



WHO'S PICKING UP THE TAB?

FEDERAL AND PROVINCIAL DOWNLOADING ONTO LOCAL GOVERNMENTS

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Executive summary

THE WORLD'S POPULATION IS SHIFTING TO CITIES and that means services traditionally provided by local governments are growing in scale and importance. From public transit and recreation facilities, to drinking water treatment, sewage infrastructure, and policing and fire services, local government services are at the centre of our daily lives, our health and economic prosperity.

These services are provided for less than the typical cost of basic telephone and Internet and they are provided by the level of government that has by far the smallest share of tax revenue. (The Federation of Canadian Municipalities tags the local government portion at only 8 cents out of every tax dollar.)

Who's Picking Up the Tab? investigates the scale and scope of downloading onto local governments from federal and provincial governments, using B.C. as a case study. Surveys of local leaders and senior staff, a fresh analysis of statistical and financial data and case studies of key policy areas provide a clear picture of responsibilities and costs transferred without new resources to support them.

In spite of limited means, local governments are picking up more and more services and more and more of the tab. In total, 83.6 per cent of the locally elected leaders surveyed for *Who's Picking Up the Tab* said federal and provincial downloading of costs onto local governments is a major problem for their community.

Since the 1950s, Canada's infrastructure responsibilities have shifted from the level of government with the largest and most growth-responsive revenue base—the federal government—to the level of government with the smallest and least growth-responsive revenue base—local government. In 1955, the federal government accounted for 34 per cent of capital investment. By 2003, it had declined to 13 per cent. The municipal share increased from 27 to 48 per cent.

Billions of dollars in federal cuts in transfer payments to provinces occurred in the mid-1990s. Spending and service cuts cascaded down to municipalities.

Federal wastewater treatment regulations, introduced in 2012, have billions of dollars in implications for local government infrastructure.

Changes in cost-sharing and the growth of policing costs that local government pay for, but are under federal government control, have downloaded millions of dollars annually onto local governments.

Local governments are finding themselves picking up the slack on housing, mental health, addiction, social services, wastewater treatment, diking and flood management, drinking water and recreation infrastructure. In a telling measure, the provincial government in B.C. has shed thousands of employees since 2001, while the number of local government employees has risen by 30 per cent.

Federal and provincial transfers to B.C. local governments are \$4 billion *less* than they would have been had 1995 per capita transfers remained constant. To cover the gap in funds, local governments have been stuck with two limited and not particularly popular streams of revenue: property taxes and user fees.

Reflecting the transfer of responsibility onto local government, local expenditure in the province on sewer services between 2001 and 2010 grew by 173 per cent. Policing by 134 per cent. Water services by 130 per cent. Parks, recreation and culture by 108 per cent.

Goods and services purchased in large quantities by local governments increase in price faster than the more general “market basket” used for the Consumer Price Index. Some municipalities have been developing Municipal Price Indexes that measure the specific goods purchased by local governments. Edmonton’s MPI for 2012, for example, was almost double the CPI rate (2.6 per cent MPI vs 1.34 per cent CPI).

> SOCIAL SERVICE CUTS

Social service cutbacks from other orders of government are showing up as social problems and service gaps which strain other services. Inadequate community support for people displaced from institutional settings, below-poverty level disability assistance rates (frozen in B.C. since 2007), homelessness (not a significant factor until the mid-1980s when the deepest federal cuts were enacted) and reduced general hospital psychiatric capacities are taking their toll on local communities.

> HOUSING

Provinces absorbed the devolution of formerly federal responsibilities for housing as an outcome of orderly negotiations and just compensation. Cities didn’t even see the devolution coming until people started to build shelters in their parks. Provinces inherited the federal money. Cities inherited the problem.

Federal and provincial social housing cuts have been central to the mental health and homelessness crisis. The federal government withdrew entirely from new housing in 1993 and provincial construction in B.C. dropped off from 2001 to 2005. Using B.C. as an example, new social housing

units since 2006 have increased by an average of 418 units per year—quite a drop from the 1,000 to 1,500 per year in the 1970s. Levels still lag behind social housing construction in the 1970s and well behind the need in B.C., which has some of the worst housing affordability measures in North America. A number of local governments are accruing costs in efforts to fill gaps left by the provincial and federal governments. For example, the City of Vancouver will lease 12 sites to non-profit housing sponsors for 60 years at nominal prepaid rents. The city paid \$50 million to acquire the sites, and will forego \$1 million in property taxes annually.

> MENTAL HEALTH IMPACTS ON LOCAL GOVERNMENT BUDGETS

The biggest impact of provincial and federal failure to support mental health, social housing and related services has been increased pressure on police services. Prince George RCMP report a 40 per cent increase in mental health related calls between 2008 and 2013. The Vancouver Police Department estimates that mental illness contributed to 21 per cent of incidents handled by VPD officers in 2013. Extrapolating the findings from Vancouver and other communities, policing costs resulting from provincial and federal failures to address mental health and housing for communities across B.C. likely range between \$50 and \$150 million per year.

Local governments with limited social service delivery capacity have sometimes turned to by-law enforcement strategies in efforts to manage issues related to homelessness and mental illness. Conventional resources available to local governments are not the right tools for addressing housing and mental health issues.

Funding for supportive housing would make a difference. A pilot program in Vancouver found that every \$10 invested in “housing first” meant a savings of \$8.55 in existing mental health and legal systems for high needs people. Shifting to a “housing first” approach reduced stays in holding cells by 41 per cent—a savings of \$4.1 million in local corrections costs.

> WASTEWATER TREATMENT

Changes to federal and provincial wastewater regulations, compounded by failures to reinvest in infrastructure during the 1980s and 1990s, are driving huge expenditures. When the federal *Wastewater System Effluence Regulation* came into effect in 2012, no funding was included. The federal government estimates the upgrade costs for the entire province at \$570 million, but local analysis shows a different picture. Metro Vancouver alone estimates costs at \$1.5 to \$1.7 billion.

> ENVIRONMENT

Environment and related infrastructure topped the list of local government concerns from the *Who's Picking Up the Tab?* survey. This is not surprising, given the impact our changing climate has already had on infrastructure. We have only to cast our minds to the Alberta floods of 2013 to illustrate the point. Estimated costs to date are \$6 billion across the province, including more than \$500 million in damage costs for the City of Calgary.

Flood management and especially diking, pump stations and other flood prevention infrastructure represent a classic case of downloading by senior governments and were frequently cited as

an issue in the survey. Beginning in the 1990s and accelerating since 2003, senior governments have downloaded regulatory responsibility *and the financial costs associated with flood management* directly onto local governments. Diking and flood management capital costs shifted from almost entirely federal/provincial funding (1968 to 1994), to 25 per cent local/75 per cent provincial (1998 to 2004), to 1/3 each under the 2007 Flood Protection Program. Local governments say this funding comes nowhere near meeting the needs.

Dyke management continues to be a huge issue for our community... Our lowest and most vulnerable area protects our main business district, our financial institutions, our post office and sections of our hospital. We do not have the financial resources to address this... Basically, we are stuck waiting to apply for disaster relief rather than planning and acting in a rational and comprehensive manner.

> CONCLUSION

Local governments can—and do—efficiently deliver services and are happy to take on expanded roles, given the resources to manage them. However, downloading without access to new sources of funding is stretching local government resources thin, especially in the context of climate change impacts.

In *Who's Picking Up the Tab?* survey responses, local government leaders and senior staff put forward a range of solutions, including:

- No transfer of responsibilities without funding or revenue streams;
- Ensure stable revenue, rather than unpredictable and time consuming short-term grants;
- Establish a formal review process to examine local government implications of restructuring, service and funding cuts—don't leave local governments to pick up the tab;
- Launch a major review of funding models, revenue streams and shares of revenue for local governments, especially given the context of urbanization; and
- Consider constitutional recognition of municipalities with defined rights, powers and responsibilities, as is the case elsewhere in the world.

> THE LAST WORD

Climate change related extreme weather events, flooding, forest fires, droughts, heat waves and other hazards over the next century will lead to billions of dollars in costs to local infrastructure, and even the viability of some Canadian communities. Reducing the GHG output of Canadian communities will entail billions of dollars of investments in public transportation, fossil fuel substitution, renewable energy generation, energy efficiency and “smart” urban planning to reduce the carbon footprint of Canadian communities. These transformations are beyond the capacity of local governments to “go it alone.” Regulatory leadership and financial investment from provincial and federal governments is crucial to ensuring that Canada fulfills its climate mitigation responsibilities.

While the costs are not small, they are less than the damage that will result from failing to meet the climate challenge. A major federal and provincial reinvestment in Canada's urban infrastructure is needed to meet 21st century economic and environmental challenges.

Introduction

From public transit and recreation facilities, to drinking water treatment, sewage infrastructure, and policing and fire services, local government services are at the centre of our daily lives, our health and our economic prosperity.

THE WORLD'S POPULATION IS SHIFTING TO CITIES in countries across the globe, including Canada. This growing urbanization means that services traditionally provided by local governments are growing in scale and importance. In 1941, 54 per cent of Canada's population lived in urban areas. By 2011, that figure had soared to 81 per cent, and B.C. was tied with Ontario as the most urbanized Canadian province, with 86 per cent of the population living in urban areas.¹

From public transit and recreation facilities, to drinking water treatment, sewage infrastructure, and policing and fire services, local government services are at the centre of our daily lives, our health and our economic prosperity. And in Canada, sewer, water, garbage and recycling infrastructure and services come from your local government for less than the price of a home cable, Internet and television package.

People who live in Maple Ridge, B.C., for example, pay much less for municipal fire services monthly than the typical monthly cost of a home security alarm service (see Figure 1 on page 10). Put another way, the municipality charges less to have a fire truck sent to your house than a private security company charges just to call the fire department or police when an alarm is triggered. And residents of Port Moody pay less for water, sewer and garbage utilities—combined—than the typical consumer pays for basic telephone and Internet service from the private sector (see Figure 2 on page 10).

Local governments in Canada provide these services with a small share of Canada's tax revenue, and generally without being permitted to run budget deficits. In the context of urbanization, it is not surprising that local government expenses are increasing. And given the impact of climate change that we are already seeing, there are more expenses ahead. According to the Intergovernmental Panel on Climate Change in their 5th Assessment Report "Much of the effect on urban areas—and the jobs within them—will come from disruptions to infrastructure such as water supply, wastewater and sanitation, built environment, and health and social services." We have only to cast our minds to the Alberta floods of 2013 to illustrate the point. Estimated costs to date are \$6 billion across the province, including more than \$500 million in damage costs for the City of Calgary.² A major flood protection project

1 Employment and Social Development Canada, "Canadians in Context – Geographic Distribution," www4.hrsdc.gc.ca/.3ndic.1t.4r@-eng.jsp?iid=34

2 Dave Dormer, "Calgary Flood Costs Top \$500 million As Council Looks At Ways To Pay The Tab," Calgary Sun, Sept. 3, 2013, Calgarysun.Com/2013/09/03/Calgary-Flood-Costs-Top-500-Million-As-Council-Looks-At-Ways-To-Pay-The-Tab

is expected to cost Calgary a further \$500 million, bringing the City's flood-related costs to over \$1 billion since the 2013 disaster.³

A small but vocal group claims that local government spending is “out of control” or “unsustainable.”⁴ The core thrust of their argument is that local government costs are increasing at a faster rate than inflation and population growth, and that this is primarily a result of reckless spending by local governments and/or high compensation for local government employees.

Contrary to this argument, however, local governments have long said ‘downloading’ by the federal and provincial governments, along with growth and urbanization, are the main drivers of increased local government expenditure.

These concerns are supported by the B.C. government's Expert Panel on Business and Taxation. While their 2012 report found that “municipal costs have been growing faster than the combined rate of inflation and population increase,” it also found that “in many cases, these costs are driven by decisions that are outside the direct control of a municipality and require some form of collaborative action with other governments.”⁵

Who's Picking Up the Tab? investigates the scale and scope of downloading onto local governments, using B.C. as a case study. Surveys of local leaders and senior staff, a fresh analysis of relevant statistical and financial data, and case studies of key policy areas give a clear picture of costs and responsibilities downloaded without adequate funding or revenue sources. This offloading is a major problem, with multi-billion dollar impacts on local governments since the 1990s. To exacerbate things further, underinvestment in infrastructure and pressures associated with climate change are likely to worsen this problem, unless local governments are provided with more resources or revenue generating capacity by senior levels of government.

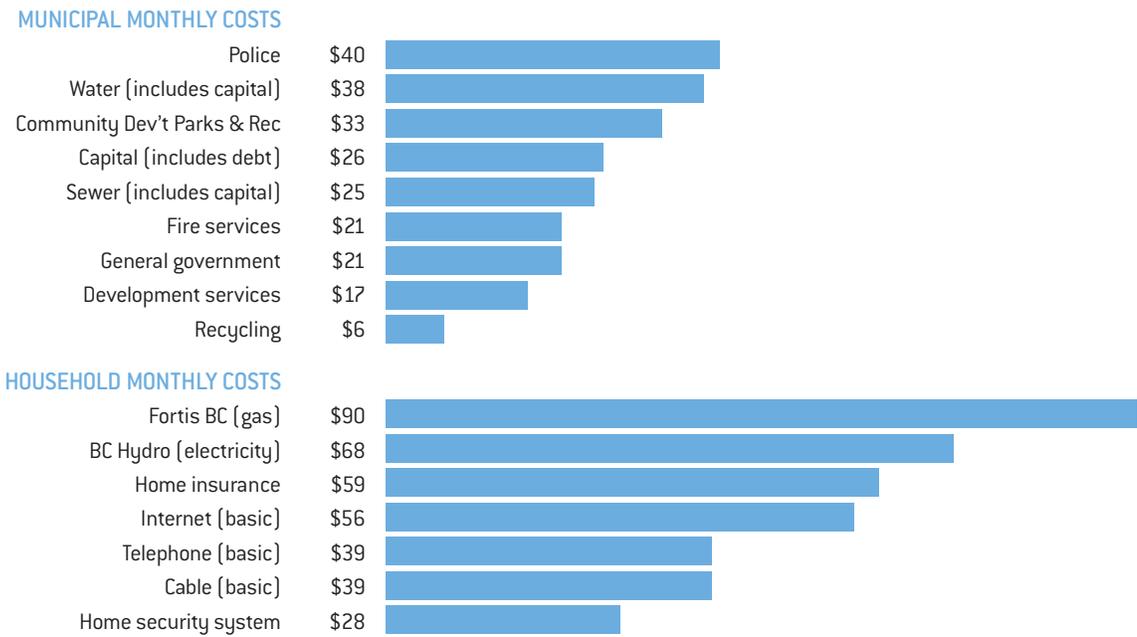
3 Gary Bobrovitz and Tamara Elliott, “Cost of flood mitigation tunnel soars to nearly \$500M,” Global News, June 13, 2014, globalnews.ca/news/1393415/cost-of-flood-mitigation-tunnel-soars-to-nearly-500m/

4 See for example the Canadian Federation of Independent Business “BC Municipal Spending Watch 2013” (Mike Klassen and Richard Fong, November 2013) and the Fraser Institute's similar “The State of Municipal Finances in Metro Vancouver” (Charles Lammam and Hugh MacIntyre, June 2014).

