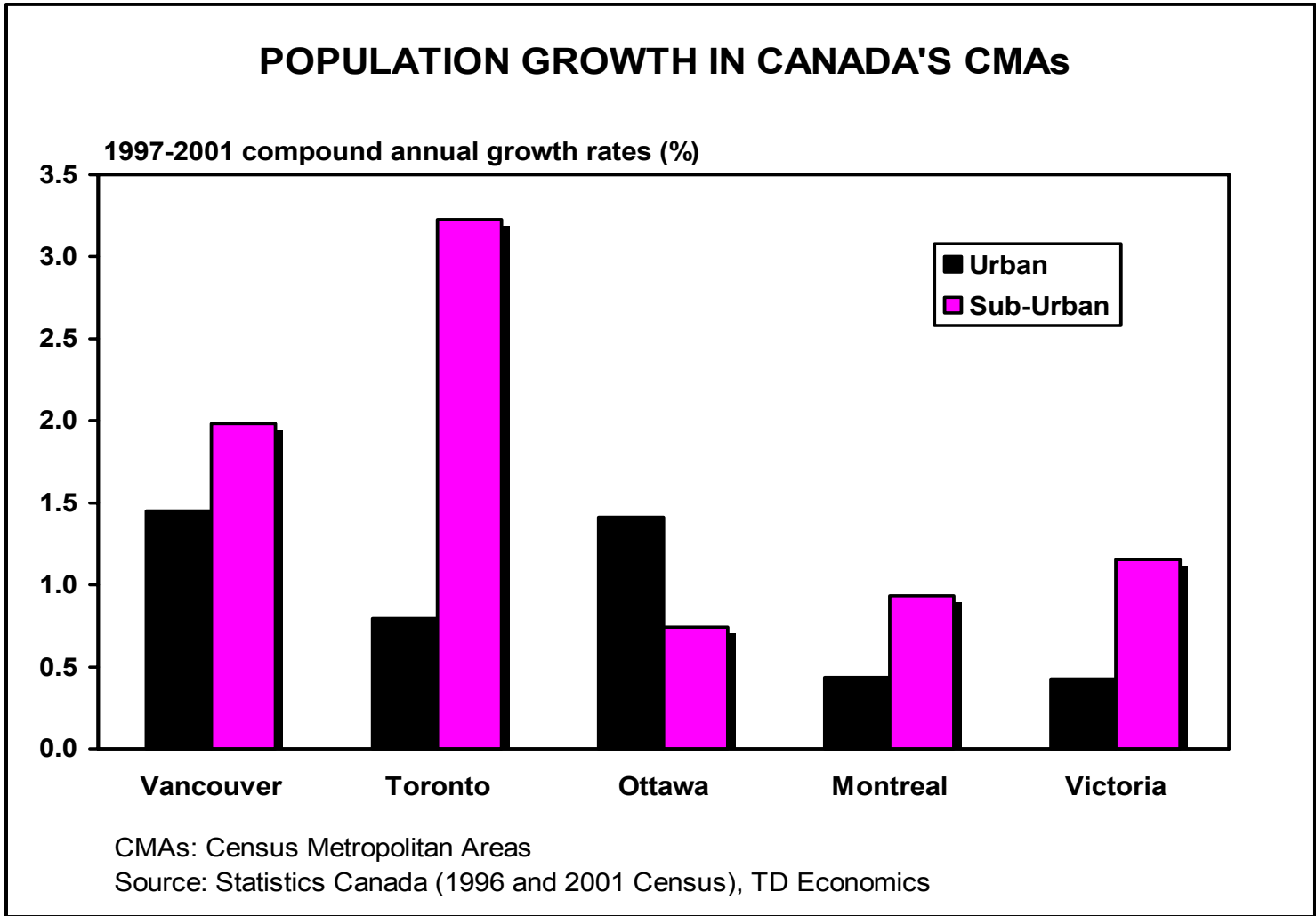


... HELPING THEIR ECONOMIES TO OUTPERFORM





INCREASING TREND TOWARDS SUBURBANIZATION



- Remove obstacles to urban growth
- Address infrastructure shortcomings
 - public transit and transportation
 - water and sewage
 - social housing

