



The State of Municipal Finances in Metro Vancouver

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June 2014



**MUNICIPAL
SPENDING**

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Summary

Municipal governments provide many services that have a direct impact on the daily lives of city residents, including garbage collection, water utilities, roads, and fire protection. They also extract revenue through general taxation (including property taxes), user fees (for services such as utilities, recreation, and transportation), and development charges. Despite the potential to greatly affect the everyday lives of British Columbians, the finances of municipal governments do not receive the same scrutiny as those of more senior levels of government. As a result, it is difficult for taxpayers and voters to hold elected municipal officials accountable for their management of public finances.

This report provides key information on the state of overall municipal finances in Metro Vancouver, by far the largest regional district in the province. The goal is to foster greater accountability and encourage debate about the state of municipal government spending and revenue in Metro Vancouver.¹

Spending

The analysis focuses on the 10-year period from 2002 to 2012, the latest year of available data. The report's main finding is that, in aggregate, municipal spending in Metro Vancouver has grown dramatically over the most recent decade, outpacing reasonable benchmarks such as inflation and population growth. Municipal spending in Metro Vancouver increased from \$1.9 billion in 2002 to \$3.3 billion in 2012. The growth in spending (74.2%) more than doubled the combined rate of inflation and population growth (34.1%). Over the period, spending in Metro Vancouver municipalities also grew faster than the growth rate of spending by more senior government levels such as the provincial and federal governments. On a per-person basis and after adjusting for inflation, municipal spending in Metro Vancouver grew from \$1,088 in 2002 to \$1,384 in 2012 (all in 2012 dollars). This represents spending growth of 27.1% over and above inflation and population growth.

1. Throughout the report “spending” refers to operating spending, which includes debt payments but excludes capital spending and amortization.

Among the six major categories of spending examined in the report, per-person (inflation-adjusted) spending on solid waste and utilities showed the largest increase (42.6%), followed by parks, recreation, and culture (38.6%) and general government (35.3%). Overall, five of the six spending categories had a role in driving total per-person spending increases, although solid waste and utilities played a larger role than the others.

Revenue

Contrary to what we often hear from local government officials, municipalities are not starved for revenue. The total revenue of Metro Vancouver municipalities has grown even faster than the dramatic growth in spending and faster than the revenue growth of both the provincial and federal governments. In the decade from 2002 to 2012, Metro Vancouver municipal revenue reached \$4.6 billion, up from \$2.5 billion. This 86.2% growth exceeds the growth in municipal spending (74.2%). After adjusting for inflation and population growth, municipal revenue per person increased 35.9% from \$1,410 to \$1,916 (all in 2012 dollars). In comparison, inflation-adjusted municipal spending per person increased 27.1% over the same period.

Conclusion

There is little evidence to support the claim that municipalities are experiencing a “fiscal squeeze” caused by insufficient revenue. Although revenue from general taxation (including property taxes) has been growing slowly in comparison to other revenue sources, together the other sources of revenue (including transfers from other governments) have more than picked up the slack. Most notably is the considerable growth in developer contributions over the period, which, if passed on to homebuyers, has the potential to cause an artificial increase in the price of housing in Metro Vancouver. The growth in overall revenue invalidates the notion that Metro Vancouver municipalities are starved of resources. The real fiscal problem at the municipal level is poor control of spending.

Introduction

Municipal governments provide many services that have a direct impact on the daily lives of city residents, including garbage collection, water utilities, roads, and fire protection. They also extract revenue through general taxation (including property taxes), user fees (for services such as utilities, recreation, and transportation), and development charges. Despite the potential for municipal governments to greatly affect the everyday lives British Columbians, the finances of municipal governments do not receive the same scrutiny as the finances of more senior levels of government.¹ As a result, it is difficult for taxpayers and voters to hold elected officials accountable for their management of public finances.²

This report provides key information on the state of overall municipal finances in Metro Vancouver.³ The goal is to foster greater accountability and encourage debate about the state of municipal government spending and revenue in Metro Vancouver. The analysis focuses on the 10-year period from 2002 to 2012, the latest year of available data.⁴ The report's main finding is that, in aggregate, the spending of municipalities in Metro Vancouver has grown quite dramatically over the most recent decade, outpacing reasonable benchmarks such as inflation and population growth. And contrary to what

1. Some organizations have tried to shed light on local government finances. Most notably, the Canadian Federation of Independent Business has published numerous reports examining municipal finances. For the most recent publication, see Wong (2014). For the latest in the CFIB series, BC Municipal Spending Watch, see Klassen and Fong (2013). The Business Council of British Columbia has also examined Metro Vancouver spending (see Finlayson et al., 2012).

2. The BC government recently created the Auditor General for Local Government to improve the accountability of local governments in the province. The first report of the Auditor General for Local Government was published April 30, 2014 and a series of other reports is planned for release in 2014.

3. "Metro Vancouver" is formally the Greater Vancouver Regional District (GVRD).

4. 2002 was selected as the starting year because in that year the database used in this report was revised to better reflect accounting standards set by the Public Sector Accounting Board (British Columbia, Ministry of Community, Aboriginal, and Women's Services, 2005). In addition, the period from 2002 to 2012 provides a reasonable time span for analyzing trends in the longer term.

we often hear from local government officials, municipalities are not starved for revenue. The total revenue of Metro Vancouver municipalities has grown even faster than the dramatic growth in spending.

The report is organized as follows. The first section explains the data source used for the analysis and why the report focuses exclusively on Metro Vancouver. The second section provides an overview of total municipal spending in Metro Vancouver from 2002 and 2012, while the third section provides a similar overview of revenue. The final section summarizes the report's findings and gives our conclusions.

1 Background: Focus on Metro Vancouver and the Data Source

This section has two main purposes. It first explains the rationale for selecting municipalities in the Metro Vancouver regional district as the unit of analysis in the report. Second, it introduces the data source used for analyzing municipal government finances.

Why focus on Metro Vancouver?

The primary reason for focusing exclusively on municipalities in Metro Vancouver relates to the structure of local governments in British Columbia and specifically the relationship between regional districts and municipalities. A regional district is made up of municipalities and unincorporated areas.⁵ There are 28 regional districts in British Columbia and their boards consist of members appointed by the municipal council and members directly elected to represent people living in the unincorporated areas (Bish and Clemens, 2008).⁶

Besides a few activities mandated by the provincial government, the services provided by regional districts are diverse and largely depend on what the municipal governments want them to do (Bish and Clemens, 2008). In some regional districts, particular services are provided by the regional

5. An unincorporated area is territory within the province of British Columbia that is not part of a municipality. For example, Barnston Island is an unincorporated area that is part of Metro Vancouver. In unincorporated areas, the services typically provided by municipalities are provided by the regional district.

6. Notably, the regional district of Metro Vancouver consists of four separate legal entities that share administrative staff and have similar boards of directors (Bish and Clemens, 2008). The four entities that constitute Metro Vancouver are the Greater Vancouver Sewerage and Drainage District (GVSD), Greater Vancouver Water District (GVWD), Greater Vancouver Housing Corporation (GVHC), and the Greater Vancouver Regional District (GVRD). The four entities are collectively referred to as either Metro Vancouver or the Greater Vancouver Regional District.

government; in others, they are provided by the municipal government. For example, the regional government in Metro Vancouver is responsible for treating sewage while the role of the Fraser Valley Regional District government in the sewage treatment process is limited to providing services to unincorporated areas and a single subdivision in Mission, British Columbia.⁷ This means that spending on sewage treatment across municipalities in Metro Vancouver and the Fraser Valley Regional District is not strictly comparable because the services they provide are different.⁸ Metro Vancouver municipalities spend money to collect sewage but, unlike Fraser Valley Regional District municipalities, they do not have to spend municipality money on treating sewage. Focusing on a single regional district helps to avoid the problem of comparing spending in areas where the responsibilities of municipalities are different across regional districts.⁹

In addition, municipalities within Metro Vancouver are the focus of this report partly because Metro Vancouver has by far the largest population of any of the 28 regional districts in British Columbia. As **table 1** shows, in 2012 municipalities within Metro Vancouver had a combined population of 2.4 million or 59.3% of the total BC population living in municipalities (4.1 million).¹⁰ The next largest regional district is the Capital Regional District (Victoria), which had a population of 337,742 or 8.2% of the total.

