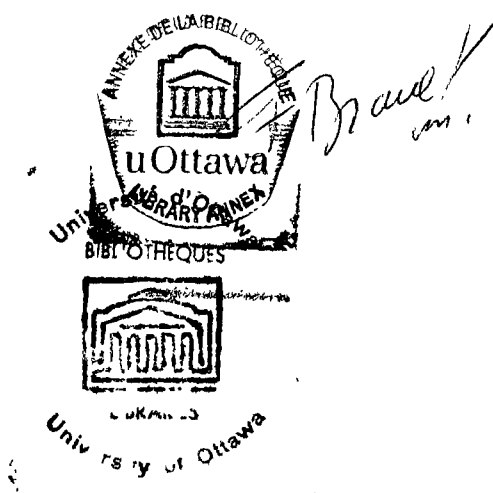


UNIVERSITÉ D'OTTAWA ÉCOLE DES GRADUÉS

MUNICIPAL FINANCE IN ONTARIO
1946-1964

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Thesis presented to the Faculty
of Social Sciences of the Uni-
versity of Ottawa as partial
fulfillment of the requirements
for the degree of Master of Arts.



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INTRODUCTION

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The post-war period has seen a rapid increase in Canada's population as well as a shift from urban to rural centres with the result that approximately 70% of our population can now be classified as urban according to the 1961 Census¹. This high rate of growth of the urban population has brought with it increased demand for new and better municipal services: new schools and additions to existing educational facilities, storm and sanitary sewers and sewage treatment plants, watermains and water purification plants, new and better roads, improved mass transit facilities, new parks and playgrounds, rising social welfare costs, urgent demands for low-rental housing, have all combined to put added strain upon existing sources of municipal revenue. This "gap" between expenditures and traditional revenues have been noted by more than one author; a growing literature in the field attests to this. Indeed, many are now talking of a "crisis" in the field of municipal finance. D. W. Slater states the case in these terms: "The central policy

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1. The definition of "rural" and "urban" for the 1961 Census specified that all cities, towns, and villages of 1,000 and over, whether incorporated or not, were classed as urban as well as the urbanized fringes of (a) cities classed as metropolitan areas, (b) those classed as other major urban areas, and (c) certain smaller cities, if the city together with its urbanized fringe was 10,000 population or over. The remainder of the population was classed as rural. This is the definition of "urban" used throughout this study.
Census of Canada, 1961, Bulletin 1.1-7.

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problem of municipal finance is for municipalities to obtain more revenue or to transfer more of their financial burdens to other governments. It seems quite clear that the increased strain that has emerged in municipal finance in recent years has inhibited the improvement of our cities..."². The Belanger Commission in Quebec has shown that for the period 1954-1963 municipal revenues were totally inadequate to finance expenditures with the result that municipal debt almost tripled during the period³. Similar conclusions have been reached by others both in Canada and the United States; requests for new or increased sources of revenue are frequent (let it be said that this is not solely characteristic of municipal governments). This study attempts to analyze the case of Ontario by considering expenditures and revenues for the period 1946-1964: what areas of expenditures have risen more rapidly? similarly, what sources of revenue have contributed most to the financing of these increased expenditures? what role have provincial government grants played in financing expenditures? how elastic or inelastic are the sources of municipal revenue? These are but some of

2. D. W. Slater,
"Urban Growth and Municipal Finance",
Canadian Banker, Summer, 1964, p. 14.

3. Gouvernement du Québec,
Rapport de la Commission Royale d'Enquête sur la Fiscalité,
Québec, 1965, p. 265.

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the broad questions that must be looked at in order to arrive at valid conclusions on the state of municipal finance in Ontario. The wide variety of problems that now confront municipal leaders attest to the importance of finding solutions to the problems of municipal finance. Sound and timely decisions must be made in respect to the following areas:

- a) water conservation and water distribution;
- b) the disposal of sewage and industrial and other waste;
- c) the transportation of people and goods from one point to another both within the city and between cities;
- d) the resultant traffic situation caused by the above;
- e) the promotion and location of industry;
- f) the implementation of programs for housing and urban renewal;
- g) the provision of such basic community services as school, hospital, protection and recreation facilities;
- h) the adjustment of basic conflicts between "urban" and "non-urban" uses of land;
- i) the utilization of land use regulations as an essential means of assuring a sound development of the above-mentioned functions.

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The choice of Ontario was based upon three considerations; first, by limiting the analysis to one province we are dealing with homogeneous units all operating under the same set of laws and regulations; then, the available statistics are by far superior in the case of Ontario than any other province; finally, Ontario is Canada's most populous province as well as the most highly urbanized of all the provinces. The basic aim of this thesis is to examine municipal finance in Ontario for the period 1946-1964 with the view of determining those types of expenditures that have risen the most and correspondingly, those sources of revenue that have been used to finance them; ultimately, one hopes to answer the question of the adequacy of sources of revenue now available to municipalities to finance ever-increasing municipal expenditures. The figures used throughout this study have been those published by the Dominion Bureau of Statistics rather than those shown in the Ontario Department of Municipal Affairs annual report; the Bureau's figures have the advantage of being comparable as between provinces and are somewhat more comprehensive as DBS makes various adjustments not shown in Department of Municipal Affairs reports; moreover the Department of Municipal Affairs does not publish capital spending figures: these are obtained from various sources by Dominion Bureau of Statistics and published in their annual municipal finance publication. The state of the figures themselves

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leaves something to be desired when disaggregation is attempted; this limits part of the analysis to a purely descriptive role especially in areas such as public works and education where it is difficult to separate those various factors that have an influence on expenditures. The study is divided into two parts; the first section deals with municipal expenditures and attempts to determine those areas of expenditures that have arisen the most and the factors that have caused this increase if and when they are discernible; the second section deals with municipal revenues where an analysis is made of municipal sources of revenue, notably the real property tax and government grants as well as borrowing; the conclusion of the study makes an assessment of the present state of municipal finance in Ontario with regard to the adequacy of present sources of revenue.

CHAPTER 1MUNICIPAL EXPENDITURES 1946-1964

The purpose of this chapter is to examine the trends that have taken place in municipal expenditures in the period 1946-1964. Both current and capital expenditures are analyzed first at an aggregative level in order to determine the areas that have risen most rapidly; then we review each major classification of expenditure so that the underlying factors accounting for increases in that particular area are brought out (see Appendix I for the various possible classifications of expenditures). Finally an attempt is made to predict possible future trends in total as well as in various categories of expenditures, in keeping with the major aim of this study which is to determine past trends in municipal expenditures and revenues, and more important perhaps, to answer the question of the adequateness of present sources of revenue to finance ever-increasing municipal expenditures.

Municipal expenditures in Ontario as well as in the other provinces of Canada have risen substantially in the post-World War II period. Indeed during the period 1946-1964 total current expenditures of Ontario municipalities increased nearly seven fold. There are many reasons underlying this massive increase in expenditures. Like other sectors of the economy, municipal governments entered the postwar years with a large backlog of expenditures. At the same time there have been other forces at work associated

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with the economic growth of the nation as a whole. In the main, these factors include the growth in population and its continuing mobility, particularly to urban and suburban communities, the expanding requirements generated by increased automobile ownership, technological advances, rising incomes and standards of living, and the increased responsibilities undertaken by government authorities. Inflation also must be considered as a contributing factor.

Let us examine briefly those factors which have an influence on total municipal spending. First, the effect of population growth. Ontario is Canada's most populous province as well as the most highly urbanized of all the provinces. Table I shows Ontario's total and urban population at four census dates: 1941, 1951, 1956, 1961. During the twenty year period total population moved from 3788 thousands to 6236 thousands, an increase of 64%; during the same period urban population increased from 2557 thousands to 4820 thousands, a total increase of 88%. In 1961 over 77% of the total population was urbanized, up from 67.5 in 1941. Such a massive growth in urban population no doubt places tremendous pressure on the financial resources of municipalities and accounts for a substantial share of the rise in expenditures.

Another factor to consider is that of inflation. As prices increase it becomes more and more costly for a government to provide a given level of services let alone

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TABLE I
POPULATION OF ONTARIO
(in thousands)

YEAR	TOTAL POPULATION	URBAN POPULATION*	URBAN AS A % OF TOTAL POPULATION
1941	3788	2557	67.5
1951	4598	3333	72.5
1956	5405	4004	74.1
1961	6236	4820	77.3

* urban population for 1941, 1951, 1956, adjusted to the 1961 definition.

Source: 1941-1951, Stone, L.O., unpublished estimates, Dominion Bureau of Statistics.
1956, Anderson, I., unpublished estimates, Economic Council of Canada.
1961, Census of Canada, 1961, Bulletin 7.1-2, Table II.

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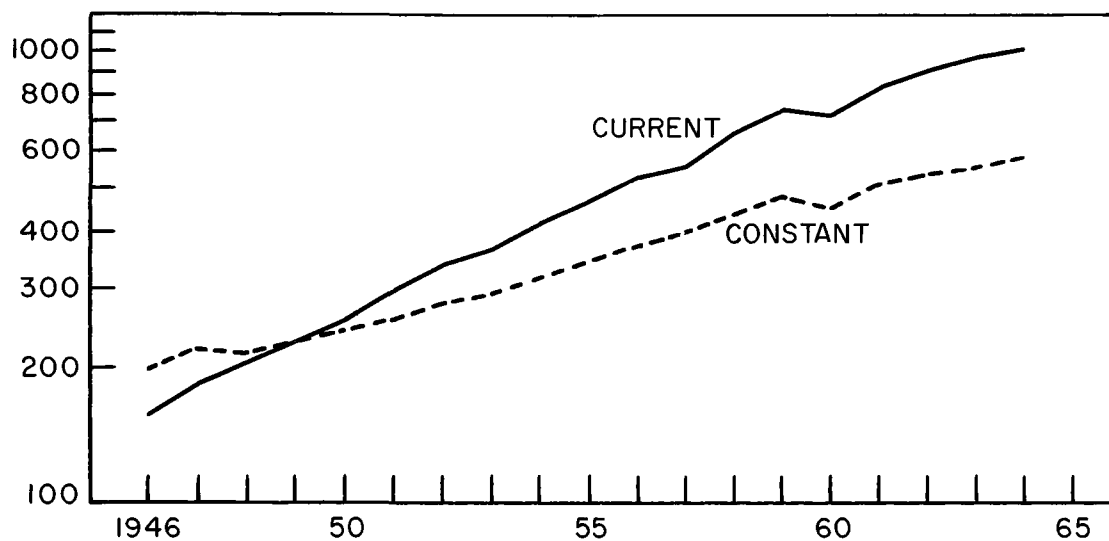
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increases in expenditures brought about by other factors such as population growth. Chart I shows total current expenditures in current as well as in constant dollars (calculated using the implicit price index of Gross National Expenditure with 1949=100). As can be seen from the chart total expenditures, even after price changes are taken into consideration, show a very strong upward trend during the whole 1946-1964 period. Price changes are a partial explanation to the overall increase in expenditures. Yet they do not explain totally how expenditures have moved as will be seen when per capita increases in expenditures are given in current as well as constant dollars.

Increases in the level and quality of certain services in response to demands by tax-payers for more and better services will affect the total level of expenditures. With the rapid and continued increase in personal income and wages and because of a higher standard of living, what was considered as a luxury twenty and even ten years ago has become a necessity today. The result has been that per capita outlays have risen substantially in every classification of expenditures. As quality changes are sometimes hard to measure the task of determining whether quality changes are important in a per capita increase for a certain type of expenditure is a difficult one; however, certain objective standards have been set for some areas (education,

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CHART ITOTAL CURRENT EXPENDITURES - ONTARIO

Source: Current: Dominion Bureau of Statistics, Municipal Government Finance, Queen's Printer, Ottawa, Yearly Issues.

Constant: Implicit price index of Gross National Expenditure with 1949=100. (Government expenditures on goods and services).

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public works, etc...) and will be looked at as various expenditure classifications are analyzed.

Let us first of all see how expenditures out of current account have moved in the 1946-64 period¹. In this first section only main trends are considered; once these main trends in both current and capital expenditures have been outlined, the major expenditure categories will be broken down and analyzed more fully to see what particular factors have contributed to their increase. Table II shows expenditures out of current account for all Ontario municipalities from 1946 to 1964. The most apparent feature of this table is a strong upward trend shown in total expenditures as well as in all the major categories of expenditures. Total expenditures went from \$157,593,000 in 1946 to \$1,051,278,000 in 1964; this represents an increase of over 550% in the 18 year period. All the major expenditure categories have exhibited similar trends: education, which is by far the largest item in total expenditures, grew from \$33,016,000 in 1946 to \$296,367,000 in 1964. Likewise public works expenditures went from \$26,465,000 in 1946 to \$141,893,000 in 1964; debt charges and protection, the other major expenditure categories also showed rapid rates of

1. See Appendix II for an explanation of the differences between current, gross and net expenditures and revenue as well as for a reconciliation of current expenditure figures reported by DBS and used in Table II with the Annual Report of the Ontario Department of Municipal Affairs.

TABLE II

MUNICIPAL CURRENT EXPENDITURES - ONTARIO, 1946-64
(in thousands)
of dollars

ITEM	1946	1947	1948	1949	1950	1951
1. General Government	17,609	14,656	16,945	17,779	18,577	20,313
2. Protection of property & persons	21,124	23,859	26,995	30,894	34,131	39,719
3. Public works	26,465	29,797	33,548	38,109	41,807	48,441
4. Sanitation & waste removal	6,935	9,276	9,774	11,191	12,482	14,925
5. Health	2,982	2,979	3,528	5,474	5,732	14,097
6. Social welfare	12,044	16,084	17,622	18,007	21,686	16,521
7. Education	33,016	40,386	46,427	54,129	60,267	74,951
8. Recreation & community services	5,409	6,396	6,987	8,375	8,820	9,577
9. Debt charges	29,690	29,775	30,469	34,777	39,568	45,642
10. Contributions to own govt. enterprises	1,000	1,025	1,875	1,085	1,038	821
11. Provision for reserves	1,119	964	1,167	1,389	1,310	1,888
12. Capital expenditures out of revenue	N/A	3,708	3,398	4,941	4,527	5,309
13. Joint or special expenditures	N/A	4,266	4,263	3,428	3,042	2,041
14. Other expenditures	200	210	181	235	226	3,663
15. TOTAL	157,593	183,381	203,179	229,813	253,213	297,908

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Source: Dominion Bureau of Statistics, Municipal Government Finance, Yearly Issues.

TABLE II (Cont'd)

MUNICIPAL CURRENT EXPENDITURES - ONTARIO, 1946-64
(in thousands)
of dollars

ITEM	1952	1953	1954	1955	1956	1957
1. General Government	22,917	25,055	28,811	31,952	35,129	38,053
2. Protection of property & persons	45,660	49,629	54,036	58,774	64,108	72,705
3. Public works	53,587	53,740	64,071	73,592	82,564	87,956
4. Sanitation & waste removal	16,428	18,100	20,089	22,398	24,138	26,990
5. Health	15,154	16,091	20,112	21,366	22,209	22,807
6. Social welfare	17,652	17,500	19,432	21,735	23,097	26,365
7. Education	87,529	96,471	106,046	118,941	138,178	155,488
8. Recreation & community services	10,608	11,663	12,342	14,666	16,303	18,631
9. Debt charges	51,783	59,094	71,132	82,892	94,070	109,409
10. Contributions to own govt. enterprises	1,559	1,677	1,756	1,819	4,205	2,112
11. Provision for reserves	2,559	3,976	3,602	3,213	3,320	6,283
12. Capital expenditures out of revenue	5,834	6,346	6,063	7,846	10,022	17,448
13. Joint or special expenditures	4,636	4,655	6,349	3,013	3,638	4,062
14. Other expenditures	1,259	2,294	2,511	4,225	6,007	6,704
15. TOTAL	337,165	366,291	416,352	466,432	526,988	595,013

Source: Dominion Bureau of Statistics, Municipal Government Finance, Yearly Issues.

TABLE I. (Cont'd)

MUNICIPAL CURRENT EXPENDITURES - ONTARIO, 1946-64
(in thousands)
of dollars

ITEM	1958	1959	1960	1961	1962	1963	1964
1. General Government	43,401	48,410	50,015	52,500	57,146	56,960	62,594
2. Protection of property & persons	80,983	89,544	96,160	105,978	112,277	119,814	129,420
3. Public works	97,111	112,769	119,502	113,504	125,243	135,004	141,893
4. Sanitation & waste removal	29,122	32,624	34,492	37,962	39,803	42,938	47,755
5. Health	23,535	15,531	14,583	16,692	16,251	17,331	18,851
6. Social welfare	32,922	38,437	43,241	49,661	53,451	56,215	58,058
7. Education	160,961	188,460	264,701	292,495	248,647	268,623	296,367
8. Recreation & community services	21,483	24,257	29,544	31,279	33,905	37,103	39,913
9. Debt charges	126,764	146,224	149,724	166,090	184,138	180,391	192,459
10. Contributions to own govt. enterprises	2,563	3,011	10,953	10,888	12,158	15,134	13,117
11. Provision for reserves	6,078	5,664	6,868	7,938	10,365	10,271	12,801
12. Capital expenditures out of revenue	20,178	23,361	19,024	20,035	22,206	19,081	21,280
13. Joint or special expenditures	5,292	5,011	6,500	3,422	3,714	3,859	4,391
14. Other expenditures	7,282	9,182	11,012	7,366	9,766	11,570	12,379
15. TOTAL	657,634	742,485	780,581	833,194	905,351	977,204	1,051,278

Source: Dominion Bureau of Statistics, Municipal Government Finance, Yearly Issues; 1964 figures (unpublished) provided by DBS.

