



The State of Canada's Cities and Communities 2012

For more information

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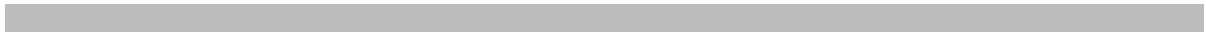
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Message from the President

Canada's cities have come a long way from a \$125-million federal investment in 2003, to the \$4.75 billion of 2010. The economic importance of cities and communities is clearly being recognized.

Recent events suggest that the tide has turned in favour of municipalities. During the recent economic crisis, the federal government called upon municipalities to implement its stimulus plan. Together, federal and municipal governments began repairing and rebuilding Canada's aging infrastructure, creating tens of thousands of jobs in the process.

Saying we've come a long way implies that we had a long way to come—and we did. We had to overcome a decade of neglect and underfunding that had undermined Canada's competitiveness and quality of life.

Unfortunately, much of the way forward is uphill. Canada's tax system takes too much from our communities, and puts too little back. Without access to revenues that grow with the economy, and without long-term investment from other levels of government, municipalities continue to face a gap between their responsibilities and their ability to pay.

Our current system, in which municipalities collect just eight cents of every tax dollar, is not sustainable. Nor is it realistic in a world where cities function as economic engines and centres of innovation. This fiscal imbalance erodes Canada's competitiveness, while placing a growing burden on property taxpayers, straining local services, and forcing municipalities to delay essential infrastructure projects.

We are on the right track, however. Joint infrastructure investments during the recent recession opened the door to new intergovernmental cooperation. By committing to a new long-term infrastructure plan before current funding ends in 2014, the federal government has promised Canadians that their communities can rely on stable federal funding for roads and bridges, drinking water, and public transit.

It's only the beginning, but this co-operative approach can support partnerships in meeting other national challenges, including support for affordable rental housing and front-line policing, investments in public transit, and help for rural communities.

During the past few years, federal and municipal governments have co-operated more closely than at any time since the Great Depression. Together, we fought the recent recession and began rebuilding Canada's streets, bridges, and water systems. In this new era of partnership, we can overcome the barriers that have prevented us from serving taxpayers efficiently. Together, we can build a stronger, safer, more competitive Canada.



Introduction

Communities matter.

FROM OUR LARGEST CITIES TO OUR MOST REMOTE VILLAGES, COMMUNITIES MATTER:
TO OUR ECONOMY, TO OUR FAMILIES, TO OUR FUTURE.

Like never before, Canada needs strong cities and communities to compete in the global race for jobs, talent, and investment.

Our small businesses need quality roads and bridges to deliver goods and services. Our workers need fast, efficient public transit to connect them to new jobs. And our companies need access to affordable housing and high-quality community services, from libraries to hockey rinks, to recruit skilled workers.

But despite their importance, Canada's cities and communities have spent most of the past 25 years in a state of decline.

The symptoms are all around us: traffic gridlock, crumbling roads and bridges; rising policing costs, and a high-priced housing market that pushes families deeper into debt and too often into the street.

There is hope, however. In the last few years, the Government of Canada has recognized that many of the growing problems in our cities and communities are national in scope. The government has recognized that inadequate housing, infrastructure, and transportation networks are problems that span all regions of the country. It can see that these problems are not just making day-to-day life harder for local residents; they are undermining the foundations that Canada and its economy are built on.

Recent federal investments have helped municipalities put police on the streets, repair social housing, and rebuild the roads, bridges, water systems and public transit Canada needs to support families, businesses and long-term economic growth.

The federal government has also seen what valuable partners local governments can be in meeting national objectives. When the global economic crisis hit, the federal government called on municipalities to turn its stimulus plan into action. Together with provinces and territories, we created hundreds of thousands of jobs and made Canada a world leader in fighting the economic downturn.

More recently, and most importantly, the federal government has formally acknowledged that it has a permanent role to play in Canada's cities and communities. The federal government's new Long-Term Infrastructure Plan promises to renew federal investments in municipal infrastructure before they expire in 2014, and put them on a stable, sustainable track for many years to come. The federal government is working closely with FCM, provinces and territories, and the private sector to develop the plan.

A lot has happened during the last few years. As we make plans to protect and build on the gains we've made, we need to look closely at what we have achieved and what we still have to do.

The investments of the last few years have clearly benefited our communities and our country. In addition to fighting the recession, they have made it possible for local governments to make some of their most urgent, but previously unfunded, infrastructure investments.

What is less clear, however, is how much we have done to fix the underlying causes that led to years of decline in our cities and communities. If we want recent progress to be more than a temporary pause in a downward spiral – if we want it to be the start of a lasting turnaround in our cities and communities – then we need to make sure we are doing more than treating the symptoms of a deeper sickness.

That is the purpose of this report: to help us understand the underlying health of Canada's cities and communities in 2012. Given the scope and complexity of the question, this report does not pretend to be comprehensive or to give the last word on the issue. It is just one contribution to an important and pressing conversation.

The report is structured in two parts. Part One reviews the underlying causes of the growing challenges that have played out in Canada's cities and communities during the past two-and-a-half decades. It looks at the progress Canada has made in addressing these issues in recent years, and examines current trends to see where our cities and communities are headed and what new challenges they will face. Part Two looks at the state of intergovernmental cooperation in Canada, and reviews the progress Canada has made on that front over the years.

If we hope to build on recent gains, we need to measure and report on our progress, so that political leaders in Ottawa, in provincial and territorial capitals, and in council chambers across the country can see the effects of their decisions, and be accountable to Canadians. We hope that the *State of Canada's Cities and Communities 2012* will take us a step closer to that goal.

THE MUNICIPAL FISCAL IMBALANCE

In 2006, FCM published a report that looked at a range of growing national challenges surfacing in cities and communities across the country, in areas such as infrastructure, transportation, housing, and policing and public safety. Its title was *Building Prosperity from the Ground Up: Restoring Municipal Fiscal Balance*.

http://www.fcm.ca/Documents/reports/Building_Prosperty_from_the_Ground_Up_Restoring_Municipal_Fiscal_Balance_EN.pdf

Building Prosperity traced the roots of these growing problems to a tax system that took too much out of communities and put too little back in. The result was a structural imbalance between local governments' growing responsibilities, and the inadequate financial resources they received from an out-of-date funding system.

Municipalities were collecting just eight cents of every tax dollar paid in Canada. Meanwhile they were building more than one-half of the country's core infrastructure; paying the salaries of two out of every three police officers; and funding responsibilities offloaded by other governments for affordable housing, immigrant settlement and public safety.

At the same time, federal and provincial governments were consuming more than 90% of the taxes paid by Canadians, and, through their sales, income, and corporate taxes, virtually all revenues generated by new economic growth. What they reinvested in municipal infrastructure was typically delivered through short-term, ad-hoc programs that made it difficult for municipalities to budget effectively.

Unlike many of their international counterparts, local governments in Canada were left to rely on the slow-growing municipal property tax, a regressive funding tool that hits middle-and low-income people hardest, including working families, senior citizens, and small-business owners.

Building Prosperity painted a picture of local governments caught in a system that failed to reinvest a sustainable share of the revenues generated by economic growth in the core services and infrastructure that made that growth possible in the first place. Other orders of government were compounding the problem by pushing costly responsibilities off their budget books and onto the backs of local governments.

The result was a chronic municipal funding crunch. Local governments, prohibited by law from running budget deficits, were forced to raise property taxes, cut core services, and, most often, put off building and repairing core infrastructure such as roads and bridges, public transit, and drinking water systems.

The consequences? A \$123-billion municipal infrastructure deficit, crowded transportation systems and growing traffic gridlock, and cities and communities without the resources to live up to their full potential as partners in building Canada.

As *Building Prosperity* made clear, to solve these problems Canada would have to reform municipalities' funding tools and tear down barriers to practical cooperation between "higher" and "lower" levels of government. As long as our cities and communities were boxed in by a 19th century mindset, Canada could not hope to meet 21st century challenges.





Part 1: Investing in Our Communities



Introduction

IN THE LAST FEW YEARS, THE GOVERNMENT OF CANADA HAS HELPED REPAIR SOME OF THE WORST DAMAGE DONE TO OUR MUNICIPALITIES BY DECADES OF DOWNLOADING AND UNDER-INVESTMENT. HOWEVER, THE JOB IS FAR FROM FINISHED.

Despite recent gains, municipalities still lack the funding tools to support the national economy and meet Canadians' needs. Municipalities collect just eight cents of every tax dollar paid in Canada. Meanwhile, they build more than one-half of the country's core infrastructure; they pay the salaries of two out of three police officers; and they fund downloaded responsibilities for social services, immigrant settlement and law enforcement.

Canada's tax system takes too much from our communities and puts too little back in. Federal and provincial treasuries consume the tax dollars generated by economic growth. While the Gas Tax Fund provides ongoing infrastructure funding, other programs – for public transit, affordable housing, and municipal policing – are short-term and unpredictable. This makes it difficult for front-line service providers to budget effectively.

Unlike many of their European and American counterparts, Canadian municipalities are left to rely on the slow-growing property tax. It is an out-of-date and regressive funding tool that hits middle- and low-income Canadians hardest, including working families, senior citizens and small-business owners.

Without access to revenues that grow with the economy, and without sufficient long-term investments by other governments, municipalities continue to face a structural gap between their growing responsibilities and the resources they have to meet them.

This fiscal imbalance places a growing burden on property taxpayers, strains local services and forces municipalities to defer essential infrastructure repairs. As a result, Canada's municipal infrastructure deficit – which stood at \$123 billion in 2007 – continues to grow. Canadians experience this problem each day, in the form of crumbling roads, traffic congestion and boil water advisories.

To solve these problems, we must reform municipalities' funding tools and reinvent their relationship with the other orders of government. This section of the report looks at the state of municipal finances, including trends in the revenues and expenditures of all orders of government, and recent and projected changes in federal investments in municipalities.



Chapter 1: State of Municipal Finances

IN THE SIX YEARS SINCE FCM RELEASED *BUILDING PROSPERITY FROM THE GROUND UP: RESTORING MUNICIPAL FISCAL BALANCE*, MUCH HAS CHANGED IN CANADA AND ELSEWHERE. IN 2007, THE FEDERAL GOVERNMENT ESTABLISHED THE BUILDING CANADA FUND TO SUPPORT MUNICIPAL INFRASTRUCTURE PROJECTS ACROSS THE COUNTRY FOR THE PERIOD 2007–2014—A HISTORIC COMMITMENT.

Similar to other countries around the world, Canada entered a recession in 2008. As the foundation of its economic stimulus plan, the federal government invested over \$10 billion in additional funding in local infrastructure, creating almost 100,000 jobs.

This chapter of the *State of Canada's Cities and Communities 2012* updates the information on the state of municipal finances across the country, focusing on trends in municipal expenditures and revenue since 2005. It also compares changes to the municipal bottom line to trends within the fiscal environments of the provincial, territorial and federal governments. Although some preliminary observations can be made regarding the impact of the federal government's economic stimulus program on municipal infrastructure funding, available information only permits a discussion of municipal finances to 2008. In preparation for a switch from the Financial Management System (FMS) to the IMF (International Monetary Fund) reporting

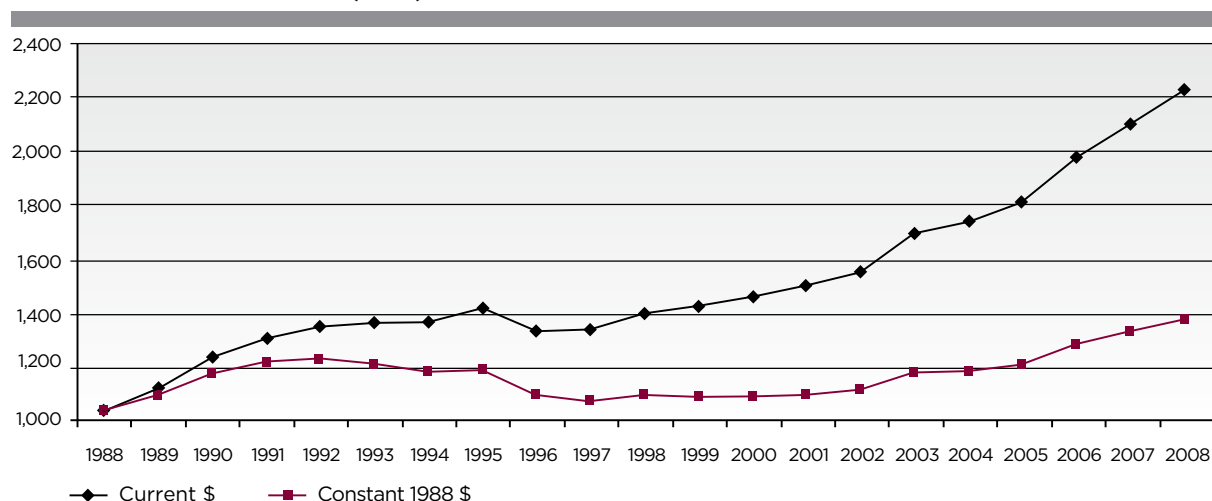
standard, Statistics Canada has terminated the release of government FMS data following the 2008–2009 fiscal year.¹

This chapter is structured as follows:

- the first section presents trends in municipal expenditures from 1988 to 2008
- the second section describes trends in municipal revenue sources over the same period; this discussion is followed by an examination of changes in the mix of municipal revenue sources
- the third section explores the reliance of municipalities on borrowing to pay for capital expenditures
- the fourth section briefly reviews spending trends for the federal government and provincial/territorial governments
- the fifth section discusses revenue trends within the federal and provincial/territorial governments
- the sixth section concludes with a summary of findings

¹ This policy change at Statistics Canada will have a tremendous detrimental impact on the quality of municipal financial data in the years ahead. FCM, along with other stakeholder associations, business and industry, and academia will continue to face challenges when attempting to tell the municipal fiscal story in the years ahead. For more details, see: <http://www.statcan.gc.ca/pub/13-605-x/2010001/article/11155-eng.htm>.

FIGURE 1: TOTAL MUNICIPAL EXPENDITURES PER CAPITA, CANADA, 1988–2008, CURRENT AND CONSTANT (1988) DOLLARS



SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-0024.

1. MUNICIPAL EXPENDITURE RESPONSIBILITIES AND TRENDS

Municipal expenditures in Canada generally increased between 1988 and 2008. Figure 1 shows total municipal spending per capita (including operating and capital expenditures)² over this 20-year period in both current dollars and constant (1988) dollars.³ Although average per capita expenditures for all municipal governments in Canada increased from \$1,039 to \$2,230 during this period, when adjusted for inflation, per capita expenditures only increased from \$1,039 to \$1,383, representing an increase of an average 1.4% per year.

Since 2004, per capita expenditures adjusted for inflation have been increasing more rapidly than during the earlier period: an average annual increase of 3.9% from 2004 to 2008, compared to 0.9% per year from 1988 to 2004.

Table 1 shows the relative importance of expenditures by function for 1988 and 2008. Municipal governments in Canada are responsible for transportation (roads and transit); protection (police and fire); environment (water, sewers, and solid waste); and social services. They are also involved in public health, social housing, recreation and culture, and planning and development. Distribution of expenditures did not change significantly during the 20-year period, with a few exceptions. Spending on housing⁴ and social services increased as result of a 1998 realignment of local services in Ontario.⁵ Expenditures on the environment (water, sewers, and garbage), protection (fire and police), and recreation and culture also increased as a proportion of total expenditures during this 20-year period. Debt charges decreased in relative importance, as did spending on transportation (roads and transit), and regional planning.

² FMS data combines operating and capital expenditures. Municipalities are not permitted to run a deficit in their operating budgets, although they are allowed to borrow to make capital expenditures. Operating expenditures generally increase steadily over time; capital expenditures tend to rise and fall. The construction of a major road in one year, for example, will increase capital expenditures significantly for that year. Capital expenditures in the following year could be much lower.

³ Expenditures per capita in constant dollars take into account the population growth and inflation during this period.

⁴ Although the annual average growth rate for housing is relatively high, housing only accounted for 3.8% of total expenditures in 2008.

⁵ Many social services costs in Ontario are being transferred to the provincial government during the period 2010–2018.

TABLE 1: DISTRIBUTION OF MUNICIPAL GOVERNMENT EXPENDITURES BY CATEGORY, CANADA, 1988 AND 2008

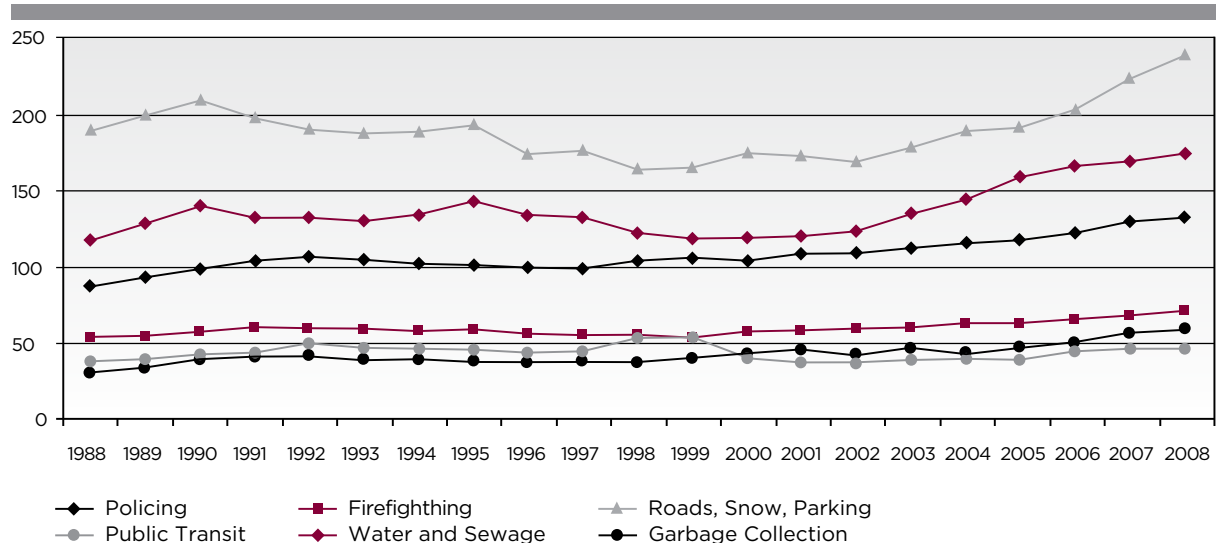
	1988		2008		Annual average growth rate (%) in per capita constant 1988\$
	(\$millions)	% of total expenditures	(\$millions)	% of total expenditures	
General Government Services	2,749	9.9	7,194	9.7	1.3
Protection	4,121	14.8	12,124	16.3	1.9
Transportation	6,197	22.3	15,843	21.3	1.2
Health	560	2.0	1,927	2.6	2.7
Social Services	2,053	7.4	6,684	9.0	2.5
Education	128	0.5	240	0.3	-0.3
Resource Conservation	585	2.1	1,526	2.1	1.3
Environment	4,064	14.6	12,827	17.3	2.3
Recreation and Culture	3,241	11.6	9,189	12.4	1.7
Housing	489	1.8	2,788	3.8	5.4
Regional Planning	572	2.1	1,382	1.9	0.9
Debt Charges	2,657	9.5	2,439	3.3	-3.8
Other Expenditures	432	1.6	148	0.2	-8.5
Total Expenditures	27,849	100.0	74,310	100.0	1.4

SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-0024.

Figure 2 shows the trend in municipal expenditures per capita in constant dollars for major categories of expenditure. Expenditures in all categories have increased during this period, with expenditures on roads (including parking and snow removal) showing the greatest increase. For most services increases in expenditures have occurred during the past few years.

Since 2004, the transportation portion of expenditures has increased from 19.5% of total expenditures to 21.3%. Expenditures on social services, environment, and debt-servicing declined as percentage of total municipal expenditures from 2004 to 2008.

FIGURE 2: SELECTED MUNICIPAL GOVERNMENT EXPENDITURES PER CAPITA, CANADA, 1988-2008, CONSTANT (1988) DOLLARS



SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-0024.

2. MUNICIPAL REVENUE SOURCES AND TRENDS

Table 2 compares the distribution of municipal revenues for 1988 and 2008. Total own-source revenues increased in relative importance by almost 2% over the period:⁶ an increase from 77.1% of total revenues in 1988 to 78.5% in 2008. Of the own-source revenue sub-categories, property taxes were the most significant source of revenues for municipalities in 2008, accounting for almost half of total revenues—as they were in 1988 as well. As a percentage of total revenues, they increased in relative importance by almost 2% over the 20-year period, rising from 48.6% of all revenues in 1988, to 49.5% in 2008. At the same time, user fees increased in relative importance by 8.5%, rising from 20% of all revenues in 1988, to 21.7% by 2008. Investment income, however, is the only own-source revenue category that fell in relative significance, declining by 27% from 6% of total revenues in 1988 to 4.4% in 2008.

Total intergovernmental transfers, on the other hand, declined in relative importance by more than 6%, falling from 22.9% of total revenues in 1988, to 21.5% in 2008. General-purpose (without conditions) grants, in particular, fell by over 40%

in relative importance, from 5.8% of all revenues in 1988 to 3.4% of all revenues in 2008. At the same time, specific-purpose (with conditions) transfers increased by almost 6% in relative importance, from 17.1% of all revenues in 1988 to 18.1% in 2008. When the growth in municipal revenues is measured in constant dollars per capita, total revenues grew at an average annual rate of 1.5%, which is slightly more than the 1.4% growth rate for expenditures noted above.

Figure 3 highlights trends in property taxes, user fees, as well as grants with and without specific conditions. User fees in constant dollars per capita increased the most, rising at an annual average rate of 2%, while property taxes increased at an annual average rate of 1.6%, rising from \$492 per capita in 1988 to \$679 per capita in 2008. General-purpose transfers, on the other hand, fell by 1.2%, and specific-purpose transfers increased by an average of 1.8% annually. This increase occurred, to a great extent, in the period between 2004 and 2008. From 1988 to 2004, there was a decline in specific-purpose transfers, whereas from 2004 to 2008 this trend was reversed.