The population in the 21 municipalities within Metro Vancouver varies greatly (**table 2**). The City of Vancouver has the largest population with 666,517 or 27.6% of the total. The City of Surrey has the second largest with

7. For more details on the sewage services provided by Metro Vancouver and the Fraser Valley Regional District, see Metro Vancouver, 2014: <<http://www.metrovancouver.org/SERVICES/WASTEWATER/Pages/default.aspx>>; and Fraser Valley Regional District, 2008: <<http://www.fvrd.bc.ca/Services/utilities/SewerandSeptic/Pages/default.aspx>>.

8. Services provided by regional districts are funded primarily through property taxes, user fees, and other charges (see BC, Min. of Community, Sport and Cultural Development, 2014: <<http://www.cscd.gov.bc.ca/lgd/pathfinder-rd.htm>>). Property taxes to fund regional district services are levied on areas that receive the service and are collected by municipal governments on behalf of the regional district government (Bish and Clemens, 2008). Revenue collected by municipalities on behalf of regional districts is not reported as municipal revenue in the Local Government Statistics database.

9. A regional district government can also provide services within one of its constituent municipalities that are not offered in other municipalities. Two examples of regional district services in Metro Vancouver that are not provided to all 21 municipalities are support for municipal labour relations (available to 18 municipalities) and the Mosquito Control Program (available to five municipalities). Metro Vancouver's 2014 regional district budget allocated \$2.1 million for labour relations and \$130,000 to the Mosquito Control Program (Metro Vancouver, 2013).

10. The database used in this report does not include population figures for areas outside of municipalities. For more information on the Local Government Statistics database, see: <http://www.cscd.gov.bc.ca/lgd/infra/statistics_index.htm>.

Table 1: Population in municipalities as a proportion of provincial municipal population, by regional district, 2012

Regional District	Population	Percentage of Total
Metro Vancouver	2,416,178	59.3%
Capital (Victoria)	332,742	8.2%
Fraser Valley	270,772	6.6%
Central Okanagan	167,285	4.1%
Nanaimo	111,337	2.7%
Thompson-Nicola	107,370	2.6%
Fraser-Fort George	81,837	2.0%
North Okanagan	63,786	1.6%
Okanagan-Similkameen	58,417	1.4%
Cowichan Valley	46,599	1.1%
Peace River	42,493	1.0%
East Kootenay	42,299	1.0%
Comox Valley	41,975	1.0%
Squamish-Lillooet	34,767	0.9%
Strathcona Regional	34,110	0.8%
Columbia Shuswap	31,142	0.8%
Central Kootenay	26,879	0.7%
Cariboo	23,119	0.6%
Kitimat-Stikine	22,623	0.6%
Alberni-Clayoquot	21,219	0.5%
Kootenay Boundary	20,731	0.5%
Bulkley-Nechako	18,889	0.5%
Skeena-Queen Charlotte	15,777	0.4%
Sunshine Coast	15,177	0.4%
Powell River	13,596	0.3%
Mount Waddington	7,627	0.2%
Northern Rockies	5,910	0.1%
Total	4,074,656	100.0%

Notes: [1] The population reported in the table includes only those living in a municipality. [2] The Central Coast Regional District is excluded from the table because there are no municipalities within that region (BC, Min. of Sport, Community, and Cultural Development, 2012). [3] The Local Government Statistics database does not report the population for three municipalities in 2012: Colwood (in Capital District); Lytton (in Thompson-Nicola District); Salmo (in Central Kootenay District). The populations of these municipalities in 2011 were 16,721, 224, and 1,073, respectively. Sources: BC, Min. of Sport, Community, and Cultural Development, 2013; calculations by authors.

Table 2: Population of Metro Vancouver, by Municipality, 2012

Municipality	Population	Percentage of Total
Vancouver	666,517	27.6%
Surrey	482,725	20.0%
Burnaby	231,811	9.6%
Richmond	199,949	8.3%
Coquitlam	129,716	5.4%
Langley, District of	107,505	4.4%
Delta	100,337	4.2%
North Vancouver, District of	89,437	3.7%
Maple Ridge	78,124	3.2%
New Westminster	68,534	2.8%
Port Coquitlam	58,517	2.4%
North Vancouver, City of	51,870	2.1%
West Vancouver	44,284	1.8%
Port Moody	34,567	1.4%
Langley, City of	26,261	1.1%
White Rock	19,211	0.8%
Pitt Meadows	18,604	0.8%
Bowen Island	3,777	0.2%
Anmore	2,337	0.1%
Lions Bay	1,406	0.1%
Belcarra	689	0.0%
Total	2,416,178	100.0%

Sources: BC, Min. of Sport, Community, and Cultural Development, 2013; calculations by authors.

a population of 482,725 (20.0%), followed by Burnaby at 231,811 (9.6%) and Richmond at 199,949 (8.3%). At the other extreme, is the Village of Belcarra with the smallest population of 689 or 0.03% of the total. Among municipalities with a population of 15,000 or more, the three smallest are Pitt Meadows at 18,604 (0.8%), White Rock at 19,211 (0.8%), and the City of Langley at 26,261 (1.1%). There are obviously considerable differences in municipal populations. However, the analysis in this report presents data for the total of all municipalities in Metro Vancouver.

Data Source: Local Government Statistics

Municipal finances can be difficult to comprehend owing in part to differences in accounting practices and an inability to draw reliable conclusions (Dachis

and Robson, 2014). In British Columbia, reporting on municipal finances is greatly aided by the Local Government Statistics database, which is published by the provincial government's Ministry of Community, Sport, and Cultural Development. Municipalities are required by the provincial government to provide their Local Government Statistics with annual financial information on a consistent accounting basis in calendar year format (January to December).¹¹ Importantly, the data in the Local Government Statistics database are for municipalities only; other local government units such as school boards are not included.¹² A more complete description of the Local Government Statistics can be found in the Appendix (p. 25).¹³

Spending

Before delving into the analysis, a key term to define is “spending”. Throughout this report “spending” is a municipal government’s operating spending—that is, spending on public services such as policing, utilities, garbage, parks, and others. It includes debt payments but excludes capital spending. Wherever specific categories of spending are discussed, all figures include debt payments for debt related to that category’s activity. For example, payments on debt acquired to construct a new water purifying facility are included in the solid waste and utilities category. Capital spending is excluded because of changes made to the accounting treatment of capital expenditures over the studied period. Starting in 2009, municipalities were required to record capital spending on an accrual basis. The change to an accrual-based system now spreads the cost of capital spending over several years (BC, Min. of Community, Sport, and Cultural Development, 2011). As a result, capital spending before and after 2009 is not strictly comparable.

11. At the time of writing, the Local Government Statistics database is available online from 2005 to 2012 at <http://www.cscd.gov.bc.ca/lgd/infra/statistics_index.htm>. Earlier years are available upon request.

12. The Local Government Statistics database, however, also provides financial information on regional districts.

13. Please note that an adjustment was made to the data in the Local Government Statistics for the District of West Vancouver. Unlike other Metro Vancouver municipalities, West Vancouver operates its transit services through the Blue Bus system. The municipality spends on such services and is then reimbursed by Translink, the regional transit authority (Gerald Yip, Accounting Supervisor, District of West Vancouver, personal communication, April 28, 2014). As a result, spending and revenue figures for West Vancouver include items not included in other municipalities. To ensure that West Vancouver’s data is comparable with that of other municipalities, the amount of the TransLink reimbursement was removed from West Vancouver’s spending and revenue figures and thus from the aggregate Metro Vancouver figures.

