FED FUNDING OF CITIES: THAT'S ALL THERE IS

Christopher Dunn

For the mayors of Canada's cities, fiscal federalism means the funds flowing to them through the federal gas tax sharing and sales tax relief in the 2005 budget, as well as new funding for infrastructure and the Green Fund for environmental initiatives. With $5 billion in gas tax funding topping the list, more than $9 billion will be transferred to cities and municipalities over a five-year period. Paul Martin calls it a new deal for cities. But for mayors expecting more at their annual convention in St. John's, Ottawa's answer was clear: that's all there is. Christopher Dunn of Memorial University walks us through the initiatives in the "transformative budget" of 2005, notable for its five-year funding horizons.

Pour les maires des grandes villes canadiennes, le fédéralisme fiscal est désormais synonyme de transferts issus du partage des recettes de la taxe sur l'essence et de l'allégement fiscal sur la taxe de vente, ainsi que de financement supplémentaire pour les infrastructures et les initiatives environnementales soumises au Fonds vert. En comptant les 5 milliards de la taxe sur l'essence, c'est plus de 9 milliards $ qui seront ainsi transférés aux villes et municipalités sur une période de cinq ans. Un « nouveau pacte » pour les villes, selon Paul Martin. Et aux maires qui, réunis à St. John's, attendaient mieux, la réponse d'Ottawa a été sans appel : il n'y aura rien de plus. Christopher Dunn, de l'Université Memorial, examine les mesures du budget de 2005, dont l'horizon de financement quinquennal est particulièrement intéressant.

In June, municipal politicians gathered at the annual meeting of the Federation of Canadian Municipalities (FCM), held in St. John's. As they have for the last half-decade, they awaited news of yet another innovative program in the federal New Deal for Cities and Communities. They didn't get it. And they won't, for the foreseeable future. That's because the basic outlines of the New Deal are now in place, and what will follow now are roll-outs and back-filling, set against the broad context of a federal attempt to shape Canadian political culture.

True, there had been mention of new public transit money, an additional $800 million of additional federal money offered for two years, separate from and in addition to the $5 billion already announced in gas tax rebate money already announced in the 2005 federal budget. (Much of the $5 billion was destined to transit.) This, however, did not rate more than a sentence in a seven-page speech to the FCM by Prime Minister Martin, and had already been announced where it really counted, to the big cities disproportionately represented in the Canadian Urban Transit Association (CUTA), those who had complained about the per capita bias of the budget's New Deal money. This was back-filling.

The 2005 budget was a transformative one. Transformative budgets set the parameters for government decisions for years to come. There are not many in recent history. One could cite, for various reasons, 1963 (economic nationalism), 1974 (indexing), 1977 (Established Programs Financing), and 1995 (Canada Health and Social Transfer). Now there is 2005, with its uncharacteristic multi-year budgeting and providential proportions. Cities will not see many more large federal programs because the magnitude of the expenditures foreseen, across a wide variety of policy sectors, will preclude many major departures from the plan. *L'état providentiel est venu.*

Yet, who could blame cities for expecting more innovation? For half a decade they had been the objects of unprecedented federal attention.

In 2000, infrastructure and environmental lobbies had effect at the federal level. Ottawa, through its Infrastructure Canada Program (ICP), committed $2.65 billion over six years for provincial and municipal capital expenditures. The program was twofold: $600 million went to provincial highways through what was called the Strategic Highway Infrastructure Program and $2 billion was dedicated to municipal infrastructure (water, sewer, transportation, and housing). Almost all of the ICP funding has been committed; the federal government estimates that close to 3000 projects benefited from the program. Further rounds are being contemplated. Also introduced in 2000 were two complementary federal programs amounting to $125 million: the Green Municipal Investment Fund and the Green Municipal Enabling Fund; both were to be managed by the Federation of Canadian Municipalities (FCM).

In 2001 we saw some halting recognition of the needs of larger cities and their importance to national economic growth. The December 10, 2001 federal budget announced the Canada Strategic Infrastructure Fund (CSIF), which featured an additional $2 billion (over and above the $2 billion ICP commitment). CSIF was designed to fund large-scale infrastructure projects, like transportation projects and sewage treatment systems, of a scope too large to be considered under the ICP. CSIF projects were less formula-driven and more open to partnerships in areas of major national and regional significance and sensitive to projects with significant economic growth potential. The 2001 budget also doubled the Green Funds amount to $250 million.

