

Chapter Nine

Provincial-municipal financial relationships

The financial circumstances of local governments, particularly those of larger cities, have received a great deal of national attention in the last few years. This chapter examines the Manitoba situation with a particular focus on the City of Winnipeg, within the context of the Capital Region. This is a complicated and controversial topic. However, if the ultimate goal is to create a Capital Region Policy Plan, the RPAC had to address the legislative authority and financial capacity that the Manitoba Legislature has granted to the Capital Region municipalities. This chapter examines these issues from a comparative perspective and concludes that the Government of Manitoba has been relatively generous compared with other provincial governments in terms of transferring both powers and money to local governments. Since there is no simple way to find and maintain the appropriate balance between power and money, this subject deserves continuing study to take account of changing circumstances.

Representatives of the Capital Region municipalities identified four related funding issues during the RPAC consultations. The first

was the gap between the expenditure obligations of local governments and their revenue raising capability. The City of Winnipeg was particularly insistent on its need for alternative revenue sources beyond property taxes and user fees of various kinds. The second concern was that the increasing reliance upon property taxes puts pressure on local governments to pursue residential, commercial, and industrial developments without sufficient regard for the long-term implications in terms of region-wide planning, infrastructure provision, service delivery requirements, and environmental impacts. The third concern was that the provincial government had not been sufficiently generous in its financial transfers or in allowing local government access to new revenue sources. Moreover, some complained that budgetary cutbacks, and reductions in service levels within the provincial government (such as on the maintenance of drains by Manitoba Conservation) have at times forced local government to pick up the slack.

A fourth concern is the Education Support Levy, a province-wide property tax that is levied by the Province and used to fund local

school divisions. It is seen as an example of the Government of Manitoba occupying one of the major levels of taxation available to municipalities. In 2002 the Government of Manitoba announced a five-year plan to phase out the Education Support Levy on residential property taxes.

In reporting these concerns, the RPAC does not endorse them in all respects. The provincial government's financial capacity to provide additional municipal funding is limited both by taxpayers' ability and willingness to pay and competing priorities such as health and education. This is particularly true in the case of a provincial government in a "have-less" province with a balanced-budget law requiring that deficits be avoided and that personal and corporate income taxes or sales tax increases be approved through a referendum. Economic and financial challenges (as well as a reduction in citizen tolerance for increased taxation) during the 1990s required the provincial government to reduce or to severely restrain its spending in a number of public policy fields. In part because provincial law did not allow them to run deficits, municipal governments across Canada were in comparatively better financial condition than senior levels of governments. The financial position of provincial governments was eroding because provincial programs, such as health and social services, were subject to increased demands and escalating costs to a greater extent than most municipal programs.

The RPAC recognizes that the financial relationships between the provincial government and local governments are varied, complicated, dynamic, and controversial. Not surprisingly, it is risky to offer an analysis and recommendations on this topic. However, failure to address these issues would rob this

report of some credibility. The RPAC hopes that the following analysis adds to the understanding and ongoing debate on this important topic.

THE BACKGROUND

The three main sources of revenues for municipal governments are property taxes, user fees, and financial grants and transfers from the provincial government, with occasional financial contributions from the federal government to support such measures as infrastructure improvements and housing. Working with countrywide data (usually from Statistics Canada), many commentators have argued that during the 1990s there were significant reductions in financial transfers from the provincial and federal governments to local governments. At the same time, a number of provincial governments shifted program responsibilities to local governments without granting them commensurate new taxing authority. The combined impact of these trends, it was often argued, was to place financial stress on local governments, forcing them to increase property taxes and user fees. Out of these circumstances emerged a renewed campaign by municipal associations and others to strengthen the case for additional financial resources for local government. What began as an argument to improve the financial position of local governments was eventually broadened to revive calls for more freedom from provincial rules and controls.

Emerging principles in provincial-municipal financing

Reviews of municipal powers and finances have taken place in most provinces during the past decade. The approaches to the realignment of service responsibilities and the fi-

nancing of municipal governments have varied significantly. For example, in Ontario earlier, and more recently in British Columbia, provincial governments, at least according to their critics, transferred important responsibilities to the local level without commensurate new financial powers. In contrast, in Manitoba there were examples of the provincial government assuming control over what were previously municipal responsibilities. Given the diversity of approaches, it is difficult to draw generalizations about trends in provincial-municipal relations. However, the following principles have been prominent in all recent reports on provincial-municipal relations:

- It is time that municipal governments were recognized as mature and responsible governments in their own right and accordingly there is less need for the past restrictive approaches to the granting of legal powers within municipal statutes.
- Municipal governments should have a strong role in relation to hard services (water, sewer, roads, etc.) while the provincial government should have a strong role in the provision of soft services (health, social assistance, and education).
- To the greatest extent possible there should be disentanglement of the activities of the two levels of government so that the government making the spending decisions should also have the responsibility for funding that service.
- To the greatest extent possible there should be an appropriate balance between service responsibilities and the financial resources available to support those responsibilities.

