

Fiscal Austerity and Urban Innovation: The Challenges Facing Canadian Cities

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For discussion purposes only

Cities across North America are under increasing pressure to find effective ways to respond to the needs of their citizens. With diminishing assistance from senior levels of government, city officials are challenged in setting direction for their community and generating resources to carry out their mission. City officials must not only find local revenue sources to address their problems, they must also provide quality services, and manage shrinking budgets with greater efficiency.

Toronto is a case where the threat of activity-based public services became the focus of debate. The Toronto District School Board threatened to close 78 swimming pools at city schools if funding dollars were not forthcoming from provincial grants or philanthropy fund-raising. The school board no longer able to afford the \$17 million annual price tag to maintain public pools unsuccessfully sought provincial government funding. The province of Ontario declined, saying it is a Toronto issue. Toronto Mayor David Miller responded by appointing former mayor David Crombie to spearhead a task force to solicit community support from the YMCA, Canadian Tire Family Foundation and other organizations for new funding sources and to seek out alternative management arrangements (The Globe and Mail, on-line February 12, 2009).

This example highlights a trend across Canada where fiscal austerity is a pressing challenge for municipal administrators and politicians alike. The global recession has caused the primary sources of municipal revenues to evaporate. Mortgage foreclosures have resulted in escalating property tax arrears. Plant closures have not only brought about increased unemployment rates, but vacant facilities are being demolished – returning property valuation to a vacant status. The impact has seen municipal tax rolls bottom out as the municipality's tax base declines in value. The combination of these events has placed great pressure on local officials to balance their budgets and to sustain service levels all in the same breath.

Toronto, Canada's largest city faces an estimated \$500 million budget deficit in 2010 and managers have been instructed to find \$25-million in budget savings through hiring freezes, reducing travel allowances for conferences, and cutting the deployment of consulting services. Although the month long city workers' strike during the summer of 2009 generated \$33.2-million in budget savings, the recession related job losses have strained the city's coffers further as welfare rolls are expected to peak at over 100,000 recipients in 2010. Help in relieving the fiscal challenges experienced by Toronto and other Ontario cities is not forthcoming as the provincial government's economic statement projects a \$24.7-billion deficit for the fiscal year ending March 31, 2010 (The Globe and Mail on-line October 23, 2009).

Today, Canadian cities are under extreme fiscal restraints because of significant changes in revenue flows imposed by federal and provincial legislatures as reductions in city grants have declined in the last three decades. As well, citizen advocates continue to challenge city politicians to become less reliant on the use of taxes and more reliant on user fees to fund local programs and services. Urban management scholar, James Svara (1990), quite eloquently notes that we live in an era of fend-for-yourself federalism where cities and their leaders are on their own. Thus, the critical research question this paper will address is how Canadian cities respond to fiscal constraints and austerity.

The Paradigm of City Management

City officials have responded to the challenges of fiscal austerity by instituting many innovative and creative methods of providing municipal services. The new reality of urban innovation is characterized by city administrations becoming leaner and meaner managed organizations, drawing down surpluses and selling assets or instituting across-the-board cuts to operating budgets. The new management paradigm prevailing among local government administrators is to do more with less. Hiring freezes and reducing workforce levels by attrition have been the most common themes in city personnel management. The mentality is to reduce costs, yet continue to provide the same level of service. Service levels have been sustained by innovative methods of purchasing services either through private sector contracting or joint operating agreements with other government agencies, all in name of reducing operating costs.

Terry Clark (1994) argues local government leaders must now contend with a “new political culture.” Class politics is being supplanted. The classic Left-Right dimension of urban politics has been transformed. More specifically, “left” increasingly gives meaning to policy issues with a social conscience. The social issues being espoused may have fiscal implications, such as providing extra funding for non-profit housing organizations. At its root, the rising salience of social issues is driven by affluence. As wealth increases, people grow more concerned with lifestyle and amenities. New demands are articulated by activists and intelligent citizens, who refuse treatment as docile subjects. Urban activists organize around issues related to service provision such as waste recycling or tree trimming maintenance programs.

Terry Clark (1994) also points out that new political culture citizens concede that governing in the sense of central planning is unrealistic. The new political culture citizens are skeptical of large central bureaucracies. They are willing to decentralize administration or contract with other governments and private firms to improve service efficiency. The new political culture citizens are also fiscally conservative. The resulting impact in this new environment of urban politics is that policy outcomes are highly variable, fragmented, and unstable.

Douglas Yates’ (1977) metaphor of city decision-making depicting a penny arcade remains a very appropriate assessment of the current political environment concerning city policy formulation and implementation. Yates (1977) depicts the process of urban problem generation and agenda setting in terms of a shooting gallery. Much like the urban policy maker, the shooting gallery player has far more targets than possible to hit and the targets keep popping up in different places. The player is constantly reacting to a new target or problem, while concurrently being faced with the choice of which target or problem to fire upon. The arcade player knows that firing at one target means letting the vast majority of others pass until the next time. Faced with this need to react quickly and to deal with such an array of targets which have different payoffs, the player will move from target to target relying on reflexes rather than on any considered plan of action. This is much the same with urban agenda setting because new demands are constantly arising.

Second, we may think of the urban policy maker’s ability to predict and control the decisions in terms of a slot machine. The point of this metaphor is that policy-making can vary just as independently or randomly as the apples, oranges, and cherries on the slot machine. For example, the first combination to turn up may be a resources

problem in the context of health delivery in which a neighbourhood group is pitted against a group of community health administrators. This problem combination may call for the policy-maker to hold a bargaining session and free up some extra budget lines from the budget director. Having followed this policy-making procedure, the policy-maker may then encounter a second problem combination: a conflict over a school-bus program involving several neighbourhoods, the board of education, and provincial government agencies. Clearly the first policy response is not appropriate to this case; the latter problem may require instead legal action, appeals to high-level governments, and an immediate police response at the neighbourhood level to prevent civil action in the streets between ethnic groups. The point of the slot machine metaphor is that the central policy maker never knows what kind of problem will arise from moment to moment and also does not know which available policy responses will be relevant or useful.

