AN EXAMINATION OF THE URBAN FINANCIAL CRISIS WITH SPECIAL RESPECT TO THE CITY OF WINNIPEG

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June 1977

"AN EXAMINATION OF THE URBAN FINANCIAL CRISIS WITH SPECIAL RESPECT TO THE CITY OF WINNIPEG"

by

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A dissertation submitted to the Faculty of Graduate Studies of the University of Manitoba in partial fulfillment of the requirements of the degree of

MASTER OF CITY PLANNING

ABSTRACT

The purpose of this thesis is to investigate the causes of the "urban financial crisis" and to determine the extent to which it exists in a particular case study, the City of Winnipeg. It is based upon the central hypothesis that, if present conditions remain relatively unchanged, then our larger Canadian cities will soon find it increasingly beyond their fiscal capacity to adequately fulfill their mandate, with financial distress -- even including bankruptcy in some cases, becoming the rule rather than the exception.

Analysis of the problem was performed on two levels. The first was a generalized level of research, and was an investigation of those conditions which were seen as being causes of the urban financial crisis, most of which seem to be an inherent part of the urban fabric and its governing structure. This was then utilized both as a framework within which to analyze the case study, to determine the extent to which the hypothesized problem exists there, and also as supportive data with which to further validify the case study.

In all, eleven "causes" or conditions were uncovered as being the catalyst of the urban financial crisis. Of these eleven, nine were proven to exist to some degree within the City of Winnipeg, with six of them being serious enough to

warrant the conclusion that Winnipeg will indeed be facing serious fiscal problems in the very near future, with bankruptcy appearing as a distinct possibility.

Based on these findings, several recommendations are offered, aimed at ameliorating the problem. These recommendations centre on both the existing obsolete revenue structure of the City and also the inadequate manner in which the City approaches its operations and expends its available monies.

ACKNOWLEDGEMENTS

A gesture of appreciation must be extended to several people whose efforts made my research a much less formidable task than it need be. I am more than extremely grateful to Dr. Kent Gerecke, whose encouragement and direction form a very large component of this document, and to the City Planning students for allowing me the opportunity to present the findings of my research to the public. I must also thank Mr. John Gee, Head of Winnipeg's Committee on Finance and Mr. J.C. Gilmour, City Treasurer of Winnipeg, for giving some of their limited time to me, a seemingly eternity ago. And, to Mr. Greg Mason, I must extend my gratitude for his highly constructive criticisms and comments.

Of special note, I must give thanks to Dave Hicks for his encouragement and influence; to Hunter S. Thompson for personal inspiration; to Silly for typing the final manuscript; and, of most importance, to Claudette for being Claudette.

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PREFACE

The past two decades have been a time of radical upheaval in our society -- socially, politically, and economically. And, no where have these changes been manifested so greatly as in our major cities.

However, the city has not merely been a stage upon which these changes have taken place during this period, as it, in turn, has been radically altered itself by them. Virtual revolutions in life -- style, technology, economics, politics, society -- even in our philosophical attitudes towards our fellow man, have acted to transform our cities in ways that could never have been envisioned twenty years ago. Some of these changes have been wonderfully beneficial, others have not been so kind.

In the early 1970's, these changes were manifested in a new urban phenomenon -- the bankrupt city. As New York City declared bankruptcy and other major urban centres on both sides of the border began to report varying degrees of fiscal distress, many observers of the metropolitan scene began to seriously question the financial viability of the city.

This piece of research is an attempt to begin to answer some of these questions. It is based upon the hypothesis that, given present conditions, the large city is no longer fiscally viable; and, what is more, if these conditions are allowed to persist, then the bankrupt city will become the rule rather than the exception. It will attempt to prove that the complete "cultural revolution", as it were, has resulted in changes so marked that the traditional expenditure/ revenue relationships of local government have become obsolete. Consequently, according to the author's convictions, most of our major cities will find it increasingly impossible in the very near future to fulfill their mandate. This situation is what the author terms the "urban financial crisis".

This "crisis", as it is being advanced here, is not so much a result of a radical variation in the basic kinds of services provided by local government; rather, it is being catalyzed by a shift in the complexity and very nature of those services traditionally demanded of them. This situation is being brought about by a spectrum of forces which have acted to produce changes in the basic geographical, social, and economic fabric of the large city generally.

As a result of these changes, the scope and nature of the function of urban government has shifted dramatically. As it will be demonstrated, it is beginning to assume an ever-increasing position of primacy in the public sector hierarchy; and, reflecting this rise is a spiralling increase in urban expenditures necessitated by it. At the same time, local government is being forced to continue to rely upon its traditional sources of revenue, which, given the ever-increasing complexity of its present function, has become woefully inadequate. This forms the basis of the author's contention that the urban financial crisis is indeed at hand.

While the focus of this piece of research involves an actual case study of the City of Winnipeg, the hypothesis will be explored concurrently on two levels. The first will involve research of a more generalized nature and will endevour to present those causes and conditions which the author believes constitute the catalyst of the urban financial crisis universally. This will then be utilized both as a framework within which the fiscal viability of the City of Winnipeg may be evaluated and as further evidence supporting this evaluation. It is hoped by proceeding in this manner that not only will it provide a sound basis of research into the financial problems of Winnipeg itself, but it will also act to show that the City's financial status is not a freak exception, but representative of the generalized case.

This research will then be followed by some conclusions and recommendations. These recommendations will be case-specific in nature and will be aimed at ameliorating the anticipated financial calamity of the City of Winnipeg.

It should be cautioned at this point that the findings of this particular piece of research must be considered to be preliminary only. Because of the very complexity of the problem involved, portions of the research were, by necessity, cursory in nature. Nevertheless, it is believed that it represents a valid piece of work. It certainly succeeds in laying the groundwork for further research into what may be the most dire problem facing our cities today.

CHAPTER I

THE URBAN FINANCIAL CRISIS

INTRODUCTION

It was outlined in the preface of this paper that the central hypothesis of this treatment is that the "urban financial crisis" as it has been defined is not a peculiarity unique to some select cities such as New York, which manifests the problem so glaringly, but rather is a result of conditions and phenomena which are inherent in the basic geographical, social, and economical constructs of the large Canadian[1] city generally. What is more, it is the conviction of the author that if some very basic changes in these constructs are not implemented, then the problem itself will become immeasurably aggravated with the ultimate outcome being that the financially bankrupt city will become the rule rather than the anomaly that it is today.

It is the intention of this section to examine those conditions which comprise the underlying causes of the

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[1] While perhaps an even more persuasive argument can be made for the financial demise of the American city, this treatise will deal with the Canadian case only, which differs in some respects from its American counterpart. However, some supporting evidence based upon findings in U.S. cities will be drawn upon that can be considered to be equally as valid to Canada.

urban financial problem that are, for the most part, inextricably bound up with the very fabric of most large cities today. It will demonstrate that the basic financial problem presently facing cities is a two-sided one, involving both a mushrooming level of expenditures -- brought about by a myriad of conditions, and a revenue base that is a totally inadequate resource with which to attempt to keep pace with these expenditures.

Concurrently, each of these conditions advanced as being a cause of the "urban financial crisis" will be used as a basis for evaluating the fiscal future of the City of Winnipeg, in an attempt to demonstrate that it is rapidly approaching a financial crisis. This will allow some conclusions to be drawn regarding the financial viability of Winnipeg -- both as a specific case study and as an example of the generalized condition.

As an introduction to the research, the intial portion of this section will attempt to analyze -- through a combination of both formal and informal means -- the present financial position of the City of Winnipeg. The remainder of the section will endeavor to prove that this existing position is about to deteriorate alarmingly in the very near future; so much so that, if present conditions are allowed to continue unabated, then financial collapse will be a most probably occurrence.

PRESENT FINANCIAL POSITION OF THE CITY OF WINNIPEG

Financial analysists commonly utilize several fiscal standards in order to appraise the relative attractiveness of a municipal government for investment purposes. These standards reflect the financial well-being of that municipality or city. The following, which are among those commonly used, are presented as a yardstick against which Winnipeg's financial position may be viewed.

1. "The ratio of debt to assessed value is a classic standard: 10 per cent is often quoted as an upper limit."[1] In 1974, (the year for which the latest financial reports were available at the time of writing) total assessment in the City of Winnipeg was $1,360,627,910[2], while gross tax-supported debt was $122,041,761[3]. This meant that their ratio of debt to assessed value was 8.9%, marginally below the acceptable ceiling.

2. "The ratio of debt to estimated market value is probably a better standard. On this basis, the 10 per cent limit is not only more generous, but also more significant economically."[4]

Assessment in the City of Winnipeg is generally

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[1] J. Richard Aronson and Eli Schwartz, eds., Management Practices in Local Government Finance (Washington, D.C.: International City Management Association, 1975) p. 223.

[2] City of Winnipeg, Annual Financial Reports, 1974, p. 43.

[3] Ibid., p. 110.

[4] Aronson and Schwartz, Management Practices, p. 223.

estimated on the basis of 100% of value for land and 66 2/3% of value for buildings. Thusly, estimated market value of assessable property in the City in 1974 was $1,848,376,320[1]. Based upon this, then, the debt to estimated market value ratio is 6.6%, a more acceptable figure than the one above.

3. "Debt per capita is often quoted in debt burden evaluation, but standards for this figure vary widely."[2] The City of Winnipeg, with a tax-supported debenture debt level of $122.0 million in 1974 and a population of some 560,000 people at that time, was supporting a debt level of approximately $218 per capita. This could be considered to be an acceptable figure.

4. Debt service is the amount of funds expended annually to pay debenture interest and retire maturing securities; it represents a very good measure of fiscal viability as it measures cash flows to be funded out of revenue flows. In 1974, debt charges of the City of Winnipeg were $18,689,971[3], which represented some 17.2% of the entire municipal budget. While this level is not entirely unfavorable, it should not be allowed to rise much further.

This very superficial financial analysis gives a rather satisfactory impression of the City's financial position as of 1974. However, a much different viewpoint is

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[1] Based on a total assessment in 1974 for buildings of $975,496,820 and for land of $351,427,490 as quoted in City of Winnipeg, 1975 Current Estimates, p. 12.

[2] Aronson and Schwartz, Management Practices, p. 223.

[3] City of Winnipeg, 1975 Current Estimates, p. 11.

offered when one examines its fiscal developments since them. An informal picture -- albeit a very revealing one -- of Winnipeg's present financial stability, is painted by the following exerpts from newspaper articles, financial documents, and other sources, which provide a chronological documentary of the recent direction of Winnipeg's finances.

> As displayed by the statement on page 4, the City's total expenditure requirement for 1975 shows an increase over the 1974 approved budget of 22%. The total available revenues, before increasing the mill rate, show an increase of only 12.4% including Provincial Government grants. From this simple comparison it would appear evident that expenditures are increasing at almost twice the rate as the revenues necessary to offset these expenditures. The 22% increase in expenditures is largely accounted for by the renewal of wage contracts with the various employee unions -- a dollar increase of about $17.5 million. The total City wage bill for municipal services, including related fringe benefit costs, now amounts to about $87 million or 56% of the total expenditure estimates. Other major cost increases, due in the main to the prevailing inflationary conditions in the overall economy, are as follows:
>
> | | |
> |---|---|
> | Equipment and Equipment Operating Costs | $4.1 million |
> | Goods and Services | 3.2 million |
> | Fuel, Water, Light & Power | 1.8 million |
> | Debt Servicing Costs | 3.4 million |
>
> Unless services are curtailed and new development is discouraged in the urban area, large cost increases will continue to face the City each year and existing sources of revenue will continue to be inadequate to meet the need without substantial increases in the mill rate to overcome the resulting deficits. The need to broaden the City's tax structure and to reduce the heavy dependence on the property tax base is urgently required.
>
> City of Winnipeg, 1975 Current Estimates, p. 6.
>
> Works Budget Trimmed. The City's Board of Commissioners released a proposed 1976 capital works budget totalling $91.87 million Thursday and cautioned against excessive borrowing in the next few years....The 1973 capital budget was $32.2 million; in 1974 it jumped to $68.8 million and the 1975 figure skyrocketed to $98.9 million.
>
> Winnipeg Tribune, 21 November, 1975.

City Gets AA Rating. One New York financial firm has awarded Winnipeg an AA rating as the City prepares to borrow $50 million dollars on the American market.... The federal government is the only government in Canada to hold an AAA rating.

Winnipeg Tribune, 12 December, 1975.

City Faces Deficit: Board. The City of Winnipeg faces an operating budget deficit 'conservatively estimated' at $18 million if services and taxes are maintained at present levels, according to the City's board of commissioners....The brief, which projects financial trends to 1980, concludes that the cost of maintaining services is 'outstripping the slow growth of municipal revenues' so quickly that the province may have to take over the city's operations....The provincial government has 'never' responded to demands to find solutions to the city's long-range financial problems...but has given 'first-aid' in the form of grants which delays and 'continuously worsens' the 'inevitable financial crisis'.

Winnipeg Free Press, 4 February, 1976.

$28 Million Deficit Expected. The City board of commissioners is expected to finish work early next week on Winnipeg's 1976 current budget with its initial $28 million deficit....In 1974, the operating budget has a surplus of $3.9 million. Figures for 1975 have not been released.

Winnipeg Tribune, 5 February, 1976.

City Taxpayers Face Hefty Jump. Winnipeg homeowners can expect a 16.7 per cent increase in their municipal taxes to cover the city's projected 1976 deficit in current operating expenses....This, however, does not include tax increases by the 10 school boards which fall within the city's boundaries. It also does not include capital works projects.

Winnipeg Tribune, 1 March, 1976.

Miller Offers City No Hope of Major Increases in Aid. The City of Winnipeg shouldn't expect any significant increase in financial assistance from the province this year, Urban Affairs Minister Saul Miller of Manitoba said Tuesday....The province has its own budgetary problems, he said...The province isn't prepared to cut back further on provincial programming in order to transfer money to the city, or to raise its own tax rates to relieve the city of its own responsibilities.

Winnipeg Free Press, 11 March, 1976.

Sidewalk Snow May Be Left Until More Than 10 cm. Deep. In cutting $750,000 from the 1976 snow removal estimates, committee recommended Monday that some services be eliminated or reduced substantially.

Winnipeg Free Press, 16 March, 1976.

35-Cent Bus Fare, Reduced Service Possible In Bid to Cut Transit Loss. Some members of civic works and operation committee say they will vote to increase the bus fare to 35 cents from 25 cents, and will recommend to city council major reductions in Winnipeg's transit service.

Winnipeg Free Press, 16 March, 1976.

Inner City May Face Trim -- Boulevard Chore...Committee proposed saving $200,000 of the $410,000 maintenance budget by recommending that Inner City residents take care of their own boulevards.

Winnipeg Free Press, 17 March, 1976.

You Can Count on Hefty Tax Increase. Winnipeg's board of commissioners has recommended a seven-mill increase on 1976 tax bills to finance a proposed $183 million budget...If unchanged and approved by council, the estimates could require 67 mills this year for city purposes, an 11.6 per cent increase over last year's 60 mills.

Winnipeg Tribune, 26 March, 1976.

Tax Rise of 4.7 Mills Expected This Week. Winnipeg property owners may be faced with a 7.8 per cent increase in the municipal mill rate this year, to 64.92 mills from 60.252 mills in 1975. The increase could have been higher, but civic executive policy committee Thursday made additional cuts in the 1976 city estimates. And an extra $1.2 million was found in previously miscalculated business tax revenue.

Winnipeg Free Press, 9 April, 1976.

Told City Services Endangered, Executive Backs Off Spending Cut. Warned that a proposed 10 per cent city budget cut next year would drastically reduce municipal services, Winnipeg civic executive policy committee recommended Thursday that it be only a working goal... City administration figures showed that the 1976 city operating budget of $183 million would have to be increased by more than $20 million next year just to cover $18.8 million in inflationary increases and $1.5 million in added debt charges for new capital works projects already approved.

Winnipeg Free Press, 10 September, 1976.

It is apparent from the preceding that the City of Winnipeg is beginning to encounter some serious fiscal difficulties. While its financial position was a favorable one as late as 1974, this position has deteriorated rapidly. They have been forced since then to raise property taxes substantially, cut services in some areas, freeze all new hiring of personnel, and scramble to find inadequate short-term solutions to a long-term problem. Efforts to date have generally involved a treatment of symptoms rather than causes. What is more, it is proposed here that this situation will continue to deteriorate drastically unless some very basic and necessary changes are made. The remainder of this section is an attempt to prove this hypothesis. Presented will be documentation of those conditions seen as being causal factors of the "urban financial crisis" generally. Concurrently, the City's financial position will be examined with respect to each of these causes to try and assess the probable fiscal impact of each.

CHAPTER II

CAUSES OF THE URBAN FINANCIAL CRISIS: RISING EXPENDITURES

Expenditures of local governments have been rising at enormous rates over the past several years. One author estimates that general operating expenditures of U.S. cities tripled during the sixties[1]. Closer to home, current expenditures of the City of Winnipeg rose from 166.3 million dollars to244.7 million dollars in just two short years[2]. (In addition to this, the City also embarked upon an intensive capital improvement program during the same period -- their capital budget, which was 32.3 million dollars in 1973 increased to an astounding 98.9 million dollars by 1975[3].

Winnipeg, it must be pointed out, is typical of most larger cities in Canada in this respect. Skyrocketing urban expenditures has been a universal phenomenon being experienced in most large centres. A myriad of conditions, intrinsic

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[1] Robert B. Pettengill and Jogindar S. Uppal, Can Cities Survive? The Fiscal Plight of American Cities (New York: St. Martin's Press, 1974), p. 11.

[2] Based upon 1973 actual current expenditures as quoted in City of Winnipeg, 1974 Current Estimates, p. 14 and 1975 estimated current expenditures as quoted in City of Winnipeg 1975 Current Estimates, p. 11.