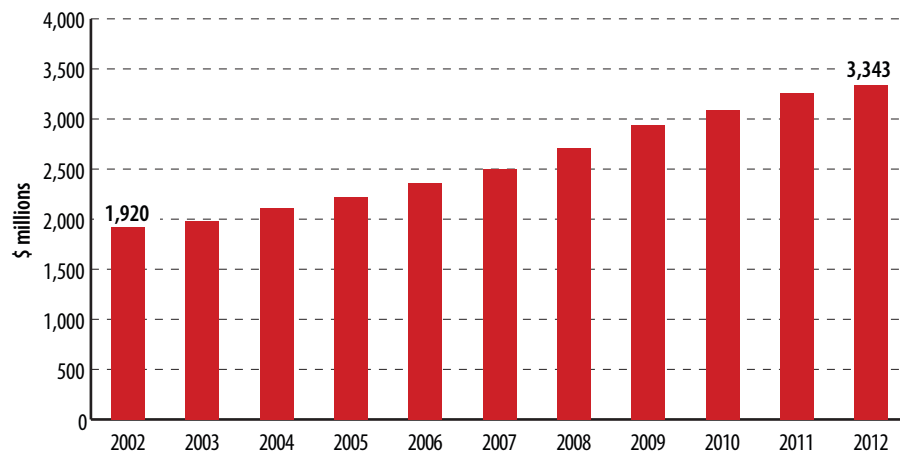
2 Municipal Spending in Metro Vancouver

Growth in municipal spending

From 2002 to 2012, the total spending of municipalities in Metro Vancouver increased considerably. Specifically, total municipal spending grew from \$1.9 billion to \$3.3 billion (figure 1), an increase of 74.2%.

For perspective, figure 2 compares the total municipal spending in Metro Vancouver to the spending of the provincial and federal governments from 2003 to 2012.¹⁴ Municipal spending is on a calendar-year basis (January to December) while provincial and federal government spending is on a fiscal-year basis (April to March). The spending data in figure 2 are presented

Figure 1: Total municipal spending (\$ millions) in Metro Vancouver, 2002–2012

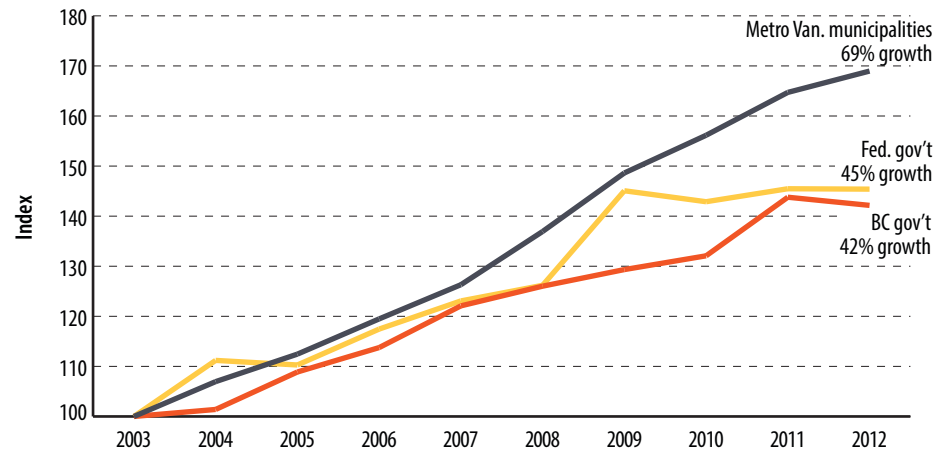


Notes: [1] Spending does not include amortization of capital spending. [2] Spending includes interest payments on debt. [3] Spending by the Metro Vancouver regional district government is not included.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; calculations by authors.

14. The data start in 2003 because the provincial government's 2002/03 fiscal balance, as reported by the *Public Accounts*, excludes school districts, universities, colleges, institutes, and health authorities. These organizations were included in later years. As a result, the figures for 2002/03 are not strictly comparable to 2003/04 and beyond.

Figure 2: Index of spending by Metro Vancouver municipalities, BC government, and federal government, 2003–2012, where 2003 = 100



Notes: [1] All figures for British Columbia and the federal government are for the fiscal year (April to March) and the municipal figures are for the calendar year (January to December). [2] All spending figures include interest payments on the debt but exclude amortization of capital spending. [3] The figure starts in 2003 because the provincial government's 2002/03 fiscal balance, as reported by the *Public Accounts*, excludes school districts, universities, colleges, institutes, and health authorities. These organizations were included in later years, meaning that figures for 2002/03 are not strictly comparable to 2003/04 and beyond.

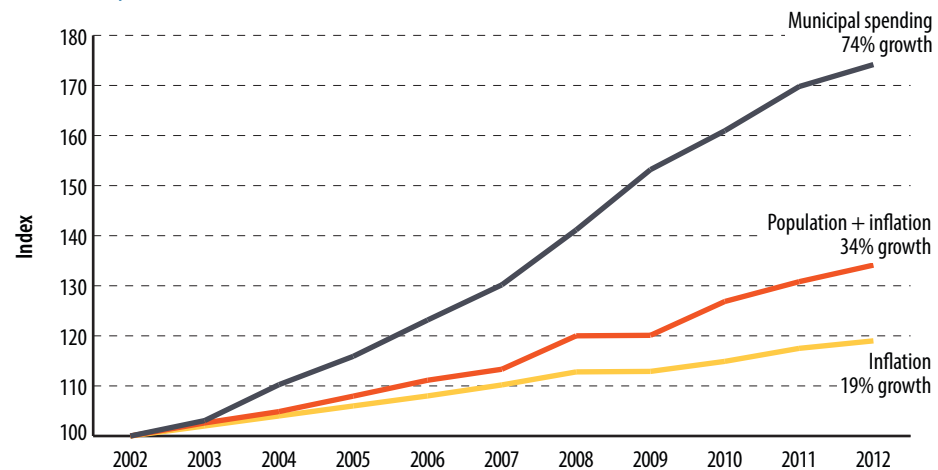
Sources: Canada, Ministry of Finance, 2004–2013; British Columbia, Ministry of Finance, 2004–2013; British Columbia, Ministry of Sport, Community, and Cultural Development, 2013; calculations by authors.

in the form of an index, which captures changes in a comparative manner. By giving each level of a government's spending an index value of 100 in the starting year, we can more clearly see subsequent changes in relation to the initial year's value. Over the period, the growth of municipal spending in Metro Vancouver clearly outpaced the growth in spending by the BC and federal governments.¹⁵

Thus far the discussion of the growth in Metro Vancouver's spending has not accounted for population growth or inflation (the tendency for the price of goods and services to increase over time). With a growing population and increasing overall prices, spending would have to grow simply to maintain the same level of inflation-adjusted spending per person. If a city's population is increasing rapidly, it would be reasonable for municipalities to increase spending to provide services to a larger pool of residents. **Figure 3** compares the change in total Metro Vancouver municipal spending to changes in population and inflation from 2002 to 2012. It does this by using the same index methodology discussed above. The figure shows that, over the

¹⁵ From 2003 to 2012, total growth in municipal spending in Metro Vancouver (69.0%) also outpaced spending growth at the regional district level, which increased by 28.4%.

Figure 3: Index of municipal spending, population, and inflation in Metro Vancouver, 2002–2012, where 2002 = 100



Notes: [1] Inflation is based on Statistics Canada's Consumer Price Index for the Census Metropolitan Area (CMA) of Vancouver. The CMA is geographically similar to Metro Vancouver but includes Indian Reserves in the area. [2] Spending includes interest payments on debt but excludes amortization of capital spending. [3] Spending by the Metro Vancouver regional district government is not included. [4] A comparison could not be made between increases in municipal spending and gross domestic product (GDP) because GDP figures for Metro Vancouver are not available. However, from 2002 to 2012, BC's provincial GDP increased by 56.6% (Statistics Canada, 2013b), meaning the growth of municipal spending in Metro Vancouver (74.2%) also surpassed provincial economic growth.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; Statistics Canada, 2013a; calculations by authors.