Third, the process of operationally implementing urban policy can be thought of in terms of another familiar penny arcade game: the pinball machine. Given the city council's weak control over their administration, decisions, once made, are likely to bounce around from decision point to decision point among line bureaucrats. The implication here is that even when a decision is made on a policy by city council, it will be knocked off course by both known and unforeseen obstacles by the time it reaches the street level. Urban policy decision-making is then likely to raise a new set of problems and demands that will enter into the shooting gallery of agenda setting all over again. Urban policy is a continuous process in which a particular problem receives brief attention; some kind of decision is made, which bounces around in the implementation process; and then the problem pops up again in a new or slightly altered form. This means that problems are not dealt with in a steady and sustained fashion, but rather are administered in an ad hoc fashion.

As a final point, Paul Peterson (1981) clearly articulates that cities are limited in what they can do and the powers bestowed upon them are exercised within constraints. City politics is limited politics. Peterson (1981) believes the interests of cities are not the summation of individual interests. Instead, policies and programs are to be in the interest of the city whenever the policies maintain or enhance the economic position, social prestige, or political power of the city taken as a whole. Politicians are expected to maximize economic prosperity of the community within the environmental constraints that they must contend. As policy alternatives are proposed and evaluated, policy choices over time will be limited to those that are conducive to the community's economic prosperity.

Peterson (1981) spells out three types of public policy choices for cities. Developmental policies enhance the economic position of the city. Such policies include the creation of industrial parks or developing tourist attractions. Redistributive policies are those that provide low-cost housing or medical care to low-income residents. Allocation policies relate to housekeeping services such as cleaning streets or waste collection, which are more or less neutral in their economic effects.

Peterson (1981) advocates that local governments do not easily implement redistributive policies. Only where the fiscal base of a community is relatively stable can policies of benefit to minorities and the poor be implemented. The greater tax base in the prosperous communities allows greater fiscal resources to be available to local

governments at no greater a rate of taxation. In less advantaged communities, where low-income residents are probably found in greater abundance, the level of redistributive programs must be held to a bare minimum to sustain a balanced budget.

Developmental policies are relatively free from these fiscal constraints. Where there is a need for new development, the community enhances its own economic prosperity, thereby strengthening its capacity to provide other services. Moreover, Peterson (1981) conceives that cities should not engage in redistributive policies that supply services to needy citizens; it only increases its attractiveness as a place for the truly disadvantaged. Most localities, therefore, should resist the temptation to redistribute leaving this responsibility to the domestic federal budget spending. We are observing this today as economic recession is creating a fiscal crisis for cities as well as provincial governments. City politicians hope that federal infrastructure programs and redistributive efforts will expand services for needy citizens.

Challenges for Local Governance in Canada

The annual challenge for local government officials everywhere is to balance the budget and maintain tax millage increases at minimums. This fine-line juggling act transpires in an environment of increasing taxpayer demands, reductions in transfer payments from senior governments and a continuously changing political landscape. John Lorinc (2006, 70) identifies the crucial political question facing cities: “if the viability of Canada’s hub cities is directly linked to our national well-being, what are the investments we need to make to ensure that we are building the sort of socially inclusive, healthy cities that are most likely to succeed in a 21st century, knowledge based global economy?”

Notwithstanding this question, the federal Liberal government, facing a \$40 billion deficit in 1995, pushed ahead with an historic restructuring of Canada’s social policy. The Liberals replaced the Canada Assistance Plan with the Canada Health and Social Transfer. Under the new system, federal transfers to the provinces were capped. To compensate for the decline in funding, Ottawa gave the provinces more latitude to fashion their own social programs that have had the effect of punishing thousands of low-income families in big cities all across Canada (see Table 1).

Table 1: Total Federal Cash Transfers

	1992-1993 (\$ billions)	2002-2003 (\$ billions)	Change (\$ billions)
Health Care	10.55	11.44	+0.89
Post-Secondary Education	4.28	2.42	-1.86
Social Services	8.83	4.84	-3.99
Total	23.66	18.70	-4.96

Source: Lorinc, John. 2006. *The New City: How the Crisis in Canada’s Urban Centres is Shaping the Nation* Toronto: Penguin Press, 153.

The specific anti-urban consequences of Ottawa's decentralization of social policy became most pronounced in Ontario during Mike Harris' term as premier. Having swept office on a tax-cutting platform, the Harris government quickly slashed welfare rates and ended rent control, triggering a rise in urban homelessness. Ontario also compelled municipalities to pick up the bill for social assistance leaving redistribution spending, according to Paul Peterson's model, in the hands of local politicians. Ontario's big cities, with the largest proportion of welfare recipients, are now vulnerable to severe budget crunches when welfare costs spike.

Elsewhere, ghastly conditions continue to prevail in Vancouver's Downtown Eastside. A tripartite agreement was signed in 2000 between the city, province and the federal government to commit resources to respond to drug addiction, mental illness, homelessness and the faltering local economy. The commitments have failed to be a top priority as governments have changed over the years and momentum for community support mechanisms dwindled. The policy shortfalls were accentuated when the federal Liberals cut income assistance and cancelled social housing programs. The current Conservative government is trying to reformulate policy to close down safe-injection sites that were considered essential to improving health measures for the beleaguered community under the original agreement. Today, Vancouver's Downtown Eastside is Canada's worst slum (Global and Mail, on-line February 16, 2009).