TABLE 2: DISTRIBUTION OF MUNICIPAL GOVERNMENT REVENUES, CANADA, 1988 AND 2008

	1988		2008		Annual average growth rate (%) in per capita constant 1988\$
	(\$millions)	% of total revenues	(\$millions)	% of total	
Property and related taxes	13,187	48.6	36,519	49.5	1.6
Other taxes	384	1.4	1,056	1.4	1.6
User fees	5,426	20.0	16,029	21.7	2.0
Investment income	1,628	6.0	3,220	4.4	-0.1
Other	292	1.1	1,108	1.5	3.2
Total own-source revenue	20,917	77.1	57,933	78.5	1.6
General purpose transfers	1,579	5.8	2,477	3.4	-1.2
Specific purpose transfers	4,649	17.1	13,349	18.1	1.8
• federal	194	0.7	1,213	1.6	5.8
• provincial	4,455	16.4	12,136	16.5	1.5
Total transfers	6,228	22.9	15,826	21.5	1.2
Total revenue	27,146	100.0	73,759	100.0	1.5

SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-0024.

⁶ This increase reflects the percentage change in the contribution of each revenue source to total municipal revenues during this period.

2.1 Changes Since 2004

Compared to 2004, property and related taxes have fallen as a percentage of municipal revenues, from 53.3% in 2004, to 49.5% in 2008. User fees have also fallen as a percentage of total municipal revenues, from 23.4% in 2004 to 21.7% in 2008. There has, however, been a significant increase in specific-purpose transfers from 12.9% of total municipal revenues in 2004 to 18.1% in 2008. Provincial transfers increased from 11.7% to 16.5%. Although it is assumed that some of this increase reflects provincial gas tax transfers in a number of provinces, a more detailed breakdown is not available. Federal transfers increased from 1.3% to 1.6%. It is not clear without further information, however, whether the increase in provincial transfers reflects a flow-through of federal transfers (from the Building Canada Fund) to municipalities, or direct transfers from provincial governments. Nevertheless, it is clear that conditional transfers overall (federal and provincial) have almost reached the level they were at in 1995.

2.2. New Revenue Tools at the Municipal Level

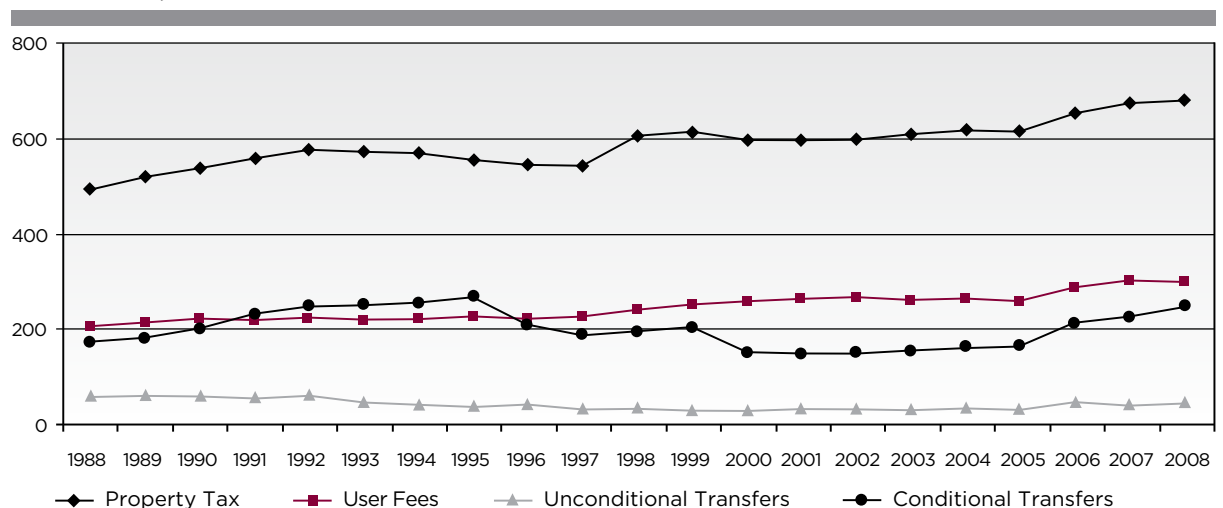
Although municipalities across Canada rely largely on property taxes, user fees, and inter-governmental transfers to finance local services, some have introduced new taxes in recent years. Because the revenues from these taxes are small in relation to property tax revenues, they tend to

show up in the data as “other taxes” rather than by the name of the tax. As can be seen in Table 2, “other taxes” only accounted for 1.4% of municipal revenues in 2008; property taxes accounted for 49.5% of municipal revenues in the same year. Yet, these other taxes reflect innovation at the municipal level in raising revenues. The remainder of this section briefly sets out some of the other taxes, and where they are used. It does not discuss provincial revenue-sharing schemes (for example, sharing of provincial fuel-tax revenues) but instead focuses on municipal taxes and fees.

VEHICLE REGISTRATION TAX

Under the 2006 *City of Toronto Act*, the City of Toronto levied a Personal Vehicle Tax on residents who own or lease a personal vehicle. The tax, which was piggybacked onto the provincial vehicle registration tax, was discontinued in 2011. In addition to a provincial vehicle-registration fee, residents of most large cities in Quebec also pay an additional municipal vehicle-registration fee. The municipal component is collected by the province, and is distributed to municipalities to fund public transit. Vancouver has a commercial vehicle-licencing fee, the amount of which depends on vehicle weight. These revenues are designed to offset expenses related to the use of commercial vehicles on local government roads and highways.

FIGURE 3: MAJOR MUNICIPAL REVENUES BY SOURCE, CONSTANT (1988) DOLLARS PER CAPITA, 1988-2008



SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-0024.

SIGN TAX

Since 2010, Toronto has levied a Third-Party Sign Tax. In Winnipeg, the Outdoor Advertising Tax is levied in lieu of the annual Business Tax paid by all other businesses operating in Winnipeg. The Outdoor Advertising Tax in Montréal is a flat rate per advertising face, favouring large signs over small ones. The City of Edmonton imposes an application fee for erecting a free-standing business identification sign for commercial, industrial, and institutional buildings that are located on city rights of way. In addition, it charges a licencing fee as a percentage of market value, as well as an annual renewal fee.

LOTTERY REVENUES

The City of Toronto collects revenues from both the Ontario Lottery and Gaming Corporation (OLG) and from charities and non-profit organizations looking to hold one-time events. For these one-time events, licences are required. Additionally, fees (the size of which are determined by the value of the prize board) must be remitted to the City. There is a multi-tiered revenue-sharing formula for various components of the OLG slots and casinos.

LAND TRANSFER TAXES

Municipalities in Quebec levy an amount on the sale of immovable property (new or existing) within their territory. The amount, officially known as the “duty” on transfers of immovables, is commonly referred to as the Welcome Tax, and is paid by the purchaser. Toronto levies a Municipal Land Transfer Tax on purchases of all properties in the City of Toronto (in addition to the provincial Land Transfer Tax). In Nova Scotia, municipalities can levy a deed-transfer tax up to a maximum rate set by the province. Halifax Regional Municipality levies a deed-transfer tax, but not all municipalities in Nova Scotia require it.

PARCEL TAX

Municipalities in British Columbia levy a parcel tax on any designated area of land that does not include a highway. Parcel taxes are often used instead of, or in conjunction with, user fees to recover the costs of providing local government services. They can be levied on any property

that could potentially be provided with a service, regardless of whether or not the service is being used.

HOTEL TAX AND VOLUNTARY DESTINATION MARKETING FEES

Hotel taxes are levied at the provincial level across Canada, and at the municipal level in some municipalities in some provinces. These taxes can be voluntary or involuntary. In British Columbia, an additional 1 or 2% municipal and regional district tax on lodging is collected in Chilliwack, North Vancouver, Oak Bay, Parksville, Prince Rupert, Qualicum Beach, Richmond, Rossland, Saanich, Smithers, Surrey, Vancouver, Victoria and Whistler. In Vancouver, 100% of these funds go to Tourism Vancouver. In addition, 1.65% of the 8% sales tax on hotels province-wide is dedicated to funding Tourism BC.

Calgary, Edmonton, and Saskatoon levy a Destination Marketing Fee (DMF) on hotels in their cities. In Quebec, an additional tax is levied per room per night in Québec City and area, as well as in the Outaouais, Charlevoix, Saguenay-Lac-Saint-Jean, Chaudière-Appalaches, Eastern Townships, Gaspésie and Centre-du-Québec. These revenues are returned to each tourism association, minus a collection fee.

In Ontario, a number of hotels and motels charge a DMF to fund promotional campaigns aimed at boosting their municipality’s tourism trade. These fees are not municipally imposed, but are instead imposed by the hotels/motels on a voluntary basis. In New Brunswick, an additional fee on top of provincial taxes is charged on rooms in Bathurst and Saint John. Halifax Regional Municipality has a levy for hotels with more than 20 rooms. Charlottetown charges a supplementary room tax on top of the provincial sales tax. In St. John’s, there is an additional room tax, part of which is used to fund the Visitors and Convention Bureau, and part of which is applied towards the debt on the Convention Centre.

DEVELOPMENT CHARGES

Development charges are permitted for all municipalities in British Columbia, Alberta, Saskatchewan, and Ontario. Not every municipality in each of these provinces, however, levies development charges. They tend to be common in urban municipalities that are experiencing growth, and are used much less frequently in smaller, rural, and slow-growing urban municipalities.

In Ontario, the 1997 *Development Charges Act* authorized municipalities to pass bylaws, with a view to recovering capital costs incurred to provide services to new residential and non-residential developments. Ontario is the only province with separate development-charges legislation.

All municipalities in British Columbia are permitted to levy development charges, and must implement such charges by bylaw, as permitted under the *Local Government Act*. Many B.C. municipalities levy development charges. Vancouver can charge these costs under the Vancouver Charter.

Under the *Municipal Government Act*, municipalities in Alberta have the authority to charge redevelopment levies and off-site levies. Until recently, these levies were only used by the larger cities, but growth in many urbanized areas has led to an increase in the number of municipalities (both large and small) that now rely on development and off-site levies to finance eligible growth-related capital infrastructure. Development or infrastructure charges are also used for a limited range of growth-driven infrastructure in Halifax Regional Municipality (known as “capital-cost contributions”), but not in other municipalities in Nova Scotia.

Municipalities in Saskatchewan are permitted by bylaw to levy infrastructure charges. Special infrastructure charges are used by two or three of the larger, rapidly growing urban municipalities in Newfoundland and Labrador. They are used by the City of Winnipeg under the City of Winnipeg Charter, but are not levied in other municipalities in Manitoba.

AMUSEMENT TAXES

Saskatchewan, Manitoba, and Ontario are the only provinces in which municipalities are permitted to levy an amusement tax. In Ontario, the City of Toronto is permitted to levy amusement taxes. In Manitoba, municipal councils are permitted to impose taxes on admission fees by bylaw, although this tax is administered primarily in Winnipeg.⁷ In Winnipeg, there is a tax of 10% on an admission price of \$5.00 or more for movies, and for entertainment facilities with 5,000 seats or more. The revenues raised from these taxes in Winnipeg are to be spent on arts and culture in the city. In Saskatoon, a tax is applied to cinema admissions. In Regina, a tax is applied to cinema admissions only, and vendors get a discount on the tax collected. Saskatchewan municipalities have the authority to levy taxes on other types of entertainment, but both Saskatoon and Regina have chosen to limit their taxes primarily to cinemas.

PARKING TAX

In 2006, a parking tax was levied within a specified transit zone of Vancouver, but was suspended a year later because of its unpopularity. The Parking Tax was a tax paid on the sale of a parking right, calculated on the purchase price of parking rights within the South Coast British Columbia Transportation Authority (Metro Vancouver) service region. The revenues were used for road and transit expansion. The tax was included in municipal property-tax notices, and property owners could appeal the assessment as they would a property assessment.

3. MUNICIPAL BORROWING

Municipalities use borrowing (debt financing) to pay for at least part of the costs of major public capital works. Debt charges include the payment of principal and interest on municipal borrowing. Repayment of borrowed funds comes from operating revenues such as property taxes and user fees. As shown earlier in Table 1, municipal debt charges have fallen from 9.5% of municipal expenditures in 1988, to 3.3% in 2008. Over the past four years, a similar pattern has persisted. Debt charges fell from 4% of overall expenditures in 2004, to 3.3% in 2008.

⁷ Hemson Consulting Ltd., “Assessment of Potential New Tax Measures Under the *City of Toronto Act*, 2006,” March 2007.

In absolute values, spending on debt-servicing declined from \$50 per capita in 2004 to \$40 per capita in 2008, taking inflation into account. This decline reflects a decline in interest rates during the period, but also shows that municipalities do not seem to be increasing their reliance on borrowing.

Figure 4 depicts net financial debt for local governments (municipal and school boards) from 1988 to 2007. Net financial debt reflects liabilities minus assets. A dramatic decline is observed in net financial debt as well, which reinforces the earlier conclusion that municipalities across Canada have adopted stricter use of debt-financing.

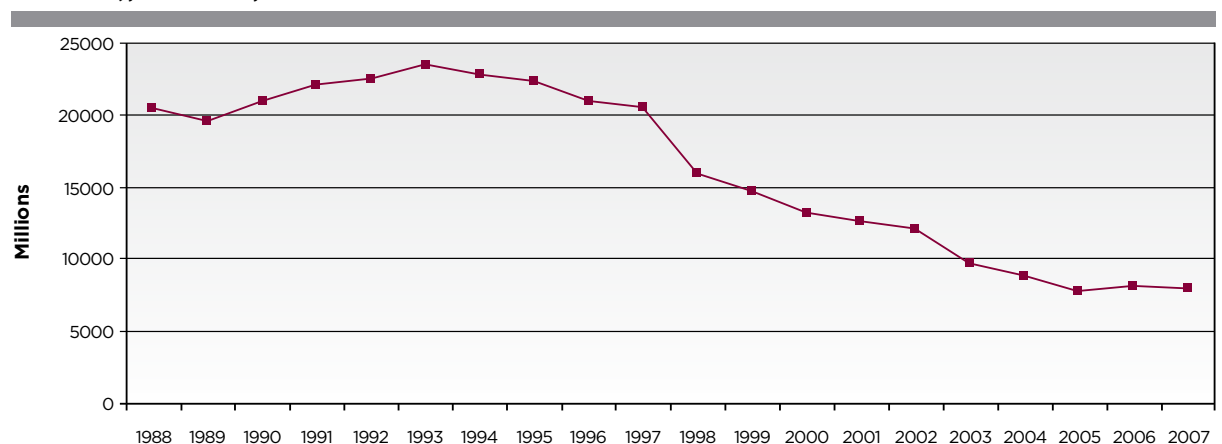
Borrowing at the municipal level is quite different from borrowing by higher levels of government. Unlike federal and provincial/territorial governments, which can and do borrow to meet operating requirements (such as to pay wages and salaries, purchase materials, etc.), municipalities can only borrow to make capital expenditures. According to provincial and territorial rules in Canada, municipalities are not allowed to run a deficit in their operating budgets, and are limited in how much they can borrow while waiting to collect tax revenues.

Borrowing to make capital expenditures permits municipalities to synchronize the costs and benefits of infrastructure over time. A project built today will result in benefits over perhaps the next 25 years. If funds are borrowed, the project is paid for over the next 25 years through repayment of the principal and interest. This means that those who benefit from the facility (its users over the next 25 years) also pay the costs through property taxes and user fees. Borrowing is more equitable and efficient when those paying for services are enjoying the benefits.

Borrowing allows a municipality to enjoy the immediate benefits of a specific capital improvement, which is not always possible when relying on current revenues. Current revenues (property taxes and user fees) are usually not sufficient to fund large expenditures on a “pay-as-you-go” basis. The pattern of capital expenditures is uneven, which means that a municipality may find it needs millions of dollars to finance an infrastructure project one year, followed by a decline in such requirements for a few years. Borrowing allows municipalities to avoid significant year-to-year fluctuations in property tax rates.

The main disadvantage to borrowing, from a municipal perspective, is that potential revenues are dedicated to debt repayment, and are thus

FIGURE 4: NET FINANCIAL DEBT FOR LOCAL GOVERNMENTS (MUNICIPALITIES AND SCHOOL BOARDS), CANADA, 1988-2007



SOURCE: STATISTICS CANADA, CANSIM TABLE 385-0014

not available for other uses. When the costs are spread out over time, a significant portion of the local budget becomes a fixed obligation, and debt charges can constrain local fiscal flexibility. Moreover, less-indebted governments tend to be more highly rated by the bond-rating agencies, and thus face lower borrowing costs. A municipality with low debt also has more flexibility in responding to unanticipated future events.⁹ Nevertheless, borrowing by local governments to meet at least some capital expenditure requirements is certainly justified. As Casey Vander Ploeg notes, “a completely debt-free city should not be the ultimate goal of fiscal policy, regardless of how well it plays out politically. This is especially the case if the trade-off is an under-funded capital stock.”¹⁰

4. EXPENDITURE TRENDS AMONG FEDERAL AND PROVINCIAL/ TERRITORIAL GOVERNMENTS

Figure 5 compares expenditures for all three orders of government during the period 1989–2009.¹¹ It indicates that federal expenditures per capita in constant dollars have fallen during the period, that provincial expenditures have

increased, and that municipal expenditures have increased, albeit at a slower rate than provincial/territorial expenditures.

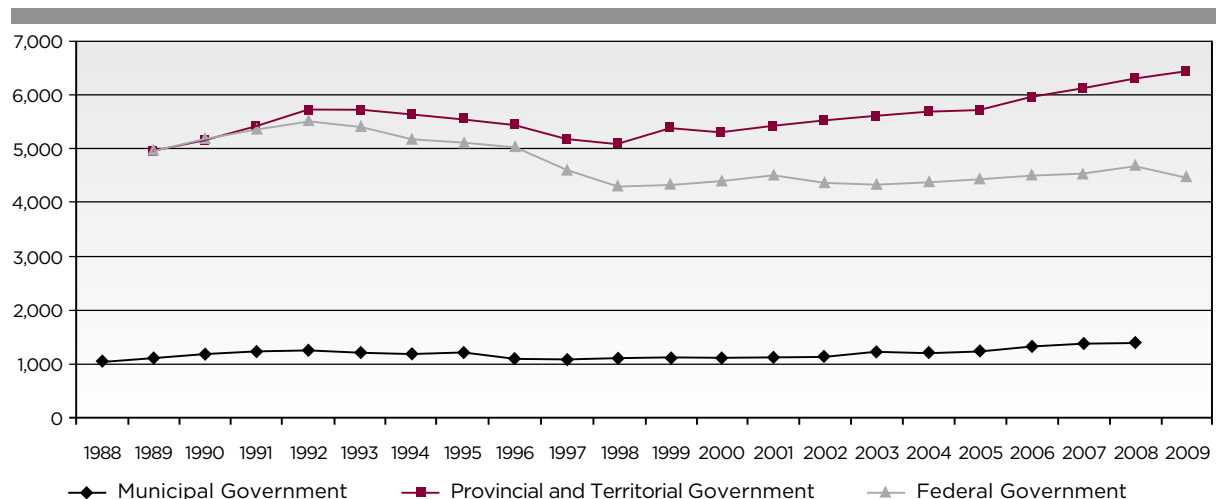
4.1. Federal Expenditures

Federal expenditures per capita in constant dollars fell at an average annual rate of 0.3% over the 20-year period. Figure 6 shows federal government expenditures per capita for selected categories from 1989 to 2009. In 1997, Established Programs Financing (EPF) and the Canada Assistance Plan (CAP) were replaced by the Canada Health and Social Transfer (CHST). This change explains the increase in general-purpose transfers, and the reduction in social services expenditures at the federal level. Other spending categories that declined over the period are transportation and communications, and education. At the same time, federal expenditures increased for protection and health.

4.2. Provincial Expenditures

Figure 7 shows the trends in provincial government expenditures from 1989 to 2009. Overall, provincial expenditures per capita in constant dollars increased at an annual average rate of 1.8% per year. The largest provincial government expenditures both in 1988 and 2009

FIGURE 5: FEDERAL, PROVINCIAL AND MUNICIPAL GOVERNMENT EXPENDITURES PER CAPITA, 1989–2009, IN CONSTANT (1988) DOLLARS



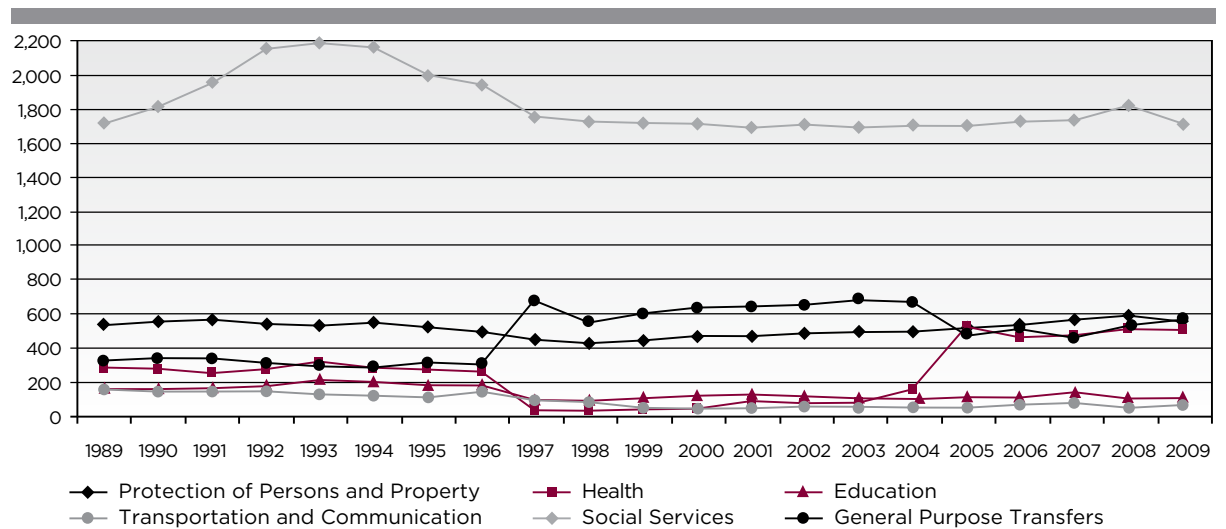
SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-001, 002, AND 0024.

