

**THE STATE OF CANADA'S CITIES AND COMMUNITIES 2012****Overview**

*The State of Canada's Cities and Communities 2012* surveys the national challenges playing out in the places Canadians live, work, and raise their families.

The report has two parts. Part One takes a look at recent fiscal trends affecting our cities and communities. It reviews the financial challenges cities and communities have struggled with during the past two-and-a-half-decades, and what progress has been made in addressing them.

Part Two looks at the state of intergovernmental cooperation in Canada. It focuses on three areas where federal, provincial-territorial, and municipal governments have overlapping roles and responsibilities: policing and public safety, housing, and environmental sustainability.

The report shows that despite recent investments, the outlook for our cities and communities is uncertain. Local governments continue to operate without a stable, secure share of the total tax revenues generated by their communities. They also remain vulnerable to offloading of costly responsibilities by other orders of government. As a result, they are caught in a chronic state of fiscal insecurity, without the stable financing and settled responsibilities to effectively plan for the future.

**Recent Gains**

- Recent investments, including the permanent Federal Gas Tax fund, the Economic Action Plan, and the Building Canada Plan, have strengthened our communities and the national economy.
- However, recent gains are at risk. Almost \$2 billion per year in federal funding, representing more than one-third of all core federal investments in cities and communities, will expire in March 2014. That includes the cost-shared Building Canada Fund, which, when it ends, will also cease to leverage matching provincial and territorial investments in municipal infrastructure.
- For the moment, transfers to municipalities are back to pre-1995 levels thanks to recent efforts by federal and provincial governments to reverse funding cuts imposed during the 1990s. However, a larger percentage of municipal transfers today are “conditional grants”, which, while beneficial, are often too short-term and inflexible to provide secure funding for communities’ most fundamental needs.

**Municipal Finances**

- Today the average Canadian pays \$11,700 more in taxes each year than they did in 1961. Out of this total, just 5 cents of each new tax dollar paid by Canadians has been collected by municipalities, with the other 95 cents collected by federal and provincial-territorial governments.
- Through sales, income, and corporate taxes, federal and provincial-territorial governments collect virtually all of the new tax revenues generated by population and economic growth. Much more than most of their European and American counterparts, Canada’s cities and communities must rely on the property tax, a slow growing and regressive funding tool.
- Almost 70% of Canadians live within one of the country’s 33 large metropolitan city regions, which also account for almost 90% of all population growth. A more diverse mix of revenue tools would enable these cities to better support new residents, workers and businesses using tax revenues generated by growth.

## Municipal Expenditures

- The three fastest growing municipal budget items are all in areas where other governments have offloaded major new costs on to the municipal property tax-base: housing (5.4% per year); health (2.7%); and social services (1.9%).

## Policing and Public Safety

- The mounting strain on an overstretched RCMP has created holes in the federal policing system, through which a rising share of Canada's policing duties have fallen onto municipal shoulders. Compounding the problem is confusion about the roles and responsibilities of each order of government.
- Canada's total policing costs almost doubled between 1999 and 2009, from \$6.4 billion to \$12.3 billion, with municipalities paying for 60% of that increase.
- In Ontario alone, a typical border community pays \$1.5 million per year to provide law enforcement and support at international border crossings.

## Housing

- Growing holes in Canada's housing market are a risk to the national economy. High housing prices are pushing household debt to record levels and making it difficult for new workers to settle where their skills are needed.
- Since 2005 housing prices have increased at three times the rate of income levels according to findings from 27 of Canada's largest metropolitan areas.
- One out of every three Canadians is a renter, but just 10% of new residential construction in the past decade has produced purpose-built rental properties.

## Environmental Sustainability

- With support from other orders of government, municipalities can help Canada reach 25% of its GHG reductions target through relatively low-cost measures.
- FCM's Green Municipal Fund, a federal government endowment, has reduced GHGs by 175,000 tonnes and leveraged \$3 billion of economic activity in 430 communities.

## Moving Forward

In Budget 2011 the federal government committed to develop a new long-term infrastructure plan that will renew federal infrastructure investments in municipalities before they expire in 2014. This plan must protect and expand core investments in cities and communities, and put them on a sustainable track for many years to come. It must also lead to closer collaboration and longer-term planning among all orders of government in policing and public safety, housing, environmental protection, and other national priorities.