Provincial governments across Canada have had to develop responses to local service delivery challenges while facing the need to balance their own provincial budgets. Ontario, for instance, met this challenge by imposing the Local Services Realignment in 1998 on local municipalities. Property tax room at the municipal level was created by uploading the costs of public education to the Province. In return, municipalities were downloaded responsibility and costs for social housing, social assistance, public transit, public health, land ambulance and provincial offences courts. Although the Ontario government provided Community Reinvestment Funding to ensure the program transfers would be revenue neutral; nevertheless, in 2001 the Provincial Auditor reported that the Community Reinvestment Fund did not fully sustain revenue neutrality as was intended. Thus since the late 1990s, Ontario municipalities have experienced challenges meeting the increasing demands of infrastructure investment and social program delivery.

Furthermore, cities across Canada need to eliminate an infrastructure deficit that is priced at \$123 billion by the Federation of Canadian Municipalities. Manitoba is one exemplary model. Revenue-sharing was introduced in 2002 with its municipal partners to support and sustain local service levels. Manitoba shares portions of income tax, fuel taxes, VLT revenue and casino revenues with its municipalities. Conversely, fast growth regions such as Alberta have reduced and shifted the burden of municipal service delivery directly on the local tax base. In order to balance the provincial budget, Alberta cut transfer payments to municipalities re-allocating almost 10 percent of municipal funding from the province to municipalities. New Brunswick recently completed a study to amalgamate rural communities and villages in an effort to streamline the distribution of provincial grants to local government in that province. The result of these initiatives remains the same; Canadian local governments rely heavily on three revenue sources - property taxes, user fees, and intergovernmental transfers. Still more support for city services is required.

Policy mandarins in Ottawa have recognized the federal government has fallen behind in its policy thinking about cities. As such, the 2003 federal budget provided \$5 billion in funding from the federal gas tax to be transferred through negotiation with the provinces for urban transit improvements. To sustain the health of Canadian cities, the 2004 federal budget, eliminated the GST on municipal purchasing, resulting in a \$7 billion transfer directly to municipalities over the next decade. As well, the 2006 federal budget has earmarked \$1.4 billion set aside in three trust funds to be made available to provinces and territories to help address short-term pressures with respect to affordable housing, including transitional and supportive housing. With the onset of the global recession, the Government of Canada announced the creation of a new \$4-billion Infrastructure Stimulus Fund, aimed at getting shovels in the ground for infrastructure projects across Canada over the next two years (review the Canadian Federal Budget on-line at <http://www.fin.gc.ca>).

These new federal initiatives have been spurred on by the dialogue among the C5 mayors from Canada's largest cities that meet regularly to voice publically for broader recognition of the fiscal need of urban communities. The point of attack has been spearheaded by the campaign of Toronto Mayor David Miller to lobby for the federal government to pass along to municipalities 1% of the Goods Services Tax (GST) collected annually in order to invest in the financial competitiveness of Canada's large cities. His success, however, has been hampered by the lack of support from the Harper government for this initiative, which has enacted a role back of 2% of the GST in order to pass the savings directly to taxpayers. The result of these efforts still remains the same: Canadian cities must sustain ongoing legacy cost burdens through property tax levies.

The epic centre for this discussion is the City of Toronto. The Toronto Board of Trade (2010) projects the city's structural deficit will balloon from \$382 million in 2010 growing to \$1.194 billion by 2019. Annual expenditures exceed revenue intake for the City of Toronto. Salaries, wages and benefits are the largest single cost driver along with servicing debt for significant infrastructure repair and expansion. Unprecedented deficits at the federal and provincial levels will not sustain the one-time transfer of \$258 million to Toronto's 2009 Operating Budget to support new responsibilities undertaken by the *City of Toronto Act*.

The structural deficit that pervades Toronto's finances resonates throughout other cities across Canada. Structural deficits will likely require a mix of decreasing expenditures and increasing revenues. Decreasing expenditures require finding budget efficiencies or eliminating local programs. Increasing revenues require measures like increasing property taxes, user fees or negotiating ongoing grants from the federal and provincial governments. The problems of structural deficit will worsen if local politicians do not consider new ideas for restraining spending or raising revenues.

The Fiscal Dilemma of Canadian Cities

Census data reported for 2005 indicates that municipal expenditures were \$1,815 per capita on average across Canada. Variations by province range from \$582 per capita in PEI to \$2,146 per capita in Ontario. These variations observed reflect differences in population size, degree of urbanization, and the division of provincial-

municipal responsibilities. The big ticket expenditures are for transportation, water and sewer treatment, fire and police protection, and recreation and culture (see Table 2).

Transportation spending includes improving inter-urban road networks as well as maintenance and improvement of public transit. Roadways are the number one mode of transportation of people and goods, and support the majority of domestic and international trade. Trucks carry virtually everything consumed in Canada today and move over 75 percent of the value of all Canadian freight shipments to domestic and international destinations. Nonetheless, building and maintaining roads to link people and communities scattered over a huge land mass, such as Canada, is an expensive challenge. However, over the past few years the federal government has largely delegated responsibility for roads to provincial governments, which in turn have allocated responsibility to municipal governments.