⁹ TD Economics. *Mind the Gap: Finding the Money to Upgrade Canada's Aging Infrastructure*, Toronto 2004, p. 14.

¹⁰ Vander Ploeg, Casey, “No Time to be Timid: Addressing Infrastructure Deficits in the Western Big Six,” Calgary: Canada West Foundation, February 2004, p. 17.

¹¹ The estimates for federal and provincial/territorial governments cover the period 1989–2009, because their fiscal year is April 1 to March 31. The year 1989 thus refers to 1988–1989.

FIGURE 6: FEDERAL GOVERNMENT EXPENDITURES PER CAPITA BY SELECTED CATEGORIES, 1989-2009, IN CONSTANT (1989) DOLLARS



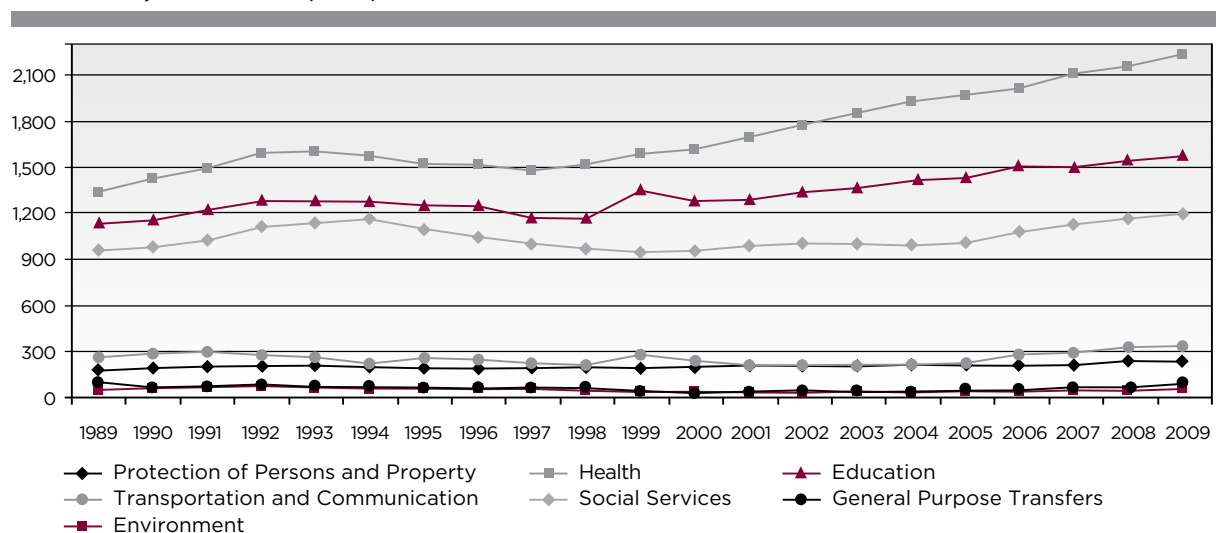
SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-001 AND 002.

were for health, education, social services, and debt charges. By far the most striking feature of this graph is the increase in provincial health expenditures. Over the 20-year period, health expenditures as a proportion of total provincial government expenditures increased the most, by more than 26%. Debt charges, resource conservation, environment, and transfers from provinces to municipalities fell significantly over the 20-year period.

5. REVENUE TRENDS FOR FEDERAL AND PROVINCIAL/TERRITORIAL GOVERNMENTS

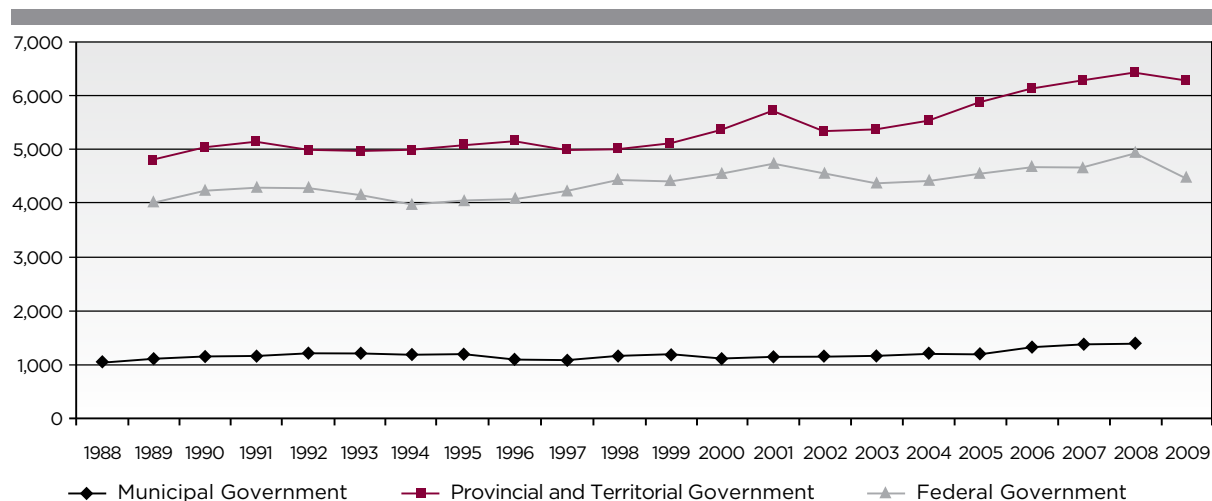
Figures 8 to 12 compare the revenues for federal, provincial/territorial, and municipal governments from 1989 to 2009. Figure 8 compares total revenues per capita in constant dollars for each of the three orders of government. It shows that, on a per capita basis, provincial/territorial governments raise the most revenues. Moreover, both federal and provincial/territorial government

FIGURE 7: PROVINCIAL GOVERNMENT EXPENDITURES PER CAPITA FOR SELECTED CATEGORIES, 1989-2009, CONSTANT (1989) DOLLARS



SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-002.

FIGURE 8: FEDERAL, PROVINCIAL AND MUNICIPAL GOVERNMENT REVENUES PER CAPITA, 1989–2009, CONSTANT (1988) DOLLARS



SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-001, 002 AND 0024.

revenues are considerably more than municipal government revenues. Federal and provincial revenues have increased (in per capita constant dollar terms) on an annual average basis over the 20-year period by 0.8% and 1.9% respectively; the increase in municipal government revenues has been much more modest, at 1.5%.

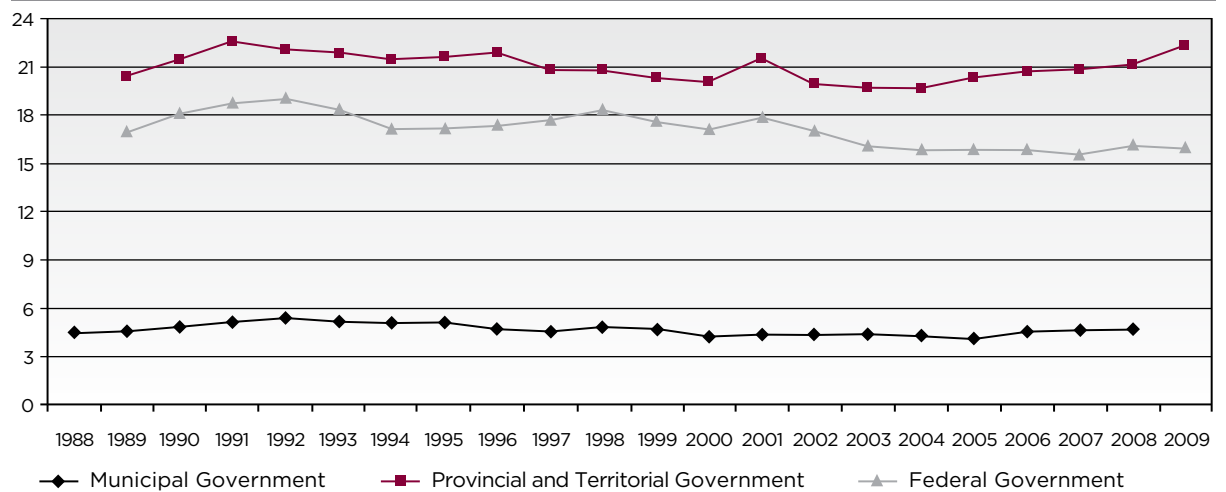
The most significant sources of revenue for the federal government are personal income taxes, consumption taxes, and corporate income taxes. Over the 20-year period, revenues from both personal and corporate income taxes have increased at the federal level; consumption tax revenues have fallen, primarily due to the reduction of 2 percentage points of the GST/HST. Overall, federal government revenues per capita in constant dollars have increased at an annual average rate of 0.8%, while expenditures were falling at an annual average rate of 0.3%.

In terms of provincial/territorial revenues, the most significant sources are personal income taxes and consumption taxes, followed by transfers from the federal government. Another major source of revenue at the provincial level is investment income, driven primarily by its importance in provinces heavily endowed with natural resources, such as Saskatchewan, Alberta, and British Columbia. Although provincial property taxes only account for a small proportion of

provincial revenues, they did increase over the 20-year period by an average rate of 1.2% per year, largely because most provinces have taken over the education portion of property taxes. At the moment, school boards in Manitoba and Saskatchewan are the only ones with local taxing power: a significant change from the beginning of the period, when school boards in almost every province had taxing authority. New Brunswick is the only province that has a province-wide provincial property tax for general purposes, although most provinces have collected property taxes for general purposes in unincorporated territories and districts for some time.

User fees at the provincial level grew by 191% over the past 20 years, from a 3% share of overall revenues in 1989, to 8.7% in 2009. Relative reliance on consumption taxes, on the other hand, fell by 18%: a reduction from 23% of overall revenues in 1989, to 18.9% in 2009. Relative reliance on federal transfers also declined between 1989 and 2009 by 6%: federal transfers accounted for 20% of provincial revenues in 1989, and 18.8% of provincial revenues in 2009. Overall, the annual average growth in provincial revenues in constant dollars per capita over the 20-year period was 1.9%, which is somewhat greater than the 1.8% rate of growth in expenditures.

FIGURE 9: GOVERNMENT TOTAL REVENUES AS PERCENTAGE OF GDP



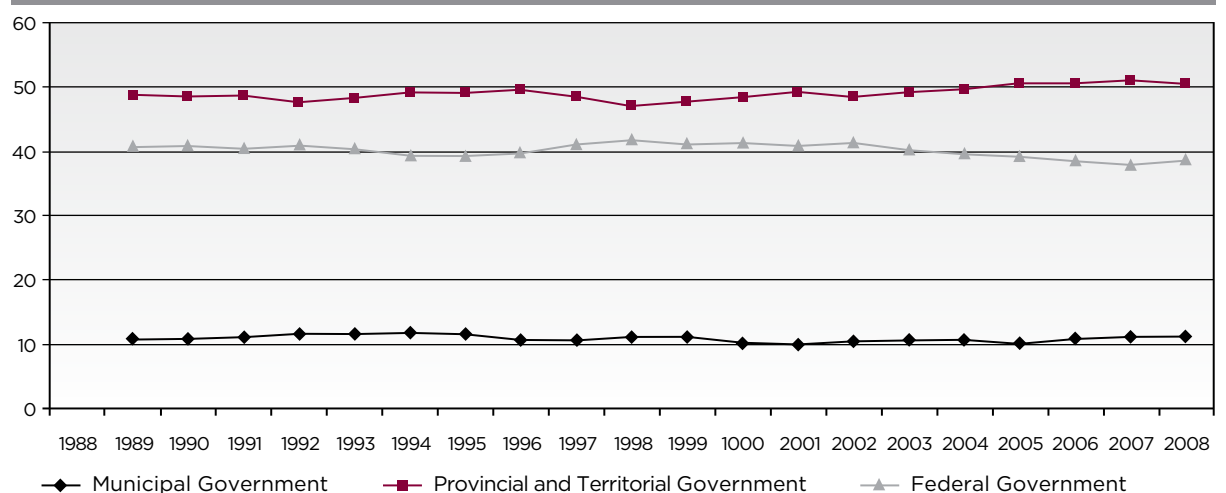
SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-001, 002 AND 0024.

Figure 9 compares revenues relative to Gross Domestic Product (GDP) for each order of government. As a percentage of GDP, revenues of all orders of government generally decreased over the period from 1988 to 2008-2009. This finding should not be interpreted as a decline in government revenues; in reality, they have increased noticeably over the period. This result instead primarily reflects the fact that GDP has risen much faster than government revenues during this period. In more recent years, coinciding with the financial crisis and economic downturn in 2008-2009, the ratio of federal government revenue to GDP continued to decline, but the

ratio for provincial/territorial governments started to increase. The ratio of municipal revenues to GDP has stayed fairly constant during this period.

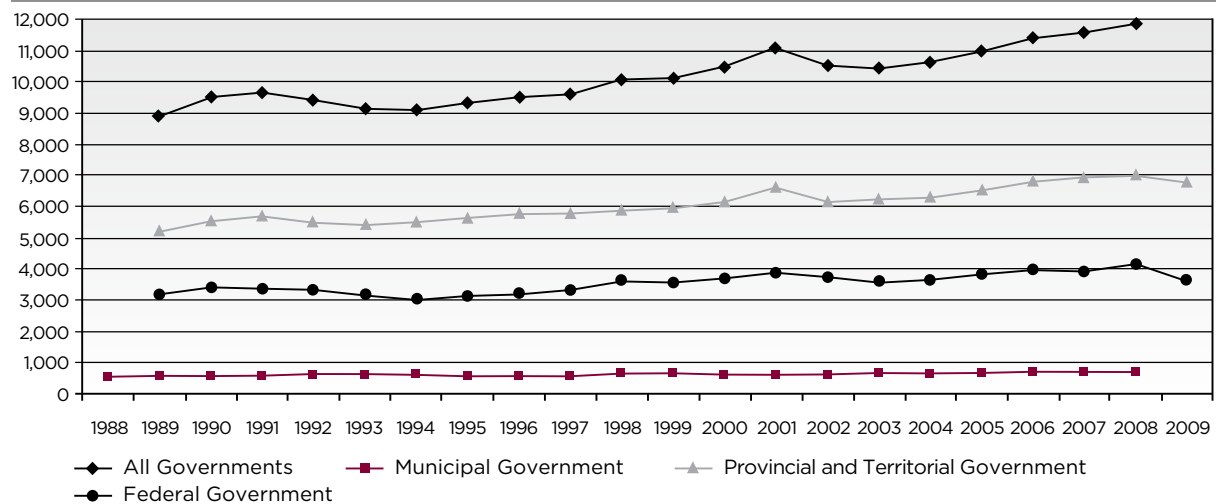
Figure 10 shows the revenues for each order of government as a proportion of consolidated revenues for all governments. Provincial/territorial governments account for the most significant proportion of consolidated revenues; municipal governments account for the smallest proportion. There does not appear to be much change over the period in the proportion of revenues for each order of government.

FIGURE 10: TOTAL GOVERNMENT REVENUE AS PERCENT OF CONSOLIDATED REVENUE, 1988-2008



SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-001.

FIGURE 11: TOTAL TAX REVENUE PER CAPITA, 1988–2008, CONSTANT (1988) DOLLARS



SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-001, 002 AND 0024.

Figure 11 compares tax revenues for each order of government during the 20-year period.¹² Federal tax revenues increased (in per capita constant dollar terms) at an average annual rate of 0.7% and provincial/territorial tax revenues at an annual average rate of 1.2%. Municipal tax revenues, although the smallest among the per capita tax revenues of all orders of government, had the largest increase over the 20-year period at 1.6% per year, on average.¹³

Finally, Figure 12 compares selected sub-categories of tax revenue per capita in constant dollars from 1989 to 2009. The two smallest tax categories—the provincial corporate income tax and the municipal property tax—showed the greatest increase during the 20-year period. The larger provincial taxes—the provincial personal income tax and the provincial consumption tax—experienced slower growth. Both the provincial personal income tax and the provincial corporate income tax show declining growth in 2009.

6. SUMMARY OF FINDINGS

The major findings of the comparative analysis of revenues and expenditures for all three orders of government are summarized below.

Unlike other orders of government, municipal expenditures have been increasing faster than municipal revenues.

Over the past 20 years, federal government expenditures in constant dollars per capita have been declining, while their revenues have been increasing. Provincial/territorial government expenditures have been increasing at almost the same rate as their revenues. However, both federal and provincial government revenues fell in 2009. Municipal government expenditures have been increasing at a faster rate than their revenues over the past 20 years.

Municipal tax revenues have increased more rapidly than federal and provincial taxes, although they are much smaller in magnitude.

Federal, provincial, and municipal tax revenues in constant dollars per capita increased from 1988 to 2008. The percentage increase was highest for municipal governments, followed by the provinces, then the federal government. Levels of tax revenue, however, remain much higher

¹² The difference in growth rates between provincial total revenues and provincial tax revenues reflects an increase in user fees and investment income over the 20-year period.

¹³ The higher rate of growth for municipal taxes may not be so obvious in Figure 11 because of the scale of the graph combined with the smaller amount of taxes at the municipal level compared to the other orders of government.

for provinces, followed by the federal government (at about half the provincial level), and finally municipalities (at less than 15% of the provincial level).

Special-purpose transfers to municipalities have increased since 2004.

The largest sources of revenue for municipal governments are property taxes, user fees, and intergovernmental transfers. Although reliance on own-source revenues (property taxes and user fees) increased over the past 20 years, the last five years have seen a change in that pattern. In particular, specific-purpose transfers to municipalities increased from 12.9% of total municipal revenues in 2004, to 18.1% in 2008. It appears from the data that the greatest increase has been in provincial transfers, but it is not clear whether this increase reflects direct transfers from provinces to municipalities, or a flow-through from the federal government (through the Building Canada Fund) to municipalities.

Some municipalities are levying new taxes.

Some municipal governments are turning to new tax sources to supplement property tax revenues. For example, some municipalities are levying vehicle-registration taxes, land transfer

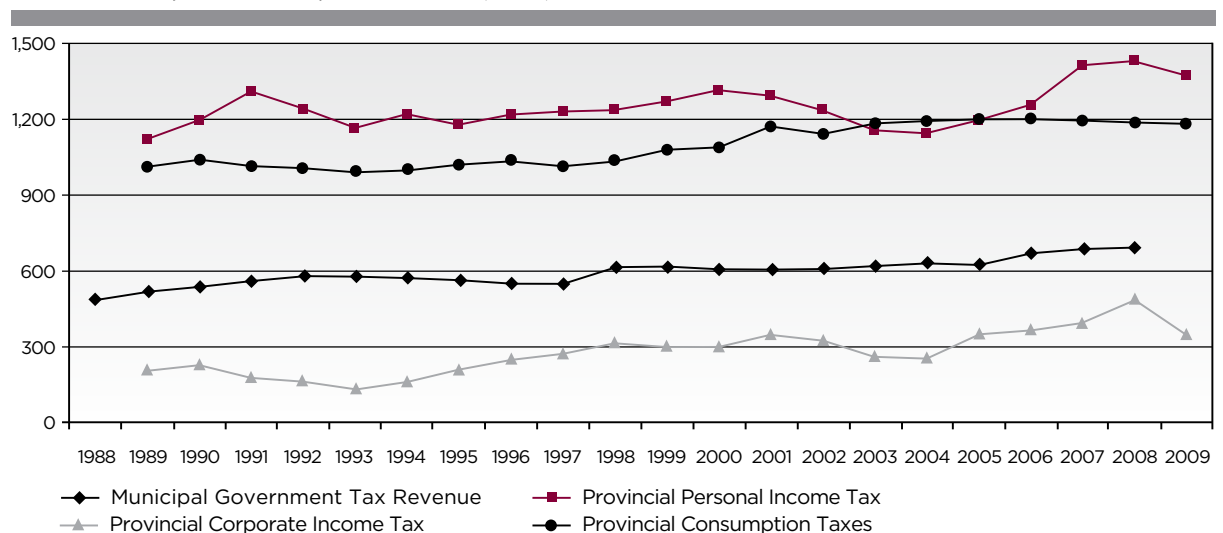
taxes, hotel taxes, and other taxes. At present, however, these revenues provide limited funds for municipalities, as compared to the property tax.

Municipal borrowing declined over the past 20 years.

Municipal borrowing has been declining over the past 20 years, although a strong case can be made for borrowing to invest in capital infrastructure. Borrowing is an equitable and efficient way to pay for capital expenditures, when those paying for the infrastructure over time are also enjoying the benefits over time.

Finally, it is important to emphasize how difficult it is for local governments, researchers, or the public to analyze municipal and expenditure trends, when the only data that is provided on a comparable basis (from Statistics Canada) is only available until 2008. Although the switch to the IMF reporting standard will eventually enable better comparisons with other countries, it is not possible to answer many questions facing governments in Canada today. These questions include the impact of the 2008 recession on local government revenues and expenditures, and the impact of federal infrastructure programs on investment in local infrastructure.

FIGURE 12: PROVINCIAL AND MUNICIPAL TAX REVENUE PER CAPITA FOR SELECTED CATEGORIES, 1988-2008, CONSTANT (1988) DOLLARS



SOURCE: STATISTICS CANADA, NATIONAL ECONOMIC ACCOUNTS, CANSIM TABLE 385-001, 002 AND 0024.