In 2003 the urban file was not as central to the federal vision, in part because the cities' champion, Martin, had been banished from cabinet. The 2003 Throne Speech committed Ottawa to an additional 10-year public infrastructure plan, but the following budget speech specified that there was to be only $3 billion in additional investment for this ten-year period, for both strategic and municipal infrastructure. CSIF was to be allocated two-thirds of the new money, so it was now a $4 billion program. Rural Canada saw additional funds of $1 billion with the introduction of Municipal Rural Infrastructure Program (MRIF), designed to aid smaller-scale municipal infrastructure programs, also over a ten-year period.

If one Googles the "Budget in Brief" document using "five years" as the search term, one comes up with 25 programs where five-year plans are mandated. Five-year plans used to be the governing style of Stalin and Mao. What could possess a modern Canadian government to use this technique? There are a number of answers.

The years 2004 and 2005 saw the rebirth of the urban file with the advent of Martin as prime minister. Budget 2004 announced a goods and services tax (GST/HST) rebate estimated at the time to bring municipalities $7 billion over ten years, created the External Advisory Committee on Cities and Communities, to be headed by Mike Harcourt, and pledged municipalities partnership status in the making of federal budgets and urban policy. A parliamentary secretary was appointed to handle the urban agenda.

After years of discussion, the federal gas tax sharing was finally announced in budget 2005. Budget 2005 also promised "significant funding will flow toward infrastructure projects" through the CSIF and related programs like Municipal Rural Infrastructure Fund (now to be implemented over five, not ten years) and Border Infrastructure Fund, and that future budgets would "renew and extend" these infrastructure programs as they expired. The intention behind these measures was to ensure that the gas tax sharing revenue program announced in the budget would provide additional revenues for municipal governments rather than displacing other funding. The budget announced an additional $300 million for Green Funds, which will be accounted for by the government in 2004-05, but will flow to municipalities via the FCM over time. John Godfrey was transformed from parliamentary secretary to the first minister of state for Infrastructure and Communities.

Budget 2005 estimated that the goods and services tax (GST) rebate

TABLE 1. FEDERAL "NEW DEAL FOR CITIES AND COMMUNITIES" EXPENDITURE FORECAST, BUDGET 2005

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
	(Millions of dollars)						
New Deal for Cities and Communities[1]							
Gas tax funds		600	600	800	1,000	2,000	5,000
GST/HST relief for municipalities	580	605	625	650	685	720	3,865
Green Municipal Funds[2]	300						300
Total	880	1,205	1,225	1,450	1,685	2,720	9,165

Source: Finance Canada, "The Budget Plan, 2005," p. 199.
[1] In addition, the government is committed to renewing existing infrastructure programs (CSIF, MRIF, BIF) as they expire. Thus, New Deal funding is assured to be in addition to ongoing infrastructure programs.
[2] Note that the $300 million will be accounted for by the government in 2004-05, but will flow to municipalities via the FCM over time.

implemented in budget 2004, the gas tax sharing announced in budget 2005, and the continuing and enhanced Green Municipal Funds program, will provide Canadian communities with over $9 billion between 2005 and 2010 (see table 1).

On June 1, Godfrey announced an additional $800 million, over two years, for public transit at the CUTA annual conference. Godfrey said that Ottawa would use the same principles for public transit funding as it did for the gas tax funds. Agreements would be reached with each province and territory, which would receive a per capita share of the $800 million and the funds would be distributed to municipalities and transit agencies based largely on ridership. The same five spending (“investment”) categories that are used for the gas tax money (refurbishing fleets; upgrading garages; investing in light rail, subway and rapid transit systems; rehabilitating stations and other structures; and utilizing new, intelligent transportation systems) would be used for the public transit money.

