Executive summary

THE WORLD’S POPULATION IS SHIFTING TO CITIES and that means services traditionally provided by local governments are growing in scale and importance. From public transit and recreation facilities, to drinking water treatment, sewage infrastructure, and policing and fire services, local government services are at the centre of our daily lives, our health and economic prosperity.

These services are provided for less than the typical cost of basic telephone and Internet and they are provided by the level of government that has by far the smallest share of tax revenue. (The Federation of Canadian Municipalities tags the local government portion at only 8 cents out of every tax dollar.)

Who's Picking Up the Tab? investigates the scale and scope of downloading onto local governments from federal and provincial governments, using B.C. as a case study. Surveys of local leaders and senior staff, a fresh analysis of statistical and financial data and case studies of key policy areas provide a clear picture of responsibilities and costs transferred without new resources to support them.

In spite of limited means, local governments are picking up more and more services and more and more of the tab. In total, 83.6 per cent of the locally elected leaders surveyed for Who's Picking Up the Tab said federal and provincial downloading of costs onto local governments is a major problem for their community.

Since the 1950s, Canada’s infrastructure responsibilities have shifted from the level of government with the largest and most growth-responsive revenue base— the federal government—to the level of government with the smallest and least growth-responsive revenue base—local government. In 1955, the federal government accounted for 34 per cent of capital investment. By 2003, it had declined to 13 per cent. The municipal share increased from 27 to 48 per cent.

Billions of dollars in federal cuts in transfer payments to provinces occurred in the mid-1990s. Spending and service cuts cascaded down to municipalities.

Federal wastewater treatment regulations, introduced in 2012, have billions of dollars in implications for local government infrastructure.

Changes in cost-sharing and the growth of policing costs that local government pay for, but are under federal government control, have downloaded millions of dollars annually onto local governments.

Local governments are finding themselves picking up the slack on housing, mental health, addiction, social services, wastewater treatment, diking and flood management, drinking water and recreation infrastructure. In a telling measure, the provincial government in B.C. has shed thousands of employees since 2001, while the number of local government employees has risen by 30 per cent.
Federal and provincial transfers to B.C. local governments are $4 billion less than they would have been had 1995 per capita transfers remained constant. To cover the gap in funds, local governments have been stuck with two limited and not particularly popular streams of revenue: property taxes and user fees.

Reflecting the transfer of responsibility onto local government, local expenditure in the province on sewer services between 2001 and 2010 grew by 173 per cent. Policing by 134 per cent. Water services by 130 per cent. Parks, recreation and culture by 108 per cent.

Goods and services purchased in large quantities by local governments increase in price faster than the more general “market basket” used for the Consumer Price Index. Some municipalities have been developing Municipal Price Indexes that measure the specific goods purchased by local governments. Edmonton’s MPI for 2012, for example, was almost double the CPI rate (2.6 per cent MPI vs 1.34 per cent CPI).

> SOCIAL SERVICE CUTS

Social service cutbacks from other orders of government are showing up as social problems and service gaps which strain other services. Inadequate community support for people displaced from institutional settings, below-poverty level disability assistance rates (frozen in B.C. since 2007), homelessness (not a significant factor until the mid-1980s when the deepest federal cuts were enacted) and reduced general hospital psychiatric capacities are taking their toll on local communities.

> HOUSING

Provinces absorbed the devolution of formerly federal responsibilities for housing as an outcome of orderly negotiations and just compensation. Cities didn’t even see the devolution coming until people started to build shelters in their parks. Provinces inherited the federal money. Cities inherited the problem.

Federal and provincial social housing cuts have been central to the mental health and homelessness crisis. The federal government withdrew entirely from new housing in 1993 and provincial construction in B.C. dropped off from 2001 to 2005. Using B.C. as an example, new social housing
units since 2006 have increased by an average of 418 units per year—quite a drop from the 1,000 to 1,500 per year in the 1970s. Levels still lag behind social housing construction in the 1970s and well behind the need in B.C., which has some of the worst housing affordability measures in North America. A number of local governments are accruing costs in efforts to fill gaps left by the provincial and federal governments. For example, the City of Vancouver will lease 12 sites to non-profit housing sponsors for 60 years at nominal prepaid rents. The city paid $50 million to acquire the sites, and will forego $1 million in property taxes annually.

