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State of the City of Winnipeg's Finances 2001–2021

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THE CITY OF Winnipeg is not flush with cash. Part of its revenue woes are both recent and beyond its control. Most obviously, as a recent CBC article pointed out, the "COVID crunch continues to bite into City of Winnipeg finances" (Kavanagh, 2021), because of lost revenues from transit ridership fares, parking and recreation fees, and permits. Although the new Premier has signaled a new, more cooperative approach to the City's spending needs, during the Pallister years Winnipeg suffered from a miserly and unsympathetic provincial government, which, among other revenue slights, has left federal money for cities on the table by not offering matching provincial funds (CCPA-Mb 2020, pp. 105–106). However, the City's financial problems preceded both COVID and the current provincial government. Nor were they entirely caused by forces beyond the City's control. In fact, Winnipeg has been starving itself of revenues, and its citizens of services, for the past two decades.

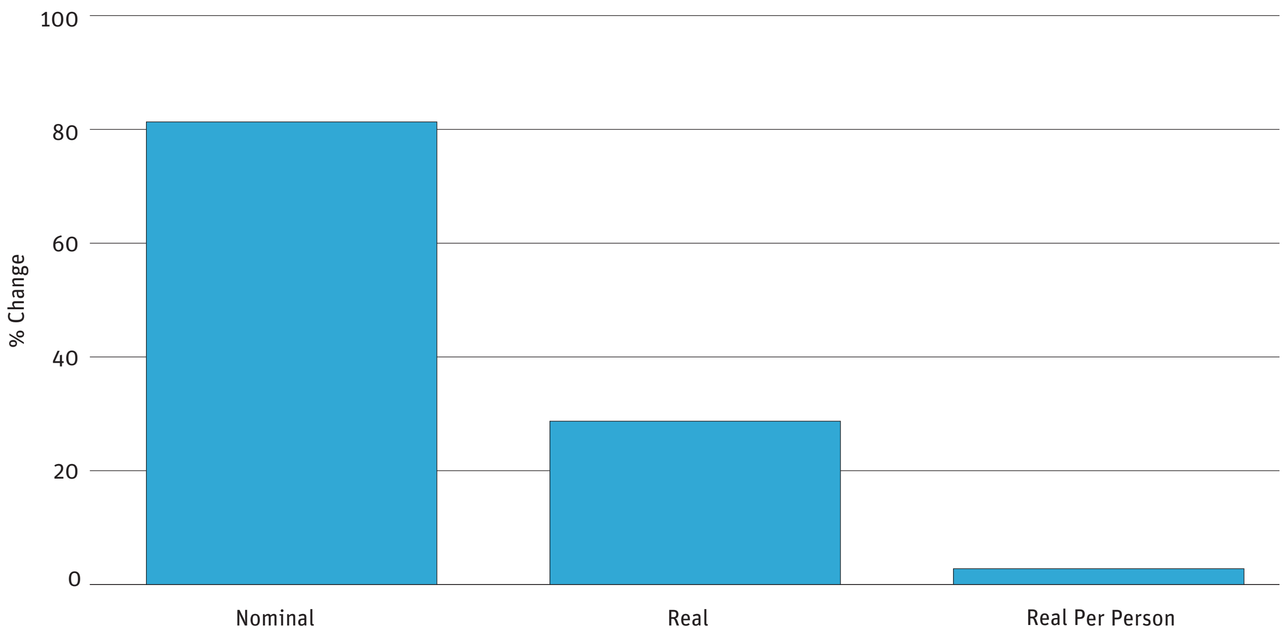
In part, this is a product of several limitations that exist on the City's ability to fund its spending needs. First, unlike other levels of government, the City cannot run a deficit on its yearly operating budget. The municipal budget is split into two components — the operating budget and the capital budget. The operating budget finances the basic functions necessary for the City to run on a year to year basis, including things like police, fire and paramedic, public works, and community services. The capital budget is used to finance major infrastructure projects, such as a new sewage treatment plant. Any shortfall in the operating budget has to be paid for by money that the City has saved up from previous years in a reserve fund. Second, the City is constrained in the kinds of taxes it can levy. The City is mostly limited to collecting taxes levied on the value of properties within City boundaries. Third, a person does not have to live in the City of Winnipeg to enjoy the city. People in developments close to, but not in, the city, like Headingly or East St. Paul, commute into Winnipeg either for work or for pleasure. Yet, because their properties are not within city boundaries, they do not pay property taxes to Winnipeg, even though they benefit from its services. This creates both an obvious free rider problem, and creates tax competition, which constrains Winnipeg's property taxes because it has to compete with surrounding jurisdictions (Black, 2019). These limitations, unsurprisingly, have affected the extent to which the City's total revenue and spending have been able to grow historically.

