



Fast

FACTS

CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

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The High Cost of Low Taxes and Urban Sprawl

Much of Winnipeg's infrastructure is in desperate need of repair or replacement. The City's 2009 administrative report found that just to maintain our existing infrastructure in its current state required \$2.1 billion be spent over the next 10 years. Bringing the existing infrastructure to an adequate level of repair required a further \$1.7 billion and the amount needed to invest on new infrastructure was around \$3.6 billion. Accordingly, our total infrastructure deficit was \$7.4 billion (2009 dollars).

The above figures paint a gloomy picture, but it gets even worse when we consider the new infrastructure that is being added every year. A continued willingness to expand roads and new suburbs adds to our infrastructure inventory and diverts revenues from other projects such as finishing Rapid Transit. Our analysis of the 2014 Capital Budget, where the City's plan to raise and spend money for infrastructure projects is presented, found that the City's response to our growing infrastructure deficit is inadequate.

This year's spending only deals with 11 per cent of the total infrastructure deficit. In order to take control of the situation we need to do much more. We should increase capital spending to be more in line with other Canadian cities and we need to quit adding to our infrastructure inventory.

Winnipeg has expanded its area by 80 per cent since 1970, but its population only grew by 33 per cent. Low density cities like

Winnipeg increase the infrastructure burden by adding miles of roads, overpasses, sewer pipes, busses and other amenities to the infrastructure inventory. While development fees cover some of the expense and new developments generate property taxes, these revenues do not cover the ongoing, long-term costs of sprawl. These increased, often hidden costs (referred to by Calgary's Mayor Nenshi as a 'sprawl subsidy') are met by diverting funds from other areas of the budget or by raising taxes. One way or another, we all pay for urban sprawl.

It makes much more sense for Winnipeg to increase density. Even the City's own Our Winnipeg recommended strategies for more compact growth. Our 2014 Alternative Municipal Budget offers ideas around promoting more infill development, retrofitting existing suburbs, and downtown development – ideas that open the conversation around how we can make our city more livable and affordable to maintain. We hope that this is going to be a conversation that candidates and voters have before the election. We also hope we talk about how we can raise more money to fix our city.

Winnipeg's long tax freeze is responsible for our inability to cope with our crumbling infrastructure, and this tax-increase aversion is in

there is an alternative.

CCPA-MB
205-765 Main St.
Winnipeg, MB
R2W 3N5

phone

(204) 927-3200

email

ccpamb@policyalternatives.ca

website

[www.policyalternatives.ca/
manitoba](http://www.policyalternatives.ca/manitoba)

blog

www.policyfix.ca

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@ccpamb

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stark contrast to other Canadian cities. But Winnipeg stands out in another area: it spends considerably less per capita than other cities on infrastructure. The City's 2013 Adopted Capital Budget compares Winnipeg's per capita level of capital spending with the seven other major cities in Canada, including Edmonton, Calgary, Saskatoon, Regina, Hamilton, Toronto and Ottawa. It shows that Winnipeg spends \$525 per capita on capital works, compared to the seven-city average of \$1,078. If we were to raise our capital spending to the seven-city average, we could spend an additional \$553 per capita which would allow the City to borrow \$400 million to address our infrastructure needs.

Taking on more debt would require a tax increase but there are a number of compelling reasons to deal with our infrastructure deficit now:

- Interest rates are at historic lows
- The longer we wait, the more infrastructure deteriorates, making it more expensive to fix
- The net cost of borrowing is the total borrowing costs less the sum of future deterioration costs and the going rate of inflation in the construction sector (between 4 and 5 per cent). This net cost is low, likely around 1 per cent
- The infrastructure deficit imposes costs on Winnipeggers in the form of commuting delays, car repair bills, stress and even increased healthcare costs arising from accidents.

While it is true that a refusal to raise property taxes and increase our debt load has unnecessarily constrained City revenues for over a decade, it is also true that the Province and the City need to figure out how Winnipeg can raise more revenue. One idea is a growth development charge that would help recoup the future cost of new development. Currently it's unclear whether or not the City's can levy this charge. When the City floated the idea of the development

charge, the Premier responded "We're not interested in new fees and charges. They can do many of the things they want to do now through development agreements... We're not going to bring forward legislation." Given that the City already charges fees to developers, it is not clear why they cannot increase them to address future expenses.

The Province could further the City's ability to raise revenue by expanding the capital region. Ex-urban areas, with lower municipal taxes than Winnipeg's, are growing faster than Winnipeg. Many ex-urbanites commute to Winnipeg every day, use City infrastructure but pay taxes to another municipality. They are often referred to as free-riders because they are not contributing to the amenities they use. The City must deal with this issue, whether it's through negotiation with the capital region municipalities and the Province, through its own tax policy or a combination of both.

As interest in the municipal election increases, we encourage all voters and candidates to consider the high cost that low taxes and urban sprawl have imposed on our city. Given that the City's 2014 Preliminary Operating Budget boasts that we have the lowest property taxes of any major Canadian city, we can afford to begin to fix Winnipeg.

In fact, we can't afford not to.

Lynne Fernandez is an economist with the Canadian Centre for Policy Alternatives and one of the 20 authors of Taking Back the City – The 2014 Winnipeg Alternative Municipal Budget, where parts of this piece appear. See: <https://www.policyalternatives.ca/publications/reports/taking-back-city>

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CCPA-MB
205-765 Main St.
Winnipeg, MB
R2W 3N5

phone
(204) 927-3200

email
ccpamb@policyalternatives.ca

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