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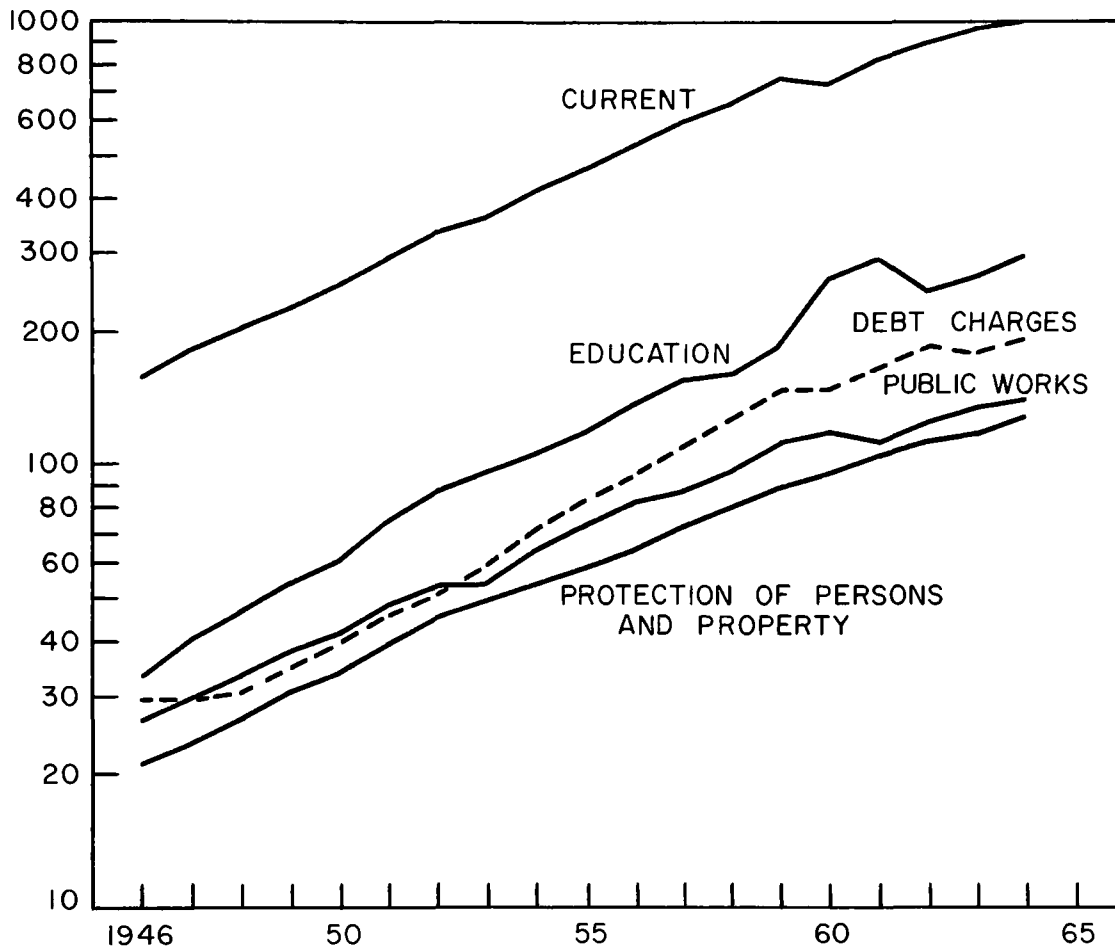
growth: debt charges stood at \$192,459,000 in 1964, up from \$29,690,000 in 1946; protection, up to \$129,420,000 in 1964 from \$21,124,000 in 1946. Chart II gives a graphical presentation of how these four major expenditure areas which together account for over 72% of total current expenditures in 1964 have moved over the period. The other items, though not as important in total expenditures, have also increased substantially; health and social welfare have more than tripled during the period (although health expenditures decreased substantially in 1959 and have not yet climbed back to pre-1959 levels); sanitation and waste removal expenditures also showed substantial increases. Municipalities are also now contributing substantially more to their own government enterprises than was the case in the 1946-1955 period.

Table III gives the percentage distribution of total expenditures in 1946, 1956, 1964. As was seen in Table II education constitutes the largest portion of total expenditures being equivalent to 28.2% in 1964, substantially up from the 21.0% of 1946; in terms of average annual rates of growth education has the highest rate of all expenditures (13.0%); it also showed the greatest percentage increase over the period (797.6%). Debt charges represent the second highest expenditure item in terms of percentages with 18.3% of total expenditure in 1964, down slightly from 18.8% in 1946 but up from the 17.8% in 1956; the annual rate of growth

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CHART II

MAJOR CATEGORIES OF EXPENDITURES



Source: Table II.

TABLE III

PERCENTAGE DISTRIBUTION OF MUNICIPAL CURRENT EXPENDITURES - ONTARIO, 1946-64
(in thousands)

ITEM	1946	1956	1964	Increase or decrease 1946-1964		Average annual rate of growth
				Absolute	%	
1. General government	11.2	6.7	6.0	44,985	255.5	7.3
2. Protection of property & persons	13.4	12.3	12.3	108,296	512.7	10.6
3. Public works	16.8	15.7	13.5	168,358	436.2	9.8
4. Sanitation & waste removal	4.4	4.6	4.5	40,820	588.6	11.3
5. Health	1.9	4.2	1.8	15,869	532.2	10.8
6. Social welfare	7.6	4.4	5.5	46,014	382.0	9.1
7. Education	21.0	26.2	28.2	263,351	797.6	13.0
8. Recreation & community services	3.4	3.1	3.8	34,504	637.9	11.7
9. Debt charges	18.8	17.8	18.3	162,769	548.2	10.9
10. Capital expenditures out of revenue*	N/A	1.9	2.0	17,572	473.9	10.8
11. All others	1.5	3.3	4.1	36,223*	560.3*	11.7
TOTAL	100	100	100	893,685	567.1	11.1

* refers to 1947 - 1964 as some figures are unavailable.

Source: Table II.

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of debt charges stands at 10.9%, somewhat below the rate of increase for all expenditures (11.1%) while its percentage share remains stable. Public works and protection remain the two next largest categories of expenditures being equal respectively to 13.5% and 12.3% of total expenditures in 1964 both show a downward trend in terms of percentages with their 1946 total down from 13.4% and 10.8% in 1946. General government decreased substantially in the period going from 11.2% in 1946 to 6.0% in 1964; it also showed the lowest annual rate of growth (7.3%). Health expenditures show a remarkable decline from their level of 1946 (4.2% of total) down to 1.8% in 1964 reflecting no doubt the increased involvement of the provincial government in this field, namely through the provision of hospitalization insurance. Recreation and community services charges increased slightly from 3.4% to 3.8% of total expenditures but had the second highest percentage increase (637.9%) of all the categories; sanitation and waste removal costs have remained quite stable while social welfare expenditures are down from 7.6% of the total in 1946 to 5.5% in 1964.

Table IV gives a different view of these same figures but in per capita terms. In 1946 per capita expenditures on education were \$8.07 while in 1964 this figure had climbed to \$53.38, a 43% increase; public works went from \$6.47 per capita in 1946 to \$20.77 in 1964, a 221% increase; debt charges had a 208% increase during the period, standing

PER CAPITA MUNICIPAL CURRENT EXPENDITURES - ONTARIO, 1946-64

ITEM	1946	1956	1964	Increase or decrease 1946 - 1964	
				Absolute	%
1. General government	\$4.30	\$6.50	\$9.16	4.86	113.0
2. Protection of property & persons	5.16	11.86	18.94	13.78	267.1
3. Public works	6.47	15.28	20.77	14.30	221.0
4. Sanitation & waste removal	1.69	4.47	6.99	5.30	313.6
5. Health	0.73	4.11	2.76	2.03	278.0
6. Social welfare	2.94	4.27	8.50	5.56	189.1
7. Education	8.07	25.56	43.38	35.31	347.5
8. Recreation & community services	1.32	3.02	5.84	4.52	342.4
9. Debt charges	7.25	17.40	28.17	20.92	288.6
10. Capital expenditures out of revenue	1.12*	1.85	3.11	1.99*	171.0*
11. All others	0.64	3.18	6.25	5.68	887.5
TOTAL	38.50	97.50	153.87	115.37	299.7

* refers to 1947 - 1964 as some 1946 figures are unavailable.
Source: Table II.

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at \$28.17 per capita in 1964; two expenditure categories (sanitation-waste removal, and "all others") showed increases substantially higher than that for total expenditures: sanitation increased by 313% while the "all others" category (which includes items 10, 11, 13, and 14 of Table II, respectively, contributions to own government enterprises, provision for reserves, joint or special expenditures, and other expenditures) showed a 887% increase; however this category accounted for only 4.1% of total current expenditures in 1964. The lowest rates of increase were shown by general government (113%) and social welfare (189%). Finally, total current expenditures, on a per capita basis, increased 299.7% from 1946 to 1964 increasing from \$38.50 in 1946, \$97.50 in 1956, to \$153.87 in 1964. On a constant dollar basis these totals become \$50.30 in 1946, \$69.78 in 1956 and \$86.13 in 1964; the over-all per capita increase (in constant dollars) for total current expenditures is equivalent to 71.2% for the whole period.

Let us now see how capital expenditures have increased during the 1946 - 1964 period.

Capital Expenditures²

The term "capital expenditure" refers to the acquisition of any fixed asset whose cost is financed by the

2. The Ontario Department of Municipal Affairs does not publish comprehensive capital expenditure figures. These are obtained by DBS and are estimates based on a sample survey of the municipalities; outlays from school capital funds are as shown in the Department of Education Annual Report; hospital capital expenditure figures are obtained from information supplied by the Department of Municipal Affairs.

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issue of municipal debentures. Accounting records of these capital transactions of municipalities are segregated in a special fund known as the Capital and Loan Fund. As a result, each capital outlay which a municipality makes will be reflected in the Capital and Loan Fund Balance Sheet in the following way:

- 1) on the asset side, a new capital asset
- 2) on the liability side, a new issue of debentures outstanding.

A by-law of the municipal council or other issuing authority provides the authorization for each issue of debentures.

Moreover, the by-law covering the issue of debentures must be approved by the Ontario Municipal Board which bases its recommendations upon such considerations as:

- a) purpose and legality of the proposed expenditure,
- b) terms of the proposed debenture issue,
- c) financial position of the municipality as evidenced by various factors such as its outstanding debt, its size, population and property and land assessment, its mill-rates, tax collections and arrears.

When a decision is made to issue debentures the municipality is confronted with such questions as:

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- a) what term of years to maturity is appropriate?
- b) should serial bonds be issued?
- c) what rate of interest should be offered?
- d) what method of marketing the debentures should be used?

Main investors in municipal debentures are normally large financial institutions (such as life insurance companies) or other groups such as pension funds. The debentures are sometimes sold directly to investors; this is known as "private placement"; the sale of an issue to a firm of investment dealers may sometimes be arranged by negotiation; the most common method of sale is by calling for tenders on the issue, and accepting the highest bid. Depending on the market rate of interest, the debentures may be sold at a premium or, conversely, at a discount. Some assistance for capital projects is provided to municipalities; the Ontario Municipal Improvement Corporation is authorized to purchase municipal debentures issued to provide sewage, water, garbage disposal, and drainage works; school board projects are also eligible. The main function of the Ontario Water Resources Commission is to construct, acquire, provide operate and maintain water and sewage works. Municipalities which use the services of this commission are financially responsible for the work done on their behalf. Finally,

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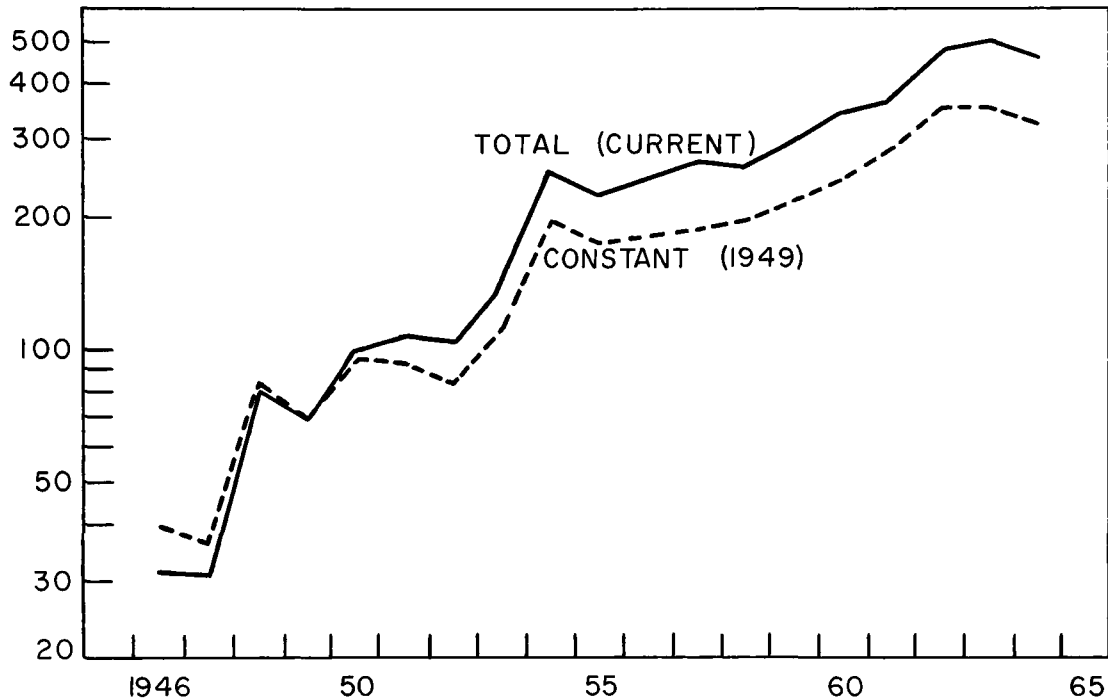
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under the provisions of the Tile Drainage Act, the Lieutenant-Governor in Council may authorize the purchase of certain debentures issued by a municipality. These are debentures which have been issued to cover up to 75% of the estimated cost of drainage work to be carried out by an assessed owner of land in the municipality who wishes to borrow money for the purpose.

Chart III gives a graphical presentation of total capital expenditures (in current and constant dollars) for all Ontario municipalities for the period 1946-1964. The strong upward trend shown by current expenditures is also prevalent in the case of capital expenditures. However, two important characteristics must be noted: 1) the very strong upsurge in capital spending that occurred in the immediate post-war years and 2) the apparent slowdown in capital expenditures in the early sixties. The 1947-48-49 upsurge in capital spending is a direct result of the war years which had a dampening effect upon municipal expenditures; a tight labor market and shortages of materials forced municipalities to put off capital projects with the result that at the end of the war they had a substantial back-log of capital projects to undertake; coupled with this back-log of projects the post-war period saw a substantial increase in population which put increasing pressure upon municipalities to increase capital expenditures. The recent levelling off in total capital expenditures can best be explained by

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CHART IIIMUNICIPAL CAPITAL EXPENDITURES - ONTARIO, 1946-64

Constant dollars obtained using implicit price index of Gross National Expenditure with 1949=100.. (Government expenditures on goods and services).

Source: Table V.

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the trends shown in the four major areas of capital expenditures.