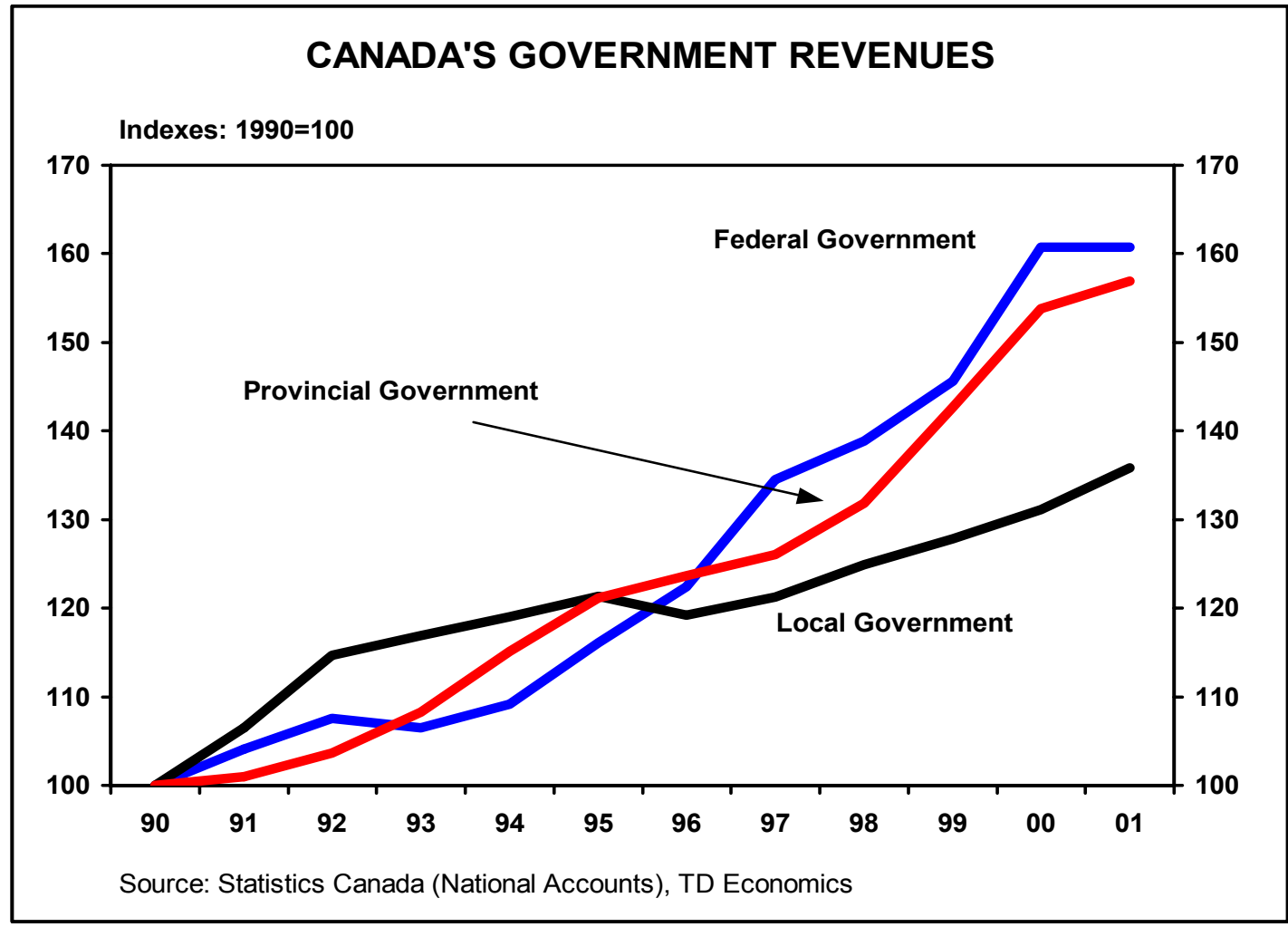
- Operating cost pressures
- Hollowing out of downtown cores
- Insufficient revenue sources