Table2: Municipal Expenditures, Canada, 2005

Category	Expenditure	%
Transportation and communication	\$ 11,545,112	19.7%
Environment	10,135,087	17.3%
Protection of persons and property	9,665,621	16.5%
Recreation and culture	7,050,286	12.0%
General government	6,062,095	10.4%
Social Services	5,493,263	9.4%
Debt charges	2,196,839	3.8%
Housing	1,958,357	3.3%
Health	1,517,110	2.6%
Resource Conservation	1,152,578	2.0%
Planning and development	1,066,274	1.8%
Other expenditures	490,567	0.8%
Education	198,149	0.3%
	\$ 58,531,338	100.0%

Source: Census of Canada

In terms of public transit, according to the Federation of Canadian Municipalities National Transit Strategy (www.fcm.ca), Canadian urban transit riders pay a higher percentage of the total costs required to build, maintain and operate public transit than do riders in almost all other Western countries. However, sustaining the demands for public transit is a difficult challenge for city mayors. Canada is the only OECD (Organisation of Economic Co-operation and Development) country without a long-term,

predictable federal transit investment policy, even though moving people efficiently in urban areas requires a partnership among all levels of government. Public transit ridership continues to grow as a mode of urban travel. Federal and provincial governments must provide long-term reliable funding, so that transit systems have the financial certainty they need to meet the needs of Canadians now and in the future.

Financial certainty is vital because almost every transit system in the world requires operating contributions to offset the shortfall between total costs of operation and total revenue from fares. Likewise, almost all transit systems worldwide require capital contributions to cover all spending on capital projects to renew and expand their transit networks. According to the Canadian Urban Transit Association (CUTA), Canada's transit systems need more than \$40 billion in investments over the next five years alone. This would cover rehabilitating and replacing existing systems, as well as expansion plans to accommodate increasing numbers of riders. These figures speak to the need both to maintain infrastructure and to respond to the growth potential of transit. Municipal shares of both operating and capital subsidies for transit come generally from property taxes, supplemented in some cases by special levies on gasoline sales, parking and hydro bills.

Clearly, the property tax alone is not sufficient to support public transit, given the limited revenue sources, the growing responsibilities of municipal governments and the already substantial municipal support for transit. Municipal governments need help to deliver the transit services on which the nation's economy, quality of life, and environmental sustainability rely. Recent federal government initiatives for municipal infrastructure funding and sharing of the federal gas tax are steps in the right direction to correct the funding disparities for urban transit.

Providing quality water and sewer infrastructure is a primary responsibility of cities. Harry Kitchen (2006) notes that municipal councilors fret over antiquated water and sewer lines in their cities amid pressing demands for new and better infrastructure. When politicians are pressed by new political citizens every time sewers backup into basements after a heavy rainfall, their first job is unquestionable to get their financial houses in order and correct the problem even if other important projects are moved off to the sidelines.

Water and Sewers are usually financed through user pay fees. Water consumption is usually a volume-based charge calculated on a constant unit rate per litre. Sewage collection and treatment are funded from surcharges on water bills in the form of a flat fee or as a percent of the water bill. Communities all across Canada have spent large sums of tax dollars on the construction of water plants and improving sewage treatment facilities in order to avoid water table contamination. In 2000, the Walkerton e-coli crisis caused water contamination in the small Ontario town killing seven residents and leaving 2,300 people sick.

The root cause of the Walkerton, Ontario crisis was the Tory government elected in 1995 eviscerated environmental regulations, slashed the budget of the Ministry of the Environment and eliminated almost half of its staff. In their drive to cut public services, the Tories completed the privatization of water testing which was begun by the previous New Democratic Party (NDP) government and downloaded the responsibility for water management onto increasingly overburdened municipalities. This led to chaos in water testing and reporting practices. In addition, the Tories promoted the unregulated growth

of industrial farming, which contributed to the contamination of groundwater on which rural communities rely. All these policy innovations were the result of the Tories' neoconservative agenda of privatization, deregulation and government downsizing.

To further this policy agenda on cities, the Tory government in Ontario deserted their redistributive funding support for social services delivered in local communities. Welfare and supportive housing programs are now left to city politicians to sort out funding from an already cluttered basket of service demands. Ontario is the exception as other provinces across Canada continue to fund social services through grant transfers to cities, but as we seen in Vancouver, budget resources are stretched to the maximum everywhere.

More recently, the Federation of Canadian Municipalities (www.fcm.ca) has released a paper suggesting the federal government should assist in paying for police protection, especially when federal laws are being enforced. The FCM reports that police officers are thought to spend 10 to 30 per cent of their time enforcing federal laws. There is currently no funding available from Ottawa to pay for border control, enforcement on the Great Lakes, or combating cyber crime that fall under federal jurisdiction. The federation estimates that it costs municipalities more than \$500 million a year to pay for enforcement of federal laws which falls squarely on the backs of municipal taxpayers.

Finding Municipal Revenue Sources

To balance expenditure budgets, cities need to find additional revenue sources. In Canada, the three main sources of municipal revenue are the property tax (53%) followed by user fees (22%) and provincial transfers (17%). Most transfers are conditional (specific purpose) transfers from provincial governments. The largest conditional transfers are for transportation, water and sewage treatment and social services, particularly Ontario where funding for social services has been downloaded to municipalities (see Table 3).

Very significant to note from the data is that Canadian cities rely heavily on Own Source Revenues (83%) to support the more than \$58.5 billion of local government spending that occurs across Canada each year. Although, cities depend on Property Taxes (52.7%) as a revenue source, there has been a greater emphasis placed on increasing user fees. Alternative revenue sources have become a very important component of balancing city budgets since provincial governments started cutting grant transfers to local communities in the 1990s.

Unconditional transfers to cities come in two forms – per capita and equalization grants. Per capita grants are based on the size of the community. Police Services funding is generally based on population, as equalization is one of the pillars of Canadian democracy. The unconditional grant formula is designed to enable each municipality, regardless of size of their tax base, to provide an average level of service when compared to other municipalities and retain a relative balance in the local tax rate between municipalities.