BEYOND THE PROPERTY TAX

Casey G. Vander Ploeg, Senior Policy Analyst, Canada West Foundation

The Canadian Experience

Like many former colonies of the British Empire, Canada has inherited a number of traditions developed in Great Britain. One such colonial remnant is the heavy reliance of local governments on property taxes. Canada's local governments receive over 95% of their tax revenues from property taxation. This proportion is similar to that of the U.K., Ireland, Australia, and New Zealand.¹

The Broader International Experience

The prevailing situation across much of the Commonwealth stands in stark contrast to the broader international experience. For example, local governments in the Nordic trio—Sweden, Norway, and Finland—get over 90% of their tax revenue from income taxes, which also comprise 80% of local tax revenue in Germany and Switzerland. In Hungary, about 75% of local tax revenue comes from various sales taxes, which also comprises 50% in the Netherlands. Over 20% of local tax revenues in France, Japan, Korea, and the U.S. also accrue from sales taxation.² Contrary to what many Canadians may believe, there is no fundamental natural law dictating that local governments be exclusively dependent on the property tax.

The Pros and Cons of Property Taxation

Historically, debate and discussion over tax issues in Canada have largely revolved around the level of taxation, while largely ignoring the types of taxes levied. However, what we tax, how we tax, whom we tax, and how we spend the revenues are just as important—if not more so—than how much we tax. The reason is that each and every tax has inherent advantages and disadvantages.

Positive features of the property tax include an immobile and stable tax base, reliable and predictable revenue, good compliance and collection, and high visibility and historical acceptance. Disadvantages include a relatively narrow tax base that links to only one aspect of the economy: real estate. Unlike other taxes such as income tax or sales tax, property tax has no built-in “escalator”. As such, growth in property tax revenue is sluggish, often failing to keep pace with population growth and economic expansion. Property tax is not related to ability to pay, and it is not always simple to understand. Assessment processes in particular can be confusing. For Canada's cities, a particularly devastating drawback is that property tax cannot capture revenue from visitors—who impose on local infrastructure and municipal services, but pay their property taxes elsewhere.

Diversity and Balance

The best possible tax would involve a stable, objective, and robust tax base while providing adequate, reliable, and predictable revenues, and would be responsive to economic and population growth. The best possible tax would be easy and cost-effective to establish and administer, and would offer high rates of voluntary compliance. The best possible tax would be equitable, fair, and economically efficient, and would be perceived as such. The best possible tax would be simple to understand, visible, transparent, and provide good accountability. There is just one problem: such a tax does not exist.

¹ Organisation for Economic Cooperation and Development (OECD). 2011. *Tax Revenue Statistics, 1965-2010*. Organisation for Economic Cooperation and Development. Paris, France.

² Ibid.

All of the positive tax-performance criteria above involve trade-offs that cannot be managed within a single tax source. For example, a tax that produces consistently reliable and predictable revenue cannot at the same time be highly responsive to economic growth. Either the tax is relatively “inelastic” and produces consistent revenue, or the tax is “elastic” and runs the risk of variable revenue flows due to changing economic conditions.

All of this underscores a basic point. *It is the lack of diversity in the local tax regime that is the issue.* Only when governments have a diverse set of tax tools can all the positive performance criteria be brought into play. In other words, it is important to recognize the benefits that accrue from a diversity of tax tools and revenue levers. The singular and heavy reliance of Canada’s local governments on the property tax, coupled with the fiscal challenges they face—particularly infrastructure—constitute a powerful argument for employing a range of tax tools and revenue levers, allowing the disadvantages of the property tax to be offset by other tax sources.

Rationale for a New Tax Mix

The argument for a more diverse local tax system weaves together various fiscal and governance concerns with demographic, economic, and political considerations.

Fiscal Rationale: A diverse tax system would result in more reasonable levels of local revenue growth—not by intentionally increasing property tax rates year-over-year, but by using taxes that link more directly to growth within the local economy. A growing economy requires expanded infrastructure and more municipal services. An expanded set of tax tools would allow local governments to direct a portion of local economic growth towards the infrastructure and services required to accommodate that growth.

Governance Rationale: Traditionally, the purpose of local government has been to provide a limited range of services to *property* (e.g., roads, sidewalks, water, sanitation, police and fire protection). Because public services to property increase the value of that property, paying for these services through a tax on property makes intuitive sense: part of the increase in property value is forwarded to the government providing the public service. However, just as municipalities have grown in size, importance, and complexity, so have the list of issues with which they must contend. This is particularly the case for Canada’s large city regions, whose responsibilities are not only directed to *property* but to *people* (e.g., immigrant settlement, addiction treatment, homelessness, affordable housing, community and social services). For such purposes, the narrow base of the property tax is ill-suited, particularly if it redistributes income. Social responsibilities unrelated to property are better handled by other forms of taxation with a broader tax base, such as sales taxation or the personal income tax. Given the interconnectedness of government today, disentanglement is likely not an option, and municipalities can hardly withdraw unilaterally from these areas. Tax diversity at the local level remains a viable policy response.

Demographic Rationale: Almost 70% of Canadians live within one of the 33 large metropolitan city regions, which also account for almost 90% of all population growth. A more economically responsive tax regime would enable these cities to better cope with and accommodate this growth through tax revenues generated by growth. Tax diversity is also critical in addressing growth on the urban periphery—growth that does not always translate into additional property tax revenues. While federal and provincial grants can serve

as an offset, the former stifles the creative impulse and competition between municipalities, and the latter implies little or no local control. A much more creative option is to allow cities a more diverse tax system that enables them to equalize such fiscal pressures themselves.

Economic Rationale: In many ways, the property tax can be considered a “horse-and- buggy” tax that is becoming increasingly archaic in the new globalized information economy. In times past, property was essential to wealth creation. It has become less so in today’s modern high-tech world, where people can be located almost anywhere to do almost anything. In some ways, the property tax can also act as a capital tax. Capital taxes are among the worst possible taxes, as they target savings and investment: the very fuel of economic growth and gains in productivity.

Political Rationale: A more diverse tax system provides a great opportunity to establish better accountability. Only tax revenues that are imposed and raised locally—with expenditures decided locally—can ensure the highest accountability. A singular reliance on the property tax, by necessity, implies that grants must remain an important feature of the local fiscal scene, despite the many accountability issues they create.

Embracing Creative Options

Since the property tax does possess certain characteristics that provide a good fit for many local requirements, it should continue to serve as the foundation tax for local government. At the same time, there would be clear benefits to supplementing the property tax.

In April 2011, Canada West Foundation outlined a proposal for a local “penny tax” for infrastructure. The idea derives from broad-based local sales taxes used in some 36 American states. A penny tax could be imposed only with voter approval in a referendum, the maximum rate allowed would be 1%, and all revenues would be dedicated for specific infrastructure projects, also approved by voters. The tax would have a prescribed time limit—two local election cycles—after which the tax would lapse. To employ the tax again, another set of projects and another referendum would be required. The tax would piggy-back off the federal GST. If the tax generated more revenue than anticipated, this would be returned to taxpayers through lower property taxes.

Selective Sales Taxes: Another option is to supplement the property tax with a set of selective sales taxes on specific goods and services that tie directly to municipal responsibilities. For example, since local governments are responsible for a good portion of the national transportation network, selective taxes on car sales, car rentals, fuel, or a municipal registration fee make a lot of sense for funding roads and bridges, as well as public transit.

Formalized Tax-Revenue Sharing: Some municipalities lack a sufficiently large tax base to move much beyond property tax, and must still depend on federal and provincial grants. However, grants would be much improved if they were formalized through a process of tax-revenue sharing. Particularly instructive here is Manitoba which, unlike most other provinces, has a long history of tying granting support to a stream of provincial revenue.

Under the new Building Manitoba Fund, tax-revenue sharing is equivalent to either the combined total of 4.15% of personal and corporate income tax revenue, two cents of the provincial tax on gasoline and one cent of the provincial tax on diesel, or 1% of the provincial retail sales tax—whichever “package” produces more revenue for the province’s municipalities.

Tax Reality

Given the major fiscal and infrastructure challenges facing Canada’s municipal sector, serious consideration should be given to meaningful tax reform that can address these challenges. For context, it is important to understand where local governments fit within the broader Canadian tax picture.

In 1961, all governments in Canada collected a combined \$10 billion in tax. In 2011, they collected \$545 billion. This additional \$535 billion amounts to an increase of \$11,700 in real or inflation-adjusted per-capita taxation. Which governments were responsible? The federal government was responsible for about \$5,000 or 43%. Provinces were responsible for \$5,700 or 50%. All local governments taken together were responsible for \$900, or about 7%.

For each additional dollar paid in tax over the past 50 years, about 60 cents has gone to federal and provincial personal income taxes and premiums for Employment Insurance and the Canada Pension Plan. Another 25 cents has gone to federal and provincial sales taxes. A further 10 cents has gone to corporate income tax and other federal and provincial taxes. Slightly more than five cents out of each additional dollar in tax has gone to local governments—primarily through the property tax.³

Conclusion

The Canada West Foundation’s research on local finance and infrastructure has been international in scope. The search for optimal local funding tools should not be restricted to historical Canadian practice. There is much to learn and appreciate from the approaches taken in other countries, against which the distinctive nature of Canada’s municipal tax base may constitute a competitive disadvantage.

No single tax can ever be entirely fair or neutral with respect to investment patterns, economic distortions, or decisions about location and business inputs. Nor is every tax equally suited to generating predictable, stable and growing streams of revenue. By the same token, no single tax source is equally suited to compensating for inflation, capturing growth within a local economy, nor accommodating the growing numbers of people filling the beltways around our cities. It is simply unreasonable to expect one tax to carry the burden of funding today’s large municipalities. Our challenge today is to build a more diverse basket of tax tools that will work better to meet current needs. International experience has already demonstrated that this is possible.

³ Derived by Canada West Foundation from Statistics Canada. 2011. CANSIM Table 380-0007 and Series No. 466-668 and 4169-3271. Statistics Canada. Ottawa, ON.



Chapter 2: State of Federal Investments

DURING THE PAST FEW YEARS, THE GOVERNMENT OF CANADA HAS HELPED REPAIR SOME OF THE WORST DAMAGE DONE TO OUR MUNICIPALITIES BY DECADES OF DOWNLOADING AND UNDER-INVESTMENT.

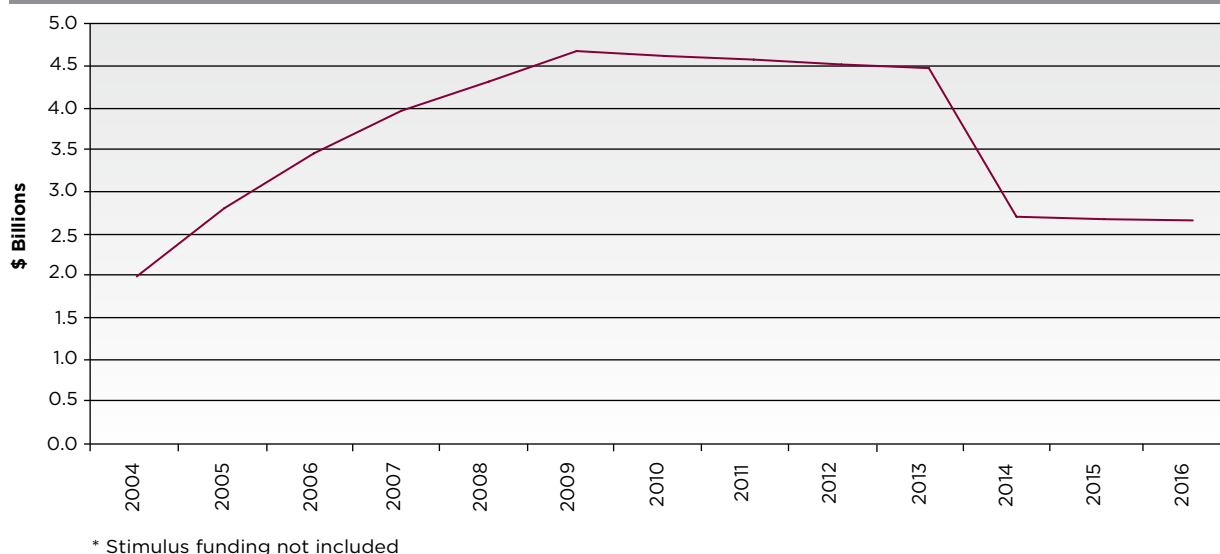
The government has invested billions of dollars in local roads, water systems, public transit and affordable housing. In addition, through the Building Canada Plan (BCP) and the permanent Gas Tax Fund (GTF), the government has moved away from the short-term, ad-hoc infrastructure-funding models of the past.

Figure 1 shows federal investments in cities and communities—from 2004, when the government agreed to rebate 100% of the GST that municipalities pay, and one year later committed to share the Gas Tax Fund, through to the Building Canada Fund (note that this graph does not include

federal investments as part of its Economic Action Plan.) These investments have done more than slow the decline in municipal infrastructure; they have created an opportunity to stop it for good. The Government of Canada can turn recent gains into lasting solutions.

Figure 1 hints at what lies in store in the years ahead. More than one-third of current federal investments in our municipalities are scheduled to expire within the next 36 months. The Gas Tax Fund—the foundational federal infrastructure program—will see nearly 50% of its current value eroded by inflation and growing needs over the

FIGURE 1: FEDERAL INVESTMENTS* IN MUNICIPAL INFRASTRUCTURE, 2004-2016¹



¹ It is important to note that Figure 1 does not include recent stimulus investments under the EAP. This short term investment saw \$10 billion of federal investments in municipal infrastructure over two years.

next two decades. These are not one-time stimulus dollars; rather, these are core investments to repair roads, house low-income seniors and keep police patrolling our streets.

Recent federal-municipal investments:

- Building Canada Fund (application-based investments): \$1.2 billion per year (expires 2014)
 - Permanent Gas Tax Fund: \$2 billion per year
 - Municipal GST Rebate: \$800 million per year
 - Affordable housing and homelessness programs: \$380 million per year (expires 2014)
 - Public Transit Capital Trust: \$300 million per year (expired 2009)
-

The federal government has recognized that it must deliver long-term extensions of these critical investments. In November 2011, the Government of Canada committed to work with FCM alongside the provinces and territories, as well as the private sector, to develop a new long-term infrastructure plan (LTIP).

The job of building and maintaining Canada's core infrastructure remains a municipal responsibility; however, turning around the decline in our infrastructure is beyond the means of any government working on its own. It requires national leadership and a long-term partnership among all governments. With these two factors in place, we can secure the physical foundations of our future, and stop the municipal infrastructure deficit once and for all.





Part 2: Working Together for Canadians



Introduction

TOO OFTEN, GOVERNMENTS WORK SEPARATELY WHEN COOPERATION IS REQUIRED. THIS LEADS TO CONFUSION AND WASTE. CANADIANS ARE WORKING TOGETHER TO BUILD THEIR COMMUNITIES AND DRIVE THE ECONOMY.

Their elected governments must do the same. Better planning, partnerships and programs: these are trademarks of smart government. That's the kind of government we'll need if Canada is to create jobs, protect core services and balance its budget deficit in a tough global economy. So, where do governments need to work together to deliver the value taxpayers expect, and to allow us to compete in this global economy?

This section of the report provides a historical overview of the federal-municipal partnership that has developed over the past decade, and then describes three areas – policing, housing and environmental sustainability – where opportunities exist for governments to work better together.

DOWNLOADING DEFINED

Downloading can result from a legislated transfer of responsibilities from one order of government to another. At other times, however, municipalities must fill a void when another government fails to fulfill a critical, front-line duty.

Whatever form it takes, the result is the same: municipalities are forced to divert property tax dollars away from their infrastructure and core services, to do a job downloaded by another order of government.

For example, police duties downloaded by the federal government—in areas such as cyber-crime, major drug operations, and border and port security—cost municipal taxpayers millions of dollars every year. Perhaps not surprisingly, police and fire security is now the fastest-growing line item in the average municipal budget. Police and fire security represents 20% of total municipal expenditures.

As another example: the federal and provincial retreat from traditional social transfers in the 1990s frayed Canada's social safety net. This left cash-strapped municipalities struggling to fill the gaps, whether through direct social services (affordable housing, emergency shelters and subsidized childcare) or services that help people earn a living and raise their families (public transit, after-school programs and libraries). These services are the social infrastructure that people rely on. For a growing number of Canadians, their city is their safety net.

Downloading forces municipalities to rob Peter to pay Paul. Investments in roads and drinking water are delayed to put more police on the street or to repair affordable housing units. As long as downloading persists, municipal budgets will be spread too thin, undermining their core infrastructure and services.



Chapter 3: State of the Federal-Municipal Partnership: Towards a Seat at the Table

INTRODUCTION

SIR JOHN A. MACDONALD ONCE SAID, “CANADA IS A HARD COUNTRY TO GOVERN.” IF SO, THEN SOME OF THE DIFFICULTY MAY BE FOUND IN THE ROLE ASSIGNED TO MUNICIPAL GOVERNMENTS BY THE CONSTITUTION: THERE ISN'T ONE.

Canada's Constitution, which began life as the 1867 *British North America Act* (BNA), made municipalities the constitutional responsibility of the provinces. All their functions, finances and governing structure depend on their provincial government.

As for a municipal relationship with the federal government—again, there isn't one, at least officially. On Canada's constitutional map, the lines of power connect Ottawa with provincial and territorial capitals, and those capitals with individual local governments. There is no direct constitutional link between municipalities and the federal government.

As is often the case with maps, the reality on the ground differs considerably from the official version, as it has since at least 1901. That's when 68 municipal delegates representing 52 municipalities met in Toronto to form the Union of Canadian Municipalities (UCM), a precursor to the Federation of Canadian Municipalities (FCM).

What brought them together was a problem not anticipated by the Fathers of Confederation in 1867: telegraph and telephone lines, and control over where they could be installed. The UCM won its battle with the utility companies by influencing the federal government, although the issue still simmers. This success proved the value of a municipal association that could deal directly with the federal government on issues where their jurisdictions intersected.

The struggle that produced the UCM illustrates a basic fault line within Canada's constitutional division of powers: the disconnect between municipal and federal governments. In true Canadian fashion, this fault line has generated successive political accommodations: a process characterized by evolution, rather than revolution.

However, with the growing importance of cities and communities to Canada, and the world in general, the fault line created in 1867 has become increasingly problematic. Today, with some cities surpassing some provinces in population and GDP, the consequences are more severe, and the need for new mechanisms to resolve problems is more pressing.

These consequences reached a tipping point during the first decade of the 21st century, when the results of years of neglect could no longer be ignored. The struggle that ensued to save Canada's cities and communities is the most recent phase in an ever-evolving relationship between municipalities and the federal government, which began with Confederation and continues to this day.

As in previous phases, the recent municipal struggle for a new relationship with the federal government generated a political solution—in this case, one that has produced three historic benefits for municipal governments and for Canada.

Firstly, over the course of a decade and through the governments of three prime ministers and two political parties, it brought about a seismic shift in federal thinking regarding the importance of cities, and the role local governments can play in executing national policies. This change in thinking led to unprecedented federal investment in cities and communities.

Secondly, the struggle was a catalyst for the municipal sector's growing political maturity and consolidation. Individual cities and communities came to understand that local problems had a common root and national implications, and that they were stronger acting together and speaking with a single voice.

Thirdly, the lead role played by the Federation of Canadian Municipalities (FCM) in advocating municipal interests, brokering an agreement for the Gas Tax Fund, and influencing the design of the Building Canada Fund, cemented its role as the municipal sector's national voice and representative.

This increased cohesion and coordination helped to prepare the municipal sector and FCM for their breakthrough role in delivering “shovel-ready” projects under the federal Economic Action Plan (EAP), to help fight the most recent recession.

Each step in this developing relationship increased the capacity of the municipal sector—speaking and acting through FCM—to be a full partner with the federal and provincial/

territorial governments, and finally take a seat at the table as an order of government.

Following a century of evolution and political accommodation, Canada's governments—federal, municipal and provincial/territorial—have developed a working partnership more concerned with delivering benefits to Canadians than observing constitutional formalities.

Cities and communities may still be missing from the constitutional map, but their enormous impact on Canada can no longer be ignored. The next step in the evolution of federal-municipal relations is to put this partnership to work solving the many national problems that play out daily at street level within our cities and communities.

1. COMMUNITIES: COLLATERAL DAMAGE IN THE DEFICIT WAR

Like many successful campaigns, the 1990s' victory over the federal deficit came at a cost, and much of that cost was borne by Canada's cities and communities. By 2000 and the dawn of a new millennium, years of deficit fighting and downloading had left them weakened and struggling to meet their responsibilities.

There had been some light in the midst of the gloom. Prime Minister Jean Chrétien's Liberal government established the Canada Infrastructure Works Program in 1993, which laid the groundwork for partnerships between federal, provincial/territorial and municipal governments. The program, although modest at around \$2.5 billion over five years—\$500 million annually—survived a series of massive program cuts during the mid-1990s.

The 2000 federal budget saw the creation of the Infrastructure Canada Program: a \$2.05-billion program for local municipal infrastructure projects that ran until 2010–2011—or about \$200 million annually. The federal government matched provincial/territorial contributions, providing up to one-third of the cost of each municipal infrastructure project. Budget 2000 also included \$125 million to establish the Green Municipal Fund (GMF), managed by FCM.

The 2001 federal budget also brought some relief to cities struggling with the need for affordable housing, allocating \$680 million over five years to the Affordable Housing Program. Budget 2001 also doubled federal contributions to the Green Municipal Fund (GMF). In addition, that budget saw the creation of the \$2-billion Canada Strategic Infrastructure Fund and the \$600-million Border Infrastructure Fund.

Although welcome and a good start, these measures were not enough to offset two decades of neglect and downloading of responsibilities by federal and provincial/territorial governments.

With their revenues limited to the property tax—and saddled with new, often unfunded responsibilities—municipal governments watched as their infrastructure continued to deteriorate, even as the need for services expanded.

Clearly, change was needed, but it would not come without a push. This is the story of that push, and how the struggle for a new federal-municipal relationship fostered the consolidation of the municipal sector as it coalesced around FCM, preparing the sector for its role as full partner with the federal government.