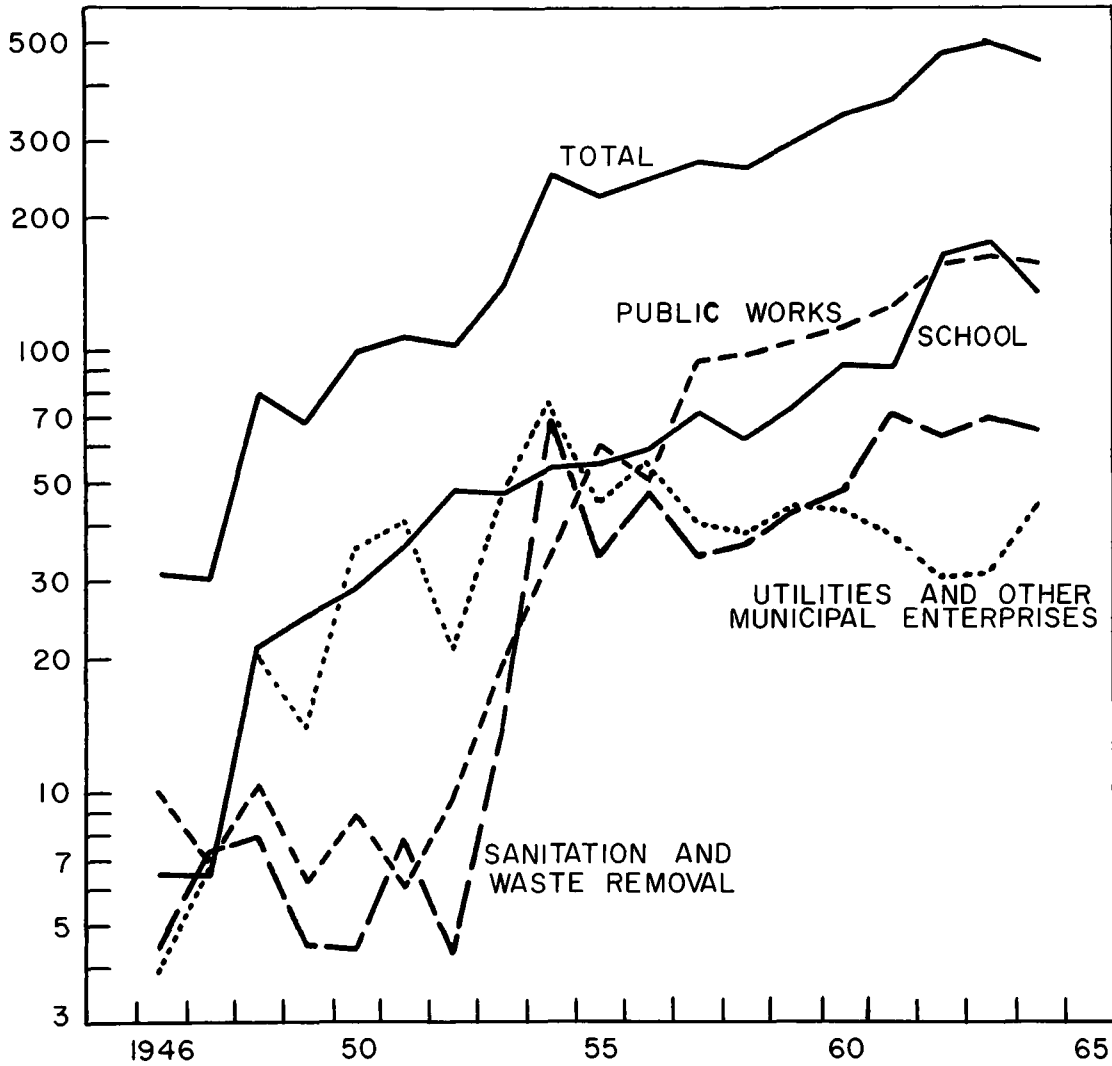
Chart IV shows how these four major categories (which together account for approximately 87% of total capital expenditures in 1964) have moved over the period. The levelling off of total capital expenditures has been caused mainly by a downward shift of school expenditures starting in 1962; public works expenditures also declined slightly since 1962 causing total capital expenditures to move downwards. Sanitation expenditures have stayed fairly constant while expenditures on municipal enterprises started to move upward in 1963. The most striking feature of Chart IV is the very erratic behaviour of the various categories of expenditures; although the trends exhibited are definitely of an upward nature, wide fluctuations do occur in the level of expenditures from one period to the next. This situation will be looked at more closely in the latter part of this chapter when the question of capital budgeting by municipalities is examined.

Table V gives a functional breakdown of total capital expenditures for the period 1946-64. From this table one can see the relative magnitude of capital expenditures compared with current expenditures.

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CHART IV

MAJOR CATEGORIES OF MUNICIPAL CAPITAL EXPENDITURES -
ONTARIO, 1946-64



Source: Table V.

TABLE V

MUNICIPAL CAPITAL EXPENDITURES - ONTARIO, 1946-64
(in thousands)

ITEM	1946	1947	1948	1949	1950	1951
1. General government	123	301	2,510	616	663	--
2. Protection of property & persons	108	297	1,575	667	707	816
3. Public works	10,164	7,085	10,416	6,291	8,971	6,154
4. Sanitation & waste removal	4,426	7,358	8,008	4,506	4,440	7,862
5. Health	--	--	--	--	--	5,927
6. Social welfare	428	477	10,358	4,402	5,755	--
7. Recreation & community services	675	1,756	5,729	2,738	1,901	2,976
8. Education	6,589	6,406	21,354	25,112	29,158	36,491
9. Utilities & other municipal enterprises	3,929	6,674	20,655	14,284	36,012	41,014
10. Miscellaneous	5,022	529	626	10,514	12,015	7,687
TOTAL	31,464	30,883	81,231	69,130	99,622	108,927

-- denotes no figure reported by DBS for that year.

Source: Dominion Bureau of Statistics, Municipal Government Finance, Yearly Issues.

MUNICIPAL EXPENDITURES

TABLE V

MUNICIPAL CAPITAL EXPENDITURES - ONTARIO, 1946-64
(in thousands)

ITEM	1952	1953	1954	1955	1956	1957
1. General government	395	2,183	1,056	6,154	9,923	6,894
2. Protection of property & persons	815	1,100	2,102	11,301	7,029	3,432
3. Public works	9,870	19,655	34,881	61,558	51,901	95,383
4. Sanitation & waste removal	4,294	13,637	71,571	34,221	48,165	34,276
5. Health	2,903	4,112	6,836	2,686	5,173	7,488
6. Social welfare	369	1,577	3,988	4,367	3,966	2,050
7. Recreation & community services	1,737	3,755	2,352	3,885	3,179	1,827
8. Education	48,824	47,790	54,953	55,421	60,521	73,702
9. Utilities & other municipal enterprises	20,941	47,790	76,887	45,439	56,893	41,031
10. Miscellaneous	13,281	--	--	--	--	3,201
TOTAL	103,429	141,599	254,626	225,032	246,750	269,284

-- denotes no figure reported by DBS for that year.

Source: Dominion Bureau of Statistics, Municipal Government Finance, Yearly Issues.

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TABL. V

MUNICIPAL CAPITAL EXPENDITURES - ONTARIO, 1946-64
(in thousands)

ITEM	1958	1959	1960	1961	1962	1963	1964
1. General government	3,866	3,529	8,657	5,566	7,948	18,009	15,254
2. Protection of property & persons	1,729	4,499	4,856	7,479	9,934	7,935	11,151
3. Public works	99,179	107,670	114,196	128,509	159,969	164,204	159,191
4. Sanitation & waste removal	36,917	43,133	48,502	72,094	64,063	70,414	66,955
5. Health	4,463	9,807	17,017	14,002	22,926	5,554	5,805
6. Social welfare	5,399	4,779	6,480	6,893	5,458	5,019	7,073
7. Recreation & community services	4,252	5,530	5,307	5,829	11,636	8,416	8,499
8. Education	63,765	75,730	97,871	92,160	163,506	179,463	135,909
9. Utilities & other municipal enterprises	39,113	44,585	43,852	38,527	30,929	31,826	45,079
10. Miscellaneous	2,400	2,198	2,884	3,027	4,075	4,884	5,578
TOTAL	261,083	301,100	349,522	374,086	480,444	501,902	460,494

MUNICIPAL EXPENDITURES

Source: Dominion Bureau of Statistics, Municipal Government Finance, Yearly Issues; 1964 figures (unpublished) provided by DBS.

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Over the 18 year period capital expenditures as a % of current expenditures have fluctuated from a low of 19.7% in 1946 to a high of 60.9 in 1954; the latest figures available (for 1964) show capital expenditures at a level of approximately 43% of current expenditures. Total capital expenditures grew substantially increasing from \$31,464,000 in 1946 to \$460,494,000 in 1964; similarly as was seen in Chart IV on page 21, all the major capital expenditure categories showed substantial gains; public works increased from a low of \$10,164,000 in 1946 to \$159,191,000 in 1964; capital expenditures on educational facilities jumped from \$6,589,000 in 1946 to a very substantial \$135,909,000 in 1964, sanitation and waste removal, another of the main expenditure categories moved from \$4,426,000 in 1946 to \$66,955,000 in 1964; expenditures on utilities and other municipal enterprises went from \$3,929,000 in 1946 to \$45,079,000 in 1964; the increase of expenditures in the general government category was a very substantial one: from \$123,000 in 1946 to \$15,254,000; similarly, expenditures for protection showed a very great upsurge: \$108,000 in 1946 as against \$11,151,000 in 1964; expenditures on social welfare and recreation increased but by a lesser amount: from \$428,000 and \$675,000 respectively in 1946 to \$7,073,000 and \$8,499,000 in 1964. Finally, two expenditure categories, health and miscellaneous, remained quite stable over the period; health expenditures actually decreased from

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\$5,927,000 in 1951 to \$5,805,000 in 1964; miscellaneous expenditures increased very slightly from \$5,022,000 in 1946 to \$5,578,000 in 1964.

Table VI gives the percentage distribution of total capital expenditures in 1946, 1956, 1964. The largest percentage share of total expenditures in 1964 is that of public works (34.6%) which increased slightly from 32.3% in 1946 after having dipped considerably in 1956 (21.0%). Education comes next with 29.5% of the total in 1964, up from 20.9% in 1946 and 24.5% in 1956. Sanitation expenditures, the third largest category in 1964 with 14.5% of total expenditures has remained fairly constant over the period standing at 14.1% in 1946 and 19.5% in 1956. The last major category, utilities and other municipal enterprises, took a decreasing percentage of total expenditures with 9.8% in 1964, down substantially from 23.1% in 1956 and 12.5% in 1946. The other expenditure categories are relatively less important in the over-all total for capital expenditures with the largest item (general government) bring equal to only 3.3% in 1964; of these other categories general government and protection had the most substantial increases while social welfare and recreation remained fairly constant over the period; miscellaneous expenditures declined substantially from 16.0% in 1946 to 1.2% in 1964.

In terms of percentage increases and annual rates of growth general government and protection expenditures are

TABLE VI

PERCENTAGE DISTRIBUTION OF MUNICIPAL CAPITAL EXPENDITURES - ONTARIO, 1946-64
(in thousands)

ITEM	1946	1956	1964	Increase or decrease 1946-1964		Average annual rate of growth
				Absolute (\$)	%	
1. General government	0.4	4.0	3.3	15,131	12,301.6	30.3
2. Protection of property & persons	0.3	2.8	2.4	11,043	10,225.0	29.0
3. Public works	32.3	21.0	34.6	149,027	1,466.2	16.5
4. Sanitation & waste removal	14.1	19.5	14.5	62,529	1,412.8	16.3
5. Health*	--	2.1	1.3	2,902	200.0	5.9
6. Social welfare	1.4	1.6	1.5	6,645	1,552.6	16.9
7. Recreation & community services	2.1	1.3	1.8	7,824	1,159.1	15.1
8. Education	20.9	24.5	29.5	129,320	1,962.7	18.3
9. Utilities & other municipal enterprises	12.5	23.1	9.8	41,150	1,047.3	14.5
10. Miscellaneous	16.0	--	1.2	556	11.1	0.6
TOTAL	100.0	100.0	100.0	429,030	1,363.6	15.6

* refers to 1952 - 1964 --- Details may not add to total, due to rounding.

Source: Table V.

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foremost with substantial increases over 10,000% and growth rates of 30.3% and 29.0% respectively; however these two categories together account for only 5.7% of total capital expenditures in 1964; attention must be focussed primarily on the major expenditure categories of public works, education, sanitation, and utilities; of these four categories education showed the highest percentage increase (1,962.7%) as well as the highest average annual rate of growth (18.3%); the same situation prevailed, it will be remembered, in the case of current expenditures; public works showed a slightly lower rate of growth (16.5%) and percentage increase (1,466.2%) while sanitation expenditures were very close to public works in terms of rate of growth (16.3%) and percentage increase (1,412.8%); utilities showed the lowest rate of growth (14.5%) and percentage increase (1,047.3%) of the major expenditure categories. Total capital expenditures over the 1946 - 1964 period grew at an average annual rate of 15.6 and showed an increase of 1363%.

Table VII gives the capital expenditure figures on a per capita basis for 1946, 1956, 1964. Total capital expenditures stood at \$7.69 per capita in 1946, \$45.65 in 1956, and \$67.40 in 1964 for an over-all increase of 776.5%. Education expenditures per capita moved from \$1.61 in 1946 to \$19.89 in 1964, an increase of 1,135.4%; public works expenditures increased from \$2.48 per capita in 1946 to \$23.30 in 1964 (839.5%) while sanitation expenditures increased

TABLE VII

PER CAPITA MUNICIPAL CAPITAL EXPENDITURES - ONTARIO, 1946-64
(in thousands)

ITEM	1946	1956	1964	Increase or decrease 1946 - 1964	
				Absolute	%
1. General government	.03	1.84	2.23	2.20	7,333.3
2. Protection of property & persons	.03	1.30	1.63	1.60	5,333.3
3. Public works	2.48	9.60	23.30	20.82	839.5
4. Sanitation & waste removal	1.08	8.91	9.80	8.72	807.4
5. Health	--	.96	.85	--	--
6. Social welfare	.10	.73	1.04	.94	940.0
7. Recreation & community services	.16	.59	1.24	1.08	675.0
8. Education	1.61	11.20	19.89	18.28	1,135.4
9. Utilities & other municipal enterprises	.96	10.53	6.60	5.64	587.5
10. Miscellaneous	1.23	--	.82	- .41	- 33.3
TOTAL	7.69	45.65	67.40	58.87	776.5

Source: Table V

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slightly less (807.4%) going from \$1.08 per capita in 1946 to \$9.80 in 1964; utilities, the other major expenditure category has decreased from \$10.53 per capita in 1956 to \$6.60 in 1964 although this is still much higher than the \$0.96 per capita in 1946. Health presents an interesting case in that there is an actual decrease in per capita expenditures (\$0.96 in 1956, \$0.85 in 1964).

Particular Expense Categories

In this section an attempt is made to analyze more closely the various categories of expenditures to see what factors have been responsible for increases in a given expenditure category. The analysis will focus mainly on the major expenditure categories (notably education, public works, protection, debt charges, and utilities and other municipal enterprises) although, where possible, the other categories of expenditures will be examined. The paucity of data in several areas cannot be overstressed at this stage; in certain areas, a breakdown of the aggregates is simply not available, while in other areas the figures reported by DBS are estimates based upon past trends. However, in spite of these limitations, several underlying factors causing an increase (or decrease) in a given category of expenditures can normally be discerned and serve to explain at least in part the past trends in expenditures; moreover these factors are important to know if one is to make reasonable

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assessments as to future trends in various expenditure categories (although a formal projection of expenditures is not undertaken in this study).

Education

The first expenditure category to be covered is that of education which, it will be remembered, accounted for 28.2% of total current expenditures and 29.5% of total capital expenditures in 1964. Based upon various published and unpublished figures of the Education Division of DBS it was possible to analyze the following factors which might serve to explain the increases in education expenditures over the 1946 - 1964 period:

- 1) enrolments
- 2) classroom - pupil ratio
- 3) teacher - pupil ratio
- 4) salary scales of teachers

For enrolments there are two sets of figures which may be used: either the actual enrolment figure as such or the average daily attendance. Both series give an indication of how many more people are coming into the education stream thus putting more pressure upon existing facilities and eventually causing education expenditures to rise in order to provide new facilities. Table VIII illustrates how enrolments have risen in the period 1946 - 1964. From Table VIII it can be seen that enrolments more than doubled over the period

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TABLE VIII
ENROLMENTS AND AVERAGE DAILY ATTENDANCE IN PUBLIC SCHOOLS*
ONTARIO, SELECTED YEARS, 1946 to 1964

YEAR	ENROLMENTS	ATTENDANCE**
1946	666,451	590,801
1950	775,424	660,249
1954	933,104	857,514
1958	1,174,642	1,071,396
1962	1,462,230	1,396,037
1964	1,597,374	1,454,000

* The term "Public Schools" includes Separate Schools.

** Total aggregate attendance divided by the total number of days of school operation as reported by all schools to the Ontario Department of Education.

Source: Dominion Bureau of Statistics, Survey of Elementary and Secondary Education 1963 - 1964, Ottawa, Queen's Printer, 1964.

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(for the purpose of analysis figures used refer to publicly-supported schools only; however it can be assumed that the trend in private schools is of a similar nature). Such an influx of students into the system no doubt explains part of the substantial increase in education expenditures in the post-war years.

Accompanying this influx of students there has been a tendency in recent years for class sizes to become smaller both in terms of the number of pupils per classroom and the pupil-teacher ratio. Table IX sets out these two ratios.

The pupil-teacher ratio has gone down substantially between 1946 (28.8) and 1964 (26.9) while the pupil-classroom at 28.4 in 1964 is higher than in the early fifties but has declined continuously since the middle fifties. A decrease in these ratios will obviously push education expenditures upward as more resources are needed to provide for the needs of an increasing number of students. This narrowing has been taken by some authors as an indication of a quality improvement in education³; as the need for more specialized and better education facilities develops these ratios may be pushed lower thus causing increases in education expenditures

3. For a discussion of the quality measurement of education see W. S. Hirsch, "Quality of Government Services", in H. G. Schaller, editor, Public Expenditures Decisions in the Urban Community, John Hopkins Press, Baltimore, 1963, pp. 163 - 179.

TABLE IX
PUPIL-TEACHER AND PUPIL-CLASSROOM RATIO - ONTARIO,
1946 to 1964

YEAR	PUPIL-TEACHER	PUPIL-CLASSROOM
1946	28.8	N/A
1947	28.5	-
1948	28.8	-
1949	28.7	-
1950	28.4	27.6
1951	28.5	27.5
1952	29.3	28.9
1953	29.7	30.5
1954	29.7	30.8
1955	29.2	30.8
1956	28.8	30.7
1957	29.1	31.0
1958	28.7	30.2
1959	29.1	29.7
1960	29.0	29.6
1961	28.0	29.6
1962	28.2	29.1
1963	27.4	28.4
1964	26.9	28.4

Source: Unpublished figures provided by the Education Division, Dominion Bureau of Statistics.

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Teacher salaries play an important role in total education expenditures and as such an upward movement in salaries will have a marked effect on the costs of operating school facilities. Table X shows the median salary of teachers in Ontario and Canada as a whole for the period 1946 - 1964. Over the period 1946 - 1964 the median salary has increased 336% in the case of Ontario, slightly less than the increase shown for Canada as a whole (342%); Ontario salaries remained consistently higher than the national average over the whole period. The upward trend in teacher salaries will definitely continue in the future especially with the increased qualifications demanded of teachers (for example, in the primary grades where attempts are being made to require a university degree as the minimum basic qualification). Increased teacher remuneration should bring about quality improvements in the educational system but it will also boost the cost of education even more.