Table 3: Local Government Revenue in Canada, 2005

Source	Revenue	%
Own source revenue	\$46,714,178	82.9%
Property and taxes	29,705,281	52.7%
Sales of goods and services	12,515,841	22.2%
Investment Income	2,858,336	5.1%
Other revenue from own source	811,719	1.4%
Other taxes	721,902	1.3%
Consumption tax	101,099	0.2%
Transfers	9,661,138	17.1%
General purpose transfers	1,618,974	2.9%
Special purpose transfers	8,042,164	14.3%
Provincial Government	7,201,155	12.8%
Federal Government	841,009	1.5%
	\$56,375,316	100.0%

Source: Census of Canada

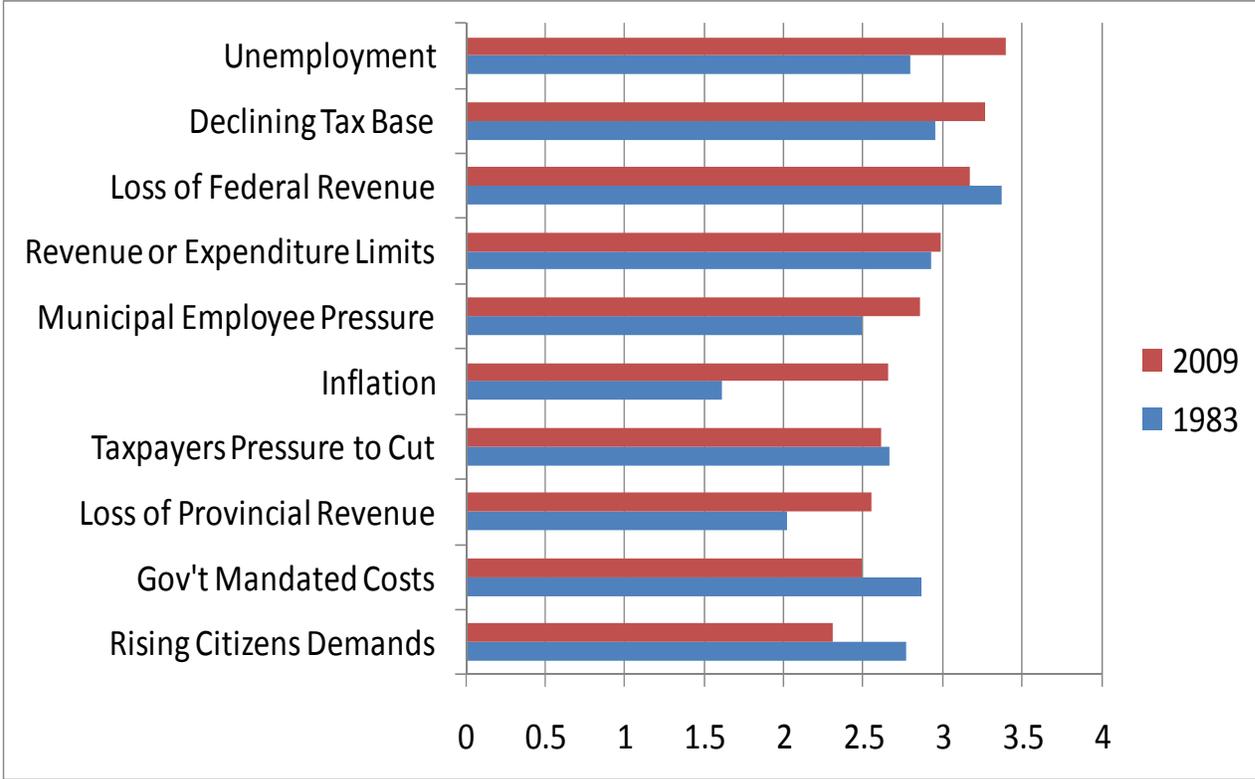
Conditional transfers from provincial governments are also derived through two funding types: matching grants and lump sum transfers. Matching grants are most common where cities will receive 50-percent matching funding for municipal service programs. In other instances, cities will receive one-time lump sum funding for targeted special projects. The rationale for conditional grants is for the improvement or replacement of capital infrastructure such as roads, bridges, water and sewers or environmental remediation to promote a standardized service level across all communities in Canada.

How are Canadian Cities responding to the Fiscal Challenges?

To answer this question an on-line survey was circulated to municipal officials across Canada in the fall of 2008. A broadcast message was sent out to 225 municipalities with direct contact web-addresses from the Federation of Canadian Municipalities database. We received 76 responses from Canadian municipal officials participating in the web survey. To enhance the results further, a direct mail survey was circulated to CAOs or Treasurers of Canadian municipalities with populations over 10,000 in the spring of 2009. An additional 44 responses were received via the direct mail method giving us a total of 120 responses to the survey. All told, a 40-percent response rate was achieved.

When CAOs were asked to rate the most important problems their communities face in managing municipal finances, an interesting dichotomy surfaced. Certainly declining fiscal support from provincial governments is ranked high in importance. However, it is notable that CAOs are concerned about rising service demands from citizens and constituencies expecting more from their local government. These observations fit the research of Terry Clark, at the University of Chicago, suggesting that local government leaders must now contend with a “new political culture” leaving policy outcomes highly variable, fragmented, and unstable placing added pressure on local government budgets. These observations are much different than priorities noted in 1983 when inflationary pressures presented the greatest challenge for municipal administrators.