These four principles of provincial-municipal relations have been reflected to a significant extent in developments within the province of Manitoba during the past decade.

Each of the four principles will be discussed briefly in turn.

The first principle of treating municipalities as responsible and accountable entities was reflected in the replacement of outdated legislation with new, modern legislation. A new *Municipal Act* came into force on January 1, 1997, while the new *City of Winnipeg Charter* came into force January 1, 2003. Both pieces of legislation moved in the direction of granting local governments additional authority with less provincial supervision of their actions. These changes recognized the need to treat local governments as mature organizations that can be counted upon to be responsive and accountable to their own electorates and less answerable to the provincial government.

The Municipal Act changes gave municipal councils the authority to pass by-laws in fourteen spheres of jurisdiction. Manitoba's municipalities were given powers to spend, provide services, regulate, license, and take enforcement actions in more general terms than in the past and the courts were instructed to interpret these powers broadly. Previously, the law presumed that without an explicit grant of authority, municipalities lacked the power to undertake particular actions.

The 2003 *City of Winnipeg Charter* followed this pattern, granting the City of Winnipeg broader authorities. This was the first phase in a process designed to provide the City with more autonomy and financial flexibility. To recognize the City as a mature and responsible level of government, *The Charter* consolidated powers into fourteen broad categories. In addition, the City's corporate powers to carry out its daily operations were granted in law by means of a "natural person powers" clause.

Natural person powers provides the City of Winnipeg with essentially the same legal powers as other corporations or persons to conduct their day-to-day business without the need for specific administrative authority to be spelled out in *The Charter* for every activity. Previously, these corporate powers were specified in great detail and were scattered throughout *The Act*. The change streamlined the authorizing legislation and gave the City greater flexibility to carry out its corporate responsibilities. *The Charter* also removed several of the previous requirements for provincial approval. In summary, the City of Winnipeg gained clearer authority in fields like economic development, neighbourhood revitalization, and the conduct of its own activities, on both the political and administrative levels of government.

The second principle of provincial-municipal reform calls for the assignment of “soft services” to the Province and “hard services” to the local level. Hard services are those provided directly to property (water, sewer, roads, etc.) whereas “soft services” are directed to people and have broader benefits (such as social assistance, health, education, etc.) This second principle makes sense in general terms, but not all services fit neatly or exclusively into one of the two categories.

The Government of Manitoba has assumed more responsibility for the delivery and financing of softer services, for example, by taking over public health and social assistance in the City of Winnipeg. The provincial assumption of responsibility for social assistance involved a continued obligation on the part of the City of Winnipeg to share in the costs of the program. This feature of the revised arrangement remains a source of some disagreement between the City of Winnipeg and

the Government of Manitoba. Still, the shift to the provincial level contrasted with developments in other provinces—such as Ontario and British Columbia—where, according to local authorities, a downloading of major program responsibilities from the Province to the municipalities took place without adequate financial compensation. In those provinces there has been widespread debate about the strain on municipal budgets and the requirement to increase property taxes and user fees to finance the new responsibilities forced upon local governments. This pattern contrasts with Manitoba where the provincial government has taken over important public policy responsibilities and has also granted municipalities more financial flexibility.

The third and fourth principles of provincial-municipal reform call for clarity and balance in the assignment of taxing and spending powers so that voters can hold both levels of government accountable for their budgetary actions. Again, the RPAC agrees with this principle. However, because of the interdependence among governments in terms of both their actions and the impacts of those actions, there are significant limits to how far these principles can be upheld in practice. This is evident in the discussion of tax and service sharing in the previous chapter.

The complexity of the financial relationships reflects historical developments, the varied service needs and the differing financial capabilities of the nearly 200 municipalities in Manitoba. There is, for example, a vast difference between the wide range and greater complexity of the program obligations of the City of Winnipeg compared with a rural municipality. Not surprisingly, given its more expensive program obligations, the City of Winnipeg has been the most vocal among

local governments in calling for greater access to revenue sources other than property taxes and user fees. The City of Winnipeg buttressed its case for increased access to various revenue sources with references to both the number of recreational and cultural amenities that it owns and operates, such as the Pan Am Pool, the Winnipeg Arena, and the Susan Auch Oval, and the arts and cultural organizations that it supports through grants from the Winnipeg Arts Council. These are examples of spending that benefit the Region and the Province.