> MENTAL HEALTH IMPACTS ON LOCAL GOVERNMENT BUDGETS

The biggest impact of provincial and federal failure to support mental health, social housing and related services has been increased pressure on police services. Prince George RCMP report a 40 per cent increase in mental health related calls between 2008 and 2013. The Vancouver Police Department estimates that mental illness contributed to 21 per cent of incidents handled by VPD officers in 2013. Extrapolating the findings from Vancouver and other communities, policing costs resulting from provincial and federal failures to address mental health and housing for communities across B.C. likely range between $50 and $150 million per year.

Local governments with limited social service delivery capacity have sometimes turned to by-law enforcement strategies in efforts to manage issues related to homelessness and mental illness. Conventional resources available to local governments are not the right tools for addressing housing and mental health issues.

Funding for supportive housing would make a difference. A pilot program in Vancouver found that every $10 invested in “housing first” meant a savings of $8.55 in existing mental health and legal systems for high needs people. Shifting to a “housing first” approach reduced stays in holding cells by 41 per cent—a savings of $4.1 million in local corrections costs.

> WASTEWATER TREATMENT

Changes to federal and provincial wastewater regulations, compounded by failures to reinvest in infrastructure during the 1980s and 1990s, are driving huge expenditures. When the federal Wastewater System Effluence Regulation came into effect in 2012, no funding was included. The federal government estimates the upgrade costs for the entire province at $570 million, but local analysis shows a different picture. Metro Vancouver alone estimates costs at $1.5 to $1.7 billion.

> ENVIRONMENT

Environment and related infrastructure topped the list of local government concerns from the Who’s Picking Up the Tab? survey. This is not surprising, given the impact our changing climate has already had on infrastructure. We have only to cast our minds to the Alberta floods of 2013 to illustrate the point. Estimated costs to date are $6 billion across the province, including more than $500 million in damage costs for the City of Calgary.

Flood management and especially diking, pump stations and other flood prevention infrastructure represent a classic case of downloading by senior governments and were frequently cited as
an issue in the survey. Beginning in the 1990s and accelerating since 2003, senior governments have downloaded regulatory responsibility and the financial costs associated with flood management directly onto local governments. Diking and flood management capital costs shifted from almost entirely federal/provincial funding (1968 to 1994), to 25 per cent local/75 per cent provincial (1998 to 2004), to 1/3 each under the 2007 Flood Protection Program. Local governments say this funding comes nowhere near meeting the needs.

_Dyke management continues to be a huge issue for our community... Our lowest and most vulnerable area protects our main business district, our financial institutions, our post office and sections of our hospital. We do not have the financial resources to address this... Basically, we are stuck waiting to apply for disaster relief rather than planning and acting in a rational and comprehensive manner._

**> CONCLUSION**

Local governments can — and do — efficiently deliver services and are happy to take on expanded roles, given the resources to manage them. However, downloading without access to new sources of funding is stretching local government resources thin, especially in the context of climate change impacts.

In *Who’s Picking Up the Tab?* survey responses, local government leaders and senior staff put forward a range of solutions, including:

- No transfer of responsibilities without funding or revenue streams;
- Ensure stable revenue, rather than unpredictable and time consuming short-term grants;
- Establish a formal review process to examine local government implications of restructuring, service and funding cuts — don’t leave local governments to pick up the tab;
- Launch a major review of funding models, revenue streams and shares of revenue for local governments, especially given the context of urbanization; and
- Consider constitutional recognition of municipalities with defined rights, powers and responsibilities, as is the case elsewhere in the world.

**> THE LAST WORD**

Climate change related extreme weather events, flooding, forest fires, droughts, heat waves and other hazards over the next century will lead to billions of dollars in costs to local infrastructure, and even the viability of some Canadian communities. Reducing the GHG output of Canadian communities will entail billions of dollars of investments in public transportation, fossil fuel substitution, renewable energy generation, energy efficiency and “smart” urban planning to reduce the carbon footprint of Canadian communities. These transformations are beyond the capacity of local governments to “go it alone.” Regulatory leadership and financial investment from provincial and federal governments is crucial to ensuring that Canada fulfills its climate mitigation responsibilities.

While the costs are not small, they are less than the damage that will result from failing to meet the climate challenge. A major federal and provincial reinvestment in Canada’s urban infrastructure is needed to meet 21st century economic and environmental challenges.