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James Ridge. April 2024

Over the last decade or so, one political fad has done lasting damage to many municipal governments in Canada.

The fad is the foolish commitment to keep tax increases at or below the rate of inflation, usually as set in the consumer price index or CPI. This meant that many municipalities capped tax increases at 2%-3%, and often less.... in some cases for decades.

Of course, the cost of running a municipality has nothing to do with the 'basket of household goods' that forms the CPI. Municipalities purchase things that have very different inflationary pressures, such as concrete, road salt, fire trucks, construction materials, specialized software, busses, asphalt, and dozens of other commodities.

Moreover, the biggest cost for municipalities is wages and benefits, many for unionized staff with costs set through collective bargaining, or in the case of the emergency services, often by arbitration.

One Canadian city, which I won't name, had a major taxpayer go under about 12 years ago. The mayor had campaigned on keeping the tax rate increases at or below the rate of inflation. Council raided the reserves to keep taxes down, and then just slowly starved the city. After a decade of 1%-2% tax increases, the total spending power of the city has shrunk by roughly 21%, and the discretionary reserves are largely depleted. Over the same period the city grew by 15%. That is municipal governance at its most irresponsible.

While the attraction of the CPI fad is obvious, let's be blunt: It may be great politics, but it's dreadful governance. It means pushing big tax increases to the next generation of property owners and future councils, especially if it results in underfunding infrastructure maintenance (Osoyoos comes to mind). If council is also raiding reserves to keep tax increases down, they are guilty of the added sin of using public money for patently political purposes.

The CPI fad has also kept the conversation on tax rates unhelpfully focused on percentages, and not dollar amounts. Politicians and the public gasp at the thought of a 6% tax increase. It's double a 3% tax increase! It is, but in most municipalities the difference between a 3% tax increase and a 6% tax increase is about $90 a year for the average house. That can certainly be a burden for some, but letting key infrastructure rot and fail, or underfunding the operating budget, to avoid a $90 a year tax increase is the height of bad governance. Also remember that the average Canadian household spends over $2,500 a year on internet, TV, and phones, and a similar amount dining out.

Municipalities need to talk about MPI, the Municipal Price Index, not CPI. MPI is almost always greater than CPI.

And using discretionary reserves to reduce tax increases, especially reserves intended for future public amenities, is simply stealing from future generations to help council get re-elected. Even if it’s not illegal, it’s unethical, and dreadful governance.

End of rant.