Public Works

Public works expenditures accounted for 13.5% of total current expenditures and 34.6% of total capital expenditures in 1964 thus making it a very important item in the over-all spending of municipalities. The category of "public works" includes the following major expenditure items: 1) streets and roads, bridges, viaducts, subways and tunnels, etc..., 2) snow and ice removal, 3) waterways and

TABLE X
MEDIAN SALARIES OF TEACHERS IN PUBLIC, ELEMENTARY, AND
SECONDARY SCHOOLS, ONTARIO AND CANADA, 1946 to 1964
(in thousands)

YEAR	ONTARIO	CANADA
1946	1,514	1,446
1950	2,217	2,050
1954	3,008	2,840
1958	4,026	3,757
1962	4,804	4,522
1964	5,182	4,954
Increase 1946 - 1964	336%	342%

Source: Dominion Bureau of Statistics, Salaries and Qualifications of Teachers in Public, Elementary, and Secondary Schools, 1964 - 1965, Ottawa, Queen's Printer, 1966, p. 20.

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drainage, 4) other smaller items such as parking meter repairs and maintenance. The only figures available which can be used to explain increases in the category as a whole are those which relate to the "streets and roads" category; expenditures on roads and streets normally account for a substantial share of total public works expenditures.

Road and street mileage and expenditures (in our case, urban street mileage and expenditures) are published annually by DBS and serve to give an indication of how such expenditures, occasioned by a growing need for better road facilities, contribute to increases in public works expenditures.

The number of vehicles in use has a direct effect upon the costs of providing road facilities; during the post-war period the number of vehicles in use in Ontario has risen sharply reflecting the increasing use of the private automobile as a means of daily transit to and from work. Table XI shows the number of motor vehicle registrations in Ontario for the period 1946 - 1964. Total motor vehicle registrations showed a very substantial rise of approximately 387% going from 1,605,300 in 1946, to 6,234,900; passenger automobile registrations had a slightly higher increase (407%) than that for commercial vehicles (351%). This rapidly increasing number of vehicles necessitates higher road expenditures and an increase in the total road and street facilities. Table XII details the urban street

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TABLE XI
MOTOR VEHICLE REGISTRATIONS - ONTARIO, 1946-1964

YEAR	PASSENGER AUTOMOBILES	COMMERCIAL VEHICLES	TOTAL
1946	1,235,309	369,991	1,605,300
1950	1,914,355	643,244	2,556,599
1954	2,706,025	900,899	3,706,924
1958	3,631,381	1,058,571	4,689,571
1962	4,531,384	1,210,325	5,741,709
1964	5,037,861	1,297,039	6,234,900

Source: Dominion Bureau of Statistics, The Motor Vehicle, Part IV Registrations, Ottawa, Queen's Printer, 1964.

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TABLE XII
URBAN STREET MILEAGE - ONTARIO AND CANADA,

1946, 1956, 1964
(in thousands)
of miles

YEAR	ONTARIO	CANADA
1946	4,401	14,326
1956	7,513	22,823
1964	15,223	42,177
Increase 1946 - 1964	345%	294%

Source: Dominion Bureau of Statistics, Road and Street Mileage and Expenditure, Ottawa, Queen's Printer, Yearly Issues.

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mileage open to traffic for three given years: 1946, 1956, 1964. In order to keep pace with the expanding automobile population new road facilities have had to be built; over the 1946 - 1964 period urban street mileage in Ontario increased 345%, from 4,401 miles to 15,223 miles, more than the increase for Canada as a whole (294%). Urban street expenditures consequently increased substantially over the period going from \$8,940,850 (gross; the net figure, which takes into consideration subsidies and amounts collectable, is \$8,751,578) in 1946 to \$134,900,000 in 1964 (net: \$66,551,000). Thus, gross expenditures on roads and streets rose by more than 1,400% from 1946 to 1964. (The question of grants and subsidies which in fact serve to alleviate the burden of expenditures will be examined in the following chapter along with other sources of revenue). As automobile ownership increases over the next few years and as the use of the private automobile as a means of transportation becomes still more widespread, municipalities will have to spend still greater amounts in order to provide for the increased demand for road facilities. The dilemma facing most major cities in this field is to decide whether increased expenditures for roads and streets are justifiable since these increased facilities are made necessary by the greater use of the private automobile as a means of transportation or whether the returns would not be greater (in terms of lessening the traffic congestion in downtown

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areas and less parking space needed) if expenditures were made to provide for better mass transit facilities. The question is a crucial one as the costs (both economic and non-economic) are starting to be felt in terms of spiralling public works expenditures for roads and streets and even greater traffic problems in downtown areas.

Debt Charges

Debt charges in 1964 (\$192,000,000) accounted for approximately 18.3% of total current expenditures and have remained steady at this level for the whole 1946 - 1964 period. The category "debt charges" includes the following items⁴:

1. Debenture debt charges -- net principal instalments, sinking fund requirements and interest due during the current fiscal year in respect of all general fund debentures issued by the municipality, as well as similar amounts due in respect of debentures assumed from other municipalities. Principal payments of and interest on Municipal Improvements Assistance Act loans are also included here.

4. See: Dominion Bureau of Statistics, Municipal Finance Reporting Manual, Ottawa, Queen's Printer, 1960, pp. 108 - 109.

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2. Other long-term debt charges.
3. Other debt charges -- these include such items as temporary debt charges on short-term borrowings, discount on sale of debentures, premium or loss on sale of securities purchased as investments, and loss on foreign exchange.

The main category of course is the one dealing with debenture debt charges. Debt charges are a direct result of borrowing for specific purposes (schools, utilities, etc...). As such, the interest on debentures issued for education purposes, for example, should logically be allocated to the expenditure category of education; yet DBS gives a separate category for debt charges in the statement of current expenditures in order to determine the total borrowing costs to municipalities. Further information is provided as to a breakdown of debenture debt charges by function. From Table XIII it can be seen that the bulk of debenture borrowing costs are incurred in the "general" category (e.g. expenditures for drainage, local improvements, etc...). School borrowing costs are the second item with \$74,648,000 in 1963, or 36% of total debt charges. Utilities, the other category for which debenture debt charges are listed, accounts for approximately 18% of total debt charges. The composition of debt charges has not changed substantially

TABLE XIII
ANALYSIS OF MUNICIPAL DEBENTURE DEBT CHARGES - ONTARIO,
1951, 1956, 1963
 (in thousands)
 of dollars

	1951	1956	1963
General	21,931	39,994	92,825
Schools	11,928	28,509	74,648
Utilities	10,659	19,492	38,004
TOTAL	44,518	87,995	205,477

Source: Dominion Bureau of Statistics, Municipal Government Finance, Ottawa, Queen's Printer, Yearly Issues.

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over the years. The fact that total debt charges shown are higher than those shown in Table II on pages 7, 8, 9, does not detract from the purpose of Table XIII which is to show what categories of expenditures are responsible for increases in debt charges. The higher total figures given in Table XIII are due to changes in various classification of charges adopted by DBS⁵. The data for Table XIII are published by DBS in order to provide comparability with other series. Future trends in debt charges will depend on many things notably upon the costs of borrowing money and on the outlays made for the major categories of expenditures. The general trend should be an upward one for the next few years because of the fact that increased expenditures on items such as schools, municipal utilities, seem likely.

Protection, Health, Social Welfare

These three categories together account for close to 20% of total current expenditures in 1964 although their share of total capital expenditures is substantially lower

5. See: Dominion Bureau of Statistics, Municipal Government Finance, Queen's Printer, Ottawa, 1963, p. 9: "Prior to 1960, where, as now, debenture debt included debentures issued directly by utilities or by municipalities on their behalf, the relative debenture debt charges were included in current expenditures as such and in revenue as debenture debt charges recoverable. This procedure has been changed. Debenture debt charges recoverable have been netted against the expenditure item debt charges so that the latter item now represents only debenture and other debt charges for general municipal purposes, including school, special funds and activities".

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(approximately 5% in 1964). Data are available from 1954 on which permit us to give a breakdown of these three expenditure categories (available only for current expenditures); these are given in Table XIV.

In "protection" the major category in 1963 was that of police, while "other" (including items such as flood control, railway crossing signals, pollution control, fire protection, and street lighting rank next in magnitude. This order has not changed over the period for which data are available (1954 to 1963). Protection expenditures are normally a function of population; as further population increases occur in Ontario municipalities can expect to spend proportionate amounts on protection services.

Total health expenditures showed a decrease during the period 1954 - 1963; of the two categories, public health and hospital care, the former assumed the greatest share of total expenditures in 1963, a situation reverse to that of 1954 and 1958. The costs of providing better health facilities to citizens will no doubt have to be subsidized to a greater extent in the future; larger subsidies from the province have been reflected in a decrease of the municipal share of total health expenditures in recent years. This trend is bound to continue in the future; such a situation has been recognized also in the United States: "... a sharp growth in the scope of local public health and hospital activities seems unlikely, unless accompanied and induced by

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TABLE XIVMUNICIPAL CURRENT EXPENDITURES FOR PROTECTION,
HEALTH, AND SOCIAL WELFARE - ONTARIO, 1954, 1958, 1963
(in thousands)

ITEM	1954	1958	1963
PROTECTION			
Fire	12,189	16,791	25,245
Police	22,641	34,629	52,535
Street lighting	2,567	3,016	4,641
Other	16,639	26,547	37,393
TOTAL	54,036	80,983	119,814
HEALTH			
Public	5,225	7,792	11,310
Hospital care	14,887	15,743	6,021
TOTAL	20,112	23,535	17,331
SOCIAL WELFARE			
Aid to unemployed	6,532	14,549	33,907
Child welfare	6,981	10,012	13,389
Other	5,919	8,361	8,919
TOTAL	19,432	32,922	56,215

Source: Dominion Bureau of Statistics, Municipal Government Finance, Ottawa, Queen's Printer, Yearly Issues.

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extensive federal-state financing of the extra costs locally incurred".⁶

Social welfare presents an area which, according to some authors, could justifiably be relinquished by the municipalities, partially if not totally, and taken over by the senior levels of government. Total social welfare costs are rising with the major share going to aid to the unemployed followed by child welfare, and other expenditures (grants to welfare agencies and societies). In the U.S. the situation is akin to the Canadian one: "...in the particular states where public assistance arrangements still place a considerable load on local governments we may expect pressure for a shift toward more reliance on state government resources. Success in such efforts could provide some of the additional elbow room which urban local governments need to deal with other expenditure needs"⁷. The Canadian case is presented by one author in these terms: "...the growing volume of evidence and argument points towards the desirability of complete federal and provincial assumption of responsibility for all welfare services, with the exception of short-term emergency assistance for needy persons"⁸. Basically the main arguments for this proposal are as follows: 1) as welfare

6. H. G. Schaller, op. cit., p. 29.

7. Ibid, p. 27.

8. F. R. MacKinnon, "Local Government and Welfare", Canadian Public Administration, March, 1960, p. 41.

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payments and services become more costly it renders the task of the smaller units of local government much more difficult with the result that the level of services declines; 2) welfare services without auxiliary services and preventive or corrective devices serve no useful purpose in that they do not provide means whereby a long term solution to the problem is achieved; 3) the problem of assistance being denied to the needy because of residence restrictions; 4) the divided responsibility of three levels of government participating in the welfare program is undesirable from the point of view of efficiency. The arguments provided seem to be justified in the light of increased welfare expenditures forced upon municipalities; a take-over of this field by the senior levels of government seems appropriate and would be a welcome form of relief to the municipalities. The Gordon Commission on Canada's Economic Prospects shared such a view back in 1957 when it stated: "Hospitals and some social services might also be finally removed from the list of burdens on real property, and indeed on municipalities. The particular relevance of health and welfare services to real property has never been easy to defend, and the case for municipal administration of such services has weakened in the light of experience with provincial and federal programs"⁹.

9. Royal Commission on Canada's Economic Prospects, Ottawa, Queen's Printer, 1957, p. 508.

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Public Utilities

Municipal spending on utilities accounts for a fairly large proportion of their total capital outlays (close to 10% of total capital spending in 1964)¹⁰. The Dominion Bureau of Statistics in its annual publication on Municipal Finance provides a breakdown of debenture debt outstanding by function. Table XV shows debenture debt outstanding (for utilities) for the years 1946, 1956, 1963.

As can be seen from Table XV the bulk of capital spending on utilities is for water supply systems; debenture debt outstanding in this category increased more than five-fold over the period 1946 - 1963 (\$32,408,000 in 1946 as against \$171,446,000 in 1963). The next most important category is that of transit systems where debt outstanding increased over nine times from 1946 to 1963 (\$10,712,000 in 1946, \$98,272,000 in 1963). Electric light and power represents the third largest category with an increase from \$9,385,000 in 1946 to \$83,857,000 in 1963. The other categories of utilities are of a lesser importance although spending by municipalities on parking facilities has now become substantial, reflecting the greater number of vehicles

10. At the present time operating statements of municipal government enterprises (utilities) are not published by the Dominion Bureau of Statistics as such figures are not collected by the Department of Municipal Affairs; therefore, current expenditures by type of utility are not obtainable.

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TABLE XVDEBENTURE DEBT OUTSTANDING (UTILITIES) -ONTARIO, 1946, 1956, 1963
(in thousands)

ITEM	1946	1956	1963
1. Water supply systems	32,408	99,841	171,446
2. Electric light & power	9,385	58,536	83,857
3. Gas supply systems	633	316	2,911
4. Transit systems	10,712	77,312	98,272
5. Telephone systems	69	4,274	5,710
6. Airports	702	219	6
7. Housing	428	12,863	10,807
8. Parking authorities	--	--	11,115
9. Other	223	1,967	--
TOTAL*	54,560	255,328	384,154

* includes both serial and sinking fund debentures.

Source: Dominion Bureau of Statistics, Municipal Government Finance, Ottawa, Queen's Printer, Yearly Issues.

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in use in the major metropolitan areas. Municipal expenditures on utilities can be expected to keep on rising in the future as increased demand for water treatment facilities and mass transit facilities, among others, keeps on rising.

Capital Budgeting

The need for municipalities to undertake sound long-term planning by means of a capital budget has never been greater than now. As was seen earlier in this chapter municipal capital expenditures in Ontario in 1964 were equivalent to nearly half a billion dollars (approximately 44% of total current expenditures). The very erratic nature of the level of capital spending as shown in Chart IV on page 17 seems to be an indication that capital budgeting as tool of planning is not being utilized as it should be. Yet the failure to plan capital expenditures for a period of years rather than for one year at a time can have very unfavourable results such as: 1) poorly-timed burdens, 2) general dissatisfaction with municipal administration. Although Ontario municipalities are now required (since 1961) to prepare a five-year capital budget updating it every year it is doubtful whether the stage has been reached where the capital budget is used as an actual and effective tool of municipal administration. The need for sophisticated capital budgeting by municipalities was elaborated upon close to 10 years ago by one well-known authority in the municipal field:

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"In recent years the increased demand for municipal improvements and capital financing needs to take care of the growth and expansion of urban municipal governments has not only focussed further attention on the subject of capital planning but in my opinion clearly indicates the need for a capital budget as an essential tool of municipal administration"¹¹. The capital budget, if it is used effectively, provides the administration with a guide to determine:

- 1) the projects that should be or may be undertaken in a given fiscal period
- 2) the debt situation, which limits the incurring of new or additional debenture obligations
- 3) the temporary financing needs for the period
- 4) the implication for the period ahead of debt charges resulting from the current program.

The capital budget must be such that it sets up certain priorities based upon consideration such as:

- 1) the potential contribution of a project expenditure to the welfare of the citizens of the community

11. James H. Lowther, Address to the 20th Annual Conference, Canadian Federation of Mayors and Municipalities, Murray Bay, Quebec, June 13-17, 1957.

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- 2) for what length of time will present facilities provide a needed level of service without replacement or renewal?
- 3) will the project be self-supporting or not and will it increase tax revenues by improving property values?
- 4) what is the relationship between the total cost of the expenditure and the municipalities financial position?

The actual procedures or steps for capital budgeting should be along the following lines¹².

- 1) first, a long range Master Plan must be prepared to look ahead from 10 to 25 years; this Master Plan lays particular stress on land use and control and concerns itself mostly with physical planning necessary to bring about public improvements and control over the private use of property. Such planning is not prevalent in the municipal sector.

12. See: J. G. Bowland, "Planning a Municipal Capital Budget", Canadian Public Administration, December, 1963, pp.463-

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- 2) The second stage is the actual planning stage where a capital budget (based on estimates of additional services needed, the amount of capital improvements desired and revenues anticipated) is prepared for a five or six year period; this plan is reviewed and revised each year and subsequently extended for another year.
- 3) The third stage is an analysis of the municipality's revenue and expenditures present and anticipated over the life of the five year capital budget
- 4) A fourth stage is the coordination of the analysis of a municipality's proposed revenues and expenditures with a priority list of projects.

Such a planning of capital expenditures (which also forces a municipality to review its current expenditures) would improve the financial health of most municipalities by rationalizing to a greater extent costly projects which are sometimes blindly undertaken. A benefit - cost analysis approach is needed if municipalities and their citizens are to reap the greatest benefits from the expenditures they

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incur¹³. Some authors have gone further and suggested that the capital budget techniques be integrated in a "provincial - local government budget" which, using the same techniques, would integrate municipal spending estimates with those of the provincial government. The composition and use of such a budget will be looked at in Chapter II.