Perfect balance between expenditure obligations and the revenue raising capabilities of local governments will never be possible. Even if an approximate balance were achieved, it would become outdated as circumstances changed. The real issue is how best to generate and to allocate scarce financial resources among competing public purposes whether these matters are in the provincial or municipal field. The most appropriate way to do this in a manner consistent with the principle of democratic accountability is through the political process. Once set, taxing and expenditure priorities will change over time as circumstances and public demands change.

Also, the use of provincial grants to local governments to achieve particular public policy aims defined by the provincial government as serving the public interest, represents a legitimate and valuable form of policy leadership, especially if the purposes, sources and impacts of such spending are made public.

CURRENT ARRANGEMENTS IN MANITOBA

The RPAC will not attempt to describe and assess all of the financial arrangements be-

tween the provincial and municipal governments because they are many and varied. Instead, only the key features of their financial relationships will be highlighted. Provincial decisions on grants are made on an annual basis, but some transfers have acquired a high degree of permanence and predictability over the years. In recognition of some of the unique challenges facing a large urban centre and its wider range of responsibilities, grants and transfers to the City of Winnipeg are somewhat different from the arrangements elsewhere in the province. Outside of Winnipeg, the provincial government has different financial arrangements for local governments, again in recognition of the different size and circumstances of the municipalities.

Provincial-Municipal Tax Sharing

Probably the most notable feature of the Manitoba situation is the 1976 *Provincial-Municipal Tax Sharing (PMTS) Act*. The *PMTS Act* is unique in the country because it provides municipal governments with direct access to the so-called "growth taxes" of provincial, personal, and corporate income tax. This means that the municipalities gain financially from growth in the provincial economy. Because the PMTS transfer is unconditional, municipalities are free to spend the money on municipal services and programs as they choose.

The RPAC believes that the PMTS approach to fiscal sharing is commendable and congratulates the Government of Manitoba for providing unconditional funding to municipalities based upon the levels of growth experienced by the Province as a whole. As mentioned, Manitoba is the only province to share revenues in this manner. The mayors of Canada's major cities have included tax sharing as part of their

campaign for new revenue sources. A major study for the Toronto-Dominion Bank also identified tax sharing as the key to the financial well-being and competitiveness of Canada's cities. There has been almost no recognition in these public debates that a working model of vertical provincial-municipal tax sharing already exists in Manitoba.

The allocation of the PMTS payments between the City of Winnipeg and other municipalities is based upon an agreement last negotiated with municipal associations in 1992. During the ten-year period between 1992 to 2002, total PMTS payments increased by approximately 75 per cent. Winnipeg receives approximately 57 per cent of the total PMTS payment; which represents the same share of PMTS funding that it received in 1992, adjusted to reflect population changes. Outside of Winnipeg, PMTS payments are allocated on a differential per capita basis; municipalities more rural in nature and not providing their own policing services receive a basic, per capita amount, while more "urban" municipalities, which provide their own policing, receive a per capita payment four times the basic rate.

The RPAC is not recommending changes to *The PMTS Act*, which has become an accepted part of provincial-municipal relations in Manitoba. It recognizes in a tangible way that all communities contribute to the economic prosperity of the province and should share in the rewards on an equitable basis. Since a decade has passed since the PMTS formula was last examined, the Government of Manitoba should consider a review of both the percentage of the taxes allocated and the equity of the formula for developing the payments between the City of Winnipeg and other municipalities, as well as the allocation among

municipalities outside of Winnipeg. Any review should be done in consultation with all the parties to the current agreement.

Video Lottery Terminals

A second unconditional payment made to Manitoba municipalities involves the sharing of video lottery terminal (VLT) revenues. The Government of Manitoba provides the City of Winnipeg and all other local governments ten per cent of the net proceeds from VLTs within their territory (with the exception of VLTs in casinos). All municipalities (with the exception of Winkler, which has chosen not to accept the payments) receive VLT transfers, regardless of whether VLTs are in their communities. The Government of Manitoba uses an additional 25 per cent of the net revenues from VLTs to fund the Urban Development Initiatives (UDI) fund and the Regional Economic Development Initiative (REDI) fund.

VLT unconditional payments were introduced outside Winnipeg in 1993/94 and to Winnipeg in 1994/95. Since 1994/95, VLT payments to Winnipeg have increased 35 per cent. The only other province that shares VLT revenues with its local governments is British Columbia.