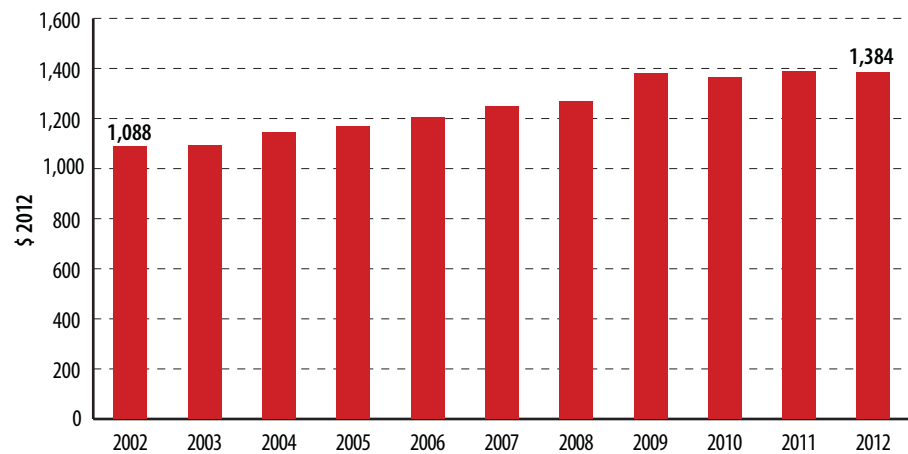
period, municipal spending in Metro Vancouver outpaced both population growth and inflation. In fact, the growth in municipal spending (74.2%) more than doubled the combined rate of population and inflation (34.1%).¹⁶

Figure 4 accounts for population growth and inflation by examining municipal spending in Metro Vancouver on a per-person basis from 2002 to 2012 in constant 2012 dollars.¹⁷ As shown in the figure, municipal spending per person grew from \$1,088 to \$1,384.¹⁸ This represents spending growth of 27.1% over and above inflation and population growth.

¹⁶. Unfortunately, a comparison could not be made between changes in municipal spending and domestic product (GDP) because GDP figures for Metro Vancouver are not available. However, from 2002 to 2012 the GDP of the province of British Columbia increased by 56.6% (Statistics Canada, 2013b). Thus, the growth of municipal spending in Metro Vancouver (74.2%) also surpassed provincial economic growth.

¹⁷. The Consumer Price Index (CPI) for the Census Metropolitan Area (CMA) of Vancouver is used to calculate inflation adjustments throughout this paper.

¹⁸. However, per-person (inflation-adjusted) municipal spending in Metro Vancouver has seemingly flat-lined since 2009.

Figure 4: Municipal spending per person (in 2012 dollars) in Metro Vancouver, 2002–2012

Notes: [1] Spending includes interest payments on debt but excludes amortization of capital spending. [2] Spending by the Metro Vancouver regional district government is not included.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; Statistics Canada, 2013a; calculations by authors.

Drivers of growth in spending

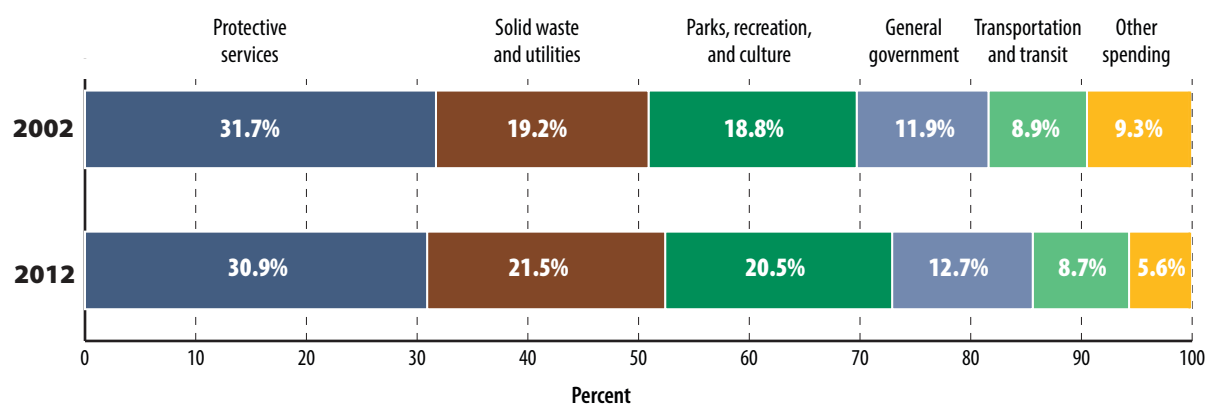
To help understand what is driving the growth in municipal spending in Metro Vancouver, [figure 5](#) compares the composition of total municipal spending of all 21 municipalities in 2002 and in 2012 (the underlying data are in [table 3](#)). Total spending is broken down into six categories: (1) protective services; (2) solid waste and utilities;¹⁹ (3) parks, recreation, and culture; (4) general government;²⁰ (5) transportation and transit; and (6) other spending.²¹ The three largest categories of spending are: protective services; solid waste and utilities; and parks, recreation, and culture.²²

19. In the Local Government Statistics, the category of solid waste and utilities includes the cost of collecting, storing, handling, treating, transporting, discharging, and destroying solid waste, as well as the cost of providing drinkable and irrigation water and gathering, treating, transporting, storing, using, or discharging sewage and reclaimed water. However, in Metro Vancouver many of these tasks are handled by the regional district—in particular, the Greater Vancouver Water District and the Greater Vancouver Sewage and Drainage District. Spending by these entities is not included as municipal spending in the Local Government Statistics.

20. General government spending includes central government administration such as finance, human resources, and information systems. It also includes spending related to legislative activity (city council).

21. Other spending includes social services, development services, and expenditures such as cemeteries that do not fit in other categories.

22. As one reviewer pointed out, local governments do not necessarily keep their own accounts in the format in which they submit to the province for the Local Government Statistics database. Thus, there may be discrepancies in the recording of spending amounts for each service area. As a purely hypothetical example, one municipality may designate spending on an administrative task related to transit as part of general government while

Figure 5: Share of total municipal spending in Metro Vancouver, by category, 2002 and 2012

Notes: [1] Spending includes interest payments on debt but excludes amortization of capital spending. [2] Solid waste and utilities includes the cost of collecting, storing, handling, treating, transporting, discharging, and destroying solid waste, as well as the cost of providing drinkable and irrigation water and gathering, treating, transporting, storing, utilizing, or discharging sewage and reclaimed water. However, in Metro Vancouver many of these tasks are handled by the regional district, in particular, the Greater Vancouver Water District and the Greater Vancouver Sewage and Drainage District. Spending by these entities is not included as municipal spending in the Local Government Statistics. [3] Municipalities may differ in how they assign specific spending into the different categories. [4] General government spending includes central administration, central finance, central human resources, and central information systems. It also includes spending related to legislative activity. [5] Other spending includes social services, development services, and expenditures that do not fit in other categories such as cemeteries.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; calculations by authors.

Table 3: Municipal spending (\$ millions) in Metro Vancouver, share of total municipal spending, and percentage point change, by category, 2002 and 2012

Spending category	2002		2012		Percentage-point change of spending share, 2002–2012
	Spending (\$ millions)	Share of total spending	Spending (\$ millions)	Share of total spending	
Protective services	609	31.7%	1,034	30.9%	–0.8
Solid waste and utilities	369	19.2%	720	21.5%	2.3
Parks, recreation, and culture	362	18.8%	687	20.5%	1.7
General government	229	11.9%	425	12.7%	0.8
Transportation and transit	172	8.9%	291	8.7%	–0.2
Other spending	179	9.3%	187	5.6%	–3.8
Total Municipal Spending	1,920		3,343		

Notes: see figure 5.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; calculations by authors.

Between 2002 and 2012, the proportion of spending increased by 2.3 percentage points in the solid waste and utilities category (from 19.2% to 21.5%) and by 1.7 percentage points in the parks, recreation, and culture category (from 18.8% to 20.5%). At the same time, the share of spending in the category, other spending, decreased by 3.8 percentage points from 9.3% to 5.6%.²³ The share of spending in the other categories saw an increase or decrease of less than a percentage point.

While it is useful to observe changes in the share each category gets from the spending pie, the pie itself has gotten bigger as total municipal spending has grown to \$3.3 billion in 2012 from \$1.9 billion in 2002. **Table 4** thus examines the change in spending for the six categories through a different lens. For each category, the table displays per-person spending in 2002 and 2012 (in 2012 dollars) and the percentage change over the period. On a per-person basis, inflation-adjusted spending on solid waste and utilities experienced the largest increase (42.6%), followed by parks, recreation, and culture (38.6%) and general government (35.3%). The only spending category that saw a reduction in per-person spending was other spending (decreasing by 23.9%). However, this is a relatively small spending category, so it does little to offset the increases in other categories. Overall, five of the six spending categories had a role in driving increases in total per-person, although solid waste and utilities played a disproportionately larger role than the others.