5 See “Report of the Expert Panel on BC's Business Tax Competitiveness,” August 31, 2012, www.fin.gov.bc.ca/docs/Final%20Report%20as%20of%20September%2014,%202012.pdf. It is interesting to note that this report was signed by the Senior-Vice President of the Canadian Federation of Independent Business, an organization that has elsewhere blamed ‘overspending’ for increased local government expenditures.

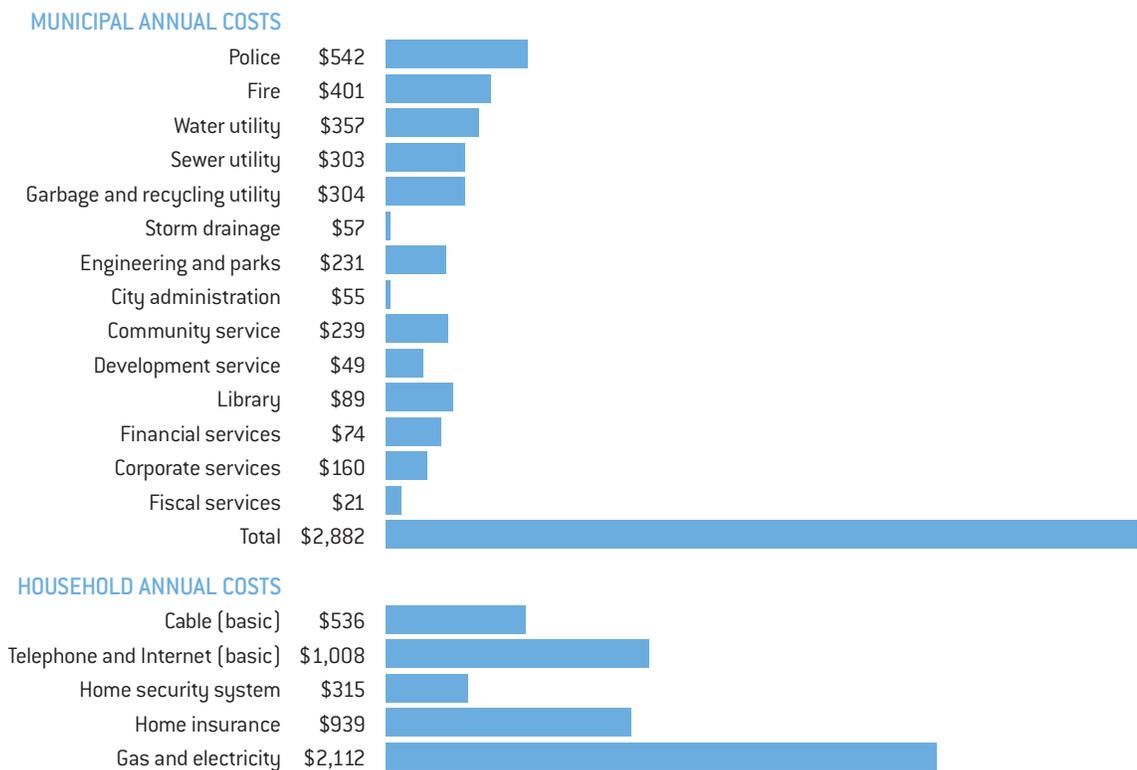
In Canada, sewer, water, garbage and recycling infrastructure and services come from your local government for less than the price of a home cable, Internet and television package.

FIGURE 1: MAPLE RIDGE PROPERTY TAXES VS. HOUSEHOLD MONTHLY COSTS, 2012



Source: District of Maple Ridge, 2012 *Citizens Report*, www.mapleridge.ca/ArchiveCenter/ViewFile/Item/53

FIGURE 2: PORT MOODY PROPERTY TAXES VS. HOUSEHOLD ANNUAL COSTS, 2012



Source: City of Port Moody, *Let's Talk Taxes*, www.portmoody.ca/modules/showdocument.aspx?documentid=6365

What is downloading?

So what exactly is downloading? In this report, we're defining downloading (or 'offloading') broadly as "the range of ways that provincial and federal governments pass administrative costs, capital costs, service provision and other expenses and responsibilities to local levels of government without adequate funding or revenue streams."

There are a range of ways this happens, but some of the most common forms of senior government downloading include:

- Direct offloading of federal or provincial programs and/or responsibilities without adequate funding or revenue tools;
- Regulatory changes that require spending by municipalities;
- Enforcement of federal and provincial regulations;
- Cancellation of programs and services that are needed or expected by the public;
- Reduction or cancellation of senior government transfers or program funding;
- Programs that are paid for municipally, but where municipalities have little control over costs;
- Grant-based or 'one time only' funding of downloaded or new programs encouraged by senior governments;
- Underinvestment by senior governments in infrastructure maintenance, renewal and replacement; and
- Failure to adequately address issues or problems that should fall under provincial or federal jurisdiction.

"Costs can be directly downloaded, but are more often the result of the province vacating the field, leaving the city to pick up the slack, if it can."

— Lower Mainland councillor

Our survey: What are local elected leaders saying?

> How large is the problem of downloading and what are the policy areas most impacted?

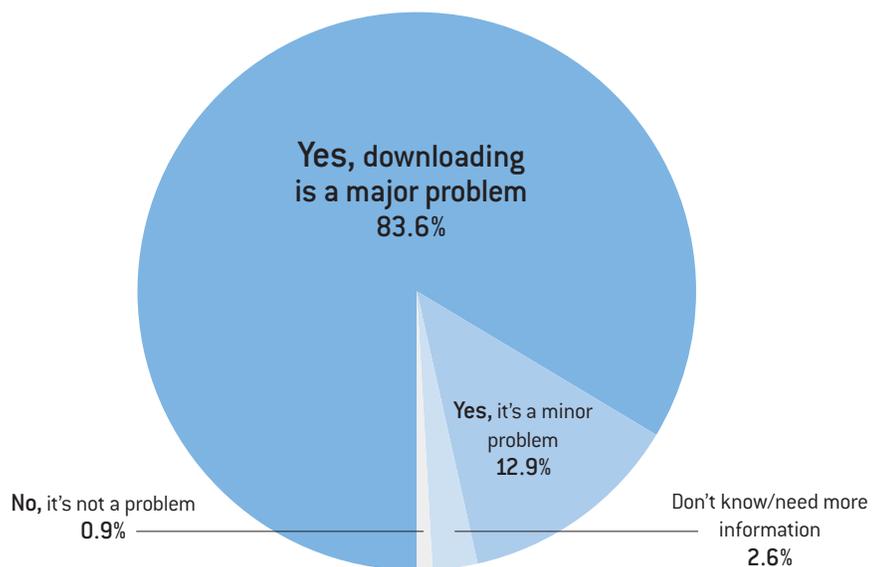
“Downloading responsibility without the accompanying financing to support is simply a tax increase.”

— Okanagan councillor

Between February and May 2014, we collected 133 completed survey responses from councillors, mayors, and regional district directors, representing more than half of B.C. municipalities. Respondents were asked if downloading was a problem for their local government, and if so whether they considered it a major or a minor one.

In response, 83.6 per cent told us that downloading was a major problem, a further 12.9 per cent said it was a minor one, and only 0.9 per cent said it was not a problem. A further 2.6 per cent said they didn’t know or weren’t sure.

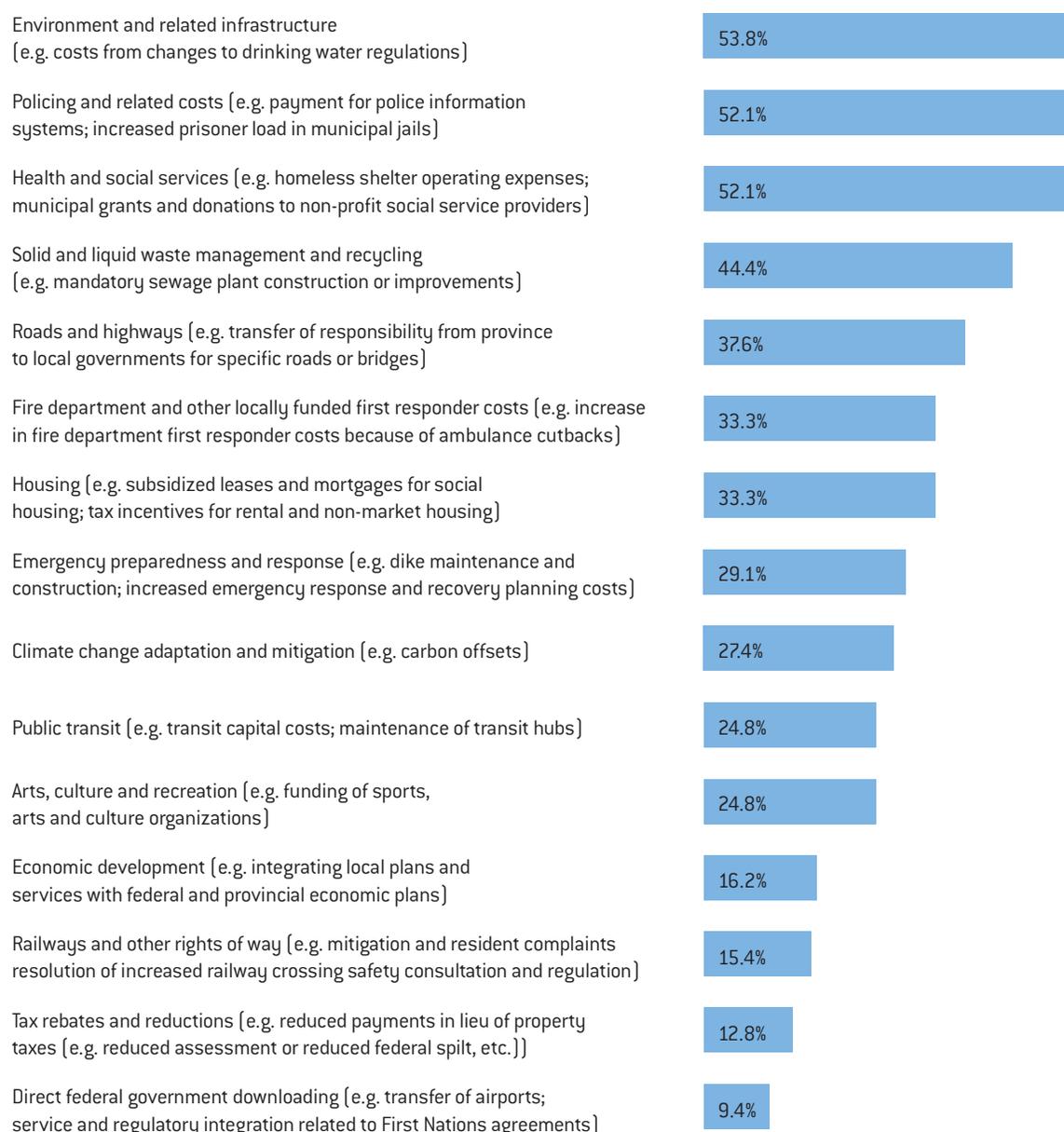
FIGURE 1: IS FEDERAL AND PROVINCIAL DOWNLOADING OF COSTS ONTO LOCAL GOVERNMENTS A PROBLEM FOR YOUR COMMUNITY?



Respondents were asked to choose up to three policy areas as their biggest areas of concern. The top five were:

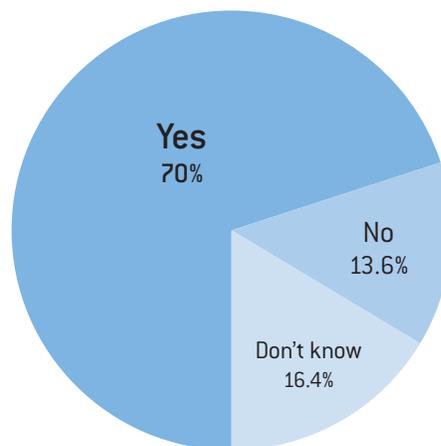
1. Environment and related infrastructure;
2. Policing and related costs;
3. Health and social services;
4. Solid and liquid waste management; and
5. Roads and highways.

FIGURE 2: WHAT ARE THE BIGGEST AREAS OF CONCERN REGARDING FEDERAL AND PROVINCIAL GOVERNMENT DOWNLOADING OF COSTS ONTO LOCAL LEVELS OF GOVERNMENT?



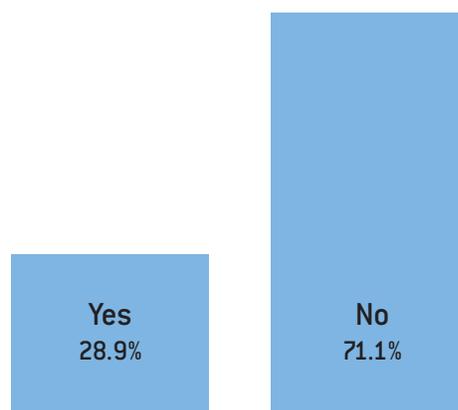
A large majority of respondents (70 per cent) said they had experienced downloading through the initiation of programs with only grants or short term funding supporting them from senior governments. As one mayor commented, “[there’s] always money to build something to provide short term ‘feel good’ projects, but never any money to maintain them once they’re completed.”