Conditional Grants

In addition to these two major unconditional transfers, conditional grant programs tied to particular public policy purposes operate in a wide range of fields, involving provincial financial support to the capital and operating expenses of local governments. Grants support streets, roads, bridges, water and water treatment, sanitary and storm sewers, economic development, transit, and Dutch Elm Disease control. Conditional operating grants are small compared with capital

grants. There is always municipal-provincial consultation around the designation of capital projects so that priorities are usually determined jointly.

Tax increment financing

In addition to providing broader authority, *The City of Winnipeg Charter* grants the city more flexibility in financing its operations. An example of such flexibility is the introduction of tax increment financing (TIF) to enable the City of Winnipeg to finance the revitalization of designated areas. TIF is common in the United States; it is now authorized in 47 states and is most frequently used in California, Colorado, Florida, Indiana, Illinois, Minnesota, and California. Although the state government sets TIF rules, it is the city government that designates a TIF district for redevelopment. Usually the district has to meet some state-mandated criteria of distress (such as property abandonment, age of housing stock, or building code violations), but in some states it is sufficient that the additional spending in a district (the TIF subsidy) will encourage development, create jobs, or increase the tax base.

Under a TIF program two streams of tax revenues are identified within a designated district. The first stream, which represents the original property values before redevelopment, continues to go to the city's general revenues as before. The second stream consists of the increase in tax revenues resulting from new development and higher property values within the district. These additional revenues—the so-called “tax increment”—gets paid into a special fund to subsidize the redevelopment taking place in the TIF district.

TIF is versatile: it can pay for land acquisition, infrastructure improvements, the reha-

bilitation of buildings, planning expenses, and the clean-up of contaminated areas. TIF is credited with turning around neighbourhoods in Chicago, St. Louis, and Pittsburgh. As with any economic development and planning tool, TIF has its limits and critics, but it offers cities the flexibility to address the problems of distressed areas within their community.

Under *The City of Winnipeg Charter*, the City of Winnipeg became the first local government in Canada empowered to reinvest some of the taxes raised in a local neighbourhood back into specific areas. City Council is authorized to establish a TIF zone or district. It can direct any additional property tax revenues generated from development to economic and social issues faced by the district. The money can be used as grants, loans, or subsidies to encourage construction, renovation or rehabilitation, to improve infrastructure, and to pay for planning expenses. TIF can support economic growth and employment, benefiting residents, and businesses. The tax increment financing program would be established by City Council passing a by-law to designate the specific area and the tax arrangements. There are limits to the potential of this financial instrument given that it depends on the community's ability to raise the money locally.

Percentage of assessed value applied to property classes

The *Charter* provided further financial flexibility by allowing the City of Winnipeg to pass a by-law to vary the percentage within the prescribed range of assessed value applied to property classes to determine portioned values for property taxation. This tool, which can be used to address property tax issues, is unique to the City of Winnipeg. This new

flexibility was not intended to add to the taxing authority of the City. The Government of Manitoba must adopt a regulation that would define the range within which the City could vary portions of the total taxes among different classes of taxpayers and prescribe the classes of property to which it applies. Also, under the *Charter*, the City of Winnipeg is granted broader authority to charge and to spend money raised from frontage fees. This will enable the City to link infrastructure charges (for services such as water and sewer mains, street and sidewalks, and lighting) to property-related services in a way that is transparent to citizens.

Grants-In-Lieu of Property Taxes

The issue of grants-in-lieu of taxes inevitably arises when the topic of municipal finances is under review. The issue is technical, complicated, and sensitive because it involves money and divergent perspectives on fairness in property taxation when the properties of governments are involved.

The principle behind grants-in-lieu of taxes is that the Crown (the ultimate source of authority under our Constitution) cannot be subject to taxation without its permission. The principle that the Crown is immune from taxation has long been recognized in court rulings, but the application of the principle remains controversial. The Government of Canada and provincial governments have adopted by statute or by policy the practice of paying grants-in-lieu of property taxes for lands and structures located within individual municipalities. In some cases, tax-exempt properties can represent a significant amount of the potential total property assessment of an individual municipality.

In most cases, the Government of Manitoba pays full grants-in-lieu of taxes on properties it owns within all municipalities, including the City of Winnipeg. Grants-in-lieu of taxes are equivalent to the municipal taxes payable if a private individual owned a property. In effect, the province is reimbursing municipalities for services (such as infrastructure, police, and fire protection) extended to provincial lands and properties. However sometimes the provincial grants are not the full amount, while in other cases an exemption continues to apply.