Municipal spending increases and government employment

It is worth noting that a portion of the growth of Metro Vancouver municipal spending is driven by surprisingly large growth in municipal employment. In a report published by the Business Council of British Columbia, Finlayson et al. (2012) found that between 2001 and 2011 the number of local government employees in British Columbia grew by 29%, compared to 18% growth for all employment in the province (both government and private sector). The report also found that growth in local government employment outpaced both provincial government employment and employment in healthcare and social service institutions (healthcare employment is a key comparator since it is a rapidly growing area of government spending). Although government employment data specific to Metro Vancouver municipalities are not readily available, the provincial trend for local government employment suggests that expansion in government employment explains some of the growth in

another municipality might designate it as part of transportation and transit. Although municipalities may differ in how they assign specific spending into the different categories, the total spending of all categories provides a general picture of the total amount spent by Metro Vancouver municipalities.

23. Due to rounding, the percentage point change does not exactly equal the difference in proportions.

Table 4: Municipal spending per person (in 2012 dollars) in Metro Vancouver, by category, 2002 and 2012

Spending Category	2002	2012	Percentage change 2002–2012
Solid waste and utilities	209	298	42.6%
Parks, recreation, and culture	205	284	38.6%
General government	130	176	35.3%
Transportation and transit	97	121	23.9%
Protective services	345	428	23.9%
Other spending	102	77	–23.9%
Total Municipal Spending	1,088	1,384	27.1%

Notes: see figure 5.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; Statistics Canada 2013a; calculations by authors.

Metro Vancouver municipal spending. The growth in the number of government employees is important given the high cost of compensating government employees.²⁴ Considerable increases in municipal spending would not translate into more or higher-quality services for city residents if the extra spending is used to provide municipal government workers with overly generous compensation packages.

Police services

The Union of British Columbia Municipalities (UBCM), an organized interest group of municipal governments and regional districts, has argued that municipal spending increases are partially attributable to policy decisions made by other levels of government and thus largely beyond the control of

²⁴ Research shows that government workers in British Columbia enjoy an average 14% wage premium over comparable private-sector workers (Karabegović and Clemens, 2013). This is on top of more generous pensions, an earlier average age of retirement, and much greater job security. In addition, one reviewer of this report noted that collective agreements for Metro Vancouver employees over the past several years have featured bigger compensation increases than have occurred in the case of provincial and federal government employees over the same time period. In other words, municipal employees have enjoyed bigger pay bumps than their colleagues elsewhere in the government sector. It was also noted that collective agreements in place in municipalities across Metro Vancouver can prevent local governments from outsourcing city services to the private sector. This is unfortunate for city taxpayers because empirical research shows that outsourcing produces cost savings and quality improvements compared to government delivery (for a discussion on the benefits of outsourcing, see Lammam 2014: 7). A potential reason for these outcomes is that city employers (municipal governments) face powerful unions with a strong presence in the municipal domain. Exploring the relationship between collective agreements and the growth of municipal spending is important area for future research.

municipal governments (UBCM, 2013). In particular, the UBCM notes that some municipal governments do not have authority over key decisions with respect to spending on municipal police services, which fall under protective services in the Local Government Statistics.

In British Columbia, municipal police services are either provided by independent police departments or by the Royal Canadian Mounted Police (RCMP) via contract.²⁵ Sixteen of the 21 municipalities in Metro Vancouver are served by the RCMP and five by independent police departments.²⁶ Of the 16 municipalities served by the RCMP, 12 have cost-sharing agreements with the federal government.²⁷ For the other four municipalities served by the RCMP, the provincial government shares the cost with the federal government on their behalf since they have a population less than 5,000.

A UBCM survey of municipalities revealed that municipalities with RCMP contracts feel that they have little control over the cost of police services since pay rates and operational standards are established by the federal government and contracts are negotiated primarily by the provincial government (UBCM, 2009). Survey respondents noted that the only significant cost variable that such municipalities control is the number of police officers. For this reason, the UBCM argues increased spending in municipalities with RCMP contracts is partially out of the direct control of the municipal government.

Spending on independent police forces, however, is more closely controlled by the municipal government. There are five independent municipal police departments in Metro Vancouver. [Table 5](#) compares the growth in per-person spending on police services (between 2002 and 2012) in these five municipalities with per-person spending on police services in the 12 municipalities with federally cost-shared RCMP contracts. The comparison shows that municipalities with federally cost-shared RCMP contracts have experienced faster per-person spending growth (44.9%) than municipalities with an independent police force (32.1%).²⁸

25. A municipality with a population less than 5,000 is not required by the provincial government to offer police services. Local police services in these municipalities are provided by the provincial government, typically contracted out to the RCMP.

26. The five municipalities with an independent police force are Delta, New Westminster, Port Moody, Vancouver, and West Vancouver.

27. Municipalities with a population of 5,000 to 15,000 pay 70% of the cost while municipalities with over 15,000 pay 90%.

28. It is important to note, however, that there has been a steady decline in the Canadian crime rate since the 1990s. Despite this decline, per-capita policing costs have generally increased in Canada and so has the number of police officers per population. For more details, see Di Matteo, 2014, March 28. In addition, Leuprecht (2014) argues that, despite rising costs, Canadians are not receiving value for money when it comes to police services.

Table 5: Municipal spending per person (in 2012 dollars) on police services in Metro Vancouver, by police service type, 2002 and 2012

Type of Police Service	2002	2012	Percentage change 2002–2012
Independent	154	203	32.1%
RCMP	154	223	44.9%

Notes: [1] The data and calculations in the table are for a total of 17 municipalities. Four municipalities are excluded because the provincial government shares the cost on their behalf with the federal government, which means they do not actually spend money on police services (Anmore is an exception). The four excluded are Anmore, Belcarra, Bowen Island, and Lions Bay. [2] Of the 17 municipalities analyzed in the table, five are served by an independent police force (Delta, New Westminster, Port Moody, Vancouver, and West Vancouver). The other 12 have federally cost-shared contracts with the RCMP.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; Statistics Canada 2013a; calculations by authors.

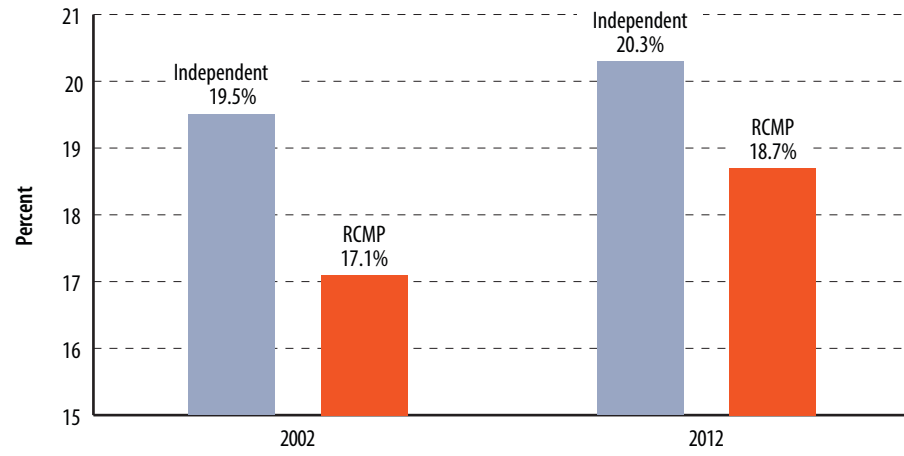
Interestingly, in both 2002 and 2012 the share of total spending on police services is higher in municipalities with independent police forces than the share in municipalities with federally cost-shared RCMP contracts. In 2012, the share of total spending on police services was 18.7% in municipalities with federally cost-shared RCMP contracts and 20.3% in municipalities with independent police forces; the respective shares in 2002 were 17.1% and 19.5% (figure 6). Despite having more “control” over spending, municipalities with independent police forces spend a larger share of total spending on police services than municipalities with federally cost-shared RCMP contracts.

