Infrastructure Canada

Canada

PRÉCIS

PERFORMANCE AND POTENTIAL 2004-2005: HOW CAN CANADA PROSPER IN TOMORROW'S WORLD?

Background

Since 1996 the Conference Board of Canada has published an annual report on the quality of life in Canada entitled *Performance and Potential*. The report is an assessment of Canada's challenges and policy choices, and aims to help Canadian leaders understand how to sustain and strengthen Canada's high quality of life.

From 1996 until 2001 the report benchmarked Canada against six other OECD countries. In 2002 the methodology was changed so that 24 OECD countries were taken into account, with Canada benchmarked against the top 12 in each of six priority areas (economy, education & skills, environment, innovation, health, and society). In addition, the number of indicators used in the evaluation has risen from 40 in 2001 to 110 in 2004.

Examples of the 110 indicators include: use of agricultural pesticide per square kilometre of arable land (environment); number of science, math and engineering graduates in the labour force (education & skills); and number of MRI units available per million population (health).

In addition to benchmarking Canada against other OECD countries, *Performance and Potential* has been incorporated as part of "The Canada Project", a joint initiative between the Social Sciences and Humanities Research Council and the Conference Board of Canada, that analyzes the major barriers to Canada achieving a higher standard of living and greater influence in the world. This is reflected in the analysis of key concerns and recommendations for improvement included in the report.

2004-05 Report

This year's report is published with the theme "How can Canada Prosper in Tomorrow's World?". It ranks Canada 6th in economy, 4th in education & skills, 9th in environment, 4th in innovation, and 8th in health. Canada is one of only 4 countries to place in the top 12 for every category.

The report identifies five key areas that should be improved for Canada to achieve a higher standard of living: the Canada-US productivity gap, trade, foreign direct investment (FDI), immigration, and sustainable financing for cities. From the analysis of these areas the report makes the following recommendations:

- Be more open to adopting best practices from around the world;
- Focus on innovation and commercialization and expand Canadian businesses;
- Embrace competition and encourage inward and outward FDI;
- Provide a new deal for immigrants to maximize their contributions to Canada; and
- Renew our cities in recognition of their pivotal role in the global economy.

Canada's Cities: In Need of a New Fiscal Framework

The final chapter of the report is devoted to financing strategies for improved municipal infrastructure. While the 2003 report noted that infrastructure was a government priority lacking funding, the 2004 report contains detailed fiscal scenarios on how the infrastructure gap could be resolved.

Scenario 1: Keeping the debt constant (status quo).

If municipalities keep their debt constant (as opposed to paying it down or increasing it), growth in capital spending will rise by 3 percent annually. It is estimated that an increase of 4.5 percent annually is required to maintain and expand the capital stock in line with population growth. Thus under this scenario cities are not only unable to address the existing infrastructure gap, but in fact the gap will continue to grow.

Scenario 2: Maintaining and expanding the capital stock.

In order to keep the infrastructure gap from growing cities could raise their capital spending to 4.5 percent per year. However this would raise the debt level of cities from $12.2B in 2002 to $43.9B in 2025. Despite tripling in size, the debt to GDP ratio of local governments (0.5) would still be far lower than the current ratio of provincial (1.2) or federal (2.8) governments. However this does not address the existing infrastructure gap, it only ensures that the gap does not grow.

Scenario 3: Using debt to finance capital spending.

If cities borrow as much as possible without running an operating deficit, the infrastructure gap could be contained and $35.3B generated towards reducing the existing gap. However the existing gap is estimated to be between $50 and $125 billion, thus even by maximizing municipal debt the infrastructure gap could not be completely resolved. Furthermore, municipal debt would increase from $12.2B in 2002 to $144.6B in 2005, 1.5 times higher than total revenues - surpassing the debt load of provincial governments.

Scenario 4: Getting other levels of government involved.

If cities receive one half point of the GST (instead of 5 cents of the federal gas tax), and 2 cents per litre of the provincial gasoline tax, $72B could be generated in revenues by 2025. If cities use debt financing to contain the infrastructure gap (as described in scenario 2), and receive these funds to address the existing gap Canada's infrastructure could be restored by 2025. The report notes however that this approach is not feasible for all municipalities, as some cities currently have high debt loads and cannot borrow enough to contain the infrastructure gap on their own.

In addition to the 4 scenarios, the following possibilities are acknowledged but not explored in the report: containing urban sprawl, user fees, and public-private partnerships.

Analysis

The Conference Board argues that Canadian cities are incapable of addressing the infrastructure gap on their own. The report proposes a financing model that involves all three levels of government on the grounds that infrastructure is a national issue and a national priority.

While some reports such as the Canada West Foundation's recent "*Foundations for Prosperity: Creating a Sustainable Municipal-Provincial Partnership to Meet the Infrastructure Challenge of Alberta's 2nd Century*" agree that the current system is unsustainable and that other levels of government must contribute, others remain unconvinced. A recent publication by the Atlantic Institute for Market Studies titled "*Financing City Services: A Prescription for the Future*" placed a greater emphasis on the capacity of cities to increase own-source revenues. Author Harry Kitchen argued in that report that cities still have room to manoeuvre by altering user fees, property taxes, and development charges to increase the efficiency of municipal infrastructure. While such options were recognized in the Conference Board report, they were not analyzed.

Despite its emphasis on municipal own-source revenues, the AIMS publication did recognize the need for a more diversified tax base, as did the Canada West Foundation's "*Foundations for Prosperity*" and another of its recent publications: "*Straight Talk on Property Taxes*". The CWF reports support cities receiving a portion of a sales tax, as this better reflects economic growth, captures the benefits of hosting large events, and ensures that non-residents who make use of municipal infrastructure contribute to its cost. The AIMS report encouraged provinces to give cities a cut of certain provincial fees and taxes, noting that the federal government has no constitutional jurisdiction to negotiate with municipalities.

Ultimately the scenario proposed by the Conference Board is one that they have calculated will resolve the infrastructure gap, but it is not the only possibility. Recent studies by others clearly suggest that there may be more that cities can do to keep infrastructure costs under control, such as raising property taxes, employing user fees, or being granted new taxation powers.