The major areas of municipal expenditures that have risen substantially in the post war period have been identified as education, public works, utilities, and sanitation. Let us now examine those sources of revenue that have been used to finance municipal expenditures in these and other categories.

13. For an excellent discussion of the benefit - cost type of analysis see: N. Lichfield, J. Margolis, "Benefit Cost Analysis as a Tool in Urban Government Decision Making", in H. G. Schaller, editor, op. cit., pp. 118-146.

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CHAPTER IIMUNICIPAL REVENUES 1946-1964

A municipality has four major sources of revenue available to it:

- a) taxation, current or deferred
(borrowing),
- b) grants, subsidies, and shared taxes,
- c) earnings from municipal enterprises
(this can also be a source of deficit),
- d) miscellaneous revenues, such as license
and permit fees.

In this chapter an attempt is made to analyze the sources of municipal revenues for the period 1946 - 1964; tax revenues comprise the major source of revenue for municipalities not only in Ontario but in the other nine provinces as well; the real property tax which accounts for the bulk of tax revenues will be examined closely to see how this has moved over the years; grants, subsidies and shared taxes, the second major revenue category will also be scrutinized as to the extent and the effects of such grants. The major purpose of the chapter is to determine what sources of revenue have been used to finance rapidly increasing municipal expenditures in order to make some appraisal as to the adequateness of present sources of revenue. Finally, possible alternative sources of revenue are outlined.

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Current Revenue Trends

Table XVI gives a breakdown of current revenue by source for all Ontario municipalities for the period 1946 - 1964. As can be seen from the table, taxation (especially the property tax) constitutes the single largest source of revenue to municipalities: this yielded \$805,515,000 out of a total revenue figure of \$1,052,420 in 1964 (approximately 77% of total current revenue); this is up substantially from \$117,619,000 shown in 1946 (approximately 75% of total current revenue). The next largest item is that of contributions, grants, and subsidies which accounted for \$179,919,000 (or 17.1%) of total current revenue in 1964 as against \$13,850,000 (or 8.9%) in 1946. The last source of revenue shown in Table XVI on pages 58, 59, 60, is the "other" classification (which includes licenses and permits, rents, concessions and franchises, fines, interest and tax penalties, recreation and community services). This accounted for \$66,986,000 (or approximately 6%) of total current revenue in 1964, and \$24,656,000 (or approximately 15%) in 1946.

The percentage share of total current revenue is given in Table XVII. The share of taxation increased from 72.2% in 1946 to 76.5% in 1964; the highest percentage share reached was in 1951 (76.9%) while the lowest was in 1958 (71.4%); the trend was an upward one from 1946 to 1952, reversed itself from 1953 to 1959, and jumped substantially

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TABLE XVI
MUNICIPAL CURRENT REVENUE - ONTARIO, 1946-1964
 (in thousands)
 of dollars

ITEM	1946	1947	1948	1949	1950	1951
<u>A-TAXATION</u>						
1. Real property*	117,430	135,347	150,014	170,247	188,814	228,808
2. Other	189	55	127	132	146	112
TOTAL	117,619	135,402	150,141	170,379	188,960	228,920
<u>B-CONTRIBUTIONS, GRANTS & SUBSIDIES</u>						
	13,850	22,465	25,746	31,315	34,613	43,221
<u>C-OTHER**</u>						
	24,656	23,803	25,818	27,927	29,709	25,457
D-TOTAL REVENUE	156,125	181,670	201,705	229,621	253,282	297,598

* includes personal property & business tax, (not separable).

** includes the following: licenses and permits, rents, concessions and franchises, fines, interest and tax penalties, recreation and community services, other revenue.

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TABLE XVI (Cont'd)
MUNICIPAL CURRENT REVENUE - ONTARIO, 1946-1964
 (in thousands)
 of dollars

ITEM	1952	1953	1954	1955	1956	1957
<u>A-TAXATION</u>						
1. Real property*	263,055	282,942	309,235	339,510	385,564	435,130
2. Other	142	191	182	181	184	181
TOTAL	263,197	283,133	309,417	339,691	285,748	435,311
<u>B-CONTRIBUTIONS, GRANTS & SUBSIDIES</u>						
	49,523	51,646	63,658	74,988	82,023	100,150
<u>C-OTHER**</u>	27,808	36,145	42,634	52,177	56,122	62,451
<u>D-TOTAL REVENUE</u>	340,528	369,924	415,809	466,856	523,893	597,912

* includes personal property & business tax.

** includes the following: licenses and permits, rents, concessions and franchises, fines, interest and tax penalties, recreation and community services, other revenue.

MUNICIPAL REVENUETABLE XVI (Cont'd)

MUNICIPAL CURRENT REVENUE - ONTARIO, 1946-1964
(in thousands)
of dollars

ITEM	1958	1959	1960	1961	1962	1963	1964
<u>A-TAXATION</u>							
1. Real property*	469,299	529,889	592,244	642,483	690,711	743,917	805,466
2. Other	171	128	134	117	95	82	49
TOTAL	469,470	530,017	592,378	642,600	690,806	743,999	805,515
<u>B-CONTRIBUTIONS, GRANTS & SUBSIDIES</u>							
	115,233	132,617	142,038	149,044	161,662	171,228	179,919
<u>C-OTHER**</u>							
	72,708	79,159	46,275	46,006	51,876	62,421	66,986
<u>D-TOTAL REVENUE</u>	<u>657,411</u>	<u>741,793</u>	<u>780,691</u>	<u>837,650</u>	<u>904,344</u>	<u>977,648</u>	<u>1,052,420</u>

* includes personal property & business tax.

** includes the following: licenses and permits, rents, concessions and franchises, fines, interest and tax penalties, recreation and community services, other revenue.

Source: Dominion Bureau of Statistics, Municipal Government Finance, Queen's Printer, Ottawa, Yearly Issues.

TABLE XVII
PERCENTAGE DISTRIBUTION OF MUNICIPAL TOTAL CURRENT REVENUE-
ONTARIO, 1946-1964

ITEM	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
<u>A-TAXATION</u>	72.2	74.5	74.4	74.1	74.5	76.9	77.2	76.3	74.4	72.7
<u>B-CONTRIBUTIONS,</u> <u>GRANTS &</u> <u>SUBSIDIES</u>	8.9	12.4	12.8	13.6	13.7	14.5	14.5	14.0	15.3	16.1
<u>C-OTHER</u>	18.9	13.1	12.8	12.3	11.8	8.6	8.3	9.7	10.3	11.2
<u>TOTAL</u>	100	100	100	100	100	100	100	100	100	100

Source: Table XVI

TABLE XVII (Cont'd)PERCENTAGE DISTRIBUTION OF MUNICIPAL TOTAL CURRENT REVENUE-ONTARIO, 1946-1964

ITEM	1956	1957	1958	1959	1960	1961	1962	1963	1964
A-TAXATION	73.6	72.8	71.4	71.4	75.9	76.7	76.4	76.1	76.5
<u>B-CONTRIBUTIONS, GRANTS & SUBSIDIES</u>	15.7	16.7	17.5	17.9	18.2	17.8	17.9	17.5	15.1
<u>C-OTHER</u>	11.7	11.5	11.1	10.7	5.9	5.5	5.7	6.4	6.4
<u>TOTAL</u>	100	100	100	100	100	100	100	100	100

Source: Table XVI

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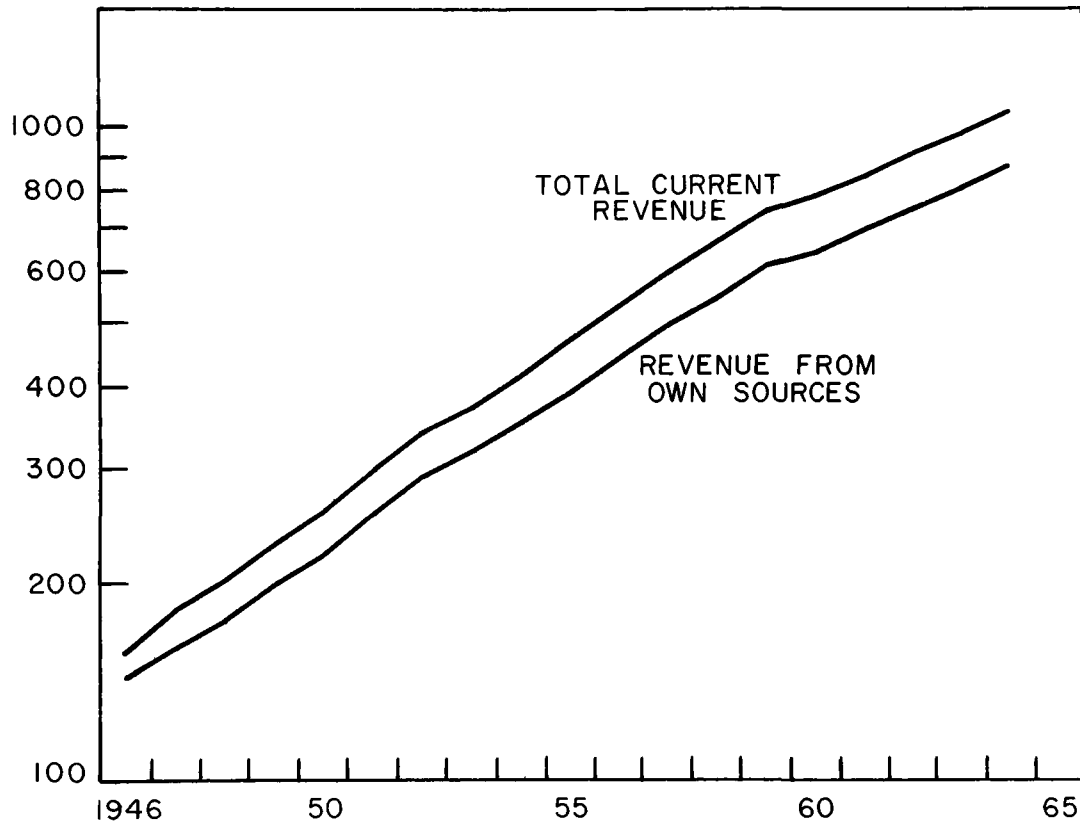
in 1960 remaining at the 76% level from 1961 on. Contributions grants, and subsidies as a percentage share of total revenue nearly doubled over the period going from 8.9% in 1946 to 17.1% in 1964; the trend shown was upward until 1960 when the highest share (18.2%) was reached; it has levelled off slightly since 1960 although it remained substantially above the percentage share shown from 1946 to 1958. Lastly, the category of "other revenue" has had a marked decrease in terms of percentage share dropping from 18.9% in 1946 to 6.4% in 1964.

To summarize: taxation as a source of revenue for the municipalities has increased somewhat in importance over the 1946 - 1964 period; the greatest increase, however, was shown by government contributions, grants, and subsidies which nearly doubled its percentage share of total municipal current revenue; other sources of municipal revenue decreased in relative importance. Chart V shows the gap between total municipal revenue and revenue from own sources, the gap between the two representing government contributions, grants and subsidies. (See Appendix IV for difference between these terms.) In the following sections of this chapter the various sources of municipal revenue are analyzed in detail with the main emphasis being set on the real property tax and government grants.

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CHART V

TOTAL REVENUE AND REVENUE FROM OWN SOURCES



Source: Dominion Bureau of Statistics, Municipal Government Finance, Queen's Printer, Ottawa, Yearly Issues.

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Taxation

The power of a municipality to levy taxes emanates from an enactment of the legislature of the province in which it is situated. Section 92 of the British North America Act grants to the legislature of each province the exclusive right to enact laws relating to "Direct Taxation¹ within the Province in order to the raising of a Revenue for Provincial Purposes" and relating to "Shop, Saloon, Tavern, Auctioneer, and other Licenses in order to the raising of a Revenue for Provincial, Local or Municipal Purposes". Faced with this constitutional limitation provinces have restricted municipalities under their control to some form of direct taxation. In Ontario this has meant the real and personal property tax, business tax², and poll tax.

Table XVIII shows how the real property tax (including business tax) has moved over the 1946 - 1963 period.

Table XVIII provides data enabling us to compare taxable assessed valuations and property tax levies with

1. A direct tax has been defined as one "which is demanded from the very persons who it is intended or desired should pay it"; an indirect tax is one "which is demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another" (J.S. Mill).
2. Revenue from business tax is included in real property tax in Table XVII on pages 61 and 62; this is the manner in which the figures are presented by DBS.

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TABLE XVIII
ASSESSED VALUATIONS, PROPERTY TAX LEVIES AND PERSONAL INCOME*

ONTARIO, 1946-1963
(in millions)
of dollars

YEAR	(1) TAXABLE ASSESSED VALUATIONS	(2) PROPERTY TAX LEVIES	(3) EFFECTIVE RATE OF TAX	(4) PERSONAL INCOME	(5) VALUATIONS AS % OF (4)	(6) LEVIES AS PERCENTAGE OF (4)
1963	11,298	743	6.58	13,099	86.27	5.68
1962	10,750	690	6.42	12,252	87.75	5.64
1961	9,861	642	6.52	11,490	85.82	5.59
1960	9,413	592	6.29	11,023	85.39	5.37
1959	8,668	529	6.11	10,566	82.04	5.02
1958	8,205	469	5.72	9,978	82.24	4.70
1957	7,921	435	5.49	9,399	84.28	4.63
1956	7,195	385	5.36	8,617	83.51	4.47
1955	6,567	339	5.17	7,918	82.94	4.29

* Assessed valuations include mainly real property comprising both land and permanent improvements together with assessments on business and personal property, but exclude valuations exempt from taxation. Tax levies include all levies for municipal, school or other local purposes in the form of real property taxes, business taxes, and special assessments.

TABLE AVIII (Cont'd)

ASSESSED VALUATIONS, PROPERTY TAX LEVIES AND PERSONAL INCOME*

ONTARIO, 1946-1963
(in millions)
of dollars

YEAR	(1) TAXABLE ASSESSED VALUATIONS	(2) PROPERTY TAX LEVIES	(3) EFFECTIVE RATE OF TAX	(4) PERSONAL INCOME	(5) VALUATIONS AS % OF (4)	(6) LEVIES AS PERCENTAGE OF (4)
1954	6,099	309	5.07	7,397	82.45	4.18
1953	5,043	282	5.61	7,209	69.96	4.92
1952	4,773	263	5.51	6,749	70.73	3.90
1951	4,410	221	5.02	6,093	72.38	3.63
1950	4,199	188	4.50	5,285	79.46	3.58
1949	3,980	170	4.28	4,904	81.17	3.47
1948	3,436	150	4.37	4,570	75.20	3.29
1947	3,346	135	4.05	4,017	83.31	3.37
1946	3,173	117	3.71	3,738	84.90	3.15
Average Annual Growth Rate	7.8	11.5		7.7		

* Assessed valuations include mainly real property comprising both land and permanent improvements together with assessments on business and personal property, but exclude valuations exempt from taxation. Tax levies include all levies for municipal, school or other local purposes in the form of real property taxes, business taxes, and special assessments.

Source: Dominion Bureau of Statistics, Municipal Government Finance, Queen's Printer, Ottawa, Yearly Issues.

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personal income. Column 3 of the table indicates the effective rate of tax (e.g., valuations divided by levies): This rate has been going upward consistently over the period increasing from a low of 3.71% in 1946 to a high of 6.58% in 1963; in other words rising mill rates have been prevalent throughout the period. The next important ratio to be looked at is that of assessed valuations and personal income: the percentage of valuations to income has risen slightly to 86.27% in 1963 from 84.90% in 1946 although it had declined substantially from 1947 to 1953 when it reached a low of 69.96%. More important perhaps is the figure shown in column 6 which indicates that tax levies as a percentage of personal income have risen consistently from 3.15% in 1946 to 5.68% in 1963; the implication of this is that the tax burden has become heavier over the years; although the revenue elasticity of the real property tax has been close to one during the period 1946 - 1963* (e.g., as shown by the average annual growth rate of valuations, 7.8%, and that of personal income, 7.7%) this has not provided sufficient revenue to municipalities to finance their expenditures and consequently the tax burden has had to be increased. Within the framework just described let us consider the major criticisms that can be levied against the real property tax (both as to the system itself and as the major source of revenue to municipalities) and which are applicable to Ontario as well as to the rest of Canada.

* The revenue elasticity will be affected by two factors:

- a) an increase in the tax base or
- b) an increase in tax rates;

These, however, are not separable for our purposes.

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- 1) The real property tax has been criticized as being too "high" (although the term is a difficult one to define studies have shown³ for example that Canada is the only country in the world where property taxes represent a higher percentage of national income than in the United States) resulting from several major facts; in the first place the property tax has been called upon to finance a great share of the cost of such services as education, which are not services to property, and as a result property owners are being asked to bear an unreasonably large share of the total cost of goods and services provided by the public sector; secondly, there is the unfavourable impact of the real property tax upon industries making extensive use of real property (this could be overcome at least partly by basing the property tax for business on rental rather than

3. D. Netzer, Economics of the Property Tax, Brookings Institution, Washington, 1966, 326 pp.

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capital values); thirdly, there is the question of the uneven impact of the property tax as per different municipalities (this brings rise also to the question of the differing levels of services provided to citizens of various municipalities which is linked to the fiscal capacities of the municipalities); this problem will be looked at in a later section on fiscal equity,

- 2) the second major problem with the real property tax lies in the field of assessment and, ultimately, the effect of such assessment practices upon the equity of the property tax.