The Rural Municipality of Springfield brought to the RPAC's attention the fact that, until recently, both the Red River Floodway and Bird's Hill Provincial Park were exempt from assessment and taxation altogether. By the municipality's calculation, this represents an annual loss to Springfield of approximately \$117,000. Two reasons might be presented in support of the exemption of these two provincial properties. First, Bird's Hill Provincial Park represents a valuable regional, and even provincial, recreational asset, which provides benefits to all Manitobans, including residents of the Rural Municipality of Springfield. To ensure affordable access to the Park, it might be appropriate as a matter of public policy not to apply property tax to its operations since it is not a true commercial venture. Secondly, both the Park and the Floodway have few significant municipal service requirements. It might also be a relevant consideration that the Rural Municipality of Springfield has the highest per capita assessment among the Capital Region municipalities. Springfield could appeal the tax-exempt status of these properties in the courts, but this could be a costly and futile way for the municipality to proceed.

There is also an issue related to grants-in-

lieu of taxes involving property of the City of Winnipeg located within other municipalities. Section 333 of *The City of Winnipeg Charter* provides preferential tax treatment of city properties located in neighbouring municipalities by exempting them from property taxes, including school taxes and license fees. Though the City may pay a grant-in-lieu of taxes, this is not a requirement. The former *City of Winnipeg Act* provided a similar exemption. Such treatment is not consistent with *The Municipal Act*, which requires that land owned by a municipality located in another municipality be subject to full taxation unless the municipalities agree otherwise. Provincial officials explained to the RPAC that the issue of harmonizing the provisions of the two Acts raised broad public policy questions (such as the appropriate tax treatment of parks and utility right of ways) that were beyond the scope of the recent *The City of Winnipeg Act* review.

As noted above, the City of Winnipeg may enter into an agreement with a municipality to pay a grant-in-lieu of taxes. The City currently does not pay grants-in-lieu of taxes on the following parklands and potential parklands that it owns in neighbouring municipalities:

- La Barriere Park in the Rural Municipality of Ritchot
- Little Mountain Park in the Rural Municipality of Rosser
- John Blumberg Golf Course and Athletic Complex in the Rural Municipality of Headingley
- farmland in the Rural Municipality of West St. Paul

A case can be made for their current tax-exempt status. The parks are not true com-

mercial ventures (there may be modest revenues to the City in some cases), they provide recreational benefits to residents of the entire region, their direct service requirements are met by the City, and they do not occupy a significant portion of the territory of the “host” municipalities.

The City of Winnipeg pays full grants-in-lieu of taxes on the following properties:

- vacant land and quarries in the Rural Municipality of Rockwood
- drainage infrastructure for Summit Road landfill and part of road in the Rural Municipality of Rosser
- the old ash dump and the sludge beds in the Municipality of West St. Paul
- Lyndcrest Airport, reservoir expansion land, Transcona Cemetery, gravel pits, and tree farming property in the Rural Municipality of Springfield

It is appropriate that the City of Winnipeg pay grants on these properties either because they directly serve the city’s infrastructure needs or they have some commercial value.

The final set of City properties involves the Greater Winnipeg Water District (GWWD) operations. As part of the city’s water system, railways and aqueduct rights of way, storage reservoirs, and gravel pits are located in the rural municipalities of Springfield, Taché, and Reynolds. Under the 1970 *City of Winnipeg Act*, the City was required to pay a small fixed grant on the GWWD properties. As a result of legal action by the three host municipalities in 1989, the City agreed to increase its grants to approximately ten per cent of the actual taxes. This agreement replaced the statutory fixed grants. Recently, the three host municipalities have demanded full grants-in-lieu from the City of Winnipeg.

The Rural Municipality of Springfield is the most adversely affected by the City's limited tax liability. In its submission to the RPAC, it claimed that on the Deacon Reservoirs, the City paid annually just over \$105,000 whereas the full tax liability would be just over \$1 million. Similarly, on the GWWD railway properties Springfield claimed an annual property tax loss of nearly \$250,000. Over a number of years these foregone revenues can add up to a significant amount of money. The RPAC is not in a position to confirm the accuracy of these calculations.

