

## **Economic Regeneration and Taxation**

### **Joint GFOA / CIPFA seminar**

The roundtable discussion was largely designated in response to the CIPFA delegation's interest in the different sources of revenue available to local government's in the USA and Canada. Our discussion focussed on taxes, user fees, private partnerships and the use of bond issues. Participating in the discussion were:

#### **CIPFA**

John Butler, Vice President CIPFA  
Laura Rowley, Director of Resources, Shropshire County Council  
David Smith, Director of Finance and IT, Wigan MBC  
Andrew Travers, Director of Finance, London Borough of Haringey  
David Wood, Director of Resources, Malvern Hills District Council  
Rupert Dewhirst, Senior Manager, Finance Services, IPF

#### **GFOA**

Len Brittain, Director, Corporate Finance Division, City of Toronto, Ontario  
Craig Lesner, Director of Revenue and Analysis, Officer of Management and Budget, City of Chicago, Illinois  
Paul Macklem, Director of Financial Services, City of Kelowna, British Columbia  
Sean McNeeley, Director of Policy, Mayor's Office, City of Philadelphia, Pennsylvania  
Mark Nicolini, Budget and Management Director, City of Milwaukee, Wisconsin  
Betsy Wilson, Finance Director, City of Lenoir, North Carolina  
Anne Spray Kinney, Director of Research and Consulting, GFOA, Moderator  
Amy Stewart, GFOA, Research Analyst

We started by each outlining our organisations, the revenue sources available and the structure of our organisations. In doing we drew out some of the similarities and differences between the local government finance systems in the UK, USA and Canada.

In jurisdictions in the USA with limited equalisation of resources, and a reliance on taxes on income, and sales as well as property, competition between authorities for tax revenues is stronger than in the UK. Overall, there has been a shift away from more stable sources of revenue (like property tax) toward sales and income tax revenues that fluctuate more quickly with the economy. During a rising economy this structure is advantageous; but given this structure is tied to spending and income generation, jurisdictions may face cyclical problems, such as recessions. With fifty states and 87,000 local government bodies there is great variability in the proportions of revenue generated from each source. Summary information is given below:-

## Revenues for US Local Governments, fiscal year 2003<sup>1</sup>

Local Revenues	Percentage	
Intergovernmental Revenue		
From federal	4%	
From state	32%	
<i>Intergovernmental Revenue Subtotal</i>		36%
Own-source Revenue		
Tax Revenue		
Property Tax	25%	
General Sales Tax	6%	
Selective Sales Taxes	2%	
Individual Income Tax	1%	
Other Tax Revenue	1%	
<i>Tax Revenue Subtotal</i>	35%	
Charges and Miscellaneous Revenue	20%	
<i>Own-source Revenue Subtotal</i>		55%
Utility revenue		8%
Insurance trust revenue		1%
General Revenue		100%

An area with historically high taxes and high expenditures, such as Philadelphia needs to adapt policies to attract for example retailers and office developments. State Government's do in most cases provide some form of grant support, and most have revenue sharing agreements similar to the precepting approach in the UK, but the effects of a sustained decline in economic activity could have a substantial impact on an individual jurisdiction. Small authorities such as Lenoir, North Carolina have experienced a downturn in their traditional industries such as furniture manufacture which in turn has impacted on local services. The increase in internet sales for example of music is a challenge to traditional sales tax income. New sources of income, such as sales of local cell phone licenses have emerged. Evasion of tax, by cross border purchasing is a long standing issue. Mayors and city leaders had seek to be innovative in trying to tap new sources of revenue and are keen to examine taxes such as congestion charging. However, matching a tax for example on litter generating fast food outlets with other policy and constitutional constraints can prove tricky – imposing taxes just on certain companies, for example fast food chains, wouldn't work. There is extensive use of special district charging for

<sup>1</sup> Fahim, Mayraj. "Additional revenue sources are hard to find as US cities face increased responsibilities." City Mayors Finance. [www.citymayors.com/finance/finance\\_uscities.html](http://www.citymayors.com/finance/finance_uscities.html).

O'Conner, Patrick M. ASA. "State and Local Government Finances, Property Tax Emphasis." *Assessment Journal* 10 (Fall 2003): 75.

U.S. Census Bureau. Federal, State, and Local Governments: State and Local Government Finance by Level and Type of Government, 2002-03.

example to fund Convention Centres and to re-invest in services in Downtown areas. Bond issues for infrastructure improvements can be backed by the expected increase in tax revenues resulting from the development which were ring-fenced for repayments.

**Canada Local General Government Revenue, 2004<sup>2</sup>**  
**Local Revenues** **Percentage**

Transfers		
General purpose transfers		3%
Specific purpose transfers		
Federal government		1%
Provincial and territorial governments		12%
<i>Transfers Subtotal</i>		16%
Own source Revenue		
Property and related taxes		53%
Other taxes		1%
Sales of goods and services/user fees		23%
Investment income		4%
Other revenue from own sources		1%
<i>Own Source Revenue Subtotal</i>		84%
Total		100%

In Canada regular revaluations of property or annual market assessments help ensure fairness, but are controversial in times of house price inflation. Provincial governments are important in equalisation of fiscal capacity and determining tax powers. Property taxes and user fees have been the at the heart of municipal finance in Canada for many decades, but the past few years have seen increasing concern and growing scepticism about the ability of the municipal sector to continue to meet its expenditure requirements with existing revenues. Canadian property taxes as a share of GDP are already among the highest in the OECD countries.

In recent years federal and provincial governments have shifted increased responsibilities to local governments while reducing transfers for things like roads, transit and social housing. Municipalities, particularly in large urban centres, are feeling increasing pressure to fill this void. Since municipal governments must legally balance their operating budgets and are restricted in how much they can borrow to meet capital requirements, their primary

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<sup>2</sup> Canadian Statistics. Local General Government Revenue and Expenditures, 2004.  
<http://www40.statcan.ca/101/cst01/govt06a.htm>.

Kitchen, Harry M. and Enid Slack. "Special Study: New Finance Options for Municipal Governments." *Canadian Tax Journal* 51 (2003): 2216.

Mintz, Jack. "Welcome to the Tea Party." *Canadian Business* (Apr 15, 2002): 17.

options are to increase property taxes or other own-source revenues (or to allow services and infrastructure to deteriorate).

Pensions (and in the USA employee and dependents health care costs) absorb an increasing share of the budget as the baby boom generation reached retirement and life expectancy increased.

Creative deals around infrastructure and assets provide a source of funds for some of the larger cities in North America, with private funded deals becoming more important. Structured sales could release capital for improvements and also provide tax advantages to private sector organisations. The disposal of a 99 year lease of the Skyway toll road and bridge has realised some \$1.8 billion for the City of Chicago resulting in credit rating agency Moody's Investors Service revising its outlook for the city to negative from stable. A similar deal has been done in Toronto, Ontario.

In conclusion, we were struck by the similarity of some of the challenges – pensions, ageing infrastructure, and growing public expectations, and some of the solutions – deals with the private sector on infrastructure development and use of special district taxation. The striking difference is the prescriptive role of central government in the UK in terms of funding and also of regulation and control via centralised audit and performance management framework. This is in contrast to the freer but perhaps less equal system in America. There is need for a balance that we recommend that Sir Michael Lyons address.

**David Smith**  
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