While spending on police services is growing faster in municipalities with federally cost-shared RCMP contracts, this does not mean that those municipalities are not accountable for the general growth in spending. New spending on police services in the 12 municipalities with federally cost-shared RCMP contract constitutes 20.5% of total new spending from 2002 to 2012. This is approximately the same percentage for municipalities with independent police forces (21.7%). The bottom line is that limited direct control over police services spending alone does not account for the considerable growth in total spending.

Summary

Metro Vancouver municipal spending has been increasing at a considerable rate. Spending over the course of a decade has grown faster than the spending of more senior levels of government and reasonable benchmarks like inflation and population growth. Most categories of spending have played a role in driving this growth, although spending on solid waste and utilities has increased faster than other categories.

Figure 6: Share of total municipal spending on police services in Metro Vancouver, by police service type, 2002 and 2012



Notes: See table 5.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; calculations by authors.

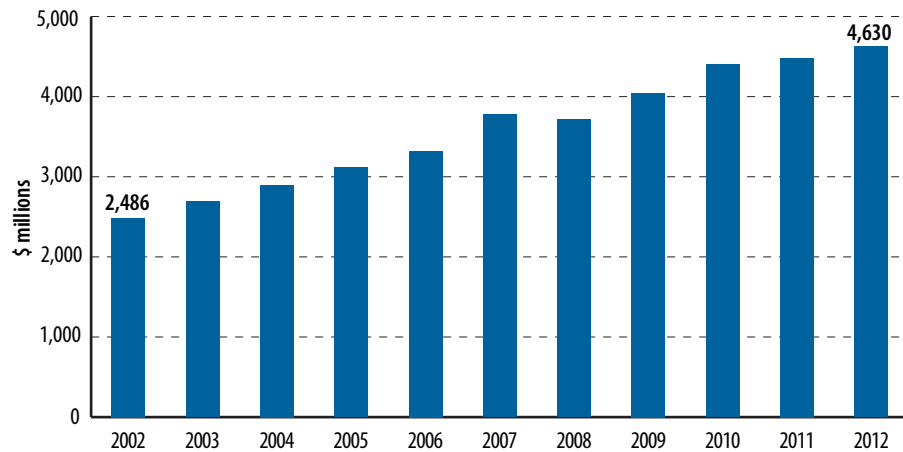
3 Municipal Revenue in Metro Vancouver

This section turns to the other side of the ledger: revenue. In addition to arguing that spending increases are partially driven by decisions outside the control of municipal governments, the Union of British Columbia Municipalities (UBCM) has argued “the consequences are that a very limited local revenue base is increasingly squeezed between its limitations and rising expectations” (UBCM, 2013: 18). The UBCM defends the position that the revenue base is “very limited” primarily by arguing that municipal revenue intake is disadvantaged because the relationship between economic growth and property taxes—an important source of municipal revenue—is weaker than revenue tools used by other levels of government (UBCM, 2013). That is, strong economic growth does not necessarily lead to corresponding revenue growth from property taxes. This stands in contrast to the general relationship between economic growth and revenue sources like personal income taxes and sales taxes. While there is some truth to this claim, the reality is that overall revenue in Metro Vancouver municipalities—including that from sources other than property taxes—is growing robustly. In fact, revenue growth has outpaced spending increases.

Growth in municipal revenue

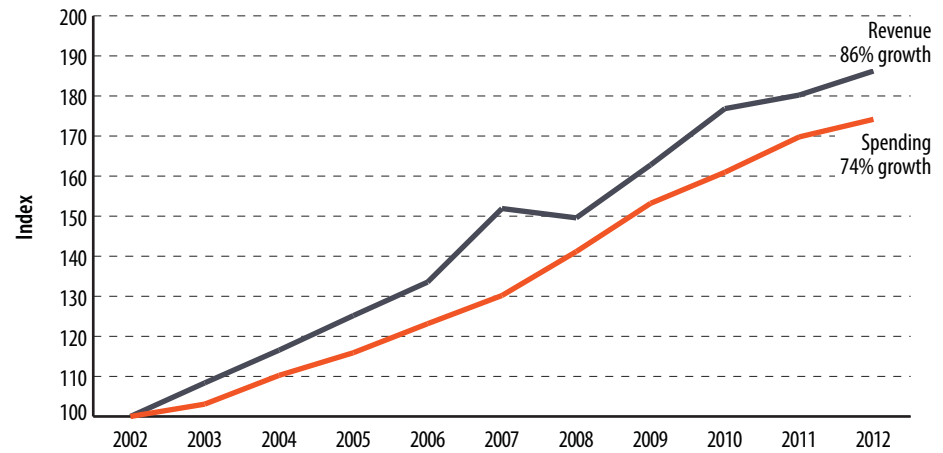
Figure 7 presents the total revenue of municipalities in Metro Vancouver from 2002 to 2012. Over the period, total revenue grew from \$2.5 billion to \$4.6 billion, an increase of 86.2%. **Figure 8** compares municipal revenue to municipal spending in Metro Vancouver over the same period (the 2002 amounts are indexed to a value of 100 to highlight comparative changes). Total municipal revenue has consistently grown faster than spending. Between 2002 and 2012, revenue increased by 86.2% while spending increased 74.2%. Given that revenue growth has outpaced spending growth, it is difficult to reconcile the view that overall revenue has been “squeezed” by the demand for more spending and a limited capacity for growth, as argued by the UBCM.

Figure 7: Total municipal revenue (\$ millions) in Metro Vancouver, 2002–2012



Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; calculations by authors.

Figure 8: Index of municipal spending and revenue in Metro Vancouver, 2002–2012, where 2002 = 100

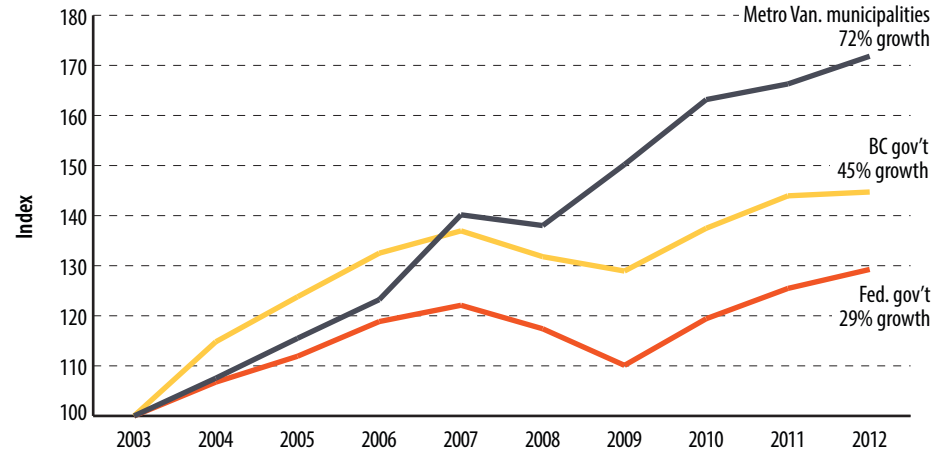


Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; calculations by authors.

For additional perspective, [figure 9](#) compares the total revenue of Metro Vancouver municipalities with the revenue of the provincial and federal governments from 2003 to 2012 (the 2003 amounts are indexed to 100).²⁹ Initially, revenue of the BC government grew faster than the revenue

²⁹ The data start in 2003 because the provincial government's 2002/03 fiscal balance, as reported by the *Public Accounts*, excludes school districts, universities, colleges, institutes, and health authorities. These organizations were included in later years. As a result, the figures for 2002/03 are not strictly comparable to 2003/04 and beyond.

Figure 9: Index of revenue by Metro Vancouver municipalities, BC government, and federal government, 2003–2012, where 2003 = 100



Note: The figure starts in 2003 because the provincial government's 2002/03 fiscal balance, as reported by the *Public Accounts*, excludes school districts, universities, colleges, institutes, and health authorities. These organizations were included in later years, meaning that figures for 2002/03 are not strictly comparable to 2003/04 and beyond.