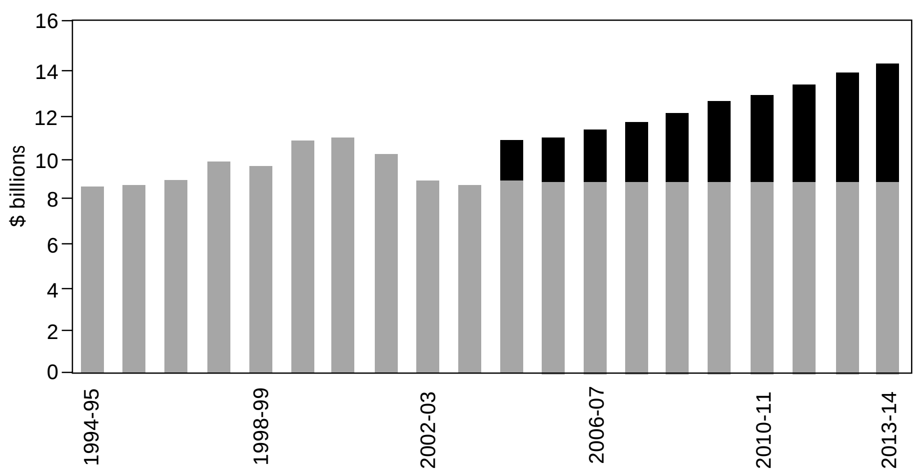
There is a common theme to all the federal expenditures: In Martin’s words, at the FCM conference, “Under the New Deal, communities are gaining access to new, reliable and predictable sources of funding... the way [to ensure prosperity for Canadians] is to ensure that our cities, our towns, have the revenue they need to run public transit, to build infrastructure, to protect and maintain green spaces.” The handlers made sure Godfrey was singing from the same hymnbook to the FCM: “We want this [New Deal] because we need strong local government if we’re going to succeed as a country in child care, in increasing productivity, in getting the environment right and in helping new Canadians to get a good start. And we recognize that to get there, you need long-term, stable, predictable funding.”

Complex multiyear budgeting can help to reinforce interdependency between different policy sectors, and different levels of government. What the federal government is doing with the multiyear gas tax rebate, public transit, and green funds is to have municipal “New Deal” politicians buy into the long-term federal environmental dossier, which has often lacked firm support at the provincial level.

Of course, long-term, stable and predicable funding does not only benefit cities and communities. Given the right context, it can benefit the ruling political party and the federal order of government. To set this up, however, it is necessary to review the budgetary context.

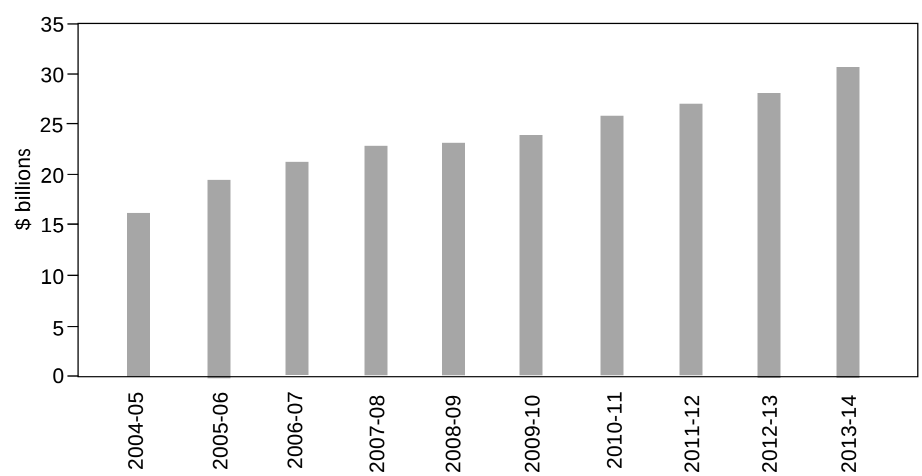
It is important to place the New Deal in context. It is not the only policy area where the 2005 budget, or initiatives associated with it, established long-term funding and ramped it up in later years. In the 2004 “New Framework,” Equalization and Territorial Formula Financing (TFF) were enriched by

FIGURE 1. FUNDING FOR PROVINCIAL EQUALIZATION



Source: Finance Canada, “The Budget Plan, 2005.”

FIGURE 2. FEDERAL CASH SUPPORT FOR HEALTH CARE



Source: Finance Canada, “The Budget Plan, 2005.”

The Gazette, Montreal

Montreal Mayor Gérald Tremblay happily shakes hands with Prime Minister Paul Martin after an announcement for funding of cities in June. Ottawa has announced that $9 billion will flow to cities through 2009 in gas tax funds, sales tax relief and Green funds as part of its "New Deal" for cities. But cities shouldn't expect anything more. That's all there is, writes Christopher Dunn.

$33 billion over ten years, relative to their 2004-05 levels, with the long-term funding levels legislated in advance, not dependent on the formulas used to measure revenue disparities.

The Canada Health and Social Transfer was also enriched, by $41 billion, to rise significantly over ten years, in an ascending fashion.

The 2005 budget presented five-year, escalating plans (especially for years 4 and 5) in other areas:

- $5 billion over five years to build a framework for early learning and child care
- Over $5 billion over the next five years (including over $3 billion of new funding) to ensure a sustainable environment
- Over $12 billion in new money for defence ($7 billion in budgetary funding) over five years — the largest increase in a five-year period in the last 20 years
- An increase of $3.4 billion over the next five years for international assistance with the goal of doubling assistance by 2010–11 from its 2001-02 level

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Five-year plans used to be the governing style of Stalin and Mao. What could possess a modern Canadian government to use this technique? There are a number of answers.