The City's revenue growth has been very modest since 2001. Although in nominal terms, revenue has nearly doubled over the last 20 years, from $651 million in 2001 to $1.18 billion in 2021, or by 81.3 percent, this number overstates the extent of the growth of the City's budget for two reasons. The first is that it fails to account for inflation. Over time, there is a general trend for the average prices we pay for goods and services to rise. This is the distinction that economists make between nominal (the stated price) and real (how much a given amount of money will actually buy) values. In order to calculate the real value of the City's budget, the effect of inflation must be taken into account. Viewing the City's revenues in real terms, then, the increase has been much smaller, from $660 million in 2001 to $850 million in 2021, or 28.7 percent.

The other reason that it overstates the increase in the City budget is that it fails to account for the increase in Winnipeg's population. More people mean both greater demands on the City's services and more people paying taxes. Both revenue and expenses should go up with population growth. So, we should also account for population growth by measuring real revenue per person. Over the last 20 years, Winnipeg's population has increased by more than 150,000 people, from 637,100 in 2001 to an estimated 797,900 in 2021. Viewing the City's revenues on a real per capita basis, then, the increase has been miniscule, from $1,036.30 per person in 2001 to $1,065.10 in 2021, or a mere 2.8 percent (see *Figure 1*). Accounting for inflation and population growth, then, a case can be made to suggest that the City has done very little to increase its stream of revenues over the last 20 years, and could be doing more. This case is made stronger by comparing Winnipeg to other Canadian cities.

The majority of City revenues come from property taxes on "residential" and "non-residential" — mostly business — properties. Looking at these two revenue streams, Winnipeg appears to be doing much less than its counterparts to generate revenue. Winnipeg ranked the lowest in terms of its residential property tax on an "average" home among

FIGURE 1 % Change in City of Winnipeg Total Revenue 2001–2021

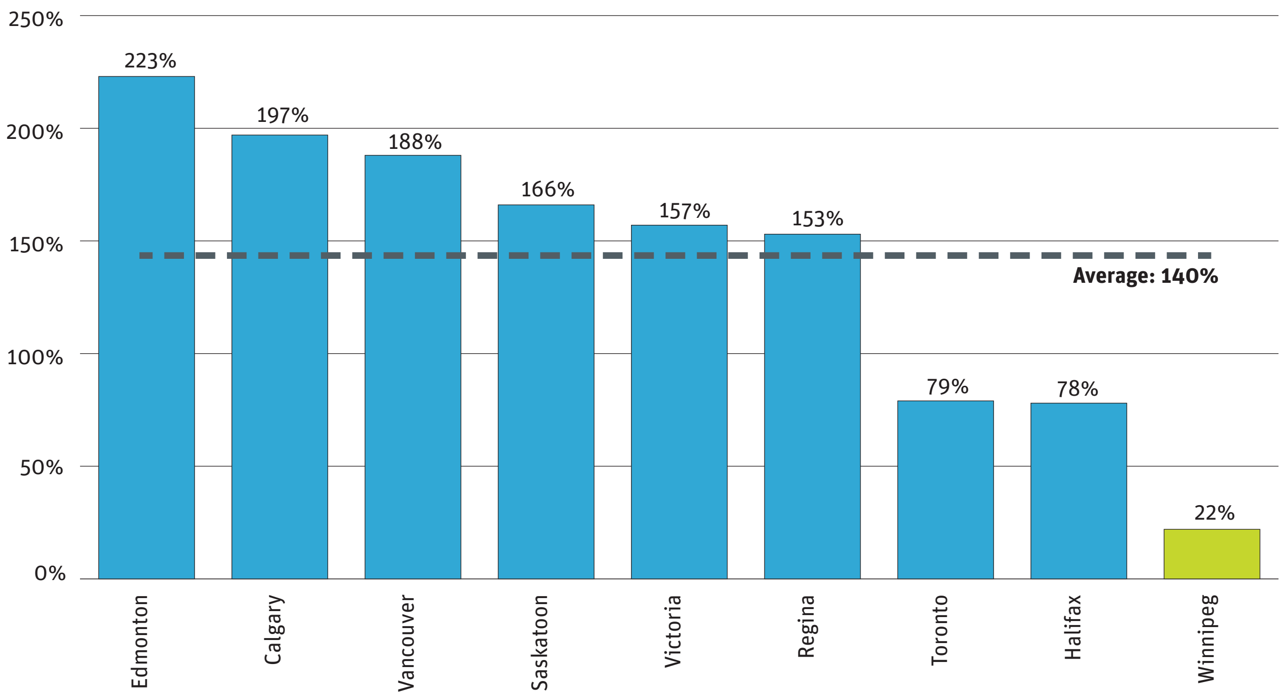


Source City of Winnipeg 2021 Preliminary Budget Operating and Capital Volume 2; Statistics Canada: Table 326-0021; Statistics Canada: Table 326-0020; Forecast from the City of Winnipeg.