FIGURE 3: DURING YOUR CURRENT TERM OF OFFICE, HAVE YOU PARTICIPATED IN PROVINCIAL/ FEDERAL PROGRAMS TRANSFERRED OR INITIATED WITH GRANTS OR SHORT TERM FUNDING, BUT NOT SUPPORTED WITH ONGOING FUNDING?



A majority of elected leaders said that in addition to financial shortfalls from downloading, they faced a shortfall in legislative and regulatory powers. In total, 71 per cent said their local government did not have the necessary legislative and regulatory powers to handle downloaded responsibilities, while 29 per cent said they did.

FIGURE 4: DOES YOUR LOCAL GOVERNMENT HAVE THE NECESSARY LEGISLATIVE AND REGULATORY POWERS TO HANDLE DOWNLOADED RESPONSIBILITIES?



More detailed surveys were sent to B.C. Chief Administrative and Chief Financial Officers. These surveys were not used to produce statistical data, but instead helped inform and focus case study and policy research in later sections of this report.

The big picture: Statistics that point to downloading

The often complicated and indirect ways that costs and services are downloaded makes it difficult to track. However, public sector financial and employment statistics provide evidence that suggests downloading and context for the case studies and analysis of specific policy areas in this report.

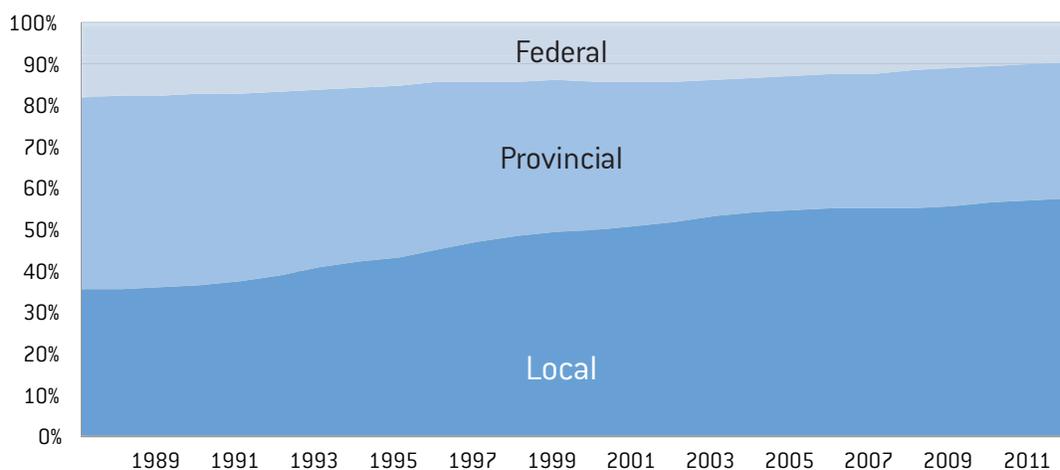
> Share of infrastructure and other capital assets

One component of downloading is fairly easy to trace. As shown in Figure 5, the share of capital assets, including physical infrastructure, roads, and public buildings under B.C. local government control has risen significantly over the past 25 years. In 1988, the local government share was 35 per cent of the total. By 2012, that had risen to 52 per cent of the total, with federal and provincial shares declining proportionately. Local governments are clearly expected to handle a much bigger share of infrastructure responsibilities, including construction, maintenance and operations.

“Downloading of responsibility is not necessarily a bad thing provided the funding comes with it — currently it does not.”

—Okanagan mayor

FIGURE 5: SHARE OF PUBLIC SECTOR CAPITAL ASSETS, BY ORDER OF GOVERNMENT, B.C. (1988–2012)⁶



6 Statistics Canada, Table 031-0002, Flows and stocks of fixed non-residential capital, by North American Industry Classification System (NAICS) and asset, Canada, provinces and territories, constant 2007 dollars.

> Public sector employment trends: Are local governments ‘picking up the slack’?

Local government public sector employment trends also suggest an additional burden is likely being picked up by municipalities. B.C.’s population grew from 3.9 million in 2001 to 4.4 million in 2011. Assuming that the size of the public sector is tied to the number of people served, this is what should have happened:

- Provincial jobs would have grown from 43,000 to 48,000; and
- Local government jobs would have increased from 47,000 to 56,000.

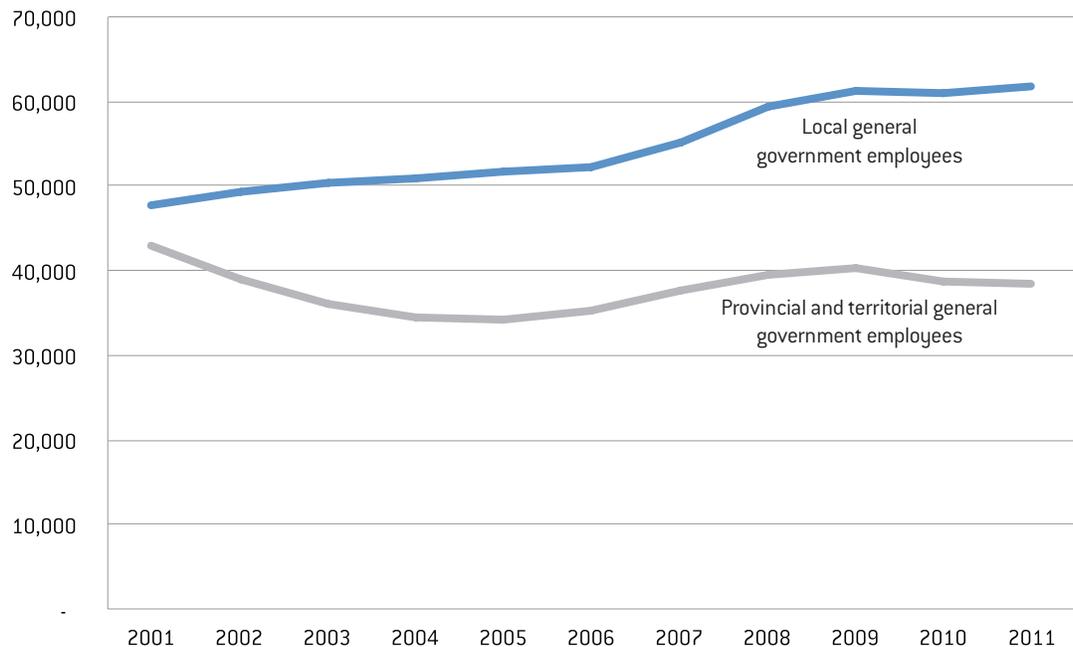
The reality is quite different. Instead, the B.C. provincial government shed thousands of employees between 2001 and 2011, while the number of local government employees increased by about 30 per cent.⁷

This trend is consistent with local government leaders and senior staff assessments that local governments are increasingly pushed to “pick up the slack” from provincial cuts. In many cases, these are the same or similar jobs that used to be covered by provincial budgets, but are now paid out of already strained property taxes and other limited local government revenue sources.

“Both orders of government are cutting taxes, all while downloading their responsibility on to local government and telling us we are bad for raising taxes.”

—Cariboo region mayor

FIGURE 6: B.C. PROVINCIAL AND LOCAL GOVERNMENT EMPLOYEES, 2001–2011



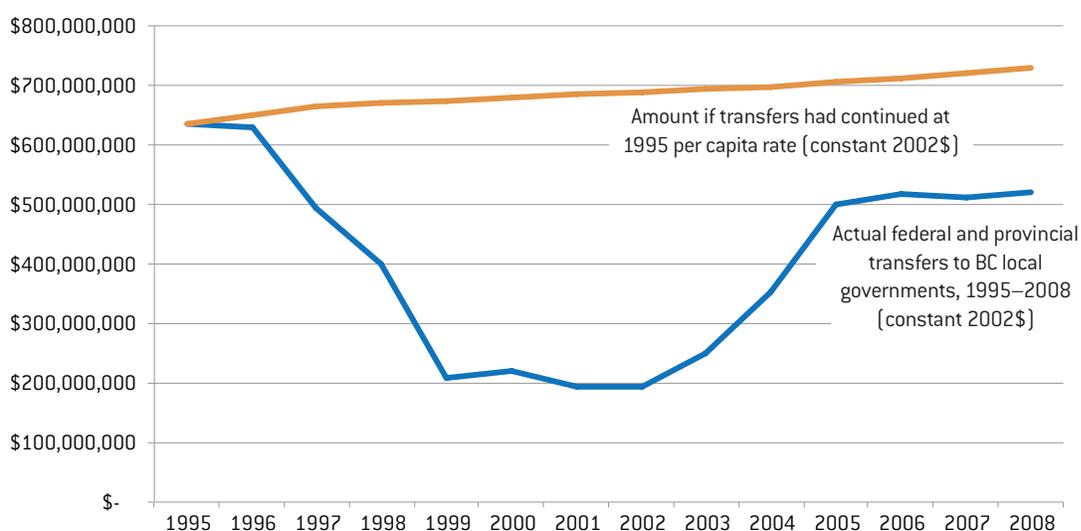
⁷ Authors’ calculations based on Statistics Canada CANSIM Table 183-0002, “Public sector employment, wages and salaries, seasonally unadjusted and adjusted, annual” and B.C. population statistics.

> Cuts to transfers: the \$4 billion gap

At the same time that local government responsibilities increased, federal and provincial transfers sharply decreased. In Figure 7, the lower blue line shows that combined federal and provincial transfers to B.C. local governments peaked in 1995, then plummeted, until slowly rising after 2002. They're still not back to 1995 levels.

The upper orange line in Figure 7 shows what transfers would have looked like if they'd continued at 1995 per capita levels. The lower blue line shows the actual amounts transferred by the federal and provincial governments to B.C. local governments. The difference between these two figures between 1995 and 2008 adds up to about \$4 billion.

FIGURE 7: FEDERAL AND PROVINCIAL TRANSFERS TO B.C. LOCAL GOVERNMENTS, 1995–2008⁸



> Revenue source shifts

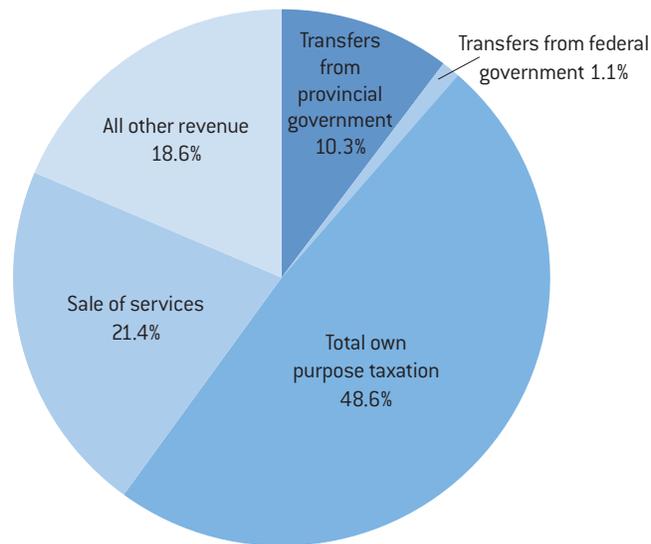
So where did local governments turn to deal with increased responsibilities, but less support from senior levels of government? The evidence (See Figures 8, 9 and 10) shows how local governments have been stuck with two limited and not particularly popular streams of revenue: property taxes and sales of services/user fees.⁹

In 1995, before transfers plummeted, sales of services and user fees made up about 21 per cent of B.C. local government revenue and transfers made up just over 11 per cent.

⁸ Authors' calculations based on Statistics Canada CANSIM Table 385-0024, "Local general government revenue and expenditures, current and capital accounts," converted to constant 2002 dollars. This calculation excludes a one-time \$1.9 billion capital transfer for debt forgiveness from the B.C. provincial government for municipal hospitals.

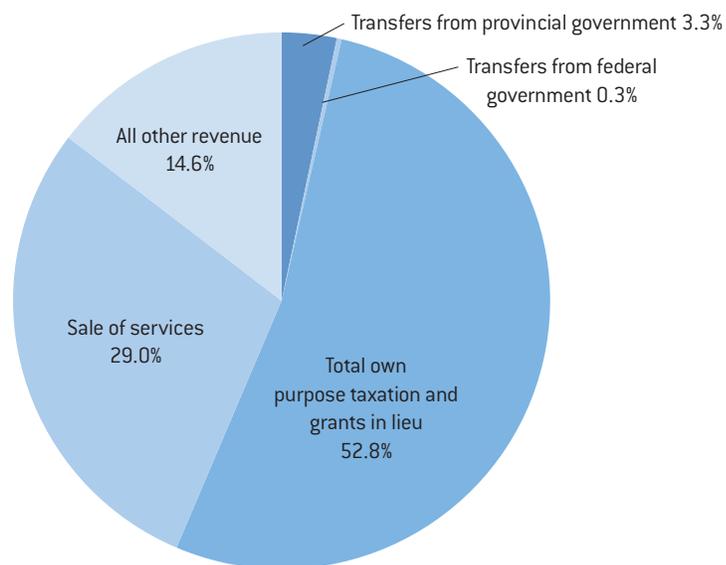
⁹ Alternative revenue streams and funding models are not explored in depth in this report, but some useful research on this issue includes: David Thompson et al., "Funding a better future: Progressive revenue sources for Canada's cities and towns," Canadian Union of Public Employees, 2014, <https://cupe.ca/funding-better-future-progressive-revenue-sources-canadas-cities-and-towns> and James Fletcher and Doug Macarthur, *Local Prosperity: Options for Municipal Revenue Growth in British Columbia*, ThinkCity, 2010.

FIGURE 8: B.C. LOCAL GOVERNMENT REVENUE SOURCES, 1995¹⁰



By 2002, transfers had plunged to just 3.6 per cent of revenue. Taxation revenue took up a slightly bigger share, but the big jump was in sales of services and user fees, which rose from 21 to 29 per cent.