It can provide a phalanx of supporters for a minority government from the recipients of the multiyear program(s), at opportune times. Meeting in St. John's before the annual conference, the FCM's "Big City Mayors Caucus" (BCMC), the mayors of Canada's 22 largest cities, called upon federal parliamentarians to pass the 2005 budget, which had been stalled by the Conservatives and Bloc Québécois. The BCMC feared for the fate of the $5 billion of gas tax revenue transfer offered in the February budget, as well as for the $800 million for public transit and $1.6 billion for affordable housing. The fate of the Atlantic Accord, with its multiyear offsets tied to the fate of the main budget bill, rated similar attention.

Complex multiyear budgeting can help to reinforce interdependency between different policy sectors, and different levels of government. What the federal government is doing with the multiyear gas tax rebate, public transit, and green funds is to have municipal "New Deal" politicians buy into the long-term federal environmental dossier, which has often lacked firm support at the provincial level.

Long-term infrastructure budgeting can be used for political imagery. Martin's speech to the FCM tied the New Deal for the first time to past nation-building efforts: "Throughout our nation's history," he said, "pursuing the enduring goals of prosperity and security has required the federal government to set out the new national projects that were essential at each period. This was true when the West was settled after Confederation, when the railroads were built, when in the post-war years our social foundations were strengthened with the creation of medicare and the Canada Pension Plan. The New Deal is a national project for our time."

Roll-outs — the whole political theatre of putting long-term agreements into effect, the speeches to interest groups, the signing of agreements with provinces, the announcements of specific projects — have obvious implications for governing party fortunes. This is compounded when the amounts involved escalate in later years. It is the gift that keeps on giving. In the tense political atmosphere of early 2005, when the government seemed to be on constant election footing, it helped to have gas tax agreement signing ceremonies with British Columbia, Alberta and the Yukon, as well as those for agreements-in-principle on early learning and child care with Nova Scotia, Newfoundland and Labrador, Ontario, Saskatchewan and Manitoba.

Multiyear budgets can reinforce the political brand of a government in a way that thematically elusive annual budgeting cannot. Prime Ministers Chrétien and Martin have sought membership in a loosely defined international club, the "Third Way," dating from 1999, which involves meetings of progressive national politicians intent on forging a third way between the Keynesianism that foundered in the 1970s, and the free-market neo-liberalism exemplified by Margaret Thatcher and Ronald Reagan in the 1980s. Although the club has tended to lose its way in later years, it has provided an attractive persona for Canadian politicians to adopt. Committing government to environmentalism, child care and international assistance several years in advance helps win progressive credentials internationally.

It also helps on the domestic scene. Probably the most politically useful aspect of the 2005 Goodale budget was its transformative vision. The power to transform the political landscape was what neo-conservatives did so effectively in the eighties and early nineties. Now the centre-left is attempting the same thing: carving its vision in stone — or the closest thing to it — with a cascading list of support from citizens, cities, provinces and interest groups, each buying into the long-term vision. Even the Liberals' parliamentary partners, the NDP, saw the logic in long-term budgeting and demanded their "own" budget deal —Bill C-48 — which also provides for a five-year plan of $4.6 billion, for affordable housing, the environment, foreign aid and education. It received royal assent July 20.

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The New Deal has spawned new optimism. A 2005 report by the Big Cities Mayor's Caucus vaunted the New Deal, but noted an impressive list of unmet infrastructural needs, and pointed to a need for access to growth-sensitive taxes and more long-term federal programs. An IRPP Working Paper by Tom Courchene complained about the insensitivity of the New Deal to Canadian "global city regions" — Canada's few large cities — and advocated special revenue-sharing, infrastructure, and intergovernmental consultation deals for them.

The optimism is misplaced. Outside of future adjustments to existing infrastructure programs, Ottawa does not seem in the mood for a "new" New Deal. It tends to keep expenditure categories in proportion to one another, and the proportions in this new providential state seem right. Godfrey at the FCM gave his vision for the coming year, and what it amounted to was getting all the gas tax and MRIF deals signed with provinces. Martin, faced with a growing list of spending demands, stressed fiscal restraint at the FCM. This, when he is faced with premiers' demands for a dedicated post-secondary education fund, and analogues of the Atlantic Accord for other provinces, is understandable. To engage in new spending adventures would place the 25 already planned five years ahead in jeopardy. Cities and communities have liked what they got, but may not get what they like.

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