[3] Winnipeg Tribune, 21 November, 1975.

to the structure of metropolitan areas, have acted to produce this phenomenon. Each of these conditions will be discussed individually in detail.

INFLATION

> For all general expenditures in the fifteen years between 1955 and 1969, inflation accounted for well over fifty percent of the total increase in outlays. Only one fourth was due to workload, and less than one third was accounted for by changes in scope or quality of services. The impact of inflation also varied among different municipal functions. Higher prices had the most noticeable affect upon local schools and basic urban services (but)...was well below average in the case of public welfare, higher education, and general administration[1].

As is implied in the above passage, it would seem that the largest cause of increasing urban expenditures in absolute dollar terms is inflation, which is a byproduct of a rather unstable world economy and bears little, if any relationship to the structure of local government. However, while inflation is a universal phenomenon, seemingly unmindful of metropolitan public expenditures, it is the nature of local government activities which renders it much more susceptible to inflation than is the private sector. (Indeed, the cost/revenue ratio of urban government is more adversely affected than even other levels of the public sector[2].)

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[1] John Pazour, "Local Government Fiscal Conditions" The Municipal Yearbook, 1972 (Washington, D.C.: International City Management Association 1972), p. 282.

[2] Leslie Holbrook, "The Winds of Change are Blowing", Civic, May 1976, p. 22.

The City of Winnipeg is no exception to this point, as is borne out by the following analysis. Table 1 shows the consumer price index level for Winnipeg as provided by Statistics Canada. Since 1972, the cost-of-living, as measured by the consumer price index, has risen by about 44%; the average annual change over that period has been approximately 8.4%. However, the extent to which inflation has affected the cost/revenue relationships within the City of Winnipeg has been something much more pronounced than this.

TABLE 1

AVERAGE ANNUAL CONSUMER PRICE INDEX:
CITY OF WINNIPEG. 1971-1976.

Year	Consumer Price Index	% Change
1971	100.0	
1972	103.8	3.8%
1973	110.4	6.4%
1974	122.2	10.7%
1975	137.4	12.4%
1976	149.3	8.7%

Source: Statistics Canada.

Statistical cost analyses prepared by the City's research department in September, 1976 demonstrated that the costs of running the City of Winnipeg rose some 95% between 1972 and 1976[1]. Of greater consequence is the fact that over one-half of this increase (51.1%) was a result of inflation[2].

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[1] City of Winnipeg, Board of Commissioners Research Department, "Factors Effecting Budgetary Costs. City of Winnipeg. 1972-1976".

[2] Ibid., p. 5.

Of the total cost increase of some $87 million, an amount of some $44.38 million, was directly attributable to inflation. This means that the 1972 municipal budget of $84,636,484 rose 52.44% by 1976 solely due to inflationary factors, representing an annual average increase of 11.1%. This increase is substantially greater than that measured by the cost-of-living index over the same period for the Winnipeg area. For obvious reasons, the report is prefaced, in part by the statement "you will note that, as you would expect, inflation has been the most important single influence, and its effect on the cost of operating the City has been devastating"[1].

The underlying causes of this overly high susceptibility to the impact of inflation can be found in the very nature of local government activities. The system through which local government allocates resources is a labor-intensive one; in the case of the City of Winnipeg, wages and salaries account for some 60% of the current budget. And, it is increases in salaries and wages that are both a major contributor to and factor affected by inflation. (Of equal importance is the fact that total fixed costs which the City has virtually no control over, constitute fully three-quarters of Winnipeg's expenditures.)

Exacerbating this situation is the fact that it has become evident that raises in wage and salary levels of civic employees have not been accompanied by offsetting

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[1] Ibid., Preface.

increases in productivity, as is often the case in private industry[1]. (While productivity increases really do little to solve the causes of inflation, they can certainly go a long way in alleviating its impact.)

Evidence of this phenomenon existing within the City of Winnipeg can be found in the 1976 current budget. This document shows that there has been a budgeted increase of over $14 million dollars in wages and benefit costs; at the same time, the current estimates are prefaced with a comment that shows that there will be no increase in the provision or level of services accompanying this increase:

> We believe that further major reductions in civic expenditures can only be achieved if there is a policy decision to reduce the level of services, e.g., police and fire protection, public works services such as garbage collection, snow removal, street cleaning....
>
> In reviewing the estimates, the Board took the position that it should endeavor to present a budget which did no more than maintain existing levels of municipal services. In general, we believe these estimates achieve that objective, the increases represent the increased cost of maintaining the service "status quo".[2]

Quite simply, then, the labor-intensive nature of city government activity along with a lack of any appreciable offsetting gains in productivity maximizes the impact that inflation has upon it. What is of greater importance, moreover, is the fact that city bureacracies may never be fully productive, as is evidencedin the following:

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[1] Pettengill and Uppal, Can Cities Survive?, p. 20.

[2] City of Winnipeg, 1976 Current Estimates, p. 3.

> There is a myth that government can do a job more cheaply because it doesn't have to make a profit. Private industry, in fact, does city jobs more efficiently than the public work force. While it costs the city (of New York) $45 a ton to pick up garbage, private contractors do it for $22 a ton in San Francisco, $19 a ton in Boston, and $18 a ton in Minneapolis. Their incentives are far greater since the more refuse they collect, the more they are paid. City sanitation men receive the same pay no matter how much -- or little -- work they do.
>
> The problem is not public versus private. It is monopoly versus competition. Where monopoly exists, productivity invariably suffers.[1]

Finally, there is one other peculiarity of the urban public sector that leaves it susceptible to the full effects of inflation. This is described by one author as follows:

> Costs of urban government have risen more rapidly than that of most private industry because of the limited opportunities for substituting capital equipment in the types of service jobs where most government employees function (police, firemen, teachers, office clerks, etc.)...
>
> Rising productivity in manufacturing offsets part of the wage increases forced by inflation and collective bargaining. To recruit and retain employees, government wage scales must rise in keeping with those of private industry, but without most of the offsetting economies that the profit motive and mechanization provide. Some computerization of office work is thus the only area where appreciable productivity gains can be achieved in government matching those outside.[2]

It becomes clear, then, that local government -- by the very nature of its activities -- suffers a higher than normal fiscal imbalance as a result of inflation. What does this mean for the future of the City of Winnipeg?

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[1] "How to Save New York", Time, October 20, 1975, p. 25.

[2] Pettengill and Uppal, Can Cities Survive? , p. 7

Table 2 is a projection of the impact of inflation upon municipal revenues and expenditures of the City of Winnipeg for the period 1977-1981. (It should be noted that both costs and revenues associated with Winnipeg's share of educational financial requirements are completely ignored here; they will be discussed later.) The projection assumes that revenue sources available to meet municipal expenditures will remain the same and will increase at approximately the same rate they have in the recent past.

TABLE 2

IMPACT OF INFLATION UPON CITY OF WINNIPEG. 1977-1981.

Year	(1) Taxable Assessment	(2) Realty Tax Revenue (Municipal)	(3) Other Revenue	(4) Total Municipal Revenue
1977	$1,525,271,200	$ 99,223,450	$ 19,249,450	$200,471,900
1978	1,586,282,000	103,192,400	116,436,860	219,626,269
1979	1,649,733,200	107,320,080	133,902,380	241,222,460
1980	1,715,722,500	111,612,860	142,987,730	265,600,590
1981	1,784,351,400	116,077,380	177.085,880	293,163,260

Year	(5) Expenditures (Assumption A)	(6) Surplus (Deficit)	(7) Expenditures (Assumption B)	(8) Surplus (Deficit)
1977	$198,076,320	$ 2,396,580	$201,744,400	($1,271,500)
1978	213,922,420	5,703,849	221,918,840	(2,292,589)
1979	231,036,210	10,186,250	244,110,720	(2,888,260)
1980	249,519,100	16,081,490	268,521,790	(2,921,200)
1981	269,480,620	23,682,640	295,373,960	(2,210,700)

Columns 1 and 2 provide a projection of future realty tax revenue for municipal purposes, based upon a continuation of an historical growth rate of 4% in taxable assessment, and a continuation of 1976 municipal mill rates through to 1981. Column 3 is an estimate of revenue from other sources, which is assumed to grow at a rate of 15% annually. This is the rate of growth experienced in the period 1975-1976, and is just slightly below the average for the period 1972-1976. (This figure was used in lieu of the longer-term average due to marked annual fluctuations.) Column 4, then, is a total of these two, and represents the total revenue available to the City for municipal purposes over the next five years.

Two projected estimates are then made of municipal expenditures to be faced by the City over this time period, <u>and it is assumed, for purposes here, that inflation will be the only source of cost increase</u>. The first estimate assumes that the impact of inflation upon expenditures will be to increase them 10% annually (Column 7 - Assumption B) -- appreciably lower than the impact experienced since 1972. The second estimate assumes the impact to be an even more conservative 8% annually. (Column 5 - Assumption A).

The projection shows that under the more conservative assumption of an 8% increase, the effect of inflationary pressures will leave but $23 million by 1981 with which to accommodate other sources of cost increases. Under the assumption of a 10% impact, the effect of inflation will be to devour more than the entire increase available from existing municipal revenue sources over the next five years, leaving very substantial property tax rate increases as the only matter of recourse.

Of the two assumptions made, it seems that the more pessimistic one -- that of a 10% annual increase in costs due to inflation, is the more realistic of the two. As a means of cross-checking its validity, it almost duplicates a similar estimate made by the City itself for 1977. The assumption projects that inflation will be responsible for an expenditure increase of approximately $18.3 million next year, which compares very favorably to a City administration projection estimating that the municipal budget will experience an inflationary increase of some $18.8 million over the same period.[1]

This projection, then, demonstrates that inflation can be expected to consume most, if not all, of "natural revenue increases" available to the City over the next five years, leaving almost nothing for other needs. The importance of this will be seen more clearly when it is shown exactly to what extent expenditures will also increase as a result of other causes, such as the growing needs of our urban population and education requirements.

A RISING POPULATION AND INCREASING URBANIZATION

Another enormous source of rising local government expenditures, the actual scope of which can only be guessed at, is the demographic trends which are presently being experienced in Canada and which will continue to be accentuated in the foreseeable future.

Figure 1 exhibits the historical growth of the population of Canada. In 1871, approximately 3.8 million

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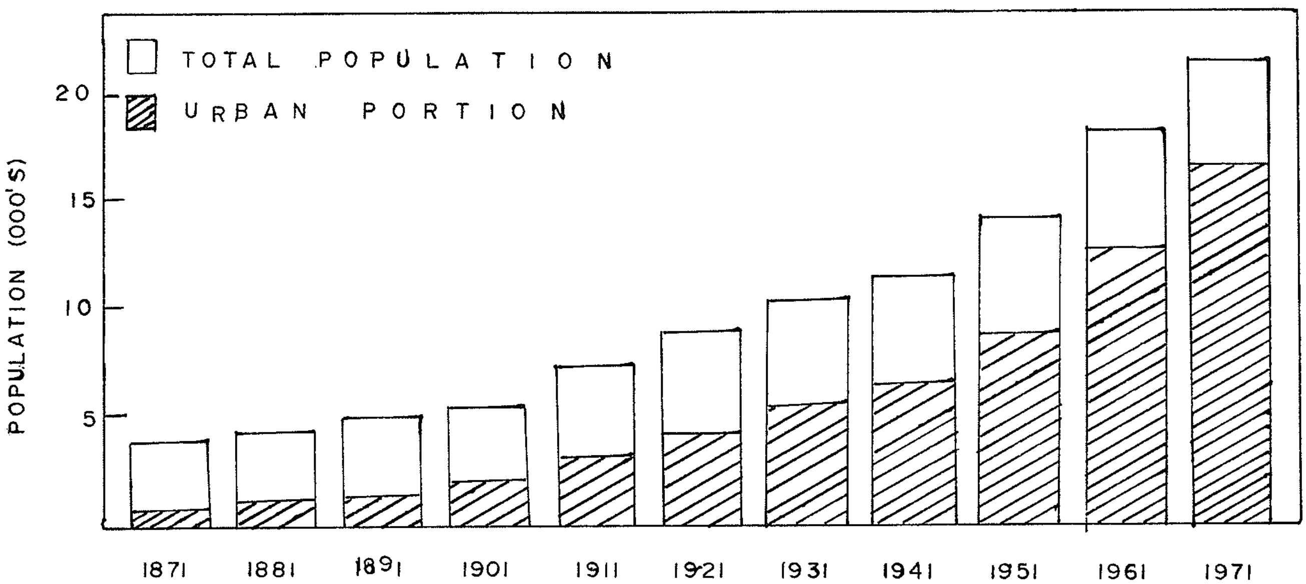
[1] Winnipeg Free Press, 10 September, 1976.

people inhabited Canada. By 1941, this had risen to 11.5 million; and in the thirty-year period since then, this number in turn doubled.

FIGURE 1

GROWTH OF THE POPULATION OF CANADA. 1871-1971.



Source: Ministry of State for Urban Affairs, Human Settlement In Canada (Ottawa, 1976).

What is of more importance than the absolute population, however, is the pattern of its distribution. In 1871, approximately 13% of Canada's inhabitants lived in urban centres; by 1941, this proportion had climbed to 56%; and by 1971 to 76%. N.H. Lithwick, in his report to the federal government, has indicated the extent to which this process of urbanization has taken place in Canada:

> Over the past century, there has been an eighteen-fold expansion in the number of urban centres over 100,000 in size, a twelve-fold expansion in the number of cities of 30,000 - 100,000, and a nine-fold increase in the number of units under 30,000. Furthermore, the rate of growth of the largest metropolitan areas has been faster than that of all other urban centres. Urban growth, in other words, has become increasingly polarized in the largest urban centres.[1]

This demographic trend has a double-headed implication for local government financies and expenditures. First, of course, is the fact that as urban populations grow, so does the demand for local services; new city-dwellers, as tax-payers, are entitled to their fair share of services, too. Secondly, though, and seemingly of much greater consequence, is the fact that as urban centres continue to grow, they eventually reach a point at which diseconomies of scale begin with respect to servicing costs. (The impact of this is a progressively rising per unit cost of providing basic urban services as population of the metropolitan area in question continues to grow.[2])

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[1] N.H. Lithwick, Urban Canada: Problems and Prospects, (Ottawa: Central Mortgage and Housing Corporation, 1970)p. 31.

[2] It may be more appropriate to say that as urban populations grow, city governments begin to experience an expenditure phenomenon which resembles decreasing returns to scale. It is true that per capita expenditures by local government are, on the average, greatest in our largest cities and least in the relatively smallest centres. (See Thomas Muller, Fiscal Impacts of Land Development, (Washington, D.C.: The Urban Institute, 1975), p. 42). However, it must be kept in mind that quality of services provided usually changes dramatically with increases in city size. Also, different

It is clear to most observers that the largest of our urban centres have long since reached this point of decreasing returns to scale respecting costs of development. What is more important, however, is the fact that while the actual size at which this phenomenon begins to be realized will vary with the unique characteristics of each individual urban unit, it seems that, given our present economic environment "... there is substantial evidence that there are diseconomies of scale for many services provided by the public sector when the size and density of a community reaches a threshold level which is at some point below 100,000 residents. Private benefits in larger areas probably offset increased public costs, but the percentage of income allocated for public services is higher in large urban areas compared to smaller communities".[1]

Now, if we are to assume that rising per unit costs of providing metropolitan services is a characteristic intrinsic to our larger cities as they are presently organized, as a result of population growth and the pattern thereof, it

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services tend to have different cost relationships. Furthermore, it is almost impossible to isolate population size from other highly interdependent variables -- such as population density or average household size, and relate it as the only causal factor to increasing per capita expenditures. It should be kept in mind, then, that where reference is made to decreasing returns to scale herein, what is actually being referred to is a phenomenon <u>resembling</u> decreasing returns to scale. To actually prove that increasing per capita local government expenditures is a function primarily of population size would require some exhaustive research in itself, and represents an area involving a need for further research.

[1] Ibid., p. 21.

becomes apparent that the problem of escalating expenditures will increase at an almost logarithmic rate for some of them, when one takes into consideration predicted patterns of urban growth and urbanization for Canada. The expected extent of this phenomenon is hinted at by Lithwick. He forecasts that by the year 2001, seventy-three per cent of our national population will be polarized in but twelve major centres. He also goes on to say that:

> ...by that date, these centres will have become the focal points of national economic life. The polarization will continue, with Montreal and Toronto arriving at sizes comparable with the great United States centres of New York, Chicago, and Los Angeles. Vancouver will be larger than either of the two large Canadian cities today. Five other centres will have grown to well over one million in population size: Edmonton, Hamilton, Quebec City, Ottawa, and Winnipeg.[1]

Now, if one is to examine the City of Winnipeg within the context of the preceding discussion, it becomes rather apparent that it, too, has been experiencing increasing per capita costs as a result of population growth. As stated previously, current expenditures in the City of Winnipeg increased by close to 95% in the period 1972-1976. Of this total increase, "...22.6% is attributable to growth of the City and to increases in service levels"[2]. At the same time,

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[1] Lithwick, Urban Canada, p. 147.

[2] City of Winnipeg Board of Commissioners, "Factors Affecting Budgetary Costs", p. 5. For purposes of analysis, it may be assumed here that most, if not all, of this increase is due to growth of the city, and not to increases in services levels. In at least the last two years, the City's current budget has been formulated to do no more than maintain existing services at present levels, and even, in some cases, to reduce them.

the population of Winnipeg grew at a rate of approximately 1.5% annually.[1] Needless to say, these figures strongly indicate that per capita operating costs within the City have been increasing rather dramatically.