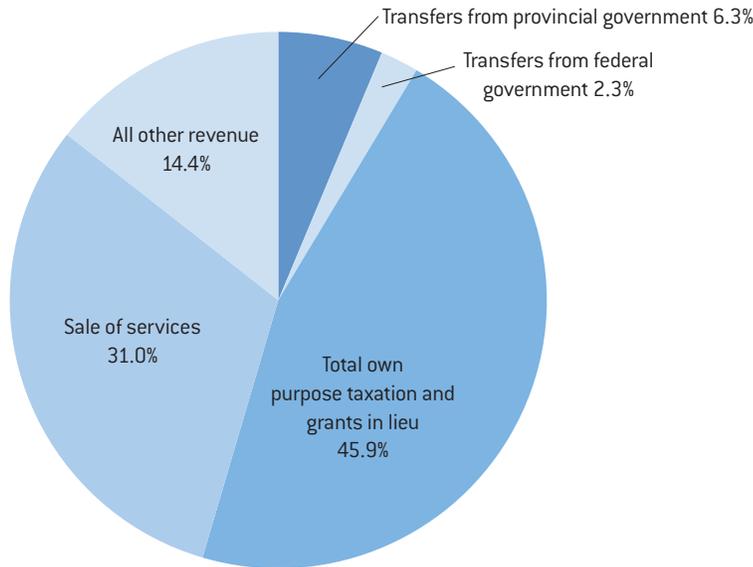
FIGURE 9: B.C. LOCAL GOVERNMENT REVENUE SOURCES, 2002



¹⁰ Revenue figures are from BC Stats, Consolidated Municipal Revenue statistics (Sch401_83-10).

By 2010, transfers had risen as a percentage of revenue, but were still well below 1995 levels. B.C. local government taxation was actually down slightly as a percentage of total revenue by 2010, but reliance on sales of services and user fees continued to rise.

FIGURE 10: B.C. LOCAL GOVERNMENT REVENUE SOURCES, 2010



“[Senior governments should] be open and honest about downloading and make it part of policy dialogue and not change ‘by stealth.’”
—Okanagan mayor

In the context of revenue challenges and complaints about local government taxation from some quarters, it is worth noting that the 2012 report of the province’s Expert Panel on Business Taxation found that “B.C. has relatively low municipal (and overall) residential property taxes, compared to other Canadian jurisdiction” and that “non-residential taxes are not dissimilar with non-residential taxes in other provinces.”¹¹

> Government revenue and expenditure as share of GDP

At the same time, Canadian local government own-source revenues have stayed relatively flat as a share of GDP, even while the provincial government’s has more than tripled. From 1945 to 2004, “federal own-source revenues have fluctuated between 15 per cent and 20 per cent of GDP throughout the period, provincial government own-source revenues increased steadily from approximately 5 per cent of GDP after WWII to 17 per cent of GDP in 2004, just above federal own-source revenues. In contrast, local government own-source revenues have remained remarkably stable over the period at approximately 5 per cent of GDP.”¹²

11 “Report of the Expert Panel on BC’s Business Tax Competitiveness,” August 31, 2012.

12 “Fiscal Federalism and Public Service Provision in Canada,” Jean-François Tremblay, Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol. 3, No. 1, December 2007.

> Which areas of local government expenditure grew the most?

Overall, local government expenditures in B.C. grew 88 per cent between 2001 and 2010, in inflation adjusted dollars. But a number of budget lines grew much higher than the baseline, notably the following four areas, which overlap closely with top areas of concern identified by respondents in our survey:¹³

- Sewer services + 173 per cent
- Policing + 134 per cent
- Water services + 130 per cent
- Parks, recreation and culture + 108 per cent

“Having to address downloaded responsibilities jeopardizes our role to maintain infrastructure and basic amenities for citizens. Higher levels of government may have trouble understanding the hardship because of the magnitude of difference in the amount of money they have versus us.”
—Columbia Shuswap CAO

Measuring municipal spending growth: Consumer Price Index (CPI) vs. Municipal Price Index (MPI)

Many goods and services that are purchased in large quantities by local governments increase in price at a faster rate than the more general ‘market basket’ of ‘average consumer’ goods used to construct the Consumer Price Index (CPI), which is most often used to measure inflation. For example, the CPI weights heavily such categories as shelter, transportation and food, but does not measure common local government expenses such as office equipment, employee benefits or contracted services. This means that comparisons of local government spending to inflation based on the standard CPI tend to be out of sync with the actual inflationary pressures faced by local governments, and more often than not tend to overstate the extent to which local government spending has grown faster than inflation.

To better capture the real growth in costs faced by local governments, a growing number of local governments are developing Municipal Price Indexes that measure the inflation of the specific goods and services actually purchased by local governments. No B.C. governments are using an MPI yet, but Edmonton, Alberta’s calculation of a local MPI found that “from 2008 to 2011, the MPI has been consistently higher than consumer inflation by approximately 0.51–2.41%,” and that Edmonton’s MPI inflation for 2012 was 2.6%—almost double the CPI rate of 1.34%.¹⁴

¹³ Expenditure calculations are based on BC Stats, Consolidated Municipal Expenditures, (Sch402_83-10).

¹⁴ City of Edmonton Municipal Price Index, 2013, [www.edmonton.ca/business_economy/documents/PDF/City_of_Edmonton_MPI_2013.pdf#search=municipal price index](http://www.edmonton.ca/business_economy/documents/PDF/City_of_Edmonton_MPI_2013.pdf#search=municipal%20price%20index)

Policy case studies

BASED ON OVERALL SURVEY RESULTS and qualitative information provided in text comments by survey respondents, we identified policy areas for more detailed analysis:

1. Housing (page 21);
2. Mental health, addiction, and social services (page 23);
3. Wastewater treatment (page 30);
4. Diking and flood management (page 33);
5. Drinking water regulations (page 37); and
6. Recreation infrastructure (page 37).

Cities now own the affordable housing issue

Upon close observation, the story of some of our communities' most intractable problems is often a downloading story. For instance, the story of how cities ended up owning the problems associated with a rapidly worsening shortage of affordable housing in B.C. communities is unequivocally intertwined with the chronology of federal and provincial offloading of their responsibilities for housing.

After WWII, Canada and the U.S. instituted fairly similar housing policies based on a combination of mortgage insurance and large public housing projects. Our 1950s–1960s market and social housing policies featured centrally-managed federal programs which, by today's standards, would be considered robust, well-funded and progressive.

The best way to quantify the extent of federal government support is found in the *National Housing Act* of 1944 where under Section 35.42, the costs of land acquisition, public housing construction, operating costs and rental subsidies were to be shared on a 75 per cent federal

/ 25 per cent provincial basis.¹⁵ It is noteworthy to point out that until 1964, municipalities were neither required nor expected to contribute to public housing projects.¹⁶

An early example of this type of investment is the Little Mountain Housing Project in Vancouver. Completed in 1954 and housing 600 low-income residents in 224 units, Little Mountain was an innovative complex that was heavily subsidized by federal and provincial governments. Despite stipulations in the *National Housing Act*, the City of Vancouver was required by the province to cover half of its contribution. Downloading had started in B.C. and 75/25 became 75/12.5/12.5 with the City paying 12.5 per cent of the project's capital cost.¹⁷

Through the 1970s and 1980s, many countries looked to Canada as a positive example of effective government intervention in housing, both in terms of capital projects and ongoing program funding. Several countries aspired to bring their government-funded housing programs up to Canada's level.

By the mid-1980s the Canadian federal government, like its counterparts in the US and the UK, lost interest in subsidized housing and discontinued funding any new social housing projects. Canada initiated the devolution of its public housing assets and programs.

Federal bureaucrats simply could not turn their backs on three decades of investment in housing projects in provinces and territories across Canada. They had to work with their colleagues to negotiate the transfer of responsibility for lands, buildings and programs with each province. This also included significant transfers of assets, cash and tax room to provinces.

This devolution of responsibilities was carefully orchestrated through deliberate, inclusive and structured federal/provincial negotiations. However the architects of this withdrawal turned their backs on towns and cities, none of which were represented in any of the inter-governmental discussions that led to the devolution of Canada's housing projects. Cities that had been partners in many of these projects were simply not invited.

When provincial governments decided it was their turn to get out of social housing—and to different extents, all provinces did—there was still no meaningful consultation with cities. In sharp contrast with the federal/provincial devolution process, there were no provincial/municipal conferences, no negotiations and no organized devolution.

According to Iain DeJong of the National Housing Institute, cities were put in a most awkward situation: “As the most immediate level of government to the people, [cities] are under pressure to find ways of supporting social housing regardless of the political affiliation of the provincial government or policy shifts in the federal government.”¹⁸

Today, far fewer housing projects and programs are funded by the federal and provincial governments. Projects that do get some support tend to require matching funds with each level of government contributing one third of the funding. By itself, the transition from 75/25/0 per cent to 33/33/33 per cent would be a significant downloading if the same amount of money was being spent by the federal and provincial governments. But their funding cutbacks have left a gaping hole

15 Section 35 and the 75/25 per cent federal/provincial split is found in Canada's original public housing program. In 1964, different cost-sharing arrangements were introduced. No new public housing has been built under the 1964 program since 1978. See Rose, Sayegh, George Fallis et al., eds., *Home Remedies: Rethinking Canadian Housing Policy* (Ottawa: CD Howe Institute, 1995); Canada Mortgage and Housing Corporation, *Public Housing Program – Program Evaluation Report* (Ottawa: Queen's Printer, April 1990).

16 Although some provided voluntary contributions such as land.

17 Thomas Michael Thomson, *The Death and Life of the Little Mountain Housing Project: BC's First Public Housing Community*, 2010.

18 Iain DeJong, MES, Pl., is an urban planner in Toronto who focuses on social justice issues in the city environment, writing for the National Housing Institute.

in our communities. Many municipalities now undertake housing policies, programs and projects on their own.

There are significant impacts arising from this relentless federal and provincial withdrawal from the housing field. Homelessness was not a significant issue in Vancouver until the mid-1980s when the deepest federal cuts were enacted. A 1999 homeless count found less than 600 persons without shelter in Vancouver. From 2002 to 2005, the number of homeless persons climbed from 1,121 to 2,174. Despite the city's best efforts, the count climbed again to 2,592 in 2008. Big cities across the country suffer similar growing burdens and homelessness has incessantly migrated to suburbs in the past decade.

At a February 2014 meeting in Ottawa, mayors of Canada's 22 largest cities ranked housing as their top priority, ahead of transportation and the infrastructure deficit (the next biggest downloading-induced issues). Federal and provincial cuts, unemployment and stagnating incomes combine to create a perfect storm making housing unaffordable for an increasing number of residents who turn to their municipalities for assistance.

Canada's exemplary *National Housing Act* rightly recognized shelter as a basic human need. Now, municipal leaders face the complex ramifications of not meeting this basic need for shelter: crime, vagrancy, deteriorating neighbourhoods, addiction and lost economic opportunities, to name a few.

Provinces absorbed the devolution of formerly federal responsibilities for housing as an outcome of orderly negotiations and just compensation. Cities didn't even see devolution coming until people started to build shelters in their parks. Provinces inherited the federal money. Cities inherited the problem.

Cities used to be hosts for federal and provincial social housing investments. Now, cities have to bring partners together, change their bylaws, develop proposals, apply for grants, commit land and funding, construct social housing and undertake to manage long term housing programs. Today, Canadian cities own the housing issue.

Mental health, addiction, housing and social services

Provincial and federal underfunding and under-provision of mental health and addictions services, social services, and housing were frequently cited as concerns in our survey and they have been the subject of a number of Union of British Columbia Municipalities resolutions over the past 15 years.

Tracking the financial impact of cuts and underfunding is not as straightforward as tracking clear-cut offloading or cuts to federal and provincial transfers for services traditionally provided by local governments. By and large, health, social services and housing remain the purview of the B.C. provincial government, and direct spending in these areas has not increased dramatically as a percentage of local government budgets over the past 20 years.

What does appear to have happened, however, is that cuts and underfunding in provincial and federal health and social services have generated social problems and left service gaps that are straining other services under the jurisdiction of local government. These are most notably in the form of policing and law enforcement costs related to mental health, addiction and homelessness. In short, (provincial and federal) health and social issues have been transformed into (municipal) law enforcement and policing problems.

Background: Deinstitutionalization, underfunding and federal and provincial failures in social housing

According to the Canadian Mental Health Association, police contact with persons affected by mental illness has increased in recent years due to a variety of factors which have a strong relationship to federal and provincial policy and funding decisions.¹⁹ Topping the CMHA list of factors are:

1. Displacement from institutional settings without adequate increases to community support;
2. Below-poverty level disability assistance rates;
3. Homelessness; and
4. Reduced provincial and general hospital psychiatric capacities resulting in inadequate treatment stabilization.

A 2008 study found that mental health patients in B.C. were discharged from hospitals in an average of 15 days, before many were stabilized.

> Deinstitutionalization without adequate increases to community support or hospital psychiatric capacity

Beginning as early as the 1960s, but accelerating through the 1980s and 1990s, B.C. joined other Canadian jurisdictions in moving away from large-scale institutionalization of mentally ill people toward a ‘care in the community’ model. Many researchers and other observers say provincial governments have treated deinstitutionalization largely as a cost cutting opportunity, rather than a way of improving the wellbeing of mentally ill people and their communities.²⁰

Canada as a whole spends less on mental health than other developed countries, and the most recent comparisons available show B.C. spending the second least per capita on psychiatric hospitals of any Canadian province.²¹ After a major push from institutionalization to a “community care” model in the mid-1990s, funding for mental health in the province declined overall by 31 per cent, or about \$200 million, and funding for community-based psychiatric care actually decreased by \$7 million.²² Institutions were closed, but provincial funding and resources didn’t follow discharged patients into the new system.

19 Canadian Mental Health Association, Police and Mental Illness: Increased Interactions, http://2010.cmha.bc.ca/files/policesheets_all.pdf

20 See for example M. Morrow, S. Frischmuth and A. Johnson, Community Based Mental Health Services in BC: Changes to Income, Employment and Housing Security (Vancouver: Canadian Centre for Policy Alternatives, 2006).

21 Jacobs et al., “The Cost Of Mental Health And Substance Abuse Services In Canada: A report to the Mental Health Commission of Canada,” Institute for Health Economics, June 2010, www.ihe.ca/documents/Cost%20of%20Mental%20Health%20Services%20in%20Canada%20Report%20June%202010.pdf

22 P. Sealy and P.C. Whitehead, “Forty years of deinstitutionalization of psychiatric services in Canada: an empirical assessment,” Canadian Journal of Psychiatry 49:249–257, 2004.