CANADA'S CITIES IN DESPERATE NEED OF NEW INFRASTRUCTURE

- Association of Consulting Engineers (ACEC) estimates infrastructure shortfall of \$44 billion
- Shortfall growing by about \$2 billion per year
- Canadian Urban Transit Association estimates \$9.2 billion needed for public transit over five years
- Federation of Municipalities estimates rental housing needs of 500,000 units over ten years

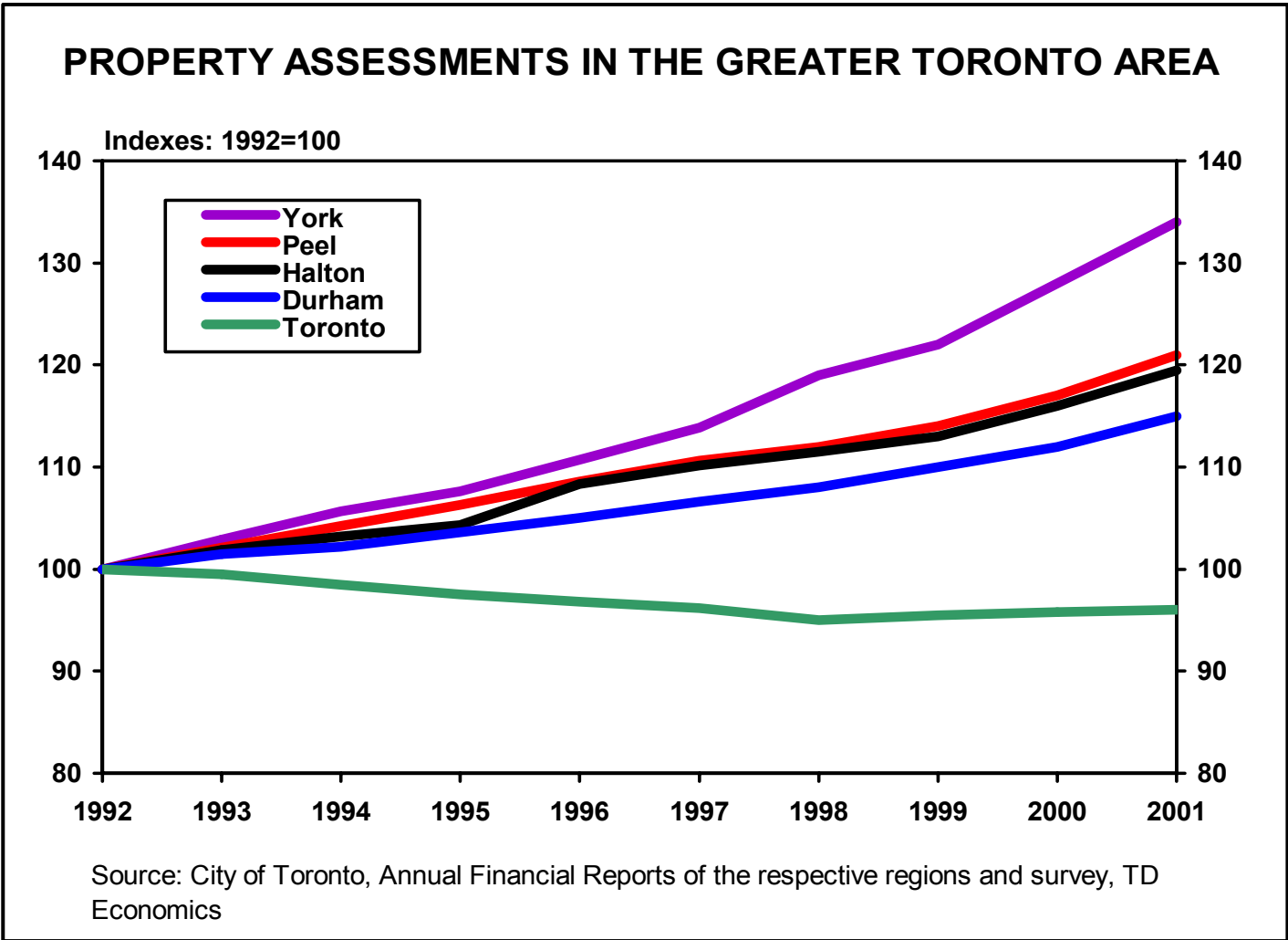


LOCAL GOVERNMENT REVENUES HAVE ONLY CREPT AHEAD





PROPERTY TAX ASSESSMENT DECLINING IN TORONTO



- Not tightly related to ability to pay or services received
- Commercial/Industrial much higher in City
- And higher than residential
- Second highest commercial rates in North America
- Multiple-units pay more than single units

- Facing crisis 20 years ago
- Benefited from economic boom
- Coaxing individuals back to downtowns by investing
- Large increase in federal grants to cities

- Innovative new funding tools
 - Public-private partnerships
 - Tax exempt bonds
 - Tax increment financing
- Europe also boosting private-sector involvement