**Table 4: Comparative Trends Affecting Municipal Finances
(Most Important Score = 1)**

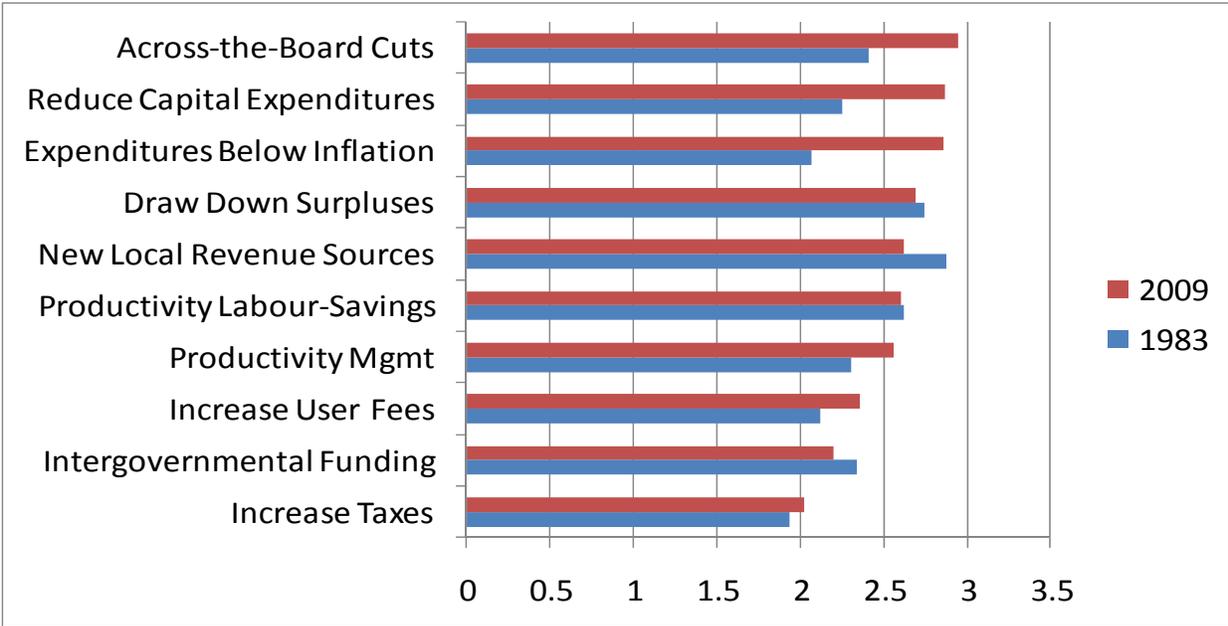


The CAOs were then asked to rank a list of fiscal management strategies that have been deployed by their municipality to sustain service levels and balance budgets. Municipal treasurers have resorted to increasing property tax levies, pressing their provincial governments for conditional grant transfers to fund public transit, improve roads, and build water and sewer infrastructure. However, the most significant observation from the survey is the importance municipal administrators place on improving productivity and deploying labour-savings techniques. Ontario is one example

where fifteen of the larger cities are working together on benchmarking municipal services. The Ontario Municipal Benchmarking Initiative (OMBI) facilitates a culture of service excellence in municipal government. OMBI has created new ways to measure, share and compare performance statistics to help Councils, staff and citizens understand where their administrations are performing well and where they can make service delivery improvements in their municipality. Administrators appear to be interested in adopting similar strategies in addressing their own fiscal constraints.

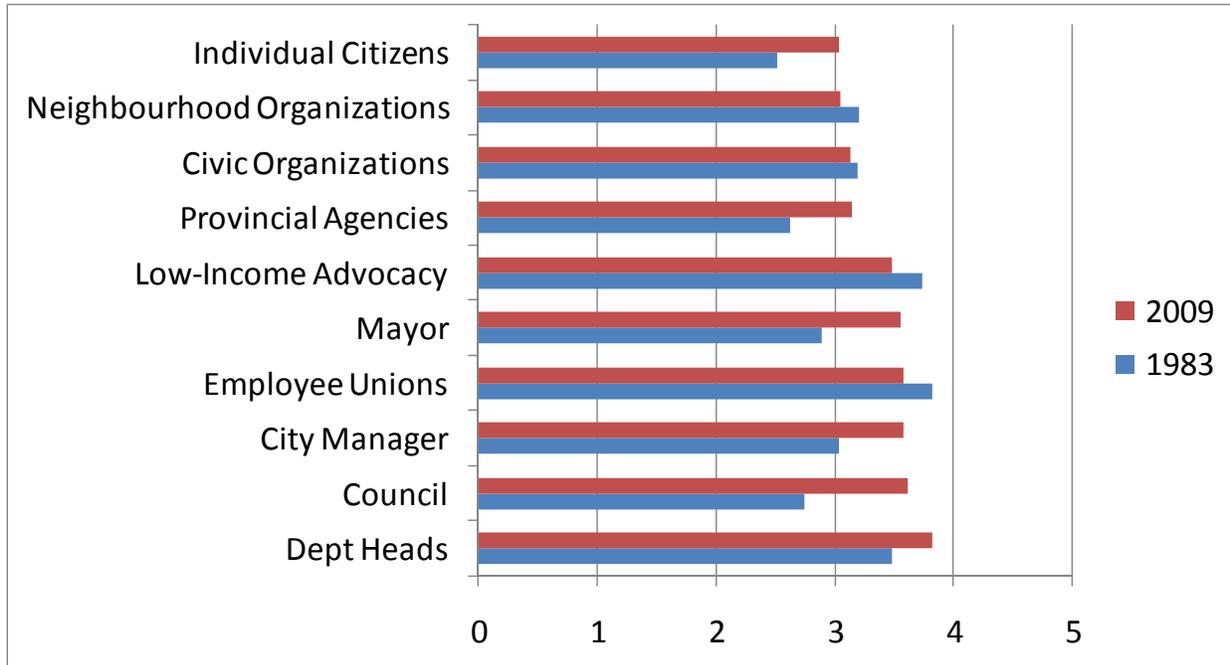
It should be noted in the mid-1990s the federal government implemented the Expenditure Management System (EMS) and Management for Results (MFR) in order to better understand and assess the performance of federal agencies. These initiatives have trickled down to the provincial level. The governments of British Columbia, Alberta, Ontario, and Nova Scotia have mandated performance measurement reporting for cities within their jurisdiction. Although CAOs support performance measure techniques as a tool for managing fiscal stress, the antidotal evidence tells us that front-line managers have resisted operational scrutiny and performance comparison with other cities.