As with most situations where interdependent communities must co-exist, there is another side to the issues surrounding the GWWD. Firstly, the GWWD has been in existence since 1913 and therefore its property has been subject to preferential tax treatment for ninety years. Secondly, the GWWD properties have nominal service requirements from host municipalities. Thirdly, the GWWD railway is not a commercial carrier; its main purpose is to transport water treatments, materials, and employees to support the operation and maintenance of the aqueduct infrastructure. Fourthly, all funding for the maintenance and operation of the aqueduct is derived from the water rate. Finally, applying the full grant-in-lieu principle to the GWWD properties would add significantly to the tax base of the three host municipalities, especially the Rural Municipality of Springfield, which already has the highest per capita assessment among the Capital Region municipalities. A provincial government has to pay some attention to the comparative capacity of municipalities to raise revenues. Finally, the issue of grants for the railway and aqueducts is part of the larger issue of the most appropriate assessment and taxation treatment of utilities and right of

ways (such as hydro and telephone lines). Governments are struggling with this issue across the country. There are difficult technical problems involved with finding an assessment methodology appropriate for utility distribution systems like the GWWD, as well as ensuring a "level playing field" for all in the industry.

The RPAC has not had the time and the capacity to conduct an in-depth analysis of all the issues involved with grants-in-lieu of taxes, especially given the variety of different kinds of properties involved. Therefore, the RPAC's observations on this sensitive and technical topic are general in nature. Firstly, the issue is important enough, both in terms of the money involved and the disputes that arise, to justify further study and discussion among the affected governments. Secondly, the Government of Manitoba should study the implications of harmonizing the requirements for grants-in-lieu in *The City of Winnipeg Charter* and *The Municipal Act*. Thirdly, all governments should examine and discuss the principles and practices of the assessment and taxation of various kinds of government-owned properties serving different public policy purposes. The issue of the potential indexation of fixed, statutory grants-in-lieu to some measure of their service requirements might also be reviewed.

Fourthly, there needs to be an analysis of whether host municipalities are on balance favoured or disadvantaged by the presence of tax-exempt properties within their territory. The Rural Municipality of Springfield seems to represent a special case because of the number of federal, provincial and City of Winnipeg properties found within its boundaries.

Fifthly, the City of Winnipeg pays grants-in-lieu on the majority of its properties located in outside municipalities. But there

remain sensitive issues related to the GWWD properties that still need to be addressed as part of the broader process of building regional understanding and collaboration that is recommended in the Report.

Finally, the RPAC wishes to observe that some of the proposals recommended in this Report can contribute indirectly to reduce conflict over grants-in-lieu. The Partnership of Manitoba Capital Region Governments will provide a forum to discuss the issue. The availability of the dispute resolution mechanism will provide a voluntary and “privileged” (in a legal sense) place to work out disagreements without necessarily having to go to court. Progress on intermunicipal service sharing, especially between the City of Winnipeg and its immediate neighbours, will remove a factor which irritates discussions over grants-in-lieu. Intermunicipal tax sharing, as recommended in Chapter Eight, could provide a means to compensate a municipality which may be disadvantaged by the fact it is home to regional parks and utility distribution systems. Hopefully, as regional understanding, trust, and collaboration grows, sensitive issues like grants-in-lieu can be approached more analytically than on the basis of blaming and court actions.

Planning Commission

The City of Winnipeg is authorized to establish a Planning Commission with panels focused on the whole or parts of the city as the basis for a clearer and more expeditious planning process. In summary, the combination of additional authority and more flexible financing arrangements gives the City of Winnipeg the authority and accountability to address community development issues in the way it considers the most appropriate.

Can a balance sheet be drawn up?

The RPAC was challenged during its hearings to provide, in effect, a balance sheet on who pays and who benefits from provincial (and to a lesser extent, federal) spending taking place in the Capital Region. The RPAC’s views on this question are dealt with in detail in Chapter Twelve, but it is worth noting here that any attempt to account strictly for where public funds are raised and spent is analytically difficult, if not impossible, and bound to be highly controversial. Moreover, an approach to regional matters that is focused primarily on identifying “winners” and “losers” from the taxing and spending decisions of all levels of government will not contribute to the strong regional collaboration necessary for both the economic prosperity and quality of life of the Capital Region’s residents.

NEXT STEPS

The Mayor and the Council of Winnipeg welcomed the changes flowing from *The City of Winnipeg Charter*. The changes represent the first phase in a process intended to enhance the capacity of the City of Winnipeg to respond as a mature, accountable government to the challenges and opportunities it faces. In the second phase of the process, the Province and the City will jointly review models of city governance to ensure the City has the tools it needs to remain vibrant and competitive into the future.