While more recent spending is difficult to track, evidence points to an ongoing shortage of resources. For example, a 2008 study found that mental health patients in B.C. were discharged from hospitals in an average of 15 days, before many were stabilized.²³

> Inadequate provincial income assistance programs

Inadequate provincial welfare rates, particularly for people with disabilities, are also a major factor in B.C.'s mental health and homelessness crisis. Income assistance amounts for people with disabilities have been frozen since 2007, and lag well behind cost of living increases, especially for housing costs in urban B.C. By 2012, B.C. was in sixth place amongst Canadian provinces for overall disability benefits, and the maximum housing allowance amounted to less than half the cost of a basic bachelor apartment in Metro Vancouver.²⁴

> Homelessness and failures to fund social housing

Federal and provincial cuts and underfunding of social housing have been central to B.C.'s mental health and homelessness crisis. The federal government had been the primary funder of housing programs in Canada since the 1960s, often with program delivery through the province and municipalities. But in 1993, the federal government withdrew entirely from new housing supply programs in an effort to cut its own costs. While federal money began to trickle back after 2001, it was at a lower level and more narrowly focused.

The B.C. provincial government continued to fund significant levels of social housing construction through the 1990s, but provincial construction of housing dropped off to negligible levels from 2001 to 2005. While construction picked up to a degree after 2006, levels lag behind social housing construction in the 1970s, and well behind the growing need in a province with some of the worst housing affordability measures in North America.²⁵ From the 1970s to the 1990s, federal and provincial funding together helped build between 1,000 and 1,500 new units of social housing per year (closer to 2,000 per year, if co-op housing is included). In contrast, net social housing units since 2006 have increased by an average of 418 units per year, despite what many have described as a “crisis” in affordable housing.²⁶

This is in a context where average rental housing costs in Metro Vancouver rose by 30 per cent from 2004 to 2013 — almost double the rate of inflation.²⁷ The City of Vancouver was listed as the second least affordable housing market in the world for six years in row.²⁸

New units of social and co-op housing in B.C. dropped from a peak of 2,000 new units per year through the 1970s, 80s and 90s to 418 post 2006.

23 P. Fayerman, “BC’s mental health system fares poorly, national study finds,” Vancouver Sun, [Online], Aug. 20, 2008 [cited 2008 Oct 21], www.canada.com/vancouver/sun/story.html?id=8bf73568-b55a-45a7-bc71-4841c0a4edf4

24 Disability Without Poverty Network “Overdue: The Case for Increasing the Persons with Disabilities Benefit in BC,” July 2012, http://cmha.bc.ca/files/overdueincreasepwd_1.pdf

25 Seth Klein, “Social Housing Reality Check: Government’s own numbers reveal modest investment in new social housing,” CCPA Policy Note, March 31, 2013, www.policynote.ca/social-housing-reality-check-governments-own-numbers-reveal-modest-investment-in-new-social-housing/

26 See for example www.socialhousingbc.com/about/

27 Metro Vancouver Housing Data Book, January 2014, www.metrovancouver.org/planning/development/housingdiversity/HousingDataBookDocuments/MV_Housing_Data_Book.pdf

28 “Vancouver’s housing 2nd least affordable in world: International survey gives city dubious distinction for 6th straight year,” CBC News, Jan. 21, 2014, www.cbc.ca/news/canada/british-columbia/vancouver-s-housing-2nd-least-affordable-in-world-1.2505524

> Federal government's reliance on law enforcement, rather than public health strategies, for substance use problems

Addiction is itself a health issue, and a significant percentage of homeless and mentally ill people in B.C. struggle with substance use and addiction problems. The federal government has chosen to abandon harm reduction and de-emphasize other public health based approaches that treat substance use problems as health issues and instead rely on approaches that rely on the criminal justice system and law enforcement.

Estimates suggest that of \$8.2 billion worth of public costs in 'harms' from illegal substance use across Canada in 2002, \$5.4 billion was classified as law enforcement costs (versus \$1.1 billion in health care expenses).²⁹ B.C.'s share of these costs was \$1.5 billion. Breakdowns weren't published, but if ratios were similar to Canada as a whole, then law enforcement costs related to illegal substances were in the range of \$1 billion. A shift to a public health model of managing substance use related problems would likely reduce local government policing expenditures, and evidence suggests that it may ultimately cost less for all levels of government, over time.³⁰

> How did this manifest in communities?

Policing costs

From a local government perspective, the biggest impact of provincial and federal failure to support mental health, social housing and related services has been increased pressure on police services.

As noted in reports from the Vancouver Police Department, "in the 1990s the VPD only had 1.5 full-time employees assigned to deal with those suffering from mental illness and addiction. However, in 2013, this has increased to more than 17 full-time employees." By 2007, the VPD's "conservative estimate" of direct policing contact costs with the mentally ill in 2007 was \$9 million—about 5.5 per cent of the VPD's \$165 million budget in that year.³¹ In a follow-up report in 2013, an analysis of VPD statistics estimated that "mental illness is believed to contribute to 21 per cent of incidents handled by VPD officers and 25 per cent of the total time spent on calls where a report is written."³²

The problem extends to communities across the province:

- The Victoria Police Department tracked a 356 per cent increase in "disturbed person" calls between 2008 to 2013;³³

29 J. Rehm, D. Baliunas, S. Brochu, B. Fischer, G. Gnam, J. Patra et al., *The costs of substance abuse in Canada, 2002* (Ottawa: Canadian Centre on Substance Abuse), March 2006.

30 Canadian Public Health Association (Discussion Paper), "A New Approach to Managing Illegal Psychoactive Substances in Canada," May 2014, www.cpha.ca/uploads/policy/ips_2014-05-15_e.pdf

31 F. Wilson-Bates, "Lost in transition: How a lack of capacity in the mental health system is failing Vancouver's mentally ill and draining police resources," Vancouver Police Department, Jan. 2008, http://ftp.vancouver.ca/police/Whatsnew/lost_in_transition.pdf

32 Vancouver Police Department, "Vancouver's Mental Health Crisis: An Update Report," September 13, 2013, <http://vancouver.ca/police/assets/pdf/reports-policies/mental-health-crisis.pdf>

33 Katie DeRosa, "Mental-health cases flood capital region's police," Times Colonist, June 20, 2014, www.timescolonist.com/mental-health-cases-flood-capital-region-s-police-1.1138538

- Prince George RCMP report a 40 per cent increase in mental health related calls between 2008 and 2013;³⁴
- Sooke saw mental-health-related calls shoot from 83 to 140 between 2008 and 2013;
- Saanich police dealt with 375 disturbed-person calls in 2008, which shot up to 532 calls in 2013;³⁵
- Oak Bay police say mental-health calls have almost doubled, from 43 calls in 2008 to 80 calls in 2013;³⁶
- New Westminster’s police department hired a full-time mental health specialist in 2013;³⁷ and
- Coquitlam RCMP responded to 824 calls under the *Mental Health Act* in 2012, leading to 324 apprehensions of individuals with mental health issues.³⁸

While no comprehensive survey of such costs has been carried out, “ballpark” estimates can be produced, extrapolating from the results of the Vancouver Police Department studies and from research carried out in Ontario, where a similar pattern of provincial and federal cuts and underfunding of mental health services has occurred. In London, Ontario researchers found that police contacts with persons with mental illness have been rising steadily since the 1990s, and that associated costs accounted for almost 15 per cent of that city’s police budget in 2011.³⁹

If the policing costs associated with mental health range somewhere between Vancouver’s “conservative” estimate (5 per cent of annual budget) and London’s more comprehensive estimate (15 per cent of annual budget), then policing costs for communities across B.C. resulting from provincial and federal failures to address mental health and housing likely range between \$50 and \$150 million per year.

In a 2013 report, the Vancouver Police Department estimated that mental illness contributed to 21 per cent of incidents handled by VPD officers.

Bylaw enforcement, first response and other costs

In addition to policing costs, unsupported mental health issues lead to a range of other costs for local governments. These include bylaw enforcement, fire department response, and other local government services. A notable example is compulsive hoarding.

Hoarding represents a serious fire and safety hazard. While statistics are not available for hoarding related fires in B.C., a study in Melbourne, Australia found that hoarding led to more serious fires, and was a factor in 24 per cent of residential fire fatalities between 1999 and 2009.⁴⁰ Moreover, the Melbourne study found that fire department costs from hoarding fires were on

34 Michelle Cyr-Whiting, “PG RCMP Concerned With Spike In Mental Health-Related Call,” 250 News, February 25, 2014, www.250news.com/blog/view/31242/1/pg+rcmp+concerned+with+spike+in+mental+health+related+calls

35 “Mental-health cases flood capital region’s police,” *Times Colonist*, June 20, 2014.

36 Ibid.

37 Cayley Dobie, “City’s first mental health officer hits streets,” *Royal City Record*, May 17, 2013, www.royalcityrecord.com/community/city-s-first-mental-health-officer-hits-streets-1.557786

38 Dr. John Higenbottam, “Into the Future: the Coquitlam Health Campus, A Vision for the Riverview Lands,” JAH consulting for the City of Coquitlam, June 2014, http://coquitlam.ca/Libraries/Community_Planning_Documents/Into_the_Future_-_the_Coquitlam_Health_Campus.sflb.ashx

39 London Police Service 2011 Annual Report, www.police.london.ca/About_Us/PDFs/2011AnnualReport.pdf; Lisa Heslop, Larry Stitt and Jeffrey S. Hoch, “Trends in Police Contact with Persons with Mental Illness,” London Police Services, 2013, www.police.london.ca/Headlines/ReadMore/MentalIllnessNotes2013.pdf

40 See Sean A. Tracey (Canadian Regional Director NFPA), “Hoarding – Fire & Safety Hazards: A new phenomenon or better awareness?” Presentation to the Fire Prevention Officers Association of BC, 2012, www.fpoa.bc.ca/Association/Annual%20Seminar/2012/Speaker%20Files/Sean%20Tracey/Hoarding.pdf

average 16 times the amount of a typical residential fire (\$2,100 for residential fires, compared to \$34,000 for hoarding fires). Additional fire department costs arise in relation to other hoarding related issues, as in January 2013 when nine Burnaby firefighters spent more than two hours freeing an elderly man who had been trapped for days under a pile of clutter in his home.⁴¹

Efforts to intervene and clean up hoarder residences before emergencies occur can represent significant costs for local governments. Burnaby officials told reporters in 2013 that the cost of cleaning up a bad case of hoarding on residential property could cost as much as \$25,000, and that the city may not be able to recover these costs from the resident.⁴² Vancouver, Victoria and other B.C. municipalities report assigning bylaw officer time to deal with the problem, with Vancouver reporting cleanup costs ranging from \$2,000 to \$15,000.⁴³ Hoarding also represents health and potential animal control problems borne by local governments.

Direct costs from housing and mental health services

Mental health services and social housing are not generally an area of local government responsibility in B.C., but a number of local governments are accruing costs in efforts to fill gaps left by the provincial and federal governments.

For example, Vancouver's growing involvement in the provision of temporary homeless shelters and supportive housing is to a large extent driven by failings in the province's mental health system. A study of single-room occupancy hotel tenants by the UBC Department of Psychiatry found that at least 74 per cent had a mental illness, and Vancouver has invested significant resources in addressing this problem. Supportive housing, just one area of Vancouver's involvement in addressing the mental health and housing crisis, will see the City lease 12 sites that it acquired at a cost of approximately \$50 million to non-profit housing sponsors for 60 years at nominal prepaid rents, with foregone property taxes estimated at \$1 million per year for all 12 sites. In addition, the city is allocating two planner positions to the partnership, with total employee compensation of \$163,800.⁴⁴

> Federal and provincial re-investment in housing and treatment

Evidence suggests that provincial and federal reinvestment in mental health, social services and housing could relieve pressure on local governments, more efficiently and effectively deal with mental health and homelessness related issues, while leading to better outcomes for mentally ill people, homeless and wider public.

Housing First (HF) is a promising intervention model that involves the immediate provision of permanent housing and wrap-around supports to individuals who are homeless and living with serious mental illness, rather than traditional "treatment then housing" approaches.

41 Wanda Chow, "Burnaby wants regional approach to hoarding," Burnaby Newsleader, July 25, 2013, www.bclocalnews.com/news/216947681.html?mobile=true

42 Wanda Chow, "City moves to clean up hoarders yard," Burnaby Newsleader, February 5, 2013, www.burnabynewsleader.com/news/189869541.html

43 Cheryl Rossi, "City hall mobilizes inspector," Vancouver Courier, September 5, 2012, www.vancourier.com/news/city-hall-mobilizes-inspectors-in-war-against-hoarders-1.386133

44 See Cameron Gray, "City/Province Social and Supportive Housing Partnership," City of Vancouver Administrative Report, November 13, 2007, <http://vancouver.ca/docs/policy/supportive-initiative-admin-report.pdf>

Wrong tools for the job: Messy situations when under-resourced local governments struggle to deal with downloaded health and social service issues

Local governments with limited social service delivery capacity have sometimes turned to bylaw enforcement strategies in efforts to manage issues related to homelessness and mental illness. These incidents point not just to the downloading of costs, but to the problems local governments face in attempting to deal with issues they lack the framework, institutions and resources to effectively address.

Two widely publicized B.C. examples of this occurred in 2009 and 2013 in the Lower Mainland and Fraser Valley. Growing street homelessness in two cities led to the appearance of homeless encampments on public property, and calls from local residents and businesses to “do something.”

Lacking the social service, health or housing infrastructure to deal with problem, local governments and staff turned to bylaw enforcement strategies people in efforts to disperse the encampments, including confiscation of belongings from homeless. These dispersal efforts escalated into tactics such as city employees spreading chicken manure on areas used as homeless encampments to discourage people from using the site.

Not surprisingly, these actions led to negative public and media attention for the cities involved, and at least one human rights complaint and lawsuit.⁴⁵ Moreover, both cities continue to experience problems with street homelessness, and face ongoing pressure to address the issue.⁴⁶ The conventional resources available to local governments were not the right tools for the task of addressing housing and mental health issues, and attempts to use them for purposes they are not intended only further complicated the problem.

“There is not an acknowledgement of the pressure put onto local government resources as a result of the mental health challenges many of our residents face. It is putting pressure on and straining our policing and bylaw resources.”