major cities across the country in 2020 at $1,815. Over the last 22 years, the increase that the average Winnipeg homeowner has experienced to their municipal tax bill has been remarkably low, at 22 percent, compared to the average among selected Canadian cities at 140 percent (see *Figure 2*). Winnipeg also earned the lowest amount of revenue from non-residential property tax per capita of the five prairie cities in 2017 (the most recent data presented in the 2021 Community Trends Report) at $249 (see *Figure 3*). It also fell on the lower end of the percent of municipal tax revenue received from non-residential properties in 2018 at 36 percent, compared to the average among selected Canadian cities at 43 percent. This represents a broad measure of how much non-residential taxes — mostly on business — contribute to total City tax revenue. The comparisons with other cities suggest that Winnipeg has either been a model of financial restraint or has starved itself of much needed revenue to fund public services. It is certainly true that Winnipeg has gone against the grain compared to many other Canadian cities which have increased property taxes over the last 20 years.

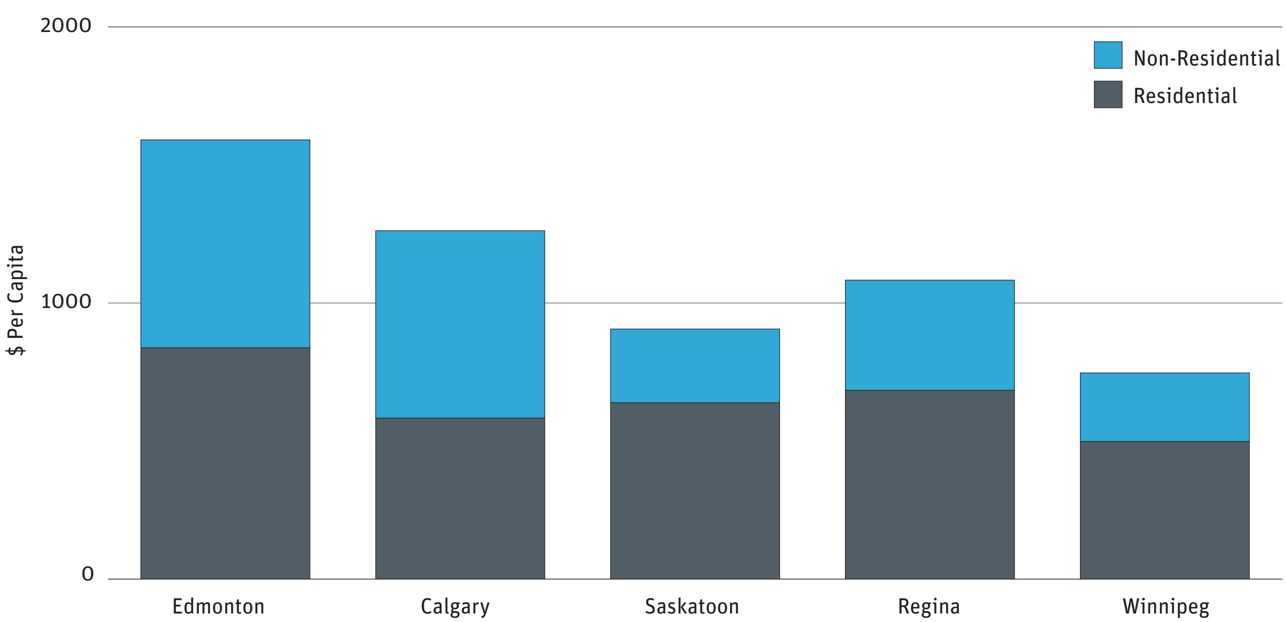
While the City's unwillingness or inability to generate revenue limits the overall services it can provide to Winnipeggers, it is also making some important choices about what it is spending its limited resources on. The City increased the real police budget by 97 million (81%) and the Fire and Paramedic budget by 61 million (67%) between 2001 and 2021 (see