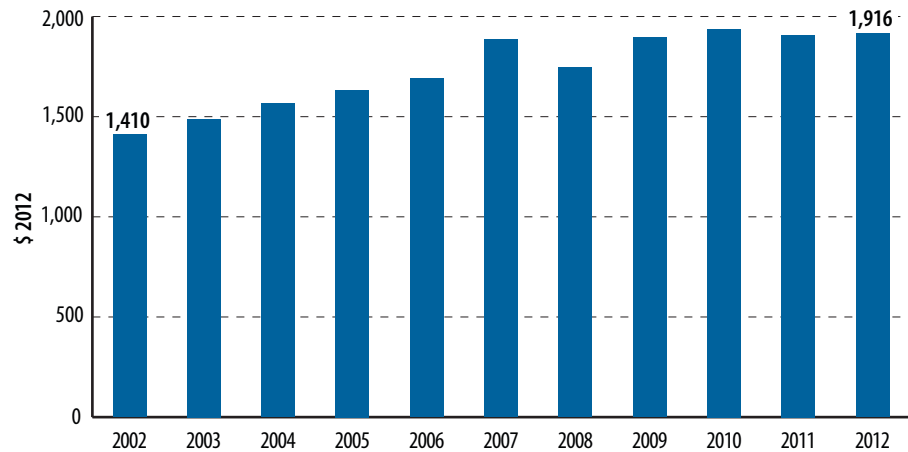
Sources: Canada, Ministry of Finance, 2004–2013; British Columbia, Ministry of Finance, 2004–2013; British Columbia, Ministry of Sport, Community, and Cultural Development, 2013; calculations by authors.

of Metro Vancouver municipalities and the federal government. However, by 2007 Metro Vancouver municipal revenue growth outpaced the revenue growth of both the provincial and federal governments. Over the entire period, the total revenue of Metro Vancouver municipalities grew 71.8%—nearly two-thirds higher than the revenue growth of the BC government (44.7%) and almost one-and-a-half times higher than that of the federal government (29.3%). Put simply, in relation to more senior levels of government, Metro Vancouver municipalities do not seem starved of revenue.

Robust revenue growth in Metro Vancouver municipalities is evident even after accounting for inflation and population growth. **Figure 10** presents per-person municipal revenue from 2002 to 2012 in constant 2012 dollars. Over the decade, inflation-adjusted per-person municipal revenue increased 35.9% from \$1,410 to \$1,916. In comparison, per-person municipal spending increased 27.1% (see figure 4). This means that revenue growth exceeded spending growth after accounting for both inflation and population growth.

Drivers of growth in revenue

Figure 11 explores the drivers of revenue growth by comparing the composition of revenue sources in 2002 and 2012 (the underlying data are in **table 6**). Total revenue is broken down into five sources: (1) general taxation; (2) sale of

Figure 10: Municipal revenue per person (\$ 2012) in Metro Vancouver, 2002–2012

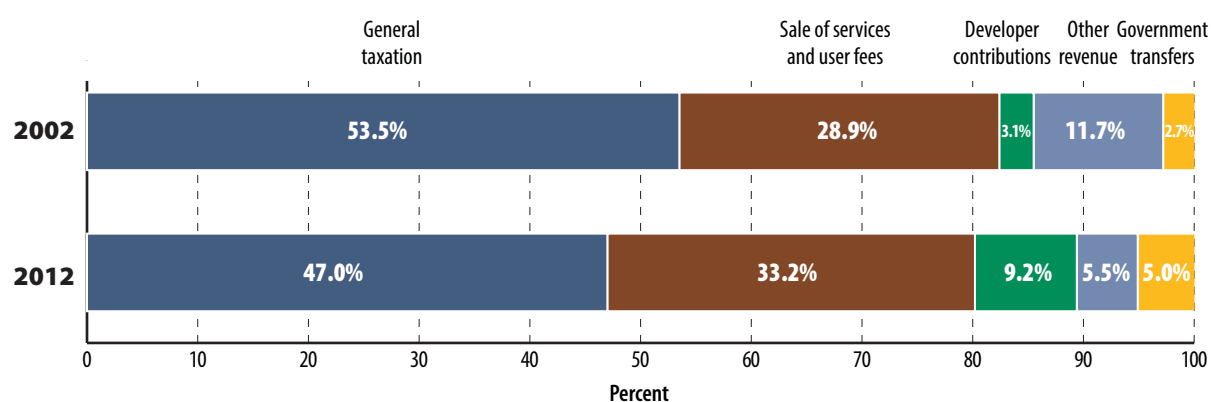
Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; Statistics Canada 2013a; calculations by authors.

services and user fees; (3) developer contributions; (4) government transfers; and (5) other revenue.³⁰ General taxation (including property taxes) remained the largest source of revenue but its importance declined 6.5 percentage points from 53.5% in 2002 to 47.0% in 2012. The only other source that saw a proportional decline was the category, other revenue (decreasing 6.2 percentage points from 11.7% to 5.5%). Developer contributions expanded the most as a share of total revenue, from 3.1% in 2002 to 9.2% in 2012 (increasing 6.0 percentage points).³¹ Also increasing in relative importance was the share of revenue from the sale of services and user fees (up 4.3 percentage points) and transfers from other levels of government (up 2.4 percentage points).

Table 7 displays per-person revenue in 2002 and 2012 (in 2012 dollars) by revenue source and the percentage change over the decade. Developer contributions (taxes levied on land developers to pay for new municipal infrastructure) were by far the fastest growing revenue source on a per-person basis, increasing 295.9% after adjusting for inflation. The rapid growth of this revenue category has large potential consequences. In some markets (with high demand and low supply), such taxes are passed on to homebuyers, leading to higher prices for new homes and even existing housing (Evans-Cowley and Lawhon, 2002). This is a critical issue for Metro Vancouver, which already has high home prices relative to other jurisdictions in the province and the country. The second fastest growing revenue source from 2002 to 2012 was

³⁰. “Other revenue” includes revenue from financial assets; government business enterprises and government business partnerships; the gain or loss recognized from the disposal (or revaluing) of financial and capital assets; and other sources that do not fit into another category.

³¹. Due to rounding, the percentage point change does not exactly equal the difference in proportions.

Figure 11: Share of total municipal revenue in Metro Vancouver, by source, 2002 and 2012

Notes: [1] Taxation includes property taxes of all classes, business taxes, hotel tax, and all payments in place of taxes levied against other governments and government agencies. It also includes interest and penalties. [2] Other revenue includes investment income, income from government business enterprises, the disposition of assets, and any revenue source that does not fall into one of the other categories.

Sources: British Columbia, Ministry of Community, Sport, and Cultural Development, 2013; calculations by authors.

Table 6: Municipal revenue (\$ millions) in Metro Vancouver, share of total revenue, and percentage-point change, by source, 2002 and 2012

Revenue Source	2002		2012		Percentage-point change of revenue share, 2002–2012
	Revenue (\$ millions)	Share of Total Revenue	Revenue (\$ millions)	Share of Total Revenue	
General taxation	1,330	53.5%	2,178	47.0%	–6.5
Sale of services and user fees	719	28.9%	1,538	33.2%	4.3
Other revenue	292	11.7%	257	5.5%	–6.2
Developer contributions	78	3.1%	424	9.2%	6.0
Government transfers	67	2.7%	233	5.0%	2.4
Total Revenue	2,486		4,630		

Notes: See figure 11.

Sources: BC, Min. of Community, Sport, and Cultural Development, 2013; calculations by authors.

Table 7: Municipal revenue per person (in 2012 dollars) in Metro Vancouver, by source, 2002 and 2012

Revenue Source	2002	2012	Percentage change 2002–2012
Developer contributions	44	176	295.9%
Government transfers	38	97	154.7%
Sale of services and user fees	408	636	56.1%
General taxation	754	901	19.5%
Other revenue	166	106	–35.8%
Total Revenue	1,410	1,916	35.9%

Note: See table 11.