FCM'S GREEN MUNICIPAL FUND: INNOVATIVE PARTNERSHIP TO BUILD SUSTAINABLE INFRASTRUCTURE

In 2000, the Government of Canada partnered with FCM to create an entirely new municipal financing mechanism – the Green Municipal Fund – designed to achieve national goals for a cleaner, healthier environment through the planning and construction of innovative, sustainable infrastructure. The Government of Canada endowed FCM with \$125 million to establish GMF in 2000. Through two subsequent endowments, the fund is now worth \$550 million.

To date, FCM has committed to disbursing \$550 million to support 875 green initiatives across Canada. Of the 875 initiatives funded to date, 150 have been capital projects, of which 40 have been completed and reported environmental results. Together, these 40 capital projects have:

- reduced annual greenhouse gas (GHG) emissions by approximately 175,000 tonnes
- diverted from landfill over 215,000 tonnes of waste per year
- made over 67 hectares of previously unusable land available for use
- improved the quality of over 122,000 cubic metres of soil
- treated over 36 million cubic metres of water per year
- reduced water consumption by over 147,000 cubic metres annually

GMF-funded initiatives are delivering environmental benefits, along with real economic savings and social benefits. In fact, GMF-supported initiatives have leveraged as much as \$3 billion of economic activity in more than 430 communities — proof positive that our funding offer is relevant to Canadian municipalities in helping them achieve their objectives on the path to sustainability.

The growing number of green infrastructure initiatives led by municipalities and supported by GMF is not only helping to lay the foundations for a green economy in Canada, but demonstrating how sustainability can improve our quality of life.

2. A VOICE IN THE WILDERNESS

"At times, the Federation of Canadian Municipalities has seemed like a voice crying in the wilderness." —James Knight, CEO of the Federation of Canadian Municipalities, 2003

As the new millennium arrived, FCM was the single strongest voice arguing for more federal involvement in cities and communities.

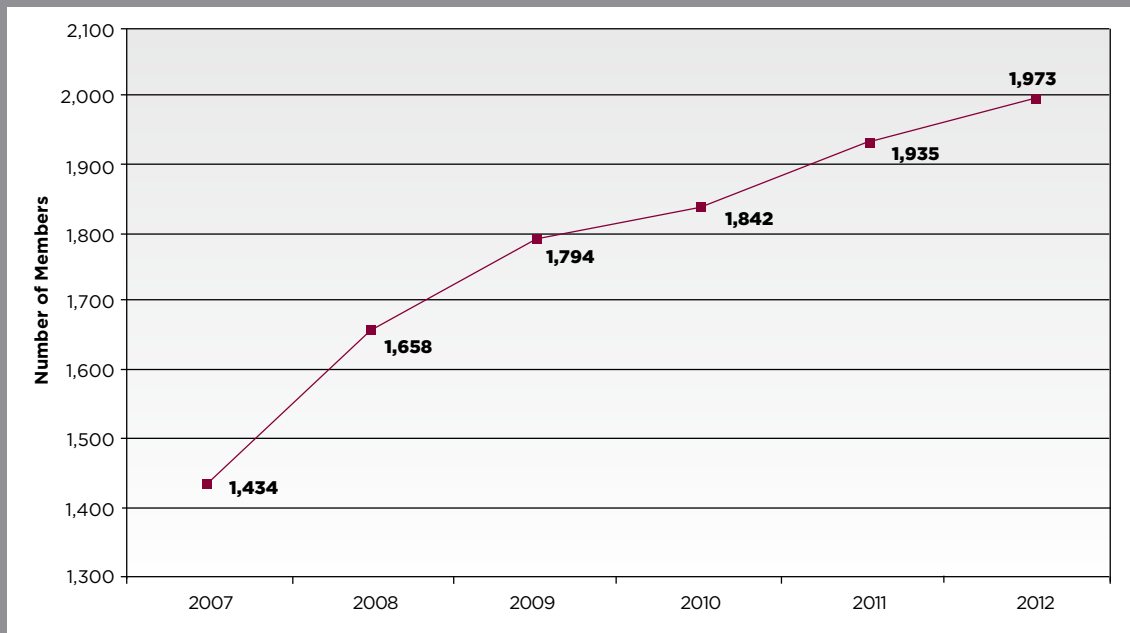
CEO James Knight compared FCM's efforts through the 1990s as a "voice crying in the wilderness," but he also identified the chief driver that would bring change to the sector. "Urban and municipal issues," he said, "have now emerged as critical to the well-being of our country. As a result, our voice has been joined by a growing chorus that is calling on governments to take action."

By 2000, the federal government had begun to talk about the need to renew municipal infrastructure, pledging in that year's budget to "work with other orders of government and the private sector to reach an agreement...on a multi-year plan to improve provincial highways and municipal infrastructure in cities and rural communities across Canada."

Nevertheless, despite a growing chorus calling for change, federal and provincial/territorial budgets failed to acknowledge or respond to the problems facing municipalities of all sizes. This included their rapidly changing demographics and accompanying social issues, as well as the size of the municipal infrastructure deficit and the fiscal imbalance that had created it.

MEMBERSHIP MATTERS

FCM represents close to 2,000 municipalities—with over 90% of the Canadian population—across Canada, and has been the national voice of municipal government since 1901. Through their membership in FCM, cities and communities support national advocacy efforts that benefit all municipal governments.



"FCM is the pre-eminent forum to communicate a strong and united voice for Canadian cities."

—Mayor of Vancouver Gregor Robertson, Chair of FCM's Big City Mayors' Caucus

In Ottawa, FCM and its member municipalities worked to influence federal policy and build political support. They also worked to create the research base needed to bring about a change in federal policy towards cities. FCM's efforts, combined with growing and highly visible problems in Canada's cities and communities, began attracting the attention of civic groups, journalists and organizations.

EARLY WARNING

The pace of change began to accelerate in 2001. In May 2001, FCM released the report, *Early Warning: Will Canadian Cities Compete?*, prepared for the National Round Table on the Environment and the Economy. This report compared municipal legislative and fiscal powers and mechanisms for financing infrastructure in Canada and the United States, with a look at European examples as well.

The report found that, while municipal governments in the United States and Europe had access to a range of fiscal tools, "municipal governments in Canada have many fewer levers to attract investment, and scant access to federal and provincial funds. Permanent funding sources for infrastructure do not exist outside of locally generated revenue. More options are needed for municipal governments in Canada to carry out their growing responsibilities and to continue meeting the expectations of their residents."

Also in May, spurred by the growing interest in urban issues, Prime Minister Chrétien established the Prime Minister's Caucus task force on Urban Issues, chaired by York West MP Judy Sgro. Numerous civil society groups made presentations to the Task Force in October 2001, including the City of Winnipeg and the City of Toronto.

Later that month, FCM's Big City Mayors' Caucus (BCMC) launched Canada's Cities: Unleash Our Potential, a national campaign calling on federal, provincial/territorial and municipal governments to work together in order to give Canada's cities the tools and resources they needed to compete with other world cities. FCM President

Jack Layton, along with representatives from Vancouver, Winnipeg, Saskatoon, Toronto, Ottawa and Halifax, announced the campaign at a BCMC meeting in Toronto.

FCM BIG CITY MAYORS' CAUCUS

The FCM Big City Mayors' Caucus (BCMC) comprises a regionally representative group of important FCM member cities from each region in the country. Together, BCMC member cities represent almost 40% of the population of Canada. BCMC meets several times a year to discuss shared issues and to reinforce FCM's policy and advocacy agenda, as set by the Board of Directors.

2012 BCMC Mayors:

Brampton, [Mayor Susan Fennell](#)
Calgary, [Mayor Naheed Nenshi](#)
Edmonton, [Mayor Stephen Mandel](#)
Gatineau, [Maire Marc Bureau](#)
Halifax, [Mayor Peter J. Kelly](#)
Hamilton, [Mayor Bob Bratina](#)
Kitchener, [Mayor Carl Zehr](#)
Laval, [Maire Gilles Vaillancourt](#)
London, [Mayor Joe Fontana](#)
Longueuil, [Mairesse Caroline St-Hilaire](#)
Mississauga, [Mayor Hazel McCallion](#)
Montréal, [Maire Gérald Tremblay](#)
Ottawa, [Mayor Jim Watson](#)
Québec City, [Maire Régis Labeaume](#)
Regina, [Mayor Pat Fiacco](#)
Saskatoon, [Mayor Don Atchison](#)
St. John's, [Mayor Dennis O'Keefe](#)
Surrey, [Mayor Dianne Watts](#)
Toronto, [Mayor Rob Ford](#)
Vancouver, [Mayor Gregor Robertson](#)
(Chair)
Windsor, [Mayor Eddie Francis](#)
Winnipeg, [Mayor Sam Katz](#)

As the Task Force hearings continued, one of Canada's largest banks weighed in on urban issues. In a series of speeches in 2001 and early 2002, A. Charles Baillie, Chairman and CEO of TD Bank Financial Group, argued that cities were critical to meeting Canada's challenges, but were showing signs of strain. He asked TD Economics to undertake a study of Canadian cities, which was published in April 2002 as *A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future*.

This report's diagnosis of the problems faced by cities, as well as their underlying causes, reflected FCM thinking: revenues limited to the property tax, deteriorating infrastructure, and loss of population to the suburbs, all "leaving cities singularly ill-equipped to cope with the responsibilities being downloaded to them."

The Prime Minister's Task Force released its interim report in May 2002, recommending that the federal government develop an urban strategy that would include, "a strong urban partnership developed in collaboration with all orders of government, the community, the private sector, and citizens through bilateral, trilateral and multilateral agreements and initiatives."

Also in May 2002, at FCM's Annual Conference in Hamilton, Ontario, FCM's Big City Mayors' Caucus released a model municipal charter, stating that Canadian cities needed greater autonomy, and access to more flexible revenue streams.

"Cities around the world are bulking up their revenues and responsibilities to meet the competitive challenges of the global economy," said Toronto Mayor Mel Lastman. "Unless Canada's cities are given the tools and resources they need to achieve their full potential, our future prosperity will be in jeopardy."

INTRODUCING THE NEW DEAL

"Our future as a nation is inextricably linked to the health of our municipalities."—Finance Minister Paul Martin, Federation of Canadian Municipalities Annual Conference, May 31, 2002

At the May 2002 conference, then-Finance Minister Paul Martin reaffirmed his belief that "Canada was in need of a New Deal for municipal governments," and outlined "how we can work together to build a national partnership—which includes federal, provincial and municipal leaders—to move beyond the status quo, to summon a new attitude."

His words galvanized FCM's municipal members, particularly when he said that a New Deal for municipalities would not be "a side deal for large cities that cuts out the pressing needs of our rural towns and villages. We are talking about all our municipalities, large and small."

In August 2002, the federal government established Infrastructure Canada as a new department, in order to provide a focal point for infrastructure issues and programs. In November 2002, the Prime Minister's Task Force on Urban Issues released its final report and joined a growing chorus calling for greater federal involvement in cities. FCM's Big City Mayors' Caucus expressed its support for the report's recommendations, and FCM President John Schmal said it "should become the template for a federal urban strategy."

3. MOBILIZING THE MUNICIPAL WORLD

“The Government of Canada said in its Throne Speech that ‘competitive cities and healthy communities are vital to our individual and national well being.... They require new partnerships, a new urban strategy, and a new approach to healthy communities for the 21st century.’ Today’s budget does absolutely nothing to fulfill these promises.”—FCM President John Schmal on the 2003 federal budget

Despite a groundswell of support for urban issues, the campaign for federal support remained an uphill battle. Paul Martin was dismissed as Finance Minister shortly after making his New Deal speech to FCM and, despite a sympathetic final report from the Task Force on Urban Issues and an encouraging Speech from the Throne in 2003, the federal budget that year included just \$125 million for municipal infrastructure. FCM labelled it a “doomsday budget” for municipalities.

In response to the seeming indifference in Ottawa, FCM mobilized its resources and launched a campaign to build support. It appealed to Members of Parliament from all parties. It enlisted mayors, councillors and community and business leaders—all with one goal: a new deal for cities and communities that would be more than a down payment.

In the fall of 2003, FCM President and Mayor of Gatineau, Quebec, Yves Ducharme, led the cross-country Bridging the Gap campaign to publicize the municipal infrastructure gap and mobilize municipal governments across the country. He also articulated FCM’s budget ask for a full refund of the GST paid by municipal governments.

4. GOVERNMENT RESPONDS: THE NEW DEAL FOR CITIES AND COMMUNITIES

“The New Deal is a national project for our time.”
—Prime Minister Paul Martin, Federation of Canadian Municipalities Annual Conference, 2005

As the municipal world campaigned to make its issues a national priority, changes in Liberal Party leadership brought Paul Martin back to government as leader of the Liberal Party and Prime Minister. Martin moved quickly to make good on his “New Deal” promises. He appointed John Godfrey as Parliamentary Secretary with special responsibilities for cities, and created a Cities Secretariat within the Privy Council Office.

In its February 2004 Speech from the Throne, the Martin government responded to FCM’s budget proposal, and promised Canada’s municipal governments a full GST refund, calling it a \$500-million “down payment” on the money needed to renew municipal infrastructure. The speech also promised municipalities a share of the federal gas tax.

The March 2004 federal budget delivered on the GST commitment and provided municipalities with \$7 billion in GST relief over ten years. It also accelerated spending under the Municipal Rural Infrastructure Fund, making a commitment to spend the fund’s \$1 billion over five years, rather than the original 10.

That May, Prime Minister Martin spoke at FCM’s Annual Conference in Edmonton, Alberta, confirming his government’s commitment to share a portion of the federal gasoline tax—worth up to \$2 billion a year—along with \$1.5 billion more for affordable housing.

How the gas tax would be divided among municipal governments remained to be decided, and what seemed like a minor detail would ultimately become a test of municipal unity. As a sign of the sector's growing maturity and cohesion, that unity held. In December 2004, following intense debate and under the leadership of FCM president Ann MacLean, FCM's Big City Mayors' Caucus and National Board of Directors unanimously endorsed a per-capita formula for sharing the federal gas tax, clearing the way for the federal government to proceed with the gas tax transfer in the next federal budget.

CANADA'S MUNICIPAL LEADERS: FCM BOARD OF DIRECTORS

FCM's Board of Directors comprises elected municipal officials from all regions and various-sized communities throughout Canada. It forms a broad base of support, and carries the municipal message to the Government of Canada.

The Board of Directors sets policy priorities that reflect the concerns of municipal governments and affiliate members. It meets quarterly to develop policy positions on key national municipal issues. FCM's Annual Conference provides member delegates with an opportunity to debate and vote on policy matters for the coming year.

Excerpt:

FCM PROPOSAL ON A DISTRIBUTION FORMULA FOR THE FEDERAL FUEL TAX

December 4, 2004

Meeting the Needs of Large and Small Communities

1. Accordingly, we propose to the Government of Canada that the national allocation of fuel-tax revenue be based on a **per capita calculation** and recognize diversity by providing solutions tailored to the unique conditions and needs of the sector. This revenue would be dedicated to sustainable infrastructure investments.
2. Further, we propose that separate, special regional allocations be established for **smaller provinces and territories to ensure that each receives at least \$25 million per year (1% of total annual allocation)**. This will ensure that they receive allocations sufficient to undertake strategic investments in sustainable infrastructure.
3. To meet the pressing needs of Canada's largest cities, metropolitan areas and municipalities, we propose that intra-provincial/territorial distribution (where appropriate) include a **permanent dedicated allocation, considering transit ridership, to support transit investments**. Funding would not fall below a level equivalent to **25% of total fuel-tax revenue**.

The 2005 federal budget delivered the New Deal by providing municipalities with more than \$9 billion in funding over five years. This included \$5 billion in gas-tax revenues, renewing existing infrastructure programs “as necessary,” and more than doubling the Green Municipal Fund’s endowment with an infusion of \$300 million.

The 2005 budget also proposed creating a new Infrastructure and Communities department to be the Government of Canada’s primary contact for municipal issues, and promised continuing pre-budget consultations between the Minister of Finance and municipal representatives.

5. CANADA’S NEW GOVERNMENT: BUILDING CANADA

“The health of our societies is driven by the health of our cities. And the challenge for policymakers like us is to keep our cities healthy and strong.”—Stephen Harper, World Urban Forum, 2006

The 2006 federal election changed the game for FCM and its members, but not their goals. With the arrival of Stephen Harper’s minority Conservative government, some feared municipal progress might stall, although the Conservative Party had expressed its support for “efforts to eliminate the infrastructure deficit, develop a long-term plan for the gas-tax transfer, maintain infrastructure funding, and include municipalities in discussions of issues related to their jurisdiction and concerns.”

The party also pledged to tackle the fiscal imbalance and, in a letter to FCM, to “immediately upon being elected...begin consultations with the provinces and municipal representatives with the intention to reach a long-term, comprehensive agreement, addressing both the vertical and horizontal fiscal imbalance.”

The new government’s first budget delivered on infrastructure, with \$5.5 billion over four years for a new Highways and Border Infrastructure Fund, Canada’s Pacific Gateway Initiative, the Canada Strategic Infrastructure Fund, the Municipal Rural Infrastructure Fund, and a Public Transit Capital Trust. Although much needed, these investments did not fully respond to municipal

needs. The sector adapted to the new political environment and, in Budget 2007, got results.

The 2007 federal budget launched the Building Canada Plan: a seven-year plan providing \$33 billion in “stable, flexible and predictable funding to provinces, territories and municipalities, allowing them to plan for the longer-term and address their ongoing infrastructure needs.” This \$33 billion included the existing municipal GST refund, worth \$5.8 billion, and the Gas Tax Fund, worth \$11.8 billion.

This plan provided funding to municipalities for priorities such as transit, water and wastewater infrastructure, as well as the rehabilitation of local roads. Budget 2008 delivered more good news by making the gas-tax transfer permanent, responding to a key FCM position that municipalities should be able to rely on the Gas Tax Fund when planning and financing their long-term infrastructure needs. The budget also set aside up to \$500 million for capital investments to improve public transit, a key municipal priority.

6. SHOULDER TO SHOULDER: GOVERNMENTS PARTNER TO FIGHT GLOBAL RECESSION

“The doubters and critics said municipalities wouldn’t have the shovel-ready projects...that municipalities couldn’t move that fast. They said they wouldn’t—and couldn’t—bring money to the table. Well, we knew that the big cities and small towns were up to the challenge—and you have proven us right.”—John Baird, Minister of Transport, Infrastructure and Communities, FCM Annual Conference, 2009

Just as the outlook began to brighten for municipalities, 2009 brought a new and bigger storm. In the face of a potential global financial meltdown and a recession in the United States, world governments turned to stimulus spending to offset the slowdown and create jobs.

In Canada, FCM and its member municipalities were quick to volunteer their “shovel-ready” municipal infrastructure projects, leading to the largest-ever federal investment in municipal infrastructure in Budget 2009.

FCM strongly supported the federal government's commitment to invest significant new money in infrastructure projects to put Canadians to work in 2009 and 2010. FCM President and Mayor of Sherbrooke, Quebec, Jean Perrault, said: "We are pleased by the federal budget's allocation of \$4 billion to upgrade existing infrastructure. These dollars will help cities and communities begin to address the country's growing backlog in road, sewer, bridge and public transit repairs."

Under the federal Economic Action Plan (EAP), federal, municipal, and provincial/territorial governments worked together. By the end of 2011, municipalities had helped to pay for and build \$10 billion in EAP projects, creating 100,000 jobs—almost half of all jobs created by the federal government's stimulus plans.

RESTORING HOPE: FCM'S ROLE IN REBUILDING AND STRENGTHENING MUNICIPALITIES AROUND THE WORLD

The 7.0-magnitude earthquake that struck Haiti on January 12, 2010 was the worst natural disaster to hit the Americas in modern times. This crisis called for an unparalleled level of solidarity and collaboration from all Canadian municipalities, provinces, territories and the federal government.

Similar to the days following the December 2004 tsunami that struck coastal communities in Southeast Asia, the earthquake in Haiti led to a spontaneous and genuine outpouring of support and desire to help from FCM members. Following immediate emergency relief efforts by the Canadian government, FCM stepped in to assist with the rebuilding process. This involved not only rebuilding the bricks and mortar of communities, but also rebuilding the community structures and systems essential to restore municipal records and core services.

FCM: A Key Federal Partner in Development

The Federation of Canadian Municipalities is well known across Canada for bringing partners together to find solutions to issues facing municipalities, help them deliver services, promote sustainable local economic development, and encourage citizen participation. But FCM's work extends far beyond Canada's borders.

Since 1987, with the support of its municipal partners, and with funding from the Canadian International Development Agency (CIDA), FCM has helped Canadian municipal officials and staff engage in international cooperation, and share know-how with their counterparts in more than 40 countries in Africa, Latin America, Eastern Europe, the Middle East and Asia. The results are mutually beneficial, strengthening the capacity of local governments around the world.

FCM's international programs contribute to improving the quality of life for many thousands of people in international partner countries. Canadian municipal practitioners work with their overseas counterparts to build capacity in areas such as local economic development, municipal operations, service delivery and civic engagement. FCM's unique grassroots approach has earned it recognition as a valuable part of the federal government's broader international development efforts.

In the years ahead, FCM will be extending its reach to 15 countries in the Caribbean. The Caribbean Local Economic Development Program (CARILED) represents a significant milestone in the long-standing relationship between FCM, CIDA and our Caribbean counterparts. CARILED is a six-year, \$23.2-million project, and is FCM's largest international undertaking to date. Its goal is to stimulate sustainable local economic development in the Caribbean Region, where small, open economies are still reeling from the effects of the global financial crisis of 2008 and recent natural disasters.

FCM and its partners will work with local government associations in the Caribbean to establish economic development services and strategies that meet the needs of the men, women and youth in communities throughout the region.