FIGURE 2 % Increase in Average Homeowner's Municipal Tax Bill, 1998 to 2020



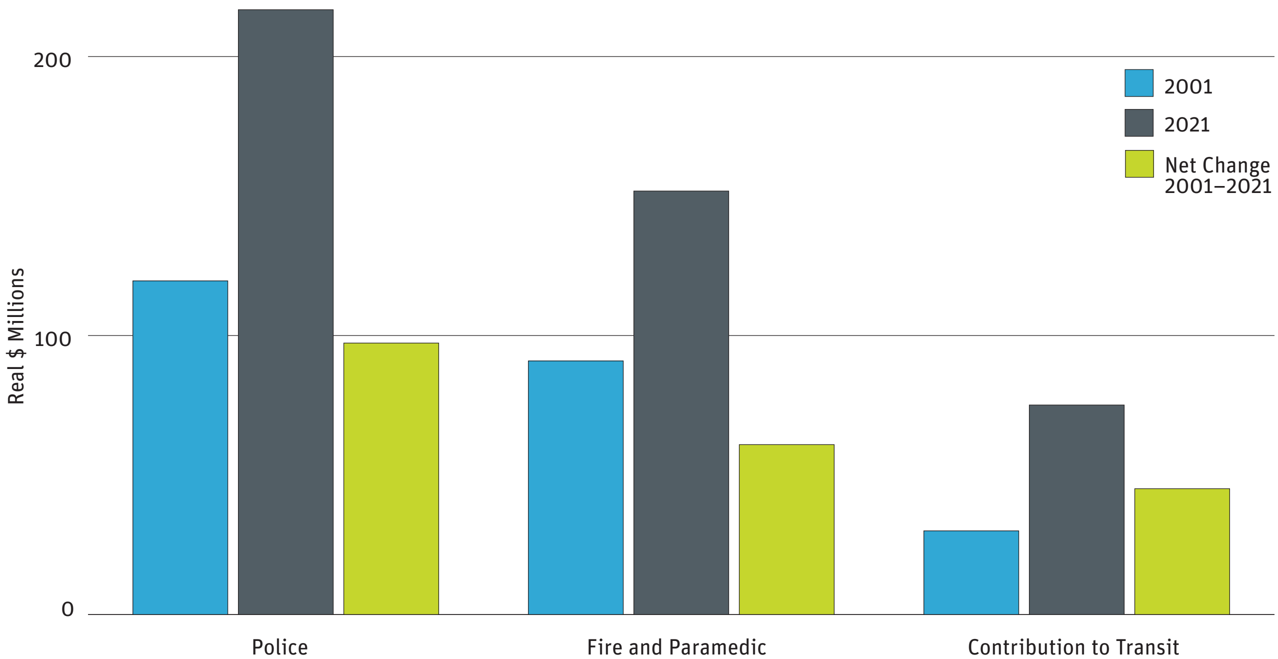
Source City of Winnipeg Community Trends and Performance Report Volume 1 for 2021 Budget.

FIGURE 3 2017 Revenues from Property Tax Per Capita



Source City of Winnipeg Community Trends and Performance Report Volume 1 for 2021 Budget.

FIGURE 4 City Expenditures Real $ Millions



Source City of Winnipeg 2001 Budget; City of Winnipeg 2021 Preliminary Budget Operating and Capital Volume 2.

Figure 4). As a result, the percent of the City's budget being spent on police has increased from 18 to 26 percent and on Fire and Paramedic services from 13 percent to 18 percent. Dedicating 44 percent of the entire budget to two departments — police and fire — inevitably limits the cash available for everything else the City does.

Unlike other levels of government, the City of Winnipeg cannot run a deficit unless it can cover the shortfall with previously saved cash. Given this limitation, any extra spending has to come from increased revenues. A case might be made for redistributing some money from areas, like police, that have enjoyed particularly large budget increases over the last twenty years, to other areas that have been starved of resources. However, looking at total spending, Winnipeg has long been an impoverished outlier among Canadian cities.

Compared to other cities, the primary municipal revenue source — property taxation — is very low in Winnipeg and a reasonable argument could be made for bringing it more in line with the average property tax bills of homeowners in other western Canadian cities. However, the problem with solely jacking up property taxes is that they do not have an obvious policy benefit — other than raising money. In addition, the City should be creatively examining the kinds of fees and levies that it can implement that would help meet the policy goals set out in its many planning documents. If it wants to encourage conservation, it could increase fees for waste disposal. If it wants to encourage active transportation, it could levy fees on parking beyond downtown. These are just two examples of how the City might move to generate money with policy relevant revenue sources. The upcoming Alternative Municipal Budget, to be released in Spring 2022, will further explore some of these possibilities, but more generally the City should use the looming budget crisis as an opportunity to dramatically rethink how it raises money, and not to further cut its already comparatively low level of city services.

References

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