However, the greatest factor effecting this rise in per capita expenditures may not so much be the absolute size of Winnipeg's population growth, but the pattern of it. Specifically, an examination of the average household size in Winnipeg and the trends therein, reveal some startling results. From 1971-1976, average household size dropped from 3.27 to 2.93.[2] Thusly, while the population of Winnipeg increased by only some 7.5% over this period, the number of households increased by more than 20%.

In light of this, then, it should not be so surprising that such a large increase in civic expenditures has been attributable to such a limited amount of population growth. Many expenditures incurred by the City vary fairly proportionally with the number of households and not with the absolute size of the population. Expenditures for sewer and water services, streets and attendant maintenance, and fire protection, for example, are dependent to a large degree upon the physical size of the city as determined by the number of dwelling units to be serviced.

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[1] City of Winnipeg, Department of Environmental Planning, Research Department, "Winnipeg CMA Housing and Population Projections By Community Committee Area and Census Tract and Traffic Zone '71-'96," January, 1976, p. 2.

[2] Ibid., p. 2.

For this same reason, one can expect future population growth in Winnipeg to result in continued decreasing returns to scale with respect to servicing costs. By 1981, Winnipeg's population is expected to be 630,000[1], an increase of 8.5% over the 1976 level. During that same period, however, average household size is expected to drop from 2.93 to 2.80[2]. This means that the total number of households will have increased not by 8.5%, but by 13.6%; concurrently, one can also expect per capita operating expenditures to increase disproportionately to population growth.

Changes in the average household size may not be the only factor causing the City to experience decreasing returns to scale with respect to the provision of services; in fact, it may be the case that Winnipeg has already surpassed that threshold after which it becomes an uneconomical unit to service. Nevertheless, the factor of average household size does seem to contribute substantially to this condition. Of most critical importance, moreover is the fact that per capita operating costs are increasing in Winnipeg, irregardless of what may be the most influencial factors.

METROPOLITAN DEVELOPMENT POLICY

While the development of metropolitan areas is, for the most part, a function of the private sector, it is the decisions and policies of city council which provide the

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[1] Ibid., p. 2

[2] Ibid., p. 2

framework within which this development takes place. Policies of local government, if pursued vigorously enough, determine the pattern of growth which will take place within the given urban area.

Basically, there are two alternative growth patterns within which urban expansion can be accommodated, centralization and dispersed growth. (Theoretically, these two alternatives represent two extremes of a continuum between which an infinite number of possible growth patterns may exist; and in actuality, the development of all cities involves some degree of both. However, the growth of most major cities can be classified as to either emphasizing centralization or encouraging decentralization.)

Centralization of urban growth is characterized by a high degree of central area and downtown redevelopment, rehabilitation of existing housing stock, utilization of existing infrastructure, and a relatively high degree of density of residential development in the central parts of the city. Decentralized growth, on the other hand, involves accommodating most or all urban expansion "at the fringe", resulting in a highly dispersed population, a very low density of development, and, usually, a deteriorating urban core.

It is very clear to most observers that the development pattern of the City of Winnipeg is a very highly decentralized one. One only has to look at it in comparison to other major Canadian centres to verify this. For instance, one author states that "the most startling fact about the physical extent of Winnipeg is that this city is physically larger than the City of Montreal -- a city which has three times the population of Winnipeg"[1].

Moreover, this high degree of urban sprawl has been both accommodated and accentuated by decisions of city council. Over the past few years, suburban development projects and major shopping centres have been approved at a very rapid rate. Moray Village and Kenaston Estates, for example, are either under construction or completed, while <u>four</u> regional shopping centres have been either approved or completed -- Garden City Shopping Centre, St. Vital Shopping Centre, Transcona Shopping Centre and Unicity Fashion Mall. This is in addition to the numerous high-rise, townhouse, and single-family subdivision developments that have appeared in the suburbs seemingly overnight.

At the same time, the central area of Winnipeg has been in a steady area of decline. While there has been a flurry of building activity in the past few years in the downtown area, it has been for the most part, office space construction. There has really been no major retail development in the downtown in this period, especially in contrast to the suburban scene.[2]

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[1] Canadian Council On Urban And Regional Research, "The Politics of Land -- The Influence On Cost to You", (informational tabloid, Winnipeg, 1976), p. 1.

[2] The stagnation of downtown retailing activity is most clearly evident in the case of two parcels of land which became vacant in 1974 on the south side of Portage Avenue between Eaton's and The Bay -- supposedly Winnipeg's prime

What is of greater consequence is the fact that there has been no residential development of any significance in the central area since 1971. It was evidenced in the "Downtown Winnipeg" plan of 1969 that the area had been steadily declining in terms of population in the period 1941-1966 and that the demographic mix was continually shifting towards the poor, the elderly, and a high degree of community instability, as measured by length of continuous occupancy. With the exception of one census tract in which new apartment construction took place in 1969-70, this trend continued unabated up to 1971, as witnessed by census figures of that year.[1] And, given the absence of any residential development since then, one can only assume that deterioration has continued to the present.

It is curious that a city council which has supposedly taken a very positive stand in favour of downtown redevelopment would so easily accommodate developers bent on continuing

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shopping district. These two parcels were filled with a one-storey and two storey retail building respectively. This hardly represents the intensity of development one would expect from such a "coveted" location.

[1] As a result of this downtown apartment construction, the population of one downtown census tract (CT 14) rose from 3960 in 1966 to 4320 in 1971. This, however, was partially offset by continuing population declines in the rest of the downtown. Census tract 13 dropped from 1316 to 1275 during the same period, and the number of residents of census tract 23 showed a similar pattern, dropping from 3829 to 3780. Overall, the entire downtown area (CT 13, CT 14, CT 23) continued to decline as a percentage of total city population from 1.8% to 1.7%. (Source: Statistics Canada.)

this urban sprawl, while at the same time almost completely neglecting the central area.[1]

It is very obvious that Winnipeg is an extremely decentralized city; and that this suburban form of development has been fostered by decisions of city council. What is not so obvious, however, is the financial impact of this development; there is much evidence to believe that it will be anything but favorable. It is becoming apparent to many that alternative patterns of growth involve drastically different fiscal impacts upon metropolitan governments.

Centralization of growth, on the one hand, can have very favorable financial implications -- relative to dispersed growth -- in terms of both revenues and decreased expenditures. "To begin with, the downtown represents the highest concentration of real estate values. This means that the downtown produces more tax revenues per square foot for the public than any other part of the city. If there is a movement of business out of the downtown and no replacement, it is obvious that this must result in a decline in revenue for the city."[2]

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[1] Actions of city council in Winnipeg towards the downtown area may even be classified as being something far worse than neglectful. One major development proposal, the East Yard Project, was conceived so as to furnish, among other things, what is the most important component of downtown redevelopment -- a permanent heterogenous downtown population. Yet, the proposal has been effectively killed by council which has determined in its infinite wisdom that it would, in fact, be "detrimental" to central area revival.

[2] Earl A. Levin, "Address to Brandon Merchants Association Annual Meeting", January 23, 1974, p. 6. Much of this section embodies the ideas of Mr. Levin.

The downtown also represents the highest concentration of public investment in the city, in terms of utilities and services. If there is an exodus from the area, this infrastructure will be used at a level far below its capacity. Furthermore, suburban services provided to replace these are designed for some future capacity, and so are underutilized for some time. Thus, not only is there a duplication of systems -- at an extra cost to the public -- but they will both be operating below intended capacity. Social costs of the metropolis will also be relatively lower as a result of centralization. The central area has become home to an ever-increasing concentration of the disadvantaged groups of our society. These people and their accompanying social problems are captive, in the sense that they cannot afford the means to "suburbanize". However, without the introduction of any beneficial elements and without any rejuvenation of the area, (which implies centralized development) these problems tend to become self-perpuating and even harder to ameliorate. This results in increased public expenditure in order to attain the same social goals.

Decentralization of urban growth, on the other hand, results in duplication of already underutilized urban infrastructure; costly extension of municipal services far beyond any distance that can be considered economical; development of scarce urban land at relatively lower densities with attendant increases in per unit public expenditures; increased investment in urban transportation necessary to facilitate access between the far-reaching areas of the city; and additional disbursements necessary to maintain, repair, replace, and regulate these additional infrastructure components made necessary by continuing decentralization and suburban growth.

Provision of capital plant for education, for example, becomes much more costly for a suburban low-density settlement. If a maximum walking distance criterion is a prime consideration in elementary school location, then a highly-scattered population, per se, would result in greater construction requirements. And this would be necessary despite the excess capacity of already existing schools that lie dormant in the inner cores of our larger cities due to a lack of school-aged children resident in the area. Similarly, additional fire hall construction would be necessitated by decentralized development if all areas of the city are to be guaranteed standard minimum levels of fire protection represented by maximum response times. Other services which, by their nature, benefit from economies of scale through centralization become fragmented and more costly when development is suburbanized. Recreation, health care, social assistance, and senior citizen programs are examples.

Admittedly, the foregoing argument is very rhetorical in nature, with little, if any, supportive data. And, quantitative data regarding the City of Winnipeg is equally as non-existent, although the following general observations can be made.

1. The 1975 City of Winnipeg Current Estimates were prefaced by the following remarks:

> Unless services are curtailed and new development is discouraged in the urban area, large cost increases will continue to face the City each year and existing sources of revenue will continue to be inadequate to meet the need without substantial increases in the mill rate to overcome the resulting deficits. The need to broaden the City's tax structure and to reduce the heavy dependence on the property tax base is urgently required.[1]

When questioned concerning this statement, representatives of the Budget Bureau replied that it was in reference to new development at the fringe only, and not to redevelopment in already built-up areas.[2] Thus, it would seem that it is being recognized by civic officials that the costs involved in providing services for suburban development are substantially greater than those for a more centralized type of development.

2. In November, 1975, the City's Board of Commissioners released its proposed capital works budget for 1976. These initial estimates called for a budget total of approximately $92 million. The major share of the budget was earmarked for streets and transportation, with $48.4 million being directed into the city's street system. Of this total, approximately $34 million, or <u>37% of the total capital works</u>

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[1] The City of Winnipeg, <u>1975 Current Estimates</u>, p. 6.

[2] Interview with Mel Shibley and Andy Duncan, Budget Bureau, City of Winnipeg, 28 October 1975.

budget was to go for two projects -- the Fort Garry - St. Vital bridge and freeway, and the Silver Avenue Corridor.[1] These two projects, it should be noted, are deemed to be necessary in order to provide adequate linkages between our sprawling suburban areas and between scattered suburbs and the downtown.

These observations, of course, prove very little. In order to properly assess the financial impact upon the City of Winnipeg resulting from its highly decentralized development would require an exhaustive analysis in itself. One thing is certain, though, and that is this: if decentralization does demand significantly higher municipal service expenditures than centralization, then the City of Winnipeg could shortly find itself encountering serious financial problems. Winnipeg has been developed on a very low density and exhibits a remarkable degree of urban sprawl. What is more, this pattern may be difficult, if not impossible to reverse. Once put into place, infrastructure becomes very permanent; not only does development dictate infrastructure investment, but capital investment, once installed, in turn tends to generate more development of the same kind.[2]

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[1] Winnipeg Tribune, 21 November, 1975.

[2] Further fostering this degree of permanence may be the impact of the automobile. While policies of city council may, in the long-run, have a substantial impact upon the development pattern of any particular city, it was the automobile which first allowed "the flight to the suburbs" to take place. Accordingly, while Winnipeg exhibits a marked degree of urban sprawl, relative to other major Canadian

THE DEMAND OF CITY PEOPLE FOR MORE AND BETTER SERVICES

It was stated in the preface to this research that the entire scope of the function of local government has changed radically over the past few decades. A major reason for this has been an ever-increasing demand put upon local government by city-dwellers for more and better services. As an analysis of existing data will show, Winnipeg has been no exception. However, before examining Winnipeg's particular case, a generalized discussion is in order concerning the reasons behind this ever-increasing demand.

Up to as late as World War II, the scope of local government was a very limited one. A host of factors

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centres, these other centres cannot by any means be considered to be highly centralized and densely developed cities; indeed, they typically exhibit densities of about half those in European cities. What is more, it has been advanced that suburban development, because of its dependency upon the automobile, may indeed be irreversible, as evidenced by the following:

> ....The hegemony of the private car is not easily broken. Canadians have accumulated an enormous capital investment in cars and roads....By any measure, the automobile and its supporting infrastructure are linchpins in the Canadian economy. Of great significance is the production of new cars and parts -- Canada's largest industrial section, employing about 90,000 and accounting for approximately one-fifth of all Canadian export earnings... The social and economic costs of very sudden modification are more than Canadian society could afford or would tolerate.
> (Ministry of State for Urban Affairs, Human Settlement, p. 30.)

dictated this minor role for the "third level" of government, including the following:[1]

1. Relatively little use of the automobile in comparison to the post World War II period;[2]

2. Limited view of the responsibilities that might appropriately be discharged by governments -- the concept of "laissez-faire";

3. Fundamental economic and social changes resulting from changes in transportation (e.g., air travel), communications

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[1] Thomas J. Plunkett, The Financial Structure and the Decision-Making Process of Canadian Municipal Government, (Ottawa: Policy Planning Division, CMHC, 1972), p. 17.

[2] It should be noted here that the almost universal acceptance of the automobile as the dominant mode of intra-urban transportation post World War II was not a "natural" result or inherent part of the urban fabric or of urban society. Rather, it was the result of conscious policy by government and big business. In a 1974 report to the Judiciary Committee of the United States Senate, B.C. Snell presents an excellently documented investigation which in his words, "...focuses on three powerful automobile companies which eliminated competition among themselves, secured control over rival bus and rail industries, and then maximized profits by substituting cars and trucks for trains, streetcars, subways, and buses. In short, it describes how General Motors, Ford, and Chrysler, reshaped American ground transportation to serve corporate wants instead of social needs." (Bradford C. Snell, American Ground Transport: A Proposal for Restructuring the Automobile, Truck, Bus and Rail Industries, presented to Subcommittee on Antitrust and Monopoly of The Committee of the Judiciary, United States Senate. (Washington, D.C.: U.S. Government Printing Office, 1974), p. 1.)

Abetting this phenomenon, at least unconsciously, was government. For instance, a surplus of trucks after the war offered an excellent opportunity to provide employment to returning veterans in private trucking operations. This universal adoption of the private automobile, moreover, has resulted in an astounding level of social costs, most of which have had to be absorbed by urban government. Several attempts have been made to quantify these costs. See, for instance, Douglass B. Lee, Jr., Costs of Urban and Suburban Passenger Transportation Modes, (Centre for Urban Transportation Studies, Institute of Urban and Regional Research, University of Iowa, 1975).

(e.g. television) and technology (e.g. computer) had not yet occurred.

4. The division of federal and provincial jurisdictions created by the BNA Act. Under the BNA Act, the provinces were given control over municipal affairs; and, while the manner in which this was interpreted varied somewhat from province to province, it generally resulted in very limited responsibilities being vested with local government, accompanied with an attendant very limited revenue base[1].

However, in the thirty years since the war, local governments have been looked towards for provision of an ever-increasing range of services for their burgeoning populations. Initially, this involved providing a sufficient level of the most basic amenities that had been foregone during the war economy years:

> The acute shortage of manpower and restricted monetary policies during the war resulted in a lack of adequate maintenance and construction of capital works for an extended period. As municipalities undertook the reconstruction of seriously depreciated capital works such as road, water, and sewer services, they incurred massive new debts. This backlog of capital works was further compounded by the rapid shift in population from rural to urban living.[2]

This, of course, was only a temporary state of affairs. However, as basic services and infrastructure were restored,

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[1] The present division of federal, provincial and municipal revenue and expenditure patterns, which will be discussed later, still remains a major reflection of the BNA Act.

[2] James M. Burwell, "Borrowing and Investment by Municipal Governments" cited in Municipal Finance and Administration in Canada, (Toronto: Canadian Institute of Chartered Accountants, 1972), p. 22.

and as our economy experienced the greatest prosperity in its history, metropolitan governments began to feel an ever-expanding demand for more and better services. This was (and is still being) manifested in two general ways. Firstly, economic prosperity, the outgrowth of our liesure society and our increasing standard of living, along with several other factors resulted in a demand by urban residents to have present services provided at much higher levels of amenity. Secondly, and of much more importance, the urban population began to demand (and need) some services which were previously not provided by the public sector at all, and, by their nature, fell upon the shoulders of local government. The following is a discussion of the underlying causes of this demand for more and better services.

1. An unprecendented level of consumer income and the outgrowth of our leisure-oriented society has led to a steadily increasing demand for recreation facilities and programs by the public. And, since recreational services are localized by their very nature, it is the responsibility of local government for their provision. The result is that recreation, along with education, has been the fastest growing area of municipal expenditure over the past decade.[1]

2. Increasing urbanization and the continued polarization of people in our largest centres has resulted in services previously provided by the private sector now

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[1] Plunkett, Financial Structure of Municipal Government, p. 45.

having to be allocated by the public sector. In order to understand the reason behind this shift, one must consider the nature of "social" wants, which can be explained as follows:

> It has become acceptable to divide our wants into two categories: social wants where the benefits accrue to society as a whole, and private wants where the benefits accrue to individuals. We go one step beyond this classification by indicating that social wants should be borne by society as a whole through some form of taxation, while private benefits should be paid for by those who better their economic position by the receipt of these benefits.[1]

Now, as cities continue to grow in size, many wants which were once private become social in nature merely as a result of the process of population agglomeration. As a result, local government are forced to assume the provision of services previously excluded from the public sector. This process can best be demonstrated through the following example:

> Urbanization, and the subsequent suburbanization, have added to the demands to have social wants satisfied by government. The basic wants do not change materially, but the fact that these wants have been agglomerated and concentrated in a municipal area changes the entire concept of private versus social. For instance, trash and garbage disposal or sewage disposal, or even water supply was not an insurmountable problem in a rural environment. However, when there is a clustering of individual demands brought about by urban population concentrations, these wants, of necessity, become social in nature.[2]

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[1] Fred Durr, The Urban Economy, (Scranton, Penn.: Intext Educational Publishers, 1971), pp. 120-121.