At FCM, we believe that communities, working together across borders, can create a powerful force that makes a difference in people's lives. Throughout 2012, we will recognize the significant contribution our members and partners have made to support local governance, democratic practices, and the provision of essential services, as we celebrate 25 years of international municipal development cooperation.

The successes we have achieved, and the people we have helped in countless communities around the world over the past 25 years, speak clearly to the fact that municipalities have a leading role to play in Canada's international development efforts.



7. SAVING THE PARTNERSHIP

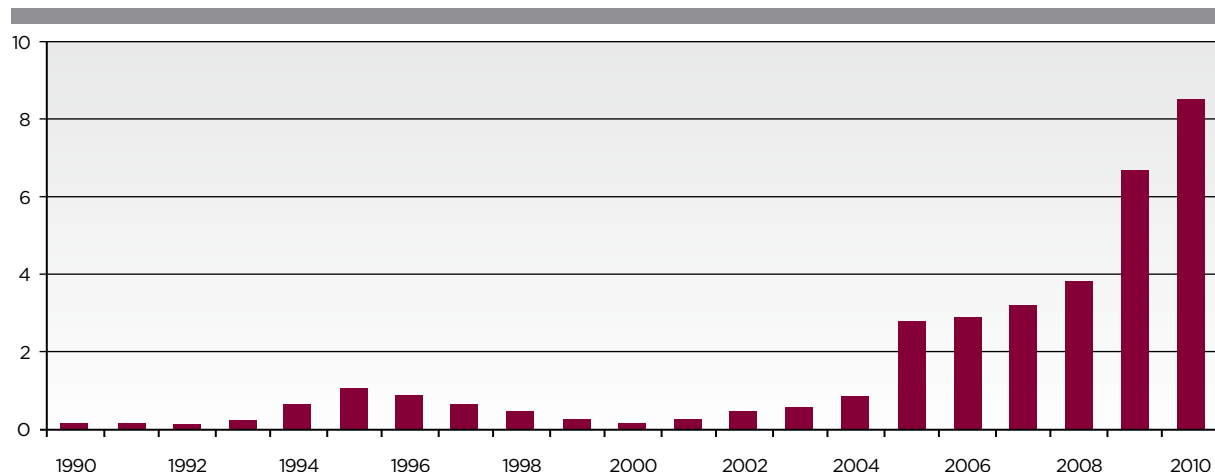
"We can jumpstart a national climate-change strategy—and create new green jobs—with cost-effective projects in our own backyards. We can make our economy more productive by investing in public transit and reducing traffic gridlock. We can make Canada greener and more prosperous, but we have to continue working together."—Toronto Mayor David Miller, Big City Mayors' Caucus, January 2010

In addition to creating new infrastructure and jobs, the federal-municipal partnership overcame barriers that had prevented governments from working together, and transformed a flawed system that had blocked progress for decades.

The success of the EAP rested on the strength of the federal-municipal partnership. As the crisis eased, FCM argued for keeping the partnership, because so many problems remained—including traffic gridlock, aging infrastructure, rising police costs, and a shortage of affordable housing.

Meeting in January 2010, FCM's Big City Mayors' Caucus stressed the importance of continued partnership to meet the challenges of the 21st century, and called upon the federal government to "continue working with cities to improve aging infrastructure and strengthen Canada for the future." The mayors called upon all parties in the House of Commons to sustain important, core federal funding for cities, including the permanent Gas Tax Fund, the 100% GST refund, and affordable housing programs.

FEDERAL INFRASTRUCTURE FUNDING SUPPORT FOR PROVINCIAL, TERRITORIAL AND MUNICIPAL INFRASTRUCTURE* (CURRENT \$B)



SOURCE: FINANCE CANADA & INFRASTRUCTURE CANADA, JUNE 2011
 * ALL PUBLIC INFRASTRUCTURE, INCLUDING CORE PUBLIC INFRASTRUCTURE

The federal-municipal partnership held, and in Budget 2010 the federal government protected core federal investments in cities and communities as it worked to reduce the federal budget deficit. The budget made the Gas Tax Fund permanent, investing \$2 billion a year in municipal priorities such as roads, bridges, public transit, and water treatment.

In Budget 2011,¹ the government made a commitment to work with municipalities, provinces, territories and the private sector to develop a new long-term infrastructure plan. This was confirmed by Minister of Transport, Infrastructure and Communities Denis Lebel in November 2011.

“Completing the economic recovery remains our government’s top priority,” said Lebel. “Our new plan will help identify Canada’s infrastructure priorities to meet the needs of Canadians and build a more prosperous, competitive, and sustainable economy. Working together with partners, we will take stock, identify opportunities, and build the foundation of a new infrastructure plan that supports economic growth and job creation.”

FCM President Berry Vrbancovic called the announcement “a promise to put aside band-aid solutions and find the cure for the infrastructure deficit once and for all.”

“Today,” added Vrbancovic, “the government laid out a clear timetable, with firm milestones, to make sure it is ready to replace the Building Canada Plan in 2014 with a new generation of long-term infrastructure investments. This process is the result of a growing partnership between federal, municipal, provincial and territorial governments.”

The 2012 budget tabled on March 29 proposed an investment of \$150 million over two years to support repairs and improvements to existing, small public-infrastructure facilities through the Community Infrastructure Improvement Fund.

The new infrastructure plan will help Canada end a long decline in its municipal infrastructure, improve transit and transportation networks, and fight traffic gridlock. Building upon the partnership forged in the recession will help governments work together and align responsibilities with resources: a synergy urgently needed to meet growing challenges with constrained resources.

Beyond infrastructure, an expanded federal-municipal partnership is needed to build a strong, safe, and sustainable Canada. FCM has called upon the federal government to begin by working with cities and communities to fix Canada’s policing system so that it serves communities and taxpayers better, and to work with the private sector to build more rental housing.

¹ In March 2011, the federal government tabled Budget 2011, which was not adopted prior to the dissolution of Parliament on March 26, 2011. Returned with a majority on May 2, 2011, the new government introduced an updated Budget 2011 on June 6, 2011.

GOVERNMENTS WORKING TOGETHER FOR RURAL, REMOTE AND NORTHERN CANADA

Communities in rural, remote and northern Canada help fuel our national economy, and define our national character. But these municipalities are currently fighting for their lives, struggling against growing odds to secure a future for themselves within the country they helped build.

The natural resources, energy, agricultural products and raw materials extracted from rural, remote and northern areas now make up 50% of Canadian exports. These industries are driving corporate profits, paying billions of dollars in taxes every year, and creating spin-off jobs and new growth in Canada's urban regions.

With a shrinking tax base, limited revenue sources and rapidly aging infrastructure, rural, remote and northern municipalities are struggling to provide the basic services and community facilities their communities need to attract and retain residents and businesses.

For the most part, each order of government has its own vision and strategies for rural, remote and northern development. An effective response to these challenges must integrate the policies and programs of all orders of government. Without a national strategy to sustain these communities, their way of life—and their contribution to Canada—will be permanently weakened.

Budget 2012: A Step Backwards for Rural Canada?

The federal government's Rural Secretariat has been responsible for improving the quality of life in rural communities, and ensuring that federal policies and programs respond to the needs of these communities. As part of Budget 2012, many federal departments had to accommodate budget cuts of up to 10%.

The cuts to the Rural Secretariat, however, were significantly higher, resulting in its virtual elimination. Rural issues at the federal level will now be addressed through a policy and research division within the Office of the Deputy Minister of the Department of Agriculture, with all associated programs slated to end immediately, or within the year.

This new development further weakens the federal government's ability to coordinate and focus policies and programs designed to sustain and encourage growth in rural, remote and northern Canada.

Facts and Figures

- Rural, remote and northern communities support industries that account for more than 50% of Canada's exports, including energy, agri-food and natural resources.
- On average, rural household income is \$10,000 less than in other parts of the country.
- During the past decade, rural, remote and northern Canada's share of the national population fell below 20% for the first time.

8. TOMORROW—AND BEYOND

“In the last few years, federal and municipal governments have worked more closely than ever to fight the economic crisis and rebuild Canada’s aging roads, bridges, and water systems. Together, we can tear down the silos that prevent us from serving taxpayers in the best way possible. Together, we can build a stronger, safer Canada.”—FCM President Berry Vrbanovic, November 2011

The municipal struggle for a new relationship with the federal government produced two historic benefits for cities and communities, and for Canada.

Firstly, it led to a seismic shift in the federal government’s thinking about its relationship with local governments. This resulted in unprecedented federal investment in cities and communities, with unprecedented returns.

Secondly, it was the catalyst for the municipal sector’s growing maturity and consolidation: individual cities and communities came to understand that local problems had a common root, and that they were stronger speaking with one voice. This increased cohesion and coordination helped to prepare the municipal sector for its role as a full partner with the federal government.

Over the past decade, this growth and development has been evident in a number of ways:

- FCM’s membership has grown from some 1,000 municipal governments in 2000, to 1,973 today—representing about 90% of all Canadians—demonstrating the growing cohesion of the municipal sector in response to the increasingly complex challenges facing all cities and communities.
- Fruitful policy and advocacy work by FCM has changed thinking, then federal policy, towards municipal governments, opening the door to billions of dollars in federal investment, and laying the groundwork for today’s successful federal-municipal partnership.

- The creation and subsequent success of the Green Municipal Fund (GMF) has been a long-term, sustainable source of grants and below-market loans for municipal governments and their partners since 2000. FCM has committed more than \$550 million to support 875 green initiatives across Canada. GMF-funded initiatives have the potential to leverage as much as \$3 billion of economic activity in more than 430 communities.
- FCM has enjoyed a mutually beneficial 25-year partnership with the Canadian International Development Agency (CIDA). Since 1987, FCM has worked with hundreds of Canadian municipalities to facilitate partnerships with municipalities in the developing world, tackling complex developmental challenges. FCM took a lead role in mobilizing municipal assistance for Sri Lanka following the December 2004 tsunami, and for Haiti following the 2010 earthquake.
- FCM facilitated a successful federal, municipal, provincial/territorial partnership on the Economic Action Plan (EAP), which saw municipalities play a pivotal role as they helped to pay for and build \$10 billion in EAP projects, creating 100,000 jobs for Canadians during the recent recession.

Each step in this developing relationship has increased the capacity of the municipal sector—speaking and acting through FCM—to be a full partner with the other orders of government. That capacity has been clearly demonstrated. Now it’s time to put it to work.



Chapter 4: State of Policing and Public Safety

THERE IS NOTHING MORE IMPORTANT TO CANADIANS THAN THE SAFETY OF THEIR FAMILIES AND COMMUNITIES. DESPITE DECLINING CRIME RATES, HOWEVER, THE COSTS OF CRIME MEASURED IN LIVES AND PROPERTY REMAINS STAGGERINGLY HIGH.

Canadians have a right to know that governments are making the very most of every dollar they invest in fighting crime and its causes, including everything from adequately funding policing and meeting public-safety obligations, to tearing down silos between federal, provincial, and municipal police forces.

Canada's policing system, however, is badly in need of repair. During the past 30 years, an unsustainable share of Canada's policing duties has been shifted onto municipalities, either through direct downloading or the inability of an overburdened RCMP to fulfill its full responsibilities.

SHIFTING THE DEBATE

The recently passed federal *Safe Streets and Communities Act* sparked renewed public debate about crime and public-safety issues in Canada. The Act has also opened the door to a long-overdue discussion on how governments address crime and protect their citizens.

So far, the conversation has occurred primarily on Parliament Hill, and has focused on a narrow band of legal issues. While federal parties are debating new laws, there is little discussion of how to enforce those laws or build communities that are more resilient to crime in the first place.

This must change. The Government of Canada, and all parties in the House of Commons, must connect what is said in Ottawa to what is happening on the ground in our communities. All orders of government must support strategies that put Canadians first, and must confront the challenges playing out on our local streets.

THE MUNICIPAL VOICE

In February 2011, FCM's President launched a cross-country consultation on policing to kick-start much-needed discussion on what governments are doing to support community safety and crime prevention. Our President met with over 150 mayors and elected officials, police chiefs, police boards, provincial and territorial associations and community stakeholders across Canada to ask if federal, municipal and provincial governments are doing their fair share to ensure that police and communities have the tools and resources they need to keep our communities safe.

OUR CHALLENGE

Municipal stand-alone police forces provide policing for 77% of Canadians, with the RCMP directly serving another 15% of the population. Municipal and provincial governments also contract services from the RCMP to serve the

policing needs in 15% of our communities. Beyond contract policing, the RCMP is mandated to enforce federal laws in areas such as border services and organized crime, and to provide specialized investigational services through the National Police Services (NPS), including forensic analysis and centralized database services.

The RCMP's national responsibilities have grown substantially over the past decade, and now include such services as the Sex Offender Registry, the National DNA Data Bank, and the Canadian Police Centre for Missing and Exploited Children. As the RCMP's national mandate has expanded, its resources have become overstretched. Canada's Auditor General issued a warning about this growing imbalance within the RCMP as recently as 2011. The mounting strain has created holes in the federal policing system, through which a rising share of Canada's policing duties have fallen onto municipal shoulders.

Compounding the problems created by an overstretched RCMP is growing confusion about the roles and responsibilities of each order of government. Amid the confusion, policing and public-safety costs are rising at an unsustainable rate, while the lion's share of those costs are downloaded onto municipalities.

Here are the facts:

- Municipalities now pay the salaries of two out of three police officers across the country, while only collecting eight cents of every Canadian tax dollar.
- Total expenditures by all police services in Canada have almost doubled in the past decade, from \$6.4 billion in 1999 to \$12.3 billion in 2009, with municipalities paying for 60% of that increase.
- Between 1986 and 2006, real municipal policing costs increased by 29%. This rise was nearly three times the spending increase experienced by the federal government, and nearly twice that of provincial/territorial governments.

- Municipal property taxpayers are taking on the federal government's policing costs to the tune of more than \$500 million a year,¹ as local contributions to federal policing grow. Increasingly, crimes traditionally falling under federal jurisdiction—such as cyber-crime, gun smuggling and the drug trade—require municipal involvement.
- The five-year, \$400-million Police Officers Recruitment Fund is the only source of federal funding for municipal police.
- During the past 30 years, federal contributions to RCMP municipal policing contracts have fallen from 50 to 30% in smaller municipalities (those with populations under 15,000), and have fallen to 10% in larger municipalities.
- Each border community in Ontario spends upwards of \$1.5 million annually from its policing budget to provide law enforcement and support at international border crossings (as first responder to incidents along the border).

Recent changes to the Criminal Code have also led to increased costs and responsibilities for municipalities, without providing funding allocations to address these costs. Municipal police are responding to broader and often externally generated threats or problems that are national and even global in origin, but with local impacts.

WHERE WE STAND

Policing and public safety are the fastest-growing areas in municipal budgets, making up more than 20% of local spending. In many communities, policing costs are rising faster than the cost of health care. Municipalities are facing a fiscal squeeze. Collecting only eight cents of every federal tax dollar, local governments are caught between inadequate financial resources and a growing range of responsibilities, including many offloaded by other governments.

When federal and provincial governments do not meet their policing and public-safety responsibilities, municipalities are left to fill the gaps, placing a strain on their already limited capacity to serve families and businesses. Without a new approach, these costs will push property taxpayers to the breaking point and crowd out other essential services.

¹ FCM, *Towards Equity and Efficiency in Policing* (2008), p. 17.

ROOTS OF THE PROBLEM

1. The Strain on Federal Policing

Over the years, growing national and international RCMP duties have not been matched with adequate resources, leaving the RCMP straining to carry out its federal policing responsibilities.² Resource problems are also reflected in the lack of significant growth in federally employed RCMP personnel. For example, in 2009, the RCMP employed 4,465 RCMP federal personnel, compared with 3,887 in 1990. This represented a 19-year increase of only 578 officers.

In June 2011, Canada's Auditor General warned that the RCMP had cut federal policing, stating that "other RCMP programs, primarily federal policing, had to cut back. In particular, the RCMP's Federal and International Operations Directorate—which has responsibility for organized crime investigations, border integrity, drug enforcement, and money laundering—has had to reduce its budget by more than \$47.7 million or 8.4% in the 2010–2011 fiscal year."³

When the RCMP is unable to perform its federal policing duties, local forces must pick up the slack. Every year, municipalities spend hundreds of millions of dollars on major organized-crime investigations, interprovincial and international Internet crime, security for federal events and international dignitaries, commercial crime and national security investigations.⁴ Budget 2012 commits to "minimal impacts on policing services;"⁵ however, cuts to the RCMP of \$228.7 million over three years have municipal governments concerned.

Furthermore, backlogs in national police services, such as information on criminal records and forensics analysis, are dragging out investigations, driving up local policing costs and leaving criminals on the streets longer.

These cuts raise further concerns about the adequacy and availability of federal RCMP police resources, and the likely impact these cuts will have on local police and local policing budgets.

2. The Changing Nature of Crime

Policing has changed significantly in Canada over the past decade in ways that challenge the capacity of the police to adequately meet new local and national prevention, crime and security demands.

The mobile and global nature of crime is bringing organized crime, fraud and cyber-crime to our streets and neighbourhoods and blurring jurisdictional lines. Local police are dealing with crimes that once lay within the exclusive purview of the RCMP. As recently as April 2012, media reports were crediting the City of Montréal's Anti-Gang squad with the arrest of 11 members of an organized crime ring, following months of investigation.⁶



² Status Report of the Auditor General to the House of Commons (June 2011), Chapter 5, p. 16.

³ Ibid.

⁴ Chief Frank Beazley, HRP, *Towards Equity and Efficiency in Policing*, presentation (June 2008).

⁵ Government of Canada, Canada's Economic Action Plan, March 29, 2012, p. 277.

⁶ CBC News online, "Montreal Police Dismantle Cocaine Ring", April 27, 2012, <http://www.cbc.ca/news/canada/montreal/story/2012/04/27/montreal-police-dismantle-cocain-ring.html>

⁷ Thompson, Scott, Inspector, *Policing Vancouver's Mentally Ill: Beyond the Disturbing Truth*, September 2010, p 11.

Front-line community police are also seeing frustrating trends, as challenges within Canada's mental health system begin to play out on our streets. A 2010 Vancouver Police Department report, *Policing Vancouver's Mentally Ill: Beyond the Disturbing Truth*, suggests that, because of shortfalls in Canada's health care system, "the police have become society's 24/7 de facto front-line mental health workers."⁷ The Vancouver Police Department is working with Vancouver Coastal Health to address the overwhelming proportion of police resources dedicated to responding to mental health and addiction problems within the community. Other jurisdictions across Canada have added or increased training related to policing and mental health.

To address violence and crime in our communities, we have to prevent crime through social development—by providing the requisite social infrastructure, for example—and address the root causes of crime, which involves complex social, economic and cultural factors.

3. Restoring Accountability

Municipal property taxpayers pay hundreds of millions of dollars a year to purchase front-line policing services from the RCMP, but there is no vision—from a governance perspective—on how the RCMP should respond to local needs, nor how its municipal policing function fits within its overall mandate.

More glaring is the lack of clarity and accountability when it comes to municipal support for RCMP functions. Wherever the RCMP provides local policing, costs and contributions are governed by 20-year contracts. By contrast, there are no intergovernmental agreements, standards, or protocols recognizing municipal contributions to federal policing.

With a lack of standard agreements on service levels, inadequate investments in federal policing services, and no agreed-upon approach to public safety priorities, local budgets have been pushed to the breaking point as municipalities struggle to protect their communities and local taxpayers.

The Government of Canada has put fighting crime and protecting communities at the top of its national agenda. Canada needs a new approach to policing and public safety, however. We must clarify roles and responsibilities, and embrace common-sense cooperation wherever possible. That way we can keep our communities safe, and put their front-line police services on solid ground.

Moving Forward

Municipalities understand that current economic realities are constraining all orders of government; but we also know that, when federal and provincial governments do not meet their policing and public safety responsibilities, municipalities are left to fill the gaps, putting a strain on their limited fiscal capacity. As more money is spent on policing, there are fewer resources available to address other services that contribute to safe and healthy communities. This is not sustainable for municipalities, or for property taxpayers.

The time to have a frank discussion about the future of Canada's policing and public safety system is now. FCM's President has been doing just that with public-safety stakeholders across the country. He will be reporting on his findings at a national policing summit planned by all policing stakeholders in the Fall of 2012.



Chapter 5: State of Affordable Housing (By the Quality of Life Reporting System)

QUALITY OF LIFE IN ANY GIVEN MUNICIPALITY IS INFLUENCED BY A NUMBER OF INTERRELATED ISSUES. AS CANADIANS, WE VALUE VIBRANT, INCLUSIVE COMMUNITIES WHERE APPROPRIATE HOUSING, EDUCATION AND EMPLOYMENT ARE ACCESSIBLE TO ALL.

Fostering communities that preserve the natural environment, protect personal and community health and safety, and enable the social, economic and cultural aspirations of citizens are the central focus of local governments.

The Quality of Life Reporting System (QOLRS) is a program of the Federation of Canadian Municipalities (FCM) and 23 member communities¹ highlighting trends in 27 municipalities and urban regions in Canada. Relying on data from a variety of sources, the QOLRS contains hundreds of variables that measure changes in 10 domains covering social, economic and environmental factors. Taken together, these trends form issues of national importance.

The QOLRS *In Brief* reporting series analyses trends within a specific cluster of domains, providing a snapshot of information about one thematic area. This report focuses on accessibility of and need for purpose-built rental housing in QOLRS communities.

By providing evidence of important trends taking place across the municipal sector, the QOLRS helps to ensure that municipal government is a strong partner in formulating public policy in Canada.

The In Brief reporting series links to FCM's recently launched online data collection and reporting tool: **Municipaldata.ca**. This tool provides an interactive component to view all QOLRS data and to better share information about actions being taken by Canadian municipalities. Visit <http://www.municipaldata-donnees-municipales.ca/> to learn more.

¹ QOLRS communities account for over 50% of Canada's population and comprise some of Canada's largest urban centres and many of the suburban municipalities surrounding them, as well as small and medium-sized municipalities in seven provinces.

