

Subject: US Style of Local Government

Date: Sat, 18 Jan 2003 12:12:51 -0800

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Your Worship & Members of Council,

Attached below is an extract from Volume 34 of the latest Local Government Bulletin (web site <http://www.localgovernment.ca>)

It provides a very readable insight on some aspects of strengthening local government. It is well worth reading.

It is based on a paper by Robert Bish, Professor Emeritus, University of Victoria, which can be found at <http://web.uvic.ca/lgi/PDF/LGF%20United%20States.pdf>

Yours truly,

Corrie Kost

cc: FONVCA

1. Local Government Financing, US Style

One recent practise of urban commentators in Canada is to speak glowingly of how national and state governments funds are flowing into cities in the United States. Canadian governments have often been urged to emulate these examples to strengthen local government.

A new study, by Professor Robert Bish of the University of Victoria, indicates that the cost of this financial help might far outweigh the benefits.

Professor Bish notes that while senior governments may provide financial and tax room for local governments, they have done so by placing Tax and Expenditure Limits (TEs) on local governments, or by watching limits be put in place by public referenda. The best known example of a TEL is Proposition 13 in California, but there are Canadian examples of these limitations, such as arbitrary rules laid down by the Ontario government restricting municipalities from increasing property tax rates against particular classes of property.

Bish notes that TELs have reduced reliance on the property tax, have led to greater use of fees and other kinds of revenue sources, have resulted in increased reliance on state aid, and “may be leading to the creation of a more centralized public sector that is less responsive to local preferences.” In short, new financial support has come at the cost of less effective and less responsive local government. Bish notes that progressive voices in the United States are now proposing to “return the property tax to local governments so that local governments can make their own expenditure decisions,” in the process re-creating accountability to local taxpayers.

Bish also summarises the recent moves in American jurisdictions to equalize school financing, usually by consolidating school districts and centralizing school funds at the state level. Two extraordinary fall-outs of this new centralized system are, first, that it is correlated with a decline in standard test scores for college levels as well as for tests done for education organizations and the armed forces; and second, what he calls “non-parent loss of interest in the local schools.” Research shows that people who are not parents of school-aged children supported local schools because good schools raised property values in the neighbourhood. Once there was no control over how local schools were funded or run, non-parents realised it was not worth their time and trouble to support public education. Many in Canada have made the same arguments about these trends in education restructuring which first occurred in Alberta a decade ago, and has been followed in many other provinces.

A third issue is alternative revenue sources. Bish notes that as of 1996, general sales tax and incomes taxes are used by local governments in many states. He notes that sales tax as a local revenue only increases the inequalities between the financial capabilities of local governments, since some have many more retail facilities than others. The existence of the sales tax has led to major competition for new shopping centres and often more shopping centres are built than the market can support. Worse, the recent recession in the United States has caused very significant negative impacts on local government as sales and sales taxes have plummeted. Many local officials now regard internet sales as a big threat since they avoid retail sales tax.

The current recession has also produced negative impacts on the amount of income tax raised locally. “One study,” writes Bish, “concluded that Philadelphia’s 4.96% income tax rate had cost the city approximately 100,000 jobs to the suburbs.”

Bish concludes his paper with a general discussion on the merits of property tax. Property tax once was levied on personal as well as real property in the United States, so that it really could be considered a tax on wealth, but slowly personal property was removed from the tax base. By the 1960s local governments moved to relieve low income earners of the burden of the property tax since it was considered a regressive tax. More recently, however, Bish believes that many have come to realise that property tax is a relatively fair tax on wealth. He makes several conclusions about the merit of property tax, stating “if the local government is acting efficiently the benefits of the public services will raise the value of the property a greater amount than the taxes decrease it.”

He continues, “The benefit view of property taxation depends on jurisdictions being small enough... so that differences in benefits between jurisdictions can be perceived. This occurs most strongly where there are a multiplicity of small governments that can respond to the preference of their citizens... When local governing councils, both municipal and school, set the annual tax rates, citizens pay much closer attention to them than when they are funded with ‘other people’s money’...”

“The benefits view of the property tax does not apply to the funding of programs specifically designed to redistribute income such as welfare. Funding welfare with the local property tax would be expected to depress property values and any increases would be limited to apartments or the part of the housing market occupied by welfare recipients. Funding welfare through local property taxes provides perverse incentives to local government councillors.”

Bish’s conclusions are generally those which have been voiced by the opponents of provincial actions to restructure local government in Canada, and may apply equally to these restructured governments. It appears restructuring has dismantled good systems and replaced them with those that are dysfunctional.

The Bish paper can be downloaded from the website of the Local Government Institute of the University of Victoria:

<http://web.uvic.ca/lgi/working.htm>