—Lower Mainland mayor

A trial HF program in Vancouver found that every \$10 invested in housing first services resulted in an average savings of \$8.55 for high needs participants compared to the costs associated with a comparable population’s interactions with the existing B.C. mental health and legal systems.⁴⁷ And most of these savings were actually for provincial and federal services; while the study captured some incarceration costs, savings from reduced police contact were not investigated in the Vancouver study. This means that a shift of resources to a housing first model would likely save all levels of government money, while providing more effective services to groups in need and dramatically reducing street homelessness.

45 See “Surrey, B.C., probing who hatched chicken manure scheme,” CBC News, Aug 25, 2009, www.cbc.ca/news/canada/british-columbia/surrey-b-c-probing-who-hatched-chicken-manure-scheme-1.827036; “Abbotsford, B.C., sorry for using manure to drive out homeless,” CBC News, Jun 05, 2013, www.cbc.ca/news/canada/british-columbia/abbotsford-b-c-sorry-for-using-manure-to-drive-out-homeless-1.1325025; Canadian Press, “Abbotsford homeless people file human rights complaint over treatment by city,” The Globe and Mail, Nov. 26, 2013, www.theglobeandmail.com/news/british-columbia/abbotsford-homeless-people-file-human-rights-complaint-over-treatment-by-city/article15621030/

46 “Abbotsford activists protest city’s treatment of homeless,” CBC News, Feb. 24, 2014, www.cbc.ca/news/canada/british-columbia/abbotsford-activists-protest-city-s-treatment-of-homeless-1.2549095

47 Patterson, et al. “At Home/Chez Soi Project: Vancouver Site Final Report,” Mental Health Commission of Canada, 2014, www.mentalhealthcommission.ca/English/system/files/private/document/At%20Home%20Report%20Vancouver%20ENG.pdf

In terms of impacts on local government costs, the study found that shifting to a “housing first” approach reduced stays in holding cells (usually municipally operated) by about 41 per cent amongst adults with severe addictions and/or mental illness.⁴⁸ Based on 2007 figures this represents a \$4.1 million savings in local corrections costs over a shift to supported housing. Pilots elsewhere did even better, with an Illinois study reporting a drop of 87 per cent in overnight County Jail stays among Housing First program participants.⁴⁹

While policing contact costs were not formally part of the study, the available research on Housing First from other Canadian and U.S. jurisdictions does allow some ballpark estimates about the probable impact of HF programs on B.C. policing costs. For example, Calgary’s Provincially funded “Pathways to Housing” program saw police contacts reduced by 67 per cent amongst participants in the program, along with a 32 per cent decrease in emergency medical service contacts (and 87 per cent of clients remained in their homes).⁵⁰ Similarly, an HF pilot study in Maine found that police contacts decreased by 68 per cent for program participants. A Minnesota study found that such programs led to significantly less arrests and fewer instances of victimization that required police intervention for participants after one year in the program.⁵¹

Transposing police contact reductions from the Calgary and Maine studies to the B.C. context indicates that a large scale implementation of a supportive housing model could save between \$32 million and \$97 million per year in policing costs—costs that are currently carried by B.C. local governments.⁵²

Wastewater treatment

Changes to federal and provincial wastewater regulations, compounded by failures to reinvest in infrastructure during the 1980s and 1990s, are driving huge current and future expenditures on wastewater treatment plants by local governments. Metro Vancouver will spend an estimated \$1.7 billion on treatment plant upgrades over the current decade, with estimates for the Capital Region’s new plant estimated at \$700 million. While federal and provincial governments are contributing to these projects, the scale of investment needed is orders of magnitude higher than anything faced by earlier local governments, even after accounting for senior government contributions.

48 Patterson et al., “Housing and Support for Adults with Severe Addictions and/or Mental Illness in British Columbia,” Centre for Applied Research in Mental Health and Addiction, Oct. 31, 2007, www.health.gov.bc.ca/library/publications/year/2007/Housing_Support_for_MHA_Adults.pdf

49 “Supportive Housing in Illinois: A Wise Investment, The Heartland Alliance Mid-America Institute on Poverty,” April 2009, http://shnny.org/uploads/Supportive_Housing_in_Illinois.pdf

50 Diane Holloway, “Pathways to Housing: A response to homelessness in Calgary,” Canadian Nurse, March 2012, <http://canadian-nurse.com/en/articles/issues/2012/march-2012/pathways-to-housing-a-response-to-homelessness-in-calgary>

51 Melany Mondello et al., “Cost Of Homelessness: Cost Analysis of Permanent Supportive Housing State of Maine – Greater Portland,” The Network: Supportive Housing of New York, September 2007, http://shnny.org/uploads/Supportive_Housing_in_Maine.pdf; Maria Hanratty, “Heading Home Hennepin: Housing First Program Evaluation,” University of Minnesota Humphrey Institute of Public Affairs, 2009, www.hmismn.org/postings/pdfs/hennepin-housing-first-program-evaluation-2009.pdf

52 Author’s calculation, based on reductions in the range of 65 per cent in police contact amongst participants in “housing first” type programs in Alberta and U.S. jurisdictions applied to estimates of policing expenditures associated with mentally ill people in B.C. calculated earlier in this paper.

> Downloading through regulations

Federal regulations are the biggest driver for these changes. The federal *Wastewater System Effluent Regulation*, which came into effect in 2012, created new standards and legal requirements for treatment and collections systems. Facilities and systems deemed high risk must be upgraded to new standards by 2020, those deemed medium risk by 2030, and low risk by 2040. In B.C., eight projects have been deemed high risk and five medium risk. In total, 36 per cent of the B.C. population is served by systems requiring upgrade.

No funding was included within the framework of the regulations, and federal and provincial funding supplied to date has come to local governments through grant applications, on a project-by-project basis. Funding challenges for building new systems are compounded by disputes with senior governments over the costs of upgrades required under new regulations. For example, the federal government has estimated that wastewater treatment upgrade costs for the entire province of B.C. are approximately \$570 million, but Metro Vancouver says their costs alone are \$1.5 to \$1.7 billion.⁵³ Cities with older infrastructure may require extensive upgrades throughout the local sewer network at significant additional cost that are not included in Environment Canada's cost estimates to comply with the regulations.

While Metro Vancouver faces the highest costs, other B.C. local governments will be required to carry out expensive capital projects under the new regulations. Nanaimo, for example, is looking at \$61 million in capital costs for secondary treatment, and a further \$18 million for constructing a new outfall.⁵⁴

> New wastewater treatment systems vastly more expensive

While earlier federal and provincial investment in wastewater treatment was also generally below the full cost of projects, the scale of earlier wastewater infrastructure projects was much smaller, and more manageable within the resource base of local governments. Modern secondary treatment systems are considerable more complex and much more expensive than the treatment infrastructure built in the 1960s and 1970s.

For example, the original Iona Island Sewage Treatment Plant, completed in 1963, cost about \$8.1 million (1963 dollars), with senior government grants amounting to \$1.3 million. The total local government expenditure was just under \$6.8 million—that's about \$53.4 million in 2014 dollars.⁵⁵

In contrast, the proposed replacement Iona Plant is expected to cost \$1 billion. Even if senior governments accept Metro's assessment and provide funding according to the "1/3 each" formula, the best case for affected local governments is an expense of at least \$330 million.⁵⁶ That's more than six times the cost of the original infrastructure.

The scale of investment for the 2012 federal Wastewater System Effluent Regulation is orders of magnitude higher than anything faced by earlier local governments. The Iona Sewage Treatment Plant came in at a local cost of \$6.8 million (\$53.4 in 2014 dollars) in 1963. The replacement will require at least \$330 million local dollars.

53 FCM Briefing Note, "Wastewater regs – Gov announcement July 18th," July 2012, https://www.fcm.ca/Documents/backgrounders/Proposed_federal_wastewater_regulations_EN.pdf; also see Canadian Council of Ministers of Environment, www.ccme.ca/assets/pdf/pn_1522_mwwe_five_year_rvw_2014.pdf

54 Regional District of Nanaimo presentation, "Liquid Waste Management Plan," 2013, https://www.nanaimo.ca/UploadedFilesPath/Site_Structure/Corporate_Services/Corporate_Administration/Presentations/C130923PRDN_Liquid_Waste_Management_Plan_Amendment.pdf

55 Summary of Sewerage Projects, 1956 to 1973, Greater Vancouver Sewerage and Drainage District, 1973.

56 Kelly Sinoski, "Plant upgrades expected to push up sewer rates for Metro Vancouver homeowners," Vancouver Sun, October 3, 2013, www.vancouversun.com/technology/Plant+upgrades+expected+push+sewer+rates+Metro+Vancouver+homeowners/8989452/story.html

Similarly, the original Lions Gate Treatment Plant was built in two stages in 1961 and 1965, for about \$2.5 million. The total bill was equivalent to less than \$19 million in today's dollars. In contrast, replacement of the Lions Gate plant to meet federal regulations is expected to cost in the range of \$700 million, with local governments picking up around \$230 million – that's 12 times the cost of the original treatment plant.

The costs to local governments will of course be much higher if federal and provincial funding does not come through. B.C.'s total allocation under the federal New Building Canada Fund for 2014–2024 is \$1.1 billion for all infrastructure projects, with no guarantees at present of how much will go to wastewater infrastructure.⁵⁷

Provincial funding has in the recent past often been pegged to federal and municipal contributions, and commitments remain unclear at the time of writing (September 2014). The province was threatening in June and July 2014 to withdraw pledged funding for a sewage treatment in the Capital Regional District because of delays and disagreements about the scope of the projects involved. Withdrawal of provincial funding could see the local government share of costs balloon to over \$500 million.⁵⁸

“Rather than have the municipalities compete for grant dollars, which results in winners and losers, start distributing the tax share more equitably and sustainably.”
—Kootenay councillor

> Wastewater treatment and the infrastructure deficit

Compounding these demanding new regulations is the federal and provincial failure to adequately invest in facility maintenance and upgrades during the 1980s and 1990s.

Relative to its useful life, wastewater infrastructure is the oldest of all public infrastructure in Canada.⁵⁹ The average useful life of a wastewater treatment plant is estimated to be 28.2 years, and the average age of wastewater treatment facilities in B.C. has risen from 13.4 years in 1998 to 17.2 years in 2007. According to a Statistics Canada study, this trend coincides with years of low investments in wastewater treatment.

> Why should senior governments contribute more?

There are strong reasons for greater senior government funding of wastewater treatment infrastructure, most notably:

1. **SPILLOVER:** Environmental and health impacts of wastewater treatment are not limited to specific local governments. All jurisdictions are impacted by water quality issues tied to waste and sewage in neighbouring areas.

In addition, key policy drivers of new water treatment regulations are under federal and provincial jurisdiction, most notably the impact of water quality on fisheries. Health concerns associated with water quality fall primarily within federal and provincial jurisdiction, and it is reasonable to expect that funding should follow from these levels of government.

57 Government of Canada, “New Building Canada Plan: British Columbia,” February 2013, www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html

58 Bill Cleverley, “Provincial funding is only for CRD sewage project, minister says,” Times Colonist July 5, 2014, www.timescolonist.com/news/local/provincial-funding-is-only-for-crd-sewage-project-minister-says-1.1194291

59 Statistics Canada, “Age of Public Infrastructure: A Provincial Perspective,” November 2012, www.statcan.gc.ca/pub/11-621-m/11-621-m2008067-eng.htm#t12

2. **FISCAL EQUITY:** The principle of fiscal equity between levels of government in Canada has historically included “funding assistance to municipalities that would otherwise have to bear unduly high tax rates in order to maintain some national or provincial level of service.”⁶⁰ Given the historically unprecedented costs of recently mandated wastewater upgrades and the stagnation of local government revenues as a percentage of GDP, there is a strong case for increased federal and provincial contributions on equity grounds.

Diking and flood management

Flood management, and especially diking, pump stations and other flood prevention infrastructure, represent a classic case of downloading by senior governments onto B.C. municipalities and was frequently cited as an issue by respondents to our surveys.

> Downloading responsibilities and infrastructure costs

Beginning in the 1990s, and accelerating since 2003, senior governments have downloaded regulatory responsibility and financial costs associated with flood management directly onto local governments. Local governments have already borne significant cost increases, and extreme weather and sea level rises related to climate change are expected to increase these costs dramatically in coming decades.

At a regulatory level, flood management prior to 2003 lay primarily with the province.⁶¹ However, in 2004 most responsibilities related to diking and land use management in flood hazard areas shifted to local governments under the *Flood Hazard Statutes Amendment Act*.

Paralleling this shift in regulatory responsibility was a shift in responsibility for funding flood management infrastructure. The largest component of flood infrastructure in B.C. was built from 1968 to 1994 under the joint federal-provincial Fraser River Flood Control Program. Under that program, about \$300 million in 1994 dollars (close to \$450 million in 2014 dollars) was spent on diking, pumping and other flood related infrastructure.⁶² Federal and provincial funds accounted for almost all of this spending, with diking authorities (the majority of which were municipalities) responsible for operating costs.

The Fraser River Flood Control Program ended in 1994, alongside numerous other federal programs and transfers. From 1998 to 2004, the provincial government provided about \$16 million in capital funding through the Flood Protection Assistance Fund, with up to 75 per cent

“Small municipalities do not have the capacity to take on complex regulatory issues with existing staff (often three to four full-time people including the Public Works Department). We barely have capacity to just do that absolute necessities.”

— North Coast CAO

⁶⁰ See Amboski and Slack, quoted in Boras, 1994.

⁶¹ Arros, Pomme Mira, “Trading water: Flood hazard management and adapting to climate change in BC’s Lower Mainland,” p. 15, SFU MPP Thesis, 2013.

⁶² See Environment Canada, “Case Studies: Flood Control on the Red, Assiniboine and Fraser Rivers,” July 2013, www.ec.gc.ca/eau-water/default.asp?lang=En&n=a72e1d54-1#Fraser; “Canada-British Columbia Fraser River Flood Control Agreement, District of Surrey, Operations and Maintenance Instructions, Flood Control Works, Serpentine and Nicomekl Dams,” B.C. Ministry of Environment, 1968, www.env.gov.bc.ca/wsd/public_safety/flood/dike_drawing_as_builds/mud_bay/sur_om_m5.pdf; Gordon Hoekstra, “Costly new dike standards to pinch B.C. cities’ budgets, including Richmond,” Richmond News, September 22, 2011, www.richmond-news.com/news/costly-new-dike-standards-to-pinch-b-c-cities-budgets-including-richmond-1.495378

“Dyke maintenance has been, and continues to be, a huge issue for our community. We are responsible to maintain our dyke system, with an expectation that it be built to the 200 year flood level. Our lowest and most vulnerable area, which is significantly below this level, protects our main business district, our financial institutions, our post office, and sections of our hospital. We do not have the financial resources to address this ... Basically, we are stuck waiting to apply for disaster relief rather than planning and acting in a rational and comprehensive manner.”