[2] Ibid., p. 121. While this analysis implies that

3. Radical changes in our society have forced metropolitan governments to undertake huge capital projects which were hitherto a very minor part of urban expenditures. For example:

> The introduction and eventual widespread use of the automobile radically altered the concept of municipal responsibility for roads. Similarly, the movement toward an industrialized society with its more complex forms of economic organization and activity produced a demand for a more skilled and educated work force. This brought about the need for higher standards of education. Education, once voluntary, eventually became compulsory. The overall result was a dramatic increase in school expenditures.[1]

The result of these, and other, sociological and cultural changes was that "... the emphasis in municipal concerns shifted from relatively inexpensive maintenance and regulatory activities relative to protection and prevention to costly construction and operational expenditures on both capital and current account".[2]

4. Many basic services and infrastructure provided by urban government are vitally necessary in order to support

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agglomeration results in previously unencountered costs, it should be pointed out that it also results in considerable benefits. There is a concentration of production resources and manpower, a widening of consumer markets and a diversification of choice, and proximity to support services just to name a few. However, it is generally the case that the costs of agglomeration are assumed by the public sector while the benefits accrue to the private sector. The extent to which this is actually the case represents an area of further study.

[1] Plunkett, Financial Structure of Municipal Government, p. 33.

[2] Ibid.

the local economy. Fire and police protection, roads and transportation systems, water supply and distribution, waste disposal and others are an absolute necessity for the proper functioning of industry, wholesaling, and retailing alike. Since the local economies of all urban centres that are experiencing growth are expanding as a result of this urbanization process, an increasing provision of public services and system facilities is required in order to adequately support them.

5. Recent years have seen the rise in our society of a phenomenon which has come to be known as the "welfare state". We have come to realize that one of our prime necessities as a society is to extend assistance to those who are unable to economically or socially fend for themselves. The responsibility for providing this assistance has, to a very large degree, been placed upon the shoulders of urban government. As a result, social assistance expenditures have risen drastically over the past two decades in most larger centres.[1]

Typically, the level of welfare payments by local government has been explained in terms of the effects of unemployment and of transient growth. However, of equal importance is the impact of the old-age dependency ratio. A high dependency ratio, it must be noted, "...produces a

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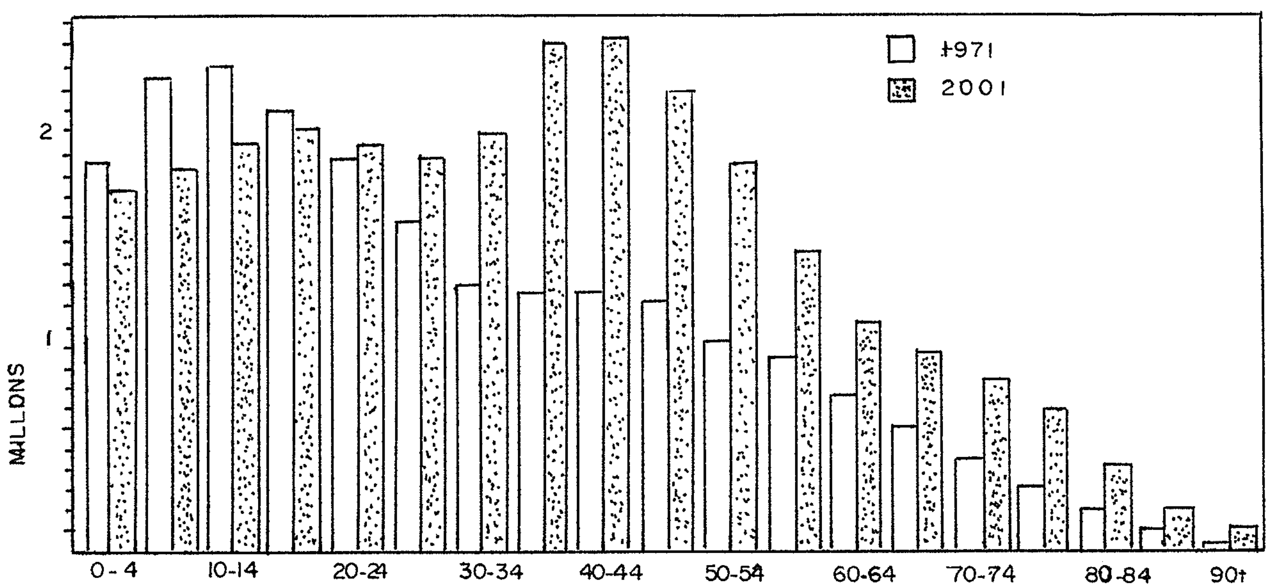
[1] Exacerbating this problem is the impact of historical provincial and federal public policy. This will be discussed in greater detail in a subsequent section.

much greater proportion of persons over 65 years that are dependent on those in the 20 to 64 age group than is general for cities and means that welfare costs will be increased for aid to the aging or those persons considered unemployable".[1]

Now, when one considers the impact of a high old-age dependency ratio upon welfare expenditures along with the expected future age distribution, the prospects are staggering. As the products of the post-war "baby-boom" age, and as fertility rates continue to drop, our society will be a much older one by the turn of the century. (Figure 2 shows the 1971 age distribution of the Canadian population and its anticipated 2001 distribution.)

FIGURE 2

AGE DISTRIBUTION OF THE POPULATION OF CANADA.
1971 and 2001



Source: Ministry of State for Urban Affairs, <u>Human Settlement In Canada</u>.

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[1] Ibid., p. 47.

By 2001, the number of persons aged 65 and over is expected to increase by 1.6 million, or to 12% of the entire population. The amount of welfare expenditures by local government which will be necessitated by this aging of our society can only be guessed at, but it will certainly be substantial.

6. This process of society aging, it should be pointed out, will also have serious implications for governmental health expenditures, as is indicated by the following:

> A steady escalation in per capita cost of health care is virtually inevitable over the next few decades. About three-fourths of those over 65 have some chronic-illness, and though they constituted only 8% of the population in 1971, this group accounted for 35% of patient days in hospitals. It has been conservatively estimated that due to the aging process alone, demand for hospital services will increase 40% more than percentage growth in population.[1]

With this discussion in mind, we can now turn to the particulars of the City of Winnipeg. There are at least two ways in which this phenomenon of an ever-increasing demand for more and better services has adversely affected Winnipeg's financial stability. These are discussed in turn.

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[1] Ministry of State for Urban Affairs, Human Settlement, p. 96. It should be kept in mind here that much of our recently experienced increases in health care expenses is due to Medicare, which has entirely removed competitive pressures from this field. Doctors are simultaneously the suppliers of health care and also the demanders of it, (insofar as they decide what level of service ought to be consumed by a patient.) Because of this, a simple increase in the number of doctors cannot be regarded as a sufficient means to reduce the costs of medical care.

1. It seems to hold true that an unprecedented level of consumer income and the outgrowth of our leisure-oriented society has led to a steadily increasing demand for recreation facilities and programs by the public. In 1972, current expenditures for parks and recreation by the City of Winnipeg were $8.9 million[1]. By 1976, this figure had risen to $19.4 million[2], representing an increase of 116.5%. At the same time, the total current budget had risen by some 95%. It appears, then, that the demand for recreational services by the people of Winnipeg has risen at a proportionally higher rate than that for other services.

2. Of much larger consequence are the huge capital projects that the City of Winnipeg has been forced to undertake which hitherto have been a very minor part of urban expenditures. (The majority of these, it seems are in the area of streets and transportation, brought upon by the gluttonous demands of our private automobile-oriented transportation system.)

In 1973, the capital budget of the City of Winnipeg was $32.3 million; two years later, the budget had more than tripled to $98.9 million. While these figures in themselves point out how the City, in just a few short years, has been forced to assume an unprecedented high level of capital investment, it represents only the tip of the iceberg.

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[1] City of Winnipeg, <u>1976 Current Estimates</u>, p. 27.

[2] Ibid.

What is of greater significance is the level of capital expenditures that have not been undertaken due to a shortage of funds. In early 1976, Mr. John Gee, Head of Committee on Finance estimated that there was a $575 million backlog of capital works projects, and that this could be expected to grow enormously in the future.

Partly in response to this situation (and partly as a fulfillment of one of the requirements of the Unicity Act) a Five-Year Capital Development Program was released in early 1976. This program projected that the City's share of capital expenditures necessary in the period 1977-1981 would be $484,490,500, or about $97 million annually. This amount is far in excess of the $50 million annual borrowing ceiling imposed by City Council.

In light of this $50 million limit, the program was reviewed, the result being a "least cost" approach to providing capital services over the next five years. This reduced cost program involves a compacting of urban growth into five relatively minimal sized residential areas and one industrial area in an attempt to reduce capital requirements to $50 million annually over the next five years. While the plan appears superficially to succeed in reducing capital expenditures by some 43%, a closer scrutiny of it shows that it is rift with false economies. For example, it proposes to limit over 70% of residential growth in the period 1976-1981 to already serviced land. While the effect of this apparently is to lower servicing costs during this time frame, its ultimate impact is to merely postpone these costs until the next five-year period; 94% of residential development in 1981-1986 would have to take place on unserviced land as a result of it. Community recreation facility costs are also "reduced" in this manner, merely by postponing them for five years. Given our existing level of inflation, this can only act to increase the ultimate cost of these projects dramatically.

In addition to this, a reduction in the level of services -- especially in the area of works and operations, is made necessary by the program. What is more, savings made in the area of capital expenditures will, in all likelihood, be minimized by attendant increases in current expenditures expected as a result of these reductions. For instance, in the area of transportation, it is stated that "...it should be noted that some of the deletions from the capital program may have the effect of significantly increasing the operating costs of the system".[1]

One final impact of the scheme should be noted, and that is this: "It has been made clear...that this approach would have adverse effects on the competitive structure of the land development industry and ultimately, the price of new housing."[2]

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[1] City of Winnipeg Environmental Planning Department, <u>A Supplementary Report, Five Year Capital Development Program, The City of Winnipeg, 1977-1981</u>, (Winnipeg: 1976), p. 10.

[2] Ibid. p. 22.

This "least cost" approach to capital budgeting, then, will prove to be anything but that if implemented. The only alternative to this, however, would be to abolish the $50 million borrowing ceiling and float enough debentures over the next five years to finance the original capital works program. Is this possible, however, given present financial constraints? The following brief analysis summarized in Table 3, demonstrates that the answer is "not very likely".

The present (1976) level of debt and finance charges incurred by the City on tax-supported debt is $19,840,000[1]. By 1981, $15,794,000[2] of this will still be carried by the City. To this will be added the cost of borrowing funds to

TABLE 3

FISCAL IMPACT OF IMPLEMENTATION OF ORIGINAL FIVE-YEAR CAPITAL BUDGET

EXISTING DEBT AND FINANCE CHARGES STILL TO BE OUTSTANDING IN 1981		$15,794,000
ANNUAL INTEREST PAYMENT ON NEW BORROWING	$48,449,050	
ANNUAL SINKING FUND REQUIREMENT	16,270,080	
TOTAL DEBT AND FINANCE CHARGES ON NEW BORROWING (1981)		$64,719,130
TOTAL DEBT AND FINANCE CHARGES (1981)		$80,513,130
ESTIMATED TOTAL ASSESSMENT (1981)		$1,784,351,400
TOTAL DEBT CHARGES EXPRESSED MILLS		45.12
DEBT CHARGES ON NEW BORROWING EXPRESSED IN MILLS		36.27
DEBT CHARGES AS % OF TOTAL MUNICIPAL REVENUE (1981)		27.46%

[1] Ibid., p. 17

[2] Ibid.

finance the capital program as originally proposed. While the amount to be borrowed will be staggered over the five-year program and even beyond, we can assume for the purposes of analysis here that, by 1981, the City will be paying annual finance charges on the entire $484 million. Thus, Table 3 reflects the debt and finance costs imposed upon the City by its capital needs by 1981.

Assuming that the debenture issue will be a serial one bearing 10% coupons, then annual interest payments will increase by $48.5 million by 1981. In addition, the City is required to contribute to their sinking fund enough money annually in order to retire the debt upon maturity. The required annual sinking fund payment is calculated to be that amount which, together with compounded interest at a rate not to exceed 4% will be sufficient to retire the debt in full at the maturity date.[1] Assuming that the issue will have a life of twenty years, the annual sinking fund requirement by 1981 will have reached over $16 million.

By 1981, then, total debt and finance obligations of the City of Winnipeg will have reached $80.5 million. In terms of the property tax, this represents 45.12 mills, based on projected 1981 assessment; the cost of financing the five-year capital program alone will account for 36.27 mills. By 1981, debt charges will consume 27.46% of estimated revenue available for municipal purposes. (This revenue is estimated elsewhere in this document.)

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[1] City of Winnipeg, Department of Finance, The City of Winnipeg: Presentation to Rating Agencies (1975) p. 86.

These levels, of course, are bordering on the unbearable. Despite this fact, the worst is yet to be considered. Not included in the five-year capital budget are several projects which will become vitally necessary over the next several years. The most significant of these is the construction of a new viaduct to carry water to the City from Shoal Lake. According to officials of the Waterworks System, it is critical that construction of this viaduct commence by 1986. The present cost of the mammoth project is estimated to be about $300 million; by 1986, it is projected that this figure will jump to some $400 million. The financial impact of this single project, when undertaken, will be almost as heavy as the entire five-year capital project presently proposed.

The demand (which, in most cases, can be considered as necessities) of the population of Winnipeg for increased urban services, then, represents a financial dilemma to the City Administration. If present financial capacities are to be recognized, then the levels of many services will have to be reduced, current expenditures may actually increase, and the actual costs of providing services, postponed for the present, may ultimately be pushed up dramatically[1]. However, if urban servicing needs -- as represented by the five-year capital budget, are to be provided, then debt and finance charges by themselves may be enought to shift the existing

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[1] At the time of writing, City Council was giving consideration to lowering of the annual borrowing ceiling to $35 million. Given the projected negative impacts expressed here under the existing $50 million limit, is is quite evident that the impact of an even lower ceiling will be nothing short of disastrous.

delicate balance and throw the City into financial turmoil. Under present constraints, it is readily apparent that the escalating demand for urban services cannot be met by the City.

AN INCREASING PAYROLL

There is a tendancy on the part of many urban governments to consistently increase the number of civic employees with little accompanying increases in the level of services delivered. This is especially true in the very large megalopolitan regions of North America. Causing this phenomenon are conditions which are inherent to the very structure of local government in large cities -- the combination of a bureaucratic structure with a less than adequate budgeting process, which often allows department heads to request (and receive) personnel increases, the benefits of which sometimes cannot adequately be determined; the lack of a profit motive or productivity measures against which to measure performance of employees; and a very mediocre level of financial management (which will be discussed later). One can look to New York City for an example. "From 1961 to 1974, even though the city population declined from 7.8 million to 7.5 million, 100,000 people were added to the work force. The total of full-time city employees jumped to some 300,000; nobody knew the exact number because management was so slipshod."[1]

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[1] "How to Save New York", Time, October 20, 1975, p. 22.

In a similar manner, the City of Winnipeg has certainly experienced a steadily increasing payroll over the past few years. In the period of 1972-1976, the number of permanent city employees grew from 4270 to 4926, representing an increase of 15.4%. What is more, this growth has taken place "...even though city council had adopted a policy of freezing employment at the 1972 level".[1] Of greater consequence is the fact that it seems this fairly substantial increase in the number of city employees has not resulted in a comparable increase in services provided. Since 1972, the city has grown only 2.2% in physical terms, and the number of people residing in the city and requiring their services has grown by only 1.5% annually. What is more, the 1976 current estimates have been formulated so as to do no more than maintain city services at existing levels (and even, in some instances, to reduce them), while still allowing for an <u>increase</u> in staff of 92 persons.[2]

It would seem, then, that the civic administration has little, if any, control over employee increases. If, in a period when council policy has been to freeze the number

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[1] <u>Winnipeg Free Press</u>, 17 September, 1976.

[2] City of Winnipeg, <u>Current Estimates, 1976</u>, p. 28. Additional insight into the civic bureacracy's tendency towards continuous employment growth was furnished by Mr. Jim Gilmour, City Treasurer. He noted that the Chief of Police has been granted a budget allocation for the hiring of 66 additional constables in 1976; nevertheless, Mr. Gilmour is convinced that the increase is unnecessary and will have no affect whatsoever upon the City's crime rate.

of employees, the city payroll has grown by more than 15%; and if this increase, as it seems, has resulted in very little in the way of expanded services to the taxpayer, then it can be concluded that a steadily increasing payroll, as an intrisic feature of their bureaucratic administration, is adding to the financial woes of the City of Winnipeg.

AGING OF URBAN INFRASTRUCTURE

> A...major set of problems confronting the older central cities lies in the fact that they have a huge legacy of obsolescence. Their stock of housing and other social capital -- that is, public and quasi-public facilities of all kinds - is old, often physically deteriorated, and generally far from competitive with the new parts of the same urban areas.[1]

While it is not always the case that the cities experiencing the greatest financial difficulties are the oldest, it is a rather obvious observation that those that are finding themselves in distress, or are on the brink of it, are relatively large and relatively aged. And, it is equally as obvious that the obsolescence, increased maintenance costs, and necessary replacement expenditures of the antiquated infrastructure of older urban centres is exacerbating, if not causing in part, their present fiscal woes.