QOLRS IN BRIEF: RENTAL HOUSING

A healthy housing sector that is able to meet a broad range of needs is a vital part of the economic and social wellbeing of a community.

Canadians are currently facing rising costs of homeownership, historically high levels of household debt, with residential mortgages making up 68% of that debt,² and record high rental rates.

Data collected across 27 communities through FCM's Quality of Life Reporting System reveal that since 2005 homeownership costs have risen at a rate nearly three times greater than income levels.³ In the past decade, construction of purpose built rental housing has flat-lined at 10% of all new housing starts, while existing rental stock is diminishing through erosion and conversion to condominium housing.⁴ The average cost of renting in QOLRS communities has increased by more than 20% since 2000.⁵

Rental housing is an often overlooked yet important component of Canada's housing system. One-third of Canadians are renters. This includes young Canadians, creating new renter households when they leave the family home; older Canadians, seeking apartment living when they no longer need or want to maintain larger family homes; and new Canadians, a critical component of our future labour force, many of whom initially rent before they transition to home ownership.

The FCM's recent report, *The Housing Market and Canada's Economic Recovery*, points to changing global economic conditions that reflect changing housing needs in Canada.⁶ These conditions have created a gap in the construction and housing sectors that can most readily be filled by purpose-built rental housing. The report proposes an array of tax incentives to stimulate the construction of new rental units and preserve existing rental stock.

With the cost of home ownership out of reach for an increasing number of moderate and low-income earners, and thousands more on growing affordable housing wait lists, rental housing is a vital component of a healthy housing sector that can no longer be ignored.

This QOLRS *In Brief* report looks at current trends in rental housing and homeownership in municipalities across Canada. It provides snapshots of initiatives introduced by QOLRS member cities and regions designed to increase investment in purpose-built rental and affordable housing that meets a broad range of housing needs and encourage a healthy housing sector. While economic and demographic circumstances vary regionally, together we share the goal of making safe, affordable housing accessible to all residents.

² Canada Mortgage and Housing Corporation (CMHC), 'Household Indebtedness,' Canadian Housing Observer 2011. Pg. 1. Available online at http://www.cmhc.ca/en/corp/about/cahoob/upload/Chapter_3_EN_dec16_w1.pdf.

³ The mean price of a new home in the QOLRS was \$406,760 in 2006 and \$526,523 in 2010, an increase of 29.5%. Average income in the QOLRS rose from \$64,790 in 2005 to \$72,059 in 2009, an increase of 11.2%. All figures are in nominal dollars (not adjusted for inflation).

⁴ CMHC measurements of new purpose-built rental starts include privately-initiated rental apartment structures of three or more units and exclude the secondary rental market, including public housing, row housing rental units, rented rooms in houses, units in buildings with 2 units or less and rented condominiums. While difficult to measure, changes in the secondary rental market may not address the type of housing need created by a decline in new rental housing starts.

⁵ Mean rent in the QOLRS for a 2 bedroom increased from \$715 in 2001 to \$891 in 2010 and from \$670 in 2001 to \$827 in 2010 in all of Canada. Source: Canada Mortgage and Housing Corporation, Rental Housing Survey, 2001-2010. All figures in non-adjusted dollars.

⁶ Federation of Canadian Municipalities, 'The Housing Market and Canada's Economic Recovery' January 2012.

GLOSSARY OF TERMS:

Affordable Rental Housing: CMHC defines affordable rental housing as costing less than 30% of before-tax household income, including rent and any payments for electricity, fuel, water and other municipal services.

Primary Rental Housing Market: In its Rental Market Survey CMHC defines the Primary Rental Housing Market as including private rental housing in buildings with 3 or more units (typically purpose-built for rent) and assisted housing units subsidized by the government.

Purpose-built rental housing: residential construction developed for the rental housing market, including, but not limited, to multi-unit rental apartment buildings.

Rental Housing Starts: The proportion of total housing starts that are intended for the rental market. A “start” for the purposes of the Starts and Completions Survey, is defined as the beginning of construction work on a building, usually when the concrete has been poured for the whole of the footing around the structure, or an equivalent stage where a basement will not be part of the structure. Total housing starts include single, semi, row and apartment houses.

Secondary Rental Market: CMHC identifies the following dwelling types as comprising the Secondary Rental Market: Rented single-detached houses; rented double (semi-detached) houses; rented freehold row/town homes; rented duplex apartments (i.e. one-above-other); rented accessory apartments (separate dwelling units that are located within the structure of another dwelling type); rented condominiums; and one or two apartments which are part of a commercial or other type of structure.

Vacancy Rates: A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental. The source for QOLRS data on vacancy rates comes from CMHC’s Rental Market Survey. The Rental Market Survey only includes units in privately initiated rental buildings with three or more units. The QOLRS Vacancy Rates by Rental Quartiles are based on a sub-sample of records that provided both the number of vacant units as well as the rents. The QOLRS Total Vacancy Rate is calculated using the rental quartiles and may not match those provided in the CMHC Annual Report.

SOURCES:

CANADA MORTGAGE AND HOUSING CORPORATION, RENTAL MARKET HIGHLIGHTS FALL 2011. AVAILABLE AT [HTTP://WWW.CMHC-SCHL.GC.CA/ODPUB/ESUB/64491/64491_2011_B02.PDF?FR=1323883728079](http://www.cmhc-schl.gc.ca/odpub/esub/64491/64491_2011_B02.PDF?FR=1323883728079)

CANADA MORTGAGE AND HOUSING CORPORATION, STARTS AND COMPLETIONS SURVEY, 1991 TO 2010

CANADA MORTGAGE AND HOUSING CORPORATION. HOUSING IN CANADA ONLINE DEFINITIONS. AVAILABLE AT [HTTP://CMHC.BEYOND2020.COM/HICODEFINITIONS_EN.HTML](http://cmhc.beyond2020.com/hicodefinitions_en.html)

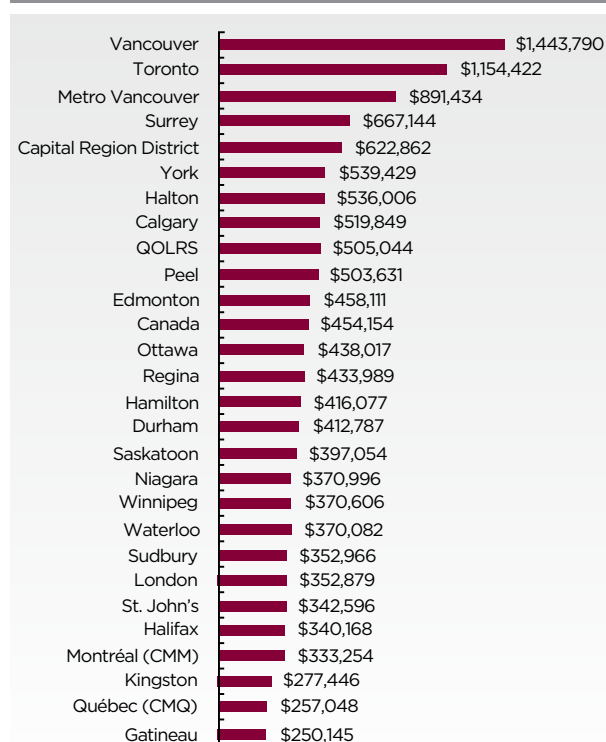
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STATISTICS CANADA STANDARD STATISTICAL UNITS. AVAILABLE AT [HTTP://WWW.STATCAN.GC.CA/CONCEPTS/DEFINITIONS/PRIVDWEL-LOGPRIV-ENG.HTM](http://www.statcan.gc.ca/concepts/definitions/privdwel-logpriv-eng.htm)

THE SQUEEZE ON HOMEOWNERSHIP

The communities that make up the Quality of Life Reporting System (QOLRS) represent over 50% of Canada's population. Following a decade of relatively modest growth in housing costs in the 1990s, the average price of buying a new home in Canada nearly doubled from \$234,387 to \$454,154 between 2001 and 2010. This rise was reflected in QOLRS communities, where new home prices reached an average cost of \$505,044 in 2010. The average cost of a new home in Vancouver increased by over \$900,000 between 2001 and 2010. This was closely followed by a \$700,000 increase in Toronto, \$295,794 in Calgary and \$275,044 in Regina.

FIGURE 1. AVERAGE NEW HOUSING PRICES IN CANADA AND QOLRS COMMUNITIES, 2010



SOURCE: CANADA MORTGAGE AND HOUSING CORPORATION, MARKET ABSORPTION SURVEY, 2010, SPECIAL ORDER FOR THE QOLRS

Some QOLRS communities, however, experienced below-average increases; Kingston's new home price grew by \$107,086 over ten years and Gatineau's new home prices rose by \$117,072.

Average incomes have not kept pace with continually rising housing costs. Between 2006 and 2009, average income for the combination of couple-families, lone-parent families, and single persons in QOLRS cities increased by 5.5%, while the average cost of homeownership rose by 22%.⁷ A healthy housing price-to-income ratio is generally considered to be four to one; the most recent figures available for the QOLRS show this ratio as greater than seven to one by 2010, an increase from four years earlier when the ratio was slightly greater than 6 to 1.⁸

Further, average incomes for 2009 were lower than in 2008 in both QOLRS communities and the rest of Canada, reflecting the impact of the global economic recession.⁹ Statistics Canada reports the largest gap between income and home ownership affordability is experienced by single persons and lone parent families.

Rising housing costs are also cited as a major contributing factor responsible for Canadians' growing household debt. The Bank of Canada and the International Monetary Fund warn that Canadians' 158% level of household debt is too high, with mortgages making up 68% of that debt.¹⁰ The Government of Canada recently made regulatory changes to reduce mortgage amortization periods and protect households from further debt.

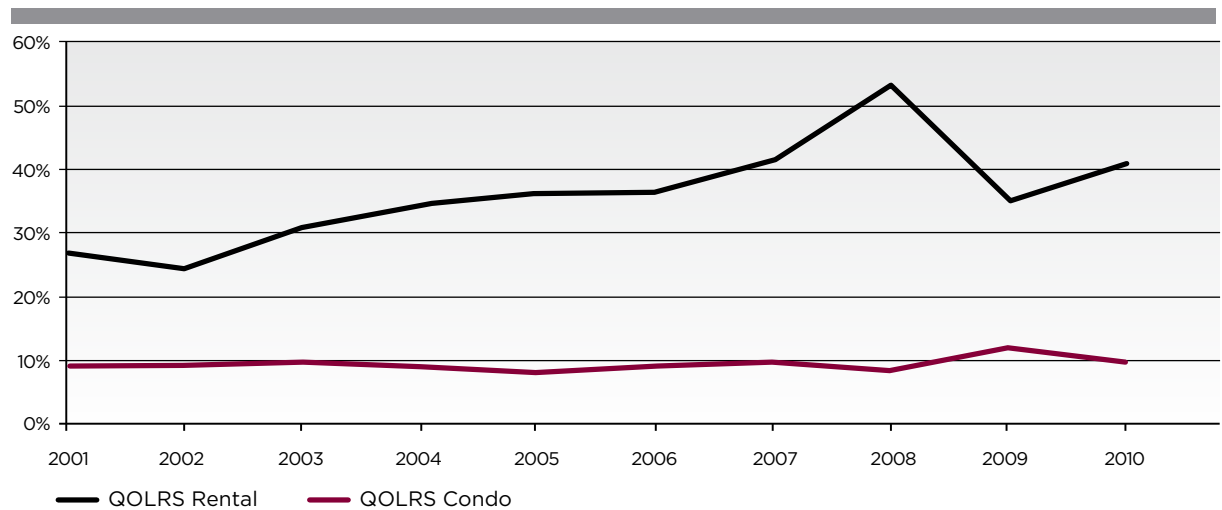
⁷ Average income in the QOLRS rose from \$68,332 in 2006 to \$72,059 in 2009. Average new home cost in the QOLRS rose from \$389,981 in 2006 to \$502,865 in 2009. All income figures and housing costs are not adjusted for inflation.

⁸ Average income in the QOLRS was \$64,790 in 2005 and \$72,059 in 2009, while the average cost of a new home was \$389,981 in 2006 and \$505,044 in 2010. Housing to income to ratios rely on income reported from the previous year as an indicator of affordability.

⁹ Source: Statistics Canada, Small Area and Administrative Data Division, 2008-2009. For more on the impact of the global recession on low-income Canadians see 'Bearing the Brunt: How the 2008-2009 Recession Created Poverty for Canadian Families' by the Chandra Pasma, May 2010. Citizens for Public Justice. Available at: http://www.cpj.ca/files/docs/Bearing_the_Brunt.pdf.

¹⁰ Canada Mortgage and Housing Corporation (CMHC), 'Household Indebtedness,' Canadian Housing Observer 2011. Pg. 1. Available online at http://www.cmhc.ca/en/corp/about/cahoob/upload/Chapter_3_EN_dec16_w1.pdf.

FIGURE 2. RENTAL AND CONDO HOUSING STARTS AS A PROPORTION OF ALL HOUSING STARTS, 2001-2010



SOURCE: CANADA MORTGAGE AND HOUSING CORPORATION, STARTS AND COMPLETIONS SURVEY, 2001-2010

There are a range of views about whether or not Canadian house prices are over-inflated and the possible impact if and when the market adjusts. CMHC predicts that “the rise in housing prices combined with limited supply in the resale market, persistently low rental vacancies and rising rents will result in an increase in demand for modestly priced apartments and row condominiums.” Growth rates in QOLRS communities saw an annual population growth of at least 1.2% - twice the rate of the rest of Canada¹¹ between 2001 and 2010. During the same period, York Region grew by an average of 3.7% per year, the City of Calgary by 2.6% and Peel Region by 3.0%.

Housing costs remain higher in QOLRS Communities than in the rest of Canada. In 2010 the average new home price in QOLRS communities was \$505,044, compared to \$454,154 in all of Canada. This trend held at the lower end of the housing market; 2010 house prices in QOLRS were \$325,000 in the lowest quartile (representing the more affordable homeownership market), nearly 8% higher than the Canadian average.

STAGNANT RENTAL HOUSING STARTS

While one-third of Canadian households are renters, strong economic conditions in the late-1990s resulted in a surge in homeownership, reducing the pressure on the demand for rental

accommodation. As a result, the relative proportion of rented-to-owned dwellings has been in decline across the country for 20 years. Despite a modest increase in rental starts between 2007 and 2010, less than 10% of housing starts in QOLRS communities since 2001 were intended for the rental market.

To put these figures in perspective, between 2001 and 2010 condominium housing starts in the QOLRS accounted for 36% of all new housing starts; only one rental unit was constructed for every four condominiums built in the QOLRS communities during this 10-year period. The reluctance to invest in rental housing is in large part attributable to the impact of condominium development, which sets the price for multi-residential land and has driven the rate of return for investors down significantly for new rental builds.

Now, as employment and other economic conditions shift, and moderate and low-income households find it increasingly difficult to afford a home, an effective route to increase housing affordability is through purpose-built rental housing. This is of concern to Canada’s most populated cities as residents of QOLRS communities are more likely than elsewhere in Canada to be renters.

¹¹ Source: Statistics Canada, Demographic Division, 2001-2010.

CONDOMINIUMS AS CONTRIBUTING TO THE RENTAL MARKET

Condominiums represented 29% of all new housing starts in Canada in 2010 and 36% in QOLRS communities. While the primary purpose of condominium construction is for homeownership, there is an upward trend in buyers investing in one or more condominiums and then renting them out, resulting in a supply of rental units. CMHC's October 2011 Rental Market Survey of 11 city centres showed an overall increase in condominium rentals with an average vacancy rate of 2%, well below the balanced vacancy rate of 3%.

In some markets, condominiums play a significant role in rental housing. A 2008 CMHC survey of the Vancouver rental market showed that 27% of Vancouver's condominium stock, and 8% of Ottawa's, was rented. In 2005 condominium rentals in Toronto represented 20% of the total rental supply.¹² Despite this pocket of rental condominium housing, vacancy rates remain low in these cities.

Condominium development also contributes to the erosion of affordable rental. Cities are seeing an overall decline in rental units where the trend is to convert apartment buildings to condominiums, instead of building new condominiums. Condominium rental prices are consistently higher than apartment rents in cities in CMHC rental market survey including Toronto, Ottawa, Calgary and Vancouver.

Regina's recent condo boom has not come at the expense of its rental housing stock, thanks to the innovative and progressive municipal incentives for new rental housing. In 2009, the City adopted a new housing policy aimed at encouraging the construction of new housing in inner-city areas and stimulating new rental housing development city-wide.

Investment in new rental housing is typically lower in QOLRS communities than the rest of Canada, with relatively fewer starts intended for the rental market. Two notable exceptions were the rental markets of Saskatoon and Regina. Both communities experienced dramatic increases in rental starts in 2010 as a result of local government initiatives for new rental housing incentives. From 2007 to 2009, 2.7% of new units built in Saskatoon and 5.5% in Regina were intended for the rental market. In 2010 this increased to 12.2% and 19.1% respectively.

With its booming economy, Saskatoon's vacancy rate hit critically low levels of less than 1% by 2007. Market forces were not responding adequately: in 2009, less than one in 500 new housing starts was purpose-built rental. In 2010, the City of Saskatoon stepped in with two municipal initiatives. A \$5,000 per unit incentive grant and a five-year incremental tax rebate

for purpose-built rental housing saw new rental housing starts rise to 12.2%. Under the fund, new units must remain rentals for 15 years and conversions are not permitted.

Stagnant Rental Market Investment

Rents across Canada continue to increase annually with monthly rents consistently higher in the QOLRS communities than the rest of Canada. By 2010, the median monthly rent for a two-bedroom apartment in QOLRS communities rose to \$850 from \$661 in 2001, compared to the Canadian average rent of \$775, which rose by \$169 over the same period.¹³

In 2010, median rent in Vancouver was significantly higher than other communities; the \$1,400 price for a two bedroom was \$325 higher than in Halton Region, the community with the second highest rents nationally. These are followed closely by Peel at \$1,060 and Toronto,

¹¹ City of Toronto, 'Rental Housing Supply and Demand Indicators,' September 2006, p. 7. Available at http://www.toronto.ca/planning/pdf/housing_rental.pdf.

¹² Figures presented are in non-adjusted dollars.

York and Calgary at \$1,050. Even the least expensive apartments cost more in the QOLRS communities as compared to the rest of Canada. Monthly rent for the lowest quartile apartments in QOLRS communities was an average of \$35 higher than the rest of Canada (see Figure 3). By 2010, the rent for a 2 bedroom in the lowest quartile was \$625 for Canada and \$675 in QOLRS communities.

COMMUNITY SNAPSHOT: KINGSTON, ONTARIO

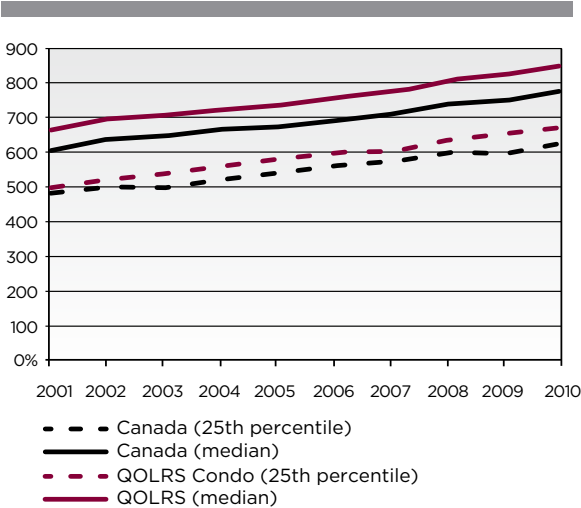
The Challenge: Low-Income Renters
In 2006, 48.4% of renter households spent 30% or more of their household income on housing and 12.0% of renter households spent 70.0% or more of their income on housing costs.

Actions Taken: In 2011 the City created the Housing Strategy Implementation Plan. The Plan outlines five action areas, including recommended targets for increases to the rental housing stock over the next ten years. The City is also considering recommendations for a more flexible regulatory environment for land use planning and development approvals.

SOURCE: CITY OF KINGSTON. 'A PLACE FIRST': A COMMUNITY PLAN ON HOUSING AND HOMELESSNESS IN KINGSTON

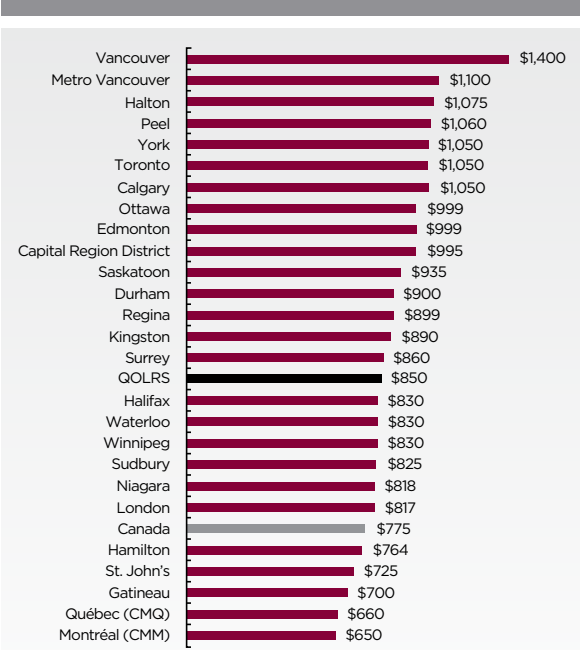
In the Region of Durham, Ontario, the 2010 vacancy rate for private apartments just met the balanced rate of 3%. The City attributes the relative availability of rental units to low mortgage rates making home ownership more affordable to some sectors of the population. However, renters in Durham earn on average less than half as much as homeowners and their incomes have not increased at the same pace. Moreover, a 2011 study by the Region found the majority of one person renter households cannot afford to rent any unit type, regardless of size.