**Table 5: Fiscal Management Strategies
(Most Important Score =1)**



Finally, the fiscal austerity and urban innovation study confirms that local politicians set the spending priorities of their local communities. A significant trend observed from the survey results is the active participation of new political culture groups in the local government budget process. Local governments are experiencing increased participation from low income advocates that support social assistance programs for the homeless. Civic organizations are pressuring local councils to increase spending for arts and culture. These advocacy interests are competing with taxpayers associations and business organizations that want to see tax cuts. Yet, neighbourhood citizens are not remaining passive. They expect their councilors to sustain community services.

**Table 6: Influential Group in Spending Preferences
(Most Important Score = 5)**



Recent work by Donald Savoie (2008) analysing the World Values Survey data between 1982 and 2000 supports our survey results. Canadians have increased their participation in direct action groups focused on protecting human rights, the environment, arts and culture, and services for the elderly. These behavioural trends toward community action are highly correlated with increases in family income and education attainment over past several decades. In comparing the World Value Survey data with our survey results, Terry Clark’s notion of a rising new political culture is confirmed. Politicians and civic administrations face a citizenry that can clearly articulate a decisive community action agenda. The dynamics of the local political environment can be directly attributed to the increased fiscal responsibilities that have been placed on the door steps of city halls since the era of provincial downloading began across Canada.

Cities Doing More with Less

Table 7 displays vividly the reason why Canadian cities must look for more creative and innovative ways to provide municipal services at lower costs. Using Ontario as backdrop for analysis, we observe that over the last 10-years cities in Ontario rely more on Own Source Revenues and particularly User Fees. As well, Property Taxes have increased to replace the short-fall in grants passed along from the provincial government to cities.

In response to fiscal pressure to do more with less funding, cities have developed innovative methods to conduct business and to reduce operating costs. City officials

have placed a greater emphasis on providing customer service. Kiosks have been set-up in city halls, libraries and recreation centers to provide residents with 24 hour access to government to pay property taxes, purchase dog licenses, apply for parking permits or register for recreation programs.

Table 7: Ontario Municipal Revenue Shift

Source	1996		2007	
	\$ million	% revenue	\$ million	% revenue
Property Taxes	7,172	42.2%	13,734	46.8%
User Charges	3,350	19.7%	8,044	27.4%
Other Revenue	1,051	6.2%	1,197	4.2%
Total Own Revenue	11,573	68.1%	22,975	78.4%
Conditional Grants	4,543	26.7%	5,503	18.7%
Unconditional Grants	882	5.2%	863	2.9%
Total Grants	5,425	31.9%	6,366	21.6%
Total Revenue	16,998	100.0%	29,341	100.0%

Source: Municipal Financial Information Returns

City councils support innovations that allow for flexible business hours so that citizens have access to public offices during dinner hour when most people are going home from work. This is a convenience and time savings for citizens that can access city services in a flexible fashion conducive to their work hours. Innovations in personnel management, such as compressed workweeks and staggered work hours, can result in savings for city administrations. Their employees exhibit less truancy from work because they have an opportunity to take care of personal matters during regular business hours.

A more novel innovation has been the creation of 311 call centers that provide 24-hour access to residents on information related to city services and an opportunity to register complaints about the quality of city service delivery. All such information systems are based on the principals of Baltimore's CitiStat created in 2000 by Mayor Martin O'Malley. CitiStat is an adaptation of New York's CompStat performance strategy developed in the 1990s by the NYPD. As Robert Behn (2008) points out, the problem with such data collection systems is that innovators usually only observe and implement the practice without considering the implications from the outcomes. Public officials have become reactive rather than proactive in planning service delivery schemes. In times of fiscal constraint politicians are finding it more and more difficult to satisfy the demands of constituents on issues related to municipal service delivery. Politicians face too many demands without the fiscal resources to accommodate them.

Enhanced utilization of technology has also been deployed to create websites that allow registration for recreation programs and the payment of property taxes. As well, e-filing of forms for building permits and licensing processes have been implemented in many communities. While these on-line services provide cost savings to

the government and convenience to the citizens, it is at a premium. As on-line systems have been implemented to retrieve customer information, it has become more difficult to access civic officials directly by phone or e-mail. City administrations are relying more on call centers and centralized drop boxes to access city hall. New technology is actually resulting in information “dumping” as city officials are inundated with too many citizen requests all coming forward at the same time from too many points of access. In a time of fiscal austerity, city officials can do little to address this onslaught of service delivery demands as city budgets have been cut to the bare bones.

In order to do more with less, cities have also entered into numerous Private-Public-Partnerships to maintain municipal infrastructure, and to provide the direct delivery of municipal services. Efforts to reduce overhead costs have resulted in staff attrition and layoffs, while municipal service delivery is sustained by public contractors collecting garbage, handling snow removal or trimming trees. Intricate local agreements exist between city halls and private contractors to provide waste recycling, water and sewer treatment, and road maintenance programs. Under such contractual arrangements, the initial bidding price can be quite low to entice municipal councils to enter into the servicing arrangement. What has been documented in many instances is that contractors usually add “extras” to their actual billings, resulting in an end price for the service that is much higher than initially projected.