The process of assessment serves two basic purposes:

- a) it determines the objects or properties that are liable to taxation in a municipality (e.g., determination of tax base),
- b) it determines each taxpayer's share of the total tax burden.

To the taxpayer the ultimate consideration is one of equity; it remains of little importance to him whether his property is under or over-valued in relation to actual value as long

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as his assessment is equitable and in line with other assessments. Real property assessment in Ontario (as well as in other provinces) has been criticized and cited as one of the major causes of the financial difficulties of municipalities⁴. The main points of interest in real property assessment are what constitutes property for assessment purposes (the tax base), and the basis upon which such property is valued (property valuation). The Ontario statutory definition of land (e.g., the term includes real estate) is the following⁵:

- i) Land covered with water;
- ii) all trees and underwood growing upon land;
- iii) all mines, minerals, gas, oil, salt quarries and fossils in and under land;
- iv) all buildings, or any part of any building, and all structures, machinery and fixtures erected or placed upon, in, over, under, or affixed to land;
- v) all structures and fixtures erected or placed upon, in, over, under, or

4. See for example: F. H. Finnis, Property Assessment in Canada, Canadian Tax Foundation, Toronto, 1962.

5. Ontario Assessment Act.

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affixed to any highway, land, or other public communication or water; but not the rolling stock of any transportation system.

There are certain exemptions permitted:

- a) exemption because of ownership
- b) exemption because of use.

Exemption by ownership: Crown property, whether held by the federal or provincial governments, is exempt from taxation; property of municipalities and other local government authorities (school boards for example) is also exempt. That property held by the Crown or local government authorities becomes liable to taxation if it is occupied by some other person in which case the occupant or tenant becomes liable for the taxes. Grants in lieu of taxes are normally paid directly to municipalities in question. Exemption by use: this refers to exemptions granted to institutions such as churches, hospitals, educational institutions, etc.... Also in Ontario farm machinery is exempted from the definition of real property; the Ontario Assessment Act stipulates that farm lands and building used solely for farm purposes by the owner or a tenant be assessed without giving any consideration to the sale value of neighbouring lands sold for purposes other than farming. Latest published figures (1963) on exempt property are given in Table XIX.

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TABLE XIX

ASSESSED VALUATIONS EXEMPT FROM TAXATION, ONTARIO, 1963
(in thousands)
of dollars

Government Property	
Federal	394,702
Provincial	374,393
Municipal	866,873
Total	1,635,968
Non-Government Property	483,757
TOTAL	2,119,725
Exemptions as % of taxable valuations	18.8%

Source: Dominion Bureau of Statistics, Municipal Government Finance, Queen's Printer, Ottawa, 1963.

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The major source of exemptions is that of municipal property while federal and provincial exemptions are about on a par; non-government property exemptions are equal to approximately 25% of total exemptions. Total exemptions as a % of taxable valuations are 18.8%. The present system of exemptions has been criticized on the following grounds⁶:

- 1) First, because the size of the exemption (or subsidy) is proportional to the value of the real estate owned it favours the "haves" against the "have nots" and ignores the criteria of need.
- 2) Secondly, because the subsidy is available only to capital investments, it may induce institutions to spend too much on these and too little on improving operations where the money could contribute for more effectively to the accomplishment of their purposes.
- 3) Lastly, it leads to a wasteful underuse of scarce urban sites.

There is no doubt that should there be no exemptions from the property tax the added income accruing to

6. H. Blumenfeld, "The Role of the Federal Government in Urban Affairs", Journal of Liberal Thought, Spring, 1966, pp. 35 - 44.

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municipalities would be more than welcome; however it must be remembered that municipalities are compensated to a certain extent in terms of grants in lieu of taxes. It is doubtful whether exemptions as they now exist can be rescinded. Municipalities in Ontario should not look towards such a step to increase their sources of revenue in the near future.

The major area of criticism of the property tax is not that of the tax base but rather that of assessment practices.

The Ontario Assessment Act states that land and buildings be assessed at "actual values". Most Ontario municipalities interpret "actual values" to be the approximate level of value prevailing in 1940. The provincial assessment manual itself is based on 1940 levels of value (a new manual was introduced in 1963 with assessments based upon the average value of the past five years; its use is, however, not compulsory). Assessment is a municipal rather than a provincial responsibility in Ontario; provincial assessors give advice to local assessors, instruct them in the use of the provincial manual and equalize municipal assessments for provincial grant purposes. The need to use actual or market values in assessment has been stated in these terms by one author: "It is agreed by most of those who have studied assessment problems that the possibility of the nearest approach to equity in assessment exists where assessments

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are on the basis of 100 per cent value"⁷. Yet the practice of under-assessment persists; the major criticism that has been levied against it is on the basis of equity. Under-assessment practices tend to magnify errors. The following is an example of how this could come about⁸: suppose that a property, based upon a 1940 level of value is assessed at \$5,000 and the taxes levied upon it, based upon a rate of 60 mills, are \$300 per year; if the assessor makes an error of \$1,000 and assesses the property at \$6,000 instead of \$5,000, then the taxes payable are \$360. If, however, by using current values, the assessment was \$20,000, the mill rate necessary to raise an equal amount of tax revenue would be 15 mills. Even if the same error of assessment were made (\$21,000 assessment instead of \$20,000) the tax payable would be \$315 and not \$360. However, the major concern of this part of our study is in determining the adequateness of the real property tax as the major source of revenue to the municipalities. An attempt has been made by one author to measure the revenue productivity of the real property tax in Ontario, using both actual and potential (e.g., current market value assessments) tax bases. The study shows that the income elasticity coefficient of the property tax is .39 for the period 1937 - 1961 when computed using the actual

7. K. G. Crawford "Some Problems of Assessment", Canadian Public Administration, June, 1964, pp. 324-332.

8. See F. H. Finnis, op. cit., p. 54.

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tax base and 1.11 for the same period when computed using the potential tax base⁹. As was seen in Table XVIII on pages 66 and 67 the elasticity over the period 1946 - 1963 using the actual tax base was very close to unity; had market values been used the elasticity, as shown, in Clayton's article, would have been 2.39. Therefore on strictly economic terms, let alone the equity considerations, the practice of under-assessment is to be condemned; it can lead to a lower rate of revenue productivity than if actual market values are used. Another criticism has been levied against the present property tax because of the effect it has on urban renewal. Most, if not all, major cities have some slum areas where the quality of housing is inferior to that found in other parts of the city. Apart from the sociological aspects which are quite important in themselves the financial consequences of such a situation are fairly evident: lower quality housing provides for lower tax revenues; at the same time services must nevertheless be provided (in the form of streets, sewer facilities, etc...) and thus the gap between revenues and expenditures grows even greater¹⁰. Clark's article in the Canadian Tax Journal

9. See: F. A. Clayton, "Revenue Productivity of the Real Property Tax - The Ontario Experience, 1937 - 1961", Canadian Tax Foundation Papers in Taxation and Public Finance, Toronto, 1961, pp. 131-161.

10. For a thorough discussion of the relationship between urban renewal and our present municipal tax system see: D. Clark, "Urban Renewal and Municipal Taxation", Canadian Tax Journal, Nov.-Dec., 1962 and Jan.-Feb. 1963.

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emphasizes that the present system of municipal taxation, although it is not the sole factor to consider in urban decay, "does seem to be one of the easiest of these factors to control"¹¹, and suggests reforms amongst which we find:

- a) improved land assessment procedures to remove the discrimination against downtown property owners and to eliminate the failure of assessors to assess land with outmoded improvements on the basis of its highest and best use and
- b) a general reduction in the level of real property taxation.

This last recommendation is a crucial one because so many owners of substandard dwellings are reluctant to undertake repairs which raise their tax bill. The urban renewal question is a vital one in the light of the fast population surge now being experienced by our cities. Every possible tool available should be used to combat urban decay and this includes revamping the property tax system where needed.

We have seen up to now that the real property tax constitutes the main source of revenue to municipalities (approximately 76% of total current revenue in 1964); real property taxes as a percentage of total municipal revenue has been going up from approximately 72% in 1946 to 73% in 1956

11. Ibid.

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to 76% in 1964. It was shown in Table XVIII on pages 66 and 67 that:

- i) mill rates have risen consistently over the 1946 - 1964 period and
- ii) the burden of the tax is becoming progressively heavier.

Although the tax could become more productive given a better system of assessment and administration the crux of the matter is that the real property tax has become totally inadequate to serve as the major source of revenue for the municipalities. The result has been that the provincial government has had to contribute still more in the form of grants and subsidies. The real property tax has been asked to do too much for too long, a fact that was noted by the Gordon Royal Commission on Canada's Economic Prospects back in 1957 when it concluded: "In sum, we would propose that the municipal real property tax be given rather less work to do"¹². Its conclusions are based on the following considerations:

- a) by the standard of ability to pay the real property tax is none too satisfactory,
- b) by the standard of benefits received the real property tax also leaves a

12. Gordon Royal Commission on Canada's Economic Prospects, Final Report, Ottawa, Queen's Printer, 1957, p. 508.

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good deal to be desired especially in regard to education expenditures which are not a direct service to property.

The major conclusions to be reached from the above is that those areas of expenditures which are not a service to property should not be financed to the extent that they are by the real property tax. This obviously boils down mostly to the question of education; although the provincial government is now contributing more towards the costs of education as will be seen in our section on grants and subsidies, it appears that such contributions are inadequate. The reports of tax commissions in other provinces -- the Byrne Commission in New Brunswick, the Mitchener Commission in Manitoba, the Provincial and Municipal taxation study in Nova Scotia, the Macleod Commission in Saskatchewan, and the Bélanger Commission in Quebec -- have all recommended provincial responsibilities for such general services as education¹³. The case for such a shift in responsibilities was recently stated in the following terms by an Ottawa newspaper after the mill rate in Ottawa had been raised more than 7 mills with over 60% of the increase being attributed to higher costs in education: "Admittedly, the level of

13. For a good summary of the major recommendations of the Commissions in New Brunswick and Manitoba, see articles by T. J. Plunkett and D. A. Young in Canadian Public Administration, March, 1965.

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provincial grants has been increasing. But the time has come for the province to assume all responsibility for financing education"¹⁴. Whether the province should or for that matter would assume all costs of education is doubtful yet there is substantial room for improvement. Let us now see how the province subsidizes part of local government expenditures through its system of contributions, grants and subsidies.

Contributions, Grants and Subsidies

Municipalities in Ontario receive financial assistance from the senior levels of government mainly in the form of grants in lieu of taxes, grants-in-aid, and unconditional grants. Table XX gives a breakdown of such grants for the year 1963 (latest year available).

The largest item by far is that of provincial grants which account for \$252,345,000 of the grand total of \$285,260,000. Next in importance are the federal government grants totalling \$19,486,000.* Other contributions and grants such as those paid by the federal and provincial governments in lieu of taxes are of relatively lesser importance in the overall total¹⁵.

14. Ottawa Citizen, March 30, 1967.

15. M. A. Tyler, Handbook on Provincial Municipal Cost - Sharing Programs, Canadian Federation of Mayors and Municipalities, Ottawa, 1966.

* See Appendix IV

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TABLE XX
FEDERAL AND PROVINCIAL CONTRIBUTIONS, GRANTS, SUBSIDIES
TO MUNICIPALITIES, ONTARIO, 1963
 (in thousands)
 of dollars

<u>SOURCE</u>	<u>AMOUNT</u>	<u>% OF TOTAL</u>
Governments:		
Federal - Grants in lieu of taxes, etc.:		
Grants-in-aid	15,207	5.3
	4,279	1.5
TOTAL FEDERAL	19,486	6.8
Provincial -		
Unconditional grants*	38,626	13.5
Grants-in-aid-Current	103,866	36.4
Capital	109,853	38.5
(includes grants in lieu of taxes)	252,345	88.4
TOTAL PROVINCIAL		
Other municipal-Grants-in-aid--Current and/or capital	3,290	1.2
TOTAL GOVERNMENTS	275,121	96.4
Government enterprises	9,570	3.4
Other contributions	669	0.2
TOTAL	285,360	100.0

Source: Dominion Bureau of Statistics, Municipal Government Finance 1963, Queen's Printer, Ottawa, 1966.

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Municipalities receive financial assistance from the province under a variety of grant schemes. There are first of all unconditional per capita grants paid under the Municipal Unconditional Grants Act. Unconditional grants as the name implies are not fixed to any area of expenditures and are paid for the most part to enable municipalities to provide a better standard of local services than can be supported by local taxation alone. In 1963 unconditional grants amounted to approximately 15% of total provincial grants. Other provincial grants (apart from grants made in lieu of taxes) are "conditional" grants which means that they are given for a specific purpose such as health, welfare, education and roads.

Federal grants to the municipalities are given mainly in four major areas.

- 1) Municipal winter works program
- 2) housing and community development
- 3) civil defence
- 4) hospital construction grants.

The winter works incentive program provides for a re-imbursment of 50% of direct payroll costs (60% if the municipality is in a Designated Area) of the municipality incurred on on-site winter works projects during the period November 1 to April 30. Excluded from this program are work on schools and school grounds, hospitals and hospital grounds, subway transportation systems and municipally owned building

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used for business purposes by private interests. Housing and community development grants are given under the National Housing Act for:

- a) urban renewal studies, where the federal government pays up to 75% of the cost of the study,
- b) preparation of urban renewal schemes where the contribution is 50% of the cost,
- c) implementation of urban renewal schemes, where the contribution is 50% of total cost.

Civil defence projects such as undertaken by Emergency Measures Organization in a municipality are subsidized up to 75% by the federal government. Under the Hospital Construction Grants scheme the federal government contributes up to \$2,000 per hospital bed and 33% of the total cost of renovations to hospital facilities. Table XXI gives a functional breakdown of total grants-in-aid received by municipalities for the year 1963. Grants for current expenditures total \$103,866,000 while those for capital expenditures amount to \$114,132,000. In the current expenditure breakdown the largest amount of grants is for the category of public works with \$68,518,000 or 66% of total current grants; the other item of a substantial nature is social welfare with \$33,268,000 or 32% of total current grants. In the capital

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TABLE XXI
CONTRIBUTIONS, GRANTS, SUBSIDIES BY FUNCTION, ONTARIO, 1963
 (in thousands)
 of dollars

<u>FUNCTION</u>	<u>AMOUNT</u>	<u>% OF TOTAL</u>
<u>CURRENT</u>		
General government	53	0.1
Protection of persons and property	385	0.4
Public works	68,518	66.0
Sanitation and waste removal	-	-
Health	785	0.8
Social welfare	33,268	32.0
Recreation and community services	17	0.02
Debt charges	-	-
Utility deficits and levies	-	-
Other	840	0.8
TOTAL CURRENT	103,866	100.0

Source: Dominion Bureau of Statistics, Municipal Government Finance, 1963, Queen's Printer, Ottawa, 1966.

TABLE XXI (Cont'd)
CONTRIBUTIONS, GRANTS, SUBSIDIES BY FUNCTION, ONTARIO, 1963
 (in thousands)
 of dollars

<u>FUNCTION</u>	<u>AMOUNT</u>	<u>% OF TOTAL</u>
<u>CAPITAL</u>		
General government	-	-
Protection of persons and property	-	-
Public works	21,547	18.9
Sanitation and waste removal	2,200	1.9
Health	-	-
Social welfare	2,958	2.6
Recreation and community services	-	-
Debt charges	-	-
Utility deficits and levies	-	-
Education	87,427	76.6
TOTAL CAPITAL	114,132	100.0
TOTAL GRANTS-(IN-AID) CURRENT AND CAPITAL	217,998,000	

Source: Dominion Bureau of Statistics, Municipal Government Finance, 1963, Queen's Printer, Ottawa, 1966.

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expenditure grant category the largest item is education with \$87,427,000 or 76.6% of total capital grants; the next largest item is public works, \$21,547,000 or 18.9% of total capital grants. The figures outlined here refer to grants-in-aid received by municipalities from the federal and, for the most part, from the provincial government. The provincial assistance in the field of education is shown in Table XXII. Figures available for the period 1956 - 1963 show that Provincial Grants to municipalities for education have varied between 35.3% of total municipal education expenditures to 56.9%. It appears that Provincial Grants have settled around the 50% mark in the last few years. Provincial assistance is of two kinds: operating grants, and capital grants.

a) OPERATING GRANTS

Basic Tax Relief Grants:

- i) Elementary schools: average
daily attendance X \$80.
- ii) Continuation schools: average
daily attendance X \$120.
- iii) Non-vocational courses in high
schools: average daily attendance X \$175.
- iv) Vocational courses in secondary
schools: average daily attendance X \$250.

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TABLE XXII
PROVINCIAL GRANTS TO MUNICIPALITIES FOR EDUCATION, ONTARIO, 1956-1963
 (in thousands)
 of dollars

YEAR	PROVINCIAL GRANTS	TOTAL EDUCATION EXPENDITURES	GRANTS AS % OF EXPENDITURES
1956	80,293	227,208	35.3
1957	98,182	263,280	37.3
1958	129,552	265,085	48.9
1959	150,157	263,830	56.9
1960	160,791	306,307	52.5
1961	181,546	384,655	47.2
1962	204,548	478,720	42.7
1963	269,005	522,734	51.5

Source: Dominion Bureau of Statistics, Provincial Government Finance, Yearly Issues, Queen's Printer, Ottawa.