> Larger cities seem to attract the poor and retain the aged....Older cities have older buildings...Maintenance costs increase for aging people and aging structures. So too for the vital watermains, sewers, and streets of

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[1] Dick Netzer, "Impact of the Property Tax: Its Implications for Urban Prcblems" cited in William E. Mitchell and Ingo Walter, <u>State and Local Finance</u>, (New York: Ronald Press Co., 1970), p. 139.

> the metropolis. While older cities and people don't have the capital-accumulation problems of the younger, they have greater costs of repair and replacement... (These) cities are in trouble because they are old and relatively static. Their capital equipment, suffering from age, is more costly to maintain and in need of replacement.[1]

It must be noted at this point that these observations are concerned, for the most part, with the older cities of the northeastern United States, many of which are experiencing grave financial hardship as a result of their advancing years. What is more, what little documentation there is concerning the City of Winnipeg seems to support the premise that this phenomenon is <u>not</u> of major concern here as of yet. In fact, it seems that any inadequate and outmoded infrastructure to be found is located in certain suburban locations, and not in the older central city. The reasons for this are basically the following:

1. In some instances, "inadequate" existing infrastructure is merely the result of increased specifications. For example, where a 6" sewer pipe has been used and had once been acceptable, the standard has now been raised to 8".

2. Before Unicity amalgamation, some municipalities installed infrastructure with capacity only to serve themselves, without regard for future development in adjoining municipalities. As a result, this became an inadequate part of the total city-wide system after the inception of regional government.

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[1] Pettingall and Uppal, <u>Can Cities Survive?</u>, p. 58.

The relevance of this point, then, to the City of Winnipeg, is rather minimal at present; nevertheless, it should not be ignored as it may be a forewarning.

The largest Canadian cities are already beginning to feel the first impacts of aging in the form of dilapidated school structures, higher garbage collection costs in the inner city as a result of obsolescent street design, increased maintenance and repair costs of watermains, and necessary closures of firehalls as a result of outdated sitings.

What is more, if increasing size and advancing age, per se, contribute to rising metropolitan expenditures, as has been the American experience, then the mere passage of time will certainly add to the concerns of the metropolitan financial officers of Canadian cities, Winnipeg included.

THE RISING BURDEN OF EDUCATION EXPENDITURES

Constitutionally, education is the responsibility of the provinces; and, in fact, they do exercise complete control over this function. However, much of the responsibility for the funding of education programs has been vested with local government without any attendant sharing in the decision-making process.

As a result, local governments have, in effect, become taxpayers to the province; each fiscal year the province determines required expenditures for education, and then presents a "bill" to local government to cover a large portion of it, which it has no choice but to pay. In practice, this represents what may be termed "mandatory reverse cost-sharing".

Recent years have seen an explosion of education expenditures. For example, in the three cities of Victoria, Vancouver, and Edmonton, education has been the fastest growing budget item, increasing by approximately 20% annually between 1961-1969.[1] Surprisingly, the first of these three cities exhibited an annual population growth of only 1% during this period. This meant that the municipal share of education in Victoria was increasing about twenty times faster than was population.[2]

Moreover, these examples are not the exceptional case but rather indicative of general trends in Canada. Nationally, expenditures for education represented 7.4% of total GNP in 1973 as compared to 4.3% in 1960.[3]

Not surprisingly, the burden of shouldering such an immense expenditure, the amount of which they have no control over, is becoming very oppressive to local government. Municipal officials have no recourse but to meet this commitment through use of the property tax, which has no real built-in growth mechanism with which to keep pace. (This inadequate growth feature of the property tax is discussed in greater detail in a later chapter.) As a result, education expenditure requirements are beginning to take a larger and larger bite of available municipal revenues. At present, over 40% of total local government expenditure in Canada is

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[1] Plunkett, The Financial Structure of Municipal Government; p. 40.

[2] Ibid., p. 45.

[3] Ministry of State For Urban Affairs, Human Settlement, p. 33.

for education.[1] Even more startling is the findings of one particular study -- depicted in Table 4 -- which concludes as follows:

> In virtually every instance -- provincial aggregates, groups of municipalities and selected individual cities -- the requirements of education now absorb more than 50 per cent of the total yield from property taxation... This means that municipal governments now receive less by way of net revenue from this source than they did a decade ago.[2]

TABLE 4

RELATIONSHIP BETWEEN PROPERTY TAX AND EDUCATION LEVY: EDUCATION AS A PERCENT OF PROPERTY TAXATION

	1961 %	1963 %	1965 %	1967 %	1969 %
Provinces					
British Columbia	38.2	39.6	43.6	47.5	48.0
Alberta	55.8	58.5	60.4	61.3	
Ontario	42.3	42.7	39.7	46.1	
Nova Scotia	45.2	43.9	45.8	46.4	50.6
Cities 20,000-50,000 Population					
British Columbia	48.0	49.7	53.4	55.7	57.6
Alberta	54.7	59.1	59.5	56.2	63.9
Nova Scotia	39.7	40.2	41.4	44.1	56.7
Cities Over 200,000 Population					
Ontario	38.3	39.6	38.9	44.6	
Specific Cities					
Vancouver	40.0	42.2	43.9	47.7	50.1
Victoria	35.9	38.2	40.5	44.0	46.0
Edmonton	58.2	58.1	60.9	61.1	65.5
Saskatoon	77.6	70.7	61.7	60.6	65.1
Hamilton	47.3	48.4	47.4	49.2	64.6
Halifax	49.1	48.0	51.0	50.8	65.4

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[1] Ibid.

[2] Plunkett, The Financial Structure of Municipal Government, p. 40.

The City of Winnipeg is no exception in this regard. Provincial education requirements represent a very significant proportion of necessary civic expenditures and has, in recent years become an increasing financial burden upon the shoulders of the City. In 1975, for instance, total school levies accounted for 35.6% of total current expenditures, and this figure is expected to rise to 37% for fiscal 1976. This represents a very pressing financial problem not only because it drains a large amount of very limited funds away from various city departments, but also because educational expenditures within the Province of Manitoba have skyrocketed in recent years. (This problem is also being exacerbated by the fact that the educational funding program is badly outdated, being based on 1967 figures[1]. This is resulting in the already oppressive education bill of the City of Winnipeg being even more grossly unfair as a result of the economic environment of the past five years.)

The consequences of this phenomenon are clear. Given the fact that local government continues to rely upon the property tax for a majority of its income, and that this tax exhibits very little in the way of a growth feature, then a smaller and small portion of its principal revenue source will be available for the support of purely municipal services. This is exactly what has been happening throughout the country; and the problem will only become more critical if the

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[1] Interview with Mr. Jim Gilmour, Treasurer, City of Winnipeg, July, 1976.

provinces continue to demand an ever-increasing contribution from local government for a program over which they have no control and which cannot even be considered to be a local service.[1]

This is borne out by an analysis of anticipated education expenditure requirements of the City of Winnipeg for the next five years. Table 5 presents the projected fiscal impact of education expenditures for the period 1977-1981.

Column 1 projects future total taxable assessment, based upon a very steady historical increase of about 4% annually. Column 2 estimates realty tax revenue based on this total taxable assessment with the realty tax rate held constant at 1976 rates. (Since the mill rate for education purposes varies among the twelve school divisions involved, it was necessary to compute an average mill rate for the City generally. This was done by dividing total realty tax

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[1] If one is to assume that the principal function of local government is the provision of collective services made necessary by urban settlement and which are local in nature, then there is absolutely no rationale supporting local government's requirement for funding education programs at all. Services which are "local in nature" are defined by the author as being those whose benefits are fixed in space (i.e. within the local government boundaries) and cannot be spatially transferred. For example, the primary benefits of the water distribution system, recreation programs, and police departmentof the City of Winnipeg are confined to that area bounded by the City limits. Once outside these limits, it is impossible for an individual to enjoy the benefits of these services. Now, since the benefits of education are not fixed in space, and do, in fact, accompany the movement of individuals wherever they may go, it cannot be considered to be a service that is local in nature by any means.

TABLE 5

PROJECTED FISCAL IMPACT OF EDUCATION EXPENDITURES UPON THE CITY OF WINNIPEG. 1977-1981.

YEAR	(1) TOTAL TAXABLE ASSESSMENT (Education)	(2) REALTY TAX REVENUE	(3) GRANTS-IN-LIEU OF TAXES	(4) TOTAL AVAILABE REVENUES
1977	$1,508,278,700	$101,567,480	$13,212,903	$114,780,383
1978	1,568,609,800	105,630,180	15,525,161	121,155,341
1979	1,631,354,100	109,855,380	18,242,064	128,097,444
1980	1,696,608,200	114,249,590	21,434,425	135,684,045
1981	1,764,472,500	118,819,570	25,185,449	144,005,019

	ASSUMPTION A			ASSUMPTION B		
YEAR	(5) REQUIRED EDUCATION EXPENDITURE	(6) DEFICIT	(7) DEFICIT EXPRESSED IN MILLS	(8) REQUIRED EDUCATION EXPENDITURE	(9) DEFICIT	(10) DEFICIT EXPRESSED IN MILLS
1977	$127,526,320	$12,745,937	8.45	$119,794,150	$ 5,013,767	3.32
1978	149,333,320	28,177,979	17.96	131,773.560	10,618,219	6.77
1979	174,369,310	46,771,866	28.67	144,950,910	16,853,466	10.33
1980	204,771,960	69,087,915	40.72	159,446,000	23,761,955	14.01
1981	239,787,960	95,782,941	54.28	175,390,600	31,385,581	17.79

revenues for school purposes (as provided by 1976 City of Winnipeg Current Estimates) by the total taxable assessment available for school purposes; the figure so computed was 67.34 mills.)

The third column projects future grants-in-lieu of taxes for education and are assumed to increase at a rate of 17.5% per year; this has been their annual average increase in the period 1972-1976. Together, then, these two sources represent the total resources available to the City with which to meet their education bill. (Column 4.)

Future education expenditure requirements were then estimated, based upon two different assumptions. Under the first of these assumptions, expenditures are expected to increase at a rate of 17.1% annually, equal to the average yearly increase since 1972. The second assumption estimates this increase to be a much more conservative 10% per annum. These forecasted expenditures are presented in Columns 5 and 8, respectively.

<u>It is the opinion of the author that the first of these assumptions -- that of a 17.1% annual increase -- represents a realistic basis of forecast,</u> while the smaller 10% figure represents a highly conservative one. While this may seem to be an overestimation of the future growth of school costs, it is believed that there is a very sound basis for it. Firstly, education expenditure requirements by the City of Winnipeg have risen at an annual average rate of 17.1% since 1972. What is more, the most recently experienced growth rate -- between 1975 (actual) and 1976 (budget) was 22%, substantially higher than the 1972-1976 average.

Secondly, a report tabled to the Manitoba government in August 1976, would seem to support the projected growth rate presented here. The report, prepared by 4 teachers at the request of the Province, presents a package of recommendations aimed at improving elementary education which, if implemented, would cost millions of dollars. One recommendation alone -- lowering of the pupil:teacher ratio in elementary schools from 28:1 to 23:1 and eventually to 20:1 would cost an estimated $16 million annually.[1] Some of the recommendations, it should be added, are already being acted upon. Thus, there is ample evidence to indicate that a continued growth rate of some 17% in school expenditure requirements is by means an overestimation.

The difference between projected expenditures and projected available revenues, of course, represents the expected deficit caused by education expenditure requirements. This is presented in dollar figures in Columns 6 and 9, for the two assumptions respectively, and in Columns 7 and 10 as the mill rate increase which would be necessitated in order to cover the deficit projected under each of them.

These figures speak for themselves. If education expenditures continue to increase at their present rate of growth and if the City is forced to assume such a large proportion of these expenditures based upon existing cost -- sharing formulae, then a total increase in property taxes of over 54 mills will be necessary over the next five years.

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[1] Winnipeg Free Press, 18 August, 1976.

This increase represents the impact of growth in school costs only and does not include any increase in the costs of providing municipal services, which, as it has already been pointed out, will undoubtedly also be experienced.

This, obviously is both politically and economically impossible. It would be very difficult, in fact, to be able to accomodate the mill rate increase necessary to offset the increased educational expenditures that would be experienced under the highly conservative assumption. It can very easily be concluded, then, that, in the face of unchanging conditions in the area of education expenditure requirements, the City of Winnipeg will indeed be on the doorstep of fiscal calamity. (It should be added here that the Provincial government's property tax credit plan -- designed specifically to redistribute school property tax burdens, has and will continue to have very little impact in neutralizing the cost of education to the City of Winnipeg. For one thing the present level of the tax credit program is approximately $18 million[1], much short of the projected deficit. Secondly, recipients of the program include renters as well as homeowners, which means that an amount considerably less than this is put back into the pocket of the property tax payer. Thirdly, benefits of the program are rarely perceived by recipients as being a reduction in the level of their property tax; if a homeowner is told his property taxes for next year will be $1,000 for example, he will perceive them as being just that amount,

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[1] The City of Winnipeg, Presentation to Rating Agencies, p. 11.

and not an amount being equal to the difference between the $1,000 and his tax credit payment. (The tax credit payment, in fact, is often viewed as a type of government "grant", having nothing whatsoever to do with the existing mill rate on property. It is for this reason that the Provincial government prefers this method of "easing" the school property tax burden in lieu of a straightforward reduction in the City's educational expenditure requirements. By doing so, the Province receives all of the positive political recognition from the voters for instituting a "free money" scheme, while the city administration receives all of the adverse publicity for being responsible for continual property tax increases, even though much of this responsibility lies with the outlandish revenue requirements of the Provincial education program.) Finally, it should be noted that the program does not reduce the amount of tax revenue that must be raised by the City by one cent.)

FINANCIAL MISMANAGEMENT

Metropolitan governments today can be likened to a private firm finding itself in financial difficulty, whose sales are falling and whose overhead and related expenditures are increasing enormously. Confronted with this type of situation, it would be necessary for a private firm to exhibit an extraordinary degree of managerial excellence in order to survive. Unfortunately, most urban governments have not demonstrated the ability to manage their finances adequately, never mind excellently.

Financial mismanagement, on the other hand, may be a misnomer for the fiscal performances of local government, as this implies "financial gimmickry" and out-and-out incompetency. True, some cities and their taxpayers have been the victims of financial mismanagement and corruption. New York City, for example, can blame a good portion of its present fiscal calamity upon underhanded practices. Commenting on the 1969 budget prepared by then-mayor John Lindsay just prior to a civic election, one author states that "Lindsay also used his budget for a series of manipulations to tide him through the election. He balanced his expense budget by counting $116.7 million in nonexistent revenues. He doubled expense moneys slipped into the capital budget."[1] Even more startling are the findings of the U.S. Treasury arising from their investigations of the New York bankruptcy. According to Secretary of Treasury, William Simon, "...No document existed which summarized with any clarity the income and expenses of the City. No document provided a straightforward accounting of assets and liabilities."[2]

This, it should be noted, is the most exceptional form of the mismanagement problem; what most metropolitan financial departments have been guilty of is something far less than this and may more properly be termed "undermanagement".

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[1] "Twenty Critical Decisions That Broke New York City", New York, 27 October , 1975, p. 35.

[2] John Peterson and Joy Jaeckle, "Washington Update", Government Finance, August 1975, p. 4.

This poor financial performance has resulted, for example, in the City of Saskatoon losing money on the investment of their pension fund contributions over the last twenty years.

It is evidenced that municipal financial officers have generally approached their task in the past on a rather ad hoc basis and still continue to cling to old established methods of management even in the face of much needed financial performance improvement. One reason advanced for this preoccupation with the status quo is that urban administrators -- unlike their provincial and federal counterparts -- are known to the public, and cannot hide beyond the classic shield of anonymity. As a result:

> ...municipal management frequently becomes defensive in the face of demands for change and seeks to preserve the methods and procedures which have served them well in avoiding difficult situations or disruptions in the continuity of administration. Until quite recently, municipal management seemed to exhibit, because of the nature of its position, an excessive concern with the preservation of the status quo and to manifest reliance on precedent as the determining factor in decision-making.[1]

Another reason for the lack of any improvement in the sophistication of municipal financial practices is, in the opinion of this author, the absence of any incentive to do otherwise. In the example of the troubled firm in the private sector, superior managerial performance is demanded, with the very survival of the company at stake. Metropolitan governments, on the other hand, "muddle through" their budgetary and financial control precesses, and utilize procedures which have been in existence for thirty years or more.

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[1] Plunkett, Financial Structure of Municipal Government, p. 65.

If expenditures outstripped revenues in any one year, they could merely increase the "price" or reduce the "size" of their product without any attendant loss in "sales". After all, there is no competitor to whom they could be lost.

Most obvious of the antiquated and inefficient financial management practices of local government is its budgetary process. Most urban governments utilize a "bottom-up" approach to budgeting. This involves a series of steps wherein individuals and groups prepare initial estimates which are then reviewed at the section or branch level according to some standard guidelines. These are ultimately assembled by department heads who assess and revise them before passing them for final review to the Chief Financial Officers and City Council.

> The end result (of this process) is that the final budget assemblage of individual components is extremely difficult to evaluate, or dynamically assess in the context of alternative allocations of financial resources. This type of process tends to lead to expenditure patterns in which each year's expenditures are greater than the year before. Typically, budgets being proposed for the next year tend to be computed by examining the previous year's budget and adding a marginal addition to reflect the need to provide more services as a result of the general growth of the community.[1]

Furthermore, this system of budgeting makes it extremely difficult for financial officers to ultimately determine if revenue requests of individual branches, departments, etc. are really necessary; to examine the trade-offs between competing departments; to relate the budget to city-wide

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[1] Donald F. Blumberg, "Promus -- An Urban Management System", Governmental Finance, May, 1974, p. 9.

priorities and requirements; and to dynamically evaluate the total need for governmental services in light of existing revenues.[1] "This is particularly relevant because revenues are not fixed each year, but are, to some extent, a function of the budgets finally derived."[2]

In addition to this inefficient budgetary process, most local governments suffer from a lack of evaluation standards against which to measure their performance.[3] One critic states that "...the problem has been that, up until now, many in government...have been apathetic to the existence of standards. As Jackson Phillips, senior vice-president and director of municipal bond research at Moody's puts it,

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[1] Ibid.