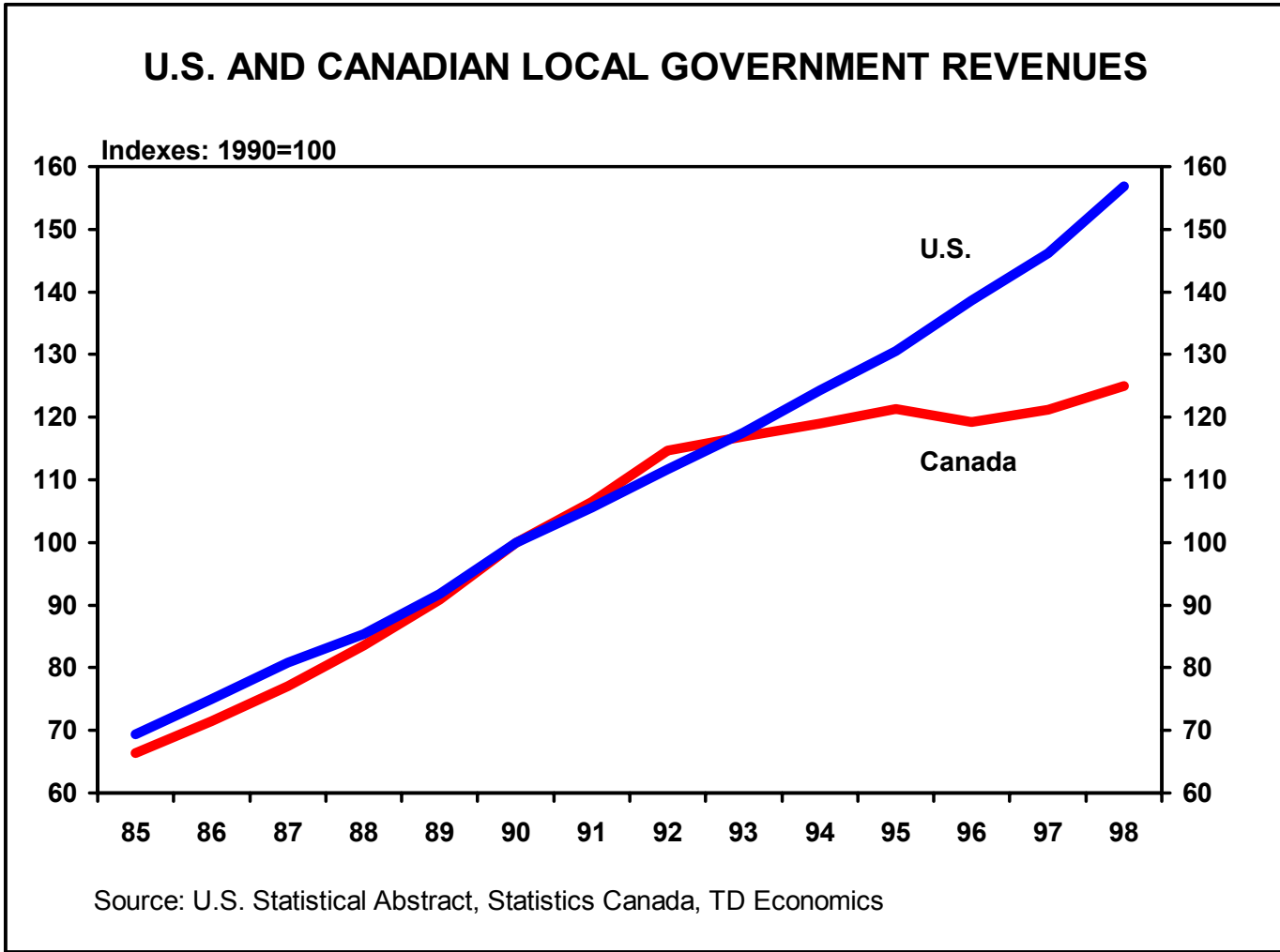
... HELPED BY ACCESS TO MORE REVENUE SOURCES

MUNICIPAL REVENUE SOURCES		
CANADA VS. U.S.		
Shares of Total Revenue		
	Canada	U.S.
<u>Own Source</u>		
Property Tax	49.5	21.0
User Fees	20.2	32.6
Other own source	1.3	13.5
Transfers from federal government	1.3	3.3
Transfers from state/province	21.0	23.4
Other sources	6.6	6.0

Source: Federation of Canadian Municipalities: "Early Warning: Will Canadian Cities Compete?", May 2001



U.S. CITIES IN BETTER POSITION TO TACKLE CHALLENGES



- Lots of “beggar thy neighbour” incentives
- Tax free municipal bonds are inefficient, inequitable provincial and federal grants
- Grants from other levels of government preserve the position of “subserviance” and are not dependable

Federal to municipal

- municipal airports
- local airports
- local harbours

Provincial to municipal

- transit, child care
- social housing, social assistance
- ferries, selected airports
- property tax assessment

Cities responsibilities vary by province:

- **Ontario:** cities pick up big portion of social services; got tax room on residential education part.
- **Manitoba:** above average burden for social services.
- **Nova Scotia:** more of the education bill.
- **Saskatchewan and Alberta:** high share of transportation.

SOME PROVINCES BEGINNING TO PROVIDE MONEY TO CITIES

- Greater **Vancouver's** Transportation Authority: partially funded by an 11-cent-per-litre gas tax. Tax rate set by province.
- **Victoria**: a 2.5-cent-per litre gas tax is collected for transit.
- **Calgary and Edmonton**: receive 5 cents per litre of province's fuel tax. Latest budget reduced this share to 1.2 cents. Cut postponed to March 2003 and will likely be forgotten.

SOME PROVINCES BEGINNING TO PROVIDE MONEY TO CITIES

- **Manitoba:** allocates revenues worth two percentage points of personal income tax and one percentage point of corporate income tax to its cities in form of per capita grant.
- **Montreal's** Agence Métropolitaine de Transport (AMT): partially funded by a 1.5-cent-per-litre gas tax and a \$30-per-car registration fee.
- Municipalities in **Nova Scotia** and **Quebec:** have authority to levy a land transfer tax on the value of transferred property.

- **Reform tax systems**
 - property taxes
 - reset user fees and development charges more in line with
 - cost of related service
 - more use of user fees