— Columbia-Shuswap councillor

of project costs provided by the province and 25 per cent through local authorities.⁶³ After the end of that program, the federal and provincial governments stepped in with \$30 million through the temporary Urgent Mitigative Flood Works program in 2007, following a number of serious floods in the province.

Introduced in 2007, the current Flood Protection Program (FPP) commits the province to \$100 million in flood protection capital spending, through \$10 million worth of grants per year until 2017. In 2008, the federal government committed a further \$60 million to flood protection in B.C., through federal infrastructure funding tied to the Building Canada Fund. Local governments say this funding comes nowhere near meeting the costs of needed flood protection and that the program is badly oversubscribed. According to some accounts, applications for grants in individual years have exceeded the entire 10-year program total amount of \$100 million.⁶⁴

While FPP projects were initially funded entirely by senior levels of government, local government cost sharing was introduced in the 2009/10 fiscal year. Diking and flood management capital costs shifted from almost entire federal/provincial funding in the 1968 to 1994 period, to 75 per cent provincial / 25 per cent local cost sharing from 1998 to 2004, to a 1/3 each, federal/provincial/local under the FPP, paralleling the recent pattern of cost sharing for other infrastructure programs.⁶⁵

Some recent FPP spending figures help put this shift into perspective. According to a 2014 federal government backgrounder, “joint investment ... geared toward 26 flood mitigation projects” in B.C. amounted to a total of \$37.4 million, with a federal and provincial share of \$24.9 million.⁶⁶ The local contribution to these projects was \$12.5 million—33 per cent of the total. Under the 1998–2004 funding model, the local share would have been 25 per cent, totaling \$9.4 million and saving \$3.1 million compared to the FPP current cost-sharing model. And under the 1968 to 1994 Fraser River Flood Control funding model, the local share of capital costs would have been almost nothing, and local governments would have saved more than \$12 million.

63 Carol Loski (Emergency Management BC), “Flood Management and Mitigation in BC: Context, Governance and Funding,” Presentation at Flood Management and Mitigation Seminar in British Columbia, May 18, 2012, http://delcan.com/images/brochures/FloodSeminar_Flood_Mgmt_and_Mitigation_in_BC-Context_Governance_Funding-Losk_May2012.pdf. For references to this funding formula, see City of Surrey, “Colebrook Dyke Repairs and Public Access,” Report to Mayor and Council, November 19, 1998, <http://surrey.ca/bylawsandcouncilibrary/5635.html>; Fraser Valley Regional District staff report, “Debris Hazard Recommendations for Guy Creek, Baker Trails Village, Chilliwack BC, Area E,” June 25, 2003, <http://www3.fvrd.bc.ca/Board%20of%20Directors/2003/Board%202003%2007%2022/Item%2009-3-4%20Debris%20Hazard%20Protection%20Works%20-%20Area%20E.pdf>

64 G. Hoekstra, “Costly new dike standards to pinch B.C. cities’ budgets, including Richmond,” *Richmond News*, September 22, 2011.

65 Arlington Group planning + architecture, “Flood Protection Strategies in British Columbia,” BC Real Estate Association, November 2010, www.bcrea.bc.ca/docs/government-relations/2010-11flood-protection-strategies-report-in-bc---final.pdf?sfvrsn=2

66 “Canada and British Columbia deliver on flood mitigation,” BC Government press release and backgrounder, May 2, 2014, www.newsroom.gov.bc.ca/2014/05/canada-and-british-columbia-deliver-on-flood-mitigation.html

AKBLG resolution on diking

At its 2014 AGM, the Association of Kootenay and Boundary Local Governments (AKBLG) passed a resolution on the burden of diking and flood management costs for B.C. municipalities, and asking that the province be re-established as the diking authority for municipalities of less than 20,000 people and for rural areas.

PROVINCE TO RE-ESTABLISH AS DIKING AUTHORITY IN COMMUNITIES WITH UNDER 20,000 POPULATION AND IN RURAL ELECTORAL AREAS⁶⁷

TOWN OF GOLDEN

WHEREAS the Province has designated municipalities as diking authorities, and established a wide range of authoritative powers over them including requirements to fully administer and resource ongoing dike maintenance, flood protection planning, monitoring, inspection, reporting, and other associated work as well as to substantively fund disaster prevention and relief initiatives;

AND WHEREAS notwithstanding s. 2(b) of the Community Charter, the administrative and financial resources required to undertake these responsibilities are an increasingly unsustainable burden to small communities;

THEREFORE BE IT RESOLVED that the Province be re-established as the diking authority in municipalities less than 20,000 in population and in rural electoral areas.

> Floodplain mapping

Diking is the most obvious cost associated with flood protection, but local governments are bearing other significant flood protection expenses that have in the past been funded by senior governments. Up-to-date floodplain mapping and similar technical studies are crucial to making planning, infrastructure, mitigation and emergency management decisions in B.C. communities, but many of the existing maps were produced under the joint 1975 to 1998 federal–provincial Flood Management Damage Reduction Program (FDRP), and are more than 20 years old.⁶⁸ In many cases this makes them inadequate to address current flood risks. Without funding, the problem will only worsen in the context of climate change and related sea level rise and extreme weather.

Federal participation in flood management was withdrawn after 1998, and the B.C. provincial government downloaded most of its responsibilities in this area to local governments in 2003/04. As noted in a 2014 BCREA study, “since then, few communities have initiated floodplain mapping projects,” with only 10 B.C. local governments completing floodplain maps between 2008 and

⁶⁷ AKBLG Resolutions 2014, <https://akblg.civicweb.net/Documents/DocumentDisplay.aspx?Id=227>

⁶⁸ BC Real Estate Association (BCREA), “Floodplain Mapping Funding Guidebook for BC Local Governments,” May 2014, www.bcrea.bc.ca/docs/government-relations/2014-05floodplainmapguidebook.pdf?sfvrsn=2

Sea dikes, pumping infrastructure and other measures to adapt to sea level rise could reach \$9.5 billion for Metro Vancouver alone.

2013.⁶⁹ Where floodplain maps have been completed, local governments have had to patch together funding from a variety sources, ranging from local government general revenue to various federal grant application programs.

Many other jurisdictions provide well-resourced flood plain mapping programs at the national or state/provincial level. Alberta, for example, allocates funding for floodplain mapping in the provincial budget as part of its Flood Hazard Identification Program. Ontario's system of Conservation Authorities combines funding from self-generated revenues, municipal levies and provincial grants for a range of watershed related responsibilities, including ongoing updates to community floodplain maps. Further afield, a 2014 survey of OECD countries found that "nearly all have some form of national mapping program to identify flood risk."⁷⁰ The U.S. federal government funds a national floodplain mapping system through the Federal Emergency Management Agency (FEMA). In Europe, the EU Flood Directive requires member states to map flood risks, and most EU countries have implemented national floodplain mapping programs funded through general revenues.⁷¹

> Looking ahead: flood protection and climate change

Downloading of flood protection costs is already a problem in B.C., but the issue becomes more urgent in the context of climate change. A 2012 report for the B.C. government estimated the cost of sea dikes, pumping infrastructure and other measures to adapt to sea level rise could reach \$9.5 billion for Metro Vancouver alone over coming decades.

If federal and provincial governments supported this flood protection infrastructure based on the current funding formula — and there is no commitment to do so at the time of writing — local government costs in Metro Vancouver would be in the range of \$3.2 billion. In contrast, the local government share would be \$2.3 billion under the 1997–2004 model, essentially no capital costs if the federal and provincial governments funded climate change related flood protection in the same way that earlier governments supported the initial wave of investment B.C. flood control infrastructure in 1968–1994.

The case for greater national and provincial investment in flood protection is strong. Ports, railways, airports and other economic infrastructure, especially in coastal B.C., is crucial to the provincial and national economy, and major disruptions from flooding and sea level rise could be catastrophic to Canada as whole. In addition, the value of coastal real estate in B.C. is such that major losses in value would cascade significant economic consequences across the country. And as we have seen with recent flooding disasters in Ontario and Alberta, disaster relief, mitigation and recovery are profoundly expensive — generally more so than preventative measures — and on a scale that forces senior governments to mobilize resources.

69 Ibid.

70 Ibid.

71 Ibid.

Drinking water regulations

Changes to provincial drinking water regulations and standards are triggering millions of dollars in mandatory infrastructure construction and upgrades, with most of these costs borne by local governments. The issue is particularly acute for rural and small municipalities, where “many smaller communities are facing millions to bring their drinking water systems into compliance with new and emerging water treatment standards.”⁷²

A notable example is the Regional District of East Kootenay community of Windermere (population approximately 1,300), which faces capital costs ranging from \$5.7 million to \$10.3 million to meet new requirements under provincial water regulations.⁷³ Depending on the final project chosen, this will entail additional parcel taxes in the range of \$1,000 to \$2,000 per property over the next 25 years.⁷⁴

Recreation infrastructure deficit

B.C.’s municipally-run recreation infrastructure—parks, pools, arenas and community centres—are aging and in need of upgrade, repair and replacement. As of 2009, 68 per cent of the province’s indoor recreation facilities were 25 years or older, and 42 per cent were 35 years or older. Per-capita investment in recreation infrastructure peaked in the 1970s at \$1,313, before plummeting to \$369 in the 1980s, \$484 in the 1990s and \$186 in the 2000s up to 2009.⁷⁵

Analysis by the BC Recreation and Parks Association suggests that by 2020, \$4 billion is needed to rehabilitate existing indoor recreation facilities and a further \$1.2 billion is needed to build new indoor facilities to accommodate population growth. The BCRPA has proposed a new approach to recreation infrastructure funding, including an ongoing capital fund and long-term planning to avoid a “once in 30-year wave of investment” scenario that leads to recurring recreation deficits.” While all levels of government will have roles to play, significant support from the federal and provincial governments is needed to meet this challenge.

Support for community recreation would reduce health and other costs related to physical inactivity. A Ministry of Health study pegged the cost of physical inactivity in B.C. at \$573 million in 2004 alone. In a 2012 IPSOS Reid survey, 84 per cent of Canadians said

Provincially mandated drinking water treatment infrastructure is “resulting in our local taxpayer having to cover a parcel tax of \$275/yr for 30 years. [In neighboring communities] it is estimated that the parcel taxes will be in excess of \$1,000 per year over a 30-year period.

“Low income or fixed income homeowners will be crippled but we, as local politicians, have no choice but to bring the systems up to the new standards or face fines, seizure of our water licenses, or imprisonment.

This is the most severe example of downloading that we currently have in our area and as projects are finalized this year, the issue is going to get worse.”

—Kootenay councillor

72 UBCM Select Committee on Local Government Finance, “Strong Fiscal Futures: A Blueprint for Strengthening BC Local Governments’ Finance System,” July 2013, www.ubcm.ca/assets/Resolutions-and-Policy/Policy/Finance/LocalGovernmentFinance_Report_Web_Final.pdf

73 Regional District of East Kootenay, “Proposed Windermere Water Upgrade: Information Package,” December 2013, [ftp://ftp.rdek.bc.ca/pdf/waterservices/windmerewater/windwaterinfopackage_dec2013.pdf](http://ftp.rdek.bc.ca/pdf/waterservices/windmerewater/windwaterinfopackage_dec2013.pdf)

74 Regional District of East Kootenay, “Windermere Water System Upgrade Information Sharing Meeting Handout,” November 23, 2010, [ftp://ftp.rdek.bc.ca/pdf/waterservices/windmerewater/windmerewaterhandout_nov2010.pdf](http://ftp.rdek.bc.ca/pdf/waterservices/windmerewater/windmerewaterhandout_nov2010.pdf)

75 British Columbia Recreation & Parks Association, “A Time for Renewal: Assessing the State of Recreation Facilities in British Columbia,” 2009, www.bcrpa.bc.ca/recreation_parks/facilities/sports_recreation/documents/BCRPA_ExecutiveSummary_Web.pdf

“I believe in arts and recreation. We having an aging pool and it is coming to the end of its life soon, but there is no grant available. A healthy community is important but without funding to assist us, warm and fuzzy activities might be out the window”

—Vancouver Island CAO

that affordable recreational services, facilities, and programs are “very important” or “somewhat important” to them becoming physically active.⁷⁶ Viewed from this perspective, current municipal funding of sports and recreation is actually ‘uploading’ millions of dollars in savings to the health care system through the preventative health care benefits of physical activity.

In addition to community recreation and fitness costs, local governments and communities are under increased pressure to maintain outdoor recreation sites and facilities. For example, a report from the Bulkley Nechako Regional District notes that community groups are increasingly the only maintenance providers for former Ministry of Forests camping and recreation sites. A number of these sites are now unmanaged or have even closed.⁷⁷

⁷⁶ Ipsos-Reid, “2012 Municipal Recreation and Physical Fitness Syndicated Survey,” 2012, www.chester.ca/download-document/331-municipal-recreation-physical-fitness-survey-2012.html

⁷⁷ Regional District of Bulkley Nechako, “Changing Service Delivery Requirements and Expectations – A Discussion Paper,” November 2013.

Summary of federal and provincial policies that have led to downloading

A full cataloguing of policy decisions that have led to active and passive downloading by senior governments is beyond the scope of this research, but it is worth highlighting some notable federal and provincial policies that have impacted local government costs and responsibilities.

> Federal government policies and decisions

Underinvestment in municipal infrastructure

Senior government—and especially federal government—underinvestment in public infrastructure construction and renewal has been a key driver of downloading onto local governments. As noted in a 2013 study by economist Hugh McKenzie, “Canada’s fiscal commitment to infrastructure was in steady decline for four decades, before the infrastructure-led fiscal stimulus program prompted by the 2008–09 recession.”⁷⁸ Net investment as a share of Canada’s GDP (accounting for depreciation) declined steadily over the 40 years between the late 1950s and the late 1990s, and for two years in the 1990s was actually negative—new investment was “less than the annual rate of depreciation of the pre-existing infrastructure stock.” According to Mackenzie, the cumulative effect of underinvestment was an infrastructure deficit of about \$145 billion by 2011.