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Equalization Grants:

- i) For elementary school boards,
the grant is the balance of the
average daily attendance X \$130,
less the equalized assessment in
support of the board X 11 mills.
- ii) For secondary school boards, the
grant is the balance of:
 - The average daily attendance
of pupils enrolled in contin-
uation schools X \$200;
 - The average daily attendance
of pupils enrolled in non-
vocational courses in high
schools X \$245;
 - The average daily attendance
of pupils enrolled in voca-
tional courses in secondary
schools X \$300;
 - Less the equalized assessment
supporting the board X 7 mills.
- iii) All public school boards in a mu-
nicipality receive a Corporation
Tax Adjustment Grant; these grants
apply to expenditures such as the
purchase of library and text books.

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b) CAPITAL GRANTS

- i) Basic Tax Relief -- 35% of recognized extraordinary expenditures.
- ii) Equalization Grants -- The equalization grant is a percentage of recognized extraordinary expenditure. The percentage varies according to equalized percentage per classroom.
- iii) Growth Need Grants -- The growth need grant is a percentage of recognized extraordinary expenditure where the recognized extraordinary expenditure is over \$500 per classroom in elementary schools and \$1,000 per classroom in secondary schools. The percentage rate rises as the recognized extraordinary expenditure per classroom rises.

A maximum is placed on the growth need grant. In most cases it is 10 percentage points for elementary boards, 20 percentage points for secondary boards. However, it may

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involve in some cases fewer percentage points for certain elementary and secondary boards.

The province has recently (March, 1967) announced a change in the formula used for capital grants; it will continue to pay 35 per cent of the cost of school rooms, but instead of setting an arbitrary figure of \$20,000 as the cost of elementary school rooms, and \$25,000 for high school rooms, the average true cost in a given region will be used; the province will be divided into three zones, with average real construction costs in each area used as the basis for grants. This should do much to give local school boards a sounder basis upon which to undertake their construction programs; yet this is not enough according to most school authorities. Provincial assistance in the field of education is inadequate in the light of mounting school costs. The only solution is for the province to finance an even greater share of education expenditures. Most authors are of this opinion; one noted Canadian economist put it in these terms:

Today most municipal expenditures are services to people -- not to property. As such they should be borne by the province or by the federal government, either by broadening municipal tax powers or through direct subsidies. The greatest burden on municipalities is of course the cost of schools, which in most cities absorbs more than half the receipts from all municipal taxes. If the provinces could assume these school costs entirely, then the load on the property tax could be greatly eased¹⁶.

16. D. H. Fullerton, article in the Toronto Daily Star, April 24, 1967.

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If the province does not take over education costs to a greater extent then there is still a valid argument for taking the burden of education away from the real property tax. The late A. Kenneth Eaton, perhaps the leading expert on Canadian taxation in the last generation, summarized the situation in these words:

...it does seem that there is a different and far broader community basis in tax theory for raising funds for education than there is for raising funds to provide ordinary housekeeping services in a municipality that are of concern and convenience only to local residents. It is certainly an anomaly that the same kind of tax is used to finance these two broadly different types of expenditure. Specifically, if education is socially desirable and beneficial generally for the community, the taxes to pay for education should be levied on a broad community basis and presumably on some ability to pay principle. If this is accepted, the clear inference must be that local school taxes based on the gross value of property standing in the name of the local residents without regard to ability to pay taxes or whether they have children to be educated or not, have anything but a firm theoretical basis as a means of raising money for education¹⁷.

The question of education costs is a vital one for a solution to the problem of municipal finance in Ontario as well as in the other Canadian provinces; any new municipal tax system proposed will have to relieve the burden of education costs on property owners if it is to be workable and equitable.

It appears that grants, especially from the province, will constitute an even greater share of total municipal revenue in the years to come; yet increased grants are a

17. A. K. Eaton, Essays in Taxation, Canadian Tax Foundation, Toronto, 1966, p. 116.

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danger in themselves; the main criticism levied against them is that they sometimes perpetuate inefficient situations and programs. One obvious case that comes to mind is that of a school district which, being too small in area and too weak in resources, does not provide for the highest educational standards possible. Then, there is the question of equity; there is a wide disparity in the level of services provided to a citizen in one part of the province and his counterpart in another part, say a large metropolitan area. Yet the tax burden often does not show such a disparity because of inefficiency in the administration of certain programs. There is no indication that under the present grant system in Ontario the fiscal pattern established is conducive to optimum economic growth and at the same time to the equitable treatment of the residents of various parts of the province. An attempt has been made in the literature to develop a principle which could form the basis for such a fiscal pattern. This principle is known as the fiscal equity principle¹⁸. It was first developed by an American economist, J. M. Buchanan, with relation to federal - state fiscal relations¹⁹; it can also be used in the provincial - municipal context.

18. J. F. Graham, "The Application of the Fiscal Equity Principle to Provincial - Municipal Relations", Canadian Public Administration, March, 1960, pp. 24-30.

19. J. M. Buchanan, "Federalism and Fiscal Equity", American Economic Review, XL, September, 1950.

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The basic principle of the fiscal equity concept is that similarly-situated individuals, that is, individuals with the same income, expenditure, and value of property should receive about the same benefits from public services and incur about the same tax burdens regardless of where they live in the province. If fiscal treatment of otherwise similarly-situated individuals is not equal in different municipalities there will be pressure on the less favourable treated ones to move themselves or their capital, or both, to where the treatment is more favourable. Since it is desirable from the economic point of view that labour and capital move to where their rewards are greatest, that is to where they are most productive, it would be anomalous if differential fiscal pressure caused factors to be located where their productivity is less than it would be elsewhere. Even if all services of a local nature were provided by the province there would be differences in the levels of some services as between urban and rural areas, for example, for street lighting and sewers. The fiscal equity principle does not attempt to equalize all services but rather certain specific services although it can be expanded to cover all services. Services of municipalities can be divided roughly according to whether they are of a local or general nature -- that is, whether the benefits accrue only to the residents of each municipality or whether they are spread throughout the province (or the nation). It is appropriate for the province to prescribe the

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standards for those municipal services whose benefits extend beyond municipal boundaries such as education, health and social welfare. The province can do so by means of a "foundation program" for each service. Each municipality's share of the cost of these services would be equal to a uniform rate applied to its equalized valuation²⁰. The uniform rate would be the lower rate necessary to cover all of the costs in any of the municipalities, that is, in that municipality with the largest equalized valuation in relation to the cost of providing the service at the required standard. The province would make a grant to each of the other municipalities to bring the service up to the required level. Table XXIII is a hypothetical illustration of how this could work.

When we come to the case of services of a purely local nature such as sewers, street lighting and police protection, the situation is slightly different but analogous. It is not appropriate that the province provide minimum uniform standards for such services; it is possible, though, that the province determine the average per capita amount spent on local services by each type of municipality and to determine the lowest rate on equalized valuation required by any municipality of each type to raise this average amount. This rate could subsequently be applied to the equalized

20. The term "equalized valuation" is used to denote that the taxable property of all municipalities in a province is measured on a comparable basis.

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TABLE XXIII
A PROVINCIAL GRANT SCHEME TO ENABLE MUNICIPALITIES TO MAINTAIN A FOUNDATION
PROGRAM FOR A SERVICE WITH A UNIFORM TAX BURDEN, WITH NO FLAT-RATE GRANT
 (in thousands)
 of dollars

Municipality	Cost of foundation program*	Equalized assessment	Municipal share of foundation program**	Provincial share of balance
A	\$1,000	\$125,000	\$1,000	\$ 0
B	1,000	112,500	1,900	100
C	1,000	100,000	800	200
D	1,000	87,500	700	300
E	1,000	75,000	600	400
F	1,000	62,500	500	500
G	1,000	50,000	400	600
H	1,000	37,500	300	700
I	1,000	25,000	200	800
J	1,000	12,500	100	900
TOTAL	\$10,000		\$5,500	\$4,500

* Taken as equal for all municipalities to simplify the illustration. The application of the principle is unaltered by this simplification.

** Determined by the rate which must be imposed on equalized assessment of A to cover the cost of the foundation program for A, that is, \$1,000/\$125,000 x 100 = .80 per cent. The share of all of the municipalities in the cost of the balance of the program is determined by multiplying their equalized assessments by .008.

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valuation of each municipality to determine the municipality's share with the province making a conditional grant to bring the total up to the average amount (the "standard expenditure"). In other words the municipalities themselves on the average are determining the desirable amount to be spent for local services; regardless of the level, each municipality would be able to make the "standard expenditure" for local services with the same burden on its taxpayers as in other municipalities of the same type. The tax burden for each service would be the same in all municipalities as in the one with the greatest equalized valuation in relation to the standard cost of that service. The province could initially make a flat rate grant equal to some given percentage of the standard cost of a particular service and could apply the fiscal equity principle to the balance. Table XXIV is a hypothetical illustration of this. The fiscal equity principle does not preclude the possibility of the province taking over completely the costs of one category of expenditure, say education. It simply provides a sounder basis upon which to base the provision of actual services by municipalities. Graham, in his article, prefers this method of adjustment to that of a redistribution of revenue sources. Making additional taxation sources available to the municipalities would increase their general revenue raising capacity but would not eliminate inequalities in fiscal performance and burdens. The municipal finance problem is not only one of inadequate

TABLE XXIV

A PROVINCIAL GRANT SCHEME TO ENABLE MUNICIPALITIES TO
MAINTAIN A FOUNDATION PROGRAM FOR A SERVICE WITH A UNIFORM TAX BURDEN,
WITH A FLAT-RATE GRANT OF 20 PER CENT
(in thousands)
of dollars

Municipality	Cost of Foundation program*	Equalized assessment	Flat-rate grant of 20%	Balance of foundation program	Municipality share of balance**	Provincial share of balance	Total provincial share
A	\$1,000	\$125,000	\$200	\$800	\$800	\$ 0	\$200
B	1,000	112,500	200	800	720	80	280
C	1,000	100,000	200	800	640	120	360
D	1,000	87,500	200	800	560	240	440
E	1,000	75,000	200	800	480	320	520
F	1,000	62,500	200	800	400	400	600
G	1,000	50,000	200	800	320	480	680
H	1,000	37,500	200	800	240	560	760
I	1,000	25,000	200	800	160	640	840
J	1,000	12,500	200	800	80	720	920
TOTAL	10,000		2,000	8,000	4,400	3,600	5,600

* Taken as equal for all municipalities to simplify the illustration. The application of the principle is unaltered by this simplification.

** Determined by rate which must be imposed on the equalized assessment of A to yield the balance of A's cost of the foundation program, that is $\$800/\$125,000 \times 100 = .64$ per cent. The share of all of the municipalities of the balance of the costs of the program is determined by multiplying their equalized assessment by .0064.

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revenue sources for all municipalities but also one of gross inequalities in the level of services and burden of taxation between various municipalities. The fiscal equity principle attempts to find a viable solution to the problem.

One source of potential revenue which is not being fully exploited by municipalities is that of "user or service charges"²¹. Although this area is beyond the scope of our study there is still room for comment on this. The Gordon Commission stated the case for an increased use of user charges by municipalities with the most obvious example being that of motor vehicle taxes. Municipal expenditures on services to motor vehicles are increasing rapidly every year; it seems logical and just that municipalities be enabled to recover some proportion of these expenditures from the owners and operators of motor vehicles. The Commission suggests that this could be done in two ways:

- a) municipalities in a province could be permitted to impose motor vehicle taxes, preferably at some standard rate or
- b) the province could earmark a stated proportion of its revenues from motor vehicle license fees or gasoline taxes

21. On the subject of user charges see:

- 1) W. w. Vickrey, "General and Specific Financing of Urban Services", in H. Schaller, *op. cit.*, pp. 62-90
- 2) L. F. Haskey, "Municipal Motor Vehicle User Taxes", Canadian Tax Journal, Jan.-Feb., 1959.
- 3) National Industrial Conference Board, Use of Service Charges in Local Government, New York, 1960, 56 pp.

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or both, and transfer this proportion to municipalities as of right.

In the latter case, the distribution amongst municipalities might be determined on the basis of vehicle registrations or traffic counts. This type of tax or revenue would have more "built-in" expansionary potential than the real property tax; as traffic increased, creating a greater need for more road and street facilities, so would revenues necessary to finance the increased expenditures. A similar argument is made by the Commission for a greater use of water and sewage facilities charges. Such an expanded source of revenue would reduce greatly the burden on the real property tax.

The financial squeeze on municipalities has as one direct result an increase in municipal debt²²; as municipal expenditures increase at a greater rate than revenues municipalities are forced to borrow more thus pushing up debt outstanding and subsequently debt servicing charges as was seen previously. Table XAV gives an indication of how municipal debt in Ontario has moved over the period 1952 - 1963, (figures published for 1946 to 1951 are not comparable). The table indicates that direct debt increased 35% during the

22. A comprehensive treatment of the municipal debt question is not attempted here as it has been covered elsewhere; see J. M. Andrews, Canadian Municipal Debt Structure and Borrowing, 1946 - 1959, unpublished M.A. thesis, University of Ottawa, 1961.

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TABLE XXV
MUNICIPAL DIRECT AND INDIRECT DEBT - ONTARIO, 1952-1963
 (in thousands)
 of dollars

	1952	1957	1963	% change 1952-1963
Total direct debt (less sinking funds*)	612,080	1,259,018	2,192,134	358
Total indirect debt (less sinking funds)	11,096	7,158	2,439	455
Total direct & indirect debt (less sinking funds)	623,176	1,266,176	2,194,573	352

* A sinking fund is a pool of cash and investments, earmarked to provide resources for the redemption of debt.

Source: Dominion Bureau of Statistics, Municipal Government Finance, Queen's Printer, Ottawa, Yearly Issues.

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period going from \$612,080 in 1952 to \$1,259,018 in 1957 to \$2,192,134 in 1963 with the largest relative increase occurring in the 1952 - 1957 period; total debt increased at a slightly lower rate (352%) while indirect debt, which consists of the direct debt of certain outside municipalities guaranteed as to principal and interest by municipalities, decreased (455%); this indirect debt, however, comprises a very small proportion of total debt. This rising municipal debt leads to some concern primarily because of the ever increasing costs of financing the debt especially in light of the fact that debt charges for education purposes, which it was argued before should be absorbed to a greater extent by the provincial government, constitute a large proportion of total debt charges. Because of the fact that there is a statutory limit on debenture borrowing by municipalities, a continually rising debt level should not be looked at solely with the idea of determining a municipality's capacity to repay its borrowing but rather with the view of determining the rationale behind rising municipal debt. The question of justifiable priorities in municipal borrowings is a very important and crucial one.

This leads us to the last topic to be considered in this study, that of effective provincial-municipal relations. Federal-provincial conferences on various fiscal and other matters are now an accented part or tool of our federal system of government; such a system of consultation is surely

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needed at the provincial-municipal level not only in Ontario but right across Canada. Such a conceptual framework has been proposed by A. W. Johnson, now Assistant Deputy-Minister of Finance in the Federal Government, in a paper presented to the Institute of Public Administration of Canada back in 1960. Dr. Johnson calls this approach a "provincial - local government budget"²³. The rationale behind the concept is that the provincial economy should be considered as a whole and that there should be the periodic preparation of a budget for the provincial community-one embracing all government programs regardless of which jurisdiction administers them, and all sources of revenue regardless of who is the collector. The mechanics of the budget would be as follows: every five years each provincial government would prepare a one-year budget showing the expenditures proposed by it and all local governments in the province, and the sources of revenue proposed for financing them. To eliminate duplication only the expenditures made by the so-called final spending authority would be totalled: transfers from the provincial government to local governments would be eliminated. Similarly the revenue total would exclude local government receipts from the provincial government. Expenditures would be shown by functions of government, such as education, health and welfare, transportation and communication, and arranged

23. A. W. Johnson, "A Provincial-Local Government Budget", Canadian Public Administration, Volume IV, No. 1, (1961), p. 26.

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within each function by program. Thus it would be possible not only to see but also to evaluate government program emphasis in the provincial community. Revenue would be shown by source, such as taxes, license and permit fees. Taxes in turn would be arranged by character, that is, income taxes, expenditure taxes and property or asset taxes. Thus it would be possible to determine which revenue sources are being relied upon and to evaluate their impact and incidence. To facilitate analysis of the budget, actual revenue and expenditure figures for the preceding five years would be included.

The above explains the conceptual basis of the budget; the important thing, of course, is how this budget is to be used. The provincial-local government budget would be used by the province in essentially four ways:

- 1) first, it would be used to determine whether the appropriate tax sources are being employed for financing government programs, given the programs contained in the budget. If the government were dissatisfied with the tax structure, the necessary adjustments could be made, employing where necessary transfers between governments.

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- 2) It would be used to determine whether the provincial government wished to alter the program emphasis implicit in the expenditure proposals of the budget. This intervention could take the form of increasing direct provincial expenditures, or of inducing higher local expenditures by means of conditional grants; or of assuming program responsibilities formerly borne by local governments, or simply of making more funds available to local bodies with the hope that the political realities they face would cause them to spend the money on programs the provincial government thought to be desirable.
- 3) Another use would be as a device for determining whether the provincial community was following appropriate capital financing policies; if such were not the case the province could directly limit borrowing powers, establishing itself as the central source of funds for local governments, guaranteeing approved local debentures,

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or increasing capital grants to local governments.

- 4) Lastly, the province would use this budget as a technique for evaluating the province's machinery of government. It is the province's role to ensure that government responsibilities have been allocated properly between the provincial and local levels, to ensure that local government organization is effective in terms of local responsibilities, and to ensure that provincial regulations and influence on municipal government are meaningful.