The City of Winnipeg is seeking more diverse revenue sources to enable it to fulfill a broader range and more complex set of municipal responsibilities than existed at the time when the property tax was adopted as the main source of city revenues. Winnipeg’s Mayor has led a lobbying campaign by Canada’s big-city mayors to obtain revenue

generating authority and/or access to new funds from the federal government to deal with such problems as crumbling infrastructure and homelessness. Over the years, the Mayor and City Councillors have called upon the Province to grant access to new taxes, such as gas and other specific taxes. The City of Winnipeg has also identified a number of issues that underscore its contention that it has yet to be fully recognized as a mature and responsible government. These include the Government of Manitoba's exempting certain arts, cultural, and educational institutions from property tax. The City has expressed concern about both the loss of revenue and the level of consultation surrounding the decisions. These exemptions have, in the City's opinion, compromised its tax base.

The RPAC offers for the purpose of public debate, the following analysis of the City's case for new funding sources. The City of Winnipeg is alone among major Canadian cities in receiving an unconditional share of provincial personal and corporate income taxes. Subject to approval by the provincial cabinet, the *PMTS Act* also allows the City of Winnipeg to levy a hotel tax, subject to provincial regulation. Only in British Columbia, does a provincial government share VLT revenue with municipalities in the way that Manitoba does. The City has also been granted Tax Increment Financing (TIF) frontage levy and tax portioning adjustment authorities under the *Charter*. A January 2003 report showed that Manitoba was one of only three provincial governments that invested directly in both the capital and operating expenses of urban transit systems (Canadian Urban Transit Association, 2003). The City of Winnipeg has also been granted Tax Increment Financing, frontage levy, and tax portioning adjustment

authorities under *The Charter*. The Government of Manitoba has played an important role in creating and funding the significant bilateral and trilateral revitalization initiatives in Winnipeg's commercial downtown and inner city neighbourhoods. It must also be remembered that Manitoba is a "have-less" province that relies significantly on financial transfers from the federal government. As noted earlier, the provincial government must conduct its budgetary policies within the requirements of a balanced-budget law and the wider political context of public resistance to new taxes of any kind.

When all these factors are considered, it appears to the RPAC that the Government of Manitoba has been relatively generous in its financial assistance and other forms of support to municipalities compared with other provinces.

During most of the 1990s slow revenue growth and earlier costly capital spending decisions put a severe strain on the City of Winnipeg's operating budget. The City increased its property taxes, making them among the highest in the country. Money for capital projects was scarce and the City drew upon its financial reserves. In response the bond rating agencies, on which the City depended to borrow money at favourable rates, downgraded its rating. High property taxes, the lack of infrastructure spending and mounting social problems were blamed by many for advancing the deterioration of the downtown business core and contributing to the movement of people to the suburbs and the communities outside of Winnipeg. City Council and other stakeholders concluded that this reinforcing cycle of decline had to be halted. In response, *Plan Winnipeg 2020 Vision*, a long-range policy plan adopted by

City Council, recognized that, with modest economic growth, compact urban development and inner city revitalization had to be a priority. Beginning in 1998, the City of Winnipeg embarked on a multi-year program to reduce both property taxes and spending. Winnipeg also became, on a per capita basis, one of the lowest cost city governments in the country. These improvements and significant replenishment of its reserves caused credit agencies to upgrade the City of Winnipeg's ratings (Kitchen, 2003).

Even though it has placed itself on a path to long-term fiscal sustainability, the City of Winnipeg argues that it needs access to additional revenue sources to meet pressing infrastructure requirements and expensive service obligations.

A NEW DEAL FOR CANADIAN CITIES?

The national campaign for a new financial deal for Canadian cities has gained momentum in recent years. The case for broadened tax sources is based not only on the financial strain that cities are experiencing, but also on the contribution that a more diversified revenue stream would potentially make to the economic competitiveness of Canadian cities. A study prepared for the Canada West Foundation reported that, when compared with similar American cities the six western Canadian cities examined were more heavily dependent on residential and business property taxes (Vander Ploeg, 2002). The study noted that these US cities had access to a wider range of taxes and other revenue sources. According to the study, cities that rely more heavily upon property tax revenues may be at a disadvantage because increases in these tax revenues typically lag behind economic growth and inflation. It also suggested that

property taxes were least able to capture revenues from non-residents who impose significant demands on infrastructure and facilities. A more balanced tax regime, the study concluded, would offer not only fiscal relief, but also enhance the economic competitiveness of western Canadian cities:

...It is important to recognize the competitive benefits that accrue from a diversity of tax tools and revenue levers. No single tax is entirely fair or neutral with regard to investment patterns, economic distortions, or decisions about location and business input. Nor is every tax equally suited to generating a predictable, stable and growing stream of revenue. No single tax source is equally suited to compensating for the costs of inflation, capturing local economic growth, or controlling the problems of 'free riding' that inevitably result from more and more people filling the beltways around large cities. (Vander Ploeg, 2002. p. 29)

These are important arguments that require more detailed analysis than can be provided here. However, because the Canada West Foundation study has generated considerable comment, a number of brief observations are warranted.