Another prevalent theme across Canada in all provincial jurisdictions is to deploy persuasive efforts to restructure local governments and review provincial-municipal relationships. New Brunswick has recently completed a study to review the possibility of reducing the number of municipal jurisdictions in order to look for synergies and costs savings in an effort to improve service delivery. Ontario mandated the restructuring of local municipalities into fewer jurisdictions in an effort to improve service delivery and control grant transfer to cities in the late 1990s. The primary example familiar to all is the creation of the mega-region of Toronto. Cities in western Canada encourage voluntary annexations between local municipalities where service synergies can be achieved between neighbouring communities. This philosophy of provincial and municipal arrangements supports the notions of populist politics that seeks to return power to the people.

Populist politics has played out in the suburban communities of Montreal. Local constituencies balked at the “One Island, One City” rationale for the municipal merger that created the Montreal Urban Community effective January 1, 2002. Middle-class pressure from suburban bastions forced Premier Jean Charest to introduce Bill 9 in December 2003, creating a complex process for the boroughs of Montreal to regain their former independent status as separate municipalities. On January 1, 2006, Montreal was reconstituted into a city with 19 boroughs and now 15 reconstituted cities have been created by demerger referenda.

To the educated observer, Canadian cities are struggling to sustain municipal services; however, local officials remain caught up in a cycle of restructuring, reinventing and reworking political structures rather than facilitating innovative urban management to meet the challenges of the 21st century. Over the past 10-years, all these restructuring initiatives have been disguised as measures dealing with fiscal austerity and urban innovation. The Liberal Ontario government, recognizing the

dilemma faced by city politicians, has tabled a report titled - *Facing the Future Together*. Released October 31, 2008, the Provincial-Municipal Fiscal and Service Delivery Review did not contain any new source of funding for infrastructure; however, the Ontario government will assume the costs for social services and court security which will give cities more fiscal budget room. This provincial initiative will take some pressure off cities that have been in a constant state of flux dealing with centralization of services versus decentralization of services in an effort to cut costs and stack favourably against province-wide service delivery standards.

Clearly, the survey results indicate that mayors and councils drive fiscal policy decision making with the support of senior administration in Canadian cities. Politicians usually attend luncheons sponsored by the local Chamber of Commerce or Rotary Club to garner support for their budget proposals. Thus local business interests are influential in fiscal policy decisions rendered by councils. As well, it is no surprise to see city employees and their unions influencing fiscal policy because negotiated contracts affecting wage settlements constitute the largest portion of public spending.

Opposition to councils' fiscal austerity initiatives come from several fronts. The new political culture advocates demand public policy solutions to eradicate homeless and public health disparities experienced by the less fortunate in our society. As well, new political culture advocates have become quite vocal over community service cuts and have voiced their anguish through participation in Homeowner or Neighbourhood Organizations. Similarly, the elderly have formed advocacy groups through participation at senior centers or in organizations such as the American Association for Retired Persons (AARP). These organizations then pressure local politicians to support community health and recreation programs. Senior citizens have also banded together to ensure their communities receive adequate policing to prevent break-and-enters and property damage from graffiti. However, these redistributive fiscal demands placed on city politicians are countered by Chamber of Commerce groups that demand that more tax dollars be deployed to promote investment to attract new business opportunities to their city. All the while, the media flames the debate investigating and reporting on all the follies that occur at city council meetings. It is no wonder that Douglas Yates sees city decision-making as a shooting arcade. Politicians face continuous challenges with no single simple solution.

Conclusion

Canadian cities are under increasing pressure to find effective ways to respond to the needs of their citizens. With diminishing assistance from senior levels of government, municipal officials face numerous challenges in setting direction for their community and generating resources to carry out their mission. The fiscal austerity and urban innovation survey results clearly indicate that municipal officials must not only find local revenue sources to address their problems, they must also provide quality services, and manage shrinking revenues with greater efficiency and effectiveness.

Provincial governments have responded to cuts in federal government transfers across Canada by restructuring local governments, creating fewer local jurisdictions and enforcing province-wide benchmarking of comparative service delivery initiatives. Future

research requires more detailed insights into the specific techniques and service delivery innovations that have been put into place in local communities in order to sustain municipal services in a time of growing fiscal restraint.

Local political leadership is very important in facilitating co-operative agreements between local communities, business leaders and senior government officials. More discussions and case study research must be initiated to share information and ideas on new and innovative approaches in municipal management to combat fiscal restraints. Further analysis and interviews with municipal and provincial officials is required to confirm the observations noted thus far.

To muddle the efforts by local politicians to reduce spending and balance budgets, the new political culture has come forward with advocates demanding that wasteful programs be eliminated while at the same time encouraging local program spending for the elderly and low income groups. Neighbourhood organizations, supported by new political culture advocates, voice concern to local politicians when basic community services are not provided in a fashion deemed appropriate to their needs.

Fiscal austerity and restraint pose challenges for local politicians to maintain community sustainability. As we note, many global problems have been laid to rest on the front steps of city halls. Research and study of the impact of dealing with social welfare, health, homelessness, and poverty are critical to understand if innovation and change really work.

Note:

The Fiscal Austerity and Urban Innovation (FAUI) Project provides the opportunity to not only analyze the methods employed by municipal governments in dealing with diminished federal and provincial funding, it also provides a means for analyzing these issues in the context of the New Political Culture. Since its inception in 1982, the FAUI has become the most extensive study of local government in the world. To date, more than 800 persons have participated; expenditures have exceeded \$20 million; and original surveys have been conducted of mayors, council-members, and administrators. The project also includes demographic, economic and fiscal data for localities in some 30 countries, with over 50 books published to date. The project is unusual, if not unique, in combining a large-scale sophisticated research effort with decentralized data collection, interpretation, and policy analysis. The Canadian data is from an initial survey in 1983 of municipal officials and a new survey in 2009. You can contact the project directory, Terry Clark, at www.fau.org. A special thanks is extended to Brienne Girard, Graduate Research Associate, the Harris School of Public Policy at the University of Chicago, for her extensive data analysis.

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