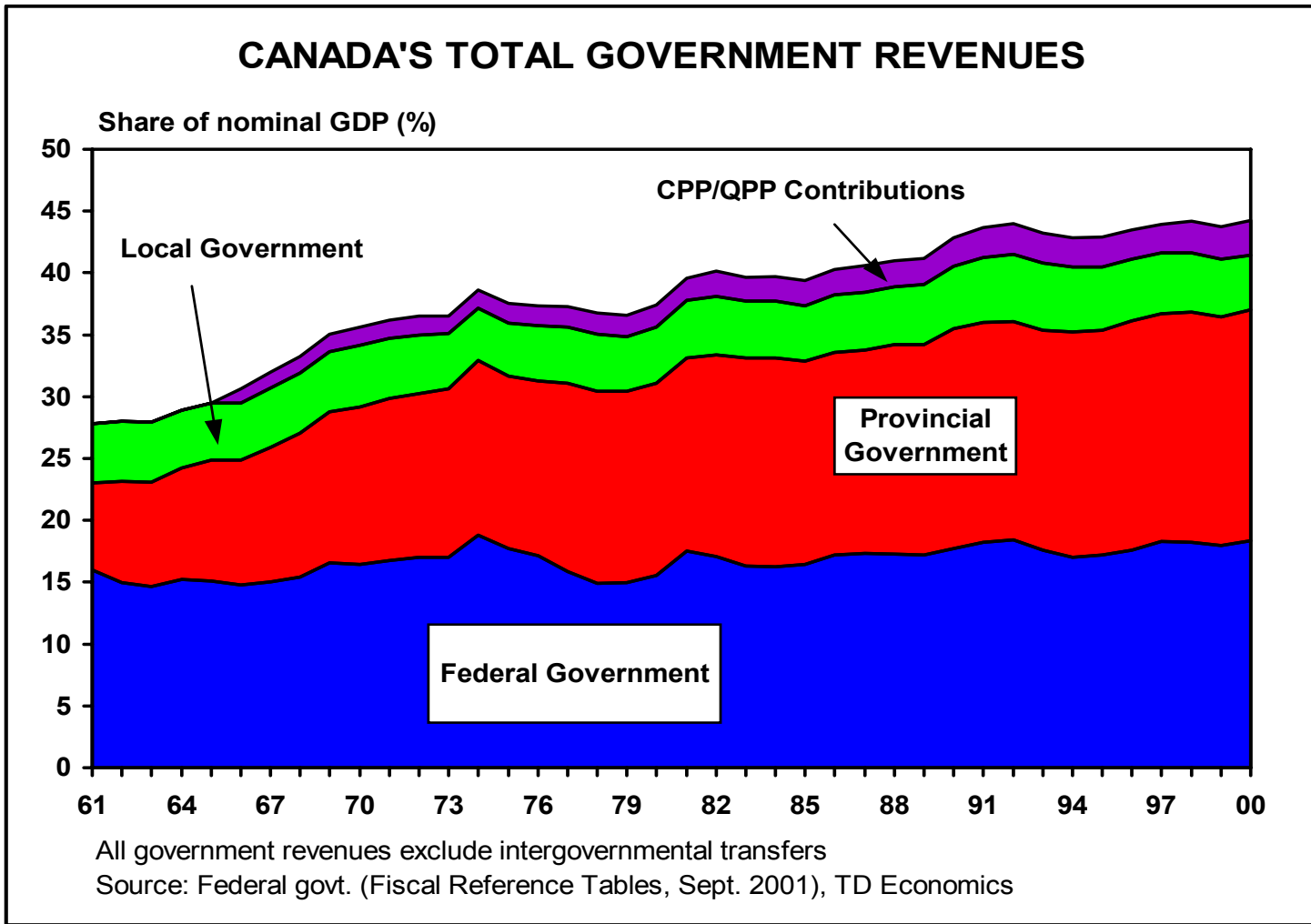
- **Fix up regulations**
 - land planning strategies could be improved
 - implementation often flawed

- **Better delivery of services**
 - take advantage of economies of scale
 - more engagement of private sector
 - restrictive labour contracts a barrier

- Reliability
- Accountability
- Transparency
- Administrative simplicity
- Efficiency
- Equity

- Loosen shackles on property taxes and user fees
- Must avoid increase in overall tax burden
- Existing provincial and federal transfers must be made more certain
- Increasing transfers is an option
- But for accountability, giving cities new taxing authority is preferable
- Federal and provincial governments must lower their taxes to create the room

INCREASE IN OVERALL TAX BURDEN MUST BE AVOIDED





NEW FUNDING ARRANGEMENTS FOR MUNICIPALITIES

1. Grants
2. Revenue arrangements for cities

1. City Income Tax
2. Excise or sales tax