First, there is no rigorous analysis and agreement among economists on how the mix of taxes used by city governments affects their ability to compete. Second, the greater reliance by local governments in the United States on income, sales, and other taxes reflects, in part, the adoption of tax and expenditure limit laws (so-called TELs) in 46 states. TELs place various kinds of limits on the use of property taxes and were part of the tax revolt that began in California during the

1970s. Their adoption forced cities to move into new tax fields, not necessarily because of a public policy decision that revenue diversification would enhance their economic competitiveness. (Advisory Commission on Intergovernmental Relations, "Tax and Expenditure Limits on Local Governments" March, 1995.) Third, in Manitoba, *The PMTS Act* already recognizes the desirability of municipal participation in economic growth through the transfer of earmarked portions of the two income taxes. As mentioned earlier, Manitoba is the only province to share the growth taxes with its municipalities.

QUESTIONS THAT NEED TO BE ANSWERED BEFORE TURNING OVER MORE TAXING POWER

The RPAC recognizes that there is a host of legal, financial, administrative/technical, and political questions which must be asked and answered before the provincial or federal governments would turn over additional taxes or new taxing powers to the municipalities. Examples of some of the questions that must be answered are:

- How does public support for new municipal taxes and the expenditure priorities of the municipal level of government compare to public support for taxing and spending at the provincial level?
- What type of tax best fits with the purposes and functions of local government?
- What is the experience of other jurisdictions sharing such taxes as fuel, hotel, and sales taxes?
- Should municipalities be given a share of existing tax revenues collected by the provincial or federal governments (e.g.,

sales or gasoline tax)? Under what circumstances?

- If a share of an existing provincial or federal tax is transferred, should the revenues be earmarked for specified purpose (e.g., a percentage of fuel tax to support transit or roads)?
- Depending upon the tax source selected, will there be a requirement for discussion with the Government of Canada?
- In its current and anticipated future financial circumstances, can the Government of Manitoba afford to grant access to additional tax revenues, from whatever source, and still live within the confines of the balanced-budget law?
- Should the provincial or federal governments increase existing taxes (e.g. income, sales, gasoline) in order to make more revenues available to the municipalities? Will it hurt the competitive position of the Province to increase the overall tax burden in this way?
- What percentage of tax from a particular tax source (e.g., gasoline, sales) would be necessary to generate sufficient revenues to make a difference?
- Should additional tax authority be granted only to the City of Winnipeg or to all municipalities?
- Is it better for the City of Winnipeg and other municipalities to be heavily dependent on property taxes, but be relatively free (compared with their American counterparts in the Canada West study) to set their own rates and to decide the use of their revenues?
- Have the City of Winnipeg and other municipalities done all that they could do to use existing revenue mechanisms (e.g., user

fees) creatively and to ensure the economy and effectiveness of their own spending?

The RPAC recognizes that these are only a few of the difficult questions that would need to be answered. There is no magical solution—no fiscal rabbit to be pulled out of a hat.

Ultimately there is only one tax base, and most taxpayers do not favour increased taxes at this time. A consensus on public spending priorities and how to finance them should be sought. In this process, there may be greater clarity in terms of jurisdiction achieved and administrative efficiencies might be achieved.

The provincial government has committed itself to further discussions of the role of the City of Winnipeg and whether it requires new responsibilities and revenues to pursue a broader mandate in the future. Fulfillment of this commitment will require more in-depth investigation of the issue of new types of provincial-municipal tax sharing. The issue will also likely arise in the context of a joint study of intermunicipal tax sharing which was recommended earlier in the previous chapter. This should be a priority area for analysis by the relevant provincial departments.

The RPAC recommends that:

- 9.1 The Partnership of Manitoba Capital Region Governments commission a review of grants-in-lieu of municipal taxes that examines, among other matters:
- the principles and practices of the assessment and taxation of various kinds of government-owned properties serving different public policy purposes
 - indexation of fixed, statutory grants-in-lieu to their service requirements

- an analysis of whether host municipalities are on balance favoured or disadvantaged by the presence of tax-exempt properties within their territory