[2] Ibid.

[3] It should be noted here that measurement of productivity and output in the urban public sector presents some rather difficult problems. In the case of measuring output, for instance, significantly different results will be obtained depending on the unit of measurement beging utilized, whether it be physical area, population, number of households, etc. The major problemwith measuring productivity, on the other hand, is that the "product" in question often has a very long production run (e.g., education); once the product has been created, moreover, much of its resultant benefit is expropriated by the private sector. The problem of poor performance in the allocation of resources is due, to a large degree, to these difficulties.

It should also be noted that this allocation problem is further exacerbated by the political process. While in theory it is the political process that assures an optimal utilization of funds, it is often the contrary in practice. Many times, large amounts of funds are expended as a result of political expediency, lobbying, "grandstanding" on the part of the politico, or as a result of a trade-off, with no consideration given at all for its fiscal consequences.

'There has been a rather monumental indifference.' "[1]

Other difficulties in the area of municipal management which are acting to exacerbate the urban fiscal problem have been identified and include the following:[2]

1. Lack of effective general management concepts necessary to coordinate functional operations.
2. Lack of developed internal management information systems.
3. Lack of personnel mobility limiting career development.
4. Organizational rigidity acting to stiffle innovative management techniques.
5. Lack of budget appropriations aimed at general management education.

How, then, in light of this, would one evaluate the management performance of the City of Winnipeg's administration? On the surface, it would appear that financial management within the City is very satisfactory indeed. On the New York bond market they have been granted an "AA" rating, one of the highest of any North American city and second in Canada only to Toronto and Ottawa. Further investigation, however, would lead one to a very different conclusion.

Financial mismanagement has been experienced within the City of Winnipeg in a variety of degrees, ranging from shortsightedness to inefficient practices to out-and-out corruption. Consider the following:

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[1] Peat Marwick Mitchell & Co., "Municipal Financial Officers' Association", World, Vol. 10, No. 1 (Winter 1976), p. 27.

[2] Plunkett, Financial Structure of Municipal Government, p. 64.

1. Winnipeg is not free of the taint of corruption. In his annual report, the City Auditor states that "...during 1975, I was not able to give a favorable opinion on the financial statements of the (East Kildonan Parks Board) because the then Director of Recreation was convicted and imprisoned for stealing City assets. The total value of the assets stolen could not be determined."[1]

2. The Charleswood Recreation Commission was able to construct a new $60,000 recreation building without approval of council or the Board of Commissioners and without being included in either the current or capital budgets. The Commission used funds which were charged to seven different current accounts in order to finance the capital project, and the case was not uncovered until the year-end audit was performed.

3. According to City Auditor L.E. Marks, the 1975 realty tax rate was approximately four mills higher than necessary merely as a result of poor budgeting performance. Revenue estimates for 1975 proved to be approximately $6.1 million less than actual revenues generated. If the budget had been "more realistic", the result could have been a four mill property tax decrease.[2]

4. In addition to this inadequate budget performance, Mr. Marks has also cited deficiencies in the City's short-term

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[1] City of Winnipeg, Report of The City Auditor To The Council of The City of Winnipeg, 31 December, 1975, p. 10.

[2] Winnipeg Free Press, August 19, 1976.

financial management practices. In his annual audit report, he states that the various boards and commissions of the city were able to accumulate excess funds during 1975 at the same time as the City itself was paying to its bank overdraft interest. These excess funds, in turn, were invested by the boards at a lower rate of interest than that available to the City at large:

> Grants were paid to the boards far in excess of their needs. These excess funds were invested in revenue bearing investments, a method of earning revenue not available to City departments performing the same type of function...The effect of these excess payments to the boards and commissions is that the amount of excess funds available for investment by the City as a whole, is reduced. This in turn means a loss of revenue to the City because of the better rate of return earned by the City on its large deposits. The boards earn a lower rate on their smaller deposits but these funds are used in only one community. Therefore, the taxpayers as a whole, are the losers in this situation. During the early part of the year, the City was actually in an overdraft position and was paying bank overdraft interest while paying funds to the boards who did not need the funds and were in turn investing it.[1]

5. It is quite possible that the City may be caught shortsighted with respect to its employee pension plan. The amount of pension paid to civic employees is based upon their salary in the last five years of employment. Inflation has pushed this salary level far above what it was ever anticipated to be years ago when necessary deductions and contributions were made.[2]

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[1] City of Winnipeg, Report of the City Auditor, p. 14.

[2] Interview with Mr. John Gee, Head of Committee on Finance, City of Winnipeg, April 1976.

6. Like many other cities, Winnipeg is suffering from inertia with respect to its accounting and financial practices. In late August of 1976, civic finance committee was moved to recommend that a consultant be retained in order to design a more efficient accounting, budget control and financial reporting system, the total cost of which may exceed $300,000. The reason for the recommendation was that the present system is becoming rapidly outdated. The system "...is essentially that developed for the former City of Winnipeg (now the Inner City) in the late 1950's. It results in late delivery of expenditure reports, inadequate control on outgoing payments and costly accounting duplication."[1]

7. The budgeting process within the City of Winnipeg follows the "bottom-up" approach as outlined previously. Not surprisingly, this results in many of the accompanying inefficiencies usually resultant from such a process. For instance, the police department received a budget appropriation in 1976 for the hiring of 66 additional constables. According to the department head, this addition was an absolute necessity; however, Mr. Jim Gilmour, City Treasurer, is convinced that the increase is unnecessary, and will have no impact on city-wide crime rates. He believes that it was purely a political decision, and was made possible through the combination of inefficient budget procedures and over-zealous department heads.[2]

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[1] Winnipeg Free Press, August 18, 1976.

[2] Interview with Mr. J.C. Gilmour, City Treasurer, City of Winnipeg, July, 1976.

Another example given by Mr. Gilmour of the inefficiencies resulting from the City's budgeting process lies in the area of recreation. Over the past several years, the recreation budget has continued to rise at an "alarming" rate. The reason that it has been allowed to do so, according to Mr. Gilmour, is that the budget is based partly on the previous year's allocation, and partly on the recommendations of the individual community committees, who carry a substantial amount of influence but who also do not often take note of the outcome of their actions.[1] What is more, it is very seldom that an inflated recreation budget will be voted down by city council; councillors view recreation programs and facilities as "vote-getters" which will maximize their favor with local voters.

8. The City of Winnipeg suffers from a lack of personnel mobility which limits career development. This makes it very difficult for civic administration to retain young persons with abundant potential. The main reason for this is the fact that seniority within particular departments ranks as a higher priority than does the qualifications of individual prospects in the filling of positions and the granting of promotions. It is almost impossible to retain highly-qualified young employees under such a system; very few will remain with an employer when they continue to be refused promotions and higher positions for which they are often the most qualified candidate, merely because they lack seniority.

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[1] Ibid.

It is quite evident from the foregoing, then, that the City of Winnipeg administration suffers from many facets of mismanagement ranging from oversightedness to blatant attempts at swindling. And, given the fact that they possess on of the highest municipal ratings in the country, this is very disturbing indeed.

It is also quite evident that, while this lack of efficient management could be tolerated in the past, it can no longer be in the present economic milieu. As the forces giving rise to the fiscal squeeze continue unimpeded, a higher level of competency will be demanded. Overcoming these inadquacies, however, may be a fairly formidable task. Because of the very metropolitan expenditure -- revenue gap that is demanding improved management, there is little or no money available for educational programs and for the search for new approaches to municipal fiscal problems; the entire budget, and then some, is being consumed in order to merely maintain existing services at present levels. An additonal obstacle lying in the path of improved management performance is "...the lack of any formal programmes in Canadian post-secondary educational institutions that are geared to the requirements of urban management education. In fact, the requirements still have to be adequately defined."[1]

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[1] Plunkett, Financial Structure of Municipal Government, p. 65.

POLICIES OF THE PROVINCIAL AND FEDERAL GOVERNMENTS

While the fiscal position of metropolitan government is affected directly by its own decisions and policies, it is also affected indirectly -- but very significantly, by the policies of higher levels of government over which they have no control. Immigration policies once pursued by the Federal Government, for example, had strong implications for the larger urban centres, for it was the large metropolitan areas which typically became home to immigrants who arrived with little education, rudimentary employment skills, and a need for extensive social services and public assistance.[1] The burden of assuming the costs of these social assistance programs rested upon the shoulders of local government, although the real impetus for them was lodged at a higher level of government.

More recently, uneducated young ruralites have been the victims of "forced" migration to the larger cities as a result of provincial and federal policies regarding such matters as agricultural production, Indian affairs, and northern development, with municipal taxpayers having to assume the social costs associated with this type of migration. The City of Winnipeg provides a fine example of this.

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[1] This example, it should be noted, is a historical one only. The thrust of recent Canadian immigration policy has been to exclude unskilled immigrants from other countries.

In recent years, Winnipeg has been the recipient of substantial numbers of migrant Indians and Metis. Unhappy with the life-style forced upon them by federal bureaucrats in the department of Indian Affairs, the native people have chosen to migrate to Winnipeg in search of an alternative. The alternative they do find, however, is not a pleasant one. Burdened by a lack of formal education, a dearth of job skills, and experiencing an acute degree of cultural shock upon arrival in the urban milieu, these persons have immeasurably added to the social costs of the City. In effect, the City is forced to assume the financial responsibility of a national problem.

Estimates of the number of Indians living in Winnipeg range from 17,000 to 35,000[1]; what is more, there is no doubt that this number is growing annually. This phenomenon has grave implications for the City, both socially and financially as is evidenced by the following:

> The problem of the urban Indian is still submerged; but it festers in urban centres such as Winnipeg... and much of the social pathology and the burden of the public welfare programs of those cities has its source in these oppressed and disadvantaged groups.[2]

Winnipeg, it should be noted, is by no means alone in experiencing greatly increased social costs of internal migration resulting from policies over which they have no control. On the contrary, it would appear to be an almost

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[1] Neeginan Incorporated, Neeginan: A Native People's Services Centre Building, (Winnipeg: Damas and Smith Limited, 1975), p. 2.

[2] Ibid., p. 2.

universal phenomenon, which has been summarized very succinctly by then-Mayor John V. Lindsay of New York City as follows:

> Over the last couple of decades, our cities have become the guardians of the country's unwanted stepchildren. We have inherited the Nation's problems of poverty, race and class conflict, physical deterioration, drug addition, archaic public education systems, pollution. Over the last two decades, the chief problems of the country have grown and festered in these cities, and we are the ones who have been asked to find the solutions.[1]

There are other types of higher level policy decisions which are also acting to have a negative impact upon municipal finances. In August, 1976, for example, it was announced by Premier Ed Schreyer that impending new policies intended to revamp federal spending on provincial programs will cost Manitoba an estimated $30 million dollars.[2] As a result, major cutbacks in provincial spending have been in order.

This is sure to have some financial impact upon the City of Winnipeg, as the revenue loss effected by it "filters down" to the local level. It is certain to pull provincial pursestrings even tighter when Winnipeg's monetary needs are discussed.

The foregoing is by no means a sound basis for concluding that an impending financial crisis is being at least partially brought to bear in Winnipeg as a result of indirect effects of senior government policy decisions;

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1 Quoted in Pettengill and Uppal, Can Cities Survive?, p.7.

2 Winnipeg Free Press, August 18, 1976.

what is more, it is rather absurd to consider this phenomonon to even be an intrinsic part of the urban order. However, it does serve notice that Winnipeg is, in fact, the beneficiary of at least some unfavorable financial side effects of provincial and federal decisions; decisions that are duly made without any regard for these side effects upon local levels of government. And, while one may not be able to consider this as a principle cause of the urban financial crisis, it cannot be overlooked as a factor which is acting to exacerbate this crisis, and whichwill continue to until notice is taken of potential secondary effects of higher level government decisions upon metropolitan government.

CHAPTER III

CAUSES OF THE URBAN FINANCIAL CRISIS: REVENUE SOURCES

The other pincer of the urban revenue - expenditure squeeze is the inability of present sources of income to generate enough revenue annually to keep pace with the mushrooming level of necessary expenditures; and, in the years to come, this situation has little prospect of improvement. The municipal revenue base, quite simply stated, has become obsolete relative to the changing magnitude of the function of local government.

INADEQUACY OF PRESENT SOURCES OF REVENUE

The major source of revenue for most municipal governments is the property tax. Historically, the property tax was a most satisfactory source of funding local service requirements.

> For example, the services performed by municipal governments in the ninteenth century were very limited in scope and of purely local effect. A fairly low rate of property taxation could yield sufficient to finance the very simple requirements of education, local roads and the care for the poor. It did not impose any great burden on the local taxpayer of the time for he was not subject to the income tax and other forms of direct and indirect taxation which did not make their appearance until well into the present century.[1]

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[1] Plunkett, Financial Structure of Municipal Government, p. 31.

Since that time, however, the scope and nature of urban government activities has changed dramatically, and the costs associated with this "new" function are skyrocketing tremendously for a number of reasons; this point has just been examined at length. Unfortunately, local government still relies upon the property tax for its principal source of revenue; and, as it will be pointed out, it is woefully inadequate to meet the present-day revenue necessities of local government. The major drawback of the property tax, as it applies here, is that it is not directly responsive to changes in economic growth.[1]

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[1] The property tax has also been criticized on several grounds other than this; traditionally, the most serious allegation has been that it is a regressive form of taxation. One study that attempted to demonstrate this was undertaken by the Manitoba Government. The results tend to show that the group least able to support the burden of taxation -- the poor, spend a larger portion of their income on the taxed object -- the dwelling. (Ministry of State for Urban Affairs, Human Settlement). (It should be pointed out, however, that this traditional point of view has been challenged as of late, and that some economists are beginning to feel that the property tax is, in fact, a progressive tax levy. See R. Bird, "The Incidence of The Property Tax: Old Wine in New Bottles?", Canadian Public Policy, Supplement, 1976.)

Another point of concern is that in several cases, it discourages property improvement -- which would result in an increase in property assessment and ultimately property tax payable -- and encourages land holding for speculative purposes. What is more, it is a tax that is often imposed upon people who receive no benefit from its expenditure; the case of the elderly financing education costs is a case in point. However, the main concern of the author here with the property tax lies only in the adequacy of the local government revenue base in meeting current expenditure requirements.

It should be noted here that both the federal and provincial governments possess a revenue base that is based on one or more "growth" tax levies (so called because they rise automatically with increases in economic growth and consumption expenditures) in the form of income taxes (among others) and various consumption taxes respectively.

Municipal government, however, is not so fortunate. Their principal source of revenue -- the property tax, is anything but a growth levy. Total assessment, which generally lag behind market values and understate them by up to 85%, changes relatively little from year to year as a result of new construction and improvements to existing structures. As a result, any significant increase in revenue is brought about by raising the level of taxation per dollar of assessment.

An American Study by Mushkin, Lupo, and Friedman indicates that city revenues -- accounted for, on the most part, by the property tax -- have historically risen at about the same rate as the GNP, exhibiting an elasticity of 1.0. However, expenditures have been rising by a factor of about 1.6 - 1.7.[1] Clearly, then, the present revenue base of most city governments cannot be considered to be sufficient to even maintain existing levels of services, never mind the future

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[1] Pettingill and Uppal, <u>Can Cities Survive?</u>, p. 87.

expenditure requirements which will be experienced as a result of causes previously examined.

The impact of this inadequate revenue base over time can be seen when compared to total government revenues and expenditures. Tables 6 and 7 present the percentages of total government revenue accruing to different levels and percentages of total expenditures by different levels.

TABLE 6

PERCENTAGES OF TOTAL GOVERNMENT REVENUE ACCRUING TO DIFFERENT LEVELS BEFORE AND AFTER TRANSFER PAYMENTS

	1953		1962		1974	
	PRE TRANSFER %	POST TRANSFER %	PRE TRANSFER %	POST TRANSFER %	PRE TRANSFER %	POST TRANSFER %
Federal	67.7	63.8	55.9	46.8	51.5	40.7
Provincial	16.9	19.5	26.5	20.6	33.8	28.6
Local	13.4	16.7	17.2	25.8	10.3	19.4

Source: Ministry of State for Urban Affairs, Human Settlement.

TABLE 7

PERCENTAGES OF TOTAL GOVERNMENT EXPENDITURES BY DIFFERENT LEVELS

LEVEL	1953(%)	1962(%)	1974(%)
Federal	62.3	48.1	41.1
Provincial	18.2	20.0	28.9
Local	19.5	25.4	21.8
TOTAL ($millions)	$6,812	$13,197	$55,043
Percent of GNP	26.4%	30.7%	39.1%

Source: Ministry of State for Urban Affairs, Human Settlement.

The implications are clear:

> While in (the 1950's) expenditures by the three levels of government were marked by some differences, the magnitude of these differences were greatly increased over time...It can therefore be concluded that...the financial impact of local government in Canada in terms of expenditures has been diminished compared to the other two levels of government. And the trend indicates a probable further erosion in the impact of local government in the future.[1]

This trend is also present in the pattern of total government revenue distribution over time; in fact, it is to an even more alarming degree.

In the context of this discussion, we can now turn to an assessment of the adequacy of revenue sources of the City of Winnipeg in meeting their expected future financial requirements. According to the 1976 current estimates, realty taxes presently account for 52% of revenue raised to cover the municipal portion of Winnipeg's budget (i.e., exclusive of education requirements). This proportion has remained relatively constant since 1972, when it was 52.9%.