FIGURE 3. CHANGE IN RENTS, MEDIAN AND LOWEST QUARTILE, FOR 2 BEDROOM APARTMENT, 2001-2010 HOUSING STARTS, 2001-2010



SOURCE: CANADA MORTGAGE AND HOUSING, MARKET ANALYSIS CENTRE, RENTAL MARKET SURVEYS, 2010, SPECIAL ORDER FOR THE QOLRS

FIGURE 4. MEDIAN RENT IN CANADA AND QOLRS COMMUNITIES FOR 2 BEDROOM APARTMENT, 2010



SOURCE: CANADA MORTGAGE AND HOUSING, MARKET ANALYSIS CENTRE, RENTAL MARKET SURVEYS, 2010, SPECIAL ORDER FOR THE QOLRS

RENTAL DEMAND PUSHING UP PRICES

QOLRS communities continue to experience pressure on the local rental market with relatively lower vacancies than the rest of Canada.

A balanced rental vacancy rate is widely accepted as 3%, meaning that of every 100 rental units, three are physically unoccupied and available for immediate rental. Vacancy rates falling consistently below the 3% equilibrium rate generally correlate with upward pressure on rents. (see Figure 5). In 2010, nearly half of QOLRS cities reported critically low vacancy rates of less than 2%, including Ottawa at 1.8%, Vancouver and St. John's at 1.4%, Regina at 1% and Winnipeg, with the tightest vacancy rate, at 0.9%. The 2010 average for all QOLRS communities was 2.6% compared to Canada's 3.1%.

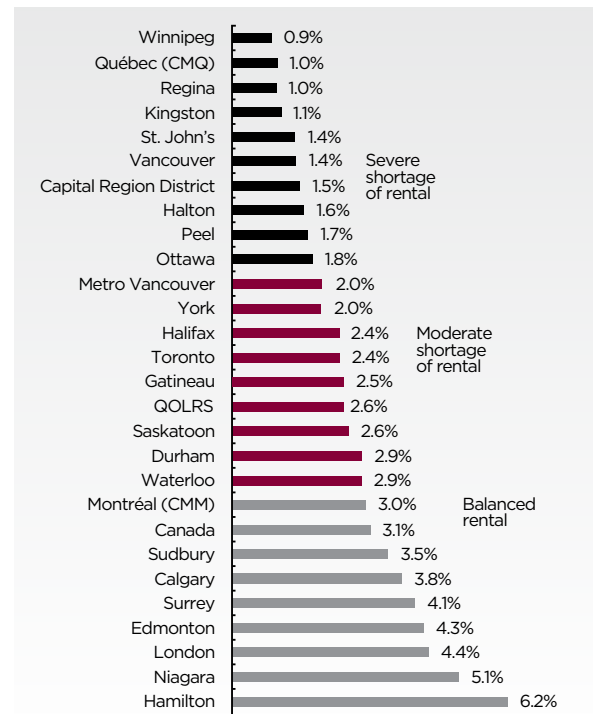
COMMUNITY SNAPSHOT: VANCOUVER, BRITISH COLUMBIA

The Challenge: Supporting Private Sector Rental Development

The City of Vancouver has one of the tightest rental markets in the country and the highest average rents in the QOLRS. Vancouver estimates the region needs 1070 new rental units per year to adequately address housing demand, yet only 385 new rental units were built in each of the last five years.

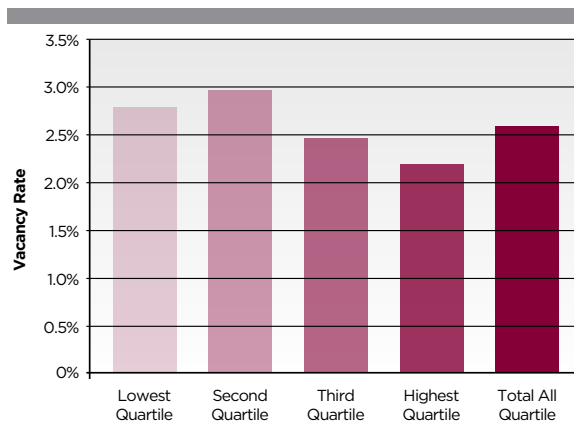
Actions Taken: In 2009 the City of Vancouver introduced the Short Term Incentives for Rental Housing (STIR) program, a 30-month initiative aimed at supporting the construction industry by encouraging the development of new market rental housing. The incentive package includes a reduced number of required parking spaces, increased density, expedited permit processing and, in the case of for-profit affordable housing, a waiver of the Development Cost Levy.

FIGURE 5. VACANCY RATE FOR CANADA AND QOLRS COMMUNITIES, 2010.



SOURCE: CANADA MORTGAGE AND HOUSING, RENTAL MARKET SURVEY, 2001-2010, SPECIAL ORDER FOR THE QOLRS
NOTE ON DATA: QOLRS TOTAL VACANCY RATES ARE CALCULATED USING QOLRS RENTAL QUANTILES AND MAY NOT BE EQUAL TO THAT PUBLISHED IN THE CMHC ANNUAL REPORT.

FIGURE 6. VACANCY RATES IN QOLRS COMMUNITIES, FOR ALL QUANTILES, 2010



SOURCE: CANADA MORTGAGE AND HOUSING, RENTAL MARKET SURVEY, 2001-2010, SPECIAL ORDER FOR THE QOLRS
NOTE ON DATA: QOLRS VACANCY RATES BY RENTAL QUANTILES ARE BASED ON A SUB-SAMPLE OF RECORDS THAT PROVIDED BOTH THE NUMBER OF VACANT UNITS AS WELL AS THE RENTS.

The vacancy rate for the lowest quartile of rental units in the QOLRS communities was significantly higher than the vacancy rates for more expensive rental units. This may suggest that the relatively poor quality of the cheapest rental housing stock is driving some households to rent more expensive units. This factor also suggests the reality that even the most affordable apartments are out of the price range of many of the lowest-income households (see Figure 6).

The Canadian Rental Housing Supply Coalition argues that an increase in the overall rental supply will ease the overall demand for housing and increase the supply of affordable rental housing. FCM has also reported on the economic benefits of new rental construction and retrofits of the existing stock. Investment in new rental construction and repairs of poorer-quality housing stock will create jobs in residential construction as stimulus funding ends.

COMMUNITY SNAPSHOT: HAMILTON, ONTARIO

The Challenge: Stimulating Affordable Housing Development in a Balanced Rental Market

In spite of population growth, the lower cost of home ownership in Hamilton has allowed the rental vacancy rate to remain above 3%. However, since the mid-1990s there has been very little production in Hamilton's purpose-built housing sector and the City experienced a net loss of 789 rental units over the past ten years as a result of condominium conversion and demolition.

Actions Taken: The City supports new affordable housing projects by waiving of development charges and cash in lieu of parkland dedication fees for projects built under Federal, Provincial and/or City of Hamilton or City Housing Hamilton programs. The City also offers a reduced multi-residential tax rate for new rental buildings. To date, 731 new rental units have been built under the Federal/Provincial Affordable Housing Program.

SOURCES: EXAMINING THE HOUSING AND HOMELESSNESS ENVIRONMENT IN HAMILTON, OCTOBER 2011; CITY OF HAMILTON STAFF

CONCLUSION: MEETING CANADA'S HOUSING NEEDS

Canadians and their governments can no longer rely on homeownership alone to meet housing needs. The fundamentals that supported growth in home ownership—declining mortgage rates, extended mortgage terms, low down payments, and a strong economic outlook—have ended.

Taken together, the indicators reviewed here suggest the need to increase and preserve purpose built rental housing to bring rental vacancy rates into balance and ease the pressure on Canada's homeownership market.

Beyond the immediate economic benefits of increased rental construction and related employment spin-offs, a healthy rental market will support a more mobile workforce and give young families, new immigrants, and seniors higher-quality, lower-cost rental options.

FCM's report on *The Housing Market and Canada's Economic Recovery* calls on all orders of government to work with the housing sector to remove barriers to investment in rental housing to provide a balanced mix of housing options able to meet the long-term financial realities of a changing population.

FCM has proposed three options the federal government can adopt to make it easier to invest in and expand our rental housing market:

1. The Building Canada Rental Development Direct Lending Program to stimulate investment in new market-priced rental units
2. The Rental Housing Protection Tax Credit to preserve and stop the serious erosion—through demolition and conversion to condominiums—of existing lower-rent properties
3. The Eco-energy Rental Housing Tax Credit to improve the quality of the rental stock; reduce high utility costs for tenants; reduce emissions and environmental impact; and increase resale and future rental value to landlords

Local governments have taken steps within their jurisdiction to increase and preserve the supply of rental and affordable housing: providing tax exemptions, encouraging intensification and redevelopment, and streamlining approvals. As shown throughout this report and in the community snapshots, municipal governments across the country are taking a leadership role by working with partners in the public and private sectors to create policies that will help to create rental housing that meet the needs of their particular community.

Municipal governments know that a healthy housing sector benefits every sector of society, stimulating the construction industry and producing an array of positive outcomes for tenants, landlords, governments and the environment.



Chapter 6: The State of the Environment: Cities and Communities Acting Locally

IN CANADA, THE ENVIRONMENT IS AN AREA OF SHARED RESPONSIBILITY, TYPICALLY CONSIDERED IN TERMS OF FEDERAL AND PROVINCIAL JURISDICTION. LOCAL GOVERNMENTS ARE ALSO PARTNERS, HOWEVER, AND IN MANY WAYS MUNICIPAL POLICIES—SUCH AS LAND-USE PLANS, INVESTMENTS IN TRANSPORTATION, AND WASTE-MANAGEMENT STRATEGIES—HAVE MORE IMPACT ON THE ENVIRONMENT THAN THE POLICIES OF ANY OTHER ORDER OF GOVERNMENT.

Municipal policies are also critical in enhancing quality of life and making communities more attractive for investment, businesses and labour. With few exceptions, the environmental mandate of municipalities is unfunded. Despite this lack of funding, environmental initiatives at the municipal level must continue to expand in order to meet the needs of citizens, while also contributing to national environmental and economic objectives.

This chapter will highlight the following two areas of municipal action. Although there are others, these two are particularly important in protecting the environment and positioning Canada to be a leader in sustainable technologies and services.

- Solid-waste management, which reduces the impact on land, helps mitigate climate change, and generates secondary resources
- Adapting to climate change, which makes infrastructure investments go farther

Both areas highlight the leadership of municipal governments, pushing boundaries, and providing examples for the rest of the country.

CLOSING THE WASTE CYCLE, COMBATING CLIMATE CHANGE

Waste not, want not —English Proverb

By 2020, the Canadian government hopes to reduce national greenhouse gas (GHG) emissions by 20% from levels determined in 2005. In 2009, FCM was the first to point out that local governments have direct or indirect control over 45% of GHG emissions, giving them the potential to deliver, through relatively low-cost measures, more than one-quarter of Canada's target.

Management of landfill gas and residential waste management are the two most significant areas of direct potential action for municipalities. Together, these represent approximately 20 megatonnes per year, out of a total 24 megatonnes. These reductions are attainable at a cost of between \$4 and \$28 per tonne—an average of \$11 per tonne.

FCM and ICLEI Canada's Partners for Climate Protection Program—which currently has 224 municipal members—has reported on excellent projects related to the transformation of solid waste into a resource, together with a wide range of environmental benefits.

Approximately 34 million tonnes of solid waste is generated annually in Canada, or 1,031 kg of waste per person per year. Since the 1990s, the country's diversion rate has levelled off at approximately 25%—although some communities have managed diversion rates as high as 70%. Each year, local governments spend approximately \$2.6 billion to manage waste, including \$1.1 billion in collection and transportation costs, \$465 million for operation of disposal facilities, and \$368 million in tipping fees. This state of affairs diverts dollars from municipal coffers, and locks Canada into a linear waste-management model—from producer to consumer to landfill. It is a significant waste of potential secondary resources, including energy. Biodegradable materials make up the greatest proportion of this model: approximately 22.1 million tonnes. These decompose to generate methane gas, at close to 13.2 million tonnes of CO₂e per year.

The average person rarely makes the link between solid waste, energy and climate change. A growing number of communities do, however, and are exploring ways of transforming waste into resources through diversion of organic materials and energy production. FCM's research suggests that a total of 66 Landfill Gas and Capture (LFG&C) projects were operational in Canada in 2007,¹ 38 of which were flaring projects, and 28 of which utilized LFG to either

generate electricity or heat. As indicated in Table 1, total annual emission reductions from these projects were estimated to be 6.9 megatonnes of GHG emissions in 2007.

TABLE 1: EMISSION REDUCTIONS BY PROJECT TYPE IN 2007

Project Type	Number of Existing LFG&C Projects	Current CO ₂ e Reductions (tonnes /yr)
Flare	38	2,317,000
Electricity	17	3,120,000
Direct Use	9	1,174,000
Combination	2	351,000
TOTAL	66	6,963,000

A 2010 review conducted by EnviroEconomics found that a total of 136 landfills across Canada had some potential to reduce emissions. These landfills currently receive 90% of Canada's municipal solid waste. Table 2 identifies project type for the 136 landfills included in the inventory, as well as current GHG emission reductions and an estimate of additional potential GHG emission reductions. The research found that 40% of existing and developing projects were geared towards energy production.

TABLE 2: INVENTORY LANDFILL PROJECT TYPES AND POTENTIAL EMISSION REDUCTIONS

Project Type	Number of Landfills (scfm) ¹	LFG Production (tonnes /yr)	Current CO ₂ e Reductions (tonnes /yr)	Additional Potential CO ₂ e
Existing LFG&C Project	66	106,000	6,963,000	3,032,000
Developing	11	14,100	-	914,000
Candidate	34	30,700	-	1,939,000
Lower Potential	25	4,900	-	352,000
TOTAL	136	155,000	6,963,000	6,237,000

¹ SCFM IS THE ESTIMATED TOTAL FLOW RATE OF LFG THAT IS GENERATED AT THE LANDFILL SITE IN STANDARD CUBIC FEET PER MINUTE. LFG FLOW RATES TYPICALLY PEAK AT LANDFILLS SEVERAL YEARS AFTER CLOSURE, THEN DECLINE OVER THE NEXT 15 TO 30 YEARS, DEPENDING ON THE RATE OF DECAY FOR ORGANIC WASTES.

¹ Environment Canada's National Inventory of Landfill Projects (Environment Canada, 2010).

In 2011, 229 climate-change mitigation measures were reported by communities through FCM's Partners for Climate Protection Program. In terms of absolute GHG reductions, the most notable corporate measures were initiatives undertaken at municipal landfills and wastewater treatment facilities.

The benefits of methane recovery—when flared or used productively—are substantial. In 2008, for example, the City of Hamilton initiated an LFG-to-energy project at its Glanbrook Landfill. The LFG-collection system is comprised of a network of wells, trenches and pipes within the landfill, which collect methane gas and transport it to a 3.2-MW power plant. In addition to eliminating a potent greenhouse gas (methane has a global warming potential 21 times that of carbon dioxide), this LFG-to-energy project generates enough electricity to power 2,100 homes per year. The GHG reductions associated with this project are 100,000 tonnes—equivalent to removing 25,000 cars from the road. Similar initiatives have been undertaken by the City of Calgary, the City of Thunder Bay, the City of Guelph, the City of Greater Sudbury, and the Regional District of Nanaimo.

The potential for this type of landfill-gas management is significant, particularly from a local-energy point of view. Organics diversion, which avoids altogether the production of landfill gas, is also gaining in popularity. Composting of organics results in faster decomposition and reduced GHG emissions. In addition, once processed, the decomposed organic material can be used as a fertilizer, reducing the need for petroleum-based chemical fertilizers, pesticides and other additives.

Composting initiatives have been implemented by a number of PCP municipalities. In 2010, for example, the Regional District of Nanaimo initiated a curbside organics collection program for more than 26,500 households in the region. Over the course of 2011, the program successfully diverted nearly 5,000 tonnes of organic waste, prolonging the life of the regional landfill and reducing GHG emissions by more than 3,000 tonnes. Similar programs were initiated

by the District of Mission (British Columbia) and the City of Greater Sudbury (Ontario), resulting in annual GHG reductions of 1,300 tonnes and 1,438 tonnes, respectively. Other municipalities, such as the City of Thunder Bay (Ontario) and the City of Thompson (Manitoba), have opted to promote composting by offering residents backyard composters at reduced prices. These initiatives help to reduce the amount of waste sent to landfills, and can be a low-cost alternative to centralized composting facilities and curbside collection programs.

Consistent with FCM's *Act Locally* report, data from PCP municipalities has demonstrated the effectiveness of landfill-gas projects in helping communities to significantly reduce their GHG footprints. The largest GHG reduction initiative reported in 2011 was the LFG-to-energy project undertaken by the City of Hamilton, discussed above. In 2010, a Vancouver landfill-gas project combining flaring and waste-to-energy purposes yielded the highest level of reductions, at 250,000 tonnes per year. The city pipes a portion of landfill gas to a cogeneration facility, where it is used to generate both electricity and heat. The electricity is sold to BC Hydro, and is enough to power 7,000 homes; the heat is used



to warm several nearby greenhouses, as well as the Landfill Administration buildings. The city currently earns \$400,000 annually through the sale of energy associated with this project.

These initiatives address only one aspect of closing the waste cycle: a complex process that includes reuse and recycling. The organics and landfill-gas dimensions are unique in demonstrating a clear link between closing the waste cycle, recovering energy, and reducing both land and air pollution. On the spectrum of action on climate change, these initiatives have the potential to pay for themselves while contributing to other processes, such as local food production. Despite the fact that such initiatives can be an important aspect of many local climate-change strategies, it should be noted that municipalities contribute to mitigation in a variety of ways, such as fleet renewal, greater energy efficiency, and improved planning. Since 2008, PCP members alone have reported on some 700 projects, representing more than \$1 billion in investment, and over 1.7 million tonnes in GHG reductions. Municipalities are leaders in this area, and often serve as testing grounds for a range of technologies and practices that could eventually be developed in Canada and exported around the world.



RESILIENT INFRASTRUCTURE: AN INVESTMENT FOR THE FUTURE

Future risks and opportunities include climate change, as well as the need to adapt our economy and our infrastructure to such change. FCM has called for climate resilience to be taken into account as the federal government works towards developing a new long-term infrastructure plan. Principles related to climate resilience, as contained in the plan, should be designed to overcome barriers to implementation and sustainability, while also including inherent adaptability in their design—along with consideration of what has already been successfully tested.

Continued dissemination of knowledge related to climate resilience, along with investments which would build that resilience into the next generation of infrastructure and related technologies, will generate benefits that will be felt for decades. These benefits not only include improved system performance, but also the development of businesses and expertise that Canada could export to a world that must itself adapt to climate change. At its heart, adaptation is about Canadians getting long-term value for the money they invest in public infrastructure.

Local governments are already facing the effects of climate change, including changes in temperature, a rise in urban forest pests, and natural disasters such as flooding. For communities, the business case is clear: build more climate-resilient infrastructure, or pay for it later. Changes in precipitation patterns are a well-known effect of climate change; but there are others as well, including coastal erosion and permafrost melt in the North. In both cases, the continued well-being and very existence of communities are at stake, and local governments of all sizes are now actively confronting climate change and developing solutions.

The experiences of Le Goulet (New Brunswick) and Halifax (Nova Scotia)—two very different communities in terms of population and resources—offer interesting examples of the impact of rising sea levels and coastal flooding, along with initiatives designed to promote climate resilience.

As a result of increasingly severe storms over the past 15 years, Le Goulet—a relatively low-lying coastal community of 950 residents—has experienced major coastal flooding, the intrusion of salt water into drinking water and overflowing septic tanks. For the municipality, this has increased the challenges involved in delivering services and ensuring public safety.

Halifax—a community of over 390,000—experienced the same time of extreme weather, including a Category-2 hurricane in 2003 that caused over \$200 million in damages. Historical analysis of sea levels showed that combination of subsidence and rising local sea levels had resulted in a rise of 32 centimetres over the past century.

Both communities decided to take a proactive approach in improving their ability to combat the effects of climate change. Le Goulet implemented a three-stage approach to adaptation that included community education, discussion groups to develop community solutions, and the development of two adaptation options: the displacement of those homes most at risk, and the construction of a sea wall. Municipal leaders worked with nearby researchers to study both options, and to determine which option best met their community needs and means. It was a clear example of a smaller community building partnerships to develop the tools they needed to adapt to climate change.

In Halifax, a similar exercise was conducted to identify and map vulnerable zones within the regional municipality. The city's efforts led to the development of a land-use bylaw for waterfront construction, which included guidelines related to the high-water mark—a figure that will be revised over time as new data becomes available.

In Canada's North, rising temperatures mean that ice roads are disappearing, shorelines are eroding, and the ground beneath homes and public buildings is subsiding. Permafrost is melting at an unprecedented rate, and nearly every type of structure in the region is vulnerable. The infrastructure deficit in northern communities is currently estimated at \$400 million—a figure that is expected, according to several estimates, to double as a result of global warming. This may even be a conservative estimate, since research suggests that adapting buildings in the Northwest Territories (NWT) alone could cost \$230 million: more than \$5,000 for every man, woman and child in the Territories. The city of Inuvik, NWT alone is facing costs of \$140 million to repair buildings affected by the disappearance of permafrost.

The experience of communities in relation to the issue of climate adaptation in both northern and southern Canada suggests a strong potential role for partnership between all orders of government in researching and planning for management of the effects of climate change. Ultimately, these assets benefit all stakeholders within a society, and their failure carries consequences for everyone.

CONCLUSION

Local governments have been playing an enormous role in protecting and enhancing environmental quality, creating cleaner, healthier communities for Canadians. Through improved partnerships with other orders of government, particularly around long-term infrastructure planning and financing, initiatives such as those described above can be introduced within an increasing number of Canadian municipalities. Such projects will position Canada to develop new, more sustainable technologies and practices that can be exported throughout the world. Closing the waste loop and adapting to climate change are only two elements within the bigger picture of municipal sustainability. Local governments are taking the lead—with expanded policy assistance, they could do more.

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