Municipal expenditures and their financing must be rationalized if the goals of public policies are to be realized for the greater benefit of all citizens. There are two broad questions that must be answered concerning municipal expenditures: 1) what are the goals of government that the programs are seeking to achieve and are these goals economically justifiable and desirable? 2) given that the goals are economically sound, is the existing complex of policies and programs achieving the stated objectives? The provincial-local government budget appears to be a sound and logical tool of planning which the provincial government should

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introduce without further delay for it is the ultimate responsibility of the province to find some workable solution to the problem of municipal finance. As professor K. G. Crawford states it:

The provinces enact the legislative framework within which the municipalities function. The provinces determine the powers with which the municipalities are to be endowed and the responsibilities which are to be imposed upon them. It is the provinces which determine the sources of revenue available to their municipalities to finance the latter's operations. It would appear to be a province's responsibility to so design that legislative framework, and to so adjust the revenue sources, that the municipalities may exercise their powers and carry out their responsibilities²⁴.

The present municipal finance situation in Ontario demands prompt and effective action on the part of the provincial government.

24. K. G. Crawford, Canadian Municipal Government, University of Toronto Press, Toronto, 1954, p. 369.

CHAPTER IIISUMMARY AND CONCLUSIONS

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An examination of the data on the expenditure side in Ontario has revealed the following trends:

- 1) total municipal expenditures in the post-war period have risen substantially mainly because of a rapid rise in urban population, inflation, and increases in the level and quality of certain services provided reflected by a higher per capita rate of expenditure,
- 2) current expenditures by municipalities have increased notably in the areas of education, public works, and debt charges,
- 3) a very strong upsurge was evident in capital expenditures, especially in the immediate post-war years, although the rate of growth slowed down in the early 1960's; the major expenditure areas were education, public works, utilities, and sanitation,
- 4) particular expense categories revealed the following patterns:
 - a) education expenditures: the growth in this area was attributed mainly to higher enrolments and teacher

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- salaries and lower pupil-teacher, pupil-classroom ratios;
- b) public works: this classification covers mainly expenditures on roads and streets; a rapidly increasing number of vehicles in use and the corresponding greater street and road mileage necessitated accounted for the increases in this area;
- c) debt charges: increased in line with greater borrowing by municipalities for general purposes, schools, and utilities;
- d) protection, health and social welfare: these expenditures rose proportionately with increases in population over the period;
- e) public utilities: increased expenditures went mostly for water treatment systems, transit systems, and light and power utilities.

Municipal revenues in Ontario in the period 1946 - 1964 have been characterized as follows:

- 1) total current revenues have kept pace with current expenditures; this is an

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accounting identity in a sense as municipalities are required by law to balance their budgets; what is more important, perhaps, is the composition of total revenues and how this has changed:

- a) the real property tax (including the business tax) continues to be the main source of municipal revenues and actually increased its percentage share of revenues over the period;
- b) government grants increased substantially in terms of its percentage share while,
- c) "other revenue" (e.g., license fees, fines, tax penalties), decreased considerably in importance. In other words, revenue from own sources has not kept pace with total revenue requirements with the result that government grants and borrowing have had to fill the gap to an even greater extent.

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- 2) real property (and business) tax:
the burden of the tax (as measured against personal income) has become heavier; although the revenue elasticity of the tax (again measured against personal income) has been close to unity for the period as a whole, this apparently did not generate enough revenue with the result that mill rates have risen consistently; the assessment system was criticized on the grounds of equity and revenue elasticity while an examination of the relationship between the real property tax and urban renewal indicated some sort of unfavourable relationship existed between the two.
- 3) as a result of the increased capital expenditures undertaken, municipal debt outstanding rose considerably thus putting still greater pressure on municipal revenues as was shown in the section on current expenditures, with debt charges accounting for a large part of these expenditures.

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The conclusions that can be drawn from the analysis in the study are set down below.

- 1) the over-all conclusion is that there is a municipal finance "problem" in Ontario although this is not at the "crisis" stage as some have maintained; municipal sources of revenue appear inadequate to finance ever-increasing services demanded by a rapidly expanding urban population; even with a substantial increase in provincial government grants, municipalities have been forced to tax home-owners even more and to increase their debt position in order to finance their expenditures,
- 2) although no formal projections of revenues and expenditures are attempted in this study there is no indication that major changes should be expected in the pattern of revenues and expenditures over the next ten or fifteen years. On the expenditure side all the major categories should continue to increase with constant demands being

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made by citizens for more and better roads, improved transit facilities and urban renewal schemes. Education is the one major area where expenditures seemed to have slackened off in the early 1960's; yet, even if the rate of growth in school costs is not as high as in earlier years the absolute growth in total education expenditures still imposes a heavy burden on municipalities. On the revenue side there appears to be little room left for the municipalities to manoeuvre in; the property owner is already over-taxed in relation to the services he is getting and therefore the real property tax cannot be looked to as a source of added revenue; the "other revenue" source (license fees, permits, tax penalties) is probably not being exploited fully by the municipalities but this is only a minor source of revenues to them; the major source of revenue that will probably have to be expanded is that of

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government (provincial) grants as noted below.

The solution to the problem has to be initiated by both the municipalities and the province acting jointly. Firstly, the municipalities can achieve a lot by putting their own house in order: expenditures to be undertaken should be rationalized and priorities determined in the light of existing revenue sources; this means a greater use of and reliance upon sophisticated management techniques such as the capital budget; then the municipalities can improve their efficiency in the administration of the real property tax although, it has been noted before, the real property tax as a source of revenue has been stretched to the limit; finally the municipalities should make more use of various user charges as a source of increased revenues. The main avenue to a solution, however, lies with the province. The system whereby the real property tax is used to finance school expenditures is an archaic and outdated one. Education is not a service to property and as such should not be supported to the extent that it is by a tax on property; the benefits of education accrue to the community as a whole and the costs should be borne by the community as a whole through an increase in provincial income tax rates, for example. The province, which is now paying approximately 50% of municipal expenditures on education, should subsidize an even greater share of the costs; some writers have suggested 80% or even

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a 100% figure although a complete take-over by the province is undesirable on the grounds of local autonomy. This appears to be the only solution which can relieve the financial burden on the municipalities. The second way that the province can help is by coordinating the activities of the municipalities perhaps through the use of a provincial-local government budget as was suggested earlier. This could be achieved through the Department of Municipal Affairs which would take on a planning role apart from its control function now exercised. These are but some of the possible solutions to the municipal finance problem in Ontario; no mention has been made of metropolitan or regional forms of government as possible solutions as well as other proposals brought out in the literature. The above proposals appear to be, at least to the writer, the most plausible and also the most urgent areas for reforms. We close with this quotation from J. J. Deutsch, president of the Economic Council of Canada, who states the municipal finance problem in these terms:

It is inevitable that the pace of urbanization of our society brings with it great increases in costs for local governments. It is well known that the larger the aggregations of people, the greater the need for common services, the greater the costs of social maladjustments, and the greater the scope for variety in educational facilities and for the cultural refinements of life. It's well known that while these needs, including the enormously increased costs of education, have been growing with bell-mell speed, the financial base of local governments has been mired much too rigidly in the expedencies of the past. The conveniences and the ubiquitous features of the old property

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tax have been stretched to the utmost. There is now little relation between the expanding requirements and revenue systems of local governments^I.

I. J.J. Deutsch, "Horse and Buggy Government for our Exploding Cities", Canadian Business, April, 1967.

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8. National Industrial Conference Board, Use of Service Charges in Local Government, New York, 1960, 56 pp.

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APPENDIX I

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SOURCE OF FIGURES

The annual report of Ontario's Department of Municipal Affairs, the source of the main body of statistics, does not differentiate between amounts received from the provincial government and those received from provincial government enterprises. The Department of Municipal Affairs provides the information required to identify contributions from provincial governments. Also contributions from the federal government and federal government enterprises are similarly grouped and it is necessary for DBS to separate one from the other. As almost all contributions made by the federal government to municipalities represent payments in lieu of taxes, the amount of such payments as reported by the federal government is ascertained and the balance of the contribution as reflected by the Department of Municipal Affairs is considered to be contributions from federal government enterprises.

The amount of levy for schools in unorganized areas is obtained through the provincial Department of Education. The amount of debenture debt charges for public and secondary schools in unorganized areas is similarly obtained.

In order to estimate expenditures of a capital nature the Department of Municipal Affairs provides DBS with the amount of capital expenditure approvals made by the Ontario Municipal Board in respect of hospitals. Other

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expenditures of a capital nature are estimated through the Bureau's capital and repair expenditure survey collected directly from municipalities. Capital payments of school boards are added, as provided by the Department of Education.

A separation between health and welfare grants is calculated by an analysis of the information contained in the provincial government Public Accounts.

The major publication used in the study is the annual publication issued by the Public Finance and Transportation Division of the Dominion Bureau of Statistics (Municipal Government Finance).

REVENUE AND EXPENDITURE CLASSIFICATIONS¹

Municipal government revenues and expenditures may be classified in the following way:

Revenue

1. Source
2. Administrative unit.

Expenditure

1. Function (the purpose served by the expenditure)
2. Activity (the program or specific work carried out in performing the function)
3. Object (articles purchased and services obtained)
4. Character (current or capital nature)
5. Administrative unit.

In this study revenue is classified by source and expenditure by function.

"Gross" and "net"

The gross general revenue and expenditure figures include all revenue regardless of the source and the total cost of all services rendered. Net general revenue and

1. Dominion Bureau of Statistics, Historical Review Financial Statistics of Governments in Canada, 1952-62, Ottawa, Queen's Printer, 1966, pp. 276-77.

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expenditure figures reflect only those revenues that the government was required to raise directly (through taxation, etc...) and the nature and extent of the services provided therefrom.

Gross general revenue

This is made up of (a) revenue credited to ordinary or current account, (b) revenue of administrative or special funds, and (c) revenue credited to capital account in the form of the sale of fixed assets or shared-cost contributions towards the purchase of assets.

Gross general expenditure

This comprises (a) expenditures debited to ordinary or current account, (b) expenditures of administrative or special funds, (c) expenditures that result in the acquisition of or addition to fixed assets and which are charged to capital account.

Net general revenue or expenditure consists of the gross figures

Less (a) interest, premium, discount and exchange which are offset against the expenditure item "debt charges", (b) institutional revenue (hospitals, etc...) which are offset against the appropriate function of expenditure, and (c) revenue in the form of grants-in-aid and shared-cost contributions which are offset against the functional item of expenditure to which they relate.

APPENDIX II

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In this study current expenditure and revenue figures are used because of the lack of availability of "gross" and "net" general data prior to 1952². The following table gives a reconciliation of (gross) Current Revenue and Expenditure as used in the study with Net General Revenue and Expenditure as well as with the figures published by the Ontario Department of Municipal Affairs.

2. These data are available in the Historical Review previously referred to; prior to 1952 current expenditure and revenue figures are the only ones available.

APPENDIX II

RECONCILIATION OF GROSS CURRENT REVENUE AND
NET GENERAL REVENUE WITH THE REPORT OF THE
ONTARIO DEPARTMENT OF MUNICIPAL AFFAIRS

1.	Current revenue as reported by Ontario DMA.....	
	To arrive at "gross current revenue":	
	ADD:	
	Local authorities not included in current revenue:	
2.	Taxes levied by school authorities.....	
3.	Other.....	
4.	Revenue deducted from expenditure.....	
5.	Other revenue.....	
	DEDUCT:	
6.	Interfund eliminations.....	
7.	Intermunicipal transfers.....	
8.	Debenture debt charges recoverable.....	
9.	Utility revenue included in current revenue.....	
10.	Grants, etc., received for school purposes.....	
11.	Taxes paid on municipally-owned property.....	
12.	Other.....	
13.	GROSS CURRENT REVENUE.....	
	To arrive at "net general revenue":	
	DEDUCT:	
	Inter-government transfers:	
14.	Provincial grants-in-aid (ordinary).....	
15.	NET GENERAL REVENUE.....	

Source: Dominion Bureau of Statistics, Municipal Government Finance, Queen's Printer, Ottawa, 1963.

APPENDIX II

RECONCILIATION OF GROSS CURRENT EXPENDITURE AND
NET GENERAL EXPENDITURE WITH THE REPORT OF THE
ONTARIO DEPARTMENT OF MUNICIPAL AFFAIRS

1. Current expenditure as reported by Ontario DMA.....
To arrive at "gross current expenditure":

ADD:

Local authorities not included in current expenditure:

2. Local school authorities.....
3. Other.....
4. Debenture debt charges not included in current
expenditure.....
5. Revenue deducted from expenditure.....
6. Other.....

DEDUCT:

7. Interfund eliminations.....
8. Intermunicipal transfers.....
9. Contra to debenture debt charges recoverable.....
10. Utility expenditure included in current expenditure.....
11. Grants, etc., to local school authorities.....
12. Taxes paid on municipally-owned property.....
13. Duplication of expenditure on municipal homes and
recreation and community centres.....
14. Other.....

15. GROSS CURRENT EXPENDITURE.....

to arrive at "net general expenditure":

ADD:

16. Gross capital expenditures, excluding public utilities...

DEDUCT:

Inter-government transfers:

17. Contra to provincial grants-in-aid.....
18. Provincial grants-in-aid (capital).....
19. Federal grants-in-aid (capital).....
20. Contributions to general capital and loan fund (capital
expenditures out of revenue).....
21. Debt retirement.....

22. NET GENERAL EXPENDITURE.....

APPENDIX III

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MUNICIPAL ORGANIZATION IN ONTARIO¹

Slightly more than one tenth of the area of Ontario is municipally organized and the remainder (designated as "Districts") is governed entirely by the Provincial Government. The older settled section of the province is divided into 43 counties, five of which are united with others for administrative procedures. Each county, although it is an incorporated municipality, comprises the towns, villages and townships situated within its borders from which it requisitions a county "rate". Seven "separated" towns in Southern Ontario are independent of the counties for administrative purposes other than certain road expenditures. There are 32 cities, 157 towns, 158 villages, 573 townships and 19 improvement districts in the province. Some of each are located in the 11 northern districts in which no county organization exists. The metropolitan form of government is found only in Toronto; the municipality of Metropolitan Toronto was formed on January 1, 1954 and encompasses thirteen "area municipalities" -- one city, four towns, three

1. Dominion Bureau of Statistics, Municipal Government Finance 1963, Queen's Printer, 1966, p. 7.

See also the following:

- 1) L. G. MacPherson, W. G. Leonard, Municipal Accounting in Ontario, Ryerson Press, Toronto, 1961.
- 2) K. G. Crawford, Canadian Municipal Government, University of Toronto Press, Toronto, 1954.
- 3) L. D. Feldman, "Legislative Control of Municipalities in Ontario", Canadian Public Administration, September, 1961.

APPENDIX III

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villages, and five townships. The municipality of Metropolitan Toronto has jurisdiction over assessments, trunk water and sewage works, metropolitan road systems, transit, municipal housing developments, community planning, main parks and recreation areas, the administration of justice and certain health and welfare services. The main source of revenue of Metropolitan Toronto consists of a levy apportioned among the "area municipalities". All borrowing of the area municipalities for capital purposes is done by the municipality of Metropolitan Toronto.

Supervisory control of Ontario municipalities emanates principally from two bodies, the Department of Municipal Affairs and the Ontario Municipal Board, empowered under the Department of Municipal Affairs Act (Revised Statutes of Ontario, 1960, C. 98, S. 30 (1)), the municipal Act (Revised Statutes of Ontario, 1960, C. 249, S. 521), and the Ontario Municipal Board Act, (Revised Statutes of Ontario, 1960, C.274, S. 5 and 7).

APPENDIX IV

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CONTRIBUTIONS, GRANTS AND SUBSIDIESSHARED-COST CONTRIBUTIONS

Revenue accruing as a contribution from another government or other source, which is to be expended on some agreed upon activity considered to be the responsibility of the receiving government, and based on a specific share of the total cost of meeting the responsibility.

GRANTS-IN-AID

Revenue accruing as a contribution from another government or other source, which is to be expended on an agreed upon activity considered to be the responsibility of the receiving government, but not based on a specific share of the total cost of meeting the responsibility.

SUBSIDIES

Revenue accruing as a contribution from another government or other source, as assistance towards maintaining general municipal governmental services without being related in any way to a specific activity for which the receiving government is responsible.

GRANTS IN LIEU OF TAXES

Both the Provincial and Federal Governments are exempted by law from paying municipal taxes; they, however, compensate municipalities through a system of grants in lieu of taxes. The Provincial Government pays to each municipality in which it holds property a grant equal to that amount which the general municipal rate (exclusive of educational and business tax levies) would produce if it were levied against such property. The valuation of the property is carried out by the Department of Municipal Affairs. Where the province or its agencies occupy or sue land for business purposes an additional amount equivalent to the current rate for general municipal purpose on business assessment is normally paid. Public utilities pay full tax on their assessed properties. Certain types of provincial property are excluded such as parks, hospitals, penal and institutional institutions.

The Federal Government benefits from total exemption on some of its buildings and holdings such the Parliament buildings in Ottawa, Museums and Parks. In certain case the grants cover only a part of the municipal tax: for example, land and buildings on an airport where protection services are not provided by the municipality but rather by the Government. Where the Federal Government leases space in office buildings and also where a Crown corporation carries on its business full commercial mill rates are paid. Although the Federal Government is officially listed as a Public School supporter its grants go into a municipality's General Fund.