The percentage of revenues raised through the realty tax for all purposes, however, is a different story. The $192 million in property taxes levied in 1976 represents 66% of the total current budget. (By way of comparison, this figure was 65.8% in 1972). Thus, the dependency of the City of Winnipeg upon the property tax as a revenue source is an enormous one; and the fact that the property tax is

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[1] Donald J.H. Higgins, "Urban Canada: Its Government and Politics", unpublished manuscript, p. 79.

not a "growth" tax levy becomes very crucial here because of this.

The following projection (portions of which have been presented previously) is an estimate of the revenues that will be made available to the City over the next five years by its currently existing revenue structure.

Columns 1 through 3 represent an estimate of the City's municipal revenue for the period 1977-1981, assuming present tax rates are held constant; these were first presented as part of Table 2 and are reproduced here noting the same assumptions. Columns 4, 5 and 6 are the author's estimates of the revenue available to the City for education purposes, as found in Table 5. Column 7 is the total of these and is a projection of the City's expected revenue stream for the next five years.

The inadequacy of this revenue stream is clear. The anticipated average annual increase of some 8.5% will barely be able to cover the anticipated rise in expenditures to be caused by inflation. Of the $23 million dollar increase in revenues estimated for 1977, all but some $5 million will be consumed by inflation; and, an additional $1.5 million must be set aside to cover added debt charges for new capital works projects already approved.[1] This leaves almost nothing to cover anticipated increases in expenditures resulting from other sources -- such as an expected $18 million jump in required education expenditures -- which have been discussed

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[1] Winnipeg Free Press, 10 September, 1976.

TABLE 8

ESTIMATED REVENUES OF CITY OF WINNIPEG: 1977-1981

Year	(1) Realty Tax (Municipal)	(2) Other Municipal Revenue	(3) Total Municipal Revenue	(4) Realty Tax (Education)	(5) Grants-in-Lieu of Taxes (Education)
1977	$ 99,223,450	$101,249,450	$200,472,900	$101,567,480	$13,212,903
1978	$103,192,400	$116,436,860	$219,629,260	$105,630,180	$15,525,161
1979	$107,320,080	$133,902,380	$241,222,460	$109,855,380	$18,242,064
1980	$111,612,860	$153,987,730	$265,600,590	$114,249,590	$21,434,425
1981	$116,077,380	$177,085,880	$293,163,260	$118,819,570	$25,185,449

Year	(6) Total Revenue for Education	(7) Total Revenue	(8) Annual Increase	(9) Annual % Increase
1977	$114,780,383	$315,253,283		
1978	$121,155,341	$340,784,601	$25,531,318	8.1%
1979	$128,097,444	$369,319,904	$28,535,303	8.4%
1980	$135,684,045	$401,284,635	$31,964,731	8.7%
1981	$144,005,019	$437,168,279	$35,883,644	9.0%

earlier in this piece of research.

The outlook for the next five years, moreover, appears even more bleak indeed. Over the period 1977-1981, increases in expenditures arising from inflation will be in the order of some $112 million, or over 60%; required education expenfigures may rise by as much as $130 million (representing an additional 54.3 mills based on projected 1981 total taxable assessment); and current debt and finance charges will rise by about $65 million in order to finance necessary capital programs[1]. At the same time, however, the "natural" rate of increase in revenues will be between 8% and 9% annually, for a total increase of only $145 million. Obviously, the revenue-expenditure gap resulting from this can be considered to be nothing short of alarming.

Unless the revenue structure of the City of Winnipeg is radically modified in the near future, then, we can expect them to begin experiencing severe fiscal distress. Present revenue sources -- vested primarily in the property tax, are insufficient to maintain existing services even at present levels. Anticipated future expenditures that will be encountered will outstrip existing revenues so greatly, that to rely on the property tax as a principle source of local revenue is a hopeless task. (The only alternative available at present, of course, is a combination of continually increasing property tax rates and/or cutbacks in the level of services provided; however, this alternative itself is a

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[1] These estimates have been made elsewhere in this document.

very limited one; property taxes in Winnipeg have been increasing astronomically over the past few years, and may now be nearing some maximum "ceiling"; on the other hand, the City would be hard-pressed to find many areas in which services could be cut without drastically harming Winnipegers' quality of life.)

LACK OF PROVINCIAL AND FEDERAL FINANCIAL ASSISTANCE

In order to alleviate the financial burden upon local government, provincial and federal assistance, sometimes in substantial amounts, has been extended to them in various forms of cost-sharing agreements. They have, in some rare instances, even granted cities a "share" of their own growth taxes by allowing them to levy a minimal tax rate on, for example, liquor, cigarettes, and general sales.

Indeed, the concept of transfers of money from higher levels of government is supported by many sound arguments, including the following:

1. Metropolitan services are often utilized by people who do not reside within that particular city. (Even tourists, by way of example, must rely upon police protection.)

2. Many increased expenditures incurred by local government are the direct result of provincial and federal policies. This has been discussed in some detail above.

3. It may be argued that local government should not have to bear the majority of education expenses when it has been proven that the probability of a person residing for

the remainder of his life in the city in which has was publicly educated is far less than 50%.[1] (Indeed, there is very little, if any, argument supporting local government having to finance education programs at all.)

4. Costs of metropolitan services should be distributed on the basis of ability-to-pay, according to who will receive benefit, or some other concept that guarantees some measure of equity in taxation.

5. Our society is now an urban one, and will continue to become even more urbanized in the foreseeable future. The fact that as much as 94% of our population may be living in urban centres by the year 2001[2] obviously implies that urban expenditures will be the dominant function of the public sector; local government is beginning to "be where its at". What is more, since local expenditure decisions are best made at the local level, then one must conclude that local metropolitan governments should be granted a much larger share of the overall public revenue base than they now possess.

The case for increased transfer payments to local governments is a strong one, both in terms of the above arguments and relative to the previous discussion of the inadequate municipal revenue base. And, it would seem that the provinces have responded in an encouraging manner. However, one study of transfer payments concludes that to consider only the absolute level of grants made by the

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[1] Pettengill and Uppal, Can Cities Survive?, p. 115.

[2] Lithwick, Urban Canada, p. 45.

provinces is very misleading. It goes on to state that:

> It is evident from a review of the data, both in terms of provincial aggregates, groups of municipalities and individual cities, that while provincial grants and contributions have increased in absolute terms, the yield from the property tax has also increased in the same proportion. There is not much evidence yet to indicate that the revenue yield from grants and subsidies has had any effect in lessening municipal dependence on the property tax.[1]

The Province of Manitoba is a case in point with respect to the City of Winnipeg. Provincial government grants to the City amounted to some $22 million in 1976; however, the majority of these were conditional in nature. What is more, it is apparent that they have had no impact at all in lessening Winnipeg's dependence upon the property tax. In 1972, 65.8% of City expenditures were met via the property tax; by 1976 -- in spite of increased provincial grants -- this figure had risen slightly to 66.0%.

It should be apparent from the research presented herein that any solution to Winnipeg's present fiscal situation must begin with a restructuring of its revenue base so as to include some form of growth tax or taxes that have a fairly lucrative potential for revenue generation. Ideally, this would take the form of the Provincial government granting some portion of its own growth tax base to the City.[2]

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[1] Plunkett, Financial Structure of Municipal Government, p. 38.

[2] In April, 1976, the Province did state that it would allow Winnipeg to levy a variety of growth taxes of their own. However, this offer was rejected by City council at that time, a decision with which the author is in complete agreement. This form of financial aid from the Province cannot be regarded as being acceptable for reasons which will be discussed further in Chapter V.

Sadly, there is no likelihood of this being the case. Premier Ed Schreyer has stated on many occasions that Manitoba will not forfeit any of their own tax revenue to the City. This was reiterated once again earlier this year when Urban Affairs Minister Saul Miller announced that "...the City of Winnipeg shouldn't expect any significant increase in financial assistance from the Province this year".[1]

To make matters even more bleak is the fact that there seems to be little hope of senior government -- either provincial or federal -- increasing the level of transfer payments in any substantial amount in the foreseeable future. Higher levels of government are themselves feeling the impact of inflation and as a result, they are not very willing to part with sizeable amounts of their own revenue dollars. Transferring of substantial revenues to the local level would result in either the provincial or federal government having to cut back their own programs drastically or else raise their own tax rates -- something that is an unfavorable alternative to politicians at any level of government. One author sees it this way:

> Despite all this support for revenue sharing, the federal government feels the same basic fiscal problems that confront...cities. When its expenditures rise as theirs do, for whatever reason, funds must be found. This means raising taxes, finding new sources of revenue, cutting other expenses, or borrowing. Higher federal taxes on personal incomes or corporate profits are viewed as unfavorably in (Ottawa) as higher property or sales taxes at home, and the other choices are also distasteful.[2]

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[1] Winnipeg Free Press, March 1976.

[2] Pettengill and Uppal, Can Cities Survive?, p. 153.

More specifically, the Province of Manitoba has just recently announced that it is embarking upon an austerity program in a bid to reduce this coming year's planned expenditures by as much as $30 million. Reporting further on this development, newspaper coverage of the announced cutbacks adds that "...if the cutbacks fail to provide the needed saving, the Premier said the government will have to consider healthy increases in provincial income taxes."[1] The reason for these measures is the loss of expected provincial revenue in the order of some $30 million resulting from proposed new federal government policies; this point has been discussed earlier.

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[1] Winnipeg Free Press, 18 August, 1976.

CHAPTER IV

SYNOPSIS

These, then represent the major causes of the "urban financial crisis", as defined earlier, along with an attempt to demonstrate the extent to which they will affect the fiscal viability of the City of Winnipeg. These causes are summarized below.

A. CAUSES OF RISING URBAN EXPENDITURES

1. Inflation. Inflation is a universal phenomenon of our times and urban government is not exempt from its effects. It seems, in fact, that several features intrinsic to the nature of local government operations leaves it vulnerable to the ravages of spiralling inflation to a far greater degree than is the private sector or even other levels of the public sector. It is the greatest source of increasing urban expenditures at present.

2. Rising Populations and Increasing Urbanization. The demographic trends which are being experienced in Canada at present and which are expected to intensify in the future are nothing short of alarming. It is forecast that by the year 2001, seventy-three percent of our entire population will be located in but twelve urban centres. The implications

of this with regards to public expenditures necessary to provide basic urban services in these centres are self-evident.

3. Metropolitan Development Policy. Given that our present urban centres will continue to experience sustained growth, there are several alternative ways in which this growth can be accommodated. On the one extreme is completely decentralized growth; on the other is a growth policy of highly centralized development; in between lie an infinite number of combinations of the two. As has been alluded to, the costs of providing urban services within these alternative patterns of growth may differ dramatically.

4. Demand of City People for More and Better Services. In the period since World War II, local government has been forced to provide some services at much higher levels of amenity than hitherto necessary, and other services which were previously not provided by them at all. In addition, sociological and cultural changes have acted to shift the emphasis in local government operations from relatively inexpensive maintenance and regulatory activities to costly construction and capital investment.

5. A Rising Payroll. Many city governments have a tendency to blindly increase their departmental staffs without much regard for the resulting benefits. A combination of overzealous department heads, a lack of production standards, and bureaucracy have allowed this to happen.

6. Aging of City Infrastructure. Many American cities have been experiencing spiralling costs connected with

replacement of central city infrastructure, due to aging and obsolence. While cities in Canada do not face this problem to the same extent due to their relative newness, they will nevertheless encounter considerable costs in the foreseeable future for its repair and maintenance.

7. Rising Burden of Education Expenditures. Local government has been forced to assume an ever-increasing level of expenditure for education purposes, despite the fact that they have no control over the total amount of the required expenditure or the manner in which it is spent. This is resulting in a decreasing proportion of its property tax revenue being available for the provision of purely municipal services.

8. Financial Mismanagement. Some cities, notably New York, have been the victims of outright financial mismanagement and corruption. Other cities, however, have also experienced increased costs because of "undermanagement". Because of the lack of any standards, and the absence of the profit-motive, urban governments have proven to be very inefficient business administrators.

9. Provincial and Federal Policies. Policies of higher levels of government can drastically affect cities financially. Most importantly, they can affect the rate, type, and pattern of urban growth, which in turn have differing financial implications for the delivery of local services.

B. INADEQUATE REVENUE SOURCES

1. Inadequacy of Present Sources of Revenue. Urban government, it has been pointed out, relies primarily upon the property tax for their necessary revenue. Because it lacks a built-in "growth" feature, it is proving grossly inadequate in keeping pace with expenditure requirements, which are skyrocketing for those reasons cited above.

2. Inadequacy of Assistance from Higher Levels of Government. While their source of revenue is both inadequate and unfair, city fathers have little hope of receiving assistance from above. Provincial governments, and the federal government too, are experiencing an economic squeeze and are not willing to part with sizeable portions of their revenue dollars.

THE CITY OF WINNIPEG

In addition, the following is a very brief summary of the major findings of this research concerning the financial future of the City of Winnipeg:

1. Inflation is expected to cause operating expenditures of the City of Winnipeg to increase by approximately $18.3 million in 1977. Over the five year period to 1981, cost increases due to inflationary pressures will total almost $112 million.

2. From what little data there is available, it seems that the City is experiencing, and will continue to experience, decreasing returns to scale with respect to the provision

of municipal services.

3. Winnipeg's highly decentralized pattern of development may be carrying with it some very dire financial consequences. While this point may be almost impossible to definitively prove, one thing is certain: if it does happen to be the case that decentralization of development demands significantly higher expenditures forthe provision of municipal services relative to centralized development, then the City of Winnipeg has presented itself with an ominous financial problem.

4. The City is caught on the horns of a dilemma with respect to its capital programming requirements. If they decide to limit capital expenditures to a "safe" level of $50 million annually, as is the case with their "least cost" approach to the five-year capital budget, many needed projects will be eliminated, services will be cut substantially in many areas, and total costs may even be increased in the long-run. On the other hand, if they decide to fund the entire five-year capital budget, they will certainly find themselves in financial turmoil. What is more, many projects which will become necessary in the near future are not even included in this five-year budget, notably a $300-$400 million aquaduct.

5. Despite the fact that council had adopted a policy of freezing employment at the 1972 level, the number of permanent civic employees continues to grow almost at will.

6. Aging infrastructure presents little or no problem in Winnipeg either at present or in the foreseeable future.

7. If required education expenditures forced upon the City by the Provincial government continue to increase at present rates, property taxes will have to be raised by over 54 mills by 1981 merely to cover this one item of expenditure.

8. The City of Winnipeg suffers from inferior management performance, ranging from shortsightedness to out-and-out swindling. While it is impossible to calculate the increased costs imposed by this, it is evident that it is contributing at least partially to the financial crisis.

9. There is some evidence to support the notion that policy decisions of higher levels of government have had at least some financial impact upon the City. However, evidence at this time is too sketchy to estimate the extent of this impact.

10. While the current budget has increased by some 95% since 1972, and can be expected to continue to increase in a similar manner in the near future, Winnipeg's revenue sources are not sufficient with which to keep pace. If mill rates are to remain constant at 1976 levels, then City revenue can be expected to experience an annual average increase of about 8.5%.

11. Financial assistance to the City from the Provincial government seems to be a virtual impossibility at this time.

CHAPTER V

SUMMARY AND CONCLUSIONS

The foregoing treatise has been an attempt to demonstrate that, given present conditions, all large Canadian cities can expect to experience fiscal distress in the very near future, including bankruptcy in some cases. In an attempt to prove this hypothesis, a case analysis was made of one particular city -- Winnipeg, utilizing that framework developed in formulating the hypothesis and advancing the author's argument for the generalized case.

There were, in all, eleven causes or conditions advanced as being at the cause of the impending urban crisis. Of these eleven, it would appear that as many as nine of them have at least some implication for the financial future of the City of Winnipeg. And, of these nine, six seem to be serious enough to conclude that, if present conditions persist unabated, Winnipeg is indeed facing imminent bankruptcy.

It must be cautioned at this point that the findings of this particular piece of research must be considered as <u>being preliminary only</u>. Because of the very complexity of the problem involved, much of the research was, by necessity, very superficial. Indeed, some of the reasons advanced as being the "seeds of doom" for cities financially would require a major treatment in themselves in order to draw any definite conclusions. Moreover, at least one of the hypothesized causes -- decentralized urban development -- may be impossible to conclusively prove at all.

Despite this incompleteness, however, some very strong indications of urban financial problems and the future fiscal viability of cities are borne out. Generally speaking, it can be concluded from the research herein that the financial structure of urban government is obsolete. Up to some thirty or forty years ago, local government was, in all respects, the "third level" of government. Its role was very limited, and the scope of this activities included little more than the provision of some very basic "housekeeping" services. At that time, the property tax provided a quite sufficient revenue base; the then very modest costs of the provision of education, road grading, and the allocation of municipal sewer and water services changed very little from year to year.

All this has changed, however. Our population, for all intents and purposes, is rapidly becoming entirely urbanized, and this is revolutionizing the scope and very nature of local government. Being an urban people, the majority of our problems and the bulk of our social and public sector needs are also urban in nature. The primacy of local government is rapidly increasing; coincidentally, the expenditures of local government operations are rising at astronomical rates for a multitude of reasons that have been outlined here. If urban government is beginning to assume a position of primary importance in the hierarchy of our national government structure, as it appears to be doing, then its revenue needs can also be expected to do the same.

Unfortunately, however, while the role of local government is changing so drastically, its revenue structure is not. The property tax remains the primary source of urban revenue, and, while at one time it could be considered to be adequate, given the limited function of local government, it is now totally inadequate. For any level of government, or private business, for that matter, to be forced to rely upon a revenue source with such a limited growth potential as the property tax, when its expenditures are climbing at unprecedented rates, is a sure invitation to fiscal calamity.