The bulk of this deficit can be traced to the federal government underinvestment. As McKenzie’s study found, “in 1955, the federal government accounted for 34 per cent of capital investment. By 2003, it had declined to 13 per cent, the provincial share remained constant at 39 per cent, and the municipal share increased from 27 per cent to 48 per cent.” The conclusion is clear: since the 1950s, Canada’s “infrastructure responsibilities shifted from the level of government with the largest and most growth-responsive revenue base—the federal government—to the level of government with the smallest and least growth-responsive revenue base—local government.”

In 1955, the federal government accounted for 34 per cent of capital investment. By 2003 the federal share had declined to 13 per cent. Local government share went from 27 to 48 per cent. There has been a shift from the level with the largest revenue base—the federal government—to the level with the smallest—local government.

⁷⁸ Hugh Mackenzie, “Canada’s Infrastructure Gap: Where It Came From and Why It Will Cost So Much To Close,” Canadian Centre for Policy Alternative, January 2013, https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/01/Canada%27s%20Infrastructure%20Gap_o.pdf

Cuts to federal transfers to the provinces

Provincial budgets were seriously impacted by billions of dollars in federal cuts to transfer payments beginning in the mid-1990s. In many provinces, including B.C., this led to spending and service cuts that cascaded down to municipalities. It is no coincidence that provincial transfer payments to B.C. local governments plummeted from 1996 onward, given that federal transfer payments to the province dropped 28 per cent between 1996 and 1998.⁷⁹

Federal wastewater treatment regulations

Recent changes to federal wastewater regulations have billions of dollars in implications for local government infrastructure. See the *Wastewater Treatment* on page 30 for details and analysis.

RCMP funding decisions and cost sharing arrangements

Changes in cost-sharing arrangements and the growth of policing costs that local governments pay for, but are under federal government control, have downloaded millions of dollars annually onto local governments in recent decades.

In 1966, the federal government was responsible for 60 per cent of the costs of RCMP local detachment salaries and equipment, with the local governments responsible for 40 per cent of the costs.⁸⁰ Between 1966 and 1972, the cost sharing for municipalities with populations over 15,000 shifted from 60/40 federal/municipal to 30/70 federal/municipal. From 1972 to 1992, the cost sharing formula further changed so that by 1992 the formula for larger local governments was 90 per cent municipal and 10 per cent federal funding. This cost sharing formula for larger local governments continued through the term of the 1992–2012 contract, and onward into the current agreement between B.C. municipalities and the federal government.

Beyond cost sharing formulas, local governments also face the issue of specific rapidly escalating police costs that they have little decision making power to control. Most notable, local governments pay for significant portion of RCMP costs, but the Treasury Board of Canada has the sole authority to determine the terms and conditions of employment within the RCMP, including wages and other compensation. Other ongoing issues flagged by local governments include lack of municipal control and decision making over RCMP costs such as equipment, training, accommodation, regional policing teams, pensions, severance pay and determination of support staff requirements.

79 See Ministry of Finance and Corporate Relations, Province of British Columbia, “Budget 97: Reports, Report G: Canada Health and Social Transfer,” 1997, www.fin.gov.bc.ca/archive/budget97/bg97rptg.htm

80 UBCM Executive, “Police Services in British Columbia: Affordability and Accountability,” Policy Paper #1, 2009 Convention, October 2009, www.ubcm.ca/assets/Resolutions~and~Policy/Policy~Papers/2009/2009%20Policy%20Paper%201%20-%20Police%20Services%20in%20BC.pdf

> Provincial government policies and decisions

Mental health service cuts

Funding for mental health in B.C. declined overall by 31 per cent, or about \$200 million, in the mid-1990s, and ongoing mental health funding and service delivery shortfalls at the provincial level contribute to ongoing policing, housing, health and social service challenges for B.C. local governments. See page 23 for more details on the local governance impacts of provincial underfunding of mental health services.⁸¹

Provincial water regulations

Recent changes to regulations and standards governing B.C. drinking water quality and use are expected to generate millions of dollars of infrastructure costs for B.C. local governments. See page 37 for examples of projected costs and property tax impacts for B.C. communities.

Transfers of provincial roads and highways

Transfer of responsibility for roads and highways from provincial to local governments has been an ongoing cost for B.C. local governments. Many of these transfers occurred in 1998, when the provincial government ‘declassified’ hundreds of kilometres of secondary highways, eliminating provincial funding and downloading full maintenance costs (and potentially replacement costs) to local governments.⁸²

Policing costs downloaded by the province

While federal government downloading is the largest component of downloaded policing costs, a number of provincial policies have also contributed to the growing cost of protective services provided by local governments, including:

- Police Records Information Management Environment (PRIME) ‘cost recovery’:
 - The province’s move to full ‘cost recovery’ on this mandatory police records management system doubled the cost, from \$500 per officer in 2007–2009, to \$1,000 in 2010. This has cost B.C. local governments an additional \$4.5 million annually.⁸³
- Rural/small municipality policing costs:
 - Prior to 2003, the federal government and the province paid full costs of policing in municipalities under 5,000 population and rural areas.⁸⁴

⁸¹ P. Sealy and P.C. Whitehead, *supra* note 18.

⁸² Glenn Bohn and Scott Simpson, “Plan to make cities pay for roads delayed: While Victoria will pick up maintenance costs for another six months, it intends to cut \$5 million from civic grants,” *Vancouver Sun*, Jan. 23, 1997; B.C. Ministry of Transportation and Highways, *Annual Report 1997–1998*, www.th.gov.bc.ca/publications/ministry_reporting/Annual_Report/1997-98_AR.pdf

⁸³ PRIME Corp, “Background and Finances,” Presentation to Metro Vancouver Committee on Policing Issues, May 25, 2011, www.metrovancouver.org/boards/Metro%20Vancouver%20Committee%20on%20Policing%20Issues/PRIMECorp_Background_and_Finances-Presentation.pdf

⁸⁴ B.C. Ministry of Public Safety and Solicitor General, “Police Financing In British Columbia: A New Police Financing Model in Small Communities and Rural Areas,” April 2006, www.pssg.gov.bc.ca/policeservices/shareddocs/policefinancing-newmodel.pdf

- In 2003, the province began recovering 50 per cent of its cost for providing local police, shifting an extra \$30 million or more onto local governments and rural tax payers.

Cuts to gaming grants

Cuts to provincial gaming grants in beginning in 2010 have strained the resources of daycare centres, arts groups, sports clubs and other important charitable organizations. In 2010 alone, \$36 million was cut from available gaming grants funding in B.C., and funding remains unpredictable.⁸⁵ Local governments are often where these crucial community organizations have turned to meet budget shortfalls. The City of New Westminster, for example, saw the amount it grants to community organizations jump by 14 per cent (adjusted for inflation) between 2008 and 2014,⁸⁶ and a number of respondents to our survey reported similar pressures in their communities.

Ambulance service cutbacks

Funding and staffing cuts to B.C. ambulance services are shifting an increased burden onto locally-funded fire departments as first responders in medical emergencies. Recent changes to ambulance prioritization protocols by the BC Ambulance Service have compounded this problem, straining local government resources as "...firefighters, are forced to arrive on scene and 'babysit' patients for lengthy amounts of time before ambulances arrive."⁸⁷

85 Darrell Bellaart, "Charities suffer budget cuts: The B.C. non-profit sector appears to be under threat of death by a thousand cuts." The Daily News (Nanaimo), April 7, 2010. www.canada.com/story_print.html?id=36c3b083-ob99-4a8b-9050-025ffbd960f&sponsor=

86 Authors' calculations based on City of New Westminster annual reports for 2008 and 2013.

87 Steven Chua, The Canadian Press, "B.C. politicians say ambulance change costly," Global News, May 11, 2014, <http://globalnews.ca/news/1324175/b-c-politicians-say-ambulance-change-costly/>; Kelly Sinoski and Jeff Lee, "Metro Vancouver cities, health authority at odds over emergency calls: Response times have increased for calls reclassified as 'routine'," Vancouver Sun, April 2, 2014, www.vancouversun.com/health/Metro+Vancouver+cities+health+authority+odds+over+emergency+calls/9692916/story.html; Stefania Seccia, "Burnaby council outraged over ambulance service change," Burnaby Now, November 12, 2013, www.burnabynow.com/news/burnaby-council-outraged-over-ambulance-service-change-1.693501

Conclusion

IN THIS REPORT, we have looked at some of the challenges local governments face because of downloading by senior governments.

Local governments can—and do—efficiently deliver services, and are happy to take on expanded roles when given the right resources. But downloading without access to new sources of funding is stretching local governments resources thin, especially in the context of climate change impacts. Without new resources, local governments will likely have trouble meeting existing operational and capital expenses, much less take on further downloading from senior governments.

In our survey responses and direct conversations, local government leaders and senior staff have put forward a range of solutions and principals for how responsibilities and resources can be better shared between senior and local governments.

No transfers of responsibilities without funding or revenue streams

Local governments need revenue streams needs to accompany any services or capital costs passed along by senior governments. This can be in the form of direct transfers, or new revenue generating power at the local level, but existing local government revenue streams—especially residential property taxes—are stretched close to their limits.

And while local delivery of services can in some cases be more efficient and cost effective than by senior governments, cost savings need to be real savings across all levels of government, rather than senior governments ‘saving’ money by dumping a ‘hot potato’ of unfunded program or capital costs on another level of government.

Stable sources of revenue, rather than intermittent and short term grants

Local governments need more stable sources of revenue, rather than the present tendency toward unpredictable and time consuming grant systems.

Local leaders say that an over-reliance on grants makes it difficult to plan and invest in long term needs, especially in infrastructure and other major capital expenses. Lack of regular, predictable investment is a major factor in Canada’s \$123 billion infrastructure deficit, much of which accumulated because of the end of a wave of infrastructure grants after the 1970s, and

“Local government is taking the brunt of the criticism as it’s the closest level of government to the people. We have to continue to increase funding for programs and services that should not be local government responsibility.”

—Vancouver Island councillor

subsequent failure to support reinvestment in infrastructure in the 1980s and 1990s. The end result is a looming 'end of life' crisis in wastewater treatment facilities, recreation facilities and other key local government infrastructure.

Moreover, the grant application and reporting process can itself be a significant draw on staff time and resources. As one Kootenay councillor commented in a survey response, "...grants have become conditional on costly studies and are a huge bureaucratic burden on staff resources."

A number of local leaders also expressed concern that grants tended to focus senior governments on projects and programs valuable for their immediate term electoral political expediency, rather than on less 'sexy' investments in longer term, basic infrastructure.

Cuts and major restructuring' of senior governments services need to be reviewed for implications on lower levels of government

"We do not need grants...We need a steady flow of financial aid each year so we can budget better."

—Vancouver Island councillor

Cuts and major changes in services delivered by senior levels of government can have major cost implications for lower levels of government. We have examined in this paper the example of mental health service cuts and deinstitutionalization, and how these policy decisions have cascaded down as policing, bylaw enforcement, housing and social service costs for local governments. We have also looked at the federal and provincial withdrawals from social housing, and how this has 'passed the buck' to municipalities.

A formal review process that examines local government implications of service and funding cuts and restructuring at the federal and provincial level could help identify these sorts of problems in advance, and facilitate all levels of government coming to the table to ensure local governments are not left 'picking up the tab' for services the public need and demand.

Major review of funding models, revenue streams and shares for local government in the context of urbanization

As noted at the beginning of this report, the role of cities and the scale and scope of urban infrastructure and services is radically different today than in the 19th to mid-20th centuries, when the current framework of responsibilities and funding for different levels of government in Canada developed.

While the 2003 Community Charter updated legislation for B.C.'s municipalities, more work can be done to address funding challenges and power imbalances that hamper local governments. Local government representatives, the province and the federal government could come together in a formal review process to update the distribution of government powers and revenue streams in ways that better reflect the demands on local governments in the 21st century.

Such a review could also investigate the possibility of constitutional recognition of municipalities as a level of government, with defined rights, powers and responsibilities, as is the case in many countries in Europe and elsewhere around the world.⁸⁸

⁸⁸ See Gaetan Royer, "FCM should pursue its quest for constitutional recognition," *Municipal World*, October 2013, www.timeforcities.ca/uploads/7/4/8/0/7480311/constitutional_reform_municipal_world_oct_2013_gaetan_royer.pdf

The urgency of addressing urban infrastructure in the context of climate change

Looming over this entire discussion is the growing crisis of climate change, and especially its impacts on urban infrastructure. Without concerted action, resource allocation and cooperation by all levels of government, climate change related extreme weather events, flooding, forest fires, droughts, heat waves and other hazards over the next century will lead to billions of dollars in costs in damages to local government infrastructure, and in extreme cases even the viability of some Canadian communities.

Even with constrained resources, local governments have often led the way in addressing climate change in Canada. But to meet the growing challenges of climate change mitigation or adaptation, they will need greater cooperation and resource sharing from senior levels of government.

Adaptation will require major investments in updating and building new infrastructure for flood management and extreme weather. Mitigation—reducing the GHG output of Canadian communities—will entail billions of dollars of investments in public transportation, fossil fuel substitution, renewable energy generation, energy efficiency and ‘smart’ urban planning to meet GHG reduction commitments and reduce the carbon footprint of Canadian communities. These transformations are beyond the capacity of local governments to ‘go it alone,’ so regulatory and financial cooperation from senior governments is crucial to ensuring Canada fulfills its climate mitigation responsibilities.

While the costs are massive, they are less than the damage that will result from failing to meet the climate challenge. Such a transformation is also a huge opportunity to improve the quality of life and safety in our communities, while stimulating growth and innovation in our economy. It is worth noting in this context that part of the rationale for senior government funding of much of the infrastructure built in the post World War II period—and that we often still depend upon today—was to provide a direct economic stimulus and provide a base for what became the country’s ‘golden age’ of economic growth in the 1950s through to the 1970s. A major federal and provincial reinvestment in our urban infrastructure would help us meet deep 21st century economic and environmental challenges.



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