

An Open Letter to the Next Prime Minister of Canada

Following the June 28th election, the Prime Minister of Canada will have to deal with the rapidly declining health of our large urban regions. After twenty years of neglect by both Progressive Conservative and Liberal federal governments and the opposition parties of the day, our large cities are struggling with crumbling infrastructure and declining services. This hurts the entire country, which relies on the tax revenues generated from city activities.

There are particular areas where the federal government has been involved in cities in the past, and where withdrawal in recent decades has left critical gaps. Low income housing, public transit, immigrant settlement, and infrastructure have all suffered from a lack of federal government support. These are crucial ingredients of successful cities. Most developing countries, including the United States, Great Britain, France and Germany, provide national government support for their urban regions, recognising their importance to the national interest. Canada is alone in not doing so.

The absence of such support puts Canada at a disadvantage in global competition. In the 21st century, global competition is increasingly between urban regions, rather than nation states. The bulwarks of modern economies are finance, information and design. These are urban centred, trans-border, and mobile. They depend on human and intellectual capital that can move overnight to a more attractive and rewarding place. Failing to remain attractive and rewarding can cripple a local economy, and by extension a nation.

Some have made the argument that the federal government can't be seen to be doing things that aid big cities specifically, but must find solutions that fit every "community", from hamlet to mega-city. Yet the federal and provincial governments show no such unease in taking money out of the large, productive cities to transfer to the rest of the country. The Toronto region sends \$17 billion more annually to these governments than it receives back in federal and provincial goods and services. Montreal and Vancouver are in similar situations. The federal and provincial governments show little concern in addressing this imbalance and its consequences. While some of their citizens may live in wealth, city governments in Canada live in poverty.

The next Prime Minister must understand investment as the placement of capital in the expectation of return. He must be cognisant of the nature of national finances, and the reliance of the country on urban revenues. He must understand the importance of maintaining our cities as competitive places for the attraction and retention of intellectual and human capital.

He will be aware that the federal government can deal directly with people and can deal through intermediaries. So, for example, using taxation the government can provide benefits to citizens that, if strategically aimed, can achieve particular goals. Or, it can work through intermediary organizations, such as the Federation of Canadian Municipalities, which has been a funnel for federal environmental funding.

Twelve things the next Prime Minister of Canada should do to strengthen Canada and its cities

Transportation

1. **Make transit passes tax deductible** (provided by corporations to employees or purchased directly by citizens).
2. **Allow transit authorities to depreciate their capital assets**, with the funds to be applied to maintenance and good repair through the creation of sinking funds and replacement reserves.

Housing

3. **Defer capital gains tax on rental housing**, and permit the recapture of depreciation upon re-investment.
4. **Rebate the GST for rental projects.**
5. **Create a refundable tax credit for rental or mortgage payments**, aimed at subsidizing market rents for low income Canadians.¹
6. **Work directly with cities or other third parties to deliver affordable housing programs** where provinces are unable or unwilling to make housing a priority.

Culture

7. **Provide tax credits for developers who include cultural space** and endowments for operations in new developments and major renovations.
8. **Provide a share of a consumption tax to create capital pools for the financing of major cultural infrastructure**, such as the ticket surcharge or airport development fee, which could fund cultural venues such as symphony halls, libraries, and sporting venues.

Settlement of Immigrants and Refugees

9. **Ensure a co-ordinated approach to the integration of immigrant skills** through work experience programs and labour market language training by recognizing the fundamental relationship between successful settlement and labour market access.²
10. **Create a "planning table" for the development of settlement policy and program** that includes destination cities as full partners.³

Leadership

11. **Transfer shares of income tax to cities** based on a fixed percent of their net export of capital.
12. **Take a strong and visible leadership position on behalf of Canada's principal urban regions** by appearing with the Mayors in those cities, and having federal members be involved in co-operation with those city governments.

1. Tom Kent, *For Affordable Housing: Have Ottawa Pay the Rent*, Policy Options, March 2002, available at www.irpp.org.

2. See for example, Naomi Alboim and The Maytree Foundation, *Integrating Immigrant Skills into the Ontario Economy: A Ten Point Plan*, October 2003, available at www.maytree.com.

3. This might be modelled on the Toronto Region Immigrant Employment Council (TRIEC) started recently in Toronto, which is a multi-stakeholder collaboration with representation from private and public sector employers, colleges and universities, community organizations, assessment service providers, organized labour, occupational regulatory bodies, foundations, and all three levels of government, www.triec.ca.

It is about Revenues...

Parsing through the role of cities in Canada, you come to the question of revenue. Cities in Canada need more secure sources of revenue. Not just more revenue, but more secure sources of revenue.

Canadian cities rely on the property tax to a much greater extent than do cities in the US or Europe: over 50% in Canada, about 15% in the US, and less than 10% in Europe. US and European cities have a much broader range of revenue instruments available to them, including income and consumption taxes, debt and debt-like instruments, and fees. Property tax does not reflect or reward the cities' role in stimulating economic growth. It is also inelastic, and does not respond to fluctuation in demand.

...and Responsibilities

Vancouver, Montreal and Toronto need to have a much broader array of revenue tools available to them. At the same time, they are capable of assuming more responsibilities. Canada's three large urban regions could manage a great deal more than they do now, in fact, most of what a province does. For example, the health and education needs of the cities are unique and challenging. Local officials have the expertise, and must be empowered to develop and implement policies and programs that are tailor-made to their diverse populations.

The Challenge and the Opportunity

There is a fundamental opportunity for leadership by the federal or provincial governments to transform Canada's large cities into fully mature, independently sustainable financial, social, and cultural entities.

The solution is not simply kinder, gentler, and more generous federal and provincial governments. Until the large urban regions can exercise a fuller responsibility for policy and programs for their citizens, and have the sources of revenue to pay for them, Canada will continue to operate sub-optimally and risk losing to competing urban regions. And as our cities decline in competitive ability, we risk our sovereignty as a country, as our citizens begin to look elsewhere for the provision of goods and services. It is not enough for the federal government to ask why they should support the cities. Canada needs leaders who recognize the urban reality of the 21st century, who will accept the responsibility of communicating it to the country, and who will create an environment that will build on our greatest strengths. The cities represent this opportunity.

In 1999, Avana Capital, through its Ideas that Matter division, initiated a series of discussions on urban autonomy in Canada which resulted in the publishing of *Toronto: Considering Self-government, Towards a Greater Toronto Charter*, and the creation of the C5 (Vancouver, Calgary, Winnipeg, Toronto and Montreal), a city collaboration that includes meetings of Mayors and civil society leaders on a regular basis.

Avana Capital was honoured on May 26th, 2004 by the Canadian Urban Institute for its work in advocating a new role for Canada's largest urban regions. Alan Broadbent, CEO, Avana Capital Corporation and Mary Rowe, director of Ideas of Matter, received the *City Renewal Award* for their efforts in the public realm. Ideas That Matter, inspired by the wide-ranging ideas and principles of Jane Jacobs, concentrates on issues related to cities, urban economies and the values of diversity, community and the public good. Ideas that Matter publishes a quarterly magazine and produces events to stimulate public discourse.

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