Sources: BC, Min. of Community, Sport, and Cultural Development, 2013; Statistics Canada, 2013a; calculations by authors.

transfers from other levels of government (154.7%). Among the other revenue sources, revenue per person from general taxation increased the least (19.5%). After accounting for inflation and population growth, the only revenue source that decreased is the category, other revenue, which fell by 35.8%. Overall, real revenue per person increased 35.9%.

Summary

From 2002 to 2012, the growth in Metro Vancouver municipal revenue has been robust. Municipal revenue growth surpassed not only municipal spending growth, but also benchmarks like the combined rate of inflation and population growth and even the revenue increases experienced by more senior levels of government levels including the province of British Columbia and the federal government. In the case of Metro Vancouver municipalities, there is little evidence to support the claim that municipalities are experiencing a “fiscal squeeze” caused by insufficient revenue or revenue growth that is too slow. Although revenue from general taxation (including property taxes) has been growing slowly in comparison to other revenue sources, together these other sources of revenue have more than picked up the slack. Most notably is the considerable growth in developer contributions over the period. The growth in overall revenue invalidates the notion that Metro Vancouver municipalities are starved of resources. The real fiscal problem at the municipal level is poor control of spending.

Conclusion

Municipal governments provide important services and collect taxes from residents but it is often difficult to obtain and understand municipal financial information. This poses a problem for taxpayers and voters who want to hold municipal governments accountable for their financial decisions. To help them do so, this report draws on the Local Government Statistics provided by the BC government and presents key information on the state of overall municipal finances in Metro Vancouver.

It is true that the provincial government has recently taken steps to improve the accountability of British Columbia's municipal governments by establishing a new office of the Auditor General for Local Governments, which will conduct performance audits to measure whether municipal policies are achieving value for money. However, this is merely one step in the right direction and not a panacea for accountability and reducing government waste (Veldhuis and Lammam, 2012). Experience with a similar office at the federal level has shown that an Auditor General does not prevent problems from reoccurring, even if the audit reports generate short-term media and public attention (Lammam et al., 2013). Like the federal Auditor General, the Auditor General for Local Governments lacks the authority to compel municipalities to improve their financial reporting and take corrective action when problems are identified. Indeed, more forceful measures will be needed to increase the accountability and performance of municipal governments.

This study has shown that, from 2002 to 2012, total municipal spending in Metro Vancouver grew rapidly compared to benchmarks such as inflation and population growth and compared to the spending of the provincial and federal governments. After accounting for inflation and population growth, total municipal spending in Metro Vancouver grew 27.1% over this 10-year period. And, contrary to what we often hear from local government officials, Metro Vancouver's municipalities are not starving for revenue. In fact, at 35.9%, per-person revenue growth exceeded spending growth over the period.

Appendix: Description of the Local Government Statistics

Each year, municipal governments in British Columbia are required by the provincial government to submit information on municipal finances for the previous calendar year. That information is then organized into spreadsheets and posted online as the Local Government Statistics (http://www.cscd.gov.bc.ca/lgd/infra/statistics_index.htm). At the time of writing, the online information goes back to 2005; earlier data are available upon request to the Ministry. The financial information is reported in accordance to the Generally Accepted Accounting Practices established by the Public Sector Accounting Board. Details on how municipalities are expected to report their financial information can be found in the *Municipal LGDE Help Manual* (BC, Min. of Community, Sport and Cultural Development, 2011).

Definitions

The Local Government Statistics database presents spending and revenue by categories that are defined in the *Municipal LGDE Help Manual*. For the purposes of this report, and for ease of presentation, some of these categories have been combined. **Table A1** provides information on what is included in each category of spending as used in this report. It also indicates which category or categories are equivalent in the Local Government Statistics database. **Table A2** performs the same function for revenue sources.

Table A1: Definition of Spending Categories

Spending category	Includes spending on	Category(ies) from the Local Government Statistics Database
General government	central administration, central finance, central human resources, and central information systems; also includes spending related to legislative activity	General government
Parks, recreation, and culture	green space, trails, beaches, playing fields, golf courses, ski areas, public squares, swimming pools, skating rinks, curling rinks, exercise areas, libraries, galleries, museums, community halls, performing arts theatres, and heritage conservation programs	Parks, recreation, and culture
Protective services	police operations, fire protection operations, bylaw enforcement operations, and other protective services such as emergency preparedness	Protective services
Solid waste and utilities	the collection, storage, handling, treatment, transportation, discharge, and destruction of solid waste; providing drinkable and irrigation water; gathering, treating, transporting, storing, utilizing, or discharging sewage or reclaimed water	Solid waste management and recycling; water services; and sewer services
Transportation and transit	transit vehicles and other equipment, transit buildings (including offices), transportation administration, pedestrian walkways, motor vehicle inspections, snow removal, and municipal parking	Transportation and transit
Other spending	social services, public health, and environmental health but excluding services related to water, sewer, garbage, and drainage; land use planning, zoning, subdivision and development planning, planning research and studies, economic development projects, agricultural development, business licensing, conventions and tourism, and business improvement areas; any municipal function that does not fall under the previous categories, such as cemeteries and airports; other expenses that do not easily fit into any of the other functional categories	Health, social services and housing; development services; other services; other adjustments

Source: British Columbia, Ministry of Community, Sport and Cultural Development, 2011.

Table A2: Definition of Revenue Sources

Revenue	Includes revenue from:	Category (ies) from the Local Government Statistics Database
General taxation	property taxes of all classes, business taxes, hotel tax, and all payments in place of taxes levied against other governments and government agencies. It also includes interest and penalties on taxes paid late.	Total own purpose taxation and grants in lieu
Sale of services and user fees	user fees for water, sewer, solid waste, parks, recreation and culture centres/activities, and transportation; also includes other user fees such as licenses permits and fines unrelated to taxation; in addition to user fees this variable also includes sales to other governments (such as the sale of bulk water from one municipality to another).	Sale of services
Developer contributions	charges imposed on developers to provide certain municipal infrastructure including water, sewer, drainage, parkland, and roads.	Developer contributions
Government transfers	entitlements, cost sharing agreements, and grants; it also includes the revenue from the Gas Tax Program; does not include: payment for goods or services, funds that are expected to be repaid in part or full, transfers with the expectation of financial return (interest or dividends), payments in place of taxes.	Transfers from federal government; transfers from provincial government; transfers from regional and other governments
Other revenue	financial assets; government business enterprises and government business partnerships; the gain or loss recognized from the disposal (or revaluing) of financial and capital assets; other sources that do not fit into another category.	Investment income; income from government business enterprise; disposition of assets; other revenue

Source: British Columbia, Ministry of Community, Sport and Cultural Development, 2011.

Accounting changes

From 2001 to 2012, there are two important accounting changes that affect the Local Government Statistics. Starting in 2002, the information contained in the Local Government Statistics is presented in a manner consistent with the Generally Accepted Accounting Practices. The second change started in 2008 when the treatment of capital spending moved from a cash basis to an accrual basis, with full implementation taking place in 2009. Rather than record the total cost of a capital project at the outset, the spending was recorded by spreading the cost over the life of the project. To ensure consistency, the spending categories “capital spending” before the change and “amortization” after the change were excluded from our analysis.

A 2008 accounting change also included a change in the way revenue was presented. The categories of “investment income” and “income from government business enterprise” were added in 2008. At the same time, two categories that appeared in previous years were terminated: “actuarial adjustments” and “other investment income”. These categories are not strictly comparable but, combined appropriately with other categories, allow for a direct year-to-year comparison. To this end, the authors combined the pre-2008 categories of “other investment income”, “other revenue”, “actuarial adjustment”, and “disposition of assets” to make them equivalent to the combined post-2007 categories of “investment income”, “other revenue”, “income from government business enterprise”, and “disposition of assets”.

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Acknowledgments

The authors would like to thank Milagros Palacios and Joel Emes for their assistance and review as well as two anonymous reviewers for insightful comments and suggestions. Any remaining errors or oversights are the sole responsibility of the authors. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Trustees of the Fraser Institute, the staff, or supporters.

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Date of issue

June 2014

ISBN

978-0-88975-303-7

Citation

Charles Lammam and Hugh MacIntyre (2014). *The State of Municipal Finances in Metro Vancouver*. Fraser Institute. <<http://www.fraserinstitute.org>>.

Cover design

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