No one can question the necessity of the provision of an adequate level of basic urban services to our burgeoning mass of city dwellers; indeed, in a metropolitan environment, most, if not all services of local government can be considered to be necessitities of life. If we were to suddenly find ourselves without any means of delivering potable water to the city and having waste and garbage removed; without the safeguards of police and fire protection; without adequate lighting or without the benefit of snow clearing and traffic control; even without our much criticized transporation network, then a clear danger to human survival would certainly exist. In order for our population to exist in a densely-settled urban environment, we must become totally dependent upon the provision of certain functions, many of which, in a time gone past, could most ably be carried out on an individual basis. Yet, local government is becoming increasingly less able to provide these necessary services because of an antiquated and obsolete public finance structure.

It is said that local government is a creature of the province. This is because it inherently has no legal power and no taxing authority other than that which is delegated to them by the provincial legislature. And, any change that is made in these respective jurisdictions must be made at the provincial level. It is for this reason that much of the responsibility for the fiscal malaise of Winnipeg lies with the Manitoba government. It has become increasingly evident to all local politicians and administrators that the City is not able to function properly saddled with its gorssly insufficient revenue structure; and this limited ability to provide adequate municipal services is certainly about to deteriorate drastically in the very near future.

Yet, its hands remain tied, and the province refuses to open its eyes to what is the most serious problem facing Winnipeg -- and, as a result, Manitoba itself, at present.

This neglect of the City of Winnipeg by the Province has already been documented by the then -- Metropolitan Corporation of Greater Winnipeg Planning Division in a 1971 report, entitled "The Place of Greater Winnipeg In The Economy of Manitoba". The crux of this report is contained in the following paragraphs:

> There is still the widely held view that the prairies are still rural and agricultural, that the prairie economy is still a wheat economy, and that the urban centres of the prairies are still agricultural service centres...These views dominate much of our thinking, and are reflected in many areas of government policy, at all levels of government, including the federal. The prairie provincial governments in particular are powerfully possessed by thepersuasion that the prairies are a farming community, and have persistently pursued policies oriented toward the rural agricultural sector of the society.[1]

> In spite of this overwhelming contribution of the metropolitan area to the economic life of Manitoba, successive provincial governments have developed and pursued policies which virtually ignored the presence of the city, or which seemed to be based on the assumption that the city could look after itself. The metropolitan area of Winnipeg probably could look after itself very satisfactorily, if it could retain all of the revenues which it produces and which under present arrangements are paid to the Province. Although metropolitan Winnipeg provides 65% of all provincial revenue from taxation (Liquor Control Commission profits, tobacco tax, gasoline tax, motor vehicle license fees, personal income tax, and revenue tax) and 66% of all the jobs in the province, and contains 54% of the total population, it receives only 9.5% of the provincial expenditure on highway construction; and of all of the capital expenditures by all levels of government in the province, only about 35-40% is spent in the metropolitan area. This unbalanced treatment of metropolitan Winnipeg in itself would be quite acceptable if the massive urban problems now facing the metropolitan area could be solved within the legislative powers and financial resources now available to the urban governments. But this is not the case. The metropolitan area is facing a desperate situation in which the intensity and extent of its difficulties are increasing annually, and its powers and financial resources remain fixed.[2]

> This is precisely what is happening in the contemporary city. The large city finds itself in a crisis situation; and in very large measure the crisis is due to the fact that our social and governmental institutions, that is,

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[1] Metropolitan Corporation of Greater Winnipeg, Planning Division, The Place of Winnipeg in The Economy of Manitoba, (Winnipeg, 1971), p. 2.

[2] Ibid., p. 4.

> the whole fabric of concepts, procedures, practices, legislation, etc., which was created as the framework within which the city would be governed, has become obsolete. It has not been able to adjust itself rapidly enough or profoundly enough to accommodate the changes which are taking place. The urban government now finds itself in the position of lacking the statutory powers and the financial resources necessary to carry out its basic functions. The gap between the things that must be done in the city in order to maintain it as a fit place for human habitation, and our capacity to do those things, is widening.[1]

These foregoing paragraphs speak for themselves, placing much of the weight of responsibility for the urban financial problem squarely on the shoulders of the provincial government. And, five years later, there has still been no move on the part of the Province to alleviate the ever-worsening situation.

In early 1976, it did appear as if some major move was finally being made by Manitoba that would represent a partial solution to Winnipeg's financial crisis. Premier Schreyer made an offer to the City under which they would be able to levy their own growth taxes -- with the choice of taxes being at the discretion of the City, and which would even be collected by the Province on their behalf. Superficially, this appeared to some to be the panacea for the problem; however, this alternative should not and cannot be viewed as a viable solution by any means and may even aggravate the problem further rather than curing it.

Under the offer, not one additional cent of provincial revenue would be turned over to the City; all taxes collected

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[1] Ibid., p. 2.

would be over and above those already being levied by all three levels of government. Instead of redividing the "public finance pie", the overall size of the pie is simply being enlarged. This amounts to asking the taxpayers to finance the solution to Winnipeg's crisis. The answer is not higher taxes, which are already at an almost unbearable level (This especially holds true in Manitoba whose residents are some of the most heavily taxed in Canada and which boasts, among other things, a whopping 42½% provincial income tax rate.) Rather, the solution is to be found in shifting already existing government revenues to where they are most urgently needed -- at the local level.

Now, if the conclusion suggested by this research -- i.e., the financial collapse of Winnipeg -- does, in fact become a reality, it is obvious that the operations of the City would be assumed by the Province; indeed, if such an occurrence were to even become recognized as a distinct probability, then steps would certainly be taken by the Province in order to avert the impending crisis. The economic consequences to be felt by the Province as a result of such an event are surely not unknown to provincial politicians.

What is not so clear, however, is the point at which these steps will be taken. This becomes a very critical question. The longer the Province delays in extending a financial solution to the City, the higher will be the ultimate costs of the present malaise. If bankruptcy must become a reality before a solution is taken, then it may be too late; witness the world's first bankrupt city, New York, which many experts believe will never be financially viable again. Moreover, if the City were to be salvageable even after bankruptcy took place, the economic dislocation of provincial programs and employment caused by the abrupt transfusion that would be necessary may be so severe as to preclude the possibility of ever being able to effect an adequate solution.

However, even delaying a year or two in initiating a solution will result in tremendous cost. Many necessary capital projects of the City must at present be postponed because of the lack of funds. And, the cost of these projects -- which must eventually be undertaken at some point in time -- will only continue to increase enormously.

The time to act is now. The provincial government must recognize the necessity of beginning a gradual program of revenue transfer while there is still time for such a longer-term alternative. By effecting a solution now, long-run costs will be minimized, disruption of existing provincial programs will be reduced, and the return on total tax dollars spent would be maximized.

Now, the foregoing passages would seem to indicate that the provincial government is the villain of this drama and that any hope of salvation lies with them and them alone. This is only partially true. There is one other area in which a solution can -- and must, be found, and that involves city expenditures.

This is not meant to play down the importance of new revenue sources to the City's survival; they are of critical need. However, additional revenue will not adequately solve the problem by itself if nothing is done about the manner in which the City of Winnipeg operates.

As it was mentioned before, the function of urban government has been radically altered over the past few decades. It was also stated that available revenue sources are no longer adequate to support this new function. However, revenue sources are not the only thing that has failed to keep pace with the changing times; the manner in which the City approaches its operations has also become wholly inadequate. In fact, it may be safely said that if the City of Winnipeg was a private corporation, it would have been out of business long ago.

It utilizes an accounting and financial control system that is twenty years out of date; it utilizes a totally inadequate system of budgeting that has probably been used, in one form or another, since year one (this inefficient budgeting system, for example, resulted in the 1975 mill rate being approximatley four mills higher than need be); what is more, it has no means with which to evaluate competing demands between its various departments for limited tax dollars.

There is a complete lack of planning in the development of the City. Instad of managing growth and directing it into areas which it deems desirable, it merely provides services in those areas where developers are most likely to want to build -- i.e., the suburbs. And, the City takes absolutely no account of what the relative costs of this urban sprawl is to them, and, ultimately, the taxpayer.

In a similar fashion, it continues to spend hundreds of millions of dollars on the construction of roads to accommodate the private automobile -- a most wasteful means of intracity movement, while completely ignoring public transit -- a much more economical means of urban transportation.

Perhaps the greatest example of the City's inadequate approach to managing itself is its five-year capital plan. It terms this plan a "least cost" approach, yet a careful analysis of it reveals that it is anything but "least cost" and might ultimately serve only to aggravate the City's fiscal problems even further.

In short, then, in order to avert a financial crisis, the City must not only find additional sources of revenue, but must also rationalize its approach to its operations, to the manner in which the City is developed, and to the management of its finances. For the provincial government to grant substantial amounts of additional revenues to the City without any concomittant attempt on their part to begin to deliver urban services in a more effective manner would be comparable to trying to keep a bucket filled from a pump without first patching up the leaks in it.

In conclusion, a strong improvement must be shown in the management performance of the civic bureaucracy. To this end, several recommendations follow herein. In addition, substantial improvement must also be exhibited in the hereto very dubious track record of Unicity government and our city council. To this end, I would direct the reader to the recommendations of the Taraska report.

CHAPTER VI

RECOMMENDATIONS

While the primary solution to the impending financial crisis rests with the transfer of substantial amounts of tax revenue from the Province to the City, there are other steps that may be taken that may signficantly alleviate the present fiscal burden. Eleven causes were advanced in this research as contributing to the predicted financial distress of Winnipeg. Some of these, it should be noted, are beyond the control of the City or anyone else; for example, inflation. Others, however, do offer the chance for at least partial solution. These are discussed in the following recommendations:

1. Winnipeg's revenue structure must be altered so as to allow it to adequately fulfill its mandate in the provision of necessary local government services. This would involve the transferring of a substantial amount of the provincial growth tax base to the City, and <u>not</u> the creation of new tax revenue sources. An accurate estimate of the amount of revenue that would be necessary in order to make the City a fiscally viable operation is very difficult to make at this time; however, John Gee, Head of Winnipeg's finance committee suggests that a transfer of 10% of provincial growth taxes would allow the City to deliver municipal services at an adequate level without having to raise property taxes. This

should become an immediate goal; and, if acted upon in the very near future, could be accomplished in a very gradual fashion, thus minimizing disloation of provincial government operations.

2. All costs of education should be assumed by the provincial government. Education cannot, in any way, be considered to be a service that is local in nature; this point has been stressed earlier. Yet, Winnipeg is required to assume an ever-increasing expenditure for this provincially-administered program. What is more, it is simply incredible that the City (or any local government, for that matter) is forced to raise such a large volume of revenue for any program when they have absolutely no control over the total amount that is to be raised and have absolutely no authority in deciding how it will be spent.

Winnipeg must now generate more revenue from its property tax base for the benefit of the Provincial government than is available to them from the same source for municipal purposes. If the burden of education costs were lifted entirely from the shoulders of the City, almost $100,000,000 in additional revenue would be available to them for their own needs.

3. The Environmental Planning Department should immediately begin an assessment of the relative costs of the very decentralized form of Winnipeg's development versus a much more compact alternative. It is only natural that the City should endeavour to discharge its mandate in the most efficient

and economic fashion possible; yet, it is quite likely that its present practice of providing services for a sprawling suburban-type metropolitan area is anything but this.

The field of fiscal impact analysis is a very new one, and there is very little groundwork on which to base the kind of detailed assessment envisioned here. However, it is very important, given the present financial position of the City, that the true costs of alternative land development patterns be known. By ignoring the electorate to which it is supposedly responsible in order to cater to the whims of local developers, it is very possible that city council is creating a city structure that is totally uneconomical to service. The future consequences of this may be dire indeed, and it must be determined as soon as possible what the financial implications of our present development pattern are.

4. A strong improvement in management -- especially in the area of financial management, must be exhibited by Winnipeg's civic administration. While the management performance of Winnipeg is no worse than the norms for local government -- and, in fact may probably be quite superior, it is nonetheless resulting in increased costs of running the City. As recommended by civic finance committee, a more efficient accounting, budget control, and financial reporting system should be adopted. In addition, improvements should be made in short-term financial management policy, the approach taken to the budgetary process, and in personnel administration.

It is clear that poor management performance is <u>not</u> the major catalyst of the forecast urban financial crisis; however, it is equally clear that it is acting to exacerbate an already critical problem situation. An improvement in management efficiency, on the other hand, can go a long way in "stemming the tide", at least until other necessary measures can be instituted.

5. An improved method for evaluating competing demands between its various departments for limited tax dollars should be adopted. At present, the City has very little means at their disposal with which to evaluate and compare requests for budgetary increases and additional personnel from the various operating departments.

Ideally, this would take the form of a highly sophisticated budgeting system, such as PPBS. Under such a system, it would be possible to incrementally analyze budget and personnel requests of the various operating departments in order to assess the necessity and relative benefit of each. Indeed, if such a system were adopted, then the toal benefits to be gained from the City's entire expenditures would be maximized.

6. As much as may be feasible, the "demand" of Winnipeg's residents for increased municipal services should be modified. The best example of where this may be possible is in the area of urban transportation. There should be a heavy commitment on the part of the city council towards the enhancement and promotion of public transit as a more prominent means of intra-urban transportation. Granted, this would involve an

initial heavy capital investment in order to make the public transit system a more attractive one; however, it is felt that this will be financially beneficial in the long run.

It appears to be an almost common consensus that public transit in Winnipeg is a very inefficient venture and not worthy enough to be the recipient of valuable taxpayers' dollars; witness the $14 million annual deficit. However, this $14 million is a very trivial amount in comparison to what is felt as being necessary in the way of capital investment in our urban transportation system in order to aid the movement of the private automobile. Indeed, when viewed relative to the automobile, public transit is a most efficient means of intra-urban transporation.

In concluding, it should be noted that, while the major phenomenon precipitating the urban financial crisis is an antiquated and obsolete revenue structure, the problem is a two-sided one, involving both revenue and expenditure factors. Indeed, of the eleven causes investigated, nine were seen as being catalysts of skyrocketing expenditures.

This is reflected in the recommendations presented here. New sources of funds -- ideally in the form of a transfer of provincial growth taxes -- are a necessity if financial collapse is to be averted; however, it is equally as important to institute measures which will act to massage the problem from the expenditure perspective as well. Reflecting this, all but one of the recommendations presented involve attempts to help reduce the spiralling expenditures of the operations of the City of Winnipeg.

CHAPTER VII

AREAS FOR FURTHER RESEARCH

The field of urban finance may well represent the most pressing and critical problem facing our cities today. At the same time, however, it is a topic which is relatively fresh and about which very little is known.

For this reason, this piece of research must be viewed as representing an attempt to merely scratch the surface. Because of the very nature of the problem the discussion has tended to be a very wide-ranging one, with some of the analysis, of necessity, being highly superficial. This has been due, for the most part, to the very limited "state of the art".

It is believed, for this reason, that one of the greatest contributions of this document lies in the manner in which it gives direction for further research. This is not to say that the importance of the content of the research herein should be played down; the author believes that there is substantial merit in the findings of this investigation and is firmly convinced of their validity. However, the real value here may be found in the fact that this research has opened some previously closed doors. Specifically, the following are areas in which the author believes further investigation is warranted in order to more properly understand the urban fiscal problem before us.

1. The relationship between population size and per capita expenditures for servicing requirements should be more thoroughly investigated. Very superficial cost analysis hints at the fact that cities may experience decreasing returns to scale with respect to servicing costs after they reach a certain population threshold, and that this threshold may be as low as 100,000 persons. This may or may not be true, as documentation of this phenomenon is very limited. It may be, in fact, that per capita expenditure increases experienced in larger cities are resultant from factors other than population growth. The validity of this point may have serious ramifications regarding the traditional concepts of new towns and satellite cities, with respect to the assumptions under which they are promoted.

2. There are both substantial costs and substantial benefits resultant from agglomeration. Generally, it seems that most of the benefits accrue to the private sector, while the public sector must assume most of the costs. The actual extent to which this is true should be documented. It may well be that rising urban expenditures are, in part, due to the lack of a social accounting system in our economy.

3. A fiscal impact analysis should be made in order to ascertain the relative cost to local government of decentralized type growth relative to a higher density compact pattern of development. Intuitively, it seems that suburban sprawl represents a heavy financial liability to urban government, and may be a very crucial factor with regards to

the urban financial crisis. Because of its highly decentralized development pattern and its relative isolation in the national urban fabric, Winnipeg would be a highly desirable case for study.

4. The City of Winnipeg has attempted to rationalize their capital budget requirements for the period 1977-1981 through implementation of a "least cost" approach. However, a close assessment of the document reveals that this least cost approach may be anything but that. A comprehensive analysis should be undertaken in order to precisely determine what the impact of this program will be in terms of current expenditures, ultimate costs of capital projects, the housing market, and future development of the City of Winnipeg. In terms of land use planning principles, this last point may be extremely crucial. If future development of the city is to be determined solely by the criteria of immediate least cost, with no regard for orderly urban planning principles, the results may be disasterous, in terms of both future current and capital expenditures and the condition of the urban environment.

5. There are conflicting points of view over the equity of the property tax. It has been advanced by some that it is very regressive in nature, while others are beginning to feel that it is a progressive levy. If it is progressive, then it becomes a more potent fiscal tool than originally thought. This point bears further investigation.

6. If it is the case that decentralized development does provide a heavy fiscal drain upon local government coffers, then the extent to which this pattern of growth may be reversible should be determined. There is a very high degree of interdependence between the construction of transportation facilities and urban growth. Once one is put into place, it becomes permanent and tends to act as a catalyst for the other, thus creating a "snowball" effect. If suburban sprawl is as costly as the author believes, and if it is to a very large extent irreversible, our cities are in very deep trouble indeed.

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